early contractor involvement

November 2015
Early Contractor Involvement (ECI)

This additional clause should be used along with the NEC3 Engineering and Construction Contract where early contractor involvement is required

An NEC document
November 2015
NEC is a division of Thomas Telford Ltd, which is a wholly owned subsidiary of the Institution of Civil Engineers (ICE), the owner and developer of the NEC.

The NEC is a family of standard contracts, each of which has three characteristics:

- Its use stimulates good management of the relationship between the two parties to the contract and, hence, of the work included in the contract.
- It can be used in a wide variety of commercial situations, for a wide variety of types of work and in any location.
- It is a clear and simple document - using language and a structure which are straightforward and easily understood.
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ACKNOWLEDGEMENTS

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NEC wishes to acknowledge and thank the Early Contractor Involvement (ECI) project team for their input to the development of the additional clauses for ECI.

The members of the project team included:

- P Higgins, BSc, CEng, FICE, FCIArb
- R A Gerrard, BSc(Hons), FRICS, FCIArb, FCInstCES
- P T Cousins, BEng, Dip Arb, CEng, CARb, MICE, FCIArb
Definitions 1.1  
(1) Budget is the items and amounts stated in the Contract Data unless the amounts are later changed in accordance with this contract.  
(2) Project Cost is the total paid by the Employer to the Contractor and Others for the items included in the Budget.  
(3) Stage One and Stage Two have the meanings given to them in the Works Information.  
(4) Pricing Information is information which specifies how the Contractor prepares his assessment of the Prices for Stage Two, and is in the document which the Contract Data states it is in.

Forecasts 2.1  
The Contractor provides detailed forecasts of the total Defined Cost of the work to be done in Stage One for acceptance by the Project Manager. Forecasts are prepared at the intervals stated in the Contract Data from the starting date until the issue of a notice to proceed to Stage Two.

Within one week of the Contractor submitting a forecast or acceptance, the Project Manager either accepts the forecast or notifies the Contractor of his reasons for not accepting it. A reason for not accepting the forecast is that

• it does not comply with the Works Information or
• it includes work which is not necessary for Stage One.

The Contractor makes a revised submission taking account of the Project Manager’s reasons.

Any cost that is not included in the accepted forecast is treated as a Disallowed Cost.

2.2  
The Contractor prepares forecasts of the Project Cost in consultation with the Project Manager and submits them to the Project Manager. Forecasts are prepared at the intervals stated in the Contract Data from the starting date until Completion of the whole of the works. An explanation of the changes made since the previous forecast is submitted with each forecast.

Proposals for Stage Two 3.1  
The Contractor submits his design proposals for Stage Two to the Project Manager for acceptance in accordance with the submission procedure stated in the Works Information.

3.2  
The submission includes the Contractor’s forecast of the effect of the design proposal on the Project Cost and the Accepted Programme.

3.3  
If the Project Manager does not accept a submission he gives his reasons. A reason for not accepting a Contractor’s submission is that

• it does not comply with the Works Information,
• it will cause the Employer to incur unnecessary costs to Others or
• the Project Manager is not satisfied that the Prices or any changes to the Prices have been properly assessed.

The Contractor makes a revised submission taking account of the Project Manager’s reasons.
3.4 The total of the Prices for Stage Two is assessed by the Contractor using the Pricing Information stated in the Contract Data.

The Contractor submits the total of the Prices for Stage Two to the Project Manager in the form of revisions to the Activity Schedule. The Activity Schedule includes the Price for Work Done to Date in Stage One.

3.5 The Contractor obtains approvals and consents from Others as stated in the Works Information.

3.6 Any additional Works Information provided by the Contractor for his design in Stage One becomes Works Information for the Contractor's design.

3.7 The Contractor completes any outstanding design during Stage Two.

Key people 4.1 The Contractor does not replace any key person during Stage One unless
• he is instructed by the Project Manager to do so or
• the person is unable to continue to act in connection with this contract.

Notice to proceed to Stage Two 5.1 The Project Manager issues a notice to proceed to Stage Two when
• the Contractor has obtained approvals and consents from Others as stated in the Works Information,
• changes to the Budget have been agreed or assessed by the Project Manager,
• the Project Manager and the Contractor have agreed the total of the Prices for Stage Two and
• the Employer has confirmed the works are to proceed.

5.2 If the Project Manager does not issue a notice to proceed to Stage Two for any reason, he issues an instruction that the work required in Stage Two is removed from the Works Information. This instruction is not a compensation event.

5.3 If the Project Manager does not issue a notice to proceed to Stage Two because
• the Project Manager and the Contractor have not agreed the total of the Prices for Stage Two or
• the Contractor has failed to achieve the performance requirements stated in the Works Information
the Employer may appoint another contractor to complete the Stage Two works.

Changes to the Budget 6.1 If one of the following events happens, the Project Manager and the Contractor discuss different ways of dealing with changes to the Budget which are practicable.
• The Project Manager gives an instruction changing the Employer's requirements stated in the Works Information.
• Additional events stated in the Contract Data.

6.2 The Project Manager and the Contractor agree changes to the Budget within four weeks of the event arising which changes the Budget. If the Project Manager and the Contractor cannot agree the changes to the Budget the Project Manager assesses the change and notifies the Contractor of his assessment.

The Parties’ use of material 7.1 The Employer has the right to use the material provided by the Contractor for the purpose stated in the Works Information. The Contractor obtains from a Subcontractor equivalent rights for the Employer to use material prepared by the Subcontractor.
7.2 The Contractor has the right to use material provided by the Employer only to Provide the Works. The Contractor may make this right available to a Subcontractor. On Completion of the whole of the works, the Contractor returns the material provided by the Employer to him.

7.3 The Contractor may use the material provided by him under this contract for other work unless stated otherwise in the Works Information.

Incentive payment (Option E only)

8.1 The Project Manager assesses the Contractor’s share of the difference between the Budget and the final Project Cost. If the final Project Cost is less than the Budget, the Contractor is paid his share of the saving as stated in the Contract Data. If the final Project Cost is greater than the Budget and the Price for Work Done to Date is greater than the total of the Prices, the Contractor pays his share of the excess as stated in the Contract Data. The share is calculated on whichever excess is the lower.

8.2 The Project Manager makes a preliminary assessment of the forecast Contractor’s share at Completion of the whole of the works. This share is included in the amount due following Completion of the whole of the works.

8.3 The Project Manager makes a final assessment of the Contractor’s share and includes this in the final amount due.
Add the following to the Contract Data part one

- The Budget is:

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- The Contractor prepares forecasts of the total Defined Cost of the work to be done in Stage One at intervals no longer than ..........weeks.
- The Contractor prepares forecasts of the total Project Cost at intervals no longer than ..........weeks.

If there are additional reasons to change the Budget

- These are additional reasons to change the Budget

| 1 |                                                                                       |
| 2 |                                                                                       |
| 3 |                                                                                       |

- The Contractor provides these additional insurances

1. Insurance against liability of the Contractor for claims made against him arising out of his failure to use the skill and care normally used by professionals providing services similar to those required in the Works Information.
2. The minimum amount of cover is .................................................. in respect of each claim, without limit to the number of claims and to be maintained for the period of .......... following Completion of the whole of the works or earlier termination.

If Option E is used

- If the final Project Cost is less than the Budget, the Contractor's share is ..........% of the saving.
- If the final Project Cost is greater than the Budget and the Price for Work Done to Date is greater than the total of the Prices, the Contractor's share is ..........% of the excess.
Add the following to the Contract Data part two

• The Stage One key people are

(1) Name …………………………………………………………………
Job ………………………………………………………………………
Responsibilities …………………………………………………………
Qualifications ……………………………………………………………
Experience …………………………………………………………………

(2) Name …………………………………………………………………
Job ………………………………………………………………………
Responsibilities …………………………………………………………
Qualifications ……………………………………………………………
Experience …………………………………………………………………

• The Pricing Information is in ………………………………………..
The purpose of this guidance is to assist users understand the additional provisions needed to enable the NEC3 Engineering and Construction Contract (ECC) to be used in an early contractor involvement (ECI) approach. This allows the Contractor to be appointed before details of what is to be constructed have been fully developed and priced.

Two options are covered by these clauses.

- The Employer appoints a consultant to carry out design, and the Contractor assists the consultant in designing the project. The Contractor may or may not be required to carry out specific elements of the design in addition to assisting the designer. The Contractor is instructed to proceed with the works, including any outstanding design, under a standard main Option C arrangement following agreement of the Prices for Stage Two.

- The Employer appoints a Contractor to carry out the design, and the Employer’s consultant works with the Contractor in completing the design. This can use main Option C or E. If using main Option E, the Contractor is incentivised to provide a cost-effective solution by sharing in the savings on the Employer’s Budget – including other costs incurred by the Employer.

**Definitions**

The Budget represents the maximum amount of money that the Employer wishes to spend on the project. It should be stated by the Employer within the Contract Data, with provision made for a breakdown between different heads of cost. The details of what is included in the Budget – Contractor costs (total of the Prices), other costs (for example consultants, land purchase, Employer own cost etc) and Employer’s risk allowance – are set out in the Works Information.

Pricing Information is provided by the Contractor as part of his submission for the contract, and will be used during the contract for preparing the prices for Stage Two. The Employer sets out in his invitation to tender what form this Pricing Information is to take, and the Works Information sets out how the information is to be used. The Pricing Information will be a document possibly containing unit rates, resource costs, overheads and profit, preliminaries costs, Fee percentages and the like, but will also specify how the Contractor will prepare his assessment of the Prices for Stage Two, the ‘rules’.

**Forecasts**

During Stage One of the contract, the Project Manager operates control of the Contractor’s costs by requiring regular forecasts of work to be done during that Stage. This is to ensure there is constant dialogue and understanding between the Contractor and Project Manager, and that the Contractor does not commit the Employer to cost that is unnecessary as decided by the Project Manager. The Project Manager must review each submission and, within one week, decide whether the proposed work is required by the Works Information and is necessary to complete Stage One. If not, the Project Manager does not accept the submission and the Contractor must resubmit. The Contractor is not paid for work unless it has been included in an accepted submission.

The Contractor must also provide regular forecasts of total anticipated expenditure against the Budget – the Project Cost. This is prepared in consultation with Project Manager, as the Project Manager must advise the Contractor of current expenditure and forecast future expenditure against other heads of cost in the Budget.
Proposals for Stage Two
Design submissions for Stage Two are submitted in accordance with the procedure in the Works Information. If the Contractor's appointment is to assist the Employer's designer, there may be no, or very few design submissions. The Employer sets out the Works Information what level of detail is required and at what stage submissions are to be made. These design submissions need to include anticipated effect on the Project Cost and on the Accepted Programme, to allow the Project Manager to assess whether or not to consider other options. The Project Manager is required to consider and either accept the submission or explain why not.

Regular submissions of the Accepted Programme will take into account the effect of any accepted design submissions. As Stage One progresses, the Accepted Programme will become more fully developed for Stage Two.

Once design submissions are complete, the Contractor is required to produce a priced Activity Schedule setting out the total of the prices for Stage Two. This is prepared using the Pricing Information, and is submitted to the Project Manager for agreement. The Activity Schedule includes the Price for Work to Date in Stage One, so that under an Option C arrangement, the total Defined Cost plus Fee incurred by the Contractor can be compared with the target using the assessment in clause 53.

The design by the Contractor remains the Contractor's responsibility, and any additional Works Information required as result of the Contractor's design becomes Works Information for the Contractor's design. Accordingly, any changes to the design later found necessary would not give rise to a compensation event. In addition, the Contractor is required to provide professional indemnity insurance for his design liability.

Key people
During the early stages of design, the Employer is likely to have relied on proposed key people in identifying the most advantageous offer. As the Employer is relying on those people, they cannot be changed unless they are unable to continue – for example through illness, or because they have left the employment of the Contractor. The Contractor may not change the key people to suit the Contractor's own convenience.

Notice to proceed to Stage Two
The notice to proceed to Stage Two is only issued once all necessary steps have been completed. This includes getting external approvals and consents, determining any changes to the Budget and agreement of the Stage Two Prices. The Project Manager is not able to fix the Prices if they are not agreed – in that event the work does not proceed and an alternative contractor would need to be found. In addition, the Employer has the right to decide not to proceed with the works for any reason.

If Stage Two is not to proceed, the Project Manager issues an instruction removing the Stage Two work from the Works Information. The instruction is not a compensation event; the Contractor is paid for all the work carried out in Stage One but receives no additional payment for not proceeding with Stage Two.

If the reason for not proceeding is because the Prices have not been agreed, or the performance of the Contractor is below a standard specified in the Works Information, the Employer is free to replace the Contractor with another contractor to carry out the work. If the work does not proceed for other reasons – for example consents have not been obtained – the Employer may proceed with the works at a later stage with another contractor once consents have been obtained if the appropriate entries have been made in the Works Information.
Changes to the Budget
The Budget may change if the Employer's requirements change, as instructed by the Project Manager. Provision is also made for inclusion in the Contract Data of other reasons for changing the Budget. This may include, for example, elements of cost where accurate forecasting could be made. The Works Information must spell out how any such Budget changes would be made.

If an event occurs which changes the Budget, the Contractor and Project Manager discuss and attempt to reach agreement on the appropriate change. If they are unable to reach agreement, the Project Manager must decide and notify the Contractor of the revision to the Budget.

The Parties' use of material
Provisions similar to those in the NEC Professional Services Contract had been included to enable the Employer to spell out how he intends to use the design information provided by the Contractor, and what use the Contractor may make of such information. This is to be set out in the Works Information, and will need to include, for example, the Employer's right to use the design and other information in the future contract if the notice to proceed is not issued, its use in maintenance or its use on other projects.

Unless otherwise stated in the Works Information, the Contractor may use the material provided by him on other projects, and accordingly the Works Information must set out any restrictions the Employer wishes to impose.

Incentive payment
This additional clause allows for two options for incentivising the Contractor. The first is through the standard use of an Option C target arrangement based on the Contractor's own cost. The second is for an incentive based on achieving savings on the Employer's Budget, using an Option E contract.

An incentive clause is provided for the second situation, and allows for the Contractor to be paid a share of any saving on the Budget. The Contractor does not contribute towards any overspend of the Budget, unless he has contributed to that overspend by exceeding his own target. In that case, the Contractor will pay a share of the overspend on the target, or of the overspend on the Budget, whichever is the lower.
Construction Clients’ Board endorsement of NEC3

The Construction Clients’ Board recommends that public sector organisations use the NEC3 contracts when procuring construction. Standardising use of this comprehensive suite of contracts should help to deliver efficiencies across the public sector and promote behaviours in line with the principles of Achieving Excellence in Construction.

Cabinet Office UK