

CHAPTER FOUR

DEFENCE AND EFFICIENCY

Perceptions of Efficiency

Australians have a right to expect Defence to use [its] funding wisely.¹

4.1 Efficiency is a fundamental issue in considering Defence funding. There will always remain strong competition for government funds, and a government organisation which wastes scarce resources has no claim on increased funding to compensate for that inefficiency. The Minister for Defence recognised this in stating recently that there would be

... no prospect of real increases in spending unless the Defence organisation makes a convincing attempt to harness all - and I do mean all - possible internal savings from the Defence Reform Program.²

4.2 The Committee believes that the Australian public would be unlikely to accept any bids for Defence funding increases in peacetime unless it could be reasonably satisfied that Defence had achieved all significant efficiencies compatible with its role. An essential task for the Committee in this inquiry was to determine, insofar as it can, the validity of Defence's claim to be an efficient user of public funding.

4.3 This task is complicated by the need for the Defence force to retain a latent capability in preparation for rapid reaction in time of crisis. Waste is easily identifiable in a business environment; a simple comparison of inputs with outputs will provide a measure of a company's level of efficiency. However, Defence is not a business, and the main output of Defence is not easily measured. Analysis of Defence outlays will often reveal reserve capacity. This should not be construed as inefficiency. The primary duty of the ADF is to maintain a force with the capacity to prosecute action in a contingency. This will require a level of activity, and a level of staffing, significantly higher than that required for a force structured to carry out the ADF's peacetime roles efficiently. Because the ADF must maintain this capacity to prosecute warlike operations at short notice, inbuilt peacetime capacity surplus must be tolerated. Defence reinforces this point:

You do not want to have [...] a defence organisation so tautly constructed in terms of its cost and robustness that any increased demand for effort causes some sort of fundamental breakdown in what it can do.³

4.4 Some submissions to the inquiry reflected continuing suspicion of claims of efficiency by the Department of Defence:

1 *Defending Australia*, op. cit., p. 145, para. 14.2.

2 McLachlan, Hon Ian, *Australia's Strategic Objectives*, Opening address to the Australian Defence Studies Centre 10th anniversary conference, Canberra, ACT, 11 November 1997.

3 Tonkin, Dept. of Defence, Transcript, p. 225.

Our concern has been far more with the consumption of resources by a large and ponderous bureaucracy. What the Defence Efficiency Review certainly showed was that there was an enormous waste, beyond even our fairly extravagant estimates. ... We simply see an enormous waste in producing large headquarters, an over-large officer corps and the starvation of resources to the operational units.⁴

4.5 There is a general perception that the Defence bureaucracy fosters inefficiency. This is partly due to the large size of an organisation sufficiently large to plan the many aspects of a nation's defence, and partly due to the large proportion of national resources spent each year by this department. Even Defence witnesses conceded that 'there is a substantial scope to generate efficiencies inside a \$10 billion budget'.⁵ However, Defence has actively pursued efficiencies in the past decade, as a means of maximising output in an era when it seemed clear that Defence spending was unlikely to be significantly increased. These efficiencies are in part reflected by the reductions made in personnel numbers. The total number of personnel in the Department of Defence has reduced from over 95,000 to around 75,000 over the last decade. These reductions are discussed in detail in Chapter 7.

4.6 In investigating the allegations of an excessive bureaucracy, the Committee noted a number of initiatives taken under the auspices of the Defence Reform Program have been specifically directed at reducing processes and increasing accountability. It also noted that many initiatives are evolutionary, and in several examples of process improvement, the end state has not been identified. It is expected that a continual process of self-review will result in iterative simplification of bureaucratic process.

4.7 The Department of Finance adopts a different view of Defence efficiency, and points out that 'there have been some quite significant changes in the last decade or so'. Rather than identifying specific areas of waste, Finance believes Defence's increasing efficiency, and its effectiveness in using its resources, have resulted in an ever-greater spending capacity.⁶

Performance Information

[T]he starting point of any consideration of adequacy of defence spending is how much capability you are getting for every dollar that is going into the system.⁷

4.8 The most fundamental test of whether Defence is an efficient organisation must be based on its effectiveness in producing required outputs for a given level of resource input. However, the information required to inform on that level of efficiency is not readily available. The Department of Finance notes that in Defence, 'the level of performance information, which gives you a guide on how effectively resources are used, is far from perfect'.⁸

4 O'Connor, Australia Defence Association, Transcript, p. 193.

5 Tonkin, Dept. of Defence, Transcript, p. 6.

6 Mann, Dept. of Finance, Transcript, p. 109.

7 White, Dept. of Defence, Transcript, p. 223.

8 Mann, Dept. of Finance, Transcript, p. 109.

A problem in this regard has been the quality and amount of information available on which the effectiveness of Defence spending can be judged.⁹

4.9 The Department of Defence itself concedes in a July 1997 joint report with the Department of Finance, that it does not yet 'give sufficient attention to best practice performance measurement'.¹⁰ This lack of available information will be rectified in part with the implementation of the Performance Information Review, which it is hoped will bring increased accountability, increased transparency, and reveal exactly what the public is getting for its money.¹¹

4.10 In simple terms, the move towards accrual accounting will shift the focus of Defence accounting onto outcomes and the outputs associated with the achievement of those outcomes. This will permit identification of the specific costs required to achieve each outcome; that is, a means by which the efficiency of the organisation may be measured. The clear inference of the move towards accrual accounting is that Defence has to date not been able to equate its resource usage with the achievement of objectives, and has been unable to determine the efficiency of its processes.

4.11 At present, Defence prepares financial statements and reports at portfolio and program level on an accrual basis, which will be progressively implemented throughout the organisation.¹² Planning is underway for transition to full accrual accounting on a whole-of-government basis from 1 July 1999. When fully in place, the capacity of the organisation to focus on particular areas of inefficient practice will be much improved.

Historical Efficiency Measures

4.12 Recent pressure to implement efficiency measures within the Defence budget began with the release of the 1987 White paper, *Defence of Australia 1987*, and a number of major initiatives were implemented from that time to increase the capability of the Department of Defence to deliver objectives within a constrained budget. These include the Force Structure Review (FSR), the Defence Logistics Redevelopment Programme (DLRP), the Defence Regional Support Review (DRSR), and the Commercial Support Program (CSP).

4.13 The Force Structure Review was commissioned in May 1990 and its report was released 12 months later. Its broad intention was to enable the programming of a number of new investment proposals up to the year 2000, on the assumption that there would be no real growth in funding over the decade. It determined to achieve this through personnel savings, requiring a reduction in the number of both civilian and military personnel. The reduction in permanent ADF personnel was partly compensated for by a greater reliance on reserves, and savings in permanent staff were also enabled through the contracting out, or commercialisation, of a number of support functions.¹³ The FSR was the overarching initiative under which measures such as the Commercial Support Program and the Ready Reserve Scheme were invoked.

9 Dept. of Finance, Submission, p. S311.

10 *Performance Information Review*, op. cit., para. 203.

11 Mann, Dept. of Finance, Transcript, p. 118.

12 Tonkin, Dept. of Defence, Transcript, p. 261.

13 *Force Structure Review 1991 - Report to the Minister for Defence*, Dept. of Defence, May 1991, pp. 41-42.

4.14 CSP was announced with the release of the FSR in May 1991, and sought to transfer a range of non-core activities carried out by Defence to Australian industry, where such a transfer could be shown to be more cost-effective. CSP addressed a broad spectrum of Defence Support activities including catering, base support, aircraft maintenance, clothing stores and transport, training and motor transport fleets. CSP was planned as a continuing initiative, and as at 1 April 1997, CSP had commercially tested some 6,000 Defence positions, and had generated recurring annual savings of \$123 million.¹⁴ The program is being stepped up considerably to implement the policy initiatives arising from the 1997 Defence Efficiency Review. As an example of the scope of commercialisation (and the quest for personnel efficiencies) within the ADF, Defence has market-tested on an average 1000 positions for commercialisation over each of the last four years, increasing to 4000 positions per year for the next four years.¹⁵ A large part of this increase is attributable to the DRP, which has identified 12,950 positions for market testing over the next four years.¹⁶

4.15 The Defence Logistics Redevelopment Project looked at warehousing, inventory management, stores transport and other logistic arrangements. The regional support review was commissioned in 1989 to remove duplication between ADF and Departmental support arrangements in the regions.

4.16 Defence claims that ongoing efficiency gains of \$510 million per year have been achieved by the combination of these measures on a continuing basis,¹⁷ with the saving of 11,250 positions within the Department.¹⁸ A further measure imposed by the current Government with the 1996-97 Budget was a redirection of funds of \$125 million annually, from administration to capability, which in practical terms became an enforced efficiency measure.¹⁹ Because this initiative was targeted at non-operational or support areas, with operational activities and activities in direct support of operations protected, the measure was equated to a six per cent reduction in civilian salaries and administrative expenses. The achievement of these savings was in part through a personnel reduction of 1200 Defence civilian positions, spread over 1996-97 and 1997-98. The savings were then redirected to expenditure proposals which focussed on the combat capabilities of the ADF, particularly in key capability areas identified in government policy.²⁰

4.17 Personnel costs currently consume around 40 per cent of the Defence budget, and this area continues to be targeted by Defence, as it was in the FSR, as an avenue for the achievement of substantial savings. This is because uniformed Defence personnel are generally more expensive to support than civilians or contractors providing the same services, because of the need for the Department to provide for their health, welfare, conditions of Service, clothing, equipping and superannuation. They are also more highly remunerated to compensate for the turbulence, remote postings and exigencies of Service life. The shedding of these costs to civilian organisations, by contracting out functions deemed non-essential to be conducted by permanent defence force members, is a continuing efficiency measure carried out by the ADF.

14 *Portfolio Budget Statements 1997-98, Defence Portfolio*, op. cit., p. 13.

15 Tonkin, Dept. of Defence, Transcript, p. 257.

16 *Performance Information Review*, op. cit., Case study 2, p. 19.

17 Tonkin, Dept. of Defence, Transcript, p. 224.

18 Dept. of Defence, Submission, p. S286.

19 *ibid.*

20 *Portfolio Budget Statements 1997-98, Defence Portfolio*, op. cit., pp. 37-38.

4.18 Of previous efficiency initiatives, the Committee has some reservations about the process of commercialisation under CSP. Commercialisation is frequently embraced within Defence as an option of first resort when seeking to reduce personnel costs, but the Committee questioned the long term benefits likely to result from comprehensive implementation of CSP in some technical areas. The Committee recognises that CSP to date has resulted in substantial benefits, but this process should not be seen as a source of unlimited savings potential. In any proposal for commercialisation, a balance must always be struck between the administrative and financial savings, vis-a-vis the ADF's operational flexibility and the potential limitations for operations in a hostile environment.

4.19 Commercialisation involves the transfer of a given Defence support capability to a civilian company, where that transfer can be shown to be more economical than retaining the capability within the ADF. Frequently, the successful tenderer for the support contract relies on recruiting the trained Defence personnel who have been made redundant in the ADF because of the function's transfer to the commercial sector. Through employing these already-trained personnel, the successful civilian tenderer is able to provide a commercially attractive initial price for a support capability because there is no need to factor in staff training costs in the contract. This process becomes disadvantageous to Defence where the successful tenderer becomes the monopoly supplier of the support service, and Defence must subsequently renegotiate that contract from a position of weakness, having eliminated its own in-house capability to perform the particular function.

4.20 While Defence currently advocates the efficiencies of the commercialisation process, there is evidence that the short-term gains resulting from the process may not be sustainable in the medium term. With the need for the civilian support agency to begin training replacement personnel, the increased costs will be reflected in the cost of the support function to Defence, and the apparent gains achieved in the short term may not be sustained.

The Defence Efficiency Review and Defence Reform Program

4.21 The Committee did not have resources available to perform a detailed examination of processes within Defence in order to identify inefficiencies and potential areas for savings. The need for such a review was obviated by the conduct of the Defence Efficiency Review (DER) in 1997. The DER was initiated by the Minister in October 1996, partly in response to the 'pervasive view ... that the Defence Organisation is not functioning at its optimum level'.²¹ The report of the DER was announced by the Minister on 11 April 1997 and produced some 70 findings and recommendations, identifying measures to impose greater efficiency on the Defence organisation. Although directed primarily towards policy and principle, the DER estimated one-off savings in excess of \$500 million, ongoing efficiencies of up to a further \$1 billion, and reductions of around 3,100 civilian and 2,000 military positions.

4.22 The subsequent Defence Reform Program (DRP) was effectively the translation of the principles adopted by the DER into detailed production of efficiencies. This resulted in about 180 proposals across the then eight Defence programs, and adopted the baseline as it stood at the 1996-97 Budget.²² Detailed studies were in progress to make sure that the

21 *Future Directions for the Management of Australia's Defence*, Report of the Defence Efficiency Review, 10 March 1997 (hereafter referred to as Report of the DER), Key Finding F6, Annex E, p. E-1.

22 Tonkin, Dept. of Defence, Transcript, p. 14.

savings identified by the Defence Efficiency Review Group were validated, and not double-counted by different groups targeting the same support area. On completion of that process, the resources previously allocated to a specific support area would then be reduced from the level identified in the baseline study, to force the provision of identified deliverables or other outcomes with fewer resources. Although conceding that this process was 'hard nosed', Defence was confident that the DRP will produce the savings forecast, and that the real savings will be sustainable.²³

4.23 Implementation of the DER's recommendations, under the DRP, was ongoing for the duration of this inquiry. To a degree, the Committee's review of the efficiency aspect of Defence funding was hampered by the ongoing nature of the DRP. In order to reach a conclusion about the realities of pressures on the Defence budget, the Committee sought to validate whether significant 'fat' remained in any areas of Defence spending. However, in most areas which the Committee suspected might contain inefficiency, progress under the auspices of the DRP was underway to reform Defence processes. In many areas, historical information examined by the Committee was rendered irrelevant by the scale of the changes initiated by the DRP. At the same time, accurate estimates of expected savings, or performance information, were not available because of the ongoing nature of the DRP which had not at that stage reached a steady state. Defence emphasised the continuous and dynamic nature of the DRP, recently reporting that 'there is already some evidence to suggest that efficiencies not targeted by the DRP might be achievable'.²⁴

4.24 The DRP produced additional short-term pressure on the Defence budget, through the lag imposed in realising forecast savings. In the early years of implementation, the transition costs were expected to consume the bulk of savings expected to be generated. These costs are imposed due to a number of factors. The estimated 8,000 personnel positions by which the Department is reduced create a need to fund redundancy payments; the rationalisation of training in Defence schools and on bases involves initial construction costs to increase the capacity of the supporting infrastructure; and disposal of some older Defence sites frequently involves clean-up costs, to remove historical contamination or to otherwise rehabilitate such properties. Defence was unable to provide an accurate estimate of the costs involved, beyond an estimate that transition costs 'would be at least in the order of \$100 million', and that capital costs 'would be in the hundreds of millions of dollars'.²⁵

4.25 Not all submissions to the inquiry were supportive of DER. One accusation raised was that the DER centralised authority, rather than devolving it, which would seem to be at odds with the dictates of an efficient structure. A further accusation was that DER concentrated on structures, while leaving a range of management processes in place.²⁶

Efficiency in Defence Acquisition

4.26 Historically, the Defence acquisition organisation has been the subject of criticism arising from instances of inadequate project management. As the budget for capital equipment in the Defence acquisition program totals around \$2.4 billion,²⁷ and individual

23 *ibid.*, p. 21.

24 Dept. of Defence, Submission, p. S321.

25 Tonkin, Dept. of Defence, Transcript, p. 226.

26 O'Connor, Australia Defence Association, Transcript, p. 196.

27 Based on 1997-98 revised estimate, *Portfolio Additional Estimates Statement 1997-98 - Defence Portfolio*, 23 October 1997, p. 106, Table 9.4.

major projects may cost considerably more than this (over a number of years), inefficient practices have the potential to result in considerable wastage of resources. In questioning, Defence conceded to 'some specific cases where [Defence project management] has been significantly deficient',²⁸ but cited the unique and exceedingly complex nature of such projects as a source of unavoidable risk. Defence maintained that the need to acquire leading edge technology frequently requires investment in relatively high risk projects, in order to acquire items of equipment with commensurately high capability.²⁹

4.27 A number of reports by the Australian National Audit Office (ANAO) in recent years have identified issues of concern in Defence acquisition projects. The ANAO's 1995-96 Audit Report on the Jindalee Operational Radar Network Project (JORN)³⁰ criticised several aspects of the project's management. While many facets of that criticism fall outside the scope of this inquiry, one of the issues noted was that the progressive payments exceeded the value of the work performed because the project management staff were 'under pressure to keep paying contractors in order to maintain Defence expenditure'.³¹ The tendency to make progress payments in advance of commensurate progress was also a criticism of the recent JCPAA report into the JORN project.³² ANAO observed that the attitude of having to spend a precise amount by 30 June each year was 'not in the Commonwealth's interests either from a contractual or Budgetary perspective', and did 'little to encourage efficiency and good performance by contractors'.³³ The Committee also noted two ANAO reports on the project for acquisition of the *Collins* class submarines,³⁴ where similar problems of inefficiency arose from early payment of project funding, to the detriment of the Commonwealth.³⁵ In some cases, the Commonwealth has paid for work years ahead of delivery.³⁶ The delays in this project have also required that the Commonwealth fund increased in-service costs.³⁷ Apart from the resource aspects, the pressure for a project manager to accept a project early, in order to keep to planned expenditure milestones, entails a considerable risk of encumbering Defence with equipment which fails to meet specified performance criteria.

4.28 In its response to the ANAO's JORN report, Defence accepted that significant problems arose from the pressure to achieve expenditure targets. Subsequently, action has been taken through an arrangement with the Department of Finance to carry over some \$150 million per year from one year to the next so that these pressures may be alleviated.³⁸ A provision also exists whereby carry-over of amounts in excess of this may be negotiated between Defence and Finance on a case-by-case basis.³⁹ Where residual rigidity still exists in reprogramming large allocations from one financial year to another, this results in part from the fact that Parliament

28 White, Dept. of Defence, Transcript, p. 266.

29 *ibid.*

30 *Jindalee Operational Radar Network Project*, Australian National Audit Office Audit Report No 28, 1995-96, Australian Government Publishing Service, 14 June 1996.

31 *ibid.*, Summary, p. xiii.

32 *The Jindalee Operational Radar Network Project*, Report 357, Joint Committee of Public Accounts and Audit, Parliament of the Commonwealth of Australia, AGPS, March 1998, p. xxi.

33 *ibid.*, p. 30, para. 5.26.

34 *Dept. of Defence: New Submarine Project*, Australian National Audit Office Audit Report No 22, 1992-93, Australian Government Publishing Service, 1992. Also *New Submarine Project*, ANAO Performance Audit No 34, 1997-98, 24 March 1998.

35 *New Submarine Project*, ANAO Performance Audit No 34, 1997-98, 24 March 1998, p. xvi, para. 14.

36 *ibid.*, p. xxiv, para 49.

37 *ibid.*, p. xvii, para. 15.

38 Dept. of Defence, Submission, p. S323.

39 *ibid.*

appropriates funds on an annual basis, requiring that Defence in turn account for its funds on an annual basis.⁴⁰

4.29 Another aspect of the Defence acquisition process which has recently been reviewed to eliminate inefficiencies is its staffing and running costs. The Defence acquisition organisation employs approximately 2,300 personnel, and its staffing and running costs consume around \$159 million per annum.⁴¹ The DER found 'evidence of a 20% improvement in staffing and operating costs as a proportion of major capital expenditure between 1993-94 and 1995-96' which it believed indicated that 'restructuring, downsizing and process improvement' was enhancing the output in the Acquisition Organisation.⁴² Notwithstanding this encouraging result, it also warned that scope still existed for further productivity gain, recommending staffing levels be reduced by 15 to 20 per cent.⁴³ Included in DER restructuring measures to enhance the efficiency of the acquisition organisation is collocation, reorganisation into functional, rather than Service groups and progressive reduction in the proportion of military personnel from 30 to 10 per cent. The rationale for this last change is that project managers will spend longer in a particular area, gaining greater experience levels in their specialist areas, and increasing their accountability.⁴⁴

4.30 Other major reforms are currently being examined for application to the acquisition process as the DRP progresses. As part of this, Defence is looking at new ways of scoping and controlling projects and writing contracts, all intended to add flexibility in acquisition, to protect the taxpayer.⁴⁵

4.31 Defence was confident that the cost aspect of the acquisition process is now more under control, and claimed that:

... wild cost blow-outs are things that our project management process has to a significant degree squeezed out. Sometimes we get things wrong, but it is not as bad as it used to be.⁴⁶

4.32 The Committee welcomed this optimism, noting that the acquisition process was a primary focus of the DER, and substantial changes are currently planned. Such changes are sorely needed. While not an issue which directly impacts upon funding matters, the Committee has been critical of the apparent inertia of the Defence acquisition process, which has resulted in a number of long-standing deficiencies in vital areas of Defence capability. The most obvious examples in recent years have been the drawn-out process to acquire both AEW&C aircraft, and an operational air-to-air refuelling capability. Another example of this inertia has been in the acquisition of an active electronic warfare capability for the F-111. Although identified as a requirement as early as 1985, that project still had not progressed by early 1998, having left the F-111 without a sufficient self-protection capability for over a decade.

40 Tonkin, Dept. of Defence, Transcript, p. 261.

41 Based on 1997-98 revised estimate, *Portfolio Additional Estimates Statement 1997-98 - Defence Portfolio*, op. cit., p. 106, Tables 9.3, 9.4.

42 DER Secretariat Papers, p. 154.

43 *ibid.*

44 Tonkin, Dept. of Defence, Transcript, p. 267.

45 *ibid.*, p. 264.

46 White, Dept. of Defence, Transcript, p. 267.

4.33 Developments in the Defence acquisitions area will be followed closely, and the Committee will review future audits of Defence acquisition projects with interest.

Other Reports on Defence Efficiency

4.34 Other ANAO reports have commented critically on areas of perceived inefficiencies within Defence processes. The most recent has been a report on Defence Inventory Management, dated October 1997.⁴⁷ This is an area which Defence acknowledges contains a number of deficiencies which contribute to significant wastage:

... there is a lot of work to be done to reconcile the standard of practice in our warehousing and in our inventory holdings... I think there is an enormous opportunity to do a lot of work over the next couple of years... There are a lot of efficiencies to be gained...⁴⁸

and:

[t]here are undoubtedly efficiencies still to be made in the logistics area.⁴⁹

4.35 The ANAO report largely validated this perception, finding that Defence performance management practices used in regard to its logistics supply chain 'do not reflect best practice',⁵⁰ and identifying that better management of the repairable item pipeline and the supply chain held potential for considerable efficiencies.⁵¹ Most noticeably, however, the report (which post-dated the report of the DER) was largely supportive of the conclusions of the DER in this area, indicating that Defence's assessment of its own inefficiencies had been realistic. The DER expected that savings accruing as a consequence of the recommended initiatives would 'realise recurrent savings between \$289 million to \$322 million and one-time savings of between \$100 million and \$140 million'.⁵² If achieved, this would represent a saving in the order of 10 per cent of the total ADF logistic support costs, which were estimated around \$3.1 billion for FY1995-96. The identified capacity for savings of this order, while it reveals the disturbing level of waste extant in the system prior to the DER, imparts faith in the veracity of the Defence Efficiency Review.

4.36 Another area which has also been the subject of a critical report by the ANAO in the past year is ADF health services. The ANAO report estimated that operating ADF health services conservatively cost around \$400 million per year,⁵³ and believed there was 'considerable scope for Defence to improve the efficiency and effectiveness of service delivery' in this area.⁵⁴ As in the case of Defence inventory management, the Committee noted this was also an area addressed by the DER,⁵⁵ and also that provision of ADF health

47 *Performance Management of Defence Inventory, Dept. of Defence*, Australian National Audit Office Audit Report No 5, 1997-98, 17 October 1997.

48 Barrie, Dept. of Defence, Transcript, p. 267.

49 Oxenbould, Dept. of Defence, Transcript, p. 170.

50 ANAO Report No 5, op. cit., pp. xv - xvi, para. 14.

51 *ibid.*, pp. xviii - xix.

52 DER Secretariat Papers, p. 368.

53 *Australian Defence Force Health Services*, Australian National Audit Office Audit Report No 34, 1996-97, Australian Government Publishing Service, 26 May 1997, Appendix 1, p. 89.

54 *ibid.*, p. xii, para. 10.

55 DER Secretariat Papers, p. 276.

services is currently the subject of a Multi-Program Activity (MPA) reviewing this area for application of CSP.

4.37 A further audit report, on food provisioning within the ADF,⁵⁶ concluded that 'provisioning for food in the ADF could be better managed and that worthwhile improvements in efficiency and effectiveness are achievable'.⁵⁷ ANAO's estimate of the total cost of ration provisioning in the ADF amounted to about \$100 million per annum,⁵⁸ but ANAO could not quantify the full savings potential from its recommendations. This was another area where Defence had already begun implementing efficiency reforms by the time of the audit, again demonstrating a proactive approach toward achievement of efficiencies.

Prospects of Further Efficiency Gains

*I am sure there are some [inefficiencies] that we probably do not even know about just yet.*⁵⁹

4.38 In probing for evidence of residual wastage within Defence spending, the Committee encountered a phenomenon similar to that experienced in the most recent audits conducted on Defence by ANAO. The broad coverage and ongoing nature of the DRP allowed Defence to claim in virtually all cases that individual areas were undergoing substantial restructuring as a result of the DER, which was expected to result in significant levels of savings, but could not be accurately assessed until full implementation of DRP. In most cases, this will require some years before the outcomes of the newly introduced processes are able to be assessed. Defence was confident of the scope and thoroughness of the DRP, claiming:

I do not think the major areas of inefficiency we have yet to deal with are ones which are going to generate significant dollars... The Defence Reform Program went round and kicked over every rock it could think of.⁶⁰

4.39 However, one 'rock' which appeared not to have been fully 'turned' in the DRP was the area of resource management. Defence conceded that 'the way in which we manage our resources and better target them' was an 'area of further improvement that we want to pursue'.⁶¹ This concession was supported by the joint report of the Performance Information Review, which identified financial processes as a particular area where Defence falls behind in terms of best business practice.⁶² In part, the Performance Information Review and implementation of accrual accounting will contribute to improving the management of resources, as better measurement of performance will more readily identify where resources are being consumed on wasteful business practices. Defence saw resource management as one of the less significant areas for achievement of future efficiencies, estimating that it was

56 *Management of Food Provisioning in the Australian Defence Force*, Australian National Audit Office Audit Report No 15, 1996-97, Australian Government Publishing Service, 22 November 1996.

57 *ibid.*, p. xiii.

58 *ibid.*

59 Barrie, Dept. of Defence, Transcript, p. 259.

60 Tonkin, Dept. of Defence, Transcript, p. 245.

61 *ibid.*

62 *Performance Information Review*, op. cit., Case Study 4, p. 20.

likely to achieve efficiencies in the order of 'the tens of millions [of dollars], rather than the hundreds of millions'.⁶³

4.40 Some submissions to the inquiry proposed other areas where possible efficiencies might be sought without affecting Defence effectiveness in delivery of national security. This included areas such as the reduction in the number of Defence bands, the elimination of steward service in Officers' Messes, and tightened administration of allowances paid to Defence members for meals, travel and accommodation, to eliminate fraud.⁶⁴ The Committee noted that the first two of these measures were questions which reflect on Defence's continuing review of its core business, and the Committee would be interested in Defence's justification for retaining such capabilities. The third of these suggestions may be partly addressed by Defence's current review of pay and allowances, but otherwise remains a matter for Defence internal audit, and the continuing activities of the Defence Inspector-General.

4.41 The Committee concurs with Defence that there currently remains scope for further efficiencies in a \$10 billion budget, and some will probably remain on completion of the current initiatives. Undoubtedly, further incremental efficiencies will be achievable, particularly as information technology enhances decision-making processes and replaces more labour-intensive activities. The Committee's other findings on aspects of Defence efficiency were as follow:

- Defence has made considerable progress toward achieving efficiencies, and has proactively embraced commercialisation, with optimal results yet to be achieved.
- For a number of decades, the Defence acquisition process has been a source of some unfortunate examples of inefficiency. The process is still in need of careful management. The Committee believes that any comment on the likely outcomes of current reforms would be premature.
- The most likely remaining sources of major efficiencies are the areas of logistics, inventory management, provision of health care and financial processes. The Committee acknowledges that Defence has already initiated reviews which will result in improvements in each of these areas.
- Defence's initiation of the DER has to a large degree pre-empted accusations of residual inefficiencies within its budget, and has provided Defence with a degree of immunity from such criticisms in the short term. Beyond the next few years, the viability of that defence will depend on the successful realisation of the gains claimed for the DER.

Recommendation 2

The Committee recommends that the Department of Defence be required to report to the Parliament annually, and in a report separate from the Defence Annual Report, specifically detailing the progress made in implementing major efficiency initiatives.

63 Tonkin, *ibid.*

64 Drummond, Submission, pp. S193-S195, S219, S220

