IT Funding Models
Use the right mix of funding options for your IT organization

It is worth thinking about how your IT organization is funded. There are probably options you haven't considered, and a mix of funding models can improve your financial stability, your client satisfaction, and the quality of your portfolio management.

Taxation

Most IT organizations have a dedicated budget – a fixed portion of their organization's overall permanent budget. This is a form of internal *taxation*: allocating a department's budget is a zero-sum game, so the "tax" is funding that the department allocated to the IT group instead of to other branches.

Taxation is a suitable way to fund certain things. First among these is what economics calls "public goods" – services that benefit everyone in a community, not just certain groups. Many IT services are public goods – email, the telephone system, cross-enterprise applications such as finance and payroll, and all the hidden infrastructure that makes these possible. Taxation is also a good way to pay for mandatory programs, especially those that are unpopular or invisible.

However, tax has disadvantages, the most obvious being that it is unfair to non-beneficiaries of services built for specific groups. Tax also discourages resource conservation, promoting waste. "If I pay a fixed amount for the network, whether I use it or not, why not stream 'Dancing with the Stars'?" Tax is also not very agile. Because it is hard to quickly adjust funding and staffing levels, taxation promotes large, long-term enterprise projects over short-term quick wins.

Finally, a tax-funded organization receives intense scrutiny from their taxed base and needs good bookkeeping, reporting, and transparency.

Cost-Recovery

Cost-Recovery is the other extreme on the scale. In its pure form, the IT organization would have no base budget, and would bill clients for the total cost of dedicated projects and a share of the cost of shared services based on usage.

Cost recovery promotes better-informed business decisions and conservation, as clients get what they are willing to pay for and are fully aware of the price of their decisions.

There are, of course, disadvantages as well. Total cost billing makes clients costs appear too high. Clients compare our price to the number they saw on a box at Best Buy, or to how long their co-op student says a build would take. They aren't taking into account the data centre, network, foundation software, help line, power systems, operations staff overtime, etc.

Cost recovery also implies that the services in question are optional, so is a poor way to fund mandatory services.   "Thanks, but I'll just take the web application, not the IT Security option."

Staffing for cost-recovery is difficult: do we staff for the demand peaks or lows? One leaves staff un-funded, while the other leaves work un-resourced.

Finally, there is a cost for cost recovery. We need a billing system, cost transfer transactions, and additional budget planning and complexity. We need to include the cost of cost recovery in the cost we recover, and to be careful that we don't simply transfer the burden of cost recovery to our internal finance group.

Hybrids

As you might expect, we can get some of the advantages and avoid some of the disadvantages of both models by combining them. For example, we could tax-fund the data centre, network, help line, storage, and database and application server layers, as well as enterprise-wide applications such as payroll, finance, and email, and then cost-recover development and operation of services for specific clients.

Summary

The process for allocating funding for your IT organization is an important consideration, and can affect how projects are selected and prioritized, and what business decisions clients make. Funding models deserve attention, and even occasional re-consideration.

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