



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

19 AUG 2016

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Updated Should Cost Management Guidance and Business Rules

Reference: SAF/AQ Memorandum, *Implementation of Should-Cost Management*, 4 November 2014

In order to gain greater efficiency and productivity in Defense spending, the Under Secretary of Defense for Acquisition, Technology & Logistics has directed the Military Departments and Directors of Defense Agencies to implement Should Cost Management (SCM) for all Acquisition Category programs.

Adherence to SCM is one of my top five Acquisition Enterprise Priorities. Therefore, I am challenging the acquisition community to continue to utilize SCM as a means to achieve better value and refine business management practices. I am providing updated SCM Guidance and Business Rules to assist Program Managers (PM) and Program Executive Officers (PEO) in the development, management, and reporting of SCM.

The Comprehensive Cost and Reporting System (CCaRS) database is the authoritative data source for Air Force SCM. CCaRS software is being modified to: 1) ensure that the system supports the updated SCM Guidance and Business Rules; and 2) decreases the SCM and associated reporting burden. Please reference the attachments listed below for definition of terms, roles, responsibilities, procedures, and reporting requirements. My POC is Mr. Eric Rucker, 571-256-0404, eric.d.rucker.civ@mail.mil.

A handwritten signature in blue ink that reads "Darlene J. Costello".

DARLENE J. COSTELLO
Performing the Duties of Principal Deputy
Office of the Assistant Secretary of the Air Force
(Acquisition & Logistics)

Attachment:
Should Cost Guidance & Business Rules

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Should Cost Management (SCM)

Guidance and Business Rules

19 August 2016

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1. Background

1.1. Better Buying Power (BBP)

The 22 May 2009 Public Law 111-23, titled “Weapons Systems Acquisition Reform Act (WSARA),” identified that since 2006 nearly half of the ninety-five Department of Defense (DoD)’s Major Defense Acquisition Programs (MDAP) have experienced an average of 40% critical cost growth. In response to the public law, former Under Secretary of Defense (Acquisition, Technology, and Logistics) (USD(AT&L)), Dr. Ashton Carter, released a 28 June 2010 memo to acquisition professionals titled *Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending*. In the memo, USD(AT&L) declared it a priority to continually deliver better value to the taxpayer and improve the way the Department does business.¹ Additional departmental guidance has been provided through various USD(AT&L) memos.

An initial outline achieving BBP priorities, titled *Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending*, was signed by USD(AT&L) on 14 September 2010. The guidance contains 23 principle actions organized into five areas: target affordability and control cost growth; incentivize productivity and innovation in industry; promote real competition; improve tradecraft in acquisition services; and reduce non-productive processes and bureaucracy. The principle to target affordability and control cost growth is driving “productivity through Will Cost/Should Cost management.”

1.2. What is Should Cost (SC) Management (SCM)?

SCM is a strategy for Program Managers (PMs) to “seek out and eliminate, through discrete actions, low-value added ingredients of program cost.”² As an element of BBP, SC urges program managers to “scrutinize every element of program cost, assess whether each element can be reduced relative to the year before, challenge learning curves, dissect overheads and indirect costs, and target cost reduction with profit incentive – in short, execute to what the program *should cost*.”³

USD(AT&L) expects participation in SC to occur at all levels of acquisition management. On 3 November 2010, USD(AT&L) directed all Acquisition Category (ACAT) I, II, and III programs to “establish ‘Should Cost’ estimates [...] as they are considered for component [milestone (MS)] decisions.”⁴ Subsequently, on 22 April 2011, USD(AT&L) released an implementation

¹ Undersecretary of Defense (Acquisition, Technology, & Logistics), *Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending*, June 28, 2010, p.1

² Undersecretary of Defense (Acquisition, Technology, & Logistics), *Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending*, June 28, 2010, p.3

³ Undersecretary of Defense (Acquisition, Technology, & Logistics), *Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending*, September 14, 2010, p.3

⁴ Undersecretary of Defense (Acquisition, Technology, & Logistics), *Implementation Directive for Better Buying Power – Obtaining Greater Efficiency and Productivity in Defense Spending*, November 03, 2010, p.2

memo requiring progress reporting on SC Estimates (SCE) at all Defense Acquisition Executive Summary (DAES) reviews.⁵

To further institutionalize the practice of SCM, on 7 January 2015 USD(AT&L) updated the DoD Instruction (DoDI) 5000.02, *Operation of the Defense Acquisition System*, with its SCM expectations. It is relevant to note that the Operations and Support (O&S) phase requires active SCM and reporting⁶.

Lastly, in support of BBP, the intent of SCM is to achieve better value and refine business management practices. The recommendation to use SCM to seek efficiencies and strive for lower life cycle costs has become a centerpiece of the DoD's BBP efforts. In turn, the Air Force (AF) has taken the USD(AT&L) guidance and applied it to AFI 63-101/20-101, *Integrated Life Cycle Management*, ensuring SCM is institutionalized within its acquisition workforce⁷.

2. Guidance Updates

SAF/AQ released a memo on 28 October 2013, titled *Implementation of Should-Cost Management*, which compounded previous AF guidance and established expectations for the development and reporting of AF SC Initiatives (SCI). The purpose of this 2013 guidance is to provide guidelines for AF PMs to utilize SC as a management tool. This update ensures that Program Managers (PM), Program Executive Officers (PEO), and their support staff have a common understanding of SCM terms, processes, roles, and responsibilities. This guidance is applicable for all ACAT I-III programs and specifically focuses on investment funding⁸. The specific rule set which ACAT I-III programs require SCM are provided in Section 3.4.1.

On 7 January 2015 USD(AT&L) updated DoDI 5000.02, *Operation of the Defense Acquisition System*. With this update, USD(AT&L) has directed SCM be implemented to achieve cost savings across a program's entire life cycle to include O&S. As a result, multiple AF programs currently in the O&S phase have successfully executed SCM, achieving significant savings across the program lifecycle. The success of these pilot efforts has confirmed the need for SCM to be applied to programs which are in the O&S phase. ACAT I-III programs will continue to conduct SCM throughout their O&S phase (i.e. product support), impacting 3400 funds.

Additionally, non-ACAT Enterprise Sustainment programs significantly impact overall AF life cycle costs. It is highly encouraged that SCM be applied to Enterprise Sustainment programs in

⁵ Undersecretary of Defense (Acquisition, Technology, & Logistics), Implementation of Will-Cost and Should-Cost Management, Memorandum for Acquisition and Logistics Professionals, April 22, 2011

⁶ Undersecretary of Defense (Acquisition, Technology, & Logistics), Department of Defense Instruction 5000.2, Operation of the Defense Acquisition System, January 7, 2015

⁷ Air Force Instruction 63-101/20-101, Integrated Life Cycle Management, 7 March 2013 (Incorporating Through Change 2, 23 February 2015)

⁸ Assistant Secretary of the Air Force, Financial Management and Comptroller (SAF/FM) and Assistant Secretary of the Air Force, Acquisition (SAF/AQ), Implementation of Will-Cost and Should-Cost Management, June 2011; Assistant Secretary of the Air Force, Acquisition (SAF/AQ), Expectations Regarding Should-Cost (SC) Management of Acquisition Programs, March 11, 2013.

order to minimize life cycle costs. Since these programs are funded with 3400 funds, the majority of savings achieved will be categorized as Cost Avoidance rather than Budget Savings.

3. Should Cost Management (SCM)

3.1. Considerations for SCM

3.1.1. How SCM and Will Cost Management (WCM) Differ

SCM is a continuous process for programs to scrutinize elements of cost across the life cycle and assess how they can be reduced without unacceptable increases in risk, or reductions in value received. SCM should not be considered a one-time only or once a year event.

WCM is considered business-as-usual management for the PM, which aims to manage the program to the Will Cost Estimate (WCE) or current funding, and execute the program under the acceptable levels of technical, schedule, and programmatic risk.

Programs plan to the WCE but should strive to execute what the program should cost.

3.1.2. How SCM and Affordability Differ.

SCM establishes SCIs, which are “stretch goals” that identify discrete and measurable initiatives to achieve savings against the WCE. SCM is one method to meet affordability constraints; however, it is not relevant to setting those constraints.

USD(AT&L) defines affordability as “conducting a program at a cost constrained by the maximum resources the Department can allocate for that capability[...].”⁹ Affordability consists of the Milestone Decision Authority (MDA) setting affordability targets and approving trade excursions at/before Milestone (MS) B to understand how key design features affect the target costs. Affordability trades are budget-constrained and program scope may be altered or removed. “Affordability is not cost consciousness, cost control, or an acquisition strategy. Additionally, affordability is not based on cost estimates, and it is not a cost-benefit analysis of a single program.”¹⁰

3.1.3. How Budget Savings and Cost Avoidance Differ

SC Savings include both Budget Savings and Cost Avoidance. Externally driven fiscal fluctuations do not equate to SC Savings. SC Savings are derived from SCIs that have a discrete action and distinct strategy.

- SC Savings = Budget Savings (+) Cost Avoidance
- SC Savings = WCE (-) SCE

⁹ Undersecretary of Defense (Acquisition, Technology, & Logistics), Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending, June 28, 2010, p.2

¹⁰ Ohlandt, Chad J.R., Dispelling the Myths of DoD’s Affordability Policy, Defense AT&L Special BBP 2.0 Issue, September-October 2013. p.2

3.1.3.1 Budget Savings

Budget Savings occur within the execution years and Future Year Defense Plan (FYDP), provide opportunities for reinvestment, and are identified by subtracting the SCE from the President's Budget (PB). In the year of execution, WCE must be adjusted to actual budget funding level in order to accurately capture realized budget savings.

3.1.3.2 Cost Avoidance

Cost Avoidances occur throughout the life cycle of the program, do not require reinvestment, and occur either in the FYDP or post-FYDP. It is important to note that the WCE is the approved program estimate and not the PB. SCIs are then used to bring program costs down to, or below the PB.

A graphical depiction of Budget Savings and Cost Avoidance is provided in Figure 1.

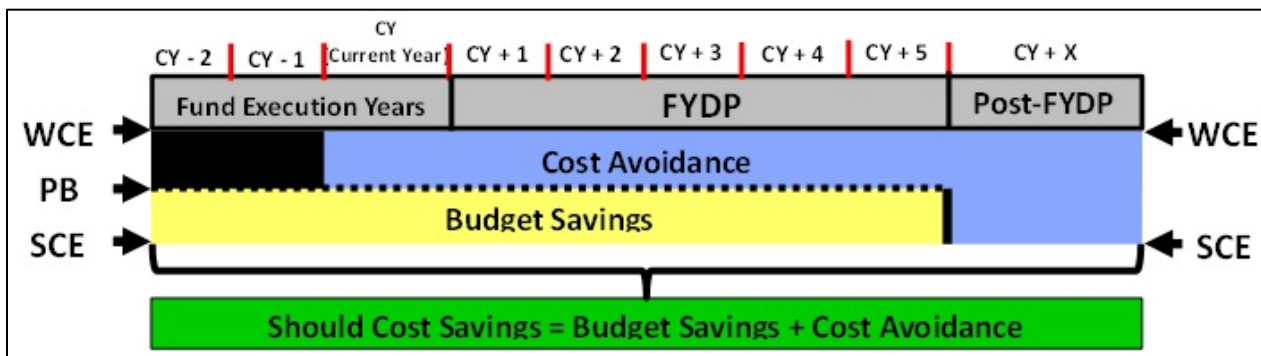


Figure 1: Should Cost Savings

3.1.4. Ingredients of Successful SCM

- ❖ Scrutinize each contributing ingredient of program cost. Why is it as reported or negotiated? What reasonable measures might reduce it?
- ❖ Challenge the basis for indirect costs in contractor proposals.
- ❖ Track recent program cost, schedule, and performance trends and identify ways to reverse negative trend(s).
- ❖ Benchmark against similar DoD programs and commercial analogues (where possible), and against other programs performed by the same contractor or in the same facilities.
- ❖ Promote Supply Chain Management to encourage competition and incentivize cost performance at lower tiers.
- ❖ Reconstruct the program (government and contractor) team to be more streamlined and efficient.

- ❖ Identify opportunities to breakout Government-Furnished Equipment versus prime contractor-provided items.
- ❖ Identify items or services contracted through a second or third party vehicle. Eliminate unnecessary pass-through costs by considering other contracting options.
- ❖ In the area of Test and Evaluation:
 - Take full advantage of integrated Developmental and Operational Testing to reduce overall cost of testing;
 - Integrate modeling and simulation into the test construct to reduce overall costs and ensure optimal use of national test facilities and ranges
- ❖ “Identify an alternative technology/material that can potentially reduce development or life cycle costs for a program. Ensure the prime product contract includes the development of this technology/material at the right time.”¹¹
- ❖ With respect to accounting for Cost Avoidance, programs should consider all impacts of a SCI to include those during the Operation and Maintenance Phase. The Product Support Area specifically should be scrutinized for SCIs to lower overall Life Cycle Cost of a system.

3.2. Program Applicability to SCM

3.2.1. Acquisition programs mandated to conduct SCM

With the exception of programs that have a Service Acquisition Executive (SAE) approved waiver, all ACAT I, II, and III programs that are at or beyond MS A, to include throughout the O&S phase, shall conduct SCM. All ACAT I, II, and III programs are required to have should cost targets at MS A, B & C, Dev RFP Rel, and FRP/FD. This is in direct support of the guidance published by USD(AT&L) in (DoDI) 5000.02, and SAF/AQ’s Implementation of Should-Cost Management dated 28 October 2013¹².

- ❖ ACAT I programs are required to conduct SCM using a MDA approved WCE. ACAT I programs without a MDA approved WCE are not required to conduct SCM, however SAF/AQX will track these programs to ensure future compliance.
- ❖ ACAT II, and III programs shall conduct SCM using an established Program Office Estimate, Non-Advocate Cost Assessment, Service Cost Position, or Independent Cost Estimate. Any of these estimates can be used as an initial WCE.

3.2.2. Enterprise Sustainment Programs

¹¹ Undersecretary of Defense (Acquisition, Technology, & Logistics), Implementation of Will-Cost and Should-Cost Management, Memorandum for Acquisition and Logistics Professionals, April 22, 2011.

¹² Principal Deputy Assistant Secretary of the Air Force (Acquisition), Implementation of Should-Cost Management, Memorandum for Acquisition and Logistics Professionals, October 28, 2013.

Non-ACAT Enterprise Sustainment Programs are highly encouraged to conduct SCM. This will improve AF compliance with DoDI 5000.02, “Should-cost targets will be established and reviewed periodically based on analysis of acquisition sustainment costs and O&S cost element drivers.”¹³

3.2.3. Unique program types waived from conducting SCM

On 17 October 2015, Dr. William LaPlante, the SAE, approved a SCM waiver for a specific group of programs which require programmatic expediency in order to meet a safety, time sensitive, or urgent capability need. This waiver (located in Appendix I) is applicable to the following program categories:

- ❖ Low Cost Modification
- ❖ Service Bulletin
- ❖ Urgent Operational Need
- ❖ Joint Urgent Operational Need
- ❖ Joint Emergent Operational Need
- ❖ Quick Reaction Capability

3.2.4. Foreign Military Sales (FMS) and Other Non-ACAT Programs

Foreign Military Sales (FMS) and other non-ACAT programs are highly encouraged to conduct SCM.

3.3. SCI Development

A SCI should be a discrete action with a distinct strategy. PMs are responsible for developing SCIs. PMs should leverage an Integrated Product Team (IPT) or functional experts (including program management, engineering, financial management, contracting, and logistics), the requirements office, other programs performed by the same contractor or in the same facilities, and prime contractor to develop SCIs. Training and assistance in developing SCIs is available from the Air Force Institute of Technology (AFIT) and the Defense Acquisition University (DAU), which is discussed in Section 3.9.

Continuous SCM creates a culture of analyzing, refinement, and active monitoring of program costs. Analyze program costs using functional, domain, and process expertise to identify areas where value can be achieved at lower costs while mitigating risk. Three strategies have been identified to analyze program costs:

- ❖ Conduct a bottoms-up estimate, which will provide a detailed analysis.

¹³ Undersecretary of Defense (Acquisition, Technology, & Logistics), Department of Defense Instruction 5000.2, Operation of the Defense Acquisition System, January 7, 2015, p.113

- ❖ Identify reductions from WCE in the form of actionable items.
- ❖ Explore competitive contracting and contract negotiations to identify opportunities for saving.

3.3.1. Fundamental Concepts of SCI Development

- ❖ Develop candidate initiatives by identifying areas of potential cost savings.
- ❖ Prioritize initiatives consistent with program scope, balanced requirements, funding and schedule.
- ❖ Develop courses of action to implement new management strategies or infrastructure changes, including Milestones for Achievement.
- ❖ Implement and monitor the strategy, ensuring records are maintained in CCaRS that trace actions to outcomes.
- ❖ Exploit opportunities for external stakeholder savings when programs are supporting or are supported by external agencies.
- ❖ Programs operating under Firm Fixed Price (FFP) contracts should consider re-opening FFP contracts only when there is a clear benefit. Programs with FFP contracts should explore opportunities such as Other Government Costs and sustainment efforts to develop SCIs.
- ❖ Program cancellation, re-phasing, and/or de-scoping are not valid SCIs.

NOTE: DoD officials recognize SCIs may not always be successful but expect a strong effort to achieve them. SCIs that are not successful provide valuable insight for other programs and development of new initiatives.

3.3.2. PEO SCI Validation and Approval

Prior to approving the SCI in CCaRS, the PEO should ensure that each SCI is valid according to the criteria listed below. PEOs have the authority to delegate this approval authority to best fit their organizational structure and program portfolio. (Note: the questions below can also be helpful to PMs when generating/reviewing their SCIs.)

- ❖ Is the SCI realistic (i.e. either fully or partially achievable)?
- ❖ Does the SCI seek to achieve better value or refine business management practices?
- ❖ Does the title describe the action(s)?
- ❖ Is the description clear and complete?
 - Does the description contain a Plan of Action?
 - Does the description contain Milestones for Achievement?
- ❖ Is the Projected Realization Date reasonable?

- ❖ Does the SCI utilize the most recent WCE and PB positions?
- ❖ Are the Projected Savings reasonable?
- ❖ Is the Reinvestment Plan appropriate? *NOTE: Cost Avoidance from the Operations and Maintenance Phase will not have a Reinvestment Plan.*

3.3.3. SCI Execution

PMs are responsible for the execution of the SCI, however PMs are encouraged to involve all members of their program staff in the execution phase. Documentation of SCI action in CCaRS ensures that future PMs understand historical efforts, and AF and DoD leadership understand the strategies and efforts applied to the execution phase. As soon as the execution of an SCI is complete, the SCI should be closed in CCaRS. A flowchart of SCI execution is provided in Figure 2.

3.3.4. SCI Closure

PMs are responsible for timely and accurate closure of SCIs in CCaRS, to include a detailed record of actions taken and associated outcomes. This includes both a full and partial closure. Initiatives should be closed in CCaRS as soon as the actions have been completed and documented as successful or unsuccessful. When input of required information is completed in CCaRS, the SCI will be routed to the PEO for review and approval before it can be reported as closed. Prior to approving closure of the SCI in CCaRS, the PEO should ensure that each SCI is complete according to the criteria listed below. PEOs have the authority to delegate this approval authority to best fit their organizational structure and program portfolio.

- ❖ Are the result details clear and complete?
 - Do the result details contain descriptions of each action and outcome?
 - Do the result details describe reasons for success or failure?
 - Are result details sufficient to allow for duplication of strategies?
 - Do the SC Savings (Cost Avoidance and/or Budget Savings) reflect the current WCE and PB positions?
- ❖ Has the Reinvestment Plan been updated? *NOTE: Cost Avoidance from the Operations and Maintenance Phase will not have a Reinvestment Plan.*

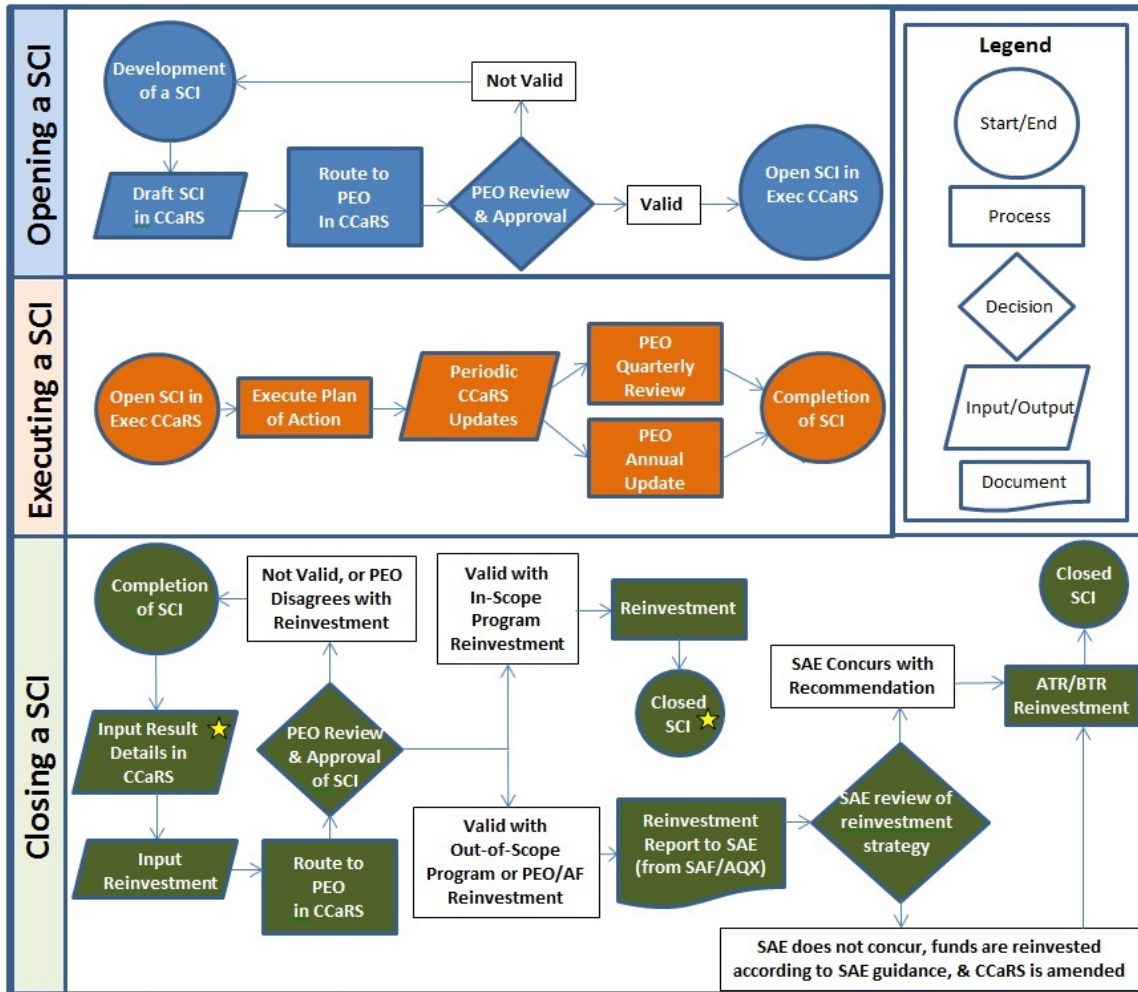


Figure 2: SCI Execution Flow Chart

★ If a SCI does not realize savings, enter result details and route the SCI to the PEO for review & approval to achieve a closed SCI

3.4. Data, Reporting, and Reviews

3.4.1. Fundamental Data and Reporting Requirements

- ❖ ACAT I-III programs are required to report on their SCM. This requirement includes establishing a minimum of one SCI unless they have an approved waiver. Although programs should be striving to establish SCIs throughout all phases of the program lifecycle, there is no requirement to at all times have an open SCI. The specific rule set used to identify which ACAT I-III programs are required to report SCM is provided in the last bullet of this Section (3.4.1.).
- ❖ CCaRS and Executive CCaRS are the authoritative data sources for AF SCM.

Initiatives and savings must be documented in CCaRS; reports will be extracted from Executive CCaRS. The SAE's intent is to leverage Executive CCaRS to minimize additional reporting at the PM and PEO levels.

- ❖ To help ensure PEOs and SAF/AQ are synchronized with respect to program SC status, SAF/AQX will provide PEO staffs with a SC Review by the second week of every month. An example of the SC Review is provided in Appendix II. The data used from these reports will be the foundation for the quarterly OSD Business Senior Integration Group (BSIG) review. The following rule set will be used to determine which programs are reported on:
 - The program must be listed as Active on the Acquisition Master List
 - The program lead must be listed as Air Force or DoD
 - The program must be at Milestone A or beyond (e.g. If a program has Material Development Decision listed as its Current Milestone or Next Milestone it will not be included in SC reporting)
 - The program does not have a waiver

NOTE: Any program that does not meet all of the four requirements above, yet has an SCI and associated projected or realized savings, will be included in AF SC reporting.

3.4.2. Senior Level Reviews and Reporting Requirements

The occasions for SC reporting are MS Reviews, DAES reviews, Defense Acquisition Board reviews, quarterly reports to the SAE, and quarterly OSD BSIG reviews.

- ❖ At MS A, B, and C Reviews, the PM will present SCIs and should be prepared to present projected and realized SC Savings.
- ❖ Selected PMs and PEOs will report SCIs at DAES reviews. PMs will include in their presentations Plans of Action and Milestones for major SCIs along with projected and realized SC Savings by FY.
- ❖ Selected PMs and PEOs will report SCIs exported from Executive CCaRS during the Spring Program Review.
- ❖ SAF/AQXE will provide a quarterly report to the SAE exported from CCaRS. This report will be the basis for the BSIG review. In addition to overall AF SC status this report will include three current examples of successful SCIs. PEOs will provide SAF/AQXE relevant information on SCIs that have been selected to be highlighted for the BSIG. Example charts are provided in Appendix III.

Minimum SC reporting requirements - PMs and PEOs should be prepared to address the

following aspects of their SCM during the previously mentioned reviews:

- ❖ Open initiatives, including projected SC Savings, plans of action, milestones for achievement, and associated reinvestment plans.
- ❖ Closed initiatives, including actions taken and associated outcomes, realized SC Savings, and associated reinvestment reports.
- ❖ Realized and projected SC Savings by FY, across the FYDP, and post-FYDP.
- ❖ Examples of successful and/or unsuccessful initiatives, including actions taken and associated outcomes as well as personnel involved.

3.4.3. PEO Yearly SCI Review

PEOs, or a designated representative will review SCIs according to the following criteria not less than once a year:

- ❖ Have all SCIs with projected realization dates in the previous FY been closed or revised in CCaRS?
- ❖ Have all programs within the PEO's portfolio had, or currently have an SCI or an approved waiver in place?
- ❖ Open Initiatives
 - Has execution occurred as planned?
 - Does the projected realization date require revision?
 - Is the description clear and complete?
 - Does the budget need to be revised?
 - Does the reinvestment plan need to be revised? *NOTE: Cost Avoidance from the Operations and Maintenance Phase will not have a Reinvestment Plan.*
- ❖ Closed Initiatives
 - Are actions and outcomes described in the result details section of CCaRS?
 - Have all realized Budget Savings been recommended for reinvestment in CCaRS?
 - Should the overdue SCI be closed or should the projected realization date be revised?

3.5. Reinvestment

Budget Savings generated through SCIs will be reinvested at the lowest level possible, providing PEOs with greater flexibility in managing their portfolios. Reinvestment recommendations will be provided in CCaRS through the "Reinvestment Category" data field.

The process for reinvestments (in-scope & out-of-scope) is:

- ❖ PMs will provide recommendations to PEOs for the reinvestment of Budget Savings.
- ❖ In-scope program reinvestments are approved by the PEO. By approving the program reinvestment, the PEO attests that the program is not utilizing the savings to alter the program's scope.
- ❖ PEOs will provide recommendations to the SAE for out-of-scope program reinvestment.
- ❖ Out-of-scope program reinvestments are reviewed/approved by the SAE.
 - SAF/AQXE will provide a quarterly report to the SAE, highlighting out-of-scope reinvestment recommendations for SAE review/approval.
 - When the SAE determines how the savings will be reinvested, SAF/AQXE will notify the PEO.
 - PMs and PEOs will utilize existing Below Threshold Reprogramming (BTR) and Above Threshold Reprogramming (ATR) processes to redistribute funds.
 - If the SAE does not approve the PEO recommendation, the PM will amend CCaRS to reflect the SAE-directed reinvestment.

To avoid duplication, the PM owning the requirement and funding will manage CCaRS entries. Offices that assist other programs through the establishment of enterprise ordering agreements or other execution vehicles may brief those activities at relevant reviews. The requirement/funds owner is encouraged to reference the support of other offices in the CCaRS SCI description.

The PM will notify the Major Command and/or Core Function Lead (CFL) A-8 office when any Budget Savings that affect non-execution years within the FYDP are realized.

NOTE: SCIs that touch Operations and Maintenance 3400 dollars will not have a Reinvestment Plan due to the current Air Force management requirements for 3400 funds. This area has great potential for reduction of Life Cycle Costs and should be vigorously pursued even without reinvestment opportunities to the associated program.

3.6. Waivers

The SAE is the approval authority for all SC waivers. Prior to submitting a waiver request to the PEO, PMs should contact SAF/AQXE to ensure the validity of their waiver request. If the waiver request is valid the PMs may submit this waiver request to their PEO. If the PEO concurs, the PEO will submit the waiver request to SAF/AQXE. The following inputs are required in the PEO's waiver request:

- ❖ Memorandum for Record (template is found in Appendix IV)

- ❖ Funding profile (exported via CCaRS)
- ❖ Explanation with supporting rationale
- ❖ Proposed expiration date
- ❖ PEO's Point of Contact (POC)
- ❖ PEO signature

All waiver requests should be sent to SAF/AQXE workflow (usaf.pentagon.saf-aq.mbx.saf-aqxe-ent-oversight-requirements-wor@mail.mil). Title the e-mail "SC Waiver Request for [insert program name] Program." The SAF/AQXE team will review all requests, resolve any questions/concerns, and route the package to SAF/AQ for approval.

SAF/AQXE will send waiver notifications to the PEO's POC. The PEO or delegated personnel will be responsible to upload all documents including the approved waiver into CCaRS and update the radial button to show "Approved Waiver."

For reporting purposes, waivers will not be considered approved until CCaRS reflects an SAE approved waiver.

SAF/AQXE will maintain a repository of approved waivers.

3.7. Should Cost Training/Resources

3.7.1. Online Resources

- ❖ Air Force repository of OSD and AF SC guidance and direction:
<https://www.my.af.mil/gcss-af/USAF/ep/browse.do?programId=t0ECF2BB845754CE6014598CDD44E0377&channelPageId=s6925EC13430A0FB5E044080020E329A9>
- ❖ SYS 190 (WKSP 0655) - Air Force Should Cost Fundamentals: "This on-line course provides the student with an understanding of the scope and types of SCIs. The student will:
 - Understand how Should Cost Management fits within the Department of Defense's Better Buying Power acquisition principles
 - Understand how Should Cost relates to their individual programs
 - Understand a step-by-step methodology for developing and executing Should Cost Initiatives to reduce program costs
 - Understand current Should Cost policy and its role in defense acquisition programs
 - Understand the purpose and importance of developing SCIs on Air Force programs

- Understand how the Comprehensive Cost and Requirement System (CCaR) is used to document and track SCIs
- Know where to get help and guidance in using CCaR to document and track SCIs.”
- The link to register for the course is: <https://www.afit.edu/ls/coursedes.cfm?p=259&accal=0164> (if this link does not work, cut and paste the address into your internet browser). On the AFIT NOW website the course number is temporarily listed as WKSP 0655.
- ❖ DAU Should Cost Portal: https://apl.dau.mil/_sso/Default.aspx?ReturnUrl=%2fsc. This website has videos providing an overview of SCM, as well as, SC tips, techniques, and success stories.
- ❖ Web CCaRS Should Cost Guidebook: https://cs3.eis.af.mil/sites/OO-FM-MJ-43/AFKN_Docs/Acquisition%20Guidance/Web%20CCaR%20Should%20Cost%20Guidebook%20v2.0%2028%20May%202015.pdf. This document provides detailed instructions on how to document and report SCIs.

3.7.2. Hands on Training

In 2016 the AFIT will begin holding SCI Workshops, aimed at facilitating Program Office personnel through a step by step SCI development process. Each workshop will be approximately two days in duration and have the capacity to accommodate two IPTs. Students will utilize current program data to conduct their SCI analysis, and have a minimum goal of developing one SCI per IPT by the end of the workshop. AFIT will work with AFLCMC and the various PEOs to identify candidate programs for this workshop.

NOTE: Before attending the workshop students must complete SYS190 (WKSP 0655) - Air Force Should Cost Fundamentals.

4. Roles and Responsibilities

4.1. Program Manager (PM)

- ❖ Responsible for the program’s SCIs.
- ❖ Utilize an IPT or functional experts to develop and execute SCIs.
- ❖ Ensure SCI data is correctly entered into CCaRS and routed to the PEO or designated representative for approval.
- ❖ Ensure SCIs are tracked and updated in CCaRS until they are closed.
- ❖ Notify the PEO, or designated representative when SCIs are completed and SC Savings have been achieved.

- ❖ Submit SC waiver request to the PEO for approval of submission to SAE.

4.2. Program Executive Officer (PEO)

- ❖ Validate and approve SCIs in CCaRS, or designate a representative to do so.
- ❖ Ensure SCIs are clearly and accurately documented.
- ❖ Ensure SCIS are reviewed no less than once a year.
- ❖ Responsible for all SCIs and savings within their portfolio.
- ❖ Ensure completed SCIs are reviewed, approved, and closed.
- ❖ Provide recommendations to SAE for out-of-scope reinvestment.
- ❖ Submit SC waiver requests to the SAE through SAF/AQXE.

4.3. Center Staffs

- ❖ Provide Subject Matter Experts to advise PMs and PEO staff.
- ❖ Collect Best Practices and Lessons Learned.
- ❖ Maintain communication and coordination of current SC developments and sources for assistance.

4.4. Secretary of the Air Force, Acquisition Integration (SAF/AQX)

- ❖ Provide SC data to USAF and OSD leadership.
- ❖ Act as the Headquarters Air Force (HAF) POC for SC policy, procedure, and reporting.
- ❖ Serve as the AF focal point for SC best practices and lessons learned.
- ❖ Conduct periodic assessment of SC data.
- ❖ Direct Centers & PEO offices for SC products and reports as needed.

5. Points of Contact (POC)

Inquiries regarding SCM should first be directed to Center level SC POCs.

- ❖ AFLCMC/AQP workflow: asc.aqm@us.af.mil
- ❖ SMC workflow: SMC/FMCSC@us.af.mil
- ❖ NWC workflow: afpeo.ss-03@us.af.mil

If additional assistance is required, direct inquiries to the SAF/AQXE workflow:
usaf.pentagon.saf-aq.mbx.saf-aqxe-ent-oversight-requirements-wor@mail.mil

For information regarding the Air Force Institute of Technology SCI Workshop
contact: LSACOURSEMANAGER@afit.EDU

Appendix I – Blanket Waiver for JUON, UON, JEON, LCM, QRC, and SB



ASSISTANT SECRETARY, ACQUISITION

DEPARTMENT OF THE AIR FORCE
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON DC

26 August 2015

MEMORANDUM FOR SAF/AQ

FROM: SAF/AQXR

SUBJECT: Should Cost Blanket Waiver Request

1. In accordance with SAF/AQ's memorandum titled *Updated Should Cost Management Guidance and Business Rules*, dated 6 Nov 2014, a blanket waiver is requested for ACAT programs that are categorized as a Low Cost Modification, Service Bulletin, Joint Urgent Operational Need (JUON), Joint Emergent Operational Need (JEON), or a Quick Reaction Capability (QRC).
2. The SAF/AQ Should Cost (SC) Management (SCM) Guidance and Business Rules dated 6 Nov 2014 assigns SC policy, procedure and reporting responsibilities to SAF/AQX. In response to PEO and program office feedback, SAF/AQX is requesting this blanket waiver. A blanket waiver allows these programs to execute their primary mission, which is focused on safety, expediency, and/or fielding combatant capability to the Joint warfighter. If programs are able to implement SCM, they are directed to document their initiatives in the SC database.
3. If you have any questions, I can be reached at roger.buckner.4@us.af.mil, DSN 260-0373, or commercial 571-256-0373.


ROGER V. BUCKNER, JR, NH-IV
Should Cost Functional Manager

1st Ind, SAF/AQX

To: SAF/AQ

Concur / Non-Concur with this waiver.


BOBBY W. SMART

2nd Ind, SAF/AQ

To: SAF/AQX

I Approve / Disapprove this waiver.



William A. LaPlante
Assistant Secretary of the Air Force
(Acquisition)

Appendix II – Monthly PEO Should Cost Review



U.S. AIR FORCE

Should Cost Status

PEO XXX

Should Cost Stats			
Program Category	ACAT I	ACAT II	ACAT III
Active Programs	7	2	42
Programs w/SC initiatives (SCI)	6	2	40
Programs w/ Waiver	0	0	0
Programs w/out SCIs	1	0	2
% w/SCI or Waiver	86%	100%	95%
Realized Savings (FY16)	\$77M	\$0M	\$29M
Total Projected Savings (FY16)	\$81M	\$3.5M	\$87M

FY16 Realized Savings (key programs)					
ACAT I		ACAT II		ACAT III	
Prgm X1	\$70M	Prgm Y	\$20M	Prgm Z	\$9.4M
Prgm X2	\$6.5M	PrgmY2	\$5M	-	-
-	-	-	-	-	-

Programs w/out SC Initiative or Approved Waiver		
ACAT I	ACAT II	ACAT III
Prgm A1	-	Prgm B1
-	-	Prgm B2

Integrity - Service - Excellence

SAF/AQX will generate the chart above for each PEO by the second week of every month. This is done to ensure SAF/AQX, AFLCMC, SMC, NWC and associated PEGs maintain consistency when reporting Should Cost Savings/Initiatives.

Appendix III – Sample Should Cost Initiative Chart for the Business Senior Integration Group



Program / SCI Name

U.S. AIR FORCE

\$M	Prior	FY15	FY16	FY17	FY18	FY19	FY20	To Comp	Total All Years
Will Cost:	144.9	72.5	81.7	65.9	68.9	83.8	119.4	276.8	913.9
Should Cost:	0.0	72.5	81.7	64.3	67.3	81.9	117.5	270.3	900.4
Savings:	0.0	0.0	0.0	1.6	1.6	1.9	1.9	6.5	13.5

<u>Key Events/Schedule (Plan):</u>	
<input type="checkbox"/> Xxx	FY16
<input type="checkbox"/> xxx	FY17
<input type="checkbox"/> Xxx	FY27

- SPM: XXX
- PEO: XXX
- SCI Name / Description
 - Details / Explanation of SCI
 - Additional Details / Facts



Integrity - Service - Excellence



DEPARTMENT OF THE AIR FORCE
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON DC

ASSISTANT SECRETARY, ACQUISITION

Appendix IV – Should Cost Waiver Template

XX XXX XX

MEMORANDUM FOR AFPEO/**XXX**
SAF/AQ
{**Program office symbol**}
IN TURN

FROM: {**Program office symbol**}

SUBJECT: Should-Cost Waiver Request for **XXXX** Program

1. In accordance with SAF/AQ’s memorandum titled Updated Should Cost Management Guidance and Business Rules, dated 6 Nov 2014, I respectfully request a SC waiver for the **XXXX** ACAT **X** program.

2. {**Provide a supporting rationale and proposed expiration date. Attach a current FYDP funding profile; submit an AF Form 1537, “Spruill” chart, or equivalent documentation**}

3. If you have any questions, I can be reached at XX.XXXXX@us.af.mil, DSN **XXX-XXXX**, or commercial **XXX-XXX-XXXX**.

{ PM SIGNATURE BLOCK }

Attachment:
XXX Program Funding Profile

1st Ind, AFPEO/**XXX**

To: SAF/AQ

I Concur / Non-Concur with this waiver.

{ PEO SIGNATURE BLOCK }

2nd Ind, SAF/AQ

To: {PM office symbol}

I Approve / Disapprove this waiver.

{SAE SIGNATURE BLOCK}

Appendix V – Definitions

Affordability: a determination of what the AF is willing to pay for a requirement. For the purposes of SC, the establishment of cost and performance targets, such as the Average Procurement Unit Cost (APUC) and the Program Acquisition Unit Cost (PAUC), to determine cost ceilings. Occurs prior to and including MS B. Affordability and SCM are conducted concurrently between MS A and MS B. Affordability is considered a function of the HAF and CFL programming process. Affordability decisions may not be reported as SC Savings.

Budget Savings: Budget Savings occur within the execution years and Future Year Defense Plan (FYDP), provide opportunities for reinvestment, and are identified by subtracting the SCE from the President's Budget (PB). In the year of execution, WCE must be adjusted to actual budget funding level in order to accurately capture realized budget savings.

Closed Initiative: a SCI that requires no further action and has been closed in CCaRS. The criteria for a closed initiative includes CCaRS data that provides detailed results, including actions taken and associated outcomes, a determination of whether the initiative was successful or unsuccessful, the amount of realized savings, and an approved reinvestment report.

Cost Avoidance: Cost Avoidances occur throughout the life cycle of the program, do not require reinvestment, and occur either in the FYDP or post-FYDP. It is important to note that the WCE is the approved program estimate and not the PB. SCIs are then used to bring program costs down to, or below the PB.

Development of an Initiative: the process by which a Program Manager and/or IPT conducts an analysis of cost elements comprising the WCE and PB, challenges underlying assumptions, and evaluates business practices and cost drivers to determine what opportunities exist to achieve savings through an alternative management strategy.

Execution: that period during which the strategies identified by a SCI are conducted, whether a one-time event such as a contract award or a longer period strategy such as reduction of annual testing requirements. For multi-year initiatives, the execution periods must be separated into multiple initiatives by FY (i.e. contract negotiation FY15, contract negotiations FY16, etc.).

In-scope: program requirements as defined in the most recent Milestone Decision Document and/or ADM. Requirements may be modified by the MDA or the DoD's and/or Service's Department's PB position.

Open Initiative: a SCI that has been approved by the PEO in CCaRS and is being executed.

Out-of-scope: program requirements that are not included in the most recent Milestone Decision Document and/or ADM.

Planned Initiative: a SCI that is not yet approved in CCaRS. Planned initiatives will not be

included in AF reports until they are PEO approved in CCaRS and become Open Initiatives.

Projected Savings: WCE (-) SCE; reasonably predictable SC Savings related to an Open SCI; synonymous with Projected SC Savings; can be Budget Savings or Cost Avoidance.

Realization Date: for Open Initiatives, the projected closure date for an initiative, indicating when the execution period will be complete and results will be known. For Closed Initiatives, the date that the initiative was completed and closed in CCaRS, indicating that the execution period has ended. All SCIs must have a reasonably foreseeable point of closure.

Realized Savings: reductions in actual costs (outlays), signed contract value, or the PB's position resulting from a specific SCI, compared to the WCE. WCE (-) Realized Cost; synonymous with SC Savings from a Closed SCI.

Reinvestment Plan/Report: prior to realization a Reinvestment Plan describes the PM's recommendation to the PEO for reallocation of Budget Savings, including projected Budget Savings, appropriation, and the proposed recipient (Program, PEO, AF). After realization a Reinvestment Report describes the actions taken on the realized Budget Savings.

Rephasing: for the purposes of SC, re-phasing of a program that requires a revised schedule and cost estimates. The difference between the previous estimate and the new estimate are not considered valid SC Savings.

SC Estimate (SCE): the estimated cost of a program based on the projected effects of one or more SCIs on program costs, utilizing realistic technical and schedule baselines, and assuming success-oriented outcomes from implementation of efficiencies, lessons learned, or best practices. Utilized as the estimate floor to account for SC Savings.

SC Initiative (SCI): a discrete action with a distinct strategy, which includes a Plan of Action and an Execution Period for achieving reduced programmatic cost without unacceptable reduction in value received. SCIs do not include actions required for Affordability or re-phasing. If a SCI occurs over multiple years, then SCIs should be entered into CCaRS for each FY.

SC Savings: the savings resulting from the successful implementation of a SCI. SC Savings = Budget Savings (+) Cost Avoidance, can be Projected or Realized.

Successful SCI: a Closed SCI that realized some or all of the projected savings.

Unsuccessful SCI: a Closed SCI that did not realize any savings.

Validation: PMs and PEOs ensure each SCI meets the criteria in section 3.3. Validation will be performed by the PEO. By approving the SCI, the PEO is attesting to the validity of the SCI.

Will Cost Estimate (WCE): reflects the MDA approved cost estimate. Examples include establishment of initial APB at MS B or at times where other factors drive APB updates. If

annual estimates drive a significant change reflecting the “true state” of a program that is not yet captured in an APB change, the MDA may also direct the WCE be changed. It is important to note, that it is not the intent of this guidance to direct annual WCE updates. The Should Cost Business Rules do not supersede guidance in AFPD 65-5.

Appendix VI – Acronyms

ACAT – Acquisition Category	MAIS – Major Automated Information System
ADM – Acquisition Decision Memorandum	MDA – Milestone Decision Authority
AF – Air Force	MDAP – Major Defense Acquisition Program
AFIT – Air Force Institute of Technology	MS – Milestone
AFLCMC – Air Force Life Cycle Management Center	NACA – Non-Advocate Cost Assessment
AFMC – Air Force Materiel Command	O&S – Operations and Support
APB – Acquisition Program Baseline	OSD – Office of the Secretary of Defense
APUC – Average Procurement Unit Cost	PAUC – Program Acquisition Unit Cost
BA – Budget Authority	PB – President’s Budget
BBP – Better Buying Power	PE – Program Element
BSIG – Business Senior Integration Group	PEO – Program Executive Officer
CAE – Component Acquisition Executive	PM – Program Manager
CCaRS – Comprehensive Cost and Requirement System	POC – Point Of Contact
CFL – Core Function Lead	SAE – Service Acquisition Executive
CI – Cost Initiative	SC – Should Cost
DAES – Defense Acquisition Executive Summary	SCE – Should Cost Estimate
DAU – Defense Acquisition University	SCI – Should Cost Initiative
DoD – Department of Defense	SCM – Should Cost Management
DoDI – Department of Defense Instruction	USD (AT&L) – Under Secretary of Defense (Acquisition, Technology and Logistics)
FFP – Firm Fixed Price	WCE – Will Cost Estimate
FY – Fiscal Year	WCM – Will Cost Management
FYDP – Future Year Defense Plan	
HAF – Headquarters Air Force	
ICE – Independent Cost Estimate	
IPT – Integrated Product Team	