

NEC Engineering & Construction Contract Options

	Option A	Option B	Option C	Option D	Option E	Option G
	Priced with activity schedule	Priced with bill of quantities	Target with activity schedule	Target with bill of quantities	Cost reimbursable	Term contract
Payment Type	- Lump sum - Activity schedule - Interim payments are made upon completion of activities (Defect free)	- Lump sum (re-measure) - BoQ based on project-specific measurements derived from drawings and specs - Each measurement is linked to a rate including labour, plant, materials, and subcontractors' costs - Interim payments assessed based on the quantity of work (%) completed for each individual item	- Target cost - The contractor submits an application for payment to the client's representative (often PM) on a monthly basis - The application will contain a breakdown of the contractor's cumulative "defined cost" plus fee minus "disallowed cost". This combined is known as the "Price for Work Done to Date" (PWDD) - As the works progress the contract target cost may be adjusted to reflect agreed Compensation Events - Once the works are completed, the final "Defined Cost" plus fee and the Target Cost are compared. The difference between the two is then shared between the contractor and the client. This is known as the "pain/gain" mechanism	- Target cost - Utilises a BoQ to make up the "Price for Work Done to Date" (PWDD) - The difference between the final "Defined Cost" plus fee and the Target Costs is shared between the contractor and client – "pain/gain" mechanism	- The contractor is paid all their "Defined Costs" + agreed overhead + profit % - Monthly payments - The terms within the contract should set out clearly what is and isn't to be reimbursed to the contractor	- Cost Reimbursable or Lump Sum - Appointment of consultants paid on a time basis - Pre-agreed hourly rates for the different consultants depending on skills and experience - Architects / Qs / Engineers / Consultant services
Price format						
Interim payments						
Advantages	- Simplified payment process – easy to measure when activity is not completed - For clients – greater cost certainty compared to Target cost & Reimbursable	- If there is an error of measurement in the BoQ it is easy to estimate how much extra to be paid and received - Greater flexibility for both parties in terms of cash flow	- The "pain/gain" mechanisms incentivises both parties to work more collaboratively & reduces disputes	- Useful on Framework Agreements, where an agreed Schedule of Rates is in place and used to build multiple costs throughout the framework agreement	- Works that require immediate attention and cannot be defined at the project outset may benefit from a fast contract agreement	- Provides flexibility to employ a single person consultant or firm for different services
Disadvantages	- For contractors – no provision for part payments – if there is an issue with completing activity – no payment made	- For items that contain multiple elements of work into a singular rate, it can be difficult to assess the % of work completed	- Some share ranges can sometimes be disproportionately unfavourable to contractors. Care should be taken to ensure you are not being put at financial risk	- This is not a re-measurable contract – if there are any errors in the measurement, this cannot amend the costs (Target Cost) this can lead to financial losses	- For the client – financial risk & cost uncertainty - Both parties cannot plan accurately the cash flow	- Possible confusion of who holds the liability for negative eventualities - For clients - Consultants are paid on a pre-agreed hourly basis, which could cause delays to the project since they are not incentivised to conclude their services promptly