

## Strategic Reform Program

### Background

- 6.1 The Strategic Reform Program (SRP) began with the 2009 White Paper, *Defending Australia in the Asia Pacific Century: Force 2030*. According to the *Defence White Paper 2013*:

The 2009 Defence White Paper emphasised that Defence must be effective in delivering its mission, and efficient across every aspect of its business. The Government established the SRP as part of the 2009 Defence White Paper to overhaul the Defence enterprise for this purpose.<sup>1</sup>

- 6.2 The 2013 White Paper further notes that:

The Government and Defence are absolutely committed and focused on continued delivery of the defence reform agenda, building on and updating the original SRP. Strategic and fiscal developments since 2009 have reinforced the imperatives of an agile, innovative, efficient and networked Defence Organisation. Defence will continue to integrate the reforms initiated since 2009 into the existing reform framework to achieve a comprehensive and coordinated reform agenda.<sup>2</sup>

- 6.3 As the 2013 White Paper discusses, the SRP has achieved \$3.3 billion in savings 'as well as capability and productivity improvements across Defence's operations, capability, organisation and culture'.<sup>3</sup>

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1 *Defence White Paper 2013*, p. 91.

2 *Defence White Paper 2013*, p. 96.

3 *Defence White Paper 2013*, p. 91.

6.4 These savings have been achieved through a variety of initiatives, all of which revolve around the elements outlined in *The Strategic Reform Program: Delivering Force 2030*:

- Improved Accountability in Defence. Providing much greater transparency - that is, visibility of how Defence manages the close to \$26 billion annual budget - will strengthen the accountability of Defence, and individuals within Defence, to the Government, to Parliament and the Australian taxpayer.
- Improved Defence Planning. Improving our strategic and corporate level planning will strengthen the link between strategic planning and the definition and development of military capabilities; better control the cost of military preparedness; and tighten governance and systems to ensure that Defence accurately forecasts and manages major acquisitions.
- Enhanced Productivity in Defence. Implementing smarter, tighter and more cost effective business processes and practices will make sustainment and support management more efficient and effective; improve cost effectiveness for military capability and procurement processes; and create the basis for a more efficient Defence Estate footprint.<sup>4</sup>

6.5 The *Defence Annual Report 2011-2012* noted that the SRP is continuing:  
...to provide a means for long-term business transformation that would make the Defence organisation more efficient, effective and accountable and will continue to be implemented in the context of an expanding reform agenda.<sup>5</sup>

6.6 The *Defence Annual Report 2011-2012* also gave an update on the current reform priorities with the SRP:

The priority is to ensure that the SRP integrates effectively with the broader reforms, while continuing to pursue efficiencies and cost reduction in a tight fiscal environment. The Associate Secretary Chief Operating Officer (COO) now has oversight responsibility for the SRP. The COO will assist Defence to position reform as mainstream business, drive further reforms and integrate the business processes across Defence Groups.<sup>6</sup>

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4 *The Strategic Reform Program: Delivering Force 2030*, p. 5.

5 *Defence Annual Report 2011-2012*, p. 238.

6 *Defence Annual Report 2011-2012*, p. 238.

## 2011-2012 cost reductions

6.7 In the 2011-2012 financial year, the *Defence Annual Report 2011-2012* notes that, across the Defence portfolio, \$1.24 billion in savings were achieved. It further states that this is:

...97 per cent of its cost reduction target of \$1.284 billion for the financial year... and a significant achievement in difficult fiscal circumstances.<sup>7</sup>

6.8 Additionally, the *Defence Annual Report 2011-2012* states that these savings were achieved without impacting the agreed levels of capability of the Australian Defence Force (ADF). For instance, the report notes that in terms of the capabilities of the Royal Australian Navy (RAN), 'there were no adverse SRP-related impacts to agreed levels of Navy capability'.<sup>8</sup>

6.9 Similarly, Army notes that it 'remains committed to achieving its SRP targets across the Defence Finance Management Plan without impacting capability'.<sup>9</sup> The Royal Australian Air Force (RAAF) states:

Air Force's continued implementation of enduring reform, in partnership with the Defence Materiel Organisation (DMO) and Defence industry, enabled it to deliver SRP savings while meeting operational tasking, preparedness, and safety /airworthiness requirements. Change programs supporting the development of cost-conscious behaviours across the Air Force continued. Full achievement was limited by cost increases in aircraft sustainment, which could not be fully offset by operating and maintenance efficiencies.<sup>10</sup>

## Current status

6.10 The SRP-related savings achieved in 2011-2012 are grouped into seven key areas:

- Information and communications technology (ICT);
- Smart sustainment;
- Non-equipment procurement;
- Workforce and shared services;
- Reserves;
- Logistics; and

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7 *Defence Annual Report 2011-2012*, p. 238.

8 *Defence Annual Report 2011-2012*, p. 42.

9 *Defence Annual Report 2011-2012*, p. 46.

10 *Defence Annual Report 2011-2012*, p. 51.

- Other.<sup>11</sup>

## Information and communications technology

6.11 According to the *Defence Annual Report 2011-2012*, Defence achieved a \$215.8 million saving in the area of ICT reform by providing:

...a simplified and modern ICT infrastructure that reduces maintenance costs, increases productivity and enables other reforms, through:

- Remediation of ICT infrastructure;
- Data centre migration;
- Next generation desktop; and
- Centralised processing and terrestrial communications.<sup>12</sup>

## Smart sustainment

6.12 The *Defence Annual Report 2011-2012* notes that \$389.1 million in SRP savings were achieved in the area of smart sustainment. The report states that Defence is controlling equipment sustainment costs through:

- Grouping contracts to generate efficiencies and reduce duplication;
- Optimising the Navy's Fleet Support Units as lead repair agencies for the fleet through the up-skilling of the Navy's technical workforce;
- Maximising contractual arrangements;
- Streamlining usage and reducing active items in service; and
- Better aligning facility usage with workforce requirements.<sup>13</sup>

6.13 The Committee focused particularly on grouping contracts, optimising Navy's Fleet Units and maximising contractual arrangements in its examination of this savings stream.

## Grouping contracts

6.14 Defence told the Committee about how savings were achieved by grouping contracts to generate efficiencies and reduce duplication in the maritime sector:

...we are grouping up contracts for the sustainment of groups of ships in order to make it more efficient in terms of how the work is conducted by contractors. With the previous system, we contracted individually for each maintenance period, and that was proving to be inefficient. While we were having a large number of

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11 *Defence Annual Report 2011-2012*, p. 239.

12 *Defence Annual Report 2011-2012*, p. 239.

13 *Defence Annual Report 2011-2012*, p. 239.

competitions, there were actually, in our assessment, not long enough periods of time for contractors to stabilise their workforce and plan properly. By introducing group maintenance contracts – they are five year contracts with the ability to extend them – that provides the contractor certainty and provides us a better basis for planning for maintenance in order to optimise that maintenance and reduce overall costs. So, with the first group maintenance contract for a similar amount of work to what we were doing previously through many, many contracts, the sort of saving that we achieved through that tender process was around a 15 to 20 per cent saving on the previous work.<sup>14</sup>

### Optimising Navy's Fleet Support Units

- 6.15 The Committee asked Defence to elaborate on how it was achieving savings through the up-skilling of Navy's technical workforce to optimise Navy's Fleet Support Units. Defence responded:

The Navy's Fleet Support Unit improvement program is about just that – actually improving and leveraging on the technical skills of the sailors that are in those shore based units. They are there to provide immediate support to the ships, so I would call that, in an Air Force sense, flight line or dockside repair. But, to improve their technical competency and agility to respond to Navy's needs, there has been a reform program put in place to get better use out of them and therefore train them up, particularly in recognition of the landing helicopter dock capability that is coming in. I am sure that, if the Chief of Navy were here, he would be able to describe this a lot better than I can, but part of that is to provide them with a continual flow of repair work, and, in conjunction with the DMO, they will find commodities to send to the Fleet Support Units, just like the Fleet Support Unit would be a contractor, but an internal contractor, and that would then give them the baseline work to continue to develop these skills. A secondary function of the Fleet Support Unit is to then provide short-term operational relief to Navy ships' complements whenever somebody cannot go on a particular operation. So it is quite a fundamental component of Navy capability and one that the Chief of Navy is wishing to get more out of.<sup>15</sup>

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14 Ms McKinnie, Department of Defence, *Transcript*, 15 March 2013, p. 53.

15 Air Vice Marshal Smith, Australian Defence Force, *Transcript*, 15 March 2013, p. 53.

### Maximising contractual arrangements

6.16 In regard to maximising their contractual arrangements, Defence informed the Committee that it was doing a number of things:

We have developed a more consistent approach to performance and productivity based contracting, so our new contracts will not only include performance requirements but will also include productivity requirements, so that over time we are seeking productivity improvement approaches to be offered by contractors. Additionally, we are working with contractors to renegotiate some of our contracts, particularly where in working with the contractors we have identified particular ways of business that we have been using that are driving costs, to modify our approaches to how we might be contracting for something. For example, we might be using key performance indicators that are driving incorrect performance in order for companies to meet their contractual obligations. A better set of performance indicators might actually drive better outcomes in terms of capability but at a lower cost.<sup>16</sup>

### Non-equipment procurement

6.17 A further \$147.7 million in SRP savings were achieved in the area of non-equipment procurement in the 2011-2012 financial year. The *Defence Annual Report 2011-2012* notes that this was done through:

Improved demand management of travel, training, professional services and garrison support through:

- Base Services Re-Tender;
- Mess closures and consolidations including the conversion of Russell Messes to the Russell Conference Centre; and
- Continued success of the online travel booking tool.<sup>17</sup>

6.18 Defence elaborated on the specific areas where savings were made:

Non-equipment procurement reform has over 50 initiatives, looking for greater efficiencies in various business categories such as travel, removals, professional services, garrison support and building maintenance.

Key areas of reform contributing the to 2011-2012 financial year outcomes include unpacking options, online travel booking tool,

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16 Ms McKinnie, Department of Defence, *Transcript*, 15 March 2013, p. 54.

17 *Defence Annual Report 2011-2012*, p. 239.

mess consolidation and rationalisation in the procurement of office supplies and hardware items.<sup>18</sup>

6.19 At a public hearing, Defence discussed in further detail how savings were being realised:

...for all of these areas there are three areas we look at: policy – can we adjust our policies so that the delivery of that thing is cheaper; demand – can we reduce the amount of something we deliver; and contracting – can we get a better price on the market for what we deliver?<sup>19</sup>

6.20 In regard to removals, Defence told the Committee how these three areas were resulting in savings:

In a removals case, due to policies that the three services have been introducing we are seeing a lower incidence of removals because we have moved to three-year back-to-back postings where possible. That reduces removals costs because of a lower incidence of removals.

We did some work with the removal contractors a year or so ago to try and get a better price. We extracted some efficiencies from the contract. As an example, what we found was that when some people are removed, their preference is when they arrive at a new location to unpack their own gear out of the boxes; whereas we were paying, in all cases, for the removalists to unpack. In some areas, we were paying for an unpacking service that then was not being delivered, because the preference of the individual ADF family was that they wanted to unpack their own furniture et cetera. Now, we are a bit cleverer about how we do that. If the ADF family wishes to unpack their own gear, then we do not pay that amount to the removalists.<sup>20</sup>

6.21 Defence discussed another example of non-equipment procurement savings, noting that they were currently retendering for the contracts to provide services at military bases. Defence told the Committee that this includes:

...all of the living accommodation services. We do that through a heavily outsourced model. The majority of that work is done by outsourced contractors. I currently have 21 contracts around the country that cover the totality of the services at the 72-odd bases. We are in the process of retendering for those services at the

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18 Department of Defence, *Submission No. 5*, p. 12.

19 Mr Grzeskowiak, Department of Defence, *Transcript*, 15 March 2013, p. 30.

20 Mr Grzeskowiak, Department of Defence, *Transcript*, 15 March 2013, p. 30.

moment. Under the strategic reform program in 2009 there were a number of savings lines declared against the types of services that are provided. One of the mechanisms that we are using to try to achieve savings is the retendering process to drive efficiencies in the way we deliver those services and also to look at the level of service we provide and, where possible, rationalise the level of service and try to see if we can reduce the demand for some services.<sup>21</sup>

## Workforce and shared services

6.22 In the area of workforce and shared services, Defence achieved \$155.8 million in SRP-related savings. The *Defence Annual Report 2011-2012* notes that this was done through:

- Conversion of contractors to Australian Public Service (APS) positions;
- Rationalised customer service centres;
- Civilianisation of ADF to APS positions;
- Leaning of base estate and garrison support;
- Reduction in contract management costs;
- Rationalised libraries;
- Consolidation of mail and records; and
- Finance, human resources and non-equipment procurements shared services reform planning and implementation.<sup>22</sup>

6.23 In examining these savings, the Committee focused particularly on conversion of contractors, civilianisation of ADF positions, and leaning of base estate and garrison support.

## Conversion of contractors

6.24 Defence informed the Committee of the ways that savings were being achieved by converting contractors to APS positions:

In the Defence Budget Audit conducted in 2008 McKinsey and Co identified that there were a large number of roles undertaken by contractors that could be equally undertaken by an APS employee without negatively impacting on capability. McKinsey advised that by converting these roles, up to 30 per cent of the contractor cost could be saved.

The roles identified were positions filled by individual contractors and primarily involved filling a line position within the organisation. Positions/roles would only be converted where

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21 Mr Grzeskowiak, Department of Defence, *Transcript*, 15 March 2013, p. 29.

22 *Defence Annual Report 2011-2012*, p. 239.



there were suitable people in the market place wishing to fulfil the role as an APS employee.

The types of positions previously filled by a contractor that have been converted to an APS position include, but are not limited to: a medical practitioner with work health and safety expertise, finance analysts, ICT analysts, project managers and scientific support. Contractor positions that were part of a larger outsourcing or service-provision initiative were excluded from conversion as the terms of the contract would preclude this activity.<sup>23</sup>

- 6.25 Defence further noted that there were non-financial benefits to maintaining workforce flexibility in terms of engaging contractors:

Defence constantly needs to be able to respond to a fast-moving and changing labour market environment. Changing the integrated workforce mix has enabled Defence to deliver a cost-effective, flexible and adaptable workforce. In addition, non-financial benefits have included: a better corporate memory, expanded career paths for ongoing employees, better compliance with legislation and employment agreements where the role has supervisory duties, and a better understanding of the ongoing business needs of the organisation.<sup>24</sup>

- 6.26 In light of the financial and other benefits, when asked why it had relied on contractors for so long, Defence responded that the use of contractors:

...depends on what area. The reason can vary. For instance, it is not uncommon to engage contractors in the ICT area where you want people for a particular period with a particular skill set. It does not make sense to employ people permanently for what might be a temporary need. Contractors are best suited to that. If you are planning in the public service and you increase your full-time staff equivalent by one person, you normally work on the assumption that that will cost you about \$125,000 a year. That is an all-up cost of salary, superannuation and the like. Now, obviously, the actual cost varies depending on level and all of that. But as an average cost, that is normally what you work at in our department. In another department, the average cost might be higher or lower. A contractor is significantly more than that. However, you cannot simply make a decision to change all

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23 Department of Defence, *Submission No. 5*, p. 13.

24 Department of Defence, *Submission No. 5*, p. 13.

contractors to public servants because there is a trade-off in flexibility in respect of contractors and public servants.<sup>25</sup>

### Civilianisation of ADF positions

6.27 The Committee asked Defence how savings were being achieved through civilianisation of ADF positions. Defence responded:

This was one of the original initiatives from Strategic Reform Program in 2009. At that time, we were critically looking at some roles in the ADF that might be most cost effectively performed by Australian Public Service people. Typically, they would be more back office administrative roles. There has been an active program over the last two to three years to turn some roles from ADF performed roles into APS performed roles. That is what we term a “civilianisation program”.

The driver behind it was that 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. Therefore, it was one of the cost-reduction initiatives in that program. I do not have with me the detail of how many roles have been civilianised, but the program is coming near the end of its time now.<sup>26</sup>

6.28 Defence elaborated on the reasons why civilian APS staff can, in some cases, cost less than uniformed personnel:

The savings come essentially from the cost of employing the type of person. If you look rank for rank, generally the ADF are paid more – for very good reasons. Also, there is an overhead associated with an ADF person in terms of the health care that is provided to them, in terms of the subsidised housing that is provided to them and in terms of needing to equip them to do their role – simple things like the provision of uniforms. It is more expensive to employ a military person than a civilian person. The rationale behind this initiative at the time was very much that if we could do work with civilians then we should, because it is a lower cost workforce model overall. I think the program is actually reaching its end probably this year or next year.<sup>27</sup>

6.29 Subsequently, Defence provided some examples of savings made by civilianising ADF positions, drawn from the Defence Financial Costing Manual (FINMAN 4):

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25 Mr Richardson, Department of Defence, *Transcript*, 15 March 2013, p. 31.

26 Mr Grzeskowiak, Department of Defence, *Transcript*, 15 March 2013, p. 44.

27 Mr Grzeskowiak, Department of Defence, *Transcript*, 15 March 2013, p. 44.

In 2009, FINMAN 4 provided average costings by rank and APS level and includes salary, accrued costs, variable on-costs and fixed on-costs. To determine the savings potential Defence used the differences between salary, accrued cost and variable on-costs. Accrued costs are primarily superannuation, but include a small component to cover annual leave and long service leave. Variable on-costs cover a wide range of items but notably include allowances, housing, education and training and ICT support. Fixed on-costs, which include items such as buildings, utility costs and security were not used as no civilianisation actions resulted in the complete closure of a Defence facility.<sup>28</sup>

6.30 Defence provided an example of the scale of savings made in regard to two specific positions that are being civilianised:

In the case of pay clerks, in 2009, FINMAN 4 costed a sergeant as follows: \$61,843 pay, \$22,885 accrued costs and \$55,195 for variable on-costs giving a total annual cost of \$139,924. The equivalent position in the APS is an APS3. The 2009 FINMAN 4 costed an APS3 as follows: \$53,239 pay, \$9,892 accrued costs and \$7,907 for variable on-costs, giving a total annual cost of \$71,037. In this case, civilianising the position saves \$87,055.

In the case of the secretariat role, in 2009 FINMAN 4 costed a Major as follows: \$93,395 pay, \$32,802 accrued costs, \$57,183 variable on-costs, giving a total annual cost of \$183,380. The equivalent position in the APS is APS6. In 2009, FINMAN 4 costed an APS6 as follows: \$74,564 pay, \$13,854 accrued costs and \$7,907 variable on-costs, giving an annual cost of \$96,325. In this case, civilianising the position saves \$87,055.<sup>29</sup>

6.31 In regard to managing this process for the personnel concerned, Defence told the Committee that:

As part of the implementation design, ADF members that occupied a position that was identified for civilianisation were offered the opportunity to leave the ADF and transfer with the position into the APS. This was entirely voluntary with ADF members individually assessing their work/life stage making decisions accordingly. Approximately 20 per cent of the ADF members in civilianised positions chose to transfer with the position.

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28 Department of Defence, *Submission No. 5*, pp. 39-40.

29 Department of Defence, *Submission No. 5*, p. 40.

Where an ADF member chose not to transfer with a position they were posted to a new position, in accordance with their career management plan. In some cases voluntary redundancies were also offered. Once a position had been civilianised and the ADF member posted, workforce rebalancing to reach new guidance was achieved mainly through natural attrition.<sup>30</sup>

## Reserves

6.32 The *Defence Annual Report 2011-2012* states that \$46.7 million was saved in the area of Reserves, and that these savings were made through:

- Reduction in the use of Reservists;
- Reduction of Army personnel on High Readiness Reserve; and
- Reduction in the frequency of training.<sup>31</sup>

6.33 Defence informed the Committee of how it was making reforms in the area of Reserves:

The program with reserves was about restructuring the way that reserves are used. If you go back to the Pappas [Report] recommendation in the Defence budget audit, it was about better integration of the reserves into the permanent forces. I think it is fair to say that the model that the Pappas consultants used was the model that Air Force was implementing – a more integrated model where there was a seamless service career from full time to part time arrangements and you could swap around. Each service had different models for operating and in the reserves space the largest component of the reserves belong to the Army. The Chief of Army is not here to address this, but the cost reductions of the initial years were achieved through some policy changes. For example, there was a requirement, largely in the Army, to have a reservist comply with their material readiness requirement twice per year. That drives costs. The Army assessed that the permanent forces in the Air Force, for example, only had to do it once a year. That was a policy change and that reduced costs for operating and maintaining the reserves.

6.34 Furthermore, Defence noted:

There were a number of other policy tools being put in place to try and improve the cost of delivering reserves – like the cost of training services. Could we modularise the training to allow a reservist to step through small packages of training? If we could

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30 Department of Defence, *Submission No. 5*, p. 40.

31 *Defence Annual Report 2011-2012*, p. 239.

do that, we would minimise our loss rate, because often people hit a large training block at a time when they cannot get away from their full time employment and lose interest in committing.<sup>32</sup>

- 6.35 Another SRP-related initiative in relation to the Reserves was outlined by Defence:

Another initiative was to try and pick up a greater conversion – people leaving the Army and going into the reserves. Those initiatives are starting to get traction, but in the last 18 months or so the approach to finding a structural – and therefore more capable – way of using our reserves has been redeveloped. I do not know whether the committee has been briefed about Plan SUAKIN. I am not the best person to talk about Plan SUAKIN, but it is a complete rethink of the way reserves will be utilised to support ADF capability. In a nutshell, it is going to introduce a continuum of employment conditions, from part-time to full-time. There are about five or six different arrangements. Through that, we will get a better utilisation of reserves and achieve the Pappas objective and the cost reduction targets.<sup>33</sup>

## Logistics

- 6.36 A small SRP-related saving of \$300 000 was made through reform of Defence's logistics. The *Defence Annual Report 2011-2012* notes that these saving were made through:

Rationalisation of wholesale storage and distribution arrangements including second pass approval for delivery of the program.<sup>34</sup>

## Other

- 6.37 An additional SRP-related saving of \$285.4 million was listed in the *Defence Annual Report 2011-2012* under the heading of 'Other'. The report states that this saving was made through 'changes in the way financial risk is managed.'<sup>35</sup>

- 6.38 Defence elaborated on what this 'Other' category encompassed:

The program, when we started, was about identifying savings. We identified the savings and then took the money out of the budgets. All the areas affected then had to run to the new budget, and there

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32 Air Vice Marshal Smith, Australian Defence Force, *Transcript*, 15 March 2013, p. 49.

33 Air Vice Marshal Smith, Australian Defence Force, *Transcript*, 15 March 2013, p. 50.

34 *Defence Annual Report 2011-2012*, p. 239.

35 *Defence Annual Report 2011-2012*, p. 239.

is an incentive on all of the various groups to achieve their budget outcomes because they do not have the money to spend otherwise. That is an important feature of this particular program. It is sometimes misunderstood. It is not the case that there is a budget of 100 at the start of the year and that it is expected that it will be brought down to a lower number; the budget is the lower number. When we do our reporting, as we do here, what we are really repeating is the amounts that we took out of the budgets, So what we are really saying is: "Did everyone live within their means? Did they achieve their new budgets?" If they achieved their new budgets, then they saved an amount of money. So when we put these reports together, what we are really reporting is whether there has been any blowout in budgets. If a group was to spend more than the recent budget amount, it would follow that they had not achieved the savings.<sup>36</sup>

6.39 Defence subsequently told the Committee how this overview of the program results in changes in the way that financial risk is managed:

When we commenced this program... it was roughly \$20 billion and there was something like \$5 billion which sat in the "other" category across that period. That "other" category was, in fact, a combination of moneys that were unallocated within Defence at the time, moneys that when we did our 2009 White Paper across time were seen to be not needed to be set aside for a rainy day or for events that might happen. We would then risk-manage that differently. Rather than having a fund set aside for "just in case" we said we would run "lean"; we would run to the wire; we would run against specific budgets.

One of the other things we did at that time was allocate all the budgets from the centre to all the groups. There is no money sitting in the centre of Defence. Before the 2009 SRP time there were pockets of money held centrally. This line was about running lean, and to incentivise the organisation to achieve this we took away the option of having a safety valve. That is what that risk management line was; it was to take that money away. Don't forget - all the moneys that were taken were reapplied back into the organisation to higher priorities. Rather than having a set of funds available just in case a priority came up, we allocated them all. That is what that [risk management] line represents. It does not represent some new activity, it represents an event that had

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36 Mr Prior, Department of Defence, *Transcript*, 15 March 2013, p. 46.

occurred back at the beginning of the SRP, and this is just recording how we are going each year against that.<sup>37</sup>

## Committee comment

- 6.40 The Committee notes that Defence appears to be tracking well this financial year against the SRP savings outlined at the beginning of the program in 2009.
- 6.41 While the Committee is pleased that Defence has included a separate section in its *Annual Report* in which it reports only on the SRP, the Committee is of the view that this section should contain more detail.
- 6.42 In its current form, the SRP section is very light on details, to the extent that it is not possible to gain a clear understanding of how Defence is making the savings it claims under the SRP. The Committee is of the view that this inhibits public understanding of the ways Defence is seeking to manage its finances. Defence's annual reporting is examined in greater detail in Chapter Seven.
- 6.43 In terms of expanding the reporting on the SRP, the Committee is of the view that Defence could, as a matter of course, include the type of details shared during the course of this review in its reporting on the SRP. For instance, it would be possible for the SRP section of future annual reports to include a detailed breakdown of how specific savings are being achieved under each stream. As an example, in response to questions asked by the Committee, Defence outlined exactly how it was achieving savings in the Workforce and Shared Services stream, through the conversion of contractors to APS positions and the conversion of uniform to APS positions.
- 6.44 Furthermore, despite raising this issue with Defence during the Review of the Defence Annual Report 2010-2011, the Committee is still not able to ascertain the cost of delivering these savings from the reporting on the SRP contained in the Defence Annual Report 2011-2012. Savings achieved through the conversion of contractors to APS positions surely come with costs attached, and yet the Annual Report gives no indication as to what these costs might be, or what these costs amount to. Any future reporting on the SRP should include reporting on the costs of delivering such savings.

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37 Mr Prior, Department of Defence, *Transcript*, 15 March 2013, p. 47.

**Recommendation 2**

**The Committee recommends that the Defence Annual Report include detailed information on how savings are being achieved under each stream of the Strategic Reform Program.**