

**OPENING REMARKS
FEBRUARY 2012 BUDGET ESTIMATES**

by
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Introduction

Good morning Chair and members of the Committee. Before proceedings begin, I would like to make some brief remarks regarding current issues.

At the last hearing of this committee, I made it clear that I am firmly committed to continuing the reform of the Defence organisation.

The CDF and I have taken over the leadership of Defence during a period of significant and necessary change. History judges harshly those organisations that will not change. Defence needs to adapt to contemporary standards and become far more efficient. Change and reform is neither episodic nor optional – it is continuous and essential.

Strategic Reform Program

We have a range of initiatives underway in Defence to reform and continue to modernise the organisation. In addition to the Strategic Reform Program, we are implementing the Coles Review¹; the Rizzo

¹ Collins Class Sustainment Review.

Review²; and the Black Review³; enhancing the use of shared services; and implementing the outcomes of six reviews of Defence and ADF culture. Each is significant in its own right; as a whole they permeate a wide spectrum of Defence business.

We do however need to keep our Departmental challenges in perspective.

I said in my opening comments at the last Estimates hearing that the challenges and difficulties we face as an organisation are more than outweighed by the things we do right. Four months on, this is still very much the case.

Achievements

Defence expects to achieve around 40 project based approvals for this financial year. As at 27 January 2012, a total of 30 approvals with a value of over \$2 billion had been achieved. 49 were achieved with a value of over \$6 billion over the course of the 2011 calendar year.

The facts in relation to Defence's capital equipment procurement performance tell a good story.

- From 1997 to 2011, the total portfolio of DMO projects closed, came in at 98 per cent of the approved total budget for those projects.
- Since the DMO was formed in 2000, we have almost halved the level of schedule slippage in major projects. Some of this improvement

² Plan to Reform Support Ship Repair and Maintenance Practices.

³ Review of the Defence Accountability Framework.

is attributable to the efforts of the Capability Development Group and through the additional up-front investment and work undertaken before Government is asked to make its final project approval decision at what we refer to as 'second pass'.

Defence has achieved all cost reduction targets for the Strategic Reform Program to date. In 2009-10 we met the \$797 million target, in 2010-11 we met the \$1.016 billion target and we are on track to meet the \$1.284 billion target for 2011-12.

Examples of reform include:

- Navy's ANZAC System Continuous Improvement Project, which identified improvements to maintenance activities, inventory management, contract models and training. This project will streamline processes, secure more efficient supply arrangements and encourage cost conscious use of capability.
- Army will deliver approximately \$195 million in cost reductions over the next 10 years through effective management and rationalisation of its vehicle fleet.
- Air Force has improved the interaction between operations and sustainment planning, resulting in more effective employment of the technical workforce. In turn, this has increased fleet availability and supportability of the Hawk and Classic Hornet fleets.

In undertaking these reforms, let me be clear that CDF and I will not sit idly by and allow our Defence enterprise backbone – our personnel systems, our ICT environment, our facilities and sustainment activities, to once again become “hollow”. Our enterprise backbone is an essential, although sometimes unacknowledged, component of capability – I will be working with the Chief Operating Officer to ensure that our Defence support backbone is maintained and enhanced as appropriate during this period of reform.

Black Review

Several actions have been taken to improve planning, performance management, accountability and decision making across the organisation:

- We have agreed an enterprise corporate plan. This plan, for the first time, will capture in one place our key enterprise priorities, the performance milestones and articulate who is accountable for delivery. The CDF and I will drive organisational performance based on this plan.
- On 16 January, the CDF and I implemented the rationalisation of senior Defence committees as recommended by Mr Black. We have established a single secretariat for all Committees chaired by us. The Workforce and Financial Management Committee and the Defence Information and Communications Technology Committee have been abolished and their functions merged into a single Secretary and

CDF's Advisory Committee. These changes will enhance decision making and commence a process of "de-thatching" our internal Committee system. We are in the process of reviewing all Committees across the Department. Our intent is to reduce substantially the number of Committees in the Department and streamline decision making.

- We have made a number of senior staff appointments recently and will be announcing more appointments shortly. These appointments will assist the overall management of our department and the streamlining of our business.

In May last year, the Minister for Defence announced the extension of shared services reforms. Pilot programs will commence in the first quarter of this year, followed by a phased rollout aimed at achieving effective and lasting reform that will deliver about \$300 million in savings to the Government.

Challenges and Way Forward

We will continue to pursue efficiencies and cost reduction targets to position reform as 'business as usual' in Defence. To support this, the SRP implementation model is being adjusted to ensure it aligns more effectively with the broader reform agenda.

The recently appointed Associate Secretary Chief Operating Officer (COO), Simon Lewis [no relation], will have responsibility for delivering

who have each importantly reported that much can be commended about the Defence culture.

The reviews of course also found that there is still work to be done to evolve the Defence culture.

In response, Defence is now developing a Cultural Reform Strategy.

Reviews of Vetting Arrangements

The Committee will be aware of the IGIS Report into our vetting processes and of the actions we are taking. Let me assure the Committee that I am absolutely committed to ensuring the integrity of our vetting process and this area of the Departments business will continue to receive close management attention. We discussed the details of this matter in our private hearing last week.

Questions on notice

I note the Committee has previously raised concerns in relation to late responses to questions taken on notice following Estimates hearings. Defence has worked to improve its record in this area.

Questions asked are typically complex in nature and require careful consideration to ensure responses provided to the Committee are accurate and provide the required information.

From the last Estimates hearing, in October last year, Defence took 160 questions on notice. The questions were made up of 447 sub-questions. Of

the 160 questions, Defence provided to the Committee 89 responses (55.6%) by the lodgment due date (of 9 December). (This stands in contrast to none of the Questions on Notice from the Estimates Hearing this time last year.) Returning to the October Estimates Hearing a further 64 responses (40%) were provided one week late, and the remaining 7 responses (4.3%) were provided in early February. In short we have no Questions on Notice currently outstanding from October.

While this represents an improvement, Defence will continue to work towards providing more timely responses to questions on notice. It is also perhaps worth noting that the 77 Senate Questions and 8 House of Reps Questions on Notice have been tabled this year.

Reviews

Regarding the Inquiry into the Management of the Australian Defence Force Academy Skype Incident of March 2011 and its aftermath (Kirkham Inquiry), we are anticipating a resolution very soon, perhaps in the next few weeks.

With respect to the review into allegations of sexual or other forms of abuse in Defence (DLA Piper Review), the Minister for Defence and I have received Volume 1 complete but Volume 2 is still in production. Until I have received the full suite of reports, it is not possible, or proper, for me to provide any further comment at this stage. We expect the complete and final report in March.

Conclusion

Let me conclude by saying that, while the challenges ahead are significant, Defence is comprised of talented men and women with an acute sense of mission who are doing difficult jobs in challenging circumstances—for the betterment of our nation.

While there is no doubt that we have areas to improve, we should not overlook the achievements and dedication of the Defence workforce as we strive to transform Defence into a more adaptive, innovative and agile organisation.

Thank you, Chair. CDF now has an opening statement.

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