



Australian Government
Department of Defence

**Joint Committee of Public Accounts and Audit Inquiry into
Auditor-General's Report No. 34 – Implementation of the
First Principles Review**

**Department of Defence
Written Submission**

August 2018

Executive Summary

The First Principles Review (the Review) of Defence was commissioned by the Minister for Defence in August 2014, following the Government's 2013 election commitment.

The Review provided an end-to-end review and analysis that considered structures, systems and processes as a whole. The Review proposed substantial changes across Defence and the way in which the organisation operated. The Review outlined the redesign of Defence to create a more unified and integrated organisation, more consistently linked to its strategy and led by its centre.

The new model – entitled One Defence – envisaged that Defence would become a united end-to-end organisation, rather than a federation of separate entities.

The Government agreed or agreed-in-principle to 75 of the 76 recommendations of the Review. The Review outlined a two-year implementation plan from 2015 – 2017.

In April 2018, the Australian National Audit Office published Audit Report No. 34, Defence's implementation of the First Principles Review. The audit made one recommendation, *"That Defence ensures that its evaluation encompasses all of the recommendations of the First Principles Review and seeks to assess whether the intended outcomes of the Review have been achieved."*

The Department of Defence agreed to the recommendation and noted the findings of the Report.

Introduction

The First Principles Review (the Review) of Defence was commissioned by the Minister for Defence in August 2014, to deliver on the Government's 2013 election commitment. The Government announced the findings of the Review in April 2015, agreeing to 75 of the 76 recommendations. The First Principles Review produced a roadmap for Defence reform over a five year period, 2015 – 2020.

The Review focussed on ensuring that Defence is fit for purpose, and is able to respond to future challenges and deliver against its outputs with the minimum resources necessary. The Review found a proliferation of structures, processes and systems with unclear accountabilities, which in turn caused institutional waste, delayed decisions, flawed execution, duplication, over-escalation of issues for decision and low engagement levels amongst employees in parts of the organisation.

Background

Defence established strong governance arrangements for the implementation of the First Principles Review, commensurate with the importance and scope of the activity. In particular, the Secretary and the Chief of the Defence Force invested a substantial amount of time and effort to lead the implementation process.

Defence set up formal, high level governance arrangements to manage implementation. This included establishing an Implementation Committee of senior Defence staff and an external Oversight Board.

The Minister appointed the Oversight Board in May 2015. The Board comprised the same membership as the Review panel plus Ms Erica Smyth, Deputy Chair of the Australian Nuclear Science and Technology Organisation. Mr David Peever, chair of the Oversight Board, resigned from the Board at the conclusion of the two-year initial implementation period in 2017. Ms Smyth was then appointed chair. The current members of the Board are Mr Lindsay Tanner, Professor Peter Leahy, Ms Melinda O'Leary, and Ms Linda Addison.

The primary function of the Oversight Board is to provide assurance to the Minister for Defence, and consider overall implementation with a focus on long-term sustainable outcomes, consistent with the intent of the Review. The Board also provides external scrutiny and advice to the Government on the implementation and sustainment of the Review.

Defence established a series of work streams to manage delivery of reforms against major thematic areas: strong strategic centre; capability life cycle (the way Defence acquires, sustains and disposes of major military equipment); workforce; behaviours (focussing on the way people do their job as well as the tasks that they achieve); and, enabling services (including enterprise information management, delivery of corporate services and estate – Defence's large holdings of land and associated infrastructure).

Alongside the work streams, a First Principles Review Implementation Office was also established to develop, plan and deliver reforms within the work streams.

ANAO report

The Australian National Audit Office conducted a performance audit into Defence's Implementation of the First Principles Review. Defence noted the Report's findings and agreed with its single recommendation that:

Defence ensures that its evaluation encompasses all of the recommendations of the First Principles Review and seeks to assess whether the intended outcomes of the Review have been achieved.

Although Defence has implemented a substantial number of the most important recommendations of the Review relating to building a strong strategic centre to strengthen accountability and top-level decision-making within Defence, and reforming the capability development process, the Report suggested that Defence was unable to clearly measure any efficiencies generated through the Review and its implementation.

Defence's response

Defence has developed a Management Action Plan to address the recommendations made in the ANAO report, to evaluate the recommendations of the Review through the development of an evaluation framework. The framework will monitor, measure and report on the embedding of First Principles Review reforms and the resulting benefits to Defence. The evaluation framework includes evaluation criteria, metrics and targets to assess that the intent of the Review has been achieved.

Defence acknowledges that further work is required to quantify the efficiencies made following the implementation phase, which is being addressed through the above-mentioned evaluation framework. As well as the framework, Defence will be embarking on a First Principles Review Internal Audit Program during 2018-19 and 2019-20 that sets out to measure the efficiencies made across the work streams.

The Report highlighted Defence's reliance on consultants and contractors in implementing the Review. Consultants and contractors have been used to implement key reforms, particularly in Capability Acquisition and Sustainment Group and whilst external advice has been critical in developing and implementing new processes, Defence recognised the risk of over-reliance on external providers. Defence has addressed the risk by ensuring a transfer of knowledge, skills, capabilities and responsibilities to ongoing Defence staff through the delivery of a tailored package of training and mentoring to rapidly transition the skills and knowledge to Defence-led management, ensuring the integrity of the Capability Life Cycle and other First Principle Review reforms are maintained into the future.

Successes to date

Defence has made significant progress implementing the Review with 71 of the 75 recommendations that were agreed or agreed-in-principle by the Government now completed.

In completing these recommendations, Defence has made significant changes to the way it operates and performs. Some of the Review successes to date include: Defence's reduction in the size of its submissions to Government; obtaining Government agreement to tailor project approval pathways based on risk rather than financial value; making it easier for industry to work with Government by streamlining commercial policies and practices; and improving the quality of advice and decision-making by reducing the number of senior committees.

Another success has been the introduction of the contestability function to develop coherent and intellectually robust Defence advice to Government to support informed investment decisions, and to provide critical but constructive decision support across the Capability Life Cycle.

The Capability Life Cycle has successfully embedded the end-to-end process for capability development and delivery of capital projects. Overall, the implementation of the Capability Life Cycle is enabling Defence to deliver on the estimated \$200 billion recapitalisation outlined in the 2016 Defence White Paper.

Way Forward

Although the two-year implementation phase came to an end on 30 June 2017, the Minister for Defence agreed to extend the First Principles Review Oversight Board until 30 June 2019. This demonstrates the priority placed on continuous reform in creating the One Defence ethos and added incentive for Defence to remain focussed on the implementation schedule.

Through the evaluation framework, Defence will continuously measure and report on resulting benefits on a quarterly basis to the Implementation Committee and Oversight Board.

By the end of August 2018, Defence will provide a third annual update to Government on the implementation of the First Principles Review through an exchange of letters.

Defence has consistently maintained that it will take time to fully implement and embed the transformational changes envisaged under the First Principles Review. While significant progress has been made, full implementation of the Review is not due to be completed until 2020. This is consistent with Government's adoption of the Review as a roadmap for Defence reform from 2015, until the Review is completed in 2020.

Conclusion

Defence is satisfied with what has been achieved to date through the implementation of the First Principles Review recommendations, which has changed the way Defence operates.

Although implementation of the Review has been largely successful, Defence recognises more work needs to be done to fully implement and embed transformational change.

The Report was considerably positive and acknowledged that implementation had been largely successful and identified that the governance arrangements set in place by Defence for the First Principles Review implementation have identified key learnings and areas of good practice that other Commonwealth entities may consider for future reform programs.