COMPETITIVE SOURCING

Conducting Public-Private Competition in a Reasoned and Responsible Manner

JULY 2003

Executive Office of the President
Office of Management and Budget

Competitive Sourcing: Conducting Public-Private Competition in a Reasoned and Responsible Manner

In the spring of 2001, the Administration announced its intention to open the commercial activities performed by the government to the dynamics of competition between the public and private sectors. Soon thereafter, the President's Management Agenda (PMA) designated this effort, known as competitive sourcing, as a major initiative. This designation reflected the Administration's commitment to market-based government, where competition drives improved performance and efficiency of federal programs.

Promoting use of public-private competition is not a new idea. Many administrations have encouraged agencies to consider whether commercial activities performed by the government could be provided by the private sector in a more cost-effective manner.[1] This Administration's efforts build on those of the past by using a tailored approach to ensure competition is applied in a reasoned and responsible manner by each agency.

This report describes the Administration's three-pronged strategy for institutionalizing public-private competition as an effective and prudent management tool. This strategy features:

1. Agency-specific competition plans that --

   - are *customized,* based on considered research and sound analysis, to address the agency's mission and workforce mix; and

   - will be *continually refined* to reflect changed circumstances, improved insight into agency programs, and experiences with conducting competitions;

2. A dedicated infrastructure within each agency to promote sound and accountable decision making; and

3. Improved processes for the fair and efficient conduct of public-private competition.

I. <u>The arguments for and against competitive sourcing</u>

Critics of public-private competition argue that the benefits of competitive sourcing may be insufficient for agencies to pursue on a broad scale. Others, who fear that government providers cannot sustain the pressures of competition, assert that competitive sourcing will ultimately dismantle the workforce. The facts tell a much different story.

Public-private competition improves service delivery and decreases costs to taxpayers.

Both the public and private sectors have conducted independent studies to document the effects of public-private competition. Each has reached the same conclusion: subjecting in-house operations to competition consistently generates cost savings -- anywhere from 10-40 percent on average, regardless of whether the competition is won by a private contractor or the government.[2] The Department of Defense (DoD) alone projects savings of more than $6 billion from A-76 competitions completed from 2000 through 2003 involving approximately 73,000 positions. Studies also have cited improvements in service delivery.[3]

Savings of this magnitude make a compelling case for ensuring that resources are available for covering competitive sourcing activities. Historically, savings have far outweighed costs associated with competition. Costs are roughly estimated to be anywhere from $2,000 - $5,000 per position studied, but can be lower, and may, in some cases, be higher. Arguably, savings could increase as agencies gain experience and become more efficient in conducting public-private competition. DoD estimates long term savings of around $85,000 per position over 5 years.

Competitive sourcing is neither dismantling the workforce at large nor limiting future opportunities for federal service.

On average, the government wins just over 50% of public-private competitions. The government should continue to enjoy this level of success with the elimination of direct conversions and other procedural changes made to ensure more even-handed consideration of both sectors' capabilities (see section II.c., below).

Even when the commercial sector is chosen to perform the activity, there generally are only a small number of involuntary separations of federal employees -- 8% according to one study; 3.4% according to another.[4] The Department of the Interior (DOI), which has studied a significant number of commercial activities since the start of the Administration's competitive sourcing initiative, has experienced no involuntary employee separations. The percentage of involuntary separations should remain small. Nearly 40% of all federal workers will be eligible to retire by 2005, creating many new job opportunities across government. The Administration's human capital initiative is already helping agencies better train and retain a capable workforce.

II. Implementation of the competitive sourcing initiative

Past efforts to promote competitive sourcing have not brought about sustained use of public-private competition outside of DoD.[5] As a result, taxpayers have had to pay more for many commercial services they receive from the government. To institutionalize competitive sourcing, the Office of Management and Budget (OMB) has: (a) worked with each member agency of the President's Management Council and other

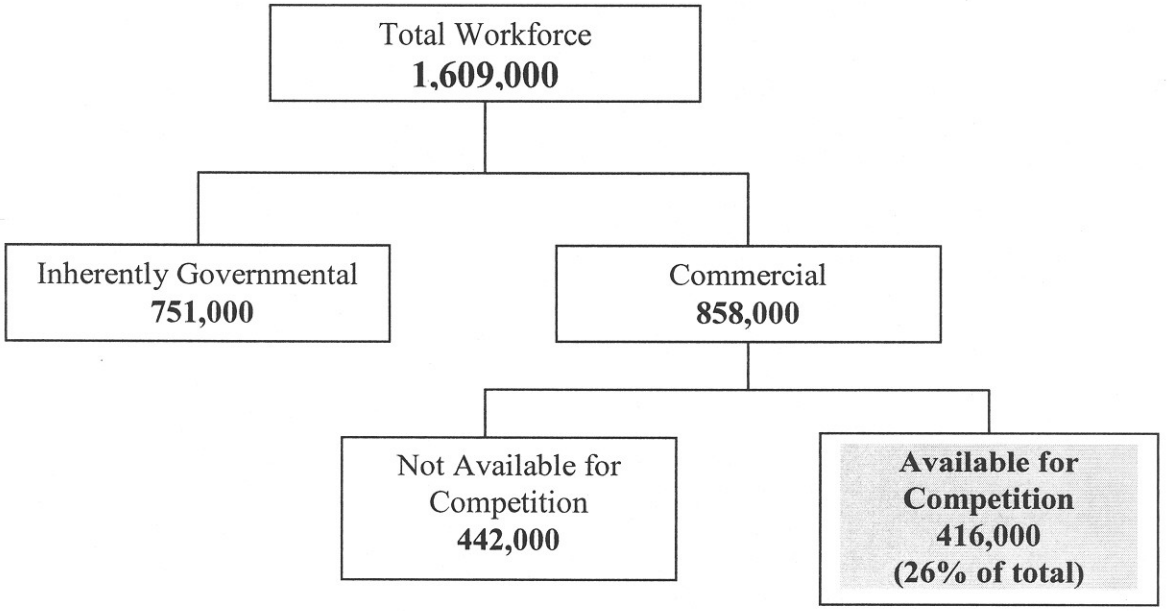
selected agencies to develop tailored plans for the application of competition to commercial activities performed by the government,[6] (b) required all agencies to designate a competitive sourcing official (CSO) and centralize oversight for public-private competition, and (c) improved processes for the conduct of public-private competitions.

a. *Customized competition plans.* Competition plans serve as a focal point for coordinated and considered preparations for public-private competitions. Agencies have built competition plans around: (i) a reasoned classification of their workforce, (ii) careful consideration of where competitive sourcing can best help their mission and workforce, and (iii) collaborative reviews with OMB.

i. Workforce inventories. Agencies are required to prepare annual inventories that categorize all activities performed by their government personnel as either commercial or inherently governmental. For commercial activities, agencies are further required to differentiate those available for competition from those that are not available for comparison with the private sector.[7]

In total, OMB estimates that approximately 26% of the workforce from agencies being tracked under the PMA are engaged in commercial activities that should be available for competition.

Figure 1. OMB Estimated Aggregate Workforce Profile of Agencies Being Tracked under the PMA



However, no two agencies are alike. In preparing inventories, agencies have been given considerable latitude to determine if a commercial activity is inappropriate for public-private competition. Agencies may take various factors into consideration to inform these determinations, such as the unavailability of private sector expertise,

preservation of core competencies, or need for confidentiality in support of senior level decision making. Through this process, agencies have reached very different conclusions regarding the extent to which their commercial activities should be made available for competition.[8]

Table 1. OMB Estimates of Commercial Activities at Select Agencies*

Agency	Total Workforce	Total # of Commercial Activities	Total # of Commercial Activities Available for Competition**	% of Total Workforce Available for Competition
USDA	98,500	46,500	35,600	36
ED	4,700	3,100	2,900	62
DOE	15,100	7,800	4,700	31
HHS	64,900	31,400	11,200	17
DOI	70,200	33,900	23,000	33

*The sample figures in this table represent a rough OMB estimate based on initial 2002 inventory submissions to OMB. OMB will provide information on all agencies being tracked in the PMA by 9/26/03.
**OMB anticipates that information from the agencies' 2003 inventories will allow for a more accurate assessment of commercial activities as a result of refinements made to the reason codes used for identifying whether an activity is available for competition.

ii. Agency analysis. Agencies have developed competition plans using their commercial inventories as a baseline. Specifically, agencies have considered, in a disciplined way, which of the commercial activities available for competition might benefit most from comparison with the private sector. Agency decisions have been informed by a wide variety of factors, including, but not limited to: workforce mix, attrition rates, capacity to conduct reviews, the percentage of service contracts, and the strength of the agency's contract management capabilities.

A comparison of sample customized plans, as set forth in Table 2., indicates that agencies are generally focusing use of public-private competition on commonly available routine commercial services where there are likely to be numerous capable and highly competitive private sector contractors worthy of comparison to agency providers. Equally important, Table 2. reveals that competition is being applied to different types of activities and in differing degrees. These disparities are neither surprising nor troubling, since they reflect each agency's best business judgment regarding how public-private competitions can enhance their mission's performance.

iii. OMB guidance and collaboration. To begin the process of opening commercial activities identified on workforce inventories to competition, OMB instructed agencies to complete competitions on 5 percent of these activities by the end of fiscal year 2001 and an additional 10 percent by the end of fiscal year 2003.[9] These figures were intended to ensure a level of commitment that would help institutionalize use of the tool within each agency. Agencies were given broad discretion to determine the types of commercial activities to be competed.

With experience, OMB recognized that its initial numerically-based directions were inadequate. The guidance provided no management incentives or disincentives, no process for evaluating progress, and no mechanism for interacting with the agencies to reinforce strengths and correct weaknesses. To address these concerns, OMB created scorecards to measure progress using a traffic-light (i.e., "red-yellow-green") grading system. OMB also committed to quarterly meetings with the agencies to discuss progress and provide assistance in the use of competitive sourcing as a management tool.

Under the scorecard approach, numerical mandates were converted to incentives: an agency would move from a "red" score to a "yellow" score if it completed competitions for 15% of the total commercial positions listed on their inventories. An agency would move from "yellow" to "green" status when it completed competition for 50% of the total commercial positions listed on their inventories.[10] The 50% figure was meant to ensure that the dynamics of competition would be brought to bear on a significant portion of commercial activities over time. Equally important, this figure also recognized that some commercial activities may not be suitable for competition, even in the long term. The management scorecard criteria set no time frame for reaching either the 15% or 50% goal.

Through individual interactions with the agencies to evaluate progress, OMB learned that baselines would need to vary based on mission needs and conditions unique to the agency. OMB reviewed all agency baselines and negotiated new baselines with a number of agencies. These negotiations, in combination with the continued broad discretion afforded to agencies to identify appropriate commercial activities, have allowed agencies to create customized plans for the successful application of public-private competition.

b. *Competitive Sourcing Official (CSO) and centralized oversight.* OMB requires agencies to designate a CSO to be responsible and accountable for competitive sourcing activities in the agency.[11] The organizational placement of the CSO is left to each individual agency.

OMB further requires agencies to centralize oversight responsibility.[12] Centralizing oversight responsibility will help to facilitate a wide range of activities, including:

- the development of inventories of commercial and inherently governmental activities;
- the determination of whether commercial activities are suitable for competition;
- the scheduling and preliminary planning of competitions, including the coordination of resources to support the agency provider;[13]
- the tracking of results; and
- information sharing within the agency so past experiences can inform future actions.[14]

Table 2. Sample Profiles of Agency Competition Plans*

Agency	# of Positions in Competition Plan**	Examples of Commercial Activities in Competition Plan***	Examples of Commercial Activities EXCLUDED from Competition Plan****
USDA	5,822	• data center activities • loan operations • administrative support • equipment operators • road maintenance • maintenance, repair, & minor construction of real property • fleet management services & motor vehicle maintenance	• data collection & analysis for regulatory and program management • program planning & support for regulatory and program management • systems design, support, & computer programming services • compliance operations for regulatory and program management • insurance analysis for regulatory and program management • food and drug testing and inspection services
ED	220	• human resources services • payment processing	• management evaluations/audits for investigations • performance audits for investigations • public affairs/relations
DOE	1,180	• information technology services • logistics • financial management • graphics • human resources / training	• maintenance, repair, & minor construction of real property • safety (environment) • engineering & technical services
HHS	2,510	• library services • building maintenance • grants administration support functions • graphic design	• medical & dental equipment repair and maintenance • biomedical research • management & support to research and development (R&D) • basic R&D • applied research
DOI	3,041	• maintenance, repair, & minor construction of real property • engineering & technical services • administrative support services • custodial services • natural resource services • motor vehicle operations • water data collection/analysis • automatic data processing systems design, development & programming services	• maintenance, repair, & minor construction of real property • general administrative support services • natural resource services • motor vehicle operations • voucher examination • historical or heraldry services

* OMB will provide information on all agencies being tracked in the PMA by 9/26/03.
**These figures reflect the number of positions that OMB and the agencies have agreed will be sufficient to justify a move to a "yellow" status on the management scorecard.
*** The listing of an activity in this column does not mean all agency positions dedicated to this activity are included in an agency's competition plan. An agency may opt to exclude some positions of an activity from its competition plan while including other positions performing the same activity in the plan based on the agency's consideration of the suitability of public-private competition.
*** *This list includes activities the agency has determined are commercial but not appropriate for private sector performance. It does not include commercial activities for which private sector performance is statutorily prohibited. (Nor does it include inherently governmental functions.)

c. *Improved processes for conducting public-private competitions.* OMB recently issued significant revisions to OMB Circular A-76, the guidelines agencies must use when conducting public-private competition. The revisions should ensure that public-private competition is used *strictly* as a tool to select the best available source, irrespective of the sector. The processes concentrate on results -- not the sector that provides the service -- so that agencies and the taxpayer may reap the full benefit of competition. The guidelines are intended to ensure a level playing field for public and private sector sources with incentives to devise the most effective means to provide needed services. Of particular note, the revised Circular:

- eliminates a long-standing policy that discouraged the government from competing with the private sector, even though the government might be able to provide better value to the taxpayer;
- ends the practice of converting work directly to private sector performance without considering agency capabilities (so-called "direct conversions");
- creates versatile streamlined competition processes to help agencies efficiently consider the capabilities of both sectors;
- imposes firewalls between certain participants to avoid the appearance of a conflict of interest and build public confidence in the process; and
- requires agencies to track results, including the actual cost of performance.[15]

At a recent Congressional hearing, the General Accounting Office stated that the revised Circular should result in better transparency, increased savings, improved performance, and greater accountability.[16]

III. Next steps

Effective implementation of the competitive sourcing initiative requires that both OMB and the agencies be prepared to continually refine plans, management structures, and strategies to reflect changed circumstances, improved insight into agency programs, and experiences with conducting competitions. To achieve long-term success, OMB is taking the following steps:

a. *New scorecard criteria.* OMB has modified the scorecard criteria. These refinements have been informed by discussions with and recommendations from the Congress. These new criteria should ensure that an agency's commitment to competitive sourcing is measured against targets that reasonably reflect its unique mission and circumstances, not arbitrary or artificial goals.

Under the new criteria agencies will receive a "yellow" status if they have:

- an OMB approved “yellow” competition plan to compete commercial activities available for competition;
- completed one standard competition or publicly announced standard competitions that exceed the number of positions identified for competition in the agency's "yellow" competition plan;

- in the past two quarters, completed 75% of streamlined competitions in a 90-day timeframe; and
- in the past two quarters, canceled less than 20% of publicly announced standard and streamlined competitions.

Agencies will receive a "green" status if they have:

- an OMB approved "green" competition plan to compete commercial activities available for competition;
- publicly announced standard competitions in accordance with the schedule outlined in the agency "green" competition plan;
- since January 2001, completed at least 10 competitions (no minimum number of positions required per competition);
- in the past year, completed 90% of all standard competitions in a 12-month time frame;
- in the past year, completed 95% of all streamlined competitions in a 90-day timeframe;
- in the past year, canceled fewer than 10% of publicly announced standard and streamlined competitions; and
- OMB-approved justifications for all categories of commercial activities exempt from competition.

b. *Additional interactions*. OMB and the agencies will monitor costs and results achieved. This information will be used to evaluate the effectiveness of competitive sourcing at each agency and devise additional strategies to address agency-unique implementation issues. With the assistance of the Federal Acquisition Council,[17] agencies will share lessons learned and best practices for addressing common issues. Using past experiences to inform future decision making will further ensure competitive sourcing is a fair and effective tool for improving the delivery of services to our citizens.

Notes

[1] The executive branch first addressed the performance of commercial activities by government agencies in 1955. See Bureau of the Budget Bulletin 55-4, Commercial-industrial activities of the Government providing products or services for governmental use (January 15, 1955). Policies addressing the performance of commercial activities are currently set forth in OMB Circular A-76. Since its original issuance in 1966, the Circular has been revised four times -- in 1967, 1979, 1983 and, just recently, in May 2003. In 1979, OMB issued a supplemental handbook to accompany the Circular, and subsequently revised it three times. In May, the handbook was rescinded and its contents were revised and incorporated in attachments to the Circular as part of OMB's efforts to streamline guidance on public-private competitions.

[2] DoD, which has, by far, the most extensive program for public-private competition, estimates savings of 33% on the roughly 3000 competitions it has conducted since 1979. Numerous sources outside the executive branch also have confirmed the benefits of public-private competition. See, e.g., *Long-Run Costs and Performance Effects of Competitive Sourcing*, Center for Naval Analysis, CRM D0002765.A2 (February 2001) (16 competitions yielded estimated effective savings of 34 percent through the life of the contracts); *Personnel Savings in Competitive Sourced Activities: Are They Real? Will They Last?*, National Defense Research Institute, RAND (2002) (expected savings for contractor wins ranged from 41-59 percent and for the government employees from 34-59 percent); *Moving Toward Market-Based Government: The Changing Role of Government as the Provider*, IBM Endowment for The Business of Government (June 2003) (the presence of competition creates the previously missing incentive for government providers to significantly improve processes that lower costs and increase performance*); COMPETITIVE SOURCING: Implementation Will Be Key to Success of New Circular A-76*, GAO-03-943T (June 26, 2003) (the new Circular should result in increased savings, improved performance, and greater accountability).

[3] See, e.g., *Moving Toward Market-Based Government: The Changing Role of Government as the Provider*, note 2 at 49-50.

[4] See, e.g., *DOD COMPETITIVE SOURCING: Effects of A-76 Studies on Federal Employees' Employment, Pay, and Benefits Vary*, GAO-01-388 (March 2001); *Case Studies in DoD Outsourcing,* Center for Naval Analysis Report, CAB96-62 (January 1997).

[5] In 1998, the GAO reported that Circular A-76 was seldom used in civilian agencies. See, *OMB CIRCULAR A-76: Oversight and Implementation Issues*, GAO/T-GGD-98-146 (June 4, 1998).

[6] Departments and agencies that are being evaluated under the competitive sourcing initiative include: (1) the Department of Agriculture (USDA), (2) the Department of Commerce, (3) DoD, (4) the Department of Education (ED), (5) the Department of Energy (DOE), (6) the Environmental Protection Agency, (7) the Department of Health and Human Services (HHS), (8) the Department of Homeland Security, (9) the Department of Housing and Urban Development, (10) DOI, (11) the Department of Justice, (12) the Department or Labor, (13) the Department of State, (14) the Department of Transportation, (15) the Department of the Treasury, (16) the Department of Veterans Affairs, (17) the Agency for International Development, (18) the Corps of Engineers, (19) the General Services Administration, (20) the National Aeronautics and Space Administration, (21) the National Science Foundation, (22) OMB, (23) the Office of Personnel Management, (24) the Small Business Administration, (25) the Smithsonian, and (26) the Social Security Administration.

[7] Requirements for preparing inventories are set forth in Attachment A of Circular A-76, as revised in May 2003, and include the requirements of the Federal Activities Inventory Reform Act of 1998, 31 U.S.C. § 501 note. The Circular provides "reason codes" for agencies to indicate the rationale for government performance of a commercial activity. For example, a statute may preclude performance by the private sector or the agency may have determined that performance by the private sector is inappropriate.

[8] Under Circular A-76, as revised, the agency must justify determinations that commercial activities are not appropriate for competition.

[9] See OMB Memorandum M-01-15, Performance Goals and Management Initiatives for the FY 2002 Budget (March 9, 2001). A copy is provided as Attachment A.

[10] A copy of the scorecard criteria defining red, yellow, and green status is provided as Attachment B.

[11] See paragraph 4.f. of OMB Circular A-76, as revised.

[12] See paragraph 4.h. of OMB Circular A-76, as revised.

[13] At the Internal Revenue Service (IRS), for instance, the CSO works extensively with the IRS business units in selecting candidate commercial activities to undergo a business case analysis to support a go/no-go decision on conducting a public-private competition. Pre-decisional documents are vetted with the business units prior to formal discussion with the IRS Executive Steering Committee, led by the IRS Commissioner. Decisions to proceed with public-private competitions are quickly shared in writing and verbally with the president of the employees union. The union is also briefed on the final business case. The CSO holds monthly competitive sourcing coordination group meetings to discuss progress for each competition. Participants include: project team leaders and representatives from human resources, communications and liaison, general legal services, and the employees union. This cross-functional representation helps to facilitate effective communication and a broad-based understanding of IRS' competitive sourcing activities.

[14] Sharing experiences should be especially helpful to government providers, who have the capability to be highly competitive but often lack the private sector's insight and experience in competing for work.

[15] For additional discussion about the revised Circular, see 64 FR 32134 (May 29, 2003).

[16] *COMPETITIVE SOURCING: Implementation Will Be Key to Success of New Circular A-76, supra* note 2.

[17] The Federal Acquisition Council provides a senior level forum for a diverse group of executive branch acquisition officials to monitor and improve the federal acquisition system through efforts that are aligned with the PMA. The Council promotes effective business practices to ensure the timely delivery of best value products and services to the agencies, achieve public policy objectives, and further integrity, fairness, competition, and openness in the federal acquisition system.

Attachment A

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DEPUTY DIRECTOR

March 9, 2001

M-01-15

MEMORANDUM FOR HEADS AND ACTING HEADS OF DEPARTMENTS AND AGENCIES

FROM: Sean O'Keefe
Deputy Director

SUBJECT: Performance Goals and Management Initiatives for the FY 2002 Budget

In accordance with the Director's memorandum, subject above, dated February 14, 2001, the Office of Management and Budget is providing additional guidance on the development of performance plans regarding the following reform initiatives:

1. Making greater use of performance-based contracts: For FY 2002, the Performance-Based Contracting (PBSC) goal is to award contracts over $25,000 using PBSC techniques for not less than 20 percent of the total eligible service contracting dollars. This goal is based on the goals established under the Government-Wide Acquisition Performance Measurement Program established by the Procurement Executives Council.

2. Expanding the application of on-line procurement: For FY 2002, agencies will post (a) all synopses for acquisitions valued at over $25,000 for which widespread notice is required and (b) all associated solicitations unless covered by an exemption in the Federal Acquisition Regulation on the government-wide point-of-entry website (www.FedBizOpps.gov). The President's commitment is to shift procurement to the Internet at the same rate as the private sector and to increase competition and accessibility.

3. Expanding A-76 competitions and more accurate FAIR Act inventories: For FY 2002, agencies will complete public-private or direct conversion competitions on not less than 5 percent of the FTEs listed on their Federal Activities Inventory Reform Act inventories. Agency plans will include the number of FTEs by function and location being competed, training requirements and planned contract support. The President's commitment is to open at least one-half of the Federal positions listed on the FAIR Act inventory of commercial functions to competition with the private sector.

Agency plans should outline how the agency intends to meet these goals. If the agency does not believe that it will achieve these goals within the FY 2002 Budget time-frame, the agency should describe the actions they intend to take in order to mitigate this problem. Agencies should provide a time-line showing when it expects to achieve this FY 2002 Budget goal.

The Office of Federal Procurement Policy staff is ready to work with you as you prepare these plans and coordinate your budget impacts, if any, with your budget examiners.

Attachment B

Competitive Sourcing
Original Scorecard Criteria

GREEN	**YELLOW**	**RED**
Must Meet All Core Criteria: Completed public-private or direct conversion competition on not less than 50 percent of the full-time equivalent employees listed on the approved FAIR Act inventories. Competitions and direct conversions conducted pursuant to approved competition plan. Commercial reimbursable support service arrangements between agencies are competed with the private sector on a recurring basis.	Achievement of Some but not All Core Criteria; No Red Conditions.	Has Any One of the Following Conditions: Completed public-private or direct conversion competition on less than 15 percent of the full-time equivalent employees listed on the approved FAIR Act inventories. Competitions and direct conversions are not conducted in accordance with approved competition plan. No commercial reimbursable support service arrangements between agencies are competed with the private sector.