Release the Contingency

Size contingency budgets for construction projects then free up surplus dollars for other projects and investments

What is a contingency budget?

When owner organizations plan for projects, they determine a project's overall budget as well as a **contingency budget: dollars earmarked to cover any unexpected expenses.**

If contingency is managed separately from the project schedule, owners lack real-time visibility into forecasted and actual contingency spend against schedule milestones.

Managing risk, contingency, and scheduling in one solution allows owners to more efficiently manage contingency spend over time and free up any surplus dollars that may become available during the project. Once freed up, the surplus dollars can be reallocated to other projects or be reinvested in the business's investment portfolio.

About **98%** of projects experience cost and budget overruns.

Project contingency is typically about **10%** of a project's budget.

Nearly **8/10** projects will have surplus dollars that can help fund the other two projects where spend is greater than the originally approved contingency.

Source: Oracle

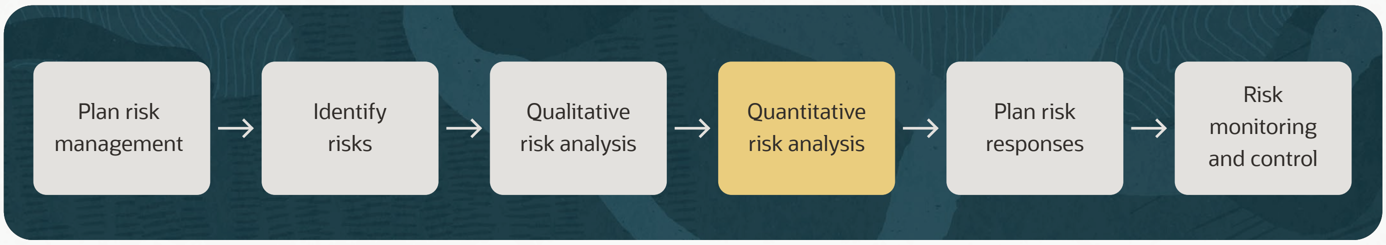
> "Actual contingency spend during a construction project is always susceptible to change, so the right contingency budget management strategy helps to understand where the money is drawn down and applied. The right solution can provide owner organizations with visibility into both the remaining risk exposure and current contingency status across all projects, so any surplus contingency can be confidently released back to the business."

Dave Hammal
Director of Product Strategy for Oracle Primavera Cloud Risk, Oracle

Sizing contingency budget with quantitative risk analysis

The construction industry has widely adopted the **six-step risk management framework** from the Project Management Institute (PMI) for developing risk management strategies for projects.

Determining how much contingency budget is needed for a project, known as **contingency sizing**, can be completed with quantitative risk analysis (step 4 of the PMI framework).



Quantitative risk analysis can produce the following data:

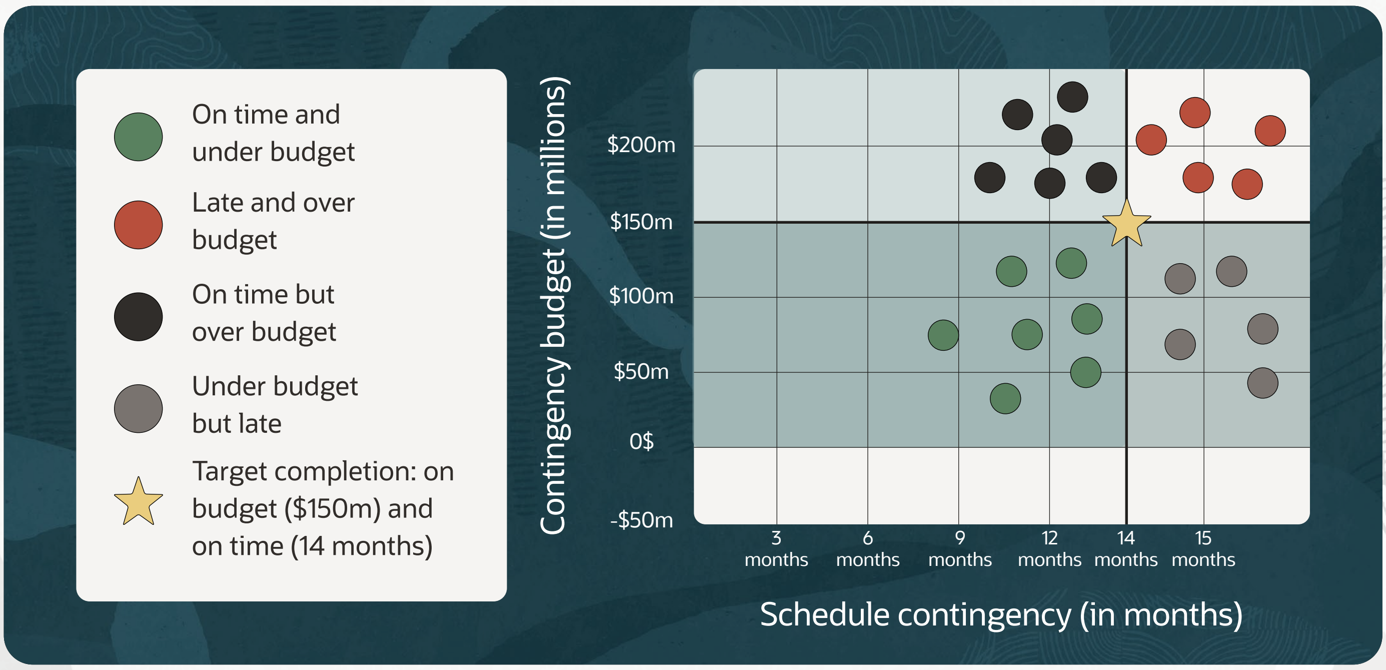
- Size of impact different risks have on the project's costs and finish date
- Confidence levels associated with costs and finish date
- Contingency needed to meet those confidence levels (from both a cost and schedule perspective)

Plot risk data, get better outcome visualization

For example, if a project's quantitative risk analysis determines that a project with an **80% confidence level** is to be completed on time and on budget, the project may need **$150m earmarked for contingency** on top of the base cost estimate.

But as any owner knows, risks will always continue to factor into a project. To better visualize how risk will impact contingency and schedule, multiple outcome values can be mapped out. This helps to show what risk could potentially cause overspend and/or project delays.

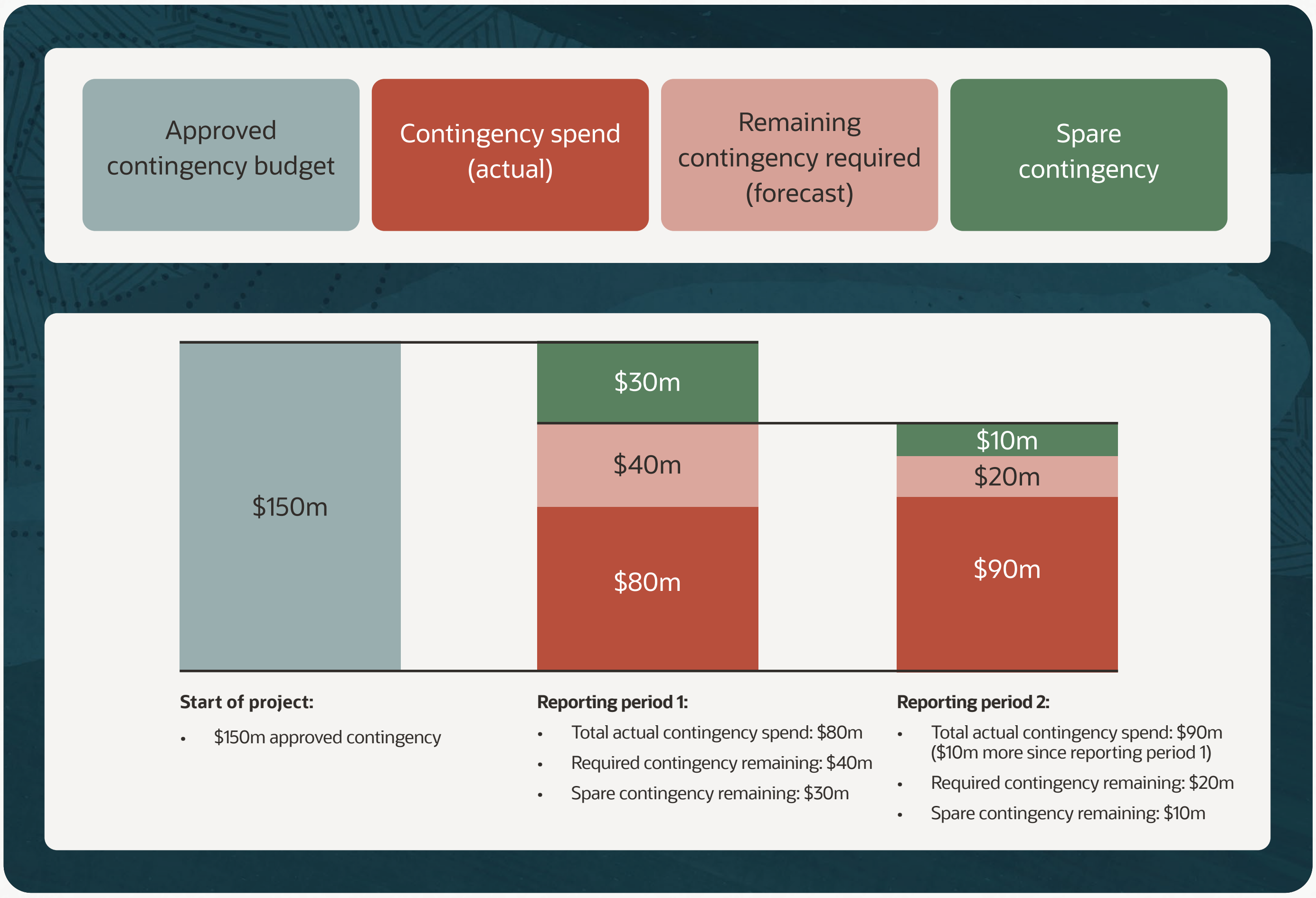
The example below shows that project with the $150m contingency budget and a **14-month schedule contingency.** The various dots on the scatter plot represent different outcomes that could impact the project's contingency spend and schedule.



Free up unused contingency budget typically locked in projects

Now that owners have improved visualization of how risks can impact contingency spend and the project schedule, they can now create visibility into how much contingency is drawn down over a project's reporting periods. This helps determine how much surplus contingency can be allotted to other projects or reinvested into to the business's investment portfolio, so dollars are freed up and used wisely.

Below shows how much of a $150m contingency is actually spent over two reporting periods.



Efficiently size and free up contingency budget with Oracle Primavera Cloud

Improve risk and contingency management with Oracle Primavera Cloud (OPC). With OPC, owners can properly size, manage, and adjust contingency by easily connecting risks to the project schedule. This quantitative analysis ensures that budget reserves are continually reviewed, evaluated, and distributed to all projects in the portfolio. Cost controls can help owners manage contingency spend, workflows can ensure the right approvals are needed to utilize contingency for cases where risks occur, and project cost sheets provide visibility of the original budget and current spend, providing confidence in the budget data.

Ready to learn more? Check out the Oracle product tour on risk management.