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## Contingency sums

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This advice is to assist clients in understanding the use of a contingency sum as a cost and budget management tool through the various stages of a project. It also outlines the advantages of a contingency sum during the construction stage of the project.

At the commencement of a project, it is important for you to know the total end cost of your project. The net cost of construction can be established in a number of ways. There are, however, a number of additional costs that will arise, which must be allowed for when establishing the total project budget. These costs will vary from one project to another and will vary throughout the design and construction process.

The total end cost may be made up of:

- land costs
- the net construction cost of the building
- design fees
- statutory fees and charges
- project contingency sums
- legal, accounting and other fees
- financing
- cost escalation
- furniture, furnishings and equipment

### Contingency sums

A contingency sum can best be described as a sum of money allowed in the project budget, for expenditure on aspects of the project that were unforeseen or unforeseeable at the time of preparing documents. A contingency sum should be used during the design and construction phases of the project. The use of a contingency sum allows the design to evolve in an orderly fashion while ensuring that you are aware of the likely total 'end cost'.

By including a contingency allowance in each stage of the project the realistic, total cost, the total end cost can be more accurately estimated and the design team can work within a budget that will reflect the likely true cost of the project.

The value of the contingency sum will vary according to the type of project. For example, in a project involving renovations the contingency sum will be higher than in a project for a new building. As various aspects of the design are finalised the contingency sum will reduce, but the estimates should include a contingency sum for all stages of the project including the construction stage.

The contingency sum is intended to cover the cost of unforeseen or unforeseeable work and it should not be used for variations or extra work.

### The design contingency

During the design stage when many aspects of the project are unresolved or perhaps not yet fully understood the contingency sum will be higher as a proportion of the total budget. While an architect may provide realistic estimates of the cost of your project, accurate cost planning, and the accurate establishment of a project budget at the commencement of a project, is a specialist professional service more usually offered by a quantity surveyor.

### The construction contingency

Once the design is finalised and construction is about to begin, the contingency sum serves a different purpose. Unlike the design contingency, which is provided to enable you and the design team to develop the design in the most appropriate way, the construction contingency should be reserved for expenditure on unforeseen items that arise during the construction stage. It may either be included

in the construction contract as a provisional sum, or be held by you outside of the construction contract. It is designed to cover costs that are incurred when the project is in construction which may include latent conditions, belated authority requirements or minor costs flowing from the contract documentation.

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