

**CONTRACTING INSIDE OUT
BOOK 1**

CONTRACTING

HOW TO START

*From deciding if contracting is
really for you, to securing your first
contract*

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How to become an IT / Digital contractor in the UK

From deciding if contracting is really for you, to securing your first contract

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Contents

Chapter 1 - What is a contractor and why is there a market?	1
What is a contractor	1
Why is there a market?	3
How big is the IT / digital contracting market	6
Does market size matter?	7
Key Concepts	7

Chapter 1 - What is a contractor and why is there a market?

What is a contractor

A contractor is like a hired gun, they come in, shoot and scoot. ChatGPT

Well, that does seem to sum up some elements of contracting. Likely you will have a view on what a digital / IT contractor is.

I have added this section so that we have a shared context for the book and the information from the outset. If you find this is too basic for your purposes, of course, feel free to skip this section, although I feel sure you will at least learn something.

A view of what a contractor is often starts anecdotally. I became aware when I saw a steady stream of contractors arrive at the financial services company where I worked as a permanent employee. They were getting paid what seemed to be monstrous amounts of money for doing similar work to me. It was rumoured at £500 a day, and some very technically specialist individuals even getting £800. My ears pricked up when I heard that. They usually moved on within a few months, or a year, or two, with the odd individual staying much longer.

Aside from potential differences in income it is worth exploring the main differences between a contractor and a permanent employee.

A contractor is typically engaged on a project or programme of work for a specific period. Sometimes it is to fulfil temporary

staffing needs which may be to backfill for an employee seconded to another project, to cover for maternity leave, illness, or something else.

Some examples of a temporary need from my background are to:

- Ease the workload on a department manager by managing their projects and undertaking the resource planning. Once the projects were over the line my work was done.
- Provide data analysis skills to clean up and manage the transition of personal account data to a new banking system. Once the migration was complete then I moved onto other project work.
- Respond to a need by an energy supplier to increase the take up of customer electricity and gas smart meter installations. If the targets were not met a significant fine could be expected from the energy regulator. It was cheaper to employ a small team of contractors than face a multi-million pound fine. Once that risk was mitigated the team was disbanded and we all moved on.

Another key element of contracting is that a contractor is usually self-employed, either through an umbrella company or a limited company and engages directly with the end client or via an agency, typically billing on a day rate.

This is all in contrast to a permanent employee, who is a full-time, or part-time, employee of a company and is typically offered a long-term contract with no end date. Unless the arrangement is for a specific period, in which case, it will be a fixed term contract - but still as an direct employee of the company.

A permanent employee has the all the rights and benefits that come with that status such as a pension, health insurance, paid leave, and company-funded training. In addition, employees are entitled to certain legal protections, such as protection against unfair dismissal,

statutory redundancy pay, minimum notice periods, entitlement to annual leave, and more recently, the right to request flexible working.

In short, a contractor will have none of these rights or benefits.

As if you didn't already know, it is not all about the money. A contractor must pay for their own benefits and accept or mitigate against risks themselves. The extra remuneration helps cover most of this.

Why is there a market?

We can look at this from an organisation's perspective and the problems they often must solve. Here are some examples of the needs an organisation might have, where they might consider using a contractor.

One of my team has been required to join a priority initiative for 6 months, it is too short a period to employ someone and i need a backfill to start yesterday.

We need a user researcher for 2 months of discovery work. We don't have a user researcher and we don't want to employ someone for such a short period”.

We want to start making use of Amazon AWS Cloud services, but we have no one in the company who can help while our permanent team complete their training and get up to speed and we need someone now.

The XYZ initiative needs over 60 resources for 3 project teams. We just don't have that number of staff and once the programme is over in 2 years' time, we wouldn't be looking to employ everyone.

By the time we have recruited someone for a permanent role, paid their pension and benefits it is going to cost more than just getting someone temporarily and at least we can see how the work needs pan out in future without committing ourselves.

The main drivers for hiring contractors and therefore the reason a market exists are for flexibility, economy, access to specialist skills, scalability, and agility.

Flexibility - companies have varying needs for technology related services and hiring a contractor is a good option as they can be retained for as long as required without the commitment needed for a permanent employee.

Economy - A contractor may become a more cost-effective option than a permanent employee when you consider the employment resources and benefits that are required for a permanent employee. That will of course have to be balanced against the usually higher remuneration. The ability to easily give notice to a contractor when the work is complete is simpler than trying to consider how to integrate a technical specialist into the permanent workforce or to make them redundant.

Another aspect of this, is the ability for businesses to control costs and hire talent even if there is a head count freeze. A contractor can usually be hired within a project budget, getting around the need for a new employee. This is often a reason why contractors continue to find work when permanent opportunities in a company are no longer available.

Access to specialised skills - IT contractors often have specialised skills and broad experience from working in other industries and

organisations. This experience can usually be brought in at short notice with the expectation that the contractor will make an immediate impact.

Scalability - Where there is a need to respond to rapid growth or a significant business issue there may not be time to build a large permanent employee team, even if that was the whole answer, so going to the contractor market can allow a company to respond quickly and assemble a team within weeks.

Agility - It is a fundamental quality that a contractor needs. It is required to adapt to different organisations and their cultures, to their different technology sets and to work within new teams that often consist of part employees and part contractors.

Most contractors would not get involved or distracted by organisational politics and would focus on the services they have been hired to deliver. So when it comes to working in an evolving environment or with new technology then a contractor is likely to be very effective. That is not to say a permanent employee cannot do the same but agility is such a fundamental skill of a contractor that it can make a significant difference.

For example, I was brought in as a business analyst to work on a public sector contract. The agency had misunderstood the latest needs of the team I was to join. They were needing and expecting a data analyst. Whilst I would not usually have undertaken data analyst roles I did rise to the challenge and worked with user researcher to deliver the required quantitative analysis and much more, as my skill level rapidly increased. Had I been a permanent business analyst I would likely have been constrained by my job specification, role or team and possibly not even considered for that work.

How big is the IT / digital contracting market

The official source of English and Welsh national statistics is the Office for National Statistics (ONS) and unfortunately, they do not produce any statistics on contractors versus the number of employees. That also appears to be the case for the National Records of Scotland (NRS) and Northern Ireland Statistics and Research Agency (NISRA).

According to The Register news organisation (theregister.com), ONS did once produce statistics on IT contractors, identifying 121,989 back in 2018.

The data from the 2021 Census reported 900,000 individuals identifying themselves as being in the categories of information technology technicians and professionals but that doesn't massively help much, as some contractors operating through limited companies may not have seen themselves in these groups and selected the category of functional managers and directors, which accounts for nearly 1,000,000 individuals.

Other organisations, like the Association of Professional Staffing Companies (APSCo), regularly conduct surveys and publish reports on the IT contracting sector in the UK. It has stated that IT contractors account for about 30% of the professional staffing market.

It is difficult to identify the exact number of IT contractors in the UK. The reasons for this are:

- There is a lack of centralised data, and no single database holds this information making it difficult to understand the extent of the market.
- The lack of a definition of an IT contractor is also a challenge. Does it only include technical contractors, or does it include those that support those roles like delivery managers, product managers, business analysts, user researchers and so on?

- The status of contractors can also be classified differently depending on their determination in relation to the off payroll working rules (more about this in later chapters). If the off payroll working rules apply then the contractor pays National Insurance and Income Tax like an employed person and if they don't apply, they are likely to operate as a director of a limited company and not be classed as an employee, at least not in the same way.

Does market size matter?

We have established that there is an IT contractor market but that the exact size is unknown. Does that matter?

On its own no. It is helpful though when starting out to understand that there is a significant contractor work force and by implication a significant demand, otherwise that market wouldn't exist, and this has been the case for a long time. I am not sure when but certainly in my experience from the 1990's and probably before.

Within this large market for the individual contractor, it is the market demand for their specific skill set is important. As you can imagine the demand for specific skills can go up and down, in the same way as the stock market. Ultimately, if a contractor's skills no longer evolve and move with the market then the demand for you as a contractor will diminish. Generally though, as long as you remain active as a contractor, and you are open to using new tools and methods this is unlikely to happen. Skills can always be enhanced or improved with training.

Key Concepts

- A contractor is engaged on a project or programme of work for a specific period and is not an employee.

- The main reason organisations hire contractors is to satisfy their need for flexibility, economy, access to specialist skills, scalability, and agility.
- There is a significant and well established digital contractor market
- Size of the market for the specific skills of a contractor is more important than the overall market size
- Longterm demand for your skills requires openness to new tools and methods, supplemented with training.