Commentary on OMB Memorandum M-19-16
Centralized Mission Support Capabilities for the Federal Government
June 2019

Executive Summary

With the issuance of OMB Memorandum M-19-16 and the April 2019 "Sharing Quality Services" CAP Goal Action Plan and Progress Update, the Administration has taken a major step forward and marked a significant milestone in the evolution of Federal shared services. A few key themes and features are highlighted below and discussed in greater detail in the following pages.

- **Long term implementation perspective.** The Administration's plans thoughtfully build on the President's Management Agenda and CAP Goal frameworks inherited from the previous administration and explicitly acknowledge the long-term nature of government-wide shared services transformation as a project that will span multiple administrations.

- **Funding challenges acknowledged and partially addressed.** The Administration recognizes that funding will continue to be a major hurdle and wisely provides for a long-term investment horizon. Access to the Technology Modernization Fund (TMF) for the NewPay payroll modernization is a timely example of a new investment approach; however, the government will need to find additional sources of funds beyond the TMF and appropriations to realize the full scope and benefits of shared services. Innovative investment models such as public-private partnerships and direct commercial investment should be tested and expanded as successful results are demonstrated to enable implementation to proceed at a business-like pace.

- **New governance entities introduced into the ecosystem.** Implementation will be largely driven by new entities introduced into the governance ecosystem called "Quality Service Management Offices" (QSMOs). OMB will designate a lead agency to host a QSMO for each set of capabilities where sharing or centralizing opportunities are identified. QSMOs will create and oversee a marketplace of offerings for their assigned sets of capabilities or business lines. The QSMOs will define offerings to include technology, services, or fully managed services and be empowered to determine the way forward for legacy Federal Shared Service Providers (FSSPs) and commercial providers within their respective marketplaces. As GAO reported recently[1], government-wide oversight and QSMO roles and responsibilities need to be more fully defined, and detailed planning is necessary to work through the implementation path forward, but the stage is set to provide strong top-down direction required to sustain progress in a consistent direction over the long term.

- **Workforce planning introduced as key transformation enabler.** Agencies are directed to initiate strategic workforce and human capital planning as shared services are implemented to re-shape and re-skill the workforce for the envisioned future state. This is a critically important new requirement that has not been addressed in previous shared services initiatives. We believe effective long-term planning can provide enhanced career outcomes for government employees while enabling the full potential cost savings from optimized shared services to be realized. We look forward to working with the Administration to validate this hypothesis in the months ahead.

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[1] GAO-19-94, *Streamlining Government: OMB and GSA Could Strengthen Their Approach to Implementing a New Shared Services Plan*, March 2019.

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Immediate Critical Success Factors. The following critical success factors are necessary to get the new directions off to a strong start:

- Earning agency trust and confidence by convincingly demonstrating and communicating how QSMOs will provide more efficient and effective services and a more successful path forward than legacy approaches.
- Establishing efficiency and effectiveness measures for QSMO stand up and the marketplace on-boarding process so that QSMOs are viewed as value-adding governance entities and not as a non-value-adding layer of bureaucracy.
- Establishing ambitious goals and meeting milestones for key actions by OMB, GSA, QSMOs and implementing agencies, and continuing transparency progress reporting through the CAP Goal process. Publishing a high-level program plan with specific year-by-year outcome related goals could provide greater transparency and results-focus.
- Ensuring active engagement with key stakeholders including agency common services leadership, end users of shared services, and industry partners in developing strategic plans and defining initiatives and timeframes.
- Providing an on-ramp for multi-functional commercial providers wishing to enter the marketplace (and an off-ramp for under-performers) and encouraging public-private partnership service offering arrangements.
- Continuing to leverage the TMF while testing other investment models and examining whether the existing scope and authorities of the TMF (and other approaches) are sufficient to support important non-technology investments such as workforce planning and retraining.
- Securing OMB support and advocacy for QSMO start-up and agency migration costs in negotiations with Congress in the FY 2020 budget and appropriations processes and in OMB Spring Guidance for the President's FY 2021 Budget.
- Determining and addressing foundational actions that must be taken such as data standardization, changes to CFRs and policy, ability to pool or organize data, workforce impact analysis, process standardization, reengineering and other enablers.
- Reviewing current agency investments in related enterprise systems to identify their utility to support shared services or reprogram investments to support shared services.

More detailed comments and recommendations are offered below to support expeditious implementation of the marketplace and full benefits realization over the long run.

Issues and Recommendations

1. The government should explicitly recognize the full value proposition of shared services as a force multiplier across numerous PMA and CAP Goal initiatives.

M-19-16 and CAP Goal plans build a case for shared services primarily on the basis of cost savings and service improvements to be realized in common mission support activities. These direct benefits are important, but they are not the only reason for implementing shared services. Shared services should be understood and advocated as a fundamental architectural principle and building block of government

modernization and a force multiplier for many other indirect benefits and government modernization objectives, including:

- Accelerated IT modernization and cyber security protections by concentrating scarce investment funds on a smaller number of shared higher-performing, higher-scale platforms, rather than scattering investments across a far-flung landscape of agency-specific platforms.
- Accelerated HR modernization to increase speed-to-hire in filling mission critical jobs, improve timeliness and accuracy in transactions and enhance customer satisfaction, while eliminating chronic workforce vacancies.
- Enhanced career opportunities for administrative professionals by: (1) establishing a shared services career path; and (2) creating opportunities to transition into higher value and career-enhancing mission driven and/or analytical and managerial roles.
- Greater standardization of processes, technology and data across government leverages numerous benefits, including enhanced analytics and transparency, performance and accountability reporting and easier job rotations for employees, while complementing enterprise risk management (ERM) requirements and indirectly decreasing risk and saving financial resources.
- Improved services to citizens and other customers and stakeholders from standardized measurement approaches and continuously improving operational service delivery.
- Enablement of several of the Administration's Cross-Agency Priority (CAP) Goal initiatives, including: CAP Goal #1: Modernize IT to Increase Productivity and Security; CAP Goal #2: Leveraging Data as a Strategic Asset; CAP Goal #3: Developing a Workforce for the 21st Century; CAP Goal #4: Improving Customer Experience with Federal Services; and CAP Goal #6: Shifting from Low Value to High Value Work.

2. **The government and the QSMOs should seize the opportunity to test and rapidly expand new models of commercial shared services delivery, including industry-leading practices such as multi-functional Business Process-as-a-Service (BPaaS) solutions.**

Federal shared services began in the 1980s as "agency cross-servicing" – a model in which agencies with distinctive competencies provided services to other agencies with the same or similar requirements. As this model evolved, administrative service components of large departments were designated as "Federal Shared Service Providers" (FSSPs) for particular services, and they were encouraged to offer services to other "customer" agencies. This legacy paradigm served the government well into the 1990s as shared services were incubated and FSSPs gradually expanded their customer bases -- mostly by serving small agencies who were unable to modernize themselves and could be migrated with manageable risk. By the early 2000s the limitations of the "government-to-government" model became apparent. A lack of modernization funds left FSSPs stuck with antiquated and inefficient technology platforms that could not be scaled to accept new and larger agencies with greater cost savings and service improvement potential, leading to demand that outstripped supply. Several large, complex "lift and shift" migrations failed, exposing systemic capability gaps in the FSSP ecosystem and chilling customer agency interest in undertaking larger scale, higher risk migrations. The private sector stood ready to invest and bring greater scale, innovation and expertise into the marketplace, but government policy limited industry's role to performing support functions behind FSSP storefronts.

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The Administration deserves credit for creating a new modernization model through the NewPay payroll modernization initiative. A commercial Software-as-a-Service (SaaS) model can provide significant benefits of cost savings and service improvements, while shifting the responsibility for ongoing technology refreshes from government to commercial technology providers, thereby eliminating the need for agencies to compete with higher mission priorities for scarce government funds for modernization investments. SSLC supports this important step forward while advising that the next phase of NewPay be expanded into a greater transformation opportunity with a scope defined to encompass the entire payroll business process (BPaaS) rather than just technology (SaaS). Private sector experience demonstrates that labor and process cost savings typically exceed technology savings by a factor of about three to one[2]. Including process and labor in the modernized payroll shared service will provide greater opportunity for private sector innovation to continuously and holistically improve the entire business process and produce increasingly greater benefits to government customers, employees and taxpayers.

Although multi-functional shared services delivered through fully integrated, BPaaS platforms are a leading practice for shared services delivery in the private sector, M-19-16 does not explicitly address their participation in the Federal marketplace or provide defined "on-ramps" for them. It appears that a commercial provider wishing to offer multi-functional services would be required to petition each of the QSMOs for which it intends to offer services, one-by-one. A perceived lack of interest in and access for industry-leading providers could dampen appetite to invest and diminish the level of competition that is necessary to drive the marketplace organically to increasingly higher levels of modernization and performance with the greatest overall benefit to all stakeholders.

We urge the government to encourage commercial providers to offer multi-functional BPaaS services designed to government standards directly to customer agencies, and to create a process to expedite their acceptance into the marketplace. The on-boarding process must ensure that efficiency and effectiveness requirements are in place to demonstrate the positive, value-adding roles performed by QSMOs.

We also encourage use of maturity models to compare current legacy practices to industry leading practices in service, cost and technology management, and to track progress towards goals, e.g., to reduce transaction costs, staff time and numbers of technology platforms from current levels to future target levels.

3. Greater opportunities must be found to bring commercial investment, scale and innovation into the shared services marketplace.

Access to the Technology Modernization Fund for NewPay and future shared services investments is a positive step forward; however, in an environment of serious government-wide competition for limited funds, the current TMF can provide only a drop in the bucket of the investment funds necessary to move shared services forward at a business-like pace.

Public-private partnerships are a way forward that has been demonstrated successfully in the Federal shared services environment by the NASA Shared Services Center (NSSC). Created in the early 2000's

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[2] *Building a Shared Services Marketplace,* Partnership for Public Service, Shared Services Roundtable, March 2015.

through an innovative public-private partnership among NASA, the State of Mississippi and Computer Sciences Corporation (now General Dynamics Information Technology), NSSC performs over 60 business activities for NASA centers in financial management, human resources, information technology, procurement and business support services. Results to date include $100 Million saved in the first 10 years, steady-state savings in excess of $20M/year, and customer service ratings in excess of 93% annually[3].

Direct commercial investment is another potential way forward. For government to have access to a sufficient supply of market-leading solutions, a pathway for service providers to enter the government marketplace requires a reasonable expectation of a return to justify putting investment capital, infrastructure and support services at risk to deliver a new offering. An attractive, transparent business-like investment environment could be created to include some combination of the following features:

- Minimum subscription base. A minimum order requirement is often necessary as a risk mitigation feature to support a business case for a SaaS or BPaaS investment; without predictable demand, the government could purchase a small number of subscriptions to try out the service, then decide to go in a different direction and leave investors with no opportunity to recover costs. Payments would, of course, depend on meeting pre-defined performance requirements. A minimum subscription base was used successfully in the Department of Veterans Affairs "T-4" competition.

- Directed migration policy statement. A policy directive requiring that all agencies must use a designated shared service (absent a mission critical justification) by a date certain (e.g., within five years) could enhance investor confidence and be used by private firms to estimate the size of the market and the timing of awards, thereby supporting a business case for investment.

- Two-step competition with government seed money. A two-step competition could be designed in which (in step one) a light competition could be conducted for awards of government "seed money" to a few qualified service providers; the seed money (in step two) would help the successful firms cover some of their investment costs in preparing for a larger competition for government-wide awards.

- First mover task order competition. The government could identify a "first mover" agency and issue a task order for the agency's migration as part of a larger competition for an award for government-wide services. This approach would help relieve concerns in the provider community that the government might not be serious about accessing the services and the expected levels of business might not materialize following the award.

We urge the Administration to work with the private sector to create more attractive opportunities for commercial investment. Testing and implementation of effective models of public-private partnerships and direct commercial investment should begin immediately to accelerate the pace of modernization and the introduction of industry-leading solutions into the marketplace.

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[3] Source: NASA Shared Service Center

4. **A rational way forward should be provided for "internal" shared service operational capabilities within large, complex agency environments.**

A number of agencies are in various stages of implementing "internal" shared services operations similar to a recent initiative at the Department of Commerce. In 2015, Commerce established the Office of Enterprise Services (ES) to implement multi-functional, department-wide shared services. ES has leveraged industry leading practices including cloud-based applications in the delivery of human capital management, acquisition services and some information technology services to a dozen customer bureaus and achieved government-leading business results. Early measures of success have included 98% of Personnel Action Requests meeting or exceeding timeliness targets; nearly $50 million in cost avoidances through strategic sourcing; an average requisition-to-order time of 19.5 days; and 98% of customers rating ES acquisition services as "Superior" or "Good."[4] These early results presage similar positive results for NewPay and set the stage for a bolder step forward in the next phase with full, multi-functional business process transformation.

There is a legitimate question about how much commonality can be identified to support standardization of requirements for government-wide consolidation/centralization in large, complex agencies and federated departments with multiple, far-flung operating units, diverse missions and histories of autonomous operations. The change management barriers are formidable enough without compounding the challenges by driving reluctant agencies to accept common external platforms that might not fully support their needs. M-19-16 appears to wisely recognize the need for flexibility by giving agencies latitude to launch and stand-up internal shared services operations that are supported by persuasive business cases. The question is: what criteria should be considered in agency business cases?

We urge the government to develop and publish standards and criteria for agencies to consider in making decisions to move forward with internal consolidation and centralization initiatives. Criteria could include indicators of scale and complexity such as: size of agency budgets; number of operating units, employees, appropriation accounts, unique statutory HR, financial management, IT and acquisition authorities and systems; degree of mission diversity; history of business unit operational autonomy; and others to be identified.

5. **Agency implementation capabilities need strengthening for NewPay and future shared service modernization to be successful.**

Greater attention must be placed on strengthening capabilities in agencies where the hardest, hands-on tactical tasks of migration and change management must be performed in challenging and often reluctant customer environments. Several decades of mixed results in shared services implementation are largely a product of agencies lacking large scale project management capabilities and confidence in their own abilities to manage complex transformations. In our interactions with agency-level implementers, we have observed an unmet need and significant interest in more tactical support and knowledge sharing than

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[4] Source: Office of Enterprise Services, Department of Commerce.

has previously been available. The recent GAO report on shared services implementation[5] also identified a need for greater focus on oversight and monitoring of agency implementation activities. We look forward to working with the Administration and agency shared services leaders to provide necessary assistance in these areas in the months ahead.

6. **The Administration should consider setting more ambitious cost reduction goals for shared services and other PMA and CAP Goal initiatives.**

OMB estimates the baseline cost of government mission support services as "over $25 billion annually" and defines the savings potential from shared services implementation in a range from "5-30 percent," or between $1.25 Billion and $7.5 Billion. This estimate is consistent with the previously announced 10-year savings goal of $2 billion published in CAP Goal plans and referenced in the 2019 GAO duplication report[6]; however, it is well below what could be realized if the government set its sights on realizing savings comparable to leading private sector enterprises. OMB's goal appears to consider primarily technology related savings without considering business process and labor savings that could be realized if shared services were delivered as full business process transformations, the approach used in leading private sector environments. Reports published by the Partnership for Public Service in 2015 and the Technology CEO Council in 2017 estimated cost reduction potential from full business process transformation at approximately $50 Billion across the government's administrative footprint[7]. The Tech CEO Council also reports that mission support functions account for about 30% of total government spending compared to about 15% in the best run private sector enterprises; and if the government secured funding to support modernization of its entire back office to achieve private sector efficiency levels, over $1 Trillion in resources could be freed-up, saved or redirected to address under-resourced needs[8].

OMB should consider setting an overall goal of reducing government overhead costs in the direction of 15%[9] and assigning shares of an overall savings target to each of the various PMA and CAP Goal initiatives.

Conclusions

We applaud the Administration's leadership in making a strong statement and laying down an important marker for Federal shared services. As discussed above, the most critical immediate challenges are:

▪ Earning agency trust and confidence by demonstrating persuasively and communicating to agencies how the QSMO-driven environment will be more efficient and effective than the legacy environment;

▪ Stepping up the pace and improving the effectiveness of agency implementation efforts;

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[5] GAO-19-94, *Streamlining Government: OMB and GSA Could Strengthen Their Approach to Implementing a New Shared Services Plan,* March 2019.

[6] GAO-19-285SP *Fragmentation, Overlap, and Duplication*

[7] *Building a Shared Services Marketplace*, Shared Services Roundtable, Partnership for Public Service, March 2015; *The Government We Need*, Technology CEO Council, January 2017.

[8] Ibid.

[9] This overall goal could be flexible based on the level of modernization funding provided.

- Establishing consistent approaches to market creation by QSMOs with attractive opportunities for commercial business process service providers to provide the best possible choices and outcomes for customer agencies;

- Securing funding from government and commercial sources to accelerate modernization, marketplace innovation, and agency migration; and

- Managing the workforce strategically to allow for full benefits realization with positive employment outcomes for government employees.

We encourage the Administration to continue working proactively with the shared services stakeholder community to fully think through the issues discussed in this commentary and to develop appropriate design, implementation, delivery and cost models and that produce effective solutions for all parties. SSLC would be pleased to facilitate these activities and stands ready to support the Administration in any ways we can be of assistance.