



Community and Public Sector Union

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Committee Secretary
Joint Committee of Public Accounts and Audit
PO Box 6021
Parliament House
Canberra ACT 2600

Dear Committee Secretary,

Joint Committee of Public Accounts and Audit: Defence First Principles Review and Naval Construction - Inquiry based on Auditor-General's reports 34 and 39 (2017-18)

The CPSU welcomes the opportunity to make a submission to Joint Committee of Public Accounts and Audits Inquiry based on Auditor-General's report 34 - *Defence's Implementation of the First Principles Review*.

As the primary union representing Department of Defence employees, the Community and Public Sector Union (CPSU) is committed to providing a strong voice for our members in key public policy and political debates.

The CPSU participated in the First Principles Review (FPR), providing written and verbal presentations to the FPR committee and have previously raised serious concerns about the implementation of FPR recommendations with Defence through the National Workplace Relations Committee (NWRC). Those concerns have not been adequately addressed, and the CPSU therefore remains of the view that implementation of the FPR is fundamentally flawed and the recommendations of the review are being diluted.

The CPSU has three key areas of concern about how the FPR, and its underlying recommendations, have been implemented by the Department of Defence.

Defence employees' experiences of reform.

- **Reform is never 'finished'** - As noted in the First Principles Review; the Department does not tend to fully implement reform before 'moving on' to the next 'reform' or to other agendas.
- **Reform is not analysed** - Again, the FPR noted that the Department does not 'take stock' of what has and has not been achieved from 'reform' initiatives; nor does it learn the lessons of reform or document them to assist future efforts.
- **'Reform' is not reform** - Reform in Defence is largely about cuts to staffing or consolidation (physical and process) rather than changing the way the Department does business in any meaningful way. Again, the FPR noted that, "*...the focus on public service reductions as the primary efficiency mechanism for Defence (must) cease*". (FPR Recommendation 5.3) This is an explicit acknowledgement that Defence has not been serious about reform in the past and has looked to APS savings and staff cuts to give the impression of efficiency.
- **Reform is not based on improved productivity** - Defence has a long history of implementing 'change' without generating any measurable improvements. This is often because the underlying business processes and systems remain unchanged or the changes to them do not actually 'improve' the business. Defence is also masterful at transferring work from central areas to the workforce in general and claiming a productivity improvement without supporting analysis.
- **Employees cannot influence 'Reform'** - Despite having some consultation clauses in the Defence Enterprise Agreement, which we are assiduously defending, employees feel they have little opportunity to genuinely, and positively, influence 'reform' activities. Whilst in organisational change activities much effort and resources may be expended in the consultative workshops, it must be noted that staff feel like their knowledge of the business and relationships with customers isn't taken into account when the final decision. Defence needs to better take into account staff feedback and make changes to reform if it was to impact capabilities and services.
- **Shared Services 'Reform' simply means increased workloads and work not being done** - The Shared Services experience in Defence is simply a shift of work from one area to another. Particularly in HR Shared Services; staff in the HR domain are actively prevented from doing helpful work for 'customers' and are forced to be 'advisers' not 'practitioners'. Recently, CPSU has observed further examples of the same problem in the Finance domain, with Chief Financial Officer Group (CFOG), reducing staff numbers and transferring 'non finance' work back to the Groups and Services. The Finance Shared Service was created 2 years ago by 'lifting and shifting' finance, business and resource management staff from the Groups and Services into the CFOG reporting line, but leaving 'embedded' in their customer Group or Service, based on a fairly arbitrary and unilateral assessment that they were doing around '75% finance work'. That work included functions that CFOG is now defining as 'non finance' work

including accounts payable, resource planning and management, and corporate / business management functions. The workforce has been removed but the work still needs to be done. This is further complicated by CFOG pushing back on 'transactional work' but not allowing access to the finance systems by customer Groups and Services to complete that transactional work. CFOG are also refusing to let their staff be involved in critical activities, such as Tender Evaluation, that require financial expertise.

- **Reforms are affecting morale** - Reform processes have often been drawn out and had an unsettling impact on employees by introducing uncertainty into the workplace. Employees are concerned, not just about their jobs, but also how their positions will change, what will be required of them in the future and the impacts of introducing the private sector when delivering quality services to the customer and ADF. This is especially the experience of staff in the *Chief Finance Officer group* (CFOG) and *Capability Acquisition and Sustainment Group* (CASG) groups who have been going through reform for the past 3 years with no definitive time when change will be finished. There is no guidance and stability given to employees, and the effect of hollowing out of public services on the future of Defence is unknown. For these reasons the CPSU has written to Defence on Tuesday the 23rd of July 2018 asking management for a copy of the Health and Safety Risk Management plan for identifying – assessing and controlling risks to workers health and safety during these organisational changes; including information to better understand how the department is and/or plans to consult with affected workers and their HSRs as a required matter identified under section 49(d) of the Work Health and Safety Act 2011.
- **Reform has been piecemeal** -There is feedback from APS staff that the review has been piecemeal, with a distinct lack of overarching clear and concise communication strategy to staff. Whilst employees are aware that different areas within the Defence APS are being impacted through change from the First Principles Review, a view is taken by employees that Defence is taking a divide and conquer approach to reform rather than a strategy of overarching workforce planning of implementation in order to minimise the impact to staff and thus retaining core defence capabilities.

Reforms need additional support and understanding for Defence employees.

- Defence is in need of genuine ICT reform that delivers modern systems that work well across the country. Whilst we acknowledge that Defence is currently going through Windows 10 upgrade, it has been delivered ad hoc and staff experience different levels of satisfaction. Defence employees report having 2003 and earlier MS Office products, no access to standard software needed to do business, and networks so slow that on some bases it takes an hour to log in and up to 10 minutes for transactions to execute.

- Whilst generally supportive of the FPR; employees are frustrated that Defence has again gone straight to staff cuts despite the explicit recommendation not to do so.
- Employees want to be empowered to make good business decisions, supported by high quality policy, guidance and systems. They do not support increased constraint and layers of risk-averse 'governance' that do not add value.
- Employees want to be genuinely involved in the design, planning and execution of reform. They want to work 'on the business' not just 'in the business'. They want the opportunity to improve and develop what they do; without the threat of constant cuts and reductions driving the agenda away from genuine reform.

Implementation of specific FPR Recommendations.

Recommendation 4 - Ensure committed people with the right skills are in appropriate jobs to create the One Defence workforce.

- 4.2 Defence employ Australian Defence Force personnel in non-Service roles only when it is critical to achieving capability and for a minimum of three years to achieve best value-for-money from the premium paid.
 - Australian Defence Force personnel are significantly more expensive than APS employees. According to a Defence submission to a Senate inquiry, *"the cost of employing an APS person is significantly less than the cost of employing an ADF person—something of the order of a 30 to 40 per cent difference, depending on which rank you might be looking at."*¹ Not only are personnel paid more, there are overhead costs such as associated health care, subsidised housing and equipment including simple things like the provision of uniforms.²
 - Recommendation 4.2 was undermined by the ADF from day 1 of FPR implementation. Immediately following the release of the FPR recommendations, senior officers briefing staff in multiple locations explicitly stated that this recommendation was 'not going to happen'. The ADF want to preserve roles in Non-Service Groups as they provide corporate career paths and promotion opportunities. This recommendation has barely been implemented; if at all.
- 4.3 As many functions as possible be performed by public servants or outsourced if they are transactional in nature.
 - Contrary to how it has been interpreted in *Capability Acquisition and Sustainment Group* (CASG) and other Groups, this does not mean 'contract everything out'. It does not mean that APS should not perform 'transactional work' where this is the best Value for Money outcome; as confirmed by the

¹ Steve Grzeskowiak, Department of Defence, Transcript, 15 March 2013, p.4,4 in Joint Standing Committee on Foreign Affairs, Defence and Trade, Review of the Defence Annual Report 2011-2012, 27 June 2013, p.74

² *ibid*

Assistant Secretary in charge of FPR at the NWRC. The definition of 'transactional work' is also inconsistent or non-existent; the term is used with great flexibility to justify outsourcing of a wide range of functions.

- 4.4 Defence review the entirety of its enabling and military corporate workforce to ensure that it supports the Australian Defence Force with the minimum of overlap and redundancy, and with the greatest overall economy, efficiency and effectiveness.
 - This has clearly not occurred as highlighted by our comments on Recommendation 4.2.
- 4.5 Defence reduce organisational layers; increase the spans of control of managers; align workforce standards in accord with the requirements of the Australian Public Service Commission; and engage external assistance to facilitate this work as required.
 - This 'spans and layers' concept has been 'imported' from service delivery organisations such as the Department of Human Services and is largely irrelevant to the large sections of the Defence workforce. It has been used as a justification to cut EL numbers and 'downgrade' positions with little or no referral to the Defence Classification Manual.
- 4.6 Defence implement a transparent performance management system that is consistently applied, recognises and rewards high performance and introduces consequences for underperformance and failure to deal with it.
- 4.7 As part of the performance management system, Defence take steps to create a culture where leadership, professionalism and corporate behaviour are valued and rewarded.
 - The experience of Defence employees is that little has changed with regard to performance management. Defence has introduced simplified forms and a range of new policy; but the lived experience is still one of 'templated' performance requirements and limited discussion.

Recommendation 5 - Manage staff resources to deliver optimal use of funds and maximise efficiencies.

- 5.1 The use of the measures such as the teeth-to-tail ratio and the one third budget split should cease.
 - CPSU supports the cessation of the use of these arbitrary concepts as resource management principles; however, the perception that the Defence APS support and enabling workforce is too large still has influence and drives decision making. This perception is rarely supported by evidence or analysis

and APS staffing cuts have been matched by large increases in the more expensive contractor workforce.

- 5.3 The focus on public service reductions as the primary efficiency mechanism for Defence cease.
 - The focus on staffing cuts is clearly continuing despite the explicit FPR recommendation for it to cease. The Systems Program Office reviews being conducted by Capability and Sustainment Group are consistently recommending the replacement of APS staff with contractors; even where work is clearly not 'transactional', such as workplace health and safety, and despite the contractors costing 40 per cent more than their APS equivalents.³
- 5.4 Defence manage its workforce numbers in line with good resource management practice where Defence is held to account for delivering on required outcomes within available resourcing.
 - Full time equivalent (FTE) allocations are still arbitrary and not linked to outcomes; leading to the proliferation of contractors and 'service providers'. Each Group and Service was required to deliver a strategic workforce plan and staffing structures down to the EL1 equivalent level. The plans delivered provide little in the way of strategic direction or workforce design and structures have not been defined.
 - Since the beginning of FPR implementation, the Defence Science and Technology (DST) Group's APS permanent staffing numbers have reduced by around 200 positions; showing no commitment to having as many functions as possible performed by APS staff. This is a reduction to an arbitrary FTE number, forcing a situation where in order to meet ADF needs, DST Group has to hire in contract/service provision support to conduct work that is core science and technology business.
 - Similar situations are being experienced in a number of other Groups; the Chief Finance Officer Group is reducing staff by 300 APS positions with no real enabling changes to business processes or systems. First, this was attempted by a focus on reducing APS 1 to 4 numbers, conveniently defining their work as entirely 'transactional'; then, when this failed as most transactional work is already outsourced or automated, the Group has focused on arbitrarily reducing EL positions. Again, 'gaps' are being filled by more expensive contractors and service providers. Notwithstanding staff morale in this area has been low with the future of their jobs unknown.

³ Department of Defence, *SRP initiative information sheet: workforce and shared services: contractor conversions*, 6 April 2010, viewed 24 October 2014, <http://www.defence.gov.au/srp/infosheets.htm>

Changes Required for Successful Implementation of FPR

- **Defence needs to properly define 'contestability'.** What does contestability mean at the service delivery, program and project levels? Is contestability purely a commercial process that outsources functions or does it consider the long-term viability of the affected functions?
- **Defence needs to properly consider and define what is meant by 'the transactional level'.** What is the 'transactional level'? How does it vary between disparate functions? How is it analysed in terms of Return on Investment Benefits Realisation, Governance, and Public Interest?
- **Defence needs to establish principles that support positive engagement on Reform and underpin them with industrial arrangements that support them.** What is the best way to consult and engage with employees? How can this be built into Enterprise Agreements to ensure employees have incentive to reform and are empowered to make it happen? Why would you not consult the workforce before making decisions?

Conclusion

The CPSU acknowledged the need and the recommendations of the FPR, however, the implementation of the FPR has been fundamentally flawed. The CPSU has raised these concerns on many occasions. Those concerns have not been adequately addressed, and the CPSU therefore remains of the view that the implementation of the FPR is incomplete and inconsistent.

The CPSU is happy to provide information on the matters raised in this submission. Please contact Osmond Chiu, Policy and Research Officer, at _____ or _____ for further information.

Yours sincerely

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