PREPARING YOUR EMPLOYER BUDGET

Introduction

Once your support plan is complete and you have planned how you will spend your direct payment (DP) you will need an employer budget to make sure that your planned costs are affordable and sustainable. This factsheet will guide you through the process of drawing up a workable and affordable employer budget to suit your specific circumstances.

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1. Preparing your employer budget

There are several things to consider when preparing your budget and spending your DP:

• you must stay within your planned budget and make sure that your invoices (‘bills’) are paid in full and on time.
• when you spend money from your DP it must relate to an agreed ‘outcome’ in your support plan.
• carefully managing your budget allows you to ensure that your spending is affordable and sustainable.
• you should check regularly that your budget is still an accurate reflection of how you are spending your DP.
• if you are paying an assessed contribution you must continue to pay this into your DP account, or you will be short of funds.
2. What should I include in my employer budget?

2.1 Introduction

Your employer budget must include:

All money coming into your DP account

This is the weekly value of your DP plus any assessed contribution that you make.

All money going out of your DP account

Outgoings will include:

1. ‘Non-wage’ costs

For example, Employer’s Liability Insurance, Payroll Service, Recruitment, PA expenses, Stationery costs etc.

2. Wage related expenses (‘on costs’).

These are the ‘invisible’ costs involved in employing PAs.

For example, holiday pay, pensions, employer’s national insurance, sick pay and maternity/paternity pay.

You will need to save money for each of these things.

You can do this by budgeting for 62.3 weeks rather than just 52 weeks.

3. Wages

All money left after budgeting for the costs above can be used to pay PA wages.

The number of hours you can afford to employ your PA for depends on the wages you pay them.

You must pay your PA at least the national minimum wage.

After all of this you may have a surplus. You can allow this to accrue in case you have to buy agency care in an emergency.
2.2 Non-wage costs

There are many different types of non-wage costs for DP employers. Some of the most common non-wage costs are:

(a) Employer’s Liability Insurance
All employers in the UK must have Employer’s Liability Insurance and so you must budget for this. This insurance will provide compensation and costs if any of your PAs injure themselves or somebody else whilst working for you. You may also wish to budget for other types of insurance including Public Liability Insurance - although this is not essential.

For more information on insurance please see:

Employer’s Liability Insurance - factsheet 1.3

(b) Emergency cover
You might need emergency cover when your PA is unable to come to work e.g. when they are sick and so you will need to account for this in your budget.

(c) Payroll
You may choose to purchase a Payroll Service to manage the financial side of employing PAs for you. A Payroll Service will correspond with HM Revenue and Customs (HMRC) for PAYE purposes, calculate your PA’s wages every 4 weeks or monthly, comply with statutory requirements including statutory sick pay, maternity pay and student loans and provide pay slips and summary information for you to pay your PAs and HMRC.

For more information on Payroll options please see:

Payroll options - factsheet 1.4

(d) PA training costs
Your PAs may require specific training before they can work for you. If this is the case, and it is agreed in your support plan, you must budget for these training costs.
(e) Recruitment costs

It can be expensive to recruit a new PA and you may have to do so at short notice. As such it is useful to put some money aside each week to plan for this.

(f) PA expenses and mileage

Although you do not need to reimburse your PA for the cost of their travel to work you do need to reimburse them for travel costs that they incur while working for you e.g. driving you to the supermarket.

2.3 Wage related expenses (‘on costs’)

It is essential that you leave money aside for:

- **Holiday pay** - 6.3 weeks at normal hourly rate (includes 0.7 for cover)
- **Pensions** - up to 3% of PA earnings above £192.00 per week
- **Statutory sick pay (SSP)** - £94.25 in 2019/20 tax year
- **Statutory maternity pay (SMP)** - 90% of earnings for first 6 weeks and then the lower of £148.68 per week or 90% of earnings for up to 33 weeks after that.
- **Employer’s National Insurance Contributions** - 13.8% of earnings above £166.00 per week

In order to cover these costs, you will need to budget for 62.3 weeks of employment per year instead of 52 weeks. The additional 10.3 weeks is made up of 5.6 weeks for the PA’s paid holiday, 0.7 for cover PAs holiday and 4 weeks to cover the SSP, SMP and national insurance contributions. Please contact your Social Worker if you think you need extra funding to pay pension contributions. If you have a larger DP package you may need to budget for more than this - please speak to an Independent Lives Adviser for more information.

(a) Holiday pay

Your PAs are legally entitled to 5.6 weeks paid holiday per year (including statutory bank holidays). When you first start employing PAs you will not have a large surplus in your DP account and therefore, we recommend that you state in the PA’s employment contract that no paid holiday can be taken in the first three months of employment.
(b) Pensions
Some of the cost of the pension will be deducted from the employees’ wages, but the employer will also have to pay towards the pension if an employee earns more than £118 per week. If an employee is automatically enrolled or chooses to join a pension scheme, the minimum percentage of wages that must be paid into a pension scheme is 8%, 3% from employer contributions and 5% employee contributions.

(c) National Insurance, Statutory Sick Pay and Statutory Maternity Pay
PAYE (Pay as You Earn) is the system that HMRC use to collect income tax and national insurance from your PA’s wages. These are deducted automatically and therefore you do not need to budget for these costs. However, you must budget for Employer’s National Insurance Contributions. For the tax year 2019/20 tax year this is 13.8% of earnings above £166.00 per week.

If your employee earns above the Lower Earnings Limit (LEL) £118.00 per week in the tax year 2019/20 then they will be eligible for SSP and SMP and you should budget for this.

2.4 Calculating how much you have for PA wages
PLEASE NOTE: All figures in the example budget below are invented and may not represent the true costs of the services included. This example budget may not include all the costs that you need to include in your employer budget.

If you wish you can use Employer budget template-1.2 (a) to help you with your budget.
# Example DP employer budget

## Step one

Calculate your weekly incoming total i.e. your direct payment + assessed contribution. Multiply by 52 to get your annual incoming total.

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<td>Weekly incoming total</td>
<td>£150 per week</td>
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<tr>
<td>Annual incoming total</td>
<td>£7800 per year</td>
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## Step two

Calculate your entire non-wage costs e.g payroll per week, to get your total non-wage costs per week. Multiply this weekly total by 52 to get your total non-wage costs per year.

| Payroll service | £6.75 per week |
| Employer’s liability insurance | £2.00 per week |
| PA expenses including mileage | £10.00 per week |
| Recruitment fund | £3.00 per week |
| Total non-wage costs | £21.75 per week |
| Total non-wage costs per year | £1131 |

## Step three

Subtract your total non-wage costs per week from your annual incoming total. This is the amount available for wages per year.

| £ 7800 (annual total) - £ 1131 (non-wage costs) = £6669 per year |

## Step four

To work out the amount available for wages per week divide the amount for wages per week by 62.3 weeks.

| £6669 (Amount for wages per year) ÷ 62.3 weeks = £107.05 per week |

## Step five

Divide the amount available for wages per week by the hourly rate you intend to pay your PA to get the amount of PA hours available per week.

| £107.05 (amount per week) ÷ £8.00/hour = 13 hours per week |
This factsheet has been produced by Independent Lives for use within its advice and support services. We aim to ensure the information is as up to date and accurate as possible but do be aware some of the content is subject to change.

If you would like further advice on this topic or to access to any of the factsheets or support sheets referred to in this document please visit www.independentlives.org or call us on 08456 0123 99 or 01903 219482

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