



# Definition of Prime Cost of Daywork Carried Out Under A Building Contract

Third Edition

The Royal Institution of Chartered Surveyors

and

The Construction Confederation



CONSTRUCTION CONFEDERATION

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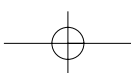
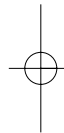
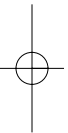
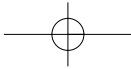
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# Introduction

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This new edition of the Definition includes two options for dealing with the prime cost of labour.

Option 'A' - Percentage Addition, is based upon the traditional method of pricing labour in daywork, and allows for a percentage addition to be made for incidental costs, overheads and profit, to the prime cost of labour applicable at the time the daywork is carried out.

Option 'B' – All Inclusive Rates, includes not only the prime cost of labour but also includes an allowance for incidental costs, overheads and profit. The all-inclusive rates are deemed to be fixed for the period of the contract. However, where a fluctuating price contract is used, or where the rates in the contract are to be index-linked, the all-inclusive rates shall be adjusted by a suitable index in accordance with the contract conditions.

Model documentation, intended for inclusion in a building contract, is included in Appendix A, which illustrates how the Definition of Prime Cost may be applied in practice.

Example calculations of the Prime Cost of Labour in Daywork are given in Appendix B.

## Section 1

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### Application

- 1.1 This Definition provides a basis for the valuation of daywork executed under such building contracts as provide for its use.
- 1.2 It is not applicable in the case of daywork executed after the date of practical completion.
- 1.3 It is applicable to works carried out incidental to contract work but may not be deemed appropriate for use in 'daywork only' work or work carried out on an 'hourly' basis only, for which the 'Definition of Prime Cost of Building Works of a Jobbing or Maintenance Character' may be more suitable.
- 1.4 The terms 'contract' and 'contractor' herein shall be read as 'sub-contract' and 'sub-contractor' as applicable.
- 1.5 Dayworks are to be calculated by reference to the rate(s) current and prevailing on the day the work is carried out, except where Option 'B' for labour is used which may be adjusted by a suitable index in accordance with the contract conditions.

## Section 2

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### Composition of Total Charges

- 2.1 The prime cost of daywork comprises the sum of the following costs:
  - 2.1.1. Labour as defined in Section 3.
  - 2.1.2. Materials and goods as defined in Section 4.
  - 2.1.3. Plant as defined in Section 5.
- 2.2 Incidental costs, overheads and profit as defined in Section 6, as provided in the building contract and expressed therein as percentage adjustments, are applicable to each of 2.1.1 (Option A for Labour – Section 3) – 2.1.3. NB: If using Option B for the labour element of prime cost in Section 3, incidental costs, overheads and profit are deemed to be included.

## Section 3

### Labour

#### Option A – Percentage Addition

- 3.1 The prime cost of labour is defined in 3.5. Incidental costs, overheads and profit should be added as defined in Section 6.
- 3.2 The standard wage rates, payments and expenses referred to below and the standard working hours referred to in 3.3 are those laid down for the time being in the rules or decisions of the Construction Industry Joint Council (CIJC) and the terms of the Building and Civil Engineering Benefits Scheme (managed by Building and Civil Engineering Holidays Scheme Management Ltd) applicable to the works, or the rules or decisions or agreements of such body, other than the CIJC, as may be applicable relating to the grade and type of operative concerned at the time when and in the area where the daywork is executed.
- 3.3 Hourly base rates for labour are computed by dividing the annual prime cost of labour, based upon standard working hours and as defined in 3.5, by the number of standard working hours per annum (see Example 1 on page 15).
- 3.4 The hourly rates computed in accordance with 3.3 shall be applied in respect of the time actually spent by operatives directly engaged on daywork, including those operating mechanical plant and transport and erecting and dismantling other plant (unless otherwise expressly provided in the building contract) and handling and distributing the materials and goods used in the daywork.
- 3.5 The annual prime cost of labour comprises the following:
  - (a) Standard or guaranteed minimum weekly earnings.\*
  - (b) All other guaranteed minimum payments (unless included in Section 6).\*
  - (c) Differentials or extra payments in respect of skill, responsibility, discomfort, inconvenience or risk (excluding those in respect of supervisory responsibility – see 3.6).\*
  - (d) Payments in respect of public holidays.
  - (e) Any amounts which may become payable by the Contractor to or in respect of operatives arising from the operation of the rules or decisions referred to in 3.2 which are not provided for in 3.5 (a) – (d) or in Section 6.\*
  - (f) Employer's contributions to industry's annual holiday with pay scheme or payment in lieu thereof.
  - (g) Employer's contributions to industry's welfare benefits scheme or payments in lieu thereof.
  - (h) Employer's National Insurance contributions applicable to 3.5 (a)-(g).\*
  - (i) Any contribution, levy or tax imposed by statute, payable by the Contractor in his capacity as an employer, or compliance with any legislation which has a direct affect on the cost of labour.\*

- 3.6 Differentials or extra payments in respect of supervisory responsibility are excluded from the annual prime cost (see Section 6). The time of supervisory staff such as principals, foremen, gangers, leading hands and the like, when working manually, is admissible under this Section only at the appropriate standard/normal rates for the grade of operative suitable for the operation concerned.
- 3.7 An example calculation of a typical standard hourly base rate is provided in Example 1 on page 15.

### Non-Productive Overtime

- 3.8 \* The prime cost for non-productive overtime should be based only on the hourly payments for items marked with an asterisk in 3.5. #
- 3.9 An example calculation of a typical non-productive overtime rate is provided in Example 2 on page 16.

### Option B – All-Inclusive Rates

- 3.10 The prime cost of labour is based on the all-inclusive rates for labour provided for in the building contract. The all-inclusive rates are to include all costs associated with employing the labour including all items listed in 3.5.
- 3.11 The all-inclusive hourly rates are also to include all costs, fixed and time related charges, overheads and profit (as defined in Section 6) in connection with labour.
- 3.12 The all-inclusive hourly rates shall be applied in respect of the time actually spent by operatives directly engaged on daywork, including those operating mechanical plant and transport and erecting and dismantling other plant (unless otherwise expressly provided in the building contract) and handling and distributing the materials and goods used in the daywork.
- 3.13 The time of supervisory staff, such as principals, foremen, gangers, leading hands and the like, when working manually, is admissible under this Section only at the appropriate all-inclusive hourly rates for the grade of operative suitable for the operation concerned. Any extra payment in respect of supervisory responsibility is not allowable.
- 3.14 The all-inclusive rates are deemed to be fixed for the period of the contract. However, where a fluctuating price contract is used, or where the rates in the contract are to be index-linked, the all-inclusive rates shall be adjusted by a suitable index in accordance with the contract conditions.

### Non-Productive Overtime

- 3.15 Allowance for non-productive overtime should be made in accordance with the Model Documentation included in Appendix A.#

# The additional cost of non-productive overtime, where specifically ordered by the Architect/Supervising Officer/Contract Administrator/Employer's Agent, shall only be chargeable on the terms of prior written agreement between the parties to the building contract.



## Section 4

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### Materials and Goods

- 4.1 The prime cost of materials and goods obtained specifically for the daywork is the invoice cost after deducting all trade discounts and any portion of cash discounts in excess of 5%, plus any appropriate handling and delivery charges.
- 4.2 The prime cost of materials and goods supplied from the Contractor's stock is based upon current market prices after deducting all trade discounts and any portion of cash discounts in excess of 5%, plus any appropriate handling charges.
- 4.3 Any Value Added Tax which is treated, or is capable of being treated, as input tax (as defined in the Finance Act, 1972, or any re-enactment or amendment thereof or substitution therefor) by the Contractor is excluded, for the purposes of calculation.

## Section 5

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### Plant

- 5.1 Unless otherwise stated in the building contract, the prime cost of plant comprises the cost of the following:
  - (a) Use or hire of mechanically operated plant and transport for the time employed/engaged for the daywork.
  - (b) Use of non-mechanical plant (excluding non-mechanical hand tools) for the time employed/engaged for the daywork.
  - (c) Transport/delivery to and from site and erection and dismantling where applicable.
  - (d) Qualified professional operators (e.g. crane drivers) not employed by the contractor (see 5.5 below).
- 5.2 Where plant is hired, the prime cost of plant shall be the invoice cost after deducting all trade discounts and any portion of cash discount in excess of 5%.
- 5.3 Where plant is not hired, the prime cost of plant shall be calculated in accordance with the latest edition of the Royal Institution of Chartered Surveyors' (RICS) Schedule of Basic Plant Charges for Use in Connection with Daywork Under a Building Contract.
- 5.4 The use of non-mechanical hand tools and of erected scaffolding, staging, trestles or the like is excluded (see Section 6).
- 5.5 Where hired or other plant is operated by the Contractor's operatives, the operatives time is to be included under Section 3 unless otherwise provided in the contract.
- 5.6 Any Value Added Tax which is treated, or is capable of being treated, as input tax (as defined in the Finance Act, 1972, or any re-enactment or amendment thereof or substitution therefor) by the Contractor is excluded, for the purposes of calculation.

## Section 6

### Incidental Costs, Overheads and Profit

- 6.1 The percentage adjustments provided in the building contract, which are applicable to each of the totals of Sections 3 (Option A), 4 and 5, include the following: ##
- (a) Head Office charges.
  - (b) Site staff including site supervision.
  - (c) The additional cost of overtime (other than that referred to in ##).
  - (d) Time lost due to inclement weather.
  - (e) The additional cost of bonuses and all other incentive payments in excess of any guaranteed minimum included in 3.5 (a).
  - (f) Apprentices study time.
  - (g) Subsistence, lodging and periodic allowances.
  - (h) Fares and travelling allowances.
  - (i) Sick pay or insurance in respect thereof.
  - (j) Third party and employer's liability insurance.
  - (k) Liability in respect of redundancy payments to employees.
  - (l) Employer's National Insurance contributions not included in Section 3.5.
  - (m) Tool allowances.
  - (n) Use and maintenance of non-mechanical hand tools.
  - (o) Use of erected scaffolding, staging, trestles or the like.
  - (p) Use of tarpaulins, plastic sheeting or the like, all necessary protective clothing, artificial lighting, safety and welfare facilities, storage and the like that may be available on the site.
  - (q) Any variation to basic rates required by the Contractor in cases where the building contract provides for the use of a specified schedule of basic plant charges (to the extent that no other provision is made for such variation – see Section 5).
  - (r) All other liabilities and obligations whatsoever not specifically referred to in this Section nor chargeable under any other section.
  - (s) Any variation in welfare/pension payments from industry standard.
  - (t) Profit (including main contractor's profit as appropriate).

### Non-Productive Overtime

- 6.2 When calculating the percentage adjustment for incidental costs, overheads and profit, if the Option A calculation of the prime cost of labour is prescribed in the contract, it should be borne in mind that not all items listed in 6.1 are necessarily applicable to non-productive overtime. When Option B is prescribed, non-productive overtime should be shown separately in the contract documents as detailed in the Model Documentation in Appendix A.

## The additional cost of non-productive overtime, where specifically ordered by the Architect/Supervising Officer/Contract Administrator/Employer's Agent, shall only be chargeable on the terms of prior written agreement between the parties to the building contract.

## Appendix A

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### Model Documentation for Inclusion in a Building Contract

This model document is included to illustrate how the Definition of Prime Cost may be applied in practice. It does not form part of the Definition. It is, however, in a form agreed between the RICS and the Construction Confederation and its use in this form amended only as required to suit the specific building contract is encouraged.

### Where using Option A for Labour

#### Dayworks

The Contractor will be paid as defined below for the cost of works carried out as daywork in accordance with the building contract.

For building works, the prime cost of daywork will be calculated in accordance with the latest *Definition of Prime Cost of Daywork Carried Out Under a Building Contract, (State edition\_\_\_\_\_)* published by the Royal Institution of Chartered Surveyors and the Construction Confederation.

For electrical works, the prime cost of daywork will be calculated in accordance with the latest *Definition of Prime Cost of Daywork Carried Out Under an Electrical Contract, (State edition\_\_\_\_\_)* published by the Royal Institution of Chartered Surveyors, the Electrical Contractors' Association and 'SELECT' the Electrical Contractors' Association of Scotland.

For heating and ventilating work etc, the prime cost of daywork will be calculated in accordance with the latest *Definition of Prime Cost of Daywork Carried Out Under a Heating, Ventilating, Air Conditioning, Refrigeration, Pipework and/or Domestic Engineering Contract, (State edition\_\_\_\_\_)* published by the Royal Institution of Chartered Surveyors and the Heating and Ventilating Contractors' Association.

For plumbing work, the prime cost of daywork will be calculated in accordance with the latest *Definition of Prime Cost of Daywork Carried Out Under a Plumbing Contract, (State edition\_\_\_\_\_)* published by the Royal Institution of Chartered Surveyors, the Association of Plumbing and Heating Contractors and the Scottish and Northern Ireland Plumbing Employers' Federation.\*

\* It is anticipated that the 1st Edition of this Definition will be published in 2007. Until such time, reference should be made to the April 1985 formula agreed between the Royal Institution of Chartered Surveyors, the National Association of Plumbing, Heating and Mechanical Services Contractors and the Scottish and Northern Ireland Plumbing Employers' Federation.

## Labour

Building Operatives	Provisional Sum	£
Add for Incidental Costs, Overheads and Profit .....	%	£
Electrical Operatives	Provisional Sum	£
Add for Incidental Costs, Overheads and Profit .....	%	£
Heating and Ventilating Operatives	Provisional Sum	£
Add for Incidental Costs, Overheads and Profit .....	%	£
Plumbing Operatives	Provisional Sum	£
Add for Incidental Costs, Overheads and Profit .....	%	£

## Non-productive Overtime

Building Operatives	Provisional Sum	£
Add for Incidental Costs, Overheads and Profit .....	%	£
Electrical Operatives	Provisional Sum	£
Add for Incidental Costs, Overheads and Profit .....	%	£
Heating and Ventilating Operatives	Provisional Sum	£
Add for Incidental Costs, Overheads and Profit .....	%	£
Plumbing Operatives	Provisional Sum	£
Add for Incidental Costs, Overheads and Profit .....	%	£

## Where using Option B for Labour

### Dayworks

The Contractor will be paid as defined below for the cost of works carried out as daywork in accordance with the building contract.

The prime cost of daywork will be calculated in accordance with the latest *Definition of Prime Cost of Daywork Carried Out Under a Building Contract, (State edition\_\_\_\_\_)* published by the Royal Institution of Chartered Surveyors and the Construction Confederation.

For electrical works, the prime cost of daywork will be calculated in accordance with the latest *Definition of Prime Cost of Daywork Carried Out Under an Electrical Contract, (State edition\_\_\_\_\_)* published by the Royal Institution of Chartered Surveyors, the Electrical Contractors' Association and 'SELECT' the Electrical Contractors' Association of Scotland.

For heating and ventilating work etc, the prime cost of daywork will be calculated in accordance with the latest *Definition of Prime Cost of Daywork Carried Out Under a Heating, Ventilating, Air Conditioning, Refrigeration, Pipework and/or Domestic Engineering Contract, (State edition\_\_\_\_\_)* published by the Royal Institution of Chartered Surveyors and the Heating and Ventilating Contractors' Association.

For plumbing work, the prime cost of daywork will be calculated in accordance with the latest *Definition of Prime Cost of Daywork Carried Out Under a Plumbing Contract, (State edition\_\_\_\_\_)* published by the Royal Institution of Chartered Surveyors, the Association of Plumbing and Heating Contractors and the Scottish and Northern Ireland Plumbing Employers' Federation.\*\*

\*\* It is anticipated that the 1st Edition of this Definition will be published in 2007. Until such time, reference should be made to the April 1985 formula agreed between the Royal Institution of Chartered Surveyors, the National Association of Plumbing, Heating and Mechanical Services Contractors and the Scottish and Northern Ireland Plumbing Employers' Federation.

## Labour

The Contractor must state below the all-inclusive prime cost hourly rates required for labour as defined in Section 3 (Option B) and the core working hours to which they apply

### Core Hours

General Operatives	£.....per hour
Skilled Operatives (all grades)	£.....per hour
Craft Operatives	£.....per hour

### Other Grades/Trades:

.....	£.....per hour
.....	£.....per hour
.....	£.....per hour
.....	£.....per hour
.....	£.....per hour
.....	£.....per hour

Core hours are \_\_am to \_\_pm Monday to Friday (excluding statutory holidays).

### Overtime specifically ordered by the Architect/Supervising Officer/Contract Administrator/Employers Agent

The non-productive element of overtime should be as defined in the relevant Working Rule Agreement. However, if different, please state below.

Trade	Day	Time	Non-Productive Element (Hours)
.....	.....	.....to.....	.....
.....	.....	.....to.....	.....
.....	.....	.....to.....	.....
.....	.....	.....to.....	.....
.....	.....	.....to.....	.....
.....	.....	.....to.....	.....

## Labour (continued)

Provide the all-inclusive prime cost of labour as defined in Section 3 (Option B)

### Productive Hours

[     ] hours (Provisional) General Operatives	@ £.....per hour	£
[     ] hours (Provisional) Skilled Operatives	@ £.....per hour	£
[     ] hours (Provisional) Craft Operatives	@ £.....per hour	£

### Other Grades/Trades:

[     ] hours (Provisional) .....	@ £.....per hour	£
[     ] hours (Provisional) .....	@ £.....per hour	£
[     ] hours (Provisional) .....	@ £.....per hour	£

### Non-Productive Hours

[     ] hours (Provisional) General Operatives	@ £.....per hour	£
[     ] hours (Provisional) Skilled Operatives	@ £.....per hour	£
[     ] hours (Provisional) Craft Operatives	@ £.....per hour	£

### Other Grades/Trades:

[     ] hours (Provisional) .....	@ £.....per hour	£
[     ] hours (Provisional) .....	@ £.....per hour	£
[     ] hours (Provisional) .....	@ £.....per hour	£

## Materials and Goods

Provide for the prime cost of materials and goods as defined in Section 4 (Provisional)

£[     ]

Add the percentage addition for incidental costs, overheads and profit as defined in Section 6

\_\_\_\_\_ %

## Plant

Provide for the prime cost of plant hired by the Contractor as defined in Section 5 (Provisional) £[       ]

Add the percentage addition for incidental costs, overheads and profit as defined in Section 6 \_\_\_\_\_%

Rates for plant not hired by the Contractor shall be as set out in *The Schedule of Basic Plant Charges for Use in Connection with Daywork Under a Building Contract* published by the Royal Institution of Chartered Surveyors ( \_\_\_\_\_ Edition dated \_\_\_\_\_ ).

Provide for the prime cost of plant not hired by the Contractor, as defined in Section 5 (Provisional) £[       ]

Add the percentage addition for incidental costs, overheads and profit as defined in Section 6 \_\_\_\_\_%



## Appendix B

### Example Calculations of Prime Cost of Labour in Daywork

#### Example 1

##### Option A

Example of calculation of typical standard hourly base rate (as defined in Section 3) for CIJC Building Craft Operative and General Operative based upon rates applicable at 6th April, 2007

		Rate (£)	Craft Operative	Rate (£)	General Operative
Basic Wages :	46.2 weeks	363.48	£16,792.78	273.39	£12,630.62
Extra Payments :	Where applicable		-		-
Sub Total :			<u>£16,792.78</u>		<u>£12,630.62</u>
National Insurance :	12.80% above ET (46.2 wks @ £100.00pw)		£1,558.12		£1,025.36
Holidays with Pay :	226 hours	9.32	£2,106.32	7.01	£1,584.26
Welfare Benefit :	52 stamps	10.90	£566.80	10.90	£566.80
CITB Levy :	0.5% of	18,899.10	£94.50	14,214.88	£71.07
Annual Labour Cost :			<u>£21,118.52</u>		<u>£15,878.11</u>
Hourly Base Rate :	Divide by 1802 hours		£11.72		£8.81

Note:

(1) Standard working hours per annum calculated as follows:

52 weeks at 39 hours	2028
Less\	
hours annual holiday	163
hours public holiday	<u>63</u>

Standard working hours per year 1802

- (2) It has been assumed that employers who follow the CIJC Working Rule Agreement will match employee pension contributions (part of welfare benefit) between £3.00 and £10.00 per week. Furthermore it has been assumed that employees have contributed £10.00 per week to the pension scheme.
- (3) It should be noted that all labour costs incurred by the Contractor in his capacity as an employer, other than those contained in the hourly base rate, are to be taken into account under Section 6.
- (4) The above example is for the convenience of users only and does not form part of the Definition; all the basic costs are subject to re-examination according to the time when and in the area where the daywork is executed.

## Example 2

### Non Productive Overtime

#### Option A

Example of calculation of typical non productive overtime rate (as defined in Section 3) for CIJC Building Craft Operative and General Operative based upon rates applicable at 6th April, 2007.

	Rate (£)	Craft Operative	Rate (£)	General Operative
Basic Wages : 46.2 weeks	363.48	£16,792.78	273.39	£12,630.62
Extra Payments : Where applicable		-		-
Sub Total :		£16,792.78		£12,630.62
National Insurance : 12.80% above ET (46.2 wks @ £100.00pw)		£1,558.12		£1,025.36
CITB Levy : 0.5% of 16,792.78		£83.96	12,630.62	£63.15
Annual Labour Cost :		£18,434.86		£13,719.13
Hourly Base Rate : Divide by 1802 hours		£10.23		£7.61

#### Note:

- (1) Standard working hours per annum calculated as follows:

52 weeks at 39 hours	2028
Less\	
hours annual holiday	163
hours public holiday	63

Standard working hours per year 1802

- (2) It should be noted that all labour costs incurred by the Contractor in his capacity as an employer, other than those contained in the hourly base rate, are to be taken into account under Section 6.
- (3) The above example is for the convenience of users only and does not form part of the Definition; all the basic costs are subject to re-examination according to the time when and in the area where the daywork is executed.

