MALTBYS
DEFINING COSTS · MANAGING RISK · DELIVERING RESULTS

AUGUST 2011

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THE FULL MEASURE

Tony Dawson is moving back to Wellington

Tony Dawson and family are moving back to Wellington after being in Queenstown for seven years.

At present Tony has been commuting between Queenstown, Christchurch and Wellington. Now the travel will be less for him and he is looking forward to meeting up with some old faces again and helping out David Morriss in the Wellington office. Tony will however still be running the Christchurch office and some of the existing projects in Queenstown.
The family are all looking forward to the move which will be over the Christmas period. A bit further to the snow now.

Current Projects

Wellington Office

Heretaunga College
Porirua College
Queen Margaret College
Ronald McDonald House
Wellington Zoo The Hub
Ronald McDonald House
Summerset Hastings
Summerset Hamilton
Luxford Villas
Newlands New World
Island Bay New World
Mandalay Terrace
Stoddard Road
Foodstuffs Kiln Street Fitout

Auckland Office

Rotorua Police Station
Alpha Labs
Dio School carpark & sports turf
Te Wao Nui at Auckland Zoo
Manukau Police Station Stage 3
Manurewa Police Station
Auckland Eye Clinic
Dilworth School Rural Campus
Hayman park
Mataatua Wharenui, Whakatane
McCrae Way shared space
MOE Special Schools Programme
415 Great South Road
Tanoa Hotel, Fiji

Queenstown Office

Barley Station
Wanaka Medical Centre
WHK Invercargill
Millbrook Resort
McEntyre's Tarn & Mill Green
Peacock Residence
Memorial Hall Upgrade
St Moritz Bathrooms Upgrade

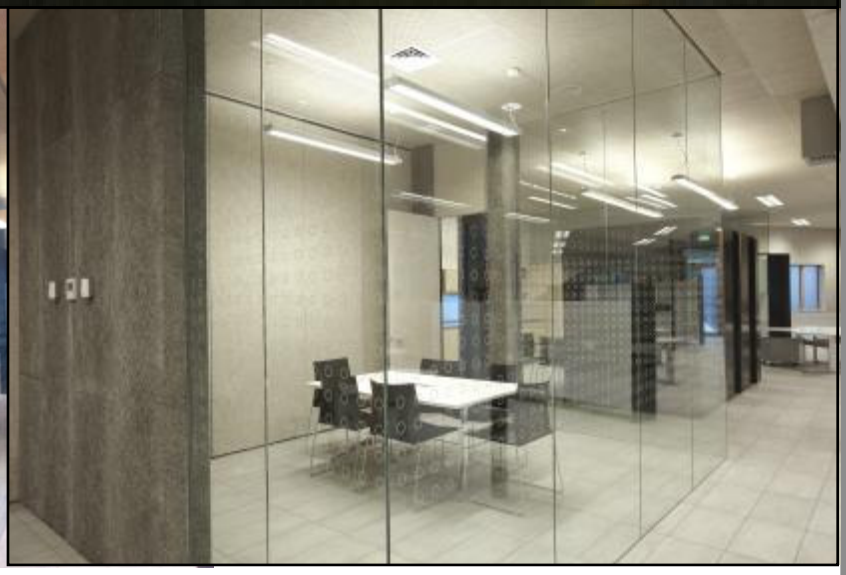
Christchurch Office

Assisting Beca with HNZC Earthquake Damage Scoping
Norsouwest
Ashburton Museum & Art Gallery

The Department of Conservation Wakatipu Area Office

Department of Conservation
Te Papa Atawhai

As tourist centers go Queenstown is the tops in New Zealand. The importance of maintaining the natural environment in Queenstown is well recognized by The Department of Conservation.
When it came to the upgrading of their Wakatipu offices it was Insitu Architecture who were given the opportunity of this development. Maltbys were engaged as Quantity Surveyors for the contract.
The design is innovative and technically outstanding. In many ways the requirements of the NZ Building Code have been exceeded and even European Building Standards have been met.
Of particular interest is the use of a ground-source heating and cooling system, the provision of a high level of natural light and an increased indoor air quality has also been achieved.
All in all the resulting retrofit has successfully provided a Green Star quality building of a standard appropriate to it's location.
Maltbys are proud to have been associated with this project.



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Construction Share Tips

This is an extract form the RICS February 2011, Ian Heaphy looks at pain/gain mechanisms and how they can help develop partnering behaviours

The pain/gain mechanism forms the key driver in aligning the objectives of the contractor and employer to work together as a team to reduce cost and make savings. There is no right or wrong pain/gain mechanism and there are a myriad of different approaches available..

Most are based on a percentage split of overspend and savings between the contractor and the employer, and are often 'banded' based on the percentage of overspend or savings made compared to the target cost.

The simplest allocation is a straight 50:50 split of all over/under spend. This is often seen as the most equitable because both parties share the risk equally which helps develop partnering behaviours. It is also less likely to encourage the contractor to drive up the target cost value or chase compensation events.

However, there is no cap on the pain share to the employer and therefore they cannot accurately predict what the final payment will be. It may also be argued that there is less incentive for the contractor to mitigate cost, but in reality the potential of paying half the cost of overspend should provide this.

The simple 50:50 model is often altered to include a sliding scale of percentages whereby the employer allocates increasing amounts of pain/gain share between the parties. There can be a number of different versions to this model.

The most common option is for the employer to split the first 10% of any over/underspend equally but then to alter the allocation above and below this percentage. Normally, the employer will increase the pain share percentage in the bands above 110% to give the contractor a greater share of the overspend. Similarly, the employer will decrease the percentage gain share to the contractor below 90% of the target cost (commonly a 75:25 split).

Changing the Split

However, some employers have reversed this approach and have increased their exposure to pain share in the increasing overspend brackets (i.e. Over 110%) and decreased their percentage of any underspend (i.e. Below 90%). The rationale here is that larger employers may be better able to carry the financial risk of overspend against the target cost and so would rather carry this risk than allocate it to the contractor who will seek to make provisions for it somewhere in their target cost. Similarly, increasing the percentage gain share to the contractor will motivate them to mitigate cost and create gain share as they will receive increasing benefit as greater savings are made.

The sliding scale is often extended to provide a cap on the employer's potential pain/gain share payments. The employer will, at a certain level (normally above 120% and below 80%), allocate 100% percent of overspend and 0% of underspend to the contractor. This reduces the financial exposure to the employer and increases the financial risk to the contractor.

Changing the Split (cont)

This model allows the employer to introduce a limit to their exposure in terms of overspend and is commonly selected. There is less potential for the contractor to over-recover gain share under such a mechanism and there is a greater incentive for them to mitigate costs due to the pain share cap. The employer will also be able to predict what the final payment will be, subject to any changes. On the downside, the contractor may seek to increase their target cost or maximise changes to avoid hitting the pain share cap.

Another issue is that the contractor may not be motivated to make savings below the 90% level as they get a reduced return, and certainly not below the 80% level where they get no return. In fact, the contractor may actually try to increase costs to ensure that no savings occur below the gain share threshold.

The choice of model clearly has to take into account the potential behaviours it will drive in the parties. The employer needs to review a number of factors before choosing a model:

- experience of the parties
- method of setting the target cost—negotiated, competively tendered, etc
- accuracy of the scope of works and therefore the target cost
- potential for variations

As different models alter the financial risk allocation between the parties, some employers leave the model blank at tender stage and ask for the contractors to propose differing models and associated Fees as part of their commercial offer.

Out-turn cost forecasting

The forecasting of the final out-turn cost of a project can prove to be an issue under target cost and cost-reimbursable contracts. The reality of such arrangements (and perhaps true of all contracts, at least from the contractors perspective) is that the actual cost of the project will not be known until it is completed, and often not until several months later when all accounts in the supply chain have been settled.

Unlike fixed price contracts (where the employer has a running final account based on the original contract value, plus or minus agreed variations) under a target cost/cost– reimbursable contract the contractor is paid on actual cost which can vary greatly during construction.

Difficulties can arise when forecasting costs still to be settled such as accruals and liabilities for materials received or work undertaken, but not yet invoiced. Tougher still is forecasting the cost of work not yet ordered or agreed, or the final value of the disputed variations or claims. This is further complicated by the need to reconcile the costs expended to date compared to the value of work done e.g. a project is 50% complete in terms of physical progress but 75% of the costs have been incurred. Does this mean that the project will overspend or is it simply that the more expensive elements have been completed, and in fact the project should have expended 85% of the cost by this stage and so a gain share should be predicted?

Out-turn cost forecasting (cont)

To deal with these issues it is recommended that some form of earned value analysis is undertaken, overlaying progress of the physical works with the costs incurred. This will allow the value of work done to be compared to the cost to determine current, and forecast future, financial performance.

A failure to accurately forecast the out-turn cost of a project can often cause major difficulties to an employer—they can suddenly find that a project they thought they were going to make savings on suddenly turns to a loss simply because the contractor has spent more than they had envisaged. I have been party to difficult meetings where an employer has had to go back to their board for more funding and when questioned as to what has changed or what the additional scope or risk event was that has occurred to create the need for the additional monies, the response was "Nothing, its just cost more than we thought".

Aligning objectives

In my experience, target cost contracts are increasing in use globally as they create a greater alignment of parties objectives to reduce costs and create savings.

They can provide a better mechanism than traditional fixed-price or remeasurable contracts for dealing with risk and provide greater flexibility to the employer. They also help create partnering behaviours due to the need for openness and transparency of costs, which also helps in reducing the potential for claims and disputes.

However, it is essential that employers understand that they will carry a much greater financial risk, post-contract, than they would under a fixed price or remeasurement arrangement. If the contractor is efficient, works well and makes savings the employer will share in this. However, if the contractor is inefficient and performs badly then (subject to the limited grounds for disallowed costs) the employer will have to share in any resulting overspend.

Employers also need to ensure that the target cost is set at a competitive level so as to provide the incentive for the contractor to be efficient or to seek value for money in the supply chain. The incentivisation mechanism must be designed to drive the right behaviours in the contractor and not to drive them to create claims or to inflate costs to increase overhead and profit recovery.

Overall, I believe that target cost contracts can be a valuable addition to the more traditional fixed price and remeasurable approaches. If used correctly they can often offer a better method for procuring complex or high risk construction works or projects where the parties want to encourage collaborative working; however, users need to understand the issues in order to secure the benefits they offer.

New Faces

Nicky Williams

I'm Nicky Williams and started with Maltbys in early July. This note is to say both hi and bye (sadly) as I will be leaving at the end of November (25th) as my family are transferring to the sunny Hawkes Bay. We have family there and seek a warmer climate with a bit more space for the children. I have thoroughly enjoyed my short stint at Maltbys and thank David and Tony and the rest of the Maltbys team for making my time here so enjoyable. My incumbent Paula Reidy will start at Maltbys on Monday 21 November where she will have a one week hand-over with me.

Matt Dacombe-Bird

Hi, I'm Matt Dacombe-Bird. I have recently been employed at Maltbys Wellington branch as a Quantity Surveyor Cadet after completing a Bachelor of Construction Majoring in Quantity Surveying through Massey University Wellington.
I am a born and bred Wellingtonian, living here most of my life bar an 18 month stint in London as a 6 to 7 year old. I am heavily involved in sport. I play premier club rugby through the winter, and keep myself fit through summer by playing touch rugby, Aussie rules, and weights training. Other hobbies include fishing, cycling, and basketball, socialising and watching sport. I am very excited about this great opportunity to further my knowledge and experience with Maltbys.

Bruce Kerr

Hi, I'm Bruce Kerr, who very recently started in the Wellington office. I am a Wellingtonian "Born and Bred". From my 14 years working overseas in country's ranging from Japan to Russia, Guam to UAE, Vietnam to Georgia, I came to appreciate the special nature of New Zealand, and especially Wellington, so in 1999 I returned to settle down. My greatest joy is being very involved in my 7 years old son growing up as a "Kiwi Kid", with all that New Zealand has to offer children. For those who know the song "Cats in The Cradle" by Harry Chapin hopefully you can understand.
My wife, of whom I am very proud, has in the time we have been in New Zealand, become a New Zealand Citizen, and gone on to establish herself as a very capable business woman, running her own businesses.
I have recently started up Karate, in order to keep up with my son. I very much appreciate the Maltbys atmosphere, the great people who work here, and I have to complement Maltbys on this as it takes a great deal of effort to achieve.

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SOCIAL EVENTS

Auckland

Mid Winter Dinner

This year's dinner was at De Fontein Belgian Beer Café, Mission Bay. We had one long table upstairs and the service that was just excellent. Of course we had to sample some of the traditional beers like Leffe Brune or Hoegaarden White. Very tasty.
The menu consisted of traditional Belgian food like Belgian Meatloaf and Flemish Stew & Stoemp and then the Kiwi steak which proved very popular.

Auckland

New Arrivals

Tamsyn Maia McCamish was born @ 4:51pm on 12th June 2011 weighing 7lb 15oz. Mum and baby are happy and healthy but the cat's not too sure about the new addition yet. Wait till she can start pulling his tail!

At nearly four months old now, Tamsyn has decided to be a top five tennis player when she is older and will travel around the world on the WTA tour with her parents.

Ella Heazle Taggart arrived on the 3rd Sept weighing 3.45kgs/7.9lbs. A little encouragement was required as she was 12 days over her due date. All is going well and we are settling into life at home. Hamish and I would like to thank Maltbys for the beautiful flowers.

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Queenstown

Maltbys supported the Breast Cancer Foundation, taking part in a special Pink RPM Class. Bikes were bought or bid for paying $100 per bike to raise funds for The New Zealand Breast Cancer Foundation.

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Pictured in the back row Nicky endured the 50 minute work out organised by Lakes Leisure Gym.

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Wellington

Lucy Jamieson left us in early July and we all went to Joes Garage for her farewell. Lucy is to take up a position at the Wellington Airport. She has a real love of aeroplanes along with the smell of aviation fuel and this is her dream job!
Lucy was looking forward to the intensive training for the first month before she started her new position and we wish her well in her future endeavours in the aviation industry.

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