

SAVING MONEY IN THE CONSTRUCTION INDUSTRY

As a result of recent government legislative changes, fund-managed holiday pay schemes have now been limited to the construction industry only. These schemes involve holiday pay being awarded free of National Insurance Contributions (NIC), saving money on a company's annual wage bill.

By law, employers must provide full-time employees with at least 24 days' paid holiday per year (rising to 28 days from April next year). In the past it was possible for all employers to make these 24 days NIC-free simply by using a third-party fund. Since 30 October 2007 however, the opportunity has been available only to employers whose business includes construction operations and their employees who are personally engaged in these operations.

Andy Bradley, Fund Manager at employment consultancy PES explained: "When an employee goes on holiday, the company pays the employee their holiday pay, free from NIC. Using a third-party fund means that the employer can then claim the holiday pay back from the fund manager."

The holiday pay fund is managed and controlled on behalf of the employer, to which more than one employer contributes, by a third party. For many years these third party firms have been managing holiday pay funds designed to meet all the criteria for NIC exemption. Participation is simple to set up and requires no changes to employees' contracts and terms and conditions.

Andy explained: "Over the course of a year, this can result in NIC savings of 12.8% of the holiday element in the qualifying employees' annual salary bill, and between 1% and 2% NIC savings for those employees. An employer can then choose to use those savings on an additional benefits programme, or just reduce its costs, and take the savings."

PES has been working with construction companies since it was founded in 2001. Most of its consultants have between 10 and 30 years experience of working with clients in

this sector. Its Investors in People and Business Improvement service operates in partnership with Construction Skills, formerly the Construction Industry Training Board (CITB).

Fast Facts

- NIC savings of 1% to 2% of base payroll costs until 2012, which can also assist future budgeting
- Senior employees can be included as long as they direct, supervise or administer construction operations
- As well as mainstream building companies, organisations such as utility companies, maintenance businesses, window fitters, and mechanical and electrical firms can also be eligible
- No need to change employee contracts
- Opportunity to reinvest savings in new employee benefits
- Can include bank holidays for further savings
- Participation in a fund can run alongside other benefit providers
- Encourages employees to record holiday accurately, reducing payroll and line manager workloads
- Reduced employee NIC could be equivalent to a net pay increase of 1% to 1.5% for eligible employees
- Employees earning less than the lower earnings limit cannot be included
- The company remains the beneficial owner of its balance in the fund, which appears as an asset in its balance sheet
- It takes between 21 and 28 days to set up a fund

Example savings

50 qualifying employees, monthly paid, average pay £20,000 pa

Number of days' annual holiday 30 per employee

Estimated savings per year £14,771

400 qualifying employees, monthly paid, average pay £25,000 pa

Number of days' annual holiday 25 per employee

Estimated savings per year £123,077

The process

1. Identify the employees you will include in the fund
2. Ensure you have a robust method of recording holidays
3. Establish your likely savings and current processes
4. Sign up with a reputable holiday pay fund manager
5. Communicate to employees
6. Start to participate in the fund
7. Complete minimal monthly administration

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Ends

Issued by Trimedia on behalf of PES.

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Notes to Editors

PES was created in 2001 to help organisations deal with people issues, save money, improve performance and minimise risk. Today, PES is a vibrant and rapidly growing business with offices in Bristol and London. Small companies, large businesses, local authorities and national enterprises alike trust PES to help them reduce risk, remain compliant and gain a maximum return on their investment in people.