

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON 25, D. C.

BULLETIN NO. 55-4

January 15, 1955

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Commercial-industrial activities of the Government providing products or services for governmental use

1. Purpose. This Bulletin initiates a review of those commercial-industrial type activities conducted by the Government that provide services or products for its own use which could be procured from private enterprise through ordinary business channels (hereafter called commercial activities). It also sets forth Government policy with respect to both the starting and carrying on of such activities.

The fact that this Bulletin does not deal with products or services provided directly to the public in no way relieves the agencies of keeping such activities under constant review and reevaluation as to the need for the Government to carry on such activities. The results of such reevaluation will be reflected in the legislative and budget programs.

2. Policy. It is the general policy of the administration that the Federal Government will not start or carry on any commercial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary business channels. Exceptions to this policy shall be made by the head of an agency only where it is clearly demonstrated in each case that it is not in the public interest to procure such product or service from private enterprise.

3. Responsibility. In furtherance of this policy, the head of each agency shall give personal direction to the accomplishment of the review (inventory and evaluation) of the activities of his agency which fall within the scope of this Bulletin. He shall assign to a member of his key staff the responsibility for direction and coordination of this program throughout the agency.

4. Scope and coverage of review. The review will consist of two phases: (a) an immediate inventory of all commercial activities, and (b) an evaluation of these activities, to be spread over a longer period of time. The first evaluation will cover manufacturing activities as set forth below. This will be followed periodically by similar evaluations of other commercial activities, such as wholesale and retail trade, repair and business services, construction, transportation, communication, public utilities, agriculture, forestry, fisheries, and mining. Instructions for later evaluation reports will be issued subsequently, but agencies may proceed with a program of evaluation and action as fast as time permits.

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The following rules will prevail as to coverage of the review:

- a. The review will cover activities carried on in the continental United States and in the Territories of Alaska and Hawaii.
  - b. In determining whether an activity is "commercial" in nature and "could be procured . . . through ordinary business channels," reference may be made to the Standard Industrial Classification Manual and to ordinary business practice with respect to procurement of services or products. The inclusion of an activity in the manual will be generally considered indicative that it may be procured commercially. There will be excluded from coverage as noncommercial, however, those functions which are a part of the normal management responsibilities of a Government agency or a private business of comparable size (such as accounting, personnel work, and the like).
  - c. Any activity at any one location which involves an equipment investment of less than \$5,000 and a product or service with an approximate annual value of less than \$25,000 shall be excluded.
  - d. "Activities conducted by the Government" will exclude Government-owned, contractor-operated facilities as far as evaluation is concerned, but will include such facilities for purposes of the inventory report.
  - e. "Activities . . . for its own use" will include the activities of producing a service or product primarily for the use of the Government (whether the same agency or other agencies), even though some portion of the product or service is sold or given to the public. The coverage will include activities which are to provide a service or product for the use of a Government agency in its official duties, even though the agency is engaged in carrying out a service to the public (e.g., it will include the manufacture of mail bags or the generation of power at a Government institution). However, the coverage will exclude the activities of producing a service or product primarily to be sold or given to the public (e.g., it will exclude the generation of power for sale to the public).
5. Inventory of commercial activities. Each agency shall prepare an inventory of all commercial activities. The inventory shall identify the activity in terms of the Standard Industrial Classification Manual, the number of installations or the locations where the activity is conducted, the capital assets invested in the activity, and the average number of employees engaged in the activity. Exhibit 55-4A indicates the format for reporting this inventory to the Bureau of the Budget. Instructions for this report are contained in Attachment A.

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6. Evaluation of manufacturing activities. Each agency shall make an evaluation of all its commercial activities which are classified as manufacturing in the inventory. Government-owned, contractor-operated activities included in the inventory report required under paragraph 5 above are not required to be evaluated at this time.

The evaluation should determine whether or not each of these manufacturing activities should be continued by the Government in the light of the objectives stated in paragraph 2 above.

The relative costs of Government operation compared to purchase from private sources will be a factor in the determination in those cases where the agency head concludes that the product or service cannot be purchased on a competitive basis and cannot be obtained at reasonable prices from private industry. In those cases it will be necessary to develop detailed data on such costs. In doing so, the costs of Government operation should be fairly computed and complete, covering both direct and indirect costs, including elements not usually chargeable to current appropriations such as depreciation, interest on the Government's investment, the cost of self-insurance (even though it is unfunded); there shall also be added an allowance for Federal, State, and local taxes to the extent necessary to put the costs on a comparable basis. Care must also be exercised to see that the costs of procuring material from private sources are fairly computed and complete, being truly representative of the lowest price the Government would pay for the quantity and quality needed, and taking account of any applicable indirect costs of the Government for such procurement.

The evaluation will also review the legal authorization for each activity and determine whether congressional action is necessary to permit discontinuance. Except where such congressional action would be required, activities should be discontinued as soon as the agency head determines that it is reasonably possible to do so. Where congressional action would be necessary to permit discontinuance, the agency head shall seek such action promptly, submitting drafts of legislation or appropriation language, as may be required, to the Bureau of the Budget in the usual manner.

The evaluation should proceed promptly so that a report of the results may be made as provided in paragraph 9 below. The report on each manufacturing activity conducted during any part of fiscal years 1954 and 1955 shall be submitted on exhibit 55-4B, showing what the agency head decides to do about the elimination, curtailment, or continuation of each activity. The form is divided into three sections. Section A shall be completed on all reportable activities. Section B shall be completed on those activities which are being curtailed, eliminated, or procured from commercial sources. Section C shall be completed for all activities which

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will continue as Government operations. Applicable questions only need to be answered. The justification for continuation as a Government operation must be complete. Instructions for this report are contained in Attachment B.

7. Applicability to Department of Defense. Inasmuch as the Department of Defense started its own review of these activities some months ago, special instructions will be issued for that department in order to take full advantage of the work already done.

8. Questions and interpretations. Any questions regarding completion of the forms or interpretation as to coverage should be presented to the respective Bureau of the Budget examiners.

9. Reporting dates. The name of the individual designated to direct the program and three copies of whatever implementing instructions are issued by the agency shall be furnished the Bureau of the Budget by February 15, 1955. Three copies of the inventory reports (exhibit 55-4A) shall be submitted to the Bureau of the Budget on or before April 15, 1955. Three copies of the reports on evaluation of manufacturing activities (exhibit 55-4B) shall be submitted to the Bureau of the Budget on or before July 15, 1955. Copies of the evaluation report form may be secured in limited quantity from the Bureau of the Budget Publications Unit, code 189, extension 616.

By direction of the President:

ROWLAND R. HUGHES  
Director

Attachments

### INSTRUCTIONS FOR INVENTORY REPORT ON COMMERCIAL ACTIVITIES

Prepare the report on letter-size paper in the format appearing on the reverse.

A separate report shall be submitted for each bureau, service, or other major administrative unit within the agency.

List on separate pages and designate appropriately (a) those activities or services which are Government-operated, and (b) those which are Government-owned but contractor-operated.

Include all commercial activities conducted during any part of fiscal years 1954 or 1955.

Column 1 - The type of activity or service should be classified according to the Standard Industrial Classification Manual (obtainable from the Superintendent of Documents), giving the industry classification number and the industry title as shown in the Manual, and be followed by such additional words or phrases as will help to identify the specific activity or service. Where a major installation is itself a commercial activity and has a number of commercial activities as components, the installation should be listed by its overall functions and the component activities listed under it. Number each major activity consecutively beginning with the figure "1" on each page.

Column 2 - If the activity is confined to one or a few locations, list them individually. If there are many locations, the number of separate facilities will be sufficient if accompanied by some general indication of locations.

Column 3 - Estimate the value of capital assets used primarily for the activity. Use only one figure for the total of land, buildings, and equipment. Use same figures as reported to the General Services Administration in its Inventory of Federal Real Property Holdings, to the extent possible. For those activities not covered in the General Services Administration report, use same valuation basis (original cost) as used for that report.

Column 4 - Show the average number of persons employed annually on the particular activity. This figure can be computed by averaging the figures reported to the Civil Service Commission on Standard Form 113. If the operation is seasonal, show the average employment for only the months during which the activity was performed and indicate in parentheses the number of months during which the activity was performed.

Column 5 - Use this column for any special information considered pertinent from the standpoint of the development of an inventory. Do not try to justify the conduct of the activity here. Wherever necessary, justifications will be developed through subsequent surveys.

Page No. \_\_\_ of \_\_\_ (total)

Check one

Gov't. operated

Gov't.-owned, contractor operated

INVENTORY REPORT OF COMMERCIAL ACTIVITIES  
UNDER BUREAU OF THE BUDGET BULLETIN NO. 55-4

Exhibit 5-14A

Date \_\_\_\_\_

Agency \_\_\_\_\_ Bureau \_\_\_\_\_

Activity (1)	Location or number of installations (2)	Capital assets (3)	Number of employees (4)	Comment (5)

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INSTRUCTIONS FOR EVALUATION REPORT ON  
MANUFACTURING ACTIVITIES

SECTION A. This section is to be filled out on all manufacturing activities. Answer only those questions which are applicable.

1. Use the industrial title from the Standard Industrial Classification Manual which describes the activity at the highest organization level that can be analyzed as a separate commercial activity, even though it may have a number of commercial activities as components. For example, a shipyard would be the industrial activity and not the individual activities which make up a shipyard, such as foundries, machine shops, etc.
2. Use the code number corresponding to the title from the Standard Industrial Classification Manual.
3. Refer to the proper page and line of the agency's inventory report previously submitted.
4. This should be the number of similar installations. Exclude those reported elsewhere as a part of another major activity.
5. If there are relatively few such installations, give their location. If there is a larger number of such installations, use some descriptive term, such as "at all dam construction sites" or "one in each seaboard state."
6. Show as subordinate activities the types listed in the Standard Industrial Classification Manual which form a part of the major activity listed in No. 1.
7. This should be an estimate of the total expenditures attributable to the activity for the fiscal year 1954.
8. This should be an estimate of the total expenditures attributable to the activity for the fiscal year 1955.
9. Show the number of employees assigned to the activity who were included on the Standard Form 113 report to the Civil Service Commission and the number of military personnel assigned to the activity.
10. If the number of employees shown in No. 9 is not representative of the normal or seasonal size of the operation, explain the seasonal character and give figures which reflect the maximum employment during the peak season.
11. On a percentage basis, account for the disposition made during fiscal year 1954 of the products manufactured.

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12. The value of land and buildings should be the same (initial cost) as reported to the General Services Administration in connection with its survey of real property holdings. For those assets disposed of before or acquired after December 31, 1953, which are not included in the GSA survey, use the same concept of initial cost, or the best estimate thereof, in setting the asset figure. This concept should also govern the value placed on equipment which was not covered by the GSA survey.

13. Check the block which indicates the authority and circumstances under which the activity is conducted. If it is required by law check "Required." If it is specifically authorized but not required by law, check "Specifically authorized." If it is not specifically authorized or required but has been the subject of specific congressional approval in appropriation acts or some other legislation, check "Congressional approval" and explain the circumstances. If there is no specific approval, but the agency considers that its basic legislation authorizes the activity, check "General authorization." Use the "Other" block only if none of the previously mentioned categories is applicable, and explain the circumstances. Wherever there is legislation under which the activity is authorized, give the U. S. Code citation.

14. Indicate by a check what the agency head determines is to be done about the continuation of the activity. Check the block "Eliminate" if the Government operation is to be closed and the facilities disposed of. Check "Curtail" if the volume of activity is being reduced but the activity will continue as a Government operation. "Continue" will be used to denote the decision that it is in the public interest for the activity to be conducted as a Government operation. Check "Other" if the activity is being converted to a contractor-operated basis or some combination of ways of procuring the product. If the "Other" block is checked, give a brief explanation of what is to be done.

SECTION B. This section should be completed for all activities on which No. 14 is not checked "Continue."

15. State exactly what is to be done.

16. Show the date on which the activity has been or will be eliminated, curtailed, or otherwise modified.

17. If the agency head's determination is not yet in effect, indicate the extent to which negotiations or other actions have progressed on the date of the report.

18. If the agency head's determination cannot be carried out because of existing law, summarize any legislative proposals being submitted to the Bureau of the Budget.



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19. If the assets which were used in the conduct of the activity are to be sold or otherwise disposed of, so indicate. If they are not to be disposed of, give reasons.

20. If any of the assets have been disposed of, show the amount recovered from their sale. If they have not been but will be later, indicate an estimated amount to be recovered, adding "estimate."

21. Use the same basis for determining the value of the assets being retained as was used in estimating the value of the capital assets in No. 12.

22. There will normally be an entry on line 2 and in addition there may be one on lines 1 or 3, depending on the action being taken. The first line should show savings. The second should show amounts formerly spent for Government operations which hereafter will be spent for procurement of the product by direct purchase or contractual arrangements. The third line should show any increase in out-of-pocket costs of procuring the product, whether or not additional appropriations will be requested. The last line will be used for any other circumstances which will prevail. These need not be exact figures developed by a cost study but may be estimated amounts.

23. The changes in the numbers of persons engaged in the activity will be related to the answer on No. 9. The number eliminated does not necessarily mean that employment of the particular individuals will be terminated but it does mean that the personnel requirements of the agency will be reduced to that extent so far as the activity is concerned.

SECTION C. This section is to be completed whenever the agency head decides that the activity is to be continued as a direct Government operation.

24. This justification must be complete, showing the reasons why the agency head has decided that there is a clear demonstration that it is not in the public interest to procure such product from private enterprise.

25. If unavailability of the product commercially is a reason given in No. 24, this item will be used to indicate the circumstances under which the product is provided by private enterprise under normal business conditions. It should also indicate whether the geographical location of the activity is such that private enterprise is not in a position to fill the agency's needs. This should be answered only after specific analysis of the problem and must include a description of the steps which the agency has taken to be sure that private industry either can or cannot furnish the agency's needs.

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26. If cost is a reason given in No. 24, this item will be used to indicate the comparative costs. Since cost should not usually be the deciding factor in determining whether to continue the operation as a direct Government operation, this statement should show both the results of the comparative cost analysis and the elements which have been used in determining the Government cost, both as a direct operation and if the product is secured from private industry.

(AGENCY) \_\_\_\_\_

(BUREAU) \_\_\_\_\_

(DATE) \_\_\_\_\_

ADDITIONAL INFORMATION WILL BE SUPPLIED BY \_\_\_\_\_

SUBMITTED BY: (SIGN) \_\_\_\_\_

NAME \_\_\_\_\_

TITLE \_\_\_\_\_

TEL. NO. \_\_\_\_\_

(TITLE) \_\_\_\_\_

SECTION A (TO BE COMPLETED ON EACH ACTIVITY EVALUATED)

1. INDUSTRIAL ACTIVITY TITLE \_\_\_\_\_

2. INDUSTRY CODE NO. \_\_\_\_\_

3. INVENTORY REPORT REFERENCE

PAGE \_\_\_\_\_ LINE \_\_\_\_\_

4. NO. OF INSTALLATIONS \_\_\_\_\_

5. LOCATION OF INSTALLATIONS \_\_\_\_\_

6. COMPONENT ACTIVITIES \_\_\_\_\_

7. EXPENDITURE FISCAL YEAR 1954 \$ \_\_\_\_\_

8. EXPENDITURE FISCAL YEAR 1955 \$ \_\_\_\_\_

9. NO. EMPLOYEES JUNE 30, 1954:

CIVILIAN \_\_\_\_\_

MILITARY \_\_\_\_\_

10. EXPLAIN ANY SPECIAL SEASONAL ACTIVITY

PEAK EMPLOYMENT: CIVILIAN \_\_\_\_\_

MILITARY \_\_\_\_\_

11. DISPOSITION OF PRODUCT FISCAL YEAR 1954:

GOVERNMENT USE \_\_\_\_\_%

DISTRIBUTED TO PUBLIC FREE \_\_\_\_\_%

SOLD TO PUBLIC \_\_\_\_\_

12. VALUE OF CAPITAL ASSETS:

LAND \$ \_\_\_\_\_

BUILDINGS \$ \_\_\_\_\_

EQUIPMENT \$ \_\_\_\_\_

13. LEGAL AUTHORIZATION:

REQUIRED

SPECIFICALLY AUTHORIZED

CONGRESSIONAL APPROVAL (EXPLAIN)

GENERAL AUTHORIZATION

OTHER (EXPLAIN)

U. S. CODE REFERENCE OR EXPLANATION \_\_\_\_\_

AGENCY DETERMINATION:

ELIMINATE

CURTAIN

CONTINUE

OTHER (EXPLAIN)

SECTION B (TO BE COMPLETED ON ALL ACTIVITIES ON WHICH NO. 14 IS NOT CHECKED "CONTINUE")

1. SPECIFIC ACTION	16. EFFECTIVE DATE OF ACTION _____
17. STATUS OF ACTION	18. EXPLAIN ANY LEGISLATION NEEDED TO EFFECT ACTION
19. DISPOSITION OF ASSETS	20. AMOUNT RECOVERED \$ _____ 21. VALUE OF ASSETS RETAINED \$ _____
22. EFFECT OF ANNUAL EXPENDITURES \$ _____ LESS WILL BE SPENT _____ WILL BE SPENT IN A DIFFERENT MANNER (AS PAYMENTS TO VENDORS OR CONTRACTORS RATHER THAN FOR PERSONNEL AND FACILITIES) _____ MORE WILL BE SPENT _____ OTHER (EXPLAIN)	23. REDUCTION IN NUMBER OF PERSONNEL _____ CIVILIAN } FEWER EMPLOYEES WILL BE NEEDED _____ MILITARY } _____ OTHER (EXPLAIN)

SECTION C (TO BE COMPLETED FOR ALL ACTIVITIES ON WHICH NO. 14 IS CHECKED "CONTINUE")

24. REASON FOR DECISION TO CONTINUE AS GOVERNMENT OPERATION (IF MORE SPACE IS NEEDED ATTACH A SEPARATE SHEET).

25. IF UNAVAILABILITY OF PRODUCT OR SERVICE COMMERCIALY IS REASON GIVEN IN NO. 24, EXPLAIN.

26. IF COST IS REASON GIVEN IN NO. 24, IDENTIFY ITEMS CONSIDERED IN COST COMPUTATIONS AND SOURCE OF COMMERCIAL COSTS USED IN COMPARISONS.