

Good health

18 September 2018

Quantity surveyors can ensure a healthy industry by managing budgets, payments, changes and cash flow promptly and effectively, says Chris Green

Construction industry news makes for grim reading of late: major projects being cancelled, tier-one contractors failing and organisations reporting both losses and increasing debt.

The way in which we as quantity surveyors carry out our roles, whether in private practice, contracting or in a client organisation, has a significant effect on the health of the sector. Cash is the lifeblood of the industry, and it is the actions of the quantity surveyor that determine whether it flows or dries up.

Budget control

Every construction activity has a budget that determines the amount of cash available to pay for it. Quantity surveyors are often responsible for setting and controlling these budgets to ensure that the planned construction activities are affordable. When budgets are exceeded cash is no longer available, and both the project and those working on it suffer as costs are incurred that cannot be met. It is therefore vital that quantity surveyors engaged in budgetary control take care to set budgets accurately and then manage them as change occurs.

The RICS [New Rules of Measurement 1, Order of cost estimating and cost planning for capital building works](#), sets out excellent guidance on the quantification of building works for the purpose of preparing cost estimates and cost plans. It is the cornerstone of good cost management on construction projects, because it enables more effective and accurate cost advice to be given to clients and other project team members, as well as allowing better cost control.

Managing payment

Regardless of the form of contract, the party that has undertaken work has to make an application for the amount of payment it seeks, and the employer has to make an assessment of that application before making such payment. It is the role of the quantity surveyor to make these applications or assess and recommend payment. In either role, a failure to do so accurately, in accordance with the contract provisions and with the appropriate supporting documents, will lead to a delay in payment or an incorrect amount being paid.

A sure sign of quantity surveyors not carrying out their roles properly is a disparity between the amount applied for and the amount paid. Whether this disparity manifests as a 'pay less' notice or a disallowed cost, a quantity surveyor is damaging the health of their employer, client or contractor. High-performing quantity surveyors accurately submit payment applications and fairly assess the amounts due exactly, in accordance with the contract provisions. The RICS [Interim valuations and payment](#) provides helpful advice for both clients and contractors on the administration of the payment mechanism.

Controlling change

Quantity surveyors must read and understand the specific change control mechanisms in each form of contract they take responsibility for operating. However, these differ significantly, and there are even variations between the most common forms of contract including [JCT](#) , [NEC](#) , [FIDIC](#) and ICC.

Each specifies different time periods for the identification, notification, quantification and particularisation of change, and a failure to adhere to these periods may also delay agreement and payment ? or, worse, prevent the change being recognised at all. However, what is noticeable is that most forms of contract do not specify a period within which the value of individual items of change must be agreed, other than the long-stop date for the final certificate.

Quantity surveyors must understand the specific change control mechanisms they have to operate

NEC attempts to address this issue, setting out a defined notice period for identifying change in clause 61.3 and a reply period in clause 61.4. Clause 62.3 then sets out the period for submitting a quotation for the compensation event, and clause 62.6 the period for acceptance and implementation. Even with this prescriptive mechanism, we often see poor adherence to time periods. It therefore falls to the quantity surveyors to act professionally and deal with change as it arises.

If change is not managed efficiently, the client may be unaware of the increasing final cost of a construction project and may not have sufficient funds to complete the works. This often happens either when the contractor submits the draft final account or when a contractor becomes insolvent during the construction of a project and a new contractor has to assess the actual cost of completing the works.

Equally, when change is not managed efficiently, the contractor will not be certain of the amount of income it will receive. All contractors have revenue recognition rules to govern unagreed variations, and accountancy rules permit recognition of this assessment as work in progress in a contractor?s accounts. When work in progress builds up and is not then subsequently converted to cash, the value has to be written back out of the accounts, leading to losses.

Quantity surveyors who are slow to agree change will starve contracting organisations of cash, increasing their debt. The lack of available cash leads to the failure of many businesses, and you will find poorly managed change is a significant factor in the demise of all contracting and consulting organisations.

High-performing quantity surveyors acting for both clients and contractors manage change precisely in accordance with the contract and understand the importance of agreeing the value of change quickly, accurately and progressively. The RICS guidance note [Valuing change](#) offers excellent guidance on administering the change control mechanism, summarising what is meant by 'change' and how it is valued under JCT, NEC and FIDIC forms of contract.

Managing cash flow

Most quantity surveyors are adept at managing cost and value but not all of them are aware of actual cash flow. High-performing quantity surveyors are acutely aware of when payments are due to be made, and either when cash will be available to draw down or payments will be received. If these processes are not carefully managed, cash can quickly drain away from an organisation, be it a client or a contractor ? a significant threat to the health of the organisation, which makes it vulnerable to insolvency.

Most Qs are adept at managing cost and value, but not all of them are aware of actual cash flow

Well-balanced contracts should provide a neutral cash flow for both the client and contracting organisations. The NEC suite of contracts recognises this and enables prospective valuation to align receipts and payments. Retention bonds are now frequently used in major infrastructure schemes in lieu of cash retentions, an issue currently [under review by the government](#) .

The RICS guidance note [Cash flow forecasting](#) provides guidance in this area. The global version defines cash flow forecasting, gives guidance on producing a useful forecast, explains how to use it to assess progress on site, and analyses actual against forecast expenditure.

Healthy living

Protecting the health of the industry and the organisations that participate in it is a priority for all of us. The quantity surveyor plays a pivotal role in ensuring the vital cash flow is maintained. By acting professionally, promptly and accurately, we can all contribute to this process, with the added benefit of building trust between every participant.

Take time to read the RICS guidance notes referred to in this article, and put their recommendations into your everyday practice to become a high-performing quantity surveyor and keep the industry in the best of health.

Chris Green is Group Commercial Director at [J. Murphy & Sons Limited](#)

Further information

- Related competencies include: [Financial modelling](#)
- This feature was taken from the [RICS Construction Journal](#) (September/October 2018)
- Related categories include: [Financial management](#)