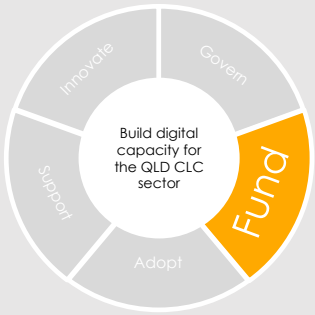
Community Legal Centres Queensland

Budgeting for technology spend

‘Building Digital Capacity’ resources series

Resource type:	Strategic area:	Use it to:
Guidelines + templates		• Learn about the costs of technology, and how to estimate spend for a project or CLC’s operations.

Current as of February 2020

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Other relevant resources in our **Building digital capacity resources series**:

- *Accessing free or discounted digital products and services*
- *Applying for funding: Technology & innovation guiding principles.*

1 - UNDERSTANDING THE COST OF TECHNOLOGY

What is the Total Cost of Ownership (and why does it matter)?

The total cost of ownership (TCO) is a financial estimate intended to help buyers and owners determine all the costs associated to a new technology product or system. It is basically the **sum of all direct and indirect costs incurred through the lifetime of a technology solution**.

Understanding your TCO is critical as organisations sometimes tend to just consider the initial costs of purchasing the software and/or hardware, and bypass the additional set-up/implementation costs as well as the ongoing maintenance costs that will apply once the technology is in place.

Hence, knowing upfront the TCO of your new system will inform better decisions by:

- providing key input towards articulating the return on investment;
- offering means of comparisons between different vendors and products.

It is recommended to estimate the TCO of a new technology for a minimum of three years. As with any estimate, it is always a good idea to include contingency in your budget.

The table overleaf provides a list of possible costs that may be incurred when implementing a new software or system. Depending on the nature and scale of your technology implementation, not all costs items may apply.

Comparing vendors/products costs

It can be difficult to compare quotes like-for-like between vendors as they often have different pricing models and strategies, and their solutions may not offer exactly the same capabilities.

When requesting a quote, ask them to include their estimates of the total cost of ownership over 3-5 years, as well as any costs assumptions made.

Implementation costs	
Licenses	+ User licenses if one-off / perpetual pricing model (if monthly or yearly subscriptions, costs should be listed under 'ongoing costs') + Development and technical licenses (e.g. software licenses required to develop and test the system, licenses required for operating system) + Other system licenses (when integrating with other tools or systems, specific licenses may be required for those)
Infrastructure	+ Hardware, servers, networking infrastructure, specific end-user devices where applicable (separate hardware for development, testing and production may be required)
Project costs	+ Project management (resources) + Software development (configuration, customisation, testing) + System integration (if system needs to integrate with other existing or new ones) + Data migration (data clean-up, conversion, archival, transfer to new system) + Business analysis (business process development) + Training and change management (including communications) + Project operational costs (e.g. office overheads, project management software, travel costs, meetings, printing, etc.) + Contingency
Ongoing costs (budget for 3 years)	
Licenses	+ Any licenses required under subscription models (including licenses for operating system and other systems).
Hosting & infrastructure	+ Costs associated to your own infrastructure if you are hosting the system on premise, or external hosting fee if you are using an external party to host your data or if the system is provided in the cloud (*see next pages for more details*)
Support & maintenance	+ Technical (upgrades, back-ups, troubleshooting, system admin, etc.) and user support (helpdesk, user admin, training)
Ongoing improvement	+ System change requests, enhancements, feature changes, new functionalities
Depreciation	+ Depreciation costs if you have purchased hardware or perpetual licences

Infrastructure costs for systems hosted in the cloud

If your CLC subscribes to a system hosted in the cloud, you won't have to purchase servers and associated hardware, and providers will usually include the cost of hosting (and often basic maintenance) in the subscription plan. However, there can be peripheral costs such as:

- costs of upgrading your hardware and/or network connection if your current network infrastructure does not have sufficient bandwidth of connectivity performance to the internet;
- costs of decommissioning existing hardware if the new technology is replacing a current on-premise system.

It is also important you check the pricing terms and conditions of the contract, including those pertaining to:

- costs exclusions (what's not included);
- planned year-on-year fee increases;
- any applicable contract termination fees;
- costs of data extracts, back up and restores not covered by the standard contract.

The 'other' costs of technology projects

Budgeting accurately for technology projects is notoriously difficult as there are many variables that can affect how much you will actually end up spending. In particular, there is a natural tendency to focus on the obvious costs such as monthly licenses or hours of development, and overlook other aspects of the project that are harder to quantify but could have a negative impact.

The table below provides examples of additional 'other' tangible and intangible costs that may occur during technology implementation, and guidelines on how to plan for those upfront.

Possible 'other' costs	How to address them
Scope changes	• Develop a clear scope definition upfront and ensure vendor contract has clear process on managing scope change. • Include in your TCO the project costs provisions for scope change.
Staff/team dissatisfaction	• Engage your team, especially end-users, in the process of introducing the new system upfront and throughout. • Include in your TCO's project costs adequate resources for communications and training.

Possible 'other' costs	How to address them
Client dissatisfaction/CLC reputation	• Perform a risk assessment of the technology project and evaluate how it may impact clients and other external stakeholders. • Include in your TCO's project costs adequate resources for external communications.
Resources overload	• Consider which of your team members will need to dedicate their time to the project and how much. In particular, be careful to not underestimate the time it will take one of your team to manage the project and the relationship with the vendor. • Include in your TCO's project costs adequate resources for backfilling staff time where necessary.
Unknowns costs	• Include in your TCO's project costs a contingency of 10-15% to cover unknown or unpredictable events.

How much should we spend on technology?

It would be great if there was a single rule CLCs could apply to determine how much to spend on technology… But in practice, how much an organisation spends will vary hugely depending on its organisation size, its strategic direction, how much it has already invested in technology, and of course its funding capacity.

Ultimately, the value your CLC is getting out of its investment is more important than the investment amount itself.

On average, Australian not-for-profit organisations spend **$3,655 per FTE** per annum (small organisations of 5 or less staff members spend 25% less than that).

Source: Digital Technology in the not-for-profit sector 2019 report.

When considering how much to spend on technology, you should also contemplate the cost of *not* investing in technology, including:

- need for additional resources to support manual processes and activities;
- productivity losses;
- limitations in expanding / improving services delivery to clients;
- materialisation of risks such as operations disruptions, data losses, or security breaches,

When it comes to specific technology projects, it can be difficult to know where to start when trying to work out your project budget. Over the page is a quick checklist on how to start estimating project costs:

☐ *How much have others spent on this?*	Talk to other CLCs (and other like-minded organisations) to find out if they've done something similar and how much they spent. Be wary of technology vendors marketing materials that advertise how cheap their solution is, and make sure you carry out due diligence on the total cost of ownership.
☐ *What costs do we know of / don't know of?*	Use the table on page 4 to review costs categories and which ones will apply to your project. Identify the costs you already know, and where you need to get more information and potentially external quotes.
☐ *How much are we willing to spend*?	Work out the minimum you expect to pay for a project and the maximum you would be willing to – this will not give you the cost of the project, and you may have a wide range to start with, but it will give you boundaries within which you can work.
☐ *Is there a way to get free or discounted products or services?*	Refer to the *Accessing free or discounted digital products and services* document in our **Building Digital Capacity resources series**.

The ability to fund technology remains one of the biggest challenges for non-profits, as technology is still perceived largely as an administration cost, with funders and donors naturally more inclined to support direct service delivery activities.

Hence, it is critical for CLCs seeking funding for digital initiatives to clearly articulate the value and imperative of the project.

For help on justifying your funding request, refer to *Applying for funding: technology & innovation guiding principles* in our **Building Digital Capacity resources series**.

2 - TEMPLATES

IT budget templates

Here are a couple of useful templates to budget your IT spend:

- For planning your annual IT budget, download ImproveIT's ICT budget template.
- For planning a specific technology project budget, download ImproveIT's ICT systems acquisition budget template.

ImproveIT is a free online resource centre created by InfoXchange. It has been developed exclusively for non-profit organisations and provides a range of ICT (information and communications technology) resources and guidelines.

Asset register template

Keeping an up-to-date IT asset register is an important process and will help your CLC control its costs, manage its risks and plan for IT spend (including upcoming renewals of hardware of licenses). The asset register helps you track infrastructure, user devices, hardware, software, etc. Here are a couple of ways you can keep a register:

- Use your accounting system: most accounting systems will have an asset register as part of their functionalities; check if this is suitable to track technology assets.
- Use a simple spreadsheet: download ImproveIT's asset register template here: Understand your systems with an IT asset register.