

POLICY SCHEDULE

Policy title

4. ~~Purposes of contingency~~– Contingency is a budgetary amount created to cover the assessed risk of unforeseen cost escalation resulting from price inflation, delay and the margin of error in estimating techniques used

above hallmarks or any other relevant matter. Table a sets out the range of contingency amounts that can be applied when risk is higher or lower than a standard low risk project.

5.3 The amount of contingency included in a project should reflect a risk assessment conducted at the point the budget is approved.

5.4 If an assessment of the level of risk in a project leads to the conclusion that more than 20% Project Board contingency combined with 10% Project Manager Contingency is necessary then more work should be undertaken to reduce the risk in the project and establish greater cost certainty before approval of the project budget is requested. This may be achieved by the approval of a small budget to fund performance of the necessary work.

5.5 The business case for each project approval request should identified the contingency amounts required and should include a risk assessment and risk score based on the hallmarks set out in para 5.1 above. It should objectively explain the need for contingency required in excess of a standard low risk project. Appendix I contains a template matrix for assessing and scoring risk.

6. Managing Project Board contingency

6.1 Project contingency – The Project Board contingency for an individual project will be retained by the Project Board and released only to that specific project on request from the Director of Estates/IT. The project sponsor will then be accountable to the Project Board for the use and management of the released contingency in the project for the authorised purpose and may put in place arrangements and delegations to that end.

6.2 Programme contingency – The Project Board contingency for a programme will be retained by the project Board and released to any of the projects making up the programme on request from the Director of Estates/IT.

6.3 Any unused project contingency or programme contingency will be returned to the University for re-allocation to other purposes.

6.4 Underspends in projects that are part of a programme will be added to the programme contingency.

6.5 The Director of Finance or the Assistant Director of Finance (Finance Corporate Services) will advise the Project Board on the use and management of contingency.

7. Managing Project Manager contingency

7.1 The Director of Estates/IT will retain the Project Manager contingency for each project and will be accountable for its use to the Project Board.

7.2 The Director of Estates may put in place delegations and arrangements for its use and to

8. Optimism Bias- Is a value added to the estimate of project cost in recognition of the likelihood that costs have been underestimated. It is a tool which should be used to establish the potential full cost of a project for planning purposes. Its use is appropriate in the early stages of evaluating project cost to mitigate the risk of under providing financially. It also supports decision making processes which may be staged, authorising work and expenditure to develop a project and improve cost certainty while simultaneously recognising the potential overall cost and affordability of the project which are central to feasibility.

8.1 Optimism bias is intended for use prior to the approval of a project budget. Its use reflects significant uncertainty in cost estimates which should reduce as a project nears the point of being approved and full project budget authorised.

8.2 The Project Board Chair is responsible for ensuring that adequate optimism bias is included in project cost estimates and for establishing points at which it will be re-evaluated and for assessing whether the project is progressing towards cost certainty. In the case of an Estates project the points of assessment may coincide with the stages of design. The Director of Estates/ITS will advise Project Board Chairs on the appropriate amount and function of optimism bias.

8.3 Optimism Bias is removed and replaced by a contingency amount at the point the project is approved and the full project budget authorised.

8.4 An assessment of r4 (is)-1.r14 Tw 0.37 r9%6 (n)2.3 ()11.2 (o14 Tw 0.37 0 Td3-1.1 (e)C -0.002 Tc 0.0r)11 (o)-6

Contingency and Optimism Bias Risk Evaluation

Risk evaluation criteria		Project Contingency Score 0-10	Optimism Bias 0-20
1	Is scope effectively researched complete and documented? - Scope is approved and informed by defined and documented objectives, wide consultation with stakeholders and assessment of risk and impact. (very Low 0-2) - Scope is approved and informed by defined and documented objectives, there has been some consultation and an assessment of risk and impact. (Low 3-4) - Scope is not approved but is informed by defined and documented objectives, there has been limited consultation and so assessment of risk and impact (Medium 5-7) - Scope is not approved, the objectives are unclear and there has been no consultation or assessment of risk and impact (High 8-10)		
2	Are all the deliverables clearly identified and fully understood? - Deliverables are defined, approved and tested against approved project requirements (very Low 0-2) - Draft deliverables have been identified from approved project requirements (Low 3-4) - Draft deliverables are dependent on draft project requirements (Medium 5-7) - Deliverables and requirements have not been drafted (High 8-10)		

3

Appendix I

Risk evaluation criteria		Project Contingency Score 0-10	Optimism Bias 0-20
7	Have accurate estimates and quotes been received for project work? - Accurate independent estimates and quotes have been received for >80% of costs (Very Low 0-2) - Accurate independent estimates and quotes have been received for 60-79% of costs (Low 3-4) - Accurate independent estimates and quotes have been received for 30-59% of costs (Medium 5-7) - Accurate independent estimates and quotes have been received for 0 -29% of costs (High 8-10)		
8	Are risks effectively transferred under contract to suppliers of services? - The risk for non delivery of 80%, by value, of services to the project is transferred suppliers. (Very Low 0-2) - The risk for non delivery of 50-79% , by value, of services to the project is transferred suppliers (Low 3-4) - The risk for non delivery of 21-49% , by value, of services to the project is transferred suppliers (Medium 5-7) - The risk for non delivery of 0-29% , by value, of services to the project is transferred suppliers (High 8-10)		