Shared Services

Optimizing Cost Recovery

A Guide for Agencies and Shared Services Providers

December 20, 2024 | Version 1.0

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I. Introduction

Federal Shared Service Providers (FSSPs) aim to fully recover costs to cover operations, technology refresh and modernization efforts, recognizing the importance of sustainability and long-term viability. However, there can be challenges in clearly communicating pricing structures needed to do this and in subsequently making periodic rate adjustments to agency customers. To address this challenge, FSSPs require transparency into their service costs to ensure funding is sufficient for meeting customer needs and service level agreements (SLAs). This entails making clear how prices are determined and the components that constitute these prices, considering technology debt impacts, unfunded policy mandates, unforeseen increases in costs, and customer imperatives to enhance services.

The General Services Administration's (GSA) Office of Shared Solutions & Performance Improvement (OSSPI), in collaboration with the Office of Management and Budget (OMB), Human Resources Quality Service Management Office (HR QSMO) at the Office of Personnel Management (OPM), as well as representatives from both Shared Services Provider and Agency Customers, partnered on a strategic cost recovery model initiative to support the establishment of community viewpoints, recommendations, and findings that support improvements to these systemic challenges currently faced by providers and their customers.

II. History and Background

The timeline below traces an evolution of shared services since 2000, beginning with the launch of FirstGov, the federal government's inaugural portal. In 2002, the e-Government Act[1] was introduced, empowering the Federal government to use technology to improve how the Federal Government serves citizens, businesses and agencies. Through the operating models that emerged from these early efforts, a lead agency delivered services to several agencies. Those agencies then contributed feedback, funding, and collaboration to the initiative. Many of these initiatives were regulated by the Economy Act[2] (31 U.S.C.1535), permitting agencies to procure supplies or services from other agencies. However, fees were restricted to the actual or estimated costs of the agreement.

In 2004, the Line of Business[3] initiative expanded shared services, aiming to cut administrative costs by identifying interagency opportunities. A significant stride towards shared services occurred in 2008 with the consolidation of over 26 payroll providers into four major interagency providers. By 2014, transitioning to shared services became a Cross-Agency Priority goal[4].

In 2015, the United Shared Services Management[5] (USSM) office within GSA's Office of Government-wide Policy was established through M-16-11 to champion government-wide shared services, serve as an integration body in coordinating cross-functional needs, and work with Providers and Customers to improve the service delivery performance needed by agency mission support functions. USSM initiated government-wide efforts to explore Software as a Service (SaaS) products in 2017 through an RFI, laying groundwork to employ modern industry solutions in the servicing of agency administrative functions.

The most influential OMB memo (OMB M-19-16)[6] endorsing shared services was issued in 2019, titled "Centralized Mission Support Capabilities for the Federal Government." This memo formalized government-wide efforts to establish agency agreement on data and business standards through the Federal Integrated Business Framework (FIBF) and called for the creation of Quality Service Management Offices (QSMOs), tasked with offering and managing a marketplace of both Federal and commercial solutions for common technology and services and to work with agencies to support their decision-making to employ the same during their modernization efforts. QSMOs collaborate with agencies to develop alternative strategies and build business cases for solutions not yet available in the marketplace. Current QSMOs include Financial Management, Grants, and Cybersecurity. Human Resources is in the pre-designation QSMO phase.

[1] E-Government Act of 2002
[2] The Economy Act (31 U.S.C.1535)
[3] Lines of Business
[4] 2014 President Management's Agenda, Cross-Agency Priority Goal
[5] The United Shared Services Management office
[6] OMB M-19-16: Centralized Mission Support Capabilities for the Federal Government

Evolution of Shared Services

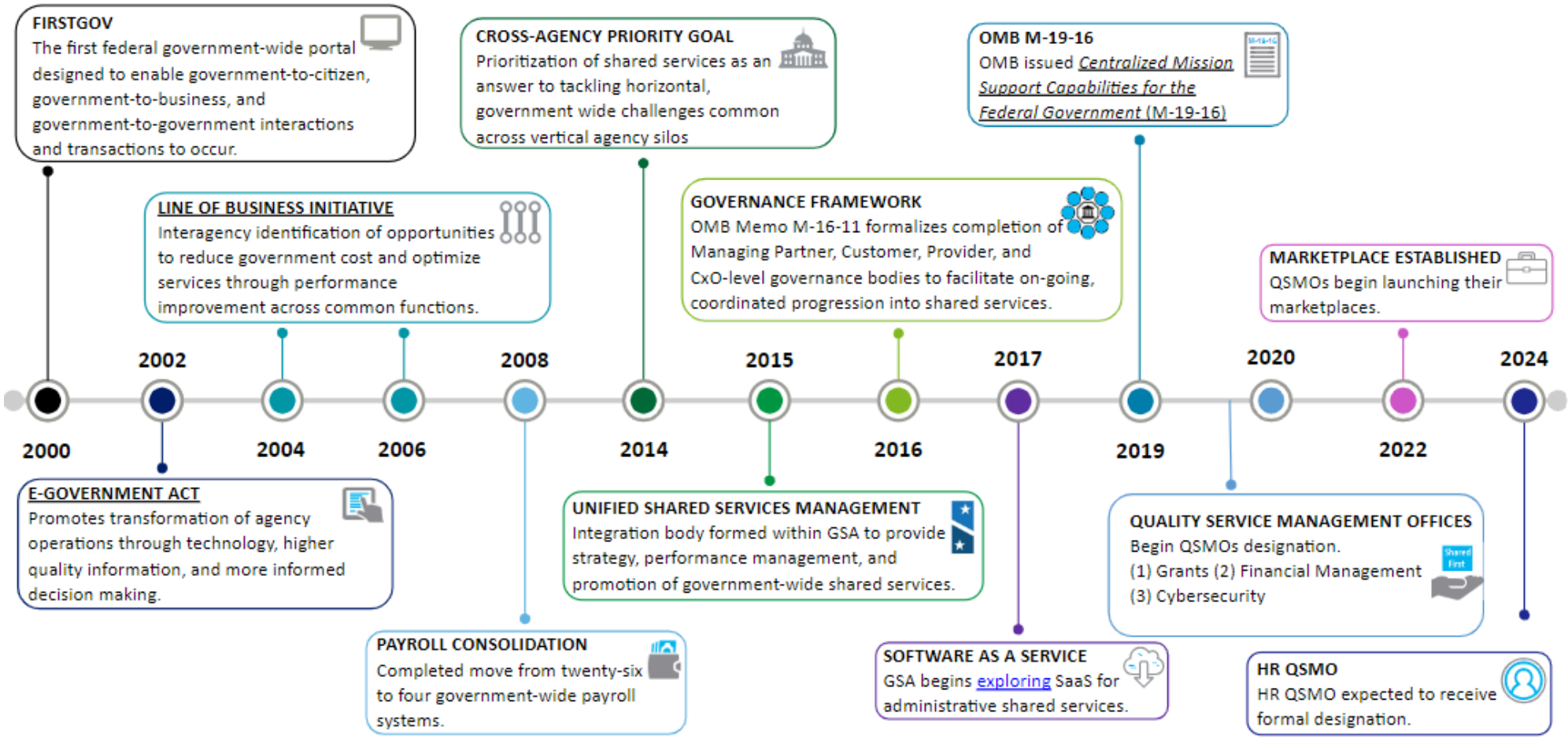

Figure 1: Evolution of Shared Services (2000 - 2024)

III. Key Takeaways

Challenging for SSPs to fully fund their technology needs	Large discrepancies in how SSPs manage rates and potential increases	Funding for recapitalization and appropriation options vary greatly	Alignment with agencies' budget formulation cycles	Customer perceptions of SSPs
• Customer pushback on rate increases • Differing abilities to fund technology refreshes, modernization needs, or urgent technology fixes • As a result, SSPs facing the most challenges in this area are left with antiquated systems	• Monthly meetings to review run rates and increases/decreases • SSPs cover the cost of increases, leaving them underfunded to run operations or for future needs • SSPs have flexible funding for short term that allow them to manage ebbs and flows	• Based on agency interpretation of appropriations or authorities provided • Most common options: operating reserve, capital reserve, increase to customer rates, other departmental funds • Reserves can be limited by cap and time bound	• Some SSPs compute their rates shortly before the year of execution, which doesn't provide ample planning time for customers • Other SSPs' rate setting aligns with the formulation cycle, but they may have difficulties predicting future costs	• Stable service delivery, but no planning for future needs • Would like to see better SLAs and more transparency • Faced with lack of funding to pay for SSP services
Recommendations				
• Develop a strategic roadmap for continuous application modernization and support • Maintain an asset tracking inventory; O&M costs should include regular hardware/software refreshes	• Calculate rates using a consistent, comprehensive approach • Analyze previous budget year data to identify cost trends	• Engage with agency legal counsel to gain insights into the true intent and flexibility of funding mechanism • If operating and capital reserves are needed, engage with agency OGC and OMB on appropriation amendments	• Set rates 2 years in advance to align with agency budget cycles • Lock rates down by baking funding for technology refreshes and mandates into rates	• Collaborate closely to understand requirements and provide visibility into the rate setting process • Have detailed SLAs in place to include expected services, response times and request procedures

IV. Approach

This initiative involved a thorough investigation into the methodologies employed by existing FSSPs for calculating and adjusting rates. OSSPI conducted interviews with a representative sample of FSSPs to gain insights into their current processes for rate determination, customer communication, and use of retained earnings and other appropriations or funding. The team also participated in a conference hosted by the National Finance Center (NFC), where insights were gleaned from federal payroll providers regarding their modernization journeys, current challenges, and improvement strategies.

In parallel, the OSSPI team engaged with a diverse set of customers to understand their current levels of satisfaction, the challenges they encounter, and their perspectives on the services provided by their respective FSSPs. Through meticulous synthesis of the gathered discovery information, the team has compiled a best practice and recommendations guide.

How to Use This Guide

This guide is designed to serve as a practical manual for straightforward implementation. FSSPs can interact and leverage this guide to:

- **Develop a Strategic Plan**: Engage agency leadership and customers to establish transparent pricing and rate adjustment processes, modernize systems, and provide additional capabilities.
- **Improve Customer Engagement**: Establish or maintain regular communication with customers, providing clear explanations of rate structures and modernization efforts to foster trust and collaboration.
- **Continuous Improvement**: Implement the best practices outlined in this guide for ongoing improvement and innovation, ensuring the maintenance of high service quality and operational efficiency.
- **Cost Modeling**: Create and refine a detailed cost model to ensure accurate cost recovery and support future investments.

V. Customer Voice

Customer interviews have revealed valuable insights into the effectiveness of FSSPs, highlighting areas for improvement. Three key focus areas have emerged: strengthening transparency in pricing, delivering innovative services that add value to customers, and addressing shortcomings in vendor contracts that result in pricing and cost challenges.

Strengthening Price Transparency

Some FSSPs excel in transparency by effectively communicating their rate structures and maintaining regular dialogue with customers. This proactive approach assists

customers in budgeting and staying informed about forthcoming enhancements. However, other FSSPs are perceived to lack transparency. In these instances, customers express frustration at the lack of clarity regarding rate determinations and their correlation with provided services. Additionally, they note a lack of frequent engagement from these FSSPs, leaving them feeling uninformed and disconnected from service developments.

Service Value

A common sentiment among customers is that they would like to receive more than basic services from FSSPs, and that innovation and continuously adding value are very important. Some customers express a willingness to accept rate increases if they understand how the additional funds will support modernization efforts and contribute to improved service delivery. For those providers able to perform some upgrades, customers emphasized the importance of being actively engaged in the process.

Another area of interest raised by customers is the adequacy of Service Level Agreements (SLAs) provided by FSSPs. SLAs define the commitment between the service provider and client, including details of the service, the standards the provider must adhere to, and performance metrics. Many customers find SLAs to be lacking in robustness, failing to provide clear benchmarks and accountability measures as they relate to pricing services. Common SLA metrics include system availability and the speed in which customer tickets are logged and resolved. While FSSPs generally fulfill their commitments outlined in SLAs, customers advocate for more detailed and specific criteria to replace the vague language commonly found in FSSP SLAs.

Vendor Contracts

Finally, some customers flagged the contracts maintained by FSSPs with their vendors as an area of interest. One customer did a deep dive into a Statement of Work (SOW) and found complex technical requirements with very few details. In some contracts, it was felt that escalation clauses that would have been helpful were not built in. The customer said some requirements were left open to interpretation in ways that they believed introduced uncertainty into future cost and pricing needs. The lesson here is to understand the influence that a successfully organized and administered contract can have on the service delivery, costs, and pricing incurred downstream by customers.

VI. Rate Setting and Adjustments

When pricing structures and rate increases are not explainable and well understood, FSSPs find it difficult to achieve the agreement needed to recover the appropriate amount of costs for operational needs and modernization planning, which is necessary to reliably fulfill customer obligations and strategically plan for the future.

Challenges

Across FSSPs, there is a lack of consistency in the approaches taken to rate setting resulting in a wide range of methods reported by those interviewed. While most try to set, adjust, and communicate rates to customers based on the annual budget cycle, the approaches taken vary significantly. Some employ meticulous processes with detailed cost inputs, allocation formulas, and clear customer communication strategies, while others use what's been described by customers as less transparent methods. Customer pushback is a major issue, as dissatisfaction with perceived high costs relative to value received often arises when customers feel as though they don't know what the cost inputs are. Incorporating customer-requested customizations into future rates can lead to complaints and resistance, if the costs aren't explained well. Such resistance can, ironically, serve to hinder the opportunity to collect the funding needed to innovate and modernize. This underscores the importance of enabling both providers and customers to arrive at transparent and explainable pricing. Also, the conventional two-year budget forecasting process poses challenges, as it may not account adequately for changes that occur within that time frame, affecting planning for both FSSPs and customers. Additionally, Provider challenges occur when customers are unable to pay for services, forcing FSSPs to cover costs, depleting their reserves, and setting precedent for unsustainable expectations all of which can hinder modernization efforts.

The use of legacy technology and its effect on labor and contracts can, in many cases, also be a driver of increasing costs. Finding and retaining talent is particularly challenging, especially considering that some FSSPs rely on legacy IT systems based on COBOL. The pool of individuals proficient in these legacy systems is limited, making recruitment and retention efforts arduous. Agencies may resort to hiring retired professionals with specialized knowledge to bridge the gap. However, this approach is costly and unsustainable in the long run.

Additionally, costs incurred using legacy systems can be exacerbated when vendors charge premium prices for older software versions. This practice serves as an incentive for Customers and Providers to upgrade to the latest versions, further increasing the need to do this.

Best Practices

When setting rates, FSSPs aim to cover operating costs and also retain earnings for expected modernization efforts or end of life upgrades. Some FSSPs utilize consumption data to determine rates for their customers. To enhance transparency, these FSSPs provide customers with access to a customer-facing portal where they can check their usage statistics in real-time. This empowers customers by providing insights into their consumption, enabling them to make informed decisions such as reducing usage if necessary and budgeting for future years.

Several FSSPs are exploring and implementing Commercial Off-the-Shelf Software (COTS) that will appeal to accepted standards for business processes and data to reduce their research and development costs. These systems use configuration instead of customization to deliver on the nuanced needs of unique use cases. When these platforms are delivered as true Software as a Service, the approach can significantly reduce if not largely eliminate many of the unpredictable spikes in funding needed to support the capital expenditures associated with upgrades and related modernization efforts to more predictable subscription-based OpEx models.

Another best practice involves maintaining open and consistent communication with customers. Various engagement methods were reported. One effective approach is to hold an annual meeting with all customers to discuss upcoming plans for modernization, enhancements, and rate adjustments. Following this, individual meetings can be scheduled with each customer to walk them through their specific rates. Providing customers with a breakdown of costs and allocation approaches helps them understand their rates better. As highlighted in the Customer Voice section, customers generally don't mind paying increased rates when they understand the reasons behind the increase and if their level of service remains consistent or improves.

Recommendations

An ideal rate setting or adjustment process involves several key steps.

1. Analyze previous budget years' data to identify cost trends and the factors (e.g. inflation, new contracts, substantial changes in agency requirements) that regularly create upward pressure on cost.
2. Where appropriate, QSMOs, Policy and Budget Offices, and FSSPs should collaborate closely with Providers to understand emerging policy mandates and impact on cost.
3. Initiate the rate setting or adjustment process 9 to 10 months before the budget formulation process, which occurs two years before execution. Ideally, this will provide a two-year projection that can be used for customer budget requests.
4. Calculate rates using a consistent, comprehensive approach and clearly explain it to customers. Ensure key inputs, as described in the Cost Model, section are considered.
5. Customer rates should be finalized during the budget formulation process, typically two years in advance, and cannot be revised. Rate revisions, especially increases, force customers to unexpectedly reallocate funds from other agency requirements. To accommodate unforeseen policy mandates issued after the budget formulation year, FSSPs should incorporate extra flexibility into their system enhancements budget. When operationalizing a policy mandate during the execution year, the FSSP must prioritize system development for the mandate over other functional enhancements requested by system users.
6. Maintain an asset tracking spreadsheet for hardware/software components, including acquisition and expiration dates, in coordination with QSMOs. Plan ahead for replacements, deciding whether to upgrade components or adopt alternative technologies to meet business needs. Leverage OMB M-16-12: Category Management

Policy 16-1: Improving the Acquisition and Management of Common Information Technology: Software Licensing[7] for leadership support if needed. In addition, OMB's Capital Programming Guide v3.1: Supplement to Office of Management and Budget Circular A-11: Planning, Budgeting, and Acquisition of Capital Assets[8], states that "Alternatives Analysis should be performed for Investments with projects in the planning or DME stages, whereas strictly operational Investments should instead perform operational analyses until such time as a decision is made to re-evaluate the Investment or to resume development, modernization or enhancement."

7. FSSPs should collaborate with IT experts (inside or outside of their agency) to develop a strategic roadmap for continuous application modernization and support. This involves jointly evaluating systems to ensure alignment with business needs, value, and agility. Establishing a long-term plan with IT partners, regularly revisited, ensures adaptability to evolving requirements and facilitates transparency with customers regarding future budgetary needs. Opportunities should be assessed based on cost, complexity, and risk, aiming to maximize value and impact while minimizing costs and effort. Careful research and selection of a modernized architecture, such as true Software as a Service suitable to the Federal business lifecycle, can significantly influence future technology refreshes.
8. Assess the impact of unforeseen events like legislative changes or crises such as COVID-19 and build a reasonable contingency into the budget.
9. Incorporate costs related to modernizing, refreshing, and supporting technology that are not already considered in standard operating costs and integrate into rates. This will ensure proper delivery of services needed by agencies. To smooth out costs throughout the years, FSSPs should include some level of costs to fund technology refresh and long-term modernization in each of their budget years. For capital assets, include depreciation into standard rates. Even after the asset is fully depreciated, some cost for it should be included as replacement costs. This keeps the rate steady and represents the continuous need to keep hardware up to date. NOTE: some agencies may have restrictions on this based on legislation or other factors.
10. Communicate the finalized rates to customers transparently. Aim to meet with customers on a regular cadence to discuss their usage and any significant deviations from expected consumption. Customers should have the opportunity for open communication to express new requirements or discuss discontinuing service usage.
11. To advance cost conversations, FSSPs and agencies should have relevant SLAs detailing expected services, responsiveness, and procedures beyond the agreement.
12. To control pricing, FSSPs need to more carefully write the contract requirements for services. Leveraging the FIBF, they can incorporate functions, activities, business capabilities, and service measures from established standards into their contracts.
13. If further guidance is needed, agencies can consult the Technology Business Management (TBM) Framework[9]. TBM is a discipline that improves business outcomes by providing a consistent method to translate technology investments to business value. This framework is not only integrated in the budget reporting requirements outlined in OMB Circular A-11[10] but also offers best practices for stakeholder collaboration and communication, budget and spend analysis, rate calculation, strategic planning, continuous improvement, and other IT portfolio management needs.

14. Furthermore, if services are delivered through cloud capabilities, agencies should consider utilizing FinOps[11]. This operational framework is designed to maximize the business value of cloud services, facilitating timely data-driven decision making, and fostering financial accountability through collaboration among engineering, finance, and business teams. FinOps provides guidance on budget planning, forecasting, benchmarking, and managing operational health, specific to cloud services. It includes best practices for optimizing rates and offers recommendations for cloud procurement strategies. Additionally, this framework complements TBM, by focusing specifically on cloud costs, while the TBM Framework addresses all IT expenses.

[7] OMB M-16-12: Category Management Policy 16-1: Improving the Acquisition and Management of Common Information Technology: Software Licensing
[8]Capital Programming Guide v3.1: Supplement to Office of Management and Budget Circular A-11: Planning, Budgeting, and Acquisition of Capital Assets
[9]Cio.gov: Technology Business Management
[10]Circular A-11: SECTION 55—INFORMATION TECHNOLOGY INVESTMENTS
[11]Finops Framework

Annual Customer Budget Formulation Cycle

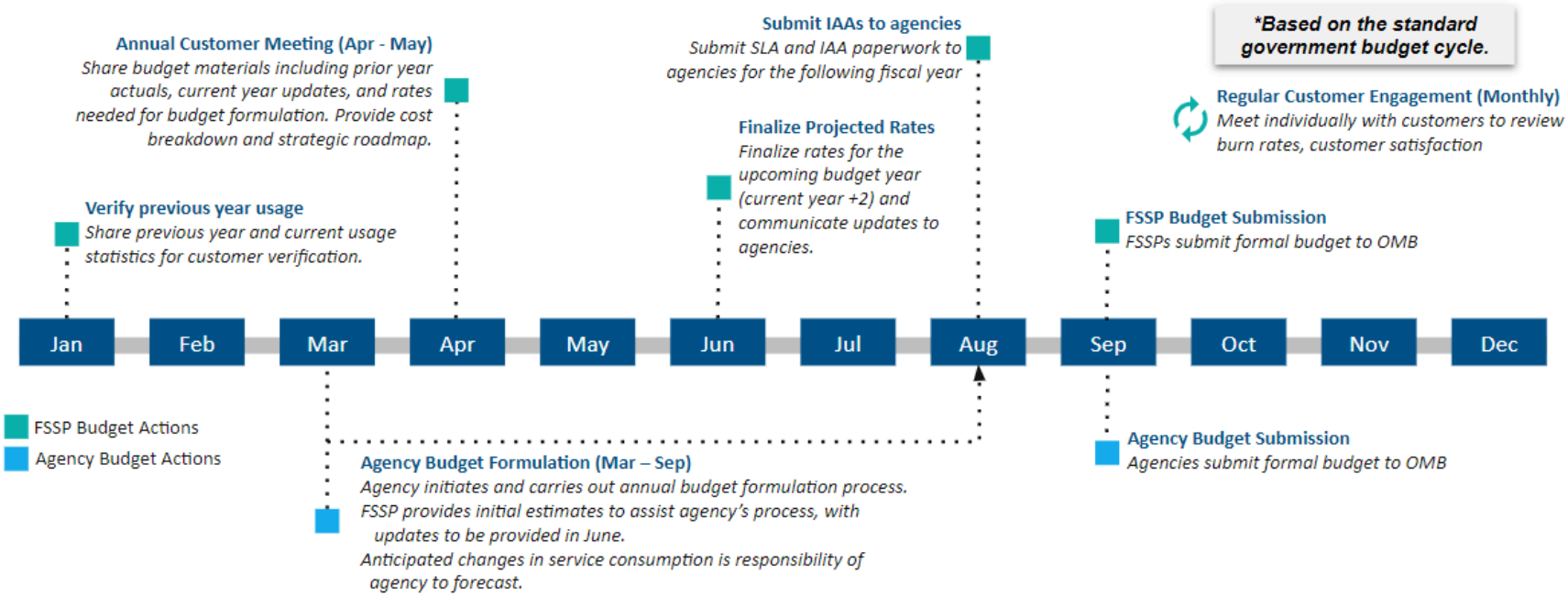

Figure 2: Notional Timeline for Budget Formulation and Customer Engagement

VII. Technology Refresh and Modernization Options and Funding Mechanisms

FSSPs encounter inconsistencies in funding mechanisms, similar to the rate setting challenges. Typically funded through a Revolving fund[12], such as a Working Capital Fund (WCF) or Franchise fund, FSSPs grapple with varying appropriation language across agencies, impacting their operating reserves and technology refresh and modernization efforts.

Challenges

One of the greatest challenges FSSPs face is the ability to continually invest in their IT systems. Many FSSPs have faced significant customer pushback when they've tried to increase their customer rates to incorporate some level of technology refresh. Other FSSPs have faced challenges in collecting this funding due to how their underlying funding legal authorities and mechanisms have been established. Due to the inability to collect sufficient funding to support technology refreshes, FSSPs have found that their technology debt has accumulated over the years to the point where modernization becomes cost prohibitive. FSSPs are then left with antiquated IT systems with unfriendly user interfaces that lack many of the features that customers desire. While FSSPs desperately need to collect additional funding from customers to move them to a more modernized state, customers are hesitant to do so, feeling that the value they are receiving for the current system is less than what they are paying. This exacerbates the conundrum that FSSPs find themselves in and makes it difficult to move forward.

Best Practices

FSSPs reported a lack of historical awareness among current agency leaders, leading to the perpetuation of inherited boundaries and constraints. They propose a methodical approach to reassessing these boundaries, identifying their purposes, and evaluating their continued relevance. This involves tracking the origins of these boundaries and making informed decisions to modify or eliminate them where appropriate, recognizing the potential long-term impacts of seemingly minor decisions made decades ago.

Additionally, FSSP teams should engage with agency leadership and lawyers to ensure they have a full understanding of their options based on appropriations language. Many FSSP's appropriations were defined years ago and could have been narrowly interpreted or did not need to consider modern technology needs. This is an opportunity to review and reevaluate appropriations language to determine how best to modernize and maintain on-going system operations. Current appropriations language interpretations indicate funds can only be used for Operations & Maintenance (O&M). However, one artifact to leverage is OMB's FY 2020 IT Budget - Capital Planning Guidance[13].

[12] GAO-24-107270 - Revolving Funds

[13] FY 2020 IT Budget - Capital Planning Guidance, page 44

According to this document, regular technology refreshes to keep the systems up to date are part of O&M. Project plans and budget proposals should be created for these efforts.

The inconsistency in appropriation language across agencies poses another significant challenge. This variability directly affects FSSP's operating reserves and their ability to undertake technology refresh and modernization efforts. As started prior, many FSSPs require modernization. As they embark on the journey of system modernization, careful consideration must be given to selecting the technology for the next generation of systems.

While some FSSPs manage to maintain operating reserves of 4 to 5%, which could be allocated for modernization or unforeseen expenses, others struggle to generate sufficient revenue from customers to bolster these reserves. Additionally, prohibitions on operating reserves for some FSSPs and/or strict limitations on the usage and timing of reserves hinder long-term planning and impede efforts to alleviate technology debt. While FSSPs can save 4-5% each year, many will accumulate these annual amounts and state they need ~20-30% of annual budget as targeted reserves to respond to planned or unplanned technology needs.

Seeking agency funding for technology refresh and modernization presents yet another hurdle, as FSSPs often find themselves competing with other mission-related programs for financial support. To confront these challenges head-on, FSSPs advocate for reforms in funding mechanisms. Proposed solutions include direct appropriations, establishing a dedicated Technology Modernization Fund (TMF) exclusively for FSSPs with flexibility or exemptions on payback terms, sufficient operating and depreciation reserve authorities, and securing dedicated agency funding for FSSP modernization endeavors.

Recommendations

1. FSSPs and their home agencies develop an Action Plan to engage with legal counsel and OMB to gain insights into the true intent and flexibility of available funding mechanisms such as working capital and revolving funds. By clarifying existing interpretations, FSSPs stand to leverage additional funding avenues and can adapt to better align with a more optimal funding framework.
2. FSSPs should explore options with Revolving Funds, such as WCF or Franchise Funds. This approach seems to provide the flexibility needed by FSSPs as the funds are not time bound and can be used to cover the ebbs and flows of consumption, which typically evens out over time.
    a. Operating Reserves: Revolving funds without operating reserves should propose an inclusion of a reserve through amendments to appropriations language.
    b. Capital Reserves: If the FSSP has significant capital assets as part of its investment costs, a capital reserve should be requested via working through amendments to their appropriations language.

3. Improve awareness for FSSPs and agencies that customer rates can and should include funding for technology refreshes, per OMB guidance. Regular tech refreshes will obviate the need for a costly and long overdue system overhaul.
4. FSSPs embarking on modernizations should utilize the M3 Modernization and Migration Playbook which methodically lays out the steps to be followed and issues to be considered, for a successful migration project.

VIII. Continuous Improvement and Innovation

> One FSSP shared how implementing Robotic Process Automation (RPA) to enhance automation significantly decreased labor costs. In 2014, the FSSP required **150 contractors to process transactions.** However, due to the automation and increased efficiencies, they **now only need 30 contractors.**

While many FSSPs are focused on stabilizing current operations and planning for ways to ensure future investment, it is important to note that providers should keep focused on continuous improvements. This will help the FSSPs stay current on technology and look for ways to proactively provide value to their customers. They should continuously look for better, more efficient ways to provide their services. A common theme of customer agencies is that while FSSPs provide stable operations, customers perceive there is not enough planning for future needs. Some customer agencies noted that there should be more communication on planned enhancements and upgrades.

FSSPs should integrate a continuous improvement plan as a standard practice to enhance the organization's service, quality, and value and use it as a means to drive a mutual understanding of the cost and pricing journey. It should illustrate how the Provider and services used by customers will improve and evolve over time. The plan should address improvements to areas such as data, processes, systems, training, new reporting needs, and enhanced business rules. It should build upon the issues identified while documenting current state processes, as well as those uncovered while developing a future state strategic roadmap. An incremental action plan can be developed to begin to address these needs. This plan should continuously evolve. As FSSPs mature and transform, new needs or issues may arise, and improvement plans will need to adjust to address them and meet customer satisfaction.

Investing in process improvements and innovative technologies presents an opportunity to optimize funding. Focusing on this helps to prioritize tasks and ensure limited resources are used to provide maximum value to customers and service delivery teams. It can also help reduce costs for customers or redirect funding for future needs. As indicated in the callout, automation can not only help cover the costs of labor pay increases and inflation but also lead to substantial cost savings for the FSSP. Unfortunately, many customers of FSSPs expect consistent cost reductions and highlighting cost reductions as a benefit of modernization needs can often adversely affect FSSP efforts.

Another FSSP deployed over 20 RPA BOTs the previous fiscal year, which created efficiencies by allowing employees to spend more of their time on core financial activities and analytical work, while the BOTs focused on manual activities. This FSSP is also finding that the BOTs created for one line of work can be applied to different business lines, further increasing efficiencies and reducing labor costs.

Improvement and innovation do not have to involve advanced use of new technologies. FSSPs should consider the use of Software as a Service (SaaS) products that align to agency agreed to data and business standards to deliver their services where it makes sense to do so. Solutions delivered through SaaS are often available on a subscription basis, with the software being hosted centrally, alleviating the need for FSSPs to maintain and manage complex infrastructure, software, and application support. Commercial SaaS solutions provide flexibility, accessibility, and scalability and often benefit from the continuous inclusion of new capabilities and emerging technologies that can improve automation and drive further efficiencies for both providers and agencies. Removing the need for in-house hardware and software can provide cost benefits and ease maintenance. Given the lower up-front costs and set up, SaaS solutions should be considered as a viable option for modernization efforts and a part of an organization's Continuous Improvement Plan.

Some FSSPs we spoke with are exploring the use of SaaS and managed services, with the hope it will help them with cost optimization. One provider underwent a complete overhaul and converted to a managed service solution. The project was executed based on customer requirements that appealed to its full customer base to eliminate the need for customization. It projected the benefits and cost savings to customers, which was realized at execution. This model enabled them to maintain a single instance for all agencies, with no unique customization. The FSSP plans to follow this model with other components based on the benefits both they and their customer agencies have realized from this approach. Change management was needed with customer agencies to ensure their business processes were adjusted accordingly. In some cases, this can provide a more cost-effective, lower maintenance option for the systems managed by the FSSP. Consideration should be given to the underlying complexities of services provided and clients served.

Many FSSPs have not been able to invest in innovation at this time as they are still challenged to address their modernization needs. However, as they mature, they should continuously look for ways to improve operations and deliver services. Embracing emerging technologies such as RPA and artificial intelligence, executed well, can further enable FSSPs to streamline operations, reduce labor costs, and enhance resilience to unforeseen challenges.

IX. Cost Model Basics

It is essential for FSSPs to have a comprehensive cost model to ensure transparency, facilitate communication regarding rate changes, support customer budget formulation, and plan for their own future. While many FSSPs we spoke to have a cost model in place, they vary in maturity levels. It is crucial for all organizations to work towards maturing their models over time as it is the foundation to ensure stability in operations, as well as planning for future needs. Agencies can leverage the TBM Framework to develop and mature their cost models.

A clear and transparent cost model should include several foundational elements:

1. **Cost drivers**: These encompass all costs required to operate and modernize the business. Overhead and administrative inputs to cost, often significant in making a program operational, should not be overlooked and can be helpful.
2. **Allocation drivers:** These are data points used to distribute costs to customers. Examples include the number of users or more consumptive data like Cloud utilization, aiming for accuracy in cost distribution.
3. **Allocation method:** This method, determined by the maturity of data, involves using cost and allocation drivers together to distribute costs to customers. Organizations may utilize a mix of data and methods, such as allocating overhead costs to customers based on the number of users they have.
    a. **Even Distribution:**
        i. Evenly spread network costs to all devices/ systems attached to the network
        ii. Evenly spread helpdesk costs across the organization
    b. **Percent Allocation:**
        i. Network costs will be allocated based on % of budget allocation
        ii. Cost allocated based on staff roster % or predetermined % ratio
    c. **Weighted Average:**
        i. Network costs are allocated based on the server attributes to determine the weighted %
        ii. Infrastructure costs are weighted based on full access accounts vs. read only access
    d. **Data Driven:**
        i. Network Costs will be allocated to Infrastructure Services based on actual network utilization (measured by monitoring tools)
        ii. Costs are captured using contract data consumption, list of application users, device owners, etc. to determine cost allocation

Figure 3 is a visual representation of how the foundational elements work together to flow into a cost model. Appendix A: Example Direct and Indirect Costs contains samples of direct and indirect costs that may go into a cost model.

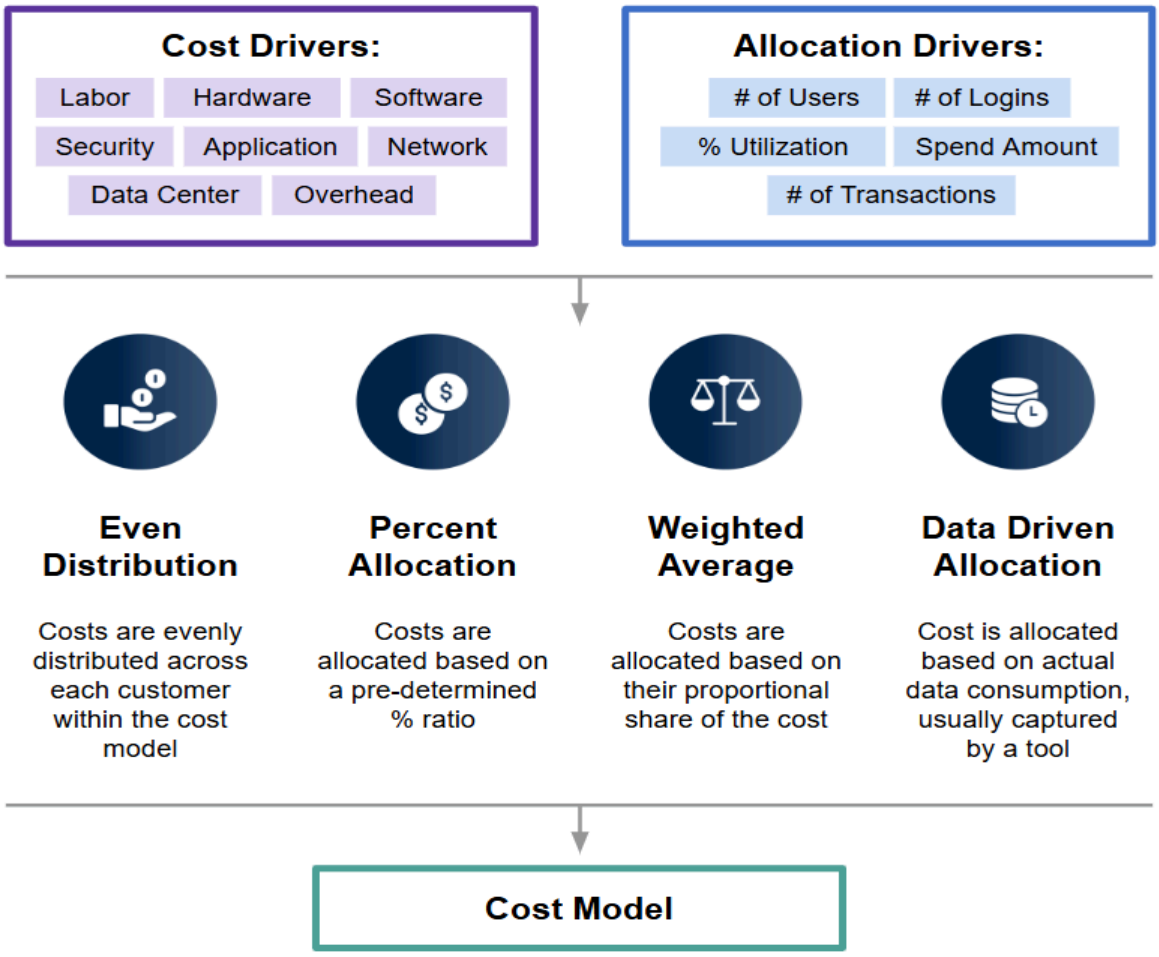

Figure 3: Sample Cost Model

X. Conclusion

In conclusion, it is imperative for FSSPs and their agency customers to arrive at a model that achieves full cost recovery needed to address operational costs as well as the funding to invest in optimization and modernization to meet evolving mandates and customer needs. However, challenges persist in effectively communicating pricing structures, making periodic rate adjustments to customers, retaining funding for multi-year modernization efforts, and being able to effectively plan for and fund modernization efforts.

To address these challenges, FSSPs require transparency into their service costs to ensure sufficient funding for meeting customer needs and service level agreements. This entails clear communication of pricing determinants, consideration of technology debt impacts, and collaboration with home agency leadership and legal counsel to reassess appropriation language.

The imperative to be successful in obtaining full cost recovery is essential to enhancing the capacity of agencies to obtain the administrative support needed to assure mission delivery. In the face of talent recruitment challenges faced by both FSSP and customer agencies and the financial strain of legacy systems across the Federal ecosystem, FSSPs can continue to play a pivotal role in supporting agencies through the shared technology platforms and services they're able to offer, but only through the judicious work needed to ensure FSSP and their customers are able to arrive at sustainable cost and rate setting practices that support both on-going operations and future modernization. By embracing innovation and continuous improvement, FSSPs can optimize operations, reduce costs, and enhance resilience in the ever-evolving landscape of shared services.

Appendix A: Example Direct and Indirect Costs

Direct Costs	Examples
Internal Labor Support	Direct employee costs to support the services being delivered; Examples include application developers, Help Desk support personnel, system engineers, etc.
External Labor/Consulting Support	Direct contract and consulting support for the services being delivered.
Hardware and Software Costs	Equipment and software used to deliver the services; includes physical equipment such as servers, storage, etc. perpetual or term software licenses and alternatives delivered by cloud service providers.
Data Center	Cost for use of physical and/or virtual data center space, power, security, maintenance, and other operating expenses.

Indirect Costs	Examples
Overhead	Facility security, telecommunications equipment for employees, employees' salary/benefits/training/travel costs, multiple organization overhead and administrative office support (i.e., HR, procurement, rent/space, other office equipment & supplies, etc.), IT management/leadership positions
Vendor Transition	If the incumbent contractor is not selected, the SSP should budget for at least 3 months of a vendor transition, in addition to an overall increase in the follow-on contract costs
Acquisition Fees	Fees that are paid to support acquisition professionals managing a program's contract

Appendix B: Customer and Change Management

Challenges

There can be different challenges when implementing organizational and system-wide behavioral changes, the foremost of which is not adequately planning for a Change Management effort as an early part of project development. The absence of OCM planning can frequently result in uneven or rushed rollout measures, which fail to gain momentum and make subsequent implementation efforts more challenging. Additional common challenges across change efforts are:

1. Failing to articulate a clear objective and desired state, including what will be measured throughout and after the process to consider success; and
2. Underestimating the important role of individual adoption, and the emotional response to change that most people experience, even for small changes.

FSSPs must manage internal change management as well as influence customer change management. FSSPs and customers rely on each other to complete respective roles and responsibilities for successful utilization of shared services. FSSPs can manage their own internal change, and customers must also implement complementary and aligned change management.

Additional challenges may also arise that are specific to the individual change or office that is implementing solutions.

Best Practices

Adjustments of business processes can be used to bridge the gap between FSSPs technology solutions by leveraging organizational change. The goal for FSSPs and customers is to adapt internal user practices and business processes to support the need to modernize technology systems. To effectively create organizational and business process change requires an approach to Organizational Change Management (OCM) which is grounded in behavioral science and used to enact change across an entire system of different users.

The strongest OCM strategies are tailored to the specific organization and change effort, and accounts for variables such as common behavioral practices, organizational culture and attitudes towards change, and existing structures surrounding individuals, teams, and leaders. Despite this, FSSPs and customers can leverage the commonalities and best practices when using OCM to deploy solutions.

OCM Plan

The most essential step for deploying organizational change is to develop an OCM Plan. An OCM Plan should consider change and implementation early and often throughout the process of developing a technical solution and be grounded in a clear methodology.

Effective OCM plans also consider the intersection between People-change, Process-change, and Technology-change. Depending on the size of the change being implemented, an OCM Plan might range from a brief outline to an in-depth roadmap and outline of key activities, milestones, change advocates, and dependencies.

Stakeholders

Within any OCM Plan, consideration is needed to identify relevant stakeholders connected to the change. This may include individuals needing to implement new behaviors, leaders, or those affected by the outcomes (customers, service delivery owners/providers, budget owners). Once stakeholders are identified, OCM leaders should consider how the change will impact them and what priorities they have which may influence outcomes. This may require consulting directly with stakeholders to understand their perspectives. By centering on stakeholder requirements early, OCM milestones become more achievable.

Value

Lastly, effective OCM is driven by a clear and articulable vision for what the change needs to accomplish. At the highest level, this vision must be concise and compelling. A good check for leaders embarking on a change effort is to ask whether the “why” behind the change can be described within 2-3 sentences. If not, it is an opportunity to hone the purpose behind the change into something that is more concise and powerful. Once the purpose of change can be articulated, it provides a foundation for communication at each stage of the change process, from planning, early implementation, integration, and refinement. When it comes to communicating change, anticipate that messages will need to be communicated multiple times over multiple forums before they take effect.

Recommendations

1. Clearly define the purpose for change, a desired end-state, and measurable outcomes as a result of the effort. Ensure that the purpose is compelling and can be succinctly articulated as a part of larger modernization.
2. Conduct a comprehensive stakeholder mapping, which includes all affected groups related to the change. When mapping different stakeholder groups, identify their priorities, consider what impact the change will have on them, and what influence they may have to either support or hinder the change.
3. Triage the relationship between People, Process, and Technology throughout the change. Understand the connections and dependencies that enable the teams to scale, maximize, and innovate the implementation of the change, overcoming bottlenecks specific to the program office or agency.
4. Develop a strategic communications plan to convey information about the change early, often, and through different channels. This can include formal announcements, informational and Q&A formats, static resource platforms such as SharePoint sites, and flexible talking-points for leaders and other change advocates.

5. For software development releases, users should be engaged early and often in the process. A subset of users should be asked to participate in user acceptance testing (UAT). FSSPs should provide live training options, which can also be recorded and posted on their system homepage. Training materials should also be available on the homepage.
6. Continuously evaluate change effectiveness and iterate based on ongoing feedback. While the defined purpose and desired end-state of the change remain consistent, many strategies for change adoption can be flexible and responsive to the ongoing needs of stakeholders, subject to experimentation and building on early successes.

Appendix C: Recommendation Summary

Category	Recommendation	SSP Challenge Addressed
Rate Setting and Adjustments	Analyze previous budget years' data to identify cost trends.	Enhance ability to manage costs
	Where appropriate, QSMOs, Policy Offices, and FSSPs should collaborate closely with customers to understand upcoming requirements and clarify the level of effort involved.	Improve FSSP value to customers
	Initiate the rate setting or adjustment process 9 to 10 months before the budget formulation process, which occurs two years before execution. Ideally, this will provide a tw- year projection that can be used for customer budget requests.	Alignment with agencies' budget formulation cycle
	Calculate rates using a consistent, comprehensive approach that can be clearly explained to customers. Ensure key inputs, as described in the Cost Model section, are considered.	Increase price transparency; Improve collaboration with customers
	Customer rates should be finalized during the budget formulation process, typically two years in advance, and cannot be revised. Rate revisions, especially increases, force customers to unexpectedly reallocate funds from other projects. To accommodate unforeseen policy mandates issued after the budget formulation year, FSSPs should incorporate extra flexibility into their system enhancements budget. When operationalizing a policy mandate during the execution year, the FSSP must prioritize system development for the mandate over other functional enhancements requested by system users.	Alignment with agencies' budget formulation cycle

Rate Setting and Adjustments (Continued)	Maintain an asset tracking spreadsheet for hardware/software components, including acquisition and expiration dates, in coordination with QSMOs. Plan ahead for replacements, deciding whether to upgrade components or adopt alternative technologies to meet business needs. Leverage OMB M-16-12: Category Management Policy 16-1: Improving the Acquisition and Management of Common Information Technology: Software Licensing for leadership support if needed. In addition, OMB's Capital Programming Guide v3.1: Supplement to Office of Management and Budget Circular A-11: Planning, Budgeting, and Acquisition of Capital Assets[8], states that "Alternatives Analysis should be performed for Investments with projects in the planning or DME stages, whereas strictly operational Investments should instead perform operational analyses until such time as a decision is made to re-evaluate the Investment or to resume development, modernization or enhancement."	Enhance ability to manage costs; Ensure system requirements stay current
	FSSPs should collaborate with IT experts (inside or outside of their agency) to develop a strategic roadmap for continuous application modernization and support. This involves jointly evaluating systems to ensure alignment with business needs, value, and agility. Establishing a long-term plan with IT partners, regularly revisited, ensures adaptability to evolving requirements and facilitates transparency with customers regarding future budgetary needs. Opportunities should be assessed based on cost, complexity, and risk, aiming to maximize value and impact while minimizing costs and effort. The Continuous Improvement and Innovation section has further details on the next technology approach. Careful research and selection of a modernized architecture can significantly influence future technology refreshes.	Ensure system requirements stay current
	Assess the impact of unforeseen events like legislative changes or crises such as COVID-19 and build a reasonable contingency into the budget.	Enhance ability to manage costs

Rate Setting and Adjustments (Continued)	Incorporate costs related to modernizing, refreshing, and supporting technology that are not already considered in standard operating costs and integrate into rates. This will ensure proper delivery of services needed by customers. To smooth out costs throughout the years, FSSPs should include some level of costs to fund technology refresh and long-term modernization in each of their budget years. For capital assets, include depreciation into standard rates. Even after the asset is fully depreciated, some cost for it should be included as replacement costs. This keeps the rate steady and represents the continuous need to keep hardware up to date. NOTE: some agencies may have restrictions on this based on legislation or other factors. Refer to the Technology Refresh and Modernization Options and Funding Mechanisms section for more details.	Enhance ability to manage costs; Ensuring system requirements stay current
	Communicate the finalized rates to customers transparently. Aim to meet with customers on a regular cadence to discuss their usage and any significant deviations from expected consumption. Customers should have the opportunity for open communication to express new requirements or discuss discontinuing service usage.	Increase price transparency; Improve collaboration with customers
	To ensure there are clear expectations, FSSPs and customers should have SLAs in place detailing the expected services, response times, and procedures for requests beyond the agreement.	Increase price transparency; Improve collaboration with customers; Improve FSSP value to customers
	In order to control pricing, FSSPs need to more carefully write the contract requirements for services. Leveraging the Federal Integrated Business Framework (FIBF), they can incorporate functions, activities, business capabilities, and service measures from established standards into their contracts.	Enhance ability to manage costs
Technology Refresh and Modernization Options and Funding Mechanisms	FSSPs engage with agency legal counsel and OMB to gain insights into the true intent and flexibility of your FSSP's funding mechanism. By clarifying any existing flexibility or interpretations that may not have been previously recognized, FSSPs can potentially leverage additional funding avenues and can adapt to better align with a more optimal funding framework.	Better leverage available funding mechanism

Technology Refresh and Modernization Options and Funding Mechanisms (Continued)	FSSPs should explore options with Revolving Funds, such as WCF or Franchise Funds. This approach seems to provide the flexibility needed by FSSPs as the funds are not time bound and can be used to cover the ebbs and flows of consumption, which typically evens out over time. **Operating Reserves:** Revolving funds without operating reserves should establish reserves via working through amendments to their appropriations language. **Capital Reserves:** If the FSSP has significant capital assets as part of its investment costs, a capital reserve should be requested via working through amendments to their appropriations language.	Better leverage available funding mechanism
	OSSPI to provide education for FSSPs and agencies that customer rates can and should include funding for technology refreshes, per OMB guidance. Regular tech refreshes will obviate the need for a costly and long overdue system overhaul.	Ensure system requirements stay current
	FSSPs embarking on modernizations should utilize the M3 Modernization and Migration Playbook, which methodically lays out the steps to be followed and issues to be considered, for a successful migration project.	Ensure system requirements stay current
Customer and Change Management	Clearly define the purpose for change, a desired end-state, and measurable outcomes as a result of the effort. Ensure that the purpose is compelling and can be succinctly articulated as a part of larger modernization.	Improve FSSP value to customers
	Clearly define the purpose for change, a desired end-state, and measurable outcomes as a result of the effort. Ensure that the purpose is compelling and can be succinctly articulated as a part of larger modernization.	Improve collaboration with customers; Improve FSSP value to customers
	Conduct a comprehensive stakeholder mapping, which includes all affected groups related to the change. When mapping different stakeholder groups, identify their priorities, consider what impact the change will have on them, and what influence they may have to either support or hinder the change.	Improve management of investment; Increase FSSP value to customers

Customer and Change Management (Continued)	Triage the relationship between People, Process, and Technology throughout the change. Understand the connections and dependencies that enable the teams to scale, maximize, and innovate the implementation of the change, overcoming bottlenecks specific to the program office or agency.	Improve collaboration with customers
	Develop a strategic communications plan to convey information about the change early, often, and through different channels. This can include formal announcements, informational and Q&A formats, static resource platforms such as SharePoint sites, and flexible talking-points for leaders and other change advocates.	Improve collaboration with customers
	For software development releases, users should be engaged early and often in the process. A subset of users should be asked to participate in user acceptance testing (UAT). FSSPs should provide live training options, which can also be recorded and posted on their system homepage. Training materials should also be available on the homepage.	Improve management of investment; Increase FSSP value to customers
	Continuously evaluate change effectiveness and iterate based on ongoing feedback. While the defined purpose and desired end-state of the change remain consistent, many strategies for change adoption can be flexible and responsive to the ongoing needs of stakeholders, subject to experimentation and building on early successes.	Improve collaboration with customers; Improve FSSP value to customers