What is Project Budget Management?

Project budget management is **the process of administering and overseeing the finances related to business projects**. It's not only about coming up with a single overall number—say, $20,000 for a particular project to be completed—but about understanding the individual cost elements and the logistics of budget tracking. It includes thinking about things like:

- How is the overall number derived?
- How will the costs be spread out across project milestones?
- How will you track project costs?
- How will you report cost data periodically—will you use project budget tracking software or some other tool?
- How will you handle scenarios in which projects are running over or under budget?
- What's your process for learning from past projects so you can make future project budgets more accurate?
- How will you handle ***portfolio* budget management**? It's rare that an organization has only one project going on at a time—what's your framework for managing multiple budgets at once and in context with one another?

The project budgeting process is ongoing, and something you should be consistently working on—not just a one-time cost estimation. Costs fluctuate, circumstances change, and project elements get derailed. Accounting for these aspects throughout the life of a project is all part and parcel of effective budget management.

The Importance Of Budget In Project Management

Budget is one of the criteria commonly used to determine whether a project was completed successfully. (Note that while *budget*, *scope*, and *schedule* are indicators of success in terms of project *delivery*, an overall determination of project success must also take into account if the outcome has supported the overall organizational strategy.) But it isn't all about project completion, and whether or not you managed to stay on or under budget. Budgets are important for other reasons, too.

Finances determine which projects an organization will undertake. Some organizations plan projects as **part of the creation of their strategic plan**; others have project charter phases to review new projects intermittently. Either way, cost plays a role in new project analysis. Organizations must determine if a particular project is feasible in terms of cost. Can the organization afford to take on the project? And if the project produces an outcome that requires continued funding, will there be money available in the future to do so?

Organizations must also be concerned with strategic funds allocation. Where are the organization's priorities, and where would money best be spent? If three projects are presented, and two could be done for the cost of one, which would have the better outcome? In some cases, two projects might be the wiser decision; in others, the more expensive project might have a bigger impact. Balancing issues like these within a project budget framework is key.

And if your organization is doing project budget management right, you'll have data from previous years showing what worked and what didn't. If you can apply those insights to upcoming projects, you can choose the projects with the greatest potential for future success.

In general, most finance departments would agree that if a project comes in under budget, it can be chalked up as a success. And from their perspective, that may well be true. But we would argue that, from an organizational perspective, **emphasizing *budget accuracy* over keeping projects *under budget* is better for a company's long-term prospects.**

Under-budgeting isn't always bad, but if it happens consistently, your organization is likely missing out on opportunities to grow. Say, for example, there are three projects on the table for consideration, all of which have budgets attached. Based on the numbers presented, company leaders may decide there aren't enough available resources to commit to doing all three, thus deciding to drop one.

If both selected projects come in under budget, that means resources were tied up for no good reason—and your organization may have forfeited the chance to do an additional project that could've also produced a measurable return. Being accurate about a project's cost enables organizations to potentially do more projects, and reap greater benefits as a result.

That said, there are always legitimate reasons why projects might come in under or over budget. Unforeseeable circumstances may increase costs; on the flip side, something once identified as important to a project may turn out to be not very useful. But rather than examine each project individually, some organizations emphasize *always* delivering under budget, sometimes to the detriment of the final output. Still others are too cavalier with the budget, and don't feel bound by a predetermined set of numbers.

A "Goldilocks" Budgeting Approach

Most high-performing organizations take a "Goldilocks approach" and try to strike a balance between being budget-obsessed and totally carefree, assigning the "just right" amount of importance to the budget in project management.

To better analyze a project budget and all its twists and turns, your project budgeting process should include some way of gathering qualitative data (in addition to quantitative data) that tells the "story" behind the numbers. Why did it cost more? Why did it cost less? Having that information will help you make more informed decisions around budget adjustments, and better estimates for future projects. It will also help you **communicate about your project** and its budget throughout your organization.

5 Project Management Budgeting Methods

There are multiple ways to approach project budgeting. All organizations have different types of projects, different ways of operating, and different resources, which makes it difficult to create a project management budget template for use by all organizations. In the end, it may simply be that your organization's project management office will determine the approach for you.

Some of the most common project management budgeting methods are:

- **Bottom-up**—This approach involves looking at individual components of a project, assigning costs to each, and then totaling them up to arrive at an estimated cost. This approach often involves employees in various departments outlining the necessary tasks and steps involved to complete their portion of the project.
- **Top-down**—This is the opposite of bottom-up, where you start with an idea of the project total and divide it, allocating portions to various project tasks. To formulate the original figure, management may consider the cost of past projects, previous budgets, current economic conditions, and more.
- **Three-point estimate**—This approach takes into account the best- and worst-case cost scenarios for each task involved in the project, along with a number representing the most likely estimate; those numbers are reconciled to estimate a budget. This method can be useful because it specifically considers the risks involved in a project.
- **Parametric estimation**—This approach breaks down the project into various tasks and uses specific parameters based on industry data and previous projects to calculate costs. For example, if it took 10 hours and 3 employees to install a fence three years ago, you can find current industry rates for doing the same task this year to calculate how much it would cost. This method is quite

accurate but also fairly sophisticated, and not as commonly used as the previous three methods.

- **Analogous estimation**—This approach involves estimating the cost of a current project by looking at the cost of similar past projects. If the projects are very similar, this method could be accurate, but in general, you want to make sure you are making proper comparisons to ensure you produce the most reliable cost estimation.

After each project or couple of projects, we recommend reviewing the budget piece specifically—how accurate were your estimates? The more you analyze your results, the smarter you can get about being a responsible steward of your organization's resources.

Do You Need Project Budget Tracking Software (& why)?

The job isn't done once you've determined a budget—two other important components of the project budgeting process remain: **tracking costs** and **reporting on them.** Leaders are equally as concerned about the finances of an ongoing project (how the budget is performing) as they are with project status (what's happening and when).

However, project managers face a few challenges with tracking and reporting:

- **They lack the tools to tie project data to the organizational goals they support.** Most projects (but not all!) are intended to help your organization achieve its key goals, yet they are tracked separately from other projects, and out of context of the larger strategic plan and the portfolio budget as a whole.
- **Numbers can be hard to digest.** You can pass out spreadsheets filled with cost data, but this "wall" of numbers takes effort to absorb, and offers little in the way of context.
- **Tracking down cost data from numerous individuals takes time.** Project managers can spend hundreds of hours updating finance documents,

between the time it takes to send reminders, fill in numbers, and analyze the latest cost data against projected budgets.

Tracking and reporting doesn't have to be this hard, but lots of project teams get stuck in an Excel rut, having created their budget in the program originally. Even after a project gets the green light, they continue tracking numbers in the same spreadsheet, updating the columns and making copies manually in advance of every meeting. And as for budget analysis—detailed benchmarking and comparisons usually fall by the wayside.

It would be hard for any project manager to generate interest in the budget with only a few numbers presented in an Excel spreadsheet.

The right project budget tracking software can solve *all* these challenges, giving you better insight into how projects are performing, with a lot less hassle.

What is project budget management?

Project budget management is the process of estimating, allocating, and controlling the costs associated with a project. It involves planning the budget, tracking expenses, and ensuring that the project stays within the approved financial limits. Effective budget management helps in avoiding cost overruns and ensures that resources are used efficiently.

How do you budget project management?

To budget project management:

- **Define Scope:** Clearly outline the project scope and deliverables.
- **Estimate Costs:** Break down the project into tasks and estimate the costs associated with each task, including labor, materials, equipment, and overheads.
- **Create a Budget Plan:** Compile the estimated costs into a comprehensive budget plan.
- **Include Contingencies:** Add a contingency budget to account for unexpected expenses.
- **Allocate Resources:** Assign budget allocations to different tasks and phases of the project.

- Review and Approve: Have the budget reviewed and approved by stakeholders or management.

How do you manage a budget in project management?

To manage a budget in project management:

- Monitor Spending: Regularly track and record actual spending against the budget.

- Use Software Tools: Utilize project management software to monitor expenses and generate financial reports.

- Adjust Allocations: Make adjustments to budget allocations as needed based on project progress and changes.

- Control Costs: Implement cost control measures to prevent overspending.

- Report Progress: Keep stakeholders informed about the budget status through regular financial reports.

- Analyze Variances: Identify and analyze any variances between the planned and actual budget to understand causes and take corrective actions.

What is a project budget in project management?

A project budget in project management is a detailed financial plan that outlines the estimated costs associated with all the tasks and activities required to complete a project. It includes all direct and indirect expenses, such as labor, materials, equipment, and overheads, and often includes a contingency reserve for unexpected costs.

Why is a budget important in project management?

A budget is important in project management because:

- Financial Control: Provides a framework for managing and controlling project costs.

- Resource Allocation: Ensures that resources are allocated efficiently and effectively.

- Performance Measurement: Allows for tracking of actual spending against the budget to measure financial performance.

- Risk Management: Helps identify financial risks and includes contingencies to mitigate them.

-Stakeholder Confidence: Builds confidence among stakeholders by demonstrating that the project is financially viable and well-managed.

- Decision Making: Informs decision-making processes by providing a clear picture of the financial aspects of the project.