COST PLANNING AND COST MANAGEMENT IN CONSTRUCTION PROJECTS

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01. AIQS COMPETENCIES INTRODUCTION

COMPETENCY STANDARDS FOR QUANTITY SURVEYORS, CONSTRUCTION ECONOMISTS, AND COST ENGINEERS

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PROJECT COST MANAGEMENT COMPETENCIES

Project cost management involves various cost management and procurement procedures to ensure that the Client's budget is properly established and maintained.

DESIGN COST ADVICE, COST PLANNING AND COST ENGINEERING COMPETENCIES

Cost management of a project includes establishing the budget and then effectively monitoring and reporting against that budget on a regular basis, cost planning the evolving design, preparing appropriate contract documentation and advising on variations and claims during the progress of the project.

Additional Range Indicators

- Strategies for gathering data and carrying out research on current construction costs and future predictions
- Analysis of data relating to costing, budgeting and cashflows including financial implications of various options
- Use of appropriate analysis and evaluation techniques in reporting to the Client
- Application of principles of cost management and elemental cost analysis
PROFESSIONAL CQS SERVICES

- Client Brief
- Development appraisal
- Viability of Project
- Project evaluation
- Procurement Strategy
- Cost Planning
- Pretender Estimate
- Tendering process

- Conflicts Avoidance in Pre-contract stage
- Conflicts to Dispute
- Contractual process
- Dispute resolution processes
- ADR (Alternate Dispute resolution ) Methods
- Arbitration
- Litigation

- Contract formation
- Contract documentation
- Contract Administration
- Commercial Management
- Change Management
- Post Contract issues
- Variations
- Valuations
- Final account

- Contractual provisions
- Claims procedures
- Claims submissions
- Review and analysis
- Evaluation
- Determination
- Negotiations
- Consultations
- Conclusion
PROJECT DEVELOPMENT CYCLE

**INCEPTION**
- Development Appraisal
- Strategic Advice
- Design Economics
- Development strategy

**PRE-CONTRACT**
- Cost Planning
- Risk Management
- Value Engineering
- Procurement Strategy
- Taxation Advice
- Tender and Contract administration
- Planning/Programming
- Specification Writing

**CONSTRUCTION**
- Payroll administration
- Cash flow forecasting
- Cost reporting
- Agreement of final costs
- Negotiation of Capital Allowances

**OPERATION**
- Project Audit
- Energy/Efficiency studies
- Property valuation
- Repair & Refurb Costing
02. PROJECT BRIEF AND DEVELOPMENT

Preparation of the project brief is likely to be coordinated by the lead consultant.

“The project brief is the final stage in the process of defining the client’s requirements for the development of a built asset”.

Development appraisal involves research into constraints and opportunities evolving from the location, legal and planning aspects of potential sites as well as their physical characteristics.

“A development appraisal is a financial assessment to enable a developer to establish the viability of a project.”
Client’s requirements

**Time**: Time and timing, which are of the essence, with costs and project processes inextricably linked.

**Quality**: Quality goals, which have to be properly defined if they are to be achieved.

**Flexibility**: The need to adapt to changing circumstances and keep projects on track whatever happens.

**Costs**: Effective financial planning and cost management are essential throughout.

**Risks**: Risks, which have to be identified, quantified and managed – and avoided wherever possible.

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Client's wants and needs
Preparation of Project brief

Preparation of the project brief is likely to be coordinated by the lead consultant. As well as gathering information about physical requirements, the briefing process should:

1. Verify the objectives and priorities of the project.
2. Ensure space, time and budget parameters are aligned with the client’s vision and needs.
3. Ensure expectations are reasonable and attainable.
4. Clarify client roles and the project structure.
5. Establish how much the client knows already and their level of experience; do they already have a clear brief?
7. Gather user information.
8. Establish the building life span and flexibility requirements.
The core members of the design team typically comprise:

- lead designer
- principal designer (usually a sub-function of the lead designer role)
- designers: architect, interior designer and landscape architect
- engineers: civil and structural and building services engineers
- cost consultant
- construction advisor
- specialist consultants

Many specialist consultants – with detailed knowledge and experience of a particular subject – may be involved in the design of a building. The need for their input will depend on the Project Brief and the experience and skills of the core design team members. Specialist consultants might include:

- fire engineer
- acoustic consultant
- security consultant
- façade engineer
- sustainability consultant
- specification consultant
- BIM consultant

- a poor Project Brief is likely to lead to poor design outcomes
- a poor design will not achieve exemplary Project Outcomes
- designs that are not Spatially Coordinated in Stage 3 will result in unnecessary iterations in Stage 4
- poor information in Stage 4 will create an unnecessary volume of Site Queries
- lack of foresight on maintenance in the early stages will make maintenance difficult.
03. PRE-CONTRACT COST MANAGEMENT

- Project brief and development appraisal
- Design Economics
- Cost Advice
- Cost Planning Process
- Pre-tender estimate
- Tendering process and evaluation
- Finalization of the Contract award

Cost Plan → Tendering → Contract award
Few Definitions

An **element** (for cost analysis/planning purposes) is a major physical part of a building that fulfils a specific function or functions irrespective of its design, specification or construction.

“**Elemental cost planning** is a system of Cost planning and Cost control, typically for buildings, which enables the cost of a scheme to be monitored during design development.”
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# Cost Plan Format

## Elements breakdown

<table>
<thead>
<tr>
<th>COST CENTRE</th>
<th>GROUP ELEMENT/ELEMENT</th>
<th>COST/M² OF GFA</th>
<th>TOTAL COST OF ELEMENT (TARGET COST)</th>
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<tr>
<td>0</td>
<td>Facilitating works</td>
<td></td>
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<tr>
<td>1</td>
<td>Substructure</td>
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<tr>
<td>2</td>
<td>Superstructure</td>
<td></td>
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<td>3</td>
<td>Internal finishes</td>
<td></td>
<td></td>
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<td>4</td>
<td>Fittings, furnishings and equipment</td>
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<td></td>
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<tr>
<td>5</td>
<td>Services</td>
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<tr>
<td>6</td>
<td>Prefabricated buildings and building units</td>
<td></td>
<td></td>
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<tr>
<td>7</td>
<td>Work to existing buildings</td>
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<td>8</td>
<td>External works</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUB-TOTAL: FACILITATING WORKS AND BUILDING WORKS (A)</td>
<td></td>
<td></td>
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<tr>
<td>9</td>
<td>Main contractor’s preliminaries (E)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUB-TOTAL: FACILITATING WORKS AND BUILDING WORKS (including main contractor’s preliminaries) (C)</td>
<td>(C = A + E)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Main contractor’s overheads and profit (D)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL: BUILDING WORKS ESTIMATE (E)</td>
<td>(E = C + D)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PROJECT/DESIGN TEAM FEES AND OTHER DEVELOPMENT/PROJECT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Project/design team fees (F)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Other development/project costs (G)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL: PROJECT/DESIGN TEAM FEES AND OTHER DEVELOPMENT/PROJECT COSTS ESTIMATE (I)</td>
<td>(I = F + G)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BASE COST ESTIMATE (I)</td>
<td>(I = E + H)</td>
<td></td>
<td></td>
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<tr>
<td>TOTAL: RISK ALLOWANCE ESTIMATE (J)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COST LIMIT (excluding inflation) (K)</td>
<td>(K = I + J)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL: INFLATION ALLOWANCE (L)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COST LIMIT (excluding VAT assessment) (M)</td>
<td>(M = K + L)</td>
<td></td>
<td></td>
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<tr>
<td>VAT ASSESSMENT</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Reference: NRM1**

**Hard Cost**

**Soft Cost**
RIBA- 2020 PLAN OF WORK

- Agree appointments with the professional team
- Develop a brief with the client
- Create concept designs options
- Coordinate the design
- Prepare a planning application
- Apply for planning consent
- Develop a set of construction information
- Prepare a tender
- Obtain consents required prior to construction
- Award a Building Contract
- Construct the building
- Inspect the construction as it progresses
- Hand over the building,
The RIBA Plan of Work published by the RIBA in 2020 defines spatial requirements as: ‘A schedule of rooms and/or spaces that will achieve the Client Requirements. The Spatial Requirements for the building as a whole are set at Stage 0 (strategic definition).’
Cost Plan Strategy

The Cost Plan represents the anticipated construction cost of the building and, as such, it represents only a portion of the Project Budget. The Cost Plan used to be prepared at the end of Stage 2 or Stage 3. At the outset, the Cost Plan can be based on industry norms for similar building types adjusted to take account of market conditions, project abnormalities, Project Risks and contingencies. As design information is developed, an elemental Cost Plan is prepared. Essentially, this breaks down the cost for the building into the different Building Systems.

Figure 2: Example Project Programme for each stage of the RIBA Plan of Work 2020
Design economics is an understanding of the economics associated with the design of building.

Cost Planning is the technique by which the budget is allocated to the various elements of an intended building project to provide the design team with a balanced cost framework within which to produce a successful design.
Elemental cost plan for design and construction

Cost plans are generally prepared by cost consultants (often quantity surveyors). They evolve through the life of the project, developing in detail and accuracy based on the nature of the design, and then actual prices are provided by specialist contractors, contractors and suppliers. They range from very early initial cost appraisals through to tender pricing documents.
Elemental **cost planning** is a system of **Cost planning** and **Cost control**, typically for buildings, which enables the **cost** of a scheme to be monitored during design development.

<table>
<thead>
<tr>
<th>Structure your Cost Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary</td>
</tr>
<tr>
<td>Outline of key risks</td>
</tr>
<tr>
<td>Assumptions</td>
</tr>
<tr>
<td>Exclusions</td>
</tr>
<tr>
<td>Information Used</td>
</tr>
<tr>
<td>Details</td>
</tr>
<tr>
<td>Area schedule</td>
</tr>
<tr>
<td><strong>TIP</strong>: Include a set of Marked up drawings**</td>
</tr>
</tbody>
</table>
The Bill of Quantities (sometimes referred to as 'BoQ' or 'BQ') is a document prepared by the cost consultant (often a quantity surveyor) that provides project specific measured quantities of the items of work identified by the drawings and specifications in the tender documentation.
Measurement

- Traditional measure / BIM
- Focus on areas with greatest value
- Focus on areas that take longest to measure
- **TIP:** Think about what is **not** on the drawings
  - Plant rooms
  - Building maintenance unit
- **TIP:** Think outside the box
  - If you were an auditor, where would you find gaps in a cost plan?
- Understand your building function
- Know your stuff!

Construction Areas

- GIA, GEA, NIA, NLA – when are they applicable?
- BCIS - all costs expressed against GIA (Definition as RICS Code)
- NRM (New Rules of Measurement)
Standard method of Measurement

- POM(I)
- CESMM3
- SMM7
- NRM
- CSI – UNIFORMAT (US)
- RICS – COMP
New Rules of Measurement (NRM) by RICS

The rules have been written to provide a standard set of measurement rules that are understandable by all those involved in a construction project. They provide advice and best practice guidance to RICS members involved in the cost management of construction projects worldwide.
Pricing

- Procurement
- Location
- Size of project
- New build / refurbishment
- Market conditions
- Rates of construction
- Others

Know your market

- Key materials (steel, rebar etc)
- Procurement from overseas
- Timing of procurement
- Workload of Contractors
- Check Quarterly Market Reviews
Risks

• Employer risks
  • Cash flow restrictions
  • Employer variations
  • Funding

• Design team risks
  • Design co-ordination
  • Investigations
  • Lack of design
  • Inappropriate design

• Procurement risks
  • Currency fluctuations
  • Design responsibility
The pre-tender estimate (PTE) is the final estimate of the likely cost of the works that are described in completed tender documents prepared to seek tenders (offers) from prospective contractors.

1. PTE provides a final comparison with the budget, and along with the cash flow estimate enables the client to confirm that sufficient funds are available before committing to seeking tenders.

2. PTE also gives a basis for assessing and comparing tenders when they are returned. If the pre-tender estimate exceeds the approved budget, an explanation should be provided for the client to consider and issue instructions.

3. PTE ensures that the tenders are easily compared with one another and with the pre-tender estimate, and any anomalies or potential savings identified.

The pre-tender estimate should be prepared following a standard approach to estimating such as that defined by the new rules of measurement (NRM).
06. CASE STUDY – COST PLAN

<table>
<thead>
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<th>Project</th>
<th>Sample</th>
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</thead>
<tbody>
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<td>Estimate</td>
<td>Building Plot 7000</td>
</tr>
<tr>
<td>Price Date</td>
<td>2nd Quarter 2007</td>
</tr>
</tbody>
</table>

### 1.0 SUMMARY OF ESTIMATE

This estimate has been prepared to indicate the likely cost of construction of the developments on Plots 700 at Jebel Ali Village. This indicative estimate has been prepared for the buildings and external works based on the information received and set out in Section 2.0.

Based upon the information set out in this report, our estimate for the Plots 700, development is in the order of **AED1.06B**. Attention is drawn to the list of exclusions in Section 4.0 for which separate budgetary allowances may be required.

Due to the developing nature of the design at the current time and the volatile fluctuations in the UAE construction market, we have indicated an allowance of 10% for design and construction contingencies.

<table>
<thead>
<tr>
<th>Building Plot 700</th>
<th>AED</th>
<th>GIFA (m2)</th>
<th>AED/m2</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Requirements</td>
<td>125,882,900</td>
<td>186,721</td>
<td>674</td>
</tr>
<tr>
<td>Substructure Works</td>
<td>229,810,400</td>
<td>186,721</td>
<td>1,231</td>
</tr>
<tr>
<td>Podium</td>
<td>162,279,400</td>
<td>186,721</td>
<td>869</td>
</tr>
<tr>
<td>Residential Tower</td>
<td>435,673,300</td>
<td>186,721</td>
<td>2,333</td>
</tr>
<tr>
<td>External works</td>
<td>11,456,400</td>
<td>186,721</td>
<td>61</td>
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</table>

**Indicative Construction Cost Estimate**

<table>
<thead>
<tr>
<th></th>
<th>AED</th>
<th>GIFA (m2)</th>
<th>AED/m2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Fees</td>
<td>Excluded</td>
<td>Excluded</td>
<td></td>
</tr>
<tr>
<td>Allowance for Design and Construction Contingencies @ say 10%</td>
<td>96,510,200</td>
<td>186,721</td>
<td>517</td>
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<tr>
<td>Tender Price Inflation to start on site</td>
<td>Excluded</td>
<td>Excluded</td>
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</table>

**Indicative Building Works Cost Estimate at Q2 2007 prices**

<table>
<thead>
<tr>
<th></th>
<th>AED</th>
<th>GIFA (m2)</th>
<th>AED/m2</th>
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</thead>
<tbody>
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<td></td>
<td>1,061,612,600</td>
<td>186,721</td>
<td>5,686</td>
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</tbody>
</table>

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Please note: The AIQS does not take any responsibility for the opinions expressed by any third parties during an AIQS endorsed event.
3.0 KEY ASSUMPTIONS & NOTES

1. General Requirements have been priced on a percentage basis at 15%
2. Provisional allowance for architectural finishes as specification is not available
3. Provisional allowance for structural works as no design information provided
4. Provisional allowance for Piling as no design information available
5. Transformers have been excluded on the basis that they will be provided by DEWA
6. We have assumed the office space will be constructed to shell and core only. Finishes and MEP services have been allowed in common areas only.
4.0 EXCLUSIONS

The estimate does not include the following:

1. Taxes
3. Land Acquisition Costs and Operator's costs including specialised supplies and equipment
4. Cost escalation/inflation as a result of market fluctuations
5. Costs associated with upgrading or reinforcement of off-site services and infrastructure
6. Professional consultant's fees and expenses
7. Charges and fees in connection with Municipal planning and other statutory approvals
8. Finance and associated charges
9. Diversion of any existing services
10. Site investigation and survey costs
11. Testing of the site for exposure to electro-magnetic radiation
12. Infrastructure development costs including contributions for provision of services, roads,
13. Traffic Management System other than entry / exit point barrier system for the external parking lots

Please note: The AIQS does not take any responsibility for the opinions expressed by any third parties during an AIQS endorsed event.
2.0 BASIS OF ESTIMATE

The following has been used in the formulation of this estimate:

1. Jebel Ali Village - Plot 7000 Building Form Drawings Sent By Email:
2. Basement plan - B1 (dwg: 3192(GA)P099)
   b. Podium lower ground floor plan (dwg: 3192(GA)P100)
   c. Podium upper ground floor plan (dwg: 3192(GA)P101)
   d. Basement plan - B1 (dwg: 3192(GA)P099)
   e. Basement plan - B2 (dwg: 3192(GA)P098)
   f. Typical low level floor plan - Tower A Typical Low Floor (3192(GA)TA110)
   g. Typical mid level floor plan - Tower A Typical Mid Floor (3192(GA)TA120)
   h. Typical high level floor plan - Tower A Typical High Floor (3192(GA)TA130)
   i. Typical low level floor plan - Tower B Typical Low Floor (3192(GA)TB110)
   j. Typical mid level floor plan - Tower B Typical Mid Floor (3192(GA)TB120)
   k. Typical high level floor plan - Tower B Typical High Floor (3192(GA)TB130)
   l. Typical high level floor plan - Tower B Typical Penthouse Floor (3192(GA)TB140)
BENEFITS OF COST PLANNING

<table>
<thead>
<tr>
<th>Benefit</th>
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<tbody>
<tr>
<td>Better value for money</td>
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<tr>
<td>Improved building quality and performance</td>
</tr>
<tr>
<td>Budget and value accountability</td>
</tr>
<tr>
<td>Improved relationships between all project participants</td>
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<tr>
<td>Design problems identified and solved earlier</td>
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## Pre-Contract Cost Management – Procurement and Tendering

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<td>• Tendering Methods</td>
</tr>
<tr>
<td>• Global procurement methods</td>
<td>• Pre-qualification process</td>
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<td>• Client’s requirements</td>
<td>• Tendering procedures</td>
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<td>• Time, Cost, Quality, HSE and Sustainability</td>
<td>• Tender documents</td>
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<td>• Procurement Strategies</td>
<td>• Instructions to Tenderers</td>
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<tr>
<td>• Selection of right procurement route/methods</td>
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<td>• Tender opening protocols</td>
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<td>• Critical appraisal on selection</td>
<td>• Rate Analysis and adjustments</td>
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<td>• Choice of form of contract</td>
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<td>• Procurement report</td>
<td>• Technical Analysis</td>
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<td></td>
<td>• Tender Reports</td>
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<td>• Tender recommendation</td>
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<tr>
<td></td>
<td>• Award Contract</td>
</tr>
</tbody>
</table>
07. POST CONTRACT COST MANAGEMENT

- Establishing procedures
- Payment's process
- Change Management
- Variations
- Claims
- Contractual challenges
- Commercial Management
- Budget Control
- Cost Overrun
- Cost Reports
- Evaluation of additional costs
- Cost Tracking
- Cost Analysis
- Commercial closeout
# Cost Report – Contents

<table>
<thead>
<tr>
<th>Contract Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Package name and reference</td>
</tr>
<tr>
<td>Budget associated with each contract / package</td>
</tr>
<tr>
<td>Contract Price</td>
</tr>
<tr>
<td>Instructed variations (agreed / not agreed)</td>
</tr>
<tr>
<td>Anticipated variations (forecast)</td>
</tr>
<tr>
<td>Claims / EOT</td>
</tr>
<tr>
<td>Forecast Out-turn Cost or Cost At Completion</td>
</tr>
<tr>
<td>Expenditure summary</td>
</tr>
<tr>
<td>Financial Status – Cumulative and for this month</td>
</tr>
</tbody>
</table>
09. CHANGE MANAGEMENT

![Diagram illustrating the comparison between employer-originated changes and contractor-originated changes.](aiqs.com.au)

Figure 1: Comparing employer-originated changes with contractor-originated changes (Source: based on Project Management, 9th edition, by Dennis Lock, published by Gower Publishing, © Dennis Lock, 2007, used by arrangement with Taylor & Francis Books UK)
Figure 3: Flowchart of the change management process (Source: based on Project Management, 9th edition, by Dennis Lock, published by Gower Publishing, © Dennis Lock, 2007, used by arrangement with Taylor & Francis Books UK)
10. CONCLUSION
Any Questions?
Please contact

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THANK YOU