



Project Cost Estimate and Project Budget Estimate Explained



TOC

.....	1
Project Cost Estimate and Project Budget Estimate Explained?	1
TOC	2
Introduction.....	3
The Differences.....	3
Examples	4
1. Project Initiation Phase.....	4
2. Project Planning Phase.....	4
2.1. Input.....	4
2.2. Output.....	4
3. Project Execution Phase.....	5
3.1. Input.....	5
3.2. Output.....	5
4. Project Monitoring and Control Phase	5
4.1. Input.....	5
4.2. Output.....	5
5. Project Closure Phase	5
5.1. Input.....	5
5.2. Output.....	6

Introduction

Is a 10M project estimation is similar to the statement 10M budget for the project? Let's discuss it.

In project management, we use both cost estimate and budget estimate in our terminologies. They are both important tools for financial planning and control. They are used to estimate, control, and manage project spending, but they serve different purposes.

The Differences

Cost estimate refers to the process of estimating the expected cost of a specific project activity or deliverable. Cost estimates are typically developed during the planning phase of the project and are used to decide the financial resources required to complete the project. Cost estimates may be based on historical data, industry benchmarks, expert judgment, or a combination of these.

Here, the cost estimation team has assumptions and judgements, which give them a percentage of error based on the governance tolerance (10% up to 40% based on the estimation phase).

Budget estimate, on the other hand, refers to the process of developing a forecasted financial plan to request project fund. Budget estimates are developed based on the cost estimates and other project information, such as the project schedule, resource requirements, and risks. The budget estimate supplies a detailed breakdown of all project expenses, including direct and indirect costs, contingencies, and other financial resources required to complete the project.

Here, the project manager responsibility is to deliver the project on time and on budget for the defined scope. Any variation needs cost estimate and approved budget afterwards.

In summary, both cost estimate and budget estimate are important tools for financial planning and control in project management. However, they have different input and output in their different processes. Cost estimates are used to estimate the expected cost of a specific project activity, while budget estimates are used to develop a comprehensive financial plan forecast for the entire project. Both estimates' processes are important to ensure that the project is completed within the approved budget and to the desired quality standards.

The best practices on project change control systems usually, ensure linking both cost estimate and budget estimate in one system for all project development phases. Hence if the cost estimate from the initiation phase change (which is normal), then the forecasted budget will change.

Examples

To explain further, these examples on the inputs and outputs related to cost and budget controls in each phase:

1. Project Initiation Phase

1.1. Input

- Project charter.
- High-level project requirements.
- Project scope statement.
- Preliminary project schedule.

1.2. Output

- Cost estimates for high-level project requirements.
- Initial project budget.

2. Project Planning Phase

2.1. Input

- Project management plan.
- Detailed project requirements.
- Detailed project scope statement.
- Detailed project schedule.
- Risk management plan.

2.2. Output

- Cost estimates for all project tasks and deliverables.
- Project budget with detailed cost breakdowns.
- Cost management plan.
- Project schedule with time-phased budget.
- Risk register with cost impacts of identified risks.

3. Project Execution Phase

3.1. Input

- Approved project budget.
- Project schedule with time-phased budget.
- Approved change requests.
- Vendor invoices and contracts.

3.2. Output

- Actual project costs.
- Cost performance reports.
- Change requests with cost impact analysis.
- Vendor payments and contracts.

4. Project Monitoring and Control Phase

4.1. Input

- Actual project costs.
- Project schedule with time-phased budget.
- Cost performance reports.
- Change requests with cost impact analysis.
- Risk register with updated cost impacts.

4.2. Output

- Revised cost estimates and budget forecasts.
- Updated project budget and cost management plan.
- Change control decisions and actions.
- Project status reports with cost variance analysis.

5. Project Closure Phase

5.1. Input

- Final project costs and expenses.

- Lessons learned report.

5.2. Output

- Final project budget and cost performance analysis.
- Historical cost data for future project planning.
- Lessons learned report with cost management recommendations.

To summarise, cost estimate and budget estimate are critical processes of project planning and control, and they require inputs from various project management activities, including scope management, schedule management, risk management, and change control. By accurately estimating and managing project costs and budget throughout the project lifecycle, project managers can ensure that projects are completed within the approved budget and to the desired quality standards.

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