



## Agency vs Permanent Staff Costs

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***This paper discusses the costs of permanent vs agency staff and how the charges actually compare.  
Got a question ? Please contact the office on 01372 231007 or e-mail [admin@Care101.co.uk](mailto:admin@Care101.co.uk)***

### Introduction

There's no question that agency staff are usually considered expensive, which is not surprising with news stories saying that some charge the NHS literally thousands of pounds for a single shift! Of course, that's far from normal but it's the sort of thing that sticks in the public's – and a manager's mind!

The truth however is that although at first glance an agency worker might seem far more expensive compared than their permanent counterpart, there's actually a little more to it than that when you look at what's involved. More particularly its important to take into account the hidden costs of employing someone more permanently.

If you're a manager, owner or administrator and ever wondered what costs are involved from an agency's point of view, these are the pages to read.

### Myths

To the untrained eye, comparing the cost of agency staff compared to their permanent equivalent seems easy ...

***Agency hourly rate – Permanent hourly rate = Staff + Agency profit per hour***

**This is a relatively straight forward calculation, but it's wrong.**

It doesn't take into account of the often forgotten "hidden" costs that you normally have to pay your permanent staff. With agency staff, these costs are effectively passed on as part of the overall package cost, and so much of the "profit" shown above actually covers a cost that you would have also had to pay your own staff.

## Cost breakdown

Let's quickly breakdown the hourly rate for both permanent staff and an agency worker to see where the money goes. We'll also uncover some so-called "hidden" costs

<u>Cost</u>	<u>Permanent Employee</u>	<u>Agency Employee</u>
Hourly rate	<p>The hourly rate for an agency worker is typically a little higher than a permanent equivalent.</p> <p>Remember however that the agency worker will typically work in multiple locations, often a short notice, with different procedures to get used to and has less job security than permanent staff. Travel may also be a consideration, again at short notice.</p>	
Holiday pay	<p>Your staff are given X days holiday per year. You pay for this time, even though the staff aren't working. Its therefore an added cost.</p>	<p>Agency staff don't have "time off" as such, but legally are still paid "accrued" holiday pay.</p> <p>This is paid based on the hours they work and is taken out of the hourly rate charged.</p>
PAYE & national insurance	<p>These taxes are taken out of the total amount paid.</p>	<p>These taxes are also taken out of the total amount paid.</p>
Employer's national insurance	<p>As the employer, you must pay this for your permanent staff. This is in addition to their hourly wages.</p>	<p>As an agency, we too must pay this for all staff paid through PAYE. We aren't charging separately for this though, it again comes from the hourly rate charged.</p>
HR, scheduling & timesheets	<p>You may have someone, or a team in charge of your entire HR. Their function might include, scheduling, processing of timesheets, payroll etc.</p>	<p>In contrast, the moment you contact us to fill a shift, all the administration associated with that passes from you to us.</p> <p>This not only involves finding and scheduling staff, but also the processing of timesheets and payroll etc.</p>
Payroll	<p>You pay for the processing of payslips etc., typically as part of your HR function.</p>	<p>The agency process payslips and handle the admin. costs incurred.</p>

## Summary

From the above table, it's clear to see that there are a number of costs associated with any worker. Some are obvious – the amount they take home, while others are not (holiday pay, employers NI etc.).

With that in mind, the comparison between fees is somewhat more complex and can be rewritten as follows ...

### Permanent Staff

You pay an hourly rate incl. PAYE

***In addition,*** you also pay these “hidden” costs ...

- X days paid holiday
- Employer's national insurance
- Pension
- HR functions & payroll

### Agency Staff

We pay hourly rate incl. PAYE

***Included in the above,*** we also pay ...

- Accrued holiday pay
- Employer's national insurance
- Pension
- HR functions and payroll

***Only the remainder = Our margin/profit***

As you can see, the true comparison is far more balanced than might first appear because our hourly charge is also used to pay all the associated costs.

In effect, your extra costs *are on top of the amount paid to your staff* whereas ours are *included in the rate charged*.

With that in mind, the simple calculation shown previously is far from accurate and the actual margin received far lower than one might assume.