How Government IT Can Stop Acting Like a Cost Center

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Initiatives: Government Technology Optimization and Modernization; IT Cost Optimization, Finance, Risk and Value

Fighting a defensive battle when IT is perceived as a cost center will get you nowhere. Instead, government CIOs must go on the offensive to lead digital transformation by focusing on the value IT delivers and demonstrating good business acumen and financial stewardship.

Overview

Key Findings

- Many government IT organizations are still perceived purely as cost centers, which puts them at the top of the list for budget cuts because IT generally lacks a strong political constituency.

- While benchmarking IT costs across government agencies is a promising and worthwhile approach to finding cost optimization opportunities and quantifying the true cost of technology debt, the process is complicated by differences in mission, economies, tiers and organizational decision-making practices.

- Federated governance and complex funding practices further obscure financial transparency, which further complicates cost optimization efforts.

Recommendations

Government CIOs looking to lead digital transformation and modernization efforts must:

- Achieve near-term savings by assessing and addressing IT cost-saving measures prioritized by risk and cultural fit as well as ROI.

- Educate leadership on the total cost, value and risk implications of IT capabilities by establishing a roadmap to financial transparency that complements budget submission justification.
Collaborate with business and mission counterparts on overall cost and value optimization by establishing ongoing IT cost optimization practices and communicating progress effectively.

**Introduction**

*Government CIOs should examine the costs they can control directly and determine what costs they can influence. Then, they should work with their business and mission counterparts to prioritize and plan if, where and how they need to collaborate on joint cost optimization efforts.*

Gartner’s annual survey of CIOs shows that 34% of government CIOs expect to reduce funding. ¹ How they respond to those mandates will impact not just the IT budget but also the agency’s effectiveness long-term. The term “cost optimization” implies some ideal way exists to ensure organizations can optimize value for money by finding the perfect balance between money spent and value received. While commercial executives can use their professional judgment to weigh risks, probabilities and unknowns and predict when an investment in automation will result in overall savings, government officials have tougher challenges:

- Mission value isn’t easily quantifiable in financial terms.
- Ownership and costs are often ambiguous and fragmented.

Figure 1 shows four categories of cost savings; the ones on the top are harder to achieve and require more non-IT resources but have greater payback. While benefits are greater when cost optimization includes business and mission areas, this research covers the cost opportunities within the control of IT that are generally prerequisites for the more substantive savings. ² Note that IT cost optimization builds credibility for IT to enable better overall cost optimization and eventually lead the organization to reap transformational benefits of digital government. This is the basis for becoming a valued enabler of the mission.
IT cost optimization begins with IT. However, government CIOs must remember never to discuss cost with senior leaders without also discussing cost, risk and value. Just as fuel efficiency in a car differs depending on terrain, speed, weight and safety features, so too does the overall value of IT investments depend on better understanding of strategic objectives. Business and mission leaders must understand their priorities.

**Analysis**
Assess and Address IT Cost Savings

*Government CIOs should begin cost optimization efforts inside IT for two reasons:*

- **Control**
- **Credibility**

*If IT financials are in disarray, business and mission leaders will naturally distrust any proposed cost optimization efforts that involve them or their budgets.*
A uniquely government challenge to cost optimization is how legally or politically mandated funding constraints combined with large, hierarchical, federated organization structures add layers of complexity to the process of determining what is actually within a given IT organization's control. Government budget dynamics may hinder efforts to recognize savings across federated organizations. For example, one savings effort may involve central IT or a shared services group investing in enterprise capabilities that help agencies spend less.

Figure 2 shows how the number of users makes a difference to overall costs. If aggregating user bases up to your span of control yields a better cost profile, work through the governance to build consensus through the levels of federation. If you need to combine with peer organizations to achieve the optimal cost profile, assuming outsourcing is not an option, look for strategic drivers that will encourage those organizations to combine to do so. In other words, cost efficiencies and mission effectiveness should determine whether the right level for resource sharing is the department or agency level, the province or ministry level, local governmentwide, or among a cluster of related agencies.

Figure 2: Economies of Scale in Federated Organizations

Economies of Scale in Federated Organizations

Source: Gartner
Similarly, it may make sense to move to a cloud model, where each government organization only pays for what it uses. If a central group is paying the bill, there is a risk that the distributed consumers of cloud services will treat these services as free, as no way to manage demand exists. Chargeback can motivate negative gaming strategies, so consider showback as well. By exploring IT cost optimization ideas with organizations above and below the hierarchy, IT leaders can help position the provision of IT services at the optimal level for achieving economies of scale. CIOs may also outsource IT services or capabilities to integrators or cloud providers to change the cost structure. These options are well understood and summarized in Table 1.
Table 1: Government Cost Optimization Ideas That Must Be Evaluated Across Federated Tiers

(Enlarged table in Appendix)

<table>
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<td>Leverage shared services.</td>
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<td>Focus on financial transparency and digital product management to improve internal efficiencies and better explain the value of shared services to customers, especially when shared service organizations in government are legislated or mandated. 4</td>
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<td>While government CIOs can recommend application rationalization as a means to cut IT costs, those decisions should be owned and sponsored by non-IT leaders. The real drivers for updating the portfolio should be business efficiencies or better mission outcomes in support of broader modernization and transformation goals. When solutions are owned and managed higher in the hierarchy, economies of scale can help drive down software acquisition and maintenance costs.</td>
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Source: Gartner

For the remaining IT budget items that belong under the CIO’s sole control, the CIO should assess the top IT cost-saving ideas. Then, the CIO can identify where to find the most savings quickly and efficiently using the two tabs labeled “L1 — IT Procurement” and “L2 — IT Cost Savings” in Tool: IT Cost Optimization Status Check.
Although it is tempting to sort these opportunities by ROI, other considerations must be factored into the ranking (see Cutting or Justifying Government IT Spending). Some opportunities are more likely to achieve hard savings that can be returned to the budget. Others result in soft savings that will not be realized unless processes are in place to reallocate headcount or time to more-worthwhile projects.

Establish a Financial Transparency Roadmap

Because IT funding in government is often appropriated or budgeted independently from business and mission costs, a tendency exists to share the pain equally in times of austerity. This “salami slicing” or “watering can approach,” where all parts of the agency get their budgets cut by the same percentage, can backfire. Financial transparency — explaining the value of information and technology investments to the mission — is the antidote to that pain.

Business relationship managers can:

- Use benchmarking data to prove IT is following industry best practices for delivering services.
- Explain the value IT provides to every employee, process and citizen.
- Elaborate on the risks and constraints brought on by different types of technology debt, including cybersecurity risks.
- Clarify business and mission benefits, leading to more reliable, scalable and agile IT capabilities.
- Support a more strategic and informed perspective about IT-enabled business and mission cost optimization.

Government CIOs should enable business relationship managers who can express this value to ensure executives understand both how efficiently IT funding is spent and when they can adjust their requirements or expectations to improve their “bang for the buck.”

Establish Ongoing IT Cost Optimization Practices and Values

Government budgets run through fat “spend it while you can” eras as well as times when cost-cutting fire drills seem all-consuming and never-ending. While economies and government budgets will continue to ebb and flow, we advise IT organizations to focus on the overall cost-benefit-risk picture and respond to budget windfalls and shortfalls by optimizing investments against that picture.
Integrate Cost-Saving Values and Practices Into Business as Usual

It takes some intentional effort to integrate conscientious frugality into IT decision making and operations. Assess your organization's ability to optimize costs strategically, and factor in any constraints or challenges to your cost optimization approach. Examine existing investment prioritization processes, and determine where and how they address impacts on operational costs and acquisition costs.

Governments find the digital product management approach to managing IT delivery helps align IT costs and benefits to business or mission value. In addition, it supports direct guidance and ownership from functional area leaders.

Evaluate Grant and Program Funding Separately

When funding is earmarked for a specific purpose, such as a grant, government CIOs should negotiate carefully to influence those enabling IT expenditures. Essentially, the CIO may not have the legal or regulatory right to direct how that money is spent, because the grantor has the right to mandate technical, application or information standards.

Optimize IT costs and then escalate how these noncontrolled IT investments can impact future run costs. These discussions may help mission leaders consider interoperability options that can improve mission outcomes and costs across the ecosystem.

Use Benchmarks to Rationalize IT Costs and Establish a Target Run Budget

Determining what ideal IT run costs should be is more art than science. While the difference between cutting fat and cutting bone or muscle depends on the value delivered and is in the eye of the beholder, benchmarks can help clarify that discussion. Gartner ITBudget: Data Input Requirements, Explain Text and Definitions can help organizations categorize and compare their costs with those of industry-specific peer groups. This benchmarking exercise can help identify which areas of IT delivery are likely to contain untapped opportunities for cost cutting, which are running cost-effectively, and which might be underfunded and running into technical debt.

Evidence

1. 2021 CIO Agenda: Government CIOs Step Up to Action for Digital Acceleration. Also see Cutting or Justifying Government IT Spending for additional advice on how to address cost-cutting mandates.

Government Shared Services Governance That Works

Creating the Role of Product Manager in Government and Best Practices in IT Demand Management in Government

IT financial management analysis is critical for U.S. federal CIOs who are required to map their budgets using technology business management. See IT Budget — Capital Planning Guidance, U.S. Office of Electronic Government.

Document Revision History

Government Cost Optimization 101: Stop Acting Like a Cost Center - 3 June 2019
Government Cost Optimization 101: Start With the IT Budget - 27 July 2016

Recommended by the Author

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Finding the Right Cost Optimization Opportunities to Drive Efficiency and Growth
Better Government Digital Strategies Through Better BRM
Strategic Cost Optimization Score for IT
Quick Answer: Can U.S. State and Local Governments Use Fiscal Recovery Funding for IT?
Build a Focused ITFM Cost Model and Use a Simple Allocation Approach to Deliver Rapid Value
IT Key Metrics Data 2021: Industry Measures — Government — State and Local Analysis
IT Key Metrics Data 2021: Industry Measures — Government — National and International Analysis
Quick Answer: What Can U.S. Federal CIOs Do to Leverage TMF Now?
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