

FACT SHEET

Cost Escalation

Section 6.6 of the Disaster Recovery Funding Arrangements Western Australia 2018 (DRFAWA).

The DRFAWA is very clear in the requirement that cost escalation allowances are applied to an estimated reconstruction cost to ensure adequate capital funding is provided to compensate for the expected change, generally positive, in costs over the life of a reconstruction project. (Clause 6.6.1)

How to include cost escalation?

Projects should apply cost escalation to the total cost of the project, which includes construction costs, design, Owner's costs (e.g. project/contract management, land etc) **and** contingency costs.

There is a line item for cost escalation in the Cost Estimate Template, however if Asset Owners are creating an alternative template or utilising an existing template please ensure cost escalation is included appropriately.

There is also a stand-alone template for contingency and cost escalation, which enables the appropriate uplift percentages for a project to be calculated.

How are cost escalation figures calculated?

The Commonwealth provides guidance on the escalation rates that are to be used for works undertaken and funded by the DRFA.

Generally, for assets that are damaged as a result of a disaster event, the repair work being undertaken would generally be carried out as a Construct Only project. The Commonwealth provides escalation rates for Design and Construct projects as well, but it is anticipated that these will only be used on rare occasions. If you have any queries, please do not hesitate to contact the DFES Disaster Recovery Funding Officers.

Rates have been updated to reflect two categories; Construct Only and Design and Construct. There is no longer a breakdown between rural and urban related escalation figures. The following table provides a list of the escalation rates.

<i>Financial Year</i>	<i>Construct Only</i>	<i>Design and Construct</i>
2019/20	2.50%	2.40%
2020/21	2.99%	2.98%
2021/22	3.46%	3.54%
2022/23	3.47%	3.55%
2023/24	2.90%	2.89%
2024/25	2.38%	2.28%
2025/26	2.20%	2.09%
2026/27	2.90%	2.88%
2027/28	2.90%	2.88%

FACT SHEET

Escalation is calculated from the date works commence to the date of completion of the works. Therefore, if works commence 1 July and the project extends for a period of 18 months, you would use the full value for Year 1, and half of the cost escalation value for Year 2.

For example, if you are undertaking a project with no design required you would use the 'Construct Only' percentages noted above: for 18 months from 1 July 2019 and 6 months into Year 2020/21 this would be calculated as follows:

2019/20 =	2.50%
2020/21 =	1.495% (calculated as 2.99% x 6/12 (months) = 1.495%)
<hr/>	
Total =	3.995%