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REPUBLIC OF THE PHILIPPINES  
MINISTRY OF PUBLIC WORKS AND HIGHWAYS  
OFFICE OF THE MINISTER  
MANILA

July 27, 1982

MINISTRY ORDER

No. **68**

Series 182

SUBJECT: Preparation of Government  
Estimate (AAE)

To: All Bureau Directors/Regional Directors/Service Chiefs/  
Project Managers/Project Engineers/District/City  
Engineers/Consultants  
This Ministry

The following policies, rules and regulations relative to the preparation of government estimate (AAE) are hereby issued for the guidance of all concerned.

All the items of work to be used therein shall be in accordance with the Standard Specifications for Highways and Bridges, Revised 1972.

The government estimate shall be composed of two parts, the Direct Cost and the Indirect Cost.

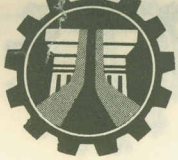
A. The Direct Cost are the following:

- I. Cost of materials, supplies, etc. to be used and includes:
  1. Cost at source - includes processing, crushing, stockpiling, loading, royalties, local taxes, haul roads, etc. if any;
  2. Hauling expenses;
  3. Handling expenses;
  4. Storage;
  5. Waste and/or losses.

NOTE: The price of cement should be as authorized by the Price Stabilization Council and that of reinforcing steel bars as authorized by the National Steel Corporation.

II. Cost of Labor:

1. Wages should be as authorized by the Ministry of Labor;
2. To include all fringe benefits such as vacation and sick leaves, Workmen's Compensation Act, GSIS and SSS contributions, allowances, 13th month pay, bonus, etc.



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III. Equipment Expenses:

1. Rentals to be based on "The Associated Construction Equipment Lessors, Inc." (ACEL) rental rates, with a discount of 20% for projects costing P2.5 million and above. For projects below P2.5 million apply the ACEL rates with no discount.
2. Rental rates of equipment not reflected in ACEL Booklet may be taken from the rental rates prepared by the Bureau of Equipment.
3. For simplicity in computation, the operated rental rates are preferred over the bare rental rates as the former includes operators wages, fringe benefits, fuel, oil, lubricants and equipment maintenance.
4. Mobilization and demobilization will be computed on a case to case basis based on the equipment requirements of the project stipulated in the proposal and contract booklet and in no case, shall exceed the percentage indicated below:

- (a) For advertised project and considering Manila as the base of contractors :

<u>Location of Projects</u>	<u>In Percentage of Direct Cost</u>
Manila, Southern Luzon and Central Luzon	2%
Northern Luzon, Bicol Mindoro and Marinduque	4%
Visayas	5%
Mindanao	6%

- (b) For projects under negotiated contract and/or under sealed canvassing, it shall not exceed 2% of the Direct Cost as it is presumed that the contractor is based on the locality where the project is located.

B. The Indirect Costs are the following:

- I. Overhead Expenses - (Usually 4-5% of Direct Cost) which includes:
  1. Supervision;
  2. Transportation allowances;





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3. Office Expenses (Office Equipment and Supplies);
4. Financing Cost
  - a. Premium on Bid Bond
  - b. Premium on Performance Bond
  - c. Interest Expense on Cash Required
  - d. Interest Expense on Loans obtained thru credit line
  - e. Interest Expense on Miscellaneous Cash

II. Unforeseen Contingencies - (Usually 3-5% of Direct Expenses);

III. Miscellaneous Expense - (Usually 1% of Direct Expenses).

NOTE: For the percentage to be used for Nos. I, II and III, see OCM Column in the tabulation below.

ESTIMATED DIRECT COST (EDC)	:INDIRECT COSTS PERCENTAGES FOR OCM, PROFIT & TAXES:				COMBINED
	: OCM :	PROFIT :	T A X E S		:INDIRECT COSTS
	:% OF EDC:	% OF EDC	% OF EDC + OCM + PROFIT		: % MARK-UP
Up to ₱500,000.00	: 12	: 12	: 3		: 28 ✓
Above ₱500,000.00 to ₱1,000,000.00	: 12	: 11	: 3		: 27 ✓
Above ₱1M to ₱5M	: 11	: 10	: 3		: 25 ✓
Above ₱5M to ₱20M	: 10	: 9	: 3		: 23 ✓
Above ₱20M to ₱50M	: 9	: 8	: 3		: 21 ✓
Above ₱50M	: 8	: 7	: 3		: 19 ✓

IV. Contractor's Profit Margin - See tabulation above.

V. Contractor's Taxes:

1. 3% Tax on Gross Income (Specific)
2. Income tax on Contractor's Income - Amount included in Contractor's profit.

VI. Laboratory Tests - included in OCM.



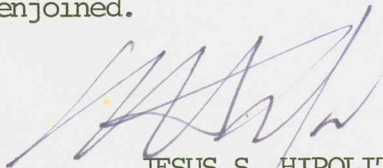
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Since the government estimate is to be compared with the Contractor's Bid, and is to be basis for judging whether the bids received are reasonable or not, then the Government Estimate should be based on the proposal and contract booklet and/or should contain, in general, the same items of work and quantities that a Contractor would reckon with in preparing his bid.

The various estimating Committees should conduct their own studies as to unit prices, compile statistics regarding the same, and in general, use only unit prices that are realistic and based upon valid up-to-date information in contrast to guesswork and haphazard pricing.

Those who prepared and/or reviewed and checked the estimates should see to it that in case they are called upon to make good on their estimates and/or corrections they can perform the job themselves.

Compliance is hereby enjoined.



JESUS S. HIPOLITO  
Minister