



Designation: E2168 – 06

# Standard Classification for Allowance, Contingency and Reserve Sums in Building Construction Estimating<sup>1</sup>

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## INTRODUCTION

In building construction estimating the terms allowance, contingency and reserve are often used almost interchangeably and are assumed to be universally understood, yet they often mean different things to different people. Consequently they can be ambiguous in meaning and intent.

Applying these terms, as classified herein, adds a needed precision and rigor in their use as each term is held to be specific in its meaning, intent, and use.

### 1. Scope

1.1 This classification establishes a classification for allowance, contingency, and reserve sums used in construction, project, and program estimating.

1.2 This classification applies to all construction work.

1.3 This classification is not based on permanent physical elements of construction (as defined and classified in Classification E1557). Rather, the classification items are cost components common to construction, project, and program estimates.

### 2. Referenced Documents

2.1 *ASTM Standards*:<sup>2</sup>

E631 Terminology of Building Constructions

E883 Guide for Reflected-Light Photomicrography

E1557 Classification for Building Elements and Related Sitework—UNIFORMAT II

E1804 Practice for Performing and Reporting Cost Analysis During the Design Phase of a Project

E1946 Practice for Measuring Cost Risk of Buildings and Building Systems

### 3. Terminology

3.1 *Definitions*—For definitions of terms used in this classification, refer to Terminologies E631 and E883.

### 4. Significance and Use

4.1 When preparing construction, project, and program cost estimates, it is often necessary to make monetary provision for change and/or risk or other exigencies where information is incomplete.

4.2 Such allowance, contingency or reserve sums are employed by many persons engaged in the planning, delivery, and financing of construction work.

4.3 These users include owners, developers, facilities programmers, cost planners, estimators, schedules, architects and engineers, specification writers, operating and maintenance staff, manufacturers, educators, financial managers, and controllers.

4.4 *Usage*:

4.4.1 These sums are especially appropriate when performing the following activities:

- Cost budgeting,
- Conceptual, design and construction cost estimating,
- Preparing complete forecast cost for economic evaluation, investment analysis and approval,
- Controlling cost during planning, design and construction.

4.4.2 In any of these activities a needed requirement, or component, of the planned construction can be known while the defined solution, design or specification, for providing this may not. The usual, and appropriate, response in these situations, is the inclusion of a monetary sum, within an estimate, to provide for this (these) requirement(s).

<sup>1</sup> This classification is under the jurisdiction of ASTM Committee E06 on Performance of Buildings and is the direct responsibility of Subcommittee E06.81 on Building Economics.

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<sup>2</sup> For referenced ASTM standards, visit the ASTM website, [www.astm.org](http://www.astm.org), or contact ASTM Customer Service at [service@astm.org](mailto:service@astm.org). For *Annual Book of ASTM Standards* volume information, refer to the standard's Document Summary page on the ASTM website.

4.4.3 Such sums may be general or specific in scope, may be planned to be spent or may only be included as possible mitigation for unplanned events and requirements.

4.4.4 To distinguish between these sums, and in recognition of their differing purpose, they are described, and classified here, using the terms allowance, contingency or reserve.

NOTE 1—Section 5 includes a generic statement of purpose for each of the three terms and provides a sub-classification that distinguishes between sums included for specific purposes and for non-specific i.e. general purposes. In cost budgeting, conceptual and design estimating especially, an estimator may intuitively recognize the need for a general purpose sum. This recognition comes in the absence of any known specific requirement other than the need to ensure the estimate total is a reasoned forecast of a reasonable bid result.

4.5 This classification defines allowance, contingency and reserve sums as items common to construction, project, and program estimates through planning, design, construction, and completion. The terms are sufficiently generic to be applied in all forms of construction work.

**5. Basis of Classification**

**5.1 Classification Criteria:**

5.1.1 The selected classification of terms is based on the following criteria. The terms shall:

- be readily distinguishable one from the other;
- be simple and must identify their properties and usage directly;
- be appropriate in all forms of construction financial activities, and;
- allow a distinction between the environments (internal or external within which they are applied).

**5.2 Primary Classification:**

5.2.1 *Allowance*—A sum of money that is intended to be spent on the planned scope of work. Used in the absence of precise knowledge, and estimated, to the best of one’s abilities, to ensure a full and complete estimate. Allowances cover events and activities that are normally internal and so are directly controllable within the project plan.

5.2.2 *Contingency*—A sum of money that is provided to cover the occurrence of unintended departures from the planned scope of work. Used in the absence of precise knowledge, and estimated, to the best of one’s knowledge to

ensure that a financial buffer is available within a budget. Contingencies assist in mitigating the effects of unplanned events and other risks that are external to, and are not directly controllable within, a project plan.

5.2.3 *Reserve*—A sum, usually held by management (client) to be disbursed only when project requirements are changed. Used to provide insurance against a project or program failing to complete on budget or for the revision of a budget in the case of changed management or program direction and requirement.

NOTE 2—For the purposes of the classification an internal environment is that which exists within an organization. An internal environment may readily allow cost control through revision of design or specification, or both. External environment changes impact the project cost and may be the result of contractual obligation, uncovered site conditions or changed legislation, for example. External environment changes may allow little or no opportunity for mitigation.

**5.3 Secondary Classification:**

5.3.1 Each of the Primary Classifications may be further sub-classified as:

5.3.2 *Specific*—Where the content of a sum is uniquely identified and the sum is calculated solely for that distinct purpose, and;

5.3.3 *Non-Specific*—Where the content of a sum is only broadly identified and the sum is calculated for application to that general purpose.

NOTE 3—Reference should also be made to Practice E1946, which describes a formal methodology for estimating the amount of each sum.

NOTE 4—For examples of specific allowance items refer to Practice E1804.

**5.4 Classifications in Context:**

5.4.1 Placing these classifications in the context of typical/generic usage provides an additional understanding of the distinctions between the classified terms.

5.4.2 **Table 1** is a tabulation of the basic properties, events and methods defined for allowances, contingencies and reserves as typically applied in the building construction industry. This table identifies the key differences, and some similarities, makes for easy identification of the generic principles driving the classifications, and so allows consistent application.

**TABLE 1 Classification of Allowance, Contingency and Reserve—Typical Application**

	Allowance	Contingency	Reserve
1. Intend to spend?	Yes	No	No
2. Applied to work actions that are:	Intended	Unintended	At Client Discretion
3. Expenditure is effected by:			
Internal Change	Yes	No	No
External Change	No	Yes	No
Management (Client) Change	No	No	Yes
4. Is an integral part of:			
Construction Estimate	Yes	No	No
Project Estimate	Yes	Yes	No
Program Estimate	Yes	Yes	Yes
5. Commitment Sanctioned by:			
Consultants	Yes	No	No
Project Manager	Yes	Yes	No
Management (Client)	Yes	Yes	Yes
6. Calculated on the basis of:			
Past Personal/Corporate Experience	Yes	Yes	Yes
Statistical Analysis of Past Projects	Yes	Yes	Yes
Probabilistic Assessment of Change	Yes	No	No
Probabilistic Assessment of Risk	No	Yes	No
Management Policy	No	No	Yes