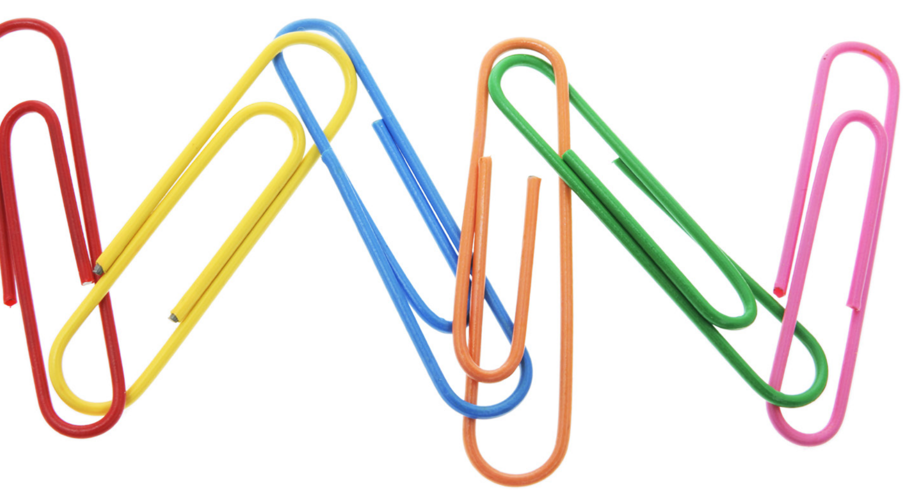
Federal CFO Insights
Can a Working Capital Fund work for you?



Introduction
Today, perhaps more than ever, Federal Agencies are expected to do more with less. As a result, senior Federal financial managers are faced with unprecedented pressure to consider more innovative approaches to align shrinking resources with not only escalating demand, but with more complex and rapidly changing demand. Shared and centralized service models have grown in popularity as organizations look to consolidation and standardization to improve the effectiveness and efficiency of common service delivery, or are simply responding to OMB mandates to utilize such services. Regardless of the impetus, these fiscal challenges are occurring at the same time that legislative and regulatory bodies are getting serious with demands for greater financial transparency. For Federal managers interested in responding to these challenges, the Working Capital Fund (WCF) operating model may be an attractive option. A WCF is a full-cost recovery operating model where program expenses are recovered through funds collected from all supported customers, both internal and external to the organization. Federal WCFs vary in levels of sophistication, but the most advanced have helped organizations improve the alignment of resources to mission needs, as well as delivered increased flexibility and scalability to integral support functions. Significant additional operational and financial benefits can also be realized for those Federal organizations that prove to be a good match for the WCF model.

Financial and operational value delivered — primary benefits of establishing a working capital fund
In a 2013 Memorandum to Federal Agencies, the Office of Management and Budget directed most executive agencies to use a shared services model for future financial system modernization efforts.[1] This directive is just one example of a larger push within the Federal Government to centralize services and eliminate costly redundancies. As this occurs, the goals of many organizations are beginning to overlap. A growing number of Federal Agencies have found that establishing a WCF can help achieve their organizational and programmatic financial and managerial goals, enabling an overall result of improved service delivery and greater financial transparency and accountability. Federal organizations have found that the WCF model can deliver significant value in five key areas.

- **Cost Recovery.** A WCF could be an effective method of funding the cost of running a shared service or other central customer support center. While these centralized centers can be effective at driving overall program costs down by reducing redundancy, they may also shift cost burden to the central service provider; a WCF model may be a reasonable remedy to this challenge. Cost recovery may also be necessary to comply with Federal Regulations and reduce the potential risk that the appropriated funds are misused as service delivery expands to Other Government Agency (OGA) customers.

- **Budget Flexibility.** A WCF model can provide access to additional sources of funding. For an organization or activity within an organization that is facing the combination of budget cuts and increased customer requirements, switching to a customer funded business model may be a good option for maintaining long-term program health. WCF revenues are treated as no-year funds, allowing program managers additional flexibility to make business and financial decisions. The WCF model also provides the opportunity to establish a funding flow to support the long-term viability of its activities. Full-cost of operations is often defined to include recapitalization of assets and investment in new assets and capabilities, thus pricing can be structured to collect funding for these activities.

- **Efficient Management.** Since customers must now pay for the products and services they consume, a WCF incentivizes customers to consume only what is needed to support their mission needs. An effective WCF governance process also puts pressure on WCF service providers to contain costs. Stressing efficiency at both ends of the service delivery process can help drive an organization or program to deliver real cost savings.

- **Fiscal accountability and Financial Transparency.** Most Federal organizations today are burdened with siloed and manual processes. Establishing a WCF can help support audit readiness goals by encouraging a review of business processes and systems, with an eye towards improving efficiency, reliability, and ultimately auditability. These types of improvements to business processes and systems can also help deliver advanced mission results. Additionally, sound fiscal management is required to maintain the viability of a WCF model, thus incentivizing an organization to have better cost management practices, or to more clearly articulate the value proposition of more costly activities. Additionally, increased financial transparency is a natural outcome of a successful WCF model. WCF pricing activities bring to light true cost drivers, and the totality of resources that are required to execute program requirements. WCF financial reporting requirements encourage organizations to actively monitor fiscal health, enabling more proactive management.

- **Improved Mission Delivery.** The WCF business model drives organizations to leverage the alignment of organizational resources with mission requirements. Traditionally discretionary business functions like demand forecasting and customer engagement become necessary for the sustained viability of a WCF model. These activities help increase coordination between mission and support functions, enabling WCF entities to better serve their customers, maintain an agile support environment, and identify cost reduction and containment approaches that have the least mission impact.

Considerations for Establishing a WCF — Is the WCF model a fit for my organization?

While a full-cost recovery WCF operating model has the potential to deliver substantial value, it is not an appropriate fit for every organization. Further, Federal organizations that are ready to adopt the WCF model must put careful thought into the WCF's scope and structure. Organizations or programs contemplating establishing a Working Capital Fund should assess five primary topics:

1. Products and Services Definition

The foundation of WCF service offerings is built upon clearly defined products and services that both the service provider and customers can agree on and relate to. Establishing a consistent suite of WCF products and services is necessary for budgeting and cost accounting purposes, but also for branding and customer relations.

Considerations: Can your organization estimate demand for these products and services with reasonable accuracy? Products and services with at least some portion of nondiscretionary and/or monopolistic demand, such as desktop services or telecommunications services are often good fits for the WCF operating model.

2. Business Process and Systems Readiness

Efficient and effective WCFs rely on a strong backbone of integrated business process and tools that can balance the trade-off of satisfying mission needs while minimizing administrative burden and providing reporting capabilities necessary to meet customer, managerial, and oversight requirements.

Considerations: Does the organization have, or how difficult would it be to put in place, workflow systems and business processes that can perform the core business functions of a WCF business line such as — customer ordering (to include cost estimates), customer agreement management (SLAs), cost tracking/billing/invoicing, and financial reporting? Is the organization's CIO or Enterprise Application Development group willing and able to accommodate WCF tool requirements?

3. Governance

An effective WCF governance structure must give the WCF program the power to manage its operations as well as provide customers the ability to control the size and scope of services that are included in the model. Customers and service providers should both have a voice in determining the specific types of cost recovery methods utilized for each product and service, as well as the budgets necessary for service providers to execute mission requirements.

Considerations: How are the WCF candidate programs aligned organizationally? How should customers be represented in WCF pricing and service delivery decisions? What processes should be established so the WCF contributes to greater organizational and programmatic objectives?

4. Workforce Capabilities

Federal organizations considering a WCF must have staff employees that embrace the nuances of operating a full-cost recovery model. WCF businesses require managers that can "think like a business" and financial managers that understand both Federal budgeting processes as well as Federal and commercial accounting principles. This is necessary for the fiscal health of WCF products and services and that WCF policies enable customers and their parent organizations to meet mission and regulatory goals.

Considerations: Does the workforce have financial and cost accountants and managers with business acumen who can support WCF activities? What training can be delivered to new employees supporting the WCF?

5. Organizational Change Management

The establishment of a full-cost recovery WCF model can be a challenging for an organization to manage. Customers may not fully understand the organizational benefits derived from the changes in funding and business processes. Organizational or programmatic senior leadership should be supportive of WCF efforts and communicate this support throughout all levels of the organization.

Considerations: How supportive is senior leadership to WCF transition? Does leadership buy into the WCF's alignment with the organization's broader strategic goals? Can the WCF get the appropriate level of support from the organization's Office of General Council (OGC)? How prepared is the general workforce population for change? What change management practices can begin prior to WCF transition?

What Now?

A WCF model can deliver many benefits; however it is not appropriate for every organization, nor is it a one-size fits all approach. Organizations must understand the primary factors leading to the consideration of a WCF operating model. In some situations, such as when working within tight time constraints, standing up a WCF may not be the right approach. Additionally, some organizations may not need the full gamut of benefits potentially delivered by the WCF model. In these situations, other less complex types of cost recovery models may be viable alternatives. Given the current operating landscape for Federal organizations, many more Federal CFOs and senior executives should at least contemplate the WCF or other forms of cost recovery models.

Endnotes

1. http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-08.pdf

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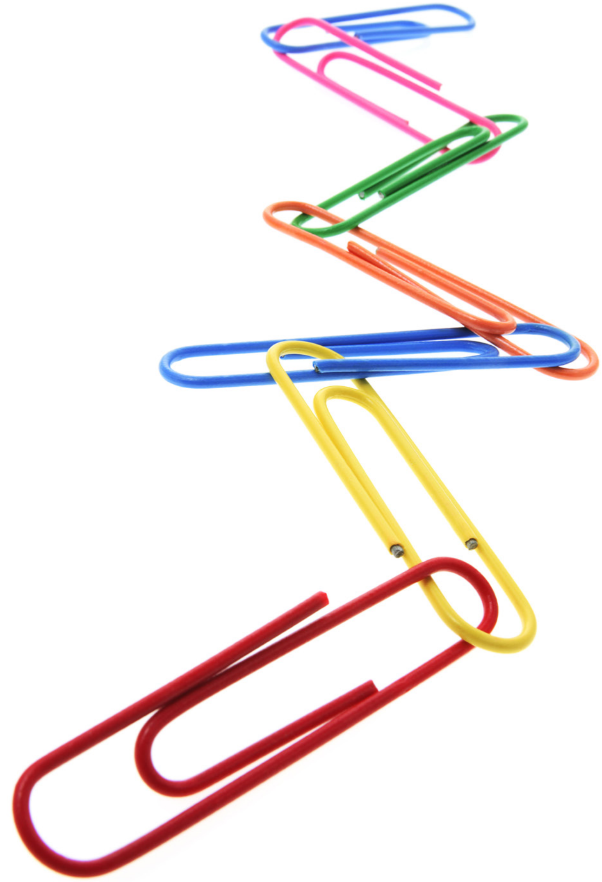

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