

Hiring a contractor – rates you should expect to pay

Contractor rates vary hugely across the different contractor sectors and the wide range of contractors roles within them. If you add to that the fluctuations in market demand and variable availability of particular skills sets, how can clients set competitive rates to attract the best contractors for their projects?

Hiring contractors is a very different ball game from hiring a permanent employee. For a start, contractors just get paid their agreed rate and they don't come with the complications and expense of clients having to provide employee benefits, like private health insurance, a pension scheme or subsidised facilities.

Contractors get paid for their time

Clients also need to understand that contractors don't get a set annual salary like an employee, nor bonuses or commission. Their income is based on billable hours, or days, similar to professionals like lawyers and accountants.

Contractors either get paid an **hourly rate or a day rate**. Fixed price projects are rare for mainstream IT, telecoms, oil and gas and engineering contractors. And, of course, there are even more unusual scales in some sectors – bricklayers get paid by the metre!

Higher earning contractors tend to be paid according to a day rate, and those contractors earning over £400 per day will generally bill monthly for the number of days they have worked during the month.

A typical contractor's day is an average of seven to eight hours, which can fluctuate according to sectors, roles, workload and project deadlines. Day rates are also favoured by some sectors, for example IT contractors in the financial sector tend to get paid by the day.

Those contractors on lower and mid-range rates tend to get paid hourly, typically billing weekly for the number of hours they have worked in that week. The lower contractor rates start at £10 an hour, the equivalent to approximately £80 per day, which equates to a permanent employee salary of £20,000.

Monthly versus weekly rates

From a client's perspective, there are different advantages to paying hourly rates weekly versus day rates monthly.

It can be easier to control costs with contractors who work to day rates, as, for example, if extra hours are required in a particular week to meet a deadline, most higher-earning day-rate contractors will put in the extra hours to achieve the project goal, including weekends.

However, when the pressure lessens, they will expect their quid pro quo by being able to leave 'early'. And even highly paid contractors will only put up with excessive hours and weekend working for so long before they quit, or ask for fewer hours or even increased rates. And that's more than reasonable, because they are contractors, not employees.

Daily rates can work well, too. But the client and contractor must agree in the contract the number of hours to be worked, and any hours in excess of those contracted must be approved before the contractor works them. This is because some contractors may pitch their rates low, then work 60-hour weeks of 'presenteeism' to bump up their earnings.

If there is no overtime in the budget, contractors can still will work late when the project requires it, but would expect to reclaim the hours as time off later in the week or the project, to ensure the overall hours worked are only those the client is paying for.

Setting contractor rates

When hiring contractors, clients tend to get what they pay for, so a poor daily or hourly rate for a role that usually commands a higher price in the marketplace will get contractors who don't perform as well as their better-paid peers.

So when the client has a very tight budget assigned to a project, with little movement for rate negotiation or dealing with the unexpected, they could experience problems. Projects work best when the budget has some leeway.

So, when a client project manager is pitching for a budget internally, and is trying to work backwards based on market rates for contractors, then how can they find out what they should be paying?

If the client is working through an agency, a good agent will have a very clear idea of what the market rate is for the specific contractors that the client needs, and will advise the client accordingly, allowing of course for their margin.

But if a client is starting from scratch and recruiting the contractor team themselves, they need to do some research into their marketplace to pitch the right rates. Published rates on job boards, particularly those advertised by agencies, can be misleading.

“
When hiring contractors, clients tend to get what they pay for, so a poor daily or hourly rate for a role that usually commands a higher price in the marketplace will get contractors who don't perform as well as their better-paid peers
”

Many clients will have colleagues working for other departments in their organisation, such as finance or human resources, who will have records of what contractors have been paid in the past, and what contractors working elsewhere in the organisation are currently being paid. This real-life data can be useful, but clients should ensure the contractors are comparable.

Published: Tuesday, September 1, 2009

© 2016 All rights reserved. Reproduction in whole or in part without permission is prohibited. Please see our [copyright notice](#).



ABCe verified website - last audit confirmed *134,482 monthly unique visitors*

© Copyright 2016 Byte-Vision Limited UK. All rights reserved [Copyright notice](#)