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Funding versus Budget - Overview

How are they different, and why do we care?

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Definitions

- Funding – financial resources available to pay for project costs including labor, construction, and purchases. Funding represents real money.

- Budget – A planning value used to establish a baseline against which performance is measured and analyzed. Budget is not real money.

- Estimate at Completion (EAC) – Forecast or spend plan. Most current estimate of total project cost. Basis for forecasting funding requirements. Typically will not equal budget unless arbitrarily set equal to budget.

Differences

	Funding	Budget
Brief Definition	Financial value – pays the bills	Planning value – builds the plan
Related Terms	• Forecast / EAC – the EAC represents total required funding, not the currently authorized funding. • Spend plan	• Baseline budget / performance measurement baseline (PMB) – represents the planned value required to accomplish task – may or may not equal funding/EAC.
Authorizing Instrument	Customer funding documentation, corporate investment plan (CIP), project charter, service order	Project Authorization (PA), control account authorization (CAA)
Required Approvals (Authorization and Changes)	External customer, Planning (CIP), line customer (service order)	As required by earned value description, project procedures, Program Management Plan
Restrictions	Actual costs cannot exceed authorized funding – work must stop prior to exceeding funding limits.	Actual costs can exceed budget – overrun is capture in the project EAC.

Differences

	Funding	Budget
Change Instrument	• Customer authorization • CIP or Service order - update work breakdown structure (WBS) values in VPAT (at least monthly).	• Baseline change proposal – as required
Change Guidelines	• Funding changes are based on availability of customer funds or changes to financial obligations. • Funding may change very frequently, even daily. • Funding contingency may be used to cover overcosts; underruns may result in an increase to funding contingency.	• Budget changes based on additions, deletions or movement of associated work scope. • Changes to budget contingency (management reserve) are only allowed for work that is within the defined project scope but not yet allocated to a WBS. • Budget changes cannot be made for the sole purpose of eliminating either cost underruns or overruns. • Budget changes made infrequently.

Differences

	Funding	Budget
Relationship to Work Scope	• Initial funding is based on the estimated project cost for a defined work scope – typically for a specific time period such as a fiscal year. • Changes to funding will not necessarily be driven by changes to work scope, although they can be. • Changes to funding may occur due to changes to available financial resources or due to costs accumulated on the project.	• Initial budget based on estimated project cost for a defined work scope. • Budget is planned for the duration of the project. • Budget is fully integrated with project work scope at activity (WBS) level. • Scope, schedule, and budget cannot change independent of one another. • Changes to the initial budget baseline are scope driven.
Relationship between funding and budget	• Funding and budget may be equal when the project is initiated although they do not have to be, particularly when incremental funding is used (e.g., multi-year projects). • Changes to funding will typically not drive changes to budget. • However, significant changes to funding may require additions/deletions to project work scope, which will require a BCP that will change project budget.	

Differences

	Funding	Budget
Relationship to Schedule	Schedule not associated with funding except at a project, program, or portfolio level – typically based on fiscal year	• Schedule integrated with budget at project / WBS / activity level via resource-loaded schedule • Budget is time-phased by month
Level of Analysis	Typically at project, program, or portfolio level.	At appropriate level of the WBS.
Tools	• VPAT • Tririga - TBD • Oracle	• VPAT • Tririga - TBD • Primavera P6 • EcoSys
Metrics	Financial performance metrics - % costed	Earned value performance metrics: Schedule Performance Index (SPI), Cost Performance Index (CPI), Schedule Variance (SV), Cost Variance (CV), Variance at Completion (VAC), To Complete Performance Index (TCPI)

Differences

	Funding	Budget
Potential Impact of Variances	• Allocating too much funding to a single project may result in other projects being delayed or cancelled. • Allocating too little funding to a project means bills will not be paid and the project cannot complete as planned.	• Cost and schedule variances indicate that the project is not proceeding as planned. • Analysis is required to assess the cause and impact of those variances and identify potential corrective actions. • VACs are driven by the EAC and may indicate that funding changes are required (overrun, funding increase; underrun, funding decrease).

Summary

- Funding is a moving target and is not necessarily related to scope or integrated with project schedule.
  - Project cannot track schedule and cost performance against funding.
- EAC should provide an indicator of funding required to complete project scope – but may (and probably will) differ from both funding and budget.
- Budget is tightly integrated with scope and schedule.
  - Project can track schedule and cost performance against budget.
  - If budget is managed properly, the schedule performance index (SPI) provides a good tool for forecasting project EAC and project funding requirements.