

# The art of budgeting

10 questions for a project manager that will help ensure their budgeting is a success, by Donnie MacNicol

A budget provides a plan or allocation of money for a specific purpose that enables us to manage more effectively and efficiently: or does it? Well, only if we remember that a budget is just a tool that cannot remove the subjective and 'guesstimate' qualities inherent in the whole process. All plans contain estimates based on assumptions that must therefore introduce risk, which also comes from the uncertainty inherent in multiple project interactions, mainly caused through the involvement of people.

The PM is likely to budget successfully if they ask themselves the following 10 questions:

1. **Is the function of the budget clear?** The PM must ensure there is clarity on the purpose of the budget as different professions will consider budget success to be different things: a QS will typically consider a budget to be a target to come in under, an architect will consider it to be the full resources available to create a design
2. **Will the budget figure be used correctly?** The PM must monitor and control how the budget figure is communicated and used, particularly in decision making, and ensure misunderstandings are dealt with immediately, e.g. consider the Scottish Parliament building, which is reported as being 10 times over budget due to the original figure becoming the benchmark against which all others were compared
3. **Will meeting the budget meet the business objective?** A budget is a blunt tool that, as a single criteria defining success, must be treated with caution when making decisions. By reducing scope and timescales to meet the budget, the PM may feel they are doing the right thing, but this may affect the original justification for the project
4. **Have tensions been created between budget, time and scope?** Sometimes the desire to deliver a short-term gain may create longer-term pain when budgets are clearly inadequate. Saying "No" to prevent scope creep that will eventually undermine budgets is often tough. Maintaining customer relationships while doing this differentiates the best PMs
5. **Should the budget be a single figure?** Estimating means making multiple assumptions and, often driven by constraints such as available funds, the PM should consider a range of possible figures. Applying sensitivity analysis to the key factors and considering project risks will enable a much richer and more accurate range of potential figures to be used by management
6. **How will change be managed to minimise further complexity?** Over time, the PM gains a greater understanding of the project and creates an opportunity to constantly refine the budget.

The PM must balance the need to baseline the project, reflect reality and ensure the sponsor is aware of the implications of any changes

7. **Is it clear what the budget does and does not include?** If not explicitly stated, people will make assumptions, some of which will be wrong. For example, the London 2012 Olympic budget has been reported as tripling, but the figures have different associated scopes. The PM must ensure a number has a clear narrative stating the scope and assumptions
8. **Have the team bought in to meeting the budget?** The best way to achieve this is for team members to produce, and be responsible for, their elements of the budget. If this is not feasible then they must be involved in the preparation phase. If strong relationships have also been created by the PM, concerns can be raised early and conflicts managed rather than avoided
9. **Are responsibilities differentiated from accountabilities?** The PM must ensure the responsibility for monitoring and controlling is differentiated from accountabilities: the latter having implications for the individual (through performance management) and the organisation (through governance)
10. **How do you ensure understanding?** It is important to remember that different people need different kinds of information. The only way to check understanding is to ask and, more importantly, listen to what people believe it is.

Many of these points focus on people and their relationship with the budget. Since people interact in ways that are subjective, it is vital for the PM to consider budgeting less as a science and more as an art.

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