INFLUENCING AND OPTIMIZING BUDGETS AND SPENDING

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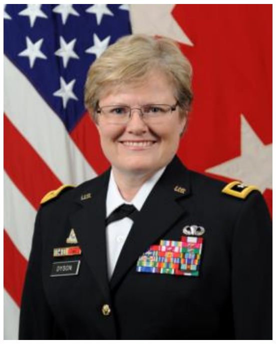

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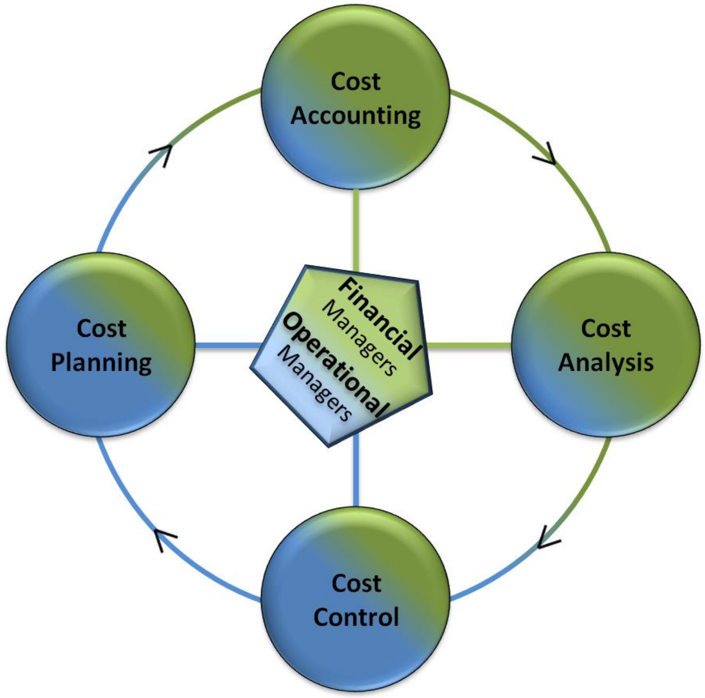
Today's budget environment is challenging for Resource Managers, with uncertainty in appropriations and the continuing complexity of funding for a Nation at war while we adapt to shrinking budgets. Fiscal Year (FY) 2014 began with a government shutdown and Continuing Resolutions into January, achieving certainty only with the passing of the Bipartisan Budget Act, which established budget top-lines at levels less than what the Services requested. The declining budget trend is expected to continue into FY 2015, challenging RMs to work with operational commanders to adapt plans to available funding levels. This environment forces value decisions to be made in order to meet competing demands and optimize spending toward priority requirements. Successful RMs are able to distill requirements and account for their true costs as a first step in understanding how funding can be optimized and how savings can be generated to fund more mission requirements.

Optimizing available funds for building capacity and capabilities that achieve readiness is not only an overarching goal for the Army Budget Office, but a priority goal for the Army. To approach the endeavor, the model below follows the collaborative continuum between RMs and commanders/operational managers to perform cost planning, cost accounting, cost analysis, and cost control (as seen in the graphic).



When choosing a place to start in the process, a good plan sets the stage and primes for the acquisition of funds. The acquisition of funds depends on many variables, from clear requirement definition, to an understanding of program costs, to linking funding to strategy. The desire to spend funds toward outcomes that achieve strategy and readiness goals is shared by commanders and leaders across the Army. The quest for optimizing spending is also shared by commanders and leaders, but is *enabled* by RMs who leverage tools to better link costs to budget. There are many resources to strengthen RMs' "toolkits." This article addresses the tools and concepts available to RMs in order to highlight what should or could be added to the cost management "toolkit."

What has the Army Done?

The Army began to train leaders and RMs on cost management many years ago. Through courses at the Navy Postgraduate School and the Financial Management School, 1,500 Cost Warriors are armed with information on how to conduct cost benefit analysis and optimize resources. In 2007, the Army began fielding the General Fund Enterprise Business System (GFEBS), a web-based enterprise resource planning tool that links with Enterprise Resource Programs (e.g. Logistics Modernization Program (LMP) and Global Combat Support System – Army (GCSS-A) enabling direct input from feeder systems. Besides increased efficiency and accuracy, GFEBS provides commanders at all levels real-time cost information down to unit level. Beginning in 2009, Army policy required cost benefit analysis (CBA) to provide decision makers with factual information and analysis that support cost-informed decisions. Deputy Assistant Secretary of the Army for Cost & Economics (DASA-CE) developed a number of Cost Management tools, training materials, handbooks, and models to enable cost analysis across the Army. These include items such as the Cost Management Handbook, CBA Guide, CBA Workflow Tool, Cost Management Maturity Model, and the Cost Management Knowledge Center. Currently, DASA-CE and ABO are researching and developing new costing methods (models) to prepare for current and future challenges facing the Army. The intent of this work is to analyze costs to better inform decision makers inside the PPBES process.

What is the Challenge?

The Army is changing and adapting to the 2012 Defense Strategy and 2014 Quadrennial Defense Review. The new strategy calls for a return to full spectrum training, building readiness through training that will validate Brigade Combat Team (BCT) preparedness to win decisively, when called upon. The readiness goal is different than that used for Counterinsurgency Operations, which also changes the associated costs. The Army continues to support operations in Afghanistan as a top priority, but is also adapting to the new strategy -- formations are declining, from 71 BCTs in 2013 to 60 at the end of FY2015; and end strength is declining by 20,000 in the active force this year. The proposed Aviation Restructure Initiative optimizes spending across the Army's aviation platforms while divesting older aircraft and changing the training airframe to the dual engine Light Utility Helicopter. This dynamic change coupled with the priority to achieve readiness places great pressure on the shrinking budget.

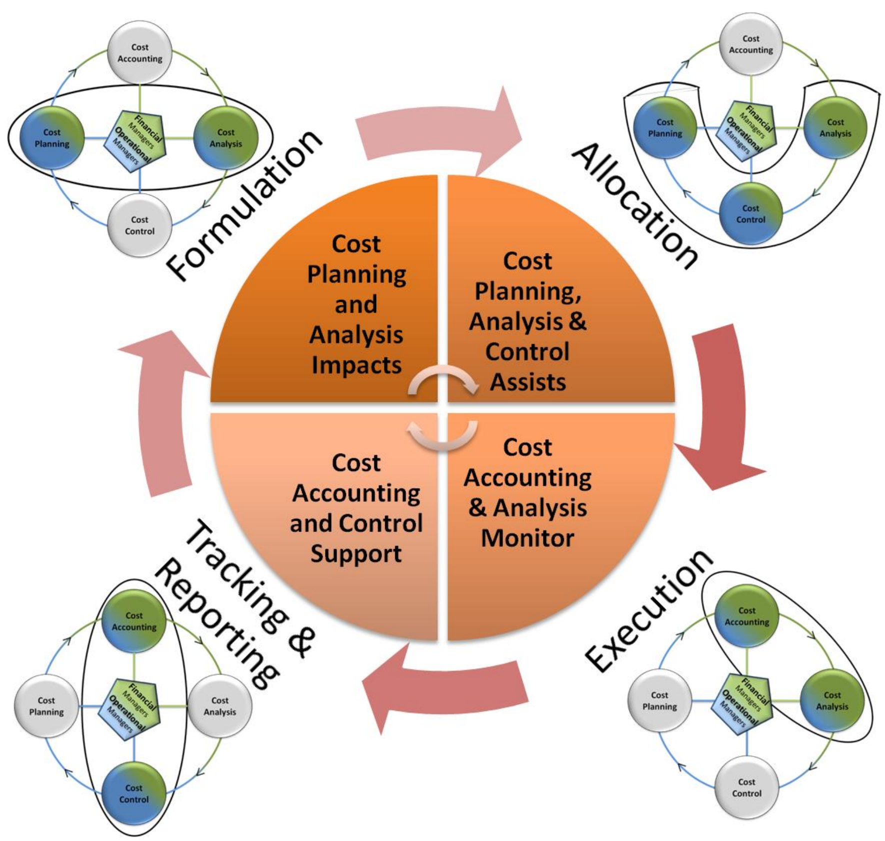
The Army is starting the process of Readiness Costing, integrating real time GFEBS execution data with current force readiness. Mapping both direct and support cost elements to units and the factors that affect readiness (personnel, equipment supply, equipment mission readiness, and unit training) requires a team effort and solid understanding of full cost concepts. The benefit is improved decision making and optimization of scarce resources.

Funding ≠ Cost

Every unit across the Army is impacted by the changing Army in some way. All are challenged to contribute to achieving readiness at less cost. The goal of cost management is to transform the current paradigm of a budget culture focused on obligation rates, to a cost culture that emphasizes value and resource stewardship. Using cost and performance data, leaders are better equipped to make value decisions and can better optimize funds during times of fiscal constraints. An important point often mis-construed is that last year's funding levels do not equate to cost. RMs today must understand cost drivers, the relationship of fixed and variable costs, and most importantly, the full cost of requirements needed to achieve strategy or readiness goals.

Quarterly budget reviews should go beyond obligation and disbursement rates. They instead can be a venue that increases understanding of true costs that underlie requirements. In understanding costs, most RMs work inside the "how much does it cost" dimension of analysis. Seldom do they explore and analyze "how much should it cost" and "how much could it cost" dimensions of developing costs. Cost culture suggests going further to ask, "how much did it cost?," drawing from execution reviews of cost information that considers *all* the costs surrounding the requirement. This type of analysis looks at linking actual costs with the output and outcome being produced [e.g. how much was spent (cost), on training X number of soldiers (output), with % achieving MOS qualification (outcome)]. Cost output and outcome are of paramount importance to decisions focused on improving efficiency and effectiveness. Focusing only on the fiscal spending misses the effect of spending needed to meet the requirement, or achieve the output. Likewise, focusing only on the output and not the costs, could lead to affordability issues or cost overruns.

Linking actual costs with the output and outcome produced logically leads to more questions: "What drove that cost?," "Do we have those same factors now?," and "How can we curb costs, but get the same outcome?" This analysis leverages execution data and cost information, and ties to performance metrics that define achievable outcomes. It asks the RMs to go beyond the "green-amber-red" to add the cost dimension--"how much did the achievement of 'green-amber-red-cost'?" "Is there an inflection point where more resources don't necessarily add more value in achieving the outcome?" "Is there a point where insufficient funding will mean mission failure, and why?" Answering these questions enriches the dialogue between leaders and RMs by bringing greater visibility and awareness to Army operational and training costs.



The Cost Management Process

The Cost Management Process offers four phases in order to plan, account, analyze, and control costs. The model below, developed by the DASA-CE, visually displays the relationships between these four phases. What can be readily concluded here is the importance of teamwork between operational leaders and RMs in successfully managing costs and optimizing available funding to achieve unit goals.

- *Cost Planning* engages the RM in obtaining cost information, identifying cost drivers, estimating costs needed to achieve goals, and ultimately, setting targets to guide unit spending.
- *Cost Accounting* establishes funds availability for optimal spending, setting fiscal controls to guide spending behavior, and realigning where necessary to meet changing demands
- *Cost analysis/execution c*aptures actual spending (obligations & disbursements), providing the platform for analysis of performance achieved, variances in spending, or trend analysis
- *Cost Controls* evaluates performance against anticipated costs, explains variances, reports lessons learned and influences future cost targets

RMs should recognize a strong link to budget activities in this model by initially focusing on allocation and execution data. Interpretation of spending, costs, and cost drivers will enhance explanations of budget reports to leaders. By clearly articulating the costs and cost drivers, RMs can take the information beyond obligations and commitments to goals achieved, cost factors impacting performance, and lessons learned. Arming commanders and leaders with this valuable cost information allows them to make decisions about factors they can control in order to achieve the outcome within available funding. Cost factors, actual spending, and performance – essentially, this comprises cost information that influences requirements generation for the next phase of budget formulation.

Resource Managers perform a critical role when leveraging cost information found within budget execution and enterprise financial systems. Fact-based assessments better inform commanders and leaders toward cost-informed decisions, thereby driving change toward optimizing available funds to achieve unit goals. Utilizing GFEBS to facilitate the creation of business intelligence (BI) will be a key avenue of approach now and in the future; however, it will still require the tools and concepts of cost management from each RMs' "toolkit" to optimize funding.

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