

# “Portfolio and Standards Based Budgeting for Indirect Cost”

2009 FMSIC All-Contractors Meeting

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PNNL



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# Agenda

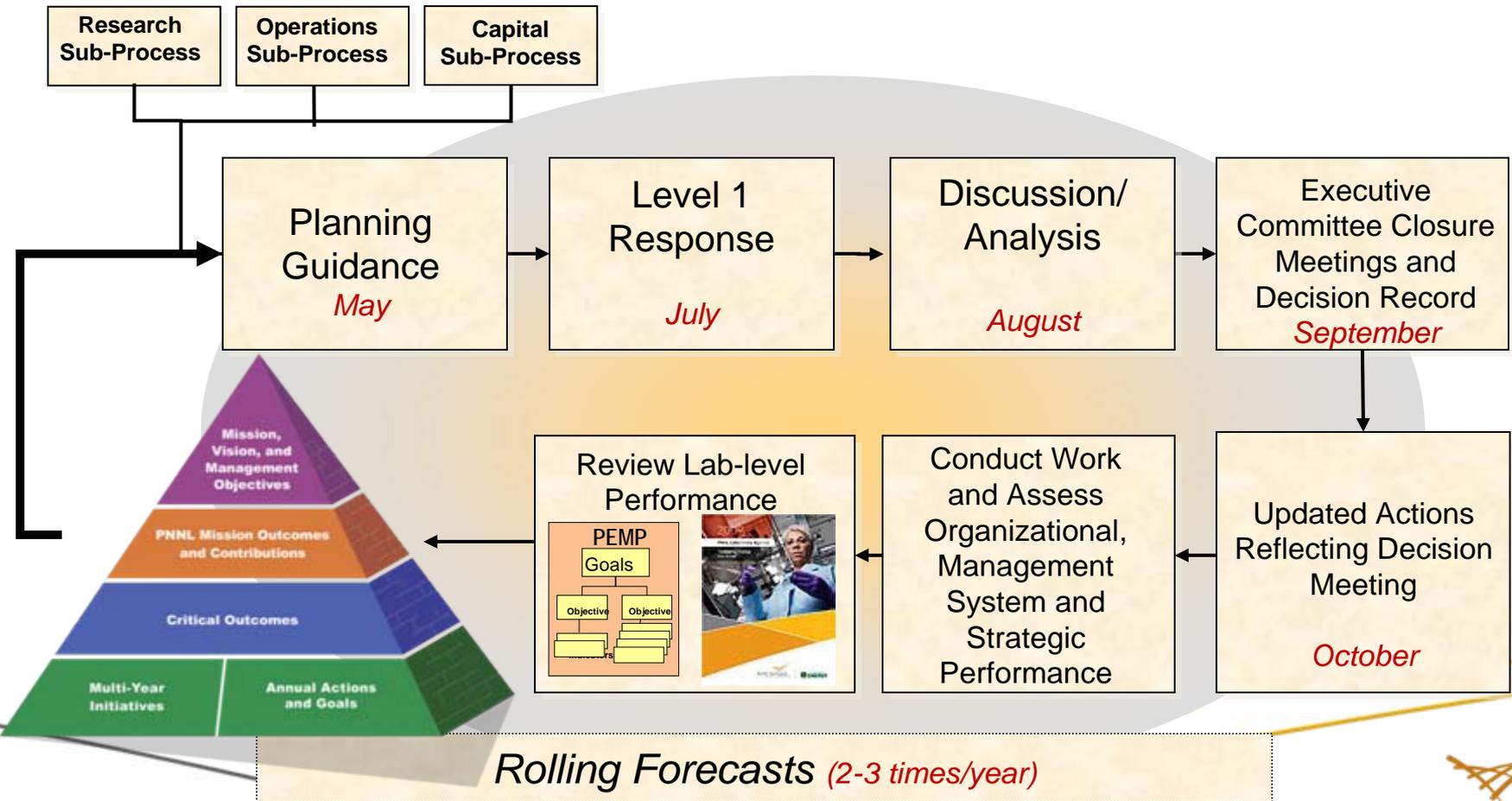
- ▶ Portfolio and Standards Based Budgeting
- ▶ What changed at PNNL
- ▶ How do we know it works?
- ▶ Lessons learned along the way
- ▶ Where do we go from here?
- ▶ Q&A



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# PNNL's Integrated Planning & Performance Assessment Process



# Portfolio Composition of PNNL's Indirect "Stack"

Stack Element	Portfolio
Research Org OH	Org. OH
Support Org. OH	
S&T Initiatives/Seed	Research
IR&D	
Program Development	
GRE	Capital
IGPP/IGPE	
CRL/Trans	CRL
M&O Core (Including BIS invest)	M&O
Mgmt Initiatives	
Planning Reserve	Risk Mitigation
LDO Reserve	
Fixed Cost	Fixed cost

~\$300M

## Portfolio Elements:

- **Organizational Overhead**  
Overhead costs associated with managing Research/Support Organizations
- **Research**  
The research component funds both Lab level Initiatives (Capability Development) and Sectors (Program Development)
- **Capital**  
**IGPP/IGPE** - Institutional General Plant Projects/Equipment - Indirect funded capital projects/equipment for infrastructure needs  
**GRE** – General Research Equipment funded on Indirect sources made available to develop capability
- **CRL/Trans**  
Capability Replacement Laboratory - Indirect costs to support the CRL and transition effort
- **Mgmt. & Operations**  
Overhead support costs are categorized by 20 Management Systems within PNNL
- **Fixed Costs**  
DOE Service Assessment (Site costs), Corporate G&A, 1830 Fee, Administrative Time & Separations Pay, Bus. & Ops. Use Tax, Business License, Insurance etc.

# Avoid “One Size Fits All” metrics, evaluation processes and frameworks. There is no silver bullet.

		Stack Element	Evaluation Process
Org. OH Portfolio		Research Org OH - TMC	Standards
		Support Org OH - OJS	
Research Portfolio		S&T Initiatives/Seed	Evaluation Process led by DDS&T
		IR&D	Evaluation Process led by TDO
		Program Development	Metric as a Starting point w/ strategic adjustments
Capital Portfolio		GRE	Capital committee- items are scored/prioritized
		IGPP/IGPE	Capital committee- items are scored/prioritized
		Planning Reserve	Held to allocate above guidance requests. Eliminated 10/1
		LDO Reserve	Lab Director Reserve- available for planned allocations during year
		CRL/Trans	Evaluated by Independent Review Committee
M&O Portfolio		M&O Core (including. BIS)	Evaluated through use of Unit Management standards, Cost Metrics, and IT steering committee recommendations on BIS components
		Mgmt Initiatives	Evaluated and Prioritized by the Research Ops. Council (ROC)
		Fixed Cost	Evaluated by Business Development and Analysis

Linkage to Strategy

# Business Services Directorate Internal Cost Metrics

MS	Service	Metric	FY06	FY07	FY08	FY09	FY09 Total Cost	% of Total
FMS	Payroll	Cost per Paycheck	\$ 6.38	\$ 6.51	\$ 6.50	\$ 5.16	\$ 596	4.1%
FMS	Accounts Receivable	Cost per Invoice	\$ 25.14	\$ 22.41	\$ 26.45	\$ 26.38	\$ 317	2.2%
FMS	Travel	Cost per Expense Report	\$ 42.60	\$ 44.56	\$ 55.17	\$ 47.27	\$ 1,064	7.3%
FMS	Property Management	Cost per Tagged Item	\$ 28.17	\$ 25.70	\$ 23.05	\$ 46.02	\$ 1,486	10.3%
FMS	Excess Management	Cost per Excess Request	\$ 75.56	\$ 79.10	\$ 82.87	\$ 84.12	\$ 732	5.1%
FMS	Accounts Payable	Cost per Voucher	\$ 16.38	\$ 15.08	\$ 15.22	\$ 17.35	\$ 781	5.4%
FMS	Business Analysis	Cost per Staff	\$ 166.92	\$ 208.95	\$ 177.93	\$ 180.24	\$ 768	5.3%
FMS	Sales Management	Cost per Active Project	\$ 334.86	\$ 335.28	\$ 297.31	\$ 357.32	\$ 864	6.0%
FMS	Business Office Deployed Services	Cost per Staff	\$ 915.33	\$ 1,010.95	\$ 888.86	\$ 908.50	\$ 3,872	26.7%
FMS	All other Accounting Services	Cost per Staff	\$ 901.37	\$ 1,003.06	\$ 967.56	\$ 937.70	\$ 3,996	27.6%
<b>Financial MS Total / % of BSD Cost</b>							<b>\$ 14,476</b>	<b>26.7%</b>
AMS	Acquisitions	Cost per order (non direct)	\$ 2,602.23	\$ 2,818.50	\$ 2,928.02	\$ 2,743.24	\$ 5,075	36.3%
AMS	Acquisitions Deployed Services	Cost per order (direct)	\$ 6,380.92	\$ 7,022.69	\$ 3,615.09	\$ 3,734.38	\$ 6,909	49.4%
AMS	B2B/PCD	Cost per order (non direct)	\$ 28.77	\$ 29.54	\$ 21.69	\$ 28.43	\$ 1,990	14.2%
<b>Acquisition MS Total / % of BSD Cost</b>							<b>\$ 13,974</b>	<b>25.8%</b>

# Research Org. OH Standards – Associate Lab Director’s Office

## PNNL RESEARCH ORGANIZATIONAL OVERHEAD (TMC) FUNDING STANDARDS

	FY09 Input		
	FTEs	COR	Amt.
<b>ALD OFFICE</b>			
ALD	1.0	\$ 176.75	\$ 323,799
Exec. Assistant	1.0	\$ 38.17	\$ 69,926
Administrative Assistant	1.0	\$ 29.91	\$ 54,787
Deputy ALD & Chief Scientist	2.0	\$ 146.07	\$ 535,187
Administrative Assistant for Deputy	1.3	\$ 29.91	\$ 68,483
Strategic Planning Coordinator	1.0	\$ 76.44	\$ 140,042
Directorate review committee			\$ 75,000
Non-Labor Expenses (15% of Labor)			\$ 178,834
	7.3		\$ 1,446,057

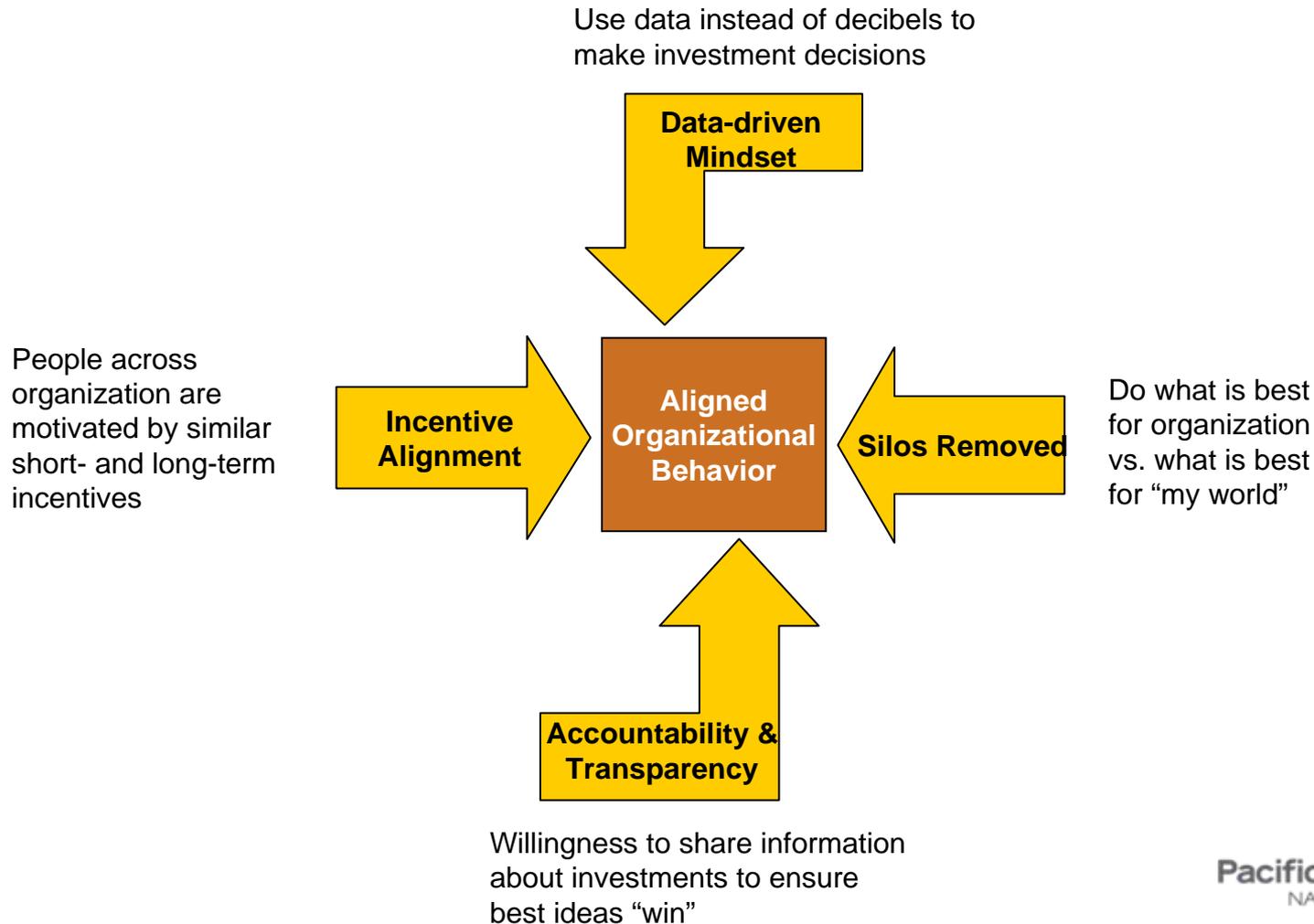
# Research Org. OH Standards – Bus. Ops.

	FY09 Input		
	FTEs	COR	Amt.
<b>BUSINESS OPERATIONS</b>			
<u>Communications:</u>			
Communications Manager	1.0	\$ 89.92	\$ 164,738
Jr. Communications Specialist	1.0	\$ 63.74	\$ 116,765
Non-labor			
Subtotal Communications:	2.0		\$ 281,503
<u>Business Office:</u>			
Directorate Business Manager	1.0	\$ 128.44	\$ 235,308
Sr. Financial Specialist	1.0	\$ 88.78	\$ 162,638
Jr. Financial Specialist per Division	2.0	\$ 62.59	\$ 229,328
Financial Administrator	1.0	\$ 42.24	\$ 77,383
Non-labor			
Subtotal Business Office:	5.0		\$ 704,656
<u>Quality:</u>			
Quality Manager	1.0	\$ 111.62	\$ 204,480
Non-labor			
	1.0		\$ 204,480
<u>Human Resources</u>			
Human Resource Manager	1.0	\$ 106.50	\$ 195,112
HR Specialist	1.5	\$ 89.92	\$ 247,107
Recruiter (per 500 Staff)	1.0	\$ 77.32	\$ 141,650
HR Administrator	1.0	\$ 43.39	\$ 79,483
Non-labor			
Subtotal Human Resources	4.5		\$ 663,353
<u>IRMS:</u>			
IRMS Support	0.3	\$ 88.78	\$ 48,791
Subtotal IRMS:	0.3		\$ 48,791
<b>Subtotal BUSINESS OPERATIONS</b>	12.8		\$ 1,902,783

# Research Org. OH Standards – Facility & Division Mgmt and Space

	FY09 Input		
	FTEs	COR	Amt.
<b>FACILITY MANAGEMENT:</b>			
Operations Manager	1.0	\$ 116.11	\$ 212,712
Operations Specialist	1.0	\$ 99.27	\$ 181,865
Administrative Assistant	1.0	\$ 29.91	\$ 54,787
Cognizant Space Managers (55hrs per CSM)	1.2	\$ 67.20	\$ 147,725
Training Coordinator			
ES&H Reps.	2.0	\$ 80.06	\$ 293,331
Property Rep.			
Radiation Protection	0.5	\$ 80.06	\$ 73,333
FSR/ECR	2.0	\$ 80.06	\$ 293,331
Facility Mods and moves (\$500/FTE)			\$ 250,000
Non-Labor Expenses (15% of Non OJS Labor)			\$ 89,563
Subtotal FACILITY MANAGEMENT:	8.7		\$ 1,596,646
<b>DIVISION MANAGEMENT:</b>			
Division Director	2.0	\$ 146.07	\$ 535,187
Administrative Assistants, 1 for every DD	2.0	\$ 29.91	\$ 109,573
TGM, 1 for 40 staff @ 75% funded	9.4	\$ 103.35	\$ 1,775,065
TGM Administrative Assistant, 1.0 for every TGM	12.5	\$ 22.21	\$ 508,598
Required Training, 48 hrs per Research Staff	10.5	\$ 67.20	\$ 1,290,176
Staff Development, 12 hrs for every FTE	3.3	\$ 67.20	\$ 403,180
Staff Idle Time (0.5% of Research FTEs)	2.0	\$ 67.20	\$ 246,209
Division Specialists	1.5	\$ 50.26	\$ 138,102
Non-Labor Expenses (15% of Labor)			\$ 750,913
Subtotal DIVISION MANAGEMENT:	43.1	\$ 583.00	\$ 5,757,001
<b>SPACE</b>			
Office/Common	120 sq ft/FTE	\$ 9,966	\$ 4,982,820
Storage	10 sq ft/FTE	\$ 288	\$ 144,000
Lab 1	75 sq ft/ Research	\$ 2,988	\$ 1,195,200
Lab 2/3	90 sq ft/ Research	\$ 5,160	\$ 2,064,000
Subtotal SPACE	-		\$ 8,386,020

# Guidelines we followed for Successful Portfolio Management



# What Changed at PNNL

## ▶ Budget Allocation Process

- Enforced common definitions, hierarchies and ways to look at information
- Shifted ownership and accountability from Finance to Stakeholders
- Standardized allocations (e.g. organizational management and space utilization)
- Increased the transparency of allocations

## ▶ Planning Rigor

- Improved the decision process for operational strategic investments
- Implemented a more data-driven decision process

## ▶ Culture

- Segregated strategy and tactical discussions
- Decreased silos between management systems
- Improved Research & Support collaboration
- Executive Committee championed change
- Process Mapping is being utilized to implement process improvements



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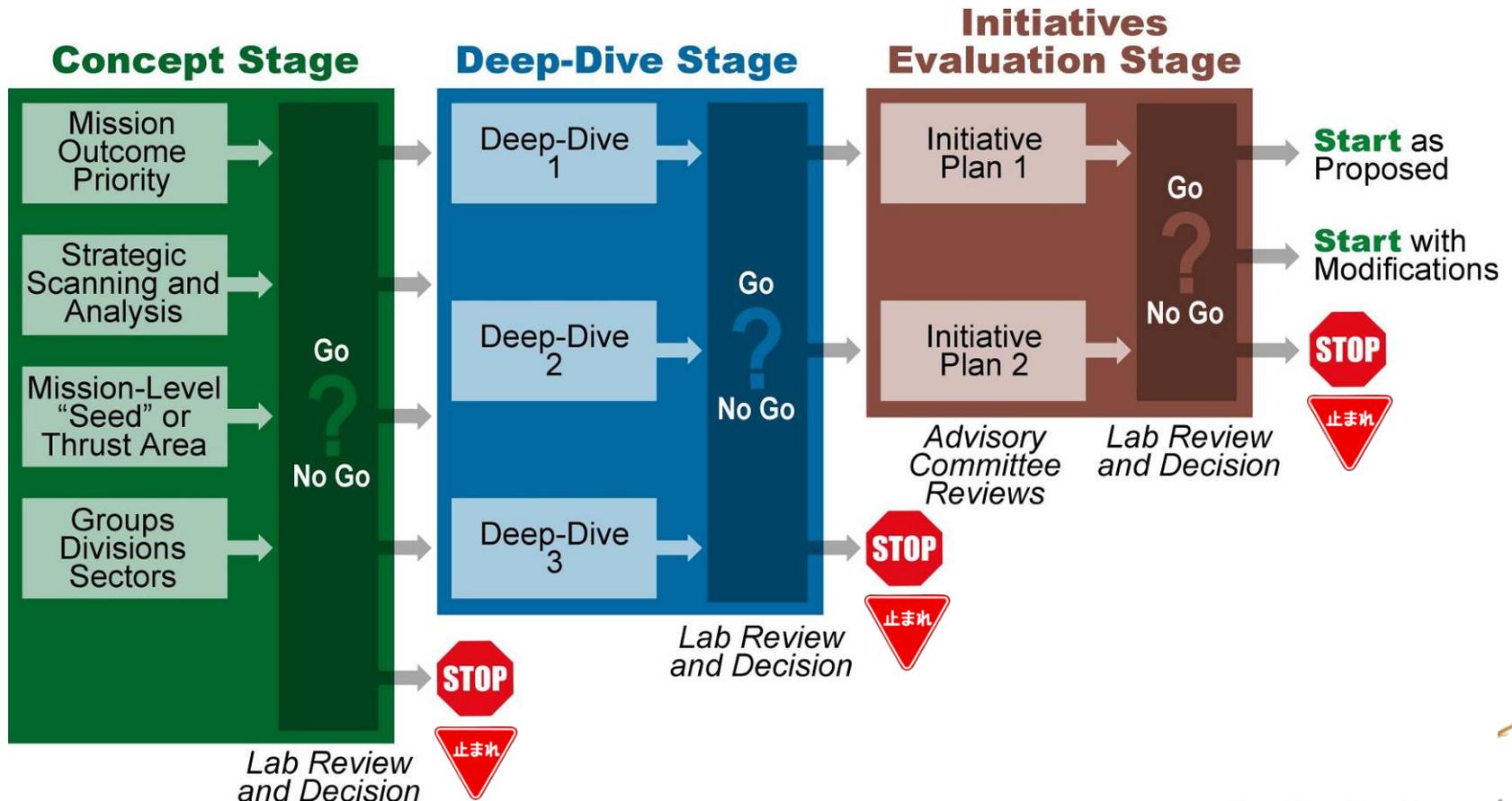
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# Budget Allocation...the good, the bad and the change can be ugly but it is essential

Bad...	Good ...	What Changed ...
<b>Democratic</b>	<b>Alignment to strategy</b>	<b>No % Increase of budgets, focus on allocations that were tied to actions to meet strategic objectives</b>
<b>Highly decibel-driven</b>	<b>Data-driven – best ideas win</b>	<b>Implemented Initiative reviews, data models &amp; scoring methods</b>
<b>Lacked rigor &amp; discipline</b>	<b>Formal, transparent process</b>	<b>Defined the processes, expectations and established review committees</b>
<b>Based on entitlements</b>	<b>Competition, measurement &amp; accountability</b>	<b>Portfolio structure and planning process requires evaluation of best investments</b>
<b>No trust in the process or among senior management</b>	<b>Everyone buys-in and has same objective</b>	<b>Exec. Committee embraced new ideas, information &amp; became agents for change</b>
<b>Silos create barriers to Lab-wide investments</b>	<b>Horizontal view of investments and linkages to other Mgmt. Systems</b>	<b>Created single process for BIS investments and formed review team. Also integrated planning process for Operations ALDs.</b>
<b>Full budget reviews wasted time on tactical issues</b>	<b>Variance review focused on incremental investments</b>	<b>Information was presented on cost drivers for variances only</b>

# Planning Rigor – We already had a great working example of a rigorous decision process (Capability Development Investments).....so we copied it.

A Three-Stage Process Enables Increasingly Rigorous Assessment and Maximizes Technical and Business Success



# Culture change...Segregated strategy and tactical discussions & Us vs. Them approach has nearly been eliminated

	MEETING TYPE		
	Operational Review	Strategy Review	Operational/Strategy testing and adapting
Information Requirements	Dashboards for KPIs (Financial & Non-financial) Overall performance Summary	Lab Agenda, strategic hypothesis, emergent strategies, Initiative Performance	Operations/Strategy Issues brought forward by EC sponsor or ROC
Frequency	Quarterly	Bi-Annually: Midyear & during planning cycle	Weekly
Attendees	Executive Committee	Executive Committee	Executive Committee
Focus	Identify and solve operational /Tactical problems	Issues in strategy implementation progress of strategic initiatives	Test and adapt operations/strategy based on causal analytics
Goal	Respond to issues and promote continuous improvement	Fine tune strategy, make midcourse adaptations	Improve or transform operations/strategy

# Is it working?

## ▶ Efficiency

- Budgeting process is completed more quickly
- Increased ability to look forward
- Less time spent on discussion of base budgets

## ▶ Effectiveness

- Prioritization of Business Information Systems investments
- Executive Committee has better understanding of how investments are utilized

## ▶ Value of Data

- Reporting focused on key cost metrics
- Alignment of annual budgets to strategy
- Rolling forecasts are used to inform business decisions on a quarterly basis

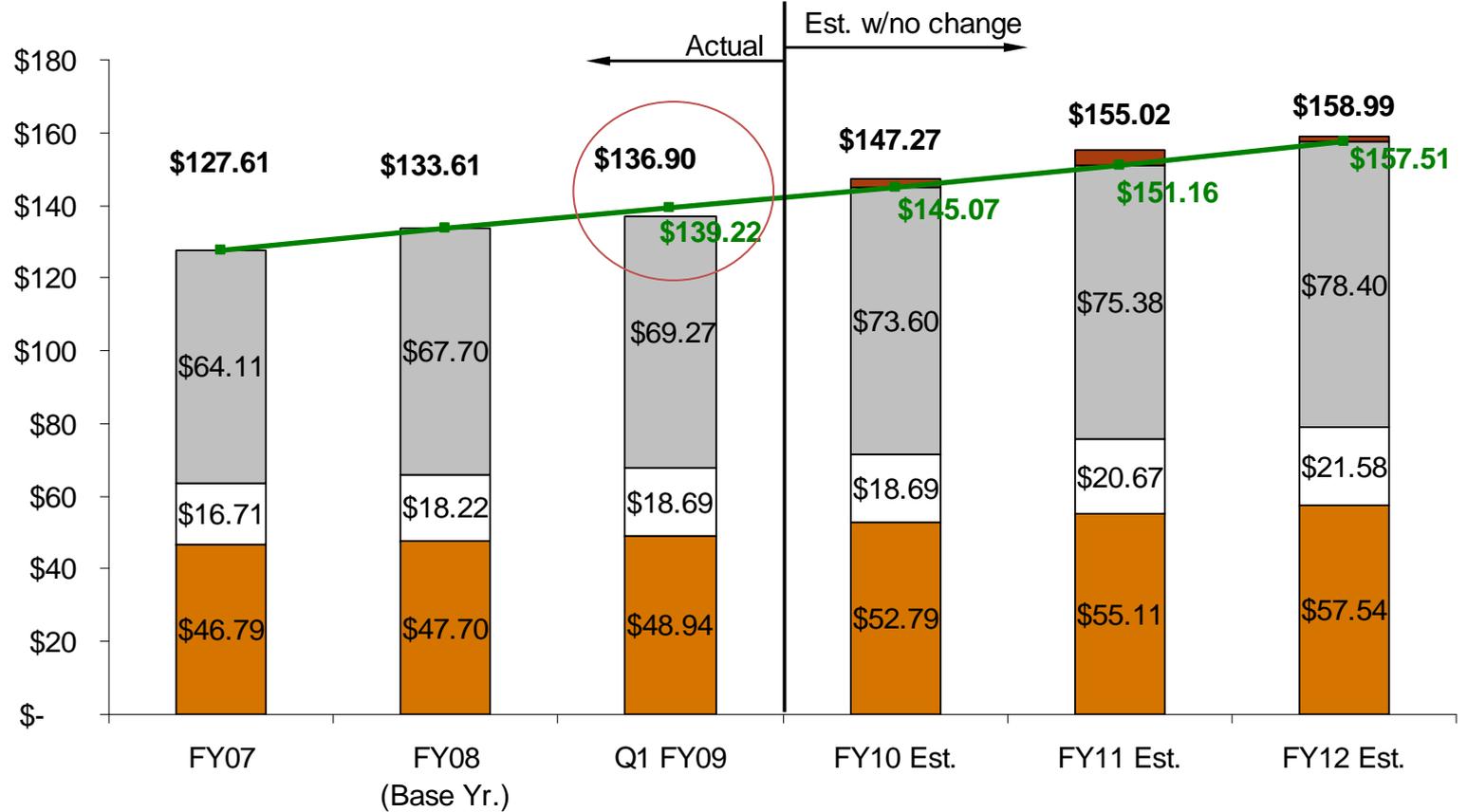


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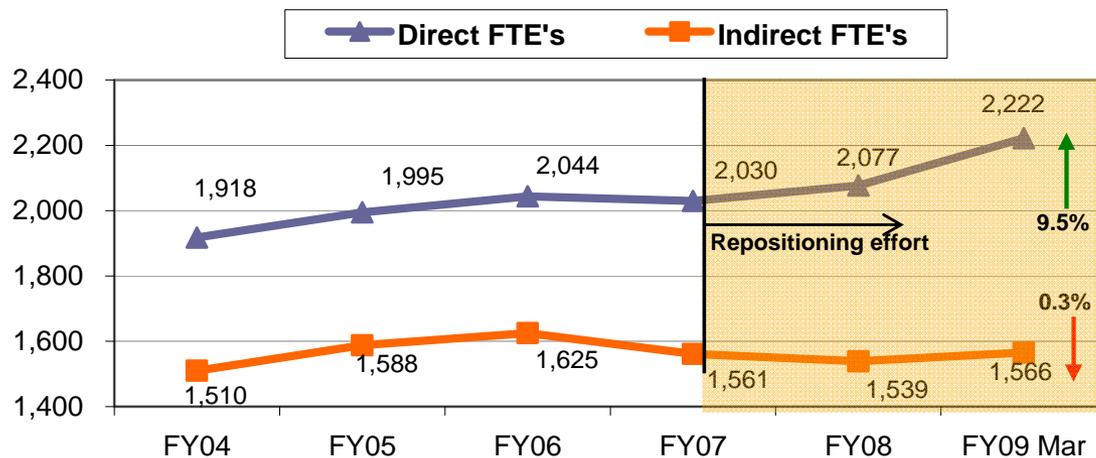
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# How do we know it's working? Rate Strategy is considered during planning process and tracked: *Cost of Doing Business metric*

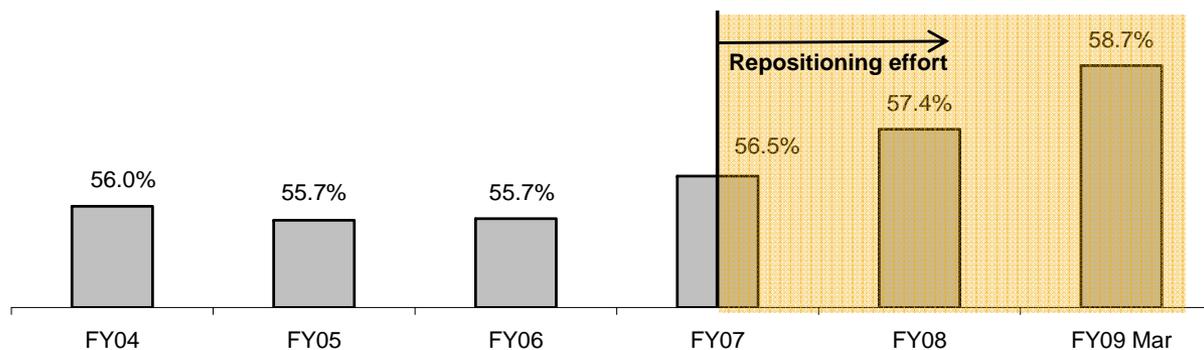
## FY07- FY12 1830 Average Burdened COR/hr



# Lagging Indicators reflect positive results of cost management efforts



**Percent Direct FTEs**



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# Lessons learned along the way....

- ▶ You cannot over estimate the organizational angst of change
- ▶ Make sure you have senior leadership support and buy in (sponsor)
- ▶ Planning must be based on strategy- not a parallel process.
- ▶ Get the us versus them out on the table. The customer needs to understand that they burden the system.
- ▶ Standard common practices are needed enterprise wide
- ▶ Clear targets and measurable objectives
- ▶ Continuous effort – need to dedicate resources to get results
- ▶ To look at data, processes and tools and balance across all three with a focus on the cost of delivery
- ▶ Too many metrics not enough time...keep to manageable size
- ▶ Transformation never ends.....



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# Where do we go from here?

- ▶ Continue standards based approach on Service Center cost
- ▶ Continue to institutionalize metrics, standards and processes
- ▶ Address shadow costs
- ▶ Update external benchmarking data to validate performance
- ▶ Continue to evaluate new or enhance methods for budget allocation
- ▶ Stop whatever is not working
- ▶ Continue to foster transparency and accountability

