

SSRO

Single Source
Regulations Office

Allowable Costs guidance review 2019
Changes for 2020/21
January 2020

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1. Introduction

- 1.1 Section 20 of the Defence Reform Act 2014 (the Act) states that the SSRO must issue guidance about determining whether costs are Allowable Costs under QDCs and QSCs. The SSRO aims to keep its guidance on these matters current and relevant and consult, as required, with stakeholders to provide additional clarity and certainty for those involved in single source defence contracting. The current guidance on Allowable Costs¹ was published in spring 2019.
- 1.2 Following engagement with key stakeholders during summer 2019, the SSRO conducted an eight-week public consultation² on proposed changes to its Allowable Costs guidance on uncertainty and risk (Part H) and on insurance (Part E.5).
- 1.3 During the consultation period, the SSRO:
 - a. held individual discussions with members of the SSRO's Operational Working Group;³
 - b. received written responses to the working papers from eight stakeholders, including the MOD, ADS, five defence contractors and one consultant with knowledge of the regulatory framework.
- 1.4 The SSRO would like to take this opportunity to thank all those who responded to the consultation for sharing views and evidence with us. The majority of respondents gave permission for their responses to be published and these are available in SSRO (2020) *Allowable Costs Guidance Review 2019: Consultation Responses*. A summary of the views and evidence provided by consultation respondents, together with the SSRO's commentary on how these responses have informed the final guidance in the areas on which we consulted, is available in SSRO (2020) *Allowable Costs Guidance Review 2019: Summary of Consultation Responses*.
- 1.5 Having considered the feedback provided on the proposed guidance, this document presents the changes to the SSRO's guidance that will apply from 1 April 2020. The SSRO will republish its Allowable Costs guidance document in full in March 2020, incorporating the changes set out in this document.
- 1.6 Any queries relating to the revised Allowable Costs guidance for 2020/21 should be addressed to the SSRO's helpdesk (020 3771 4785 or helpdesk@ssro.gov.uk).

¹ SSRO (2019) *Allowable Costs Guidance (Version 4)*.

² From 14 October to 6 December 2019. See SSRO (2019) *Allowable Costs Guidance Review 2019: Consultation on Changes for 2020/21*.

³ Comprising the Ministry of Defence (MOD), ADS Group Ltd (ADS) and individual defence contractors.

2. Risk and uncertainty

We will rename Part H in the current Allowable Costs guidance as ‘Risk and uncertainty’ and replace it with the guidance below.

Key to changes: Text deleted Text revised/moved Text added

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation								
<p>H.1 Costs which are uncertain in occurrence or amount</p>	<p>H.1 Costs which are affected by risk or uncertainty</p>	<ul style="list-style-type: none"> Including specific references to risk or uncertainty. 								
<p>1. For the purpose of this guidance, a contractor’s cost is uncertain if:</p> <ol style="list-style-type: none"> it may or may not be incurred by the contractor; or the actual amount of the cost incurred may differ from the estimated amount of the cost; or it possesses both of the characteristics described above. 	<p>1. This guidance applies to costs affected by risk or uncertainty that fall within one of the categories shown in Table A. Reference in this guidance to costs which are affected by risk or uncertainty means that one of the categories in Table A applies to the costs. The terms provided are intended to be used in the interpretation of this guidance document. Where contracting parties use alternative terms in respect of any of the categories shown, this should not alter the substantive interpretation or application of this guidance.</p> <p>Table A</p> <table border="1" data-bbox="592 1294 976 1937"> <thead> <tr> <th>Category</th> <th>Term</th> </tr> </thead> <tbody> <tr> <td>The costs may or may not be incurred by the contractor;</td> <td>Risk</td> </tr> <tr> <td>The actual amount of the costs incurred may be higher or lower than the estimated amount of the costs</td> <td>Uncertainty</td> </tr> <tr> <td>The costs possess both of the characteristics described above.</td> <td>Risk and uncertainty</td> </tr> </tbody> </table>	Category	Term	The costs may or may not be incurred by the contractor;	Risk	The actual amount of the costs incurred may be higher or lower than the estimated amount of the costs	Uncertainty	The costs possess both of the characteristics described above.	Risk and uncertainty	<ul style="list-style-type: none"> Removing the proposed generic term ‘uncertain costs’ and replacing with references to risk or uncertainty. Acknowledging that the contracting parties may have their own terminology related to costs which are affected by risk or uncertainty. Clarifying that the actual amount of estimated costs may be higher or lower than the estimated amount.
Category	Term									
The costs may or may not be incurred by the contractor;	Risk									
The actual amount of the costs incurred may be higher or lower than the estimated amount of the costs	Uncertainty									
The costs possess both of the characteristics described above.	Risk and uncertainty									

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
<p>2. When determining Allowable Costs, a contractor's uncertain costs may be Allowable Costs subject to satisfying the requirements described in this Part, Section 3 and any other relevant Part of Section 5 of this guidance.</p>	<p>2. A contractor's estimated costs which are affected by risk or uncertainty may be Allowable Costs subject to satisfying the requirements described in this Part, Section 3 and any other relevant Part of Section 5 of this guidance.</p>	<ul style="list-style-type: none"> Removing the proposed generic term 'uncertain costs' and replacing with references to risk or uncertainty.
<p>[See H.1.4]</p>	<p>3. In determining an estimate of the total Allowable Costs for the contract the parties should consider:</p> <ol style="list-style-type: none"> costs already incurred by the contractor; known future costs; estimated costs which are affected by risk or uncertainty; the anticipated effects of any actions to mitigate risk or uncertainty in the contractor's costs (see Part H.3) which have been agreed by the relevant parties, for example, in risk mitigation plans; and the terms and conditions of the contract. 	<ul style="list-style-type: none"> Removing the proposed generic term 'uncertain costs' and replacing with references to risk or uncertainty. Revising for clarity.

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
<p>3. When a cost is uncertain, the actual amount that will be incurred by the contractor can only be estimated. The approach or approaches to be taken when determining an estimate of uncertain costs should be appropriate to the circumstances of the case. An estimate of Allowable Costs should aim to anticipate the actual Allowable Costs the contractor will incur in performing the contract, having due regard for economy and efficiency in the use of resources.</p>	<p>4. For a contractor's estimated costs to be Allowable Costs the estimate should aim to anticipate the actual Allowable Costs the contractor will incur in performing the contract, taking account of risk or uncertainty. There should be economy and efficiency in the use of resources, unless there is a clear reason to the contrary [see 3.13 d]. The contractor should seek opportunities for risk reduction or increased efficiency to be captured through the life of the contract.</p> <p>5. There is a range of approaches available to contractors to estimate costs which are affected by risk or uncertainty. The estimating approach or approaches should be suitable to the circumstances of the case, taking account of:</p> <p>a) good practice in cost estimation; and</p> <p>b) the information available at the time of estimation concerning the assumed or known characteristics of any risk or uncertainty.</p> <p>6. Costs may be estimated using random sampling methods, for example, Monte Carlo simulation, where this is the suitable approach.</p> <p>7. Costs which are affected by risk or uncertainty should typically be estimated with reference to their expected value as defined in a statistical sense, except where an alternative approach would produce an estimate the parties consider to be closer to the actual Allowable Costs the contractor anticipates it will incur in performing the contract.</p>	<ul style="list-style-type: none"> • Removing the proposed generic term 'uncertain costs' and replacing with references to risk or uncertainty. • Providing further guidance on considerations relevant to economy and efficiency in this context. • Noting that there a range of approaches to estimating costs which are affected by risk or uncertainty. • Introducing a requirement for the estimating approach(es) used to be suitable to the circumstances. • Providing additional direction on factors to consider when determining whether an approach or approaches are suitable to the circumstances. • Noting that costs which are affected by risk or uncertainty may be estimated using random sampling methods and should typically be estimated with reference to their expected value.

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
<p>4. In determining an estimate of Allowable Costs the parties should consider costs already incurred by the contractor, known future costs, uncertain costs, the anticipated effects of any actions agreed by the relevant parties to mitigate uncertainty in the contractor's costs (see Part H.3) and the terms and conditions of the contract.</p>	<p>[See H.1.3]</p>	
<p>5. In applying this guidance to uncertain costs, the relevant parties should consider the type, purpose and estimated amount of the uncertain costs. The guidance may be applied at the level of particular costs or to costs in aggregate, or with reference to both particular and aggregated costs.</p>		<ul style="list-style-type: none"> • Removing proposed guidance that is now considered unnecessary. • The second sentence has more general application to the determination of Allowable Costs and will be considered for inclusion elsewhere in the guidance in due course.
<p>6. Where uncertain costs are aggregated to form a risk contingency element in the Allowable Costs, the relevant parties should have regard to Part H.2 of this guidance.</p>		<ul style="list-style-type: none"> • Removing a cross-reference that is now considered unnecessary at this point.

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
<p>7. The uncertainty surrounding some costs is easier to quantify and evidence than for other costs. The relevant parties should take a proportionate approach to determining what type and standard of information is required about the occurrence or value of costs in order to be satisfied that those costs are Allowable Costs, having regard to the guidance at paragraph 2.6.</p>	<p>8. The relevant parties should take a proportionate approach to determining what type and standard of information is required about risk or uncertainty in order to be satisfied that estimated costs are Allowable Costs, having regard to the guidance at paragraph 2.6.</p> <p>9. In determining what type and standard of information it is reasonable to expect would be available, the relevant parties should have regard to:</p> <ul style="list-style-type: none"> a) the specificity of the contract requirements; b) the contractor's experience in performing similar activities; c) good practice in cost estimation; and d) the number and type of factors giving rise to risk or uncertainty affecting costs. <p>10. Evidence might include risk registers, lists of assumptions, cost models or other cost aggregation methods.</p>	<ul style="list-style-type: none"> • Revising for clarity. • Providing additional guidance on factors that might help determine what type and standard of information concerning risk or uncertainty affecting estimated costs it is reasonable to expect would be available in a given case.

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
<p>H.2 Risk contingency element</p> <p>1. For the purpose of this guidance, risk contingency element means an element of the costs the contractor estimates it will incur to enable performance of the contract whose actual allocation to particular cost items cannot be known at the time the Allowable Costs are determined.</p>	<p>H.2 Risk contingency element</p> <p>1. For the purpose of this guidance, 'risk contingency element' refers to the aggregate of costs which are affected by risk or uncertainty that:</p> <ul style="list-style-type: none"> a) the contractor estimates it will incur to enable performance of the contract, and b) whose allocation to a particular cost cannot be made at the time of estimation. <p>2. The term 'risk contingency element' is adopted as the legislation requires contractors to report any risk contingency element within the Allowable Costs of a QDC or QSC. Contracting parties may use alternative terms to describe cost items set out in H 2.1, for example, 'risk allowance'; 'contingency'; or 'management reserve'. This should not alter the substantive interpretation or application of this guidance.</p>	<ul style="list-style-type: none"> • Modifying to include the terms risk or uncertainty and for clarity. • Noting that the reporting of 'risk contingency element' is a requirement of the legislation. • Acknowledging that the contracting parties may have their own terminology related to contingency for risk or uncertainty affecting costs.
<p>2. A risk contingency element in the contractor's costs may be an Allowable Cost subject to satisfying the requirements of this guidance.</p>		<ul style="list-style-type: none"> • Removing for brevity.

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
<p>[See H.2.5 and H.2.6]</p>	<p>3. In assessing if a risk contingency element in the contractor's costs is an Allowable Cost the relevant parties should consider:</p> <p>a) whether the estimated costs to which the risk contingency element may be allocated would, if incurred, satisfy the requirements of costs that are appropriate;</p> <p>b) whether the estimated costs to which the risk contingency element may be allocated would, if incurred, satisfy the requirements of costs that are attributable to the contract; and</p> <p>c) whether the amount of the risk contingency element is reasonable in the circumstances given:</p> <p>i) the extent and nature of the risk or uncertainty affecting the estimated costs to which the risk contingency element may be allocated;</p> <p>ii) the contractor's experience in performing similar activities; and</p> <p>iii) the potential for cost efficiencies and risk reduction arising from opportunities for the contracting parties to learn from experience during the life of the contract.</p>	<ul style="list-style-type: none"> • Removing the proposed generic term 'uncertain costs' and replacing with references to risk or uncertainty. • Introducing a requirement to consider opportunities for the contracting parties to learn from experience during the life of the contract when considering whether the amount of a risk contingency element is reasonable in the circumstances. • Revising for clarity.
<p>3. The approach or approaches to be taken when quantifying a risk contingency element in costs should be appropriate to the circumstances of the case.</p>	<p>[See H.2.4]</p>	

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
<p>4. The amount of any risk contingency element in Allowable Costs should be consistent with the requirement in Part H.1.3 that an estimate of Allowable Costs should aim to anticipate the actual Allowable Costs the contractor will incur in performing the contract, having due regard for economy and efficiency in the use of resources.</p>	<p>[See H.2.4]</p>	
<p>5. The assessment of whether a risk contingency element is an Allowable Cost should consider:</p> <ul style="list-style-type: none"> a) whether the uncertain costs to which the risk contingency element may be allocated are of a type and arising from activities that would, if incurred, satisfy the requirements of costs that are appropriate; b) whether the uncertain costs to which the risk contingency element may be allocated would, if incurred, satisfy the requirements of costs that are attributable to the contract; and c) whether the amount of the risk contingency element is reasonable in the circumstances. 	<p>[See H.2.3]</p>	

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
<p>6. In determining whether the amount of any risk contingency element is reasonable in the circumstances, the relevant parties should consider:</p> <p>a) the extent and nature of the uncertainty surrounding the costs to which the risk contingency element may be allocated; and</p> <p>b) whether a reasonable person informed of the facts would consider the uncertainty surrounding those costs consistent with the contractor's experience in performing similar contracts.</p>	<p>[See H.2.3]</p>	
<p>[See H.2.3 and H.2.4]</p>	<p>4. The approach or approaches to be taken when quantifying a risk contingency element in costs should be appropriate to the circumstances of the case, having regard to the guidance at H.1.3 to H.1.7.</p>	
<p>7. Where there are no uncertain costs there should be no requirement for a risk contingency element in Allowable Costs.</p>	<p>5. Where there are no estimated costs affected by risk or uncertainty there should be no requirement for a risk contingency element in Allowable Costs.</p>	<ul style="list-style-type: none"> Removing the proposed generic term 'uncertain costs' and replacing with references to risk or uncertainty.
<p>8. The SSRO provides separate guidance for contractors on the reporting of data on any element of risk contingency in Allowable Costs.⁴</p>	<p>6. The SSRO provides separate guidance for contractors on the reporting of data on any element of risk contingency in Allowable Costs.⁵</p>	<ul style="list-style-type: none"> Providing more specific cross references to the SSRO's latest reporting guidance in the footnote.
<p>H.3 Costs associated with mitigating uncertainty</p>	<p>H.3 Costs associated with mitigating risk or uncertainty</p>	<ul style="list-style-type: none"> Revising to include specific reference to mitigating risk as well as uncertainty.

⁴ SSRO (2019) *Defence Contract Analysis and Reporting System (DefCARS): Reporting Guidance and System User Guide for Defence Contractors (Version 6)*.

⁵ See Tables 7, 11, 13, 21, 22, 25, 26, 29, and 31 of SSRO (2019) *Reporting Guidance on Preparation and Submission of Contract Reports (Version 7)*.

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
<p>1. Contractors may take action to reduce the extent of any uncertainty surrounding the occurrence or amount of the costs of performing the contract. The cost of such mitigating action may be an Allowable Cost subject to satisfying the requirements to be appropriate, attributable to the contract and reasonable in the circumstances.</p>	<p>1. Contractors may take action to reduce the likelihood or impact of risk or uncertainty affecting either the costs of performing the contract or other aspects of contract performance. The costs of such mitigating action ('the costs of mitigation') may be Allowable Costs subject to satisfying the requirements to be appropriate, attributable to the contract and reasonable in the circumstances.</p>	<ul style="list-style-type: none"> Revising to include specific reference to mitigating risk as well as uncertainty. Revised to include costs associated with mitigating risk or uncertainty in aspects of contract performance other than cost.
	<p>2. The contractor may take action to mitigate the likelihood and impact of risk or uncertainty for a single contract or for multiple contracts. Accordingly, the costs of mitigation may be applied directly or indirectly to contracts.</p>	<ul style="list-style-type: none"> Noting that the costs of mitigation may be applied directly or indirectly to contracts.
<p>2. In determining whether the cost of mitigating uncertainty affecting a cost or costs is an Allowable Cost, it may be considered to enable the performance of the QDC or QSC in question when the cost or costs whose uncertainty is being mitigated satisfy the requirements to be appropriate and attributable to the contract.</p>	<p>3. The costs of mitigation may be considered to enable the performance of the contract if they are incurred with the intention of reducing the likelihood and impact of risk or uncertainty affecting:</p> <ol style="list-style-type: none"> a cost which, if it was incurred, would satisfy the requirements to be appropriate and attributable to the contract; or any other aspect of contract performance, for example, schedule risk. 	<ul style="list-style-type: none"> Revising to include specific reference to mitigating risk as well as uncertainty. Revising to include costs associated with mitigating risk or uncertainty affecting aspects of contract performance other than cost. Revising for clarity.

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
<p>3. In determining whether the cost of mitigating uncertainty affecting costs is reasonable in the circumstances the relevant parties should ascertain whether:</p> <p>a. due regard for economy and efficiency in the use of resources is demonstrated by the relative amounts of:</p> <p>i) the cost of the mitigating actions; and</p> <p>ii) the estimated reduction in the amount of a cost or costs as a result of the mitigating actions; and</p> <p>b. any other benefits are anticipated to arise for the Secretary of State as a result of the mitigating actions.</p>	<p>4. In determining whether the costs of mitigation are reasonable in the circumstances the relevant parties should ascertain:</p> <p>a. Whether due regard for economy and efficiency in the use of resources is demonstrated by the relative amounts of:</p> <p>i) the costs of mitigation; and</p> <p>ii) the reduction in the amount of a cost or costs that is or was anticipated as a result of the mitigating actions; and</p> <p>b. what, if any, other benefits are or were anticipated to arise for the Secretary of State as a result of the mitigating actions, for example, greater certainty as to contract schedule performance.</p>	<ul style="list-style-type: none"> • Clarifying that it is the <u>anticipated</u> benefit arising from mitigating actions which should be considered when determining if the costs of mitigation are reasonable in the circumstances. • Clarifying, by way of an example, the type of other benefits that might be considered when determining if the costs of mitigation are reasonable in the circumstances.
<p>4. The costs of mitigating uncertainty affecting aspects of contract performance other than costs may also be Allowable Costs subject to satisfying the requirements to be appropriate, attributable to the contract and reasonable in the circumstances.</p>		<ul style="list-style-type: none"> • Removing proposed guidance which is now incorporated within paragraphs H.3.1 to H.3.4.
	<p>5. More specific guidance on determining whether the costs of insurance are Allowable Costs is provided in Part E.5.</p>	<ul style="list-style-type: none"> • Providing a cross-reference to the guidance on insurance.

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
H.4 Cost risk adjustment	H.4 Cost risk adjustment	
<p>1. In determining the price of a QDC or QSC, cost risk is the possibility that the actual amount of costs which are determined to be Allowable Costs will differ from the estimated amount of those costs. The presence of cost risk may be reflected through the agreement of a cost risk adjustment in determining the contract profit rate for a QDC or QSC. The SSRO provides separate specific guidance on cost risk adjustment.⁶</p>	<p>1. Cost risk is the possibility that the actual amount of costs which are determined to be Allowable Costs will differ from the estimated amount of those costs. The presence of cost risk may be reflected through the agreement of a cost risk adjustment in determining the contract profit rate for a QDC or QSC. The cost risk adjustment should not be used to include within the contract price any element of the estimated costs that have been identified, as these should be considered in the determination of the estimated Allowable Costs. The SSRO provides separate specific guidance on cost risk adjustment.⁷</p>	<ul style="list-style-type: none"> • Clarifying that the CRA should not be regarded as contingency for risk or uncertainty or to include within the contract price the expected cost impact of risks which could be identified and included in the estimated Allowable Costs. • Providing a more specific cross-reference to the SSRO's guidance on cost risk adjustment in the footnote.

⁶ SSRO (2019) *Guidance on the Baseline Profit Rate and its Adjustment (Version 5)*.

⁷ **See Section 3 in** SSRO (2019) *Guidance on the Baseline Profit Rate and its Adjustment (Version 5)*.

3. Insurance

We will replace Part E.5 (Insurance) in the current Allowable Costs guidance with the guidance below.

Key to changes: Text deleted Text revised/moved Text added

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
1. The costs of insurance, for example, insurance premiums, may be Allowable Costs, subject to satisfying the requirements of this guidance.	1. The costs of insurance, for example, insurance premiums, may be Allowable Costs, subject to satisfying the requirements of this guidance.	<ul style="list-style-type: none"> No change.
2. The costs of insurance may be considered to enable the performance of the QDC or QSC in question when the uncertain costs which would be met by the insurance provider should they be incurred, would, in the absence of the insurance, satisfy the requirements to be appropriate and attributable to the contract.	<p>2. The costs of insurance may be considered to enable the performance of the QDC or QSC in question when:</p> <p>a) the insurance is required by statute or by the contract terms and conditions; and</p> <p>b) the costs affected by risk or uncertainty which would be met or reduced by the insurance provider should they be incurred, would, in the absence of the insurance, satisfy the requirements to be appropriate and attributable to the contract.</p>	<ul style="list-style-type: none"> Acknowledging that insurance which is required by statute or by the terms and conditions of the contract may be considered to enable the performance of the contract. Acknowledging that insurance may provide only partial compensation for the costs incurred by a contractor.

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
<p>3. In determining whether the cost of insurance is reasonable in the circumstances the relevant parties should ascertain whether the costs demonstrate due regard for economy and efficiency in the use of resources given the estimated impact of the insured event on the costs of performing the contract and the likelihood of its occurrence.</p>	<p>3. In determining whether the costs of insurance are reasonable in the circumstances the relevant parties should ascertain:</p> <p>a) whether due regard for economy and efficiency in the use of resources is demonstrated by the relative amounts of:</p> <p>i) the costs of insurance; and</p> <p>ii) the estimated impact of the insured event on the costs of performing the contract given the likelihood of its occurrence; and</p> <p>b) what, if any, other benefits are or were anticipated to arise for the Secretary of State as a result of purchasing the insurance, for example, greater certainty as to contract schedule performance.</p>	<ul style="list-style-type: none"> Revised to be consistent with paragraph H.3.4.
<p>4. The contractor may purchase insurance for risks associated with a single contract or multiple contracts. Accordingly, the costs of insurance may be applied directly or indirectly to contracts.</p>	<p>4. The contractor may purchase insurance for risks associated with a single contract or multiple contracts. Accordingly, the costs of insurance may be applied directly or indirectly to contracts.</p>	<ul style="list-style-type: none"> No change.
<p>5. Where insurance provides cover for risks arising from multiple contracts, the benefits of that insurance may accrue disproportionately between those contracts and will be impossible to ascertain at the time of purchase. Accordingly, the relevant parties should agree a methodology for the allocation of insurance costs to contracts that seeks to ensure those costs are equitably apportioned.</p>	<p>5. Where insurance provides cover for risks arising from multiple contracts, the benefits of that insurance may accrue disproportionately between those contracts and will be impossible to ascertain at the time of purchase. Accordingly, the relevant parties should agree a methodology for the allocation of insurance costs to contracts that seeks to ensure those costs are equitably apportioned.</p>	<ul style="list-style-type: none"> No change.

Guidance proposed in consultation	New guidance from 1 April 2020	Changes arising from consultation
<p>6. Uninsured costs associated with insured events, for example policy excesses or deductibles, or costs exceeding the limits of insurance cover may be Allowable Costs subject to satisfying the requirements to be appropriate, attributable to the contract and reasonable in the circumstances.</p>	<p>6. Costs associated with insured events but not covered by insurance, for example policy excesses or deductibles, or costs exceeding the limits of insurance cover, may be Allowable Costs subject to satisfying the requirements to be appropriate, attributable to the contract and reasonable in the circumstances.</p> <p>7. Where such costs are affected by risk or uncertainty the parties should have regard to the guidance in Part H when determining whether the costs are Allowable Cost.</p>	<ul style="list-style-type: none"> • Clarifying that uninsured costs associated with insured events may be Allowable Costs whether they are estimated or actual, subject to meeting the relevant requirements. • Including a cross-reference to the guidance in Part H.

[The text in this section is extremely faint and illegible. It appears to be a long paragraph of text, possibly a letter or a report, but the characters are too light to transcribe accurately.]