



ACTUAL COST



WHEN IS AN ACTUAL COST NOT AN ACTUAL COST?

Contract evaluation on the basis of actual cost is becoming common practice in the construction industry. However, the proper application of actual cost is frequently misinterpreted with costs being mistakenly allocated increasing the true project cost.

IS Consulting Ltd has undertaken a series of actual cost audits for a number of its clients. These audits have been commissioned both within the duration of contracts and upon completion, prior to agreement of final accounts. Conclusion of these audits has resulted in cost savings and reductions of, on average, between 10% and 15% of the actual cost claimed.

Achieving savings using actual cost

The experiences gained from actual cost audits carried out by IS Consulting Ltd have proven that elements of alleged actual cost claimed are often inadmissible. Alleged actual costs sought by contractors have surprised even the most experienced of IS Consulting Ltd personnel engaged on actual cost audits, quite often inadmissible costs are not only claimed but in many instances are provisionally accepted into the contract evaluation.

How can you avoid inadmissible actual costs?

Actual Cost management and evaluation is complicated; here are a few areas where attention to detail may pay dividends:

- The term 'actual cost' must be defined as accurately as possible within contract

documentation to avoid dispute as to admissible and inadmissible costs incurred.

- Many established contractors operate bespoke computer based cost tracking and cost reconciliation systems. Clients also have cost reporting demands and seldom are the two requirements compatible without considerable adjustment. It is important to be aware that the need to undertake adjustment to report costs incurred in a variety of structures to meet clients' needs may result in error, duplication and miss-allocation.
- Discounts received require scrutiny. Whilst localised discounts are easily defined and credited to the actual cost account of a project, corporate discounts, enjoyed by the majority of contractors, are not necessarily project specific and need to be investigated to ensure any credits due are ascribed to the project's actual cost accounts.



- Staff and labour controls are essential to ensure double accounting does not occur. Personnel and their attendant benefits, which are actually part of an overhead allowance, are often misallocated as chargeable staff dedicated to the project.
- Labour usage requires adequate and robust labour records to be utilised from the commencement of the works to ensure only those personnel directly engaged on the works are included in the actual cost of the project. The records should also detail productive and, if necessary, any non-productive hours reimbursed resulting in actual cost to the project.
- Employee benefits must be reviewed as should arrangements with any subcontractors engaged on the project.
- Costs claimed on invoiced amounts are not always representative of what has been paid, the actual cost may be different as a result of contracted arrangements, discounts and/or early payment terms.
- Plant hire requires careful review; control of use, plant returns and whether necessary plant is hired or owned needs to be established to ensure the costs claimed are in fact the actual costs incurred. Local discounts, corporate discounts and cash settlements all feature in establishing the actual cost incurred for plant.

Obviously the administration and evaluation of actual cost is more complicated than it may at first appear and many contracts evaluated on the basis of actual cost are inaccurately administered resulting in increased costs. If you want to ensure that the actual cost of a project is exactly that then IS Consulting can assist you in ensuring you achieve your aim.

IS Consulting Ltd has provided advice on actual cost and target based contracts to inter alia Network Rail, Tubelines and Surrey County Council.