

Virginia Viewpoint

Huge Savings through Human Resources Outsourcing

By Geoffrey F. Segal

Summary

The current budget crisis in Virginia gives our political leaders an opportunity to analyze all the services provided by the state government. While some functions should be eliminated completely, others should be outsourced to the private sector where competitive pressures will ensure the best product at the lowest cost.

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Specifically, the outsourcing of Virginia's internal human resources functions could save taxpayers millions of dollars a year and, amazingly enough, give state workers the benefit of much improved HR services.

As we move closer to the start of another budget cycle in Virginia, the picture remains dismal. The state is still facing a billion dollar plus deficit, and the economy has yet to recover fully. Citizens have made one-thing clear – no new taxes. This stance will force our leaders in Richmond to focus on innovative ideas, as opposed to new taxes and fees, while putting Virginia's budget back in balance.

Truth is, we can't blame our state's fiscal challenges on declining tax revenues. Rather, our state government has overspent. Now is the time to reel in state spending, especially if there are opportunities to do so without cutting vital services. One such opportunity exists and remains untried in Virginia—human resources outsourcing.

Virginia, in fact, has a history with outsourcing thus demonstrating itself to be an innovative state government. However, our leaders in Richmond have lately shied away from innovations like HR outsourcing. In the lexicon of civil service, outsourcing is often a dirty word. It shouldn't be.

Governments that effectively outsource services better performed by the private sector have more money to do the important work that attracts many people to civil service. Typically, this is also the work on which the public relies and values most.

None of this is foreign to Virginians. The state already uses private companies to deliver important state services including highway road maintenance, prison operations, and information technology systems.

Ironically, however, in the Commonwealth of Virginia the sector in the worst financial shape and in the most need of creative ideas to close its budget gap, doesn't outsource enough. Specifically, the outsourcing of Virginia's internal human resources functions could save taxpayers millions of dollars a year and, amazingly enough, give state workers the benefit of much improved HR services.

Like all cash-strapped governments, Virginia is looking for ways to maintain core services while reducing costs to balance the budget. Faced with the untenable option of raising taxes or cutting services, our leaders need to

find new ways to do things. Already, cuts have been made in a number of agencies with higher education taking one of the most significant hits.

For over thirty years, the Reason Foundation has tracked the effects of competition and outsourcing. Not only are there significant savings, but also the quality of services provided dramatically improves. Even the federal government is actively using competition and outsourcing to reduce costs and improve efficiency. Several reports document average savings of thirty percent in addition to quality enhancements and service improvements.

For a current example lawmakers should look to Florida where a revolutionary project is underway to outsource much of the state's administrative back-office operations. Just last summer Florida signed a contract with Convergys Corporation of Ohio to administer almost all of its routine personnel functions including payroll, insurance benefits, employee training, and recruiting. The contract will save the state an estimated \$173 million over seven years. Florida will not only avoid \$80 million in capital spending to replace the state's aging HR computer systems, but will also cut millions of dollars in recurring expenses for many years to come.

There's more good news. State employees and retirees in Florida will have access to the latest in HR computer and web-based technology, not to mention the HR practices and service levels enjoyed by employees at many of the finest Fortune 500 companies. For the first time, every state employee will be able to access his or her personal account and make transactions on a 24/7 basis.

Perhaps the chief benefit of outsourcing is that it allows states to devote fewer internal resources to burdensome administrative tasks and instead concentrate resources on the core mission, responsibilities, and programs of state government. Rather than contemplate cutting essentials public services, state leaders should outsource those operations that can be performed better and more cost effectively by the private sector. As taxpayers, isn't that what we want?

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