

Can Gates Get It Done? His Role Key to Success of Cuts, Experts Say

BY TOM SPOTH | AUGUST 16, 2010

Defense Secretary Robert Gates last week outlined steps to pare down contract spending. Now comes the hard part: getting it done.

Experts say Gates will have to carefully maneuver through political opposition, industry pushback and practical realities to reach his ambitious goals.

On his chopping block:

- A 10 percent across-the-board cut in contracted services support spending for each of the next three years.
- A 10 percent cut in intelligence advisory and assistance contracts.
- A 25 percent cut in funding for advisory studies.
- The closure of Norfolk, Va.-based Joint Forces Command, the Office of the Assistant Secretary of Defense for Networks and Information Integration, and the Business Transformation Agency, all of which are heavily staffed by contractors.
- A three-year staffing freeze at defense agencies, combatant commands and the Office of the Secretary of Defense (OSD) — all of which are criticized as too contractor-heavy.

Most experts interviewed by Federal Times say Gates can prevail if he stays on the job long enough to see it through. Gates, they say, has the political clout and the strength of conviction to cut programs and even entire organizations, an ability he demonstrated last year when he prevailed in the fight to shut down the F-22 Raptor program.

Potential roadblocks include: opposition from legislators and industry; the logistical problem of ensuring that smaller Pentagon organizations execute cost-cutting strategies; apparent problems with Gates' effort to move contractor positions in-house; and the secretary's willingness to stay on the job long enough to see his plan through.

Experts interviewed by Federal Times say Gates' plans to shutter JFCOM, which has more than 3,000 contractor employees, and to make across-the-board cuts in contract spending will be the hardest to pull off. Virginia lawmakers were quick to line up in opposition to his plan to shut down JFCOM. Virginia Democratic Sen. Mark Warner said he sees "no rational basis for dismantling JFCOM," while Northern Virginia Technology Council president Bobbie Kilberg said that "the perceived cost savings offered thus far are unconvincing" and that Gates is "arbitrarily reducing the size of the government's federal contracting work force."

Virginia received \$35 billion in defense contracts in fiscal 2008 that accounted for more than 530,000 jobs, according to the council's press release.

"Congress has still not appropriated funds for the next fiscal year. ... They could say no funds are available for you to transfer work out of Norfolk," said Alan Chvotkin, executive vice president of the Professional Services Council industry group.

WHAT IS A 10 PERCENT CUT, ANYWAY?

Cuts to service contracts will also require congressional approval and may be difficult to achieve, said Lou Crenshaw, former deputy chief of naval operations for resources, requirements and assessments. Service contracts account for roughly half of the Pentagon's \$400 billion procurement budget.

"It's difficult for me to figure out exactly how they execute this," said Crenshaw, executive director of the Grant Thornton consulting firm's federal sector. "There's still a lot of uncertainty about who and where these contractors are, and from which appropriations they're being paid."

A January Government Accountability Office report said the Army, Navy and Air Force all used different methodologies to add up their spending on service contracts and total number of contractor employees. For instance, the Air Force excluded research-and-development contracts, reducing the total spending reported by about \$13 billion; the Navy excluded \$1.8 billion in contract actions worth less than \$100,000, and omitted another \$4 billion in contracts because of an error made when manually compiling its inventory.

"Given the fact that folks have used different methodologies, you have to exercise caution if you want to use them as a base for decisions," John Hutton, GAO's director of acquisition and sourcing management, told Federal Times.

Crenshaw said it will be difficult to get the Pentagon's various departments and organizations on the same page. During his time in the Navy, when he ordered cuts in service support contracts, department heads "would take cuts in all kinds of different ways," he said. Some would reduce employees' hours, some would buy smaller quantities of products, and others would cut spending in other areas such as utility bills instead of actually cutting contracts.

THE END OF INSOURCING?

Underscoring the challenges with implementation, a key Pentagon initiative announced last year to cut 33,000 contractor positions at the Defense Department and replace many of them with civilian workers has already run into trouble.

Industry groups have blasted the insourcing measure as being driven by arbitrary quotas and done without rigorous cost analysis. Gates acknowledged Aug. 9 that "we weren't seeing the savings we had hoped from insourcing."

He also said that contractor jobs cut at OSD, the Defense agencies and the combatant commands would not be replaced with full-time government employees, except in critical areas such as acquisition.

"What we've learned over the past year is you really don't get at contractors by cutting people. ... The only way, we've decided, that you get at the contractor base is to cut the dollars," Gates said.

Some viewed Gates' comments as an outright repudiation of insourcing, and media reports declared that the Pentagon had "abandoned" or "canceled" the initiative.

"It looks to me like this insourcing rage has died out," Crenshaw told Federal Times.

But Chvotkin said that in his view, Gates had only "backed away a little bit on the insourcing initiative."

In an interview conducted after Gates made his comments, Thomas Hessel, a senior manpower analyst in OSD's Office of Personnel and Readiness, said insourcing is not dead, but its fate may be determined by the recommendations of a task force Gates is creating to develop action plans for his cost-cutting measures.

When it comes to insourcing, Hessel said, "we have not been focused on cost savings — that is not the primary goal of our initiative." He called insourcing "highly successful" and said about 16,000 new civilian jobs had been created within the Defense Department as of June 30. More than half of the positions were converted because they were inherently governmental, closely associated with an inherently governmental function or "exempt from private-sector performance" for other reasons, he said.

The American Federation of Government Employees said it would seek clarification from the Pentagon on whether it's changing course on insourcing. "The department's budget is in critical condition because of decades of excessive privatization," AFGE National President John Gage said in a statement. "Surely, we should not give up on the promising but short-lived insourcing effort after just one year."

MANY SUPPORT GATES' CUTS

While the insourcing issue and other obstacles await Gates as he tries to cut spending, he appears to enjoy widespread approval for his proposals.

"There are people worried about it, people concerned about their jobs, but I think there's pretty universal acceptance that ... this is the right thing to do," said Charles Wald, a retired Air Force general and a senior adviser at Deloitte.

Crenshaw agreed, saying Gates has "got the political capital, the support of the White House, the support of [Joint Chiefs Chairman Adm. Mike Mullen]."

Chvotkin said PSC is instructing its member companies to prepare for actual cuts.

The big question is whether Gates has the staying power to make his vision a reality. Experts interviewed by Federal Times agreed that without Gates' leadership, the plan will probably fall apart.

"The only way to pull it off is if he stays," Crenshaw said, predicting that it will take Gates another three years to do everything he proposed last week. If Gates stayed on through August 2013, he'd be just five months shy of becoming the longest-serving defense secretary in history.

When asked on Aug. 9 whether he could, in fact, pull it off, Gates pointed out that he's done it before.

"In April of 2009, most people were deeply skeptical that I would be successful in getting the Congress to go along with a number of the program cancellations and changes that we made," Gates said. "And yet, we were successful."

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