



Identifying the True Costs of Farmers Own Labour

2008

A study by

The Royal Association of British Dairy Farmers

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CONTENTS

The 2004 Study and Methodology	4
Management / Semi-skilled	6
Farm Management	7
Business Management	8
The Average Cost of Family Labour	9
Average Working Hours per Week	10
Farming - The Benefits and Risks	11
The Pension Factor	11
The Independent Guidelines for Dairy Costing Scheme	13
Conclusions	14

IDENTIFYING THE TRUE COSTS OF FARMERS OWN LABOUR 2008

Introduction

In January 2005 the Royal Association of British Dairy Farmers released a study Identifying the True Costs of Farmers Own Labour, based on a survey of dairy farmers conducted in 2004. This study for the first time put a true value on the total cost of family labour involved with running an average 156 cow dairy unit. Since then, RABDF has championed the importance of including family labour in dairy costings.

The issues which applied in 2005 are still important today. In order for dairy farming to be sustainable, farmers must ensure all their costs of production are accounted for when they look at costs versus income received. Including a true value for family labour is therefore still important. The skills which a farmer brings to their business are wide and varying and, to provide a standard of living which is comparable with other industries, it is essential that farmers realise their own true value.

Since the original study was produced, the cost of living has increased dramatically. This new study provides an up-to-date figure for family labour using the same data and methodology employed in the 2004 study. This gives a realistic result and not one based solely on inflation and retail price indices.

The 2004 Study and Methodology

In 2004 the RABDF supported by a number of organisations, surveyed 500 farm businesses to discover the involvement and scope of unpaid family labour, coupled with the skills which they possessed. A human resources specialist was used to consider and analyse the farmer's transferable skills and compare them with other jobs against which they could be benchmarked. These benchmark jobs were then used against a national database of salary levels to establish their own salary levels.

Four years have now passed since the study was published; however, it is considered that the survey information regarding family time involved with the farming business will not have changed in any significant way and thus these values have been used for updating the study. The results are summarised in Table 1.

Table 1: Average time use for family members

	Farmer	Spouse	Son or Daughter	Parent	Other
	Average	Average	Average	Average	Average
Average working day Hrs	11.7	6.8	8.2	6.3	8.6
Working week Days per week	6.5	5.2	5.1	5.4	5.7
Holidays (incl. bank holidays)	10.4	10.5	8.6	15.9	14.8
Proportion of time with Dairy Enterprise	75%	52%	62%	59%	49%
Time with Dairy Enterprise Hrs per day	8.8	3.5	5.1	3.7	4.2
Average week with Dairy Enterprise Hrs	57	18	26	20	24
Proportion of time spent on					
Semi-skilled work	62%	45%	79%	61%	72%
Farm Management Skills	21%	26%	13%	20%	18%
Business Management Skills	17%	29%	8%	19%	10%

The dairy enterprise includes the dairy youngstock

Other – relates to other family members or relatives e.g. brothers, son/daughter in-law etc.

The methodology in the new survey is very similar to that that was used in 2004. The same jobs have been selected as benchmarks; again most have been taken from the Incomes Data Services (IDS) publications. This information has then been augmented by data from other surveys to ensure that the most current figures have been used. It is not possible to use exactly the same data set as the 2004 study as some have been discontinued or updated using different methodology; however the closest possible matching data from one or more surveys has been used.

Based on the same information produced for the 2004 study a range of jobs has been taken from the following job families, these have been chosen to select jobs which farmers have the skills and aptitude to undertake successfully.

- Administration, Business and Office Work
- Construction
- Engineering
- Environment, Animals and Plants
- Transport, Logistics and Warehousing

These are further sub-divided into 3 core skill categories:

1. Manual / Semi-skilled
2. Farm Management
3. Business Management

Tables 2, 3 and 4 show a range of jobs within these skill-sets and the salary which is associated with each of these jobs. The average value for each individual job has been taken and this has allowed a value to be calculated for the entire core skill category.

Manual / Semi-skilled**Table 2: Comparable Manual and Semi-skilled Jobs and Salary Levels**

Job Family	Job	Average Range Value	National Average
Administration, Business and Office Work	Clerical Assistant	£16,510 £13,929	£15,219
	Typist/Word Processor	£15,762 £15,273	£15,517
	Accounting Technician	£16,374 £23,462	£19,918
Construction	Carpenter/Joiner	£23,163	£21,782
	Bricklayer	£20,402	
Engineering	Welder – Cars	£11,499	£16,834
		£22,315	
	Fitter Maintenance	£18,061 £19,893	
Environment, Animals and Plants	Forestry Worker	£15,243	£15,243
	Environment Agency	£14,700	£14,700
	Gardener	£15,297	£15,297
	Agricultural Trades	£11,141	£11,141
	Veterinary Nurse	£15,272	£15,272
	Country Ranger	£16,218 - £20,736	£18,477
Transport and Logistics	Lift Truck Driver	£17,137	£16,890
		£16,643	
	Van Driver	£14,196 £16,077	£15,137
	Large Goods Vehicle Driver	£21,542 £20,267	£20,904
	Warehouse Worker	£18,477 £16,425	£17,451
Overall Average*			£16,797

Incomes Data Services – Pay Benchmark 2008

[Industry or company source](#)[Incomes Data Services – Management Rewards 2007](#)[Incomes Data Services – Clerical and Operative 2007](#)

*37.5hour week

Farm Management

Table 3 provides the job families, jobs and salary levels which have been used for the farm management work which farmers and their families undertake.

Table 3: Comparable Farm Management Jobs and Salary Levels

Job Family	Job	Average Range Value	National Average
Administration, Business and Office Work	Management/Business Consultant	£43,231 £35,535	£39,383
	PA Executive secretary	£21,665 £22,571	£22,118
	Property Housing and land manager	£32,329	£32,329
Engineering	Department Head - projects	£32,448	£32,448
Environment, Animals and Plants	Conservation Advisor	£21,127	£21,127
	Agricultural Consultant	£28,170	£28,170
	Farm Manager	£27,837	£27,837
Transport and Logistics	Fish/Horticulture Manager	£26,783	£26,783
	Distribution Manager	£40,921	£40,921
Overall Average			£30,124

Incomes Data Services – Pay Benchmark 2008

[Industry or company source](#)

[Incomes Data Services – Management Rewards 2007](#)

Business Management

Table 4: Comparable Business Management Jobs and Salary Levels

Job Family	Job	Average Range Value	National Average
Administration, Business and Office Work	Managing/Principal Consultant Small Business	£64,042	£64,042
	General Manager	£55,530	£55,530
	Works Manager	£45,422	£45,422
Engineering	Engineering and Technical Manager	£55,078	£55,078
	Garage Proprietor	£26,372	£26,372
Environment, Animals and Plants	Forest Manager District	£46,502 - £60,287	£53,395
	Proprietors and Managers Agriculture	£30,666	£30,666
	Conservation Advisor Team Leader	£30,638 - £37,849	£34,243
	Agricultural Advisor Team Leader	£33,804	£33,804
Transport and Logistics	Department Head	£33,508	£33,508
Overall Average			£43,206

Incomes Data Services – Pay Benchmark 2008

Industry or company source

Incomes Data Services – Management Rewards 2007

Incomes Data Services – Clerical and Operative 2007

The full time salary equivalent for the three job areas have been summarised in Table 5.

Table 5: Summary of Full Time Salary Equivalent

Job Type	Full Time Salary Equivalent £/Annum	Hourly Rate £/Hour
Manual / Semi-skilled	£16,797	£8.61
Farm Management	£30,124	£15.45
Business Management	£43,206	£22.16

Hourly rate based on 37.5 hours per week

The information received from the 2004 survey regarding the time contributions family members gave towards the running of the farms and the details on comparative jobs and their salary levels have been used in calculating the value of family labour.

The Average Cost of Family Labour

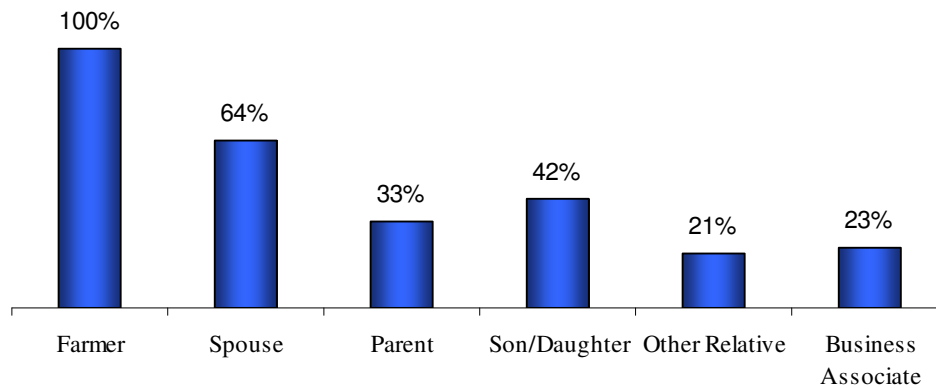
Table 6 presents the average value for each family member for their labour, relating each of their core skills and the equivalent salary average to the percentage of time that they spend working on the dairy enterprise.

Table 6: Value of Family Labour by Family Member

	Full Time Salary Equivalent	Farmer	Spouse	Child	Parent	Other
Semi -skilled	£16,797	£10,414 62%	£7,559 45%	£13,270 79%	£10,246 61%	£12,094 72%
Farm Management Skills	30,124	6,326 21%	7,832 26%	3,916 13%	6,025 20%	5,422 18%
Business Management Skills	£43,206	£7,345 17%	£12,530 29%	£3,456 8%	£8,209 19%	£4,321 10%
Total Salary for Dairy Enterprise	-	£24,085	£27,921	£20,642.55	£24,480	£21,837
Percentage of Full Time on Dairy	-	100%	32%	45%	35%	42%
Cost to the Dairy Enterprise	-	£24,085	£8,935	£9,289	£8,568	£9,172

Figure 1 details the contribution of each family member's involvement in the farm in terms of the amount of farms which involve different family members, as taken from the 2004 study.

Figure 1: Average Contribution of Family Members



Using the data from these survey results we are able to calculate the average value of farm labour as shown in Table 7.

Table 7: Average value of Dairy Enterprise Family Labour

	Average Involvement	Value	Average Value
Farmer	100%	£24,085	£24,085.44
Spouse	64%	£8,935	£5,718.18
Son or Daughter	42%	£9,289	£3,901.44
Parent	33%	£8,568	£2,827.48
Other	44%	£9,172	£4,035.49
Average Cost of family labour			£40,568.03

Average Working Hours per Week

The 2004 study showed that farmers do not work a 37.5 hr week as shown above, in fact they work on average 57 hours a week on the dairy enterprise and therefore the extra 19.5 hours should be taken into consideration in order to achieve the true costs of family labour.

Although in reality a salaried worker, as used in the comparable jobs in the farm management and business management skills sections, would not be paid overtime, a manual/semi-skilled worker would be paid overtime at an average rate of time and a half.

Overtime at time and a half would be charged at £13.68 per hour for 19.5 hours per week = £13,872, which when added to the full time salary equivalent totals at £32,685.

When considering the fact that 62% of the farmer's time is undertaking semi-skilled work the figures must be revised to give the following.

Table 8: Farmer's Revised Equivalent Salary

Semi-skilled Overtime Pay	13,871.52
Full salary equivalent	30,668.93
<i>62% of full salary equivalent</i>	<i>19,014.74</i>
<i>Farm Management Skills</i>	<i>6,326.04</i>
<i>Business Management Skills</i>	<i>7,345.01</i>
Farmers Cost	32,685.79

Using the new farmer cost the average value of family labour can be calculated based on a farmer working a 57 hour week and the results are shown in Table 9.

Table 9: Average Value of Dairy Enterprise Family Labour

	Average Involvement	Value	Average Value
Farmer	100%	£32,686	£32,685.79
Spouse	64%	£8,935	£5,718.18
Son or Daughter	42%	£9,289	£3,901.44
Parent	33%	£8,568	£2,827.48
Other	44%	£9,172	£4,035.49
Average Cost of family labour			£49,168.38

Farming - The Benefits and Risks

Dairy farmers and their families have a range of certain indefinable benefits that should not be forgotten. Many of these are over and above those of the typical salaried person not working in practical farming, for example not having to travel to work. Conversely there are downsides to farming such as not having paid holidays, and some of these together with the unquantifiable benefits are noted in the 2004 study. It is also important that a farmer plans his future after retirement, in a similar way as any other profession.

The Pension Factor

Most full-time permanent employees in the UK are offered a number of benefits by their employer, the most common of which, is likely to be an occupational pension scheme, into which both the employer and employee contribute a percentage of their earnings. Any pension scheme in to which a farmer has to contribute has, by definition, to be paid for out of personal funds.

Although it could be argued that being the owner/proprietor of a business will enable them to receive an income after retirement age. In the case of a tenanted farmer this may not be the case as they may not still be on the farm. So it is important when considering the true cost of family labour, a provision is made for pensions in the total costs.

Everybody in work including the self-employed will be paying National Insurance Contributions (NICs), which means they are eligible for a basic state pension. However this is unlikely to provide the standard of living a farmer is used to or wants and therefore having another source of income is essential.

Of the active employees in private sector membership schemes, 75% have defined-benefit schemes. These are pension schemes in which the rules specify the rate of benefits to be paid. The most common defined benefit scheme is a salary-related scheme in which the benefits are based on the number of years of pensionable service; the accrual rate, the average of selected years' salaries, or the best year's salary within a specified period before retirement.

The remaining 25% are in defined-contribution schemes where the benefits are determined by the contributions paid into the scheme, the investment return and the type of annuity purchased upon retirement.

Contributions to private sector schemes vary depending upon the type of scheme. Table 10 recognises the contributions made by both the employee member and employer together with the total contributions as a percentage of the employee's salary.

Table 10: Total pension contributions by member and employer

Scheme Type	Member Contributions %	Employer Contributions %	Total Contributions %
Defined-benefit Scheme	4.9	14.2	19.2
Defined-contribution Scheme	3.0	5.8	8.9
Weighted Average Total	4.4	12.1	16.5

Occupational pension scheme survey 2006

As a farmer is in a situation where he finds himself as both the employer and employee member, it is reasonable to expect him to contribute the total contribution ie an average rate of 16.5% of the total cost of family labour.

Table 11: Actual Value of Family Labour

	Cost to the Dairy Enterprise	Pension at 16.5%	Total Cost	Average Involvement	Actual Value of Family Labour
Farmer	£24,085	£5,393	£38,079	100%	£38,079
Spouse	£8,935	£1,474	£10,409	64%	£6,662
Son or Daughter	£9,289	£1,533	£10,822	42%	£4,545
Parent	£8,568	£1,414	£9,982	33%	£3,294
Other	£9,172	£1,513	£10,685	44%	£4,701
Total					£57,281

It is important therefore to incorporate this level of pension provision when calculating dairy enterprise costs.

RABDF recommends that a figure of 16.5% of total family labour salaries is included as Operational Costs in the Independent Guidelines for Dairy Costing Schemes, so that the true cost of family labour and consequently the true costs of production are established.

NB: RABDF intends to undertake further research this year on pensions to ascertain the number of dairy farmers who currently make provision and at what level.

The Independent Guidelines for Dairy Costing Scheme

A. GROSS COSTS

These costs should relate directly to the dairy enterprise including herd replacements

Concentrates
Bulk Feeds
Vet & Medicines
AI & breeding costs
Forage Cost

Bedding
Dairy Sundries

Forage costs include fertilisers and sprays plus associated costs such as plastic sheets/wrap

Total Gross Costs = A

B. OPERATIONAL COSTS

Employed Labour

Full, part-time, casual and paid family labour, employer's contributions to employee's pensions, training and any associated costs.

Power & Machinery

Repairs and running costs for dairy specific equipment, including that associated with grassland and forage. Include vehicle tax and insurance, fuel, electricity and contract.

Depreciation

Costs associated with depreciation of relevant machinery, vehicles and equipment.

Property

Depreciation, repairs, maintenance and rates.

Other Operational Costs

Costs associated with running the business: office, telephone, water, general insurance, professional, consultant and secretarial fees, subscriptions and miscellaneous

Unpaid Family Labour

Realistic remuneration for family labour in terms of salary or for recorded hours worked on the farm including business management. RABDF advise £49,168.38 per annum. A further 16.5% should be added for provision of pensions.

Total Operational Costs = B

C. RESOURCE COSTS

Rent, quota leasing and finance costs (interest but not loan repayment)

Total Resource Costs = C

TOTAL COST OF PRODUCTION = A + B + C

The guidelines are limited to structuring the costs of production only. They should be presented as pence per litre. The approach allows for Gross Margin calculation where it is used. Gross Margin – Gross Costs (A), and Enterprise profit per litre = Gross income – (A + B + C). Calculation of remuneration levels for the farmer should be based on accurate records of individual businesses or by sample studies and benchmarking. The cost of family labour and pension percentage should be reviewed annually.

Conclusions

The cost of family labour has risen to a value of £49,168.38 and represents a significant proportion of milk production costs

The average cost per litre based on the 2004 study for a typical herd averaging 7112 litres would be 4.43p

When hired labour costs are considered¹, the total labour cost on a typical 150 to 200 cow herd will amount to 7.2p to 7.9p per litre.

Table 12: Average hourly wage based on 37.5 hr week

	Pay per hour
Farmer	£16.70
Spouse	£14.32
Son or Daughter	£10.58
Parent	£12.55
Other	£11.20

Table 12 shows the average rate per hour that each family member should be paid for every hour that they work on the dairy enterprise.

In the original independent guidelines produced by RABDF a notional rate of £10 per hour was included. We can see from the above table that this figure is substantially lower than that the new recommended values.

It is clear from the figures in this study that every dairy farmer in the UK should realise and include the full value of unpaid family labour when they consider costing their milk production.

¹ John Nix Farm Management Handbook 38th Edition – Labour for Livestock, using rule for herds over 100.