REDWIZARD

What's hiding in your external labour costs

Five things most finance leaders gain visibility on — and what it opens up when they do

The average organisation **spends 20–35%** of total workforce cost on external labour

— and most CFOs can't tell you what's inside that number.

The external labour line on a P&L is often the largest unexamined cost in the business. Not because nobody cares — but because no single function has ever had a complete view of it. Here is what organisations typically find when they look properly.

1 Spend you can't see — off-PSL and uncontracted

In most organisations, a meaningful share of external labour spend never goes through approved channels. Managers find workarounds — direct relationships with agencies, informal extensions, statements of work that are really staff augmentation. When this spend becomes visible, it's rarely small. More importantly, it's outside your negotiated rates, your compliance framework, and your governance. Getting it in-scope is where some of the easiest cost and risk improvements sit.

2 The markup structure you're actually paying

The rate on a contractor timesheet is not the cost to your business. Agency margins, umbrella company margins, employer NIC, and pension contributions layer on top. Most organisations have a rough sense of contractor day rates; very few have modelled what the total cost of different engagement models actually looks like side by side. When they do, the relative economics of direct engagement, agency supply, and statement-of-work models often look quite different from what was assumed.

3 Tenure patterns that signal structural dependency

Long-tenure contractors — people who have been in the same role, on contingent terms, for two, three, or five years — are one of the clearest signals that something in the workforce model isn't working as intended. They represent ongoing cost premiums, classification risk, and often critical knowledge that has no permanent home. Organisations that surface this data and address it systematically find both cost and governance improvements.

4 Worker classification risk with a financial value

IR35 off-payroll rules and umbrella company reform have created a landscape where misclassification carries a direct financial cost — back tax, NIC, penalties — not just a compliance concern. The question is not whether your classifications are defensible in principle, but whether you have a systematic process for making and documenting those determinations, and whether that process has kept pace with how your contingent population has changed.

5 Supplier relationships that aren't working commercially

The PSL in most organisations reflects a procurement decision made several years ago, refined incrementally, and never fundamentally reviewed. The result is typically a mix of strong and weak supplier relationships — some delivering genuine value, others retained by inertia. Understanding which suppliers are actually performing, at what cost and with what quality, is the foundation for both cost optimisation and better workforce outcomes.

RedWizard works with organisations to get a complete, accurate picture of their contingent workforce cost and governance — and to use that picture to make better decisions.

Find out where your gaps are

Take the Concerto® Cost & Compliance assessment at redwizard.consulting