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**MEMORANDUM**

Revised, August 12, 2010

**Subject: Preliminary assessment of efficiency initiatives announced by Secretary of Defense Gates on August 9, 2010****From:** Stephen Daggett, Specialist in Defense Policy and Budgets, 202 707-7642

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CRS prepared this memorandum for distribution to more than one congressional office.

On August 9, 2010, Secretary of Defense Gates announced a number of efficiency initiatives intended to contribute to a Defense Department effort to achieve about \$100 billion of savings over the next five years. The Defense Department's intent is not to reduce the defense "top line" budget, but, rather, to apply any savings to finance currently planned programs. Below, in a table format, is an order-of-magnitude analysis of amounts of money currently spent in each of the major areas Secretary Gates identified for savings. It suggests several points.

- The largest savings appear likely to come from a 30% reduction over three years in funding for "service support contractors." DOD's overview of the FY2011 budget cites plans to reduce the number of "support service contractors" from 39% of the workforce in FY2010 to 26% in FY2014 by in-sourcing 33,400 positions.<sup>1</sup> Using those figures, the service support contractor workforce in FY2010 totals about 100,200. Annual reductions of 10% would entail eliminating about 10,000 positions each year. Assuming \$120,000 per position per year, and assuming the reductions are phased in at a steady rate over the course of each year, savings would equal about \$600 million in FY2011, \$1.8 billion in FY2011, \$3.0 billion in FY2012, and \$3.6 billion per year in subsequent years. As an aside, the total workforce, by that calculus is about 257,000, so eliminating 30,000 jobs would reduce the workforce by about 12%.
- The amount that might be saved from information technology (IT) consolidation is hard to estimate, even roughly, with available information.
- Savings of about \$2.4 billion a year might be obtained from cutting in half the increase since 2000 in personnel in the Office of the Secretary of Defense (OSD), combatant commands (COCOMs), and defense agencies. A Defense Business Board (DBB) briefing of June 2010 shows an increase in those organizations of about 40,000

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<sup>1</sup> Department of Defense, *Overview: FY2011 Defense Budget*, February 2010, on line at: [http://comptroller.defense.gov/defbudget/fy2011/FY2011\\_Budget\\_Request\\_Overview\\_Book.pdf](http://comptroller.defense.gov/defbudget/fy2011/FY2011_Budget_Request_Overview_Book.pdf). I am indebted to my colleague, Amy Belasco, for pointing out these figures.

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personnel, from 200,000 in 2000 to 240,000 in 2010.<sup>2</sup> Most of the increase, according to the DBB, has been in defense agencies. A reasonable question is to what extent that increase is due to the growth of intelligence spending since 2001.

- There appears to be some significant overlap in the proposals, so their impact may not be cumulative. The reduction in contractor personnel in initiative 1, for example, may overlap with reductions in OSD, COCOMs, and defense agencies in initiative 2. Initiative 7 calls for an immediate 10% cut in intelligence related advisory and assistance services, which might be a significant part of the number of support contractors cited in initiative 1. The scrub of intelligence funding in initiative 7 may also overlap with changes in the size of defense agencies that would be needed to achieve the bulk of anticipated savings in initiative 2. A freeze and then reduction in OSD personnel would clearly overlap with the elimination of the office of the Assistant Secretary of Defense for Network Integration and Information (ASD NII) and the Business Transformation Agency (BTA) in initiative 8. The elimination of the Joint Forces Command (JFCOM) in initiative 8 also would clearly overlap with potential savings from initiative 2. Savings from consolidating IT, recommended in initiative 4, might also overlap with initiatives 2 and 7.
- Aside from the overlaps, several of the initiatives involve only relatively small amounts, including changes in OSD, the elimination of ASD NII, BTA, and JFCOM, the reduction in reports, and the reduction in boards and commissions.
- Also, many functions of ASD NII, BTA, and JFCOM will, as Secretary Gates said, have to be managed elsewhere, so net savings from those measures are very hard to estimate.
- Many of the potentially larger savings appear to involve scrubbing the recent very large increases in intelligence spending. Much of the increase appears to have been through increased use of contractors, which is a focus of scrutiny in the initiatives, and perhaps of IT systems, another focus.
- Secretary Gates also said that he had “authorized each of the military departments to consider consolidation or closure of excess bases and other facilities where appropriate.” This is also a new initiative that the Defense Department has not discussed earlier.

The description of each initiative in the table below is taken verbatim from a Department of Defense fact sheet entitled “Efficiencies Initiatives Key Points.”<sup>3</sup>

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<sup>2</sup> Available on line at: <http://dbb.defense.gov/MeetingFiles/presented.pdf>, accessed August 11, 2010.

<sup>3</sup> Available on line at: <https://dap.dau.mil/policy/Documents/Policy/Efficiencies%20Key%20Points.pdf>, accessed August 11, 2010.

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**Comments on Department of Defense Efficiency Initiatives, August 9, 2010**

(revised, August 12, 2010)

Initiative (wording from DOD fact sheet)	Comment
<p>First, SECDEF directed a reduction of funding for support contractors by 10% a year for each of the next three years.</p>	<p>DOD budget overview of February 2010 implies a current support service contractor workforce of 100,200. Assuming \$120K per position, phasing in elimination of 10,000 positions per year would save about \$600 million in FY2011, \$1.8 billion in FY2012, \$3.0 billion in FY2013, and \$3.6 billion per year in subsequent years.</p> <p>This appears to be the largest source of savings among those proposed, but also may overlap with other measures.</p>
<p>Second, to address the personnel growth in OSD, the defense agencies, and COCOM staffs, SECDEF has directed a freeze in the number of OSD, defense agencies and COCOM billets at the FY10 levels for next three years.</p> <ul style="list-style-type: none"> <li>• With regard to in-sourcing, no more full-time OSD positions will be created after FY10 to replace contractors except for critical needs.</li> <li>• These measures are part of a comprehensive re-baselining of OSD, defense agency and COCOM staffing and organization. Starting essentially from scratch, we will conduct a clean sheet review to determine what our people should be doing, where, and at what level of rank in light of this department's most urgent priorities by November 1st.</li> <li>• As a result of the re-baselining, a minimum reduction of 50% of total growth in billets since 2000. This reduction in civilian senior executive and general and flag officer billets shall be achieved over two years.</li> </ul>	<p>According to the DDB briefing, p. 20, OSD = 2,636 personnel in FY2010. Adding part-time reserves, contractors, etc. total is 5,100</p> <ul style="list-style-type: none"> <li>• DOD Defense-Wide Budget Justification book (DW J-book) shows: OSD Budget = \$2,050 million FY2010; \$2,245 million FY2011; 2,043 civilian + 408 active + 39 reserve milpers FY2010; 2,307 civilian + 402 active + 39 reserve FY2011.</li> <li>• DW J-book also shows \$413 million for services &amp; studies in FY2010; \$544 in million FY2011; amount for "other contracts" = \$124 million FY2010, \$399 million FY2011. These may pay for contractors.</li> </ul> <p>OSD + COCOM + Defense Agencies = 240,000 personnel in FY2010 (DDB brfg p. 17)</p> <ul style="list-style-type: none"> <li>• OSD total too small to show up on the graph</li> <li>• Largest number is in Defense Agencies – especially civilians</li> <li>• Next largest number is COCOM military</li> </ul> <p>According to DDB slides, p. 17, increase in OSD + COCOMs + Defense Agencies since FY2000 = about 40,000. A 50% reduction would = about 20,000. If savings = \$120K per billet, total = \$2.4 billion per year.</p>
<p>Third, SECDEF directed a freeze at FY10 levels on the number of civilian senior executives, general and flag officer, and PAS positions. By November 1st, we will also assess the number and locations of senior positions as well as the overhead and accoutrements that go with them.</p>	<p>Gates briefing: "I expect this effort to recommend cutting at least 50 general and flag-officer positions and 150 senior civilian executive positions over the next two years. These reductions would represent 50 percent of the total growth in senior military and civilian positions since 2000."</p> <p>200 positions at \$150K per = \$30 million</p>
<p>Fourth, to achieve greater benefits in cost and efficiency through economies of scale, SECDEF directed the consolidation of our IT infrastructure facilities. This action will allow the increased use by the Department of common functions and improve our ability to defend defense networks against growing cyber threats.</p>	<p>For comparison: IBM points to significant savings due to IT consolidation of more than 50% – from 7% of revenue to 3.4% over 1998-2007 (fact sheet distributed by IBM executives at a private meeting, May 2010). For a \$25 billion a year company savings of 3.6% = \$900 million.</p> <p>Baseline for potential savings in DOD unknown.</p>

<p>Fifth, to combat the enormous amounts of taskings for reports and studies both from Congress and from OSD, SECDEF directed starting now:</p> <ul style="list-style-type: none"> <li>• Freeze in the number of all DoD-required oversight reports;</li> <li>• Immediate cut in the dollars allocated to advisory studies by 25%;</li> <li>• Track and publish the actual cost of preparation of each reports and studies prepared by DoD in the front of each document; and</li> <li>• A comprehensive review of all oversight reports and use the results to reduce the volume generated internally while engaging the Congress on ways to meet their needs while working together to reduce the number of reports by October 1st.</li> </ul>	<p>Gates briefing: 200 full time and up to 700 total contractors work on reports. Assume \$120 K per person, cost = from \$24 million to no more than \$84 million for contractors to prepare reports. Additional amounts for reports prepared internally not available.</p>
<p>Sixth, all told, OSD funds 65 boards and commissions at an annual cost of \$75 million. Therefore, SECDEF directed a review of all outside boards and commissions, for the purpose of</p> <ul style="list-style-type: none"> <li>• Eliminating those no longer needed;</li> <li>• Focusing the efforts of those that continue to be relevant;</li> <li>• Cutting overall funding available for studies tasked by remaining boards and commissions by 25% in FY11.</li> </ul>	<p>Amount of savings = some percentage of \$75 million.</p>
<p>Seventh, SECDEF directed a zero-based review of all of the department’s intelligence missions, organizations, relationships, and contracts with the goal to eliminate needless duplication to be completed by November 1st. In addition, SECDEF directed an immediate 10% reduction in funding for advisory and assistance contractors in this area and a freeze of the number of senior executive positions in defense intelligence organizations.</p>	<p>Announced National Intelligence Program = \$49.8 billion FY2009; \$47.5 billion FY2008; \$43.5 billion FY2007;</p> <p>Overall intell estimated at \$75 billion today by recent articles in the Washington Post and by others;</p> <p>A briefing by an official in the Office of the Director of National Intelligence (ODNI) implied a total intell budget of about \$60 billion in FY2007 – it said \$40 billion was for contractors, which amounted to about 70% of the total;</p> <p>Note: Overall intell budget announced as \$26.6 billion in FY1997, \$26.7 billion in FY1998</p> <p>DOD has not provided a total for advisory and assistance contracts in intelligence. OMB “Object Classification” report for FY2011 shows total of \$15.9 billion for advisory and assistance services in FY2010, \$12.7billion in FY2011</p>
<p>Eighth, in addition to flattening and trimming structures, SECDEF over the next 6-12 months will eliminate 2 organizations and recommend the closure of another that perform duplicative functions and/or outlived their original purpose.</p> <ul style="list-style-type: none"> <li>• Elimination of the Assistant Secretary of Defense Networks Integration and Information, and J6 function, which deal with enterprise IT and hardware issues. Their essential missions will be</li> </ul>	<ul style="list-style-type: none"> <li>• ASD NII: \$115.7 million FY2010; \$95.8 million FY2010 (DW O&amp;M J-Book, p. 778 pdf)</li> </ul>

<p>performed by other organizations. A re-fashioned Defense Information Systems Agency will perform the department's CIO function.</p> <ul style="list-style-type: none"> <li>• Elimination of the Business Transformation Agency (BTA), which performs day-to-day oversight of individual acquisition programs, a function largely performed by a number of other organizations. BTA's essential responsibilities will be shifted to the DCMO.</li> <li>• Recommend the Closure of Joint Forces Command (JFCOM) which was established to infuse jointness into everything the military does, especially the training and providing of forces for operations. Overtime it has created an unneeded extra layer and step in the force management process. JFCOM's force management and sourcing functions will be assigned to the Joint Staff while the remaining responsibilities will be evaluated and those determined to be essential will be re-assigned to other entities.</li> <li>• As a result of closing or consolidating these three organizations, a number of civilian employees and contractors will no longer work in the Department.</li> </ul>	<p>Gates briefing: BTA = \$340 million budget and 360 people DW O&amp;M J-Book differs:</p> <ul style="list-style-type: none"> <li>• \$116.6 million FY2010, \$143.4 million FY2011;</li> <li>• 255 civilian + 7 military FY2010; 283 civilian + 7 military FY2011</li> </ul> <p>Gates briefing: JFCOM = \$240 million budget; 2,800 military and civilian personnel; 3,000 contractors JFCOM fact sheet differs on budget, close on personnel and contractors</p> <ul style="list-style-type: none"> <li>• \$703 million budget</li> <li>• 1,491 military personnel</li> <li>• 1,533 civilian</li> <li>• 3,300 contractor</li> <li>• 6,324 total</li> </ul> <p>(<a href="http://www.jfcom.mil/about/economic.htm">http://www.jfcom.mil/about/economic.htm</a>)</p>
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