Federal CFO Insights
Cost driven performance metrics

"The need for transparent, defensible budgets is critical to meeting oversight requirements as well as changing mission needs."

In a federal environment where political and socioeconomic factors dramatically affect an agency's ability to meet its mission requirements, the need for transparent, defensible budgets is critical to meeting both oversight requirements as well as changing mission objectives. Due to the sweeping effects of sequestration, which has created pressures to reduce cost while maintaining or even increasing mission effectiveness, the federal expenditure landscape has been further complicated, making CFOs less-equipped to handle the changes without significant support. As a result, making critical decisions regarding where to efficiently spend the next dollar has become increasingly important, as these decisions often have direct and serious impacts on the CFO's ability to drive his or her organization to meet its mission objectives.

Unlike private sector organizations, the challenges for agencies in the federal government come not only from the need to respond effectively to changes outside their control, such as new policy direction or unforeseen changes in their operating environment, but also come from the need to forecast and program their operating and capital investment budget for the upcoming years. In order for CFOs and their organizations to effectively plan their budgets, the organization should be able to trace each line within the budget to its final use and show how these expenditures contribute to the overall mission of the department. Creating a link between dollars spent and mission execution enables the government to achieve a higher level of understanding of where each new dollar should be spent. The ability to trace the budget to expenditures allows the CFO to strengthen the defense of their budgets to oversight bodies during budget programming, as well as to provide valuable information and more effectively assess mission critical resource needs.

"Providing agencies with the cost allocation evidence to show how changes in their budget will increase or decrease mission effectiveness."

In addition to meeting the growing demands for financial transparency, CFOs should organize and effectively execute their resource allocation strategy by focusing their limited budget on those areas that will produce value. To accomplish this, the organization needs to utilize operational and strategic metrics to effectively align its costs to mission execution. As an example, an organization responsible for managing a fleet of aircraft or vehicles might have to first conceptually structure its costs by specific operating areas that affect the organization's mission, then further group the costs under performance metrics, and finally analyze how the cost categories contribute to the organization's mission.

Through already established accounting practices, tracking costs at this lower level and grouping them by functional categories will aid in the development of cost driven performance metrics. Miles driven, hours flown, and percentage of vehicles or aircraft available are examples of sample performance metrics that an organization can use to directly relate to their mission of transportation readiness or air mobility.

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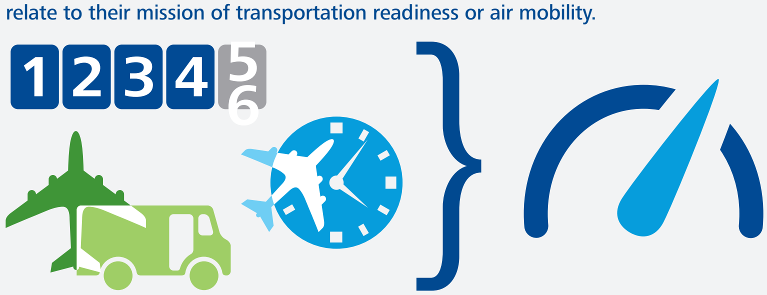

"Alignment of mission metrics to organizational costs allows the CFO to identify what the biggest or most impactful cost drivers of the mission are as well as identify the specific cost categories with significant mission impact to his or her organization."

Having identified the appropriate cost categories and the performance metrics, the CFO is then able to analyze how many mission miles were driven, or the number of mission ready vehicles. Working in reverse, the alignment of mission metrics to organizational costs allows the CFO to identify what the biggest or most impactful cost drivers of the mission are as well as identify the specific cost categories with significant mission impact to his or her organization.

	Mission Operations	Compliance and Risk Mitigation	New Service Development	Agency Support Functions	Total	*Metric*
Maintenance and Logistics	$$$	$	$$	$	$$$$	*Actions Taken*
Communication	$$	$	$$$	$$	$$	*Events Launched*
IT	$$$	$$$	$	$	$$$$	*Tickets Closed*
Personnel	$$$	$	$$$	$$	$$$$$	*Staff Trained*
Total	$$$$$	$$$	$$$$	$$		
Metric	*Miles Driven*	*Number of Reports*	*Capabilities Deployed*	*Actions Taken*		

For example, an aviation organization could determine that even though total landing gear parts number fewer than those in the engine or avionics, due to the abuse suffered by the gears during takeoff and landing, they actually represent 50% of total cost in routine maintenance and make up over 60% of the instances in which an aircraft should be taken out of service. This level of insight not only provides the CFO with financial transparency in where and how the organization is spending money, but it also shows exactly where those costs are driving mission accomplishment.

Many factors that affect federal agencies are outside the CFO's control, yet these factors can still dramatically impact how an organization operates to meet mission objectives. An effective way to respond to changing dynamics is an agency's ability to provide funds transparency to its CFO. This transparency can help explain how his or her organization executes the funds it is given, and how those funds drive its ability to meet its assigned mission. An approach to accomplish this is to organize costs into specific categories that logically align to how the agency manages and operates its assets, link those categories to the specific mission metrics that are used to assess the organization's ability to meet mission circumstances, and then communicate to decision makers not only the areas to spend the next dollar but also what areas will be negatively affected if one more dollar is taken away. Additionally, this establishes a foundational linkage needed to move the agency to the next level of resource allocation: tradeoff analysis. Tradeoff analysis is an effective tool to help an agency understand the impact of each cost on its expected performance and make comparisons to other proposed costs and benefits. This enables an informed prioritization of where to spend the next dollar to achieve desired operational outcomes. When agencies are able to develop this structure of costs aligned to mission results they put themselves in the position to navigate uncertain environmental factors.

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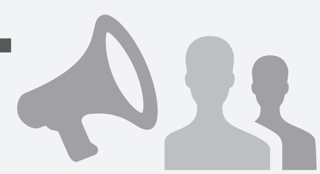

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