

"Remuneration for services rendered – Information sheet on how fees are calculated"

1 Purpose of information sheet

Determining, assessing and negotiating the amount of remuneration¹ to be given to consultants are important steps in the process of awarding SDC mandates. To help through this process, the SDC disposes of legal and operational documents based on a range of federal acts and ordinances.² The Mandates and Contracts Division is responsible for implementing the "SDC Rates Policy" in general and for providing guidance and assistance to SDC employees with the associated processes in particular.

SDC staff responsible for awarding contracts have been asking an increasing number of remuneration-related questions. How are fees determined? Which of the contractor's personnel costs and operating expenses are covered? What criteria are used to classify contractors? Are there any discounts?

The fees (minima and maxima) for the different tasks and for different contract types (mandate for project implementation – PDA, mandate A and mandate B) are defined in the remuneration policy and associated assessment tools.



From the various discussions we realised that SDC employees have little or no knowledge of the economic factors used to calculate the level of remuneration (CHF/hour, CHF/day or CHF/year) requested by the contractor in exchange for services rendered. As a result, the staff involved in internal discussions regarding the determination of the level of remunerations or in negotiations with contractors on the final amounts find the entire exercise to be complex and at times even unpleasant. In extreme cases, the SDC is criticised by outside parties of applying incoherent criteria when classifying contractors.

- This information sheet will provide background information regarding the economic factors used by consultancy firms to calculate the "remuneration for services rendered. This should make this complex subject easier to understand.
- This information sheet is intended **primarily** for SDC staff working within the Mandates and Contracts Division, for heads of SDC Divisions and their employees who are responsible for preparing and issuing mandates.
- This information sheet does not deal with the calculation of fees for local experts. Likewise, the guidelines do not cover the level of remunerations for services rendered by employees of university institutes or other special cases.

Economic factors used to calculate the remuneration of services

A remuneration is a value defined by the company on the basis of its internal costs-accounting. This price represents the cost for the service rendered.

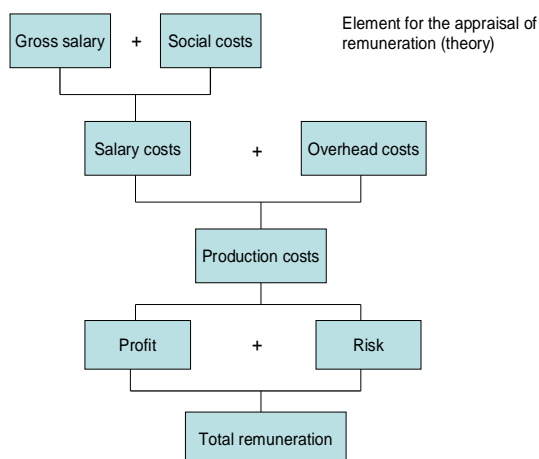
Economically relevant information is used to determine the level of fees to be charged that enables a company to remain competitive while nevertheless covering its costs. In order to avoid misunderstandings, a distinction needs to be drawn between how the information basis is used internally and externally, i.e. between financial accounting³ and internal cost accounting. The latter forms the basis for cost calculations.

¹ Honorar (dt)  honoraire (frz),  fee or remuneration (engl.)

² [https://Intraweb.admin.ch/de/Home/Instrumente/Weisungen und Reglemente](https://Intraweb.admin.ch/de/Home/Instrumente/Weisungen%20und%20Reglemente)

³ Financial accounting is a management tool used to gather data regarding business operations and prepare information for interested parties outside the company (e.g. shareholders, banks, tax authorities, etc.). The company's assets/liability situation is presented in its balance sheet and the company's profit/loss situation is presented in its Profit and Loss Statement. This {internal} information should be presented in such a way as to ensure that interested parties outside the company will have a realistic picture of the company's business operations.

The remuneration refers to the price that a company charges to assign its employees to a given project. As such, the client is charged a fee that corresponds to the service to be rendered and the assigned professional's level of experience. The remuneration is comprised of such things as salary costs, social costs, overhead, profit and risk.



The chart on the left shows the individual economic factors used to determine the amount of the total cost covering fee required. The SDC's Purchasing Unit continuously used the "calculations example" to better understand how remunerations are determined.

An indicative example from the year 2005 is presented below.⁴

<i>Employees' gross salary (wages)</i>	100 %
Employer's social costs	+ 20 %
=> <i>Salary costs</i>	120%
Overhead costs	+ 80 %
=> <i>Production costs</i>	200 %
Profit and risk	+ 30 %
=> Total fee	230 %

â Based on this example, the employees' gross salary would generally need to be multiplied by a factor of 2.3 in order for the entire company to obtain a satisfactory operating result, incl. profit and risk. The real situation is determined by market conditions and is different for each professional category. For example, a comprehensive survey conducted by the Swiss Engineering and Architecture Association (SIA) in 2006 estimated that the overhead charge was 60.1% on average, taking salary costs as the reference into account. In this case, production costs stand at 190%.⁵ This factor is the one currently being used.

The SIA does not have any benchmarks to determine the percentage share of profit and risk in the total remuneration. The level of profit and risk are heavily dependent on the company's competitive position.⁶ For its part, the Federal Administration has established general pay scales / rates for the direct awarding of contract. The SDC applies the rates indicated in the **General Rates for Consultancy Mandates**.

⁴ Source: SDC internal document edited by SUH, date 13 January 2005

⁵ Heavily influenced by such things as the office infrastructure (IT), the type of consultancy services and the economic situation, this percentage is therefore presented as an average figure.

⁶ From the contractor's perspective, fees to be offered are the result of cost accounting, an estimation of the expected course of business and the competitiveness of the given branch. Due to competition, the effective risk to profit ratio needs to be lower, and shows that it is heavily dependent on the economic situation.

The table below provides an overview of the terms and definitions used and the services included in the costs. This table applies to mandates awarded to partners in Switzerland. For mandates awarded to partners abroad (e.g. in the EU), specifically in partner countries, different components are used. â Local cost accounting rules should be applied to determine the appropriate level of remuneration for local experts that match prevailing market conditions in a given country.

Cost factors used to calculate fees / remuneration within a Swiss company

Term	Content	Comments / Explanations
Salary costs	<ul style="list-style-type: none"> Gross salary plus social costs for a person who is not self-employed 	<ul style="list-style-type: none"> Net salary corresponds to the amount that the employee actually receives. The employee's social contributions are withheld at source from the gross salary (see salary statement)
Social costs / payroll taxes	<ul style="list-style-type: none"> Employer's contributions for mandatory insurance coverage Employer's contributions to occupational pension fund Other insurance coverage/labour costs 	<ul style="list-style-type: none"> Old age and survivors' insurance, unemployment insurance, income compensation insurance, disability insurance, non-occupational accident insurance Pension fund Professional liability insurance, sick leave insurance, other risks (e.g. abroad)
Overhead costs	<ul style="list-style-type: none"> Unlike labour costs, overhead costs are not directly attributable to the company's employees. For this reason, overhead costs are often referred to as "indirect costs". Some overhead costs are fixed and cannot be influenced.⁷ Management costs General services Unaccountable expenses and travel costs General administrative costs Occupancy costs Equipment, capital expenditure, maintenance, amortisation Acquisitions, representation, networking, Web site, advertising materials, training new employees Fees, taxes, interest, insurance 	<p>â The following overhead costs are transferred to individual "productive", i.e. "marketable" employees</p> <ul style="list-style-type: none"> Costs for managers, supervisory bodies, etc. must be itemised for each employee Reception, telephone, accounting, wages office Company car, trips made within Switzerland Office supplies, IT equipment, etc., regular external financial audits⁸ Rent, heating, electricity, cleaning Including unsuccessful acquisitions / competition
Profit	<ul style="list-style-type: none"> The target profit is based on a preliminary calculation of the annual budget/turnover 	<ul style="list-style-type: none"> All contractors (including non-profit organisations) use some form of profit calculation. Non-profit organisations also make mention of reserves or provisions
Risk (reserves)	<ul style="list-style-type: none"> Insufficient orders on hand, bad debtors, damage/loss, accidents, sickness, currency risk 	<ul style="list-style-type: none"> A company's financial liquidity can be adversely affected by delays in incoming payments

⁷ Internal management, knowledge management, basic and continuing training, paid holidays â the number of externally accountable hours is an important factor, which explains why fees for individual items (e.g. training) or occupation categories (organisation development advisors, legal experts) are "different". These differences can also be caused by other factors such as the individual workload given to or acquired by company staff. Whereas experts on a long-term mandate will work 100% of the accountable working days/hours per year, short term consultants can easily end up "selling" less than 70%.

⁸ Based on Swiss legislation â specifically, the SDC requires the contractor to commission an external financial audit at the contractor's headquarters. This is a contractual requirement for which the contractor receives compensation in accordance with the provisions of the General Conditions of Business (GCB).

The following table compares number of working days/hours per year for a full-time consultant in Switzerland and abroad.

Item	Switzerland	Abroad
Working days per year	Calendar year ./ Weekends ./ Public holidays => Working days	365 days 104 days 8 days 253 days
Absences:		
Paid holidays	22 days	30 days
Personal: sickness / family	9 days	9 days
Service (military, civil protection)	2 days	-
Basic and continuing training	incl.	4 days
Working days (100%)	220 days	210 days
Number of working hours per year	1,848 hours	1,764 hours

The SIA estimates that its members work 1,840 hours per year for a full-time position. By comparison: the average number of working hours for a federal employee stands at 1,701 hours⁹.

The 1,764 hours indicated for a full-time position abroad correspond to 10.5 months, which is the maximum number of months that the SDC allows for contracts where fees are paid on a monthly basis.

3. Plausible considerations relating to activity-based remuneration

Preliminary remark: In the following paragraphs, only independent consultancy firms governed by private-law are taken into consideration. The SDC and other federal agencies apply their own rules regarding the remuneration of services rendered by employees of consultancy groups that are active in the university sphere (e.g. IFF Fribourg, IHEID Geneva or CDE at the University of Bern). As such, these rules are not directly comparable.

A client, such as the SDC, usually neither knows how a contractor establishes its calculation, nor knows how much the contractor's employees earn. Any attempt to gain a detailed view of the internal cost calculation would be perceived as interference in the salary structure. The SDC's role would become more that of a watchdog and would generate higher control costs. The SDC's GCB for mandates nevertheless contain the necessary accounting and audit instructions, which enable the SDC to gain a closer look at the contractor's calculation (i.e. how the contractor uses its funds) if necessary. In addition, both the SDC and the Swiss Federal Audit Office have a right to examine accounting records¹⁰.

If the contractor would define alone the tariffs, it could be seen as a risk for the Federal administration of paying to high fees and operating structures. To avoid this, the Swiss legislation has provided the Federal Administration with its own competence centre for purchasing, which is complemented by specific coordination offices. Art. 12 of the Federal Ordinance of 22 November 2006 on the Structure of Public Procurement within the Federal Administration (SR 172.056.15, status: 27 December 2006) establishes general fee rates to be used as a guidance: a) when agreeing on the purchase price under the direct awarding of contracts procedure; b) when negotiating with providers.

⁹ Based on a 42-hour workweek; number of working hours per week within the Federal Administration according to statistics published by the Federal Office of Personnel (FOPER): 1,701 hours per year.

¹⁰ Nevertheless, regarding the right of access to internal cost calculations, Art. 5 of the Federal Ordinance of 11 December 1995 on Public Procurement (SR 172.056.11) clearly states the following: "in the absence of competition, the Contractor shall agree to give the Client the right to examine the fee calculation whenever the total value of the mandate exceeds CHF 1 million." Thus, this provision applies only to particular mandates.

The SDC relies on the guidelines issued by the **Federal Coordination Office for Construction and Real Estate (KBOB)** when setting the maximum compensation amounts for all mandates issued under the direct awarding of contracts procedure.¹¹ â **see Guidelines on the Issuing of Mandates.**

It is particularly interesting to compare fee schedules under a project management mandate with similar fee schedules established by KBOB for the year 2008. Such comparison reveals that the “high compensation” paid for “highly challenging tasks” in the area of international cooperation is entirely justified as long as the job and/or project description clearly define what is meant by “highly challenging tasks” and that mechanisms are in place to verify the expected and rendered services in terms of outputs and outcomes.

Managing Director / Consortia manager	CEO, Head of complex projects		A	200
Senior consultant/head local office	Proj. mgr./planner of complex project		B	a 170
Experienced expert > 10 years exper.	Senior engineer with team leading function		C	b 145
Experts with 5 - 10 years experience	(junior) engineer/planner	d	D	c 125
Head of admin. & finance	Head admin./technician	f	E	d 105
Administrator / back office staff	Secretariat	g	F	e 95
	Support personnel		G	85

Fee categories 1- 3 take the complexity of tasks into account

These considerations apply to mandates that are budgeted according to the number of working days and/or hours. They cannot be directly applied to long-term mandates since the contractor's production costs are composed differently.

4. Considerations relating to fees paid for long-term mandates

â Preliminary remark: The budgets for **long-term mandates** are too high to allow a direct awarding procedure (exception: follow-up phases provided that certain conditions apply). The accuracy of these costs must be verified through a call for tenders procedure.

When determining the remuneration to be paid to experts on a long-term mandate, one must always ask the question of whether the daily rates applied for similar tasks in Switzerland should be used as the basis for calculation. There are mainly two aspects that need to be considered.

The detailed budget structure of the project enables one to determine whether the office infrastructure costs (e.g. occupancy rates, general and administrative services) of experts on a long-term mandate¹² are provided separately by the project (whether it be within the framework of a project implementation unit (PIU) or service rendered by a partner). If this is the case then the overhead costs attributed to the long-term experts should be reduced accordingly. As a rule of thumb and taking the overhead guidelines published by the Federal Administration as a benchmark, office-associated infrastructure costs amount for about 10% to 20% of salary costs.

For long – term assignments it is difficult to evaluate the percentage of the overhead that can be associated to the management costs related to technical and administrative supervision and coaching of the long-term experts in the field by the home office management. However, it is relatively difficult to justify a reduction on the basis of comparable figures. It can also be argued that other development agencies (WB, GTZ), are somewhat more generous. In absolute terms, the fees paid to experts on a long-term mandate would seem, at first glance, to justify this assertion. These agencies nevertheless do

¹¹ **Important:** In open, selective calls for tender, fees are determined on the basis of *economic competition among the various providers*. Therefore the proposed remuneration of that bid becomes decisive to which the contract is awarded The provider's bid is also used for all subsequent contracts. [...] The **calculation of the fees to be offered in a bid** is generally left to the provider. Hence, a clear and precise description of the services to be rendered is extremely important for all parties involved and ensures maximum diligence. If necessary, the corresponding tender documents may be established in a separate mandate.

¹² For a full-time position, the SDC bases itself on the premise that the maximum threshold per year corresponds to 10.5 monthly payments (equals 1,764 hours per year) for the specific services rendered by the employee in question. For accounting purposes, a working month corresponds to 168 working hours or 21 working days, accordingly.

not provide funding for a separate “*backstopping for the supervision of staff in the field*”. The SDC’s position in the case of a project implementation mandate is to pay for services rendered by headquarters personnel who play a supervisory role for the implementation of the mandate. Nevertheless, the supervisory role must be defined by Terms of Reference and be agreed upon during project preparation by the partners concerned (SDC and the host Government or any other institution that will benefit of the Swiss support).

Both aspects need to be considered. The procedure might look like this:

- ⇒ During negotiations (during call for tender procedure as well as for follow-up phases), the contractor must be made to understand that they should not directly extrapolate Swiss hourly and/or daily rates to long-term mandates, since this would not be an economically “correct” approach.
- ⇒ Based on the SDC’s remuneration policy, the rates for long-term mandates should be 10%-15% lower than the rates for short-term mandates [e.g. annual costs {CHF} = 0.9* the specific hourly rate {CHF/hour}*160 {hours/month}*10.5 {months}].
- ⇒ The argument that playing a supervisory role is time-consuming and therefore not subject to a discount should be examined in light of two aspects i) justification of charging additional office infrastructure costs attributable to a “job abroad” and ii) the volume of supervisory work.
- ⇒ The proposed discount for office costs applied to rates for long-term mandates are usually “compensated” by separate PIUs or similar structures that are funded by the project (i.e. should not pay office infrastructure costs twice).
- ⇒ Supervisory work must be assessed on the basis of the type of project managers that the contractor assigns to the project. Here, fees for experts on a long-term mandate should not be allowed to “inflate”. Only “head office costs” that are strictly necessary and plausible for the project partner should be accepted. They must be supported by written ToRs for those functions.