

Prime Costs and Provisional Sums

Calculating the cost of a domestic building project prior to the contract being signed is of vital importance. If a builder gets it wrong, it can mean a reduction in profits or no profit at all.

Estimating prime costs and provisional sums is often not done as well as it could be by builders. An inaccurate cost not only antagonises owners but can destroy the working relationship with them. The builder may also struggle to recover the money they have spent on the owner's behalf. This invariably leaves the builder in dispute, out of pocket and heading towards legal proceedings and VCAT.

The *Domestic Building Contracts Act 1995* states that:

A prime cost item is:

An item (for example, a fixture or fitting) that either has not been selected, or whose price is not known, at the time a domestic building contract is entered into and for the cost of supply and delivery of which the builder must make a reasonable allowance in the contract.

A provisional sum item is:

An estimate of the cost of carrying out particular work (including the cost of supplying materials needed for the work), for which the builder, after making all reasonable inquiries, cannot give a definite amount at the time the contract is entered into.

The key elements are therefore:

- the estimate must include supply and installation
- the cost must be estimated with care and skill
- the builder must make reasonable enquires as to the likely costs for these items

A builder should always retain his suppliers and subcontractors quotes and written estimates for these items as proof of reasonable enquires having been made.

A builder who has a 'guess' at the likely cost for these items invariably prices them too low. When the builder seeks to recover a higher sum from the owner, they will inevitably face a dispute.

A builder can be prosecuted and fined up to \$3,750 per offence if the estimates in the contract are less than the reasonable cost of supplying or carrying out the prime cost or provisional sum work.

A builder must therefore always ensure that his project costs are accurate at the time of pricing a job and before signing a contract. To cut estimates in order to get the project may cost the builder much more in legal fees and potential fines in the long run if a dispute arises.

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Industry leaders
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Building and Construction Team
03 9321 7836
awhitelaw@rigbycooke.com.au

Level 13, 469 La Trobe Street, Melbourne VIC 3000 Australia
www.rigbycooke.com.au