

OPERATING INSTRUCTIONS

ChangeRate.xls

The *ChangeRate.xls* spreadsheet uses the practice's costs, personnel and chargeable time levels to calculate a set of hourly charge rates which should deliver the required revenue to the practice.

The spreadsheet runs under Excel 97 or higher. Most of it is password protected to limit the parts that you can change. The cells open to you are the yellow ones, which will accept some form of number from you.

Click on the tab guide visible at the base of your screen to get access to each section or step.

Each sheet contains comments embedded into some cells, which explain or give a little more detail about the piece of information that is being sought. You can do one of the following:

- See all comments on-screen at once, by using the 'View Comments' function. This icon lets you turn the viewing of all comments either on or off. It is recommended that you leave them off most of the time, as they will unnecessarily clutter the screen.
- Instead, it is recommended that you read the individual comments by simply placing the cursor somewhere over a cell. The cells with comments are highlighted by having a small red triangle appear in their top right-hand corner.

Step 1

Step 1 involves listing each person who works in your practice. Personnel are divided into types such as principals, managers and graduates/seniors/intermediates.

- On each line, enter:
 - a person's name or initials;
 - the number of hours they work in a week, typically 37.5 for full-timers, and also enter the standard number of hours worked by part-timers;
 - the percentage chargeable time that you expect each person to achieve; and
 - the gross annual salary package that each person earns.
- If you find there are insufficient lines for a group of personnel, you could combine people on a single line. For example, enter 'Fred/Harry' in the name column; 75 hours in the 'hours per week' column; 55 per cent or whatever chargeable time you expect from both of them; and their total salaries per annum.
- Make sure that the annual salary for the principals is a fair market rate. That might be the same figure as your existing gross wage or drawings from the practice. It should be at least as high as the most senior employee on staff and should reflect the seniority, skill and time commitment of each principal. It is unlikely that it would be less than \$80 000 per annum, and could well be higher.
- From this data, a series of calculations are made:
 - The total effective number of working hours per person per year, based on a year with 44 weeks (this assumes that every person takes four weeks' annual leave, two weeks' statutory holidays, one week's professional development and one week's sick leave). Even if your people do not all take the full five days of sick leave, it is still a good idea to do these calculations as if they do. It might slightly inflate your charge rate, but there will be years in which you will experience a lot of sick leave in the practice.
 - The number of chargeable hours, based on your chargeable time percentage and the total hours worked.
 - A base cost of chargeable hours, which is obtained by multiplying the effective hourly cost per hour by the number of chargeable hours. This is an important part of the calculation later. It tells you the real wage cost for just the hours that your people charge to clients. In effect, it is giving you the salary cost of the production base of the practice.
 - We total some of these numbers.

Step 2

Step 2 involves setting a targeted practice revenue. This is the fee level necessary to pay all the salaries, including the fair market salary of each principal, plus the non-salary overheads. To these figures is added a profit margin which compensates the principal for their investment in the practice, and the overall professional and commercial risk in the practice. This profit margin figure might be based on perhaps 15 per cent to 25 per cent return on the equity in the practice, possibly with an additional dollar value figure on top. The sum of the fair market salary plus this profit margin is the total profit that each principal wishes to earn from the practice.

Step 3

Step 3 is the calculation of the overhead multiplier itself. It takes the total desired fees from Step 2, and divides it by the base cost of chargeable time. In essence, it is this base cost which must be increased by a multiple in order to deliver the total revenue sought by the practice. This figure will probably fall in a range between 2.5 and 4.5 times the raw salary cost. A result around 3 is fairly common.

Step 4

Step 4 applies that multiple to the base hourly cost of each person, to derive an hourly rate for each person.

A few other comments might help at this stage:

- You might have several people who all have similar qualifications and experience, but who might be paid slightly different amounts. In this case, you might want to simply use a single rate for those people. If so, you then average the actual hourly rates calculated in Step 4. Alternatively, pick the middle rate, or perhaps even the highest rate. Using the lowest rate will automatically reduce the targeted profit level, so it is not a good idea to use that.
- You might also want to round the figure. If so, think about rounding up to the next dollar, or perhaps even to the next \$5. Again, rounding down will reduce the targeted profit.
- Remember that we have made no allowance at all in this calculation for write-offs. For this reason, you might want to increase these raw figures by your estimated or historical write-down percentage.
- You will also need to increase the final rates to add the GST component.

As a small reality check, do not forget to test these calculated rates with some local market rate for, say, the principals and the seniors. If your rates are much higher than your local market, you could risk losing clients over your pricing. If you find that your calculated rate is well above the market, you should re-visit some key assumptions, such as wage rates, cost structure, hours worked and the chargeable percentage.

Once you have entered some figures and fine-tuned them, you can print each page of the spreadsheet. Use the 'Print Preview' function first to make sure that they will fit to a page. Several individual sheets use more than one page when they print out, but they have been set up to let you 'Print Active Sheet' using the standard Excel function.

We recommend that you use a colour printer due to the extensive use of colours in the sheets themselves. Black and white prints have headings which are difficult to read.

Save your work regularly. We recommend that you open the original file, then immediately save it with a different filename. This keeps the original intact, in case you need to start again. Also, think about whether you want to create separate versions of your work. If so, devise a file-naming approach such as 'Plan01.xls', 'Plan02.xls', 'Plan03.xls'.