

# Understanding Progress Payments and Their Role in Building Contracts

When embarking on a residential construction project, it's important for homeowners and builders to understand the role of progress payments in building contracts. Progress payments are payments made at various stages of construction, and they are essential for keeping the project on track and ensuring that both parties fulfill their contractual obligations. In this article, we'll dive into the details of progress payments and explore their importance in the context of building contracts.

## What Are Progress Payments?

Progress payments are payments made by a homeowner to a builder over the course of a construction project. These payments are typically made at various stages of the project and are based on the completion of specific milestones or tasks.

Progress payments are necessary to ensure that builders have the necessary cash flow to complete the project, while also providing homeowners with a way to monitor the progress of the construction. It's important for homeowners to understand how progress payments work, as they can impact the overall cost of the project and the timeline for completion.

## How Are Progress Payments Calculated?

When it comes to construction projects, progress payments are typically made at various stages throughout the project's lifecycle. It's essential to understand how these payments are calculated, as they can significantly impact a homeowner's finances.

### Payment Schedule and Timeline

The payment schedule outlines the specific dates on which each payment is due. These dates are generally tied to specific milestones or stages in the project. For instance, a progress payment might be due after the foundation is laid, or once the roofing is completed.

It's essential to understand the timeline for payments, as it can impact your ability to manage your finances. For instance, if a payment is due when you're already overextended, it may be challenging to come up with the funds.

## How Progress Payments are Calculated

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Typically, progress payments are calculated as a percentage of the total project cost. The percentage paid at each stage is set out in the contract, and it should reflect the work completed up to that point.

For example, if the contract specifies that 30% of the total project cost is due when the foundation is laid, the homeowner would pay 30% of the total project cost when that milestone is reached.

## Factors That Can Impact the Payment Schedule

Various factors can impact the payment schedule, including delays in the project or changes to the scope of work. It's essential to be aware of these factors, as they can delay payments or impact the overall cost of the project.

By understanding how progress payments are calculated, you can better manage your finances and ensure you're prepared for each payment.

## Risks and Challenges with Progress Payments

As with any aspect of a [building contract](#), there are risks and challenges associated with progress payments. These can include:

### Disagreements overpayment amounts or timeline

One of the most common challenges associated with progress payments is disagreements between the homeowner and builder over the payment amount or timeline. For example, the homeowner may feel that the builder is demanding too much money for work that has not yet been completed, or that payments are not being made on time according to the payment schedule. Alternatively, the builder may feel that they are not receiving payment quickly enough for work that has already been completed.

### Understanding the consequences of late or missed payments

Late or missed progress payments can have serious consequences for both the homeowner and the builder. Homeowners who do not make payments according to the payment schedule may be subject to legal action from the builder, which can result in additional costs and [delays](#). Builders who do not receive payments on time may be forced to halt work on the project, which can lead to additional costs and delays as well.

It's important for both homeowners and builders to understand the risks and challenges associated with progress payments, and to work together to establish clear payment schedules and expectations from the outset of the project.

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## Dispute Resolution

Homeowners should be aware of the [dispute](#) resolution process in case such disputes occur. The dispute resolution process usually involves the following steps:

1. **Negotiation:** The first step is usually to try and resolve the dispute through negotiation. Homeowners should try to talk to their builder to resolve any issues they may have with progress payments.
2. **Mediation:** If negotiation fails, the next step may be to seek mediation. A mediator is an impartial third party who can help facilitate a discussion between the homeowner and builder. The mediator will try to help the parties come to a mutually agreeable solution.
3. **Arbitration:** If mediation fails, the next step may be to seek arbitration. Arbitration is a more formal process than mediation and involves a neutral arbitrator who will hear both sides of the dispute and make a decision that is binding on both parties.
4. **Litigation:** If all else fails, the last resort may be to take the matter to court. Homeowners should be aware that litigation can be time-consuming and expensive, and may not always result in a favourable outcome.

It is important for homeowners to keep detailed records of all progress payments made, as well as any correspondence with the builder regarding payments. This will be helpful in case a dispute arises, and the homeowner needs to provide evidence of payments made.

## Legal Advice

When it comes to managing progress payments, it's crucial to have a clear understanding of your rights and obligations as a homeowner. While you can certainly try to navigate this process on your own, it's often wise to [seek legal advice](#) from a solicitor or construction lawyer who specializes in this area.

One of the main advantages of working with a legal professional is that they can help protect your interests and ensure that your rights are upheld throughout the payment process. This includes reviewing your building contract to ensure that it includes adequate protections for you and advising you on how to manage any disputes or challenges that may arise.

A construction lawyer can also help you understand your legal obligations as a homeowner, including any penalties or consequences that may arise if you fail to meet your payment obligations. Ultimately, having a legal expert on your side can help give you peace of mind and ensure that your project runs as smoothly as possible.

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## Ensuring Fair and Transparent Progress Payments

As a homeowner, it's important to understand your contractual and legal rights when it comes to progress payments. You should review your building contract carefully to ensure the payment schedule is fair and transparent. If you have any concerns, you may wish to seek legal advice before [signing the contract](#).

It's also important to negotiate and amend the contract as necessary to ensure that your intentions are reflected in the payment schedule. This can help to prevent disputes or misunderstandings later on.

Working with your builder to establish a fair payment schedule can also help to ensure that progress payments are made on time and that the project runs smoothly. You may wish to discuss the payment schedule with your builder before signing the contract to ensure that both parties are in agreement.

## Tips for Managing Progress Payments

When it comes to managing progress payments, there are a few things homeowners can do to ensure the process goes smoothly. Here are some suggestions:

### **Keep Accurate Records and Receipts**

Keeping detailed records and receipts is essential when it comes to managing progress payments. This information can be used to verify that payments have been made and to track how much money has been spent.

### **Establish Clear Communication with Your Builder**

Establishing clear lines of communication with your builder is critical when it comes to managing progress payments. This includes regular updates on the status of the project and any changes to the payment schedule.

### **Monitor the Work Being Done**

Homeowners should also monitor the work being done and ensure that it meets their expectations. If there are any issues or concerns, they should be addressed as soon as possible to avoid delays or additional costs.

By following these tips, homeowners can help ensure that progress payments are managed effectively and that their building project stays on track.

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## Understanding Progress Payments in Building Contracts: Key Takeaways

If you're embarking on a construction project, it's important to have a solid understanding of progress payments and their role in building contracts. To help you navigate this complex area of law, we've created a Building Contract Assessment Checklist that covers all the key elements you need to consider when entering into a construction contract. Download the checklist today to ensure a successful and stress-free construction project. And if you need legal advice or representation, don't hesitate to contact me, a solicitor and [construction lawyer](#) with over 10 years of experience in the field.

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