

Capital Works Management Framework

Contract Cost Estimates

The need for realistic cost estimates and contract durations

A key objective of the *Capital Works Management Framework* is to facilitate the achievement of value for money in the planning and delivery of government building projects. The associated Prequalification (PQC) System for building industry consultants and contractors supports this objective by matching the experience and capability of contractors with the risk and 'total estimated contract cost' assigned to particular building contracts.

The integrity of the PQC System relies on the extent to which this matching is successful. The matching process requires, among other things, the recording of a realistic 'total estimated contract cost' for each contract. For this reason, all of the relevant data stored in the PQC System database should be reviewed at the time of tender call to check for alignment with the most recent information on the proposed contract (particularly the latest cost estimate and the anticipated contract duration), and the database should be updated accordingly.

Consequences of over-estimating contract cost

Recording the 'total estimated contract cost' of a proposed contract in the PQC System database generates a search within that database for appropriately registered contractors that are prequalified to undertake contracts up to, and including, that value.

Similarly, the 'total estimated contract cost' is used when determining the service risk rating of a proposed contract recorded in the PQC System database. When performing a service risk assessment, project managers use tables within the database which prompt them to identify a particular service risk rating based on, among other things, the 'total estimated contract cost'. For example, for a traditional lump sum contract recorded in the database with a 'total estimated contract cost' exceeding \$20 million, the database user will be directed to select



one of the highest PQC Levels (3 or 4). (Refer to the *PQC Database: User Guide*, available on request from Building Policy Unit, for a detailed explanation of this process.)

Any over-estimation, or incorrect data entry, of the 'total estimated contract cost' may result in otherwise eligible tenderers being excluded from eligible list searches for purported inadequate financial and/or PQC Level threshold reasons. Furthermore, at the time of tender call, these otherwise eligible contractors will be excluded from tender opportunities. It is therefore important that, prior to tender call, project managers review the 'total estimated contract cost' recorded in the PQC System database to ensure the maximum number of registrants is eligible to submit a tender, and to facilitate the achievement of value for money outcomes.

Developing realistic contract cost estimates

Professional advice and assistance from appropriately qualified quantity surveyors and/or registered professional engineers (depending on the project) is necessary to develop realistic contract cost estimates. If appropriate human resources are not available within a department, this expertise will need to be outsourced. The Department of Housing and Public Works can provide assistance in this regard.

Consequences of under-estimating contract durations

In the PQC System, a contractor's financial capacity is considered in two ways, namely their 'maximum allowable contract size' and their 'annualised contract value'. While the 'maximum allowable contract size' reflects the maximum contract value the contractor is prequalified to undertake, the 'annualised contract value' represents the maximum value of work the contractor is prequalified to undertake on any government building project within a 12 month period. (Refer to the *Capital Works Management Framework* guideline, *Contractor PQC: Financial Requirements*, for a detailed explanation of these terms.)

When recording contract durations in the PQC System database, project managers should be aware that the database converts the 'total estimated contract cost' into a 12 month component (i.e. the 'annualised contract value'), based on the recorded contract duration. As such, any under-estimated or incorrectly recorded contract durations may result in higher annualised contract values, and therefore reduced pools of eligible tenderers.

References

Capital Works Management Framework (Department of Housing and Public Works)

Contractor PQC: Financial Requirements (Department of Housing and Public Works)

PQC Database: User Guide (Department of Housing and Public Works)



For further information

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