

## Overheads and margins in Ordered Work

### Background

Transport for NSW is committed to demonstrate an efficient and 'value for money' service through the effective use of resources. A recent review of the Ordered Work component of the services revealed a highly disparate proportion in the overheads charged by some Councils.

It is recognised that overheads amongst Councils may vary for valid reasons; however, in some cases the high overhead cost may be attributed to incorrect accounting procedures.

This newsletter intends to clarify the accounting process and re-iterates the contractual requirements for the *Ordered Work* pricing structure

### Pricing Ordered Work

Clause 8.5 of the RMCC Guidelines, which is an essential companion document of the contract, defines that Councils may price the *Work Orders* on any basis which is agreed to by RTA and which is suitable having regard to the nature of the work; typically:

- Lump Sum
- Schedule of rates
- Reimbursement of actual cost

In keeping with the price transparency theme of the RMCC Guidelines, Clause 8.5(c) requires that the *Ordered Work* price submitted by Council for approval must separately identify the estimated Direct Costs, Indirect Costs and the Margin.

Clause 8.5(d) of the same document further clarifies that the pricing of *Ordered Work* is to be based on the assumption of dry weather rather than the inclusion of contingencies in advance. Wet weather variations and claims have been discussed in Newsletter No. 8 dated 24 February 2011.

### Direct Costs

Direct costs are those that are directly expended in performing the Ordered Work such as plant, material, and labour costs and also include any insurance excess under the PAI scheme.

### Indirect Costs

Indirect costs are those which are expended indirectly in the performance of the services such as site supervision, depot costs, management costs, administration costs etc.

### Margin

The *Ordered Work* margin is the additional mark-up for estimating risk or rework and should not include any contingency for wet weather. The margin should also be a minimal amount and not necessarily an inclusion in the pricing of every project.

### Overheads

Overheads is the general term used for the sum of Indirect Costs and the margin; however, as required by the contract these are to be identified separately.

### Conclusion

The above clarification intends to remove any ambiguities in the accounting processes of *Ordered Work* which will help to demonstrate to Government that the current RMCC is an effective and competitive maintenance delivery mechanism.

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Steve Dunlop  
(A) General Manager, Infrastructure Asset Management  
Branch