



New Study Says Insourcing Doesn't Save Money

Chandler Harris - June 3, 2011

A new study reports that the move toward insourcing government positions doesn't save money and urges the Pentagon to conduct more careful analysis to determine any costs savings of replacing contract work with a permanent employee.

The **DoD Workforce Cost Realism Assessment** study by the nonpartisan Center for Strategic and International Studies (CSIS) weighs recent insourcing initiatives by the Obama administration. It criticizes the Obama administration for not having reliable data to determine cost savings and for making hiring decisions that could end up wasting billions of taxpayer dollars.

Since 2009, the Obama administration directed federal agencies to shift work that had been performed by contractors to government employees. In 2010, the Pentagon added 17,000 employees to its payroll as a result of insourcing efforts. However, some federal agencies have said the insourcing moves weren't saving any money, including Defense Secretary Robert Gates. On August 9, 2010, **Gates acknowledged** that "we weren't seeing the savings we had hoped from insourcing," and later abandoned the insourcing drive because of the lack of savings.

The CSIS report said insourcing can be valuable for "inherently governmental functions," such as contract management and for areas where the Defense Department needs to strengthen its managerial or technical capability. "However, it is not clear that insourcing can provide large budgetary savings," the report states. "In fact, an extensive empirical literature review indicates that increasing in-house support functions such as building maintenance, printing, laundry, and food service would result in a cost increase of between 20 to 40 percent."

The study highlights inconsistencies in the way public sector and contractor costs are measured, as well as problems with estimating overhead costs. Because of this, "it may often be impossible for even the most expert and objective observer to compare in-house and contractor costs with any useful degree of accuracy," the report states.

Even though insourcing is under way in federal agencies, the CSIS said "there is not enough public information to estimate even the likely range of overall real, achieved savings. ... Anecdotal evidence regarding savings is unsatisfactory."

The report suggests the federal government should slow its insourcing and treat any insourcing as a "good-government initiative, rather than a budget drill [so it] might give managers a better chance to identify and recruit for those specific functions and positions that should be moved in-house."