

FACT SHEET

Contingency – how should it be managed?

Section 6.5 of the Disaster Recovery Funding Arrangements Western Australia 2018 relates to contingency allowance and how it can be applied to projects being undertaken as part of the reconstruction of essential public assets. This fact sheet provides guidance on how asset owners should manage their total project cost estimate and the associated contingency.

A separate fact sheet, titled *Contingency calculation*, outlines how the contingency value should be calculated.

Managing project contingency

The Cost Estimate template has the following breakdown on the 'Summary and Verification' tab:

Summary of the Project			
	TOTAL BASE CONSTRUCTION:		\$ -
	PROJECT MANAGEMENT (DESIGN & OVERHEADS):	0.0%	\$ -
TOTAL BASE CONSTRUCTION & PROJECT MANAGEMENT SUBTOTAL:			\$ -
	P50 CONTINGENCY:	0.0%	\$ -
	PROJECT SUB-TOTAL:		\$ -
Number of			
Roads Affected	COST ESCALATION:	0.0%	\$ -
0	TOTAL PROJECT COST ESTIMATE:		\$ -
State Risk - not for project use			
	P90 CONTINGENCY	0.0%	\$ -
	STATE LEVEL RISK EXPOSURE	P90-P50	\$ -
	COST ESCALATION ON STATE CONTINGENCY	0.0%	\$ -
	P90 TOTAL PROJECT COST ESTIMATE		\$ -

The table is broken into two sections. The top blue section relates to the project cost estimate for asset owners to manage. This includes amounts for:

- total base construction
- project management overheads and design costs
- Contingency to a 50% confidence level, referred to as the P50 Contingency
- Cost escalation.

The Total Base Construction and Project Management Subtotal is effectively the project budget that asset owners should be managing the project to.

The P50 contingency and cost escalation allowances are to cover financial risks that may be realised during the life of the project. It is the asset owner's responsibility to ensure that as the contingency and/or cost escalation allowance is committed during the life of the project that the rationale for each drawdown on these allowances is clearly documented.

The sum of these four costs provides the Total Project Cost Estimate. This cost should not be exceeded in completing the project.

It is expected that asset owners closely monitor reconstruction costs. The DFES Recovery Funding Officers should be contacted immediately should asset owners forecast that actual project costs are likely to exceed the estimated cost. For example,

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if contingency is used early in the project, DFES should be advised of the potential cost overrun if additional risks are to occur.

The lower grey section is the State Risk table, which provides a breakdown of the overall risk to the State for each reconstruction project. Asset owners are not required to enter data into the grey section as it is automatically populated.

