

NEC Secondary Option X6 Bonus for Early Completion

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About Us




GVE Commercial Solutions Ltd are a commercial management consultancy providing quantity surveying and programming services. Our consultants specialise in the NEC forms of contract.

Our NEC capability has principally been acquired through practical application and experience within a 'live' project environment, assisting both contractors and subcontractors.

Our specialist NEC services include;

- Commercial and contract management of projects,
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2



Incentivisation

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Definitions

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Incentivisation

This is a process which incorporates incentives into either a system or a procedure.

Incentive

This is something that encourages a particular behaviour or action.

Incentives may be either;


- Positive – associated with a reward – 
- Negative – associated with a penalty – 

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Purpose

The purpose of using incentives in a construction contract is to stimulate a level of performance which benefits both parties.

The intention is to encourage an outcome that provides a direct and tangible benefit to the client.

To maximise their effect, both the incentivisation process and associated incentives should be;

- Realistically achievable,
- Worthwhile,
- Easy to understand,
- Simple to apply,
- Relevant.

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Principles



An incentivisation procedure should identify 'key information', including the following;

- Understand what objectives are most important,
- Determine the desired 'target' level to be achieved,
- What level of performance is required to achieve the 'target',
- Understand what the required level of performance 'costs',
- Define the unit of measure associated with this,
- Establish appropriate incentives.

The intention is to stimulate an 'enhanced' performance level.

Ideally the incentivisation mechanism should operate on a 'sliding scale' to preserve motivation.

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7



Bonus

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8

What is a Bonus?



This is a direct positive incentive, usually presented in financial terms (£'s per day).

Monetary incentives are based on the motivational theory of behaviour that assumes standard responses to rewards.

Supplier

The bonus is an opportunity to increase profitability by taking calculated risks.

Client

The bonus is a budget allowance that is only expended upon delivery of 'enhanced' performance.

Unlike 'compensatory' payments there are no particular principles that apply to the calculated value of a bonus payment.



X6 - Bonus for early completion

NEC Suite



Secondary option X6 can be found in the following NEC forms of contract;

- Engineering and Construction Contract (ECC),
- Engineering and Construction Subcontract (ECS),
- Professional Services Contract (PSC),
- Professional Services Subcontract (PSS).

Option X6



Under the ECC and ECS forms option X6 is worded as follows;


The *(Sub)Contractor* is paid a bonus calculated at the rate stated in the (Sub)Contract Data for each day from the earlier of

- Completion, and
- the date on which the *Client (Contractor)* takes over the works until the (Subcontract) Completion Date

Under the PSC and PSS forms option X6 is worded as follows;

The *Consultant (Subcontractor)* is paid a bonus calculated at the rate stated in the (Sub)Contract Data for each day from Completion until the (Subcontract) Completion Date.

Contract Data



If Option X6 is used without Option X5

The bonus for the whole of the works is

If Option X6 is used with Option X5

The bonus for each section of the works is

<i>section</i>	<i>description</i>	<i>amount per day</i>
(1)	<input style="width: 90%; height: 20px;" type="text"/>	<input style="width: 90%; height: 20px;" type="text"/>
(2)	<input style="width: 90%; height: 20px;" type="text"/>	<input style="width: 90%; height: 20px;" type="text"/>
(3)	<input style="width: 90%; height: 20px;" type="text"/>	<input style="width: 90%; height: 20px;" type="text"/>
(4)	<input style="width: 90%; height: 20px;" type="text"/>	<input style="width: 90%; height: 20px;" type="text"/>

The bonus for the remainder of the works is

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13



Completion and Completion Date

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14

Definitions



Completion Date

This is stated in (Sub)Contract Data and is the date by which Completion is to be achieved.

The Completion Date may be changed as follows;

- Implemented compensation event,
- Acceleration quotation accepted,
- Accepting a quotation for an uncorrected Defect,
- Acceptance of a whole life cost proposal (ECC, ECS).

Completion

This is essentially the 'condition' or 'state' of the work or service, as described at sub-clause 11.2 (2).


Take over



Under the ECC and ECS forms there is a right for the Client (Contractor) to take over part of the works before Completion has been certified.

There is no provision within X6 for the apportionment of the daily rate of bonus for take over before the Completion Date.


Take over would not entitle a bonus payment to be made unless the part taken over specifically aligns with a section which is included under secondary Option X5.



Payment of the Bonus

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Payment

Once Completion has been certified then the bonus payment can be calculated based on the current Completion Date.


The bonus payment can be included in the subsequent payment certificate as an amount due, determined under sub-clause 50.3 which states;

- *plus other amounts to be paid to*

Unlike 'compensatory' amounts, any bonus payment is subject to Value Added Tax.

It is suggested that compliance with Y(UK)2.1 means that any day that is a bank or public holiday would be excluded from an X6 calculation, although Y(UK)2.1 applies to Y(UK)2 and not the entire contract.


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Issues to consider

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Issues to consider

As bonus payments correspond with both Completion and the Completion Date, the associated procedures need to be managed to ensure commercial entitlement.

Any incentivisation measure should be considered in conjunction with other such measures to produce the desired outcome(s).

Consider how any incentivisation procedures operate through the supply chain, where appropriate, to maximise the effectiveness.

Consider option X6 in relation to an acceleration quotation.

Be aware of any 'z-clause' amendments which do not make allowance for any change to the Completion Date in relation to this Option.

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21