



Calculate Your Worth

To work out a break-even figure you must have already calculated your total overheads or fixed costs for the year and added to your personal survival income. Of course, you will not know exactly what costs you will incur, and a certain amount of estimation is therefore required. Let us consider the following example of an individual sole trader.

- They are setting up as a consultant, working from home and charging by the hour.
- Their survival income is £38,000 including tax and National Insurance.
- They have estimated his costs for the year to be as £6,970

Their break-even figure is therefore £44,970 (Survival income + Overheads)

Once you have calculated a break-even figure you will then have to work out how many hours a year you will be available to work. Many people simply take the standard working week of 40 hours and multiply by 52 weeks, to give a figure of 2,080 hours.

Though, you will not work 2,080 hours in a year. You are likely to miss a day or two through illness, have a holiday in the summer, not to mention bank holidays. It would also be extremely unlikely that someone in a start-up business would spend 40 hours per week earning money. Instead, some time will be spent doing admin and quoting on jobs.

A business should expect to achieve a minimum of 65% of available time engaged in productive work, our example would therefore finish something like this.

52 weeks Minus 4 weeks for holidays and absence =	48
Number of hours worked each week	40
Realistic annual hours available for work	1,920
Based upon 65% productive time - Productive Hours forecasted	1,248

We are now able to calculate a minimum hourly rate as follows:

$$\begin{aligned} & \text{Break-Even Amount in £'s} \\ & = \\ & 44,970 \text{ divided by } 1,248 \text{ Available Hours} \\ & = \\ & \text{£36.03 per hour} \end{aligned}$$

Rounded up our consultant has a minimum hourly rate of £37 per hour. Check your lecture notes or email ask@josephvictor.co.uk for details on how increases or decrease in productive hours affect the minimum hourly rate.