SAMPLE CHAPTER:
BUDGET MODEL OVERVIEW

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Sample Chapter: Budget Model Overview

In this chapter, an overview of the Budget Model will be discussed. This model was developed as the project costs were analyzed during the initiation phase. The data from this model will be incorporated into the business case document so that executive management can approve it and the execution of the project can commence.

The budget will be set up with three sections:

- **Capital**. This represents the items to be budgeted that relate to the construction of the asset which is the new PMO system.
- **Operating**. These are the budgeted items that are not part of the asset but contribute to the project's completion. Examples of these are standard project management PMO processes or artifacts that are standard for any project.
- **Post Project Operating**. When the project is done, the system is online, but it needs to be supported. IT Finance or PMO Analysts will need to continue to monitor costs associated with operational support of the newly implemented product.

First, the Capital portion of the budget will be the focus…

Capital	2020	2021	TOTALS
Hardware	$100,000	$100,000	$200,000
Software	$100,000	$100,000	$200,000
Software License	$50,000	$50,000	$100,000
Vendor	$125,000	$125,000	$250,000
Internal Labor	$125,000	$125,000	$250,000
TOTALS	$500,000	$500,000	$1,000,000

The Hardware purchases represent the new laptops that are going to be purchased. For 2020 and 2021, the project is budgeted to realize $100k for each year. This is based on previously reaching out to laptop vendors and attaining the best possible deal or coordinating with a preferred laptop vendor which already has a relationship with Tech Company.

Next, there is $100k budgeted to the project in 2020 and 2021 for Software. This is the one-time purchase of PMO Tools software that is already out of the box and the cost will be spread over 2 years. As the project progresses, PMO Tools will need to customize and reconfigure this software to meet Tech Company's requirements.

Software License is the purchase of bulk user licenses required to use PMO Tools software. For this project, the software licensing costs are estimated to be $50k in each year for 2020 and 2021. Once the project is done, software licensing fees will continue, and this will be captured in the operational portion of the budget as will be discussed later.

Vendor budget is earmarked for expenses relating to PMO Tool's development teams to reconfigure their product to meet Tech Company's requirements. The $250k total budget was derived by both teams from PMO Tools and Tech Company agreeing on high-level project milestones where associated costs were confirmed. This information will be captured in the statement of work (SOW) document. This document will be discussed in detail in Chapter 7.

Internal resources from Tech Company will be assigned to assist with completing the project. This cost will be covered in the Capital portion of the budget as their work contributes to the product being built. As an example, analysts from Tech Company will perform detailed design work that is covered under the Capital expense. Resource efforts relating to detailed work specifically to get this project completed and to generate the final asset is considered capital not operational. The administrative work that project managers do is considered operational as they are involved more in general governance processes that are ongoing no matter what project they work on. The value derived here is budgeted by taking the anticipated number of hours that the resource will work on the project and multiplying it by the standard labor rate that has been established by the organization. The details on how to do this will be presented in Chapter 10 where the initial budget plan will be set up.

At the bottom of the capital investments section, this project execution will last 2 years in duration and the capital investment will come out to an even $1M.

Now, the operational investments will be looked at and put into perspective like what was done with the capital investments.

Operating	2020	2021	TOTALS
Internal Labor	$50,000	$50,000	$100,000
Time & Expense	$10,000	$10,000	$20,000
TOTALS	$60,000	$70,000	$130,000

Internal Labor represents the Internal resources from Tech Company such as the project manager. The project manager will allocate hours here as that person is not a contractor but a full-time member of the PMO group. A possible exception is if the project manager is also serving as the

business analyst in a dual role. In this case the project manager's hours may need to be split for capital (business requirements documents, designs, test cases) and operational (status reports, action item documents, updating the PPM tool, PMO meetings). Other resource labor that helps the project along with operational artifacts or services related to the project will also go into this account.

The Time and Expense account represents the budget for travel expenses that will be covered for the conference between PMO Tools and Tech Company. These costs include airline travel, hotel accommodations, meals, and other local transportation.

This account can also represent hourly work that's done by a resource that's called during certain times during the project. For example, a member of one of the software support teams may be called upon to perform some coding to help this project's effort. This resource is not part of the project team but an external resource that can help with this project's completion. The booking of these hours is different from the milestone-based charges listed in an SOW. The specifics of the Time and Expense account will be explored later in this book.

The focus of this book is how to manage the IT Project Budget during the execution of the project. However, a brief discussion follows about the post-go-live operational costs once the project is completed. Just because the project is complete, doesn't mean that the costs related to the asset produced by this project stops.

The Post Project Operating estimations will now be looked at.

Post Project Operating	2022	2023	2024	2025	TOTALS
Software Subscription	$1,000	$1,000	$1,000		$3,000
Operate & Maintain	$10,000	$10,000			$20,000
Depreciation	$10,000	$10,000	$10,000		$30,000
Asset Write-Off				$20,000	$20,000
TOTALS	$21,000	$21,000	$11,000	$20,000	$73,000

The Depreciation line represents the spreading of the depreciation cost of laptops purchased over the course of their useful life. Depreciation measures how fast an asset loses value after its acquisition. Please see the section later in this chapter for an explanation of how depreciation works. The reason why we have depreciation in the project execution year of 2022 is that the project is planned to end in 2021 with the maintenance of the post project operating expenditures starting right after.

The software subscription cost represents the yearly license fee to use PMO Tools software post-production. Notice how these charges commence when the project is over in 2022. These are subscription costs for a bulk set of users that will be using the system in the future.

The Operate and Maintain account is the hourly operational support after the system is deployed by PMO Tools into production. This includes super user training for Tech Company employees and providing training material. PMO Tools will have support resources allocated to this phase which may be different than the resources who worked on the project.

Write-offs are assets such as laptops that have been sold off, given away, disposed of, or given off for recycling. This is due to the laptops outliving their usefulness. As an example, Tech Company is expecting to sell off the laptops in 2025 and realize a write-off value of $20k. Write-offs will be discussed later in this chapter.

If all the totals are added from the Capital, Operating, and Post-Project Operating accounts beforementioned, the entire budget for this project is over $1.2 million. Normally, this is called project investment instead of project cost as this project will return value to the organization once completed. This project would never be approved if it was decided there was no value to the organization in any way.

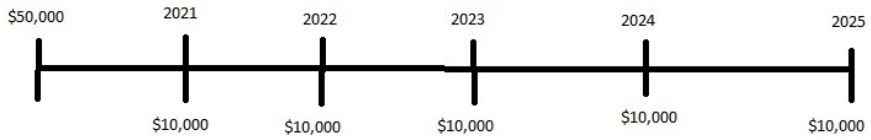
Depreciation

When a project is completed, there is a financial closeout process to officially end the project. However, after the project is done, this doesn't mean that the management of finances stops. Two of the most common financial transactions that are done after the project is over are depreciation and asset write-offs.

Depreciation takes the original value of the asset and gradually records the reduction in this value over its useful life.

An example would be the purchase of new laptops so that users will have upgraded systems to leverage new PMO solution for the project.

For the sample project, new laptops are purchased at a total price of $50,000 in June of 2020 and Tech Company expects to use these laptops for the next 5 years. The "straight-line" method of depreciation will be used as the depreciation of these laptops will be realized evenly over the next 5 years. Therefore, there will be a $10,000 depreciation expense starting from 2021 and extending through 2025. This is represented by the number line below.



During the execution of the project the project manager is responsible for managing the budget plan. However, when the project has concluded, the project manager is released to work on other projects. Therefore, a resource from IT Finance or the PMO (Program Manager or PMO Analyst) needs to step in and manage the depreciation values from 2022 through 2025.

Asset Write Offs

Fixed assets are written off when there is no further use for them. Another scenario for a write off is when the asset is sold or disposed of. The reason that write-offs are done is so that the related asset and depreciation accounts are properly reduced. Again, this happens after the project

has finished and is normally managed by IT Finance or the PMO (Program Management or a PMO Analyst).

Below are examples of write off scenarios:

Scenario 1

The first write off example involves laptops that are obsolete or no longer in use and the organization will not receive any payment because there is no resale value. This equipment has been fully depreciated. Originally, the laptops were purchased in 2020 for $50,000 and $10,000 was realized over the following 5 years. At the end of 5 years, this equipment is either given away or sent off to be recycled.

Scenario 2

The second example involves laptops that have not been fully depreciated. In the 5-year depreciation model, these laptops are given away after 3 years. The result is that $10,000 of depreciation is realized in the years 2021 through 2023 for a total of $30,000 of depreciation. In the years 2024 and 2025, $20,000 worth of depreciation will not be realized. Instead, the final $20,000 for the years 2024 and 2025 are considered a write-off. Since no money was received in return, $20,000 is written off. Depending on the processes at the organization you work for, the legal or finance teams have processes in place to record these types of write offs.

Scenario 3

The third scenario is when the equipment is sold and cash or some other asset is received in return. Depending on the remaining depreciation not realized, this can turn out to be a loss or gain for the organization.

For example, the equipment realizes depreciation in the 3 years between 2021 and 2023 with $20,000 worth of depreciation not realized on the last 2 years of the depreciation cycle (2024 and 2025). However, Tech Company decides to sell the laptops in 2024 and receives $25,000 cash. If the $20,000 of unrealized depreciation (for the 2024 and 2025 years) is subtracted from the $25,000 cash received, you'll have what's called "gain on asset disposal" of $5,000. Again, check with your organization's legal or finance teams for proper accounting of this type of transaction.

This book will focus on the management of project budgets during project execution and not project accounting during the support period. This is because the project manager's normal responsibility is to manage the project budget plan during the execution of the project. Once the project is over, the project manager walks away from this project to manage a different one. Someone from IT Finance or a PMO Analyst will take over during the production cycle to ensure the program realizes the post-go-live charges.

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