

# Cost Information Needs for Projects

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*In the last two articles we dealt with Controlling project cost based on QRST pattern and Project Cost control using S Curve and 4 D Grid. In this article we shall focus on the cost information needs of projects.*

“There is nothing called “The” Cost; there is only “A” Cost, depending upon the requirement. Cost information requirement(s) for Projects vary depending on the stage of the project.

## Cost Estimation at Project Conception Stage:

- Assessing project viability (Internal Projects)
- Participating in Tender (applicable for Project companies)
- Funds requirement planning

## Cost Budgeting at Project Planning (for execution) Stage:

- Project Cost Base line for Cost Control

## Cost Analysis and Cost Tracking during Project Execution Stage:

- Cash Planning for Short Term Requirement
- Actual Cost tracing for Cost Control
- Cost analysis for decision making during execution
- Milestone billing for Cost plus projects

## Compliance Requirement:

- Costing of Project Work in Progress for Accounting

## Level of Detailing and the grammar of cost relating to the stage of Project:

The detailing of cost numbers and the grammar of cost number depends on the stage of the project. The following table clarifies this.

Stage of Project	Detailing required	Grammar of Information
<b>Project Conception Stage</b>		
<b>Assessing Project Viability; Participating in Tender; Funds Requirement Planning</b>	Macro level information based on Rough Order of Magnitude; Planning horizon is longer and hence the detailing is difficult. However, if we have long years of experience in these kinds of projects, we can get micro level details.	Future cost information; What will be the cost?
<b>Project Planning Stage</b>		
<b>Project Cost Base Line for Cost Control</b>	Micro level detailing using parametric modeling or Bottom up estimation is critical. Resource and Cost details at the level of Work Breakdown Structure is required for cost Budgeting. For short term projects this will be same as what is done at the conception stage. However, for long term projects, like infrastructure, we need to detail for a shorter time horizon.	Near Future Cost information.
<b>Project Execution Stage</b>		
<b>Cash Planning for Short Term requirement</b>	Projects typically require cash outlay on a daily, weekly and monthly basis. This has to happen at the site. For this we need a detailed cost estimation with time schedule for disbursement. This estimation will be at a level of cost elements like Salaries, travel, etc.	Near Future Cost information.
<b>Actual Cost Tracing for Cost Control</b>	Cost detailing at WBS level is required. Moreover, cost classified as Direct and indirect, Variable and Fixed is also critical for effective cost control. Detailed analysis is need for this requirement	Immediate past cost. What was the Cost?
<b>Cost Analysis for Decision making during execution</b>	During execution, Site in-charge will be taking a lot of spot decisions. Project head will be taking decisions for course correction. Cost analysis will be detailed at a micro level. Cost estimate numbers used for tendering, cost estimates used for budget and actual cost numbers captured in the system is of limited use for this. One needs to look beyond the formal cost information system to cull out the information required for this purpose.	Near future cost and immediate past cost.
<b>Milestone billing for Cost Plus Projects</b>	Direct Costs captured at WBS level plus indirect costs apportioned to the stage (including the Administration costs) are relevant for this.	Past cost information; Cost rates based on the agreement.

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## Compliance Requirement

<b>Costing of Project Work In Progress for Accounting</b>	Cost tracing as per the Generally Accepted Accounting Principles and the Cost Accounting Report Rules. Normally includes only the Site cost and not the Administrative costs	Past cost information.
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## Compliance taking precedence over other needs

Just like in the case of Manufacturing firms, in project firms too, the formal cost analysis is restricted to Compliance. Compliance is hygiene. It has to be kept in proper shape. However, the common mistake is to take that number and mindlessly use it for other requirements. I have discussed this in quite a few earlier articles over the years.

The common answer I hear from project companies is “We have an ERP so our costs are tracked very well”. ERP is not a cure all. ERP is fine for compliance and cost control; but, configuring the ERP to meet only the compliance requirement undermines the ERP potential.

## Cross Disciplinary Costing Cell

In quite a few project companies, Cost estimation is an exclusive club of engineers; while the cost reporting through execution is the private domain of the accountants. What is needed is a Cross Disciplinary Costing Cell of Engineers, Accountants and IT team to help through various stages of Project. (Other than compliance and Milestone billing). The Cell’s responsibilities should include:

- 1) Cost Estimation for Tendering (in the case of project companies)
- 2) Cost Estimation for Project Viability (in the case of internal projects)
- 3) Cost Estimation for Funds Planning
- 4) Cost Budgeting for Project Cost base line
- 5) Providing inputs for decision making during execution
- 6) Actual Cost tracking and deviation reporting for Cost Control
- 7) Inputs for Milestone Billing

The team has to be trained in Estimating techniques, Cost analysis, IT capability, engineering understanding and Operations management.

## Conclusion

An organization has to invest in this kind of a Cost cell. We need to realize the futility of disparate departments like engineering, estimating, project monitoring and costing working in silos. Most of the inter-departmental conflicts in projects companies arise out of cost conflicts. Understanding the uniqueness of Cost Information needs for Projects is a critical condition for On time At cost completion of projects.