04/05/2012 10:30 AM: IT Budgeting for Nonprofits

Track: Leadership

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[Link to Master Notes]

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Notes:

Anatomy of an IT budget
- Types, categories

IT Asset Lifecycle Planning
Different takes on the IT budget

Challenges of IT budgeting
- Personnel knowledge challenges
  - Accounting doesn't know IT
  - IT doesn't understand accounting
- IT costs occur at varying times and recur in multi-year patterns
  - Not just personnel and non-personnel
  - May not be the same year-to-year
- Unable to distinguish between mandatory and discretionary
  - Often all intermingled and inseparable.
  - 5 people in this room raised hand that they can distinguish. Typical is 2-3 in a room of 100 people.
- Single year focus can result in higher long-term cost

Types of expenditures
- Personnel
  - Salaries & Benefits
- Non-personnel
  - Hardware

    - Software
    - Subscriptions
    - Services
- Once you identify the type of expenditure, then ask the right questions to better understand the cost.

Personnel Budgeting questions

- Any anticipated changes to salaries?
- Certifications / licensures
- Any turnover planned?

Hardware budget questions

- What is the hardware end-of-life?
    - Recommend buying the warantee for that length of time, not having to worry about budget approval to wextend warrantee year-after-year
- Are theren any subscriptions associated with the hardware?
- Which costs have to be capitalized?
- Do we have enough computers for planned new hires?
- Are other departments planning any changes or programs that will require investment in equipment?

Software budget questions

- License renewals?
- How long is the license valid for?
- Installation costs?
- Enough licenses on hand for planned new hires?
- Any other department planning changes or new programs?

As the technical expert go out and have face-to-face conversations with each department on how IT can add value, and what their needs are. This both leads to more effective budgeting and better relationships.

Services budget questions

- Is the service level adequate for our coming needs?
- Are the services provided still needed?
    - Seen this happen too often: organization still paying annual service contract for software or equipment that it no longer in use
- Are there additional services needed?
- If volume of services has changed, are there discounts available?
- Does the service have a required period of time?
- Isolate services costs from operational costs

Subscriptions budget questions

- Installation for cloud services are currently typically not capitalized. Thinks this may change.
- Should we consider converting any software to subscriptions? This is a big question right now, especially with Microsoft being aggressive in their Office 365 pricing.
- Have subscriptions associated with hardware and software been incorporated in the

budget?

Remember to focus on the coming years and not just the short term

Categories of expenditures defined

- Capital - expenditures that will need to be considered as part of the capital budget
    - Hardware and large software license purchases
    - Significant repairs, parts, replacements, upgrades
- Operating - expenditures related to operations
    - Subscriptions, maintenance, support
- Project - expenditures tied to a discreet effort
    - Important to isolate these because they may be required or discretionary
    - May or may not be capitalized.

What is your fixed cost related to IT? Your baseline to keep up-and-running?

Comment from audience: should sub-categorize projects as short-term and long-term. Identify the expenditures that will have a long tail.

- Response: would budget for those separately: as implementation and operational costs

Categories of expenditures - considerations

- Capital
    - Has a greater cash flow impact, but may also be eligible for financing
    - Consider impact to financial statements
- Operational
    - Are usually "required" expenditures related to day-to-day
    - Somewhat of a fixed cost, difficult to minimize
- Project
    - Usually discretionary, but not executing may have impacts
    - Timing may be adjusted for cash flow

Classes of expenditures (Adapted from Gartner)

- Run - keep the organization running
    - "keep the lights on"
    - Most operating expenditures fall here
    - Project expenditures related to support and maintenance also fall here
- Grow - projects and initiatives that seek to improve organizational efficiencies & effectiveness
    - Many project expenditures fall here
- Transform - providing new capabilities/products/services
    - Often called R&D
    - Some project, some capital expenditures fall here
    - Could just be a different module or functionality for something you already have. Could be a proof-of-concept

Classes of Expenditures - Analyzing your budget

IT Budget	Entity A	Entity B	Entity C	Your Org
Run	80%	60%	50%	??
Grow	20%	30%	30%	??
Transform	0%	10%	20%	??

Look at the difference between entities B and C - doubling the proportion of IT expenditure dedicated to Transform is a big competitive advantage.

Example IT budget spreadsheet lays out each category of expenditure over a five year period.

IT Asset Lifecycle Plannin

Understanding the IT Asset Lifecycle

- Identify total costs over life of asset
- Identify points in time with option to change cost structure
- Ensure IT budget decisions balance short term needs and long-term value

Lifecycle planning - Hardware

- Acquisition costs normally capitalized
- How often an org replaces hardware is tied to risk tolearance
    - Different assets have varying risks of failure as they age
    - Consider the criticality of an asset
    - Consider the ease of replacement in the event of failure
- Virtualization as an example:
    - Laptops and Desktops need replacement after 3-4 years, with moderate difficulty to replace
    - Virtual terminals (supposedly) last 6-8 years, and are easy to replace

Risk of Failure	Laptop	Desktop	Virtual Terminal	Servers	Firewall
Low	<2 years	<3 yrs	<6 yrs	<3 yrs	<4 yrs
Moderate	2-3 yrs	3-5 yrs	6-8 yrs	3-4 yrs	4-6 yrs
High	4+ yrs	5+ yrs	8+ yrs	4+ yrs	6+ yrs
Ease of replacement	Moderate	Moderate	Easy	Hard	Moderate

Re-purpose equipment. A server may need to be taken out of service after 4 years, but can it be used another few years for something that isn't as mission critical?

Software - acquire/replace costs may be capitalized.
- Replace/renew/upgrade is our decision point - direct impact on budgeting

Types of license programs
- Outright purchase
  - “retail” software license
- Defined purchase
- Defines period + subscription
- Subscription

Be well aware of what the terms are in your services contracts - what is the defined term, is there an automatic renewal, is there a required notification period if terminating?

Understanding managed service providers
- Understand that you need to conform to their models.
- Shift the non-value-added tasks. Your IT staff shouldn’t be focused on rote tasks like patching servers, they should be focused on encouraging technology adoption within the org.
- MSPs will tell you they’ll reduce your costs, but this is not true unless you actually fire someone as a result.
- Usually employed to provide better predictability in certain tasks

Adding some cloud to the budget
- Reduces need for equipment purchases
- Reduces up-front implementation costs
- Reduces ongoing support costs
- Usually reduces overall cost of acquisition
- Ususally follows subscription lifecycle model
- Cash flow considerations
  - No “asset” created, usually not eligible for financing
  - Impact to financial statements is expensed?
  - Does the conversion reduce costs to other areas?
    - Look at trickle out effects - fewer server purchases? SSL certificates?
    - Flip side example from audience - org that went to the cloud but only had a T1, resulted in increased expenditure to upgrade internet connection

Create a multi-year IT budget to analyze total costs
- note replacement / renewal points and costs
  - Remember to include any associated services w/ changes
- Remember disposal costs

Now that you have an IT budget, what next?
- After completing the entire budget, go back and look at the big picture that it shows
- Use multiple versions & what-if scenarios
  - Compare physical vs. virtual servers
  - on-premise vs. cloud solutions
- Creating a budget the first time can be a big endeavor
  - Maintaining it usually requires less effort
  - Becomes a lot easier to maintain if you spend time to do it well up front

- Asking competitive analysis questions
    - Personnel budget
        - IT talent market is very competitive w/ lots of movement
    - Hardware budget
        - What is competition doing
    - Software budget
- Using the “reserve method” of IT budgeting
    - In the years where we have valleys, put it aside into a reserve. Apply the accumulated reserve to the years with higher expenditures. Use it to figure out a flat year-after-year budget.
    - Usually a 3-5 year rolling period
    - Useful for budget approvals, can’t be used for financial, often not for cost allocations as well

Tying the IT budget to business strategy
- What role does IT play in the org’s mission
- Run-grow-transform
- What changes may be necessary to better align?

A good budget is really about a planning tool, better decision making, and about better outcomes for the organization.