

## The Pentagon Retreats on Insourcing as Spending Slows

By Marjorie Censer

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The Pentagon appears to be retreating from insourcing — the controversial policy aimed at moving more contracting work into the government — though the Pentagon says it will continue to apply the policy as it makes sense.

Facing budget pressure, the Defense Department has issued a new memo that makes moving work in-house subject to the same kind of fiscal constraints being implemented government-wide.

The Pentagon has become increasingly cautious about insourcing, originally launched as a way to ensure “inherently governmental” work is being done by government employees. Defense Secretary Robert M. Gates said at one point that the Defense Department could hire up to 30,000 new civil servants to replace contractors within five years.

In recent months, the Pentagon and the Army have backed off. The Army suspended existing efforts to move work in-house, calling for better justification of new proposals, while Gates himself said the Defense Department had not seen the cost savings it had hoped for.

The latest memo backs ongoing efforts to beef up the department’s acquisition workforce, but requires agencies that insource those positions to find the funding within their own budgets. Additionally, the memo, signed by Pentagon acquisition chief Ashton B. Carter and Pentagon comptroller Robert F. Hale, says other kinds of insourcing will require case-by-case consideration of whether the function is “inherently governmental” as well as a cost-benefit analysis. The switch would have to be “supportable within current budget levels.”

“This is just telling the services that . . . the rules of the game have changed from where they were,” said Alan Chvotkin, executive vice president and counsel at the Professional Services Council, an industry association.

Contractors are breathing easier, said Bobbie Kilberg, president of the Northern Virginia Technology Council.

“We are hearing from our member companies that they’re less concerned,” she said, though she noted they remain worried about spending cuts. “They no longer, I think, are overly concerned about insourcing as a policy.”

Chvotkin attributed the change in part to the budget problems facing the government.

“It’s an acknowledgment of the reality,” he said. The Pentagon “is committed to achieving that acquisition workforce capacity [but] recognizes that it is constrained by the fiscal situations that the department faces.”

Still, the Pentagon insists it will insource as appropriate. “Insourcing is not something that we can pull back from or stop doing,” said Thomas Hessel, the insourcing program lead for the Defense Department.

“We’re not insourcing for the sake of insourcing,” he said. “We’re going to continue to meet our statutory obligations, we’re going to review contracted services on a regular basis, just as we review and assess the workload that we do in-house.”

Scott Amey, general counsel at the nonprofit Project on Government Oversight, said the government has been taking “a more proactive approach” to looking at the services for which it contracts and the cost of those services.

However, “the government is in a position now where it is going to be forced to justify the employment choices that it’s making, whether that is hiring government employees or hiring service contractors,” Amey said.

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