

BUILDING A WORLD OF DIFFERENCE

EXPERIENCE SHARING ON THE ADMISITRATION OF THE DSD PILOT CONTRACT (NEC Option C)

Contract No. DC/2008/02
Improvement of Fuk Man Road Nullah in Sai Kung

Discussion on Contract Management

Kelvin N. F. Lau – Associate Vice President



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AGENDA

- **Role of consultant in the Pilot Contract**
- **Discussion of Contract Management**
 - Compensation Event / Defect / Payment
- **Feedback**



Photomontage of the proposed park under DC2008/02

Role of the Consultant in the Pilot Contract

	NEC	GCC
Title of B&V in this Pilot Contract	Supervisor	Engineer
RSS in this Pilot Contract	Supervisor's Representative (RSS post – RE)	Engineer's Representative
Role	Offering support to the <i>Project Manager</i> in execution of the day-to-day project management	Carry out the duties and exercise the power specified in the Contract. i.e. contract administration; watch & inspect the Works; test & examine materials; workmanship....etc

Foreword to NEC conditions

- Stimulating **good management and relationship** between the parties to contract and , hence, of the **work included in the contract**

Changes in Rules – changes in mindset

- The Contract is to be run by mutual trust and cooperation developed amongst Client, Consultant & Contractor with the **interests of the project**.
- Emphasis on effective communications
– new rules for responding on project matters
- Transparency of Information and Decision Making
- Risks and Responsibilities Sharing concept
- Payment = Contractor's "actual" expenses + Fees

Compensation Event (NEC characteristic)

- A single and unified procedure for all issues related to **TIME & COST** change
- Procedure designed with an aim to Quick Settlement (**pre-event agreement**)

Typical types of Compensation Events are listed in NEC –ECC Clause 60.1

Compensation Event - Notification of CE

NEC-ECC

- PM **within one week** replies a Notification of CE (ECC61.4)



GCC

- No response time requirement on the Engineer

**More favourable to
Contractor**

Compensation Event - compared with VO and Claim

NEC-ECC

- Quotation for CE **ALWAYS** covers both time and cost (ECC62.2)
- No differentiation as VO or Claim

GCC

- EOT and money are separately considered
- VO – \$ only
- Claim – Time or Time + \$



**More efficient
project management**

Compensation Event - compared with VO and Claim

NEC-ECC

- An Agreement process **between PM and Contractor**
- Definite timeframe for both PM and Contractor
- Fixed and not subject to change once agreed

GCC

- Valuation or Assessment **by the Engineer**
- No timeframe for reply
- Subject to further change or argument

Better Co-operation & Quicker finalization

More resources & focus onto the project works

Average agreement time in FMR : 52 days

Compensation Event - Assessment of Quotation for CE

NEC-ECC

- Changes to Prices are effect of the CE upon COST + Fee

GCC

- VO Valuation is based on contract rates
(BQ rates, adjusted BQ rates or star rates as per GCC61)

COMPENSATION principle(cost + fee)

Open book account → Cost information readily available

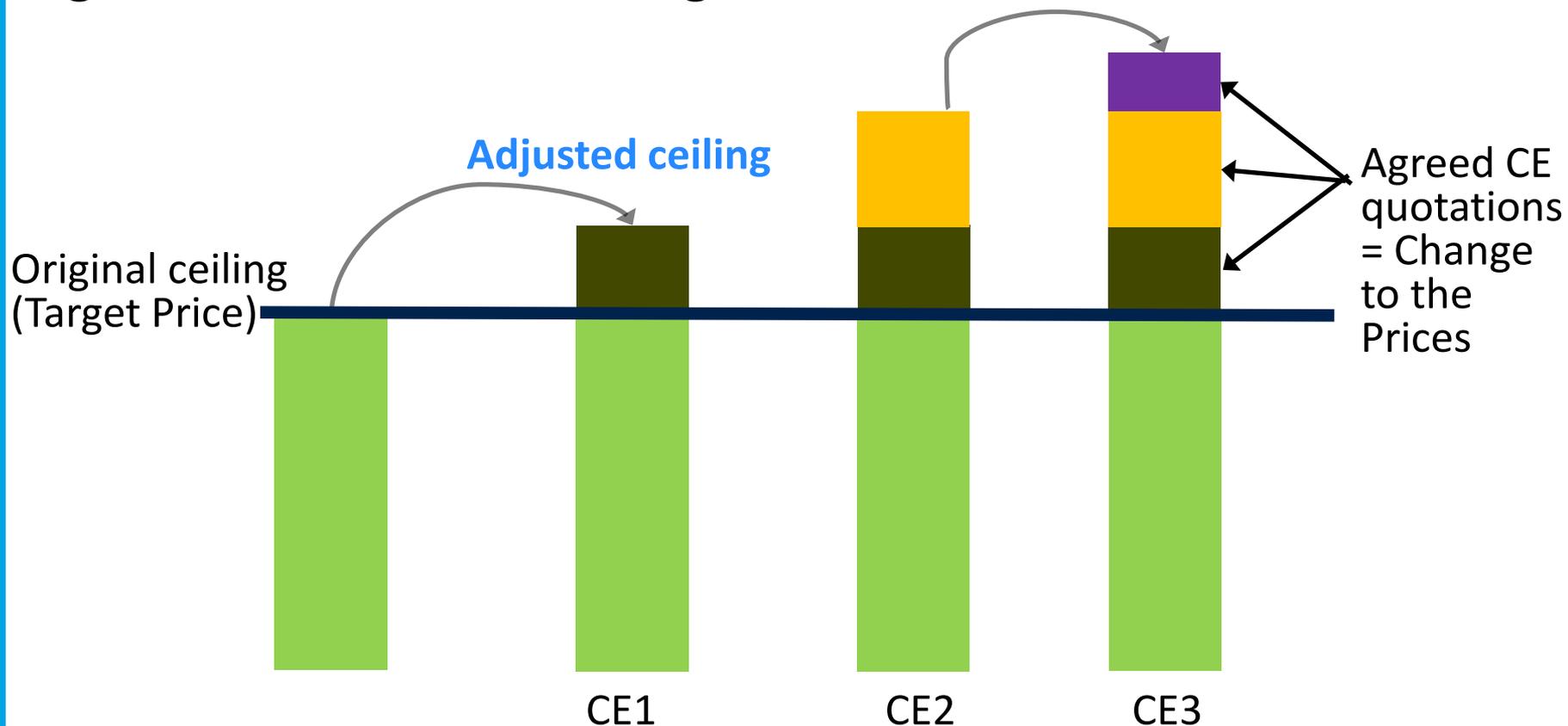


**Easier Agreement of Quotation
+ Solid Back-up**

Compensation Event - Assessment of Quotation for CE

CE Quotation = Estimated Actual Cost* + Fee (*Estimated cost includes Risk)

Agreed CE Quotation = Change to the Prices



**Pain-Gain share between Employer and Contractor →
Based on Final Adjusted ceiling vs Actual Cost**

Compensation Event - Neutral Event ?

- There is **no “Neutral Event”** → All CE covers Time + \$

(vs GCC: inclement weather, utility work, special circumstances → Time only)

- **9 nos.** CE for inclement weather agreed for DC/2008/02

CE for inclement weather **covers increase in Prices** →
more competitive bids for the Employer in long term

Compensation Event - Assessment of “Prolongation Costs”

NEC-ECC

- ECC Schedule of cost components - covers information on preliminaries
- Each IP submission contains detailed breakdown of salaries, allowance, utility charges, etc

GCC

- No information regarding preliminaries is provided
- Contractor is to give detailed particulars of the rate or sum claimed only after notification of claim

Open book account → Reliable Cost Data →
Easier Agreement

Handling of Defective Works

Day-to-Day Tasks

- Issue of Notification of Defective Works
- Checking on Defect rectification
- Ensure Defects rectified within *defect correction period* (12 weeks after Completion)

Handling of Defective Works

- Cost of defect correction → Included as part of Defined Cost

Exception:

- **Disallowed Cost** (Defect corrected after Completion, Defect due to Contractor not complying constraints in Works Information)

Incentive for earlier correction of Defects

Focus on Clearing the Defects (Not Blame)

Advance Defect notification to assist Contractor

Handling of Payment

- **Disallowed Cost (Examples)**

- Defects correction after completion
(e.g. defect repair for roundabout)
- Not justified by the Contractor's record
(e.g. payment record missing)
- Resources not used to Provide the Works
(e.g. extra staff or unreasonable material wastage)
- Resources not taken away from the Working Area after PM's request
(e.g. idle water pumps)

Handling of Payment - Payment Mechanism

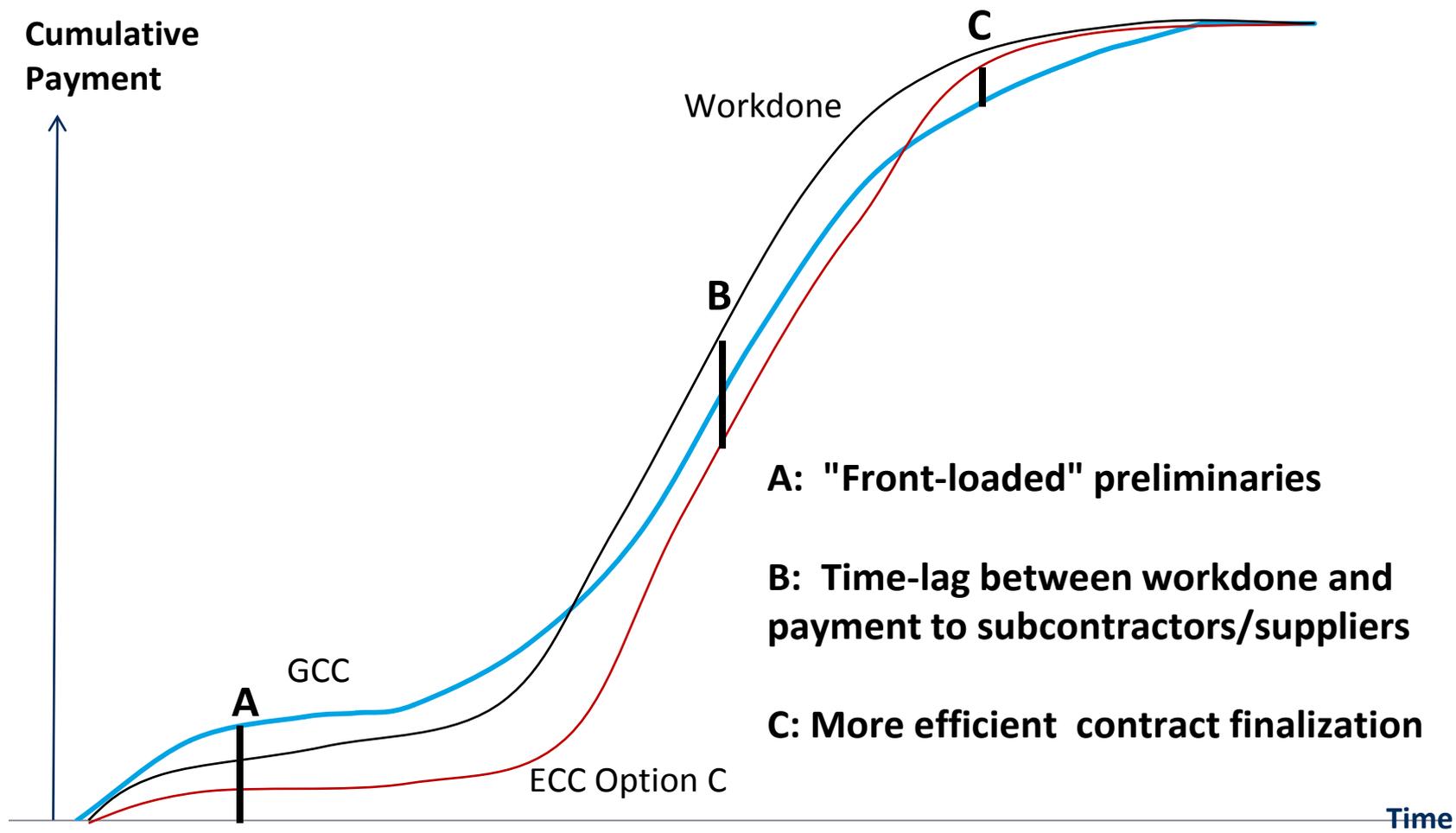
- Payment based on the PAID elements of Defined Cost

**Quick settlement of wages &
payment to subcontractors and
suppliers**



Handling of Payment

- Typical Payment Curve under NEC & GCC



Handling of Payment

– Price Adjustment for Inflation

- Calculated and Frozen at each IP to “offset” the effect of fluctuation
- Adjustment to **Target Price (not amount due)**
- **Sharing** of Adjustment to Target Price (what if Defined Cost >110%?)

Cutting Contract Cost together

- **Reduction in Defined Cost**

- PM, Supervisor and Contractor joining hands to streamline work procedure for cost saving
 - E.g. TTA for roundabout resurfacing works (changed from 8 stages to 4 stages with joint effort)
 - E.g. Existing nullah wall to be demolished (part of the existing wall retained and encased by permanent structure)
 - E.g. Use of couplers specified in contract (proposal for use of starter bar with corrosion protection coating accepted for cost saving)

- Feedback from Trial Experience

In General

- More Engineering and Project Orientated
- Real Partnering (building trust not hatred)

Contract Finalization

- Easier settlement due to Open Book Account system
- Stipulated timeframe makes agreement process start when things are still fresh (right people and right time)

Variations

- Quick settlement & Compensation Principle allows focus on factual issue and less on guessing tactics
- Better decision making on project management (Contractor, Client & Consultant views taken)

Up-to-date Observations from Fuk Man Road NEC

Main Contractor & Subcontractors

Successfully made their money from the contract

Consultant

- Less Conflicts
- More Job Satisfaction

Client

- Save time
- Save money ??

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Together



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