

Fact Sheet 1: The True Cost of Hiring

A practical, plain-English guide for SMEs

Purpose: To help SMEs understand the **real, full cost of hiring** an employee or apprentice — beyond the headline hourly wage — and to reduce anxiety by making costs visible, predictable, and manageable.

The Wage Is Only the Starting Point

When SMEs think about hiring, the first thing they usually consider is the **hourly or annual wage**. While this is important, it is **only one part** of the total employment cost.

What the wage covers:

- Payment for hours worked
- Must meet at least:
 - National Minimum Wage (NMW) (age-based)
 - National Living Wage (NLW) (21+)
 - Apprentice rate (where applicable)

Why this matters:

- Paying below the legal minimum is unlawful
- Paying *only* the minimum may affect retention and motivation
- Some employers choose to pay the **Real Living Wage** (voluntary) to support retention and wellbeing

Key Message

The wage is the visible cost — not the whole cost.

Employer National Insurance Contributions (NICs)

In addition to wages, employers usually pay **Employer National Insurance**.

What this means:

- Employers pay NICs on earnings above a set threshold
- This is a statutory cost and must be budgeted for

SME context:

- NICs typically add **around 13.8%** on qualifying earnings
- For apprentices under 25, **Employer NIC relief may apply**, reducing cost

Why this matters:

NICs are often forgotten in early cost calculations, leading SMEs to underestimate the true cost of employment.



Workplace Pension Contributions

If an employee meets eligibility criteria, employers must **auto-enrol** them into a workplace pension.

What employers contribute:

- Not all employees qualify immediately
- Pension contributions increase total cost but support long-term workforce stability

Why this matters:

- Paying below the legal minimum is unlawful
- Paying *only* the minimum may affect retention and motivation
- Some employers choose to pay the **Real Living Wage** (voluntary) to support retention and wellbeing

Key Message

Pensions are part of responsible employment and should be factored in from the outset.

Holiday Pay, Sick Pay & Statutory Entitlements

Employees are entitled to paid time off, which is a real cost even though no work is being done during that time.

Statutory entitlements include:

- **Paid annual leave** (minimum 28 days pro rata, including bank holidays)
- **Statutory Sick Pay (SSP)** (where eligible)
- **Other statutory leave** (e.g. parental leave)

Why this matters:

- Holiday pay must still be funded
- SMEs need to plan for cover during absence

SME Tip

Spread the cost across the year rather than seeing it as a “loss”.

Training, Supervision & Management Time

Time spent supporting a new hire is often **the biggest hidden cost** — but also one of the most valuable investments.

Includes:

- Initial training
- Ongoing supervision
- Answering questions
- Reviewing work
- Mentoring or buddy support

Context:

- This time is expected — especially for young people or apprentices
- Apprenticeships formalise training and often attract **funding support**

Key Message

Training time is not wasted time — it's what builds productivity and loyalty.

Recruitment & Onboarding Costs

Even simple recruitment has costs, including:

- Time spent writing job descriptions
- Interviewing and selection
- Onboarding and induction

Inclusive recruitment insight

- Using referral partners (colleges, charities, training providers) can:
 - Reduce recruitment costs
 - Improve candidate fit
 - Support social mobility goals





The Bigger Picture: Cost vs Value

What SMEs often fear:

- “What if it doesn’t work out?”
- “We can’t afford a mistake.”

What evidence shows:

- Most hiring issues come from **poor onboarding**, not poor candidates
- Structured support reduces early drop-out
- Young people who feel supported are more likely to stay and grow

Reframe:

Hiring is not a one-off cost — it is a **capability-building investment**.

Practical Cost-Planning Tips for SMEs

- Map **all** costs before hiring
- Use checklists and templates (provided in this toolkit)
- Explore funding, incentives, and apprenticeships
- Start small — one role, one placement, one pathway
- Review costs after 3 and 6 months

Useful UK Resources for SMEs

- Pay & Minimum Wage Guidance (GOV.UK):
www.gov.uk/browse/employing-people
- Apprentice Pay & Employer Relief:
www.gov.uk/employing-an-apprentice
- ACAS – Employment Basics for SMEs:
www.acas.org.uk
- Living Wage Foundation (Voluntary):
www.livingwage.org.uk

Summary: “The cost of hiring is more than a wage — but most costs are predictable, manageable, and supported. When SMEs plan properly and use available support, hiring young talent becomes a growth decision, not a risk.”

