

**UNIVERSITY OF BOLTON**

**SCHOOL OF THE BUILT ENVIRONMENT &  
ENGINEERING**

**BSc (HONS) CONSTRUCTION MANAGEMENT**  
**BSc (HONS) CONSTRUCTION**  
**BSc(HONS) QUANTITY SURVEYING AND**  
**COMMERCIAL MANAGEMENT**

**SEMESTER TWO EXAMINATION 2009/2010**

**COMMERCIAL MANAGEMENT**

**MODULE NO: BLT3006**

Date: Friday 4 June 2010

Time: 10.00 am – 1.00 pm

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**INSTRUCTIONS TO CANDIDATES:**

There are SIX questions.

Answer ANY FOUR questions.

All questions carry equal marks.

Marks for parts of questions are shown in brackets.

Candidates may take into the examination an unmarked copy of the JCT Standard Building Contract 2005 or the Design and Build Contract, or updated versions 2007 or 2009.

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1. It has recently been reported that major clients such as the British Airports Authority and the Ministry of Defence are moving away from frameworks and prime contracting towards competitive bidding. Discuss whether competitive bids are likely to give these clients better life cycle value in the context that *'Never Waste a Good Crisis'* (2009) advocates collaborative working.

**25 marks**

2. A major UK client tenders a £100M mixed-use scheme. Bids are invited based upon the JCT (2009) design and build contract. The proposed contract includes provision for a 10% performance bond, 5% retention, and it is a firm price contract (no fluctuations). The following clauses in the standard contract permitting an extension of time for delays are all struck-out: (i) statutory undertakers – 2.26.6, (ii) exceptionally adverse weather – 2.26.7, and (iii) strike or lock out – 2.26.10. The payment period is 21 days after the interim certificate. The defects liability period (rectification period) for all trades is twelve months. Collateral warranties are required from all major sub-contractors. The amount stipulated for liquidated and ascertained damages is at the maximum level that can be substantiated. A site investigation report was commissioned by the client and responsibility for ground conditions is passed to the contractor.

On receiving bids, the client judges them to be too high and reflects the market was moving such that *'to do design and build you have to pay a high premium'*. The new proposal is to re-tender the project using construction management as a form of procurement.

Evaluate why design and build contracts may be more expensive for clients than construction management in relation to the above scenario.

**25 marks**

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3. A construction organisation has drafted its budget for the next financial year. A projected turnover of £80M represents 5% growth, but it is judged there has been over capacity in the organisation, and there are no plans to recruit extra people. The budget for head office overheads is 7.5%. The budget for site preliminaries / overhead costs usually falls in the range of 8 to 12% of project costs depending on the type of work. Staff and other 'fixed' costs may amount to approximately 25% of site preliminaries. The company has already secured 40% of its turnover. It has relatively high fixed costs compared to competitors, with many long serving staff and operatives. It has also recently renewed its lease on office premises for the next five years. There is a sudden downturn in the market. It is now feared that 5% growth is unlikely and there may even be a fall in turnover in comparison to the previous year.

Appraise the re-budgeting process that will be required.

**25 marks**

4. 'Construction managers aim to use resources to build as efficiently and effectively as possible; with cost control systems then being a hindrance to their work'.

Discuss whether or not this statement has any validity.

**25 marks**

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5. Part of a local authority school campus suffers serious fire damage on the last day of the summer term. Major refurbishment or possibly reconstruction is likely to take twelve months. Temporary accommodation will be provided for 100 pupils on the school sports fields in readiness for the autumn term. The work will involve light foundations, underground services, external works and prefabricated modular classrooms.

Since it is the summer holiday period, it is difficult to locate key people in contractors who have a long-standing working relationship with the local authority. However a large contractor is found who is able to start work immediately. The contractor will use its own directly employed labour for conventional trades such as groundwork, brickwork and carpentry/joinery. Other trades will be sub-let. The agreement is to complete the work on a 'cost-plus basis', with the primary client objectives being to complete a functional facility on time. The local authority has approached its insurers. The insurer has advised that a loss adjuster will need to audit the final account, and that whilst mindful of the primary objectives, there is also a need to be prudent in controlling costs.

Appraise to what extent there are opportunities for disagreement between the client's and contractor's quantity surveyors in the compilation of interim valuations and the final account.

**25 marks**

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6.

- a. The table below details the forecast and actual cash flow performance levels on a project, which is scheduled to run for 12 months. Retention is 5%.

Determine the actual cash flow surplus or deficit that will be incurred at the end of each of the first five months of the project. Illustrate your answer with a saw tooth diagram. Assume expenditure is on a straight line basis over time.

	Forecast month 3	Actual month 1	Actual month 2	Actual month 3
Cumulative valuation amounts	£404 000	£80 000	£199 000	£314 412
Cumulative profits	4%	2.90%	1.80%	1.44%
Payment period client to main contractor	1 month	1 month	1½ months	1½ months
Payment period main contractor to subcontractors and suppliers	1 month	1½ months	2 months	2 months

(17 marks)

- b. Appraise the assertion that in volatile trading conditions, cash flow is far more important than profit.

(8 marks)

**Total 25 marks**

**END OF QUESTIONS**