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Labour, time and profit – What can go wrong?

In this content paper, **Simon McLean** Chartered Building Surveyor and specialist lecturer at University of Salford highlights the key aspects that can go wrong for the surveyor carrying out the role of contract administrator.

Issues that can easily get out of control, as they cause the greatest rise in costs and can be the most difficult to settle are:

- Works being conducted on day rates
- Keeping an account of who is on site
- Rest breaks
- Avoid bean counting
- Qualify what 'being reasonable' constitutes
- Pay on time
- The use of unauthorised consumables
- Unannounced site visits.

How to handle the situation

Works being conducted on day rates

Day rates are rates that should be set out in the contract documents. They essentially determine the unit hire-out rate per day for the contractor's staff. Work that falls outside of the contract, or that was not anticipated, often ends up on day rates, and so instead of a fixed sum for fixed tasks, the contract is running on labour and materials on an item-by-item, hour-by-hour basis.

In theory, a contract supervisor should not issue instructions without written authorisation, or before a proper cost evaluation has been made. While this is how everything should proceed on site, it works best on large sites which have supervisors, site agents and quantity surveyors permanently overseeing the work as it progresses (although even then, things can go wrong).

If you are part of a small organisation with limited resources and time, this is more difficult to put into practice. Keeping a contract moving forward remotely allows holes to appear in the decision-making process, and quite quickly costs can start to stray. Usually the issue of day rates on smaller works is contained to small amounts, but these amounts can easily soak up contingencies and cause overspend against budget. You can then be in a position where a one-off slight deviation, that caused very little problems on site, now becomes a battle of costs and reputations. A good working relationship with the contractors is critical to reducing this risk. You don't want contractors calling every few minutes, asking what to do next, but conversely you don't want them running away with the budget. A working relationship should be based on mutual respect for each other's role and the need to allow everyone to do what they do best.

The following techniques can help you develop good contractor relationships:

- When talking to the contractor, be clear when you are acting as a cost controller, and when you are acting as a problem solver. If it is clear that a particular payment could not be approved without the right amount of proof, the contractor will know that your hands are tied. Helping the contractor resolve the issue should not give rise to a misunderstanding that the work continues regardless of cost.
- If a figure has to be set quickly, set a time limit on site at which you expect the contractor to stop. Review costs at the end of the day to check if the assumptions were correct and continuation is controllable.
- Ask for the task to be clearly identified on timesheets, or issue a specific timesheet for that work. Be careful not to tie the contractor down with too much administration in comparison to the size of the job.

Top tip: If you leave a time sheet on site, leave a pencil on a string with it.

- If the solution the contractor is offering is good but too expensive, don't discount it out of hand. It is better to suggest it is not appropriate in this case than to flatly reject it. The best solution is one which the contractor buys into. If your hands are tied on costs, you need your contractor on board. A remedy the contractor doesn't believe in may be executed badly and it is in no one's interest to have to go back to do it again.

Keeping an account of who is on site

With remedial works, the number of contractors on site can rise to quite a considerable number. If you have a main contractor controlling the resources, and a term contract that sets out tasks with fixed costs, controlling the budget is relatively straightforward. If work falls outside this model, the need to record site activity becomes more compelling.

Having a record of who is on site, and for how long, is useful information to have at hand if invoices do not add up, but is difficult to obtain if you cannot monitor the site all the time. A portable clocking-on machine is one solution but this can sometimes be met with derision among craftsmen. Alternatively, a simple logging-on sheet at the site entrance next to a large notice usually gains sufficient information to tally timesheet and labour hours. You may need to enforce a rule about provision of clocking on evidence with invoices, but it is usually worth the effort, and keeps the valuation process transparent.

The act of 'double clocking', where a colleague clocks on for another, cannot be eliminated on unsupervised sites, so review records with care.

Rest breaks

The on-site tea break is an underestimated non-productive times. Office workers may not have set tea breaks, but people who work on building sites have two: one in the morning and one in the afternoon. If you want to understand the efficient productivity of a building site, you need to understand the relevance of tea breaks. On an undisciplined site, tea breaks can take an hour out of the day. You may assume that the tea break is someone else's problem, but if you facilitate it carefully with a designated space and basic facilities, the productivity will often rise. When costing works from price books, be aware that no account is made for a 20-minute break after every two hours of work. If you time tasks too accurately and do not account for breaks, the cost soon mounts. Even mobile maintenance teams based on one site will plan their day around the tea breaks, and usually flexibility around break times is difficult to achieve in reality.

Avoid bean counting

All projects must be run responsibly; with regard to the accounting of material usage. However, little is achieved if the level of detail required is too intricate for the amount of resources available. The amount of time taken to account for some small items (such as nails, screws, washers, etc.) can cost more than the item itself. If attention is not given to these small items, large amounts of materials can go missing, but over-control can make site working too dogmatic, unintuitive, and ultimately time inefficient. On small sites that are geographically dispersed, the economy of scale of larger sites is lost.

Make visual inspections to verify the stock held by a contractor at any given time. These observations are useful when taking account of materials valuations and phased payments. Works that constantly go over budget can do so as a result of unauthorised removal or double-counting of consumables. However, only apply a more detailed audit system if these activities are suspected.

Qualify what 'being reasonable' constitutes

The benefit of a reasoned judgement in disputes over work in progress is speed and commercial efficacy. This should on balance benefit the client and contractor. However, take care not to allow one judgement to become the norm. Problems can arise if the judgement consistently benefits one side or the other. This can mask the importance of challenging all errors or unaccounted sums. If the contract administrator has to use reasonable judgement to bring a contract to a conclusion, it should be apparent to all sides that limits apply, and the judgement is fundamentally unique. However, if the limits are not understood or enforced, a particular judgement could be interpreted as a contractual norm, and evolve into the given method of valuation practice. If, as a result of this practice, large sums of money are disputed, it will become more difficult for the contract administrator to rein back their position.

Pay on time

Surveyors and contractors rarely work in isolation of each other, and a good reputation for both parties is paramount. Part of a good working relationship with a contractor is to ensure reliable cash flow.

When dealing with a large number of customers, contractors encounter a wide variety of accounting procedures, which can include complex invoicing accounts, cost codes and approvals. This can make the invoicing process overly complex, and if payments are delayed due to administrative errors, this may affect confidence. One of your highest priorities should be valuations and approvals of accounts and invoices.

If using new contractors, provide as much help as possible in ensuring the prompt tendering of invoices. This limits problems in the future, and ensures invoices are processed quickly with minimal disruption. If a contractor informs you that a payment is late, and it is apparent that the accounting system has malfunctioned, remedy this quickly. The confidence of the contractor in securing prompt payment is paramount to good relations, and builds strong links with you as a trusted professional. If a contractor has, in all good faith, complied to the requirements of the contract and site instructions, that contractor is entitled to believe that payments will also be honoured in accordance with the contract.

The use of unauthorised consumables

Some materials used on remedial works are very expensive, and it is important to monitor their use on site. For example:

- Materials that have a short workability rate, such as epoxy resins and adhesives, can be wasted if they are not mixed in the right quantities.
- Some products are priced by the batch-load, making the pricing of small amounts of work difficult to assess.

Discuss with manufactures how their product is priced, and what the minimum quantities are, before including them into specifications. A contractor tendering for work who does not have a purchasing agreement with a specific manufacturer, will have to cost the work at the minimum batch rate. This may put them at a contractual disadvantage, and skew the tender sum. Where bidding contractors fail to account for batching costs, they may discover that their contract sum is significantly short, and may seek to recoup costs elsewhere in their valuations.

Be aware of the decanting of inferior materials into branded containers. It is a good sign on site if containers with brand names printed on them are clearly evident. They should appear to be recently opened. Paint tins with excessive dried paint build-up, or an unusual amount of discarded sealant applicator nozzles, compared to a noticeable lack of associated branded container carcasses, are signs of possible subterfuge. Products such as paint, adhesives and sealants, which are very difficult to identify once they are in place, are particularly prone to such deceit. Similar switches can be made to items of ironmongery and fixings, where cheaper materials are placed in branded boxes before being taken onto site.

Ask to see old containers of expensive materials and consumables, and this is best done in the first instance by notifying the contractor before arrival on site, that this is a task you intend to do. Once this is done, unannounced inspections should further reduce the risk of decanting.

Unannounced site visits

The theoretical rules of good cost control can be significantly enhanced by careful and sometimes independent investigations and enquiries. During construction the surveyor must have a reasonable idea of what has occurred on site, and be able to match site observations to key costs in an invoice.

Time and materials are two key components that have the potential for significant variance between work that is charged and work that was done. Qualification of these two elements can be laborious and time-consuming if vague assumptions need to be clarified. Careful and appropriate monitoring can prevent misunderstandings or misdemeanours, and the best time for this is during site visits.

The purpose of site visits is not to catch people out, but to take stock of progress and problems. Meetings should be regular and at set times. Occasional unannounced visits in addition to regular meetings can be beneficial to observe the usual conditions on the site, away from the formality of prearranged encounters. They can provide important information in respect to cost monitoring, progress-checking and health and safety issues. Remember that the site is the responsibility of the contractor, and no one should enter a site unannounced. Even during unannounced visits, all health and safety procedures must be followed when on the site. Most contractors are unconcerned about informal visits, and it is advisable to make the possibility of an informal visit known to them at commencement.

Top tips:

- You will probably not need to inform the works manager that you have made an unannounced visit, as that person will probably know within the first half-hour of your arrival on site.
- If you suspect due diligence is an issue because of labour shortages on site, then Monday mornings and Friday afternoons are the best times to plan an unannounced visit.

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