

Open –Book or Open Season

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Definition

- A contract based on tendering against:
 - Specification
 - Drawings
 - Bill of quantities
 - Schedule of rates
 - A history
- Payment for fixed costs, agreed profit and prelims
- Separate payment for variable costs
- Option for price target with sharing of under or over-runs

The focus should be on cost reduction over time.....but often it isn't

So what's the problem with open book? (1)

- **As a concept – nothing. The problems are in its application**
- **Poor understanding by client organisations**
- **Clients asking for too much or too little information**
- **Definition of actual cost not agreed**
- **Contractors' cost system not understood or under developed**
- **Contractors' accounting procedures not in place or underdeveloped**
- **Focus on improving efficiency lost and expected savings not made**

What's the problem with Open Book? (2)

- Under-developed or absent audit strategy
- Lack of cost visibility
- Savings may not be real savings
- Poor focus on cost reduction and as a result

Its often not open book but 'Cost plus'

How do they manifest themselves? (1)

- Clients paying too great a contribution to the contractors' establishment
- If not managed correctly, contractors' incentive to improve efficiency is lost
- Internal plant hire rates above market rates
- Inflated charges from subsidiary companies
- Over order materials without credit for unused materials
- Auditing becomes disruptive or worse still is not undertaken. Auditing needs to be constant but not devisive

How do they manifest themselves? (2)

- **Failure to declare discounts allowed by suppliers and subcontractors**
- **Settlement deals with sub-contractors which make good disputes from other contracts**
- **Charging clients for making good defects**

Just one of the horror stories!



- All of the vehicle fleet on 'spot hire' for a year. (some residents thought Thrifty were the contractor)!
- Client invoiced for work not done to standard or not done at all
- Hidden rebates
- Different treatment of sub- contractors

Applicability

- I would if I had previous experience and a professional client:
 - Tesco stores
 - B & Q warehouses
- I just might if I had extensive previous experience and a professional client:
 - Standard refurbishment work, e.g. kitchens
- I would not:
 - Responsive repairs and voids

What is the problem?

- The book is not open
- I cannot check the input costs – materials, labour – “show me the nails”
- I risk losing my history
- I cannot properly define the ‘edges’ of the service

In or Out?

Lay new concrete path, relay existing concrete pavers on side + front elevation, fit rotary dryer, fit 4 foot timber link fencing. Repair rwp + gulley inc drain as nec. Reinstall exg tmbr fence on side elevation. See plan Brett 217385	£4,045.62
rebuild chimney stack to ridge height & scaffold	£4,220.36
Fence post blown down please ref-ix post and fence panel	£4,954.90
Build retaining wall to rear garden, provide fence above wall for drop in levels, & concrete steps up to garden, remove existing paving/building materials from site. Landscape to suit difference in levels. further info - see J P	£5,313.42
Repair fire damage to stairs and kitchen, (the units in the kitchen are to be Carva Apple from the stores and dapple slate worktop.)	£5,955.90
renew work tops in cream, repair doors to base, wall & larder units renew inset sink	£6,213.74

In or Out?

- The same problem occurs however you set the definition –
 - type of work
 - job cost limit

The Absence of Evidence

- However crudely you can benchmark costs against a schedule:
 - Rates
 - Out-turn job costs
 - A Rob McNaughton value review.
- Open book?