



The PSU Group of the Community and Public Sector Union (CPSU) is the largest union in Defence. We represent members in all areas including DMO, DSTO and the broader Department.

Defence's business structures have been reformed in far reaching ways over the past twenty years but it is fair to say that those reform initiatives have not reached the final forms that were described when launched.

Defence has a history of cascading reviews over the top of others before the goals of those reviews have been realised. These reviews often make recommendations without fully consolidating or analysing the results of previous change.

The CPSU welcomes the First Principles Review as an opportunity to take stock and to acknowledge what has and has not been achieved. It is an opportunity to work on an integrated approach to achieve what needs to be done.

1. Ensuring the Department's business structures supports the ADF's principle tasks

Current business model

While acknowledging that supporting the ADF's principal tasks is the Department's first priority, a more cogent and structured approach is required to the entire Defence business. The nature of support to operations is inherently uncertain, with needs and priorities changing frequently. The Department of Defence requires agility, capability and deep knowledge of the Defence business.

Defence must maintain the ability to deploy its own internal resources quickly and in innovative ways to meet emerging challenges while also maintaining the knowledge needed to be a smart customer of the Defence industry.

Defence also requires systems and processes that are robust enough to withstand public and parliamentary scrutiny but flexible enough to respond to emerging challenges and efficient enough to ensure the Defence workforce does not spend its time dealing with non-core functions at the expense of supporting the ADF. To that end, the CPSU believes some recent "reforms" such as the implementation of shared services in human resources and finance, while achieving some cost reductions have worked against the support of ADF core functions.

Contracting out of capabilities and core functions and the implementation of shared services have reduced accountability and increased the burden of business processes while adding to their complexity and reducing the quality and availability of management information. Many organisations now find themselves dependent on either shared service agencies or contractors who are not accountable for the delivery of final capability.

2. Ensuring a commercially astute, focused and accountable materiel acquisition and sustainable capability

The Commission of Audit recognised, "*the intrinsic long-term nature of acquiring, maintaining and operating military equipment,*" but also the "*expectation that Defence will efficiently use its resources.*"¹

While the Commission of Audit phrased its response almost exclusively in terms of DMO and the Capability Development Group, there is more to through-life management and sustainment of capability than those two organisations and considerations must also include "end of capability life" considerations such as disposal.

¹ National Commission of Audit, Towards Responsible Government: The Report of the National Commission of Audit – Phase One, 14 February 2014, p.128

Defence logistics has been through an intensive period of reform and redesign including the contracting out of many logistic delivery services over the last twenty years. It is arguable that none of the reforms recommended by various reviews have, or have been allowed, to fully mature.

There is no evidence that a rapid and wholesale revision of the DMO or any other organisation involved in the capability life cycle will yield substantial improvements. What is required is a mature and systematic approach that builds on the reforms of the past while acknowledging the key areas for improvement, and maintains an organic capability within the Department (APS and ADF) that allows Defence to be a good decision maker, to be agile, to be a smart customer and to have the capability to meet rapidly changing demands while maintaining a long-term focus on organisational needs.

In the US, defence acquisition is seen as core business for government, with significant restrictions on what is entrusted to the private sector.² The US associates higher rather than lower costs with its experience of placing procurement functions with the private sector and is committed to a long-term program to expand the size and upskill their civilian acquisition workforce.³ The US Department of Defence is singled out as needing to exercise particular caution about using contractors and *“is further required, to the maximum extent practicable, to minimize reliance on contractors performing functions, closely associated with inherently government functions.”*⁴

The concerns above focus on the front-end of the capability life cycle. Importantly, the current Australian experience suggests that while Original Equipment Manufacturers (OEMs) may provide good value solutions for acquisition and initial deployment, these solutions are predicated on OEMs recouping losses further into the capability life cycle. Other experience suggests that the promise of OEMs, regarding through-life support, is often not realised as their profit base decreases and they lose commercial interest in providing long-term support. This has seen the deeper capability life cycle support revert back to the Department, often in a situation where the skills base required to execute it has been eroded by the outsourcing of core functions.

While it is arguable that the current segmentation of elements of the capability life cycle leads to a diffusion of accountability, globally the further contracting out of core acquisition and logistic capability has not been successful. The recent British proposal to change Defence Equipment and Support into a contractor-operated entity was scrapped after little interest.⁵ No other country has sought to outsource its entire defence procurement programme.⁶

3. Improve the efficiency and effectiveness of Defence

While acknowledging the need to ensure Defence's efficiency and effectiveness and the priorities of the Commission of Audit about IT systems and personnel costs, the application of these principles at the working level is often fundamentally wrong.

Personnel costs

The Commission of Audit stated the need to reduce Departmental personnel costs yet the ongoing reduction has been largely or wholly restricted to APS numbers. APS personnel costs are only a small component of overall personnel costs and deliver enormous value to the Department through the long-term commitment of staff and development of deep knowledge fostered by a career based public service.

² Trevor Taylor and John Louth, What the Government must do in Defence Procurement, *Royal United Services Institute*, September 2013, p.2

³ *ibid*, p.5

⁴ *ibid*, p.4

⁵ Louisa Brooke-Holland, Defence Equipment and Support, *House of Commons Parliamentary Library*, 3 June 2014, p.22

⁶ Louisa Brooke-Holland, In brief: Outsourcing defence procurement, *House of Commons Parliamentary Library*, 10 May 2013, p.1

The Department has an integrated workforce where APS and uniformed personnel work side by side. The recruitment freeze on APS staff creates a perverse incentive to employ uniformed personnel, or contractors, regardless of considerations of cost effectiveness. It effectively reverses the Strategic Reform Program initiative of civilianisation and the conversion of contractors to less expensive APS positions which provide greater long-term value to the Department.⁷

Defence Headquarters

The CPSU opposes reducing the Defence headquarters to 1998 staffing levels.⁸ It would reduce APS staffing by 4,000 or by over 40% in the ACT. Australia's Defence requirements have changed considerably since 1998 and such significant cuts seem quite arbitrary and would drastically affect the capability of Defence.

Teeth to tail ratio

The concerns raised by the Commission of Audit over the "teeth-to-tail ratio"⁹ seem somewhat misguided as they do not acknowledge the complexity and support requirements of modern network centric warfare nor the technical requirements for the operation of modern battlefield systems. Further as previously noted, the restrictions on appropriate use of APS resources means ADF personnel are performing previously civilian work, for which their particular training and skills set are not necessarily relevant or required or conversely mean their skills and training are not being used when they should be.

Employment conditions

The Commission of Audit has called for the "streamlining" of conditions with a "*view to reducing overheads, promoting performance and management flexibility and providing a simplified package of benefits for staff.*"¹⁰ The CPSU has a long history of positively engaging with Defence on any required flexibility through the negotiation of the Employment Agreement and a co-operative approach to the development of policy. Defence and the unions have developed an agreement that contains significant flexibility, targeted to the needs of the organisation, while maintaining a commitment to a career-based public service.

The CPSU believes that the current conditions that benefit both management and staff should not be undermined by short-term desire to arbitrarily truncate the Employment Agreement. The current agreement enshrines a principles and values based approach to management and commits the workforce to this. The suggestion that all aspects of the agreement covered by legislation or other policy should be removed serves only to complicate the application of employment conditions and disperse the sources of information that must be considered in decision making.

There are already provisions within Part D of the Defence Collective Agreement (DeCA) to hold individuals to account for their performance. It is a myth that provisions do not exist. There is also sufficient flexibility to attract high-performers from the private sector. Part G3 of the DeCA allows payment of up to 35% above EL2 salaries. DSTO arrangements, individual flexibility arrangements (Part I2.5) and SES arrangements provide other avenues to attract high performers within the existing framework. Keeping wage increases below inflation will only undermine this aim of attracting and retain highly skilled, high performing staff.

Rationalisation of IT

⁷ Department of Defence, Strategic Reform Program: Delivering Force 2030, 2009, p.19

⁸ National Commission of Audit, Report of the National Commission of Audit – Phase One, p.134

⁹ *ibid*, p.131

¹⁰ *ibid*, p.131

The Review's Terms of Reference called for recommendations for the further rationalisation of IT systems, particularly finance and personnel and increased accountability for them and their cost effectiveness.¹¹

The experience of staff is that the rationalisation of IT systems has not delivered productivity benefits. The complexity of systems has increased while access has been restricted to the point that much management information is now mediated through a shared services provider rather than being directly accessible. This is particularly true of finance and personnel systems.

In productivity terms, the number one consideration for staff is the responsiveness of systems which has not been enhanced, leading to a situation where some core IT systems are so slow that people, particularly in regional areas, find them unworkable. Defence needs to invest in physical IT infrastructure to enable reasonable response times from their existing systems as a high priority. CPSU members are also concerned that increasing complex business processes, which underlie the use of IT systems, are a greater driver of unproductive work than the systems themselves.

Commercialisation of DSTO

The Commission of Audit has called for DSTO to be assessed for its outsourcing potential.¹² There would be significant risks including the loss of impartiality in advice, loss of technical expertise, a reduced breadth and depth of scientific research and massive cost increases.

The break-up and privatisation of the Defence Evaluation and Research Agency in the United Kingdom led to the loss of many research facilities deemed commercially unproductive, questions over intellectual property ownership and concerns about the continuing advice to Defence across the whole research field.¹³ There are also concerns about conflicts of interest as Qinetiq is required to give independent advice on equipment it now supplies.¹⁴

Rationalisation of non-principal bodies

The Commission of Audit recommended that 25 Defence non-principal bodies should be considered for rationalisation. The underlying purposes of these bodies should be acknowledged and must not be diminished if brought into Defence.

If further information in relation to the matters raised is required please contact Osmond Chiu on (02) 8204 6913 or osmond.chiu@cpsu.org.au.

Yours sincerely,



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¹¹ Department of Defence, First Principles Review Terms of Reference, last viewed 23 October 2014, <http://www.defence.gov.au/publications/reviews/firstprinciples/terms.asp>

¹² National Commission of Audit, Towards Responsible Government: Appendix to the Report of the National Commission of Audit – Volume 1, 14 February 2014, p.90

¹³ Bill Kincaid, The Privatization of Qinetiq, *RUSI Analysis*, 28 November 2007, last viewed 20 October 2014

¹⁴ *ibid*