

First Principles Review

- 2.1 The Committee considered the status of the First Principles Review (FPR), in particular the role and work of the Oversight Board and the recommendation relating to the Defence Science and Technology Organisation (DSTO). In the context of implementing the FPR recommendations, the Committee considered how Defence will learn and change so that its reporting, both internally and to the Parliament, has more integrity and transparency.
- 2.2 The First Principles Review was commissioned in August 2014 to ensure that Defence is fit for purpose and is able to deliver against its strategy with the minimum resources necessary. The review panel was chaired by Mr David Peever (former Rio Tinto managing director) and included Professor Peter Leahy (former Chief of Army), Mr Jim McDowell (former BAE Systems executive), Professor Robert Hill (Defence Minister in the Howard Government) and Mr Lindsay Tanner (Finance Minister in the Rudd Government). Boston Consulting Group and a Defence in-house secretariat assisted the panel.¹
- 2.3 The Review report was titled *Creating One Defence* and released on 1 April 2015. In summary, the Review found that:
- The current organisational model and processes are complicated, slow and inefficient in an environment which requires simplicity, greater agility and timely delivery. Waste, inefficiency and rework are palpable.
- Defence is suffering from a proliferation of structures, processes and systems with unclear accountabilities. These in turn cause institutional waste, delayed decisions, flawed bureaucracy, over-

1 ASPI, 'One Defence: one direction? The First Principles Review of Defence', *ASPI Special Report*, April 2015, p. 1.

escalation of issues for decision and low engagement levels amongst employees.²

- 2.4 The Review made six key recommendations aimed at achieving ‘a more unified and integrated organisation that is more consistently linked to its strategy and clearly led by its centre’.³ These recommendations are:
- Establish a strong, strategic centre to strengthen accountability and top level decision-making.
 - Establish a single end-to-end capability development function within the Department to maximise the efficient, effective and professional delivery of military capability.
 - Fully implement an enterprise approach to the delivery of corporate and military enabling services to maximise their effectiveness and efficiency.
 - Ensure committed people with the right skills are in appropriate jobs to create the One Defence workforce.
 - Manage staff resources to deliver optimal use of funds and maximise efficiencies.
 - Commence implementation immediately with the changes required to deliver One Defence in place within two years.⁴
- 2.5 The Review made a further 70 specific recommendations, of which the government has agreed to 69 in principle. The exception concerned the future of the Defence Science and Technology Organisation.⁵
- 2.6 The Review recommended that the Defence Materiel Organisation (DMO) be disbanded, with its core responsibilities in relation to capability delivery transferred to a new Capability Acquisition and Sustainment Group (CASG).⁶ This change was implemented on 1 July 2015.⁷

2 David Peever, ‘First Principles Review: Creating One Defence’, April 2015, p. 13.

3 David Peever, ‘First Principles Review: Creating One Defence’, April 2015, p. 5.

4 David Peever, ‘First Principles Review: Creating One Defence’, April 2015, p. 7.

5 ASPI, ‘One Defence: one direction? The First Principles Review of Defence’, *ASPI Special Report*, April 2015, pp. 18, 27.

6 Department of Defence, ‘To equip and sustain – 15 years of the DMO’, *DMO Bulletin*, issue 3 2015, <<http://www.defence.gov.au/dmo/NewsMedia/DMOBulletin/Toequipandsustain-15yearsoftheDMO>> viewed 5 August 2015.

7 *Public Governance, Performance and Accountability Amendment (Listed Entities and Receipts) Rule 2015*, Explanatory Statement, <<https://www.comlaw.gov.au/Details/F2015L00929/Explanatory%20Statement/Text>> viewed 7 October 2015.

Oversight Board

- 2.7 Recommendation 6.3 of the FPR called for the creation of an Oversight Board. This Board and its membership was finalised on 11 May 2015. The membership comprises the members of the First Principles Review team as well as Erica Smyth, a company director with significant private and some public sector experience, and the current Deputy Chair of the Australian Nuclear Science and Technology Organisation Board.⁸
- 2.8 The Board will assist in ensuring the agreed recommendations are implemented in the way intended by the First Principles Review, in line with the One Defence business model. The Board will also provide assistance where required to the Secretary of Defence, the Chief of the Defence Force and Defence leadership with the implementation of the recommendations.
- 2.9 Mr Dennis Richardson, Secretary of Defence, reported that the Defence leadership will hold a monthly meeting with the Oversight Board.⁹ This is intended to give Defence leadership the ability to maintain a dialogue with the Board and to gain more information and clarification about the intentions of various recommendations as they are implemented.¹⁰
- 2.10 Defence highlighted that the Oversight Board reports directly to the Minister for Defence and does not report to Defence. The Oversight Board cannot direct actions. However, as Defence is accountable to the Minister, the Minister can intervene in the implementation on the advice of the Board.¹¹

Defence Science and Technology Organisation

- 2.11 Recommendation 2.17 of the FPR called for the Defence Science and Technology Organisation to become part of the new Capability Acquisition and Sustainment Group. This was the only recommendation not accepted by the Government.¹²

8 Minister for Defence, 'Membership of the First Principles Review Oversight Board', *Media Release*, 11 May 2015, <<http://www.minister.defence.gov.au/2015/05/11/minister-for-defence-membership-of-the-first-principles-review-oversight-board/>> viewed 5 August 2015.

9 Mr Dennis Richardson, Secretary, Department of Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 13.

10 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 13.

11 Mr Richardson, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 13.

12 Minister for Defence, 'The First Principles Review announcement', *Transcript*, 1 April 2014, <<http://www.minister.defence.gov.au/2015/04/01/minister-for-defence-transcript-the-first-principles-review-announcement-1-april-2014/>> viewed 7 October 2015.

- 2.12 DSTO has been renamed the Defence Science and Technology Group (DTSG) as of 1 July 2015 in line with the One Defence business model recommended in the First Principles Review.¹³
- 2.13 The Committee raised the topic of funding and staffing levels at DSTO, to which Defence responded that 'DSTO is under no more pressure than any other part of Defence. Indeed, there are other parts of Defence that are under more pressure than DSTO'.¹⁴ On the number of vacant positions in DSTO, Defence reported that the number is quite small, stating:
- You need to distinguish between what might be a so-called establishment and the number of positions they actually have. Right across the department the establishment would show a lot more positions than what we in effect have. We see DSTO as a very important part of the Defence enterprise going forward. We believe that it adds value across the organisation in terms of not only capability development but also ongoing support to the service chiefs – to the CDF, VCDF and the like. That is in broad terms where we are at, but DSTO is under no more pressure than any other part of the organisation.¹⁵
- 2.14 The Committee enquired whether Defence money spent up front on DSTO would deliver capability more efficiently, thereby allowing more money to be spent on other areas of the organisation instead of remediating capability. Mr Richardson responded that 'the issue of cost, schedule and the like is a lot more complex than simply more money being spent at the front end' with the issue of 'whether the additional dollars spent up-front should be spent in DSTO as opposed to somewhere else' being a 'moot point'. He also stated:
- I do not see DSTO as being any more important than the intelligence agencies in Defence that play a central role in counterterrorism. I do not see them as being any more important than the air traffic controllers, the social workers, or the psychologists, who provide essential support to ADF families and the like. We are balancing out a lot of competing priorities across the organisation and DSTO does not get a raw deal in respect of that.¹⁶

13 Department of Defence, 'Defence Science and Technology Group', <<http://www.dsto.defence.gov.au/>> viewed 7 August 2015.

14 Mr Richardson, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 13.

15 Mr Richardson, Defence, *Committee Hansard*, Canberra, 5 June 2015, pp. 13 - 14.

16 Mr Richardson, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 14.

Reporting and transparency of performance

2.15 The Committee questioned the glaring mismatch between the reporting of capability development and other elements in the Department's Annual Report and the assessment made by the FPR panel. The Committee questioned Defence about what steps it will take and what learnings it will draw from the FPR to improve the integrity and transparency of its annual reporting to Parliament.

2.16 Defence offered the following response:

The First Principles Review talks about a corporate planning process, which is also about understanding and managing Defence's performance over an annual cycle. ... The First Principles Review says we should consolidate the different elements of our planning to develop an enterprise view... and to develop more holistic performance measures so that we have a more strategic understanding of our performance and the capacity to drill down into parts of the organisation and to make judgements about the contribution of particular elements to an overall judgement about performance. The other thread to this is that the new PGPA Act requires that we have a richer conversation about how we relate the resources we have to the outcomes that we want to achieve.¹⁷

2.17 Defence stated that 'the real challenge' is:

... getting performance measures that give you the capacity to understand and measure performance, make real judgements about that and hold people or different parts of the organisation to account. They need to be real and specific enough to do that, but at the same time they need to be sufficiently strategic so that you can make an overall judgement about performance across a range of different areas.¹⁸

2.18 Defence admitted that they are 'grappling' with framing and describing goals in terms of performance and demonstrating this through the reporting process, stating:

It is a big area of work. It is central to the First Principles Review. The review team said that it is the spine that holds everything together and it is really about how we understand our

17 Mr Brendan Sargeant, Associate Secretary, Department of Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 32.

18 Mr Sargeant, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 32.

performance and how we ensure that the money we have is spent where it needs to be spent.¹⁹

2.19 The Committee noted the value of independent expertise in major capability reporting frameworks and questioned whether this process should be applied to Defence's governance and reporting as a whole.

2.20 Defence responded:

... the end result of a good governance system is to have a holistic understanding of the organisation's performance and to be able to make judgements about the extent to which the organisation has allocated resources appropriately and used those resources appropriately. I think that the best way of achieving this is transparency. The governance system we are trying to build is one which is internally transparent and externally transparent to the maximum extent possible, taking account of security. ... The other issue is that we are trying to develop a governance system – and the First Principles Review requires this – that is whole of organisation: that allows us to make judgements across the whole enterprise and to understand how each element of the enterprise contributes to the whole.²⁰

2.21 Defence also explained that 'one of the really big issues' is that many of their processes are 'disaggregated' or 'too complex':

It is an old problem of complexity where you have silos. People work in silos. They work really well within the silo but you might find that they have left out critical information or they do not understand the connection with somewhere else. We have seen that many times. ... [P]eople tend to think about their performance in relation to their particular entity or group and not sufficiently about how it contributes to the whole. That is the balance that we have to shift.²¹

However, Defence also stated that the FPR reforms will provide 'the capacity to exercise ... appropriate surveillance over the organisation to make sure that things are connected appropriately'.²²

19 Mr Sargeant, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 33.

20 Mr Sargeant, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 33.

21 Mr Sargeant, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 33.

22 Mr Sargeant, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 33.

Defence White Paper and Force Structure Review

- 2.22 On 4 April 2014, the Prime Minister and Minister for Defence announced a new Defence White Paper would be released in 2015. The release of the 2015 White Paper will be followed up the release of a 10-year Defence Capability Plan and a Defence Industry Policy Statement.²³
- 2.23 During the inquiry, the White Paper and Force Structure Review were in its final stages of development and had yet to be issued. The Committee appreciates that Defence could not reveal detailed information pertaining to the reports. However, some general comments were made on the development of White Paper, in regards to ICT capability, international engagements, and naval projects.
- 2.24 Mr Richardson stated that ‘there has been a recognition in Defence for some time that we needed to intensify our engagement in the region’ and that this has ‘certainly been reflected in the development of the White Paper’.²⁴
- 2.25 The Chief of Defence Force expanded on that point noting that ‘soft power’ in the region is an aspect of international engagement that will continued to be focused on, noting that the White Paper will not diminish that focus but will instead ‘provide the structure around what we want to do for the next 20 years.’²⁵
- 2.26 Defence also mentioned the White Paper in the context of the Future Frigate Program, SEA 5000, and Australia’s naval shipbuilding plan.²⁶

Committee comment

- 2.27 The Committee welcomes the findings and recommendations of the First Principles Review. The Review was thorough and delivered on its terms of reference, although, in the view of the Committee, the terms of reference could have been broader to engage interaction between the Department and the Executive. Defence has undertaken to implement all but one of the Review’s recommendations within two years, and the Committee will be monitoring the efficacy of the implementation.

23 Department of Defence, ‘2015 White Paper’, <<http://www.defence.gov.au/whitepaper/>> viewed 30 July 2015.

24 Mr Richardson, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 29.

25 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 29.

26 Vice Admiral Tim Barrett, Chief of Navy, Department of Defence, and Mr Colin Thorne, General Manager Land and Maritime, Defence Materiel Organisation, *Committee Hansard*, Canberra, 5 June 2015, p.p. 36–37.

- 2.28 The Committee is encouraged by the decision to appoint an Oversight Board. The Committee believes that an independent but informed external review of implementation is essential. The Committee anticipates that Defence will fulfil its assurance to use the Oversight Board to effectively implement the recommendations of the First Principles Review.
- 2.29 The Committee welcomes commitments by Defence to increase the reporting and transparency of performance through the First Principles Review process. The Committee looks forward to seeing the results of this in future Defence Annual Reports. An essential part of the First Principles Review was the fiscal dimension of delivering Defence's strategy with the minimum resources necessary. The Committee anticipates improvements in reporting and better measures of resources against outcomes.