

CASE STUDY

Review of Suffolk Highways' Opportunities for the Introduction of Target Costing

Client: Suffolk County Council
Project: Infrastructure Sector - Open Book Cost Management
Purpose: To review Suffolk Highways' opportunities for the introduction of Target Costing if their Carillion contract is extended

A review of Suffolk County Council (SCC) by the Boundary Committee precluded SCC's preferred future delivery of Highways Services through a Joint Venture. The most appropriate way forward was agreed to be the extension of the contract with Carillion, but on the basis that the cost of delivery by Carillion and its supply chain can be reduced through improved collaboration, the implementation of Target Costing and the introduction of incentives for sharing the financial benefits. The Suffolk Highways Partnership (SHP) comprises Carillion and Suffolk Highways Contracting (SHC), both of which act under the auspices of Suffolk County Council (SCC). Carillion's main suppliers are Tarmac (including Tarmac's subsidiary Tarmac Asphalt) and Bagnall & Morris.

The Challenge

CWC (UK) Ltd were asked to:

- provide independent advice to SCC on whether or not Carillion and its suppliers appear willing to move towards the implementation of Target Costing to replace the Schedules of Rates
- review SCC's internal processes to identify where changes could be made to enable Carillion to work more efficiently and to deliver cashable savings
- identify the potential level of savings which might be made through the application of Target Costing to typical jobs if they were carried out using the best operational processes
- review the contract to ensure that Target Costing can be incorporated in any extension.

What CWC Did

Firstly CWC established that Carillion and its three main suppliers, Tarmac, Breheny and Bagnall & Morris, understood the principles of Target Costing and were prepared to accept cost transparency & Open Book working as the first essential elements of it. A review of their internal management accounting systems validated their claims that they would implement an Open Book Costing regime; this was done by reviewing in detail the costs of two sample projects.

Next CWC interrogated financial accounts for all suppliers to test the level of overheads and profit they apply to their Schedules of Rates. Finally they set up working groups to review, through process mapping, the internal SCC and SHP operational processes both generically and for the two sample projects and reviewed the existing contract between SCC & Carillion.



Findings

The first element of Target Costing, cost transparency by all parties which will support Open Book working, was established. However, all the data were based on Schedules of Rates and out-turn costs in total, and there was evidence from the suppliers that the use of Schedules of Rates influences design decisions. Target Costing requires something different; it requires that Client and Contractor agree on the best way to plan and execute a project so that all actual costs elements can be calculated and turned into a Target Cost which all parties accept.



Potential Benefits

The review identified key areas for improvement that need to be addressed before the full benefit of the introduction of Target Costing can be realised. These areas include programming, early Contractor involvement,

communication and operational ownership.

However, Target Costing is not the only way to improve efficiency and Value for Money; savings could have come through better management of the work from the outset by SCC rather than operational improvements that Carillion or SHC could have made on their own or with their suppliers. CWC recommended that SCC implement a four-stage plan:

- begin negotiations with Carillion to extend the contract
- review processes for commissioning and delivery by SHP to ensure optimal cost and time outcomes. This will require far greater levels of integration of all parties than happens currently
- implement the outcome of the review and set a target for SCC to save 10% of the cost of all projects at current prices as identified and validated in the sample projects review
- agree with Carillion which activities best lend themselves to Target Costing and plan for its introduction on those activities with cost benefits above 10% being the objective.

For further information please contact:

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