

OPENING REMARKS
BY THE SECRETARY
OCTOBER 2011 BUDGET ESTIMATES

Introduction

Chair, members of the Committee, good morning. I intend to keep these opening remarks brief.

I assumed responsibility as Secretary of the Department of Defence on 5 September, and prior to discussing the Department's Estimates, I would like to take this opportunity to recognise the contribution that my predecessor Dr Ian Watt made to the Defence Organisation. I wish him well in his new appointment as Secretary of the Department of the Prime Minister and Cabinet. For my part, I am delighted and deeply honoured to return to Defence as Secretary and I look forward to engaging with the Committee over the coming months and years.

I would like to make it clear to the Committee that I am committed to continuing the reform of the Defence organisation, to seeing through the Strategic Reform Program and implementing the outcomes of the Black Review. I am committed to achieving the policy objectives of the White Paper.

In these remarks I will address a number of challenges faced by Defence. However my overwhelming impression on assuming the office of Secretary of the Department, is that the challenges and difficulties we face as an organisation are more than outweighed by the things we do right:

- We operate well – operations and support to operations are, in a way, as much a concern of the Secretary as the CDF in the modern Defence organisation – the CDF of course will elaborate on our operational achievements shortly;
- We acquire well – while there are some well documented cases of acquisitions that perform badly, the majority do go well and deliver much needed capability, for example earlier this week the ADF Choules was delivered to us on time and under budget;
- We are a very solid policy development department;
- We make a very real and valued contribution to both our own government and our allies through our intelligence capability;
- We undertake world leading Defence science; and
- Defence's support community provides great outcomes across a very demanding, diverse and dispersed organisation.

We should rightly acknowledge and occasionally celebrate these successes.

Nonetheless, as the Committee knows, Defence faces a challenging budget year, with a large number of new capability decisions to be made, upward pressure on our budget and a large number of reforms to be implemented, including increased Strategic Reform Program savings.

Defence White Paper

The committee is aware that in terms of achieving the outcomes of the Defence White Paper, the Department has struggled to match its capability aspirations with its capacity to deliver. We have, in the last few months, begun to increase the rate at which major capabilities are being presented to the Government for consideration, but I do not consider this indicator to be as important, as quality. I would prefer that we are slightly behind where we would like to be in terms of the absolute numbers of capability submissions, rather than speed up submissions and risk poor quality projects. Our experience is that rushed projects often become ‘problematic projects’.

However as I have said, we have begun to increase the rate at which major projects are being presented.

Last estimates Dr Watt made it clear that he did not see the White Paper as a rigid shopping list linked to a particular timetable. I support his position. Circumstances do change and we are having a look at a number of areas and will tweak our

implementation plans accordingly. The major internal reviews underway that will impact on the implementation of the White Paper are:

- The review of the Defence Budget by the CFO;
- The review of the capability development process by the Chief of the Capability Development Group, about which I will provide some additional detail later in this statement; and
- The review of the Defence Capability Plan being undertaken by the Chief of the Capability Development Group.

The outcomes of these internal reviews will inform the formulation of the Defence Budget 2012-13.

Strategic Reform Program

I am strongly committed to reforming the Defence organisation.

I learned long ago that history judges harshly the organisations that will not change and so it is with Defence – reform, change and progress are essential for us to survive let alone prosper. I know Senators will understand this.

The Strategic Reform Program has been in place for nearly two years and the Reform Program gets much harder from this point in terms of the ramp up of savings and the implementation of efficiencies.

I am pleased to recall to your attention that the SRP target cost reduction savings of \$1,016 million were successfully met during last financial year. This follows the target \$797 million achieved in FY2009-10. The Program is on track to achieve its forecast cost reductions.

An additional review of Shared Services was announced by the Minister for Defence on 6 May this year, and has now been completed. The Review has identified opportunities to improve service delivery and eliminate overlap and duplication of back office functions across Defence. We are now undertaking the detailed planning to implement the review's findings.

The next biannual Performance Report to Government is due to be considered in November 2011.

Accountability (Rufus Black Review)

I intend to move quickly to implement the Black Review. My first step will be to appoint, following a merit selection process, two suitably qualified people to fill the

Associate Secretaries positions as announced by the Minister. These positions will be central to implementing the organisational reforms to be undertaken.

With respect to the review of the major capability process, I intend to undertake the review in two parts: an initial study that will help inform the upcoming Budget and forecasts; and then a more substantive examination led by the new Associate Secretary for Capability.

These new Associate Secretary positions will perform high level coordination and integration of two of the most complex areas of Defence's business. The definition and delivery of new capability on the one hand and the management of the Defence business and support backbone on the other.

I, together with Mr Sargeant, would be happy to discuss this further later in the day if you wish.

The Black review is an important strategic functional alignment of business and accountability in Defence. We are working on the finer details of the way that business and responsibilities will be managed by these two Associate Secretary positions and I anticipate that detailed arrangements will be developed early in the new year when the two positions are in place. The selection process for the two Associate Secretaries is underway.

I will be moving to implement the Black Review progressively during the rest of this year and into next year.

Some of the key initiatives in the Review have already been actioned and announced by the Minister. Consistent with the recommendations of the Review a Corporate Plan is under development now and will be completed within coming months. This is an important plan, fundamental to our Department's business and I expect to have a first draft by the end of the year.

In addition to the selection of the two Associate Secretary positions, I will fill the vacant position of Chief Defence Scientist and Chief Executive Officer of the Defence Material Organisation. I also intend to fill the soon-to-be-vacant position of Deputy Secretary Intelligence and Security. I anticipate the selection processes for CDS and CEODMO will be well advanced by the end of November 2011.

Defence culture reviews

Like the CDF, I welcome the recent Defence culture reviews as an opportunity to continue the work of making Defence's workplace a safe, inclusive and equitable environment for all.

The suite of cultural reviews is largely complete and Defence is considering the reports in consultation with the review leads and developing a response. This response will be comprehensive and harmonised with the wider Defence reform agenda.

Submarines

Improving the availability and reliability of our Collins Class Submarines has been a tremendous challenge for Defence over many years and is a high priority for me as Secretary. My predecessor indicated to the Committee that he was disappointed with submarine availability and I share his concerns. Defence is working closely with Industry to address the numerous and complex issues.

I do not intend to provide great detail of our submarine capability in the public arena, including details of availability. What I will say is that there is substantial work to be undertaken and I have high expectations of the review being undertaken by Mr Coles. The results and recommendations of his report will be looked at very closely and implemented to the extent we are able.

That said, we are not awaiting the outcome of the Coles' review, we are continuing work to remediate the submarine capability. An Integrated Master Schedule covering the period from now until beyond 2020 has been developed and agreed to support the technical remediation program. The Schedule provides clear timings for when each submarine is available for training and operations, and when it is programmed for maintenance.

The Schedule also provides the basis for a new In-Service Support Contract that Defence is developing with ASC Pty Ltd. The Contract is performance-based and is intended to replace the existing Collins Through Life Support Arrangement by the end of this year.

A benchmarking study is also being conducted to provide a framework of industry best practice against which Defence and ASC can assess performance. The benchmarking study will be completed by mid next year.

QONs

Our performance in relation to the provision of responses to Questions on Notice generally, and more specifically to the Senate Committee has improved since the last time the Department sat before the Committee.

Last Estimates for example, the overall total number of questions was 415.

All have been lodged with the Committee – the last on 13 October 2011.

The Committee might note that many of the questions asked by Committee members relate to complex and highly technical and national security issues and considerable time is often needed to produce an appropriate response.

While it is important to ensure that answers to these complex and technical questions are correct, I have also reminded the Department of the need for a timely response.

Workplace Agreements

Turning to Defence's Workplace Agreements.

Bargaining for the Defence Enterprise Collective Agreement for non-SES APS employees has been underway since March 2011. A proposed agreement was not supported by employees in June 2011. Defence is continuing efforts to put in place a new agreement as soon as practicable.

The current pay arrangement for ADF members, set out in the Workplace Remuneration Arrangement, expires on 3 November 2011. Defence intends to take a submission to the Defence Force Remuneration Tribunal on 27 October and, if successful, the new pay arrangements will commence as soon as possible after that.

The SES have had a 3% pay rise approved recently, and consultation is underway regarding their broader conditions of service.

The Star Ranks have been consulted on a 3% pay offer, and Defence intends to take a submission to the Defence Force Remuneration Tribunal in November.

AUSMIN

Before I conclude, I would like the Committee to note that this year marked the 60th year of the Australia-United States alliance.

High level Ministerial consultations were held in San Francisco earlier this year attended by myself and the CDF.

A wreath was also laid at the USS San Francisco memorial to honour the US role in the Battle for Australia. The meetings demonstrated very clearly the central importance of the United States alliance to Australia's security now and into the future.

Let me conclude by saying once again that my commitment to continuing reform across the Defence Department is resolute, that while we have many varied and even daunting challenges before us which we will no doubt explore with this Committee in due course, we should not lose sight of the achievements and recognise the efforts of so many of our people. It is a great privilege to be able to serve as the Secretary of the Department of Defence.

Thank you.