

Competitive sourcing is one of the least understood—and most often misconstrued—concepts in the debate over how to improve the performance of the federal government.

In the summer of 2001, the Bush Administration released the President’s Management Agenda (PMA), which includes a major competitive sourcing component. To reach the PMA’s competitive sourcing goal, agencies must classify each of their activities as “inherently governmental” or “commercial.” Fifteen percent of activities in this latter category are to be opened to competition by the end of 2003. The Office of Management and Budget’s A-76 circular governs this process.

**Competitive Sourcing Defined**

Competitive sourcing and outsourcing are not synonymous. Outsourcing involves only the decision whether an activity should be sourced internally or by an outside vendor.

competition drives the process. But true competition and its benefits can only be achieved when multiple players compete in a fair and transparent process in which performance targets are clear. As discussed below, A-76 has a lot to say about this process.

**10 Key Changes in the A-76 Competitive Sourcing Process**

The face and future of competitive sourcing in government changed substantially on May 29, 2003. Following much anticipation, OMB released the final revised A-76 circular, which makes some major changes to the competitive sourcing process, substantially streamlining the competition process and ensuring accountability at every step. These are the ten most significant A-76 rule changes:

1. “Streamlined Competition” Replaces “Direct Conversion”

# COMPETITIVE SOURCING: THE WAIT IS OVER, THE TIME IS NOW

BY CARL DEMAIO AND VINCENT BADOLATO

But under competitive sourcing, an agency studies the efficiency and nature of an activity in order to make the best sourcing decision, rather than making that decision up front.

The purpose of competitive sourcing is to analyze an agency’s options for achieving the best performance for a given activity. Thus, competitive sourcing goes well beyond the decision whether to outsource, addressing more basic considerations:

- Whether an activity is needed at all
- Whether an activity can be “re-engineered” for efficiency
- Whether an activity could be best performed by another staff unit, another agency, a non-profit organization, a program partner, or a private sector vendor

When competitive sourcing is effectively applied, the issue of improving performance dominates these three considerations and

To benefit smaller projects, new language has been added to define a “Streamlined Competition” process. “Streamlined” cost comparisons can be as simple as quoting a bidder’s price and filling out a one-page form. To improve accountability, agencies must complete these “Streamlined Competitions” within 90 days. This replaces a very limited bidding process known as “Direct Conversion.”

**2. 12-Month Time Limits**

In full public-private competitions, agencies now have to meet a strict 12-month deadline—with a possible 6-month extension. The term begins when an agency publicly announces a competition. Significantly, if the in-house bid does not meet this timeline it will be removed from the competition.

## Competitive Sourcing Resources

SEE ALSO:

*OMB Circular A-076: Performance of Commercial Activities*

CONTACT: The Office of Management and Budget, 725 17th Street, NW, Washington, DC 20503, 202/395-3080, [http://www.whitehouse.gov/omb/circulars/a076/a76\\_rev2003.pdf](http://www.whitehouse.gov/omb/circulars/a076/a76_rev2003.pdf).

*Annual Privatization Report 2003: Chronicling developments in privatization, outsourcing, and government reform for 17 years*

CONTACT: The Reason Public Policy Institute, 3415 S. Sepulveda Blvd., Ste. 400, Los Angeles, CA 90034, 310/391-2245, fax 310/391-4395 <http://www.rppi.org/apr2003/anpr2003.html>.

*Designing a Performance-Based Competitive Sourcing Process for the Federal Government: 37 Proposed Changes to Regulations and Approaches to*

*Competing and Outsourcing Commercial Activities in Government*

CONTACT: The Performance Institute, 1515 North Courthouse Rd., Ste. 600, Arlington, VA 22201, 703/894-0481, fax 703/894-0481, <http://www.performanceweb.org/pi/research/ps299.htm>.

*House Appropriators Undermine the President's Competitive Contracting Program*, by Ronald D. Utt, Ph.D., *Executive Memorandum No. 890*.

CONTACT: The Heritage Foundation, [http://www.heritage.org/Research/index\\_wm.cfm](http://www.heritage.org/Research/index_wm.cfm).

### 3. "Best Value"

The new circular embraces the concept of "best value," recognizing that the cheapest choice is not always the best. Performance and quality now factor heavily into sourcing decisions. For streamlined competitions, cost must constitute half or more of the evaluation criteria, with performance standards comprising the remainder.

### 4. Ensuring "Cost Realism"

It was common under the previous guidelines for cost estimates to be unreliable and tedious to compile. Several changes seek to ensure "cost realism" both in the undertaking of competitions as well as with actual contracts.

### 5. Challenging Classifications

In addition to publishing inventories of commercially-classified activities, agencies must now publish a list of those activities deemed to be "inherently governmental," along with justification of each choice. Additionally, the "governmental" designation may now be challenged.

### 6. Performance Standards and Innovation Incentives

Bidders are now encouraged to include performance standards in their proposals and to depart from the bid specification when appropriate, which, it is hoped, will spur innovation.

### 7. Enhanced Contractor Accountability

All parties, including in-house winners, are to be held accountable for the promised level of performance. Significantly, federal employees winning competitions will be subject to a binding Most Efficient Organization (MEO) letter of obligation based on the cost and quality terms of their bid.

### 8. Regular Re-competition

A regular re-competition cycle has been added to ensure that the best party is servicing the contract. This provision applies equally to contracts won by employees and vendors.

### 9. Performance Incentives for IT and New Activities

For information technology functions—often provided by private vendors—and new agency activities, the revised guidelines allow an agency to weight its evaluation more

heavily towards performance standards, again giving bidders the incentive to innovate.

### 10. New Staffing Requirements

The revised guidelines define clear roles and responsibilities for key players in a competitive sourcing project. This definition of roles and responsibilities promotes enhanced accountability and transparency throughout the process.

### No Room for Further Delay

The time for waiting and second-guessing is over. The Administration is firmly committed to competition and the new A-76 will bolster competitive activity. Now the challenge becomes initiating and completing competitions and showing results to the taxpayer.

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