



EXPRO National Manual for Projects Management

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Project Estimate Introduction Guideline



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Project Estimate Introduction Guideline

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1.0 PURPOSE

The purpose of the Estimate chapter is to provide the Entity with the principles, methods, processes, procedures, templates and checklists to perform suitable Estimates on projects. This procedure applies to works performed under all Government construction projects executed throughout the Kingdom of Saudi Arabia

2.0 SCOPE

This introduction and the procedures it references are intended to cover projects estimates needed at various Stage Gates during the development of a project. Cost estimates are required in order to support the decision making process and are the foundation for managing and controlling project delivery. The procedures will ensure a common framework and provide guidance to ensure a consistent approach. Where capital expenditure is anticipated for infrastructure projects a cost estimate shall accompany the scope of work.

3.0 INTRODUCTION

The capital cost estimate is a forecast of the cost for a defined scope of work and is required at every gate during the development of a project. As a project progresses, with increased levels of project definition, the level of accuracy of the cost estimate improves. The estimate provides the basis for economic analysis of a project (including alternatives considered), management decisions, budgeting and cost control.

The purposes of capital cost estimates are to:

- Provide input for economic appraisal of a project and/or alternative options.
- Provide input to a cost model of the project against which optimization can be studied.
- Provide input to a cost model against which different cash phasing and funds made available can be studied.
- Provide the basis for the Project Control during project execution.

The estimate lifecycle commences during the Strategic Planning phase and continues through project delivery. The Project Initial Cost Estimate forms part of the Entity 5 Year Projects Portfolio Plan and commences within Stage B. It assists in facilitating the confirmation of the Portfolio of Initiatives.

This Initial Cost Estimate develops further as more information, data and definition becomes available as the project progresses. This then becomes the Project Cost Estimate, established and approved during Stage 2 of the Project Stage Gate process. Further estimates are developed following the Project Stage Gate process.

An estimate is described by its various classes depending on the project phase, including the level of scope definition and the corresponding level of accuracy.

Typical elements of a total installed cost (TIC) estimate are:

- Land acquisition
Costs associated with the acquisition of the land necessary for the construction of the project. Includes all associated professional fees and charges.
- Studies, Surveys and Specialist Advice
Costs associated with technical or consulting services for studies (feasibility, market, financial), investigations (geotechnical, surveying testing, topographic, environmental impact), specialist advice or the like that are necessary to support the approval, permitting, design or other front end requirements for the project.
- Project Management, Construction Management and Site Supervision
Costs associated with the provision of project management (PM), construction management (CM) and site supervision services using specialized, project management techniques to oversee the planning, design, and construction of a project, from its beginning to its end, including inspection and acceptance.



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- **Design Services**
Costs associated with the performance of design services for the project.
- **Construction**
Costs associated with the construction of permanent Works (e.g. buildings, either residences, commercial, or institutional structures, as well as construction activities such as paving, highway construction, utility construction and landscape installation). Includes the costs of all works, both temporary and permanent, equipment and facilities and items as such, procured and performed by the appointed construction contractor(s). Construction cost is driven by 2 sub-elements:
 - **Direct Field Costs**
This includes the cost of all materials and improvements forming a permanent part of the finished project and of all contractor and subcontract labor engaged in installing or erecting such materials or performing such improvements.
 - **Distributable Field Costs (sometimes called Indirect or General Conditions support costs)**
This includes material and labor costs which cannot be identified with specific direct operations in the construction of a project and are either supporting services by nature or apply in such a way to several direct operations that a logical allocation to each separate operation cannot readily be made. The cost of materials and labor to construct temporary facilities and perform supporting services that do not form part of the permanent plant are also included in this category.
- **Entity Procured Specialist Equipment and Material**
Costs associated with the purchase and provision of specialized equipment, material, fittings, devices, appliances, apparatus, machinery, and the like by the Entity which are used as a part of the final permanent works.
- **Entity Provided Support to Delivery**
Cost associated with the provision by the Entity directly of support to the delivery, including items such as freight, duties, taxes, insurance, bonds, permits, licenses, royalties, fees, utilities, facilities, site access and other such entity incurred costs.
- **Risk & Contingency**
The contingency provision is an integral cost element of the estimate to cover statistical probability of the occurrence of unforeseeable elements of costs within the defined project scope due to uncertainties, intangibles and unforeseen occurrence of future events. Contingency does not include scope changes, it includes estimate errors and omissions, quantity developments, pricing variations, schedule delays, delays for equipment and material deliveries, contractor claims, variation in labor installation hours and related indirect costs, etc. Cost allowance included to provide for uncertainties (e.g. unknown) in quantity, pricing, productivity, activity duration, and timing that lie within the defined scope of the project.

Risk is a condition or event that have the potential to occur (or not occur) and impact the project cost and schedule. The amount to be included here is the sum of the evaluated risk exposure for each of the identified risks. In other words, it is a cost allowance included for identified (e.g. known) and foreseeable risks.
- **Escalation/Inflation/Currency Risk**
Escalation is a provision in the capital cost estimate to cover the forecast increase in the capital cost from the estimate base date up to the completion of the project. In other words, it is a cost allowance included to cover the foreseeable increase in the basic cost of goods, equipment, materials and services required for the Project that may occur from the base date of an estimate or forecast to the time when the material is purchased or delivered or the service is performed. Escalation generally relates to the price trends occurring in a given segment of the industry. Inflation is the aggregate average of a large number of changing prices and costs throughout the economy. The estimate should identify the costs to be incurred over the timeframe of the project in order to identify and address the exposure and risk to final outturn costs from the specific escalation or general inflation indices used.

Cost associated with foreign currency exchange, if required, is to address the costs of currency hedging where expenditure may be in a currency other than the project base currency (e.g. SAR). The estimate



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should identify the costs to be incurred in each currency in order to identify and address the exposure and risk to final outturn costs from the differing currencies to be used.

The procedures within this chapter are applicable for all estimating activities, but are specifically applicable to cost estimates post Stage Gate 2.

4.0 PROCEDURES

1. EPM-KPC-PR-000004 - Project Forecasting Procedure
2. EPM-KPE-PR-000001 - Project Estimate Types Procedure
3. EPM-KPE-PR-000002 - Project Estimating Coding Procedure
4. EPM-KPE-PR-000003 - Project Estimate Methodology / Development Procedure
5. EPM-KPE-PR-000004 - Project Estimate Review Procedure
6. EPM-KPE-PR-000005 - Project Estimate Approval Procedure
7. ENT-S00-PR-000006 - Project Initial Cost Estimate (Class 5) Procedure
8. EPM-S00-PR-000006 - Project Cost Estimate (Class 4) Procedure
9. EPM-EQ0-PR-000001 - Project Stage Gate Procedure