

Government of Newfoundland and Labrador

Department of Transportation and Infrastructure
Municipal Infrastructure

Capital Works Contingency Allowance Policy

Revision 3

September 2024

Revision	Comments	Date
1	Policy issued for use	October 2017
2	Policy updates and reissued	May 2023
3	Clarifications and housekeeping edits	September 2024

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1 OVERVIEW

1. The Municipal Infrastructure Division (MI) provides cost shared funding to Ultimate Recipients (URs) throughout the province for a variety of infrastructure projects.
2. Once a project is funded, there is no ability to provide additional funding no matter the reason (e.g. cost escalation, commodity prices, etc.).
3. Applicants are expected to include cost estimates that are as complete and as accurate as possible with their Capital Works Applications. Despite efforts to accurately forecast a future project's cost, a variety of risk factors can delay a project and lead to unplanned cost overruns.
4. This policy establishes clear guidelines for estimating and incorporating cost contingency allowances into project cost estimates, to assist applicants in implementing best practices in risk management.

2 POLICY OBJECTIVES

1. To enhance the planning, budgeting processes, and management of municipal infrastructure projects that receive cost-shared provincial/federal funding, this policy pursues the following objectives:
 - a) Allow reasonable cost overruns/escalations due to unforeseen expenses or circumstances to be covered within the initially approved project budget, thereby minimizing further delays and/or cost increases caused while Applicants try to secure additional funding from elsewhere;
 - b) Ensure total program funding levels are managed in a predictable manner so that all communities have the opportunity to apply for needed projects; and
 - c) Enhance the accountability of funding recipients and their consultants with respect to project cost estimates and project management.
2. This policy is not meant to be a replacement or a substitute for robust cost estimate and budgetary forecast. Applicants must make all reasonable efforts to establish an appropriate total project cost prior to determining the contingency allowance.

3 APPLICATION OF THE POLICY

1. This policy applies to all infrastructure projects that receive any level of provincial funding under the Department’s Municipal Capital Works (MCW) program, as well as any existing or future federal-provincial infrastructure programs.

4 EXEMPTIONS

1. In any instances where this policy conflicts with any Federal Government policies or requirements, or any Federal-Provincial Agreements to deliver infrastructure programs, the terms of those federal policies and/or intergovernmental agreements will take precedence.

5 SCHEDULE OF CONTINGENCY ALLOWANCES

1. **Table 1** outlines the required contingency allowances that are allowable to be included in cost estimates. These allowances are based on project type and/or total estimated costs to account for a variety of risk factors, including project complexity, scope and size, and associated construction, environmental, and professional costs.

Project Type	Project Total Estimated Cost	Max Contingency
Roads	Less than \$500,000	5%
	\$500,000 to \$2,000,000	4%
	Over \$2,000,000	3%
Water and Wastewater	All	10%
Buildings, All Types (New Construction)	Less than \$5,000,000	10%
	\$5,000,000 or greater	8%
Buildings, All Types (Renovation/Rehabilitation)	Less than \$5,000,000	15%
	\$5,000,000 or greater	10%
Recreation (Non-Buildings)	All	10%
Breakwater/Sea Walls	All	10%

Table 1 - Contingency Allowances

6 ESCALATION

1. With the delay between project estimate preparation for applications, and the actual start of construction, the project estimate may include escalation of 3% (average

inflation rate in Newfoundland and Labrador). Should there be world events that effect changes on the average inflation rate, this may be modified during estimate period. This would include pandemic, war, severe commodity shortages, etc.

2. Escalation is calculated as a percentage (see above) of the overall cost (design/construction/etc. including contingencies) and is carried forward for four (4) years into the future. Note: this timeline corresponds with typical funding agreement timelines.

7 DETERMINATION OF CONTINGENCY ALLOWANCE

1. Contingency allowance will be established through the following process:
 - a) Establish total project construction cost (including tax), this shall be current to within 6 months of the application of funding.
 - b) Establish required consulting, and other requisite design and permitting fees (including tax)
 - c) Apply the appropriate Contingency Allowance (from **Table 1**)
 - d) Apply the appropriate Escalation Allowance
 - e) Total funding is the total sum of the Construction Cost, Design Costs, Contingency allowance, and Escalation Allowance.

$$\text{Total Funding} = \text{Construction Cost} + \text{Design Costs} + \text{Contingency Allowance} + \text{Escalation Allowance}$$

8 ADMINISTRATION OF FUNDS

1. The contingency allowance included in an Applicant's submitted cost estimate is only to be used to account for unforeseen costs and will not be permitted to be used as a substitute for robust cost estimates or to fund changes in scope or to complete additional work.
2. The project shall be designed to the total construction cost (not including design costs or contingency and escalation allowances).
3. Change orders and/or changes to project delivery timelines must be approved by the Division, as outlined in the Municipal Capital Works Guidelines. Invoices for any activities outside the approved scope of work or project timelines may be rejected for payment by the Division.

4. Upon project completion, any unused portions of a contingency allowance must be returned to the Division.