Written by Administrator
Thursday, 30 July 2009 14:59

On July 29, 2009 the Office of Management and Budget (OMB) issued direction to Federal agencies entitled "Improving Federal Acquisition." Despite the innocuous title, the memo directs all Agencies to reduce spending by 3.5 percent in Government Fiscal Year (GFY) 2010 and again in GFY 2011. The memo further directs Agencies to cut use of "high-risk contracting authorities," such as contracts that are awarded on (i) a noncompetitive basis, or (ii) are either cost-reimbursement, Time & Materials, or Labor-Hour contract types. Agencies are given discretion as to how to achieve the 7 percent spending cuts (which the OMB estimates will save taxpayers roughly $40 billion); the savings can be generated through ending programs (i.e., terminating contracts for convenience), negotiating more favorable pricing with contractors on existing programs, reengineering internal processes, or by other means. Less discretion is given to Agencies regarding achievement of the ten percent reduction in use of "high-risk authorities" -- those acquisition methods that pose "special risks of overspending" -- GFY 2010 Agency obligations made via these contracts must be at least ten percent less than GFY 2008 obligations.

What this means for contractors is more pressure to help the Agencies find the cost savings, increased risks of contract termination, and a shifting (once again) of cost containment risk to their side of the negotiating table. It would seem prudent for contractors to partner with their Agency customers to help find savings, before such savings are imposed on them unilaterally. Further, contractors would be well-advised to take another hard look at their program execution disciplines, including EVMS, program budget control, and change management. Finally, companies lower in the program supply chains should expect to feel renewed pressure to do more for less.

The OMB memo is found here .