

Concerning Expenses

CWB Expenses

Did you know that:

Since the CWB board of directors was installed...

- Total administration costs of the CWB have risen by 47%, now sitting at \$78.7 million annually
- Advertising and promotion expenses have risen 314%, now sitting at \$2.1 million in 08-09 (the year before the board of directors was in place, the CWB spent \$514,400)
- Human resource costs (salaries and benefits) at the CWB have risen 60%, now sitting at \$43 million in 08-09.
- Outside consulting fees have risen 79%, now sitting at \$17.5 million in 08-09
- The CWB has spent about \$88 million for “computer systems” as a “capital asset”, not as an “expense” (this is software development, not desk top computers and printers)

Isn't it ironic? Hard-core CWB supporters applaud the CWB for demanding a review of railway rates and figure its good business, but a suggestion to look critically at the CWB and its impact on farm gate returns is “CWB bashing”.

Don't shoot the messenger – fix the problem (if you think there is one).

More on CWB Expenses

I was asked if I had any more insights into CWB expenses. How about this?

A while back I mentioned that since the CWB board of directors have been in charge, CWB human resource expenses (salaries and benefits) have risen 60%, now sitting at \$43 million in 08-09.

That's quite a jump over the years. Another way to look at this is to consider these expenses on a per employee basis.

Since 97-98, the number of CWB full time employees has dropped from 576 to 458. So, on the basis of cost per employee, human resource expenses have risen from \$50,978 per employee to \$94,576 per employee.

This is a 101% increase since the board of directors took over. This works out to an annual compound rate of 6.6% per year.

I don't begrudge anyone a good salary and I believe in rewarding performance. But - is it just me, or does this look like something more than that?

And since we're talking about employee expenses, I should also note that the amount paid in outsourcing (employing professionals for their service but not on the payroll) has also increased considerably. This includes what the CWB has called "management consulting", "professional fees" and "computer services". The Annual Reports don't report these items consistently over the years so I just lump them together. Since the directors have been in charge, outsourcing has gone up from \$9.8 million per year to \$17.5 million – an increase of 78%.

So the number of employees goes down by 20% but the cost of consultants goes up by 78%. A question comes to mind but I don't think I need to even ask it.

Rail Cost Review? How about a CWB Cost Review?

The CWB recently has been advocating for a rail cost review because a study by Travacon Research Ltd. showed that "farmers paid \$8.81 per tonne (\$275 million overall), more than what was considered fair and reasonable compensation for moving grain under the former Western Grain Transportation Act." To put this in perspective, I looked at all the costs involved in marketing and moving wheat as reported by the Federal Grain Monitor.

Over the last eight years:

- the average "applicable" rail freight rate for spring wheat has gone up about 21%
- CWB costs on wheat have gone up about 56% (including "transportation savings")
- Grain company handling charges (elevation and cleaning, including trucking premiums paid to farmers) have risen about 9%

The cost of handling and moving grain has indeed increased over the years. I can't comment on the Travacon study results, but if it's true, perhaps a review is in order. Regardless of the rail rate situation, farmers need to know the CWB is being managed and directed with their interests in mind; CWB costs are farmers' costs and the approach to costs at the CWB should mirror the approach to costs on the farm.

Why is the CWB focusing on rail rates when its own costs are rising at more than double the increase of the rail rates? Regardless of your view of the CWB, it's simply good business to reduce costs as much as possible.

Much of the CWB transportation savings come from tendering and are indicative of what competition between the grain companies would do to handling charges for CWB grains. If the CWB bought grain at the port – if it became a FOB buyer – we would see a significant drop in the cost of moving and handling export wheat.

The CWB has effectively become a FOB buyer of barley – both malt (CashPlus) and feed (GDCs); if its works for barley, shouldn't it work for wheat as well?

More on Expenses

The CWB has taken note of some of my comments about the increase in administration costs since the board of directors was installed. Their response can be found on the CWB website at <http://www.cwb.ca/public/en/hot/record/commentary/>. I appreciate the CWB engaging in this discussion as it's important for farmers to know how their money is being spent.

The CWB response, entitled "Change costs less than doing nothing", supposedly written by Bill Nicholson, elected-director of District 9, is a fair description of increased spending but without the detail that you'd expect from an organization that says it is open and accountable to farmers. It includes a high level description of what the money was spent on, but with the notable omission of any financial details.

For example, Mr. Nicholson did not explain to my satisfaction why the human resource expense on a per-employee basis doubled since the board took over. He suggests that the employment "benefits" are costing more, but I find going from \$47,000 per employee to \$95,000 per employee a bit extreme. That one needs more explanation.

(Maybe it's none of my business, but I'm left wondering why Bill Nicholson is the author on this rebuttal. The last time they responded to something someone said that they didn't like it was by Larry Hill, who was Chairman at the time. Just a thought, but if it's inappropriate for Allan Oberg, the current Chairman, to respond because he's in the middle of running for re-election, how appropriate is it for Bill Nicholson?)

Mr. Nicholson mentions the growth in advertising spending is to communicate to farmers about new programs. But that explanation doesn't explain the months-long WTO-fighting campaign around the slogan "Is this the deal you want?" I don't know the extent of the campaign but I know it included full page ads in the Western Producer (check page 17 of the May 20 edition), some smaller ads, internet banner ads on various sites, a dedicated internet domain (www.isthishedealyouwant.com), as well as dedicated pages on the CWB website (<http://www.cwb.ca/public/en/hot/trade/deal/>) where you can send an email postcard to the Minister of Agriculture through an automated internet system. This all costs money too.

This campaign didn't promote a farm program or service. In my view, it was aimed at lobbying the federal government in an effort to protect the single desk, something expressly prohibited by a federal order-in-council.

I know a lot of farmers wonder how much is spent on promoting the CWB itself (or deflecting criticism) as opposed to communicating farmer programs. I'd like to see that split, too.

And \$114 million on computer systems and even more in consulting to operate them? Although they defend this spending, neither the Annual Reports nor Mr. Nicholson is clear on how much has actually been spent. And there's no word on how much more needs to be spent. Any way you slice it, that's a whole lot of money.

(I wonder if the CWB ever thought of outsourcing some of the core activities of the CWB, not just the computer services. There are things the CWB does that duplicate what the grain companies

are already doing it, particularly in transportation. If the CWB partnered with these companies, and had the companies perform certain logistical efforts, not only could the CWB save money and overhead, it may not need a big expensive computer system.)

Just thinking outside the bin.

I find it ironic that the CWB sees my earlier comments as an attack. The CWB shouldn't bristle at what was just a simple presentation of facts. I encourage the CWB to address issues that may arise from time to time and provide even greater detail and clarity next time. But during the directors' elections, I would prefer to hear incumbent director-candidates defend their record. I'd like to know what they think.