Introduction	When do you use this guide
All programmes, projects and changes cost money. It is important that there is prudent budgeting for all the costs that are likely to be incurred during the life of the project. It is a common mistake to underestimate many of the costs associated with a project. In particular, the impact on internal resources is often overlooked focusing only on budget requirements for expenditure that will actually leave the organisation. Overspend on budgets is common; it is often the result of poor planning, which results in underestimation of costs which in turn leads to inadequate budgets being in place. An estimation of likely costs should be in place as the idea moves through incubation, as it will be needed before the Initiation of the change phase. However, this will need to be updated as costs are identified and secured, so that an adequate budget is available to deliver the project or programme as envisaged to produce all of the benefits proposed in your business case.	The budget and business case develop as the change moves forward and more clarity is gained. Once in delivery, the management of the budget is almost a daily task, so this guide is relevant to all stages of the project. Embedded within your organisations framework, there is advice on business case and finance at each milestone, and that should be read in conjunction with this guide. This guide provides an introduction to: a. Types of cost b. Programme and project cost descriptions c. Example of a project budget The H2Gs which cover benefits, scheduling and management controls should be used in conjunction with this guide.

Costs

Costs come from many areas in a programme or project and the process of identifying, analyzing and tracking should be ongoing through the lifecycle. It is essential to identify and track changes to the costs throughout the life of the project or programme to ensure the project remains within budget. If costs rise unexpectedly, it may be necessary to make adjustments which could result in a change of scope; quality or necessitate a complete change in approach. Any of these impacts could result in a significant shortfall in the benefits proposed at the outset and reduced value for money. There are basically 3 areas where costs will be incurred.

Staff	Equipment	Overheads
This would be specifically related to the creation of the assets and services. There are most likely two sources for these, either internally from your own team, other parts of the organisation or from external suppliers, either consultancies or agencies.	This is the costs of the assets that will be used by the programme or project to build whatever the solution is. This could range from construction or heavy engineering plant to the use of specific software, e.g. e-learning	These are the management costs of the programme or project, so will include the management and delivery teams. This will also include the assets that they use, for example, office space, computers, stationary etc

This table provides a more detailed explanation.

Type	Description
Project costs, investment or development costs	These are the costs of creating or acquiring the things that are necessary for the project. Examples of this could be: research, stakeholder consultation, specialist advice and guidance, and other activities to test initial assumptions and to provide the evidence to develop the proposal and often dictate the final scope of the project. There should always be contingency included to allow for changes in specification or requirements. These costs will often be the external expenditure part of budgets.
Benefits realisation and policy evaluations costs	Setting up and implementing measurement, monitoring, and reporting on benefits realisation. Other costs incurred in achieving the benefits, which can be attributed to benefits – for example, compensation packages for staff, capturing, storing and analysing data necessary for monitoring and evaluation.
Business change and transition costs	Cost of preparing, training, moving and supporting an operational unit until new practices are embedded. This could include interim operational resources required to embed the change. Here are a few examples of time that will be required from projects or programmes from the business as usual teams: • Developing requirements and specifications • Product testing • Contributing to or reviewing project documentation • Attendance at project and programme meetings • Time travelling to and from meetings and training events (this is a big one) • Communication plan activities • Business change team activities • Training time • Responding to correspondence • Costs due to reduction in performance during the transition phase
Programme or project management cost	Some roles will be full-time and some not, but they should all have an estimate of the time that will be required and this should be included in the budget. • Associated costs for these roles and other activities. For example office space, programme and project tools for tracking and reporting progress • Contingency budget for dealing with risk and change • Assurance and review costs • Costs associated with a procurement • Specialist consultancy support if required
Capital cost	Capital costs are normally for fixed assets. In accountancy terms the impact of these costs will often be spread over a number of years. Capitalisation is a specific financial technique and financial advice should be sought.

Controlling Costs

There are a number of techniques that can be used to minimise rises in costs. A key activity when developing the costs should be to seek out lessons learned from organisations that have done it before. To ensure that nothing is forgotten, create a schedule of costs sometimes known as a cost account. Identify and itemise all of the costs which you should then update as they are confirmed.

Dependencies	Understand and record any dependencies so that you can build in time and cost contingencies.
Contingencies (Time and Cost)	Whilst it is important to build in these contingencies, it is not intended that they be used to compensate for poor planning or estimation. For more information on these techniques, see H2G on Estimation.
Pricing Controls	Secure the prices you have obtained as soon as you can via a purchase order or an appropriate contract, ensuring that there are clauses to recover any costs incurred or due to e.g. late or non delivery.
Cost of Risk Mitigation	Where possible assign a monetary value to risks that have been identified. Ring fence this in your budget as the values will vary dependent on how successful your mitigation strategies are, and you can adjust these as you go along.
Contingent Liabilities	All public sector projects and programmes are required to make provision for contingent liabilities. These are circumstances which may happen but are very remote and would not be expected to be realised. An example would be legal liability for a situation that happens at arm's length i.e. where funding has been given to a third party and something they have done or not done gives rise to a claim. Whilst it must be included in the project detail, these generally have a different accounting treatment and would not be in the project budget. Check with your Finance team to determine the arrangements at your organisation.
Sources of Funding	Check any conditions which may arise from the source of funding as these may add to the cost of your project. European funding, for example comes with very prescribed set up and monitoring arrangements which can be costly to implement, but essential to avoid clawing back of funding.

Technique – Budget Management	
Technique Overview	**Concept**
All projects should have a budget, even if it only covers the amount of time people will spend and it doesn't turn into a cashable transaction. This is an example of setting a budget for a simple project that will run over a 4 month period. It uses the 3 core cost areas identified earlier, namely: • Staff • Equipment • Overheads.	Setting a budget is important, it is likely to evolve but the more certainty that can be achieved the more effective the controls will be. Once the budget has been set the expenditure forecast is equally important. You cannot spend money you do not have, so if there is income required for the project then the expenditure and income will need to match. The forecast will be as simple or complex as the project requires it to be.

In this simple example, the cost of the project will be £16,250. The way that money is spent over the 4 months is show in the columns. Monitoring your project costs might be done as shown in the table below – the data summarised from your schedule of costs:

Tracking the actual costs and profiling future expenditure can provide an early warning. You will note that none of the contingency funds have been used as yet, since you would first want to consider whether you could cut back on any other planned costs at this early stage, in case there is yet more unexpected expenditure. Tracking it in this way provides you with an early indication on costs that could be problematic to the success of the project and enables you to make a careful choice on what is best to do rather than be forced into taking action that might compromise the project.

Description	Budget £	Actual January £	Actual February £	Total Spend To Date	Forecast March £	Forecast April £	Total Estimated Spend £	Estimated Variance To Budget £
Staff	12,000	3250	3000	**6250**	3000	3000	12250	250
Materials	2000	0	500	**500**	700	800	2000	0
Overheads	1500	1493	0	**1493**	0	0	1493	(7)
Tool rental	250	0	70	**70**	70	70	210	
Contingency	500							
TOTAL	**16,250**	**4,743**	**3,570**	**8,313**	**3,770**	**3,870**	**15,953**	**203**