

How to Cost a Project

Summary of Process

- There are eight simple steps to costing a project:
- Identify the inputs needed from the project objective and activities.
- Quantify the inputs.
- Produce a budget framework by identifying budget headings.
- Establish budgeting assumptions.
- Estimate figures based on set assumptions and information gathered.
- Collate and summarise item costs in the budget framework.
- Review and revise the figures to make sure nothing is left out.
- Keep safe your working papers and calculations.

STEP 1: Identify the inputs needed

This involves looking closely at all the activities which have to take place to achieve the project's objective in a given timeframe. What do you need to fulfil those activities?

For example, the inputs required to run a training programme on budgeting for 20 people over 5 days, might be:

Trainer – time, accommodation, travel and meals

Training venue

Publicity – advertising and brochures

Training materials – e.g. flip charts, pens, paper, photocopies, masking tape, overhead transparencies, calculators.

Equipment – overhead projector, flip chart easel, video

Accommodation, meals and refreshments for participants

STEP 2: Quantify the inputs

This means writing down in a list exactly how many of each item you need. For example, for a training programme which lasts 5 days and has places for 20 people:

Input	Item	No. required
Trainer	Teaching days	5 days
	Preparation days	5 days
	Travel (Km)	500 km
	Accommodation	5 nights
	Meal allowance	5 days
Training venue	Room hire	5 days
Publicity	Advert in national press	2 entries
	Brochures printing	100 pages

Training materials	Flip chart pads	5 pads
	Marker pens	2 boxes of 10 pens
	Writing pens	20
	Pencils	20
	Pads of paper	20
	Masking tape	2 rolls
	Photocopies	20 x 40 pages = 1,200
	Overhead transparencies	1 box of 25
	Calculators (1 between 2 people)	10
Equipment	Hire of OHP	5 days
	Hire of flip chart easel	5 days
	Hire of video	1 day
Participants	Accommodation	20 x 5 days
	Meals and refreshments	20 x 5 days

STEP 3: Produce a budget framework

Having arrived at a list of all the things you need to run the activities, summarise the budget line items in a budget framework. From the above example, you might produce the following budget framework:

Budget Heading

Trainer's Fees and Expenses [i.e. fees, travel, accommodation, meals]

Advertising

Equipment and Room Hire

Stationery and Printing [i.e. training materials & printing brochures]

Food and Accommodation

STEP 4: Establish budgeting assumptions

For example:

What inflation rate are you going to use?

If the budget is in a foreign currency, what exchange rate are you using?

What rate per kilometre will you apply for mileage calculations?

STEP 5: Estimate figures

Using your list of input items and budget assumptions (steps 2 and 4) you can now add unit costs to arrive at a budget figure for each item.

For example, for the “Trainer” input:

Input	Item	No. required	Unit cost Tshs	Budget
Trainer	Teaching days	5 days	100,000	500,000
	Preparation days	5 days	100,000	500,000
	Travel (Km)	500 km	500	250,000
	Accommodation	5 nights	30,000	150,000
	Meal allowance	5 days	10,000	50,000

STEP 6: Collate and summarise costs

This requires you to look down your list of items and group together costs under the budget line items you prepared in your budget framework.

Using the above example, the items costed under the “Trainer” input will be summarised under the heading “Trainer’s Fees and Expenses” – the total is Tshs.1,450,000.

STEP 7: Review and revise figures

Check that there are no items left out of your calculations and that you have estimated the figures fairly and correctly.

In the above example, there is no allowance made for the cost of organising the training programme – such as telephone calls, Training Officer’s time and letters to participants. There might also be a need to budget for the cost of printing certificates, course photographs and an end-of-course party. By including these things, you will arrive at the **true cost** of running this activity.

STEP 8: Keep your working papers and calculations

It is important to keep your working papers as you might have to explain how you arrived at the figures, or the numbers or unit prices could change.

A note on the “Forgotten” Costs

Try not to leave any expenditure out of your budget. It is very easy to concentrate on all the obvious costs such as salaries, rent, telephones, travel and project materials and to overlook other necessarily incurred costs such as:

non-pay benefits for staff

audit fees

committee expenses

staff training and development

bank charges

replacement and repair of equipment

start-up costs

recruitment

advertising;

and

1q azvolunteers expenses

Cost Structures

Once you have identified the main areas of spending for your organisation you should be able to classify them as either *Direct or Indirect* costs. Differentiation of costs into direct and indirect is important for the purpose of identifying the full cost of carrying out a particular activity.

Direct and Indirect Costs

Costs can be divided into two major categories:

Direct Costs: These are all costs that are directly related to a particular activity. For example, for a project building a water dam, direct costs will include labour, cement, bricks and transport.

Indirect Costs: These costs are of a general nature and not directly related to a particular activity. For example, for the water dam project, salary for the NGO's chief executive will be considered an indirect cost. Central administration costs – or **overheads** or **core costs** – fall into this category. Since these costs are incurred during project implementation, they should be shared by all projects in an organisation.

Overhead Apportionment

Every NGO should develop a policy on the sharing (or *apportionment*) of overhead costs and incorporate this into the financial planning process. Indirect costs are usually apportioned in a pre-arranged ratio. This can either take place as the transaction is entered in the accounting records, or at the end of the reporting period by making one adjustment entry.

There are various techniques for apportioning overheads between projects, based on different working criteria:

- Number of employees
- Size of budget
- Staff costs
- Amount of space used by department
- Number of clients
- Actual consumption

Depending on the nature of the overhead, different criteria can be applied. For example, in allocating central support staff salaries to projects, the number of employees in the project is used; and for apportioning the cost of office rent, the actual space occupied by project staff is applied.

There is no hard and fast rule in allocating overheads to projects, rather, logic should be applied.