

# Business Scope and Business Obtainment of Consultation Enterprises of Construction cost in Chinese Mainland

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**Abstract.** In Chinese mainland, the market-oriented consultation industries of construction cost has had a considerable scale after nearly 30 years of development. According to more than 20 years of personal experience in the business and management of consultation enterprises of construction cost and the regulations of relevant governmental administrative management authorities, this article uses reference research method to comprehensively introduce the actual business scope of consultation enterprises of construction cost in Chinese mainland, and clearly describes three sources, namely the market contract, governmental purchase and automatic undertaking, of obtaining the consultation businesses of construction cost for the consultation enterprises of construction cost in Chinese mainland. It will be an excellent guideline to familiarize, regulate and study the business and management of consultation enterprises of construction cost in Chinese mainland.

**Keywords.** business; construction cost; consultation enterprises; Chinese mainland

## 1 Introduction

According to the definition of the order No. 149 issued by Chinese original Ministry of Construction, namely the Method to Manage the Consultation Enterprises of Construction Cost, the consultation enterprises of construction cost refers to the enterprises that accept the entrust, invest in the construction project, determine the construction cost and control the provision of professional consultation service. This method also specifies the consultation enterprises of construction cost shall legally obtain the qualification of consultation enterprises of construction cost and carry out the activity related to the construction cost consultation within the scope specified by the qualification level; the scope of consultation businesses of construction cost includes: (1) preparation and verification of construction project recommendation, investment estimation for the feasibility research and assessment report of project economy; (2) preparation and verification of preliminary budget for construction project, analysis and control of construction cost in conjunction with design schemes comparison, optimal design, limit design, etc.; (3) determination of the price of construction project contract (including the bill of quantities for the tender project, preparation and verification of tender base number and tender offer; signing and adjusting of contract price (including project alteration, project negotiation and calculation of claim) and project payment, project settlement and preparation and verification of completion settlement report; (4) consultation about the appraisal and arbitration of economic disputes of

construction cost; (5) provision of information service for construction cost, etc.. The consultation enterprises of construction cost may, in the whole or some parts, organize and implement the management and service of construction cost for the construction project.<sup>[1]</sup>

This method's definition about the scope of consultation businesses of construction cost includes each phase of construction project establishment, design, tender invitation and submission, construction, completion, appraisal of economic disputes about construction cost and other business scopes. According to this definition, it seems the consultation enterprises of construction cost may undertake the consultation businesses of construction cost in each phase of construction project. But, the other regulations of relevant national governmental administrative management authorities and the management system about the construction project have a certain limitation on the actual business scope of consultation enterprises of construction cost. Furthermore, in the market economy system with Chinese featured socialism, the consultation enterprises of construction cost need the market-oriented business and to obtain the consultation businesses of construction cost through market contract, governmental purchase and automatic undertaking.

The author feels from more than 20 years of personal experience in the business and management of consultation enterprises of construction cost that, to familiarize the actual business scope and detailed business source of consultation enterprises of construction cost is significantly important to regulate the business and management of consultation enterprises of construction cost. So this article tries to comprehensively introduce the actual business scope of consultation enterprises of construction cost and detailed describe their business sources.

## **2 Business scope of consultation enterprises of construction cost**

Method to Manage the Consultation Enterprises of Construction cost defines the preparation and verification of construction project recommendation and investment estimation for the feasibility research as within the scope, but actually, the consultation enterprises of construction cost in no way undertake the preparation and verification of investment estimation for the construction project recommendation, investment estimation for the feasibility research and application report of construction project. As the order No. 29 issued by State Development and Reform Commission in 2005, namely Method to Qualify the Engineering Consultation Units, specifies the engineering consultation unit refers to the enterprise or public institution with independent legal personality that is established and carries out engineering consultation business in the territory of China. It shall have registered consulting engineers (investment) in a specified number, legally obtain the Qualification Certification of Project Consultation issued by State Development and Reform Commission and carry out the corresponding business of engineering consultation based on the Qualification Certificate of Engineering Consultation<sup>[2]</sup>. The preparation and verification of investment estimation for the construction project recommendation, investment estimation for the feasibility research, application report of construction project and their corresponding investment estimation belong to the service scope of engineering consultation units.

In the establishment process of construction project, the investor, owner and manager of construction project shall prepare the construction project recommendation, the feasibility study report of construction project, application report of construction project and their corresponding investment estimation and report them to the Local or State Development and Reform Commission for verification, approval and filing. According to Method to Qualify the Engineering Consultation Units, the investor, owner and manager of construction project may only entrust the engineering consultation units with Qualification Certificate of Engineering Consultation to prepare the construction project recommendation, the feasibility study report of construction project, application report of construction project and their corresponding investment estimation and report them to the Local or State Development and Reform Commission for verification, approval and filing. While the Local or State Development and Reform Commission may also only entrust the engineering consultation units with Qualification Certificate of Engineering Consultation to assess the construction project recommendation, the feasibility study report of

construction project, application report of construction project and their corresponding investment estimation and determine whether to verify, approve and file the project establishment according to the assessment conclusion drawn about the construction project.

According to the Method to Qualify the Engineering Consultation Units, the State Development and Reform Commission may only issue the Qualification Certificate of Engineering Consultation to the enterprise and public institution that develop the business of engineering consultation and have independent legal personality. The consultation enterprises of construction cost are not the enterprises or public institutions defined by this method as developing the business of engineering consultation and having independent legal personality, so they cannot obtain the Qualification Certificate of Engineering Consultation issued by the State Development and Reform Commission, or undertake the preparation and verification of investment estimation for the construction project recommendation, investment estimation for the feasibility study and application report of construction project.

In the design phase of construction project, according to the design depth and relevant codes for design documents, the rough calculation is a component of preliminary design documents, and the budget is a component of design documents for construction drawing, which are generally prepared by design units. So there are rarely consultation enterprises of construction cost that accept the entrust to undertake the business of rough calculation and budget except for the verification of rough calculation and budget of construction project from the investor, owner and manager of construction project.

In the phase of construction project tender invitation and submission, the consultation enterprises of construction cost rarely accept the entrust to undertake the preparation and verification of tender offer, except for the preparation and verification of bill of quantities and tender control price from the investor, owner and manager and tenderer of construction project.

In the construction phase of construction project, the consultation enterprises of construction cost may accept the entrust from the investor, owner and manager of construction project to undertake the entire-procedure construction cost in the construction phase, sign the construction contract price, adjust the construction contract price (project alteration, project negotiation and calculation of claim), and undertake the project payment, completion settlement or preparation and verification of completion settlement.

In the completion phase of construction project, the consultation enterprises of construction cost may accept the entrusting from the investor, owner and manager of construction project to undertake the completion settlement or preparation and verification of completion settlement. Furthermore, the consultation enterprises of construction cost may also accept the entrust from judicial or arbitrary authority to undertake the economic disputes of construction cost or the judicial appraisal business related to the criminal case of construction cost.

The business scope of consultation enterprises of construction cost established after being separated from the design units includes:

- (1) Accept the preparation or verification of assessment report of construction project economy in the decision-making phase of construction project;
- (2) Accept the entrust to undertake the analysis and control of construction cost in conjunction with design schemes comparison, optimal design and limit design in the design phase of construction project.

### **3 Business obtainment of consultation enterprises of construction cost**

The consultation enterprises of construction cost in Chinese mainland obtain the consultation businesses of construction cost from three sources, namely the market contract, governmental purchase and automatic undertaking.

### 3.1 Obtainment of market contract

The market contract business is divided into two modes for the consultation enterprises of construction cost, respectively the voluntary and competitive contract.

Voluntary contract means the consultation enterprises of construction cost widely collect the information about the construction project, voluntarily contact the investor, owner and manager and tenderer of construction project and recommend itself to obtain the consultation businesses of construction cost. Since the early 1990s when the market-oriented consultation services of construction cost emerged in the Chinese mainland, the voluntary contract is always one of the sources for the consultation enterprises of construction cost to obtain the consultation businesses of construction cost. From the early 1990s to near 2004, most of the consultation enterprises of construction cost obtain the consultation businesses of construction cost from voluntary contract, which is even a sole source for some of them to obtain the above business.

The order No.3 issued by the former State Development Planning Commission in 2000, namely Regulations of Tender Scope and Scope Standard for the Engineering Construction Project, specifies the construction projects (jointly called as state-owned assets construction projects) using state-owned assets, national finances, international organizations or foreign governmental funds shall invite a tender; the procurement of survey, design, supervision and other services with the single contract price estimated over RMB 500 thousand yuan shall invite a tender<sup>[3]</sup>. Since then, the other regulations of relevant national governmental administrative management authorities successively formulated the regulations of tender scope and scope standard for the engineering construction project in this industry, and every local people's government successively formulate the regulations of tender scope and scope standard for the engineering construction project in local area. Around 2004, all the construction projects of each industry and local government with or mainly with state-owned assets shall change the tender invitation mode to "selecting the consultation enterprises of construction cost to undertake the consultation businesses of construction cost" if the single contract price of consultation enterprises of construction cost is estimated to reach the specified standard. Therefore, the consultation enterprises of construction cost started to obtain the consultation businesses of construction cost by competitive contract.

Competitive contract means the consultation enterprises of construction cost will focus on the announcement, notice or invitation about the tender, comparison and selection (hereinafter referred to as tender) of consultation businesses of construction cost at any time from the investor, owner, manager and tenderer of construction project, positively participate in the tender of consultation businesses of construction cost and obtain it by tender competition.

As for the tenderer of consultation services of construction cost, some of them are governmental administrative management authorities, some the state-owned enterprises or public institutions, some the private enterprises, and the others the agent construction enterprises that accept the entrusting from the governmental administrative management authorities to carry out the construction project.

As for the tenderer mode of consultation services of construction cost, there are automatic and agent tenderer, as well as public and invited tenderer.

### 3.2 Obtainment by governmental purchase

Government purchase means the governmental administrative management authority entrusts the consultation enterprises of construction cost to assess the investment in the construction project with or mainly with state-owned assets and investments in the state-owned public institutions (hereinafter referred to as construction project of state-owned assets), as well as determine and control the service of construction cost.

To strengthen the management on the investment in the state-owned construction project and construction cost, the governmental administrative management authority started from about 2003 to select the consultation enterprises of construction cost with high professional strength, excellent service quality, formal business management, consistent professional ethics, honesty, self-

disciplined, fairness, objectiveness and excellent credibility to establish the alternative storehouses for consultation institutions of construction cost. Some of the alternative storehouses established by the governmental administrative management authority for the consultation institutions of construction cost are dynamically adjusted once every two years, and some other once every four years. The consultation enterprises of construction cost not compliant with the requirement will be removed from the storehouse, and the ones agreeing with the requirement will be added in the storehouses.

The governmental administrative management authority will, in turn or by drawing lots, select the consultation enterprises of construction cost in the alternative storehouses and purchase their consultation services of construction cost. When necessary, the governmental administrative management authority will, in public tenderer mode or invited tenderer mode, select the consultation enterprises of construction cost in the alternative storehouses and purchase their consultation services of construction cost.

The governmental investment administrative management authority (development and reform commission) establishes the storehouse for consultation institutions of construction cost and purchase the rough calculation, investment and assessment service<sup>[4]</sup> for construction project from the consultation enterprises of construction cost in the storehouses in order for prior management of state-owned assets construction project and construction cost.

The governmental financial administrative management authority (Ministry of Finance) establishes the storehouse for consultation institutions of construction cost and purchase the budget review, construction price review in the whole process of construction and completion settlement review services from the consultation enterprises of construction cost in the storehouses in order for pre-management of state-owned assets construction project and construction cost.

The governmental auditing authority (Audit Bureau) establishes the storehouse for consultation institutions of construction cost and purchase the rough calculation, investment and assessment service<sup>[5]</sup> for construction project from the consultation enterprises of construction cost in the storehouses in order for ex-management of state-owned assets construction project and construction cost.

### **3.3 Obtainment from automatic undertaking**

Automatic undertaking means the entities required for consultation services of construction cost voluntarily grant the consultation services of construction cost with the contract or power of attorney about the consultation services of construction cost to entrust them to provide the above services. There are three types of automatic undertakings.

In the first case, the entities required for consultation services of construction cost used to entrust the consultation enterprises of construction cost to undertake the consultation services of construction cost and were fairly satisfied with their service quality. If another service is needed, it will be voluntarily granted with the contract or power of attorney about the consultation services of construction cost. Moreover, the consultation enterprises of construction cost have established an excellent reputation, a certain degree of social recognition and fame, the entities of consultation services of construction cost admirably and voluntarily grant them with the contract or power of attorney about the consultation services of construction cost and entrust them to provide the consultation services of construction cost based on the entities' dependence on them.

In the second case, the consultation enterprises of construction cost with specific conditions apply for the verification qualification of tender construction cost with the administrative management of project tender invitation and submission in governmental construction administrative management authority (Ministry of Construction). And the administrative management of project tender invitation and submission will check to register the compliant ones into the storehouses of verification institution of tender construction cost. As the investor, owner, manager and tenderer of construction project carry out the construction engineering tender, they will go to administrative management of project tender invitation and submission to draw lots to

select the consultation enterprises of construction cost in the storehouse, and entrust it to undertake the verification service of bill of quantities and tender control price for the construction project tender.

In the third case, the consultation enterprises of construction cost with capacity of judicial appraisal for the construction cost apply for the qualification of judicial appraisal for the construction cost with the government judicial administrative management authority (Judicial Bureau) which, upon appraisal, will grant a Permit of Judicial Appraisal to the compliant ones and register them into the storehouses of judicial appraisal institution of construction cost.<sup>[6]</sup> When the litigant proposes to apply for the judicial appraisal of construction cost in a civil case or dispute arbitration related to the construction cost, it shall select the consultation enterprises of construction cost in two ways to undertake the judicial appraisal of construction cost. In the first way, all the litigants reach an agreement to specify a consultation enterprise of construction cost from the alternative storehouse to undertake the judicial appraisal of construction cost; in the second way, all the litigants, together with the people's court or arbitration committee, draw lots to select a consultation enterprise of construction cost from the alternative storehouse to undertake the judicial appraisal of construction cost. In either way, the people's court or arbitration committee shall be responsible for issuing the power of attorney about judicial appraisal of construction cost to the selected consultation enterprises of construction cost. As the public security bureau is in the investigation about the criminal case involving the construction cost, the judicial appraisal of construction cost, if required, is also conducted by the consultation enterprises of construction cost selected by drawing lots from the alternative storehouse established by governmental judicial administrative management authority.

## 4 Conclusion

The consultation enterprises of construction cost are the fresh cells for the consultation industry of construction cost. The prosperity of the latter is reflected by the excellent management codes in the former. The consultation enterprises of construction cost shall strengthen their own construction, constantly improve the professional strength, comply with the business codes management, ensure the quality of consultation services of construction cost, try to establish a good social reputation and continuously increase the competitiveness in the consultation businesses of construction cost by market contract. Apart from positively contracting the consultation businesses of construction cost by market, the consultation enterprises of construction cost shall also focus on the dynamic adjustment information about the alternative storehouses of consultation institutions of construction cost in the governmental administrative management authority, try to be selected into the storehouse to greatly improve the reputation for the consultation enterprises of construction cost and meanwhile obtain more opportunities to automatically undertake or for the governmental administrative management authority to purchase their consultation services of construction cost.

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