

Budget Crunch, Hiring Freezes, Put Damper on Defense Department Insourcing

By Sandra Erwin | March 25, 2011

Fiscal pressures appear to be stifling the Pentagon's push to insource work that had been performed by contractors.

Current law mandates that federal agencies bring in-house "inherently governmental" functions that previously had been carried out by the private sector, such as program oversight, contract management, cost analysis and cybersecurity responsibilities.

But a recent cap on government hiring and concerns about the cost of expanding the federal work force are slowing down the insourcing momentum, Defense Department officials said last week during a private meeting with defense contractors. They cautioned that the same fiscal pressures that are decelerating insourcing efforts also will affect the private sector as the government is forced to cut back on contracted services.

These officials' comments suggest that insourcing over the past several months may have become un-executable because of conflicting guidance to hire more staff but also to freeze the size of the force at the 2010 levels.

Directives to reduce civilian personnel at the Defense Department are having a "significant impact" on insourcing, said a senior military official.

The military services are required to maintain their civilian work forces at the same size they were in fiscal year 2010. Some agencies that had been on hiring sprees will either have to halt insourcing or eliminate other jobs to fund new hires. Air Force insourcing is likely to emerge unscathed because the service had been aggressively shifting work in-house before the new limits were put in place.

"The insourcing that hasn't taken place by now probably will be held to the fiscal year 2010," the official said. At least in the Air Force, he added, "Insourcing pretty much is going to be stopped."

The Army will continue to insource, although every hiring proposal will be vetted by the office of the service's top civilian leader Secretary John McHugh. "We still have a way to go in insourcing," an Army senior official said. But according to McHugh guidance, "all future insourcing is referred to him for approval."

The Army still needs to insource a significant number of contracting and procurement positions, the official said. But it has become difficult to do in the current budget climate. "Every additional civilian brings us up when we are trying to bring our strength down. ... We're under a hiring freeze with some exceptions for critical positions."

Adding to the dilemma that agencies face is the convergence of two challenges: Meeting Defense Secretary Robert Gates' efficiency targets and having their 2011 budgets still tied up in limbo until Congress resolves the current standoff. As one of the panel members at the meeting said, "We haven't had the other shoe drop yet."

In the Navy, insourcing will continue on, but will be scaled back from earlier projections, another officer said. The Navy's priority today is to hire cybersecurity personnel and skilled shipyard workers to help repair and maintain aging vessels. Navy leaders are currently in negotiations with the

Pentagon comptroller's office to reprogram funds so they can hire 225 cyber specialists and 2,000 shipyard workers. "The Navy is trying to buy back jobs," a panelist said. Unless the service can get the additional shipyard personnel, it may not be able to keep up with its growing ship maintenance backlog.

For contractors, the outlook, too, is murky. In the current environment, agencies have to reduce insourcing but also eliminate 30 percent of their administrative "staff augmentation" contractors over the next three years, as per Gates' guidance.

For the private sector, these developments are a mixed bag. So far, it is unclear how the 30 percent reductions will be applied. With regard to insourcing, industry associations have voiced support of government attempts to build needed critical skills, but have raised concerns about the lack of clear definitions of what constitutes an "inherently governmental" function. In a March 15 memo, the Pentagon's comptroller and the undersecretary for acquisition, logistics and technology directed all insourcing should be considered on a case-by-case basis, "after careful consideration of critical need, whether a function is inherently governmental, and benefit demonstrated by a cost-benefit analysis." They also ordered that any insourcing plans that require increases in current civilian work force levels be approved by them, and by the deputy secretary of defense.

Stan Soloway, president and CEO of the Professional Services Council, an industry group that represents federal contractors, called this "an important step toward adding much needed strategic focus and discipline around insourcing."