

### INTRODUCTION

This is a step by step process on how to calculate accurate and sustainable charge rates for agency labour. It supports labour providers and labour users to understand the real cost of labour provision, creating a basis for open and fair negotiation.

### STEP 1 – AGREE PAY RATES

Workers in the UK are entitled to at least the [National Minimum Wage \(NMW\)](#) relevant to their age. The minimum rate for workers aged 25 and over is known as the National Living Wage (NLW). Rates usually increase each April.

Agricultural workers in [Northern Ireland](#), [Scotland](#) and [Wales](#) have slightly different minimum wage arrangements.

Under the Agency Workers Regulations 2010 (AWR) agency workers have the right to be paid parity with a directly employed worker doing broadly similar work, after 12 weeks employment with the same hirer.

Further guidance on pay and conditions for agency workers is available from the [Resources](#) section of the ALP website, including Brief 219 – Charge Rate Guidance.

### STEP 2 – ADD THE EMPLOYERS NATIONAL INSURANCE CONTRIBUTION

[Employers National Insurance Contribution \(ENIC\)](#) is currently payable by the employer at a rate of 13.8% of all earnings over the secondary threshold which is currently £169 a week. The amount of ENIC to pay will therefore increase in accordance with the pay rate and the number of hours worked.

Both the ENIC rate and the secondary threshold are subject to annual change each April.

ENIC is not currently charged on workers under the age of 21, or apprentices under the age of 25.

To find out how much ENIC to charge for a worker earning £8.72 an hour over a 40-hour working week:

Pay rate x number of hours = <b>Weekly pay</b>	$£8.72 \times 40 = £348.80$
Weekly pay – secondary threshold = <b>ENIC chargeable weekly pay</b>	$£348.80 - £169.00 = £179.80$
ENIC chargeable weekly pay x ENIC rate = <b>Weekly ENIC charge</b>	$£179.80 \times 13.8\% = £24.81$
Weekly ENIC charge / number of weekly hours = <b>Hourly ENIC charge</b>	$£24.81 \div 40 = \mathbf{£0.62}$

### STEP 3 – ADD THE AUTO-ENROLMENT PENSION COSTS

Employers are required to pay a minimum of 3% of all qualifying earnings for eligible workers into a [pension](#).

Qualifying earnings for pensions are those between £120 and £962. There is no statutory pension payable on earnings below £120 a week and over £962 a week. Workers between the ages of 22 and the state pension age must be automatically enrolled into the pension scheme, but other workers may choose to opt in. Employers may, and commonly do, defer auto-enrolment for 3 months after the worker's start date.

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Pay rate x number of hours = <b>Weekly pay</b>	$£8.72 \times 40 = £348.80$
Weekly pay – threshold = <b>Pension Qualifying Earnings</b>	$£348.80 - £120.00 = £228.80$
Qualifying earnings x pension rate = <b>Weekly Pension Charge</b>	$£228.80 \times 3\% = £6.86$
Weekly pension charge / number of weekly hours = <b>Hourly Pension charge</b>	$£6.86 \div 40 = \mathbf{£0.17}$

Further information is available in [ALP Brief 167 – Pension Auto-Enrolment](#).

### STEP 4 – ADD THE COST OF HOLIDAY PAY

UK workers are entitled to a minimum of 5.6 weeks paid holiday each year. That equates to 28 days for a worker who works 5 days a week.

ENIC and statutory pension contributions are payable on holiday pay, so they need to be included in the calculation.

To calculate the hourly holiday pay charge, first calculate the correct rate:

Number of days holidays / 5 days = number of weeks holiday	$28 \text{ days} \div 5 = 5.6$
Number of weeks in the year – number of weeks holiday = total possible working weeks	$52 - 5.6 = 46.4$
Number of holiday weeks / total number of possible working weeks x 100 = <b>Holiday Rate percentage</b>	$5.6 / 46.4 = 0.1207 \times 100 = \mathbf{12.07\%}$

Then calculate the hourly charge rate.

Pay plus ENIC, plus statutory pension = <b>Holiday Pay Cost</b>	$£8.72 + £0.62 + £0.17 = £9.51$
Pay costs x holiday rate percentage = <b>Hourly Holiday Charge</b>	$£9.51 \times 12.07\% = \mathbf{£1.15}$

Further information is available in [Brief 228 – Calculating Paid Holiday Entitlement for Agency Workers](#).

### STEP 5 – ADD THE ESTIMATED COST OF STATUTORY SICK PAY AND STATUTORY PARENTAL PAY

Although these statutory costs must be paid by labour providers and therefore must be included in charges to clients, they are different in that they are variable rather than fixed costs. Not all workers will claim [statutory sick pay \(SSP\)](#) or [maternity](#) or [paternity](#) pay and so an estimate must be made.

Defra estimates an average of 2 weeks SSP at the current rate of £95.85 per week accrued on normal time only, not on overtime. This figure also covers the 8% of statutory maternity, paternity, adoption and statutory shared parental pay payments that must be met by the labour provider. This is calculated as follows:



Weeks in the year – holiday weeks – sick weeks = possible working weeks	$52 - 5.6 - 2 = 44.4$
Cost of sick weeks / possible working weeks = weekly cost of SSP etc	$(£96.85 \times 2 = £191.70) \div 44.4 = £4.31$
Weekly cost / number of weekly hours = SSP etc hourly recharge	$£4.31 \div 40 \text{ hours} = \mathbf{£0.11}$

Since SSP is a standard statutory rate, the weekly cost will always be the same, irrespective of the worker's pay rate. The hourly cost will vary, dependent upon the number of hours in the working week.

Further information is available in [Brief 208 – Statutory Sick Pay for Agency Workers](#).

### STEP 6 – ADD THE APPRENTICESHIP LEVY

Finally, all employers with a pay bill of more than £3m per annum are subject to an [apprenticeship levy](#) equal to 0.5% of all pay elements plus ENIC.

Pay + ENIC + pension + plus holiday pay + SSP etc = <b>Total Direct Pay Costs</b>	$£8.72 + £0.62 + £0.17 + £1.15 + £0.11 = £10.77$
Total direct pay costs x apprenticeship levy = <b>Hourly apprenticeship levy charge</b>	$£10.77 \times 0.5\% = \mathbf{£0.05}$

Further information is available in [ALP Brief 215 – Guide to Apprenticeships & the Levy](#).

### STEP 7 – ADD THE LABOUR PROVIDER MARGIN

You will rarely know detailed accurate overhead costs and they will change according to trading conditions. Business will therefore impose one of a number of methods of adding on overhead costs and profits to the charge rate – often known as the 'gross margin', or just 'margin'.

1. **Fixed margin** – simply adding on a fixed amount to each hour worked. For example, the business may require that a minimum of £1.50 is added to the total cost of labour:

Total cost of labour plus £1.50/hr	$£10.82 + £1.50 = £12.32 \text{ charge rate}$
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2. **Basic Pay Mark up** – a simple calculation where the business determines that the **basic pay** is multiplied by a set percentage – for example a multiplier of 1.40 is added to all rates.

Total cost of labour multiplied by 1.40	$£8.72 \times 1.4 = £12.21$
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3. **Total Labour Cost Mark up** – another simple calculation where the business determines that the **total cost of labour** is multiplied by a set percentage – for example a multiplier of 1.15 is added to all rates.

Total cost of labour multiplied by 1.15	$£10.82 \times 1.15 = £12.44$
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4. **Percentage gross margin (GM)** – a more sophisticated calculation where the business specifies a minimum percentage margin to be achieved on all invoice rates. To reach a GM of 15%:

Find the multiplier, by subtracting the required margin percentage from 100	$100 - 15$ (desired margin %) = 85% multiplier
Divide the cost of labour by the multiplier	$£10.82 \div 85\% = £12.73$

Each method has pros and cons, so each labour provider must decide what works best for them and set a method that enables them to cover all costs and achieve a sustainable margin. Businesses who do not achieve this, will either fail, or will look for other sources of profit, potentially leading to worker exploitation.

## HOW TO CALCULATE OVERTIME CHARGE RATES

Overtime charge rates are calculated slightly differently. Some costs are worked out only on the basic rate of pay, since it is assumed that workers must complete their basic working hours before being paid overtime.

- Because you are using the entire threshold allowance when calculating ENIC or pension on the basic pay, you must charge both of these costs on the **whole** of the overtime rate. This means it is a much simpler calculation, as you can see below for an overtime pay rate of £13.08.
- If holiday is accrued on overtime hours, then the calculation is exactly the same as it is for basic rates.
- SSP etc is not charged on overtime since it is collected within the basic hours.
- Apprenticeship levy is charged on overtime since it applies to all pay.

To calculate the charge rate for an overtime rate of £13.08 where statutory holiday is accrued on overtime and where you wish to make £1.50 per hour margin.

Step 1	Agree the overtime pay rate	£13.08
Step 2	Overtime pay rate x ENIC rate = hourly recharge for overtime	$£13.08 \times 13.8\% = \mathbf{£1.81}$
Step 3	Overtime pay rate x pension rate = hourly recharge for pension	$£13.08 \times 3\% = \mathbf{£0.39}$
Step 4	(Pay + ENIC + pension) x holiday pay percentage = hourly recharge for holiday pay	$(£13.08 + £1.81 + £0.39) \times 12.07\% = \mathbf{£1.84}$
Step 5	No charge for SSP etc on overtime hours	N/A
Step 6	(Pay + ENIC + pension + plus holiday pay) x apprenticeship levy = recharge for apprenticeship levy	$(£13.08 + £1.81 + £0.39 + £1.84) \times 0.5\% = \mathbf{£0.09}$
Step 7	Pay + ENIC + pension + plus holiday pay + apprenticeship levy + margin = hourly charge rate	$£13.08 + £1.81 + £0.39 + £1.84 + £0.09 + £1.50 = \mathbf{£18.71}$

### FURTHER SUPPORT

ALP has a number of resources to support the calculation and negotiation of charge rates:

- ALP [Charge Rate Guidance](#) is published annually and updated each time the NMW rates change. It defines and explains statutory costs, and provides tables showing the cost of labour for each of the statutory minimum wages, including agricultural wages. There is an accompanying [webinar](#) which members can download.
- Members can use our [online charge rate calculator](#) which does all the hard work for you. Simply input the required numbers to get a calculation. Print out the calculation and share with your labour users.
- All of the ALP briefs and guidance referred to in this brief are available from the [Resources](#) section of the ALP website.
- Fair's Fair is an awareness and education programme to support the commercially sustainable procurement of agency labour so that workers never pay the price of poor purchasing practice. Access resources including toolkits, webinar recordings and template documents from the [Fair's Fair section](#) of the ALP website.
- Our negotiation masterclass; [Effectively Negotiating Agency Labour Supply Agreements](#) is suitable for all labour provider staff in a selling or negotiating role, including sales teams, bid writers, implementation teams, managers, owners and directors. An interactive and fast paced day in our virtual classroom – this is not a webinar but live training that requires your full participation.
- The ALP Academy offers modular, online training suitable for all labour provider employees from new starters to managing directors, including:
  - **Calculating sustainable charge rates** - How to calculate the hourly direct cost of employment as per GLAA guidance. How to calculate margins, profitability and how elements such as holiday pay, hours of work and payroll errors impact earnings.
  - **National Minimum Wage Compliance** – The Low Pay Commission estimates that 360,000 low paid workers in the UK do not receive the NMW. Ensure your workers are paid accurately, fairly and in accordance with legislation.
  - **Holiday pay** – Non-payment of holiday day is the most common non-compliance found at GLAA audits and it's estimated to account for half of all wage theft in the UK. This module provides clear and practical guidance on how to calculate and pay holiday pay.

ALP trainers are subject matter experts with decades of experience as labour providers or labour users. Modules are available as public or in-house courses.

For more information, or to make a booking please [email](#) or call us on 01276 509306.

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### EXERCISE

Calculate the charge rate for a pay rate of £10.00 per hour, for a worker who works 37.5 hours a week, has entitlement to 31 days holiday and where you require an overhead and margin fee of £1.73.

We have given the correct answer below, but work through the stages to ensure you get to the same result. If you get a different answer, check your results in the [Charge Rate Calculator](#) to see where you might have gone wrong.

Find ENIC	
Pay rate x number of hours	
Subtract the ENIC threshold from weekly pay	
Multiply qualifying earnings by ENIC rate	
Find Pension	
Subtract pension threshold from weekly pay	
Multiply qualifying earnings by pension rate	
Find holiday	
Divide number of holiday days by 5 to find weeks	
Subtract holiday weeks from weeks in the year	
Divide the number of holiday weeks by possible working weeks	
Multiply the weekly pay plus ENIC plus pension by the holiday rate	
Find Apprenticeship Levy	
Calculate the sum of pay + ENIC + pension + holiday pay	
Multiply by 0.5%	
Find SSP and Parental Pay	
Subtract holiday weeks and 2 weeks SSP to find possible working weeks	
Divide cost of 2 weeks SSP by possible working weeks	
Find margin	
Calculate the sum of pay + ENIC + pension + holiday pay + SSP	
Divide by the number of hours	
Add the required overhead and margin to find charge rate	<b>£14.35</b>

