

# BUILDING A WORLD OF DIFFERENCE

## EXPERIENCE SHARING ON THE ADMINISTRATION 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
- $\text{Payment} = \text{Contractor's "actual" expenses} + \text{Fees}$

# 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



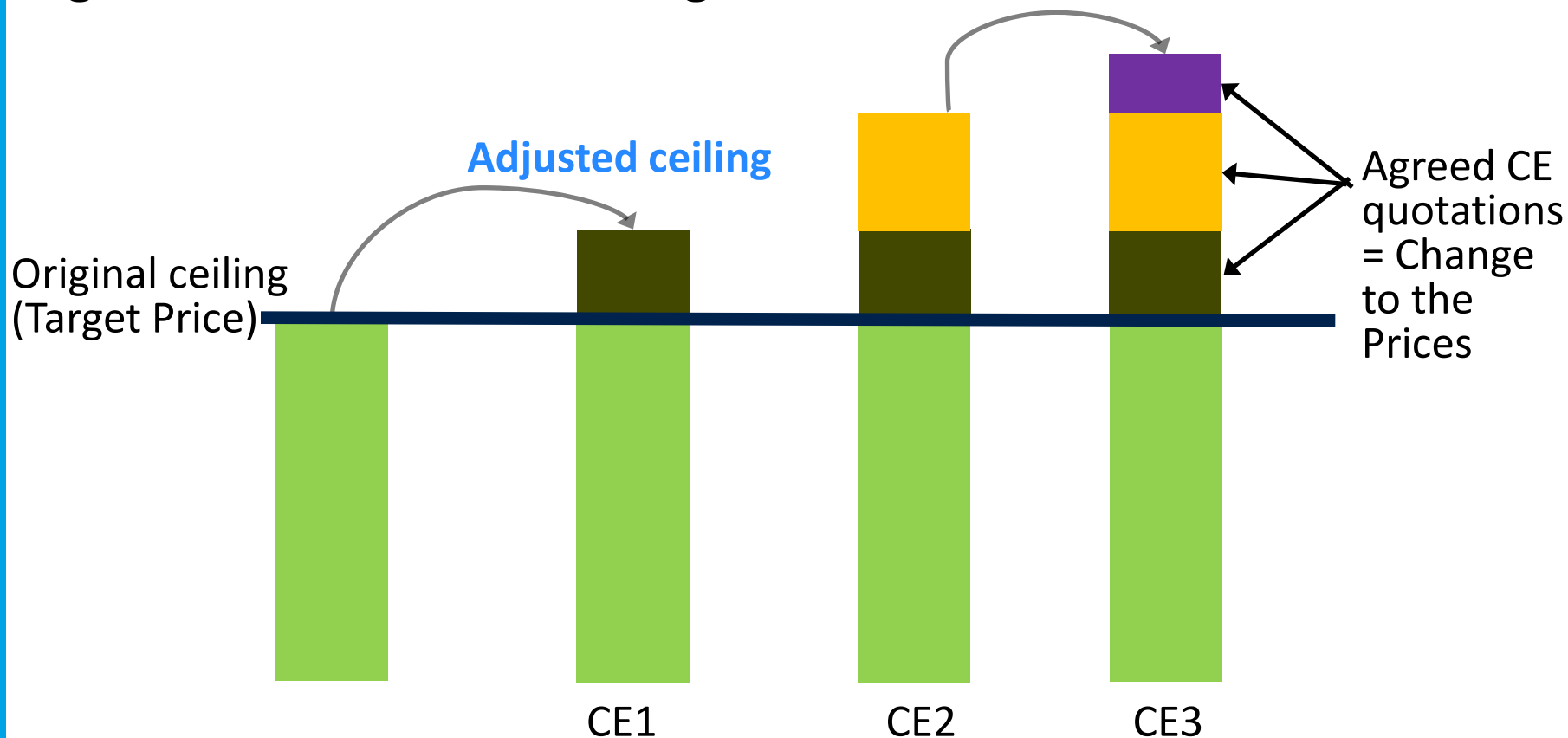
**Easier Agreement of Quotation  
+ Solid Back-up**

# 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

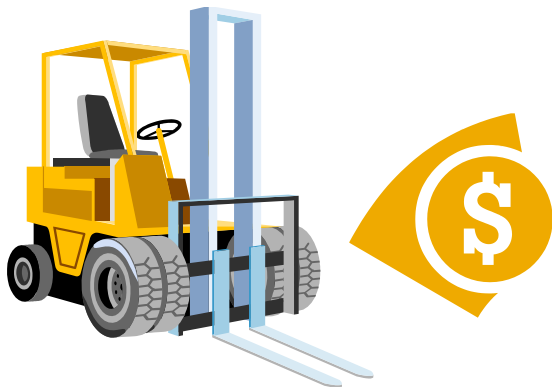
- **Disallowed Cost (Examples)**

- 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

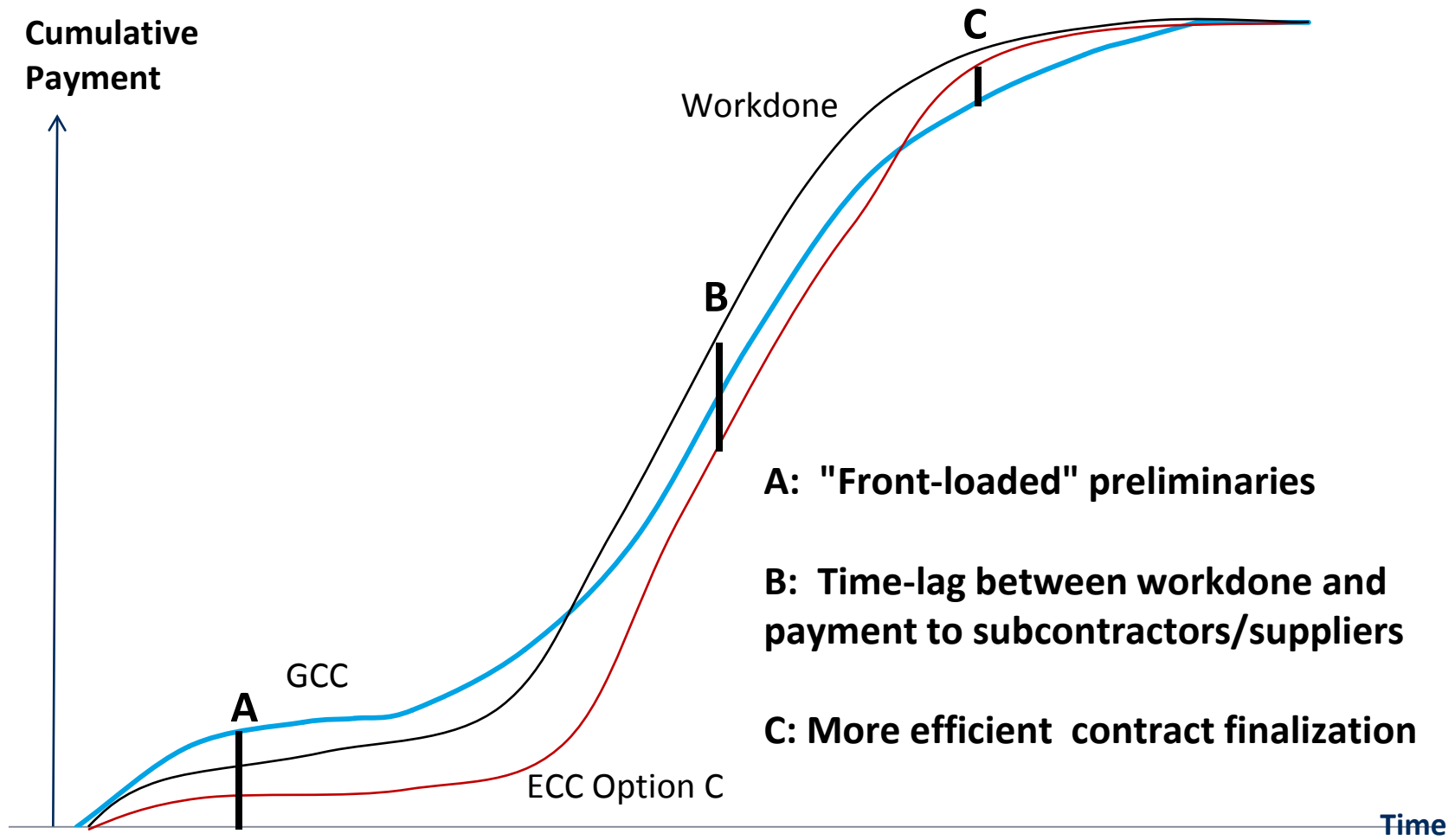
**Quick settlement of wages &  
payment to subcontractors and  
suppliers**





# 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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