

EXECUTIVE MINUTE

on JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT REPORT No.470

Defence Sustainment Expenditure

General comments

The Department of Defence agrees, where applicable, with each of the recommendations as provided by Report 470: Defence Sustainment Expenditure. The First Principles Review has provided the means to address and implement the necessary recommended changes.

The following is a response provided to each of the recommendations.

Response to the recommendations

Recommendation No. 1, paragraph 2.7

The Committee recommends that the Department of Defence improve its Corporate Plan, Portfolio Budget Statements, Portfolio Additional Estimates Statements, and Annual Report to ensure a clear read of both financial and descriptive performance information.

Response: Agree

Summary

Defence has actively worked to improve alignment between the Corporate Plan, Portfolio Budget Statements, Portfolio Additional Estimates Statements, and Annual Report.

The Defence Annual Report 2016-17 includes the mapping of the revised Defence purposes from the Defence Corporate Plan, and the outcomes and programs from the Portfolio Budget/Additional Estimates Statements.

New outcome statements and purposes were developed in the 2017-18 Budget and provide the structure for Defence's planned performance, which is detailed in the 2017-18 Portfolio Budget Statements and Defence Corporate Plan.

Recommendation No. 2, paragraph 2.8

The Committee recommends that the Department of Defence consolidate information extracted from its Corporate Plan, Portfolio Budget Statements, Portfolio Additional Estimates Statements and Annual Report in one place online in a format that allows for clear and easy scrutiny of sustainment expenditure.

Response: Agree

Summary

The 2016-17 Annual Performance Statements in the Defence Annual Report 2016-17 consolidate non-financial performance information regarding sustainment from the Corporate Plan and the Portfolio Budget/Additional Estimates Statements. The Annual Performance Statements are published online and presented in accordance with guidance from the Department of Finance. Additionally, a consolidated list of the top 30 sustainment products by expenditure is reported online as supplementary information. Information is published in a format that allows for clear and easy scrutiny of sustainment expenditure for these projects.

Recommendation No. 3, paragraph 2.15

The Committee recommends that the Department of Defence appropriately signpost to readers of the hard copy/PDF version of the Defence Annual Report that further information is available online, specifying what online information is available.

Response: Agree

Summary

The hard copy/PDF version of the Defence Annual Report 2016-17 included a chapter dedicated to specifying what supplementary information is available online. Appendix B: Supplementary online material includes a consolidated reference to the reports, acquisition, sustainment, facilities and infrastructure information available online.

The online information went live on the same date the Defence Annual Report 2016-17 was presented to the Senate.

Defence will continue to publish a chapter in the Defence Annual Report which signposts to readers instances where further information is available online.

Recommendation No. 4, paragraph 2.25

The Committee recommends that within six months of the tabling of this report, the Department of Defence provide to the Committee:

- *a report on progress in driving First Principles Review reforms*
- *detail of the positive changes that have been realised to date with the implementation of the First Principles Review*
- *an update on the progress of the Systems Program Offices review*
- *a report on progress of the whole-of-life costing model*
- *a report on progress to selecting a candidate to run the Major Projects Office.*

Response: Agree

Summary

Defence has completed the initial two-year implementation period of the First Principles Review and has made considerable progress, having completed 71 of the 75 recommendations that were agreed or agreed-in-principle by the Government.

In completing these recommendations, Defence has implemented significant positive changes that have:

- strengthened the accountability of the Senior Leadership Group;
- created a stronger and more strategic centre which sets the direction for Defence, monitors the organisation's performance and focuses on providing Government with the best possible advice;
- increased the transparency of capital investment decisions through the redesigned capability development process based on the implementation of a risk-based decision-making framework;
- obtained Government agreement to tailor project approval pathways based on risk rather than financial value;
- improved the quality of advice and decision-making by reducing the number of senior committees;
- enhanced efficiency across the whole-of-government processes that support Government decision-making on Defence capability;
- made it easier for industry to work with Government by streamlining commercial policies and practices; and
- developed and released a revised Defence Australian Public Service Performance Framework which focuses on behavioural expectations and aligns to the One Defence Leadership Behaviours.

Work continues on the four remaining recommendations. Of the four, two recommendations relate to continuing work on Systems Program Office reforms. The Systems Program Office reform process is expected to lead to significant efficiency and effectiveness improvements in Capability Acquisition and Sustainment Group, however, with more than 50 Offices reviewed and over 300 individual reform recommendations identified so far, this program of reform is sizable and complex.

Defence developed a total cost of ownership life cycle costing model that replaced the net personnel operating cost process. The model has been used for all new projects approved by Government since October 2016, with these projects now providing transparency over the total cost of ownership.

Recommendation 5

The Committee recommends that the Auditor-General consider reviewing the Department of Defence's new Monthly Reporting system and documentation including advising whether there have been improvements in reporting to the Minister and Secretary, and that the information provided via reporting is timely and accurate.

Response: N/A

Recommendation No. 6, paragraph 2.36

The Committee recommends that the Department of Defence provide a detailed progress report on behavioural changes that have accompanied improvements in internal performance reporting within six months of the tabling of this report.

Response: Agree

Summary

Through the One Defence Leadership Behaviours and Pathway to Change: Evolving Defence Culture 2017-22, Defence has increased the focus on leadership, accountability and positive workplace behaviour. This reflects the intent of the First Principles Review in achieving a fundamental change to the performance culture of the organisation.

The One Defence Leadership Behaviours identify the personal behaviours that Defence requires its people to demonstrate, emphasising that individuals at all levels must accept responsibility and accountability for their actions and think clearly about the consequences of their actions for Defence. The One Defence Leadership Behaviours are to underpin all decisions and actions made by Defence personnel, and be aligned with our business practices. They have been incorporated into a range of initiatives across Defence to change behaviour and drive good leadership and management practice, supporting a strong performance culture.

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Acting Secretary of Defence
6 September 2018

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// September 2018