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# **A snapshot of the red tape costs on farm in Australia.**

*36c Fitzmaurice St  
(PO Box 5757)  
Wagga Wagga NSW 2650*

*Holmes Sackett Pty Ltd  
ABN 40 499 750 899*

*Ph (02) 69317110  
Fax (02) 69317113  
[www.holmessackett.com.au](http://www.holmessackett.com.au)*

*Directors:  
John Francis  
Sandy McEachern*

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## *Introduction*

This report was completed for the National Farmers Federation via valuable assistance from Cotton Australia. The purpose of the report is to provide a summary indication of the cost to the agricultural sector of administration and bureaucratic red tape costs. For the purposes of this report, the term bureaucratic red tape will be used as a proxy for costs associated with costs in the agricultural sector that relate to the following items;

- Financial taxation and compliance costs
- Legislation and regulatory costs

These cost items are accounted for as overhead expenses and relate to goods and/or services including to some extent those associated with government imposed regulation and the cost of compliance. Within this report these items will be referred to as the overhead expenses related to bureaucratic red tape.

While the term “overhead bureaucratic red tape” has been used within this report it is acknowledged that the report considers a range of costs associated with administration and red tape. These are presented as a snapshot of the type of additional measures and operational costs that the average farm has to deal with.

Identifying and quantifying the specific cost of red tape to agriculture requires more complex analysis of a range of farm businesses across a range of farm sectors. A key recommendation of this report is to invest in a more detailed analysis of the cost of red tape by conducting detailed case studies with farm business managers across a range of industry sectors to identify specific regulatory burdens that add more costs and should be removed.

The level of detail required for this type of analysis is beyond the scope of this report. By identifying and determining the average value of the major administration and red tape related expenses of benchmarked farm businesses, this report provides some initial and high level perspectives on the likely costs.

The expenses for items related to administration and red tape have been assessed. Red tape expense estimates incurred by farm businesses include not only the direct cash expense of meeting the administrative and compliance requirements of red tape but also an estimate of the cost of time. This report updates the information provided in a similar report in 2007.

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The results presented within this report, unless otherwise stated, are derived using a combination of Holmes Sackett (HS) benchmarking and salary survey data. This data is obtained from farms covering a geographic area extending from the NSW New England, the tablelands, slopes and wheat sheep zone country of NSW, into Victoria, Tasmania and South Australia. These are predominantly family farms but also include the data of a number of corporate agricultural businesses. The benchmarking data used for this analysis was gathered over the seven year period from 2007 to 2013 and the Salary Survey data was collected in 2013.

The farms represented by the Holmes Sackett benchmarking data are not a random sample as owners of farm businesses who choose to benchmark their performance are, by definition, not a random sample. This is evident when the results of the Holmes Sackett benchmark farms are compared to those analysed by the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), which are representative of the industry average. The financial performance of the average of the Holmes Sackett benchmarked farms has been shown to be significantly better than the ABARES average. (See Table 5, Appendix 1, Page 19)

Thus the average Holmes Sackett benchmarking data does not necessarily represent the average of the industry as a whole.

In this report data is categorised by mixed or grazing farms. The definition of a grazing farm is one that generates greater than 85% of income from extensive livestock enterprises while a mixed farm generates less than 85% of income from livestock enterprises.

Data has been presented in the body of the report on a nominal basis (not adjusted for inflation) with corresponding real (inflation adjusted) data shown where appropriate

Appendix 3 (Page 21). The inflation rate as measured by the Consumer Price Index (CPI) over the seven year period analysed (2007-2013) averaged 2.8%. (See Table 6, Appendix 4, Page 23) Whilst it is important to acknowledge the effect that this level of inflation has on costs such as administration and wages, it is not significant in changing their overall trend of the results shown in the report.

## Key Messages

### Grazing Farms

For the seven year period from 2007 to 2013 on a nominal basis the average grazing farm analysed;

- Had an average total expense of \$24,625 per annum relating to bureaucratic red tape.
- Of this \$19,091 (78%) was for overhead expenses and \$5,534 (22%) was for the cost of time associated with bureaucratic red tape.
- Had a total of 16.1 days consumed in tasks associated with bureaucratic red tape which equates to just over 3 working weeks (5 days) or 6.7% of the working year\*.
- The total expense of \$24,625 per annum relating to bureaucratic red tape equates to 3.9% of income, 4.5% of total expenses and 14.7% of net farm profit of these farms.

### Mixed Farms

For the seven year period from 2007 to 2013 on a nominal basis the average mixed farm analysed;

- Had a total expense of \$43,935 per annum relating to bureaucratic red tape.
- Of this \$30,304 (69%) was associated with overhead expenses and \$13,631 was for the time associated with bureaucratic red tape.
- Had a total of 29 days consumed in tasks associated with bureaucratic red tape. This equates to just under 6 working weeks (5 days) or 12% of the working year\*.
- The total expense of \$43,935 per annum relating to bureaucratic red tape equates to 3.8% of income, 4.4% of total expenses and 12.3% of net farm profit of these farms.

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\* A working year is 240 days or 48 weeks. This allows 52 weeks less 4 weeks for holidays.

## A snapshot of the red tape costs on farm in Australia.

### All Farms

For the seven year period from 2007 to 2013 on a nominal basis the average of all farms analysed;

- Had a total expense of \$31,364 per annum relating to bureaucratic red tape.
- Of this \$23,004 (73%) was associated with overhead expenses and \$8,359 (27%) was for the cost of time associated with bureaucratic red tape.
- Had a total of approximately 20.6 days consumed in tasks associated with bureaucratic red tape. This equates to approximately 4 working weeks (5 days) or 8.6% of the working year\*.
- The total expense of \$31,364 per annum relating to bureaucratic red tape relates to 3.9% of income, 4.5% of total expenses and 13.9% of net farm profit of these farms.
- The total cost of bureaucratic red tape on mixed farms is higher than grazing farms in each year over the seven year period. The data provide no explanation as to why this is the case.

An assessment of the average cost of red tape between the study conducted at the end of 2007 and the cost of red tape shown in this study is provided in Table 1 for comparative purposes. This shows an increase in the cost of red tape of approximately \$10,000 for both grazing and mixed farm categories.

**Table 1 The comparison of the average cost of red tape between 2007 to 2013 and 1998 and 2007.**

	Grazing		Mixed	
	1998-2007	2007-2013	1998-2007	2007-2013
Total cost of red tape	\$14,134	\$24,625	\$34,367	\$43,935
Overhead cost of red tape	\$11,415	\$19,091	\$30,659	\$30,304
Labour cost of red tape	\$2,718	\$5,534	\$3,709	\$13,631

\* A working year is 240 days or 48 weeks. This allows 52 weeks less 4 weeks for holidays.

## **Methodology**

A definition of the costs reported as Overhead bureaucratic red tape has been provided in the introduction of this document. These overhead items do not account for the cost incurred by farm businesses for wages incurred through time complying with red tape. Within the report this cost will be referred to as the wages expense related to bureaucratic red tape. In order to provide a cost of bureaucratic red tape to agriculture, both of these expense areas need to be accounted for.

Determining the overhead bureaucratic red tape related expenses involved the use of benchmarking data. This data required further analysis using the accounting records of a representative group of farms. This additional analysis was required as the benchmarking data alone did not provide the required level of detail surrounding components of administrative costs.

The overhead bureaucratic red tape related expense was calculated as the amount of the total overheads of the farm business made up by financial taxation and compliance costs and legislation and regulatory costs.

An overhead cost is one which cannot be directly attributed to any particular enterprise and relates to the management of the whole farm. For a detailed list of overhead expense items see Appendix 5, Page 24.

The number of days spent by management of farm businesses completing bureaucratic red tape associated tasks was calculated using a combination of benchmarking and salary survey data. This data allowed an amount of time related to administrative tasks to be calculated and using the proportion of this time related to red tape related tasks, the total number of days associated with bureaucratic red tape was calculated.

For the purposes of this report, a year contains 240 work-related or labour unit days. This assumes a five day working week less a holiday period of four weeks or 20 working days per annum.

The wages expense in dollar terms was then determined by using the number of days calculated and Australian Bureau of Statistics (ABS) average earnings data shown in Table 2. These figures represent the average earnings of a full time adult in Australia in the given year.

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Using these values in this analysis ensures the time spent on red tape associated tasks is valued at the appropriate rate for the time.

**Table 2: Average earnings for a full time Australian worker 2007 to 2013. Source; Australian Bureau of Statistics (ABS) 6302.0 Average Weekly earnings, Australia.**

<b>Year</b>	<b>Average Australian Wage p.a.</b>
2007	\$55,232
2008	\$57,543
2009	\$60,616
2010	\$64,012
2011	\$66,726
2012	\$69,589
2013	\$73,208



**Results and Discussion**

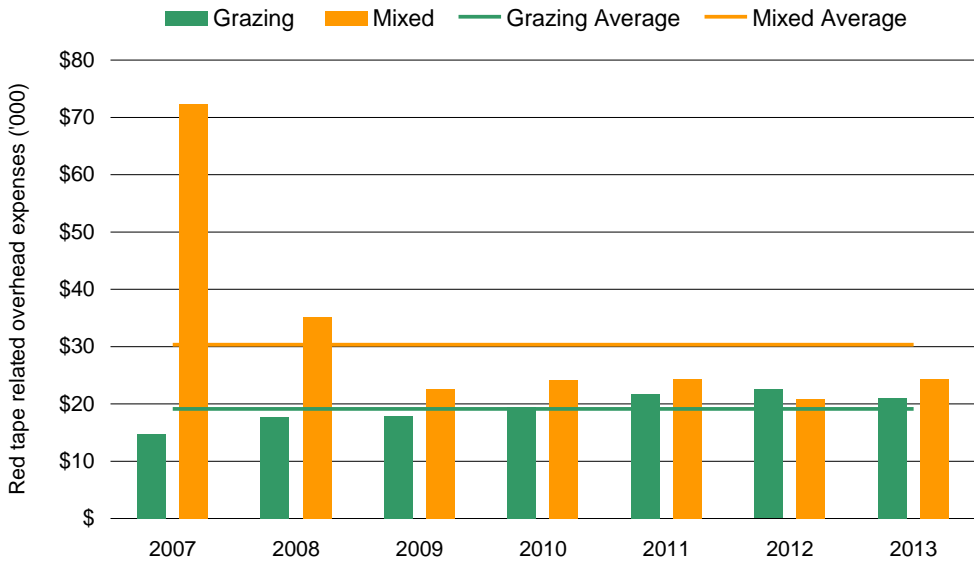
**Overhead Expense**

The nominal total of overhead red tape related expenses for grazing and mixed farms over the seven years from 2007 to 2013 are shown in Graph 1. The average overhead red tape related expense for mixed farms has been higher than for grazing farms in all years except 2012. This continues the trend seen in the 2007 report. The seven year average for mixed farms is over \$30,000 while for grazing farms it is under \$20,000. The difference between farm categories is large for the first three years of the analysis period but appears decline in the final four years.

From 2007 to 2009 there was a decreasing cost of overhead expenditure per farm from a high of over \$70,000 to \$23,000 in mixed farms. During the remaining four years the overhead cost component of red tape remained close to \$24,000. Grazing farms had an increasing rate of overhead red tape cost from \$15,000 to \$21,000.

The composition of the farms contributing to the benchmarking data can differ between years and this can have an impact on the results at a gross level. Assessment of gross farm expenses should be considered in conjunction with the data presented on a dollars-per-hectare basis as this will allow for the impact of farm area on the result to be measured.

**Graph 1: The nominal bureaucratic red tape related overhead expense for mixed and grazing farms over the seven years from 2007 to 2013.**



**A snapshot of the red tape costs on farm in Australia.**

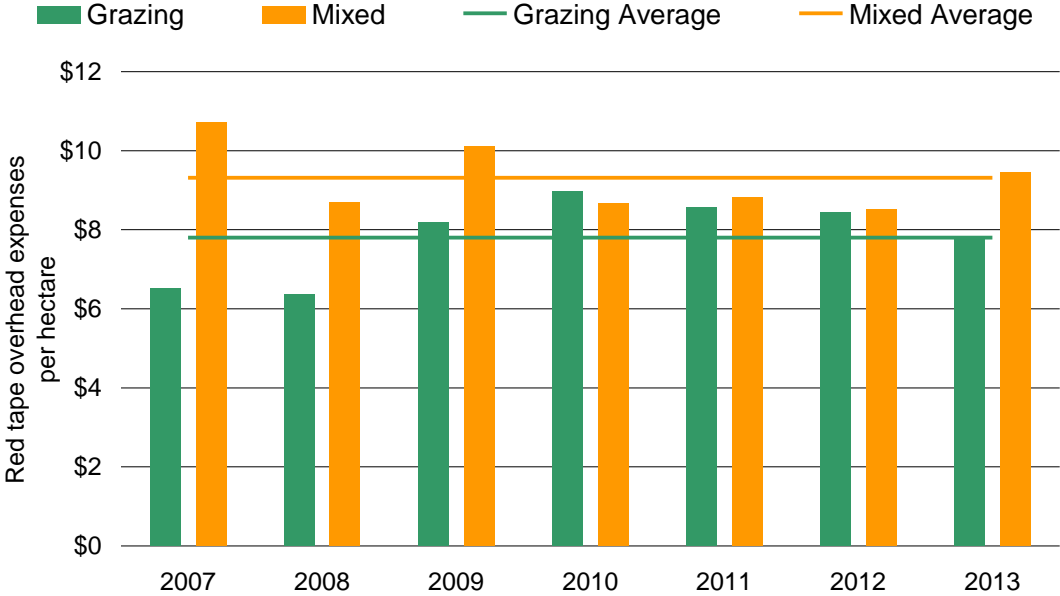
The average operating area in hectares of the two categories of farms is shown in Table 3. Grazing farms have a larger operating area than the mixed farms over the period.

**Table 3: Seven year (2007 to 2013) average total operating area in hectares for mixed and grazing farms.**

Total Operating Area - Hectares - 9 Year Average (2007 - 2013)	
Grazing	5,749
Mixed	4608

Given that the average area of grazing farms is greater than the average area of mixed farms it is unlikely that operating scale is the key driver of the difference seen in Graph 1. Graph 2 confirms that this is the case with red tape related overhead expenses remaining higher on a per hectare basis on the mixed farms.

**Graph 2: The nominal bureaucratic red tape related overhead expense per hectare for mixed and grazing farms over the seven years from 2007 to 2013.**

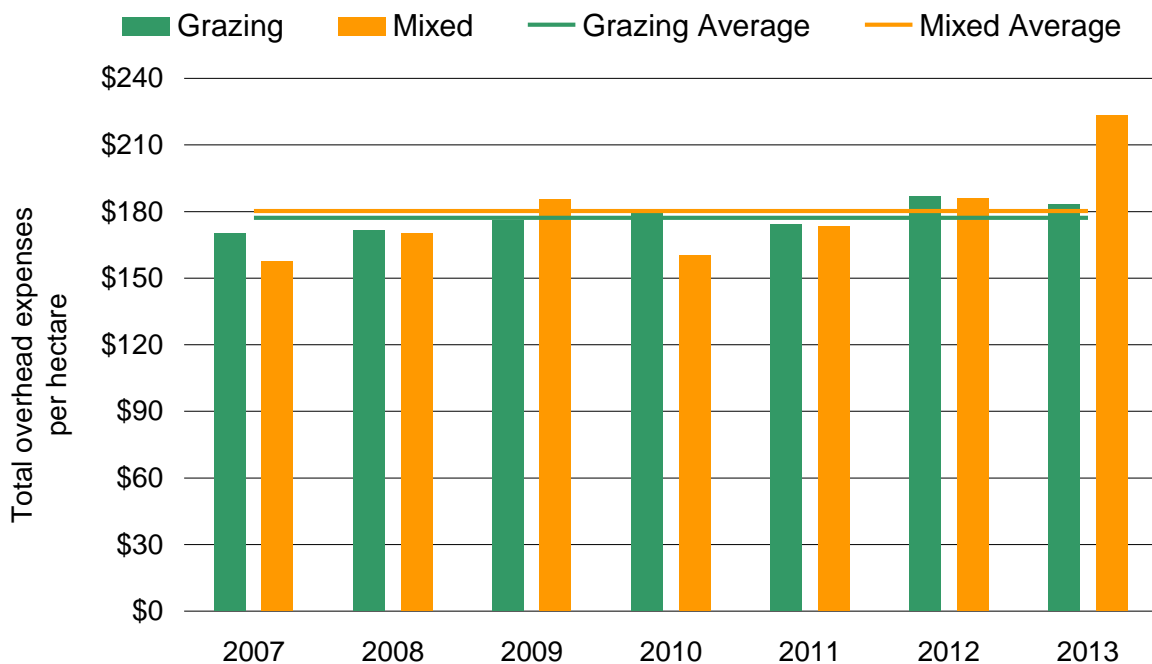


In this analysis, there is a direct relationship between total overhead costs and the cost of the overhead component of red tape. Thus it is feasible that the difference between the cost of red tape in mixed farms relative to grazing farms is related to the difference in overhead costs between the businesses.

### A snapshot of the red tape costs on farm in Australia.

An overhead cost is a cost of doing business which cannot be attributed to an individual enterprise and relates to the management of the whole farm (See Appendix 5, Page 24 for details of items included). The total overhead costs of the two groups of farms on a per hectare basis over the period are shown in Graph 3. Graph 3 shows that there is very little difference in overhead costs between grazing and mixed farms. This suggests that overhead costs are not responsible for the difference between grazing and mixed farms..

**Graph 3: The nominal total overhead expense per hectare for mixed and grazing farms over the seven years from 2007 to 2013**



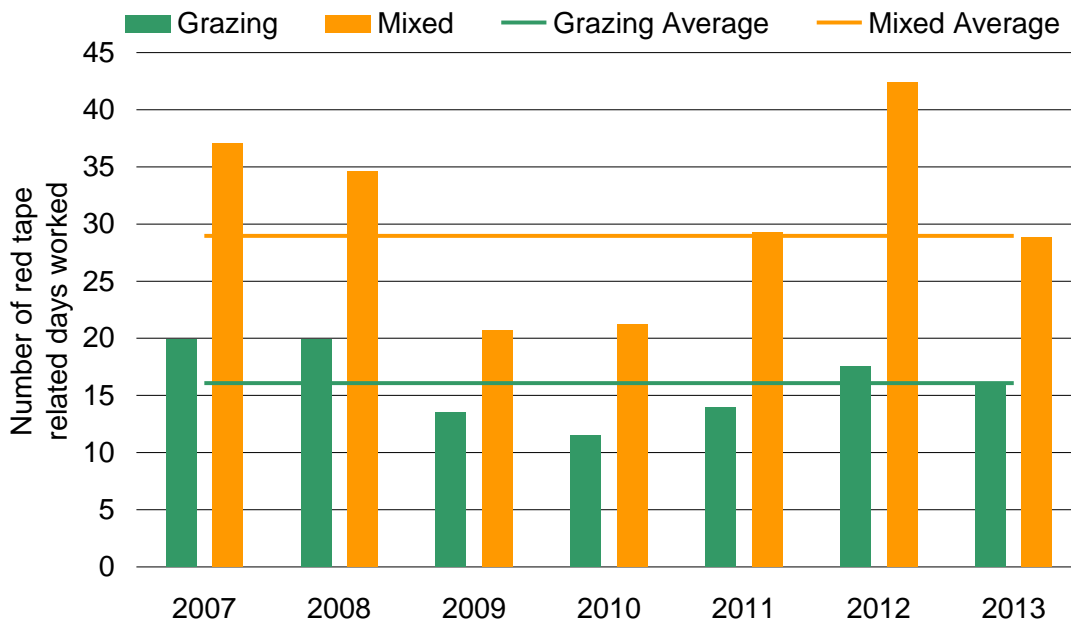
Based on the benchmarking data presented it is difficult to provide a logical explanation for the differences seen in the cost of the overhead component of red tape between mixed and grazing farms. A more detailed analysis investigating the specific components of the overhead costs of bureaucratic red tape by business (case study approach) would allow for greater depth of analysis and understanding of the outcomes.

### The time cost of red tape

The second component of bureaucratic red tape compliance is the amount of time required for completion of red tape-associated tasks. The average number of labour days per farm business spent completing these tasks for grazing and mixed farms over the analysis period are shown in Graph 4.

A snapshot of the red tape costs on farm in Australia.

Graph 4: The average number of days spent per year completing red tape related tasks on grazing and mixed farms over the seven years from 2007 to 2013.



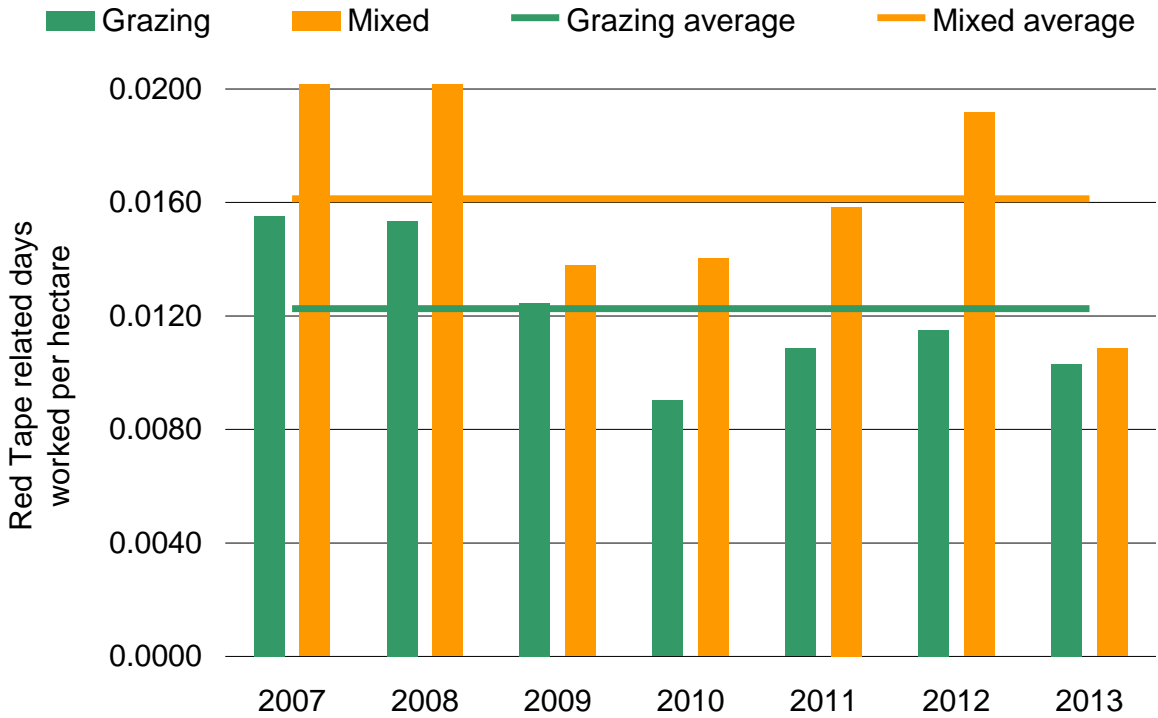
On a total days worked basis, on average, more days each year are spent on bureaucratic red tape related tasks on mixed farms than grazing farms. In fact, on a gross time basis per farm mixed farms spend 80% more time on average working on red-tape related tasks relative to grazing farms.

Graph 5 shows the number of days worked relating to bureaucratic red tape presented on a per hectare basis. This allows for assessment of the result in relation to farm area. The number of days worked by mixed farms remains greater than the number worked by grazing farms when shown on this basis however the magnitude of difference in relative terms declines. When assessed on a time per unit of area basis mixed farms dedicate 30% more time on red-tape related tasks than do grazing farms. This suggests that the greater total number of days worked by the mixed farms each year is influenced to some extent by their operating scale, but also because they have a larger workload related to these tasks.

The scope of this study does not allow for assessment of the reasons for the differences in time associated with red tape between grazing and mixed farms. Further analysis and research in this area is necessary to provide the detail regarding the tasks associated with red-tape that differ between mixed and grazing farms. A case study approach would also be useful.

A snapshot of the red tape costs on farm in Australia.

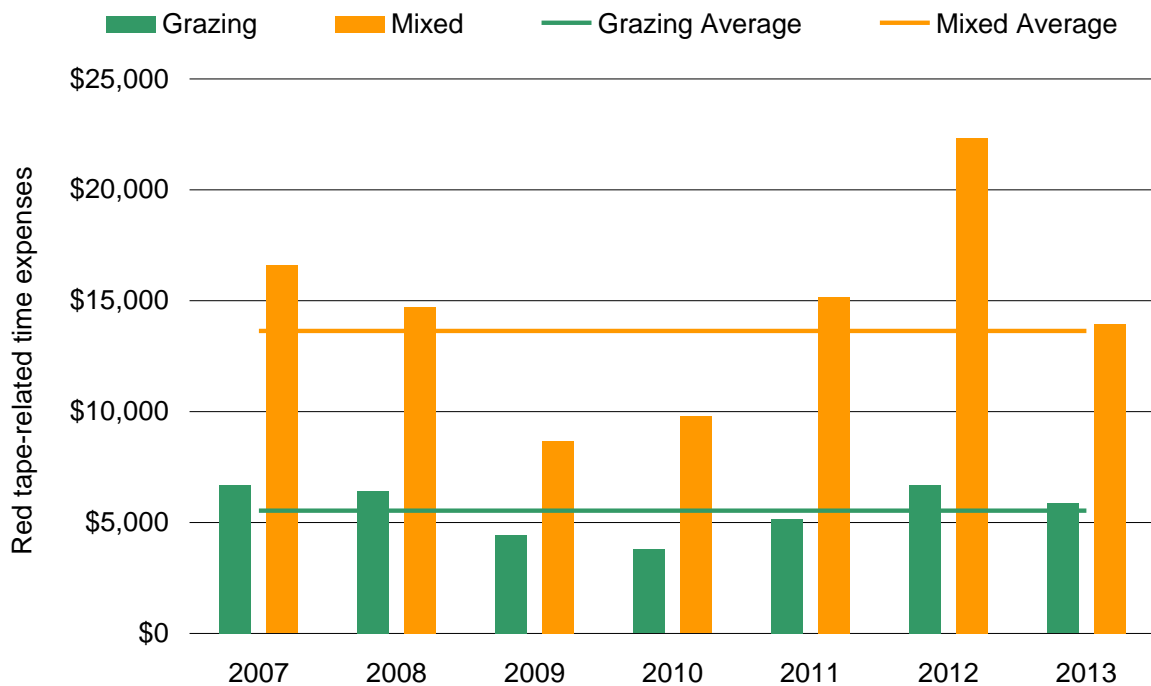
Graph 5: The average number of days spent per year completing red tape related tasks on a per hectare basis for grazing and mixed farms over the seven years from 2007 to 2013.



The number of days worked has been used to calculate a cost to these farms of completing these tasks. The results for grazing and mixed farms are shown in Graph 6. The mixed farms have incurred a greater wages or time expense relating to red tape than grazing farms over the seven years. This is directly proportional to the higher number of days spent by these farms on these tasks.

## A snapshot of the red tape costs on farm in Australia.

**Graph 6: The calculated total nominal amount spent on wages attributable to bureaucratic red tape for grazing and mixed farms from 2007 to 2013.**



### Total Cost

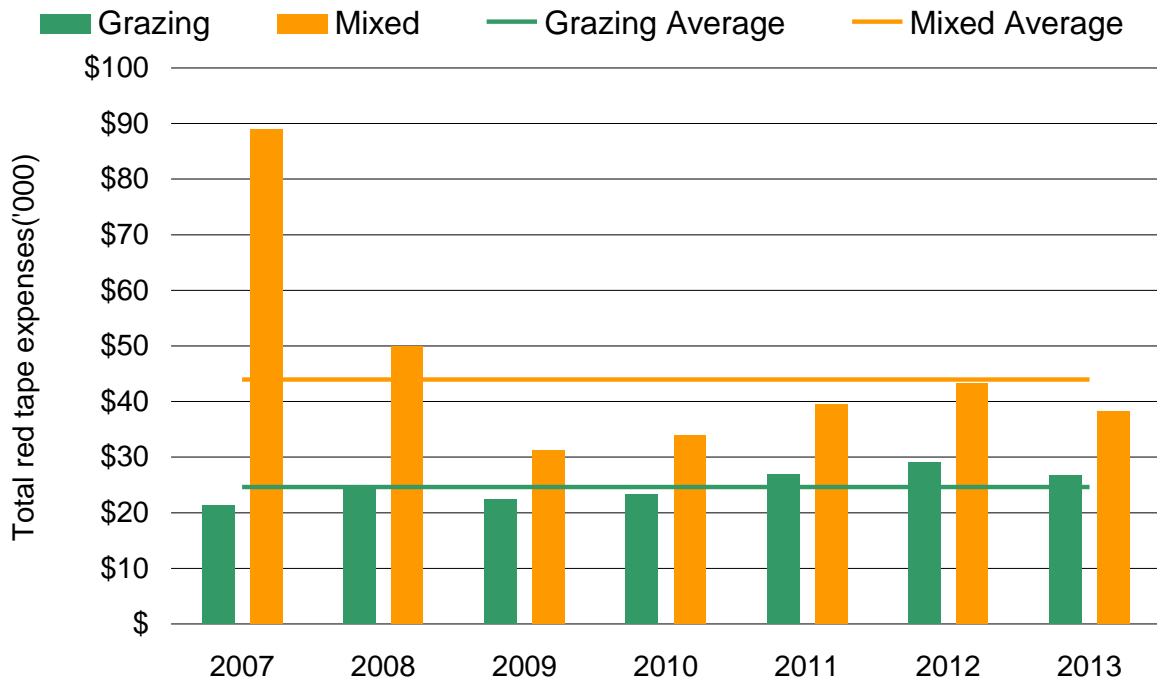
The total cost of bureaucratic red tape, for the purposes of this report, has been assessed by adding the overhead and administration cost component to the cost of time (wages) in meeting requirements. The results for mixed and grazing farms are shown in Graph 7.

At a whole farm level, mixed farms have a cost of bureaucratic red tape that is approximately 80 percent higher than grazing farms. It is the contribution of both components (overhead and time) that has led to this outcome. The magnitude of difference is largest in the 2007 and 2008 years. In subsequent years the difference is reduced to approximately 45%. The total cost of red tape for grazing farms is increasing at a steady rate.

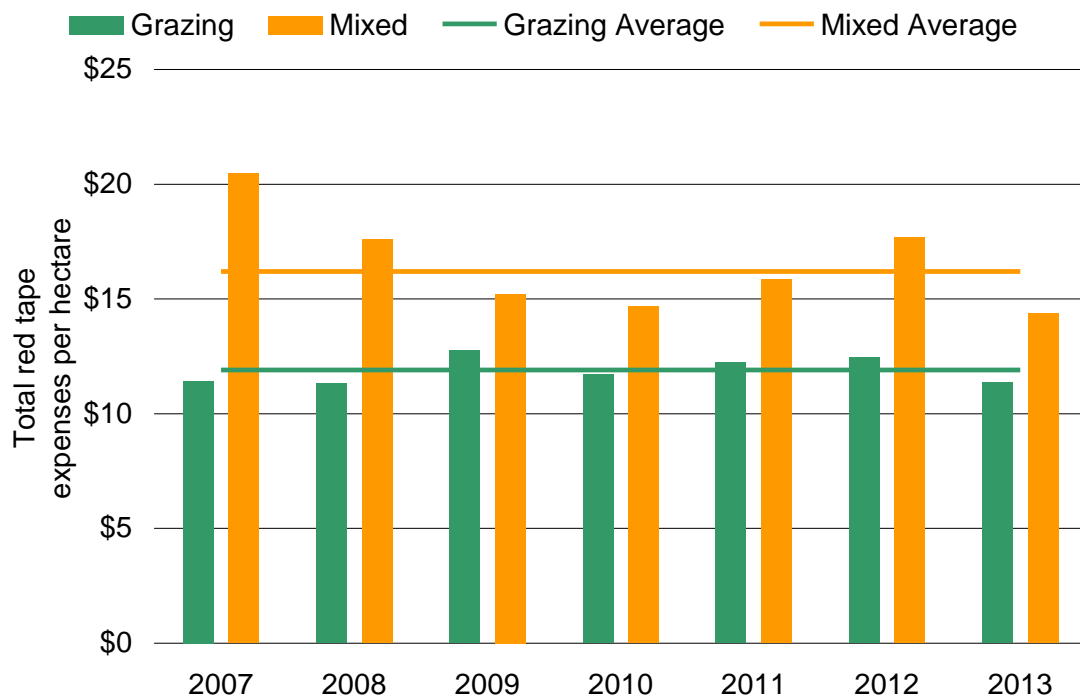
When the total cost of red tape is assessed on a per hectare basis costs for both grazing and mixed farms remain relatively static (Graph 8). There is little deviation around the seven year average from either farm category. On a per hectare basis mixed farm red tape costs are 36% higher than grazing farm red tape costs.

A snapshot of the red tape costs on farm in Australia.

Graph 7: The total nominal bureaucratic red tape cost for grazing and mixed farms from 2007 to 2013.



Graph 8: Total bureaucratic red tape cost per hectare for grazing and mixed farms from 2007 to 2013.



**A snapshot of the red tape costs on farm in Australia.**

The average percentage of income, expenses and net farm profit made up by the total cost of red tape over the last seven years are shown in Table 4. There is no substantial difference between the averages for grazing or mixed farms in red tape costs as a percentage of income or expenses. There is a slight difference in red tape as a percentage of profit between grazing and mixed farms. This is most due to mixed farms generating 50% more profit than grazing farms over the seven year period.

**Table 4: The average percentage of income, expenses and net profit which is made up by the combined total nominal overhead and wages cost related to bureaucratic red tape for grazing and mixed farms over the seven years from 2007 to 2013.**

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	Grazing	Mixed
Red tape % income	3.9%	3.8%
Red tape % total expenses	4.5%	4.4%
Red tape % net profit	14.7%	12.3%

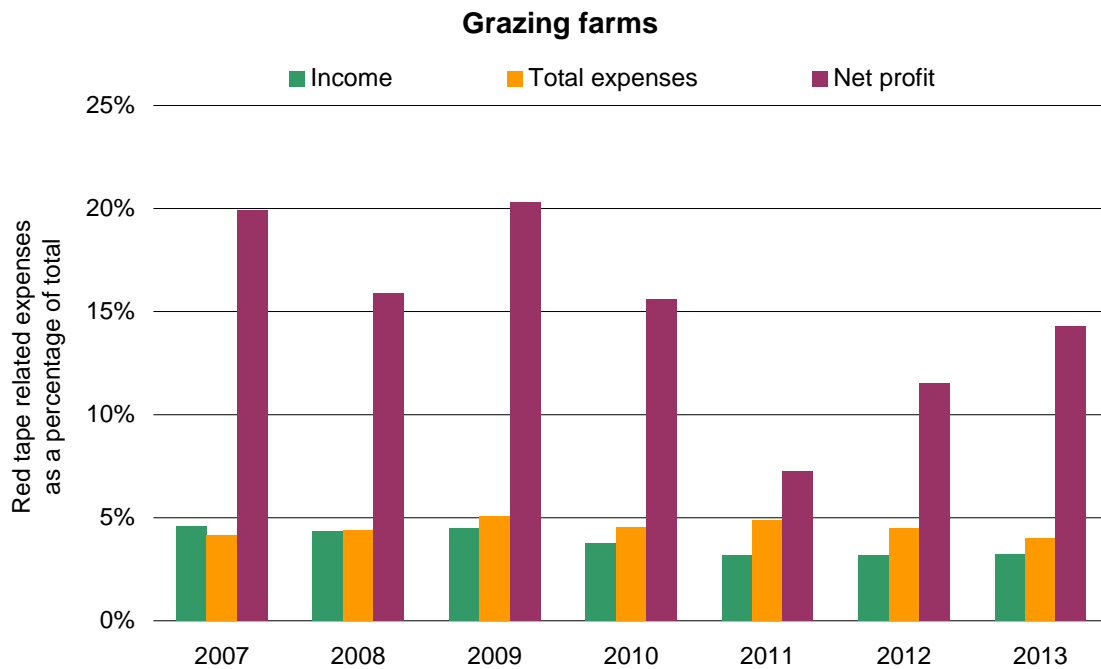
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The annual percentage of income, expenses and net profit on grazing and mixed farms are shown in Graph 9 and Graph 10 respectively. The percentage of income and total expenses is relatively consistent both between the two groups and within each group between years. The percentage of net profit is not consistent between groups or years and this is influenced to a greater degree by the fluctuation in net profit of these farms (Graph 12, Appendix 2, Page 20) rather than the total cost of red tape.

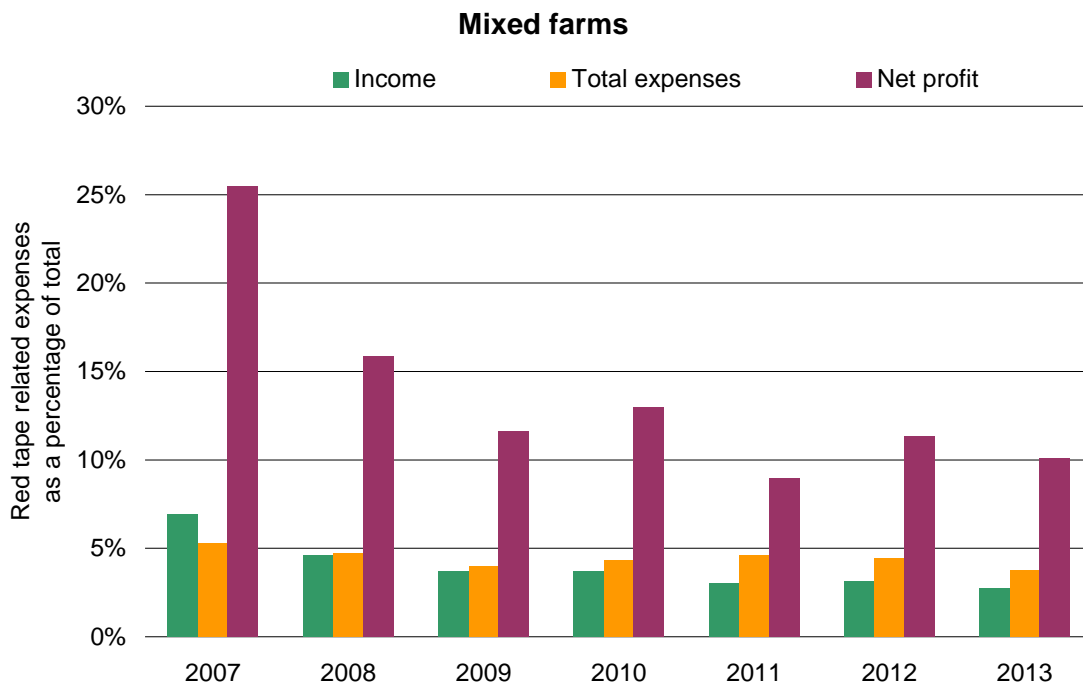


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**Graph 9: The percentage of total income, total expenses and net profit made up by total nominal cost related to bureaucratic red tape on grazing farms over the seven years from 2007 to 2013.**



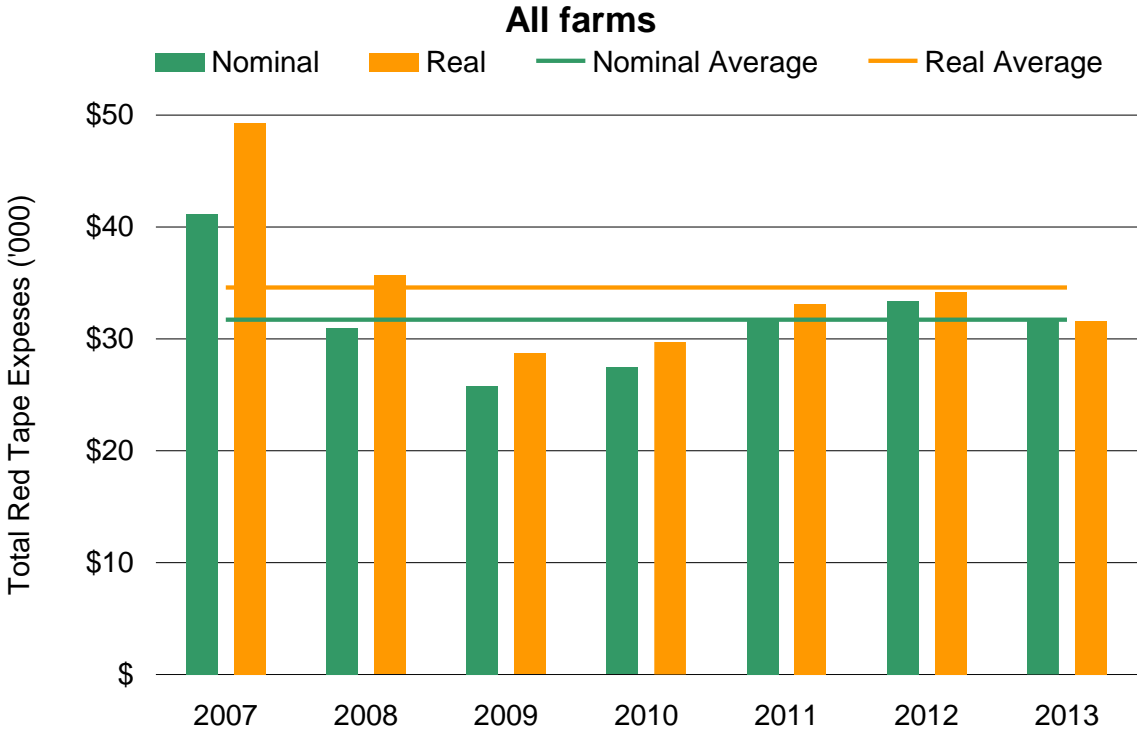
**Graph 10: The percentage of total income, total expenses and net profit made up by total nominal cost related to bureaucratic red tape on mixed farms over the seven years from 2007 to 2013.**



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The average cost of red tape to all farms over the period analysed has been calculated and the results shown in both nominal and real terms in Graph 11. This total expense has been calculated by averaging the entire grazing and mixed farm results. Red tape related expenses on all farms have decreased from highs experienced in 2007 and 2008 but have been on an increasing trend over the last five years.

**Graph 11: The total nominal and real bureaucratic red tape cost for all farms from 2007 to 2013.**



The analysis conducted and results presented in this report provide some indication to the cost of bureaucratic red tape to agriculture. There are limitations to the data which would be overcome with investment into more detailed analysis or case studies on a range of individual farms. The results indicate that the cost to agriculture of bureaucratic red tape is significant, particularly on mixed farms.

## Appendix 1

Table 5: Return on Assets - ABARES versus Holmes Sackett

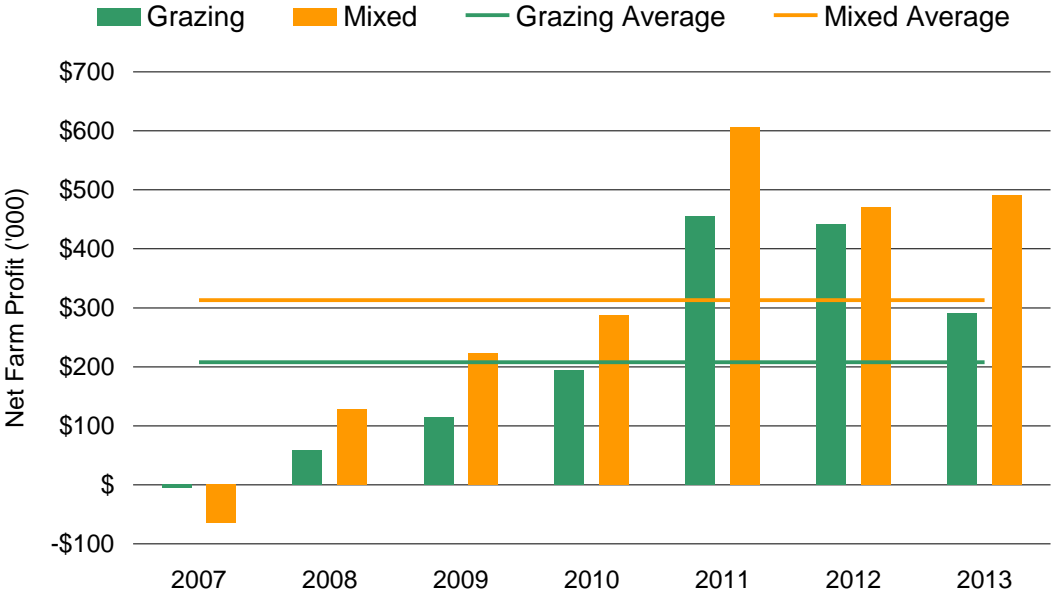
	Mixed farms*			Grazing Farms **		
	ABARES	Holmes Sackett	Difference	ABARES	Holmes Sackett	Difference
<b>2009</b>	1.5%	1.8%	0.30%	0.8%	1.2%	0.4%
<b>2010</b>	0.2%	1.7%	1.50%	0.4%	2.2%	1.8%
<b>2011</b>	1.5%	5.2%	3.70%	1.4%	5.5%	4.1%
<b>2012</b>	1.8%	3.9%	2.10%	2.3%	3.8%	1.6%
<b>2013</b>	1.0%	3.3%	2.30%	1.2%	2.6%	1.4%
<b>5 year average</b>	1.2%	3.2%	2.0%	1.2%	3.1%	1.9%

\* Mixed Farms are those which derive greater than 15% of their income from cropping enterprises.

\*\* Grazing Farms are those which derive less than 15% of their income from cropping enterprises.

Appendix 2

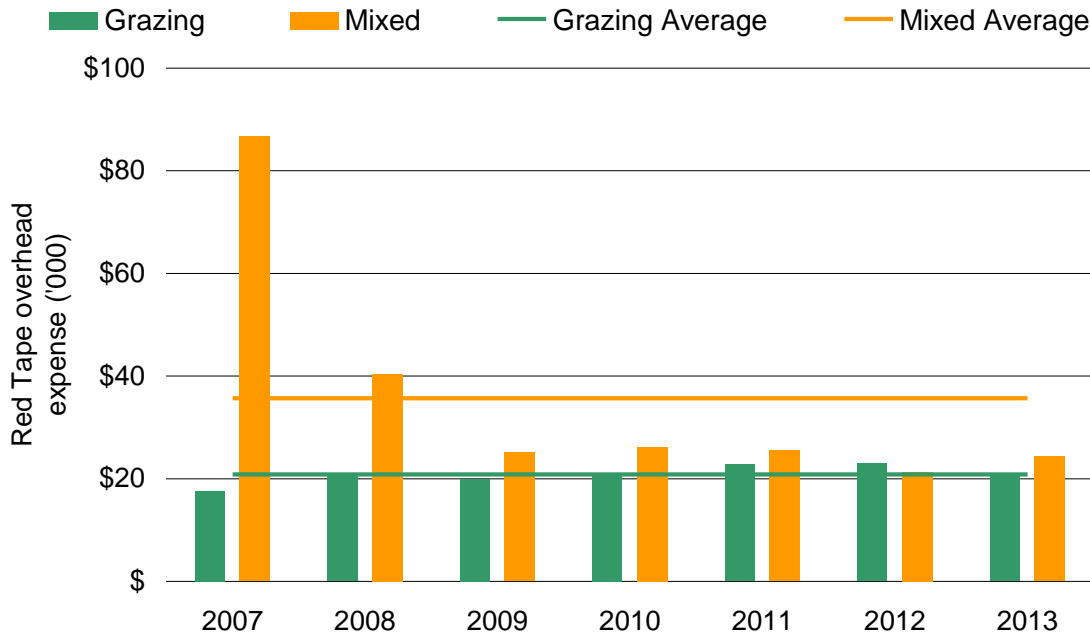
Graph 12: Average net farm profit (nominal) for grazing and mixed farms 2007 to 2013.



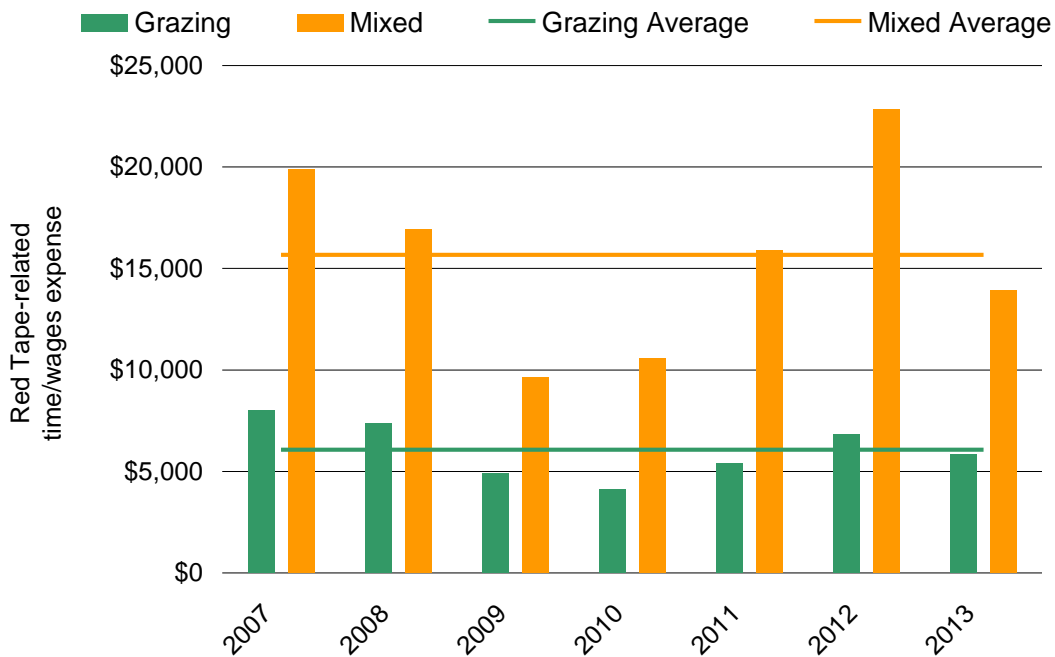
A snapshot of the red tape costs on farm in Australia.

### Appendix 3

Graph 13: The real bureaucratic red tape related overhead expense for mixed and grazing farms over the seven years from 2007 to 2013.

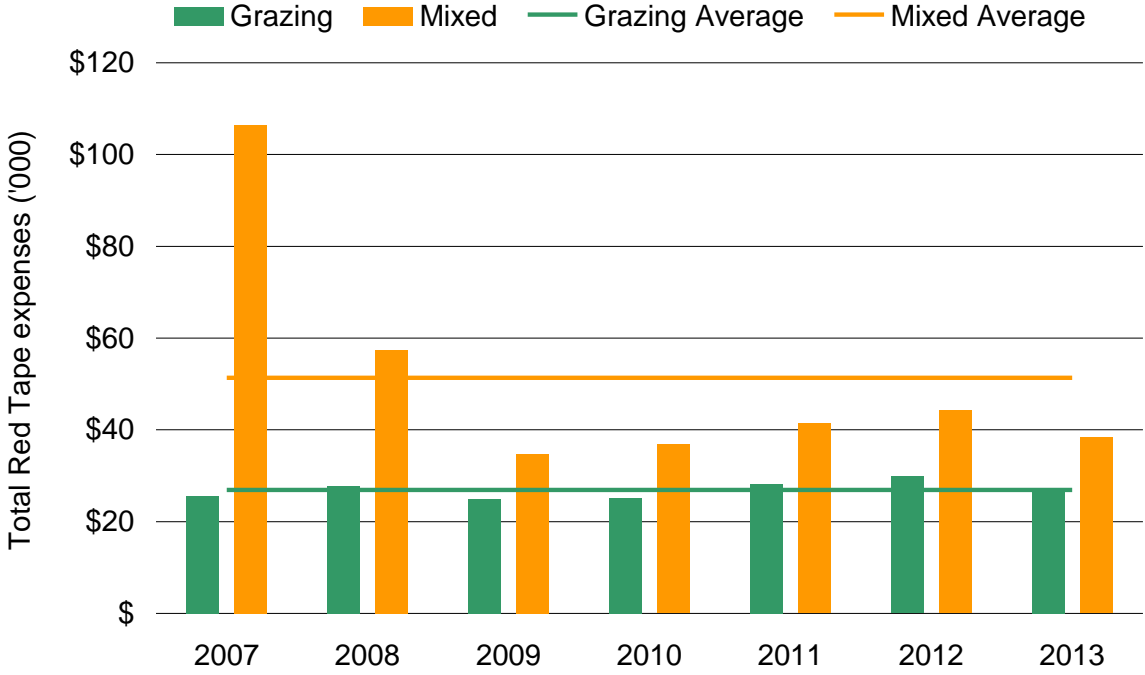


Graph 14: The calculated total real amount spent on wages attributable to bureaucratic red tape for grazing and mixed farms from 2007 to 2013.



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Graph 15: The total real bureaucratic red tape cost for grazing and mixed farms from 2007 to 2013.



## Appendix 4

Table 6: The inflation rate over the last seven years as measured by the Consumer Price Index (CPI)

Source: Reserve Bank of Australia ([www.rba.gov.au](http://www.rba.gov.au))

Year	Consumer Price Index (CPI)*	Inflation Rate**
2007	86.9	3.0%
2008	89.8	3.4%
2009	92.6	3.1%
2010	94.8	2.3%
2011	97.7	3.1%
2012	100.0	2.3%
2013	102.3	2.3%
<b>Average Over 7 Years</b>		<b>2.8%</b>

\*2011/12 is the base year of 100

\*\* Measured as a percentage yearly change in the CPI

## **Appendix 5**

### **Overhead Expenses**

The following are the overhead expense categories and individual items. The expenses relate to whole farm management and cannot be attributed to any specific enterprise.

#### **Administration**

- Accounting and Legal Fees
- Consulting Whole Farm (not enterprise specific)
- Printing and Stationery
- Postage, Travel, Accommodation, Subs and Memberships
- Seminars & conferences
- Bank fees, charges and taxes
- Telephone, Computer programs

#### **Chemicals**

#### **Contract Services**

#### **Depreciation**

#### **Electricity & Gas**

#### **Fertiliser**

#### **Fuel & Lubricants**

#### **Insurance**

#### **Irrigation**

#### **Landcare**

#### **Lime/Gypsum**

#### **Materials**



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- Industrial gases and explosives
- Protective clothing
- Hardware
- Dog food

### **Motor Vehicle Expenses**

- All farm vehicles (cars, utes, 4WD, trucks, bikes)
- Registrations and licences
- Insurance
- Repairs and Maintenance

### **Rates and Rents**

- Shire and Council
- Unused roads
- RLP Board

### **R & M General (Not used for pasture, crops)**

- Sheds, yards and fences
- Water

### **Seed**

### **Wages & On Costs**

- For employees

### **Wages - Owner (these are excluded from Wages & On-Costs)**