



## **Appendix B – Extract from ASPI Defence Budget Brief 2003-04**

### **SECTION 4 – IMPROVING DEFENCE BUDGET TRANSPARENCY**

#### **Introduction**

The White Paper outlined a new approach to Defence funding and management that it claimed would, among other things, provide an improved basis for accountability by Defence to Government and the public for the efficient and effective use of defence funds (Defence 2000, p.120). It expressed the principle that ‘the public should have the information required to assess the efficiency and effectiveness of the use of defence funds’. With that in mind, we proposed a series of options for improving the transparency of the Defence budget in last year’s ASPI Defence Budget Brief. At that time there was substantial room for improvement with the PBS giving only sparse visibility of many important aspects of Defence spending.

This year’s PBS is a very marked contrast. Not only has the amount of financial and performance information increased substantially but also the presentation is clearer and more systematic than any before. We would like to think that we had some small influence on the shape of these improvements, but it must be said that in some areas Defence has gone beyond the level of disclosure we suggested.

Nevertheless, this year we continue our focus on budget transparency by tracking the progress to date and further exploring options for improvement. With \$15.8 billion of public money at stake its still worthy of close examination. In doing so, we are careful to respect the limitations imposed by official secrecy and commercial confidence.

#### **Progress over the Last 12 Months**

The improvements have been in four key areas:

- The Resourcing section of the PBS has been greatly expanded and better presented. The Total Defence Funding can now be read simply from a table without any need

for a separate calculation. The White Paper funding figures for the decade are provided explicitly, and a reconciliation of budget measures and adjustments going back to 2000-01 has been provided. On top of this, the budget measures and adjustments for the current year have been detailed and explained more completely than in the past. The complex funding arrangements for the Iraq conflict have been made clear and a good deal of effort has gone into explaining the management of Defence's cash reserves. Finally, the PBS even includes a very helpful discussion of different methods of presenting the budget as they appear elsewhere in the Commonwealth's budget papers.

- The previous 29 Defence sub-Outputs, which were largely invisible, have been elevated to the status of Outputs with a corresponding increase in disclosure. This is perhaps the most important improvement of the many that have occurred.
- At the Output level the price is now broken down in terms of various expense components rather than simply being presented as a single figure. This includes employee expenses, suppliers (including inventory) and depreciation. At the same time, activity rate performance targets for aircraft, and availability rate performance targets for vessels, have been reinstated. In future years, as a baseline of data accumulates, this will allow trend analysis to be undertaken linking activity and expenses.
- The Capital Budget is better explained than ever before and now includes a breakdown in terms of the actual capital investment programs, not just formal accounting categories. Along with this, the top twenty projects have been supplemented by a discussion of other significant major capital equipment projects.

In addition, the capital use charge has been discontinued thereby eliminating a highly artificial construct that obscured much more than it ever informed.

### **Further Opportunities to Improve Budget Transparency**

While laudable progress has been made in many areas, we still think some further improvements are possible. In the remainder of this section we further develop options for improving budget transparency.

#### ***Making the Goal Clear – The Outcomes***

A clear and content-rich statement of the Government's intended outcomes is the foundation of the whole outcomes and outputs framework. The framework cannot function unless the outcomes are expressed in terms which are clear enough to allow genuine assessment of the extent to which they are achieved, and of the extent to which outputs have contributed to their achievement.

Last year we argued that the single Defence Outcome *The Defence of Australia and its National Interests* was too general and unspecific to provide an adequate foundation for the framework, and a basis for performance evaluation. Indeed, we argued that the single, broad outcome set out for Defence *The Defence of Australia and its National Interests* was not much more than a feel-good slogan; and no basis for a year-by-year evaluation of the success of the Defence organisation in doing what the Government wants.

This year there are seven Defence outcomes. The first six of which are little more than a rewording of the previous six outputs, and the seventh covers administered appropriations. In reality, little has changed. For example, the Output previously known as *Navy Capabilities* is now designated the Outcome *Navy Capability for the Defence of Australia and its Interests*. Little has been gained in terms of clarity or usefulness at the Outcome level.

At the risk of repeating what we said last year, a better approach would be to recognise that the Government has several different outcomes that it seeks from the Defence function. These outcomes need to reflect the slightly paradoxical nature of a lot of Defence activity: the Government wants to maintain capable defence forces but does not want to use them. It would rather maintain an environment in which it does not need to use them. But when it does use them it wants them to be successful.

Developing a set of more meaningful outcomes for Defence would take a little thought, but just to provide an example of what might be possible, we offer the following suggestions:

- Having armed forces ready for operations to meet Australia's needs;
- Maintenance of a favourable strategic environment; and
- The successful conduct of military operations as directed by Government.

#### ***Making Effectiveness Clear – Outputs***

Last year we reported on the substantial decline in Output and sub-Output level information disclosed in the PBS since 1999-00. Pleasingly, this trend was reversed with the release of the 2002-03 PAES and the improvements have been built upon substantially in the 2003-04 PBS. Table 4.2 details the level of output information that has been disclosed over recent years. We ignore the material included under what is now Output 7 for administered funds.

#### **Table 4.2: Output Information Contained in the Defence PBS/PAES**

While substantial improvement has occurred, there remain several ways to improve the transparency of the Outcomes and Outputs including:

#### ***Provide More Information Down to the Output Level***

The disclosure of Output prices and performance targets in the 2003-04 PBS is a positive step forward in improving budget transparency. However, price variations, and the discussion of risks and risk mitigation, only appears at the Outcome level.

The Outputs constitute the basic building blocks of capability, and it is at that level that *all* financial and performance information should be given. Last year's annual report provided useful detail on the problems arising down at what is now the Output level. It would be good if this same level of detail was included in the PBS in terms of risks and limitations. And similarly for the variations to price at the Output level.

#### ***Further Develop Measurable Output Performance Targets***

Perhaps the most serious shortcoming in the 2001-02 and 2002-03 PBS was the absence of quantified performance targets. Since then, both the 2002-03 PAES and the 2003-04 PBS have reinstated many of the performance measures used in previous years at the sub-output level. And the 2001-02 Defence Annual Report provided the 2001-02 targets albeit after

the event. This is a very welcome development. Without clear performance targets it is impossible to judge how well the organisation is performing.

However, there is still some scope for further development in the areas of activity rates, availability rates and preparedness targets. We explore these possibilities below.

### *Activity Rates*

Although we now have targets for the number of 'flying hours' for ADF aircraft, no similar targets is given for the number of 'sea days' planned for Navy vessels nor 'track miles' planned for Army armoured vehicles. In the case of Navy it was routine to provide targets for both the number of sea days and vessel availability prior to 1997-98. All that we have today is a target for the number of Unit Ready Days (URD) which refers to the time that a vessel is *able* to perform in accordance with its designed capability, whether it does so or not. That is, availability not activity.

There are three reasons to introduce activity rate targets for Navy vessels in terms of days spent at sea, and for Army armoured vehicles in terms of 'track miles':

Firstly, activity performance targets relate directly to the accrual framework which itself focuses on activities rather than cash. Many of the expenses that appear in the Statement of Financial Performance will rise and fall with activity levels. Consequently, visibility of activity levels is 'the other half of the equation' in understanding the financial statements. As discussed in Section 3, this is particularly important when assessing the additional cost of deployments.

Second, activity rates can be a useful pointer to management problems and issues. For example, in 2000-01 Navy planned to undertake 4450 Seahawk helicopter flying hours in a year but only achieved 73% of that target. This indicated that Navy had not achieved some 1189 hours of training and exercises previously deemed necessary for the delivery of their output. Unless some more efficient way of delivering the output with less flying hours had been found, it was difficult to escape the conclusion that the output has not been delivered in full. In fact it transpired that there were problems in personnel shortages including insufficient instructors.

Thirdly, and somewhat specific to Navy, the numbers of planned versus achieved sea days is a direct measure of the additional demands being shouldered by the men and woman of the RAN (and their families) when operational demands boost time at sea as has occurred over the past few years.

### *Availability Rates*

With the use of URD targets for Navy ships and submarines, we now have a measure of the availability for tasking within planned readiness requirements. This is important because it measures the effectiveness of Navy's personnel, training and logistics systems in maintaining vessels and their crews ready for action. For exactly these reasons the same sort of measures should be applied to ADF aircraft and armoured vehicle based capabilities, and indeed to any unit that has a preparedness goal.

Moreover, the acquisition of capabilities is increasingly moving towards specifying the average number of platforms to be mission capable per day. This is how both the Aerial

Reconnaissance & Fire Support Helicopter and Hawk Lead-in-Fighter projects defined their goals. If this is how we are going to specify future capabilities, it makes sense to plan, measure and report against similar targets.

Table 4.1 draws together proposed performance measures for various ADF platforms in terms of activity and availability targets.

**Table 4.1: Possible Activity and Availability Rate Measures for ADF Platforms**  
Platform Activity Rates Availability Rates

### *Preparedness Targets*

Preparedness is a capability's readiness to undertake and sustain operations. It is perhaps the key deliverable for the Defence organisation. Explicit in the PBS, and explained in detail on page 186, is that preparedness is measured relative to the targets in the Chief of the Defence Force's Preparedness Directive. A qualitative assessment of preparedness achievement at what is now the Output level was included in the 2000-01 and 2001-02 Annual Reports. And this year's PBS includes some of the very general preparedness goals for Army Outputs.

Security considerations would inhibit the publication of very much more detailed preparedness targets and achievements, but there is probably room to expand this general approach to the Navy and Airforce outputs.

Finally, we would encourage the option of providing classified preparedness targets and performance information to Parliamentary Committees, as occurs in the US Congress. This would require some detailed development as a policy proposal.

### *Making Efficiency and Accountability Clear – The Groups*

Group financial and personnel data been absent from the PBS since 2000-01. And in June 2002 Defence refused point blank to provide the Senate Foreign Affairs, Defence and Trade committee with Group budget information, citing that Group budgets are an internal management mechanism not used for performance measurement and reporting purposes.

This is disappointing. Many Defence Groups are larger than most Commonwealth agencies, and it is within the Groups that most management decisions are made and accountability lies. But their budgets, staffs and performance targets are not reported to the public. For example, we think that the Defence Science and Technology Organisation consumes something like \$250 million a year – but we are only guessing. This is comparable to the current funding for the Australian Research Council. Yet the PBS includes only seven vague dot-points on p.15 to explain how that money will be spent. Defence's initiatives for Science, Technology and Industry make no mention of what they might cost or what the Research and Development budget is. In contrast, other nations look to their investment in military Research and Development as a key measure within the make up of Defence spending.

In fact, the groups are the real business units of Defence. Quite simply, without presentation of group financial, personnel and performance targets, it is very difficult to assess the efficiency of Defence at other than the most aggregate level. To make a

commercial analogy, Defence is a sole-source provider and there needs to be an 'open book' contract to ensure value-for-money.

Ultimately, the absence of a benchmark for the price of Defence outputs, any assurance of efficiency must rely on an analysis of group performance.

Options for the presentation of group information include:

- Reinstating the dual presentation of groups and outputs that was provided in the PBS of 1999–2000. This included much useful discussion of the financial interrelation between groups and outputs. But that presentation could be expanded to include personnel, financial and performance targets for the groups, based upon the organisational performance agreements described on page 162 of the PBS.
- Use the Customer Supplier Arrangements that are being set up in Defence to provide transparency of the services provided to the output groups by the enabling groups. This would yield a powerful insight into the delivery of in excess of \$5 billion of services to the outputs.

### ***Making Investment Clear***

This year's PBS provided a very valuable and systematic description of the financial aspects of the Capital Investment Program, and there was also an expansion of the material provided covering individual major capital equipment projects.

Nevertheless we think that the presentation of Defence's budget would be greatly improved by the development of a uniform program of performance targets for the major capital equipment investment program. In this regard we agree with the recommendation of the Senate Foreign Affairs, Defence and Trade Committee 2003 Inquiry into *Material Acquisition and Management in Defence* that:

The Senate requests the auditor general:

- (a) To produce, on an annual basis, a report on progress in major defence projects, detailing cost, time and technical performance data for each project;
- (b) To model the report on that ordered by the British House of Commons and produced by the UK Comptroller and Auditor General; and
- (c) To include in the report such analysis of performance and emerging trends as will enable the parliament to have high visibility of all current and pending major projects.

The latest report by the UK Comptroller and Auditor General can be found at [http://www.nao.gov.uk/publications/nao\\_reports/](http://www.nao.gov.uk/publications/nao_reports/).

In another recommendation the Committee recommend that during Budget Estimates the DMO table before the Senate FAD&T Legislative Committee an audited summary of the feedback provided by industry to the DMO via the 360-degree scorecard process. We think this is an excellent idea.

***Making the Personnel Picture Clear***

There are four ways that the presentation of personnel information could be made more transparent in the PBS:

- Details of ADF permanent, Reserve and Civilian personnel should be available for each output;
- Recruiting and retention targets for the upcoming year could be given. And reported figures should identify separations that are management initiated;
- Targets and expenses for the planned use of ‘professional service providers’ could be given to complete the workforce picture; and
- The planned combat/combat-related component of the ADF for the upcoming year could be given on the basis of the 1996 DRP baseline. This would help track progress towards the Government’s goal of a 65% combat force.