Contingency Drawdown Methods

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Introduction

- I have been working in Project Controls **for well over 40 years** mostly on the Contractors side
- I set up and worked on the **largest project**, of its type, ever built, the **Pearl GTL project** that involved a number of very large Lump sum elements worldwide
- Currently work for Turner & Townsend in their **Program Advisory group** helping clients set up Major Programs and Portfolios
- An **EVM subject matter expert**, presenting on this internationally which is why I really enjoy this conference every year
- Nearly **7 years with Turner & Townsend**, the last four being in Texas and just over a year ago Southern California

Agenda

- What is Contingency and Contingency Drawdown
- Why has the use and retention of Contingency changed recently?
- Contingency drawdown methods
- The separation between risk registers and contingency
- How to use the curve
- Top tips
- Questions

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Contingency Drawdown definition

- **Oxford Dictionary – Contingency** - *A future event or circumstance which is possible but cannot be predicted with certainty*
- **Oxford Dictionary – Drawdown -** *An act of drawing on available funds or loan facilities*

Stuff you expect to happen and how to safe for the rainy day

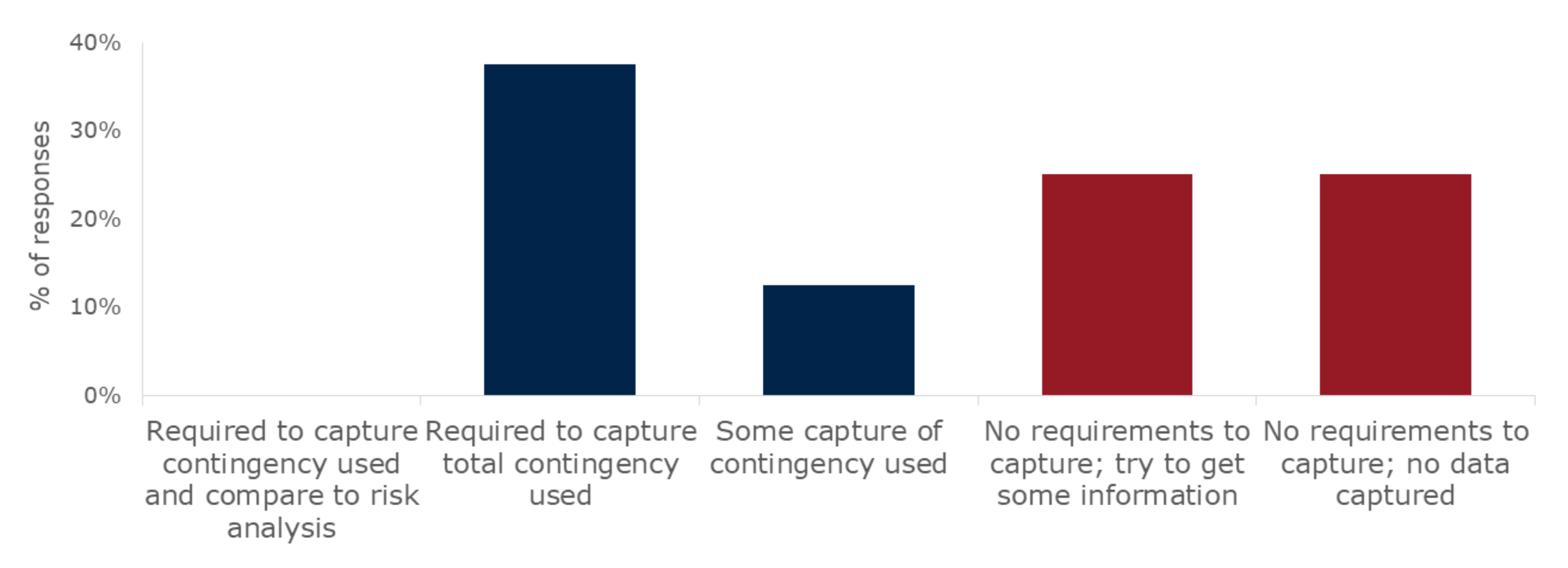
Note: Opportunities are positive negative risks and vice versa.

Contingency Politics

- Unknown, Unknowns
- Contingency is not a savings scheme
- Released contingency is new opportunities from old risks
- Know how you have used it and how you will spend it

Half of owners surveyed had no requirement to capture contingency drawdown on their projects

Q: Are there any requirements or guidelines for capturing how contingency was used on your project? Is it typically performed?



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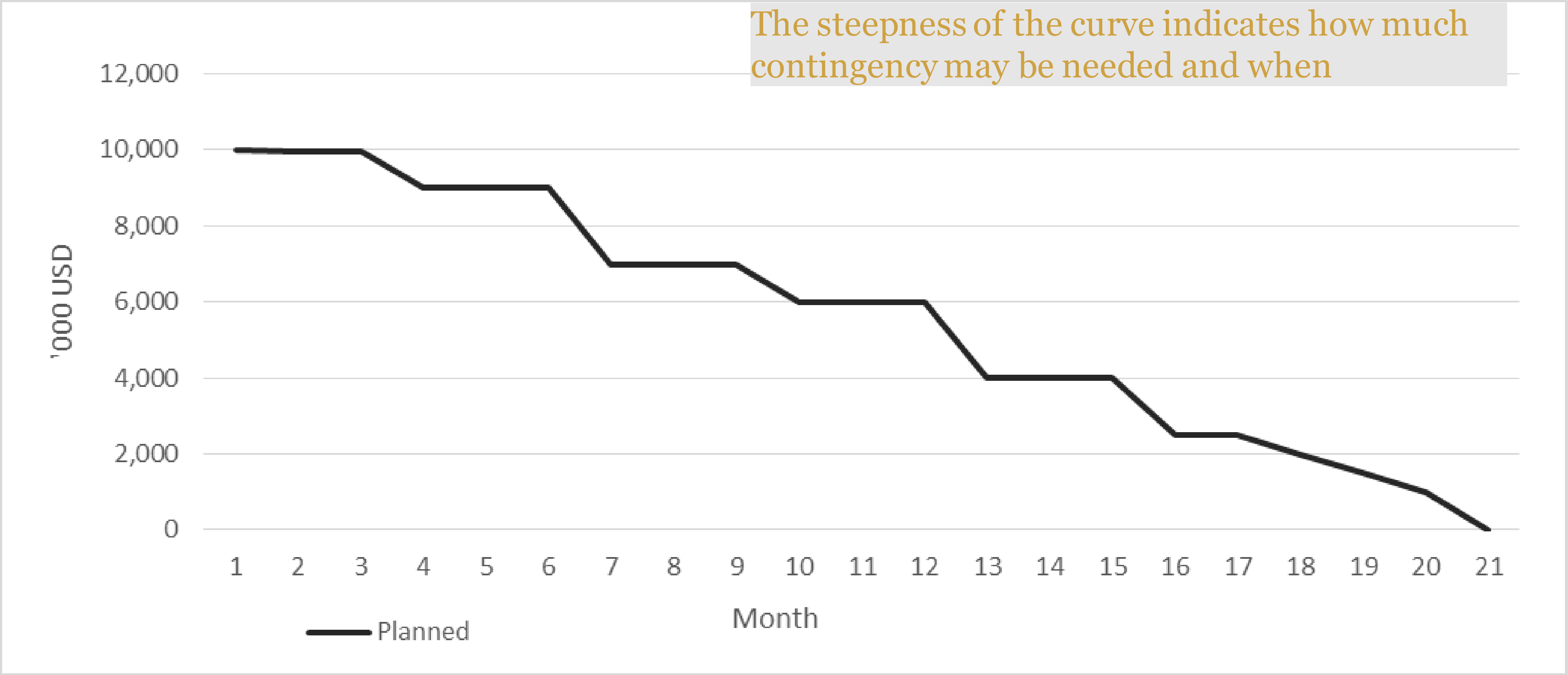
The contingency drawdown curve



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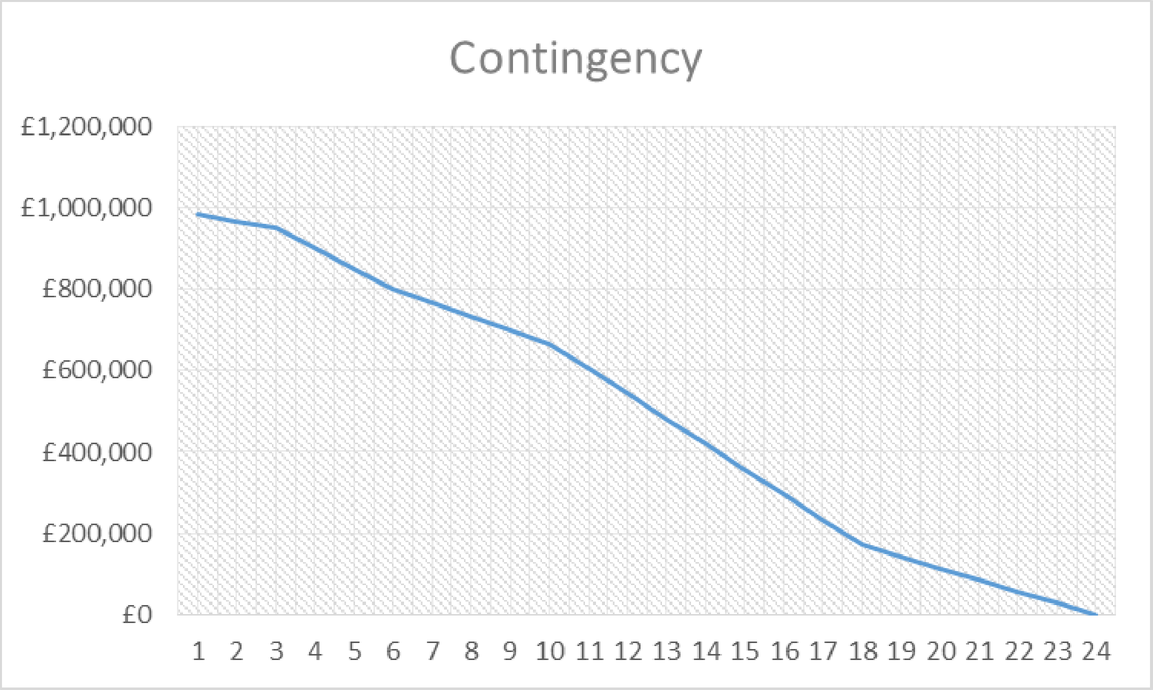
Contingency Drawdown Methods

There are **five (5)** recognized ways to do this



So, let's look at these in more detail

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5 Main Methods

1. Every time something happens that changes a forecast use the contingency to cover this
2. Cap this per phase
3. Link it to progress
4. Draw the curve Manually
5. Link it to the risk register

Run it down in line with forecast and scope increases

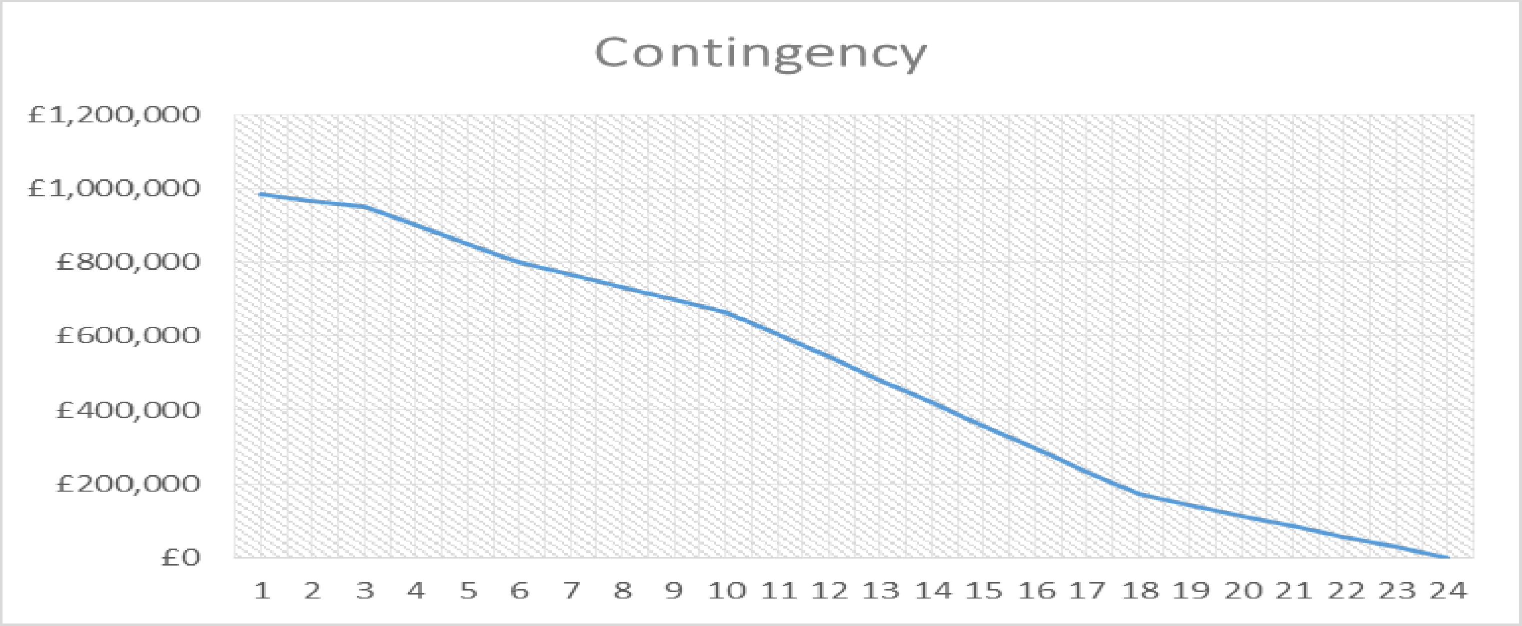
- Every time something happens that changes a forecast use the contingency to cover this
- This is the method **used most often** but has **obvious shortfalls:**
    - The amount drawn down is not necessarily **proportional to the remaining risks or allowed for** in the Contingency
    - The total forecast never moves **until the contingency is gone** or the **project finishes**
    - Risks are not **routinely readdressed** nor is **change control prominent**
    - It is **not predictable,** so no curve can be created

Split the contingency into phases and draw this down

- This is the next step in maturity and still runs down contingency in line with forecast changes but;
  - Caps this at a cost per phase, e.g. Engineering 10%
  - Once the phase is finished the contingency can be released if you can stop the bleed from one phase to another
  - The amount drawn down is not necessarily proportional to the remaining risks or allowed for in the Contingency
  - No forecast movement until gone or over
  - Risks are not routinely readdressed and the change control mechanism is ignored
  - It is not predictable so no curve can be generated, just perhaps a step

Run it down in line with progress achieved

- This method assumes the contingency drops in line with progress
- This method assumes risk is propositional to progress
- Assumes progress reported is correct
- This method leaves a residue of unused contingency which could have been used elsewhere
- It does however generate a curve for comparison purposes



Plan to draw it down in line with a manual perception and key milestones

- This involves looking at the key risks, the key milestone dates that match these and then manually creating the drawdown curve
- This is usually carried out at staged workshops
- Due to this being a workshop it is surprisingly the next step up in maturity, because:
  - Involves a periodic review of contingency
  - Potentially changes the forecast final cost
  - Includes the change process
  - Allows a contingency rundown curve to be drawn and a forecast made as to the remaining values

Run it down by linking it to the risk register

- It involves linking the Risk register of events to the contingency value generated by QCRA
- Takes the contingency generated and allocates it across the top risks on an estimated/prorated basis
- Deciding the start and end date of these identified risk and spreading the costs across these periods
- Make sure new risks are addressed in the model
- Plot the results as a rundown curve and continually reforecast

The separation between Risk register and QCRA

- It seems amazing 30 years on from the birth of real Risk management there is typically no link between the risk register and the QCRA
- The risk register is normally a time intensive exercise to generate the top risks and then it is typically filed away as the QCRA takes front stage
- The QCRA is carried out sometimes without this risk register being reviewed
- Sometimes different teams will generate each one! So it is unsurprising that a consistent answer is not generated
- There needs to be a link between these

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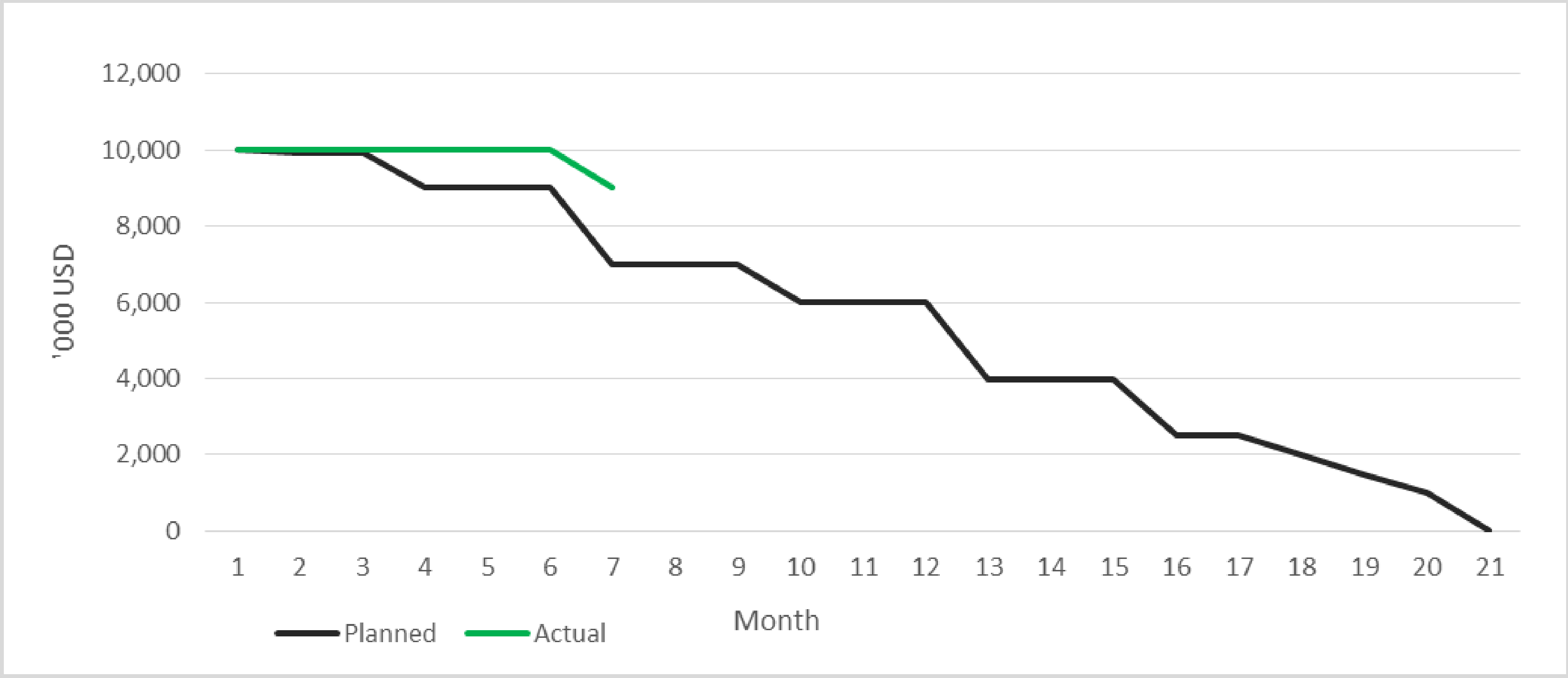
How to use the drawdown curve



5 top tips for managing contingency drawdown

- ✓ Not a one-off event
- ✓ Risk registers need to be visible
- ✓ Always use a contingency drawdown curve
- ✓ Not all cost increases are covered by contingency
- ✓ Give back unused contingency

Questions

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