

Dr. Adnan Fadhil
Assist. Lect. Mustafa Ayad



Types of Construction Contracts

A Construction Contract is the warranty that the executed job will receive the specific amount of compensation (payment of money) or how the compensation will be distributed. There are a several types of construction contracts used in the construction industry, but there are certain types of construction contracts preferred by construction professionals.

The best and most direct way to understand the reasons behind the different types of construction contracts is by examining and analysing the construction costs of these contracts.

Generally, contracts are classified by two principle methods of classification, which are as follows:

- Method of award
- Method of pricing

The Method of award is considered as the best way of classification. According to this method, construction contracts are classified as follows:

- A- *Competitive Contracts.*
- B- *Negotiated Contracts.*

Each of the above mentioned contracts will be discussed in details.

A-Competitive Contracts

A Competitive Contract is any contract that opens a bidding process, or competition, wherein the winning entity is awarded the contract. These types of contracts are usually awarded by public agencies. With this contract type, the winning bidder is awarded the contract for the project. A construction contract for a public works project is a common type of competitive contract. Nearly all outsourced government contracts must be competitive, whether they are for construction projects, defence work, social programs such as Medicare, or Aerospace.

There are three pricing forms of the competitive contracts:

- 1- Lump-Sum
- 2- Unit-Price
- 3- Schedule of Rates

Dr. Adnan Fadhil
Assist. Lect. Mustafa Ayad

1-Lump-Sum Competitive Contract

This type of contract generally requires the engineer or architect to have plans and specifications in sufficient details, so that the contractor can prepare a detailed cost estimate.

The information, which is provided by the engineer to the contractor in forms of drawings and specification, should be accurate and essentially complete.

In order to avoid the trouble of delay, the detailed drawings and specifications should be prepared carefully and properly before calling contractors for bidding to a Lump-Sum contract. This type of contract can be used successfully for contractors who have had considerable experience and can predict the construction cost accurately.

2-Unit-Price Competitive Contract

With this contract type, the owner pays the contractor a fixed amount of money for each completed unit of work. This Unit-Price Contract may be appropriate when a specific service is required for a defined period of time. In such cases, the total amount of work may not be known. It is important that the scope of the intended service requirements be clearly defined. The contractor should know exactly what the contract covers.

3-Schedule of Rates Competitive Contract

There are some civil engineering operations where it is not possible to put into bill of quantities. A contract for the sinking of a borehole for a water supply is a typical example of this type of contract, as it is not usually possible to state in advance how deep the borehole must be. This contract provides a list of staff, types of labour and machines hire rates upon which a contractor lists hourly rates of work. The schedule of rates contract, when it is prepared properly, is extremely useful to use in such cases where the full extent of work cannot be foreseen or quantified.

B- Negotiated Contracts

It is the type in which the contract of the project is awarded to a construction firm after a negotiation with the owner. Most of the Negotiated Contracts are Cost-Plus types.

These types of contracts involve payment of the actual costs, purchases or other expenses generated directly from the construction activity. Cost-Plus contracts must contain specific information about certain pre-negotiated amount (some percentage of the material and labour cost) covering contractor's overhead and profit. Costs must be detailed and should be classified as direct or indirect costs. There are multiple variations for Cost-Plus contracts and the most common are:

- **Cost-Plus percentage rate contract**: It is the method of payment to a contractor in which an additional amount of money, expressed as a percentage, is paid by the owner that is designated to cover the contractor's overhead costs. When paid as a predetermined profit, the client will usually require a strict accounting of expenses.

- **Cost-Plus fixed fee contract**: A cost-plus fixed fee contract is a specific type of contract wherein the contractor is paid for the normal expenses for a project, plus an additional fixed fee for their

Dr. Adnan Fadhil

Assist. Lect. Mustafa Ayad

services. These allow the contractor to collect a profit on the project, and they encourage economic production in various industries.

- Cost-Plus with guaranteed maximum price contract: This type is a Cost-Plus contract where the contractor is paid for actual costs plus a fixed fee subject to a ceiling price. The contractor is responsible for cost overruns, unless the contract has been increased via formal change order (only as a result of additional scope from the client, not price overruns, errors, or omissions). Savings resulting from cost underruns are returned to the owner.

- Cost-Plus variable percentage contract: For this type of contract, the contractor agrees to a penalty if the actual cost exceeds the estimated job cost, or a reward if the actual cost is below the estimated job cost. In return for taking the risk on its own estimate, the contractor is allowed a variable percentage rate of price.