

DOD

Planning, Programming, Budgeting, and Execution System

A PATH TOWARD IMPROVEMENT

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Sailors from Riverine Squadron 1 patrol Euphrates River

U.S. Navy (Kevin S. O'Brien)



In the 1960s, the Department of Defense (DOD) introduced a new planning, programming, and budgeting system, and with only minimal changes over the years (it was recently renamed the Planning, Programming, Budgeting, and Execution System [PPBES]), it has been in use ever since. The question now is whether the system is robust enough to handle the enormity of the challenges facing the Obama administration.

The objective of PPBES is to link DOD strategic goals to the programmatic requirements needed to carry out the Nation's military missions. Strategy-based planning guidance is issued to shape the work of the Services and defense agencies in developing programs, described in the Program Objective Memoranda (POMs). Following an Office of the Secretary of Defense (OSD)-led review and, in many cases, adjustments to the POMs, the programs are resubmitted as budget estimates and aggregated to form the overall DOD budget. Despite the challenges involved in making this system work, many studies have concluded that PPBES serves DOD and the Nation well.

The need for DOD to acquire the capabilities to achieve the National Defense Strategy, however, has never been greater. Current and potential contingency operations demand forces with the versatility and agility to adapt rapidly to increasingly fluid operational environments. Developing, equipping, and sustaining these forces demand an equally dynamic planning, programming, and budgeting process that effectively responds to emerging warfighting needs across a broad spectrum of missions. Yet this system must simultaneously address growing fiscal constraints, exacerbated by the massive costs associated with the Nation's ongoing financial crisis. Sustaining military capabilities in this environment will require assessment of risk, resource tradeoffs, and divestiture of programs that are duplicative, underperforming, or less critical to the overall defense effort.

Future success requires difficult decisions in the near term—choices that will undoubtedly meet resistance from various quarters of DOD, making clear and consistent leadership of the investment planning and decisionmaking processes more critical than

ever. In a May 15, 2008, article, Loren Thompson of the Lexington Institute projected that the DOD top line, not including supplemental appropriations to fund ongoing combat operations in Iraq and Afghanistan, would end up at \$500 billion to \$550 billion for the opening years of the new President's term, down considerably from the roughly \$700 billion total annual defense expenditures for 2008 (which included both the annual DOD budget for fiscal year 2008 and the supplemental appropriations for Operations *Enduring Freedom* and *Iraqi Freedom*). Although some costs associated with the two ongoing wars are reportedly being moved into the annual DOD budget, as long as thousands of U.S. troops are serving in Afghanistan and Iraq, annual supplemental appropriations will almost certainly remain in effect. At the same time, the Government will be scrambling to identify sources of funding to offset the massive costs of addressing the Nation's financial crisis.

While PPBES is designed to meet these challenges, it will clearly need a stronger governance model and some procedural adjustments to address the range of issues and tradeoff decisions awaiting the Obama administration.

Recent PPBES Changes

Early in his tenure as Secretary of Defense, Donald Rumsfeld sought to improve the responsiveness of the DOD planning, programming, and budgeting processes. The new Pentagon leaders did not think that strategic planning, identification of required capabilities, systems acquisition, and budget development were adequately integrated into a comprehensive, resource-constrained decisionmaking process. Several significant reforms were instituted, and changes continue to be incorporated into PPBES in an attempt to improve this integration.

Significant among the changes was the May 2003 implementation of a 2-year PPBES (see figure). This change was intended to reduce the workload associated with annual POM analysis, program development, and subsequent review while permitting an "off-year" to focus on budget execution and program performance. During off-years, Service and agency activities would focus on "fact-of-life" and other necessary changes to the previously approved "on-year" program.

The biennial cycle, while fine in theory, has not fared so well in practice. Annual congressional appropriation changes; large

increases in fuel, health care, and manpower costs; and significant cost growth in several major acquisition programs have essentially driven the system back to an annual program submission. In the most recent off-year cycle, well over 300 change proposals from the previous year's budget were submitted from the Services, combatant commands, Joint Staff, and OSD. The resulting workload, contention about what constitutes a fact-of-life change, and inattention to program performance have diluted the intended objectives of this reform. Change takes time, and this has been a lengthy adaptation process, but as long as Congress maintains an annual cycle, DOD's moving to a rigid biennial process does not seem practical. The development of an investment strategy and broad guidance on a 2-year cycle may make sense, but the Obama administration should consider returning the program and budget process to an annual cycle.

In assessing the current landscape, it may be useful to review other recent changes made to the PPBES as applied in three distinct, roughly sequential phases of the process: planning and programming, program and budget review (including associated decision-making mechanisms), and budget execution.

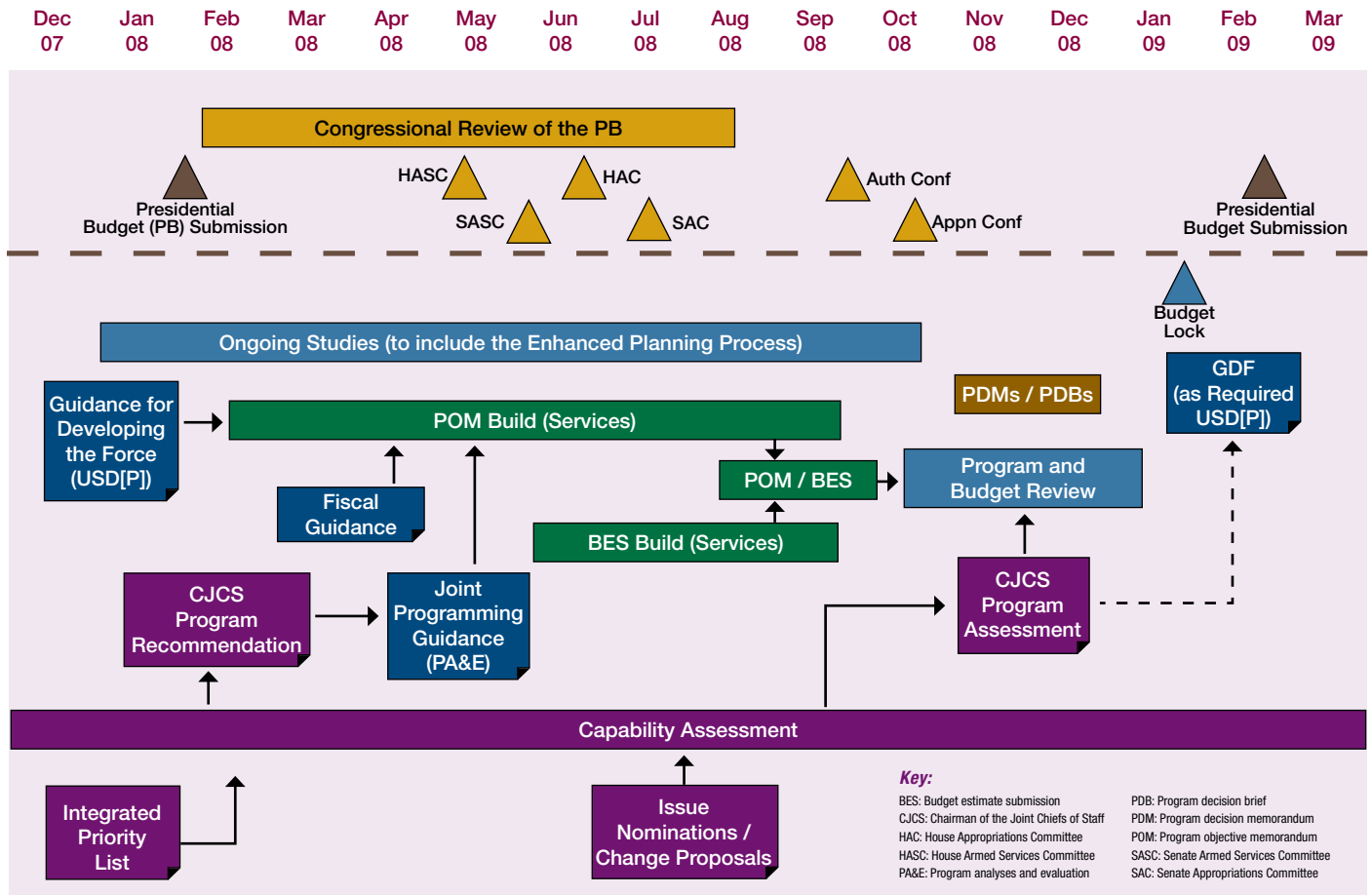
Planning and Programming

As depicted in the figure, the PPBES process never ends, with each new cycle of analysis, studies, and capability and risk assessments both supporting the previously submitted program and guiding development of the next annual budget submission. In theory, the biennial process begins with guidance issued to the Services and agencies, which then use this guidance to prepare their respective POMs, their comprehensive prioritizations of funding intentions for the President's next budget submission. Although the titles and precise composition of these key PPBES guidance documents have changed over the years, this guidance is currently provided by the Guidance for Development of the Force (GDF),¹ prepared by the Under Secretary of Defense for Policy (USD[P]) and the Joint Programming Guidance (JPG), prepared by the Office of the Director for Program Analysis and Evaluation (OD[PA&E]). Reviews of the usefulness of these documents are mixed.

The GDF establishes "fiscally informed" capability development priorities and provides risk guidance to inform investment planning. This, in combination with additional analysis prescribed in the GDF, should inform

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PPBES Landscape Overview



the JPG, which is intended to guide selected portions of Service and defense agency POM development. Although originally envisioned to align investments with strategy and to allow resourcing of rising manpower and operations costs, the GDF has become, according to some, a wish list of programs and priorities for every constituency.

The JPG, also a relatively new document,² is intended to translate the strategy and capability priorities of the GDF into program-specific guidance that is fiscally constrained. In practice, however, the guidance provided in the JPG has been limited to a small number of selected programs whose aggregate funding has totaled only a few billion dollars out of a budget of more than \$500 billion. Moreover, the JPG has been issued after the majority of Service/agency POM development efforts are complete and, at most, has resulted in modest adjustment and rebalancing of a few program priorities late in the POM development process.

As the employers of the systems, personnel, and hardware procured and

sustained via the PPBES, the combatant commanders have an important near-term analytic and operational perspective on how effectively PPBES addresses their warfighting needs. The employment priorities of the combatant commanders are described, in part, by the new Guidance for Employment of the Force (GEF). The GEF, whose content is linked to the National Defense Strategy, provides these commanders with the framework to develop campaign and operational plans from which near-term capability gaps can be identified. The commanders' recommendations to address these capability gaps are set forth in annual Integrated Priority List submissions to the Services and Joint Staff and via their inputs to the Chairman of the Joint Chiefs of Staff Program Recommendation, both of which are intended to inform the GDF and JPG.

The products of the planning and programming phase are Service and agency POMs, crafted to meet fiscal and all other guidance. However, they are often criticized for not only failing to comply with various

guidance documents and combatant commander requests but also improperly accounting for cost, schedule, and technology risks in their investment programs. They are also cited for underestimating industrial base issues, missing economic order opportunities, and focusing more on near-term procurement than on life-cycle costs. This lack of long-term focus is exacerbated by a troubling reluctance to realistically forecast expected manpower as well as operations and maintenance costs in future budgets, called Future Year Defense Plan (FYDP) projections. In the aggregate, these behaviors lead DOD to routinely *overprogram*, a term often used to acknowledge that there is more cost in the programmed force than the actual budget can realistically accommodate in the out years of the FYDP.

It is highly unlikely that either the GDF or JPG, as currently formulated and issued, will support making hard programmatic choices or correct the systemic problems noted above. Consequently, these decisions must traditionally be addressed at the end



F-15E Strike Eagle launches infrared decoys during close air support mission over Afghanistan

U.S. Air Force (Aaron Altmont)

of the PPBES cycle at the same time when “must-pay” bills associated with manpower, fuel, and other elements also come due and Service and agency budgets must be balanced. This failure of the PPBES governance process directly contributes to program instability and poor acquisition habits.

As a first step to streamline and reinvigorate this phase of the PPBE system, the Obama administration might look at steps to enhance coordination between OUSD(P) and OD(PA&E) in drafting the GDF or, more radically, transferring the responsibility for drafting the GDF from Policy to PA&E. Given that the JPG has evolved into a document with limited scope and its issuance has occurred late in the POM development process, the new team in DOD should seriously consider radically recasting this document or dropping it altogether.

Program and Budget Review

Prior to 2001, the reviews of Service and agency POMs (“programs”) and their budget submissions were done sequentially by different elements of OSD, with OD(PA&E) overseeing the program review and the Under Secretary of Defense (Comptroller)—the USD(C)—overseeing the subsequent budget review. Several changes to this review process were imple-

mented by the Bush administration, with varying degrees of success.

Concurrent Program and Budget

Review. In August 2001, Secretary Rumsfeld directed DOD to conduct concurrent programming and budget reviews, a change meant to shorten the PPBES cycle, drive consensus among key players in the process, and allow strategic investment decisions regarding the programs to be made alongside traditional budget compliance and fiscal balancing decisions.

In a related and follow-on DOD directive, the responsibilities and reporting relationships of OD(PA&E) were changed, making that office report directly to the Secretary of Defense rather than keeping it under USD(C). The result was a serious weakening in the link between the offices of USD(C) and OD(PA&E)—with unintended consequences. Although much individual effort goes into deconflicting the reviews conducted by these offices, the resulting Program Decision Memoranda, produced by OD(PA&E), and the Program and Budget Decisions, which are developed by OUSD(C) and document key decisions made in the program and budget review processes respectively, have occasionally been uncoordinated and at odds. This highlights the broader issue that there is currently no

single office responsible for the functioning of the entire PPBES process.

Because this combined program/budget review reform has apparently not met expectations and has required repeated personal interventions at senior levels, the Obama administration should consider returning to a modified sequential process, consisting of a roughly 2-month program review followed by a shortened, 6-week budget review intended to allow USD(C) sufficient time to ensure the financial integrity of the DOD budget, but not to provide a forum for addressing program content. Furthermore, it would appear prudent to once again place OD(PA&E) within the Office of the USD(C), which should assist in harmonizing guidance and producing a more coordinated approach to the program and budget reviews processes.

Capability Portfolio Management (CPM). CPM is the latest effort to grapple with competing Service and agency priorities in carrying out capability development. It establishes capability portfolio managers to assess and recommend changes to optimize a wide range of activities associated with broad capability areas. These managers have the opportunity to impact capability development by being proponents for their capability areas, primarily through advocacy of key programs in their portfolios during

program and budget review and in the defense acquisition process.

This portfolio management effort began with the issuance of a charter in 2003 designating U.S. Joint Forces Command as the lead for the Joint Battle Management and Command and Control mission/capability area requirements. It was reinforced by the emphasis placed on CPM in the 2006 Quadrennial Defense Review (QDR), which led to the creation of four capability portfolio pilot projects centered on Command and Control, Battlespace Awareness, Net-centric Operations, and Logistics. At the beginning of 2008, additional portfolio management pilots were established for Force Application, Protection, Building Partner Capacity, Operational Support, and Corporate Support, thus providing portfolio managers for all nine Tier 1 Joint Capability Areas.

The original four CPM pilots were focused on capability areas marked by significant joint interdependence. Portfolio managers were seen as advocates for the joint “wholeness” within their capability areas, in contrast to Service programmers, whose horizons were perceived as limited by the programs of their respective Services alone. It is hard to argue with the idea of employing some form of capability portfolio management in DOD, whose investments should be managed in terms of the development and sustainment of sets of critical joint capabilities to maximize efficiency in resource allocation.

Nevertheless, there are a number of limitations to the current CPM approach. First, Service programs are often highly interdependent, and optimizing one capability area can have significant impacts on other capability areas and capability development efforts, as well as on acquisition process efficiency. Additionally, many programs, such as those supporting multimission platforms, do not lend themselves to a simple portfolio categorization, a problem that will emerge more clearly as portfolio management efforts are expanded into areas such as Force Application or Protection—each of which contains numerous Major Defense Acquisition Programs and multimission platforms.

Rather than attempting to force the entire defense budget into prescribed joint capability portfolios on a line item basis, the main objective of this reform could be accomplished by conducting detailed portfolio reviews in a small number of critical joint capability areas as part of the recurring annual PA&E program review, in which all

stakeholders already participate. Identification of the selected critical capability areas to be addressed in a given PPBES cycle would be provided in the GDF at the outset of that cycle.

Executive Decisionmaking/Program and Budget Review Adjudication. Major budget issues that surfaced during the program review used to be resolved in a senior DOD leadership forum called the Defense Resources Board. In the Rumsfeld era, this gave way to the Senior Leadership Review Group and, more recently, the Deputy’s Advisory Working Group (DAWG), an element carried over from the conduct and oversight of the 2006 QDR. The DAWG was formally established by a Deputy Secretary of Defense directive in spring 2006.

As portfolio managers begin assessing selected portions of their portfolios during PPBES cycles under the oversight of the DAWG, traditional Service and agency roles will be affected. The DAWG needs to continue to play a key role in the OD(PA&E)-led program review process, most likely as a forum for the senior-level discussion of key issues prior to release of the POMs. The DAWG could also continue to serve as a decision forum outside the PPBES process.

Budget Execution

In May 2003, the longstanding PPBES was expanded to include the *E* in *PPBES*, thus signifying the addition of a new phase devoted to assessing program and budget execution. As originally envisioned, a robust budget execution review would be conducted during the off-years of the biennial cycle to evaluate if the intent of the budget and defense strategy was being achieved, both in the spend plan and in program performance against the posited objective. However, for a number of reasons, including the time-consuming pressures of ongoing operations and the near-continuous process of seeking and administering supplemental appropriations, the intent of this reform has never been achieved. Measurement of budget and program performance has been a longstanding goal of the Office of Management and Budget. DOD and the Obama administration should devote renewed focus to this area.

Future PPBES cycles will be influenced by a number of trends now clearly evident: managing the costs of ongoing conflicts in Iraq and Afghanistan; accommodating new missions such as enhanced capabilities for irregular warfare, which includes counterinsurgency and counterterrorism operations;

maritime domain awareness; increasing cooperative engagement in Africa, Latin America, and Asia; rapidly fielding new technology; managing costs that outpace inflation (fuel, manpower, and health care); resetting the force; and addressing instability in large procurement accounts—all within the context of a DOD budgetary top line that will be under severe pressure. The adjustments suggested in this article are intended to make the process more streamlined and efficient, protect stakeholder equities, and help ensure the best possible DOD budget.

Although the Deputy Secretary of Defense is clearly the focal point for ensuring PPBES delivers needed capability to the warfighter and the Nation, it is equally clear that he needs an executive agent, or a first among equals, to keep PPBES moving on schedule, deconflicting guidance, enforcing decisions, and ensuring decision milestones are met. Since USD(C), as chief DOD financial officer, has overall fiduciary responsibility for the budget, this office is the logical choice to oversee and manage the PPBES cycle for the Deputy Secretary, with other OSD offices (such as Policy and PA&E) leading specific phases. As in many commercial enterprises, a strong chief financial officer is a prerequisite to effective management of investment planning and execution. **JFQ**

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NOTES

¹ The GDF replaced the Strategic Planning Guidance, which, in turn, replaced the Defense Planning Guidance.

² In March 2003, the Secretary of Defense chartered the *Joint Defense Capabilities Study* to “examine how DoD develops, resources, and provides joint capabilities.” The Honorable Pete Aldridge, former Under Secretary of Defense for Acquisition, Technology, and Logistics, was selected to lead the study. The team was tasked to “examine and improve DoD processes for determining needs, creating solutions, making decisions, and providing capabilities to support joint warfighting needs.” On October 31, 2003, the Secretary of Defense signed a memorandum, “Initiation of a Joint Capabilities Development Process,” that partially implemented the Aldridge study recommendations. Most notably, the Defense Planning Guidance was replaced by the “fiscally informed” SPG (now GDF) and “fiscally constrained” Joint Programming Guidance.