FINANCIAL MANAGEMENT FOR IT SERVICES PROCESS

Code: 

Version: 

Date of version: 

Created by: 

Approved by: 

Confidentiality level: 

Comment [BV1]: All fields in this document marked by square brackets [] must be filled in.

Comment [BV2]: If you want to find out more about Incident Management, see http://www.20000academy.com/Blog/May2013/Financial-Management-for-IT-Services-theory-and-practice

Comment [BV3]: ***OPTION*** Replace this with “Budgeting and accounting for services” if you are implementing ISO 20000. Do the same throughout the document (“Financial Management” should also be replaced).

Comment [BV4]: The document coding system should be in line with the organization’s existing system for document coding; in case such a system is not in place, this line may be deleted.
Change history

<table>
<thead>
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<th>Version</th>
<th>Created by</th>
<th>Description of change</th>
</tr>
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<td>xx/xx/2013</td>
<td>0.1</td>
<td>Branimir Valentic</td>
<td>Basic document template</td>
</tr>
</tbody>
</table>

Table of contents

1. PURPOSE, SCOPE AND USERS .............................................................................. 3
2. REFERENCE DOCUMENTS ....................................................................................... 3
3. POLICY ................................................................................................................. 3
   3.1 ENTERPRISE FINANCIAL MANAGEMENT POLICIES ........................................... 3
   3.2 FUNDING ...................................................................................................... 4
   3.3 TOOL INTEGRATION ....................................................................................... 4
4. PROCESS ACTIVITIES, METHODS AND TECHNIQUES ............................................. 4
   4.1 MAIN INPUTS ................................................................................................. 6
   4.2 ACCOUNTING ................................................................................................. 6
   4.3 BUDGETING ................................................................................................... 7
   4.4 CHARGING ................................................................................................... 8
5. ROLES AND RESPONSIBILITIES ........................................................................... 9
   5.1 FINANCIAL MANAGER .................................................................................. 9
   5.2 BUDGET HOLDERS .......................................................................................... 9
6. REPORTING ......................................................................................................... 10
   6.1 REPORTS ....................................................................................................... 10
   6.2 CRITICAL SUCCESS FACTORS (CSF) AND KEY PERFORMANCE INDICATORS (KPI) ................................................................. 10
7. MANAGING RECORDS KEPT ON THE BASIS OF THIS DOCUMENT ...................... 10
8. VALIDITY AND DOCUMENT MANAGEMENT .................................................... 11
9. APPENDICES ...................................................................................................... 11
1. Purpose, scope and users

The aim of this document is to define the purpose, scope, principles and activities of the Financial Management for IT Services (hereafter referred to as “Financial Management”) process.

This document is applied to the entire IT Service Management (ITSM) organization and [Financial department name].

Users of this document are all employees of [organization name], as well as all external parties who have a role in ITSM.

2. Reference documents

- Service Catalogue Management Process
- Service Asset and Configuration Management Process
- Knowledge Management Process
- Change Management Process
- Business Relationship Management Process
- Application Management Function
- Service Portfolio Management Process

3. Policy

Financial management for IT services is the process responsible for managing [organization’s IT Department name] budgeting, accounting and charging aspects.

Goals of the Financial Management process are to:

- Secure appropriate level of funding for design, develop and maintain IT services that contribute to organization’s business goals.
- Maintain balance between cost and quality of a service as well as balance of supply and demand between customer and [organization name].
- Secure funding to manage provisioning of services.
- Understand relationship between expenses and income and ensure that they are balanced.
- Define a framework to recover cost of services.
- Account for money spent on creation, delivery and maintenance of services.

3.1 Enterprise financial management policies

The enterprise financial management policies of [organization name] provide a framework within which IT must manage the financial aspects of its services and organization. [Financial Manager] is responsible to ensure that IT financial activities and processes correspond to, i.e. follow, enterprise financial policies.
3.2 Funding

[role description] is responsible to define funding source.

[organization name] uses internal/external sources for funding of projects and general organization activities.

3.3 Tool integration

[tool name] is a tool that supports the Financial Management for IT Services process and activities. [role description] is responsible to manage tool usage and integration with other processes and their supporting tools.

4. Process activities, methods and techniques
Figure: Financial Management process activities

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Comment [BV17]: Double-click to edit figure and adapt to your own requirements.

Comment [BV18]: ***OPTION*** Delete this figure if you are implementing ISO20000 and not ITIL.
4.1. Main inputs

[Financial Manager] uses the following main inputs for the Financial Management process:

- Regulatory requirements:
  - [..]
  - [..]
- Service Management process: [..]
- Accounting and charging – documents used to provide input are:
  - Customer Portfolio Template in Appendix of Business Relationship Management Process
  - Business Case in Appendix of Service Portfolio Management Process
  - Project list
- Service Knowledge Management System (SKMS)

4.2. Accounting

[IT organization name] uses accounting for:

- Identifying actual cost of delivering IT services (see Budgeting and Controlling in Appendix)
- Comparing with the budget (see Budgeting and Controlling in Appendix)
- Managing resources from the budget (see Budgeting and Controlling in Appendix)
- Tracking income earned by the service (see Budgeting and Controlling in Appendix)

4.2.1. Cost model

[IT organization name] uses the following cost model(s):

- Costs by IT organization
- Costs for location
- Costs for service
- Costs for type of service
- Hybrid cost model – encompasses [..]
- Dealing with unallocated costs – [based on enterprise financial policy No. ..]

4.2.2. Cost centers and cost units

[IT organization name] uses cost [..]

[IT organization name] uses cost units as [..]

[enterprise financial policy or Financial Management for IT Services] defines cost units’ structure.

4.2.3. Cost types and cost elements

[IT organization name] uses, at a minimum, the following cost types; see Budgeting and Controlling in Appendix:

- Costs – including licenses – used to provide the services
- Shared resources
4.2.4. Cost classification
[IT organization name] classifies costs as follows:

<table>
<thead>
<tr>
<th>Cost classification</th>
<th>Time-related costs</th>
<th>Indirect costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable costs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.2.5. Direct and indirect cost distribution
Direct and indirect costs are distributed in the following way:

<table>
<thead>
<tr>
<th>Direct costs</th>
<th>Indirect costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directly to</td>
<td>equally to all</td>
</tr>
<tr>
<td>Directly to</td>
<td>services</td>
</tr>
<tr>
<td>Overhead costs</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Capital costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service 1</td>
<td>0 %</td>
</tr>
<tr>
<td>Service 2</td>
<td>20 %</td>
</tr>
<tr>
<td>Service 3</td>
<td>30 %</td>
</tr>
<tr>
<td>Service 4</td>
<td>10 %</td>
</tr>
<tr>
<td>Service 5</td>
<td>40 %</td>
</tr>
</tbody>
</table>

4.2.6. Chart of accounts
[IT organization name] uses a chart of accounts in the form of ... (see Budgeting and Controlling in Appendix).

The chart of accounts is defined by [enterprise financial management].

4.2.7. Analysis and reporting
[enterprise financial management role]
The following analysis and reporting types are used (see Budgeting and Controlling in Appendix):

- Budget deviation analysis
- Cost variance budget analysis
- ...

4.2.8. Action plans
Any deviation from the financial targets requires an action plan to get back on track. [role description] is responsible to define action plans, which are based on performed analysis. [role description] is responsible to manage, control and execute action plans.

4.3. Budgeting
[organization name]

[enterprise financial management] defines the budgeting process, policies and documents and provide guide during the budgeting period.

[Financial Manager] is responsible to conduct budgeting inside the IT organization.

### 4.3.1. Analysis of previous budget

[Financial Manager] is responsible to:

- Analyze previous budget
- Identify errors
- Detect trends of expenditure

### 4.3.2. Assessment of plans

[Financial Manager] is responsible to assess the following plans and their impact on the budget:

<table>
<thead>
<tr>
<th>Plan</th>
<th>Impact on the budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 4.3.3. Specifications of changes to funding and spending

[Financial Manager] is responsible to include all changes that are not in formal plans. To assess changes, see Request for Change, Change Record and Change Schedule in Appendix of the Change Management Process.

### 4.3.4. Cost and income estimation

[Financial Manager] is responsible to prepare the budget.

### 4.3.5. Budget(s)

[Financial Manager] is responsible to finalize the budget of the IT organization. See Budgeting and Controlling in Appendix.

### 4.4. Charging

Charging is an activity where payment is expected for services delivered, i.e. recovering money for the services takes place.

Charging is defined by [.] and defines that charging will / will not be implemented.

Cost recovery that is used is:

- Cost recovery or break-even
- Recovery with an additional margin
- Cross-subsidization
- Notional charging

### 4.4.1. Decide chargeable items

[role description] is responsible to define chargeable items.

Comment [BV44]: e.g. The organization's strategy

Comment [BV45]: ***OPTION*** Delete this if you are implementing ISO 20000 and not ITIL.

Comment [BV46]: Usually CFO, head of controlling

Comment [BV47]: Delete redundant.

Comment [BV48]: Choose one of the options. If there is more than one option, define a table with services and their respective charging model.

Comment [BV49]: e.g. Financial Manager with support of Service Level Manager or Service Manager.
4.4.2. **Pricing**

Pricing is an activity which determines how much a customer will be charged. [Financial Manager] is responsible to define the pricing model.

[organization name] uses the following pricing model:

- Cost
- Full price
- Usage price
- Market price
- Fixed price
- Tariff subscription
- Differential charging

4.4.3. **Billing**

Billing means producing and issuing bills to the customer. [IT organization name] uses the following billing model:

- No-billing
- **Informational billing (not charging)**
- Billing and collection (real charging)

5. **Roles and responsibilities**

5.1. **Financial Manager**

[role description] assigns the Financial Manager role.

Responsibilities of Financial Manager:

- Overall responsibility for carrying out activities within the scope of Financial Management
- Coordinates activities with other Service Management roles
- Plans and manages tools needed to support Financial Management process
- Responsible for reporting and managing information
- Develops and maintains Financial Management process and procedures
- Ensures that policies and practices inside IT organization are consistent with those of the rest of the organization
- Completes annual budgets and submits them for approval
- Manages IT budgets on a regular basis (daily, weekly, monthly), initiates corrective actions to balance income and expenses according to the budget
- Formulates and manages charging to the customer
- Supports Change Manager in all issues regarding costs needed to evaluate Request for Change

5.2. **Budget holders**
6. Reporting

6.1. Reports

[Financial Manager] is responsible to produce reports.

Reports are produced monthly, with quarterly and yearly summaries. Reports that are in place:

- Budget report with comparison of expected values (income and costs) and achieved values. Reasoning in case of deviations higher than [10%].

6.2. Critical Success Factors (CSF) and Key Performance Indicators (KPI)

[role description] is responsible to define CSFs and respective KPIs. Achievements against KPIs are monitored and evaluated by [role description].

<table>
<thead>
<tr>
<th>Critical Success Factor</th>
<th>Key Performance Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is an enterprise-wide enterprise-wide enterprise-wide process for the costing of services and associated return on services.</td>
<td>Enterprise financial management has established standards, guidelines, and procedures for its IT services. Audits will indicate the extent of compliance.</td>
</tr>
<tr>
<td>Funding is available to support the provision of services</td>
<td>The financial management for IT services framework specifies how resources are identified, and new resources are submitted and used as a basis for measuring the service</td>
</tr>
<tr>
<td>The service provider is able to change the pricing to be more appropriate</td>
<td>Timely and accurate submission of financial reports by each organizational unit.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Managing records kept on the basis of this document

<table>
<thead>
<tr>
<th>Record name</th>
<th>Storage location</th>
<th>Person responsible for storage</th>
<th>Controls for record protection</th>
<th>Retention time</th>
</tr>
</thead>
</table>

Financial Management for IT Services Process ver [version] from [date]

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### 8. Validity and document management

This document is valid as of [date].

Owner of this document is [job title], who must at least **once a year**.

### 9. Appendices

- Appendix 1: Budgeting and Controlling

[signature]
Configuration Management System (CMS), as part of SKMS, is an important source of information about Configuration Items (CIs) which are used by Financial Management. If CMS is not officially implemented, insert location of CMS.

Delete parts which are done by some other organizational unit, e.g. Finance department or Controlling.

That depends, e.g. on diversity of customers, like having customers in private and in public sector,

Delete models that are not in place.

Replace this with “cost by service model” if you are implementing ISO 20000 and not ITIL.

Delete this if you are implementing ISO 20000 and not ITIL.

e.g. cost center numbers, cost center types, type of costs that will be recorded on certain cost center type...etc.

Delete, i.e. change if needed. If there are smaller units to allocate costs than cost center – enter it them here.

Cost types are the highest level of Consulting services, Transfer costs. Adapt to your own situation.