

**COST IMPACT OF “SECURITY OF PAYMENT ACT”  
TO THE SRI LANKAN CONSTRUCTION SUPPLY  
CHAIN**

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Degree of Master of Science in Construction Law and Dispute Resolution

Department of Building Economics

University of Moratuwa

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## DECLARATION

I declare that this is my own work and this thesis does not incorporate without acknowledgement any material previously submitted for a Degree or Diploma in any other University or institute of higher learning and to the best of my knowledge and belief it does not contain any material previously published or written by another person except where the acknowledgement is made in the text.

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I hereby acknowledge that G.H.K. Priyadarshani has followed the dissertation process for the Masters of Science in Construction Law and Dispute Resolution set by Department of Building Economics under my supervision.

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Date

## ABSTRACT

Construction industry supply chain is a pyramid. Due to its complexity of contracting and sub-contracting, the construction industry is set apart from other industries. For a large construction project, this pyramid can have number of different levels below the sub-contractors also as sub-sub- contractors and so forth down the pyramid. As such, a delay in payment from the employer will freezes up the flow of funds below level of the pyramid. The Act of Security of Payment comes in to action in other countries to prohibit contingent payment clauses in contracts, to minimize unnecessary delays in progress payments and then protect the downstream payments. Accordingly, it has been identified that such Act would be very important to be implemented in Sri Lankan construction context also due to that the same situation is being undergone by Sri Lankan industry too. Since the importance of Act has already been identified, it was decided to identify the potential provisions of a security payment act, identify the parties in the construction supply chain affected by the Act and synthesize the nature of potential cost impact to each party under different situations subjected to the Act. Accordingly, a comprehensive literature survey was carried out to identify the potential provisions of the Act and parties affected by the Act. In order to synthesize the cost impact to each identified party, a semi structured interview was carried out to identify the current grounded phenomenon of payment issues. The professionals were selected from the identified group of levels of employers, main contractors, sub-contractors and suppliers to conduct the interviews. They were mainly questioned about financing the gap in between the progress payment request and receipt of money, delay of payments, back to back payment clauses, prompt payments and Security Payment Act. It was identified through the interviews that no additional premium is added to the contract price in order to finance the payment gaps. But according to the nature of the employer, markup will be adjusted concerning the past experiences with that particular employer. Delay payments have been a common issue in the industry and back to back payment clauses are usually included in sub contracts due to this. Therefore, actually, there is a real request emerged from the industry to take necessary actions to minimize this issue. Further, the potential cost impact to the each party was evaluated under the situations come across under the Act as identified in literature survey. It was recognized that the there is a potential positive cost impact to the contractors, sub-contractors and suppliers who are down below the pyramid and though initially the employer has to bare additional cost, the system itself get balanced once the Act implemented resulting positive cost impact to the employer too.

**Keywords:** Supply Chain Pyramid, Delay Payments, Security of Payment Act, Cost Impacts

**DEDICATION**

*I dedicate this piece of work to all who  
supported.....*

## **ACKNOWLEDGEMENT**

This research study would not be possible without the assistance, encouragement and dedication of numerous individuals and organizations who contributed in plentiful ways. Therefore, I take this opportunity to convey my gratitude to all of them.

First and foremost, I would be grateful to my supervisor, chartered Quantity Surveyor and senior lecturer, Mr. Suranga Jayasena for his guidance and supervision. His commitment and dedication towards this study contributed to successful completion of research.

I would like to express my sincere thanks to the Head of the Department, Dr. Yasangika Sandanayake and all other senior lecturers, junior lecturers and all the members of department of Building Economics for the support given throughout the period of post graduate studies.

I would also like to thank all the industry experts who contributed with the kind response and their valuable time for interviews carried out, in spite of their busy working schedules. Their immense corporation and guidance as the industry experts was an encouragement to complete this study successfully.

Finally, I express my heartfelt thanks for my colleagues and many others who contributed in numerous ways to make this dissertation a success.

Priyadarshani G.H.K.

February 2018.

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## **ABBREVIATIONS**

SOP	–	Security of Payment
ANB	–	Authorized Nominating Body
CIDA	–	Construction Industry Development Authority
FIDIC	–	International Federation of Consulting Engineers
IPA	–	Interim Payment Application
IPC	–	Interim Payment Certification