

Slide 1 Introduction

DON Business Plan for NWCF Organization – Today and Tomorrow

Office of the Assistant Secretary of the Navy (Financial Management and Comptroller)

Presenter:

Mr. Robert Panek,
Associate Director, Office of Budget
Office of the Assistant Secretary of the Navy
(Financial Management & Comptroller)

Date: February 21, 2001

Slide 2 Outline

- Budgetary Outlook
- Net Operating Results
- Cash Levels
- NWCF IWARS Conclusions
- Long Term Rates
- Compliance with Policy
- Summary

Slide 3 Budgetary Outlook

- Major NWCF customer appropriations constrained (flat or reduced) FY 2002-out
- No significant increase expected with Amended FY 2002 Budget
- NWCF costs must be controlled
- Strategic Sourcing savings critical to success

Slide 4 Net Operating Results (NOR)

Recent NOR performance against plan has generally been good.

	Actual Cost	NOR-Plan	NOR-Actual	Variance
Total NWCF	(\$ Millions)	(\$ Millions)	(\$ Millions)	(\$ Millions)
FY 1997	20,625.2	-385.0	-334.2	50.8
FY 1998	20,667.1	262.3	304.9	42.6
FY 1999	19,982.4	-56.2	-175.6	-119.4
FY 2000	20,735.1	-164.2	-126.5	37.7

Speaker Notes:

- FY 1997 NOR Plan & Actual #'s reflect programmed return of Prior Year Supply gains and expected heavy losses at Ordnance activities – Ordnance activities re-organized to cope with reduced/revised workload and later transferred to mission funding.
- FY 1998 NOR Plan & Actual #'s reflect programmed gains at Ordnance and Shipyards to recoup PY losses
- FY 1999 NOR Actual # is primarily a result of unanticipated Supply losses from transportation and material escalation costs
- FY 1999 Actual Cost is below average because of reduced workload at Shipyards, reorganization/downsizing of Ordnance and reduced Supply obligations in both wholesale & retail areas reflecting both reduced demand and continuing efficiency efforts
- FY 2000 NOR Plan & Actual #'s include residual Supply losses due to transportation and material escalation costs

Slide 5 NWCF Cash Plan FY 2001 - FY 2002

- FY 2000 ending cash balance: \$1,474M
- Current budget assumes transfer of approximately \$250M in FY 2001
- \$400M also to be returned to customers in FY 2002 via lower Supply rates

Speaker Notes:

- End of Fiscal Year (EOFY) 2000 cash position finished \$809M ahead of the adjusted FY 2001 President's Budget cash forecast.
- Supply Management Navy was the largest contributor to the positive cash position due to unanticipated sales growth in FY 2000, including additional funds received by the Department for the Kosovo Supplemental.
- Several R&D activities also posted cash gains due to unanticipated year end work.
- DoN to apply an additional \$250M to be used as an FY 2001 reprogramming offset to address critical readiness requirements.
- In addition, DoN will draw down cash balance closer to desired range in FY 2002 by reducing FY 2002 customer rates (\$400M).

Slide 6 NWCF IWARS Conclusions

- NWCF is significant resource area not receiving OPNAV review during PPBS programming phase. Formal review of NWCF issues (large cost base changes, infrastructure initiatives and major workload changes) during POM Cycle is likely. Should help avoid “surprises” to fix during DoN Budget Reviews.
- Appropriated funding is potential option for some NWCF activities

Speaker Notes:

IWARS (Integrated Warfare Architecture Study) Study of NWCF dated Jan 2001 (N814)

Slide 7 OSD Cash Plan FY 2001 - FY 2002

	Oct01	Nov01	Dec01	Jan01	Feb01	Mar01	Apr01	May01	Jun01	Jul01	Aug01	Sep01
Actuals	1349	1237	1167									
Pres Bud Plan w/ Payday Shift	665											
OSD Plan	1194	1151	1178	1105	1235	933	1042	1123	1242	1356	1300	1280
7 Days Cash	701	701	701	701	701	701	701	701	701	701	701	701
10 Days Cash	930	930	930	930	930	930	930	930	930	930	930	930
Advance Billing Balance	12	11	11									
	Oct02	Nov02	Dec02	Jan02	Feb02	Mar02	Apr02	May02	Jun02	Jul02	Aug02	Sep02
Actuals												
Pres Bud Plan w/ Payday Shift												
OSD Plan	1138	1075	1063	1005	1108	1037	1084	1109	1098	1110	925	925
7 Days Cash	701	701	701	701	701	701	701	701	701	701	701	701
10 Days Cash	930	930	930	930	930	930	930	930	930	930	930	930
Advance Billing Balance												

Speaker Notes:

- Current cash position as of January 2001 is \$1.09B.
- The desired 7 to 10 day cash level is ~\$700M to 930M.
- The FY 01 End cash projection is ~1.5B (if no transfers out)

Slide 8 Long Term Rate-Setting Concerns

With FY 01 Budget, FMB began calculating “notional” NWCF outyear rates

- Composite rate calculations based on primary cost factors of labor and non-labor
- Specific savings initiatives also reflected (i.e. Strategic Sourcing)
- Allows for better allocation of outyear resources to NWCF customers than using general inflation index
- Forms rough baseline for comparison when conducting 1st review of budget year

Slide 9 Policy Compliance

- Carryover Concern: Need to monitor carryover, particularly in light of current Congressional and GAO scrutiny. A brief review indicated many O&MN project orders and RD TEN work requests were initiated late in FY 2000 for which very little work was completed prior to the end of the fiscal year
- Use of Project Orders : Need to review use of project orders to ensure they are being appropriately used for certain, definite and specific efforts; fixed price agreements must be accurate
- Work performed must be part of the activity's mission, authorized and funded. If not, this creates NWCF losses and results in disputes over who pays for cost overruns

Slide 10 Summary

- Given tight budgetary climate, good NWCF financial performance must continue – large cost increases not affordable
- Initiatives like Strategic Sourcing and ERP are key to success
- NWCF activities must ensure compliance with financial policy guidelines