10.07.2017

Construction Budget – Norms for Expenses other than Basic Construction Cost Estimate

For any of the below mentioned heads, no attachment are required from PCA and budget limits shall operate at L2 of the Service Master. These items shall be estimated at the 'Physical Project' level (for which the Infra cost is estimated) and not for each wing (SAP Plant/SAP Project).

Site Establishment

Shall be budgeted on basis of land area of the project:

Land Area	**Max. Permissible Cost per sq. mt. of land area**	**Other Limits**
Upto 10000 sm	1000	Minimum: Rs. 0.25 cr.
Upto 25,000 sm	750	Minimum: Rs. 1.00 cr
Upto 100,000 sm	500	Minimum: Rs. 1.875 cr.
> 100,000 sm	300	Minimum: Rs. 5 cr; Maximum: Rs. 15 cr.

It may be noted that this is a site level expense and not a wing/building level expense and hence, should form part of the infra budget of a particular site, rather than part of the individual building budgets.

Controlled by Procurement team, with input from Construction Management team.

Covers following expenses:

a. Site office related
b. Labor camp related
c. Quality lab related
d. Stores setup related (including weigh bridge)
e. Site enclosure related (eg. compound wall, gate, security cabin, GI sheet barricading etc.)
f. Temporary access to parts of the site (eg. temporary roads)
g. Capex related to establishment of electricity and water supplies to the site
i. Any other expenses which are required to make the site workable (any disputes in this regard to be decided by PCA)

This site establishment expense head shall be closed at the end of the 6th/12th (for very large projects) calendar month after the month in which first activity is started at a given site. At the end of this period, MIS-Accounts shall give summary of the expenses incurred under this head to HOD-Procurement, HOC-PCA, CM Incharge of the site and Level 1/0-CM overseeing the site.

If there is any amount balance in this head at the end of the 6th calendar month, it shall stand transferred to the Construction Discretionary Budget of that site. To be done by DCO.

Electricity & Water Construction Expenses

Shall be budgeted at 1.5 % of the basic construction cost estimate for Small and Medium sites and 1.25% of the basic construction cost for large and very large sites.

Controlled by Const Management team.

Following costs need to be included in this expense head:

A. Electricity payments to utility company
B. Water payments to utility company
C. Gas payments to utility company (if gas is being used to generate electricity)
D. Diesel / Kerosene purchased for any reason other than fuel for company owned vehicles
E. Water tankers (other than water tanker used for Customer purposes after CAM start date, which shall be paid out of CAM. If water tanker charges for this purpose are excessive due to unavailability of municipal connection, some costs may have to be borne by Company).
F. Temporary works for distribution of electricity and water

This expense head shall not include any capital expense made for purposes of establishing water and/or electricity supplies, provided they are incurred within the first 6 calendar months from the date on which first activity commences on site. Such expenses shall be accounted towards Site Establishment.

Accounts-MIS team shall provide quarterly update against these expenses to CM Incharge of the site, Level 1/0-CM overseeing the site and PCA. If Account-MIS observes any expenses which are significantly greater than trend, same will be brought to immediate attention of CM Incharge of the site, Level 1/0-CM and COO.

Construction Discretionary Budget

a. Construction Discretionary Budget shall be 1% of the basic construction cost estimate for large and very large projects, 1.25% for medium projects and 1.5% for small projects. It shall be 1% for infrastructure works.
b. To be controlled by Construction Management, as per the limits specified in the financial delegation policy.
c. Is meant to cover those activities which could normally not have been forecasted and hence, don't form part of the PCA Budget plan OR those activities which are urgent in nature and holding them up would have a negative impact on site progress.
d. In case of such expenses, Const Mgmt should negotiate directly with the vendor and finalize the rates and values.
e. Const Mgmt should avoid any works which have value > 10,00,000/- as part of the Construction Discretionary Budget.

f. Any construction-related expense which has NOT been negotiated by Procurement PRIOR to start of work shall be deemed to be an expense under the 'Construction Discretionary Budget'. Procurement shall be responsible for ensuring this classification, regardless of whether Procurement does 'post facto' approvals of these expenses.

g. In addition to f. above, following expenses will form always part of Construction Discretionary Budget:
    a. Daily wages labour (or any other form of time based labour) which is being paid for by company (if debitable to a contractor, it will form part of the relevant contract's expense).
    b. Time based equipment/ machinery hire which is being paid for by company (if debitable to a contractor, it will form part of the relevant contract's expense).
    c. Debris removal, if cost is borne by Company
    d. Replacement of damaged/stolen materials, if cost is borne by Company
    e. Sampling for Finishing/landscape/external painting.
    f. Core Cutting

EVEN IF THE CONTRACTS IN RELATION TO THESE EXPENSES ARE NEGOTIATED BY PROCUREMENT, THEIR ALLOCATION SHALL BE TO BE CONSTRUCTION DISCRETIONARY BUDGET BECAUSE THE QUANTUM CAN ONLY BE CONTROLLED AND DECIDED BY CM. IT IS FURTHER CLARIFIED THAT ANY ITEMS THAT ARE DEBITABLE TO CONTRACTORS (AS PER NORMS OF DEBIT POLICY) CANNOT BE DOUBLE DEBITED TO CONSTRUCTION DISCRETIONARY BUDGET.

h. To ensure that Construction Discretionary Budget is not utilized towards activities which could otherwise be planned and procured, Procurement will dedicate one level 2 associate + small team there under for urgent works (currently Paul Truman and Sandeep Mehta), as part of the Project Procurement setup. Any site can approach this team for initiation of urgent works which could not normally have been planned earlier. It is clarified that Procurement is responsible for timely negotiation of all works which form part of the budget WBS level 4 (however any overarching head called 'others' cannot be used to argue that the works were already part of the Budget unless the said activity is explicitly stated in the WBS) and if Procurement fails in doing so, it shall to treat such request as 'urgent works'. This 'urgent works' team will take approval from the Package team as to whether these works qualify as 'urgent works' and if so, the 'urgent works' team will ensure turnaround (time between site informing the 'urgent works' team and LOI/Work order being awarded) as follows:
    a. Value upto Rs. 25,00,000/-: 3 working days
    b. Value upto Rs. 2,50,00,000/-: 5 working days (1 week)
    c. Value above Rs. 2,50,00,000/-: 10 working days (2 weeks)

    In those cases wherein the package team determines that they are not urgent in nature, this decision will be communicated within 1 working day of request being received from Construction Management by Procurement. In such cases, CM can either deal with the

matter from the Construction Discretionary Budget OR let Procurement handle it as per normal Procurement timeframes. Any significant dispute with respect to the 'urgent' nature decision by the Procurement Package team can be escalated to COO for his decision.

i. Suggested steps to be taken by Construction Management to minimize spend under Construction Discretionary Budget:
    a. Pre-plan works and coordinate with Procurement to procure as much as feasible.
    b. Avoid / reduce temporary works OR plan temporary works in such a manner that they can be used towards final works (eg. compound wall, distribution system for electricity and water).

j. Accounts-MIS team shall provide quarterly update against these expenses to CM Incharge of the site, Level 1/0-CM overseeing the site and PCA. If Account-MIS observes any expenses which are significantly greater than trend, same will be brought to immediate attention of CM Incharge of the site, Level 1/0-CM and COO.

Safety Budget

a. Shall be budgeted as follows:

Height of Building	**Safety Budget as % of Basic Construction Cost Estimate**
<= 30 m (low rise)	0.25%
30 m – 70 m (medium rise)	0.35%
70 m – 150 m (high rise)	0.5%
150 m + (super high rise)	0.5%
Infra	0.25%

b. To be controlled by the EHS team, with inputs from Construction Management.

c. Covers all expenses related to provision of special man, material or equipment for safety purposes, which are not included in the contractor's scope. All safety works in the contractor's scope are the responsibility of the contractor and in case the contractor does not execute the same properly, any related costs will be debited to the contractor.

d. Accounts-MIS team shall provide quarterly update against these expenses to CM Incharge of the site, Level 1/0-CM overseeing the site, HOC-EHS and PCA. If Account-MIS observes any expenses which are significantly greater than trend, same will be brought to immediate attention of CM Incharge of the site, HOD-EHS and COO.

Design Discretionary Budget

It is seen that it becomes very difficult to accurately estimate the cost of certain customer facing area (Key Common Area & Landscape) at the time of setting of concept budget or even at FDD. As the project approaches closure, generally there is no contingency left and the finishing standards of these customer facing areas, which are key to creating luxury perception of a project, start falling.

An amount equal to 10% of the basic construction cost of the following shall be put in budget as Design Discretionary Budget (applies to projects for which budget has been finalized on/after 1.4.12):

i. Fitout costs of key common areas within building line (L1 package) for all Plants of the Project
ii. All Key Common Area (L0) plants of the project
iii. Landscape+ (L1 package) for Infra of the Project

Amounts from this Design Discretionary Budget can only be used towards the aforesaid 3 heads (but no individual limit, limit is only at Project level) as per the decision made by the Design team. Approval/allocation for usage of this amount shall be made by PCA on Design recommendation. Design recommendation has to be approved by level 2 or higher of Design. Design should ensure that this budget is used for value addition / upliftment of design and is NOT used for standard items which could normally have been budgeted.

HFM Discretionary Budget

a. Shall be budgeted at Rs. 20,000 per flat for Luxury/ Hi-end, Rs. 15,000 per flat for Aspirational, Rs. 10,000 for Casa projects and 0.25% of basic construction cost for office and retail projects.
b. Shall be controlled by HFM.
c. Shall cover following expenses:
    i. Expenses associated with Post Construction completing / repairing works which form part of CM scope.
    ii. Includes customer snags rectification and minor repairs required to bring flats to 100% before customer possession e.g. painting, touch up, polishing, minor electrical/ plumbing works etc.
d. Will apply from 3 months prior to offer for possession (P-3), and extend to 3 months post possession (P+3)
e. It may be noted that while the limit is set on a per unit level for residential projects, the amounts are the total for a group of wings which are given possession concurrently (within 6 months from 1st wing to last wing) and hence, the spend can be more or less in a particular wing as long as the total is not exceeded.
f. At the end of the 2nd quarter of the FY and fourth quarter of the FY, Accounts-MIS team shall provide quarterly update against these expenses to HOC-HFM and PCA.

In addition to the above, following amounts may be added to the Basic Construction Cost Estimate:

Execution Contingencies**	6.00%

** At time of FDD budget. May be increased upto 12% at time of concept budget based on level of info available (i.e 6% Execution Contingencies and 6% DD contingencies)

Note: The basic construction budget should estimate costs over the project timeframe and should be based on likely procurement costs over the project's lifespan, not just at the start. In order to achieve this, the budgeted value for each L3 package should take into consideration the estimated time of procurement of the said package and the inflation upto the date of procurement based on historic trends for that L2/L3 package.

Capital Equipment

This head shall cover the expenses towards capital equipment which is being purchased by the company. The entire value of such capital equipment shall be debited to this head. The items under this head shall include all construction equipment and machinery having single item (item is the equipment along with its ancillary fittings) value > Rs. 5000 which does not form part of what shall be finally left behind for the project, including:

a. Cranes
b. Hoist
c. DG Set
d. Pumps
e. Electrical machinery & equipment
f. Plumbing machinery & equipment
g. QC equipment
h. Scaffolding set
i. Shuttering material set (other than conventional shuttering)
j. Other Construction Plant & Machinery

The Capital Equipment head shall be initially be equal to the estimated value of the equipments/machinery that the company is likely to buy for the said project, as per the information available at time of setting of Concept Budget. If any equipments/machinery is added to Lodha's scope later, the value for the same shall be reduced from the relevant L3budget and added to the Capital Equipment head by PCA. Similarly, if any item assumed to be part of Capital Equipment is later put into scope of a Contractor, the Capital Equipment head shall be reduced to that extent and the relevant SG2 budget shall stand increased. Cost of a capital item shall be deemed to be the depreciation in its value during its tenure of use on the project @ the rate specified by Accounts – if depreciation rate is not specified by Accounts, it shall be assumed to be 20% p.a. (depreciate over 5 years) or 100%/its expected lifecycle is years (eg. is 3 years, 100%/3 = 33.33%), whichever is higher. For reusable/modular shuttering (eg. Mivan), following costing mechanism to be used:

No. of repetitions with no/minor	**Cost to be used for purposes of calculation of shuttering**

changes in design	cost per sq. ft. (for first use)
0-25	40% of Capex + applicable modification loss
26-50	60% of Capex + applicable modification loss
51-75	80% of Capex + applicable modification loss
>75	90% of Capex + applicable modification loss

No. of repetitions with no/minor changes in design	Cost to be used for purposes of calculation of shuttering cost per sq. ft. (for second & further use, post major-modification)
0-25	(1 – Capex already attributed to previous use(s)) % of Capex x 60% + applicable making costs + applicable modification loss
26-50	(1 – Capex already attributed to previous use(s)) % of Capex x 80% + applicable making costs + applicable modification loss
>50	(1 – Capex already attributed to previous use(s)) % of Capex x 100% + applicable making costs + applicable modification loss

The above assumes:

a) Shuttering shall be modified as required till it is used for atleast 100 repetitions. However, each time a major modification is carried out:
    a. The 'making costs' shall be 5% of original capex (includes redesign and labour costs). This cost shall be charged to the project in which shuttering to be used post modification.
    b. It shall be assumed that there shall be a 'modification loss' of about 25% of shuttering surface area. The write-off value of this 25% shuttering shall be taken as salvage value (10% of capex) and the difference between 'the value prior to major modification' and 'value post major modification' shall be equally charged to the value of shuttering in the project from where the shuttering comes from and the project in which the shuttering shall be used post modification.
b) A salvage value of 10% of capex after 100 or more repetitions.

No increases are permissible in any of the aforesaid heads under any circumstances whatsoever, save and except a stoppage in works for a period > 3 months, in which case the permissible increase shall be decided jointly by Director-CM/RCEO, COO, HOD-Procurement and concerned level 0/1 of Construction Management.

All financial limits which are specified above in terms of Rupees shall stand increased by 25% each leap year, starting from 2016.

The aforesaid limits are be applied to budgets of all projects for which possession is slated to happen after 31.3.2013.