

How to Manage Your Project Finances

Step 1: Set the Budget

The first step towards managing your project finances is to set a budget. This isn't as easy as it sounds. You need to forecast the total amount of people, equipment, materials and other expenses, needed to deliver the project. You then need to work out when in the project plan, these expenses will take place. By doing this, you can get a picture of your "project cashflow" which tells you the amount of money you need for every week in the project.

Step 2: Backup Funding

Before you need it, find backup funding in the business. This is additional funding that can be used to deliver your project, if you need it. Few Project Managers actually do this in advance, but if you have almost completed a major deliverable and you suddenly run out of money, then that backup funding might "make or break" the project. You are always in a better position to get backup funding before you need it, rather than asking for more cash when you've already overspent. Get backup funding as early in the Project Life Cycle as possible. It will be sure to reduce your stress.

Step 3: Weekly Tracking

The next step after setting your budget and securing backup funding is to start tracking your daily spend on the project. You need to track every expense that occurs. Ask your team to complete expense forms and submit them to you for approval. If you can get your team to wait until you have approved an expense before it is incurred, then you can more easily control expenditure on the project. Next, you need to track your people expenses. The total cost of the hours undertaken by those people is automatically shown on the Project Dashboard, so you can see whether your people cost is under or over budget.

Step 4: Realignment

When you start spending more than your budget, you have 3 options available to help you stay within budget:

1. Re-forecast your expenses and present a new budget to your Sponsor for approval.
2. Start reducing costs immediately. This means spending less to get the same job done. Or alternatively, see if your Sponsor will agree to a reduced scope, so that you have less to produce for them.
3. Start using your backup funding to get you through the crux of the project.

Step 5: Cashflow Management

Make sure you always have enough funds available to cover your spending over the months ahead. Cashflow management is about managing the cash needed to deliver your project. So make sure your Sponsor has approved the next 1-2 months of work ahead of time, and that the funds needed to manage the project have been made available. Then track the spending of that funding every week.