

Good Practice Guide

Evaluating fees in the engagement of consultants and contractors

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Title: Good Practice Guide – Evaluating fees in the engagement of consultants and contractors

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Contact:

Department of Treasury and Finance
Procurement and Property Branch
GPO Box 147
Hobart Tasmania 7001 Australia
Telephone: 6166 4444
Email: purchasing@treasury.tas.gov.au
Website: www.purchasing.tas.gov.au.

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Purpose of this Guide

The purpose of this Guide is to assist State Government agencies in achieving best value for money, by providing guidance for requesting comprehensive and specific details of fees and methods for evaluating the total cost to Government when engaging consultants and contractors to provide services.

This Guide is not intended to be prescriptive, but to act as a guide for administering best procurement practice and is to be adopted by agencies where practical.

This Guide should be read in conjunction with the Treasurer's Instructions:

- I101 *Procurement Principles: goods and services*; and
- I102 *International Obligations: goods and services*.

For definitions of a 'consultant' and a 'contractor', please refer to the Treasurer's Instruction I113, *Engagement and use of contractors: goods and services*, located on the [Treasury website](#).

This Guide does not apply to the procurement of building and construction/roads and bridges. Guidance information on building and construction/roads and bridges consultants is contained in the *PPM – Best Practice for the Engagement of Consultants* guide, located on the Buying for Government section of www.purchasing.tas.gov.au.

Overview of the Procurement Principles

Agencies must comply with the following four principles when undertaking Tasmanian Government purchasing processes:

- Value for money;
- Open and effective competition;
- Conducting purchasing activities ethically and in accordance with a code of conduct; and
- Enhancing opportunities for local business.

Tasmanian Government purchasing is conducted by encouraging fair and open competition between suppliers, with the objective of achieving value for money. Value for money means getting the desired outcome at the best possible price. This does not necessarily mean choosing the cheapest price, nor does it necessarily mean choosing the proposal with the "most on offer", particularly if this involves provisions in excess of requirements at greater cost.

Government buyers must behave ethically and comply with a code of conduct. They must also enhance opportunities for local businesses by ensuring that suppliers that wish to do business with the Government are given the opportunity to do so.

For guidance relating to the procurement principles, please visit the Purchasing website at www.purchasing.tas.gov.au.

Principles of Evaluating Fees

Primary Objective

The primary objective of seeking and evaluating quotations/tenders is identifying the offer that meets the agency's requirements and provides the best value for money.

To achieve best value for money, good procurement practice ensures that, where possible, all out-of-pocket and incidental expenses are included in the quotation/tender price and then specified in the conditions of contract. If all costs, including out-of-pockets, are not specified in the conditions of contract, these can quickly grow to outweigh the benefits, particularly with such expenses as airfares, accommodation and meals.

Agreeing to a firm price will ensure that the full costs are reflected in the purchasing decision and encourage all suppliers to price more openly and competitively.



Remember that quotations/tenders must be fairly and equitably evaluated in a manner that is consistent with the Government's procurement principles.

Methodology

When evaluating quotes or tenders for services to be delivered by contractors and consultants, it is critical that an objective comparison of prices is undertaken. Therefore, where possible, agencies should stipulate a format and the content of the costing requirements to ensure that all proposals submitted for any quotation/tender are based on the same pricing structure. For example, by specifying responses be based on hourly/daily rates or setting a rate for other expenses (such as stipulating the use of the standard public sector allowance rates).

The following methods should be used by agencies when requesting quotations/tenders.

Fixed Fees

Fees usually consist of two parts: a professional fee and out-of-pocket/incidental expenses. Ideally, where possible, consultants/contractors should provide the full cost (ie fees plus all anticipated additional costs).

To assist in assessing value for money, all proposals should provide a breakdown of the total cost, including the fee, based on the hourly or daily rate, an estimation of the time required and a breakdown of all other costs (eg accommodation, travel, taxis).

✓ Good Example:

A & B Consultancy	
Item	Amount (\$)
Daily Fee (\$840 per day x 10 days)	8 400.00
Airfares (2 trips)	600.00
Taxi (4 trips)	200.00
Total Cost	\$9 200.00

✗ Bad Example:

Y & Z Consultancy	
Item	Amount (\$)
Daily Fee plus Expenses	9 000.00
Total Cost	\$9 000.00

Set Rates

If it is not possible to accurately estimate the time required, the quotation/tender documentation should specify hourly rates as agreed between the parties with a maximum cost specified. For example, initially a consultant quotes for three visits at \$X fee per hour, \$Y for accommodation and \$Z for airfares. If more visits are required, the number of visits/time will be as agreed with the agency and at the following rates of: \$X fee per hour, \$Y for accommodation and \$Z for airfares (to a maximum of \$A). This approach facilitates an equitable comparison of all suppliers.

Schedule of Fees

Whenever a 'schedule of fees' is requested as part of a procurement process, it is important that the costing provided can be equitably assessed during the evaluation process. In addition to the guidelines provided above, when dealing with additional charges other matters that should be included for consideration are as follows:

- Indexation (for further information, please refer to the section 'out of pocket and incidental expenses' below).
- Presentation: The request for quotation/tender should include a detailed example table/schedule for the consultant to complete, to ensure that fees/expenses are easily compared during the evaluation process.

✓ Good Example:

A & B Consultancy	
Schedule of Fees	
<i>Consultancy Rates</i>	
Principal Consultant (per hour)	\$200.00
Senior Consultant (per hour)	\$160.00
Consultant (per hour)	\$120.00
<i>Other Expenses</i>	
Airfares (per trip)	\$150.00
Taxi (per trip)	\$50.00
Accommodation (per night)	\$100.00
General Administration (per hour)	\$20.00

✗ Bad Example:

Y & Z Consultancy	
Schedule of Fees	
<i>Consultancy Rates</i>	
Principal Consultant (per hour)	\$160.00
Senior Consultant (per hour)	\$120.00
Consultant (per hour)	\$100.00
<i>Other Expenses</i>	
Plus miscellaneous expenses	



Remember that the final procurement decision must be able to withstand public scrutiny.

Out-of-Pocket and Incidental Expenses

To achieve best value for money, agencies should where possible stipulate that an estimate of out-of-pockets and other incidentals is to be provided in the submission. This will require the supplier to determine, and specifically quote, staffing, travel expenses and other incidentals at the time of quoting for the task. This will result in a full cost of supply being provided by all proposals during the evaluation process, thereby:

- 1) allowing an equitable evaluation between all proposals; and
- 2) ensuring that costs are not higher than expected due to unexpected out-of-pockets during the execution of the contract.

To further pursue value for money, where possible, agencies should stipulate that out-of-pocket expenses be at a similar standard and at a comparable cost to those for government employees (public sector allowance rates). Public sector allowance rates are contained in the Tasmanian State Service Award 2008 (or latest) and can be located at www.dpac.tas.gov.au>Divisions>State Service Management Office>Awards and Agreements>The Tasmanian State Service Award. If agencies refer to the public sector allowance rates, it is recommended that the relevant rates be provided in the RFQ/RFT documentation. (Note: Rates under the Award are to be adjusted from 1 July each year. Therefore it is important to ensure that you have located the latest rate in the “All Award documents and related Orders affecting the Award” section of that website).

Where it is not possible to stipulate that out-of-pocket expenses be at a similar standard and at a comparable cost to those for government employees, every attempt should be made to keep additional costs to a minimum, for example:

- **Airfare Expenses**

Airfare expenses should be comparable to discounted economy airfares.

- **Transport Expenses**

Where public transportation is not practical, prices of local taxi rates and standard size rental car charges should be used.

- **Accommodation Expenses**

Accommodation expenses should be comparable to the standard accommodation rates.

- **Meal Expenses**

Meal expenses should be comparable to the cost of meals being consumed in the accommodation establishment.

- **Indexation**

Annual price variations should be agreed and set to a reliable and fair rate (eg the Consumer Price Index (CPI), City of Hobart).



Remember that good procurement practice is to include the full cost (including out-of-pocket and incidental expenses) in the conditions of contract prior to awarding a contract.

Procurement and Property Branch – Contacts

For advice relating to goods and services procurement, contact:

The Procurement and Risk Management Unit
Department of Treasury and Finance
Deeds Building
21 Murray Street
HOBART TAS 7000
(GPO Box 147, Hobart, Tas. 7001)

 (03) 6166 4218

 purchasing@treasury.tas.gov.au

 (03) 6233 3681

For advice relating to the Tenders website or the Purchasing website, contact:

 (03) 6166 4100

 tenders@treasury.tas.gov.au

 (03) 6233 3681