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Managing your project costs

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One of the critical aspects of the architectural process is the management and understanding of the project cost. Any architectural process includes the key parameters of scope, time, quality and cost. Building more, in less time and with better quality will result in increased cost. Similarly, to reduce cost, one or more of the other key parameters will need to be modified. The establishment, recording and constant communication about the project budget, compared with the actual estimated cost, is crucial to a successful project outcome.

Project budget

At the commencement of the brief, you and your architect must agree a target project budget. This budget should carefully detail all inclusions and exclusions to the project cost. Items which are likely to form inclusions in your budget comprise:

- construction cost including allowances for known special conditions, such as the owner remaining in occupation, difficult site access, special materials and finishes
- architect's and other consultant fees
- local authority fees and statutory authority fees
- cost escalation (inflation) from the date of the estimate up to the date of closing of tenders for the project
- contingency for changed market conditions at the time of the tender
- construction cost contingencies for possible as yet unknown items (latent conditions) that may be encountered on site, particularly in relation to subsurface ground conditions (such as rock) and works associated with existing buildings
- design cost contingencies and associated construction cost changes to the scope of works whether initiated by you, the authorities or consultants
- soft furnishings, furniture, special equipment
- special insurances
- industrial delays and delays encountered in obtaining approvals
- delays due to weather

It is important to list as many items as are known or are reasonably foreseeable that may affect the overall cost of the project. As the client, you should be actively involved during this part of the process. Budget allowances should then be determined or specific items should be noted as excluded from the budget. Items that often form exclusions from your budget comprise:

- legal fees
- marketing costs
- site/building purchase costs
- holding and finance charges
- relocation/removal costs
- business interruption costs
- infrastructure costs
- GST

Also, items normally supplied by the client after the conclusion of the building work such as tenancy fit-out costs, soft furnishings, blinds, artworks and special items of processing equipment are often treated as exclusions.

It is imperative to understand that your budget will be affected by your other project requirements: size, time and quality of the project will all impact on the cost. Your initial brief may not be able to be fully realised for your available project budget. If this is the case, cost, size, time and quality may each need to be considered and amended to achieve a balanced and successful outcome.

The project budget is established before design has commenced and is likely to be determined primarily by your financial capacity rather than the actual cost of meeting the brief. You should discuss with your architect in broad terms the likely adequacy of your budget at the outset, before design is even started.

As the project moves into the design phases, you and your architect must ensure that estimates are provided based on the current design for comparison with the original budget. If the two vary, then either your budget or the design will need to be amended.

All these brief parameters and budgets must be recorded and distributed in writing.

Estimates

You should ask your architect to provide an estimate of cost at each of the various architectural stages. Estimates are not quotations or tenders; they are an opinion of the probable cost of the project. They may be prepared by your architect or a separate specialist cost consultant such as a quantity surveyor depending on the nature of the project.

Your architect will be professionally capable of providing cost estimates for building works based on published cost data and their own personal experience. Your architect may term this estimate an 'opinion of probable cost', which draws a distinction between this level of estimate and the more detailed estimate which may be prepared by a dedicated building cost professional. Your architect should provide these opinions to you in an itemised format clearly identifying the same inclusions and exclusions as the project budget, to enable a direct comparison.

Where the project is large, complex, or if meeting the budget is the primary project influence, then specialist professional services from a qualified cost consultant or quantity surveyor should be sought. Your architect will then work with these professionals to inform them of building elements and design, but they will offer increased expertise in project pricing and therefore a cost estimate with greater certainty.

Generally cost estimates will be provided near the conclusion of the following stages as defined in the client-architect agreement.

Concept/schematic design

A concept/schematic design (initial design options for you to consider) will be prepared by the architect, based on your initial brief. The first cost estimate will be calculated on this design and will be compared back to the project budget. If the budget and cost estimate vary then you must discuss with your architect the reasons for variance and the changes needed to budget or design to achieve alignment. The design, estimate and budget must then be rechecked before proceeding to the next phase.

The concept design will be based on your architect's understanding of regulations and local requirements, many of which will affect the design solution and the project schedule. The architect and any other consultants involved in this stage should be paid for their work even if the project does not proceed. Many cost elements will be subject to contingency allowances (for unforeseen matters) and these should be declared, as the project will not be fully resolved at this stage. As always, these key agreements and decisions must all be recorded and distributed in writing.

Developed design

At this stage the schematic design is refined and fully detailed to meet your requirements. This stage finalises 'the look' of the project and all the materials and finishes to be used both inside and out. The estimates at this stage will be a more accurate guide as to what the project may cost. Many ancillary items should have reasonable allowances based on research (eg authority fees) but there is still scope for further refinement, as the construction specifications and details have not yet been finalised. Some contingency allowances will remain in place.

Contract/construction documentation

A further estimate should be given when the tender contract documentation is completed and prior to calling tenders or negotiating a price with a builder. By this stage most of the additional project costs should be known, (eg authority fees and consultants' fees).

The pre-tender estimate will provide a basis for assessing the tenders or negotiated prices received from builders. Significant variance in builders' prices either higher or lower than the estimate should be investigated, as they may reflect misunderstanding of the scope of the project.

The tender prices will include the construction of the documented building works only. Your architect or quantity surveyor should summarise the preferred tender price to an overall project cost position with all inclusions and exclusions in the same format as the project budget, to facilitate a direct comparison.

If the project cost comparison embodying the preferred tender does not match the project budget then amendment to the budget or the design will be required before proceeding. You will need to discuss with your architect the best way to address this situation. Options may include negotiating with the preferred contractor to reduce scope and costs, or staging the work to meet the current budget with the remainder to be completed when more finance is available.

Contingencies

During all phases of cost estimates and even after acceptance of a tender your total project budget should include contingency allowances.

Cost estimates should be based on rates for calculated quantities or areas of work required for the project. However, at all stages of the design and construction there will be items that are not yet resolved, or possibly even unknown. Contingency allowances must be included in the total budget to account for these items.

The size and number of the contingencies will depend on the complexity and level of resolution of the project. When the project progresses through design, documentation, and construction, contingent items will reduce as they are resolved. The professional preparing your cost estimates will include contingencies based on their project experience suitable to your project.

You should consider contingency allowances to be reasonable expectations of unresolved costs and likely to be required to complete your project.

Cost management

Your architect should draw your attention to any matters which may arise during the design development and contract documentation or tender stages which may seriously affect the previous estimates. Your architect can also provide a continuing cost management service as part of the contract administration role during the construction of the project.

This will assist you to track and record costs as construction progresses for certainty against your project budget. Your architect will also manage the valuation and approval of design and building cost adjustments for you during construction.

Conclusion

Remember that you are part of the building project team and it is important that you maintain effective communication with your architect throughout the project. You might not be able to meet all the goals of your initial brief for your desired budget but you can ensure that you are well informed to make decisions that maximise the value for money you spend and avoid cost surprises.

You and your architect should discuss and agree on the scope and cost of architectural services before the project is started, and make sure the agreement is in writing. The scope of services will define who is responsible for preparation of cost estimates and cost management during the project. For this purpose, and to protect your interests, you should use the Institute Client and Architect Agreement, which your architect can provide.

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