

Guide on Hourly Fee Rates for Consultants



Department of Public Service and Administration

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1 Introduction

The Department of Public Service and Administration (DPSA) conducted a study on the use of consultants in the Public Service in 2001. This initiative was based on a request of Cabinet following perceptions that the South African Public Service has become a major purchaser of consulting services.

The aim of the study was to improve the understanding of Government on the underlying reasons for the apparent increased dependency on the use of consultants in the Public Service and the impact of the use of consultants on the transformational and service delivery challenges that the Public Service faces.

In June 2001, specific recommendations were made to Cabinet. Cabinet approved that the Department of Public Service and Administration commences with the implementation of the proposed actions in close consultation with and full participation of all stakeholders (Minutes of Cabinet - dated 25 July 2001).

Following Cabinet's decision, standardised fee rate structures had to be developed for consultants. A DPSA task team in consultation with National Treasury was constituted to develop this Guide. Wide consultation took place with professional associations, bodies, consulting companies, selected government Departments and the Office of the Auditor-General.

The purpose of this Guide is to provide for standardised hourly fee rates of consultants appointed in the Public Service. These are only applicable to consulting categories for which no such standardised rates have already been determined by professional institutes or associations established in terms of legislation (refer to section 2 Scope and concept clarification).

2 Scope and Concept Clarification

The National Treasury is finalising Standardised Operational Procedures for Supply Chain Management, which will include procedures for the appointment of Consultants. Procurement reform pertaining to consultants focuses on promoting competitive tendering and improving the quality of consulting work and contract management. Only in exceptional cases where it is impractical or impossible to appoint consultants on a competitive basis will Departments be allowed to obtain the services of consultants by other methods. This Guide will form part of the mentioned Standard Operating Procedures in cases where consultants can not be appointed on a competitive basis.

The Guide provides for the following two fee rate models:

- ✓ High-level strategic and specialist advice and/or high-level operational/ implementation activities. Appointment is usually of a short-term duration (60 days or less consulting days per calendar year).
- ✓ Long term operational/ implementation activities (longer than 60 consulting days per calendar year)

This Guide set standards for hourly fee rates for consultants. Departments must ensure that deviations from these standards are based on justifiable reasons that must be well-motivated and documented for audit purposes.

This Guide should be seen as a good practice guide to assist Departments with the following:

- ✓ Planning and budgeting of projects.
- ✓ Benchmarking the required level of work in the Public Service with the required level of consultancy work to inform decision-making.
- ✓ Appointing Consultants at the appropriate level and remuneration to support the principle of competitive tendering.

- ✓ Informing departmental guidelines on the use and management of Consultants.

This Guide is applicable to:

- ✓ Those consulting categories/professions/activities for whom no standardised fee rates have been determined by professional institutes or associations established in terms of legislation.
- ✓ Consultancy services of an intellectual nature. The intellectual services are provided by consultants in the following two areas -
 - Rendering of professional, specialised and strategic advice; and
 - Assisting with implementing / operationalising of projects and programmes to complement the service delivery capacity of Departments.
- ✓ Cases where consultants form associations with other consultants and enter joint ventures or sub-consultancy.

The Guide is applicable to a wide range of consulting activities or professions, such as change management, strategic planning, competency profiling, organisational restructuring and development, information technology, policy development, strategy development, financial planning, budgeting, training, human resource management, job evaluation, public relations, marketing, logistics, administration, record keeping, risk management, project management, contract management, procurement management, etc. A diverse range of institutions can render consultancy services e.g. non-governmental institutions, tertiary institutions, financial institutions, private sector companies and research and development institutions.

A vibrant labour market for management consultants has led to a mobile professional workforce, which could move between consulting activities if there is a reduction in the demand for consulting work in certain areas. This guide should be used in those cases where consultants move from an environment where fee rates are provided to an environment where fee rates are not provided (e.g., an engineer render management consulting services).

This Guide is not applicable to:

- ✓ Services rendered by contractors that are not of an intellectual nature e.g. construction work, catering, security, gardening, laundries, computer network installations, maintenance of facilities, drilling, aerial photography, interior designers, lay out of offices, satellite imagery, and exhibitions.
- ✓ Science, research or technology development institutions which are required to recover the full cost for research and/or technology development activities in terms of the White Paper on Science and Technology, 1996, and the Financing and Reporting System for Science Councils of the Department of Science and Technology.
- ✓ Consultant categories/professions/activities for which standardised fee rates have been developed by professional institutes or associations established in terms of legislation. For example, the fee rates for Auditors as determined by the South African Institute for Chartered Accountants or the fee rates for Engineers determined by the Engineering Council of South Africa constituted in terms of the Engineering Professions Act of 2002.

In terms of Public Service Regulation J.3, Part III: Planning, Work Organisation and Reporting of Chapter 1 of the Public Service Regulations, 2001, a consultant means "a natural or juristic person or a partnership who or which provides in terms of a specific contract on an ad hoc basis any of the following professional services to a Department against remuneration received from any source:

- (a) The rendering of expert advice;
 - (b) the drafting of proposals for the execution of specific tasks; and
 - (c) the execution of specific tasks which is of a technical or intellectual nature,
- but excludes an employee of a Department".

To further elucidates the above-mentioned definition, a consultant:

- ✓ Is not regarded as a Public Service employee in terms of the criteria set out in the Labour Laws.
- ✓ Does not include any person appointed on a fixed term contract against an approved post.
- ✓ Is an independent contractor working as a consultant.
- ✓ Is an independent labour broker providing consultants to Departments.

The DPSA will publish revised fee rates on its website (<http://www.dpsa.gov.za/projects/sdi/consultants.htm>) as follows:

- ✓ 1 January of each year for the Senior Management Service, levels 13 to 16.
- ✓ 1 July of each year to coincide with the annual general salary increase for the Public Service, levels 6 to 12.

3 Method for Determining Hourly Fee Rates

To determine a benchmark on which to base the fee rates, guidelines provided by the engineering industry and the Office of the Auditor-General were used. The fee rates in this Guide were developed following the following points of departure:

- ✓ Financial basis.
- ✓ Overhead factors.
- ✓ Utilisation rates.
- ✓ Mark-up for profit.
- ✓ Type of service provided.
- ✓ Comparative level with the Public Service.
- ✓ Duration of the appointment.

Financial Basis

The total cost of employment for a consultant is used as the basis for determining hourly fee rates. To this effect, the average total package (Rand value) for Public Service salary bands 6 to 16 are used. These salary bands were combined to form the following hierarchy (categories) of consultants:

<i>Category of Fee Earning Staff</i>	<i>Comparative Public Service Salary Band</i>
Directors / Partners / Specialist Consultants	15 / 16 ¹ 14 / 15 13 / 14
Professional / Technical Staff (Senior Consultants and Consultants)	12 / 13 11 / 12 10 / 11

¹ This category should only be used for exceptional reasons that require expertise at the highest level (such as an internationally recognised expert). This category can not be used for operational/implementation consultancy services.

Administrative / Secretarial Staff	9 / 10 6 to 8
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Adequate provisions are made for overheads, profit margins, taxation and non-project related activities.

The total productive available hours is determined as 1760 hours per year as calculated in Table 1 below.

Table 1: Work Days and Hours

<i>Item</i>	<i>Days</i>
Days in the year	365 per year
Work days	220 available days in a year
Weekends – 2 X 52	Minus 104 days
Public holidays	Minus 11 days
Annual leave	22 days
Sick leave	8 days
Total days	220 available days in a year
Minimum hours per day	8 hours
Total available hours in a year	1 760

Overhead Factors

In terms of the overhead factors, there are two options:

- ✓ Consultants are responsible for all factors of expenses as indicated in Column A of Table 2. Provision is made for a multiplier for overheads of 90% (1.90).
- ✓ Partial overheads - Departments provide some overheads such as, office accommodation, office equipment, consumables items (paper, stationary) rental of premises (including water, electricity and rates), communication (email, telephone, fax) as indicated in Column B of Table 2. In this regard, provision is made for a multiplier of 63% (1.63).

Table 2: Overhead Factors

<i>Description</i>	<i>Column A All Overheads</i>	<i>Column B Partial Overheads</i>
Salaries (total cost of employment) of fee earning staff, i.e. professional/technical staff	1.00	1.00
Salaries of non-fee-earning staff, i.e. administrative staff salaries	0.24	0.24
Telephone and communication	0.05	Department provide
Rental of premises, including water, electricity and rates	0.13	Department provide
Transport (not recovered directly from projects)	0.05	0.05
Paper, stationary, consumables	0.03	Department provide
Audit, bank charges, interest, insurance	0.08	0.08
Marketing	0.02	0.02
Office equipment	0.06	Department provide
Training and development	0.02	0.02
Project direct expenses not recoverable	0.08	0.08
Other (i.e. Head office expenses) ²	0.14	0.14
Nett overhead factor (before mark-up for profit)	1.90	1.63

Utilisation Rate

The utilisation rate allows for time (to generate income) that can not be attributed to a specific project or consultancy work. This allows time (after deduction of leave, sick leave, weekends and public holidays) for management of practice, marketing and promotion, continued education, capacity building, personnel development, mentoring, etc. In practice this means that a Director will be able to spend 70% of his/her time on consultancy services.

Table 3 indicates the utilisation rates that are provided for categories of consultants. A distinction is also made between short- and long-term

² Varies widely based on different surveys.

consultancy work. This distinction is necessary because there is a reduced risk (work of a more permanent nature) in long-term consultancy work.

Table 3 Utilisation Rate

<i>Category fee earning staff</i>	<i>Short Term Consulting Rate</i>	<i>Long Term Consulting Rate</i>
Directors / Partners / Specialist Consultants	0.70	0.85
Professional / Technical Staff (Senior Consultants and Consultants)	0.85	0.95
Administrative / Secretarial Staff	0.95	None

Mark-up for Profit

The factor providing for taxation and profit depends on the tax status of the consultant as provided by SARS. In summary consultants could broadly be categorised in term of taxation as follows:

- ✓ A registered company where the normal corporate tax rate is 30%. In addition companies pay STC (Secondary Tax on Companies) of 12,5% on any dividends declared.
- ✓ Individuals are registered as personal Service Company and Labour Broker without an exemption certificate where the tax rate is 35%.
- ✓ Small business corporations that are taxable at a rate of 15%.
- ✓ Personal Service Trust taxable at a rate of 40%.
- ✓ Public Benefit Organisations registered as non-profit and are exempted from taxation. E.g. an Education Trust, a University, Non-Governmental organisations.

For the purpose of this Guide, taxation and profit are based on the following two criteria:

- ✓ No provision is made for profit and taxation of Public Benefit Organisations.

- ✓ For all other categories, a **mark-up of 30 %** is standardised. This includes a company tax rate of 30% and STC of 12.5%. The mark-up of 30% (1.30) represents a profit after tax of 14,13% calculated as follows:

$$\text{Profit after tax} = [30 / 130 \times (1 - 0.30 - (0.70 \times 0.125)) \times 100] = 14.13\%$$

- ✓ It should be noted that this standardisation would benefit Small Medium and Micro Enterprises.
- ✓ Value Added Tax is excluded from calculating hourly fee rates.

Type of Service Provided

To a large extent the intellectual services rendered by consultants vary greatly from one project to the next.

Two distinctions for consultancy services are made namely:

- ✓ High-level strategic and/or specialist advice. These usually engage in non-standard services, which require specialist expertise or skills and are usually of a short-term nature.
- ✓ Operational/implementation activities. This is where consultants are appointed to assist with the implementation of policies and/or projects. These do not require such high-level of competencies and is usually of a longer-term nature with well-defined deliverables and processes. In this scenario consultants are typically engaged to supplement the human capacity of Departments and/or perform comparable tasks to that of Public Servants .

Comparative Level with the Public Service

A Department should not use consultants to reduce personnel expenditure. This will result in the creation of a parallel administration in the Public Service that consists of consultants. If the duration is of a long-term nature, special consideration should be given to the feasibility and affordability of using

consultants. Departments should only use consultants at salary band 15/16 for exceptional reasons that require expertise at the highest level (such as an internationally recognised expert). Salary band 15/16 can not be used for operational/implementation consultancy services.

A Department should determine up-front the comparative levels on which consultants should be appointed by comparing the relative level of work in the Public Service with the required consultancy work. Departments should utilise the Equate job evaluation system as the basis for such a comparison. The following elements should also be considered:

- ✓ Level of responsibility.
- ✓ Complexity.
- ✓ Liability.
- ✓ Risk associated with the consultancy work.
- ✓ Level of expertise, qualifications and skills.

Duration of appointment

The short term engagement of consultants is 60 or less consulting days per calendar year. These days do not have to be consecutive. The high-level strategic and/or specialist advice would normally be short term.

The long-term engagement of consultants is longer than 60 consulting days. These days do not have to be consecutive. This will involve consultants that assist with implementing/ operationalising of projects and programmes.

4 Applying the Model to Determine Fees for Consultants

There are two models depending on the nature of services being rendered and the contract duration. For each model there are options that caters for all overheads or partial overheads and a rate with a mark-up or a rate without a mark-up.

The basic formula for determining the hourly fee rate is:

$$\text{Hourly fee} = [\text{average total package} / \text{available hours}] \times [\text{overhead factor} \times \text{mark-up}] / \text{utilisation rate}$$

For calculation purposes this formula is adjusted as follows:

$$\text{Hourly fee} = [\text{average total package}/1000] \times \text{charge-out rate}$$

The charge-out rate is an expression of fee earnings in terms of Rand per R1000 of average total package earned, calculated as follows:

$$\text{charge-out rate} = [\text{overhead factor} \times \text{mark-up} / \text{utilisation rate}] / [\text{available hours} / 1000]$$

A summary of the hourly fee rates for consultants is set out in Annex One. A more detailed calculation of the charge-out rate and hourly fee rates is set out in Annex Two.

Model A: Short term strategic/specialist and/or operational/implementation

Provide high-level strategic and specialist advice and/or high-level operational/implementation work. Appointment is of short-term duration.

A 1: Consultants are responsible for all overhead expenses

A1.1 Including mark-up

Hourly fee = [average total package / available hours] X [overhead factor x mark-up] / utilisation rate

Example: Salary Band 14/15

$$[R543,305.75/ 1760] \times [1.90 \times 1.30] / 0.70 = R1,087 \text{ hr}$$

A1.2 Excluding mark-up

Example: Salary Band 14/15

$$[R543,305.75/ 1760] \times [1.90] / 0.70 = R837 \text{ hr}$$

A2: Government contributes towards overhead expenses

A2.1 Including mark-up

Hourly fee = [average total package / available hours] X [overhead factor x mark-up] / utilisation rate

Example: Salary Band 14/15

$$[R543,305.75/ 1760] \times [1.63 \times 1.30] / 0.70 = R934 \text{ hr}$$

A2.2 Excluding mark-up

Example: Salary Band 14/15

$$[R543,305.75/ 1760] \times [1.63] / 0.70 = R717 \text{ hr}$$

Model B: Long term: Operational/Implementation

Consultants responsible for operational/ implementation work.
Appointment is of long term duration.

B 1: Consultants is responsible for all overhead expenses

B1.1 Including mark-up

Hourly fee = [average total package / available hours] X [overhead factor x mark-up] / utilisation rate

Example: Salary Band 14/15

$$[R543,305.75/ 1760] \times [1.90 \times 1.30] / 0.85 = R896 \text{ hr}$$

B1.2 Excluding mark-up

Example: Salary Band 14/15

$$[R543,305.75/ 1760] \times [1.90] / 0.85 = R690 \text{ hr}$$

B 2: Government contributes towards overhead costs

B2.1 Including mark-up

Hourly fee = [average total package / available hours] X [overhead factor x mark-up] / utilisation rate

Example: Salary Band 14/15

$$[R543,305.75/ 1760] \times [1.63 \times 1.30] / 0.85 = R771 \text{ hr}$$

B2.2 Excluding mark-up

Example: Salary Band 14/15

$$[R543,305.75/ 1760] \times [1.63] / 0.85 = R592 \text{ hr}$$

Annex One: Hourly Fee Rates For Consultants

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~~Table~~
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Fee rates are calculated as follows:

$[\text{average total package} / 1000] \times \text{charge-out rate}$

Charge-out rates are calculated as follows:

$[\text{overhead factor} \times \text{mark-up} / \text{utilisation rate}] / [\text{available hours} / 1000]$

Annex Two: Charge-out Rates and Hourly Fees

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<i>Salary Band</i>	<i>Average Total Package</i>	<i>Overhead Factor</i>	<i>Mark-up</i>	<i>Utilisation Rate</i>	<i>Available Hours</i>	<i>Model</i>	<i>Charge-out Rate Rand</i>	<i>Hourly Fee Rand</i>
15/16	681.488.25	1.90	1.30	0.70	1.76	A 1.1	2.00	1.363
15/16	681.488.25	1.90		0.70	1.76	A 1.2	1.54	1.049
15/16	681.488.25	1.63	1.30	0.70	1.76	A 2.1	1.72	1.172
15/16	681.488.25	1.63		0.70	1.76	A 2.2	1.32	900
15/16	681.488.25	1.90	1.30	0.85	1.76	B 1.1	1.65	1.124
15/16	681.488.25	1.90		0.85	1.76	B 1.2	1.27	865
15/16	681.488.25	1.63	1.30	0.85	1.76	B 2.1	1.42	968
15/16	681.488.25	1.63		0.85	1.76	B 2.2	1.09	743
14/15	543.305.75	1.90	1.30	0.70	1.76	A 1.1	2.00	1.087
14/15	543.305.75	1.90		0.70	1.76	A 1.2	1.54	837
14/15	543.305.75	1.63	1.30	0.70	1.76	A 2.1	1.72	934
14/15	543.305.75	1.63		0.70	1.76	A 2.2	1.32	717
14/15	543.305.75	1.90	1.30	0.85	1.76	B 1.1	1.65	896
14/15	543.305.75	1.90		0.85	1.76	B 1.2	1.27	690
14/15	543.305.75	1.63	1.30	0.85	1.76	B 2.1	1.42	771
14/15	543.305.75	1.63		0.85	1.76	B 2.2	1.09	592
13/14	453.827.00	1.90	1.30	0.70	1.76	A 1.1	2.00	908
13/14	453.827.00	1.90		0.70	1.76	A 1.2	1.54	699
13/14	453.827.00	1.63	1.30	0.70	1.76	A 2.1	1.72	781
13/14	453.827.00	1.63		0.70	1.76	A 2.2	1.32	599
13/14	453.827.00	1.90	1.30	0.85	1.76	B 1.1	1.65	749
13/14	453.827.00	1.90		0.85	1.76	B 1.2	1.27	576
13/14	453.827.00	1.63	1.30	0.85	1.76	B 2.1	1.42	644
13/14	453.827.00	1.63		0.85	1.76	B 2.2	1.09	495
12/13	372,229.94	1.90	1.30	0.85	1.76	A 1.1	1.65	614
12/13	372,229.94	1.90		0.85	1.76	A 1.2	1.27	473
12/13	372,229.94	1.63	1.30	0.85	1.76	A 2.1	1.42	529
12/13	372,229.94	1.63		0.85	1.76	A 2.2	1.09	406
12/13	372,229.94	1.90	1.30	0.95	1.76	B 1.1	1.48	551
12/13	372,229.94	1.90		0.95	1.76	B 1.2	1.14	424
12/13	372,229.94	1.63	1.30	0.95	1.76	B 2.1	1.27	473
12/13	372,229.94	1.63		0.95	1.76	B 2.2	0.97	361
11/12	262,257.12	1.90	1.30	0.85	1.76	A 1.1	1.65	433
11/12	262,257.12	1.90		0.85	1.76	A 1.2	1.27	333
11/12	262,257.12	1.63	1.30	0.85	1.76	A 2.1	1.42	372
11/12	262,257.12	1.63		0.85	1.76	A 2.2	1.09	286
11/12	262,257.12	1.90	1.30	0.95	1.76	B 1.1	1.48	388
11/12	262,257.12	1.90		0.95	1.76	B 1.2	1.14	299
11/12	262,257.12	1.63	1.30	0.95	1.76	B 2.1	1.27	333
11/12	262,257.12	1.63		0.95	1.76	B 2.2	0.97	254

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<i>Salary Band</i>	<i>Average Total Package</i>	<i>Overhead Factor</i>	<i>Mark-up</i>	<i>Utilisation Rate</i>	<i>Available Hours</i>	<i>Model</i>	<i>Charge-out Rate Rand</i>	<i>Hourly Fee Rand</i>
10/11	223,107.42	1.90	1.30	0.85	1.76	A 1.1	1.65	368
10/11	223,107.42	1.90		0.85	1.76	A 1.2	1.27	283
10/11	223,107.42	1.63	1.30	0.85	1.76	A 2.1	1.42	317
10/11	223,107.42	1.63		0.85	1.76	A 2.2	1.09	243
10/11	223,107.42	1.90	1.30	0.95	1.76	B 1.1	1.48	330
10/11	223,107.42	1.90		0.95	1.76	B 1.2	1.14	254
10/11	223,107.42	1.63	1.30	0.95	1.76	B 2.1	1.27	283
10/11	223,107.42	1.63		0.95	1.76	B 2.2	0.97	216
9/10	184,599.98	1.90	1.30	0.95	1.76	A 1.1	1.48	273
9/10	184,599.98	1.90		0.95	1.76	A 1.2	1.14	210
9/10	184,599.98	1.63	1.30	0.95	1.76	A 2.1	1.27	234
9/10	184,599.98	1.63		0.95	1.76	A 2.2	0.97	179
9/10	184,599.98	1.90	1.30		1.76	B 1.1	1.40	258
9/10	184,599.98	1.90			1.76	B 1.2	1.08	199
9/10	184,599.98	1.63	1.30		1.76	B 2.1	1.20	222
9/10	184,599.98	1.63			1.76	B 2.2	0.93	172
6 to 8	122,162.99	1.90	1.30	0.95	1.76	A 1.1	1.48	181
6 to 8	122,162.99	1.90		0.95	1.76	A 1.2	1.14	139
6 to 8	122,162.99	1.63	1.30	0.95	1.76	A 2.1	1.27	155
6 to 8	122,162.99	1.63		0.95	1.76	A 2.2	0.97	118
6 to 8	122,162.99	1.90	1.30		1.76	B 1.1	1.40	171
6 to 8	122,162.99	1.90			1.76	B 1.2	1.08	132
6 to 8	122,162.99	1.63	1.30		1.76	B 2.1	1.20	147
6 to 8	122,162.99	1.63			1.76	B 2.2	0.93	114

Fee rates are calculated as follows:

[average total package / 1000] X charge-out rate

Charge-out rates are calculated as follows:

[overhead factor x mark-up / utilisation rate] / [available hours / 1000]