Agenda

1. Review basic budget terminology
2. Learn budget fallacies to avoid...
3. Learn frameworks for creating a narrative for non-IT constituencies about IT funding needs
Q1: At what type of institution do you work?

Options: Private, Public, for Profit, other...
Q2: Name one “source of funds” at your institution

Q3: Name one “use of funds” in IT at your institution
Where do funds come from?

- State General Revenue Fund (for publics)
- Income fund (tuition and fees)
- Endowments, gifts, grants, and contracts
- Agency (self-supporting)
- Bond revenue
Where do funds go?

- Personnel (on average, about 75%)
- Operating costs
- Capital purchases
- Financial aid
- Debt servicing
1. Budget Terminology
Budgeting

Fundamentally a *planning* process

- Annual budgets planned and approved months before a new fiscal year starts
- Requires that you anticipate program needs many months in advance
Budgeting

- Get to know the University's budget processes!
- Know the finance team!
  - In your IT organization
  - At the University
Accounting

The process of *tracking expenditures* in a system of record keeping and reporting the results
Accounting

Be on good terms with the lead accounting staff!

- In your IT unit/organization
- At the University
Discretionary Budget

Actual budget - Encumbrances = *Discretionary budget*
Discretionary Budget

- Encumbrances are the costs of things you must do
  - Because of legislative requirements or contractual obligations
- Discretionary budget is available for use at the discretion of the fiscal agent
Operational vs Capital

- **Operational expenditures (OpEx)**
  - Typically provided on an annual basis
  - Covers all expenditures, including personnel

- **Capital expenditures (CapEx)**
  - Long-term investments typically for new buildings or machinery, or major renovations

- IT has capital and operating expenses
  - If investments are lumpy who is the bank?
Permanent vs Temporary

- Permanent money (on-going; hard) is in the base operating budget
- *Temporary* money (one-time; soft) is non-recurring
  - Grants, gifts, one-time appropriations
Budget Dust

- Operating dollars not encumbered at the end of the fiscal year
- Small amount? Share with other units in your department. Don’t waste!
- Large amount? Could indicate poor budget planning...
2. Budgeting Fallacies!
“The **planning fallacy** is that you make a plan, which is usually a best-case scenario. Then you assume the outcome will follow your plan, *even when you should know better.*”

- Daniel Kahneman
“The hidden-cost fallacy occurs when you ignore relevant costs.” A common hidden-cost fallacy is to ignore the opportunity cost of labor when choosing to produce software in-house.

- Froeb and McCann, Managerial Economics
“The sunk-cost fallacy is when you tell yourself that you can’t quit because of all that time or money you spent...”

-Stephen J. Dubner
DILBERT® by Scott Adams

THE ECONOMICS OF THE PROJECT HAVE CHANGED. WE NEED TO SHUT IT DOWN.

IF WE STOP NOW, THE $10 MILLION WE ALREADY SPENT WILL BE WASTED.

AND IF WE STOP LATER? THE TRICK IS TO NEVER FINISH THE PROJECT.
3. Creating a Narrative
Communicating

Figuring out the numbers is only one part of budgeting.

The real task is learning to communicate with decision makers and stakeholders.
Focus: Return on Investment (ROI)

ROI is the *tangible* result of an investment

- *A measurable* improvement in, e.g., productivity, costs, revenue, enrollments, retention, graduation rates, etc.
Focus: Value of Investment (VOI)

VOI points to the *intangible* benefits of an investment

- Loyalty to the institution, student and faculty/staff morale, reputation effect...
Benchmarking

- Higher education leaders tend to keep track of peer schools
- Nobody wants to be well behind the curve...
- Evidence of what is typical at similar schools can be persuasive
- Get to know your counterparts at your peer schools
Run – Grow – Transform

Run – Activities for ongoing operations
e.g., keeping systems working
Run – Grow – Transform

Grow – Activities that make incremental improvements
  e.g., expanding the installation of instructional technologies into all scheduled classrooms
Run – Grow – Transform

Transform – Activities that aim to make transformative change
- e.g., implementing a business intelligence environment for the first time
Run – Grow – Transform

- Using this language in the budget process helps connect IT spending to the strategic objectives of the institution
- Focuses on outcomes, not just inputs
- Clearly identifies partners and beneficiaries
- Used to analyze multi-year budget plans
Q4: What percent of the central IT budget at your institution is spent on activities that:

- Run ________?
- Grow ________?
- Transform ________?
## Total Cost of Ownership

<table>
<thead>
<tr>
<th>Software</th>
<th>Staff</th>
<th>Infrastructure</th>
<th>Services</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition</td>
<td>DBA</td>
<td>Server SW</td>
<td>Implementation</td>
<td>Cost of capital</td>
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<td>Implementation</td>
<td>Sysadmin</td>
<td>Server OS</td>
<td>Data Conversions</td>
<td>Third party content</td>
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<tr>
<td>Maintenance</td>
<td>WAN/LAN</td>
<td>Workstations</td>
<td>Interfaces</td>
<td>Downtime</td>
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<td>Reporting</td>
<td>PC support</td>
<td>Data center</td>
<td>Education</td>
<td>Service disruption</td>
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<tr>
<td>Upgrades</td>
<td>Communications</td>
<td>HW maintenance</td>
<td>Project mgmt</td>
<td>Energy consumption</td>
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<tr>
<td>Third party content</td>
<td>Temporary</td>
<td>Internet</td>
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<td>Comm lines cost</td>
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<td>BI Analytics</td>
<td>Hiring cost</td>
<td>Remote admin</td>
<td>Upgrade retraining</td>
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<td>Security</td>
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Next Steps

- Ask your supervisor about how the budgeting process works at your institution
- Create a list of potential funding needs for your unit in the next 1-3 years
- Identify a product or service that is a candidate for reduction or elimination. Consider whether sunk cost fallacy has influenced thinking about this service...
- Identify your peer schools for benchmarking data. Get to know your counterparts at these institutions.
Thanks!