

Budget Methods and Evaluation

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WHAT'S COVERED

This lesson provides an overview of budget methods evaluation including:

1. Budgeting Methods

There are several methods that can be used either separately or in combination to develop a budget. This lesson will focus on four methods:

1. **Actual Budgeting:** Only real costs of a project are included. The actual true costs based on effort and resources are used and there is no consideration for overhead costs or any change in the real costs.
2. **Roll-up Budgeting:** Costs are calculated for the lowest level of a project schedule, including the cost for all project activities. The sum of these costs will be the budget.
3. **Comparison Budgeting with Analogous Estimating:** That's when past project budgets are used to estimate the current projects budget. This method is often used to quickly estimate the cost of a project before any scope or schedule work has been completed.
4. **Reserve Estimating:** Also known as contingency estimating. Used to calculate the amount of money a project budget might increase over the project's lifecycle. Using a reserve helps control budget overages by allocating the money up front.

➔ **EXAMPLE** If the organization has closely tracked previous projects and finds that estimates are generally 10% lower than the actual efforts spent to complete the work, a reserve budget estimate might add 10% to the budget for each project.

Once a budget has been estimated, it's the project manager's responsibility to document the budget so that the information can be communicated to stakeholders and team members. However, before submitting the budget, it should be evaluated for accuracy.



TERMS TO KNOW

Actual Budgeting

A project budgeting technique that uses only real costs to determine a project budget.

Analogous Estimating

A budgeting technique that uses budgeting information from prior projects to determine a budget for a current project.

Reserve Estimating

A budgeting technique that identifies money that should be added to a project budget to manage potential project overages.

2. Evaluating Budget

A budget has been created for a website development project. It might look like this:

Website Project Budget	
Design Phase	\$2,480
Build Phase	\$8,900
Testing Phase	\$1,800
Management	\$1,175
Software	\$1,000
Subtotal	\$15,355
Reserve: 12%	\$1,842
Total Budget	\$17,197

The budget could contain the subtotals for each significant phase. In addition, the cost for the management staff would be included. If the project needs development software, that would also be included. A contingency of 12% could be added to account for possible cost and schedule overruns.

Before finalizing this budget and seeking approval for the money, a project manager should ask the following questions:

- Have the scope and the schedule been reviewed for real costs?
- Have they been added to the budget?
- Does the budget reflect the cost of people resources?
- Does the budget reflect the cost of non-people resources?
- Does the budget include any reserves in the event the project runs over cost?
- Have the team members been consulted about the effort and budget estimates?

Only after these questions have been answered positively, will a budget be considered realistic and ready for approval.



SUMMARY

In this lesson, you learned three various **budget methods** that can be used to create a project budget. They are Actual budgeting, Roll-up (or Bottom-up) budgeting, and Comparison budgeting. You also learned that prior to seeking approval, a project manager must **evaluate the budget** for things like reserves, people and non-people resources, and make sure team members are consulted about effort and budget estimates.



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