



For the Change Makers

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Lecture 3: Financial Planning

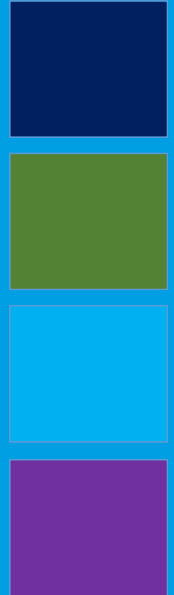
Week 3 Learning outcomes

Define financial planning for projects

Explore estimation

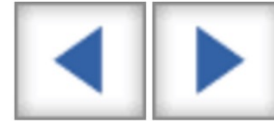
Investigate top-down and ground-up costing

Review financial management techniques



What is financial planning?

☆ financial planning 



Definition

[See Examples](#)[Save to Favorites](#)[Add to Flashcards](#)

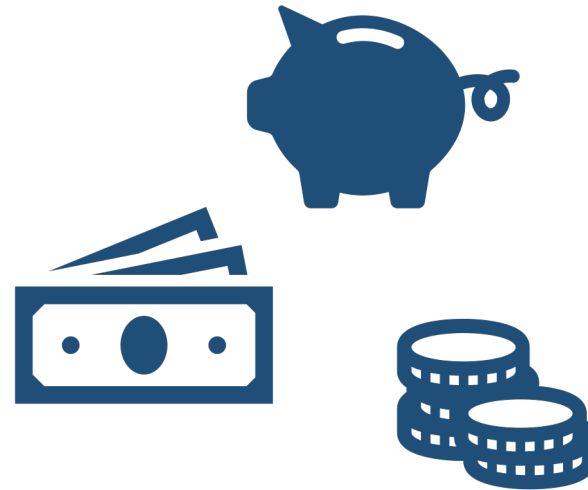
Long-term profit planning aimed at generating greater return on assets, growth in market share, and at solving foreseeable problems.

(BusinessDictionary.com 2016)



Overall financial planning for projects

- Investment appraisal
- Funding
- Budgeting
- Cost control



Investment Appraisal

"a collection of techniques used to identify the attractiveness of an investment"

(APM 2012:174)

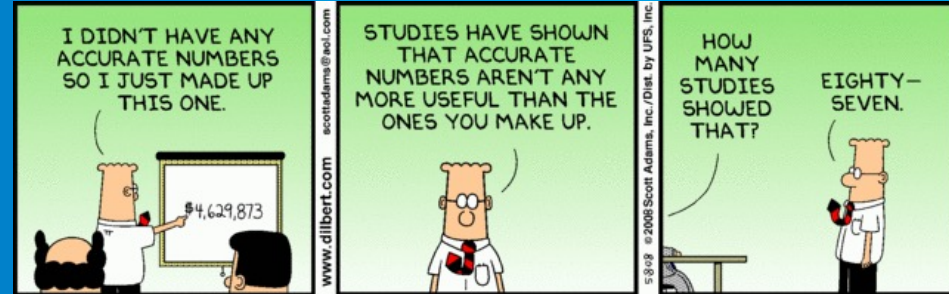
- The factors informing an investment appraisal:
 - financial, legal, environmental, social, operational or risk-related.
- The **financial techniques** to select which projects to invest include payback and net present value (NPV)
- On the **non-financial side**, decision-makers commonly use checklist models or multi-weighted scoring models to help them rank projects according to a number of chosen criteria

Project Budgeting

the process of determining project costs
and developing a budget

e.g.

- estimate profit
- reduce financial risk
- plan for unexpected costs



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How can we estimate?

“There is no such thing
as a perfect estimate”
(Maylor 2010:175)



How can we estimate?






“The estimate is an attempt
to predict the status of spend
at some point in the future
and as such is subject to
that fundamental property of project
– **uncertainty**.”

(Maylor 2010:175)



How can we estimate?

Estimating techniques

Today Oct 22	Sun 23	Mon 24	Tue 25	Wed 26
				
Mostly Sunny	Sunny	Mostly Sunny	Few Showers	Snow Shower
70°F	74°	78°	55°	35°
High	High	High	High	High
38°	36°	40°	27°	14°
Low	Low	Low	Low	Low
Chance of Rain: 0%	Chance of Rain: 0%	Chance of Rain: 0%	Chance of Rain: 30%	Chance of Snow: 50%

- **Parametric estimating**
 - Works well when experienced in similar projects (e.g. highway development projects, office refurbishment)
- **Forecasting**
 - When little is known (e.g. bid proposals)
- **Wishful thinking**



How can we investigate cost?

“price = cost + profit
cost = price – profit
profit = price – cost



same equation different meaning

Which one applies
depends on whether
price, cost or profit is fixed first.”

(Maylor 2010:176)



Cost planning

Two basic approaches:

- Top down



- Bottom up



Top-down costing

“you are allocated a certain amount of money to complete the project activities and this has to be split between the sub-projects. The allocation is based on either senior management’s estimates or the use of target costing.”

(Maylor 2010:177)



Benefits

- set constraints
- shared accountability

Drawbacks

- lack of ownership
- less realistic
- slows funding requests

Ground-up costing

“the estimates of each level in the work breakdown structure are compiled and added together by each level of supervision in the project hierarchy”

(Maylor 2010:177)



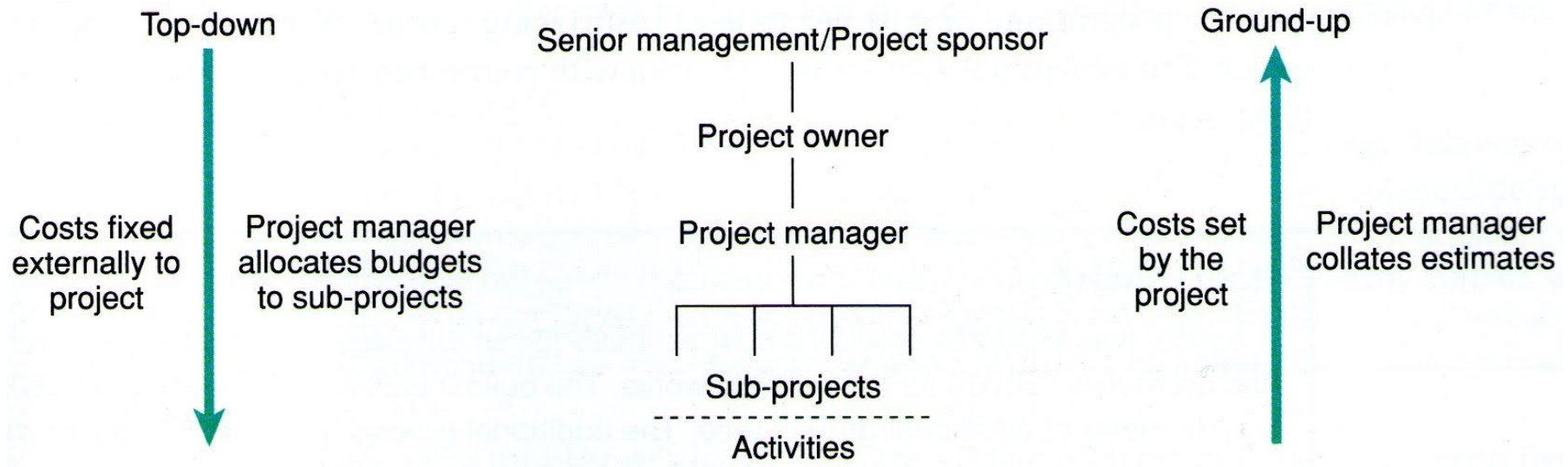
Benefits

- sense of ownership
- more realistic

Drawbacks

- scope creep
- contingency variation
- layers of optimism bias

Top-down and ground-up costing



(Maylor 2010:177)

What are project financial planning considerations?

- Constraints: project delivery speed, budget, specification
- Hire or buy equipment?
- Use existing team or contract in team members?
- Build in contingency?
- Devise measurement and reporting?



Elements and considerations

Project baseline

A baseline is a clearly defined starting point for the project plan. It is a fixed reference point to measure and compare the project's progress against. This allows to assess the performance of the project over time.

- *resourcing (e.g. staff costs or consultants' fees);*
- *accommodation;*
- *consumables (e.g. power or IT supplies);*
- *expenses (e.g. travel and subsistence);*
- *capital items.*

(APM 2012:166)





Elements and considerations

Types of costs:

- **Direct** - *exclusive to the project, programme or portfolio [and including] resources directly involved in delivering and managing the work*
- **Indirect** - *overheads and other charges that may be shared out across multiple activities or different departments*
- **Fixed** - *[remaining] the same regardless of how much output is achieved*
- **Variable** - *depending on how much resource is used*

APM (2012:166)

How can we manage our project finances?

1. Define budget  document and communicate
fixed vs. variable
2. Breakdown trackable components  financial plan
track spend
3. Implement systems  who, where, when, how
who approves?
4. Request funds (early)  approvals and allotment take time

(Whitt 2012)



What does Harvey Maylor say?



- Don't say 'everything's fine' when it's not – tell the truth!
- Where there are problems, provide support.
- Set up a culture where it's ok to say things are not going well.
- To measure performance in projects, use techniques such as earned value.
- If things are not going well, prepare a go-to-green plan.
- Consider re-setting or re-baselining the project.
- Assess what the desired future state is going to be and what you would like it to be, and then work out how to get there.

What do we need to do before the seminar?

Think about and make notes on
the financial planning you need
for a music video production project.



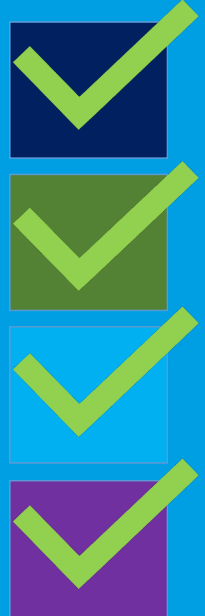
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References

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