

Business Tip – Labour Costs

On 11th May 2016 in newspapers and on a report that aired on most television breakfast shows relating to self-employed tradespeople's charge out rates, I was very disappointed as it did not provide the true facts. It inferred that tradespeople were overcharging customers when using \$77.00 per hour.

It must be appreciated that it is not the fault of tradies that costs have risen over the years. A plumbing tradesperson told me in 1992, that the charge out rate of labour should correspond with the cost of Australia Post stamps. 'What a silly statement' I thought.

Since 1992, in my estimating courses, I have used the exact same formula to calculate the cost of labour (see below). What I discovered was when stamps were 30¢, the charge out rate was \$35.00 per hour.

It continues, as stamps reached 45¢, the rate was \$45.00. A stamp rose to 60¢, and then 70¢, and so did the charge out rate \$60.00 and then \$70.00 per hour. Plus GST.

Following this through the current charge out rate should be \$100.00 per hour plus GST. Let's put it to the test.

As calculated on CavSoft RateCalc.

a)	Basic wage per week (40 hours x \$34.50)	\$ 1,380.00
b)	Fare per week	\$ 65.00
c)	Traveling per week	\$ 65.00
d)	Special site allowances	\$ 0.00
e)	Sub-total	\$ 1,510.00
f)	WorkCover/Compensation \$ 1,510.00 x 4.50 %	\$ 67.95
g)	Long Service Leave (where applicable) \$ 1,380.00 x 2.79 %	\$ 38.50
h)	Redundancy pay	\$ 55.00
i)	Superannuation \$ 1,380.00 x 9.50 %	\$ 131.10
j)	Annual leave loading \$ 1,380.00 x 4 weeks x $\frac{17.5\%}{52}$	\$ 18.58

RateCalc Cont.

k)	Training		\$	0.00
l)		Total	\$	1,821.13
m)	\$ 1,821.13 x 52 (weeks)		\$94,698.76	
n)	\$ 94,698.76 divided by 42 weeks (42 productive weeks worked per annum)		\$	2,254.73
o)	\$ 2,254.73 divided by 28.50 hours (chargeable hours per week)	Labour Cost	\$	79.11
p)	Overheads & Profits \$79.11 x 30 %		\$	23.73
q)		Charge Rate	\$	102.84

WoW! Currently a stamp is \$1.00 and the charge out rate is \$102.00. Even if it does sound silly it is quite close and a reasonable indicator.

For a complete explanation of each aspect of the labour rate calculation go to <cavsoft.com> select '*Site Map*' and '*FREE RateCalc Download*'.

The article in the newspaper went on to suggest, that doctors, lawyers, and barristers were much cheaper than plumbers. That is a ridiculous statement doctor's bulk bill at the rate of \$36.00 for 10 minutes which equates to \$216.00 per hour. Specialists from \$80.00 to \$180.00 for a 15 minute consultation which is \$320.00 to \$720.00 per hour. My chiropractor is \$55.00 per 15 minutes, which equates to \$220 per hour.

It could be suggested that accountants, solicitors and barristers who make the above look insignificant. I once asked a personal friend to give me business advice, only to find his rate was \$10,000 to \$15,000 per day. Needless to say as a former plumber I resented providing free advice to him on his septic tank.

A tradesperson who is in business must show a return on investment for the shareholders of the business. Always be fair, however if you continue to only charge \$77.00 per hour, you can expect to be out of business in a short period of time.

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