Solution

# Financial Reserves

I will list the assumptions I made and why before doing the calculations. You may make different assumptions and get different answers. As long as you are following the same general approach and your assumptions are reasonable enough that you could defend them before senior management and Finance; then your calculations should be acceptable.

1. IT Data Center Manager.

First convert the data into a per event value and average those over the three years.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Account | Year | Frequency | $$ Spent | Avg / Yr | Avg |
| Disaster Recovery | 2015 | 0 | 0 | 0 | $19,347 |
|  | 2014 | 2 | $34,282 | |  | | --- | | $17,141.00 | |  |
|  | 2013 | 1 | $23,759 | $23,759 |  |
| Software Patches | 2015 | 37 | $58,325 | $1,620.14 | $1,757.96 |
|  | 2014 | 41 | $88,227 | $2,151.88 |  |
|  | 2013 | 33 | $48,482 | $1,425.94 |  |
| Education & Training | 2015 | 4 hires | $8,755 | $2,188.75 | $2,763.75 |
|  | 2014 | 11 hires | $29,209 | $2,655.36 |  |
|  | 2013 | 5 hires | $17,311 | $3,462.20 |  |

Then make assumptions about the upcoming year and how much to put into the reserve accounts.

Disaster Recovery assumption – average of 1 event per year; use 3 year average of $19,347, assign a date of mid-year (Jul).

Software Patches assumption – average of 37 per year, use 3 year average of $1,757.96 per event for a total of $65,011. I wold spread the cost to 3 events per month and 4 events in the month of July (mid-year)

Education and training – in this case there has been a definite trend of lower education costs each year (possibly due to more online training). – average of 7 new hires (round up to next higher whole number) and use 2015 average of $2,188.75 for a total of $15,321. I would spread the cost to one every other month with the extra occurring mid-year (Jan, Mar, May, Jun, Jul, Sep, Nov)

1. The project reserve for the remaining two risks is:

* $10,000 for the impact due to a team member leaving. I would not assign this to any particular set of activities but rather hold it as a project-level reserve. The project work that will require the funding will vary depending upon which team leaves and when they leave.
* $75,000 for the impact of tooling and test equipment which I would pre-position in that set of tasks as an “issue resolution” task. This is a judgement call, but since risk is only moderate, I am assuming only one of these two items will need work.

Therefore at the project level there is a $10,000 reserve to address issues associated with project team turnover. There is an additional reserve task in the set of tasks associated with the development and setup of tooling and test equipment that is estimated at $75,000. The new total project cost should be budgeted at $1,870,200.

There is nothing put in the project budget for the lost revenue because this is not a project expense. It is a business impact and should be considered when deciding which risk mitigation responses to incorporate. However, the project does not “pay” for the lost revenue.