



FEDERAL SHARED SERVICES: WHY LEGISLATION IS NECESSARY

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The participants strongly support the aims of the SSLC and the overall objectives of the legislation proposed in this white paper. While differences of opinion have existed in working through the particulars of the proposed legislation, the participants generally support the white paper as written and the reasonable compromises it represents. We look forward to a robust discussion of these proposals with Congress, the Administration, and all stakeholders interested in building an effective shared services marketplace for Federal Government. Thanks to all participants for their valuable contributions.



INTRODUCTION

“Shared Services” is a business model for delivery of common back office administrative services, e.g., human resources, financial management, acquisition, supply chain, administrative services, etc., and common mission-support services, e.g., geospatial services, loan processing, and many new lines of business, in which customer organizations receive services from third party providers with high capacity platforms who can serve multiple customers more cost-effectively than the vast majority of individual customers can serve themselves. After decades of evolution, shared services has become the default delivery mode for common business transactions in leading public and private sector organizations throughout the world. Global experience demonstrates typical cost savings of 25% to 45% over decentralized or self-service models¹. The advent of “cloud” technologies is creating ever-increasing opportunities to drive “commodity” transactions to shared service business models.

Shared services modernization has been underway in the Federal Government for decades with support from Presidential Administrations of both parties. Progress has been extremely slow and discontinuous across administrations. The leading success story to date has been Federal payroll – but it has taken over 25 years to consolidate from dozens of agency-specific platforms to today’s four government-wide platforms. The Office of Personnel Management has estimated cumulative savings of \$1.6 Billion to date² – but we’ve only begun to scratch the surface of the full potential across the entire Federal back office. This glacial pace of progress is failing to meet new and rapidly evolving 21st Century challenges and imposes an unacceptable opportunity cost on a nation with chronic budget deficits, a staggering \$18 Trillion national debt and seriously under-resourced national missions.

Accenture has reported that 200 Federal agencies currently spend about \$125 Billion per year on their individual back offices (i.e., in FM, HR, IT, supply chain and administrative services)³. Full implementation of shared services across these common back office and other mission related functions could produce savings of nearly \$50 Billion⁴ by eliminating wasteful duplication and redundancy and improving efficiency, while enabling improved performance, transparency, compliance, accountability and a more secure cyber environment in government business operations. Savings realized could be applied to a variety of higher priority national objectives from deficit-reduction to enhancement of under-resourced critical missions. A fully realized shared services business environment with fewer, newer, higher power business platforms would also be a force multiplier for improved data quality and compliance with the Digital Accountability and Transparency Act (DATA Act) and other government-wide legislation and management reform initiatives.

An explosion of renewed interest and activity is underway within the Executive Branch and the Federal professional services industries. The Obama Administration has highlighted shared services as a 21st Century Government initiative in the President’s 2016 budget and placed strong advocates in key positions at OMB and Federal agencies to drive progress. The Federal CIO Council has issued

¹ Accenture Federal Services, Shared Services Roundtable, Government-wide Cost Savings Business Case, Partnership for Public Service, November 2014

² HR Line of Business FY 2011 Cost Benefit Analysis Report, US Office of Personnel Management, May 2012

³ Ibid

⁴ Ibid

implementation guidance. Industry associations including the American Council for Technology Industry Advisory Council (ACT-IAC) and the Association of Government Accountants (AGA) are sponsoring conferences and publishing studies showcasing thought leadership, market-ready solutions and growing customer acceptance. The Partnership for Public Service's Shared Services Roundtable has developed a comprehensive transformation plan⁵ with participation from the consulting and IT industries and current and former Federal executives. A majority of Federal executives responding to a recent survey support a more open and competitive shared services marketplace with greater commercial access and customer choice⁶.

Other important enablers include complementary Presidential IT initiatives, including the Administration's "Cloud First" policy and e-Government projects, and the recently enacted Federal Information Technology Acquisition Reform Act, through which Congress directed greater consolidation of Federal data centers and expanded use of shared services. Broader implementation of shared services can build upon these foundations and extend the same principles from the platform layer to the application layer of IT services.

Despite these encouraging developments, formidable barriers remain, including:

- Antiquated, non-standard, limited capacity platforms unable to modernize and scale to accommodate growing demand due to lack of government and private sector investment
- Limited ability for agencies to move funds across appropriation accounts to pay for interagency services, or for Federal Shared Services Providers (FSSPs) to accumulate reserve funds for modernization investments
- Lack of a single point of responsibility for policy and oversight and inconsistent governance across OMB, OPM, GSA, Treasury and FSSP host agencies
- Inconsistently defined, interpreted and applied terminology, authorities and responsibilities throughout the Federal shared services environment
- Lack of organizational readiness and leadership competencies to manage shared services and agency migrations to new providers
- Federal employees' cultural resistance to change, reluctance to trust third party service providers and fear of job loss or undesirable personnel reassignments
- Resistance from business interests with a stake in the status quo, such as service providers in functional areas likely to become shared services

⁵ Building a Shared Services Marketplace, Shared Services Roundtable, Partnership for Public Service, March 2015

⁶ Annual CIO Survey, Association of Government Accountants and Accenture, January 2015



- Statutory barriers to public-private competitions, such as those intended to eliminate A-76 public-private cost comparisons that erode incentives for FSSPs to innovate and improve cost and service performance
- Lack of Congressional support and engagement in driving shared services compliance and results.

Limitations and inconsistencies in FSSP business models require particular attention. All FSSPs operate with intra-governmental revolving funds; some of these funds are defined in authorizing legislation as “working capital funds,” others as “franchise funds.”⁷ Both funds allow FSSPs to receive money from external government customers and comingle funds from different appropriations to finance activities supporting multiple agencies. They are similar in their authorities and operations, but inconsistencies in their authorizing language as written by different Congressional committees and interpreted by different attorneys in different FSSP host agencies have created “level playing field” issues across the environment. Some FSSPs operate with multiple funds with differing terms. The Interior Business Center, for example, has one franchise fund and four working capital funds.⁸ All franchise funds are required to operate according to “12 Business Operating Principles”⁹ issued by OMB and the CFO Council in 1996. Similar uniform guidance does not exist for working capital funds.

A key inconsistency across FSSPs and revolving funds is that some are governed more strictly than others by requirements to operate on full cost recovery basis. For example, some FSSPs are allowed to include a broader range of costs in their calculations of full cost recovery, and some have stricter limits on their ability to accumulate reserves for contingencies and future modernization needs. The capability to build reserves is critical for FSSPs to compete on full cost recovery basis in a competitive marketplace. Host agency authorization language allows many government providers to retain up to 4% of annual revenue in reserves; however, few are able to exercise this authority in practice, while others have reserve authorities without defined ceilings and still others have no reserve authorities at all. The inability to retain reserves for future modernization forces FSSPs to seek appropriated funds when modernization is necessary – often a no-win proposition because they cannot effectively compete for funds against higher priority mission needs of their host agencies. The lack of timely access to investment capital can seriously inhibit FSSP business agility, customer service, innovation and efforts to improve efficiency and effectiveness.

Without the ability to modernize, FSSPs are unable to expand capacity and attract new customers — so they languish with antiquated technology platforms and unhappy customers. Moreover, reserve premiums and funds are easy political targets. Appropriators tend to view the practice of building reserves as “parking money” and terminate reserve balances on sight. Concerns about lack of transparency and accountability in FSSP spending are usually more perception than reality and can be addressed by disciplined accounting, reporting, auditing and oversight.

⁷ Working capital funds were originally proposed by the Hoover Commission and authorized in legislation in the late 1940s to facilitate cross-agency transactions impeded by strict interpretation of the Economy Act. Franchise funds were first authorized as pilot projects in the Government Management Reform Act of 1994 before being permanently authorized agency-by-agency over the following decade.

⁸ GAO-03-1069, Franchise Fund Pilot Review, August 2003

⁹ See GAO-03-1069, Appendix 2, for full description of operating principles.

There is also a widespread perception among government customer agencies that allowing FSSPs to build reserve premiums into their pricing amounts to an unfair and inappropriate “tax” that customers cannot afford to pay when their own budgets are under pressure. Customers often attempt to negotiate out of premiums and generate political pressure to reduce prices to a rock bottom cost recovery rate. While customers complain and try to avoid payment of premiums, the responsible use of reserves is a far more business-like way to plan and execute upgrades and modernization than dependence on the unpredictable appropriations process.

Even when FSSPs are able to save a modest reserve through disciplined management, the savings tend to be consumed by year-end contingencies and fail to accumulate to a sufficient level for future modernization needs. Based on experience to date, it is unclear whether the 4% annual retained earnings allowance – even if put into effective practice – would be sufficient for modernization and long term FSSP viability in a cost recovery environment. Technology and capital investment practices have changed significantly since 1994 when the 4% cap was introduced.¹⁰ In the era of “cloud” subscription-based services, FSSPs will increasingly assume roles as brokers of commercial services with declining need to own and operate infrastructure, platforms and applications. It is clear that the time has come to re-think FSSP business models in the context of current technology management, investment and acquisition practices and the emerging shared services marketplace, and to consider innovative ways of attracting private investment to accelerate modernization and capacity building.

The above referenced barriers and opportunities are discussed in greater detail in the Roundtable’s reports at www.OurPublicService.org and the previously-referenced AGA/Accenture study at www.agacgm.org.

The absence of a legislative mandate to remove barriers and drive modernization forward has been the most critical missing success factor necessary for realization of the desired future state. As noted by US Comptroller General Gene Dodaro, *“Successful management reforms in the Federal Government need to have legislative underpinnings so they have permanence and consistency over time, no matter who’s in the White House or who’s leading departments and agencies.”*¹¹

A large, bipartisan community of government reform leaders, including former appointees of the Reagan, Bush-41, Clinton, Bush-43 and Obama Administrations, and key officials of the current administration, believe the time is ripe for legislation to remove barriers and establish permanent governance structures necessary to sustain progress and fully institutionalize shared services as the future default service delivery model. Industry Sponsors, non-profit members and Friends of the Shared Services Leadership Coalition are united in embracing consensus definitions of the key challenges and vision of the desired future state of a dynamic shared services marketplace, as summarized below:

¹⁰ The 4% cap for franchise funds was introduced in the Government Management Reform Act of 1994.

¹¹ Keynote, Data Transparency Summit 2014, Data Transparency Coalition, September 30, 2014



The Challenge¹²

“The lack of a centralized, transparent and competitive shared services marketplace has greatly impeded the growth of shared services in the federal space. There is a need for clear leadership, governance, and resources to drive a government-wide approach to shared services.”

The Vision¹³

“Federal shared services should operate in an open, dynamic, smartly governed marketplace wherein larger scale, highly modernized and higher-performing government and commercial shared service providers compete and collaborate in the business of serving customer agencies, and customers are empowered to freely choose their providers based on reliable market information. The market should operate and be governed by sound, consistent and transparent business rules and best practices that drive the market towards increasingly higher states of shared service utilization, performance, innovation, accountability, cost-savings and customer service.”

This vision is advocated as the best way to achieve the full potential of the cost savings, service improvements and other important benefits described above. The next section of this paper identifies the over-arching goal, objectives and key elements of legislation necessary to address challenges, implement the future vision and establish an effective Congressional oversight role.

¹² Partnership for Public Service, Shared Services Roundtable, Briefing to OMB, November 2014. The final Roundtable Report, Building a Shared Services Marketplace, was released in March 2015.

¹³ Ibid

GOAL AND OBJECTIVES OF LEGISLATION

The overall goal of legislation is to implement the above referenced vision of a transformed future state:

Goal of Legislation: Create an open, dynamic, smartly governed marketplace wherein larger scale, highly modernized and higher-performing government and commercial shared service providers compete and collaborate in the business of serving customer agencies, and customers are empowered to freely choose their providers based on reliable market information. The market should operate and be governed by sound, consistent and transparent business rules and best practices that drive the market towards increasingly higher states of shared service utilization, performance, innovation, accountability, cost-savings and customer service.

Objectives of Legislation: The following objectives are necessary to realize this goal:

1. Establish centralized policy and governance roles and capabilities within the Executive Branch necessary to create and implement the envisioned shared services marketplace, including a chief shared services officer role as a responsibility of the OMB Deputy Director for Management (DD/M), and an operational role in implementing and operating the market place within GSA.
2. Create a technical advisory vehicle for raising issues from key stakeholders in the marketplace and providing leading edge thought leadership expertise in best practices and lessons learned from the global public and private sector shared services environment to support OMB and GSA decision-making.
3. Establish all Federal Shared Services Providers (FSSPs) on sound, consistent and up-to-date business models in their use of revolving funds and investment management practices to enable them to scale, modernize and compete effectively in the envisioned marketplace on full cost recovery basis, including capturing adequate reserve funds needed to keep the provider competitive in the Federal Shared Service Marketplace.
4. Empower customer agencies to exercise fully informed, incentive-driven choice in the marketplace and keep a reasonable share of realized savings as an incentive for migrating to shared services.
5. Create a continuous, market-responsive process for reviewing and accepting new commercial shared services and solutions into the marketplace to drive more rapid uptake and commoditization.
6. Create a credible, ongoing score-keeping capability for developing the business case and tracking implementation progress and results.
7. Establish a robust Congressional oversight process to track system-wide progress, results and financial performance, including cost savings, financial accountability and transparency reporting for all government funds to public and private sector service providers, customer service improvement and benefits realization.



PROPOSED LEGISLATION

1. Define and authorize common terms for various types of shared services, shared solutions and providers, including:
 - a. Shared Services (common back office administrative functions, e.g., FM, HR, acquisition services, etc.)
 - b. Mission-related Shared Solutions (e.g., geospatial services, data analytics, web services, etc.)
 - c. Federal Shared Service Providers (FSSPs, Federal providers serving customers inside of and external to the FSSP's host agency)
 - d. Internal Shared Service Providers (ISSPs, consolidated administrative service providers serving only customers internal to the ISSP's host agency)
 - e. Private Shared Service Providers (PSSPs, private sector providers of Federal shared services to government customers)
 - f. Public-Private Partnerships between FSSPs and PSSPs
 - g. Others to be determined.
2. Establish the role of a Federal chief shared services officer as a responsibility of the OMB Deputy Director for Management (DD/M), responsible for government-wide shared services policy, integration, coordination and oversight, including system-wide financial accountability reporting for all government funds to public and private sector service providers. Direct the DD/M to execute his/her role and responsibilities through OMB policy and organizational processes, and actively engage agency Chief Operating Officers in implementation through the President's Management Council.
3. Create an Office of Federal Shared Services (OFSS) within GSA headed by an Associate Administrator (AA/OFSS) as a direct report to the GSA Administrator
 - a. Establish the AA/OFSS with a requirement for significant shared services leadership experience in the private or public sector; authorize use of Schedule A or other flexible hiring authorities for expeditious filling of this position
 - b. Provide funding for OFSS through appropriations
 - c. Empower OFSS with capabilities and authorities necessary to implement and oversee the envisioned shared services marketplace, under the supervision of the OMB DD/M and with the advice of the Federal Shared Services Technical Advisory Board (per 4, below).
 - d. Direct OFSS to develop and execute an implementation plan and roadmap to implement the envisioned future state, including all necessary regulatory, governance, performance management, financial management and accountability, acquisition and compliance requirements
4. Create a Federal Shared Services Technical Advisory Board, subject to the Federal Advisory Committee Act, with mission to advise the DD/M and the AA/OFSS on ways to leverage best practices and lessons learned from the global public and private sector shared services experience in addressing their implementation and governance challenges. Members should be appointed by the DD/M and include a range of important perspectives, such as:
 - a. Two (2) chief executive officers of Federal Shared Services Providers

- b. Two (2) executives representing Private Shared Services Providers
 - c. Three (3) chief operating officers from Federal shared services customer agencies (i.e., non-providers of shared services) including one large civilian agency, one small civilian agency and one defense agency
 - d. One (1) chief executive officer of a leading non-Federal public sector shared services provider
 - e. One (1) chief executive officer of a leading commercial sector shared services provider not participating in the Federal market
5. Modernize FSSP business models for improved performance and consistency
- a. Authorize FSSPs in legislation as businesslike, high performance organizations with flexibilities for hiring, firing, compensation-setting and performance management
 - b. Standardize all FSSP revolving fund business terms, authorizing language and interpretations
 - c. Authorize services to be priced for reserve accumulation with GAAP-like investment and accounting practices to support future modernization investments
 - d. Require all modernization to be financed through FSSP generated funds
 - i. Recapture costs in pricing, depreciation and sinking funds
 - ii. Require all modernization investments to be self-funded by FSSPs (i.e., no appropriations)
 - iii. Consider one-time capitalization/modernization appropriation (if necessary)
 - e. Direct OMB to:
 - i. Assess FSSP modernization experience, the adequacy of the 4% ceiling for modernization reserves, and the viability of FSSPs to operate on full cost recovery basis in the envisioned future state;
 - ii. If necessary, reset the reserve limit at a level appropriate for long term sustainability; and
 - iii. Issue and enforce FSSP business operating principles (similar to 1996 franchise fund operating guidance) applicable to all FSSP activities and revolving funds
 - f. Direct GAO to review and validate OMB deliverables resulting from Item 5.e., above.
6. Empower customer agencies to exercise informed, incentive-driven choice in marketplace
- a. Free choice of providers and reasonable switching
 - i. Authorize agencies to buy OFSS-defined and approved services directly from providers of choice (FSSPs or PSSPs)
 - ii. Allow opt-outs for cause without penalty with reasonable provider notification
 - b. Allow customer agencies to share savings as an incentive for migrating to FSSPs or PSSPs where cost beneficial
 - i. Authorize agencies to retain a portion of cost savings from shared services migration to support other authorized mission-related agency purposes
 - ii. Waive re-programming requirements up to a reasonable threshold (e.g., \$5M/year)
7. Create a permanent, dynamic commercial shared services/solutions market
- a. Direct GSA to create appropriate schedules for agency purchases of OFSS-defined, outcome-based government and commercial shared services and mission support services and reconcile conflicts with other GSA schedules



- b. Authorize GSA defined shared services/shared solutions as exempt from all OMB A-76 competitions and other legislative restrictions concerning public-private competitions
 - c. Direct OMB to continuously review and redefine Federal standards for shared administrative services and mission related solutions for consistency with common commercial solutions (i.e., drive towards commercial commoditization)
 - d. Authorize and direct OFSS to initiate and rapidly expand successful pilot projects to test private sector investment readiness for innovative solutions and business models (e.g., public-private partnerships) to increase capacity in the Federal marketplace
8. Create an ongoing score-keeping capability for developing the business case and tracking implementation progress
 - a. Direct OMB and NIST to establish a methodology and metrics for the purpose of quantifying all baseline process, technology and organizational costs associated with the “as-is” back office footprint (i.e., HR, FM, acquisition, supply chain and other administrative and mission-related services eligible for shared services transformation) across the Federal Government;
 - b. Direct the 24 CFO Act departments and agencies to quantify the costs of their respective agencies’ back offices using the OMB/NIST methodology and metrics. The evaluations should be reported to OMB for consolidation into a comprehensive report quantifying the cost of the entire Federal administrative footprint and the cost of duplicative and overlapping missions and programs, and identifying potential savings from optimizing shared administrative services and mission-related solutions.
 - c. Direct the Inspectors General in the 24 CFO Act departments and agencies to evaluate their respective agencies’ calculations performed in Item 8.b. above.
 - d. Direct OMB and the 24 CFO Act agencies to institutionalize a recurring annual progress report describing implementation results and measuring the incremental improvements for each department and agency as well as the Federal government as whole against the established baseline identified above, and identifying new shared services/solution opportunities.
 - e. Direct the 24 CFO Act Inspectors General to validate the annual progress reports defined in Item 8.d., above, as performed in their respective agencies.
 - f. Direct GAO to review and validate the methodologies and baseline assessments conducted in 8.a., 8.b., and 8.c., above.
 - g. Direct GAO to evaluate overall implementation progress and results five years after passage of this Act to determine whether additional reforms are necessary to meet unfulfilled goals and objectives.
 - h. Exempt the Offices of the Inspectors General from quantifying the costs of their own administrative services and other requirements of this legislation, but encourage the Council of Inspectors General for Integrity and Efficiency (CIGIE) to initiate shared service pilot projects within the CIGIE community.
9. Establish robust Congressional oversight. Conduct annual hearings in House and Senate authorizing committees focusing on results and financial accountability, particularly system-wide cost savings, customer service improvement, benefits realization and full transparency accountability reporting for all government funds to public and private sector service providers
 - a. Plan hearings around release of proposed reports defined in item 8, above
 - b. Invite testimony from GAO, OMB, OFSS, customer agencies, FSSPs and PSSPs.



Mission Statement:

The Shared Services Leadership Coalition advocates that the Federal Government accelerate implementation of modernized Shared Service business models to reduce costs and improve performance of common administrative and mission related functions on behalf of the public interest in competent, cost-effective 21st Century government.

Goal Statement:

The Shared Services Leadership Coalition's goal is to enact legislation to codify and accelerate progress in "good government" Shared Services initiatives with the potential to realize annual savings of over \$50 Billion in government administrative costs and substantial improvements in services, employee morale and government mission performance.

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