

## OPENING STATEMENT TO SENATE ESTIMATES

MR DUNCAN LEWIS, MONDAY 28 MAY 2012

Good morning. I would like to make an opening statement and then seek your indulgence on an administrative matter with regard to the session late this afternoon.

The Defence Budget for 2012-13 was released on 8 May 2012. This Budget was developed following a comprehensive review to identify contributions that Defence could make across the Forward Estimates to support the Government's fiscal strategy. This will result in a Defence contribution of \$5.454 billion back to Government across the Forward Estimates, starting with \$971 million in 2012-13.

In addition, the Committee would be aware that we have had to re-prioritise and re-allocate approximately \$2.9 billion across the portfolio to offset internal cost pressures in areas of concern, including Collins class sustainment activities, information technology remediation activities, and improved housing for ADF personnel. These savings have been found from the Defence Capability Plan, the Approved Major Capital Investment Program, the Major Capital Facilities Program and from our operating budget. The CDF will speak in a moment about the specific capability impact.

I wish to emphasise that these savings will not impact our current operations in Afghanistan, East Timor, and the Solomon Islands. They will not impact upon the equipment that our men and women need to do their jobs on these operations.

It has been a challenging exercise to find these savings. We are still working through the details, particularly when it comes to deferred, altered or cancelled projects. We will answer all your questions to the extent that we can today and tomorrow, but there may be some aspects that we will have to take on notice. We are still undertaking discussions with the affected contractors and companies involved, and there are obviously some sensitivities that we have to consider in protecting the Commonwealth's position.

Another area where we have undertaken to make further savings is in our civilian workforce. We will be reducing the number of Australian Public Servants in Defence by another 1000 over the Forward Estimates, beginning with a target of 666 in the new financial year, with 334 in financial year 2013-14. This comes in addition to the reductions we have made to the civilian workforce through shared services reform under the Strategic Reform Program in the current financial year. We aim to achieve these reductions largely through natural attrition, with recruiting adjustments and cessation of ongoing employee arrangements. At this time we are not in a position to provide you with a program by program or region by region figure for the civilian workforce reductions. We are working through these very methodically, and the CDF and I have tasked two senior officers – Mr Steve Grzeskowiak, and Air Vice-Marshal Jack Plenty, to work with all the Groups and Services on a plan to achieve the reductions. We will have more detail for you on this at Additional Estimates.

The Strategic Reform Program, or SRP, will continue in Defence. We are continuing to meet our targets. We expect to meet our \$1.284

billion target for the 2011-12 financial year. This comes on top of our meeting the \$797 million target in 2009-10, and the \$1.016 billion target in 2010-11. Since the SRP was announced there have been other changes and reforms across the portfolio including cultural reforms and two substantial reductions in the numbers of Australian Public Servants. So in this set of Portfolio Budget Statements, we refer generically to Defence reform to cover all reform processes underway across the Department, including the SRP. The key point I want to make about the SRP is that it is all about reform. Reform must be a constant as we proceed. Notwithstanding the additional reforms and factors impacting reform, we need to carry the SRP forward into the White Paper process.

The new White Paper will allow us to factor in a number of significant developments, domestically and internationally, that affect our defence posture, force structure and budget. Within the Department, the development of the White Paper is being led by Mr Brendan Sargeant, the Deputy Secretary Strategy. The Minister for Defence has appointed a Ministerial Advisory Group, consisting of Allan Hawke, Paul Rizzo, and Ric Smith, and he may add others. This Group will provide advice both during the White Paper drafting process and independently to the Minister. We have been asked to deliver this new White Paper in the first half of 2013. We will not be setting up a separate White Paper team. This White Paper is going to be prepared in a way that is core daily business for Defence. We will also be seeking direct involvement from other agencies, such as DFAT, Finance, and PM&C, so whilst the White Paper is a Defence product

prepared by the Department for the Minister for Defence, it will very much be a whole of government product. We will also be drawing on the recently completed Force Posture Review report, overseen by Allan Hawke and Ric Smith, the Defence Capability Plan Review, which was completed as part of the Budget process, and the Force Structure Review that is currently underway. The White Paper will be built from all of this work.

Since my last appearance before this committee, we have filled a number of senior positions in the Defence Senior Leadership Group. Dr Alex Zelinsky commenced as Chief Defence Scientist on 12 March, Carmel McGregor joined us as Deputy Secretary People Strategies and Policy on 19 March, Steve Meekin was appointed as Deputy Secretary Intelligence and Security also on 19 March, and we announced on 3 May the appointment of Mr David Gould as General Manager Submarines. We also indicated at the time of Mr Gould's appointment that we would not be progressing with the appointment of an Associate Secretary Capability. Given the complexity of the current and future submarine projects, I assessed that rather than pursuing an Associate Secretary Capability position, what we really needed as a high priority was a very senior officer to provide coordinated oversight and outreach across Governments and industries to successfully progress these two critical projects (current and future submarines).

The Minister for Defence took possession on 17 April of the Final Report of Phase 1 of the Review of Allegations of sexual and other abuse in Defence, which was conducted by the law firm DLA Piper.

Phase 1 consisted of two volumes: Volume 1, which contained general findings and recommendations, and Volume 2, which contained individual allegations.

The Phase 1 Report has provided an initial assessment of 1095 allegations from 775 people, as the Minister, CDF and myself announced on 7 March.

I wish to emphasise to the Committee that Volume 2 has not been provided to Defence, and so we have an incomplete understanding of the allegations at this stage. Much of the information in Volume 2 contains highly sensitive personal information, which was provided to the Review on the strict condition of confidentiality.

All of the allegations made will need to be tested and examined. Phase 2 of this Review will consider how to deal with the allegations, including appropriate mechanisms for further assessment. This will not be quick, and it will require a further investigative and legal process to address each of the allegations. The bulk of this work will of course need to be carried out through arrangements outside and beyond the Defence Department.

On 7 March, the CDF and I jointly announced the release of *Pathway to Change: Evolving Defence Culture*. This document is Defence's response to the recent cultural reviews and it outlines the actions that we must take to ensure that our working environment is safe, equitable and inclusive for all. It marks the start of a five-year program of integrated and far reaching effort to tackle our cultural challenges at their source. We have identified six areas which will serve as our

reform streams and we have assigned senior officers who will lead the implementation for each of the streams. These streams are:

Leadership and Accountability (What's modelled)

Values and Behaviours (What's expected)

Right from the Start (What's inculcated)

Corrective Processes (How misconduct is handled)

Practical Measures (What's experienced)

Structure and Support (What enables).

Since my last appearance before this Committee, we have also finalised a new Defence Enterprise Collective Agreement, which was agreed by the Australian Public Service Commissioner and Fair Work Australia, and became operational on 19 April 2012.

I'm also pleased to advise that for the first time in 13 years, Defence has no Category A findings for its financial statements from the Australian National Audit Office. Category A findings are defined as those which pose a significant business or financial risk to the organisation. The removal of the last two Category A findings builds on work that has been conducted under previous Secretaries of the Department, but it is a particular testament to the work of our logistics personnel who have been working very hard to improve the accuracy of our physical assets and inventory, and I would like to place on the record my deep appreciation to all of the individuals involved in this effort.

Over the past twelve months we have also made some great strides with the Defence Capability Plan. The total value of projects approved in 2011 was more than \$6 billion, with approval gained for 49 Defence Capability Plan projects or initiatives – a record number. The total value of projects planned for Government approval in the next financial year amounts to approximately \$9 billion.

Finally, with your indulgence Chair, CDF and I need to leave the hearing this afternoon at 5:00pm, but we can return later in the evening if necessary. Both the Chief Operating Officer, Mr Simon Lewis, and the Vice Chief of the Defence Force, Air Marshal Mark Binskin, would be available to take questions in our absence. That concludes my opening statement.

Over the past twelve months we have also made some great strides with the Defence Capability Plan. The total value of projects approved in 2011 was more than 20 billion with approval gained for 49 Defence Capability Plan projects or initiatives - a record number. The total value of projects planned for Government approval in the next financial year amounts to approximately 28 billion.

Finally, with your indulgence Chair, CDF and I need to leave the hearing this afternoon at 2:00pm, but we can return later in the evening if necessary. Both the Chief Operating Officer, Mr Simon Lewis and the Vice Chief of the Defence Force, Air Marshal Alan Binskin, would be available to take questions in our absence. This concludes my opening statement.