

CONSTRUCTION RISK CHECKLIST > During-construction > Track Costs Against Budget

You Can't Manage What You Don't Measure

Many builders know exactly what a project was supposed to make. Far fewer know whether it is actually making money while the job is underway.

One of the biggest risks in residential construction is discovering a project has gone over budget when it is too late to do anything about it. Labour takes longer than expected, material costs increase, variations are not charged correctly, or subcontractor costs exceed allowances. By the time the issue is identified, much of the profit may already be gone.

The solution is regular cost-to-budget tracking throughout the project.

Cost Tracking Checklist

- 1. Is there a budget for labour, materials and subcontractors?**
- 2. Are labour hours being recorded against the job?**
- 3. Are supplier invoices being allocated to the correct project?**
- 4. Are subcontractor costs being tracked against allowances?**
- 5. Are variations being recorded and invoiced?**
- 6. Are progress payments being monitored?**
- 7. Is actual cost being compared to budget regularly?**
- 8. Are emerging overruns identified and addressed early?**
- 9. Is someone responsible for maintaining the records?**

The objective is not complicated accounting. It is creating an early warning system.

Even a simple Excel spreadsheet can be highly effective. By comparing budgeted costs against actual costs each week, builders can quickly identify areas where a project is drifting off track.

For growing businesses, engaging an administrator, bookkeeper or contract manager to maintain job-costing records can provide significant value. The cost of good administration is often far less than the cost of an undetected budget blowout.

Many accounting and project management systems can also simplify the process. If labour hours are recorded against jobs, supplier bills are coded correctly and client payments are allocated to the project, much of the information required is already being captured. The key is regularly reviewing the data rather than waiting until the end of the project.

Cost tracking also helps identify opportunities. If a project is running ahead of budget, resources may be reallocated elsewhere. If costs are exceeding expectations, corrective action can be taken while there is still time to influence the outcome.

The most successful builders don't wait until the final invoice is issued to find out whether a project was profitable. They know throughout the build.

A simple cost tracking system can provide early warning of budget overruns, improve cashflow management and help ensure the profit estimated at the start of the project is still there at the end.