



PROJECTS – PART 1

CONTRACT TYPES

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PRESENTATION BY B. WICKS

Workshop summary



- ❑ Lump sum contract with schedule of rates
- ❑ Quantities contract
- ❑ Provisional quantities contract
- ❑ Schedules of rates contract
- ❑ Cost-plus contract

Lump sum contract with schedule of rates

- Usually used for small contracts
- Tender is based on working drawings and specifications
- Advantages
 - ▣ Drawings and specifications are completed before going out to tender. This facilitates the building process.
 - ▣ Employer has the advantage of a fixed final building cost before commencement.
 - ▣ Quantity surveyor's fees are avoided.
 - ▣ Saving in time due to the fact that no bills of quantities have been prepared
 - ▣ There is some basis for adjustment if a variation should occur.

Lump sum contract with schedule of rates ..



□ Disadvantages

- Contractor must allow in his price for uncertainties – may inflate his price.
- No basis for the calculation of payment certificates.
- Every tenderer must “take off” his own quantities.
- In many cases the rates in the schedule of rates bear no relation to the basis of calculation of the contract sum.

Quantities contract

- Most widely used form of contract.
- Advantages
 - Drawings and specifications are completed before going out to tender. This facilitates the building process.
 - Contractors have a uniform basis for competitive tendering.
 - Employer is provided with a fairly accurate indication of the final cost.
 - Very good basis for adjustment if variations occur.
 - Uncertain items are measured provisionally – contractor does not have to allow for uncertainties.
 - Sound basis for calculation of payment certificates.
 - Facilitates very good financial control
- Disadvantages ?
 - Provisional sums and items are subject to adjustments.
 - Quantity surveyor's fees must be paid.
 - Preparation of bills of quantities takes time.

Provisional quantities contract

- Used to enable completion at an early stage when full documentation is not yet available
- Advantages
 - A certain amount of essential planning is achieved before going to tender.
 - Contractors have a uniform basis for competitive tendering.
 - Proposed variations can be accurately evaluated.
 - Employer is provided with a fair indication of the final cost.
 - Sound basis for the calculation of monthly payment certificates.
 - Fairly sound basis for cost control.
 - Final cost can be assessed reasonably accurately even before the final account is prepared.
 - Time required for tender documentation is less than that required for the ordinary Quantity Contract.

Provisional quantities contract ..



□ Disadvantages

- Accuracy is sacrificed for speed and errors, both minor and major, are liable to occur.
- Due to the comparative ease with which variations can be evaluated, too many hasty decisions may be made.
- Programming on the part of the contractor can be difficult.
- Normal decision making has to be accelerated with attendant risks.

Schedule of rates contract

- Comprises a schedule of items similar to Bills of Quantities items but without the quantities
- Upon completion, or progressively, the project is measured by the Quantity Surveyor and priced at the scheduled rates
- Used when early completion is essential and information available is at a minimum
- Advantages
 - Time is saved in going to tender and commencement of building operations
 - The final cost of the project can be more accurately and equitably determined than the final cost of a lump sum contract
 - Proposed variations can be accurately evaluated
 - Apart from the lack of drawings and accurate quantities the contract documentation can still be of a very high caliber
 - The Quantity Surveyor will be able to play his normal role of financial controller of the contract

Schedule of rates contract ..

□ Disadvantages

- Accuracy is sacrificed for speed and errors, both minor and major, are liable to occur.
- Due to the comparative ease with which variations can be evaluated, too many hasty decisions may be made.
- Programming on the part of the contractor can be difficult.
- Normal decision making has to be accelerated with attendant risks.
- The evaluation of a tender is not a straight forward exercise.
- Final cost cannot be assessed with reasonable accuracy before the final account stage.
- Timeous and accurate evaluation of work completed each month for certificate purposes places a heavy burden on the Quantity Surveyor.

Cost-plus contract

- Employer undertakes to pay the contractor for all of his costs (cost must be very carefully defined), as well as a specific percentage or amount to cover overheads and profit.
- Many risks for the Employer, with little or no risk to the Contractor.
- Quantity Surveyor assumes the role of technical auditor but with no means of controlling expenditure
- Advantages
 - ▣ One of the quickest ways of letting a contract and commencing building operations.
 - ▣ Generally negotiated with a single contractor in whom the Employer has confidence.
 - ▣ Contractor could be expected to give special attention the work

Cost-plus contract ..

□ Disadvantages

- Higher costs mean higher rewards to the Contractor.
- Wastefulness is encouraged, the less efficient the Contractor the greater his reward.
- Strict supervision of costs has to be exercised at all times.
- Limited means of determining whether prices submitted are the best.
- Quantity Surveyor's services are frequently dispensed with, with serious repercussions.
- In the case of errors in construction it may be difficult to apportion costs or fix the blame.
- High standards in contract documentation may not be achieved.
- Final cost cannot be known until the final stage is reached.