

Project Budgeting

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WHAT'S COVERED

This lesson provides an overview of determining a project budget including:

1. Real and Overhead Project Costs

Budgeting is an important skill to learn. In addition to an accurate schedule, a project must also have a predictable **project budget**. The full cost to complete a project must be documented.

The total cost of a project is the sum of two separate categories:

- Real project costs
- Overhead costs

Real project costs are those items paid for directly out of the project budget. This includes any resources that will be used to complete the project deliverables, such as materials, labor, vendor, or supplier expenses, and equipment.

➞ **EXAMPLE** The people who program software during a web development project would be considered a real project cost.

Overhead costs can come from resources that help create the project deliverable. If those resources have a long term value to the organization beyond the project, the organization might pay the cost instead of the project.

➞ **EXAMPLE** Electricity is needed to run a machine needed on a project. The cost of that electricity is overhead.

➞ **EXAMPLE** Computers used by programmers during a web development project will be used after the project, so the organization decides they will pay for the computers. The computers are considered overhead costs.

Including overhead costs in the total project cost gives an organization a full accounting for a project. However, since the overhead costs do not impact the money that needs to be allocated to a project and tracked by the project manager, it's reasonable not to include overhead cost, too.

It's up to the organization or the individual project manager whether to include overhead costs in the project budget.



Project Budgeting

The process to identify the cost of completing a project.

2. Budgeting Building Resources

The project manager reviews various information to build the budget.

SCOPE

SCHEDULE



BUDGET

Project scope should be reviewed for any budget requirements.

Effort estimates in the project schedule will be used to budget for resources. Any equipment or other resources needed to complete activity should also be included.



HINT

Review budgets from previous projects to find details that might be missed.

3. Budgeting for Effort

When budgeting the effort estimates on tasks, the project manager includes the cost for all people resources. These estimates directly reflect the labor cost needed to complete the project.

IN CONTEXT

In the schedule shown, there are two people resources used to complete the work on the customer complaint form for the web development project.

TASKS

EFFORT

Stephen will spend 16 hours on the task and John will spend eight hours. In order to arrive at a budget number for this task, those hours are multiplied by the cost per hour of a resource. Let's assume this cost is \$45 per hour in our organization.

Budget for Stephen = 16 Hours X \$45 Per Hour = \$720

Budget for Jon = 8 Hours X \$45 Per Hour = \$360

The cost calculation on this task for Steven is \$720 and John's cost on this task is \$360. To find the budget for this task, add Steven's cost and John's cost to get a total of \$1,080.

Budget for Task = \$1,080

This is then done for each task on a project. In some instances, the budget is done before the schedule. In those cases, when the schedule is complete, it should be reviewed to validate if the budget was accurate. Individual efforts in the schedule might be real costs to the project, or they might be overhead costs.



HINT

The project manager should always include real costs in the budget.

4. Budgeting for Non-People Resources

Any non-people resources, such as materials or equipment used to complete the project deliverables, are also budgeted in a project. Fixed cost for supplier support or consultants should also be included in these costs.



As with other costs, the project manager should determine if each non-people resource cost is a real or overhead cost, and whether to include them in the project budget.



SUMMARY

You've learned about real cost and overhead cost in a project budget. **Real costs** are costs associated directly and only within the project. **Overhead costs** are costs paid by the organization or company as a whole. You know that when **building a budget**, costs for **people** and **non-people resources**, must be considered. And budgeting for the labor of people resources is deemed as "budgeting for effort".



TERMS TO KNOW

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The process to identify the cost of completing a project.