

## The allocation and costs of risk in construction



**Greg Baynton**  
President

*"Risk is endemic to nearly all aspects of life."*

*"Risk! Construction projects have an abundance of it, Contractors cope with and owners pay for it."*

*Stephen Bauld*

Public sector agencies typically espouse the guiding principles of fair, open and transparent process in their purchasing of goods and services, however it gets complicated in their pursuit of value for money and safeguarding the public interest. These principles and objectives are not only appropriate; they required by local and provincial government policy and standards, and by interprovincial and national agreements.

This is also easier said

than done when it comes to the procurement of construction services, and it is challenging for the most seasoned of purchasing professionals with expertise in construction. The challenges are multiple and include; balancing the guiding principles against the objectives of value for money proposition and protecting the public interest, particularly for public agencies that do not engage in construction on routine basis and lack expertise in this area of purchasing and contract management.

In their pursuit to safeguard the public interest public owners seek legal advice and means of transferring risk to the extent it becomes unfair and disproportionate, and it compromises the value for money proposition.

The construction industry manages risk and onerous conditions in one of two ways; they don't bid, or the industry adds large contingencies to their bids that are proportionate with the risks. Risk always affects the degree of competition and costs.

One's immediate reaction is; what are the costs, what is the trade off, and is it acceptable?

The Residential and Civil Construction Alliance of Ontario (RCCAO) was cognizant of the fact a lot of money was being spent on infrastructure stimulus and as an industry had an interest in the investment would going as far as possible. The RCCAO commissioned

Stephen Bauld, President of Consultants International Inc, one of Canada's leading experts in public procurement, to undertake a study entitled "Towards a Fair and Balanced Approach: A Commentary on Government Procurement of Construction in the Greater Toronto Hamilton Area (GTHA)" published in September 2009.

The study states the GTHA spends approximately \$2.6B annually on construction through federal, provincial and local government agencies, and estimates that taxpayers are paying five to twenty percent more than they should because of their procurement practices. All the GTHA governments alone may be paying \$500M a year more than is necessary on construction projects.

There is a lot of reference in the study on the transferring of risk and its ramifications. Bauld reports government purchasing policies and contract documents are at the root of the problem. "Governments are under great pressure to manage their own risk more effectively. An obvious method of "managing" risk is to shift it to someone else. The problem with such an approach is that some methods of managing or avoiding risk are inefficient. Inefficiency results when the risk management mechanism employed incurs a higher cost than the discounted cost of assuming the risk."

The study concludes realistic and better structured

construction contract procurement practices could save Ontario governments and agencies \$1 billion province-wide. One can only imagine what this level of investment could do for health care, education and local government in Ontario, as well as the much needed economic stimulus.

While this study relates to Ontario, it parallels the BC experience from the industry's perspective. The BC Construction Association and four Regional Associations continue to engage public owners in the unfair distribution of risk, its impact on the industry and its costs, however for the most part industry has not been heard.

The reality is there are risks in construction and there are ways to manage them in accordance with recognized industry standard documents produced by the Canadian Construction Documents Committee (CCDC) and the Public Construction Council of BC.

To learn more or obtain CCDC standard contract documents contact the Vancouver Island or BC Construction Associations;

VICA: [www.vicabc.ca](http://www.vicabc.ca)  
BCCA: [www.bccasn.ca](http://www.bccasn.ca)

"To a Fair and Balanced Approach" by Stephen Bauld:  
[www.rccao.com](http://www.rccao.com)

Information provided by the  
Vancouver Island Construction Association



Vancouver Island  
Construction Association

To become a member or to  
receive information call 250.388.6471

[www.vicabc.ca](http://www.vicabc.ca)



*Silvester*  
Glass (BC) Ltd.

250.388.4614

480 Tennyson Place  
Victoria BC V8Z 6S8



[www.prolineroofing.com](http://www.prolineroofing.com)

**Residential & Commercial Roofing Specialists**

Fully Insured  
10 Year Written Guarantee  
WCB Licensed

**250-475-1310**  
3578 Quadra Street

**Emergency 24HR Repairs 250-883-4068**






Distinctive. Choice.



### Bonding and Construction Insurance

Providing our expertise in Construction Insurance, Risk Management and Bonding in B.C. for over 100 years.

**Jardine Lloyd Thompson Canada Inc.**

350, 4396 West Saanich Road, Victoria, BC V8Z 3E9

Tel: 250 388 4416 • Fax: 250 388 9926 • Toll Free: 1 888 216 8018

Contact: Carole Bissett / James Clapp

Vancouver • Surrey • Calgary • Edmonton • Toronto • Montréal



[www.jltcanada.com](http://www.jltcanada.com)