Managing the Project Cost Function

Duration: 2 Days

The achievement of successful project delivery is directly underpinned by focus and attention on the effective and efficient management of the financial dynamic. The project environment is uncertain and project teams must operate, not only within this uncertainty, but also subject to multiple constraints. Understanding that a project is subject to a complex series of interfaces between stakeholders and resources becomes critical. All project activities have a cost, which may be either direct or indirect. They will all impact upon a projects’ budget from the perspective of consumption – i.e. as the project moves through its lifecycle, resources are allocated and utilized and money is spent, the budget therefore is subject to depletion. It is always a difficult question to determine whether or not a project is a success when it is over budget and late, yet the deliverables far outlast the original expectation.

This course will provide the participant with an effective set of skills and knowledge that will allow them to manage the dynamic project cost function. Through these skills and new knowledge, the delegate will acquire the ability to implement the application of techniques that will contribute directly to more efficient project financial management processes.

The course does not focus on number crunching – it is designed to lead the participants on a journey of understanding of the centrality of the cost management function, to familiarize the participant with the interactions and processes that underpin and ultimately inform the cost based activities within projects. The delivery is completely interactive and there is a large element of practical exercise that allows participants to grasp the interrelationships between cost; project lifecycle and operational activities. This imparts to participants the wider or ‘holistic’ picture upon which the process of successful project delivery is built.
Learning outcomes: on completion of this course; delegates will:

- Become familiar with the integration of cost scheduling into project management processes and procedures
- Understand the importance throughout a project lifecycle of the central role and importance of managing costs
- Utilise such techniques as the Work Breakdown Structure (WBS); the Work Package and the Cost Breakdown Structure (CBS)
- Estimate costs and deal with cost escalations and reductions
- Apply the basics of managing a project budget
- Have awareness of reporting responsibilities

Course Structure:

Topic 1: Overview
- Overview of the importance of managing project costs and budgets
- Team exercise analysing the role/influence of costs on different project components

Topic 2: The importance of project cost scheduling
- Key features of projects
- ‘Quick exercise’ – examination of areas of interface between project functions and project cost scheduling

Topic 3: Project estimation
- Definition of project estimation
- The role of project estimation in stakeholder expectations
- Key reasons for estimation error
- Impacting factors on estimation
- Cost components of the estimation process
- Other key components of the estimation process
- Team exercise – PESTLE analysis and the project estimation process

Topic 4: Why manage project costs?
- Overview
- Significant behavioural factors of increased project costs

Topic 5: The critical centrality of the project scope:
- Overview of project scope
- Common problems associated with project scope
- Scope vs. cost
- Project initiation and scope
- The project business case and scope
- Tangible/intangible benefits associated with the project scope
- Project planning and scope
• Project scope vs. project lifecycle

Topic 6: The project lifecycle – it’s relevance to cost management
• Overview
• Cost and project initiation
• Cost and project planning
• Cost and project execution
• Project closeout costs

Topic 7: The Work Breakdown Structure
• Overview
• Uses of the WBS
• Common WBS problems
• Key roles of the project WBS
• Creating a WBS
• The WBS ‘dictionary’
• The Work Package
• Team Exercise – the WBS

Topic 8: The Cost Breakdown Structure
• Overview
• Examples of project costs
• Key elements of a CBS
• Key benefits of utilising a CBS
• Team Exercise – the CBS

Topic 9: Integrating project cost and schedule
• Overview
• Why integrate?
• Advantages of an integrated cost and schedule
• Ideas for achieving integration
• Structuring an integrated cost/schedule on a project
• Cost/schedule integration and risk
• The project control system
• Individual exercise – the project control system

Topic 10: Cost Engineering
• Some basic concepts – cost overruns; cost escalations; contingency costs
• Factors that cause cost overruns
• Some inputs into determining contingency budgets
**Topic 11: The Cost Estimation Process**
- Developing an initial cost estimate
- The cost estimation process
- Inputs into the cost estimation process

**Topic 12: Developing a Base Estimate**
- Overview
- The development process
- Writing a well prepared base estimate
- The basis of costs

**Topic 13: Cost Escalation and Cost Reduction**
- Overview
- The concept of the price escalation clause in a contract
- Methods for cost reduction

**Topic 14: The Project Budget**
- Key aspects of a project budget
- The budgetary process
- Factors that impact on the budgetary process
- Common methodologies of creating a project budget

**Topic 15: Costing out Work Elements**
- Overview
- Key considerations for costing out work elements
- The advantages of standardisation
- Budget overruns
- Team Exercise – the project budget

**Topic 16: Project Variation and Change Orders**
- Overview
- Reasons for variation/change orders
- Other impacting factors
- Case study – ‘The dangers of doing someone a favour’

**Topic 17: Tracking Costs and Project Performance**
- The importance of information
- The tracking elements of a project plan
- Key questions to ask relative to project performance
- Using the WBS to determine current project status
- Project status – budget and expenditure
- Planned vs. actual costs
- Determining costs
- An overview of Earned Value Management
Topic 18: Forecasting costs

- Why forecast costs?
- Updating baseline estimates
- A suggested framework for forecasting costs