Office of Government Commerce

Guide to consultancy pricing

March 2008

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1 Introduction

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This guide discusses the main factors that affect the price paid for consultancy. It aims to provide buyers and users of consultancy with practical help so that they can understand how consultancy is costed, the elements which make up the cost and how to influence the price paid.

Ideally a competitive process should be used to procure all consultancy services; many contracts will be subject to a full EU procurement regime through an OJEU advertisement, and in addition, authorities' own internal procedures and guidelines should require lower value contracts to be subject to a competitive process. Where these are well prepared for and run, they can assist in securing value for money. Use of pan-government framework agreements can also be beneficial in ensuring value for money, due in part to the economies of scale that these frameworks can deliver. To safeguard against non-compliance with both internal and EU procurement regulations, and to benefit from professional procurement advice, early involvement with departmental procurement staff is recommended. They will also ensure that appropriate terms and conditions are used when contracting with external organisations to mitigate against risk.

The guide is by no means a complete A – Z of how to buy consultancy and it expects readers to have an understanding of the governance surrounding public sector purchasing and the wider issues related to Government's use of Consultancy, in particular, the 2006 report by the NAO - 'Central Government's Use of Consultants' [1].

It is recommended that all senior buyers and users of consultancy services attend the Consultancy Masterclass, which will put this guidance into greater context and that procurement staff involved with the category attend the Procurement Practitioners workshop.

The Masterclass, the Practitioners workshop and this guide have been put together by the **Consultancy Value Programme**, a pan-government collaborative programme which seeks to improve the value gained when using consultants in the support of Government business. Please contact the OGC Service Desk (tel: 0845 000 4999) for further information on the programme.

[1] HC 128 Session 2006/2007 dated 15th December 2006

2 Components of a consultant's day rate

2.1 Rate card analysis

Broadly there are three components that make up the typical daily rate charged by a consultant:

- **Direct overheads** - pension and NI contributions, salary, holiday entitlement etc
- **Indirect overheads** – sales & marketing costs, building costs (lease, rental, building management etc), support staff, training, risk etc
- **Profit**

Confusion often arises around the terms '**mark-up'** and '**margin**'. Simply:

- **Margin** consists of all indirect overheads and profit
- **Mark-up** consists only of the profit element

Consultancies must recover the three components when setting their fee; taken together they represent the '**rate-card'**, the publicly stated price which can be equated to the 'turn-up and buy', or 'rack-rate', of a hotel room. However, as this guide will illustrate, knowledge of the assignment and broader market issues can frequently result in prices below rate-card, which means a trade-off on mark-up for the supplier, in return for some other benefit.

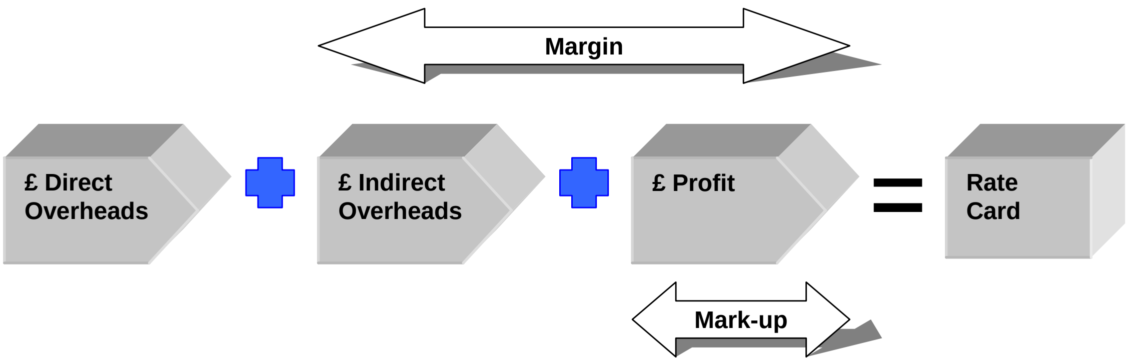

Figure 1. The components of a typical rate-card

2.2 Utilisation

Put simply, utilisation is the amount of time a consultant spends, over the year, working on assignment. Utilisation of 80% means that a consultant spends 80% of his or her working time as a fee-earner, assigned to a customer. The remaining 20% will be taken up with matters such as training, sickness or internal projects. As actual utilisation is difficult to forecast, consultancies will ensure an acceptable return by adopting and applying a rate-card utilisation profile that assumes a lower level of utilisation than would be expected in a 'good year'.

Rate-card								
Grade	Assumed annual salary	Suggested day salary based on 225 working days pa	Suggested % utilisation rate	No of working days pa based on % utilisation rate	Assumed daily cost	Max day rate contract price	Assumed daily margin (£)	Assumed daily margin (%)
MC	£150,000	£667	65%	146	£1027	£1750	£723	41%
PC	£100,000	£444	75%	169	£593	£1445	£852	59%
SC	£70,000	£311	80%	180	£389	£1225	£836	68%
C	£45,000	£200	85%	191	£235	£1100	£865	79%
JC	£30,000	£133	90%	202	£149	£700	£551	79%

Figure 2. Example rate-card – for illustrative purposes only

As shown in figure 2, consultancies will plan and budget for different percentage levels of utilisation depending upon the grade of consultant. The higher the grade, the lower the level of utilisation expected and therefore built into the margin. For example a lower utilisation rate would be expected of a partner, given that much of a partner's time is spent creating and developing new business.

Utilisation rates of up to 90 - 95% can be attained by consultancies across the majority of grades when working on attractive long-term assignments such as out-sourcing deals. It therefore follows that if the buyer can guarantee high utilisation rates, consultancies should, in return, be able to reduce the mark-up without affecting overall profit, as the consultants will be fee-earning for a larger proportion of their time than originally built into the utilisation profile.

The Consultancy Value Programme has developed a rate-card analysis tool which enables buyers to model the impact of adjusting a number of the components within the rate-card price. Please contact the OGC Service desk for further information.

Lower margins are generally associated with the more senior grades of consultant, where there is a lower level of utilisation, maybe as low as 30 – 40%. Frequently buyers concentrate their attentions on these senior manager / partner roles when trying to attract better pricing, due in part to the high day rates and proportionately greater cost. But usually it is the more junior grades that contribute the greatest percentage of profit for a consultancy (due to their high utilisation rates – i.e. more man-days are billed), and which should therefore also be a focus of attention for buyers, if considering downward pressure on the day rate.

Partner
Higher day rate
Lower utilisation
Lower profit

Junior consultant
Lower day rate
Higher utilisation
Higher profit

Less opportunity for savings

Greater opportunity for savings

Although savings can be made by understanding a consultant's rate-card, care must be taken not to reduce prices at the expense of quality.

3 How the market influences price

3.1 Strength of the market

The public sector presently makes up approximately 30% of the total UK spend on consultancy. Current prices offered by consultancies tend to be a little lower in the public sector than the private sector. This price difference is mainly due to:

- the health and stability of the public sector consulting market
- the attractiveness of the public sector, compared to other sectors

If public sector demand falls or the sector becomes less attractive to suppliers, perhaps due to a general softening of demand, the public sector may have to pay a higher price to keep the best consultants from turning their attention to alternative, more attractive markets.

3.2 Industry and service segmentation

In common with most markets, the larger and better-known consultancy brands tend to be able to attract higher prices than smaller or new-entrant suppliers. There also tends to be a hierarchy in terms of pricing related to industry segmentation along the following lines:

Higher priced

Global management consultancy

Global IT consultancy

(Second tier) Management consultancy

IT specialists

Lower priced

There is also a hierarchy among the supply community in terms of pricing related to service segment, along the following lines:

Higher priced

Pure management and accountancy based consultancy

IT focussed consultancy

Engineering/construction based consultancy

Lower priced

3.3 Functional service offering

Consultancies do not always offer a standard price across all functional service types e.g. financial or HR and the following points should be considered:

- The price associated with each functional service will be roughly in line with the perceived value received by the buyer and the level of market demand
- Strategy and financial consultancy tend to be priced more highly than project management skills and application development

3.4 Salary and grade

Consultancies will have as many salary rates for their consultants as they have consultants. Individuals will command their own charge-out rate according to:

- skills
- experience
- expected utilisation / ability to sell-on

These factors will determine the consultants' grade and relevant charge-out price.

There are six recognised grades and, therefore, price bands, which generally correspond to industry-understood job titles and are in common use in the public sector. These are:

- Partner/Director
- Managing consultant
- Principal consultant
- Senior consultant
- Consultant
- Junior consultant

Common descriptions for each grade are given in Annex 1.

4 Influencing the price paid

As well as market orientated factors, the price associated with engaging a consultant will depend on the nature of the individual assignment and the commercial skills and personalities of all those involved. There are, therefore, a number of assignment-specific factors of which buyers and users of consultancy should be aware. These are effectively negotiation points or areas which may be focussed on in order to condition suppliers prior to formal tendering; and some of these are listed below. The factors in the preceding sections may be used to benchmark a 'ballpark' price and the following factors may be used to refine that price.

4.1 Size and duration of assignment

As discussed previously, long duration assignments, or assignments which provide continuous engagements e.g. five days a week over a number of months, are highly attractive to consultancies as they increase utilisation levels as well as ensuring that there is a guaranteed level of income for a predicted period. They also keep costs down for consultancies, as their staff are employed on fee-earning work, rather than being 'on the bench' pending an engagement. The more the buyer can be clear about expected utilisation, the greater the scope for seeking an appropriate price reduction. If utilisation is expected to be high, buyers should make it clear from the outset that they expect to see this reflected in the price offered.

Assignments which require teams with a skill-mix including junior roles, where opportunities may be available for inexperienced graduates to gain valuable, on-the-job training, will also be highly desirable.

4.2 Attractiveness of the assignment

The following is a selection of factors, which are attractive to consultancies, some to a greater or lesser extent than others, and buyers should seek to reflect this inherent value in the price obtained. Frequently these factors are not commonly acknowledged by buyers as having any value. Consultancies may not acknowledge that they attach importance to them, and therefore inexperienced buyers should not attempt to assign value directly. However, the factors below all add to the attractiveness of a public sector consultancy opportunity and the buyer should not undervalue their importance in helping to secure competitive bids. This list is not exhaustive. There will be other assignment-specific factors, which may also serve to increase the level of attractiveness.

- Production of new IPR or state-of-the-art design having value with other customers or markets
- Provision of a strong reference on which to obtain future work
- The supplier views the relationship as being of long-term importance
- Strategic development area for the consultancy or new entry point to a market
- High profile assignment work, at the leading edge of current thinking
- Association with a high profile organisation, either political, international, at the centre of government etc, and use of this fact in future marketing material so boosting brand credibility
- Association with senior members of government departments
- Prompt payment of invoices - average time to pay in the private sector is over 60 days
- Solid, implied guarantee that the substance of 'HMG' is not affected by poor credit ratings or insolvency, and therefore financial risk is avoided
- Knowledge that the public sector is a key and valuable market

4.3 Grade and skill mix

The grade and skills to be used should be clarified with the supplier and an appropriate level of reduction sought in the price of those grades that will have the highest level of utilisation.

In view of the expected lower utilisation rates of senior grades, careful consideration should be given to proposals which suggest a high level of utilisation of the more senior grades. The Management Consultancies Association, (MCA), suggest a ratio of 26 junior grades to 1 senior grade. Suggested ratios which are higher than this should be reviewed and the question asked ‘Are we receiving the value difference or simply paying for sales activity?’

4.4 Project risk

Risk is managed meticulously by consultancies and the larger firms employ staff specifically to evaluate project risk prior to accepting an assignment. Therefore, the more the buyer can do to mitigate or self-manage risk, (which includes having the right internal staff available to manage assignments and contracts), the more the buyer should expect to see a reduced level of risk contingency built into the price.

4.5 Project scope

To reduce the risk of increasing costs over the life of the assignment it is key to ensure that the project is thoroughly scoped to include the following points:

- Accuracy of the assignment specification
- Clear deliverables
- Good contract/performance management
- Avoidance of scope creep via a change control mechanism

The Consultancy Value Programme Council have developed a new Business Case format which addresses these factors, this can be obtained through your procurement department or from the OGC Service Desk.

4.6 Alternative payment methods

This section of the guide is intended to provide departments with a comprehensive overview of a variety of payment mechanisms aimed at gaining added value from suppliers in different ways. These should allow departments to consider options for alternative pricing methods, understand the relative benefits of each and when it would be appropriate to put them in place.

Hopefully, having a greater understanding of these alternatives will make it easier to move away from the Time and Materials model - still the most common method used to pay for consultancy engagements. Utilising these alternative methods will drive out greater value for money from engagements by ensuring the suppliers are appropriately incentivised by the payment method, so leading to a greater degree of trust and understanding between suppliers and departments.

4.6.1 What is incentivisation?

In the context of this guidance and the use of consultancy, incentivisation is the application of pricing methods other than Time and Materials to motivate a consultancy to deliver to the buyers requirements e.g. on time, on budget to specification.

Selecting the most appropriate pricing method could be seen as achieving the right balance between the degree of risk in the engagement and the clarity of specification given, as follows.

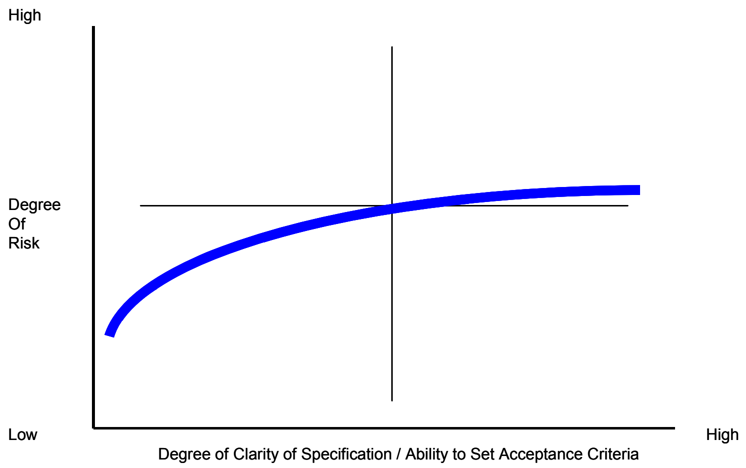

Figure 3. Suitability of engagements for alternative pricing methods

Engagements falling in the lower quadrants, beneath the arc in the above model, would be more suitable for incentivised payment mechanisms than those lying in other quadrants where the level of risk is higher or the clarity around the requirement is less transparent. The view of the consultancy profession, provided here via the MCA, is that alternative pricing models do add value to customer engagements, but the main element for buyers to consider in making the right selection, is the risk profile of the particular engagement.

4.6.2 Pricing methods

There are a number of pricing methods that can be applied to consultancy, each of which changes the balance of risk between the buyer and the consultancy so incentivising consultants to varying degrees. It is worth considering these methods early on in the procurement process so that decisions can be made prior to the tender documentation being issued. The invitations to tender can then indicate the pricing method(s) which the authority has decided is most appropriate for the particular procurement. Flexibility can also be introduced if authorities allow bidders the opportunity to submit "variant bids", which offer alternative pricing methods, where they can demonstrate that these offer better value for money.

The most common of these pricing methods are described below. Annex 2 provides outline examples of how the charges might be specified under these pricing methods. It should be possible to take various elements of each charging schedule as required to create a bespoke specification, tailored to individual requirements.

Output based. In an ideal world a buyer would pay a fair fixed price for the delivery of an agreed final outcome. This method proposes a payment on delivery of agreed outputs related to the project – client satisfaction with performance; quality of deliverables; timely achievement of milestones. However, this arrangement places some risk on the consultancy which may attempt to build some contingency into the pricing.

Analysis:

- costs are fixed; any additional costs lie with the consultancy
- relies on the ability to set acceptance criteria
- targets results
- relies on buyer to clearly define outcome to avoid scope creep
- focus on short, medium or long term outcomes
- consultancy encouraged to deliver on time and to quality, otherwise payment reduced

Milestone payments. A pre-agreed price is paid after agreed key milestones have been reached, or a deliverable has been presented. Consideration should be given to a right to recover payments if one or more future milestone(s) or deliverable(s) is not reached, particularly if it removes the value associated with previous milestones and deliverables.

Analysis:

- costs are fixed; any additional costs lie with consultancy
- relies on the ability to set acceptance criteria
- cost risk rests with consultancy
- helps consultancy manage delivery risk
- relies on customer to clearly define project scope in order to avoid scope creep
- focus on short-term results
- consultancy incentivised to deliver on time and to quality, otherwise payment reduced

Time and materials. As noted previously, this is a very popular mechanism, placing the majority of the delivery risk with the buyer – the longer the engagement takes the more it will cost. This mechanism is most suited to short-term assignments or where deliverables are difficult to define.

Analysis:

- clear cost model
- risk of cost over-run lies with the customer
- transparent, easy to compare and benchmark
- no incentive for consultancy to allocate best resource
- no incentive for consultancy to deliver on time
- no clear link with quality or performance outputs

Blended rate. In this scenario a rate is proposed by the supplier which takes into account a variety of factors – grades of the consultants, specific expertise, training days, holidays, length of assignment, size of commission etc. This rate could be viewed as the 'average' of the team. It is attractive to the buyer who may see it as allowing senior input for a lower cost, and to the supplier who may sell the benefits of higher grade input for a lower cost, with the intention of only providing junior grades at a premium cost.

Analysis:

- clear cost model
- risk of cost over-run lies with the customer
- transparent, easy to compare and benchmark
- no incentive for consultancy to allocate best resource
- no incentive for consultancy to deliver on time
- no clear link with quality or performance outputs

Bonus payment. An agreed bonus payment is included which is released after successful delivery to time and specification. In recognition of this the supplier should propose a reduced fee for the project. The bonus would normally be linked to the extra value received by the buyer for receiving the benefit on time as opposed to, say, six months late.

Analysis:

- clear cost model
- delivery risk of cost overrun lies with supplier
- transparent, easy to compare and benchmark
- linked to quality, performance outputs and benefits
- relies on ability to set acceptance criteria
- incentive for supplier to allocate best resource to ensure completion to time and quality

Reducing price. A reducing price over time, so that the supplier is incentivised to deliver to the target date, prior to the reduction taking effect.

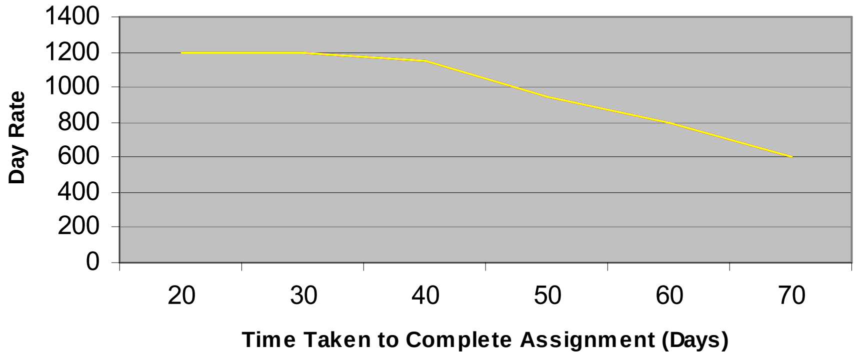

Figure 4. Fee reducing over time

Analysis:

- clear cost model
- risk of cost overrun lies with supplier and buyer
- incentive for supplier to allocate best resource to ensure completion to time and quality
- focus on short–term results
- must have clear agreement between supplier and buyer on what 'successful' looks like

Gain / pain share. Benefits sharing, or 'gain share / pain share', where additional savings or losses made are shared between the client and consultancy. This method is more clearly linked to actual value received / not received by the buyer, (as stated in the business case and contract). Care should be taken to ensure that any additional benefits add real value and are not just 'gold plating'.

Analysis:

- must have clear agreement between supplier and buyer on what 'successful' looks like – clear acceptance criteria
- risk shared
- can be complex and difficult to monitor
- linked to quality and performance outputs
- incentive for supplier to allocate best resource to ensure completion to time and quality
- incentive for supplier to over-perform

Guaranteed minimum income. The consultancy is guaranteed a minimum financial volume of work over a fixed period; for example a contract is awarded to provide all services within a functional service area which the buyer will have a regular need for, over the course of one year, with guaranteed utilisation for the supplier. This, in turn, enables the supplier to offer reduced prices based on known utilisation. This mechanism could be linked to any of the above examples.

Analysis:

- clear cost model
- risk shared
- transparent
- linked to quality and performance outputs
- focus on longer-term results and relationship
- reduce supplier utilisation risk

Conclusion

Whichever pricing method is chosen, knowledge of current market rates is key to ensuring that a price is arrived at which offers both value for money to the buyer and an incentive to the consultancy to perform and deliver successful results. Correct performance / contract management are also important factors to consider for gaining greater success. The level of mutual trust in the consultant / buyer relationship must be at a high level to ensure maximum benefit, and clarity in the requirement specification must also be significant. Both sides of the relationship must be able to gain advantage from the proposals.

Overleaf is a matrix summarising the positive and negative factors associated with each of the above pricing methods from the buyer's perspective.

Figure 5. Matrix showing factors associated with each pricing method

	Output Based	Milestone Payments	Time & Materials	Blended Rate	Bonus Payment	Reducing Price	Gain/ Pain Share	Guaranteed Minimum Income
Fixed costs	✓	✓			✓			
Targets results (clear link to quality/ performance outputs)	✓	✓			✓		✓	✓
Cost/ delivery risk with supplier	✓	✓			✓			✓
Cost/ delivery risk with customer			✓	✓				
Shared cost/ delivery risk						✓	✓	
Focus on short/ medium term outputs	✓	✓				✓		✓
Focus on long term outcomes	✓							✓
Incentivises supplier to deliver to time/ quality	✓	✓			✓	✓	✓	
Incentivises supplier to allocate best resource					✓	✓	✓	
Reliant on clear scoping	✓	✓			✓		✓	
Reliant on robust acceptance criitieria	✓	✓			✓		✓	
Easy to compare/ benchmark			✓	✓	✓			

5 Contract-specific factors to consider

In addition to the previously mentioned market and assignment specific factors, there are additional factors which a buyer may assume are adequately covered by departmental or framework agreement standard terms and conditions but which, nevertheless, affect the final price and therefore deserve some attention. Frequently, it can be in these contract-specific factors where large increases in costs can be found.

5.1 Standard day

Here the costs are allocated on a time and materials basis. Does the contract make it clear what hours constitute a standard day of work?

In return for some flexibility, consultants may agree to work unpaid hours beyond a standard 8-hour day. However the buyer should be clear about the minimum hours the standard day requires and whether this includes travel time, both personal and for work purposes. They may also agree to work longer hours on some days each week in return for greater flexibility, especially if the assignment is away from their home base; the so-called 3/4/5 agreement:

- 3 overnight stays
- 4 long days
- 5th day working from home or base office

5.2 Travel and subsistence expense regime

The cost associated with travel and other expenses should not be underestimated.

It should be clear what rates are to be paid, what policies and booking procedures are to be followed and who benefits from any discounts or rebates that the supplier may receive from travel and hotel operators. It is good practice for standard civil service travel and subsistence rates to apply.

Another point to consider is that of 'double VAT' charging, where consultancies add invoice lines for payment of expenses incurred, (train fares etc), which have already had an element of VAT paid. Subsequently adding this total to the invoice effectively increases the VAT element. By requiring the consultancy to use the departmental travel and accommodation contracts, as well as following departmental procedures, such as the use of first class travel and guidance on when this is appropriate, the risk of paying duplicate VAT should be avoided and costs kept down. Volume discounts will also come direct to the department rather than to the consultancy. However, care should be taken during longer-term assignments, to ensure that any potential employment status issues are addressed.

It is far better practice to reconcile expenses through regular monthly invoicing rather than leaving them until the end of the assignment. The reconciliation of large volumes of expenses at assignment end is notoriously difficult to agree, and it is possible that the client could assume that expenses have been invoiced as part of the monthly charge, but be faced with a large, additional un-budgeted cost at the end of the assignment.

Some consultancies will also seek to obtain the agreement of customers to an expected level of expenses that are invoiced at month end, whether or not actual expenses have been incurred, and here reconciliation will normally occur at assignment end. Similar comments to above apply in that end-of-assignment reconciliation is notoriously difficult.

Occasionally suppliers will propose, as above, a certain level of agreed expenses to be invoiced each month as a fixed sum, but without any reconciliation of actuals at assignment end. The level of expenses in this scenario is generally less than would be the case if actuals were reclaimed. The benefit here to the client is that costs for travel and subsistence are pre-agreed, transparent and with an element of cost savings; for the supplier there is a guaranteed level of reimbursement, which has been presented to the client as a saving, and is therefore a useful negotiation ploy.

5.3 Partner billing

Buyers should ensure that any billing of hours by partners is supported by specific evidence of work carried out. A vague alluding to 'account management' or 'project / team management' is not acceptable as it should be expected that this has already be costed into the supplier's fees.

5.4 Overhead charging

The cost of everything from telephone calls and stationary to support staff should normally be included in the consultancy margin but check to ensure that this is the case.

5.5 Staff substitution and promotion

Contracts should list the names of the staff to be deployed as part of the project. The contract should state how any substitutions or promotions during the engagement would be managed and that substitutions should only be made with the full agreement of the buyer. The buyer should not expect to pay a higher rate as a result of staff promotions during an assignment.

In most consultancies, each consultant will have an individual charge-out rate that will reflect their market value. The substitution of consultants at ostensibly the same grade, may actually be a cost saving measure for the supplier and a lowering of quality for the customer, therefore it is important to ensure that substitutions are managed on a like – for – like basis.

6 Putting it all together

6.1 Knowledge of the supply market

Unlike other categories of spend such as ICT, there is no *right* price when buying consultancy, but a thorough knowledge of:

- the market and the macro factors which influence rates
- the value of the requirement to the supplier and how they see you as the customer
- the supplier and their model of the world
- the contract factors which influence price

will lead to greater ability and confidence to challenge rate card proposals from suppliers, avoiding the need to 'play safe' by relying on high profile and more expensive brands.

6.2 Summary

The following should be the main areas of focus when considering pricing proposals from suppliers:

- the rate-card and the various elements which make it up, along with the grade(s) of the consultant(s) you are buying
- the market; where your requirement might be positioned in relation to it and how this will influence the price
- how the price you are offered may be influenced by a variety of factors specific to the requirement
- alternative pricing mechanisms which could be employed and which could deliver added value
- the contract-specific components which may require some attention to adequately reflect the requirement

7 Contacts

For advice and guidance on any topic included in this document, please contact:

OGC Consultancy Value Programme via OGC Service Desk **0845 000 4999**

Website: www.ogc.gov.uk

For general enquiries and hard copies of the majority of OGC publications, please contact:

OGC Service Desk
0845 000 4999
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Annex 1 Grade requirements

Consultants must possess the following skills and knowledge according to their grade:

Grade	Requirement
Junior consultant	Demonstrable experience in a wide range of projects in their specialist field. Evidence of client facing experience and support services to wider consultancy projects.
Consultant	Notable experience and in-depth knowledge of their specialist field. Evidence of a wide range of consultancy projects and client facing experience. Support work in process and organisational design and leading workshops and events.
Senior consultant	Substantial experience in their specialist field and in a consultancy/training role. Previous experience in project management and working in a wide range of high quality and relevant projects. Familiarity of the issues/problems facing public sector organisations.
Principal consultant	Substantial experience in their specialist field and in a consultancy/training role. Sound knowledge of the public sector and current policy and political issues affecting it. Previous experience in project management on at least three major projects, preferably in the public sector and using the PRINCE2 or equivalent method.
Managing consultant	Substantial experience in their specialist field and in a consultancy role. In depth knowledge of the public sector and of current policy and political issues affecting it. Previous experience in project management on at least five major projects, preferably in the public sector and using the PRINCE2 or equivalent method.
Director / Partner	Extensive experience in their specialist field, in which they are nationally or internationally renowned as an expert. Extensive experience of leading or directing major, complex and business-critical projects; bringing genuine strategic insight. In depth knowledge of the public sector and of current policy and political issues affecting it.

In addition to the above experience, consultants and trainers will be expected to possess relevant accreditation, qualifications and certification applicable to their disciplines.

Annex 2 Example of charging schedules

These examples are included to stimulate thinking and discussion on how alternative pricing models may be structured. The examples should not be used without development and adaptation to suit individual requirements.

A1 Example of Time and Materials-Based Charges Schedule

The charges for the services shall be as follows:

Name of consultant	Grade of consultant	Day rate	Number of days

1. A day shall consist of a minimum of (n) working hours and excludes lunch breaks. Where more hours are worked in a day, only the day rate will be chargeable.
2. The day rate is inclusive of all travel and subsistence costs where the work lies within the M25 ring. Travel and subsistence, including any hotel accommodation for work required outside the M25 ring, shall be in accordance with the authority's travel and subsistence rates.
3. Any travel and subsistence costs shall only be entered into with the prior agreement of the Authority. Any travel and subsistence costs that are incurred without prior agreement shall be the responsibility of the service provider.
4. No increase in the day-rate shall be passed to the authority in the event of a consultant promotion or any other increase in the cost of the consultant.
5. All day rates are VAT exclusive and are in pounds sterling.

A2 Example of blended rate based charges schedule

The charges for the services shall be as follows:

Name of consultant	Grade of consultant	Day rate	Blended rate
A.N. other	Junior consultant	£450	£1035
A.N other	Consultant	£800	£1035
A.N. other	Senior consultant	£1200	£1035
A.N. other	Managing consultant	£1600	£1035
	Principle consultant	£1850	£1035
	Director / Partner	£2200	£1035
Total day rate		£8100	£6210
Notes: Accurate prediction of grade-mix required over the period, careful management required.			

A3 Example of milestone-based charges schedule

The charges for the services shall be as follows:

Milestone description / delivery date	Charge
Milestone 1	£
Milestone 2	£
Milestone 3	£
Notes: Key milestones, timelines against which they will be reached and acceptance criteria should be agreed between the client and the consultant prior to the start of the engagement.	

A4 Example of bonus-payment based charges schedule (as A3 but with associated bonus for early or on-time delivery)

The charges for the services shall be as follows.

The following bonus payment shall be paid to the contractor on completion of the service, in accordance with the acceptance criteria, on or before the completion date:

Milestone description / delivery date	Charge
Milestone 1	£
Milestone 2	£
Milestone 3	£
Bonus payment for successful completion of services on or before completion date	£
Notes: Acceptance criteria should be clearly specified and agreed between the client and consultant, together with the proposed number of consultancy days or agreed completion date.	

A5 Example of reducing-price based charges schedule

The charges for the services shall be as follows:

Name of consultant	Grade of consultant	Agreed target delivery date	Day rate up to X date	Day rate post X date
A.N. other	Senior consultant	31/03/2008	£1200	£1050
A.N. other	Consultant	31/03/2008	£800	£625
A.N other	Junior consultant	31/03/2008	£525	£375
Notes: Day rate reduces by agreed margin if target day slips and assignment completion date is put back.				

A6 Example of gain share / pain share based charges schedule

The charges for the services shall be as follows:

The service provider shall be paid an additional £X for every £Y of savings delivered above the level of £Z. The payment to the service provider shall be reduced by £X for every £Y below the level of £Z.
Notes: Clear agreement required in the specification on how additional savings or losses made will be shared between the client and consultancy.

A7 Example of guaranteed minimum income based charges schedule

The charges for the services shall be as follows:

Grade of consultant	Day rate	Predicted volume of work over X period (days)	Discount applicable to day rate if volume reached	Day rate payable
Junior consultant	£450	200	1.5%	£443
Consultant	£800	200	2.0%	£784
Senior consultant	£1200	150	2.5%	£1170
Managing consultant	£1600	150	3.0%	£1552
Principle consultant	£1850	10	3.0%	£1794
Director / Partner	£2200	10	3.5%	£2123
Notes: Accurate prediction or forecast of work volume over fixed period needed and retrospective adjustments on either side may be required once actual volume has been delivered.				

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OGC Service Desk

OGC customers can contact the central OGC Service Desk about all aspects of OGC business.

The Service Desk will also channel queries to the appropriate second-line support. We look forward to hearing from you.

You can contact the Service Desk 8am – 6pm Monday to Friday

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