

Factor price index for consulting services – K84

K84 was developed by the Swedish Federation of Consultants and the Swedish Association of Architects. It measures the changes in costs of consulting companies. With the index, fixed fees, excluding value added taxes, for consulting services can be regulated over time.

The index is calculated on a monthly basis and refers to cost levels on the 1:st of the respective month. For technical reasons the index can only be published at the end of the month.

The index is divided into four main groups, with the following weights in January 1: st 1984:

Salary costs		49.0
Social charges		25.0
General expenses		19.0
	- Facility costs	7.0
	- Remaining costs	12.0
Capital costs		7.0
	- for interest	2.0
	- for write-offs, equity, and taxes	5.0
K84 (1984-01-01)		<u>100.0</u>

The costs change with the following factors:

Salary costs are adjusted according to the agreed salary increase in the collective agreements (usually in April). Wage drifts (differences in real and agreed change) are adjusted afterwards when the figures are known (usually in February).

Social charges, defined by the parliament and the collective agreements, are adjusted in January, when parliament sets the social charges for the coming year.

General expenses are adjusted on a monthly basis according to the consumer price index (KPI).

Capital costs change with the reference rate defined by the Swedish central bank, and can be changed in January and July.

Rules of application

Division of fixed compensation

If the fixed compensation is invoiced monthly, the index is also regulated monthly. The index regulation is calculated for the month the work was carried out.

If invoicing is made in any other way, the method for index regulation must be agreed upon by the parties in question.

Index regulation

The index-regulated compensation or fee is calculated monthly with the quotient between the months in question [i_n] and the reference month [i_o] (time of agreement = basmånad in Swedish).

$$K_n = A_n * i_n / i_o$$

Where;

K_n = index regulated fee

A_n = agreed fee for the period

i_n = index figure for the month in question (when work is done)

i_o = index figure for the reference month (the month to compare with)

The index-number the month of the tender, or agreement, is considered reference-index if nothing else is agreed upon.

At the time of a tender or agreement cost levels may be unclear, for example if a coming collective agreement will bring retroactive effects. The index number the month of the last known cost level may then be used as reference index.

In these cases, it is appropriate to use the following text in tenders and agreements:

“Index regulation is made according to ‘faktorprisindex för konsulttjänster - K84’. Reference month is.....20....”

Index numbers in K84 are expressed with one decimal. The quotient between two index numbers is calculated with three decimals.

If a regulation results in a lower compensation/fee than the agreed fee, there is no reimbursement of this surplus.

K84 is not intended to be used in calculations of cost changes due to delays between agreed and real starting dates, unless agreed upon.

Application example

A project has a fixed fee of 700000 over a period of time, and will be regulated monthly for cost changes.

1985										
Month	march	april	may	june	july	august	september	october	november	december
Index	108,4	108,5	108,7	115	15,3	115,6	115,9	115,8	116,1	116,3
1986										
Month	january	february	march	april	may	june	july	august	september	october
Index	118	118,2	118,4	118,6	118,7	124	124,1	124,3	124,5	124,8

The month of the tender, May 1985, is the reference month.

$$i_0 = i_{\text{may}} = 108,7$$

Index regulation; invoicing is made monthly.

	Work is carried out	Agreed fee for period	i_n/i_0		Indexregulated fee (K_n)
1985					
	aug		$115,6/108,7$	1,063	
	sept	30000	$115,9/108,7$	1,066	31890
	oct	40000	$115,8/108,7$	1,065	42640
	nov	50000	$116,1/108,7$	1,068	53250
	dec	50000	$116,3/108,7$	1,070	53400
1986					
	jan	30000	$118,0/108,7$	1,086	32100
	feb	30000	$118,2/108,7$	1,087	32580
	march	50000	$118,4/108,7$	1,089	54350
	april	90000	$118,6/108,7$	1,091	98010
	may	90000	$118,7/108,7$	1,092	98190
	june	100000	$124,0/108,7$	1,141	109200
	july	50000	$124,1/108,7$	1,142	57050
	aug	10000	$124,3/108,7$	1,144	11420
	sept	40000	$124,5/108,7$	1,145	45760
	oct	40000			45800
	Sum:	700000			765640