

The Truth About Insourcing

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By Stan Soloway

The Center for Strategic and International Studies (CSIS) released an important report recently that should become the yardstick for deciding when federal work should be performed by government employees versus contractors. Why should the administration, Congress and industry pay attention to this – yet another report from industry? Because finally we have on the table a framework that might actually work.

CSIS clearly supports current efforts to “recapitalize” key skills in the civil service, but it also correctly points out that where the cost of performance is an issue, it is vitally important that the government get it right. And the conclusion is that the government has largely gotten it wrong. As noted by the study’s principal author, David Berteau, it is somewhat ironic that even as the government strives for greater granularity in the identified costs of products and services, it is making little progress toward accurately defining how much agencies spend on their own workforce.

The CSIS study offers many important insights. For example, it identifies relevant cost factors that were included in the now-banned competitive sourcing process, which defined how industry could compete with federal government for work, but which are not included in the Defense Department’s 2010 memorandum used for cost comparisons today. As one illustration, consider taxes — if work is performed in-house, the government obviously forgoes various types of tax revenues. Under the competitive sourcing model, these costs had to be assessed. Under the current process, they are ignored.

Then there are costs that have never been fully accounted for by the government. Key among these are retirement-related costs. When a civil servant retires, the costs associated with his or her retirement shift to the Office of Personnel Management. But even though Defense directs agencies to consider these costs, it provides no method to do so – which will inevitably lead to underreporting. Take the 2010 Air Force insourcing action, which supposedly would save \$450,000 out of a total contract value of about \$225 million. Even if those negligible savings were real in the short run (a careful analysis strongly suggests otherwise), the Air Force did not even include the tens of millions of dollars in liabilities that the government would assume, just for the post-retirement health care premiums of the workforce.

The overhead issue is complicated and will never be entirely “solved.” But CSIS does identify a range of costs that can and should be considered. CSIS further recommends (and wisely so) that agencies use comprehensive statements of work to assess in-house costs, just as they do in their source selections for contracts.

Smart decision tools are non-partisan, and CSIS, in its typically non-partisan manner, has offered a new one that should be used widely.

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