



PROJECT **PERFECT**  
Pty Ltd

# Cost Management User Guide

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## Document Origin

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## Change History

| Version | Date    | Changes         |
|---------|---------|-----------------|
| 1.0     | 27/2/08 | Initial Version |
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# Overview

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**Purpose of this Document**

The purpose of this document is to outline how cost is planned and managed in a project. It includes:

- Calculating the budget
  - Setting up a budget and cash flow
  - What is included in the budget
  - Managing expenditure
  - Cost variations
  - Drawdowns
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**Definitions**

Budget is the approved funding available to a project to produce its deliverables.

Cost is the expenditure debited against the project.

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**Drawdown definition**

When a budget has been approved for a whole project, in some cases funds may be controlled by allocating the approved budget in portions or drawdowns to undertake specific activities (usually phases).

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**Gate definition**

A gate is a point at which a project's progress is reviewed to determine if it is on track and to be continued. A review of budget and expenditure to date, and estimated budget to complete is one component of a gate.

Approval to proceed (or not), allocation of funds (drawdown) or additional funds (Business Case) are possible outcomes from a gate review.

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**Inputs**

It is assumed as a starting point to discuss costs, that there will be put in place:

- A preliminary business case
  - A final business case
  - Funds allocated for all, or a portion of the project
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# Budget Estimating

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**Overview** The budget is calculated after the scope and time estimates are complete. Attempts to create a budget first will result in the project being cost driven. In other words, the scope of the project will be trimmed to meet the budget.

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**Inclusions** The following costs are typically included in the budget:

- IT Resources
- Business Resources
- Contractors
- Agency Hire
- Labour required delivering a solution; e.g. technicians time to install.
- Materials, equipment, facilities and software
- Training

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**Exclusions** The following may be excluded from the budget. You need to check with your organisation to understand their policy

- IT hardware items; e.g. switches, backup units etc. (Equipment to be maintained by SWC IT will be purchased by Desktop Services.)
- Non business IT specific software;
- Business specific software.
- Ongoing IT operational costs; eg router lease, network usage, PC lease, licence maintenance (consider 3 above).

While these items may not form part of the project's cost, it is important to identify them and ensure that the operational area responsible has funds available and budgets accordingly.

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# Cost Budgeting

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**Labour costs**      The cost of labour is calculated by multiplying the time calculated in the schedule, by the cost of the resources. It may be that particular resources have not been identified. In this case, use the cost of a generic resource eg. Senior Developer or BA.  
Some organisations also include a percentage overhead. This covers such things as the floor space, PC, share of HR, payroll, etc.

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**Material costs**      If there are any materials involved, these should have been identified in the scope estimation. They should be included in the budget.

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**Cash Flow**      The project cash flow should also be documented. A month by month estimate of expenditure is required so that the project manager can track progress against budget month by month.

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# Cost Control

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**Resource allocation**      Entries in some sort of timesheeting system should ideally be allocated to the project. If this is not possible, a manual approach may have to be developed.

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**Purchase Order allocation**      All purchase orders raised for the project should be allocated against the project.

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**Reporting**      Reporting requirements may dictate that a separate report on financials be produced monthly or it may be included in progress reports.

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**Actual v Accrued**      Most GL systems monitor actual expenditure. You also need to control accrued (committed but not paid) expenses. This may require a separate recording facility.

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## Variations to Budget

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**Applying for** Variations to budget are part of the Change Control process previously defined.

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**Identification in reporting** Variations need to be tracked and managed in the budget. You should be able to identify amongst other things:

- Total number of variations
- Cumulative amount of variations
- Expenditure against each variation

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# Submitting a Budget Drawdown Request

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**Overview** Organisations often use a drawdown approach to funding. Funding is allocated in chunks to reduce the possibility of surprises from runaway costs on a project. Depending on the size of the project, one or more drawdowns may need to take place during the life of the project. The drawdown is contingent on the gate process being successful. There are three scenarios:

1. Total budget is approved for the project prior to commencement. This will normally only happen for small projects.
2. Budget is approved for early analysis phases. After the phases are completed, a final business case is prepared and if accepted, funds are allocated for the balance of the project.
3. Funding is approved as in 1 or 2 above, however funds are only made available for each phase. In other words, each phase is subject to an individual drawdown.

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**Format of proposal** The budget should be submitted for approval with a level of detail as outlined in Appendix A – Budget Drawdown Approval. It will normally be submitted as part of the Business Case.

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**Authority** The budget drawdown should be approved by the project Sponsor after endorsement from IT Management.

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# Budgeting Tips

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**Seek Help** Perhaps someone else in the organisation has knowledge or experience of similar projects that you can make use of in estimating a task. Seeking such help also aids in cross-organisational communication regarding projects and resources. Once an estimate is derived, have a peer review with other Project Managers to verify assumptions and estimates.

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**Allow for Other Groups' Work** If other groups in the organisation are required to perform tasks in the project, and this will almost always be the case, then those groups must be responsible for their own estimates for those tasks. Even if you are confident that you know what another group will estimate for a task, that group must confirm the estimate. Things may have changed since the last time such a task was performed. The act of getting or confirming an estimate also improves communication across the organisation.

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**Provide Warning of System Support Costs** Advise the customer of support costs for the operational system. The estimated cost should be discussed with the relevant support groups in the organisation and presented in the proposal separately from the project estimate. It needs to be made clear to the customers that this support estimate does not represent a final cost.

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**Allow for Moving System into Support** Allowance needs to be made in the project estimate for time and effort to move the system, whether new or an enhancement, into support. This would at least entail:

- Developing a Service Level Agreement
- Development of technical documentation
- Preparation of Guideline document for the Help Desk

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**Allow for Project Management** A good rule of thumb is to allow 10-15% of the total project estimate for Project Management cost and effort, though on a very complex project this could be up to about 20%. This allowance should apply to all projects. It should be shown as a separate task in the calculation work sheet.

# Appendix A - Budget Drawdown Approval Template

# Budget Drawdown Approval

Approval Number:

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**Project Name:** **Instructions:**  
Enter the project name

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**Project No:** **Instructions:**  
Enter the project number

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**Requester:** **Instructions:**  
Enter the name of the person requesting the drawdown

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**Related Business Case** **Instructions:**  
Identify the related business case that supports this request to drawdown funds.  
**Example:**  
Project XYZ Business Case version 3.3 dated 01.02.03

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**Work Description** **Instructions:**  
Enter details of the work to be funded by the drawdown.  
**Example:**  
The funds will be used to carry out the analysis phase, and produce a sizing and business case for the remainder of the project.

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**Overall Project Variation** **Instructions**  
Identify any changes to the overall project since the last drawdown. This might include a new estimate of the required budget, or time to complete the project. Whilst the details will be contained in the Business Case, they should be explicitly identified in the request form.  
**Example:**  
Since the last drawdown, there has been an increase in the estimated cost of the project from \$1m to \$1.2m. To date we have spent \$450k. The time to complete has increased by 2 months. Whilst the previous plan was to complete the project by August, the current plan is to complete the project by December this year.

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**Response required:** **Instructions:**  
Deadline as to when the approval is required.

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**Deliverables****Instructions:**

Identify what will be delivered in the work specified. It should include internal and external deliverables.

**Example:**

- Use Cases
  - Feasibility Report
  - Business Case
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**Benefits****Instructions:**

Complete a list of quantified benefits.

**Example:**

The following benefits have been identified:

- Scope of the project can be determined to an accuracy of plus or minus 20%
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**Costs****Example:**

The following costs in terms of time and money have been identified:

- Budget of \$200k
  - Time to complete - 4 months
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**Implications****Instructions:**

Identify any implications of the funding being approved.

**Example:**

The agreement to proceed will require recruitment of a project manager and BA. Until they are recruited, the project cannot proceed.

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**Approval****Instructions:**

This summarizes what has been agreed. It contains the signature of the person who is approving or rejecting the drawdown.

**Example:**

| Criteria                  | Agreement  |
|---------------------------|--|
| Action                    | Approval to draw down funds to undertake the definition and design phase |
| Budget                    | \$200k   |
| Estimated completion date | 31.08.03   |
| Sponsor's signature       |  |
| Date                      | 01.06.03   |

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**Implementation**

The approved variation has been incorporated into the project:

Scope  Schedule  Budget  Resource Plan  Status Reports

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