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OPNAV INSTRUCTION 5200.38

From: Chief of Naval Operations

Subj: NAVY AFFORDABILITY INITIATIVE PROCESS

Ref: (a) VCNO ltr 5216 Ser N09/10U103015 of 9 Apr 2010 (NOTAL)
(b) VCNO ltr 7120 Ser N41/10U156923 of 13 Oct 2010
(NOTAL)

Encl: (1) OPNAV Affordability Initiative Business Rules
(2) Affordability Initiative Governance Process

1. Purpose. Per reference (a), instruction and direction is provided herein regarding the annual affordability initiative process which evaluates, selects, and prioritizes affordability candidates within the Navy for inclusion in the Navy program objective memorandum (POM) budget submission.

2. Background. Enclosure (1) provides the business rules for the annual affordability initiative process that the Navy engages in upon release of the Deputy Chief of Naval Operations, Integration of Capabilities and Resources (CNO N8) annual warning order (WARNORD). The Deputy Chief of Naval Operations, Fleet Readiness and Logistics (CNO N4) role is to be the total ownership cost (TOC) process owner in the larger scheme of enterprise-wide efficiencies for the Navy. Annual guidance will be issued by CNO N4 to reflect current Navy priorities and Department guidance. Enclosure (2) graphically depicts the process and the supporting governance structure.

3. Applicability. The provisions of this instruction apply to all Navy organizations.

a. For major defense acquisition programs (MDAPs) and major automated information systems (MAISs) prior to full operational capability, CNO N4 fulfills an integration role to ensure the sum of individual program efforts can be assessed in the aggregate. Therefore, during execution, CNO N4 will validate

that milestone decision authority approved cost reduction efforts are reflected in the requisite sponsor program proposal submissions and further will verify cost reduction achievement against projection.

b. For MDAPs and MAISs that have been fielded (i.e., in-service), CNO N4 will identify and prioritize initiatives for reducing the TOC of the Navy's warfighting platforms and systems by driving accountability for those initiatives across the Navy's program. CNO N4 will leverage the Affordability Cross Functional Team (CFT) as defined in reference (b) to manage assessment of projected versus actual benefits, reporting regular status to the Augmented Provider Enterprise Executive Support Group (PE+ ESG) composed of the major systems commands' (SYSCOMs') executive directors and augmented by cognizant resource sponsors.

c. CNO N4 will manage affordability initiatives, all facets of the process from affordability candidate proposal, assessment, and coordination with affected organizations, collecting of budget line item detail for a Program Budget Information System (PBIS) load sheet, gaining of leadership approval, cost reduction performance measurement, and updating leadership. The PE+ ESG will support CNO N4 in fulfilling this responsibility.

d. Within the weapon system, real property and installations, and material supply and service core business missions, CNO N4 is responsible for integrated business process change and coordinated organizational realignment across the Navy enterprise with the intent of moving the Department towards a more efficient, effective and cost-conscious way of doing business. In this role, CNO N4 will integrate and synchronize affordability-aimed initiatives across Navy under the governance of the PE+ ESG.

4. Governance Definitions

a. Affordability CFT. The group's responsibility is to review all draft affordability initiative guidance, socialize this guidance across their organization, and provide feedback to the Affordability CFT.

b. Augmented PE+ ESG. Governing body chaired by Assistant Deputy Chief of Naval Operations, Fleet Readiness and Logistics (OPNAV N4B) and comprised of:

- (1) OPNAV N4B (Chair),
- (2) Deputy Assistant Secretary of the Navy, Expeditionary Warfare and Logistics Management,
- (3) Deputy Assistant Secretary of the Navy, Acquisition and Procurement,
- (4) Commander, United States Fleet Forces Command,
- (5) Commander, U.S. Pacific Fleet,
- (6) Assistant Deputy Chief of Naval Operations, Manpower, Personnel, Education and Training/Chief of Naval Personnel (OPNAV (N1B)),
- (7) Assistant Deputy Chief of Naval Operations, Information Dominance (OPNAV (N2/N6B)),
- (8) Assistant Deputy Chief of Naval Operations, Integration of Capabilities and Resources (OPNAV N8B),
- (9) Executive Director, Naval Air Systems Command,
- (10) Executive Director, Naval Sea Systems Command,
- (11) Executive Director, Commander Navy Installations Command (CNIC),
- (12) Executive Director, Space and Naval Warfare Systems Command,
- (13) Executive Director, Naval Facilities Engineering Command,
- (14) Executive Director, Naval Supply Systems Command,
- (15) Executive Director, Office of Naval Research (ONR),

(16) Director, Total Force Programming and Manpower and Information Resources Management (OPNAV (N12)),

(17) Deputy Director, Resources and Requirements Review Board (OPNAV N80B),

(18) Deputy Director, Warfare Integration (OPNAV N8FB),

(19) Deputy Director, Fiscal Management (OPNAV N82B),
and

(20) Chief of Staff, Navy Enterprise (OPNAV N09X).

c. Provider. Comprised of all Navy SYSCOMs, including affiliated program executive offices, CNIC, and ONR.

d. Provider Executive Committee (ExCom). Makes top-level enterprise decisions; organization membership is the same as the PE+ ESG, and the group is co-chaired by the Vice Chief of Naval Operations (VCNO) and the Assistant Secretary of the Navy for Research, Development and Acquisition (ASN(RD&A)). The group works to remove barriers that require Chief of Naval Operations (CNO) and Secretary of the Navy (SECNAV) assistance and authority, as well as identify ExCom priority topics for discussion, deliberation and decision. The decisions made at the Provider ExCom communicate enterprise priorities, objectives, progress and achievements.

5. Process Definitions

a. Affordability Candidates. Affordability candidates are cross-cutting proposals to optimize in-service weapons system life cycle management, material supply and service management, and real property and installations life cycle management. The providers, the fleet, and the Navy staff will submit, review, and finalize affordability candidates for the POM build through the business rules in enclosure (1).

b. Affordability Initiatives. Affordability initiatives are affordability candidates that have been approved for investment by the VCNO and ASN(RD&A) through the Provider ExCom. Affordability initiatives will be monitored and tracked to ensure proposed funding data is realized.

c. Affordability Initiative Process. A continuous Navywide process to identify, prioritize, track, and report on initiatives that reduce the TOC of the Navy's warfighting platforms, capabilities, and business operations.

d. Affordability Repository. The affordability repository includes all affordability candidates not selected to present to the VCNO and ASN(RD&A) at the Provider ExCom for investment funding. Affordability candidates subsequently determined to be non-viable will be removed from the repository. The affordability repository will be managed and monitored by CNO N4.

e. Authoritative Data Source. The official source for measuring efficiencies gained through the implementation of an affordability initiative.

f. Constant Year (CY) Dollars. A measure of the value of purchased goods and services at price levels that are the same as the base or reference year. CY dollars do not reflect adjustments for inflationary changes that have occurred or are forecast to occur outside the base year.

g. Cost Avoidance. Cost-avoidance savings are benefits from actions that obviate the requirements for an increase in future levels of manpower or costs that would be necessary if present management practices were continued. The effect of cost-avoidance savings is the achievement of a given level of readiness (meaning more capacity, more throughput) at less staffing cost or the reduction of unit costs that results in the absorption of a growing workload (serving to reduce workload backlog) at the same level of staffing or cost. Affordability candidates that result in cost avoidance will not be considered in the affordability initiative process.

h. Cost Savings. A reduction in the Navy's total obligation authority, wherein funds are removed from a budget line item as a result of improving a process or function thereby reducing CNO cost to own and operate the Navy.

i. Document Package. Documents derived from annual affordability initiative guidance which are required for each affordability candidate submitted. A document package is submitted by the initiative originator, and shall be staffed

with all affected budget submitting offices (BSOs) prior to submission. The specific contents of the document package will be established as part of the annual guidance for this process.

j. Return on Investment (ROI). The total net cost savings of an initiative divided by the total investment required.

k. Then Year (TY) Dollars. The dollar figures in the budget actually associated with the stated date (past, present, and projected). When a price or cost is stated in TY dollars, it contains all inflationary increases expected to occur over the duration of the investment or savings.

l. Total Ownership Cost (TOC). The sum of four major cost categories where each category is associated with sequential, but overlapping phases of a system life cycle. TOC consists of: (1) research and development costs associated with the material solution analysis phase, technology development phase, and the engineering and manufacturing development phase; (2) investment costs associated with the production and deployment phase; (3) operations and support costs associated with the sustainment phase; and (4) disposal costs occurring after initiation of system phase-out or retirement, and possibly including demilitarization, detoxification, or long-term waste storage.

6. Roles and Responsibilities. Roles, responsibilities, and interfaces amongst participating parties and stakeholders are provided in enclosure (1).

7. Records Management. Records created as a result of this instruction, regardless of media and format, shall be managed per SECNAV Manual 5210.1 of November 2007.



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Naval Affordability Initiatives Process

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Step 1
Issue Affordability Initiative Guidance

(CNO N4 led step, unless otherwise noted)

1.0.1 Outputs

a. Affordability initiative guidance, supported by a standing OPNAV instruction, will be issued via CNO N4 policy guidance.

b. Affordability candidate document package, derived from annual affordability initiative guidance.

Affordability initiative guidance for the POM build will be included in the CNO N8 annual program WARNORD.

1.0.2 Roles and Responsibilities

a. CNO N4 - As the Navy's TOC process owner CNO N4 will lead development of the annual affordability initiative guidance and the supporting process.

b. Affordability CFT - Review all draft affordability initiative guidance, socialize this guidance across their organization; provide feedback to the Affordability CFT.

c. Augmented PE+ ESG - Review and provide feedback on draft affordability initiative guidance.

1.1 Review Priorities

a. Review leadership priorities.

b. Recommend affordability initiative policy and process changes for POM in support of leadership priorities.

c. Review affordability initiative guidance recommendations with VCNO and ASN(RD&A) and provider enterprise leadership.

d. Define the criteria for mature affordability initiative designation.

1.2 Draft Affordability Initiative Guidance

- a. Develop draft for CNO N4 affordability initiatives policy guidance.
- b. Review draft guidance with Affordability CFT and PE+ ESG.

1.3 Issue Affordability Initiative Investment Guidance

- a. Issue affordability initiative guidance.
- b. Update OPNAVINST 5200.38 as required.

Step 2
Capture Affordability Candidates

(Initiative originator led step, unless otherwise noted)

2.0.1 Outputs. Completed affordability candidate document package(s) that was or were staffed through all affected BSO(s) for each submitted affordability candidate.

2.0.2 Roles and Responsibilities

a. CNO N4 - Coordinate with affordability candidate originators to understand the nature of the affordability candidate and how the investment and savings streams were developed; receive submitted affordability candidates from initiative originators.

b. Initiative Originators - Review affordability candidates submitted in the prior year, but not accepted and determine if candidate will be resubmitted; submit mature affordability candidates (with completed document package) for consideration.

c. Affordability CFT Members - Serve as liaison for affordability candidates originating from their respective commands; understand the relative maturity of each candidate and which BSO(s) are affected (both investment and savings).

2.1 Identify Affordability Candidates

a. Identify affordability candidates for consideration. Ensure affordability candidates meet the criteria of a mature affordability initiative as defined in annual guidance (see step 1.1).

b. All affordability candidates considered must have a defined algorithm and or calculation for determining cost savings, a recognized authoritative data source, specific data elements used to track efficiencies, be fully staffed and understood by all impacted BSO(s) and enjoy supporting command's strong advocacy. For purposes of these business rules, the supporting command is the command where the savings will accrue.

c. Complete affordability candidate document package for each new affordability candidate. The document package will be refreshed annually as part of the affordability initiative guidance.

d. Review affordability candidates submitted in the prior year, but not accepted and determine whether candidate will be resubmitted. Documents submitted in prior years for affordability candidates must be updated and staffed with all impacted BSO(s) prior to resubmission.

e. Although BSO(s) concurrence is not required, the BSO(s) considerations should be addressed and documented for use by the Affordability CFT in making recommendations to the PE+ ESG.

2.2 Submit Affordability Candidates

a. Submit document package for each affordability candidate to CNO N4 for funding consideration.

b. Candidates can be submitted to CNO N4 at any time, but candidates will be solicited as part of the formal POM process timeline.

Step 3
Prioritize Affordability Candidates

(Affordability CFT led step, unless otherwise noted)

3.0.1 Outputs

a. A prioritized set of affordability candidates vetted through a standard screening process using leadership defined criteria. Completed PBIS loadsheets will also be required for top prioritized candidates by the end of this step.

b. Deferred affordability candidates added to the Affordability repository.

3.0.2 Roles and Responsibilities

a. CNO N4 - Facilitate prioritization process; maintain prioritization ratings and conduct required candidate evaluation, as well as document process; maintain affordability repository.

b. Affordability CFT Members - Represent their respective commands and their command's affordability proposals throughout the process; serve as liaison to initiative originators; confirm maturity level of their command's candidates; determine weighting of the ROI criteria based on leadership's strategic priorities; provide input and feedback throughout the process; submit objectively ranked candidates to PE+ ESG.

c. Naval Center for Cost Analysis (NCCA) - Conduct review of affordability document package to ensure that consistent approach is utilized.

d. Initiative Originators - Provide required affordability candidate data and coordinate a review of affordability candidate proposals with all impacted BSO(s), including identifying investment and cost savings budget lines. Affordability candidate originators have the ability to delete a submitted affordability candidate from the prioritized list until the list is submitted to the VCNO and ASN(RD&A) Provider ExCom.

e. Impacted BSO(s) - Complete PBIS load sheets documenting savings by budget line item.

f. Deputy Chief of Naval Operations for Integration of Capabilities and Resources, Director of Programming (OPNAV N80) - Provide the latest PBIS load sheet template with required data elements for distribution, as well as resolve technical issues and questions related to PBIS load sheets.

3.1 Review Submissions to Ensure Consistency

a. Assess the ability to execute affordability candidates.

b. Review document package to ensure consistent methodology has been utilized across all submissions (e.g., consistent inflation rates, discount rates, etc).

c. Confirm technical readiness level for each submitted candidate proposal.

d. Leverage NCCA's review of proposal packages to determine the confidence level in estimates for both total required investments and total benefits.

3.2 Screen for Additional Factors. Screen for additional factors based upon annual guidance requests.

3.3 Conduct Return-on-Investment (ROI) Analysis

a. Determine ROI criteria weighting based upon guidance from the PE+ ESG.

b. Rank affordability candidates based upon ROI measures and other factors as determined by the annual planning guidance and leadership priorities. The result is a prioritized list of affordability candidates.

c. Determine which candidates are of "high priority" based upon leadership direction.

d. The prioritization process will be conducted in coordination with the POM cycle and when necessary as dictated by leadership.

3.4 Confirm Appropriate Budget Line Items for Savings

a. Work directly with impacted BSO(s) to confirm savings calculations and specific budget line items for savings (initiative originator).

b. If agreement cannot be reached with BSO(s) on savings data, the issue will be raised to the PE+ ESG.

3.5 Conduct Affordability CFT Review of Priority Affordability Candidates

a. The Affordability CFT will review each of the highest priority candidates to determine whether the candidate is truly viable.

b. Escalate issues that cannot be resolved during the Affordability CFT review of candidates to the PE+ ESG as necessary.

3.6 Request PBIS Loadsheets for Priority Affordability Candidates

a. Complete PBIS loadsheet specifying budget line items for savings and investment for candidates as advised by the CFT (initiative originator).

b. Completing the PBIS load sheet should be coordinated between the initiative originator and the impacted BSO(s); however, at a minimum the PBIS load data must come from the impacted BSO(s).

3.7 Finalize Affordability Candidate List. Finalize the affordability candidate prioritization and prepare for presentation to PE+ ESG.

3.8 Maintain Repository of Affordability Candidates

a. Affordability candidates not selected for prioritization will be retained in a repository maintained by CNO N4 for future review.

b. Make semi-annual updates to confirm continued relevance of affordability candidates.

Step 4
Select Affordability Initiatives

(PE+ ESG led step, unless otherwise noted)

4.0.1 Outputs. A set of affordability initiatives approved for investment by the VCNO and ASN(RD&A).

4.0.2 Roles and Responsibilities

a. CNO N4 - Facilitate the affordability candidate selection process; prepare and maintain selection process documentation; maintain repository of affordability candidates not approved for investment by the VCNO and ASN(RD&A).

b. Affordability CFT Members - Present prioritized list of affordability candidates; provide PE+ ESG representatives with command specific concerns.

c. PE+ ESG - View final list of Affordability CFT prioritized candidates; adjudicate any necessary issues; approve list affordability candidates for submission to VCNO and ASN(RD&A) Provider ExCom.

4.1 Review Final List of Affordability Candidates and Adjust Prioritizations If Necessary

a. Review final prioritized list of affordability candidates.

b. Recalculate savings and ROI figures and rankings if necessary.

c. Modify the affordability candidate rankings based upon updated data if necessary.

d. Changes and updates to affordability candidates, including adding and removing candidates, is acceptable until the final list of affordability candidates is presented to the VCNO and ASN(RD&A) at the Provider ExCom.

e. Any affordability candidate removed from list before the Provider ExCom will be retained in the affordability candidate repository.

4.2 Select Affordability Initiatives

a. Present PE+ ESG recommended affordability candidates to VCNO and ASN(RD&A) Provider ExCom for approval. Any candidate presented represents a commitment on the part of the originator and the affected BSO(s) to book savings.

b. Any affordability candidate removed from list during the Provider ExCom will be retained in the affordability candidate repository for future review.

c. Approved affordability candidates have now become affordability initiatives. Issue list of VCNO and ASN(RD&A) approved affordability initiatives.

Step 5

Develop Budget Level Detail for Savings and Investments

(CNO N4 led step, unless otherwise noted)

5.0.1 Outputs. PBIS loadsheets for each affordability initiative loaded into the PBIS database.

5.0.2 Roles and Responsibilities

a. OPNAV N80 - Resolve technical issues and questions related to PBIS load sheets; load affordability initiative sheets into PBIS.

b. CNO N4 - Manage process to ensure successful submission of loadsheets for each affordability initiative; communicate with initiative originators if changes are needed to the savings and investment data post-Provider ExCom; distribute summary of final PBIS data submitted to OPNAV N80 to appropriate parties.

5.1 Deliver PBIS Loadsheets. PBIS loadsheets delivered to OPNAV N80. If savings and investment data was altered during the Provider ExCom, the submitted loadsheet will be adjusted accordingly.

5.2 Load Initiatives into PBIS Database (OPNAV N80)

a. Review submitted PBIS load sheets to confirm adherence to guidelines.

b. Load initiatives into PBIS database.

5.3 Distribute Summary. Distribute summary of the final PBIS data submitted to OPNAV N80 and to appropriate parties.

Step 6
Capture and Report Performance

(Affordability CFT led step, unless otherwise noted)

6.0.1 Outputs

a. A submitted plan for execution of each affordability initiative no later than the first day of the quarter prior to the first fiscal year of investment.

b. A consolidated performance report detailing affordability initiatives' projected investment, savings and actual execution.

6.0.2 Roles and Responsibilities

a. CNO N4 - Coordinate semi-annual process to collect, consolidate, and report initiative performance; lead CFT review of performance and development of recommendations; update affordability initiative database.

b. Initiative Originators - Work with BSO(s) to track and capture savings data.

c. Affordability CFT - Serve as liaison between initiative originators and stakeholders, also consolidate performance data from respective command's initiative originators and submit to CNO N4.

6.1 Validate Performance Measurement Approach Prior to Execution. Initiative originators will submit to the Affordability CFT the plan for execution prior to the first fiscal year of investment. Must be vetted through the benefactor (i.e., recipient of savings, organization to which savings accrues, etc).

6.2 Capture Performance Data and Report Out

a. Initiatives will be tracked for an entire Future Years Defense Program from the year that savings begin to accrue.

b. Initiative originators will capture and report performance data on a semi-annual basis or as performance otherwise dictates for CNO N4 to monitor.

6.3 Report Performance

a. CNO N4 will present consolidated performance data to the Affordability CFT for evaluation semi-annually or as performance otherwise dictates.

b. Affordability CFT shall identify required action (for both programming and other action) if necessary.

c. Recommended required actions will be presented to the PE+ ESG for decision.

Step 7
Monitor and Make Adjustments

(PE+ ESG led step, unless otherwise noted)
TIMELINE: During execution

7.0.1 Outputs

- a. Affordability initiative performance status presented to PE+ ESG.
- b. List of adjustments, if needed, to affordability initiatives approved by PE+ ESG.

7.0.2 Roles and Responsibilities

- a. Affordability CFT members - Participate in review of performance and development of recommended adjustments; assist in implementation of adjustments.
- b. CNO N4 - Lead implementation of approved adjustments, if necessary.
- c. PE+ ESG - Review performance report including recommended adjustments; determine appropriate adjustments required.

7.1 Review Performance Data

- a. Present performance report to PE+ ESG.
- b. Review performance report and identify key trends, performance issues, and items requiring action.
- c. Performance data will be reviewed by the PE+ ESG semi-annually or as performance otherwise dictates.
- d. Determine any adjustments required and submit to VCNO and ASN(RD&A) Provider ExCom for approval.

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7.2 Make Adjustments if Necessary. Implement adjustments (i.e., initiative funding changes, PBIS changes, etc.) recommended by PE+ ESG and approved by VCNO and ASN(RD&A) via the Provider ExCom.



Affordability Initiative Governance Process

