Debits to Contractors

It has been noted that contactors often do not finish the works / do not finish the works properly and company has to do the works / get the works done at considerable cost of time, money and supervision.

Const Mgmt need to ensure that contracts are incentivised to fulfil their obligations under the contract, to the standards of time, quality and safety required, without feeling that they are only going to lose the actual cost incurred. At the same time, Contractors have a right to know the items for which they are being debited for and this information should be made known in a timely manner.

1. Following policy shall apply, in case of works done by company on behalf of contractor for:

a) Employing extra resources (labour / material / equipment) to get works done as required.*
b) Getting incomplete work completed in contractor's scope through Lodha or from 3rd party contractors.*
c) Getting poor quality work in contractor's scope redone / repaired.
d) Any amounts spent in relation to issues related to contractor's compliances with statutory provisions/laws.
e) Non compliance with Company's policies, which are required to be complied with by the contractor as per the contractual obligation
f) When facilities provided by the company get misused or unduly extended beyond the period they were agreed for.
g) When any action or lack of it on the part of contractor or his personnel results in theft , pilferage or fraudulent use of Owner's material.

The actual amount spent on a-g shall be included as debit to the contractor by Construction Management with value of debit being 'Actual cost incurred * 125%'.

2. Procurement shall ensure that the aforesaid is included in all future contracts.

3. In case of the amounts under (1 a. + 1 b.) x 125% exceeds 12.5% of the contract value (if contract value is < 10 lakhs, the limit shall be flat Rs. 1.25 L), it is necessary to short close the contract and a new contractor shall be appointed and the original contractor is to be blacklisted.

See 'Power to Terminate contractors' policy. This means that any contractor for whom more than 12.5% of contract value (10% x 125%) has to be done under 1 a. or 1 b by 3rdparty/Lodha, has to be compulsorily terminated and blacklisted.

4. Limits on levying of debit, as % of contract value:

Upto __% of Contract Value	Approval Power
2.5%	Highest level CM associate full-time on said site (min. Level 2)
5%	Level 0/1 of CM (Zonal Head or Project Director)
7.5%	COO, with recommendation of Level 0/1 of CM (Zonal Head or Project
Above 7.5%	COO, with consent of Level 0 Procurement

5. Right to waive any debit shall be limited to following:
   a. For debit amount upto Rs. 5,00,000/- for any given contract (cumulative):
      i. PD/PMH of Construction Mgmt with recommendation of Level 2
      ii. Level 0/1 of Procurement.
   b. For debit amount between Rs. 5,00,000/- to Rs. 25,00,000/- for any given contract (cumulative):
      i. COO, with recommendation of PD/PMH of Construction Management.
      ii. COO, with recommendation of Level 0/1 of Procurement.
   c. For debit amount above Rs. 25,00,000/-:
      i. Director, with recommendation of COO + PD/PMH of Construction Management.
      ii. Director, with recommendation of COO + Level 0/1 of Procurement. The above limits shall increase by 25% every leap year starting from 2016.

In all such cases, waiver of the debit has to be fully justified and a logic note is to be kept on file as an auditable document. Representation from contractor for waiver of the debit note has to be in written form and that such representation should have documentary evidence to substantiate

why debit could not be justified. Any action for waiver can be initiated only after written representation is received from the contractor. Comments need to be taken in writing from Const Mgmt and SCM on each waiver representation.

6. Contractor shall be provided a copy of debit note for each debit (format as per Annexure A) at the time of payment of the bill in which the debit is made to the Contractor. It is clarified that debit can only be made in the bill in which the relevant activity is billed by the contractor. It is made clear that no debit, other than 1 c., can be raised more than 3 R.A. bills after the activity which gave rise to the debit, was done.

7. Process to be followed by Const Mgmt for levying and justification of the levied debits – Annexure B.

8. Vendors/Contractors who are used for corrective actions under 1 a., 1b. or 1 c. will either be empanelled vendors or if not empanelled, a SAP ID will need to be created for them so that their bills can be processed. This SAP ID creation is a short process (2-3 days) that does not require vendor empanelment. No work order is required to be given to such contractors and their payments are released against the debit note raised on main contractor's WO. (new work order can only be issued in case of short-closing viz. termination).

Annexure A

Debit Note

Debited an amount of Rs._____ /- (Rupees_____ only) to M/S _____ ("Contractor") towards contract for _____ works/materials for Wing ___ of Building/Project_____ .

Reason for Debit	**Details**	**Amount Paid to 3rd party/Spent by Company (Rs.)**
Employing extra resources (labour / material / equipment) to get works done as required.		
Getting incomplete work completed in contractor's scope through Owner or from 3rd party contractors.		
Getting poor quality work in contractor's scope redone / repaired.		
Any amounts spent in relation to issues related to contractor's compliances with statutory provisions/laws		
Non compliance with Company's policies, which are required to be complied with by the contractor as per the contractual obligation		
When facilities provided by the company get misused or unduly extended beyond the period they were agreed for.		
When any action or lack of it on the part of contractor or his personnel results in theft , pilferage or fraudulent use of Owner's material.		
	Total	

As per applicable provisions of Contract, 125% of the aforesaid amount has been debited to the Contractor. Cumulative debit to date: Rs. _____, being _____% of the Contract value.

Recommended By: _____Approved By:_____

Annexure B

Debit to any contractor:
Normally any debit to a contractor arise on the following conditions

- When the contractor fails to/or incapable to do the job in time
- When his workmanship is to be repaired
- When due to him , others works are damaged
- When he Is not maintaining safety
- When he Is not maintaining Housekeeping
- When he fails to bring in material required for the work
- When he does not comply with the Company's policies, which are required to be complied with by the contractor as per the contractual obligation

When a debit is made and not properly documented, than there is scope of suspicion for the higher management and procurement team about the working of the said engineer in-charge. Hence proper procedure and system will help us to overcome this doubt and be clear in our working style. Hence Const Mgmt hereby take case by case to solve the same:

- Case 1: When the contractor fails to/or incapable to do the job in time

a) first please have the start date of the order signed by the contractor, and availability of the work front in stages(to be given to the contractor) and the end date by which the said work will finish

b) alongwith take the schedule for completion of the same from the contractor.

c) When the work is not happening as per the required schedule, than the site incharge needs to issue a notification to the contractor via email and hard copy about the lagging of the works.

d) After 3 such mails (with cc to procurement) and if the schedule is lag behind by 25%, than he must issue him the notice of removing total or part of the contract for non performance and that the same will be at his cost and risk with 25% overhead charges and hold 10 percent from every bill other than the retention money.

e) A cin has to be send to the procurement for the new contractor (non sap), as the same is to be debited to the existing contractor. The incharge is not allowed to put any other contractor without the approval of the procurement team, or the head of cell(HOC-cm) of that zone

f) Depending upon the time schedule, the site in charge has to send the detailed quantity of the work done by the new contractor every fortnight, to the existing contractor for him to understand the consequences, cost and others.

- Case 2: When his workmanship is to be repaired

a) Inform the contractor via email or hard copy (preferably with photo graph) and ask him to rectify the same in a stipulated time.
b) If he fails to start within your mentioned timeline, send him the reminder for a day to start or else Const Mgmt will do the needful (cc to procurement)
c) Pl get the quotation (rough) and send the debit note intimation to the contractor.
d) After the works send the debit note to the contractor for the work completed.

- Case 3: When due to him , others works are damaged

a) Take the photograph and send a mail to the contractor and debit him the cost the work to be redone

- Case 4: When he Is not maintaining safety

a) Before start of the contract, get the safety debits and charges signed by him. Ask him to do safety induction to his team by his engineer. Ask him for approval of all the tools, tackles, machinery (third party) and design approval of all platform , shade, walkways, etc by our consultant.
b) Give him 3 warnings in writing
c) Send the debit note(cc to safety incharge, procurement) with email showing the place, cause and photo if possible

- Case 5: When he Is not maintaining Housekeeping

a) Inform him via email and give him a day to clear the same
b) Get the work some by other agency (preferably sq. ft. basis) (with photo) and send the mail to safety and procurement

- Case 6: When he fails to bring in material required for the work

a) Inform him and bring the material and debit him via mail (keep the copy of the bill)

- Case 7: When he he does not comply with the Company's policies, which are required to be complied with by the contractor as per the contractual obligation

a) Inform him via email about the policy that he is failing to comply with, give him 3 working days (only once in each instance of a policy violation) to rectify and if not fully rectified, raise the debit.

In all the above cases, Const Mgmt must have to properly save the copy of all such mails in the following 5 categories, in hard copy/soft copy. Each contractor must get duly completed Debit Note with every bill in which debit is raised on the Contractor.