

# Guaranteed Maximum Price

## Construction Procurement Guidelines

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### Overview

Guaranteed maximum price (GMP) arrangements were originally conceived through the design and build delivery model. It is best used for projects where the client is very clear on the outcomes to be achieved. Information for tender might include building perspectives, floor plans, room data sheets, and performance requirements. The contractor tenders its price based on a GMP, for developing and managing the design and build of the project to meet the required outcomes. Where the actual cost of work exceeds the GMP, the contractor bears the additional cost. GMP contracts will therefore include a risk premium for this.

An important aspect of transferring the financial risk to the contractor under a GMP contract is that the contractor must be best placed to manage this risk. This means the contractor must be in full control of the design process, to enable it to lead and manage the design team in considering a range of design options that can meet the required outcomes. When considering this approach, it is important to ensure the market has good capability in managing design teams for the type of project being delivered.

GMP has evolved to include sharing arrangements where an agreed percentage of any savings made below the GMP is shared between the client and contractor. This kind of incentive promotes collaboration between the client and project team during the design stage to achieve innovations in design and construction, while maintaining an overall cap on the contract price.

GMP approaches tend to be more appropriate:

- for design and build projects of low complexity (eg green-field sites), or projects with repeatable design elements (eg office accommodation)
- when the client is able to clearly define its requirements in terms of the outcomes it requires for the project (particularly important where there are multiple end users)
- where the design process is yet to start or is at a very early stage (eg concept) to provide the greatest opportunity for the contractor to manage cost risk through consideration of alternative design options

GMP approaches tend to be less appropriate:

- for traditional projects as it is the client in control of the design team who is best placed to manage the financial risks associated with development of the design
- for projects with a high degree of uncertainty (for example, refurbishment of an older property, or projects with significant risks (eg complex ground conditions))
- for projects of high complexity (eg highly-serviced buildings, or buildings that are technologically advanced)



### **When is a GMP not a GMP?**

A common misconception of a GMP approach is that the client will not be required to pay anything above the GMP. This is true if the outcomes to be achieved are clearly defined at tender stage and do not change post- contract. However, if the required outcomes do not properly describe what the client actually needs, there is a risk that any further information issued to the contractor post-contract will entitle it to a variation under the contract, which may result in an upward adjustment of the GMP. The client should therefore ensure that the required outcomes are carefully defined and reflect what it needs before going to tender. While contingency allowances should be included in the project budget to cover any residual risks that may remain on the project at the time of contract, these should not be used to cover the risk of poorly-defined requirements, which is a risk that can be managed out through the development of a clear project brief.