

REDUCING CORPORATE SUPPORT AND IMPROVING THE EFFICIENCY OF THE COMMISSION'S INTERNAL PROCESSES

**A Report for the House and Senate
Committees on Appropriations**

By the U.S. Nuclear Regulatory Commission

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Introduction

This report describes the Nuclear Regulatory Commission's (NRC) plan to reduce its corporate support and office support (overhead) requirements and improve the efficiency of the Commission's internal processes. In addition, it provides the review from two outside entities, EY (formerly Ernst and Young) and the National Academy of Public Administration (NAPA), budgetary impacts from agency initiatives, and a long-term workforce plan. This report was developed as requested by the Joint Explanatory Statement prepared by the House and Senate Appropriations Committees accompanying the Consolidated and Further Continuing Appropriations Act of 2015.

Background

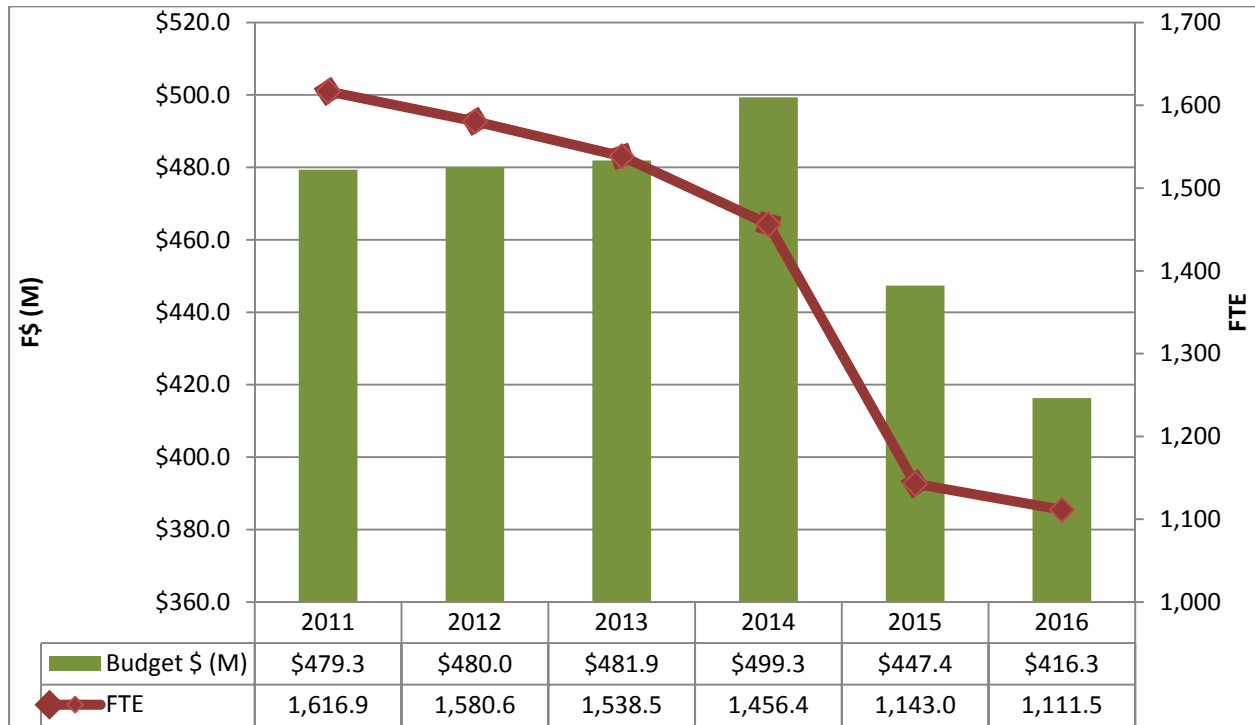
From 2005—with the passage of the Energy Policy Act—to early 2010, the United States was preparing for a “nuclear renaissance.” Based on the nuclear power industry's expressed intentions, the NRC was anticipating a large number of applications for new nuclear power plants as well as fuel cycle facilities and other new work. In preparation for this increase in anticipated new work, the agency was authorized to expand considerably its budget and staff. In 2005, the NRC's budget was \$669 million, with 3,100 full-time equivalent (FTE) personnel. By 2010, the budget was over \$1 billion, with more than 4,000 staff.

For a variety of reasons, many new reactor license applications were never submitted, or were withdrawn or deferred. Consequently, the rapid growth in staff and increasing budgets leveled off, and the NRC moved into a flat budget environment. This reality required exercising greater control in all areas, particularly in managing corporate support, including administrative services, financial management, acquisition, human capital, and information technology (IT) resources.

The NRC has been working to reduce overhead since 2010. In November 2010, the agency initiated the Transforming Assets into Business Solutions (TABS) to identify efficiencies and improve business practices that would lead to budget and resource savings. In June 2014, the NRC embarked on an effort called Project Aim 2020 to identify ways to enhance the NRC's ability to plan and execute the agency's mission more efficiently while adapting in a timely and effective manner to a dynamic environment. In addition, in February 2015, the NRC contracted with EY to conduct a review of the agency's overhead functions and to identify ways to reduce costs with no impact on the agency's ability to carry out its mission. All of these efforts have contributed to the NRC's plan to reduce overhead requirements and improve NRC efficiency.

Between the fiscal year (FY) 2011 Enacted Budget and the FY 2016 President's Budget, the agency realized a net reduction of 219 FTE or \$36.4 million in overhead. Centralization of corporate functions for the TABS initiative was a primary contributor of the decrease, while other contributors included the merger of the Office of Federal and State Materials and Environmental Management and the Office of Nuclear Materials Safety and Safeguards, and the agency's overall effort to reduce overhead, including a decrease in the Regional office support staff. The graph below illustrates the overhead reductions over six years and includes a budgetary adjustment of 287 supervisory FTE from the Office Support Business Line into the major program business lines the FTE directly support.

TOTAL NRC Overhead* - FY 2011 to FY 2016



*Overhead includes resources from both the Corporate Support (centrally managed agency infrastructure costs) and Office Support (indirect resources that sustain an individual office) Product Lines.

Transforming Assets into Business Solutions (TABS)

At the NRC's June 2010 senior leadership meeting, it was agreed that the agency needed to reduce its overhead and become more centralized and efficient. On August 16, 2010, as part of its approval of the fiscal year 2012 budget proposal, the Commission directed the staff to reduce overhead by \$7.5 million, and to provide the Commission with a plan to reduce the duplication of effort between program and corporate offices. In November 2010, the agency formed the TABS Task Force to lead this effort.

The task force issued the initial TABS report in May 2011 with 29 recommendations in 10 subcategories and 15 additional areas of consideration. As of January 2015, all of the major TABS initiatives have been completed or dispositioned. As a result of implementing the TABS recommendations, the NRC gained efficiencies across the agency and significantly reduced overhead by centralizing 29 functions and streamlining and standardizing corporate business processes.

Many improvements to corporate processes, such as meetings and conferences, budget formulation, IT service requests, and training coordination, were realized because of TABS.

Two examples of where streamlining and standardization occurred are training and acquisitions. Training is an example of a process that now takes an agency-wide approach. The acquisition process is an example of where the centralized model has brought a higher level of quality control and helped to more effectively ensure the agency is in compliance with executive orders, directives, and the Federal Acquisition Regulations (FAR). While there have been reductions in overhead, there has also been a need to invest in Information Technology to improve efficiencies and further investments are likely in the future.

Project Aim 2020

In April 2014, the NRC conducted its spring senior leadership meeting and focused on performance management. Both the fall and spring senior leadership meetings were successful in raising awareness among the leaders about necessary improvements in planning, budgeting, and performance management. These discussions established the foundation for Project Aim 2020 by raising awareness among senior leaders of the importance of improving efficiency of NRC operations.

In June 2014, the NRC established a small team to develop the long-term workload forecast for the agency, along with the framework and recommendations to enhance the NRC's ability to plan and execute its mission in a more effective, efficient, and agile manner. This project, conducted under a charter established and overseen by the Commission, was initiated as a collaboration between the NRC's Executive Director for Operations and the Chief Financial Officer. The purpose of the project was to identify ways to enhance the NRC's ability to plan and execute the agency's mission more efficiently while adapting in a timely and effective manner to a dynamic environment.

The Project Aim 2020 team received input from a broad array of internal and external stakeholders to obtain perspectives, opinions, best practices, and information to forecast the future workload and operating environment in 2020. The team conducted an analysis comparing the current state of the agency and the challenges and trends the agency may face between now and 2020 to identify gaps, obstacles, and opportunities for improvement.

The most transforming themes identified by the team are to:

- Enhance the culture of the NRC to increase efficiency, effectiveness, agility, and flexibility.
- Improve talent management to ensure the NRC has the right number of people with the right skills at the right time.
- Sharpen NRC focus on achieving desired outcomes in performance management, planning, people, and process.
- Strengthen unity of mission in which priorities are established at the agency level and resources are promptly and effectively deployed to accomplish these priorities.

These transcending themes are reflected in the strategies grouped into people, planning, and process. The people recommendations include improving talent management to ensure the NRC has the right number of people with the right skills at the right time, enhancing employee agility to reduce the time required to shift resources to meet the demands of a changing environment, and increasing organizational efficiency through a focus on outcomes and agencywide priorities. The planning recommendations include streamlining and standardizing the planning and budget formulation process and re-baselining the work of the agency.

Included in the process recommendations are actions for improving the transparency of fees, improving the operating reactor licensing process, and streamlining, standardizing, and clarifying roles and responsibilities in other processes. As proposed by the staff, successful implementation of these strategies is expected to play an important role in helping the agency accomplish our mission more efficiently, while operating with fewer resources over the next several years.

As a complement to the work performed by the Project Aim 2020 team, the NRC used an independent organization, the National Academy of Public Administration (NAPA) to broaden insights and enhance the final recommendations. NAPA's comprehensive review of the project's approach, entitled, "External Process Evaluation of Project Aim 2020," is included as part of the report, "Achieving Exemplary Nuclear Regulatory in the 21st Century – Report on Project Aim 2020" (Attachment 1). NAPA's review and recommendations on the report, including their views on the NRC's challenges in operations, are provided as Attachment 2.

After review, and with Commission direction, the agency will implement the approved strategies during the next couple of years.

Overhead Assessment

Starting in the FY 2011 Budget, the NRC has characterized overhead as Corporate Support and Office Support. Corporate Support includes acquisitions, administrative services, financial management, human resources management, information management, information technology, international activities, outreach, policy support, training, and travel. Office Support includes top-level management, administrative assistants, and other office support staff.

The creation of Office Support had the unintended consequence of increasing those resources that the agency identifies as overhead. Because there is no standard approach across the Federal government to budget and account for overhead resources, what the NRC has referred to as "overhead" throughout the agency's history has changed over time based on changing perceptions of the concept of support activities. In 1985 and 1990, the majority of the resources contained in the "Program Direction and Administration" and "Nuclear Safety Management & Support" sections of the agency's Congressional Budget Justifications (CBJ) included mostly FTE. At that time, the categories that the agency now labels as overhead were not specifically called out as such. By 1995, the NRC's resource request included a large jump in the amount of resources identified as overhead and the agency began to include more types of activities including policy support, training, and grants. FY 2005 was the first year that the agency's budget was presented in a full cost manner, allocating the agency's overhead and support costs between the Nuclear Reactor Safety and Nuclear Materials and Waste Safety Programs. Around the same time, costs included in the "Management and Support" section of the CBJ began to mirror many of the same activities currently labeled as overhead. With the introduction of Office Support in the FY 2011 budget cycle, overhead resources increased an additional three percent as a result of the decision to classify certain contract dollars and FTE as support.

During the FY 2016 and FY 2017 budget formulation processes, the agency is attempting to more appropriately categorize resources labeled as overhead. For example, in the FY 2016 cycle, a portion of the supervisory FTE previously included in office support that contribute directly to achieving the agency's mission has been directly budgeted in the relevant business lines that it supports. Even though several efforts have been made to reduce overhead over the past several years, as a percent of the total agency budget, overhead still remains inflated due to the prior classification decisions described above. For these reasons, as part of the FY 2017

budget cycle, the agency will continue with its efforts to identify resources that should no longer be labeled as overhead.

To assist the agency in reducing corporate support, the NRC contracted with EY to conduct a review of the agency's overhead functions and to identify ways to reduce costs with no impact on the agency's ability to carry out its mission. The specific objectives of the contract were to:

- Provide a standard definition of overhead, any government-wide issues, and standard guidance related to overhead;
- Conduct a high-level benchmarking of the agency's overhead functions to the processes and functions used by other similarly situated Federal agencies;
- Make recommendations to adjust the NRC budget structure to align overhead and support functions with best practices of the other similarly situated Federal agencies and applicable federal guidance; and
- Make recommendations to reduce costs for the NRC support functions that are in line with Federal Government best practices without impacting the ability to meet organizational mission statements.

EY confirmed that there is no standard government-wide definition of overhead costs but found that the CxO Council uses five corporate support cost categories: acquisition, financial management, information technology, human capital, and real property. NRC overhead costs are roughly in line with peer agencies when compared using the CxO Council categories. However, because of its mission, the NRC has additional security requirements that contribute to higher costs in areas such as physical and personnel security. Additionally, none of the reviewed agencies make a budgetary distinction between agencywide (corporate support) and office-specific mission support (office support) costs. As such, EY recommends that the NRC eliminate the Office Support category. Specifically, EY recommended that the NRC identify which of these costs are programmatic and which are truly overhead. It should be noted that the EY report refers to some of these costs as mission support costs. Another recommendation is to remove the International Activities Product Line resources from the Corporate Support Business Line as these functions are more directly related to the agency mission.

EY identified peer agency leading practices that have served to reduce overhead costs. EY makes several recommendations on how NRC can implement similar practices that are included in the attached report (Attachment 3). EY also identifies critical success factors in reducing overhead costs that include initial investments to generate longer-term savings and a commitment by leaders to better understand cost drivers and implement possible changes.

Long-term Workforce Plan

An essential objective of Project Aim 2020 was to project the workload and workforce of the agency in 2020 under a variety of different scenarios. Based on the information collected and analyzed, as described in Attachment 1, the NRC can expect the workload in most programs to be about the same or down slightly in 2020 compared with FY 2015. The largest reduction in agency workload is expected to occur in the New Reactor Business Line as new reactors under construction are completed and placed in service.

When considering the NRC's future workforce needs, it is important to consider both the numbers, as well as the grades and competencies, of NRC employees and supporting organizations such as the National Laboratories, agency partners, universities, and contractors.

Most of the agency's workforce competencies are expected to be about the same in 2020 as they are now, with the exception of the New Reactors and Corporate Support Business Lines.

By considering the workload trends and workforce needs in 2020, the NRC estimates that the agency could contract by about 10 percent, with a workforce of about 3,400 employees, compared to about 3,700 projected for FY 2015 and about 4,000 employees at the height of the agency's expansion in FY 2010. A reduction of this magnitude would take the agency back to the levels experienced during the mid-2000s, and reflects workload reductions associated with new nuclear construction, completion of actions related to the Fukushima lessons learned, and elimination of the Operating Reactor licensing backlog. It also reflects aspirations to enhance agency efficiency and reduce agency overhead through the successful implementation of the Project Aim 2020 strategies.

Conclusion

The Commission is cognizant of our changing environment and is committed to continue focusing on using resources more effectively and efficiently. Since FY 2011, the agency realized a net reduction of 219 FTE or \$36.4 million in overhead. The NRC expects to implement a number of recommendations from Project Aim 2020 to improve its internal processes. Based on assistance from NAPA and EY, the NRC is working to further reduce its corporate support requirements and improve the efficiency of internal processes. The April 30, 2015, EY report makes several recommendations that generally align with the Project Aim recommendations. These, and any additional recommendations, will be evaluated by the agency as part of the implementation of Project Aim.

An essential objective of Project Aim was to project the workload and workforce of the agency in 2020 under a variety of different scenarios. By considering the workload trends and workforce needs in 2020, the NRC estimates that the agency could contract by about 10 percent, with a workforce of about 3,400 employees, and a total budget of about \$900 million.

Attachments:

1. Achieving Exemplary Nuclear Regulation in the 21st Century – Project Aim 2020 Report
2. NAPA Report, "Feedback Report on the Nuclear Regulatory Commission's Project Aim 2020 Report"
3. EY Report, "Overhead Assessment, April 30, 2015 Final Report"