

# FACT SHEET

## Developing a cost estimate

Section 6.4 of the Disaster Recovery Funding Arrangements-Western Australia 2018 (DRFA-WA) details the requirements when establishing the estimated reconstruction cost for the reconstruction of damaged essential public assets.

This section notes that the State must establish the estimated reconstruction cost for the reconstruction of an essential public asset through:

- a) market response; or
- b) cost estimation.

If *market response* is the selected method, the applicable procurement processes must be followed when requesting pricing from the market.

If *cost estimation* is the selected method, then estimates must be verified by an engineer or quantity surveyor. The engineer or quantity surveyor can be an internal resource or can be engaged as an independent engineer or quantity surveyor.

Clause 6.4.3 notes that an estimate of the reconstruction cost of the essential public asset and identification of a total project cost must be established, comprising eligible state expenditure for:

- construction,
- design and project management,
- contingency, and
- cost escalation.

### **Cost Estimate Template**

A [Cost Estimate Template](#) has been developed to assist local governments with their road asset repairs. It can also be used in the development of estimates for other assets as it highlights the type of information required.

Key points to note about the template include:

- Local governments and agencies are not required to use this template. It can be used as a guide only, providing an indication of the information required.
- Ultimately, once the template has been tested and adjusted to ensure it meets the needs of local governments, it would be preferable that it is used. It is expected that it will take less time to review a template that is familiar to Disaster Recovery Funding Officers, improving the overall efficiency of the process.
- The template has an instructions page. It is highly recommended that people using this template review the instructions in detail.

The definition clearly outlines that as well as design, construction and project management costs, there is an allowance for cost escalation and contingency.

- *Cost escalation* – this is specified by the Commonwealth. There is a calculation that is included in the [Cost Estimate Template](#) – Step 3 of the Unit Rates worksheet.

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There is also a separate fact sheet on [Cost Escalation Fact Sheet](#) to explain it in further detail.

- *Contingency* – Where the cost estimation approach is used there is a table to assist in the calculation of contingency. This is found in the [Cost Estimate Template](#) – Step 6 of the Unit Rates worksheet. There is also a separate fact sheet on [Contingency](#) to explain it in further detail.

## Overheads

When applying the cost estimation approach, the guidance on overheads is that legislatively required on-costs can be included in the cost estimate. The legislated overheads eligible to be built into the cost estimates include:

- Base wage or salary
- Allowances
- Superannuation
- Overtime
- Shift Loading
- Workers Compensation

Any cost which could be defined as “administrative expenditure”, which would have been ordinarily incurred, is specifically excluded (i.e. finance and human resources).

## Timeframes

### For essential public asset reconstruction works

States must establish estimated reconstruction costs in the period of up to 12 months from the end of the financial year in which the relevant eligible disaster occurred (Section 4.3.1 of the DRFA-WA)

For example, if the disaster occurs in April 2019, the cost estimate will be due by 30 June 2020.

### Note:

- It is expected that the repair work shown in the cost estimate will not be commenced until approval has been given by the Disaster Recovery Function section at DFES. If the work is required to be undertaken before the approval of the estimate, please contact the Disaster Recovery Team at DFES.
- This does not include any *emergency works or immediate reconstruction works*. These are works carried out within three months from the date the asset becomes accessible. No estimates are required for emergency and immediate reconstruction works. For further details, please refer to section 4 in the DRFA-WA Guideline or the Fact Sheets available in the DRFA-WA Resource Library.

### Other Category B Measures

This includes loan interest subsidies and freight subsidies. States can incur expenditure in the period of 24 months from the end of the financial year in which the relevant eligible disaster occurred.