CHAPTER 34: Collaborative Budget Management

Introduction

While traditional project teams have sufficient budget management skills, typically the focus is on individual participants rather than the entire project. Rarely are the details of these outcomes shared with team members beyond those individual firms. This silo method of reporting can lead to surprises down the road as firms review their Cost to Complete (CTC) at different rates, often not identifying overruns until late in the project. These surprises harm team morale, ruin relationships and cause significant discontent among partners.

Participants assigned to a budget cluster should understand the entirety of the document, and all budget data should be defined in common language, and not be trade or partner specific.
Conversely, collaborative teams are encouraged—and sometimes contractually required—to share this data frequently and openly to help understand the overall outcome. This is a challenge for many partners, as systems and methods vary widely for cost accounting.

Although sharing this data requires a serious leap of faith, Collaborative Budget Management is an essential step toward managing a project’s CTC.

### 1.0 Why

A Collaborative Budget Management Process is essential for accurately tracking and projecting a project’s CTC. Unfortunately, many in the industry do not properly manage the process, or have an unreasonable approach to managing CTC. This frequently leads to unplanned cost overruns.

Cost Forecasting, as well as Risk and Opportunity data, are key components to Budget Management and are necessary for projecting CTC. A proactive Collaborative Budget Management Process creates a reliable barometer for participants to monitor profits and outcomes throughout the duration of the project.

The principal advantages of Collaborative Budget Management include:

- Creates a platform for open, honest and frank discussions about the challenges, opportunities, and progress of a project.
- Promotes CTC awareness.
- Encourages transparency.
- Discourages scope hoarding or avoidance.
- Enables shared procurement.
- Enables shared/consolidated scope.
- Facilitates efficiency discussions.
- Pinpoints cross-trade disruptions.
- Engenders a shared understanding of Current Working Estimate (CWE).
- Encourages shared goals/shared risk reward knowledge.
2.0 How

During the Budget Management Process, the discussion should encourage ownership of budget components, as well as challenge participants and transaction detail. Participants assigned to a budget cluster should understand the entirety of the document, and all budget data should be defined in common language, and not be trade or partner specific.

The Budget Management process should not focus only on actual cost, but should reach a determination as to why actual cost differs from the original estimate.

Additionally, the team should have an understanding of the Added Scope vs. Team Target, which is determined by asking probing questions such as:

- What specific scope drove the change in cost?
- Why did the scope change?
- Did we challenge the scope change in person? With whom?
• What was our basis for challenging the scope?
• Was the decision to add the scope a “whim?”
• Should we have known?

It is essential that there is a solid handoff from the person managing the cost during development to the person handling construction cost details and forecasting, i.e. a solid handoff from Cost Forecasting in Early Project Phases to Collaborative Budget Management. Participants should also define the leading indicators necessary to determine Cost to Complete. If errors are pinpointed, the project team should stop and make adjustments via a Root Cause Analysis.

Other important attributes of Collaborative Budget Management:
• Bad news should be reported immediately, and not by proxy.
• All costs should be identified and shared with all stakeholders, along with cost estimates and target information.
• There should be one point of aggregation.
• The process should encourage open, honest and regular sharing.
• All partners should participate and come prepared with data.
• There should be accurate monthly cost data in real numbers.
• The team should develop a consolidated project cost and make those goals obvious.

3.0 What

Collaborative Budget Management ensures that project teams are accurately reporting the collective health of a project. It is a method for both design and construction to ascertain their Cost to Complete and should be perceived as a management (not accounting) tool.

While Cost Forecasting in Early Project Phases focuses on time and materials on the front end of a project, Collaborative Budget Management focuses on costs through the end of the project. In fact, Burn Rate and Risk and Opportunity data from the early development stages should flow into the Budget Management process.
Necessary components of effective Budget Management include:

- A consolidated, shared, single spreadsheet to encourage transparency;
- Detailed monthly transaction details, necessary via a transaction register to track scope and dollars for innovation, constructability, and integration of the team;
- Risk/Opportunity Log to provide a path back to the budget and to get the project back to target;
- Graphical output for visual reference;
- Established targets provided to all participants;
- Benchmarks; and,
- A “Budget Champion” to collect, collate and present the documents, although they are not necessarily responsible for the data.

The Budget Management process should not focus only on actual cost, but should reach a determination as to why actual cost differs from the original estimate. Additionally, the process should push for ownership and drive accountability.

Ultimately, the Budget Management process provides a good way to tie directly into the “Team Health Dashboard.”

Quick Reference

Cost Forecasting in Early Project Phases ........................................... 53
Risk and Opportunity Register ............................................................ 95
Visual Management and Communication .............................................. 33

For additional readings and information, please see the below information.
CHAPTER 34 – COLLABORATIVE BUDGET MANAGEMENT

Additional Readings

2 Update on Target Value Design 2 TVD Update ppt

3 Production Control Principles

5.4 Case Studies of VDC for Lean Project Delivery

9-15-08 Lean Construction Opportunities Ideas Practices

Analyzing User Costs in a Hospital Methodological Implication of Space Syntax to Support Whole-Life Target Value

Case Study of Using an Integrated 5D System in a Large Hospital Construction Project

Commercial Terms to Support Lean Project Delivery

Competition and Collaboration are not mutually exclusive

Five Big Ideas of Lean Construction

Interaction in the construction process-System effects for a joinery-products supplier

Jackson Federal Building Case Study

Last Planner and Integrated Project Delivery

Making Data and Decisions Flow in a Big Room - John Mack and Robert Mauck

Owner Perspectives-UHS
Project Definition

Projects in Review-Integration of Lean Tools and Takt Planning

Reverse Phase Scheduling Slides - George Zettel

Southern California Owners Forum

Standards and Measures - Whole-building Metrics Driving Innovation and High Performance

Target Costing - Glenn Ballard

Target Value Design Case Study - Patrick Vasicek

Target Value Design AIA Practice Digest

Target Value Design Current Benchmark

The Lean Project Delivery System An Update

Three opportunities created by Lean Construction (new)

Transitioning to Integrated Project Delivery Potential barriers and lessons learned

Using a design-build contract for Lean Integrated Project Delivery

Using Quality Function Deployment in the Design Phase of an Apartment Construction Project - Luiz Gargione

What makes the delivery of a project integrated A case study of Children’s Hospital, Bellevue, WA