

## Project budgets are not cost estimates

### IDPM Executive Brief No. 01

One of the most common reasons why projects exceed budget has nothing to do with poor contractors, unexpected site conditions or inflation.

It begins much earlier.

Many organisations mistake a cost estimate for a project budget.

Although both numbers may initially appear similar, they serve entirely different purposes. A cost estimate predicts the likely construction cost based on the available design information. A project budget represents the total financial commitment required to successfully deliver a project.

The difference is more than semantics. It is one of the fundamental principles of successful project governance.

Projects rarely fail because cost estimates were inaccurate. They fail because organisations approve budgets that leave no room for uncertainty, risk or change.

Understanding this distinction allows project sponsors to make better decisions, establish realistic financial expectations and significantly improve budget certainty throughout the project lifecycle.

### Cost estimate versus project budget

A cost estimate answers a simple question:

**“What do we currently believe the construction work will cost?”**

A project budget answers a different question:

**“How much money must we reserve to successfully complete this project?”**

The second question includes considerably more than construction costs.

Typical project budgets also contain:

- Professional fees
- Surveys
- Permits and statutory approvals
- Furniture
- IT infrastructure
- Audio visual equipment
- Security systems
- Relocation costs
- Client-side costs
- Inflation
- Contingency
- Identified project risks

Reducing all of these components to a single construction estimate creates an illusion of certainty that rarely survives the first design change.

## Why contingency is not optional

Many decision makers perceive contingency as an unnecessary financial buffer.

In reality it represents something entirely different.

Contingency acknowledges that projects are developed under uncertainty.

At concept stage, only a limited amount of information is available.

Design develops.

Authorities introduce comments.

Landlords modify requirements.

Markets fluctuate.

Contractors identify constraints.

Unexpected discoveries occur during construction.

None of these events necessarily indicate poor project management.

They simply reflect the reality of delivering complex projects.

Removing contingency does not eliminate uncertainty.

It merely removes the financial capacity to respond to it.

## How much contingency is appropriate?

There is no universal percentage.

The appropriate contingency depends on:

- Design maturity
- Project complexity
- Procurement strategy
- Market conditions
- Existing building risks
- Programme certainty
- Availability of technical information

Projects at concept stage naturally require higher contingency than projects tendered with fully coordinated documentation.

The important point is not the percentage itself.

The important point is that contingency should be consciously determined rather than omitted altogether.

## Typical budgeting mistakes

Across many workplace and commercial real estate projects, the same issues appear repeatedly.

Budget equals estimate

The approved budget simply copies the latest cost estimate without considering risk.

Furniture excluded

Furniture, IT and relocation are funded separately and forgotten until late in the project.

No inflation allowance

Long procurement periods expose projects to market changes that have never been budgeted.

Optimistic assumptions

Budgets are based on best-case scenarios rather than realistic project outcomes.

Contingency spent too early

Instead of protecting against uncertainty, contingency is gradually consumed by design upgrades and scope additions.

### **Best practice**

Successful organisations treat budgeting as an ongoing management process rather than a single approval milestone.

Good practice typically includes:

- Separate cost estimate from project budget.
- Define contingency explicitly.
- Link contingency to identified risks.
- Review budget after every major design stage.
- Report contingency drawdown separately from project costs.
- Keep decision makers informed about remaining financial resilience.

Budget management is not about predicting the future perfectly.

It is about maintaining sufficient flexibility to respond to the future intelligently.

## IDPM Checklist

Before approving your next project budget, ask yourself:

- Is the project budget clearly separated from the construction estimate?
- Have professional fees been included?
- Are furniture, IT and relocation costs covered?
- Has inflation been considered?
- Is contingency explicitly defined?
- Is contingency linked to project risks?
- Are client-side costs included?
- Has the budget been reviewed at the current design stage?
- Does the approved budget reflect realistic project uncertainty?

If any of these questions cannot be answered confidently, the approved budget may not yet represent the true financial commitment required to deliver the project.

### Key Takeaways

- A cost estimate is not a project budget.
- Budget certainty depends on recognising uncertainty, not ignoring it.
- Contingency is a management tool, not spare money.
- Separating estimate and budget improves governance and decision-making.
- The objective is not to eliminate risk, but to prepare for it.