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OVERVIEW

In 2007-08, Defence will continue to pursue a comprehensive reform agenda to ensure our workforce is able to support current operations and Defence is effectively positioned for the successful conduct of future operations.

Defence will drive reform in four key areas:

- *Accountability and Governance* – ensuring our accountabilities are clearly defined and devolved to the lowest appropriate level under an agreed business model.
- *Supporting our Minister and the Government* - strengthening the ability of our people to support the Minister and his portfolio colleagues, and whole-of-government decision making, with high quality, timely and accurate advice.
- *People Management* - building a skilled, adaptable and responsive workforce.
- *Business System Reform* - ensuring our business processes are focused on the efficient and effective delivery of Defence outcomes.

Ongoing Defence reform in these areas will be strengthened by the implementation of the agreed recommendations of the Defence Management Review (see Defence Management Review section below), which will be a key focus for 2007-08, and other reforms including the implementation of the Defence Industry Policy Review (see Defence Industry Policy Review section below), and improvements to the management of Defence Estate.

A new Policy, Coordination and Governance Executive has also been established under the leadership of an SES Band 3 to support the Secretary and the Chief of the Defence Force in driving this organisational reform agenda.

ACCOUNTABILITY AND GOVERNANCE

The strengthening of organisational and governance structures is a key focus of Defence's reform agenda. Reforms will focus on the following areas:

COMMITTEE REFORM

During 2007-08, Defence will continue reforms to the Defence Committee to ensure that it has a strategic focus which is aligned to supporting the Secretary and the Chief of the Defence Force in the exercise of strategic leadership. All other committees and committee-like structures, roles and processes will be reviewed to strengthen accountability for decision making, and promote a more team-based approach to problem solving.

REVIEW OF THE GOVERNANCE FRAMEWORK

Defence will review and streamline its existing governance framework, including key accountability and performance management documents such as Charters and Performance Agreements. Reforms will focus on articulating clear accountabilities and mutual obligations for all Senior Executives.

CUSTOMER-SUPPLIER RELATIONS

The current service delivery model for provision of internal services will be reviewed to ensure that all service agreements include relevant metrics that specifically address time, quality, cost and demand, and to ensure that mechanisms for effective partnering and feedback on service delivery performance are strengthened. A major element of this program will be the progressive consolidation of performance management and reporting into a single integrated Defence-wide system.

SUPPORTING OUR MINISTER AND THE GOVERNMENT

During 2007-08, Defence will implement further initiatives in a coordinated program to improve the quality, timeliness and reliability of our advice and support to Ministers. To this end, the Secretary and the Chief of the Defence Force have appointed a new First Assistant Secretary Policy Development who, with a small team, will work with subject matter experts on particularly complex and sensitive policy issues. This team will seek to transfer policy skills throughout Defence, and strengthen Defence's overall policy capacity.

Other key priorities include:

- embedding training initiatives to build a better understanding across Defence of the need to develop and maintain effective relationships with Ministers and an understanding of Defence's responsibilities to the Government;
- developing workshops and induction programs for incoming Ministers, their advisers and the senior Defence staff;
- developing a range of programs to develop critical skills necessary to support the Minister and the Government;
- streamlining and strengthening the process for tasking, clearance and delivery of ministerial briefs and similar material; and
- reviewing the Australian Defence College course content (Centre for Defence and Strategic Studies), Australian Command and Staff College and the Australian Defence Force Academy) to ensure it imparts a sound understanding of, and skills development in, support to the Minister and the Government.

PEOPLE MANAGEMENT

Defence will continue to build a skilled, adaptable and responsive workforce, able to meet current and future challenges.

STRATEGIC HR POLICY EXECUTIVE

To spearhead this work, Defence will develop a strategic HR policy centre aligned to Defence priorities and decision making. This new organisation will focus on policy, planning and evaluation in relation to key issues such as recruitment and retention, remuneration and reward, people development, leadership and the working environment.

The split of functions between the Personnel Executive, Defence Support Group and other Defence Groups will be also reviewed, with a view to further devolving processing and service delivery functions to the Defence Support Group.

During 2007-08, Defence will recruit a HR expert to lead this new organisation. There will be an extensive search in the public and private sectors for suitable candidates.

SENIOR LEADERSHIP DEVELOPMENT

Senior leadership development activities will be strengthened and expanded to increase the focus on high-level business skills, policy development and ministerial and cabinet submission writing.

This will be supported by the development of more innovative and structured career management for the civilian (APS) workforce, and management of 'churn' in critical Senior Leadership Group (ADF and APS) positions.

BUSINESS SYSTEM REFORM

REVIEW OF DEFENCE BUSINESS PROCESSES AND SYSTEMS

To complement the Defence Management Review, the Secretary and the Chief of the Defence Force have commissioned a further, more detailed review of business processes and systems.

The aims of the review are to improve the business processes and systems which provide the information needed to manage Defence effectively, and to generate an enhanced capacity within Defence to understand, estimate and model costs.

The review will focus initially on the development of a plan for both immediate solutions and the longer term development of business processes and systems.

FINANCIAL REFORM

Defence continues to progress a range of improvements to its financial management and business systems and processes.

Defence is currently working through 85 Australian National Audit Office (ANAO) 2005-06 audit findings. In 2005-06, Defence was qualified in relation to General Stores Inventory and Repairable Items and the flow-on effects in the Income Statement. This is a vast improvement from the results of the previous two years when the Auditor-General was unable to form an opinion on Defence's Financial Statements.

The 16 remediation plans established during 2004-05 effectively managed the large number of audit findings that had been issued and ensured that Defence remained focused on addressing key areas to reduce the number of financial statement qualifications.

Financial statements remediation will continue during 2007-08, with major outstanding issues managed through the following four projects:

- Financial Controls Framework Project - this project draws together, in a structured and integrated fashion, all of the components needed to build a best practice financial management environment for Defence. The framework provides all staff with a common understanding of the what, why, when and how of financial management in Defence.
- Inventory Tiger Team - this team was established to assist in the removal of uncertainty around General Stores Inventory and Repairable Items. The approach is focused on establishing controls reliance and substantiating quantities and prices.
- Leave Tiger Team - in 2005-06, this team was able to confirm civilian and military annual and long service leave entitlements were materially correct, resulting in removal of the previous audit qualification. The task for the team in 2006-07 and beyond is to continue improving business processes and controls around leave entitlements to avoid future qualifications.
- Site Restoration Provision Project - considerable work has been done to identify and record an appropriate provision for the restoration of contaminated Defence sites. While present obligations can be identified and reported appropriately, full technical assessment of all sites is an ongoing task.

A strong focus on improving cost estimation and visibility will continue to be a priority during 2007-08. Defence will strengthen its analytical and modelling capability to enable better long-term planning. Product level/functional budgets have already been introduced in the Defence Materiel Organisation, and they will be developed for all service delivery groups, including the Defence Support Group.

DEFENCE INFORMATION ENVIRONMENT REFORM

During 2007-08, Defence will begin a substantial information technology reform program. To lead this reform, Defence will engage in an extensive search throughout the public and private sectors to recruit an expert Chief Information Officer (CIO).

This new CIO will continue with implementation of its Information and Communication Technology (ICT) infrastructure upgrade plans, aimed at better overall performance, reliability and cost effectiveness through updated, streamlined and simplified technical architectures. Upgrades to the Enterprise Resource Planning suite of applications will continue within the newly consolidated organisational arrangements. A particular focus for this year will be to achieve an improved level of service delivery to Defence users through central and regional service delivery contractors.

Specific priorities for 2007-08 are detailed below:

- The process of restructuring and business transformation of the Information Systems Division will continue to foster more strategic industry relationships. The Chief Information Officer Group (CIOG) will finalise up to six programs aligned to long term contracts that will enhance its capacity to meet Defence's demands for expansion of information systems capability.
- The newly instituted ICT capability planning and programming processes will be refined and matured.
- CIOG will finalise the implementation of the ICT service delivery accountability framework, including service charter, product catalogue and customer engagement model.
- For the second year running, CIOG will publish the annual Defence information infrastructure plan, providing short to medium term guidance to industry and other stakeholders on Defence's technical directions and priorities for development of its major networks.
- The program of technology update and standardisation of local and base area networks across more than 500 sites will be accelerated, to ensure the benefits of the enhanced wide area network are available to users.
- Modern data storage architecture will be introduced to reduce cost of storage, expand capacity and reduce operating overheads and improve reliability of data back-up through elimination of tape back-up requirements at bases and sites.
- Mobile and remote users will be provided with dramatically enhanced access to the Defence Restricted Network through implementation of Virtual Private Network technologies.

- Following the suspension of the PMKeyS upgrade tender process, a revised strategy for achievement of the upgrade objectives will be developed and implemented.
- Defence will develop a strategic view of the future of its enterprise management system application suite including the potential for better integration of Defence processes, better integration and accessibility of enterprise information to support defence management, and reduced cost and complexity of future suite upgrades or expansion.
- CIOG will review the organisational and process arrangements for management of the major ICT outsourcing contracts to ensure optimum and cost effective delivery of customer services.
- CIOG will continue with the introduction of automated tools for the creation and management of customer accounts including self-help capabilities to achieve a transformational change to responsiveness for creation and change to customer accounts.

CAPABILITY AND ACQUISITION REFORM

Implementation of the recommendations of the *Defence Procurement Review 2003* (the Kinnaird review) by Defence and the Defence Materiel Organisation (DMO) is 85 per cent complete. Implementation will continue during 2007-08.

Specifically, there will be continuing focus on improving cost and schedule estimation. A coaching and support team has been established to develop further training, tools and processes to help project teams develop the fundamental data underpinning capability business cases. Integration of capability development activities will also continue through the use of the Capability Roadmaps developed during 2006-07, such as the Network Centric Warfare Roadmap.

The Defence Procurement Advisory Board will continue until March 2008 under revised Terms of Reference.

The purchaser-provider arrangements which are at the heart of the more business-like relationship between Defence and the DMO will continue to be improved to ensure the timely development of agreements between the two agencies for acquisition of new capabilities. More robust performance measures and reporting will also be developed for the sustainment of existing capabilities. Revised arrangements for funding the DMO's workforce in line with changes in workload are also expected to be introduced.

The process of professionalising the DMO's workforce will continue, with particular emphasis placed on the critical skill areas of project scheduling, Integrated Logistics Support, engineering, procurement and contracting as well as project management.

The review of the effectiveness of the policy on military staffing within the DMO will be finalised during 2007.

DEFENCE MANAGEMENT REVIEW

The Defence Management Review was established by the Minister in August 2006. The external review team comprised Ms Elizabeth Proust (Chairman), Vice Admiral Chris Ritchie RAN (Retired), Dr Alan Kallir and Mr John Azarias. The review examined organisational efficiency and effectiveness across the Defence organisation, looking specifically at management structures, decision making and non-operational business processes, information management processes and systems. The review team consulted widely with senior people within and outside Defence to inform its consideration of Defence management issues, and reported to the Minister in April 2007.

The report identified the successes Defence has had over the past decade in an unprecedented period of high operational activity. It also noted the stress this had placed on Defence to deliver administratively when its main focus had been on supporting military operations in deployments around the world. In addition to the ADF's outstanding performance in operations, the report acknowledged Defence had made significant progress in policy and a range of public sector reforms including the establishment of the Defence Materiel Organisation and the introduction of programs to emphasise organisational values and extensive reform of the military justice system.

The report made 53 recommendations, across the four reform themes (accountability and governance, support to Ministers and the Government, people management, and business system reform).

The Secretary and the Chief of the Defence Force, in consultation with Service Chiefs and Group Heads, have considered the report and its recommendations fully and have agreed to implement 50 of the report's recommendations in whole, two in part, and have not agreed to one recommendation.

A new First Assistant Secretary, Governance and Implementation has been established, with a dedicated implementation team, to drive these reforms. The first priority of this team will be to develop a comprehensive implementation plan that identifies key deliverables, milestones and accountable officers, and a communication strategy.

OTHER REFORMS AND EFFICIENCIES

DEFENCE INDUSTRY POLICY REVIEW

In accordance with the Government's recent decisions, the Department prepared a new Defence and Industry Policy Statement that was released by the Minister for Defence on 1 March 2007. The policy describes how Defence will significantly enhance its relationships with industry,

and outlines implementation strategies to effect real change in order to provide the industrial capabilities required by the ADF.

The key initiatives of the policy that will be delivered in 2007-08 include:

- the identification of, and subsequent greater focus on developing, the Priority Local Industry Capabilities required in Australia;
- continued improvement of Defence's value for money in procurement, through both modification of procurement processes and better management of the inherent risk;
- the formation of a Defence Export Unit to maximise the opportunities available to Australian industry, staffed by APS and ADF personnel with corresponding industry staff commitments;
- an expanded program for Skilling Australia's Defence Industry, including the establishment of a joint Defence/industry training task force; and
- greater support of innovation in defence technology, including:
 - education and training extension of the Capability and Technology Demonstrator program to improve the rate of transition into ADF service, and
 - initiation of a program of joint defence research ventures between DSTO, industry, universities and other public research bodies.

DEFENCE ESTATE MANAGEMENT

During 2007-08, Defence will continue to strengthen its management of Defence infrastructure by:

- upgrading training ranges to ensure a safe, sustainable and technologically advanced capability to support ADF preparedness requirements;
- prioritising the Major Capital Facilities program to better support ADF capability requirements;
- routinely considering options for delivering infrastructure through public-private partnerships;
- disposing of surplus Defence properties; and
- consolidating units into fewer, larger, functionally aligned and sustainable multi-user bases, clustered with industry to maximise the effectiveness of support to the ADF, and in areas that provide better employment and educational opportunities for families.

Defence will also continue its focus on environmental sustainability and progress towards meeting its environment and heritage commitments. It will achieve this by improving environmental performance and integrating

sustainable environmental management practices, including rigorous environmental impact assessment and approval processes, as part of the Defence Environmental Management System.

Major initiatives during 2007-08 include:

- progressing the implementation of 14 National Environmental Programs to achieve the goals of the *Defence Environmental Strategic Plan 2006-2009* which is the overarching strategy supporting the *Defence Environmental Management Policy*;
- continuing to implement Defence's contamination management and pollution prevention strategies to address the legacy of contaminated sites, including an ongoing program to assess contamination and undertake remediation work;
- continuing to implement sustainability initiatives for planning, managing and using Defence training areas including progressing bushfire, biodiversity and soil conservation priorities;
- progressing the implementation of the Defence Water Management, Defence Energy and Defence Waste Minimisation policy requirements into business processes;
- progressing strategic approaches to management of environmental issues with the Department of the Environment and Water Resources; and
- continuing to progress the implementation of the Defence Heritage Strategy and ongoing development of the Defence Heritage Management System.

