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Publisher
itSM Solutions™ LLC
31 South Talbert Blvd #295
Lexington, NC 27292
Phone (336) 510-2885
Fax (336) 798-6296

Find us on the web at: http://www.itsmsolutions.com.
To report errors please send a note to the editor, Hank Marquis at hank.marquis@itsmsolutions.com
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"How to Budget for Real World IT"

DITY Weekly Reader

The workable, practical guide to Do IT Yourself

Keep in mind as you work on your Budget that "dollars and cents" are "the language of the Business," and that Budgetary figures are perhaps the ultimate way to measure and analyze your success in meeting the Business' requirements.

janet
KUHN

Articles
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Bio

By Janet Kuhn

The IT Infrastructure Library® (ITIL®) considers Financial Management to be one of the essential Service Delivery processes. Yet, its effective operation eludes many IT Managers.

While almost everyone within an IT shop will be involved in a Budgeting exercise at some time during his/her career, most think very unkind thoughts of budgeting. Budget season becomes a stressful time of spreadsheets and interminable "budget justification" meetings.

Not only are there many components to include in the budget, but there is uncertainty about the future. Typically budgets are prepared 6-18 months prior to the actual expenditures, and real life is always ready to throw a few wrinkles into the mix, such as changes in Business and IT requirements, vendor products, and, of course, actual prices.

Fortunately, ITIL Budgeting Activity guidance helps address these challenges. This article examines Financial Management's Budgeting activity and offers tips for achieving its benefits in a real-life corporate environment.

Start with a Clean Sheet. First, put the organization's "official" budget sheets on the back burner. You will come back to them later, but, before you do, you must thoroughly understand the components of your IT infrastructure and how they will change during the coming year.

The Corporation designs its budgeting process to meet its financial and reporting needs, which do not necessarily accommodate the type of insight you need to plan the IT Services budget.

Know Where You Are. Request as many accountings of your current spending as possible. If your organization has a sophisticated managerial accounting system, you may already be receiving these reports. If not, you will have to seek out copies of the current year's paid invoices and various financial reports, and meld the two together. Familiarity with spreadsheets will be a definite plus in putting together this analysis.

This is also the time to round up any internal resources who can help with the Budget. Many IT organizations have Administrative personnel who possess managerial and spreadsheet skills that can quickly be put to use during the Budgeting activity.

Leverage your Relationship with Capacity Management. Hook up with the Capacity Management process (if you have one), which produces both an annual Capacity Plan and a Workload Catalog.

The Capacity Plan is normally done during the corporate Budget season as the corporation plans is own direction and growth for the coming year, and the Workload Catalog provides valuable information about how changes in the Business will result in changes to the workload the IT infrastructure must support.

Voila! Now you know what changes IT must budget for next year, as well as the timing of those changes.

Get in the Driver's Seat. Figure out what drives your IT costs. Do they vary because of different business projects, changes in the number of employees, increases in the number of business locations, fluctuations in transactions, size of sales, etc.?

Design your budget around these drivers, so you can easily adjust it for higher- or lower-than-anticipated changes in them.

Price Out the Budget. The Financial Management process breaks costs into five distinct types – Hardware, Software, People, Accommodations, External Services, and Transfer Costs. These very helpful categories ensure that you capture all of the costs related to both current spending and future changes.

Don't forget that Hardware and Software cost types encompass not only the cost of the new hardware or software, but the cost for supporting it as well. People costs can include both full-time permanent staff, as well as temporary contract workers.

Accommodations costs reflect costs for accommodations, such as office space for new workers, or data centers for high-availability systems. External costs include external services, such as Disaster Recovery sites, or web-site hosting services. Transfer costs are specific to your individual company, and, for example, may include a pro-rated charge for each employee to cover the cost of corporate-wide utilities.

Be aware that a new business initiative may require that you purchase computer equipment and software several months in advance of the actual rollout. Plan the budget to include the acquisition of equipment according to the timeline required to receive, unpack, set up, configure and test the equipment before rolling it into use.

No one can predict the future accurately, and the same goes for the prices of IT budgetary items. Talk to your current vendors. See if they have any price or product changes on the horizon. If pricing appears to be stable, use your current pricing, plus a small factor to cover inaccuracies. Try to base any adjustments in pricing for the budget year on the vendor's historical price trend.

Design Your Budget Model for Analysis. As the Budget year unfolds, the Accounting activity will compare current costs against budgeted costs. You can lay the groundwork for this during the Budgeting phase by building a model that can accommodate changes in several areas; for instance:

- Faster or slower acquisition of the budget item
- Higher or lower consumption of the budget item
- Changes in price

Fill Out the Corporate Sheets. Now that you have developed a Budget that you understand and can refer to the future, it is time to fill out the Corporate Budget sheets, according to the instructions from Corporate. In most cases, the "bottom line" of both budgets will be the same, and you will have created an accurate, detailed budget to which you can refer over the coming year to compare your expenditures.

It's Just Another Way to Measure. Keep in mind as you work on your Budget that "dollars and cents" are "the language of the Business," and that Budgetary figures are perhaps the ultimate way to measure and analyze your success in meeting the Business' requirements.

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- For more on IT silos please see DITY volume 2, issue 28 "Justifying ITIL"

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