

# Planned and Actual Cost Quantification

## Omissions and Misconceptions

By Farid Saddik

Planned Cost and Actual Cost (or labor hours) are at the core of quantifying construction damages claims, independent of the quantification method used. Yet there are many omissions and misconceptions associated with each.

### **Planned Cost or Labor:**

The scope to which planned cost or labor hours apply seldom remains the same throughout the project. Accordingly, the planned cost/labor hours must be adjusted to a normalized planned cost that accounts for deleted work, among other things. Escalations and other contingencies incorporated in the planned cost/labor hours should also be normalized against the actual cost.

### **Actual Cost or Labor:**

Accurate distribution of actual cost/actual labor hours to their individual components is critical to any quantification methodology which relies on actual cost, actual labor hours, or amount of change. To do so, one must first understand what actual cost/labor generally consists of.

1. Base Contract Cost/Labor hours
2. Base Contract Allowance Items Cost/Labor hours
3. Base Contract Contingency Items Cost/Labor Hours
4. Change Orders and approved changes
5. Changes directly caused by Force Majeure events
6. Owner-caused damages
7. Self-inflicted damages

## 8. Negotiated away damages

While quantification of Base Contract, Change Orders, and Owner-caused damages are somewhat straight-forward, the other “buckets” of cost/labor hours are not.

### **Base Contract Allowance and Contingency:**

Allowance and contingency items are forms of a pre-determined contingency bucket which the Owner taps into to pay for changes. The maximum contingency amount is usually quantifiable at contract signing, but the number, nature, complexity, and timing of those changes are not. Accordingly, it may be argued that costs incurred under those buckets are un-contemplatable Changes. The cost of each of those changes would then need to include all impact costs the change may have caused or yet to cause.

### **Force Majeure Events:**

Most contracts include language assigning each party the responsible for its own cost of damages caused by force majeure events. COVID-19 demonstrated that not everything COVID is necessarily force majeure. While it could be argued, for instance, that if COOVID-19 forced a jobsite shut down, each party would be responsible for its own damages for the shutdown, it is harder to argue force majeure when a project is deemed essential and is not permitted work suspension. The damages related to working under COVID-19 conditions instead of being suspended may be considered damages related to directed recovery, acceleration, or a variant thereof.

### **Self-inflicted Damages:**

Self-inflicted damages are often misunderstood. Competent contractors do not price cost proposals or bids based on perfect performance assumptions. Various operations’ productivity and unit cost assumptions incorporate contingencies and imperfections including material escalations, labor escalations, fuel cost, equipment breakdowns, some rework, and inherent labor inefficiencies. When detailing and evaluating self-inflicted damages, it is important to take

those factors into consideration.

### **Negotiated-away Damages:**

Quantifying damages that are negotiated away is an important factor that is frequently neglected. If a contractor, for instance, submits a request for change (RFC) for \$2,000,000, then settles with the Owner for \$1,500,000, then \$500,000 is negotiated away and, in most cases, cannot be considered as a change in the Owner's "column". For most damages' quantifications, the \$500,000 would be functionally treated as self-inflicted.

#construction #Claim #ConstructionClaim #Project Controls #AACE #CostForensics #25R-03  
#ActualCost #PlannedCost #Self-inflicted #Owner-caused #forcemajeure

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