

Setting charge-out rates

Charge-out rates recover costs beyond those that can be directly invoiced.

BUILDERS TYPICALLY have different rates based on the skills and experience of the staff, with higher rates for qualified or licensed carpenters and lower rates for apprentices and labourers.

What to consider

Charge-out rates for each category of employee need to cover:

- working weeks - number of normal hours per working week

- non-working weeks - annual leave, statutory leave, sick leave and bereavement leave
- other costs such as KiwiSaver and ACC levies
- non-productive time - travel time and breaks
- a profit margin for the business
- business overheads.

The business costs are:

- office overheads such as power, phone, rent, office consumables and the wage for the administration person
- accounting fees
- vehicle running expenses
- mobile phone costs
- tools and equipment
- personal protective equipment and clothing
- association membership fees
- training and CPD costs
- licensing fees
- insurance premiums.

Add up the costs and determine what needs to be applied to every chargeable hour so that these costs can be recovered.

A good way to work out rates is to use a spreadsheet to do the calculations (see Table 1). Actual percentages and dollar amounts will depend on the costs of each particular business.

The spreadsheet shows that an employee with a pay rate of \$30 per hour, based on the figures chosen for this business, should have a charge-out rate of \$49.60 per hour, plus GST.

Review charge-out rates at least annually to reflect current business costs or if competition is tough, being careful not to affect business viability. ◀

Table 1

CHARGE-OUT RATE EXAMPLE

EMPLOYEE PAY RATE	\$30.00 PER HOUR	WEEKLY COST (\$)	ANNUAL COST (\$)
A Hours per normal week	44	1,320.00	58,344.00
B Working weeks (52 - D)	44.2		
C Working hours in a year (A × B)	1,945		
D Non-working weeks (39 ÷ 5)	7.8	232.94	10,296.00
Annual leave	20		
Statutory leave	11		
Sick leave	5		
Bereavement leave	3		
Total non-working days	39		
E Other costs	7.21%	95.17	4,206.51
KiwiSaver	1.00%		
Public liability insurance	1.00%		
ACC residual claims	0.67%		
ACC compensation	2.74%		
First week paid	1.80%		
F Other considerations 1	20%	264.00	11,668.80
Profit margin	10%		
Non-productive time	10%		
G Other considerations 2	\$6.14	270.16	11,940.07
Tool allowance per hour	\$1.00		
Overheads per hour (Overheads of \$30,000 split among 3 staff \$10,000 ÷ C)	\$5.14		
H Totals		2,182.27	96,456.38
Charge-out rate per hour (H weekly ÷ A)	\$49.60		