REPORT OF THE SECRETARY OF THE NAVY

Introduction

The past year has been one of tremendous accomplishment for our Navy and Marine Corps. Our men and women operating in the air, on and under the sea, and on the ground are at the leading edge of the Global War on Terrorism (GWOT). Forward deployed, combat ready Naval Forces – sustained by naval and civilian shipmates around the world – are proving every day the unique value of sovereign, independent Forces projecting power from the sea.

Guided by the President's National Security Strategy and the Secretary of Defense's (SECDEF) Defense Planning Guidance, we continue to maintain superiority over a broad range of innovative and determined enemies. Our vision and our way ahead – Naval Power 21 and the Naval Transformation Roadmap – provide the framework to align, organize, and integrate our Naval Forces to meet the wide array of challenges that lie ahead. This will require accelerating operational concepts and technologies to improve war-fighting effectiveness and enhance homeland defense; shaping and educating our force to operate tomorrow's Fleet; sustaining readiness; and harvesting efficiencies to invest in the transformation of our Navy and Marine Corps.

Our FY 2004 Budget consolidates performance management goals of the President's Management Agenda (PMA) with the FY 2001 Quadrennial Defense Review (QDR) goals. It also designates metrics the Department of Defense (DoD) will use to track associated performance results. Consistent with Government Performance and Results Act (GPRA) guidance, these results can be found in the Department of the Navy (DON) FY 2004 Budget Highlights Book (February 2003). Our efforts are summarized below and are aligned with SECDEF's balanced scorecard approach to risk management across the four components of Operations, Force Management, Future Challenges and Institutional focus areas.

Operations

We are at war and our orders from the President are to be ready for potential additional hostilities – now and in the future. We will continue to maintain our readiness in responding to global crises while remaining vigilant at home and overseas. Our enemies are widely dispersed, persistent, and innovative and our task is to dissuade, deter or defeat them. Since our Naval Forces are the Nation's "first responders" on the scene, they must be equipped, ready and capable of helping clear the way for quick and forced entry, attack and sustained battle and a gradual, graceful exit. We must continue to organize, equip and train to fight jointly and improve joint war-fighting capabilities.

We have the most combat ready force in our history. Over the past year, our investment in personnel, spare parts, ordnance, and fuel accounts enabled our Naval Forces to answer an early call to action, deploy at a higher state of combat readiness, and build a more responsive surge capability. These investments were vital to sustaining the GWOT and assuring friends and allies with our global response.

During FY 2002, we increased our Battle Group Readiness by improving manning earlier in the pre-deployment cycle. We began the merger of Navy and Marine Corps tactical air power, removing redundancies and creating an anticipated savings of several billion dollars. Our littoral warfare strategy has matured into the Expeditionary Maneuver Warfare (EMW) concept with the Advanced Amphibious Assault Vehicle (AAAV), MV-22, Maritime Prepositioning Force (Enhancement) (MPF(E)) and Landing Craft, Air Cushion (LCAC) systems providing the tactical mobility assets to spearhead EMW. We developed the Global Concept of Operations which, when fully implemented, will create Joint Maritime Force Packages, providing 37 Independent Strike Groups vice 19 Groups, to better support the 1-4-2-1 strategy set forth in the QDR. For the Missile Defense Program, we established a path for operational capability by FY 2004 and the test program achieved a third consecutive hit-to-kill intercept. In support of our GWOT, the FY 2002 supplemental budget included $350M to facilitate the re-manufacture of 440 Tomahawk missiles.

As we optimize the resources given to the DON by the Congress and American taxpayer, we are revamping the ways we use our people to improve their efficiency and effectiveness. On our ships, the Optimal Manning Experiment is seeking to develop a more efficient model for shipboard manning in the 21st century. Sea Swap, a plan to deploy a single ship for 18 months by rotating three crews, intends to capitalize on operational savings by avoiding the four-to-six-week transit times normally required for CONUS-based ships to reach Persian Gulf destinations. Finally, we created the new Marine Corps' Anti-Terrorism Expeditionary Brigade (4th MEB) to support our GWOT.

Force Management

Last year, we targeted resources at retaining, recruiting, and training our Sailors and Marines to create an environment that promotes personal and professional growth while providing the kind of war fighters needed for our 21st Century Naval Force. Most importantly, we developed a more responsive Force — one that surged forward with the right people, to the right place, at the right time to fulfill our national security requirements. We developed manpower policies that provided a more optimum total force mix of people (active, reserve, civilian and contractor) and skill sets for our future programs and systems. We sustained our Quality-of-Service programs to be competitive with Corporate America, including: state-of-the-art tools and training; performance-based compensation and promotion opportunities; efficient health care; and reasonable OPTEMPO and PERSTEMPO. Overall, during FY 2002, we witnessed continued

improvements in compensation, housing, information technology, spare parts availabilities, and educational initiatives, leading to an improved and incentivized environment for mission accomplishment.

The Navy has achieved accession requirements for the last three years in a row, while the Marine Corps has consistently met monthly and annual recruiting goals for over seven years. Our recruiting successes, coupled with record retention levels, have resulted in much improved force manning. We shifted approximately 17,000 DON legacy-related billets from positions that were contributing little or no value to fill critical emerging requirements, and eliminated an additional 10,000 billets. We accelerated goals for several important quality of life initiatives, including elimination of inadequate housing by FY 2007, implementation of Homeport Ashore and achievement of 2+0 for Marine Corps barracks construction standard.

As we continue to augment and, where possible, replace manpower with technology, we are growing a more senior Force to lead and manage the increasingly technical 21st Century Naval Force. In FY 2002, the Top 6 Enlisted Ranks increased to 71.5%, up 1.3% from FY 2001. This healthy trend allows us to retain more of our experienced leaders and maintain advancement opportunities. We are also revolutionizing the personnel distribution system. Project SAIL (Sailor Advocacy through Interactive Leadership) fundamentally changes the relationship between a Sailor and his/her detailer and puts choice in the human resource detailing system for both the member and the gaining command.

Future Challenges

Our Naval Vision, as described in Naval Power 21, focuses on four fundamental qualities of Naval Forces – Decisiveness, Sustainability, Responsiveness and Agility. The Navy and Marine Corps have defined their respective Service strategies in Seapower 21 and Marine Corps Strategy 21. Taken together, these visions begin to prescribe a strategy-to-concepts-to-capabilities technology continuum that will result in greatly enhanced power projection, protection and joint operational freedom. In so doing, they provide the framework for organizing, aligning, integrating and transforming our fully networked naval forces to meet the challenges and risks that lie ahead.

During FY 2002, our Navy and Marine Corps put its war fighters in charge of operational experimentation. Joint wargames, experiments and exercises coordinated by Commander, Fleet Forces Command (CFFC) are developing new operational concepts and methods to employ technology, such as the Joint Fires Network and High Speed Vessels. The Undersea Experimentation Working Group was also established to more fully integrate submarines into joint experimentation programs. We intend to raise the bar in experimentation and speed the delivery of new concepts through the Fleet's Sea Trial process. Outstanding units are also joining the Fleet. We commissioned USS

McCampbell (DDG 85), USS Shoup (DDG 86), USS Preble (DDG 88) and laid the keel for USS Texas (SSN 775).

To accelerate the transformation of our naval forces, we improved the inter-operability among networks, sensors, weapons and platforms through such programs as the Cooperative Engagement Capability (CEC) and the Composite Tracking Network (CTN). We deployed and accelerated the development of unmanned systems, such as the Unmanned Aerial Vehicle (UAV), Unmanned Underwater Vehicle (UUV) and the Unmanned Ground Vehicle (UGV) to satisfy requirements for existing missions and platforms. We funded significant transformational capabilities, including: next-generation aircraft carrier (CVN-21) development; augmentation and replacement of DD-21 with a new family of ships -- Littoral Combat Ship (LCS), CG(X) and DD(X); two more SSBN-to-SSGN conversions; and the advanced Hawkeye (E-2C) Upgrade Program. We are also bringing open systems architecture to all surface and submarine combat systems, leveraging legacy-system upgrade efforts and DD(X) new system developmental work.

Pushing the state-of-the-art in transformational weapons technologies, we have invested in key demonstration programs. These include the Active Denial System for Force Protection, the Free Electron Laser for both Force Protection and Missile Defense, and Electromagnetic Gun efforts that will eventually support many Navy and Marine Corps missions, including extended range naval gunfire support. This will lead to a mix of kinetic and non-kinetic capabilities optimally suited to the electric ship of the future, and the emergent threats to both Sailors and Marines.

The DON is also moving forward with the Joint Strike Fighter (JSF) Program that completed all major milestones on time with International Partner Memoranda of Understanding (MOUs) signed with seven allied nations. Funding for the Broad Area Maritime Surveillance System (BAMS) UAV provides for delivery of the first two aircraft in FY 2006. This system can support the Carrier Strike Group (CSG) and Expeditionary Strike Group (ESG) by providing wide area surveillance for situational awareness and battlespace management. We returned the MV-22 program to flight by crafting the test and deployment strategy to satisfy OSD's flight safety and operational reliability concerns. The CEC program successfully completed Operational Evaluation (OPEVAL), allowing one ship to shoot a weapon at a target generated based on another ship's firing solution. We transitioned the Naval Fires Network (NFN) from prototype to deployment in support of Operation Enduring Freedom (OEF). Recognizing that space is evolving into an environment critical to future war fighting, the DON has committed itself to serving as a full partner in National Security Space efforts. We support Naval and Joint Forces with new classes of space-related capabilities that can most advantageously be provided from mobile sea-based platforms such as sea-based launch-on-demand systems.

Institutional

We have substantially streamlined our business practices to work toward a more efficient Navy and Marine Corps. By emulating smart business practices from commercial industry, we have made management teams more product-oriented, pushing down responsibility, authority and accountability to the operational unit(s) or performing activities wherever possible. We are developing leaders with a better understanding of business strategies, cost control, program risk and rapid flexible design. Teamwork is emphasized for integrated product and process development, implementation and execution, as we have witnessed in our successful Navy/Marine Corps Intranet (NMCI) program. We have increased the use of activity-based costing and continue to streamline the three major decision processes – Planning, Programming, Budgeting and Execution System (PPBES), acquisition management and requirements formulation. Divestiture is allowing us to reallocate savings to more urgent requirements through the reduction or elimination of legacy systems, programs and organizations.

Focusing on specific actions we could take within existing statutory and regulatory guidelines during FY 2002 at the headquarters' level, we realigned the PPBS by virtually merging the Program Objectives Memorandum (POM) and Budget end-game processes and eliminating duplicative oversight reviews. Additional consolidation will be accomplished in FY 2003, including the merger of the POM and budget databases into one entity (the Program Budget Information System (PBIS)). Operationally, to provide better workload efficiency and improved competitiveness for future DD(X) construction, we negotiated the construction swap of four DDGs for four LPDs between Bath Iron Works and Northrop Grumman Ship Systems. To improve family-housing efficiencies, we awarded three family-housing privatization projects, totaling over 4,800 units. From design-build improvements, to more efficient facilities, to BRAC land sales via the GSA Internet and the disposal of more than 74,000 acres of base-closure property, we are improving management of our infrastructure and producing a stable and effective foundation for the Navy and Marine Corps of the future.

To properly resource our recapitalization plans, we re-evaluated and improved the pricing of major acquisition programs and prior year shipbuilding together with workload validation savings throughout the DON, resulting in $700M savings annually. To improve efficiency for related weapons acquisitions, we created a single Program Executive Officer (PEO) for C4I procurement and focused on an overarching system of systems by creating PEOs for Integrated Warfare Systems, Littoral and Mine warfare and ships. We encouraged the DoD's Business Initiatives Council (BIC) to identify internal cost savings that could offset funding requirements for personnel programs, infrastructure, recapitalization and equipment modernization. We made significant reductions in the number of personnel (63%) and operating costs (44%) for those positions reviewed as part of the DON Strategic Sourcing Program, with more than 43,000 additional positions currently under review.

Performance Measurement

The Department of the Navy, one of the largest employers in our nation, is also one of the most visible to the public. With Service members in multiple countries, at sea and ashore, in every time zone and in every climactic region, the spotlight never leaves our emblem. With our charter to defend our nation and its interests at home and abroad, it becomes essential that every employee take an active role in using his/her resources wisely, measuring performance and ensuring success in each endeavor.

The President has stated that this Administration is "dedicated to ensuring that the resources entrusted to the federal government are well managed and wisely used." To achieve this, the strategy proposed in the PMA focuses on five basic tenets: (1) Budget and Performance Integration, (2) Strategic Management of Human Capital, (3) Competitive Sourcing, (4) Financial Management Improvement, and (5) Expanding E-Government. The FY 2004 budget consolidates performance management goals of the PMA with those of the FY 2001 QDR under a balanced scorecard approach for risk management, within which we have previously described the major accomplishments and future plans for the DON. The PMA also designates metrics to track associated performance results to improve programs as an integral component of the Department's budget and performance integration initiative.

In an effort to incorporate these metrics into the budget process, the Office of Management and Budget (OMB) has instituted the Program Performance Assessment process to identify programs that will be measured in "getting to green" and providing a rating system that is consistent, objective, credible, and transparent. The initial programs reviewed in FY 2004 are summarized in the DON FY 2004 Budget Book (February 2003). Programs were assessed and evaluated across a wide range of issues related to performance, including strategic planning, program management and program results. We are continuing to work with OSD and DON Program Managers in refining these metrics and improving performance where it is warranted. Amplifying information can be found in the detailed budget justification materials supporting the FY 2004 President's budget submission to Congress.

Conclusion

Our Naval Forces will continue to lead from the front lines of the Global War on Terrorism and continue to answer the call of our Nation. Together with our fellow services, we will assure our friends and allies and we will dissuade, deter and defeat our nation's enemies. While our Navy and Marine Corps Team faces uncertain future battlegrounds, we have set a course to win our nation's wars and transform to meet tomorrow's challenges.