Risk under performance-based contracting in the UK construction sector


Abstract
As a method of procuring the services of the built environment, performance-based contracting (PBC) seeks to link the building supplier to longer term commitments than has traditionally been the case in the construction sector. By rewarding the building producer according to the way that building or structure delivers the users' requirements, rather than according to a list of assembled parts, a number of additional risks are taken by contractors, including fitness for purpose, costs and briefing. The extent to which contractors recognize these risks and their methods of dealing with them vary considerably and are influenced by their attitudes towards risk. As the risks associated with PBC are seen as large, uninsurable, and vulnerable to changing client requirements, the majority of respondents would reject the use of PBC as a method of contracting. Nevertheless, PBC may be used under particular conditions, where rewards are deemed sufficient to compensate for the additional risk to the contractor of undertaking work on the basis of a stream of payments paid over the life of a structure depending on the satisfactory performance of the building or as part of a private finance initiative.

Keywords: Performance-based contracting, risk management, private finance initiative