Evolution of Partnering Contracts - NEC Trial in Government Projects
Tender Preparation & Administration of NEC Contracts

Ir TSUI Wai
Deputy Director of Drainage Services
2 June 2012

Content

- Gearing up for NEC – Preparation work
- Making NEC work – Administration experience
- Observations
Gearing Up for NEC

- DSD NEC trial covers...
  - Different options
    - ECC Fixed Price (A/B), Target (C/D), TSC, PSC
  - Different nature
    - New projects, maintenance works
  - Different scale
    - Projects of varying complexity and scope
  - Different management structure
    - In-house or consultant-managed

Preparation Work

- To launch NEC...
  - Choose the right Option
    - Option selection
  - Prepare tender documents
    - Turning Government works policies to NEC form
  - Industry awareness
    - Contractors’ forum, pre-tender meeting
  - Assistance by NEC Advisers
Choose the Right Option

- New projects – Engineering and Construction Contract (ECC)
  - Option A / B – Fixed price
    - Financial risk more on Contractor
  - Option C / D – Target cost
    - Fairer risk sharing
  - Option E – Cost reimbursement
  - Option F – Management contract

- Maintenance works – Term Service Contract (TSC) Option A – Priced contract

Choose the Right Option

<table>
<thead>
<tr>
<th>Project</th>
<th>Estimated cost</th>
<th>NEC Form</th>
<th>Start / Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and Civil Maintenance to DSD plant and facilities</td>
<td>$160M</td>
<td>TSC Option A – Priced contract with price list</td>
<td>End 2012 / End 2016</td>
</tr>
<tr>
<td>Pak Hok Lam trunk sewer and Sha Tau Kok village sewerage</td>
<td>$200M</td>
<td>ECC Option B – Priced contract with bill of quantities</td>
<td>Mid 2012 / Early 2017</td>
</tr>
<tr>
<td>Lam Tsuen village sewerage</td>
<td>$120M</td>
<td></td>
<td>End 2012 / End 2015</td>
</tr>
<tr>
<td>Fuk Man Road nullah improvement</td>
<td>$70M</td>
<td>ECC Option C – Target contract with activity schedule</td>
<td>Aug 2009 / May 2012</td>
</tr>
<tr>
<td>Happy Valley underground stormwater storage scheme</td>
<td>$700M</td>
<td></td>
<td>Mid 2012 / Early 2018</td>
</tr>
</tbody>
</table>
Choose the Right Option

**TSC Option A**
- Building and Civil Maintenance to DSD plant and facilities
- Certainty of site areas (within DSD premises)
- Scope of works not certain at tender stage
- Option A – Priced contracts with price list
  - measure using price list

Choose the Right Option

**ECC Option B**
- Pak Hok Lam trunk sewer and Sha Tau Kok village sewerage
- Lam Tsuen village sewerage
- Resemblance to conventional approach
- Familiar
Choose the Right Option

- **ECC Option C**
  - Fuk Man Road nullah improvement
  - Happy Valley underground stormwater storage scheme
  - Cost saving incentive
  - Fair risk sharing

---

Choose the Right Option

- **Pain / Gain Share Model**
  - **Gain share** – share equally for whatever savings
  - **Pain share** – Cap at 110%
Choose the Right Option

- ECC Option D
  - Yuen Long and Kam Tin Sewerage

  - Cost saving incentive
  - Fair risk sharing
  - Flexibility to use BQ rates for compensation events

Prepare Tender Documents

- Modifications to NEC core clauses
  - Cash Positive to Negative
    - To suit Government practice
  - Inclement weather
    - Adopt GCC criteria
  - Subcontracting
    - For Target cost contract, payment on reimbursable basis
    - Introduce tendering requirements
      - Incentive to select most competitive offer
Prepare Tender Documents

- Option Z clauses (additional conditions of contract)
  - Select applicable standard policy conditions in GCC/SCC
    - E.g., Safety, labour and wages
    - Some are put in Works Information as appropriate

Industry Awareness

- Before Tender
  - Contractors’ forum
    - Invite eligible tenderers

- During Tender
  - Tender briefing + dummy tender exercise
    - Enhance understanding
      - E.g., Type of contract (Priced / Target), Fee percentage
    - Ensure correct tender submissions
      - E.g., Proper pricing documents
Making NEC Work – Experience from Fuk Man Road Project

- **Training**
  - Forming the right team

- **Relationship Management**
  - Establish a “Partnering” spirit
  - Maintain and improve throughout

- **NEC Key Features**
  - Risk management
  - Time management
  - Compensation event

---

Training

- Training to team members
  - Employer
  - Project Manager
  - Supervisor
  - Contractor

- At design / tender stage
  - Overseas secondment

- Joint training at contract stage
"10.1 – The Employer, the Contractor, the Project Manager and the Supervisor shall act as stated in this contract and in a spirit of mutual trust and co-operation”

- Establish partnering spirit
  - Start-up partnering workshop
  - Joint NEC training
  - Set up joint office

- Maintain and improve
  - Partnering review
  - Champion Group meeting

Relationship Management

- Establish partnering spirit
  - Start-up workshop to align mutual objectives:
    - Time – 6 months ahead
    - Cost – 5% savings
    - Others – quality, safety, developing landmark

- Joint Site Office
  - Supervisor’s Assistant Resident Engineer
  - Contractor’s Engineer
Relationship Management

- Maintain and Improve
  - Bi-monthly Champion Group meeting
    - Open discussion
    - Review Team’s performance, including frontline staff (Pioneer Group)
  - Half-yearly partnering review
  - Joint DSD / BV / CW dragon boat team 2011

2.50 2.70 2.90 3.10 3.30 3.50 3.70 3.90 4.10 4.30

0 = Poor
1 = Fair
2 = Adequate
3 = Good
4 = Very Good
5 = Excellent

Partnering score of Champion Group
Partnering score of Pioneer Group
**NEC Key Features**

- **Risk Management**
  - Early Warning
    - The C and PM give an early warning by notifying the other asap
    - Prices
    - Delay Completion
    - Affect quality
  - Risk reduction meeting
  - E.g., change in roundabout layout
  - NEC - Proactive risk management

- **Compensation Event**
  - Time frame and sanctions
  - Default acceptance if no reply

- **NEC vs GCC**
  - Quick settlement *(pre-event agreement)*
  - Unforeseen physical conditions, inclement weather – compensation events
    - TIME and COST
    - Fairer risk sharing
Observations – Fuk Man Road Project

**Benefits**
- Good working relationship
- Almost 6 months ahead of contract period, 5% cost savings
- Compensation events
  - Expected to resolve all 4 months after completion
- Early warnings
  - 15 early warnings issued
  - Resolved jointly and promptly

**Insight**
- Collaborative working at frontline level
  - Need time to adapt
  - Training and team building very important
- Compensation event
  - Time frame – stringent, yet need to achieve
  - More resources expected in contract stage
- Review of contract provisions
  - E.g., Subcontracting
  - Review, take into account practical difficulties
Conclusion

- NEC - facilitates better project management
  - Time & cost savings, fairer risk sharing, better relationship
- Founded on collaborative and partnering spirit
- Has been successful on Fuk Man Road
- Try, and Learn

Drainage Services Department

Thank You