

Pentagon Abandons Insourcing Effort

By Robert Brodsky

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The Defense Department's experiment with bringing contractor functions back in-house appears to be over.

While announcing deep personnel cuts and the elimination of the Joint Forces Command, Defense Secretary Robert Gates on Monday said the Pentagon will no longer automatically replace departing contractors with full-time government personnel. Some exceptions, he said, could be made for critical areas such as the acquisition workforce.

Last year, the department announced it would reduce its number of service support contractors by about 33,000 by 2015. The Pentagon had planned to replace those contractors during the next five years with 39,000 new full-time government employees, 20,000 of whom would be acquisition professionals.

"As we were reducing contractors, we weren't seeing the savings we had hoped from insourcing," the Defense chief said.

Based on data available after the first year, Gates said he was "not satisfied with the progress made to reduce our overreliance on contractors." As part of a departmentwide effort to save \$100 billion from overhead costs and return the funding to the warfighter, Gates instructed officials to reduce by 10 percent their spending on service support contractors during each of the next three years. The cuts will not affect contractors operating in Iraq or Afghanistan.

The department had planned to insource contracted services in areas such as logistical support of aviation systems, safety engineering, cost accounting, anti-terrorism training and religious support. To date, the department has hired about 5,000 new employees, nearly two-thirds through insourcing, according to Defense officials.

"With regard to insourcing, other than changes planned for fiscal 2010, no more full-time positions in these organizations will be created after this fiscal year to replace contractors," Gates said.

The insourcing initiative essentially became irrelevant when Gates froze the number of employees inside the Office of Secretary of Defense, military agencies and combatant commands at their fiscal 2010 levels for the next three years.

Industry groups, which had criticized the department's insourcing agenda as capricious and poorly implemented, were pleased with Defense's decision to end the initiative, though they were concerned about overall job losses for contractors.

"We welcome Secretary Gates' acknowledgement that the Defense Department's savings assumptions associated with insourcing have been vastly overstated and based

on incomplete analyses at best," said Stan Soloway, president and chief executive officer of the Professional Services Council, a trade group.

Defense insourcing guidance required officials to compare the labor costs of civilian and contract support. But, a recent court ruling found the Air Force did not conduct a proper cost analysis while insourcing a function a contractor previously conducted.

"If Defense followed their own [insourcing] rules, many of these complaints would be satisfied," said Peter Steffes, vice president of government policy at the National Defense Industrial Association.

Under Gates' plan, support contractor positions will be eliminated through the closure of several Defense offices. The Office of the Assistant Secretary of Defense for Networks and Information Integration; Joint Staff's Command, Control, Communications and Computer Systems; and the Business Transformation Agency will soon close their doors, with their duties absorbed by other functions, Gates said. The 3,000 contractors supporting the Virginia-based Joint Forces Command also will find themselves out of work.

In addition, the department will cut its budget for oversight reports -- an initiative that relies on almost 1,000 support contractors -- and reduce funding by 10 percent for intelligence advisory and assistance contracts.

"A substantial number of full-time employees will have to find other positions or no longer work for this department," Gates said. "Like millions of Americans affected by this tough economic climate, I know these changes will likely mean real hardship for displaced employees and their families."

Undersecretary of Defense for Acquisition, Technology and Logistics Ashton B. Carter has launched a separate initiative to improve efficiency and to reduce costs in Pentagon contracts. Details of the plan will be announced in early September, Gates said.

Contracting groups had mixed opinions about Defense's overall acquisition strategy, which could result in the largest reduction in service contracting in a generation.

"Secretary Gates took a number of bold steps in his continuing effort to make the Defense Department and its acquisition system function more efficiently today," Aerospace Industries Association President and CEO Marion C. Blakey said. "In particular we applaud the plan to rationalize DoD resources by eliminating needless duplication, consolidating IT infrastructure and closing a number of excess facilities."

But Soloway criticized the reductions as "arbitrary" and unfairly focused on contractors.

"The department needs to look across all of its activities, regardless of who is performing them, and determine what activities are no longer needed and what activities can be done more efficiently," he said. "As we learned from the department's failed actions regarding insourcing, effectively addressing the department's mission and budgetary challenges must be a holistic and strategic exercise."