

**2. Yellow Book :** For use on Mechanical & Electrical process plant Contracts.  
: The design of Mechanical & Electrical process works is designed mainly by the contractor.

**3. Silver Book :** For use on International major turnkey projects.  
: The design of major turnkey projects works is by the contractor who shall also be responsible for the accuracy and completeness of the Employer's Requirements, with some limited exceptions.

**D. The NEC3 Engineering and Construction Works Contract provides for the following options:**

- I. Priced contract with activity schedule - the contractor takes the bulk of the financial risk while the employer carries some risk through the compensation event procedure.
- II. Priced contract with bill of quantities - transfers a little more of the risk to the employer who takes a risk of his quantity assessment being changed in final construction.
- III. Target contract with activity schedule - allows for a spread of risk between the priced and cost reimbursable extremes. Adjusting the target share between the employer and the contractor will vary the risk between one principally carried by the employer to one principally carried by the contractor.
- IV. Target contract with bill of quantities – same as above.
- V. Cost reimbursable contract - the employer takes the bulk of the risk but has complete flexibility. The contractor does, however, carry some risk as he has to allow for the "disallowed costs".
- VI. Management contract - a cost reimbursable contract as the contractor is paid costs plus a percentage fee; the cost being the cost of works subcontracted to others and the fees for his management services.

### More Information

For more information about the ncdp and contract pricing strategy by the client, contact: cidb Enterprise Development Unit (Growth and Contractor Development Programme); Tel: 012 482 7241, or visit our website [www.cidb.org.za](http://www.cidb.org.za), or Provincial Construction Contact Centres:

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Contractor Tips & Advice:  
**CONTRACT PRICING STRATEGY BY THE CLIENT**

## INTRODUCTION

The pricing strategy is the method which the client uses to obtain a price for construction works and to pay the contractor for work completed. There are a number of different pricing strategies.

The client or his professional team usually decide on which pricing strategy to use for a particular project. The procurement documentation will state the pricing strategy to be used.

The contract sets out the client's and the contractor's risks. The contractor prices for all his risks and is entitled to claim costs associated with events that are the employer's risk.

THE DIFFERENT PRICING STRATEGIES PLACE MORE OR LESS RISK ON THE CONTRACTOR, DEPENDING ON HOW INVOLVED THE CLIENT IS IN THE MANAGEMENT AND EXECUTION OF THE PROJECT.

## Bill of quantities

Bill of quantities is the most common form of a pricing strategy where the contractor undertakes construction on the basis of full designs issued by the employer. The employer arranges for the bill of quantities to be prepared, usually in accordance with a standard system of measurement. This bill of quantities break the work down into a number of items which the contractor is required to price. The contractor is paid an amount for work completed based on the rate in the bill of quantities multiplied by the quantity of work completed.

## Schedules of rates

Schedules of rates are used where employers are unsure of the exact quantities that will be required during the contract. Schedules of rates identify the items which will probably be constructed. The contractor is required to submit rates only for each item and is paid an amount for work completed based on the rate in the schedule of rates multiplied by the quantity of work completed.

PRICES MAY BE FIXED OR BE SUBJECT TO PRICE ADJUSTMENT TO TAKE ACCOUNT OF FLUCTUATIONS IN THE COST OF LABOUR, EQUIPMENT, FUEL AND MATERIALS

## Lump sum prices

Lump sum prices are used where the employer pays the contractor a lump sum upon the completion of the contract. (Interim payments are often provided for based on a reasonable estimate of the value of the work completed.)

## Activity schedules

Activity schedules are used where the employer or the contractor identifies particular activities that are to be performed during the contract, based on a construction programme and the scope of the work. These activities are captured in an activity schedule. The contractor submits a price for each activity and is paid the amount for an activity when the activity has been completed. (The total of the activity prices is the total price for the contract work.)

## Cost reimbursable contract

In a cost reimbursable contract the contractor is paid an agreed percentage fee to cover his overheads and profit and is reimbursed at market related rates for predefined cost items.

## Target cost contract

In a target cost contract, the contractor is paid his costs as defined in the contract based on his tendered cost parameters and at the end of the contract. The Contractor is paid (or pays) his share of the difference between the agreed target cost and his cost according to an agreed formula. If the final cost is less than the target cost, the contractor is paid his share of the saving. If the final cost is greater than the target cost, the contractor pays his share of the difference. This motivates the contractor to control costs.

The target price is usually agreed at the time that the contract is concluded.

## PRICING STRATEGIES BASED ON FORM OF CONTRACT FOR MAIN CONTRACTOR

### A. The Joint Building Contracts Committee (JBCC)

Used for the building sector - works are designed and administered by agents of the employer who are co-ordinated by a principal agent. Here the Contractor is not responsible for the design of the permanent works. However nominated and selected subcontractors do carry design responsibility which is ceded by the contractor to the employer.

### B. The General Conditions of Contract for Construction Works (GCC)

This contract allow for any pricing strategy which is described in the pricing data. It contains standard provisions for bills of quantities and the measurement of variations in a similar manner to the JBCC agreements. Where work is not covered by the rates, payment may be made in terms of day works rates and a percentage allowance for overheads and profit tendered and accepted by the contractor.

### C. FIDIC (French acronym for the International Federation of Consulting Engineers)

With Fidic Contracts, the obligations by the parties, rather than the nature of the work, determine which contract is to be used. It provides for use of separate contracts for three main strategies:

- 1. Red Book** : For use on Building and Civil Engineering contracts  
: The design of Building and Engineering works is designed mainly by the employer.