

Lump Sum Contract

Construction Procurement Guidelines

October 2019

Overview

A lump sum contract is the most commonly-used pricing mechanism in a construction contract. Under this arrangement the contract price is based on a single lump sum price for all of the works being agreed between the client and contractor prior to award of contract.

Lump sum contracts are appropriate for projects where the requirements are well-defined at tender stage to enable the contractor to accurately price the project, and where significant post-contract changes are unlikely.

Lump sum contracts transfer more financial risk to the contractor (particularly when used in a design and build arrangement) than some other pricing mechanisms. Lump sum contracts therefore offer the client some certainty about the likely cost of the works. However, any changes to the clients requirements post-contract will usually result in a variation under the contract entitling the contractor to additional cost.

Mechanisms may be included in the contract to deal with the inflationary impacts of increases in labour and material costs. Where this provision is not included, the contractor will usually price this risk as part of its lump sum price. This is often referred to as a 'fixed price lump sum'.

Beware of provisional sums!

Provisional sums are cost allowances inserted by the client in the tender documents for elements of the works that cannot be defined in enough detail for tenderers to accurately price. Post contract, as more design information becomes available, these provisional sums will be firmed up and agreed between the client and the contractor and the total lump sum price adjusted accordingly.

To avoid budget overruns, it is good practice to limit the use of provisional sums as far as possible, eg to no more than 5-10% of the total contract sum. This can be achieved by engaging relevant stakeholders and end users at an early stage in developing the [Project Brief](#), to ensure that their requirements are clear and translated into the tender documents appropriately for the particular delivery model being used.