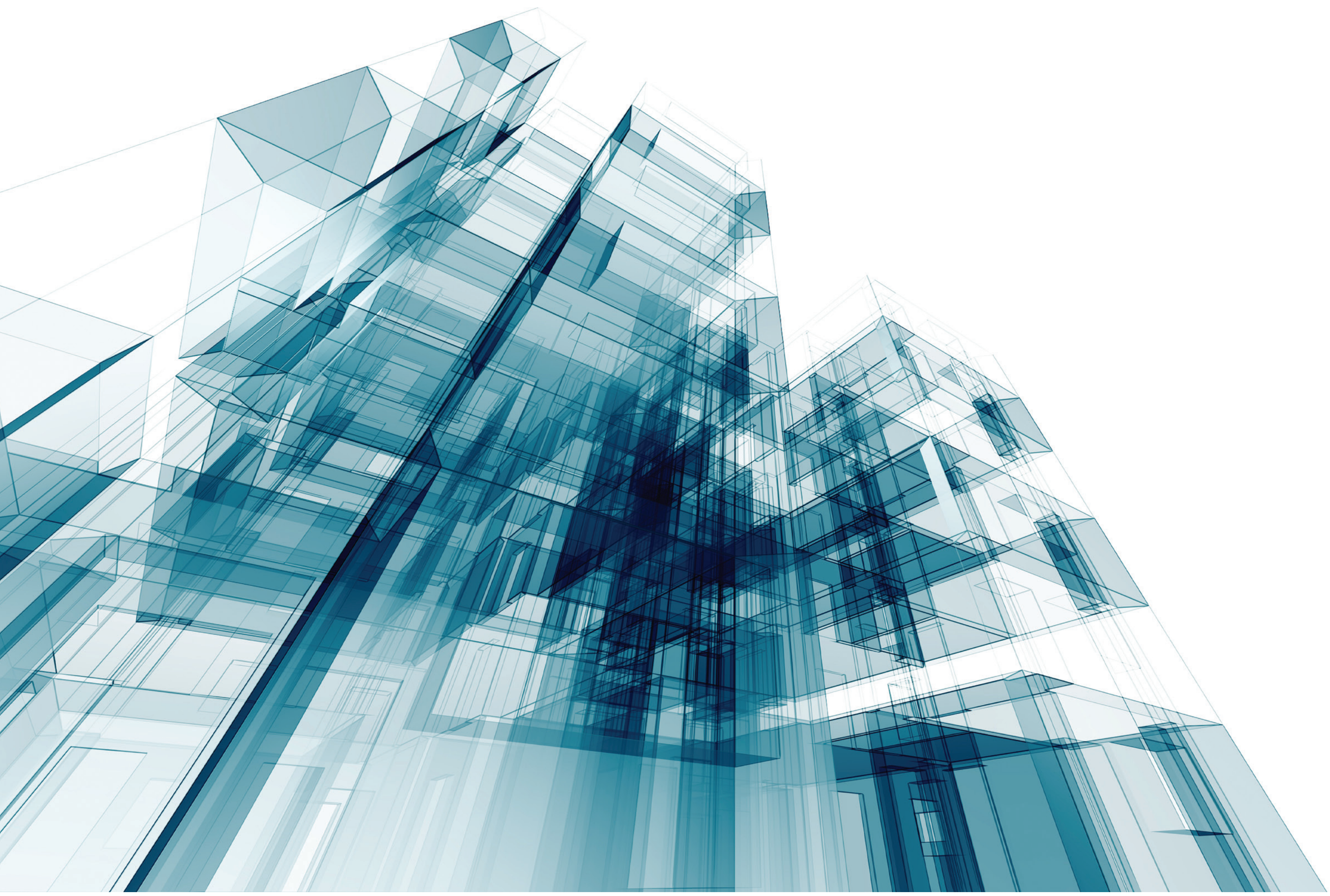
RICS guidance note

RICS professional guidance, UK

Cost reporting

1st edition



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RICS would like to thank the following for their contribution to this guidance note:

Lead author:

Christopher Green FRICS, Capita Property and Infrastructure

Working group:

Chair: Andrew Smith FRICS, Laing O'Rourke

John G Campbell FRICS, BAM Construction Ltd

David Cohen FRICS, Amicus Development Solutions

Stuart Earl FRICS, Gleeds Cost Management

Roland Finch FRICS, NBS

Roy Morledge FRICS, Nottingham Trent University

Michelle Murray MRICS, Turner & Townsend plc

Alan Muse FRICS, RICS

Michael T O'Connor FRICS, Carillion Construction Ltd

Martin Stubbington MRICS, RICS

Kevin Whitehead FRICS, McBains Cooper Consulting Ltd

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Contents

RICS professional guidance

International standards

RICS is at the forefront of developing international standards, working in coalitions with organisations around the world, acting in the public interest to raise standards and increase transparency within markets. International Property Measurement Standards (IPMS – ipmsc.org), International Construction Measurement Standards (ICMS), International Ethics Standards (IES) and others will be published and will be mandatory for RICS members. This guidance note links directly to these standards and underpins them. RICS members are advised to make themselves aware of the international standards (see www.rics.org) and the overarching principles with which this guidance note complies. Members of RICS are uniquely placed in the market by being trained, qualified and regulated by working to international standards and complying with this guidance note.

RICS guidance notes

This is a guidance note. Where recommendations are made for specific professional tasks, these are intended to represent 'best practice', i.e. recommendations that in the opinion of RICS meet a high standard of professional competence.

Although members are not required to follow the recommendations contained in the guidance note, they should take into account the following points.

When an allegation of professional negligence is made against a surveyor, a court or tribunal may take account of the contents of any relevant guidance notes published by RICS in deciding whether or not the member acted with reasonable competence.

In the opinion of RICS, a member conforming to the practices recommended in this guidance note should have at least a partial defence to an allegation of negligence if they have followed those practices. However, members have the responsibility of deciding when it is inappropriate to follow the guidance.

It is for each member to decide on the appropriate procedure to follow in any professional task. However, where members do not comply with the practice recommended in this guidance note, they should do so only for good reason. In the event of a legal dispute, a court or tribunal may require them to explain why they decided not to adopt the recommended practice.

Also, if members have not followed this guidance, and their actions are questioned in an RICS disciplinary case, they will be asked to explain the actions they did take and this may be taken into account by the Panel.

In some cases there may be existing national standards which may take precedence over this guidance note. National standards can be defined as professional standards that are either prescribed in law or federal/ local legislation, or developed in collaboration with other relevant bodies.

In addition, guidance notes are relevant to professional competence in that each member should be up to date and should have knowledge of guidance notes within a reasonable time of their coming into effect.

This guidance note is believed to reflect case law and legislation applicable at its date of publication. It is the member's responsibility to establish if any changes in case law or legislation after the publication date have an impact on the guidance or information in this document.

Document status defined

RICS produces a range of professional guidance and standards products. These have been defined in the table below. This document is a guidance note.

Type of document	Definition	Status
Standard		
International standard	An international high-level principle-based standard developed in collaboration with other relevant bodies.	Mandatory
Practice statement		
RICS practice statement	A document that provides members with mandatory requirements or a rule that a member or firm is expected to adhere to. This term encompasses practice statements, Red Book professional standards, global valuation practice statements, regulatory rules, RICS Rules of Conduct and government codes of practice	Mandatory
Guidance		
RICS code of practice	Document approved by RICS, and endorsed by another professional body/stakeholder, that provides users with recommendations for accepted good practice as followed by conscientious practitioners.	Mandatory or recommended good practice (will be confirmed in the document itself).
RICS guidance note (GN)	Document that provides users with recommendations or approach for accepted good practice as followed by competent and conscientious practitioners.	Recommended best practice. Usual principles apply in cases of negligence if best practice is not followed.
RICS information paper (IP)	Practice-based document that provides users with the latest technical information, knowledge or common findings from regulatory reviews.	Information and/or recommended good practice. Usual principles apply in cases of negligence if technical information is known in the market.

1 Introduction

This guidance note sets out the principles of cost reporting from the perspective of the quantity surveyor to the client during construction. This guidance note explains the purpose of cost reporting, the factors affecting outturn cost and explores the different formats and types of cost report.

Pre-construction cost reporting is covered under NRM.

The practical reporting of each type of variable cost is explored in anticipation that each type of variable cost will require to be considered regardless of procurement strategy or contract form.

Guidance is given under the following headings which map to the Assessment of Professional Competence (APC):

- General principles: (Level 1: Knowing)
- Practical application: (Level 2: Doing)
- Practical considerations: (Level 3: Doing/advising).

Minimum level of service

The quantity surveyor is expected to fulfil the following duties, notwithstanding the detailed terms of any appointment or contractual obligation:

- report all known construction costs
- report all anticipated construction costs
- report on required risk allowances for construction costs; and
- provide reports on a regular and frequent basis.

2 General principles (Level 1 – Knowing)

2.1 The purpose of cost reporting

The purpose of cost reporting is to inform the client in a construction project of the likely outturn cost of the construction project. The forecast of outturn costs may be expressed as a variance against a budget amount, or expressed in absolute terms.

A cost report will record:

- all costs incurred at the date of the report, where they are **known** and can be **accurately valued** in accordance with the particular contract conditions
- all costs incurred at the date of the report, where they are **known** and can be **estimated** in accordance with the particular contract conditions
- the forecast of costs to be incurred as can reasonably be **foreseen** at the date of the report and **estimated** in accordance with the particular contract conditions; and
- the risk allowances necessary as can reasonably be **foreseen** at the date of the report.

A cost report prepared on a regular and frequent basis will afford the client and the project team the ability to control the outturn construction cost. Outturn cost is controlled by the recognition of cost changes incurred and planned implementation of future cost changes.

2.2 Cost reporting models

Costs can be reported at three basic levels in a construction project:

A construction cost report captures historic and forecast costs incurred under a construction contract. Examples of typical cost report headings (see section 2.3 for definitions) for common contract arrangements include:

Lump sum contracts

- contract sum
- adjustment of variable costs
- adjustment of variations
- adjustment of fluctuations
- claims for loss and/or expense; and
- adjustment of risk allowances.

Remeasurable contracts

- contract sum
- adjustment of remeasurable work
- adjustment of variable costs
- adjustment of variations
- adjustment of fluctuations
- claims for loss and/or expense; and
- adjustment of risk allowances.

Reimbursable contracts

- contract sum/target cost
- adjustment of reimbursable costs incurred
- forecast of reimbursable costs to be incurred; and
- adjustment of risk allowances.

Management contracts

- contract sum/target cost
- adjustment of management fee
- adjustment of reimbursable costs incurred
- forecast of reimbursable costs to be incurred; and
- adjustment of risk allowance.

Construction management contracts

- construction management fee
- adjustments to the construction management fee
- adjustments to the trade contracts

trade contract 1
↓
trade contract N

contract sum
adjustment of variable costs
adjustment of variations
adjustment of fluctuations
claims for loss and/or expense
adjustment of risk allowances

- adjustment to project risk allowances.

A project cost report captures historic and forecast costs across a construction project. Typical cost report headings are given below:

- construction costs
- professional fees
- statutory fees and charges
- third-party costs
- direct works costs
- land costs
- agency costs
- finance cost; and
- legal fees.

The quantity surveyor may be asked to produce a project cost report and draw specific cost advice from other individual budget holders or advisers. The quantity surveyor should include a note in the cost report to draw attention to the costs provided by others and exclude liability for the accuracy of these costs.

A programme cost report captures historic and forecast costs across a programme of construction works. Typical cost report headings are given below:

- programme management office costs; and
- project costs.

Detailed cost reports can be prepared to give a greater level of detail within a construction project. Some examples are given below:

- Elemental cost reports: report costs at an elemental level. This type of cost reporting can assist in value management and value engineering when budgets have been established for each project element.
- Building cost reports: cost reports for individual buildings across a project comprising several buildings.
- Budget holder reports: cost reports prepared for the elements of the construction works under the control of individual budget holders. A budget holder may be a specific designer of the project i.e. architect, building services engineer, structural engineer.
- Stakeholder reports: cost reports prepared for individual stakeholders in projects with multiple stakeholders.

2.3 Factors affecting outturn construction costs

The outturn cost of a construction project comprises the sum total of the following types of cost that the quantity surveyor is required to adjust under a construction contract.

Fixed costs

The costs that have been agreed to be paid for the known work or services.

Variable costs

Provisional sums

- Undefined provisional sums

  The cost allowances for works or services whose design specification and extent are not known at the date of contract.
- Defined provisional sums

  The cost allowances for works or services whose design and specification are not known at the date of contract but the extent is sufficiently well known to allow for programming and management.

Provisional quantities

The provisional quantities of work whose specification is known, but the exact amount has yet to be determined.

Prime cost sums

The financial adjustment of work whose extent is known, but whose specification has yet to be determined.

Daywork allowances

The monetary allowances made for the costs of labour, plant and materials, against which percentage uplifts are priced against the base rates of labour and prime cost of materials and plant. These allowances are for work whose quantity and specification are unknown and whose instruction is likely to be on an adhoc basis where the valuing of the work by reference to contract rates would be inappropriate.

Variations

Contract instructions

The financial adjustment arising from instructions issued in accordance with the contract for variations to the contract works.

Anticipated instructions/early warnings

The financial adjustment arising from instructions known to be required but not yet issued in accordance with the contract for variations to the contract works.

Loss and expense

Additional costs arising from delays to programme or the disruption to the performance of the contract works.

Fluctuations

Financial adjustments made to the original contract prices to compensate for changes in pricing levels at a macro-economic level by reference to input costs, price indices and price adjustment formulae.

Risk allowances

The monetary allowances, for works or services, whose quantity and specification are unknown and are at the risk of the client.

2.4 Report formats

There is no single type of cost report format recommended by RICS. Most professional practices have a preferred or standard format which is used in the absence of specific client requirements.

Some construction industry clients have specific cost report formats that they require quantity surveyors to adopt for the cost reporting of their projects.

Some construction industry clients have specific cost reporting systems that they require quantity surveyors to input cost data into or operate remotely.

2.5 Reporting frequency

Cost reports must be regularly updated to inform the client of likely outturn costs. UK construction industry practice is to value work on a monthly basis. It is therefore recommended that cost reports are also updated and published on a monthly basis. There may be specific project or client requirements to report costs on a different frequency, e.g. quarterly, but this should be at the specific request of the client.

2.6 Distribution and confidentiality

The quantity surveyor must take instruction from the client as to who the cost report should be distributed to. The information contained in a cost report is confidential and should always be marked as such and be prepared, distributed, handled and stored in a manner to protect its confidentiality.

Quantity surveyors should refer the RICS Professional and Ethical Standards and the requirement to act with integrity which sets out the requirement to respect confidential information of clients and potential clients.

3 Practical application (Level 2 – Doing)

3.1 Establishing the budget

Where the purpose of the cost report is to express costs incurred as a variance against a budget it is necessary to accurately establish the scope and content of the budget.

A budget may contain financial allowance for two broad categories of cost:

- Costs of work which is the subject of the construction contract.
- Costs of other work that is not the subject of the construction contract.

The financial allowance for the cost of work, which is the subject of the construction contract, is defined by the building contract sum. The financial allowance for the cost of other work should be agreed with the client. This is defined as the post tender estimate under NRM. It is recommended that the quantity surveyor obtains or issues written confirmation of the budget and its scope.

- Each cost report should state the approved budget against which the variance is being stated.
- All financial allowances in the budget should be exclusive of VAT.

3.2 Treatment of variable costs

Provisional sums

At the outset of the construction contract the quantity surveyor should include the full amount of each provisional sum in the outturn cost report. As work is instructed and valued against each provisional sum the quantity surveyor should adjust the outturn cost forecast against each provisional sum to reflect the costs incurred and forecast against each provisional sum. By reporting in this manner, the quantity surveyor affords the client the earliest opportunity to take action to mitigate cost increases against a provisional sum, or make use of any cost saving achieved. The construction contract may allow the addition of overheads and profit to the cost incurred against provisional sums. This amount should be included in this section of the cost report.

Prime cost sums

At the outset of the construction contract the quantity surveyor should include the cost of work which is subject to the inclusion of a prime cost sum as priced in the construction contract sum.

As the specification of the work becomes defined then the quantity surveyor should adjust the cost of the work item accordingly and adjust the outturn cost forecast against that work item.

Prime cost sums are adjusted by the following method.

- Calculate the supply only cost of the specified material, including allowance for waste, in the units of the work item that is the subject of the prime cost sum.
- Subtract the prime cost sum amount from the unit rate of the work item.
- Add the calculated cost of the specified material to the unit rate of the work item.
- Calculate the revised amount of the work item by multiplying the quantity of the work item by the revised rate.
- Adjust the outturn cost report to reflect the difference in the cost of the work item.

The construction contract may allow the addition of overheads and profit to the cost incurred against prime cost sums. This amount should be included in this section of the cost report.

The quantity surveyor should adjust the outturn cost report as soon as the material is specified for each prime cost sum. This will afford the client the earliest opportunity to take action to mitigate cost increases against any prime cost sum, or make use of any savings achieved.

Daywork allowances

At the outset of the construction contract the quantity surveyor should include the full amount of the daywork allowances as set out in the construction contract. The quantity surveyor should maintain a separate daywork account to collate, calculate and record the amount of work undertaken on a daywork basis.

Dayworks are submitted by the construction contractor on a daywork sheet that sets out the quantities and rates of plant, labour and material for each instructed item of work.

The quantity surveyor should check the following before including the cost of a daywork sheet.

- The daywork sheet has been approved and signed by the client's representative designated in the construction contract.
- The basic rates for plant labour and materials have been correctly recorded in accordance with the construction contract.
- The contract rates for overheads and profit have been correctly applied.
- The daywork sheet is arithmetically correct.
- The work that is the subject of the daywork sheet has been instructed under the contract.
- The correct method of valuing the instructed work under the contract is on a daywork basis.

Risk allowances

At the outset of the construction contract the quantity surveyor should include the full amount of each risk allowance which is not a fixed price risk allowance borne by the contractor (these sums are included in the fixed prices). As work is instructed which is to be set against the risk allowances, then the quantity surveyor should reduce the risk allowance by the cost of each such variation valued in accordance with the contract.

Any remaining risk allowances should be treated as described in section 4.5.

3.3 Treatment of variations

Contract instructions

Contract instructions should be valued in accordance with the contract and included within the cost report. Where the valuation of a contract instruction has been agreed with the contractor then it should be so identified within the cost report.

Where the valuation of a contract instruction has not been agreed with the contractor then it should be identified separately in the cost report. When the quantity surveyor is aware of the valuation being claimed by the contractor is different to the valuation prepared by the quantity surveyor, then it is good practice to record this difference of opinion within the cost report. However, the outturn cost report should be based on the valuation of variations as determined by the quantity surveyor.

Anticipated instructions/early warnings

The quantity surveyor should identify all anticipated instructions/early warnings and make a suitable cost allowance in the cost report. The quantity surveyor should review the following to identify anticipated variations,

- instruction requests issued by the contractor
- drawing revisions
- specification revisions; and
- programme delays which are at the risk of the client

The cost report should clearly identify that these are anticipated instructions which have not have been instructed in accordance with the contract.

Any allowance for overheads and profit that is required by the construction contract should be included within the valuation of each variation.

Professional Fees

The quantity surveyor should note that contract variations may incur additional fees of professional advisers. The construction cost report should exclude the additional cost of such fees incurred by those professional advisers engaged directly by the client. The cost report should include the additional cost of such fees incurred by those professional advisers engaged by the contractor.

If the quantity surveyor is engaged to prepare a project cost report, then all adjustments to professional fees need to be included. Some of these will be adjusted under the construction cost section (those incurred by the building contractor) and some will be adjusted under the professional fees section (those incurred by the client).

3.4 Fluctuations

Where the contract permits an adjustment to the contract price for fluctuations, then the quantity surveyor should include the amount of the adjustment within the cost report.

The cost report should only include the amount of fluctuation applied to the value of the work carried out to date. The cost report should include a note that no allowance has been made for future fluctuation costs.

3.5 Loss and expense

The form of construction contract may give rise to an entitlement for the construction contractor to be reimbursed for loss and/or expense for which they would not be reimbursed by a payment under other provisions of the contract.

The JCT Standard Form of Building Contract provides for such payments to be made separately from the variations provisions of the contract. The NEC3 engineering and construction contract treats these matters the same as other variations to the works and does not distinguish loss and/or expense separately from compensation events.

Where the form of contract provides for separate reimbursement of loss and/or expense then any claims made under these separate provisions should be reported separately in the cost report. Contracts with this type of provision generally require the building contractor to advise the client of the amount of the claim as soon as it has become apparent that regular progress of the works has been affected. The client may instruct the quantity surveyor to ascertain the amount of loss and/or expense due to the construction contractor as an additional service.

When so instructed, the quantity surveyor should assess the information submitted in support of the claim, when received in accordance with the contract, and include an appropriate allowance in the cost report.

Where the claim received from the building contractor is insufficiently particularised to allow the quantity surveyor to make a reasonable assessment, then the quantity surveyor should request further information and details from the building contractor.

When the quantity surveyor is not instructed to ascertain the amount of loss and/or expense due, then the client should be consulted to determine if another professional has been appointed or whether the matter is to be excluded from the cost report. Where the client has employed others to ascertain the amount of loss and/or expense, then the quantity surveyor should request a cost report on this matter for inclusion in the cost report.

3.6 Example report

A simple cost report should include the following headings:

Authorised expenditure

Contract sum	10,000,000
Additional authorised expenditure	400,000
Total authorised expenditure	**10,400,000**

Forecast cost

Contract sum	10,000,000
Less risk allowances	(300,000)
	9,700,000
Adjustment of provisional sums	20,000
Adjustment of prime cost sums	(120,000)
Adjustment of provisional quantities	20,000
Contract instructions	250,000
Anticipated instructions	100,000
Fluctuations	10,000
Loss and/or expense	120,000
Risk allowance for remainder of contract	150,000
Direct works	0
Total forecast cost	**10,250,000**
Remaining authorised expenditure	**150,000**
	10,400,000

The format of the cost report should be discussed and agreed with the client at the outset.

3.7 Other matters

Treatment of VAT

Cost reports should always report costs excluding value added tax (VAT). The liability to pay VAT is determined by many factors, each unique to a particular customer and project including:

- customers VAT registration
- corporate entity
- nature of the construction project
- prevailing VAT rules; and/or
- applicable tax jurisdiction

The cost report should contain a clear statement that all reported costs are exclusive of VAT.

Capital allowances

Cost reports should not report the impact of capital allowances. If the quantity surveyor has been commissioned by the client to provide advice on capital allowances, then this advice should be provided separately to the cost report. The cost report should contain a clear statement that all reported costs are exclusive of capital allowances.

For more information see the RICS guidance note *Capital allowances and land remediation relief* (2013).

Direct works

The client may employ others to carry out work in conjunction with the contractor providing that the construction contract both permits this and that the contract conditions have been fulfilled.

The quantity surveyor may be appointed to report on the costs of these client works in addition to the construction contract works. Where this is the case it is good practice to report the direct works costs in a separate section of the cost report and include a separate reporting line on the cost report summary. This will clearly identify the direct works costs separately which may assist the client if these works are the subject of alternative funding.

The cost report should state what direct works have been included in the report.

Work undertaken by statutory undertakers

Work that is required to publicly owned assets (e.g. highways, street lighting etc.) or assets privately owned by third parties (e.g. utilities infrastructure etc.) may be subject to different contract conditions than the construction contract works. The quantity surveyor should ascertain the scope and liability for these works and seek instruction from the client as to whether they should be included within the cost report.

The cost report should state what work undertaken by statutory undertakers have been included in the report.

Planning costs

The planning consent granted for the construction project may include requirements for the client to make payments that are outwith the construction contract. Examples of such payment are Section 106 charges, Community Infrastructure Levy (CIL) etc. The quantity surveyor should seek instruction from the client as to whether these costs should be reported in the cost report. The cost report should state what planning costs have been included in the report.

4 Practical considerations (Level 3 – Doing/advising)

4.1 Strategic importance

Cost Control

Frequent, regular and accurate cost reports provide clients and project teams with the best available data upon which to base future project decisions. The quantity surveyor should consider each cost report produced in the context of the project brief and provide possible courses of action to address any cost deviation away from the brief. In the case of cost increases above the brief or approved construction budget the following courses of action may be considered:

(i) Omit elements of remaining construction work that are not immediately critical for the required functionality of the building.

(ii) Reduce the scale of elements of remaining construction work without diminishing the required functionality of the building. This may include reducing room sizes, circulation and communication, space and storey heights.

(iii) Reduce the specification of elements of remaining construction work.

Each of the above measures should be considered within the constraints of the planning consent to ensure no breach is committed.

The quantity surveyor should note the importance of advising the client of the whole life impact of potential cost savings, considering the following:

- capital cost saving
- renewal cost and frequency impact
- operating cost impact
- maintenance cost impact; and
- end of life cost impact.

The quantity surveyor should also note the importance of advising the client of the consequential cost impacts of the potential cost savings, considering the following:

- programme impact
- other cost element impacts
- statutory compliance impact (planning and building control)
- asset value impact; and
- funding conditions.

Cost reporting

The quantity surveyor should consider the following issues when establishing a cost reporting service.

Frequency

Consideration should be given to the duration of the project. Minor works may only have a duration of a few weeks therefore weekly cost reporting may be appropriate. The UK construction industry operates on a monthly payment cycle norm and therefore monthly cost reporting should be considered to be normal.

The timing of the production of the cost report should accord with the availability of updated cost data and is usually prepared in conjunction with the payment cycle. It is recommended practice to produce monthly cost reports even if stage payments are to be made less frequently.

If the volume of variations on a project is such that cost reporting should be carried out at shorter intervals than set out in the consultant's appointment, then the quantity surveyor should advise the client and seek instruction.

Methodology

Cost reports may be issued in hard copy or increasingly they may be issued in electronic format. Regardless of the agreed format it is important that the quantity surveyor maintains a complete record of all cost reports issued. It is recommended that the quantity surveyor meets with the client, in person, to present each cost report and explain cost movements, assumptions, risk and opportunity.

Cash flow reporting

The client may require the quantity surveyor to include a report on anticipated cash flow within the cost report.

This should be carried out in accordance with the RICS guidance note *Cash flow forecasting*.

Emergence of the final account

Cost reports should indicate the status of agreement of each category of cost in a construction project. As each category of cost is progressively agreed with the building contractor, so the final account emerges and cost certainty increases. The applicable construction contract will set out the specific procedure for the preparation of the final account and the quantity surveyor should adhere strictly to these procedures.

4.2 Budget holder reporting

As described in section 3.1, a key strategic function of cost reporting is cost control. However, without establishing ownership and responsibility for costs, it is difficult to exert control over costs. A cost report may be expressed as a series of budget holder reports. Budget holders can be identified as those designers who retain design control over specific construction elements. A typical split of budget holder responsibility is shown here:

Budget holder	Element	
Client	0	Facilitating works
Structural engineer	1	Substructure
Structural engineer	2.1	Frame
Structural engineer	2.2	Upper floors
Structural engineer	2.3.1	Roof structure
Architect	2.3.2	Roof coverings
Architect	2.3.3	Glazed roofs
Building services engineer	2.3.4	Roof drainage
Architect	2.3.5	Rooflights, skylights and openings
Architect	2.3.6	Roof features
Architect	2.4	Stairs and ramps
Architect	2.5	External walls
Architect	2.6	Windows and external doors
Architect	2.7	Internal walls and partitions
Architect	2.8	Internal doors
Architect	3	Internal finishes
Client	4	Fittings furnishings and equipment
Building services engineer	5	Services
Architect	6	Prefabricated buildings and building units
Architect	7	Work to existing buildings
Landscape architect	8	External works

It can be seen in this example that cost reports can be expressed as group element cost reports or element cost reports as appropriate. It should be recognised that more than one designer may contribute to the design and therefore cost, of a particular element. For example, sanitary installations usually have fittings specified by the architect and services designed by the building services engineer. It is recommended that one of the designers is given budget responsibility and should co-ordinate design and cost control.

If budget holder cost reporting is deemed appropriate, the quantity surveyor should arrange for monthly cost meetings with each budget holder to discuss cost variances from the agreed budgets. This requirement should be taken into account when agreeing fees for the quantity surveying service.

The budget holder cost reports are intended to be supplemental to a construction cost report or project cost report as they only report costs within a budget holder's responsibility.

4.3 Contractor consultation

The content of a cost report is confidential and should not be disclosed to anyone without the express consent of the client. A comprehensive cost report should not be prepared without a detailed consultation with the building contractor. This consultation should identify the amounts being claimed and forecast against each category of cost by the building contractor. The cost report may include this information in addition to the quantity surveyors assessment of each category of costs. This allows the client to see the degree of agreement and hence the residual risk in outturn cost.

4.4 Client and budget holder presentation

It is recommended that the quantity surveyor presents each cost report to the client. A careful explanation of each section of the cost report will afford the client or budget holder a better understanding of the costs of a construction project and movements in cost in the reporting period. This in turn will lead to better decision making on issues of scope, specification and programme, and increase the likelihood of controlling cost within budget. Communication of a cost report solely by post or email should be avoided.

4.5 Risk allowance management

Cost reports should avoid the use of a general contingency allowance and instead adopt the use of risk allowances for anticipated cost occurrences. Quantity surveyors should measure and value the costs being incurred and reduce the risk allowance as the actual cost emerges. If a general contingency is required to be included in the budget by the client, then its reporting treatment should be agreed with the client at the outset of the project. There are two accepted methods of reporting general contingency:

1. General risk allowance maintenance method

   Costs incurred and forecast for which no other provision was made in the budget, should be set against the general risk allowance. The balance of remaining risk allowance should be maintained throughout the remainder of the project.

2. General risk allowance progressive release method

   Costs incurred and forecast for which no other provision was made in the budget should be set against the general risk allowance. The balance of remaining allowance should be progressively reduced on an agreed basis – The release of remaining general risk allowance may be made pro-rata to:

   - percentage completion of programme
   - percentage completion of cost

The advantage of the progressive release method is that it affords the client greater efficiency in the use of available capital. The released risk allowance may be used for capital expenditure outside of the construction project or reapplied to enhance the project.

4.6 Reporting of loss and expense

The form of construction contract may permit the building contractor to claim loss and expense arising from specified types of delay and/or disruption to the regular progress of the works. Valuing a claim for loss and expense may be instructed by a client as an additional service for the quantity surveyor to perform. The cost report should include the amount being claimed by the contractor and, if instructed, the amount assessed by the quantity surveyor, as being reasonable.

The difficulty in reporting a reasonable assessment lies in the fact that loss and expense claims are not readily measurable and hence capable of being accurately assessed without detailed submissions from the contractor. The burden of proof of the actual loss and expense lies with the building contractor and may include prolongation and disruption claims from its subcontractors in addition to the building contractors own loss and expense. This information may not be provided to the quantity surveyor until sometime after completion of the construction project. The quantity surveyor should make the client aware of the difficulty in reporting a reasonable assessment of loss and expense claims during the presentation of each cost report. The cost report should state whether an assessment for loss and/or expense has been included and on what basis is the allowance made.

4.7 Reporting of liquidated and ascertained damages

The form of construction contract may permit the client to deduct liquidated and ascertained damages if the building contractor fails to complete the works by the date for completion. The amount of liquidated and ascertained damages which the client is entitled to recover from the building contractor should be reported in the cost report unless instructed otherwise by the client. The quantity surveyor should always seek the client's instruction in this regard.

4.8 Treatment and reporting of tender adjustments

Tenders received for construction works may be subject to overall adjustments. NRM 2 identifies two such adjustments:

- fixed-price adjustment (NRM 2, section 2.13.1); and
- directors adjustments (NRM 2, section 2.13.2).

Both arguably introduce an overall adjustment to the rates and prices set out in the contractor's tender.

The fixed-price adjustment should be taken into account in the valuation of variable costs and variations where the basis of adjustment is the tender price or tender rates. Where variable costs and variations have been adjusted on the basis of fair rates, then no adjustment for the fixed price adjustment should be made.

The director's adjustment is deemed to be a one-off adjustment that should not be applied to any subsequent adjustment of either variable costs or variations.

Glossary

Anticipated instructions	Instructions known to be required but not yet issued in accordance with the contract for variations to the contract works.
Budget	The amount approved or agreed with the client that is available for expenditure on the construction project.
Contract instructions	Instructions issued in accordance with the contract for variations to the contract works.
Dayworks	The monetary allowances made for the costs of labour, plant and materials, against which percentage uplifts are priced against the base rates of labour and prime cost of materials and plant. These allowances are for work whose quantity and specification are unknown and whose instruction is likely to be on an adhoc basis where the valuing of the work by reference to contract rates would be inappropriate.
Direct works	Works undertaken directly by the client.
Fixed costs	The lump sum payments set out in the contract for specified construction work.
Fluctuations	Monetary adjustments made to the original contract prices to compensate for changes in pricing levels at a macro-economic level by reference to input costs, price indices and price adjustment formulae.
Loss and expense	Additional costs arising from delays to programme or the disruption to the performance of the contract works.
Outturn cost	The forecast total construction cost.
Prime cost sums	The quantities of work whose extent is known but whose specification has yet to be determined.
Provisional quantities	Where work can be described and given in items in accordance with the applicable measurement rules but the quantity of the work required cannot be accurately determined, an estimate of the quantity is given and identified as an provisional quantity.
Provisional sums	
Defined provisional sums	A provisional sum for defined work is a sum provided for work that is not completely designed but for which the following information shall be provided: – the nature and construction of the work – a statement of how and where the work is fixed to the building and what other work is to be fixed thereto – a quantity or quantities that indicate the scope and extent of the works; and – any specific limitations and the like identified. Where provisional sums are given for defined work the contractor will be deemed to have made due allowance in programming, planning and pricing preliminaries.
Undefined provisional sums	A provisional sum for undefined work is a sum provided for work where the information required for defined provisional sums cannot be given. Where provisional sums are given for undefined work the contractor will be deemed not to have made any allowance in programming planning and pricing preliminaries.
Risk allowances	The monetary allowances, for works or services, whose quantity and specification are unknown and are at the risk of the client.

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RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

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United Kingdom RICS HQ
Parliament Square, London
SW1P 3AD United Kingdom
t +44 (0)24 7686 8555
f +44 (0)20 7334 3811
contactrics@rics.org

Media enquiries
pressoffice@rics.org

Ireland
38 Merrion Square, Dublin 2,
Ireland
t +353 1 644 5500
f +353 1 661 1797
ricsireland@rics.org

Europe
(excluding UK and Ireland)
Rue Ducale 67,
1000 Brussels,
Belgium
t +32 2 733 10 19
f +32 2 742 97 48
ricseurope@rics.org

Middle East
Office G14, Block 3,
Knowledge Village,
Dubai, United Arab Emirates
t +971 4 446 2808
f +971 4 427 2498
ricsmenea@rics.org

Africa
PO Box 3400,
Witkoppen 2068,
South Africa
t +27 11 467 2857
f +27 86 514 0655
ricsafrica@rics.org

Americas
One Grand Central Place,
60 East 42nd Street, Suite 2810,
New York 10165 – 2811, USA
t +1 212 847 7400
f +1 212 847 7401
ricsamericas@rics.org

South America
Rua Maranhão, 584 – cj 104,
São Paulo – SP, Brasil
t +55 11 2925 0068
ricsbrasil@rics.org

Oceania
Suite 1, Level 9,
1 Castlereagh Street,
Sydney NSW 2000. Australia
t +61 2 9216 2333
f +61 2 9232 5591
info@rics.org

North Asia
3707 Hopewell Centre,
183 Queen's Road East
Wanchai, Hong Kong
t +852 2537 7117
f +852 2537 2756
ricsasia@rics.org

ASEAN
Suite 10, 25th Floor,
Samsung Hub, 3 Church Street,
Singapore 049483
t +65 6692 9169
f +65 6692 9293
ricssingapore@rics.org

Japan
Level 14 Hibiya Central Building,
1-2-9 Nishi Shimbashi Minato-Ku,
Tokyo 105-0003, Japan
t +81 3 5532 8813
f +81 3 5532 8814
ricsjapan@rics.org

South Asia
48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India
t +91 124 459 5400
f +91 124 459 5402
ricsindia@rics.org

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