

Budget Management Techniques

Jarmila Pencikova
August 24, 2005



Objective

You've worked hard to propose, prepare and defend your IT budget. We'll discuss forecasting, standard reports and administrative techniques to help you responsibly manage the budget you fought so hard to get.



Agenda

- ◆ You fought for your budget . . . Did you win? Did you get everything you asked for?
- ◆ Techniques for the Budget Preparation
- ◆ Techniques for the Budget Fight
- ◆ Useful Reports
- ◆ Forecasting
- ◆ Administrative Techniques to help you manage expenses during the year



You Fought For Your Budget ...



Did You Win The Fight?
Did You Get Everything You Asked For?



Do you know WHY?



Budget Preparation Techniques

- ◆ Separate Budgeting for Projects from Regular Departmental Operating Budget
- ◆ Use Budget Contingency
- ◆ Apply Contingency Estimating Method
- ◆ Separate by Expense Category within each Project and Department



Budgeting for Projects vs. Department

- ◆ Budget for Projects
 - Usually includes one-time costs (purchases), implementation cost and has Capital and/or Operating Expenses
- ◆ Budget for Department
 - Includes ongoing costs ("cost of running the IT") and has only operating costs
- ◆ Never mix these two budgets together!!!



Budget Contingency

- ◆ The purpose of budget contingency is to recognize that cost estimates are not exact, and to compensate for that.
- ◆ It covers the error of estimate, bad luck and Murphy's Law.



Contingency Estimating Method

	Lowest Estimate	Best Estimate	Highest Estimate
Project Cost	\$100,000	\$120,000	\$150,000
Probability	10%	70%	20%
Weighted Cost	\$10,000	\$84,000	\$30,000
Probable Cost	\$124,000		



Separate by Expense Category

- ◆ Within each Project/Department, separate costs by category
 - Salaries
 - Consultants
 - Hardware
 - Software
 - Training Costs
 - Travel Costs
 - Telecommunication Costs
 - Etc.



Techniques for the Budget Fight

- ◆ Be prepared
- ◆ Demonstrate what's new/different in the coming year
- ◆ Prepare IT Spending Analysis for the past 5 years
- ◆ If possible, compare results with your Peers
- ◆ Be prepared to compromise



IT Spending Analysis

- ◆ Analyze by
 - Type of Expenditure (capital, operating, projects, etc.)
 - Category (salaries, consultants, etc.)
 - \$ per Partner
 - \$ per Lawyer
 - \$ per Firm Member
 - % of Revenue
- ◆ Compare with your Peers from other Law Firms (requires consistent approach by all Firms)



Irving Lawrence Taylor & Anderson

Summary of Information Technology Spending for Period 2000 to 2005

in \$'000	Total Actuals	2005 Budget	2004 Actuals	2003 Actuals	2002 Actuals	2001 Actuals	2000 Actuals
OPERATING EXPENDITURES:							
Salaries and Related Expenses	\$ 9,850	\$ 1,900	\$ 1,800	\$ 1,650	\$ 1,600	\$ 1,500	\$ 1,400
Outside Consulting and Related Expenses	\$ 860	\$ 125	\$ 120	\$ 250	\$ 170	\$ 100	\$ 95
Telecom	\$ 2,720	\$ 500	\$ 475	\$ 450	\$ 425	\$ 430	\$ 440
Other Expenses	\$ 3,135	\$ 630	\$ 600	\$ 580	\$ 450	\$ 475	\$ 400
Software Depreciation, Licences & Maintenance	\$ 8,950	\$ 1,800	\$ 1,600	\$ 1,500	\$ 1,450	\$ 1,400	\$ 1,200
Hardware Depreciation, Leases & Maintenance	\$ 3,720	\$ 800	\$ 720	\$ 650	\$ 600	\$ 500	\$ 450
TOTAL OPERATING EXPENDITURES	\$ 29,235	\$ 5,755	\$ 5,315	\$ 5,080	\$ 4,695	\$ 4,405	\$ 3,985
MAJOR PROJECTS EXPENDITURES							
Hardware	\$ 3,445	\$ 960	\$ 500	\$ 220	\$ 450	\$ 350	\$ 965
Software	\$ 1,361	\$ 350	\$ 290	\$ 206	\$ 300	\$ 120	\$ 95
Outside Consulting Related to Major Projects	\$ 2,410	\$ 500	\$ 300	\$ 480	\$ 530	\$ 500	\$ 100
Other Expenses Related to Major Projects	\$ 225	\$ 50	\$ 35	\$ 30	\$ 35	\$ 35	\$ 40
TOTAL MAJOR PROJECTS EXPENDITURES	\$ 7,216	\$ 1,860	\$ 1,125	\$ 936	\$ 1,315	\$ 1,005	\$ 1,200
TOTAL EXPENDITURES	\$ 36,451	\$ 7,615	\$ 6,440	\$ 6,016	\$ 6,010	\$ 5,410	\$ 5,185

Statistical Ratios	Average						
Expenditures per partner	\$ 37	\$ 42	\$ 38	\$ 36	\$ 38	\$ 35	\$ 35
Expenditures per lawyer	\$ 22	\$ 25	\$ 23	\$ 21	\$ 22	\$ 21	\$ 21
Expenditures per timekeeper	\$ 19	\$ 22	\$ 20	\$ 19	\$ 19	\$ 18	\$ 17
Expenditures per firm member	\$ 9	\$ 11	\$ 9	\$ 9	\$ 9	\$ 8	\$ 8
Expenditures to Revenue	4.1%	4.2%	4.0%	4.0%	4.3%	4.2%	4.3%
Number of partners	163.3	180	170	165	160	155	150
Number of lawyers	274.2	300	285	280	270	260	250
Number of timekeepers	318.3	340	330	320	315	305	300
Number of firm members	678.3	700	700	685	675	660	650
Revenue	\$ 146,667	\$ 180,000	\$ 160,000	\$ 150,000	\$ 140,000	\$ 130,000	\$ 120,000

Results of the Analysis

	2000	2005	Change
Total Expenditures	\$5,185,000	\$7,615,000	Up 47%
Revenue	\$120,000,000	\$180,000,000	Up 50%
Expenditures to Revenue	4.3%	4.2%	Down 2%
Number of Firm Members	650	700	Up 8%
Expenditure per Firm Member	\$8,000	\$11,000	Up 38%



Useful Reports

- ◆ Reports are key in controlling your expenses during the year
- ◆ Report by:
 - Each IT Unit/Department separately
 - Expense Category within each IT Unit/Dept
 - Total IT Projects Spending
 - Expense Category within each Project



Total IT Projects Summary Report

- ◆ Separate line for each Project
- ◆ Report should include
 - Annual Budgeted Amount
 - YTD Spending
 - Budget Variance
 - How much is still available
- ◆ Gives you snapshot of where things are
- ◆ Set up Projects as 'Departments'



Irving Lawrence Taylor & Anderson

2005 Major Projects Summary For period ending July 31, 2005

Project Number	Project Name	YTD Actuals	YTD Budget	YTD Variance	Unspent Amount	Annual Budget
101	Business Intelligence Software	\$ 120,000	\$ 150,000	\$ 30,000	\$ 80,000	\$ 200,000
102	Voice over IP	\$ 70,000	\$ 65,000	-\$ 5,000	\$ 30,000	\$ 100,000
103	Audio/Visual Equipment	\$ 30,000	\$ 50,000	\$ 20,000	\$ 20,000	\$ 50,000
104	Litigation Support Software	\$ 45,000	\$ 35,000	-\$ 10,000	\$ 15,000	\$ 60,000
105	Online Training	\$ 32,000	\$ 33,000	\$ 1,000	\$ 18,000	\$ 50,000
106	Cost Recovery System	\$ 69,500	\$ 70,000	\$ 500	\$ 10,500	\$ 80,000
107	Upgrade to Office 2003	\$ 112,500	\$ 100,000	-\$ 12,500	\$ 137,500	\$ 250,000
108	Records Management System Upgrade	\$ 67,000	\$ 70,000	\$ 3,000	\$ 3,000	\$ 70,000
109	File Opening Workflow Implementation	\$ 131,000	\$ 133,000	\$ 2,000	\$ 69,000	\$ 200,000
110	New Desktop Units	\$ 877,000	\$ 900,000	\$ 23,000	\$ 23,000	\$ 900,000
Total for All 2005 Major Projects		\$ 1,554,000	\$ 1,606,000	\$ 52,000	\$ 406,000	\$ 1,960,000
Summary of Major Projects Expenditures						
Capital Expenditures		\$ 1,055,000	\$ 1,140,000	\$ 85,000	\$ 305,000	\$ 1,360,000
Operating Expenditures		\$ 499,000	\$ 466,000	-\$ 33,000	\$ 101,000	\$ 600,000
Total 2005 Major Projects Expenditures		\$ 1,554,000	\$ 1,606,000	\$ 52,000	\$ 406,000	\$ 1,960,000

Irving Lawrence Taylor & Anderson

Summary for 2005 Project # 101 - Business Intelligence Software For period ending July 31, 2005

Project Number	YTD Actuals	YTD Budget	YTD Variance	Unspent Amount	Annual Budget
Capital Expenditures					
Hardware	\$ 10,000	\$ 20,000	\$ 10,000	\$ 10,000	\$ 20,000
Software	\$ 55,000	\$ 70,000	\$ 15,000	\$ 45,000	\$ 100,000
Equipment	\$ -	\$ 5,000	\$ 5,000	\$ 10,000	\$ 10,000
Total Capital Expenditures	\$ 65,000	\$ 95,000	\$ 30,000	\$ 65,000	\$ 130,000
Operating Expenditures					
Consultants	\$ 55,000	\$ 40,000	-\$ 15,000	-\$ 5,000	\$ 50,000
Training Cost	\$ -	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Travel Cost	\$ -	\$ 2,000	\$ 2,000	\$ 5,000	\$ 5,000
Other	\$ -	\$ 3,000	\$ 3,000	\$ 5,000	\$ 5,000
Total Operating Expenditures	\$ 55,000	\$ 55,000	\$ -	\$ 15,000	\$ 70,000
Total for the Project	\$ 120,000	\$ 150,000	\$ 30,000	\$ 80,000	\$ 200,000

Report for Each Project

- ◆ Separate different types of expenses within each Project
- ◆ Report should include
 - Annual Budgeted Amount
 - YTD Spending
 - Budget Variance
 - How much is still available
- ◆ Gives you idea where you stand within this Project



Forecasting

- ◆ Estimate of spending for the upcoming period
- ◆ Period – Month, Quarter, Remainder of the Year
- ◆ Forecast by Project, Department, Category
- ◆ Why?
 - Helps you see where you're going to end up
 - Alerts you soon enough to see a problem
 - Helps you better manage your budget
 - Avoids surprises



Irving Lawrence Taylor & Anderson

2005 Major Projects Summary

Project Number	Project Name	July YTD Actuals	Aug-Dec Forecast	Total Spending	Annual Budget	Budget-Forecast Variance
101	Business Intelligence Software	\$ 120,000	\$ 85,000	\$ 205,000	\$ 200,000	-\$ 5,000
102	Voice over IP	\$ 70,000	\$ 20,000	\$ 90,000	\$ 100,000	\$ 10,000
103	Audio/Visual Equipment	\$ 30,000	\$ 15,000	\$ 45,000	\$ 50,000	\$ 5,000
104	Litigation Support Software	\$ 45,000	\$ 45,000	\$ 90,000	\$ 60,000	-\$ 30,000
105	Online Training	\$ 32,000	\$ 15,000	\$ 47,000	\$ 50,000	\$ 3,000
106	Cost Recovery System	\$ 69,500	\$ -	\$ 69,500	\$ 80,000	\$ 10,500
107	Upgrade to Office 2003	\$ 112,500	\$ 150,000	\$ 262,500	\$ 250,000	-\$ 12,500
108	Records Management System Upgrade	\$ 67,000	\$ -	\$ 67,000	\$ 70,000	\$ 3,000
109	File Opening Workflow Implementation	\$ 131,000	\$ 100,000	\$ 231,000	\$ 200,000	-\$ 31,000
110	New Desktop Units	\$ 877,000	\$ -	\$ 877,000	\$ 900,000	\$ 23,000
Total for All 2005 Major Projects		\$ 1,554,000	\$ 430,000	\$ 1,984,000	\$ 1,960,000	-\$ 24,000
Summary of Major Projects Expenditures						
Capital Expenditures		\$ 1,055,000	\$ 250,000	\$ 1,305,000	\$ 1,360,000	\$ 55,000
Operating Expenditures		\$ 499,000	\$ 180,000	\$ 679,000	\$ 600,000	-\$ 79,000
Total 2005 Major Projects Expenditures		\$ 1,554,000	\$ 430,000	\$ 1,984,000	\$ 1,960,000	-\$ 24,000

Administrative Techniques to Help You Manage Your Expenses

- ◆ Analyze budget variances each month
- ◆ Identify the cause for each variance
- ◆ Forecast spending for next period or remainder of the year



What To Do When in Trouble?

- ◆ Identify the drivers for excess spending
- ◆ Add internal resources to Projects
- ◆ Shift or move resources
- ◆ Overtime
- ◆ Assign staff that are more skilled
- ◆ Control "runaway" spending at the end with interim milestones and with forecasting



Wisdom for the Future

Abraham Lincoln:

The best thing about the future is that it only comes one day at a time.



Questions?



Contact Information

Jarmila Pencikova
Manager, Accounting
Osler, Hoskin & Harcourt LLP
416-862-5891
jpencikova@osler.com


