

Topic 6 Section 8

Managing Subcontractors

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Managing Subcontractors

The Decision to Use a Subcontractor

The decision to use a subcontractor may be based on the principal contractor's consideration of such issues as:

- Does the company have the resources, plant or expertise to perform a particular function associated with the contract?
- Are the required resources, plant or expertise available through other individuals or organisations?

The decision to employ a subcontractor will also be affected by:

- past experience with known, available subcontractors
- a comparison between a fair, market price for the subcontractor's services and the cost of doing the work by other means
- the ability of the contractor to offload some or all of the risk associated with the contract onto the subcontractor
- the drawing up of a suitable subcontract document.

Subcontract Agreements

In most cases, the agreement between principal contractor and subcontractor is a written document containing clauses and specifications relevant to the work that is to be performed. In some cases, the subcontract is based on a standard document used widely for some classes of work in Australia, e.g. for clearing, grubbing and mulching.

The subcontract agreement must clearly state the scope of the subcontractor's work and the price agreed between the principal contractor and the subcontractor.

The subcontract agreement may be closely allied to the head contract, or may be stand-alone.

It is more likely to be closely tied to the head contract where completion of subcontract work on time and on budget is critical to the success of the overall contract. In such cases, the subcontract may be described as 'back-to-back' with the head contract. However, the subcontract will be stand-alone if the timing of the work is not critical, e.g. as in specialised soil sampling and testing.

One of the key provisions in most subcontract agreements is that related to liquidated damages. Some head contracts provide for charges to be levied against the principal contractor if the work is not completed on time; for example, an amount payable for each day the contractor goes past the nominated finishing time. Depending on the terms of the agreement, these charges may be passed straight on to the subcontractor.

Such provisions can become sources of conflict. An example is described in Case Study 3 at the end of this topic.

Another common provision relates to quality control. The subcontract may require the subcontractor to comply with the principal contractor's quality systems and specifications — e.g. those relating to steel, reinforcing mesh, or timber.

The ability to withhold or delay payment provides the ultimate sanction that the principal contractor may use against the subcontractor. Payment is also the ultimate incentive for the subcontractor to complete the work in accordance with the agreement.

Role of the Project Supervisor

In recent times, the management of subcontractors has become a bigger part of a supervisor's responsibilities as more companies make use of subcontractors to complete parts of a project. While the subcontractors that are used on a construction site project are not employees of the supervisor, in many ways they must be treated in the same manner. Just like company employees, subcontractors must:

- Understand and comply with all site safety procedures
- Understand and comply with all site rules regarding behaviour
- Comply with the supervisor's directions regarding work standards and quality
- Cooperate with the supervisor in coordinating their activities to fit in with other workers and the schedule requirements
- Comply with the supervisor's directions regarding interactions with the general public or authorities while engaged in project work.

In many cases these requirements will be clearly spelled out in a site induction document or at an induction training session, however, the supervisor must be aware of the responsibilities and also the rights of subcontractors so that he/she can supervise and manage them effectively.

Supervisors have the goal of completing the work or the project as efficiently as possible, so it is in the company's interest to provide the subcontractors with all reasonable assistance. To do this, the supervisor should use good communication skills and show leadership in encouraging subcontractors to become part of the team.

Subcontractors have responsibilities to the company that have engaged their services and these responsibilities may be spelled out in a contract document or sometimes less formal agreements may be made. In either case, the supervisor may have to consider some of the following issues:

- Check that the subcontractor has all of the necessary insurance in place. This may include public liability insurance and insurance for employees including Worker's Compensation cover. The supervisor must sight copies of relevant policies to check that they are adequate, current and that the cover will be maintained to the end of the job.
- Subcontractors must not assign or subcontract all or part of their work to others without written approval from the supervisor. For instance, if a haulage contractor suffers a number of truck breakdowns, he/she should seek agreement from the supervisor before engaging another subcontractor to help out.

- The supervisor and subcontractor must come to an agreement before work commences regarding conditions of engagement and terms of payment. These conditions might include, for example, the setting of working hours and working days. Working times may be set to minimise disruption to the public, for safety reasons or fit in with the work schedules of other subcontractors. This agreement should be in writing and the subcontractor should not vary these conditions without prior approval of the supervisor.
- Any variations to the agreed work should be described in detail and approved in writing by the supervisor prior to the subcontractor beginning the work. It is important that this is done in writing to ensure that there is no confusion later as to the extent of work and the cost involved.
- The supervisor should advise the subcontractor of the expected rate of work that is required before work commences on site to avoid delays and other scheduling problems caused by slow work or lack of consistent attendance.
- The supervisor may direct the subcontractor to remove from the construction site any employee of the subcontractor who is considered to be negligent, incompetent or is guilty of misconduct. In particular, the supervisor should request the immediate removal from site of any employee of the subcontractor who is affected by drugs or alcohol or who behaves in a threatening or dangerous manner.
- Any machinery or plant that the subcontractor supplies must be in safe condition and in good working order. Any drivers or operators employed by the subcontractor must hold the appropriate licence or ticket to operate this equipment.

Section 8 – Assessment Activities

For information on how these assessment activities may be used as part of the learning process, see the section on ‘Assessment’ in the ‘Topic Descriptor’ section at the front of this topic.

Theory Questions

The following questions allow you to assess your progress in understanding the material presented in Section 8. The questions may be of any of the following types:

- multiple choice (identify correct answer or answers)
- multiple choice (identify incorrect answer or answers)
- fill in the gaps in a sentence or statement
- identify a sentence or statement as TRUE or FALSE
- write a few sentences or a short paragraph.

Answers to the question are shown in the separate ‘Answer’ section.

Question 1

Supervisors should check that subcontractors who are working on site have Worker’s Compensation cover and should ask for a copy of the relevant policies. What are some of the important factors that the supervisor should check?

Question 2

Give three reasons why any variations to the agreed work should be described in detail and approved in writing by the supervisor prior to the subcontractor beginning the work.

Question 3

If necessary, the supervisor may direct the subcontractor to remove from the construction site any employee of the subcontractor. List three reasons why a supervisor may take this action.

Question 4

Name two matters that must be stated in the subcontract agreement?

Question 5

List four obligations of a subcontractor when on-site.

Practical Exercises

Practical Exercise 1

Discuss with your project supervisor the parts of the job that are being carried out by subcontractors. Why did the company decide to employ subcontractors?

Practical Exercise 2

After checking with your project supervisor, read a subcontract document related to the construction job you are working on. In what ways do the subcontract documents differ from the documents related to the principal contract?