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Construction industry systems, implementation, support and training

Should we Forecast by *'Anticipated to Complete'* or *'Estimated Final Cost'*?

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Introduction

Cheops provides a choice of two forecasting methods. These are:-
'Anticipated to Complete', where users forecast the value still to be spent, and
'Estimated Final Cost', where users forecast the total value to be spent overall.

At some point, every construction company will have a discussion about the most appropriate forecasting method. This paper attempts to describe the advantages and disadvantages of each method, to allow management to make a properly considered decision as to the most appropriate method for their business.

It is worth noting at this point that there is no 'right' method. Both methods have pros and cons and the choice will come down to one or two small factors. Once the choice is made, the chosen method applies to all projects within the *Cheops* company. Each *Cheops* company may use a different method. The method may be changed in the future if required.

In my experience, approx. 50% of construction companies use 'Estimated Final Cost', and 50% use 'Anticipated to Complete', so opinion is quite evenly divided!

The 'Estimated Final Cost' method

The **Estimated Final Cost** method, is where the user is asked to enter a full forecast for every cost that will be encountered on each cost reference, regardless of what has been currently committed (orders and contracts, etc.). The forecast is the full value of anticipated spending on that trade. Therefore, at project completion, the actual cost should be equal to the last forecast, for each cost reference.

In some companies, this may be a simpler method, as it does not rely on the committed cost being up to date. If contracts and purchase orders have not yet been entered, this has no impact on the forecast.
Also, if a forecast has been entered in one month, there may be no need to change the forecast in the following months if nothing has changed – the contract sum has not changed, no variations, etc. and so the forecast for the trade will not change.

The 'Anticipated to Complete' method

The **Anticipated to Complete** method, is where the user is asked to enter a forecast for any items not yet committed. The system shows the current committed cost for each cost reference (and this is already included in the forecast), and the user considers what else needs to be spent on each cost reference. The estimated final cost is thus equal to the current committed cost plus the (entered) anticipated to complete value.

In some companies, this may be the preferred method. If the committed cost is diligently kept up to date, with all purchase orders, contracts, variations, etc., entered immediately they are known then forecasting the 'what is left to spend' should be quite simple. However, as I have said, if the commitment is not accurate, then the forecast is not accurate.
Also, if a forecast has been entered in one month, and the commitment has since changed, then the forecast (anticipated to complete) must be changed.

With both methods, project staff need to be diligent and on top of their game, as it is easy to '*under*' forecast and therefore receive some nasty surprises in the latter stages of a project. This may be marginally more important with the estimated final cost method

Both methods arrive at the same answer, and that is - we wish to forecast the final cost of the project.
If we enter Estimated Final Cost, then the system deducts the current commitment, and shows us the anticipated to complete.
If we enter Anticipated to Complete, then the system adds the current commitment, and shows us the estimated final cost.

Advantages and Disadvantages

Estimated Final Cost method (EFC)	Anticipated to Complete method (ATC)
The user enters notes reflecting the total to be spent on each cost reference. The forecast **IS** the value entered by the user.	The user enters notes reflecting the balance still to be spent. The forecast is the current committed cost, plus the anticipated to complete value entered b y the user.
Committed cost is irrelevant to the forecast.	Committed cost should be managed diligently, as it forms part of the forecast.
If the previously entered forecast for a cost reference still holds (even though the commitment may have changed) there is no need to adjust the forecast.	As the committed cost changes, users need to consider adjusting the forecast for each cost reference.
Potential exists to under forecast.	There may be less potential to 'under' forecast, as the forecast final cost is always equal to or greater than the current committed cost.

Summary

You will see from the above, that the method chosen is less important than the need to be diligent with the actual forecast. It is simply not worth having a huge debate about the method. The actual **forecast value** is the key to achieving a successful outcome for the project, and also the key to the ongoing success of the entire business. A single project which, throughout most of the construction period, appears to be profitable and then suffers a catastrophic loss, can have an equally catastrophic effect on the overall business.

The key is - train the project staff extensively in the **how and what** to forecast. Ensure that they all understand the importance of covering all contingencies. Ensure that they have an allowance for all costs that may be required to complete each trade package. Ensure that any real contingency allowance is reported separately (using the *Cheops* contingency/trade allowance flags) so that any 'padding' is transparent and identifiable by management. Please also refer to the **Forecasting Strategies** paper.