

Appendix 4

Implementation of Defence Reviews

Department of Defence ¹

The Strategic Reform Program (SRP) and a number of recent reviews provide clear strategic direction to Defence, including the DMO, for the need to reform and improve its governance and accountability structures, and business processes. These reforms seek to improve the way in which Defence achieves its outcomes in support of Government's strategic objectives.

In his speech to the Australian Strategic Policy Institute (ASPI) on 19 July 2011, the Minister for Defence mapped out the gamut of Government measures and initiatives for Defence Reform, which are either linked or in addition to the ongoing SRP effort. The breadth of current and future Defence reforms are outlined below:

Current reforms (being implemented):

- Procurement and Sustainment;
- The Defence Budget;
- *Minor Projects*;
- Early Warnings and Indicators;
- Enhanced Gate Review Process;
- Projects of Concern;
- Defence Capability Plan;
- Linking the Defence Capability Plan to Defence Planning Guidance;
- Accountability issues as revealed in the Black Review; and
- The Rizzo Report.

Future reforms (to be implemented):

- Coles Review;
- Shared Services Review; and
- Force Posture Review.

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Defending Australia and its National Interests

1 Department of Defence, Additional information, received 4 October 2011.

The Government's and the Defence senior leadership's determination to reform Defence is clear and resolute.

Strategic Reform Program (Pappas)

The Defence Budget Audit or Pappas Review was an independent Audit of the Defence Budget, in keeping with the Government's pre-election commitment. The final report of the Audit was delivered to the Government in April 2009.

The Audit examined the state of the Defence Budget and its major cost drivers, with a view to finding potential for efficiency gains and reinvestment opportunities. The Audit also identified fundamental reforms that Defence should undertake in order to become a more accountable, transparent and efficient organisation. It made over 120 recommendations, the vast majority of which were accepted by the Government.

Mr Pappas' report was a frank assessment of the challenges faced by Defence and makes a strong case for deep and sustained reform. The Government's vehicle for that deep and sustained reform is the Strategic Reform Program (SRP), one of the most comprehensive programs of reform ever undertaken by Defence.

As the SRP evolves, so does its environment. The SRP is operating within a broader context of an expanding reform agenda, numerous Government and Defence initiated reviews, and a tight fiscal environment across Government. Effecting sustainable change, in particular culture change, in this context is a major challenge.

There are 15 SRP reform streams that will deliver savings of some \$20bn over 10 years, as well as re-setting core business functions to deliver increased effectiveness and enhanced return on future effort. Cost reductions to date have been \$797m in FY 2009-10, \$1,016m in FY2010-11 and forecast savings of \$1,283m in FY 11-12 and \$1,992m in FY 12-13. These results have been achieved without any negative impacts to capability or safety and have been delivered through a mixture of innovative reforms, cost reductions, and reduced discretionary expenditure.

Black Review

The Minister for Defence announced the findings of the Black Review on 9 August 2011. The Department has commenced implementation of the Black Review recommendations. To date, this has resulted in:

- initial communication strategy and internal communications regarding the release and content of the Black Review;
- as an extension of SRP an overall implementation strategy for the Black Review has been prepared for consideration by the Defence Committee;
- the completion of the initial design draft of the five year horizon Defence Corporate Plan for consideration by the Defence Committee;
- the development and dissemination of the Defence Annual Plan;
- the advertising of the Associate Secretary (Capability) and the Associate Secretary (Chief Operating Officer) positions; and
- the Secretary's direction to undertake a review of Defence's capability business process as recommended in the Black Review.

Capability Review

In light of the Black Review's findings of challenges and weaknesses in Defence's end-to-end management of capability, a comprehensive end-to-end business process review of Defence's capability management will be undertaken. This review will address issues across the current capability management cycle including planning and development, acquisition, transition into service, sustainment and upgrade, and disposal.

The review will focus on both efficiency and effectiveness of the capability business process and will recommend required changes. Importantly the review will build on previous reports, such as Mortimer, and take a practical approach to further possible improvements. Significant improvements have already been made to many areas of capability acquisition and this is about further building on these improvements across the whole system of capability acquisition. Accordingly the review will encompass governance, resourcing, strategic control and decision making, the role and participation of various Defence entities, contestability, risk management, reporting and organisational structure. The review will also address relevant issues raised through other related reform initiatives, particularly the Strategic Reform Program; the Rizzo Review, together with other Chief Capability Development Group initiated process reviews, and in time the outcomes of the Coles Review. The review will also take account of the reforms announced by the Minister in May and August.

Mortimer Reforms

The implementation of the Mortimer Review recommendations is one of the Strategic Reform Program streams. An SES Band 3 / 3 Star committee provides oversight on implementation of the recommendations. The committee last met on 18 May 2011. As of that date, 32 process recommendations had been fully implemented and a further two had been transferred to another Strategic Reform Program Stream. Eleven recommendations remain on track for implementation by 2012. The below table is the list of Mortimer recommendations that are closed by process¹:

Mortimer recommendations closed by process

	Current Process Status	Commentary
1.1 Linking Strategy to Capability	Completed	The 'strategy-led' measures of Strengthening the Capability Development Process are in place. These measures include the establishment of Five Yearly <i>White Paper</i> cycle (supported by annual <i>Defence Planning Guidance</i>), the establishment of the Force Structure Development Directorate, institutionalisation of the Force Structure Review process and the publication of <i>The Strategic Framework</i> that outlines the post White Paper approach to implementing a 'strategy-led' approach within Defence. This is now part of business as usual.
1.3 Assure Government of affordability of Defence Capability Plan (DCP)	Completed	A statement on DCP affordability was included in the Defence Capability Plan 2009.
1.4 Replace explicit cost bands in public DCP	Completed	An independent review was undertaken by the Australian Strategic Policy Institute (ASPI) on the availability of Defence capability planning information to industry. The public DCP content was amended to reflect the Government's response to the ASPI review.
2.1 Tailor two-pass process according to the specific project	Completed	The internal processes on tailoring of the two-pass process are described in the Interim Defence Capability Development handbook (DCDH).
2.2 Establish subordinate subcommittee to NSC	Completed	In its response to Mortimer, the Government proposed an alternative approach to reducing the NSC workload by increasing approval thresholds. New thresholds for project approvals have been implemented.
2.3 Support Off the Shelf (OTS) consideration with cost-benefit	Completed	The requirement to include OTS options for all procurements and associated enabling processes are described in the Interim DCDH.

¹ The report refers to the Interim Defence Capability Development Handbook (DCDH). The DCDH was published in Aug 2011 after the May meeting. No changes have occurred which impact this report.

analysis for each project		The Interim DCDII states that where an OTS option exists for Defence's capability requirements, it will be presented for Government consideration and will be the benchmark against which a rigorous cost-benefit analysis of the military effects and schedule aspects of the other options will be undertaken; and when an off-the-shelf option is judged not to exist, this will be explained in the submission to Government.
2.4 More rigorous project submission to support entry into DCP	Completed	The Interim DCDII requires relevant experts to provide cost, schedule and risk information.
2.5 Develop draft Materiel Acquisition Agreement (MAA) at project entry to DCP	Completed	The Interim DCDH states that a draft MAA is to be developed for DCP entry, detailing the responsibilities and expectations of the stakeholders. This draft MAA forms part of the Initial Capability Definition Statement.
2.6 Endorsement of capability submission by Capability Managers	Completed	Capability Manager endorsement is currently achieved through representation on capability committees. Requirement for Capability Manager sign-off of submissions is to be considered by the Capability Manager Working Group.
2.7 DMO to be responsible for the equipment acquisition strategy	Completed	The Interim DCDH states that DMO is responsible for the equipment acquisition strategy throughout the capability development process. The Cabinet Submission template has been reviewed to allow CEO DMO's agreement and sign-off of the acquisition strategy.
2.8 Devoting sufficient resources and skills in Capability Development Group (CDG)	Completed	Increases in CDG's workforce were approved as part of the development of the 2009 White Paper. CDG training aspects of this recommendation are to be addressed primarily via the Desk Officer Skilling Program.
2.10 CEO DMO to provide independent expert commercial advice to Government	Completed	The CEO DMO provides independent advice to Government on cost, schedule, risk and commercial aspects of all major capital equipment acquisitions.
3.1 Capability Managers to sign Materiel Acquisition Agreements (MAAs)	Completed	Capability managers formally agree to the scope and schedule of the acquisition activity and confirm the baseline for the delivery of equipment by signing MAAs. All new MAAs are signed by CMs. All existing MAAs are being migrated to new format and signed by Capability Managers.
3.5 Project Charters	Completed	Complex and demanding projects have been defined as ACAT I and ACAT II projects. Project Manager Charters have been instituted for all current ACAT I and ACAT II projects. In total, over 70 project charters have been signed.
3.6 Independent Project Performance Office	Completed	An Independent Project Performance Office has been established in the DMO under General Manager Programs. It manages the Projects of Concern and Project Gate Reviews.
3.7 Align contracting with commercial practice	Completed	General Manager Commercial has worked with industry to identify key procurement and contracting issues that do not align with commercial practice, and made agreed changes to templates and policy.
3.8 Public-Private Partnerships (PPP)	Completed	On a project by project basis DMO is applying the Defence PPP checklist to evaluate capabilities suitable for acquisition under PPP arrangements. DMO liaises with the PPP centre of excellence in Defence Support Group in relation to PPP opportunities.
3.9 Public-Private Partnership Assessment	Completed	As per 3.8
3.10 Skills Shortage	Completed	On 15 Nov 08, the Minister for Defence announced the Industry Skilling Program Enhancement (ISPE) package. The ISPE contains 14 initiatives designed to address skill shortages in defence industry. Implementation of the package has progressed well. Major achievements included: <ul style="list-style-type: none"> • establishing the Defence Industry Innovation Centre (launched in Sep 09); • establishing three Defence Industry School Pathways Programs;

		<ul style="list-style-type: none"> • funding an industry component to the Defence Technical Scholarships Program; • funding an Engineering Scholarship Program; • expanding the DMO Institute; • expanding the Masters of Military Systems Integration; • introducing a Masters of Systems Support Engineering; • instituting an Industry Downturn Response Strategy; and • funding a Defence Industry Sector Branding Strategy. <p>The package also assists potential defence industry workers by increasing their knowledge of the career pathways available in defence industry and works hand-in-hand with the Skilling Australia's Defence Industry (SADI) program. Under the SADI program, 7,500 training opportunities are expected to be created over the period 2009-2015. In 2009/10, almost 1,400 training opportunities were funded under SADI with approximately 1,500 expected per annum over the next four years.</p> <p>The majority of ISPE initiatives have been implemented or are in the final stages of negotiation. The three school pathways programs have been established in SA, WA and the Hunter Region of NSW. The Advanced Manufacturing Industry Schools Pathways Program in the Hunter saw approximately 350 students participate in the ME Pilot Program in 2010.</p> <p>The framework to facilitate industry access to DMO Institute courses has been developed with selected courses offered to industry from late 2010.</p> <p>A media release was issued by the Minister for Defence Materiel on 30 August 2011 announcing 109 companies would share in almost \$14m for more than 4,000 training places to boost the skills of the Defence industry workforce. This includes up to \$1.4 million to support approx 250 apprentices in trades like aerospace skills, engineering fabrication and electro technology.</p>
3.11 Joint Industry Training Task Force	Completed	<p>Many of the recommendations contained in the report of the Joint Training Task Force (JTTF) were incorporated into the ISPE proposal (see above), these included:</p> <ul style="list-style-type: none"> • the establishment of a standing team to identify and leverage downturns in other industries; • the development of a strategic brand for defence industry; and • the replication of the Queensland Aerospace project (school pathway Programs) in WA, SA and Hunter Region. <p>It is intended that the Defence and Industry Skills Taskforce will now replace the JTTF and provide advice, analysis, idcas, and strategics with particular reference to:</p> <ul style="list-style-type: none"> • ensuring a critical mass of skills relevant to the Defence sector and the future sustainment of these skills; • identifying and growing the skills to deliver and sustain the capabilities and equipment of the ADF as detailed in the 2009 White Paper, Defence Capability Plan and Priority Industry Capabilities; and • building the skills required in Defence and defence industry to deliver the Defence Strategic Reform Program, and specifically the SMART Sustainment and Logistics streams. <p>Given the success of the ISPE initiatives in achieving the JTTF recommendations and its subsequent replacement with the D&I Skills Taskforce with attendant change in focus, the status of this item was changed to completed.</p>
3.13 Disciplined Process for Scope Change	Completed	<p>The Interim DCDH states proposed changes to the capability baseline must be cleared by CCDG, in consultation with Strategic Policy Division and the Capability Manager, before the acquisition agency approves any</p>

		<p>engineering change proposal, contract change proposal, waiver or deviation that affects the approved baseline. When applicable the Project Directive and Materiel Acquisition Agreement must be amended accordingly.</p> <p>CCDG is responsible for recommending and obtaining Defence or Government approval for any changes to the project's scope, cost or schedule that are outside the tolerances approved for the project.</p> <p>Changes that affect the acquisition baseline require the approval of Government before they can be implemented</p>
4.1 Net Personnel Operating Costs (NPOC) to be updated annually	Completed	The supporting guidance to the Interim DCDH states that the NPOC program, supported by updated Workforce Estimates, is to be updated annually by FASCIR. The updates are prepared by CS Div Desk Officers (endorsed by the CM, DMO and stakeholders) and reviewed by CAB in time for Budget Estimates.
4.3 Independent Sustainment Efficiency Office	Completed	The Sustainment Reinvestment Office was established to integrate, coordinate and oversee delivery of the Smart Sustainment Program. It supported delivery of the program by DMO Divisions and Defence through the development of tools, training and guidance material and through facilitation and information sharing. The Smart Sustainment Program is intended to deliver significant improvements in the delivery of sustainment services.
4.4 Establish correct basis for capability decisions	Completed	The Key Defence Asset Review process is used to progress this action.
4.6 Product Charters	Completed	Product Manager Charters (equivalent to Project Manager Charters) are now in place.
4.7 Retain majority of current Functional Split	Transfer management to Logistics stream	Responsibility for delivering this recommendation was transferred to the Logistics Stream within the Strategic Reform Program (SRP). This Stream is responsible for delivering SRP savings targets in relation to inventory management. The decision on the responsibility for vehicle maintenance is being held in abeyance until resolution of existing contractual obligations. A decision on vehicle maintenance is unlikely before mid 2012.
4.8 Freight and warehousing cost visibility	Transfer management to Logistics stream	Responsibility for providing visibility of costs associated with freight, warehousing and disposal was transferred to the Logistics Stream within the SRP. Visibility of costs will be an important tool in this activity.
5.3 CEO DMO experience	Completed	<p>Advertisement Aug 2011 for the new CEO states:</p> <p>Potential applicants should have substantial management experience at the senior executive level gained in a large and complex operating environment. Direct exposure to the successful management of complex projects including – but not exclusively – in the Defence context, is a core requirement as is a proven track record in managing risks and delivering reform outcomes. Thorough knowledge of the Defence industry, the complexity of government operations and the importance of working within teams will be advantages.</p>
5.4 Appropriate directly to DMO funds for equipment acquisition	Completed	The Government agreed not to directly appropriate acquisition funding to DMO.
5.5 Direct Appropriation of Service Fee to DMO	Completed	Changes to the direct appropriation model were implemented as part of the 2009-10 Budget.
5.6 Real Cost Increases	Completed	<p>Government has not set an RCI target. However, Government has capped the Defence budget which requires RCI's to be internally funded.</p> <p>The Early Indicators and Warnings process is also being developed to support early identification of project cost issues should these occur.</p>
5.7 Defence Procurement Advisory Board	Completed	<p>The Defence Strategic Reform Advisory Board (DSRAB) was established in Oct 09.</p> <p>The Board is chaired by a person from the private sector. The Board membership includes a balance of internal and external members including the Secretaries of the Department of Prime Minister and Cabinet, the Treasury, the Department of Finance and Deregulation, the Secretary of Defence, the Chief of the Defence Force and the CEO DMO.</p> <p>Meetings of the board are held periodically.</p>

5.9 Remuneration and performance of DMO Workforce	Completed	The powers and functions devolved to CEO DMO and the autonomy CEO DMO has in exercising the powers over his organisation have been codified. The Government agreed that CEO DMO can manage DMO's workforce under a total labour cost model on 25 Jun 09.
5.10 Commercial orientation and performance of DMO	Completed	The General Manager Commercial position was filled on 25 Feb 10.

