APPENDIX 1

ASSESSMENT OF DIFFERENT FORMS OF CONTRACT

JCT/ICE Contract	ECC Contract (Option D)
The tendered price once approved is the contract price and changes to the price come from variations issued by the contract administrator or from approved contractor claims. If Bills of Quantities are used, changes to the contract price may arise as a result of re-measurement of the bill of quantity items to reflect the precise extent of works completed.	The tendered price is based on the Bills of Quantity but does not become the contract price, the price becomes 'the target price' which may vary as the contract progresses as a result of: variations issued, re-measures of the measured quantities where the difference between the original bill measures and the actual measures exceeds the tolerance stated in the contract, and as a result of the Actual Cost to the contractor of completing the works. The contract is essentially a cost reimbursable contract with the target price acting as a cap to the maximum reimbursement.
All changes to the works are made by Variation Order and a VO is issued by the engineer/contract administrator. However, changes could result from re-measures of bill of quantity items as discussed above.	Compensation Events generally arise whenever change is instructed by the project manager. The change can be triggered by the project manager/designer, employer or by the contractor. The contract contains a detailed procedure for the request of quotations from the Contractor and approval or otherwise by the Project Manager. The contractor and project manager have a limited period of time to submit and agree quotations for compensation events. There is no provision for contractor claims in this form of contract as all costs associated with prolongation of the works are required to be included within the quotation for the compensation event which results in the prolongation.
The value of variations is determined by the engineer/contract administrator generally on completion of the works involved. This procedure can result in final accounts taking many months to resolve following completion of the works.	The premise of the contract is that the cost of all variations, including the effect on programme and completion, is agreed in advance of the varied works being instructed and undertaken, in order that both parties i.e. Contractor and Employer are aware at all times as to their financial liability. In this manner the contract is forward looking and unlike traditional contracts there is no mechanism for the retrospective valuation of variations.

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Claims by the contractor for additional payment were often left to the end of a contract to assess and could take months and sometimes years to resolve.	Early warnings have to be issued by the contractor or project manager if they consider that there are issues that will arise in the future that may delay completion, increase cost or affect the performance of the works in use. The objective in issuing Early Warnings is to maximise the time available to consider potential problems thereby increasing the likelihood of identifying a solution that best meets the Employer's interests. Action has to be taken to mitigate the issue and these have to be addressed as the works progress. There is no scope for leaving the contractor cost issues (compared with claims) until after the works are completed. Early warnings should feed into the risk register and may become compensation events.
The programme for the works is fixed at the start of a contract and it is for the contract administrator to agree extensions of time if there are delays to the programme. Providing no variations are issued by the contract administrator, and no delays in achieving access to the site or the provision of items for which the Employer is responsible occur, the completion date will remain as that stated in the original contract documents.	The programme is not fixed, the contractor produces a first programme prior to the works commencing. Thereafter the contractor produces new programmes at intervals stated in the Contract Data and as the compensation events occur. A key requirement is a detailed review of the initial programme by the Project Manager to ensure that that activity periods are realistic and achievable and appropriate time risk allowances and float are incorporated. The Completion Date of the works is determined by the latest programme submitted by the Contractor, which has been accepted by the Project Manager.
Payment to the contractor is made each month based on the rates in the Bills of Quantity.	Payment to the contractor is made each month based on the actual costs incurred by the contractor in terms of his sub-contract costs, people, equipment, plant and materials etc. as determined by the Schedule of Cost Components contained in the Engineering and Construction Contract. The Bills of Quantities have no purposing in determining the amount to be reimbursed to the Contractor each month.
Traditional contracts contain no positive incentivisation for the contractor to seek alternative more economical methods of construction.	The share mechanism positively incentivises contractors to work as efficiently as possible whilst at the same time investigating alternative methods of achieving the desired result at a lower cost.

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An allowance for contingencies is usually included in contracts at an arbitrary percentage. The percentage is often 5% but might be 10%.	All anticipated risks that could incur cost are assessed and an allowance is made in the budget held by the Client for the assessed risk. Risk changes as work progresses and the risk budget allowance fluctuates. The risk allowance is still a form of contingency in that there is no certainty that it will be spent. There is a requirement to make every effort to mitigate the risks that are identified but it is not always possible to do so. Opportunity for making savings is also assessed and allowance included in the budget.