

# FOUR STEPS TO HOURLY RATES

As promised, *Plumbers' Journal* has revisited the subject of hourly charge-out rates last covered in August/September 2008. A number of experienced Society and professional heads have been combined over a number of months to create an easy-to-use template of four steps to help you work out hourly rates.

As David Underwood – the writer of the earlier article – said at the time, working out an accurate hourly charge is a must for your business.

Think about it after you review your latest accounts, which for many – like this writer – was year-end March 2010. If you are registered for GST, make sure to exclude the GST component, as you will get a credit for the GST you have paid. Materials can also be set aside for recovery purposes – the material margin can cater for contingencies there.

For the purposes of illustration, we're introducing 'our Kevin', a self-employed Craftsman (now called 'Certifying') Plumber, who pays himself a salary of \$70,000 a year and incurs, arbitrarily, say \$50,000 in overheads (obviously, your calculation will vary depending on your own salary commitments, how many staff you have and what overheads you have).

## “ INTRODUCING 'OUR KEVIN' ”

New for Kevin this year – and for all other practitioners – are the recently introduced added overheads relating to the PGD Board's licensing regime. For example, a Certifying Plumber, Gasfitter and Drainlayer will need to allow for a minimum of three days loss of earnings, three days wages and \$400 course fees. This may extend to travel and accommodation in some areas and then if self-certification comes in, they will need additional time and insurance.

### Step one – chargeable hours

First, Kevin needs to work out his hourly wage costs. He notes

that a qualified tradesperson will work for 40 hours a week, be paid for up to five weeks annual holiday, have about another week of statutory holidays and probably have some time off for sickness. He also notes that it is unlikely that all hours available to be worked will be able to be allocated to a job.

That calculation will be as follows:

	Calculation
Paid time in a full year is 52 weeks at 40 hours	52wk x 40hr = 2,080hr
Weeks available to work (52 weeks, less paid and statutory holidays of six weeks)	52wk – 6wk = 46wk
Annual available hours (the weeks available to work multiplied by the chargeable hours each week)	40hr x 46wk = 1,840 hr/yr
Chargeable hours (ie the annual available hours minus non-productive time – sick leave, training etc, assuming an 85 percent productivity, say, 276 hours)	1,840hr – 276hr = 1,564hr

### Step two – wage or salary costs

He now must work out the wage or salary costs per chargeable hour.

Salary cost per chargeable hour (salary divided by annual available time)	\$70,000/1,564hr = \$44.75
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To calculate this for a staff member – a plumber on a lesser rate – you would amend the annual salary and calculate it on the same basis.

### Step three – overheads

Using the last set of his annual accounts as a guide, Kevin now needs to take in the overall sum of his overheads for the year so he can recover these costs. For the purposes of this illustration, we'll say they total \$50,000 a year. These will include such items as ACC levies, motor expenses, accounting fees, computer expenses, licensing fees, repairs and maintenance, rent, power, telephones, printing, insurance, staff training fees, travel/accommodation costs and so on.

Recoverable overheads (overheads divided by employee chargeable hours)	\$50,000/1,564hrs = \$31.97
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(Note that If Kevin had more than one employee he would divide the total overheads by the number of employees. In addition, with more staff, Kevin's overheads will also be higher).

#### Step Four – calculate minimum hourly rate to charge

This is simply worked out by adding the wage or salary cost per recoverable hour to the recoverable overhead costs.

Hourly charge-out rate (salary cost per chargeable hour plus recoverable overheads hourly rate)	$\$44.75 + \$31.97 = \$76.72$
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So Kevin, on his salary and overhead commitments, should be charging an absolute minimum of \$76.72 an hour to cover his costs. However, he would also note that once he had calculated his rates, if they are significantly higher or lower than all the competition then he would need to reconsider his charges.

“ ACCURATE RECORDS OF CHARGEABLE TIME AND COSTS ARE ESSENTIAL ”

#### Alternative 'rule of thumb'

An alternative unscientific – but simple 'rule of thumb' – way to calculate charge out rates could be to multiply the actual hourly wage rate paid to each employee by 2.5 times. For example, a tradesman earning \$25 per hour would have a rate of \$62.50. Kevin, who is on \$33.65 (in order to recover \$70,000 over 2,080 hours) would have a charge out rate of \$84.13 (exclusive of GST).

In Kevin's example, the 2.5 times rate is probably in excess of what the market will stand – so perhaps the top rate should be based on what the local market would expect to pay a qualified plumber, rather than the owner's salary expectations.

#### Accurate records essential

No matter which method you use – template or rule of thumb – accurate records of chargeable time and costs are essential to running a successful business, no matter what size.

Kevin can now record his total recoverable hours each week and month and compare that figure with his paid hours and overhead costs to keep himself on track.

Finally, as always, he will need to have his figures checked by his accountant as two heads are always better than one.

Please note that the base salary and overhead figures used in this template are for illustration purposes only and do not constitute a guide on what should be charged.

#### Let us know what you think

We're interested in your comments and will revisit again in a couple of issues, perhaps with a summary table that could be developed further for an online calculator. ■





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