

Project Budget

Creation and Management

A project budget is an important **communication tool** that promotes **transparency** between the project team and key stakeholders. It involves communicating **actual costs versus estimated costs** and other project-related information to stakeholders at **regular intervals** throughout the project. Before the project starts (before the initialization phase), it is **approved by all stakeholders involved**.

The purpose of a project budget plan is to **clearly** show the **sum of costs for all activities, tasks and milestones that the project needs to accomplish**.

As project requirements change, the predefined project budget may also change. This means that **the budget must be monitored and adjusted on an ongoing basis**. All adjustments are transparently communicated to and **approved by the client**.

Why Is It Important?

Here are some reasons for the relevance of the project budget:

- By monitoring the budget and its consumption throughout the duration of the project, the project **budget reflects the progress and therefore its success**.
- A project budgets help to **secure funding by transparently communicating** the use of budget to the client and all stakeholders
- A well-structured and carefully planned project budget **helps project teams to work efficiently**.
- Project budgets provide **insight into future project costs** by providing a historical view of the actual cost of the project.
- To prevent an unrealistic budget from negatively impacting the project and causing it to be too high, it is important to **take time when creating a budget plan** and consider its planning as an important part of the project plan.
- A carefully prepared cost estimate for your project budget will ensure a successful project from the very beginning.

Content

The list below is to be considered as a guideline and should therefore be adapted accordingly depending on the project:

Human resources

Salary rates of full-time and temporary workers

Travelling spendings

Anyone who travels from one location to another to do project work (including budget for meals and lod

Training fees

Conferences, workshops, outside contractors

Material resources

All the items your team might need to perform the work, including software, equipment, or other unique materials

Research expenses

Studies or data to support your project and deliver the best value

Professional services

Legal advice, consultants, market research firms, etc.

Capital expenditures

Equipment or technical upgrades to complete the project

Creating a Basic Project Budget in Six Easy Steps

Developing a project budget can be an intense process, especially for long-term projects or a project with a high budget. The steps listed below can help.

1. Break down your project into tasks, milestones, and supplies

Before the cost of the project can be estimated, the project vision must be clearly defined. What does the product want to accomplish?

For this step, work with the team members and **write down all the important tasks, milestones and activities** that the project team needs to complete in order to be successful. Refer to the roadmap that has been worked on in advance to do this.

At this step, **costs are not yet estimated**. Together with the stakeholders of the individual disciplines that will be part of the final product, a list of all information needed to determine the costs is created.

It is important to note that during the project process **available resources and risk constantly influence each other and therefore also the budget**. For this reason, it is important to **keep track of not only those, but all project information**, that is the only way to create the project budget as accurately as possible.

2. Estimate the Project Budget

Once the list of potential project costs is created, the **cost of the entire project is estimated**.

There are two options for budget estimation: **Top-down or bottom-up**.

In top-down budgeting, a **total amount** for the project budget is **first determined and then broken down into tasks and activities**. Bottom-up budgeting **estimates the cost of each project task and adds them together** to determine the total project budget.

In order to be able to work out budget estimates as accurately as possible, it is advisable **to select an estimation method**. Either select the same method for each task in the project or use a different method depending on the task.

Here are three common budget estimating techniques for the activities on the task list:

The Analog Estimate

For this, the budget of a similar project already carried out is used as a reference point. Various differences and variables are taken into account in the new project budget and adjusted accordingly. This approach is best used when there are many similar projects.

Parametric estimating

Similar to the analog estimating technique, it uses data from previous or related projects. However, instead of matching estimates for task types, the parametric technique uses statistical methods and algorithms to account for variables and produce an accurate, data-driven project budget estimate.

3-point estimation

This is a typical bottom-up estimation. The budget estimate is the average of the best, worst, and most likely budget for each task.

When making such estimates, it is important to **use the most current data on costs** in each category. Other variables, such as market conditions or potential business changes, should also be considered. Also it is important to note that situations and circumstances can still change, so the **final budget estimate is not 100% waterproof**.

For this reason, it helps to factor contingencies and taxes into the budget planning. This counteracts budget overruns and keeps the estimate closer to the final cost that will ultimately be spent. It is recommended **to budget 10% of the total cost for contingencies**.

Once a budget estimate is available for each associated task, the total budget can be added up and presented first to the project organization for review before it goes to the client for approval.

3. Get the Project Budget Finalized

Once a clear project budget is in place, it should be finalized with the most important key people. This way, feedback can be gathered on specific parts of the budget to ensure the project runs as efficiently as possible.

Once the project budget proposal is finalized, it is presented to the client and approval is requested.

4. Monitor the Project Budget

The project budget should be monitored regularly throughout the duration of the project.

Problems such as an expansion of the project scope or an overspend can be detected early by comparing actual costs to estimated costs. By detecting them in advance, the course can be changed without affecting the progress of the project.

5. Budget changes

Once a project budget is set, the project manager's goal is to stay within the budget as closely as possible. Changing the budget then is usually not possible. Unless the project scope or schedule has changed due to business requirements.

However, when such changes occur, it is important to consider all parts of the project that are affected by the changes. All stakeholders should be on the same page at all times. Such changes should definitely be mentioned in the weekly check-ins and communicated proactively.

6. Review the project budget

Although the budget is monitored throughout the project, it is worthwhile to conduct a budget review at the end of the project. All persons involved should give constructive feedback on the content and execution of the project. Important findings and lessons learned will not be lost, but can be taken into account in the next budget planning. The final ACTUAL budget should be correctly reflected in the budget report so that future budget estimates can benefit from it.

Other helpful sources

<https://www.forecast.app/blog/how-to-create-a-project-budget>

<https://monday.com/blog/project-management/project-budget/>