

Procurement of contruction services construction essay



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INTRODUCTION:

The construction industry deals with great number of various trades and professions acting in harmony has historically always endow with risk for insurers and customers. This involves professional risks of architects, consulting engineers and risks of contractors and subcontractors that may lead to risk of professional indemnity, public and employer's liability claims. The construction is engulfed a lot physical risks connected with construction sites and their hazards like structural collapse, fire, theft and vandalism. However, to create a good environment for transparency and consistency in the management of construction risks there is need for legal contracts that guide the construction services. According to (Odeh & Battaineh 2002) " the successful execution of construction projects and keeping them within estimated cost and prescribed schedules depend on a methodology that requires sound engineering judgement". The uses of different form of contracts have helped in recovery of payment, facilities payment and resolution of disputes in the construction industry. It has lead to efficient provision for payments to contractors and subcontractors.

However, this coursework discussed the four types of contract that can be used to the housing association. Also, point out the benefits that may derive from the contracts and the most suitable one for housing association.

Furthermore, explained with example on how New Engineering Contract (NEC3) might be suitable for adoption by the housing association and showed the suitable form of contract the housing association can reduce their maintenance construction contract costs. Finally, this coursework

tended suggestions on how the organisation can reposition itself without be
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affected for future consultancy commission with regards to the housing association contract and conclusion.

A: FOUR TYPES OF CONTRACT AND THEIR BENEFIT FOR HOUSING ASSOCIATION:

1: COST PLUS OR REIMBURSEMENT CONTRACTS

2: ALL-IN OR TURNKEY CONTRACTS

3: LUMP-SUM CONTRACTS

4: ADMEASUREMENT CONTRACTS

COST PLUS OR REIMBURSEMENT CONTRACT:

In this type contract, the contract sum is determined before construction work is started. Under this type of contract the contractor accepts a defined amount of work in return for agreed sum. Contracts 'with quantities' are priced on the basis of drawings and a firm bill of quantities. Contracts 'with quantities' are priced on the basis of drawing and another document -usually a specification or work schedules. Besides that, during the contract the amount added to cover overheads and profit can be a fixed sum, a percentage or may be on reimbursement basis. This type of contract specify the labour rates to be charged on project and insurance cost is another productive area for hidden add up to in the name of reimbursing costs. This type of contract projected to avoid this automatic risk premium to the contractor (DJC, 2006). finally, according to (Haswell &De silva , 1982) the contract came into existence during the first world war and deals with target time incentives for completion on time that is accepted for contracts subject

to target costs. According to (O'Reilly 1999) Cost reimbursements enable to start work before the design is finalised. It has maximum contracting flexibility and can fast track easier. This type contract there is less owner management needed and accept competitive bidding on total scope. Cost reimbursement contracts always compensate the consulting firm based on the actual number of hours worked and other direct costs involve and the contract always contain a cost ceiling.

ALL-IN OR TURNKEY CONTRACTS:

According to (Haswell & De Silva, 1982) this is the type of contract where the client asks the contractor to tender all in bid or turnkey bid, that involves the provision of the job, both the design. This type of contract is acknowledged well and applied in many parts of Europe, USA than in the UK and the consulting engineer plays little part in the civil engineering industry than in the UK. This type of contract the civil engineering is likely to make a substantial profit in the project. Turnkey contracts are familiar with most of the customer and several analysts continue to suggest that significant number, if not the majority, of major constructions will henceforth be executed under this contractual framework. Besides that, the client can design and construct based on his / her choice without any external body, consulting engineer and contractor. According to (Dagenais, 2003) stated that the benefit is the client transacts with a single supplier for with regards to both design and execution of the project that simplifies its management. It helps to accelerate the project, since construction can begin even before the design process is completed. Also in Turnkey contract the client can benefit from the skills of the constructor earlier in project. However, it is possible to

reduce eliminates the change orders during the project. However, fewer disputes are likely to occur and, if they do will be easier to resolve.

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LUMP-SUM CONTRACTS:

This is types of contract deals with the total costs to produce a project, together with the overhead, builder profit and any extras that the project owner specifies. After the project the builder is responsible for delivering the project under the guaranteed cost. According to (Haswell &De silva , 1982) stated that alterations on lump- sum contract are expensive and follows the same line with admeasurements contract. Lump sum contract is highly acceptable to mortgage companies and this type of contract grant the builder experience to know time frame, cost to guarantee his client for the project. Lump sum is close to fixed price than other system of computing the price and is favourable for employers ask for price certainty (O'Reilly 1999). This type of contract there is a smaller amount risky for both the housing association and the Consultant. Lump -sum contract is most commonly used form of contract for architectural services. There is a clear understanding of the end product before construction begins in the project. The use of Lump sum contracts are generally accepted in the building industry and are well suited to small, medium or single trade projects. However, Lump sum contracts are not presently favoured for very big projects. In this type contract the design advice is independent of the builder . This is because of the extensive time required to complete documentation before any work can commence. For example many building project in Victoria Australian have been delivered through applying lump sum contract.

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ADMEASUREMENT CONTRACTS:

According to (Haswell & De Silva, 1982) this type of contract involves the 'Bill of Quantities' where detailed lists of all items of work required to be carried out with approximate quantities are prepared and the 'Schedule of Rates' deals with comprehensive list of the various items of work to be carried out. A schedule of rates is frequently used where the degree of works has not been or cannot be completely determined. It deals with contingency sums and provisional sums for works not fully identified in the Bills. This type of contract the contractor is paid for the amount of actual work he does and a fair basis for payment because of freedom for the alteration of work. The Schedule of Rates contract expressly rejects any revision of the rates quoted by the contractor except where the tender sum has been exceeded by a certain percentage. The important difference between these types of admeasured contract is that in the Bill of Quantities contract the total Contract Sum is the Tender Sum which is given in respect of a fixed measure of work as set out in the Bills of Quantities, whereas in the Schedule of Rates contract the total Contract Sum can be calculated only upon completion of the contract.

FROM ABOVE, ADMEASUREMENTS CONTRACT IS THE MOST SUITABLE TO THE HOUSING ASSOCIATION:

Admeasurements contract use of 'Bill of Quantities' facilitates competitive tendering and evaluation of changes in the work condition. While 'Schedule of Rates' will be useful with regards of maintenance of project to housing association. However, most contractors in the UK are well-known with this

type of contract and therefore are in a position to price the work in a fair and rational manner to the housing association (Haswell & De Silva, 1982).

furthermore, in admeasurements the unit rates tendered by contractor to individual items is fixed in the project and tender knows the conception of the work that has do with way of bills. This type of contract will provide the housing association separate bills of preliminaries, day works and general items.

B: HOW NEC3 MIGHT BE SUITABLE TO THE HOUSING ASSOCIATION.

The New Engineering Contract 3 known as (NEC3) is the most recent used contract for UK civil engineering projects and most part the world engineering projects. NEC3 is a family of contract that make possible the execution of sound project management principles and exercise significant legal relationships. NEC3 provides suitable environment for procurement of works, supply and services. This is to ensure efficiency and value of construction projects is essential for civil engineers in the recent economic environment. This helps to ensure the projects are delivered on time and within budget. The NEC3 is recent day family of standards contracts that accept the concept of partnership and promotes designers, both the project managers and contractors work mutually to meet up with up customer's aims. According to Humphrey Lloyd the best barrister with regards to construction law experts in world recommend the NEC3 as the suitable law contracts for construction services in the world -wide use. Through his recommendation, NEC3 has rapidly used in more than 20 countries of the world based the application of NEC3 in British and South African government.

According to Institution of Civil Engineers (ICE) recommends NEC3 to public sector organisation with regards to construction services due to its use to encourage high-quality management system between parties involves in contracts. Also it is an understandable, straightforward document and applied in a wide variety of commercial situations. It helps to satisfy and meet up with client's target aims for all projects with regards to cost, time factor, quality and performance. The NEC3 also is recommended by the office of Government commerce for construction services and both public sector and government make use of it. For example, the London Olympics 2012, Channel Tunnel High Speed and Nuclear Decommissioning Authority sites used NEC3. The NEC3 is more suitable to the housing association due to the first and second editions have no provisions to deal with "force majeure situations" known as unforeseen events causing problems to a project site that may lead to delay of time or from being finished. For example, if a building catch shortly ahead of completion. The insurance may cover up the repair, but their no effect of delay to completion the new NEC3. Under clause 19 NEC3 the Engineering and construction contract grant project managers power to take care of unforeseen event that may stop employers' main aim and the project contractor is permitted for compensation for event and its consequences with regards to time and money. The NEC3 will enable the housing association to discover, allocate and handle risk. Under NEC3 options C and D will enable the housing association know what to pay and when to pay it, for example during low inflation, they pay for goods based on the up to date market rates. Under option A provides the project with maximum certainty of price for the employer . under option E enable the contractor to face risk on price. While option F deals with cost reimbursable

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contract in so far that the employer and not the contractor bears the risk on the costs of the works contract. The NEC3 will deliberate to give consistency in the application of its core clauses and its compensation events to the housing association. The options are there prevent disputes for the contract and it permits termination at will for all the main options. However, the NEC3 is flexible and it has six main options to choose from the options to suit the housing association.

C: HOW USING A SUITABLE FORM OF CONTRACT THE HOUSING ASSOCIATION CAN REDUCE THEIR MAINTENANCE CONSTRUCTION CONTRACT COSTS:

According to Sir Michael Latham defined PPC200 as “ the full Monty of partnering and modern best practice”. This is type of contract that deals with multi-party contract and founded by Association of Consultant Architects. This makes available the foundation for the partnering procedure and can be used in any type partnered project of construction services through advice of legal procedure. The PPC200 adopted radical ideas invented by the construction industry council partnering task force that guide Project Team Partnering. It is used by partnering teams that involved various project in public and private sectors

From my understanding, the use PPC2000 will be suitable for the housing association to reduce their maintenance construction contract costs due to high level of integration of entire project team under a single multi-party contract and covers the entire duration of the procurement process. For example, the Joint Initiatives and Strategic Alliances under Clause 23. 1 set the general key performance indicator (KPI) regime as follows: “ The

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Partnering team members shall use reasonable skill and care, within the scope of their agreed roles, expertise and responsibilities and in accordance with the partnering Document, to achieve their respective target as set out in the KPIs". Under Clause 18. 1 the risk management the " Partnering Team members recognise the risks involved in the design, supply and construction of the project and the costs associated with those risks for efficient maintenance construction contract costs. Also Risk management is specifically addressed with the facility to allocate the share of risks appropriate to each team member. Besides that, the Clause 4. 1 and 4. 2 deals with good provision to maintenance costs. For example, Clause 4. 2 states measurable continuous improvement by reference to the target and the KPIs. while Clause 4. 1 states improved efficiency, cost- effectiveness, lean product and elimination of waste. There is tremendous mutual understanding between the Partner team member and the KPIs to reduce capital cost and whole list costs reduce accident and reduce the design, supply and construction time under Clause 4. 1. PPC200 involves specialists' contractors with regards to supply chain and construction processes. There is no provision for liquidated damages with the establishment of a core group. Also the core group helps to check the early ' warning system' system for problems and reviews performance and progress to reduce maintenance construction contract costs. Under clause 6 of PPC200 provides the partnering timetables to direct all partnering team members to partnered performances, prices and supply chain and development of designs.

D: SUGGESTION ON HOW MY ORGANISATION COULD REPOSITION ITSELF WITH REGARDS TO FUTURE CONSULTANCY COMMISSION TO THE HOUSING ASSOCIATION.

Reposition of procurement strategy: The procurement strategy classifies the suitable way of achieving the aims of the project and value for money, through taking account of the risks involved and constraints, leading to decisions about the funding technique and asset ownership for the project. The objective of a procurement strategy is to accomplish the optimum balance of risk, funding and control to the housing association.

Reposition of procurement route: The procurement route delivers the procurement strategy with regards to future to housing association. It comprises the contract strategy that will best meet the housing association needs. An incorporated procurement route ensures that design, operation, construction and maintenance are considered as a whole; it also ensures that the delivery teamwork together as an incorporated project team.

Reposition of contract Strategy: the contract strategy decides the level of integration of design, construction and ongoing maintenance to the housing association, and should support the main project objectives in terms of risk allocation, delivery and other problems. There are many different contract strategies to meet up achieving Excellence principles of integration to the housing association.

CONCLUSION:

Despite, the application of NEC3 form of contract as most suitable, I still believe other forms contract is suitable to procurement of construction
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services and the housing association. For example; PPC2000 was used on over £9billion of UK construction services by 2004 and has been used in the Middle East on most of the construction services. According to RIDC survey; found that JCT contracts are used in 85% of most construction project. JCT contracts maintain big share in the market despite the increasing use of the NEC3 form of contract in construction projects. Much new building work is done under the JCT 2005 contract which has substitute JCT 1998 contract and is well understood by subcontractor. However, traditional contract is essential with regards to understand the problems and complexities of construction contracts through evaluating the relationship between the employer and the engineer, is easily to understand the obstacles that other forms of procurement try to resolve. In traditional contract, the absence of a warranty there is no contractual relationship between the employer and subcontractor and suppliers of goods and services and the third parties do not have contractual rights. It encourages little cost and time guaranteed. Besides, converting the world's infrastructure over the coming decades to smooth the progress of a low -carbon -dioxide economy will involve clients and suppliers to have genuine confidence in long -term outcomes and returns. Through trustworthy standardised contracts that sustain project management costs down and project on track. Finally, it need global and updated information on contract status to ensure operated minimum delay and cost are properly controlled

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