

Your flexible workforce

Engaging freelance consultants and contractors

Protecting and promoting the interests of consultants, contractors and freelancers

For a flexible workforce with the right skills when you need them and no strings attached, freelancers can be ideal. Whether it's for a specific project, some particular expertise, or to meet a temporary peak in your resourcing requirements, engaging freelancers makes good business sense.

Freelancers are the perfect complement to your permanent workforce, and could be just what you need to facilitate profitable and low-risk growth in your business.

The benefits of using freelance resources

- **Staffing flexibility**
Manage requirement uncertainty and take advantage of rapid, low-cost hiring and/or obligation-free downsizing.
- **Access to high calibre professionals**
Expert consultants are notoriously difficult to find and often harder to afford. Most are committed to project-based work where they can use their skills and experience.
- **Knowledge transfer and best practice**
That freelancers bring into your organisation for the benefit of your permanent staff. Their experience is often enriched and enhanced by working for several clients.

- **Meeting project deadlines**
Freelancers usually have the experience, knowledge and expertise to be able to contribute and add value from the outset, and are free to focus solely on the task in hand.
- **Cost-effective deployment**
Independent freelancers provide a genuine low-cost solution, without costly overheads to support or the burden of employment costs and responsibilities. Many operate from their own premises or homes, attending your site only when necessary. Freelancers are project-focused, so that you pay only for the time it takes, or for performance of the agreed project.
- **Value for money**
Freelancers generally charge hourly or daily rates based upon their skills, experience and expertise. Whether self-employed or operating through limited companies, they take care of their own tax and NI payments, pensions, holiday pay and the like.



"Freelancers are educated, teched-up, and confident in their ability to sell their services and move flexibly from project to project."

**Jon Leach, Head of Integration
Chime Communications plc**

Tax and employment status

New tax rules came into force in April 2000 that potentially affect freelancers who offer their personal services through a company. The IR35 rules mean that in certain circumstances a freelance contractor may be viewed as a "disguised employee" by HM Revenue & Customs (HMRC) and taxed accordingly. This has implications for organisations wanting to hire freelancers.

First and foremost, it is essential to have a contract for services with the freelance business, not a contract of service or employment contract with the freelancer himself. This contract should include the following elements:

- A substitution clause allowing the work to be performed by another person provided by the freelance business; there will usually be terms relating to right of veto, suitable qualifications and so forth.
- A clause specifying that there is no "mutuality of obligation" between the parties; in other words, there is no "obligation, on the one hand, to work and, on the other, to remunerate."
- A clause stating that the freelance personnel will not be subject to supervision, direction or control as to the manner in which they render the agreed services; freelancers are professionals who will use their own initiative as to the manner in which the services are delivered.

The good news is that PCG members have access to draft contracts that address all these issues and have been vetted by experts in employment status, tax and commercial law.

Through PCG's Approved Contract scheme, several agencies also offer standard contracts that have been checked and approved by experts; if you are engaging freelancers through an agency, be sure to ask whether they have standard contracts that have been approved by PCG.

The benefit of entering into such an agreement is that it removes all potential ambiguity about the employment status of the freelance contractor, eliminating any possibility of employment rights being claimed – holiday and sickness pay, redundancy and so forth.

Under Section 134 of the Income and Corporation Taxes Act 1988 an agency has to deduct tax at source from workers' pay in most cases unless they are limited companies, so self-employment is not a sensible option for agency workers.

If going direct, you need to be careful of engaging self-employed freelancers operating as sole traders or through partnerships rather than as limited companies. You could be liable for payment of Employer's NI and income tax in the event of an HMRC challenge over the freelancer's employment status.

"Remember that freelancers live or die by their reputations. Ask for recommendations from other freelancers and business contacts."



Other tips for selecting and working with freelancers

If you are going to engage freelancers directly, here are some points worth thinking about:

- You should check not only their technical skills and/or ability to undertake the work, but also their team fit, if they are going to be working on site. A face-to-face meeting is a good idea.
- Remember that freelancers live or die by their reputations. Ask for recommendations from other freelancers and business contacts. Over time, build your own bank of key freelancers and trusted advisers that you can turn to; if they can't do the work themselves, they usually know someone else who can.
- If you make a mistake and select the wrong person, you need to be ruthless. Let him go. If teamwork is essential to the success of your project, you cannot afford to have someone on board who is not a team-player or is unproductive or incompetent. You don't need to worry about developing or training a freelancer, or getting involved in political battles. Say goodbye.
- Some accounts departments have difficulty in paying freelancers on time. Make sure that yours doesn't fall into this trap; after all, you expect the top talent you've hired to abide by the terms of the contract and you should do likewise.

Matthew Billingham, who has worked as an employee and an independent consultant for companies such as Eurotunnel, Vodafone, British Gas and Coats plc, has this additional advice, "If you are building a freelance team for a particular project, get at least one really good guy on - the money is worth it.

"Once you have made your selection, I recommend that you use one the PCG standard contracts, and ensure that it has a zero notice period. That reduces your risk if the freelancer doesn't work out, for whatever reason."

About PCG

The Professional Contractors Group (PCG) is the not-for-profit trade association that represents the interests of consultants, contractors and freelancers.

PCG's aim is to work for proper recognition of independent freelancers as a valuable sector of the economy, generating wealth and employment, providing industry with a flexible workforce.

In seeking to promote its members commercially and support their development, PCG actively develops tools, services and relationships that will assist them. Its objective is to help them improve and enhance their business prospects and to improve the professionalism and perception of the freelance small business community.

Towards the end of 2004, for example, PCG introduced its Quality Systems scheme, PCG (QS), to help members achieve UKAS-accredited ISO9001:2000 certification, so that they can compete on a level playing field for public sector and corporate projects. Far less expensive and bureaucratic than most routes to certification, PCG (QS) opens public sector markets previously closed to freelancers and has already resulted in major project wins for certified members.

PCG members work in a wide variety of sectors including oil and gas, engineering, information technology, management consultancy, marketing, telecommunications, construction and pharmaceuticals. PCG offers them a broad range of services, including cover by its Professional Expenses Insurance policy, legal and tax helplines, comprehensive guides and draft contracts.

PCG represents UK consultants, contractors and freelancers on matters relating to regulations, taxation, economics, employment and other issues that affect them. The policy team engages in direct discussion with senior Ministers and civil servants, participates in consultation exercises, forges relationships with complementary organisations and produces a comprehensive range of research and policy papers.

For further information

www.pcg.org.uk



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