

Budget Issues and Workforce Impacts

Written by Nick Sanders
Tuesday, 22 May 2012 00:00



If you've been reading blog articles on this site for any length of time, you know we've been interested in the health of the defense industrial base, and have written several articles discussing how defense contractors are reacting to budgetary pressures stemming from Congress' inability to pass a budget (as well as from several other factors, including but not limited to Dr. Carter's "Better Buying Power Initiative" and Shay Assad's attack on contractors' indirect expenses and profits). We could post several links to those blog articles, but the site has a search feature, so you can do your own homework on that, if you're so inclined.

The Aerospace Industry Associations (AIA) has published many upon many articles of its own, issuing dire warnings of the impact of "sequestration" Defense Department funding cuts on the defense industrial base workforce. In fact, the AIA [has estimated](#) job losses in the potential aerospace/defense sector at *one million heads*.

And while the devastating impact of "sequestration" is undeniable, what is less obvious is the immediate impact on the defense contractor workforce from the current budgetary uncertainty and current DOD cost reduction measures (as noted above). We want to discuss one particular story that came to our attention.

In 2005, UK-based BAE Systems acquired United Defense Industries for \$4 Billion and created [BAE Systems Land & Armaments](#), which is reportedly the largest land systems defense contractor in the world (or at least it was, until its recent losses of the M-ATV and FMTV bids). As part of its acquisition of United Defense, BAE Systems acquired the legacy

manufacturing operations of Bowen McLaughlin York (BMY), which later became the BMY Combat Systems Division of the Harsco Corporation, based in Pennsylvania.

Today, as it has for nearly 75 years, BAE Systems' York, Pennsylvania, plant manufactures a number of mature ground combat and land defense systems products—including various types of Bradley Fighting Vehicles. Nearly 1,300 employees work on defense products, as perhaps their fathers and grand-fathers did before them. (And women, too! We didn't forget.) Reportedly, 80 percent of the Army's fleet of Bradley FVs has passed through the York plant at one time or another.

But times have been tough recently. As noted, a couple of very large “must-win” bids were lost, and (as we've reported) the Army seems to have fumbled its Next Generation Ground Combat Vehicle program. With large-scale ground combat operations winding-down in Southwest Asia, and the US Army planning to halt Bradley FV production (perhaps for several years) starting in 2014, management is looking at a backlog burn-down without much in the way of new orders to replace it.

Which inevitably means workforce reductions.

In early May, 2012, BAE Systems [announced](#) that 210 workers at the York, Pennsylvania, plant would be furloughed for about 30 days this summer. That's about 20 percent of the plant's workforce. Although management commented that the furlough (which applies to both salaried management and hourly union workers) stemmed from “the normal ebbs and flows of the business,” it was clear that the move was made in response to more than the general business climate.

According to the Reuters article (link above), BAE Systems stated that the root cause of the furlough was “a delay in a Fiscal 2012 contract award for upgrades to the Army's M2 Bradley Fighting Vehicles.” The delays in awarding the contract led to slips in delivery schedules of long-lead materials from suppliers. No materials, no upgrades. Thus: temporary lay-offs.

But as usual, the story behind the story is more interesting.

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According to *Inside Defense* and *Inside the Army* (subscription required), the Army put the blame for the contract award delay on BAE Systems itself. Reportedly, the Army has asserted that the delay occurred because “BAE did not submit a compliant bid proposal.” Ms. Heidi Shyu (acting Army Acquisition Executive) wrote in an email to Congress that (reportedly), “BAE omitted the fact that they submitted an inadequate cost proposal ... which significantly contributed to the delay in contract award.”

To be very clear, we do not have any insight into BAE Systems’ proposal. We don’t know whether or not it was “adequate.” But we do know this much: The Bradley FV program has been around for thirty years, entering service in 1981. We know that the contract in question is for an award of Fiscal Year funding. Putting all that together, we have to ask how much data the Army actually needed to see in order to determine the BAE Systems’ price was fair and reasonable. They had years and years of actual cost data; what was going to be new information?

Sure, it was a single-source award and likely subject to TINA. But so what? The purpose of TINA is to place the negotiating parties on an equal footing, not to burden the contractor with providing unnecessary and costly information that confirms with the DCMA Contracting Officer and the Buying Command already knew.

What is more likely, we think, is that DCAA used its infamous Cost Proposal Adequacy Checklist, and kicked-back the proposal because it didn’t meet all the check-boxes. Again: so what? If our guess is correct, then the real question is why did the CO think s/he needed field pricing assistance to perform cost analysis on one of the Army’s most mature production programs?

And so, contract award was delayed (for whatever reason) and now more than two hundred people are facing a month without a paycheck.

But that’s not the end of the story. Demonstrating an almost unbelievable naïveté, the Army complained to Congress that (a) BAE Systems did not tell them about the consequences of the delay, and (b) BAE Systems could avoid the furlough if it only “accelerated” material deliveries from suppliers. Yes, that’s what the *Inside Defense* and *Inside the Army* stories reported.

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BAE told the Army that program supply chains don't just accelerate themselves—at least, not without a cost impact or two. The story reported that the Army told Congress that BAE Systems told them that—

BAE stated that production schedules are already locked in accounting for the furlough and even if material deliveries could be accelerated, it may be too late to make this change as the program is already in progress. Multiple program activities would require acceleration at this time, not just material lead times and those accelerations are not possible.

Next the Army tied a different approach (according to the article's reporting of the Army letter). The Army asked BAE Systems to slow down production rates and stretch out the program to avoid the furlough. ("Such a strategy would not require a material delivery acceleration.") BAE nixed that suggestion as well. BAE told the Army that if it cut its production rate in half (as the Army had requested) then it would still have to furlough half of the 210 employees. BAE Systems told the Army that slowing production would lead to a "more significant impact than [having] all BAE Bradley Production Union employees being furloughed for 30 days."

We don't know. The Army comes out of this looking pretty clueless, in our opinion. One would think that the contractor's workforce management would be left to the contractor, especially if (as the Army asserted) all the problems stemmed from the contractor's inadequate proposal. The Army's (over)reaction seems to us to have a bit of guilt associated with it.

We return to our initial question. How does the Army justify requiring a full-up, fully expensive, TINA-compliant proposal for an annual funding request? If you want to pile-on, then let's ask why this program isn't being funded with multi-year money, which would permit more robust long-term planning?

Who's running this show? We aren't really sure, but one thing is certain. It's the local workforce that's paying the price for this apparent mismanagement.