

# **Defence's Implementation of the First Principles Review**

Department of Defence

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Canberra ACT

17 April 2018

Dear Mr President

Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Defence titled *Defence's Implementation of the First Principles Review*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely



Grant Hehir  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

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# Summary and recommendations

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## Background

1. The Minister for Defence commissioned the First Principles Review of Defence (the Review) in August 2014. The Review was ‘designed to ensure Defence is fit for purpose and able to promptly respond to future challenges’. In April 2015, following government consideration, the Minister for Defence released the report of the Review, entitled *First Principles Review: Creating One Defence*.
2. The Review made 76 recommendations, of which six were key recommendations. The Government agreed or agreed in-principle to 75 recommendations. The Review set out a high-level implementation plan in its last chapter, which envisaged that ‘the vast majority of the change should be delivered within two years’. That two-year period ran from 1 July 2015 to 30 June 2017.

## Audit objective and criteria

3. The objective of the audit was to assess the effectiveness of Defence’s implementation of the First Principles Review.
4. The ANAO adopted the following high-level audit criteria:
  - Defence has established sound governance arrangements for the implementation of the First Principles Review.
  - Defence has implemented the recommendations agreed by government in the report of the First Principles Review, *Creating One Defence*.
  - Defence can demonstrate that the intended outcomes of the First Principles Review are being achieved.

## Conclusion

5. Defence has implemented a substantial number of the most important recommendations of the Review—relating to building a strong strategic centre within Defence and reforming the capability development process. The implementation of other important recommendations—including the reform and consolidation of Defence’s Systems Program Offices and enabling services—remains a work in progress. Achieving full implementation and the intended results of this agenda will require continued focus across Defence for several more years. Defence is not yet in a position to demonstrate that it has achieved all the intended outcomes of the Review.
6. Defence established sound governance arrangements for the implementation of the First Principles Review, which were commensurate with the importance and scope of the activity. The Secretary and the Chief of the Defence Force (CDF) invested substantial time and effort, and were seen by Defence as leading the implementation. Responsibility for implementation tasks was clearly allocated to the most senior leaders in the Defence Groups. The implementation schedule was closely monitored and reporting to senior management was regular and thorough. Progress reports were provided to the Government as scheduled. Progress reports have also

been provided to the Parliament. Nonetheless, the Joint Standing Committee on Foreign Affairs, Defence and Trade has requested that Defence develop a transparent reporting mechanism by 31 March 2018. Although Defence indicated to the Government that efficiency improvements would be possible, no quantifiable savings have been identified.

7. Defence has implemented the Review recommendation to establish a strong strategic centre to strengthen accountability and top-level decision-making. Generally, the recommendations leading to changes in organisation structure and changes in responsibility have been introduced promptly, including some important legislative changes. Introduction of the contestability function to test Defence investment proposals has been successful to date and is operating well. There has also been improved engagement with central agencies, but opportunities remain to improve the policy function, especially in regard to ministerial engagement.

8. Defence has established a single end-to-end capability function by implementing major organisational changes, such as the delisting of the Defence Materiel Organisation, creating the Capability Acquisition and Sustainment Group, and developing a new Capability Life Cycle.

9. Reform of the Systems Program Offices is expected to run until 2023. Completion of this significant project will be required to realise many of the expected improvements in the efficient, effective and professional delivery of military capability.

10. Defence has undertaken action to close all but one of the enabling services recommendations. The outstanding recommendation relates to estate enabling services. Defence's ability to improve enabling functions is limited by the lack of a coordinated, enterprise-wide plan to address the inefficiencies identified by the Review in the Service Delivery work stream. Defence has implemented the recommendations in the Workforce stream, but delays in implementing the Strategic Workforce Plan, including Defence White Paper People initiatives, will take until 2021. Defence has implemented the recommendations relating to behaviours. Defence is not yet able to demonstrate that the intended outcomes of the recommendations relating to enabling services, workforce and behaviour have been achieved.

11. Defence is now evaluating whether its implementation of Review recommendations has achieved the intended outcomes. Initial evaluation plans included only selected elements of the Review; however, Defence has now decided to adopt a more comprehensive evaluation framework encompassing all elements of the Review.

## Supporting findings

### Implementing governance arrangements

12. Defence identified clear responsibility for implementation at the outset, with the Secretary taking a leading role in chairing the Implementation Committee and maintaining momentum throughout the initial two-year implementation period. In addition, Defence gave Australian Public Service Senior Executive Service Band 3 or Australian Defence Force 3-star officers responsibility for each of the work streams comprising the implementation.

13. Defence has actively managed the implementation schedule, which has been a focus of the work of the Implementation Committee throughout the initial two-year implementation period. This reflects the priority placed by the Review on moving to the *One Defence* model as quickly as possible. Monitoring by an Oversight Board, and its reporting to the Minister for



Defence, has provided further scrutiny and an additional incentive for Defence to focus on the implementation schedule. The Secretary and the Chief of the Defence Force have also sought progress reports and written to senior Defence leaders to maintain schedule pressure.

14. Defence has actively monitored and reported progress to its Implementation Committee weekly throughout the implementation period. The Implementation Committee has provided regular detailed updates to the Defence senior leadership group (APS Senior Executive Service and ADF star-ranked officers) and to all staff in monthly email updates.

15. Defence officials have reported to the Oversight Board's regular meetings throughout implementation. The Board has reported to the Minister in the form of monthly letters from the Board chair and the chair has briefed the Minister personally. Two scheduled progress reports by Defence to the Government (in 2016 and 2017) were delivered, and a third is expected in mid-2018.

16. Reporting to the Parliament has occurred through a statement made by the Minister on the progress of implementation, in June 2017. Defence has also provided updates to the Senate Foreign Affairs, Defence and Trade Legislation Committee from October 2016. Written updates to this Committee have focused on recommendations that Defence considers complete; however, the Joint Standing Committee on Foreign Affairs, Defence and Trade has requested that Defence develop a transparent reporting mechanism by 31 March 2018 that demonstrates changes in effectiveness or efficiency resulting from the First Principles Review.

17. Defence managed implementation costs as 'business-as-usual' and did not seek to identify those costs separately.

18. The advice seeking the Government's agreement to the Review stated that there were areas where efficiencies were possible. No quantifiable savings have been identified by Defence, either at that point or since.

19. Defence has relied on contractors and consultants to implement key reforms, particularly in the Capability Acquisition and Sustainment Group. While there are areas where Defence claims to have successfully transferred knowledge to Australian Public Service staff, Defence also acknowledges that there remain areas where knowledge transfer needs to be undertaken.

### **Implementing the recommendations on the creation of a strong strategic centre**

20. Defence has clarified top-level accountabilities and reduced the number of voices at the top—including a reduction in membership of the Defence Committee from 17 to 6. The number of senior committees has been reduced from 72 to 26.

21. Defence has implemented greater control of strategy-setting by strengthening the decision rights given to the Vice Chief of the Defence Force and by removing the statutory powers of the Service Chiefs. Organisational changes have been made to support improved policy advice, though opportunities remain to improve the policy function, especially in regard to ministerial engagement. A new contestability function has been introduced, which has been operating well.

22. Planning and performance monitoring reforms remain a 'work-in-progress' and work towards improved efficiency measures has not yielded a demonstrable result. The results of an

opportunity for improved efficiency—through a more integrated Defence headquarters—are not yet apparent.

23. Defence has taken steps to engage more effectively with government. It has arranged meetings between the Minister for Defence and the Defence Committee to consider strategy, funding and capability. Central agencies now participate in Defence's new Integrated Investment Committee. The Government's agreement to a new, risk-based approach to considering capability acquisition proposals has addressed the Review's concern about approval thresholds.

24. The Defence Science and Technology Group undertook analysis to set out the value it brings to Defence. The Group's senior management has been trimmed and it remains a separate Group within Defence. The benefits from possible outsourcing of elements of Defence Science and Technology Group's work have not yet been assessed.

25. Defence has consolidated its geospatial functions. However, further action will be required to assess progress and ensure the restoration of the capability, as recommended by the Review.

### **Establishing an end-to-end capability development function**

26. Defence has implemented the recommended top-level structural changes to support an end-to-end capability function, including the creation of a new Capability Acquisition and Sustainment Group and the disbanding of the Capability Development Group. It subsequently closed the recommendation that Capability Managers specify Fundamental Inputs to Capability, though later evidence suggests that this has not been adequately achieved. Defence has advised the ANAO that it has put a new process in place to address this risk. A new management structure has also been adopted in Capability Acquisition and Sustainment Group to address the Review finding that Defence's acquisition organisation had become top-heavy, complex and unnecessarily deep.

27. The review and reform of Systems Program Offices, one of the most substantial changes to flow from the Review, is continuing, and the process is expected to continue until 2023.

28. Defence has established both a new Capability Life Cycle (based on a joint, integrated perspective) and a revised, risk-based investment process. A stakeholder survey after a year of operation of the new Capability Life Cycle was positive but indicates: an ongoing need for cultural and behavioural change at middle management levels and below; and that sustainment still tends to be overlooked in comparison with acquisition.

29. Defence introduced its new Integrated Investment Program in early 2016, to replace the Defence Capability Plan. Although Defence began work on a total cost of ownership model for major new capabilities in 2016, it is not yet clear whether this model is in active use.

### **Implementing the recommendations on enabling services, workforce and behaviour**

30. Defence has implemented the recommendations on estate and information management by developing plans and schedules that enable progress to be resourced, monitored and reported through appropriate channels within Defence.

31. Defence's implementation of the recommendations relating to service delivery has had an initial focus on improving the customer experience. Defence has implemented the organisational changes required to meet the recommendations, but has no comprehensive plan to address the inefficiencies identified in the Review and through Defence's benchmarking. This limits Defence's ability to maximise the effectiveness and efficiency of enabling services and meet recommendation 3.0.

32. Defence has taken action to implement workforce recommendations, but much work remains to address the workforce-related issues identified in the Review. A strategic plan has been developed for which Defence expects most activities to be complete by 2019. The use of Australian Defence Force personnel in non-Service roles has been reviewed but it is not clear whether all transactional work in Defence is being conducted in the most efficient way. There has been a small increase in spans of control at some levels, but Defence has reported no significant change in the number of organisational layers.

33. Defence has implemented the recommendations on behaviour through a range of initiatives to create a more professional culture and improve performance. Defence is not yet able to demonstrate that it has achieved the intended outcomes although evaluation of these initiatives is under way. Defence advised in March 2018 that Recommendation 4.6 was closed in February 2018.

### **Achieving the intended outcomes of the First Principles Review**

34. Defence identified the intended outcomes for each Review work stream, based on the problems articulated in the Review, and documented those outcomes as measures of success in work stream charters at the commencement of implementation in 2015. The concept of measuring the intended outcomes of the Review was not considered again until 2017.

35. Defence has not yet evaluated its achievement of the intended outcomes of the Review. Originally, it commenced a limited evaluation of progress in selected areas of the Review using baseline data from September 2017, two years after the implementation period began. In December 2017, Defence decided to extend the scope of its evaluation to all work streams. As a separate exercise, Defence has developed a plan for ongoing reform—the One Defence Project Plan.

36. Table S.1 summarises Defence's progress in implementing the six key recommendations of the Review.

**Table S.1: Summary of First Principles Review progress**

Key recommendation	Status (March 2018)	Reference in this report <sup>a</sup>
1.0 Establish a strong strategic centre to strengthen accountability and top-level decision-making	<b>Substantially completed</b> Major changes have been implemented but further work is required in these areas: <ul style="list-style-type: none"> <li>• planning and performance monitoring and the introduction of improved efficiency measures;</li> <li>• implementation of changes to ADF Headquarters; and</li> <li>• restoration of a fully functional geospatial capability.</li> </ul>	Chapter 3
2.0 Establish a single end-to-end capability development function within the Department to maximise the efficient, effective and professional delivery of military capability	<b>Substantially completed</b> Major changes have been implemented, but further work is still progressing with the consolidation and reform of Systems Program Offices. This is expected to take until 2023.	Chapter 4
3.0 Fully implement an enterprise approach to the delivery of corporate and military enabling services to maximise their effectiveness and efficiency	<b>Moderate progress</b> <ul style="list-style-type: none"> <li>• Following the development of a new estate strategy, work on aligning <b>estate</b> holdings to Defence requirements is progressing but will take some years to complete.</li> <li>• Following the development of an <b>Enterprise Information Strategy</b> and other key planning documents, implementation is underway but will take substantial resources and time to complete.</li> <li>• Although a survey has revealed some improvement in internal customer satisfaction with <b>service delivery</b>, there are no benchmarks as yet against which performance improvement can be measured.</li> </ul>	Chapter 5
4.0 Ensure committed people with the right skills are in appropriate jobs to create the <i>One Defence</i> workforce	<b>Limited progress</b> <ul style="list-style-type: none"> <li>• Defence has developed a strategic workforce plan for which most activities are expected to be complete by 2019.</li> <li>• Defence has commenced evaluating work directed at improving the corporate culture ('behaviours').</li> </ul>	Chapter 5
5.0 Manage staff resources to deliver optimal use of funds and maximise efficiencies	<b>Limited progress</b> As discussed above (under 1.0), further work is required as there is no evidence of substantial progress in measuring efficiency within Defence.	Chapter 3
6.0 Commence implementation immediately with the changes required to deliver <i>One Defence</i> in place within two years	<b>Substantially completed</b> Defence set about the required reforms immediately and with vigour. Even though the structures and plans were put in place promptly, actual delivery of many reforms of substance will take several more years and require ongoing senior management attention.	Chapter 2

Note a: Not all the detailed recommendations for any given work stream were managed under that work stream during First Principles Review implementation. For example, a number of recommendations from across the Review were managed under the Strategic Centre work stream and, in this report, are considered in the context of Chapter 3.

Source: ANAO analysis.

ANAO Report No.34 2017–18  
 Defence's Implementation of the First Principles Review

## Recommendations

### Recommendation no.1

#### Paragraph 6.25

That Defence ensures that its evaluation encompasses all of the recommendations of the First Principles Review and seeks to assess whether the intended outcomes of the Review have been achieved.

**Defence response:** *Agreed.*

**Note:** The ANAO recommended in ANAO Report No. 2 2017–18 *Defence's Management of Materiel Sustainment* that Defence develop and implement an evaluation plan to assess the implementation of the recommendations of the First Principles Review. The Department agreed to the recommendation. The Joint Committee of Public Accounts and Audit has also recently made a recommendation seeking from Defence a report on its progress with implementing First Principles Review reforms and their effects.<sup>1</sup>

## Summary of entity response

Defence welcomes the ANAO Audit Report into its implementation of the First Principles Review, and agrees with the report's recommendation:

That Defence ensures that its evaluation encompasses all of the recommendations of the First Principles Review and seeks to assess whether the intended outcomes of the Review have been achieved.

Defence has made good progress with First Principles Review implementation, successfully completing 71 of the Review's 75 recommendations by the end of the audit.

In completing these recommendations, Defence has made significant changes to the way it operates. While the full benefits of these changes have yet to be realised, there is already evidence of improved performance. For example, Defence has reduced the size of its submissions to Government; obtained Government agreement to tailor project approval pathways based on risk rather than financial value; made it easier for industry to work with Government by streamlining commercial policies and practices; and improved the quality of advice and decision-making by reducing the number of senior committees.

Defence is also using an evaluation framework to monitor the embedding of First Principles Review reforms and to measure and report on the resulting benefits. This framework includes evaluation criteria, metrics and targets to assess whether the intent of the Review has been achieved. While it initially focussed on only some work streams, the framework is now being expanded to cover all First Principles Review work streams and recommendations.

Defence notes that it takes time to fully implement and embed transformational change, and expects implementation of the First Principles Review will not be complete until 2020. This is consistent with the Review's recommendations: while the Review stated that the majority of changes should be delivered within the first two years, it also recommended (Recommendation 1.1) that the Review be adopted as the roadmap for Defence reform for the next five years.

In terms of efficiency and effectiveness improvements, Defence has already realised broad efficiencies, and has undertaken to report back to Government on quantifiable benefits arising from the First Principles Review.

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<sup>1</sup> JCPAA, Report 470: Defence Sustainment Expenditure, March 2018, Recommendation 4.

37. An extract of this audit report was also provided to the Department of Finance. The Department did not consider it necessary to provide a written response for incorporation in the report.

## Key learnings for all Australian Government entities

38. Below is a summary of key learnings and areas of good practice identified in this audit report that may be considered by other Commonwealth entities when designing reform implementation programs.

### **Governance and risk management**

- Clear and observable leadership from the top level of an organisation is important for achieving reform outcomes.
- Setting clear personal accountabilities at a senior level facilitates oversight and helps to ensure that resources are deployed to reform activities.
- Development of detailed schedules clarifies the tasks that are required to meet reform outcomes and timeframes for completion.

### **Performance and impact measurement**

- Planning for the evaluation of reform outcomes—including clearly defining performance measures—should commence at the outset of a program and be maintained throughout implementation in order to assess the degree to which the intent of reform activities is achieved.
- Developing and maintaining focus on the intended outcomes of reform assists with ensuring tangible improvements are made and facilitates evaluation of the degree to which reform intent is achieved.

## **Audit findings**

# 1. Background

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## Introduction

1.1 The Minister for Defence commissioned the First Principles Review of Defence (the Review) on 5 August 2014, the sixth major external inquiry since 2000 into key aspects of Defence's administration.<sup>2</sup> The announcement followed a commitment to such a review in the Coalition's 2013 election platform. In announcing the Review, the Minister stated that the initiative was 'designed to ensure Defence is fit for purpose and able to promptly respond to future challenges'. The focus of the review would be on 'achieving more streamlined decisions on defence acquisitions and sustainment programs'.<sup>3</sup> An independent review team conducted the Review, supported by a consulting firm and an internal Defence secretariat.<sup>4</sup>

1.2 On 1 April 2015, following government consideration, the Minister for Defence released the report of the Review, entitled *First Principles Review: Creating One Defence*. The central theme of the Review was that, for Defence to achieve the outcomes government expects efficiently and effectively, it needed to cease operating as a 'federation of separate parts' and become an integrated organisation. The Review termed this approach 'One Defence', and reflected it in the title of its report.

1.3 The Review made six key recommendations. Five of these represented an organisational aspect of Defence requiring attention, and one recommendation concerned implementation of reform. The central topic of each key recommendation is developed in its own separate chapter of the report, identifying issues in more detail and leading to a range of subsidiary recommendations. Including the six key recommendations, the report as a whole contains 76 recommendations.<sup>5</sup> The Government agreed or agreed in-principle to 75 recommendations.<sup>6</sup>

1.4 In its first chapter, the Review described the organisational difficulties facing Defence in what it calls 'the problem' thus:

The current organisational model and processes are complicated, slow and inefficient in an environment which requires simplicity, greater agility and timely delivery. Waste, inefficiency and rework are palpable (p. 13).

1.5 The Review then illustrates this problem by listing twelve examples of organisational issues that support this characterisation. It expresses most of these in numerically measurable terms, for example, the number of active committees in the organisation. These measures featured prominently in the subsequent *Independent Health Check on progress* (18 May 2017), a principal

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2 Previous reviews are summarised in ANAO Report No.6 2013–14, *Capability Development Reform*, pp. 19–20.

3 Minister for Defence, press release, 'Defence Minister announces First Principles Review panel', 5 August 2014. Extensive terms of reference were set out in an appendix to the report of the Review.

4 Mr David Peever chaired the review team which also included Professor Peter Leahy, Mr Jim McDowell, Professor Robert Hill and Mr Lindsay Tanner.

5 The recommendations are listed in Appendix 2, with references to where each is discussed within this report.

6 Recommendation 2.17 was not agreed—that the Defence Science and Technology Organisation (DSTO) become part of the Capability Acquisition and Sustainment Group. In the event, DSTO remained a separate group with Defence, the Defence Science and Technology Group.



element in the second annual report to the Government on progress with the First Principles Review (October 2017).

1.6 The Review also seeks to identify why Defence has been unable to reform itself.<sup>7</sup> It concludes that reform has been too difficult for Defence leaders because of ‘three root causes which, over the past decade, have created complacency and inertia’: the high operational tempo; budget uncertainty; and leadership churn from 1998 to the present.<sup>8</sup>

1.7 The Review set out a high-level implementation plan in its last chapter, which envisaged that ‘the vast majority of the change should be delivered within two years’. Nevertheless, it did also recognise that ‘a tail of activity’ might run beyond that time.<sup>9</sup>

1.8 The Minister for Defence made a statement to Parliament on the progress of implementation in June 2017.

## Audit approach

1.9 The First Principles Review seeks far-reaching changes to Defence structures and processes. Defence has been subject to many reviews in recent years without substantial reform having eventuated.<sup>10</sup> In May 2017, the Joint Committee of Public Accounts and Audit identified an audit of the implementation of the First Principles Review as an audit priority of the Parliament.

1.10 The objective of the audit was to assess the effectiveness of Defence’s implementation of the First Principles Review.

1.11 To form a conclusion against the objective, the audit sought to identify progress against each of the detailed recommendations and, in light of that, progress with the respective key recommendations. The ANAO adopted the following high-level audit criteria:

- Defence has established sound governance arrangements for the implementation of the First Principles Review.
- Defence has implemented the recommendations agreed by government in the report of the First Principles Review, *Creating One Defence*.
- Defence can demonstrate that the intended outcomes of the First Principles Review are being achieved.

1.12 Some aspects of the Review’s implementation were examined in ANAO Report No.2 2017–18, *Defence’s Management of Materiel Sustainment*. That audit examined the implications of the Review for Defence’s management of sustainment. The audit recommended that Defence develop and implement an evaluation plan to assess the implementation of the recommendations

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7 First Principles Review, pp. 15–16.

8 ‘Leadership churn from 1998 to the present resulting in nine ministers with an average tenure of two years, six Secretaries with an average tenure of two and a half years and five Chiefs of the Defence Force with an average tenure of four years’ (First Principles Review, p. 16). There has been one new Secretary of Defence and one new Minister for Defence since the release of the report of the Review.

9 Chapter 7 of the report (First Principles Review, pp. 71–8) sets out the Review Team’s expectations of Defence’s implementation.

10 First Principles Review, p. 14.

of the Review. Defence agreed, and stated that it already had an evaluation process developed that would be implemented by the end of 2016–17.<sup>11</sup>

1.13 The Joint Committee of Public Accounts and Audit also examined the implementation of the First Principles Review in its Report 470: Defence Sustainment Expenditure, which was tabled on 20 March 2018, as this audit report was being finalised.<sup>12</sup>

1.14 The audit was conducted in accordance with the ANAO Auditing Standards at a cost to the ANAO of approximately \$358 000.

1.15 Team members for this audit were David Rowlands, Jennifer Myles and David Brunoro.

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11 Defence has subsequently advised the ANAO (in March 2018) that this response to the ANAO report was not intended to mean that Defence would complete the evaluation by the end of 2016–17. Rather, Defence sees the evaluation as long-term work that will continue into at least 2018–19.

12 See <[https://www.aph.gov.au/Parliamentary\\_Business/Committees/Joint/Public\\_Accounts\\_and\\_Audit/Completed\\_inquiries](https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/Completed_inquiries)> (accessed 21 March 2018).

## 2. Implementing governance arrangements

### Areas examined

This chapter considers whether Defence established sound governance arrangements for the implementation of the First Principles Review. This encompasses assigning responsibility, development and management of an implementation schedule and plan, monitoring progress and resource use, and reporting arrangements. The chapter also considers Review recommendations relating to the management of implementation.

### Conclusion

Defence established sound governance arrangements for the implementation of the First Principles Review, which were commensurate with the importance and scope of the activity. The Secretary and the Chief of the Defence Force (CDF) invested substantial time and effort, and were seen by Defence as leading the implementation. Responsibility for implementation tasks was clearly allocated to the most senior leaders in the Defence Groups. The implementation schedule was closely monitored and reporting to senior management was regular and thorough. Progress reports were provided to the Government as scheduled. Progress reports have also been provided to the Parliament. Nonetheless, the Joint Standing Committee on Foreign Affairs, Defence and Trade has requested that Defence develop a transparent reporting mechanism by 31 March 2018. Although Defence indicated to the Government that efficiency improvements would be possible, no quantifiable savings have been identified.

### Area for improvement

Consistent with the Oversight Board's finding in its Health Check, Defence's capacity to manage reform effectively would be improved by Defence having a clear understanding of the efficiency of its activities and operations, including by developing indicators that measure efficiency.

### Precedence of the First Principles Review (Recommendations 1.1, 6.1, 6.2)

2.1 The Review found that 'The sheer frequency of reviews over the past decade has meant that many were short-lived or simply overtaken by the next review.'<sup>13</sup> Three recommendations sought to give precedence to the Review and align existing reform activities with its implementation.

2.2 The first recommendation (1.1), that the Review itself be adopted as the 'road map' for Defence reform for the next five years, is supplemented by the recommendation (6.1) that no additional reviews on the organisational issues covered by the Review are imposed on Defence, particularly within the early years of implementation.<sup>14</sup> Defence closed both of these at the outset of implementation.

2.3 The effort made by Defence since commencing the implementation shows that the Department has made the Review its central reform platform. No further such reviews have

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13 First Principles Review, p. 13.

14 The *Pathway to Change—Evolving Defence Culture* implementation strategy is excepted.

commenced since the Government accepted the Review in April 2015. However, it remains in the power of the government of the day, should it wish, to order another review.

2.4 The third recommendation in this group (6.2) required past reviews and current reforms to be assessed for currency and alignment to the One Defence model. Defence identified 56 existing activities for assessment and alignment and resolved a course of action with each.<sup>15</sup>

### Did Defence identify clear responsibility for implementation?

Defence identified clear responsibility for implementation at the outset, with the Secretary taking a leading role in chairing the Implementation Committee and maintaining momentum throughout the initial two-year implementation period. In addition, Defence gave Australian Public Service Senior Executive Service Band 3 or Australian Defence Force 3-star officers responsibility for each of the work streams comprising the implementation.

2.5 On 24 March 2015, the Government agreed or agreed in-principle to 75 of the 76 recommendations of the Review. Defence advised the Government that all of the major changes would be completed within two years.

2.6 Following the publication of the Review on 1 April 2015, Defence set up arrangements to manage implementation, including developing an implementation plan, a high-level committee to manage the implementation and an external Oversight Board<sup>16</sup> to provide close external scrutiny, advice on implementation progress and regular reports to the Minister on that progress.<sup>17</sup>

### Development of an implementation plan

2.7 Defence advised the Government in March 2015 that it would, as a first step, develop a detailed implementation plan within 90 days.<sup>18</sup> That plan—the First Principles Review Integrated Implementation Plan (the Plan)—was complete by 1 July 2015. Defence provided a copy to the Minister for Defence and briefed the Minister on its content. The chair of the Oversight Board separately advised the Minister that the Board found the Plan ‘robust and detailed’ and, after

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15 Of the 56 activities, Defence concluded that 43 were aligned with all or part of the First Principles Review, or continuous improvement, and should continue; nine should cease as they had been overtaken by Review work relating to the Capability Life Cycle; one had been completed and another should be reviewed. There were also 20 open [internal] audit recommendations relating to the Review. A number of activities that had been underway at the time of the Review were included in plans developed by the responsible Groups within Defence, for example, a review of the Defence estate conducted in 2012 formed the basis for the Defence Estate Strategy developed in response to the Review.

16 The establishment of the Oversight Board fulfilled a Review recommendations specifically relating to the governance of implementation (Recommendation 6.3, p. 77). The Review made one other recommendation relating to governance, Recommendation 6.4, discussed in the section below on reporting.

17 The Minister appointed the Oversight Board in May 2015. The Board comprised the same membership as the Review panel plus Ms Erica Smyth, Deputy Chair of the Australian Nuclear Science and Technology Organisation. Mr David Peever, chair of the Oversight Board, resigned from the Board at the conclusion of the two-year initial implementation period. Ms Smyth was then appointed chair.

18 The report of the Review set out a high-level plan (p. 75) ‘to give Defence a head start to mobilising implementation without being so prescriptive as to remove the ownership of change from the Defence leadership’.

reviewing it, thought this framework had ‘sufficient rigour and detail to enable implementation of the recommendations within the two year period as outlined in the Review’.<sup>19</sup>

2.8 The Plan was formulated in five work streams. Each work stream broadly reflected a Review key recommendation, a corresponding chapter of the report and the respective detailed recommendations contained in that chapter. An accountable officer led and was responsible for the planning of each work stream. Each accountable officer was a member of the (reformed) Defence Committee, the Department’s most senior internal governance committee. The work streams are as follows:

- *Strategic Centre* (Deputy Secretary Strategic Policy and Intelligence)—key initiatives included implementing the One Defence business model organisational structural changes; legislative changes to the Defence Act; creation of a contestability function; introduction of new top-level committees; improving the (former) Defence Science and Technology Organisation’s internal and external partnerships; corporate planning and performance monitoring; and consolidating geospatial functions into the Australian Geospatial-Intelligence Organisation.
- *Capability Life Cycle* (Vice Chief of the Defence Force (VCDF))—key initiatives included redesigning the investment approval process; and designing a smart buyer function including creation of the Capability Acquisition and Sustainment Group, with consequential structural and role changes.
- *Enablers* (Associate Secretary)—key initiatives included defining Defence’s estate needs and the sites to be recommended for disposal; implementing an enterprise information management system; and completing the shared services implementation.
- *Workforce* (Associate Secretary)—key initiatives include creating a strategic workforce plan and redesigning the organisation with changes to spans and layers.<sup>20</sup>
- *Behaviours* (Associate Secretary)—key initiatives include re-invigorating *Pathway to Change* with a focus on developing a performance culture in which individuals take personal accountability and responsibility seriously, and improving the performance management system and leadership training and development.<sup>21</sup>

2.9 For each work stream, Defence developed a document referred to as a ‘stream charter’. Each charter identified a responsible ‘owner’, listed the relevant recommendations from the Review, set out objectives for the work stream, relevant deliverables, risks and mitigation strategies, interdependencies with other work streams, and a set of measures by which success would be recognised.<sup>22</sup> These charters sought to clarify, for all involved, what the Review was seeking to achieve and the factors to take into account when setting about the work.

19 Letter from the Chair, Oversight Board, to the Minister for Defence, 2 July 2015.

20 Review Recommendation 4.5 recommends, in part, that Defence reduce the number of organisational layers and increase the spans of control of managers.

21 *Pathway to Change—Evolving Defence Culture* is a strategy for cultural change and reinforcement in Defence and the Australian Defence Force jointly announced on 7 March 2012 by the Minister for Defence, the Secretary of Defence and the Chief of the Defence Force (CDF). See <<http://www.defence.gov.au/pathwaytochange/>> (accessed 20 November 2017).

22 The measures of success for each charter are set out in Appendix 3.

2.10 The Plan, which was updated each week throughout the implementation, is essentially a schedule incorporating about 150 top-level tasks, arranged broadly by work stream and in the form of a Gantt chart.<sup>23</sup> These tasks were supported by over 800 more detailed activities. Some of the Review recommendations required little more than formal agreement or decision by Defence's executive and action could be considered complete at the outset of implementation.<sup>24</sup> These recommendations therefore have no corresponding elements in the Plan. For the remainder—the majority of Review recommendations—the detailed activities supporting their implementation were mapped against them in a complex spreadsheet maintained by the Implementation Office for monitoring and review. Defence advised that the Implementation Office could manipulate the spreadsheet to show which activities mapped to which Review recommendation. To achieve a 'clear read' or 'line-of-sight' from the Review's recommendations to corresponding components of the regularly updated Plan requires reference to this spreadsheet.

### **Implementation Committee**

2.11 The Defence Secretary and the Chief of the Defence Force established an Implementation Committee to be the decision-making body to set direction, review progress and provide impetus for the delivery of the Review.<sup>25</sup> Defence records show that the Committee met weekly, or nearly so, through the initial two-year implementation period. Defence Groups were assigned responsibility for managing and carrying out the implementation.

2.12 A First Principles Review Implementation Office within Defence's Governance and Reform Division supported the work of both the Implementation Committee and the Oversight Board.

2.13 A review by consultants in December 2015 of the first six months of the Implementation Committee's operation concluded that leadership engagement had been high, finding that the Committee had met on 88 per cent of available dates. Senior leadership had dedicated substantial time to the Review over that period. Discussion of issues before the committee had been robust and of substance, with a number of papers being asked to be re-presented to the committee. Subsequent records of the Committee's work indicate that this pattern continued throughout the initial two years of implementation.

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23 A Gantt chart is a type of bar chart that represents a project schedule.

24 For example: Recommendation 1.1, that the Review be adopted as the road map for Defence reform for the next five years; and Recommendation 1.3, that the diarchy is retained.

25 The Implementation Committee comprised the Secretary, CDF, Associate Secretary, VCDF, Deputy Secretary Strategic Policy and Intelligence, Chief Finance Officer, Deputy Secretary Capability Acquisition and Sustainment and Deputy Secretary Defence People.

## Has Defence actively managed the implementation schedule?

Defence has actively managed the implementation schedule, which has been a focus of the work of the Implementation Committee throughout the initial two-year implementation period. This reflects the priority placed by the Review on moving to the *One Defence* model as quickly as possible. Monitoring by an Oversight Board, and its reporting to the Minister for Defence, has provided further scrutiny and an additional incentive for Defence to focus on the implementation schedule. The Secretary and the Chief of the Defence Force have also sought progress reports and written to senior Defence leaders to maintain schedule pressure.

2.14 The Implementation Committee has set direction, made decisions and reviewed progress against the schedule, considering each week a consistent suite of reports at several levels of detail. These documents demonstrate that schedule and the closing of recommendations has been a primary focus of implementation management. The papers presented to the Committee also show a focus on activities at risk of delay.

2.15 The weekly reports to the Implementation Committee show, at a summary level, overall progress in terms of the proportion of activities completed against those planned, progress by work stream (strategic centre, capability development and so on), overdue activities, emerging issues, 'highlights' (significant or conspicuous achievements) and 'lowlights' (disappointing results). The greatest detail was set out in a Gantt chart showing progress by item against the original Plan, with explanatory annotations for those items running late. Defence updated this material weekly throughout the initial two years of implementation.

2.16 When considering proposals that recommendations be closed, Defence's Implementation Committee relied on assurances by the senior line officers (SES Band 3) responsible for putting forward the proposal and consideration of these assurances during Implementation Committee meetings.

2.17 Where the Implementation Committee detected any reduction in the rate of closure of recommendations as compared with the plan, its messages urged a greater effort towards completion. For example, in February 2016, a 'Stocktake Report' by the Implementation Office<sup>26</sup> had found that:

prioritisation of resources for First Principles Review implementation is an issue, with many areas trying to conduct large-scale change activities mixed in with and often in competition with resources for business as usual.

2.18 The Secretary and the Chief of the Defence Force jointly issued a minute addressed to the most senior staff, including Service Chiefs and deputy secretaries, emphasising the priority to be given to the Review:

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<sup>26</sup> The Implementation Office prepared Stocktake Reports for the Implementation Committee, sometimes focusing on a particular work stream, to review progress and to inform Defence's reporting to the Minister.

Implementing the First Principles Review is not an additional task or requirement. It is core business and the Government will hold us to account for implementing the recommendations in line with the intent of the Review.<sup>27</sup>

2.19 Similarly, in early March 2017, both the Secretary and the Chief of the Defence Force wrote individually tailored letters, in similar terms, to 39 senior leadership group members with a significant responsibility to deliver activities under the Review. Each letter emphasised the limited time left for completion: ‘We have until 30 June 2017 to deliver on this to government.’<sup>28</sup> It also expressed disappointment where progress was behind schedule and encouraged more effort.

## **The Oversight Board**

2.20 The primary task of the Oversight Board has been to monitor implementation and provide advice to the Minister on progress. The Board was also asked to help ensure that government-endorsed recommendations were implemented in the way intended by the Review, and to provide assistance where required to the Secretary and the Chief of the Defence Force.

2.21 The Oversight Board met fortnightly through the implementation until July 2017, when it agreed to meet monthly thereafter. The Board has received regular reports on implementation, advice from the Implementation Committee, updates from work stream leads and other support from the Implementation Office.

2.22 In December 2015, the Secretary and the Chief of the Defence Force asked the Implementation Office to prepare ‘stocktake reports’ assessing progress, in part because, at that point, implementation appeared to have slowed over the preceding months. The Implementation Office subsequently produced stocktake reports at quarterly intervals for the remainder of the implementation, including in-depth reviews of selected work streams. The Oversight Board then used stocktake reports for a critical review of progress.<sup>29</sup> Stocktake reports and reports by the Chair of the Oversight Board to the Minister commented on the number of recommendations completed and any perceived slippage in the implementation plan.

## **Progress with implementation**

2.23 As at 13 February 2018, Defence had closed 71 of the 75 recommendations agreed by the Government, leaving four recommendations open. Two key recommendations remained open because, for each, a subsidiary recommendation remained open. It would take only the closure of the two subsidiary recommendations for Defence to consider all to be closed. The open recommendations are:

- Key Recommendation 2.0—establish a single end-to-end capability development function within the Department to maximise the efficient, effective and professional delivery of military capability.

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27 Secretary and CDF, minute, ‘First Principles Review Implementation: Focus and Priorities for 2016’, 3 February 2016.

28 Secretary and CDF, minute, ‘Implementation of the First Principles Review’, 6 and 9 March 2017.

29 The Oversight Board made recommendations to the Implementation Committee for corrective action. Thus, Stocktake Report Quarter 4 2016 stated that 26 such recommendations had been made to that point, of which 17 had been completed, one not agreed and eight recommendations ongoing.



- Recommendation 2.4—examine each System Program Office to determine where each fits within the smart buyer function, the most appropriate procurement model and achieving value for money (discussed at paragraphs 4.17–4.25).
- Key Recommendation 3.0—fully implement an enterprise approach to the delivery of corporate and military enabling services to maximise their effectiveness and efficiency.
  - Recommendation 3.3—the Government amend the *Public Works Act 1969* to set a \$75 million threshold for referring proposed works to the Public Works Committee, and re-consider recent adjustments to the 2015–16 Budget operational rules that run counter to more efficiently managing investment spending (discussed at paragraphs 5.4–5.9).

## Has Defence monitored and reported implementation progress?

Defence has actively monitored and reported progress to its Implementation Committee weekly throughout the implementation period. The Implementation Committee has provided regular detailed updates to the Defence senior leadership group (APS Senior Executive Service and ADF star-ranked officers) and to all staff in monthly email updates.

Defence officials have reported to the Oversight Board's regular meetings throughout implementation. The Board has reported to the Minister in the form of monthly letters from the Board chair and the chair has briefed the Minister personally. Two scheduled progress reports by Defence to the Government (in 2016 and 2017) were delivered, and a third is expected in mid-2018.

Reporting to the Parliament has occurred through a statement made by the Minister on the progress of implementation, in June 2017. Defence has also provided updates to the Senate Foreign Affairs, Defence and Trade Legislation Committee from October 2016. Written updates to this Committee have focused on recommendations that Defence considers complete; however, the Joint Standing Committee on Foreign Affairs, Defence and Trade has requested that Defence develop a transparent reporting mechanism by 31 March 2018 that demonstrates changes in effectiveness or efficiency resulting from the First Principles Review.

### Internal monitoring and reporting

2.24 Defence's First Principles Review Implementation Committee has monitored implementation closely from the outset. As described above (paragraph 2.15), it has done this through detailed progress reports, updated regularly. The Implementation Office prepared a record of outcomes of the Committee's decisions after each meeting and this formed the basis of reports to others on progress. Defence has assessed its own progress regularly by reference to the number of recommendations completed from among the 75 agreed by the Government.

2.25 Defence's reporting on progress to all staff commenced in April 2015. After each meeting, the Implementation Committee issued messages to the senior leadership group and to all Defence staff regularly throughout the initial two-year implementation period. Much of the material submitted to the Committee for consideration was also forwarded to the senior leadership group, together with a brief record of outcomes, as attachments to the weekly email. These emails included the weekly reports on progress against the schedule received by the Committee and

proposals to close recommendations. This practice provided substantial detail on progress to management throughout Defence and also provided visibility and transparency to the work of the Committee.

## **Reporting to the Government**

2.26 The Oversight Board has monitored progress and has reported to ministers both in the form of a monthly plain-English letter from the Chair of the Oversight Board and, from time to time, through meetings for personal briefing and discussion. The Chair also briefed the Prime Minister on 15 June 2017.

2.27 The Review recommended that the Minister, with input from the Department and the Oversight Board, report progress on implementation to the Government in March 2016 and March 2017.<sup>30</sup> Subsequently the Minister agreed to change this to July 2016 and July 2017, which fits the anniversary of formal commencement of implementation and the expiry of the planned two-year implementation period. In the event, the first update was delayed by the 2016 general election and was accomplished by exchange of letters in February 2017. The second report was presented in August 2017. After receiving the second report, the Government decided that it would require a third in mid-2018.

2.28 The Oversight Board's Health Check report formed an important element of the second report to the Government. This document (18 May 2017) reports progress by reference to:

- a stocktake of evidence provided to close Review recommendations;
- an assessment of success in embedding accountabilities into Defence's senior committees; and
- an assessment of progress in terms of improvement against the original problem.

2.29 The Health Check also made four further recommendations for action by Defence, including one which led to the tenure of the Oversight Board being extended until July 2018 to oversee ongoing reform (see paragraph 6.11).

## **Reporting to Parliament**

2.30 The Minister for Defence made a statement to Parliament in mid-2017 on the implementation of the Review. Otherwise, reporting to the Parliament has taken place through the normal processes of Parliamentary committee scrutiny and Defence annual reports.

2.31 In October 2016, the Senate Foreign Affairs, Defence and Trade Legislation Committee asked Defence for a written summary of progress with Review recommendations.<sup>31</sup> Defence agreed to provide this two weeks before each estimates hearing. Defence's first such response was provided as part of its suite of answers to questions on notice taken at the October 2016 hearings. Defence has continued to comply by providing a simple list of recommendations that it considers complete.

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30 First Principles Review, Recommendation 6.4.

31 Supplementary Budget Estimates, 19 October 2016, p. 97.

2.32 The Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) examined the Review and other strategic programs in Defence as part of its *Review of the Defence Annual Report 2015–16*.<sup>32</sup> The Committee noted that there is limited documentation or reporting that can be used by Parliament or other interested parties to scrutinise changes in the effectiveness or efficiency resulting from Review-related changes.<sup>33</sup> The Committee also concluded that ‘the Parliament, through the Defence Sub-Committee of the JSCFADT can, and should, play a more active role in overseeing and supporting these long term reforms.’<sup>34</sup> The Committee recommended that Defence ‘develop a transparent reporting mechanism that demonstrates changes in effectiveness or efficiency resultant from the First Principles Review-related change for consideration by the Defence Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade by 31 March 2018’.<sup>35</sup>

2.33 In May 2016, the Joint Committee of Public Accounts and Audit (JCPAA) recommended (Report 458) that Defence publish as soon as practicable the outcomes from Recommendation 2.11 of the First Principles Review and that a summary of this information be included in the next Major Projects Report.<sup>36</sup> Recommendation 2.11 concerns development of an ‘operational framework’ for capability development (see paragraph 4.35 forward). Defence closed the recommendation on 20 April 2017 and advised the JCPAA in May 2017. Defence then published further information on the work done to meet this recommendation in the Defence Annual Report 2016–17 (p. 66, October 2017).

2.34 In March 2018, the JCPAA (Report 470: Defence Sustainment Expenditure) made further recommendations concerning Defence’s implementation of the First Principles Review. This included a recommendation that Defence report within six months to the Committee on progress in driving First Principles Review reforms, detail on consequential positive changes and progress of the Systems Program Offices review.<sup>37</sup>

## Has Defence assessed and managed the financial costs and benefits of the implementation?

Defence managed implementation costs as ‘business-as-usual’ and did not seek to identify those costs separately.

The advice seeking the Government’s agreement to the Review stated that there were areas where efficiencies were possible. No quantifiable savings have been identified by Defence, either at that point or since.

32 The JSCFADT’s report was tabled on 7 December 2017.

33 JSCFADT, *Review of the Defence Annual Report 2015–16*, December 2017, pp. 26.

34 JSCFADT, *Review of the Defence Annual Report 2015–16*, December 2017, pp. iii and 42.

35 JSCFADT, *Review of the Defence Annual Report 2015–16*, December 2017, Recommendation 3.

36 The Defence Major Projects Report is prepared each year and provides the Auditor-General’s independent assurance over Defence reporting on the status of selected major acquisition projects in Defence.

37 JCPAA, Report 470: Defence Sustainment Expenditure, <[https://www.aph.gov.au/Parliamentary\\_Business/Committees/Joint/Public\\_Accounts\\_and\\_Audit/Completed\\_inquiries](https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/Completed_inquiries)> (accessed 21 March 2018).

## Implementation: financial implications

2.35 Defence Groups have funded the Review implementation activities within the work streams for which they have been responsible. There has been no attempt at central tracking or reporting of these costs.

2.36 Implementation has involved substantial contractor and consultant costs funded through the Governance and Reform Division's Implementation Office, which has contracted work valued at some \$151 million between 30 June 2015 and 30 July 2017.<sup>38</sup> To date, some \$102 million has been spent.

## Efficiency improvements from the First Principles Review

2.37 The First Principles Review sought to answer the question 'what is the most effective and efficient organisation that will enable Defence to deliver the outcomes required of it?'<sup>39</sup> Efficiency was also highlighted in a workshop led by one of the First Principles Review team members to help Defence officers to understand better the Review's recommendations in its Chapter 3 (concerning the Capability Life Cycle):

The big problem that the Review team saw was one of efficiency and not of effectiveness. By any reasonable standard the military output—the effectiveness of the ADF—is world class, but does the Department arrive at that effectiveness in the most efficient way possible? Can the Department assure the Government of the day and the Australian taxpayer that the resources—the people, processes and tools—used to create that output are being utilised in the most efficient way? The Review team thought the answer to that was 'No'.<sup>40</sup>

2.38 When the Government agreed to implement the recommendations of the Review, there was no commitment to specific savings from its implementation. Nevertheless, the Government was advised that the Review had identified areas where efficiencies were possible (workforce reductions; disposal of estate; full implementation of shared services; decreased duplication; better procurement and contracting processes; and an increase in productivity). Defence also advised that the exact savings had not been quantified but further analysis would be completed by Defence during implementation planning and reported to the Government in due course.

2.39 The Review expected staff savings in the following areas:

- *Senior leadership*—a reduction of around eight positions with further reductions expected as structural changes were implemented.<sup>41</sup>
- *Capability delivery*—implementation of the smart buyer approach with a reduction of 1000 public servants and reallocation of around 950 ADF personnel.<sup>42</sup>

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38 This figure does not represent the total cost of contracted work undertaken in support of implementation of the Review. Other Defence Groups have also incurred contractor and consultant costs to help with their Review implementation responsibilities. Expenses for further contracted work are likely to be incurred in 2017–18.

39 First Principles Review, p. 5.

40 Minutes of a Defence internal workshop on First Principles Review Implementation, 5 August 2015.

41 First Principles Review, p. 67. These comprise seven APS SES Band 3 positions and one ADF 3-star position. This issue is analysed further in Table 5.2.

- *Middle management*—changes to management spans and layers were to yield a reduction of at least 650 public servants and reallocation of some 100 ADF personnel.<sup>43</sup>
- *ADF Headquarters*—substantial productivity savings were expected from a recommended review of ADF Headquarters.<sup>44</sup> This issue had also been identified in the Government’s Commission of Audit.<sup>45</sup> A subsequent Headquarters Organisational Review conducted by consultants for Defence confirmed that an oversupply of resources existed in ADF Headquarters, finding that productivity improvements equivalent to an estimated 1986 positions would be possible by applying First Principles Review design principles.<sup>46</sup>

2.40 Defence undertook to the Government (paragraph 2.38, above) that it would complete further analysis during implementation planning and report on savings in due course. Implementation planning was completed within the 90 days to 1 July 2015. Defence has not completed any further analysis, either during implementation planning or subsequently. No report to the Government has, as yet, acquitted against the undertaking to do so. Defence advised the ANAO (March 2018) that ‘although Defence hasn’t acquitted [quantitative] savings it has shown broad savings and efficiency improvements, which have been tabled with Government’.

2.41 Defence advised the ANAO that the second report to the Government (August 2017) includes examples of efficiencies. However, these are expressed only in general terms with no evidence of supporting analysis or metrics. Moreover, while Defence was preparing its second report to the Government, the Department of Finance sought, from Defence, more information on efficiencies flowing from First Principles Review implementation. Defence stated that it was not in a position to provide details on efficiencies at that time and did not do so.<sup>47</sup> The JSCFADT has also observed that, outside the Department, ‘there is limited documentation or reporting that can be used by Parliament or other interested parties to scrutinise changes in effectiveness or efficiency resultant from the [First Principles Review]-related change’.<sup>48</sup>

2.42 The Oversight Board, in its Health Check in mid-2017, recommended that, for Defence to become efficient, it expend funds in accordance with agreed budgets to achieve agreed outcomes

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42 Defence advised the ANAO (18 December 2017) that the Department had later reviewed the workforce required in Capability Acquisition and Sustainment Group and found that a workforce reduction of 1000 public servants and 500 ADF personnel was appropriate. It did not provide evidence of this review.

43 First Principles Review, p. 68.

44 First Principles Review, p. 69.

45 *Towards Responsible Government—The Report of the National Commission of Audit*, Phase One, February 2014.

46 The estimate of the number of surplus positions was to be refined, based on further investigation.

47 The Review made a specific recommendation on the development of efficiency measures in Defence (Recommendation 5.2). This is discussed further in Chapter 3.

48 JSCFADT, *Review of the Defence Annual Report 2015–16*, December 2017, p. 26.

to specified and measurable performance standards, for which leaders are held accountable. Defence has advised the ANAO that work against this recommendation is ongoing.<sup>49</sup>

2.43 Defence further advised the ANAO that while the potential staff savings described above (paragraph 2.39) were identified in the Review:

the Government subsequently agreed to a Defence workforce of 18 200 APS and 62 400 ADF positions in the 2016 Defence White Paper. This addition provides additional information about why Defence has not actively pursued or measured achievement against the workforce targets outlined in the First Principles Review.<sup>50</sup>

2.44 The Review, however, focused on improvement in specific areas of Defence: ‘the identified efficiencies [by the Review] are the result of analysis and linked to a specific reform initiative. It is about better allocation of resources rather than arbitrary approaches to reductions’.<sup>51</sup> This shows that it intended that Defence should direct attention to the efficiency of internal resourcing—including opportunities to redeploy from areas with an apparent surplus.<sup>52</sup>

## Has Defence managed skills transfer to staff during implementation?

Defence has relied on contractors and consultants to implement key reforms, particularly in the Capability Acquisition and Sustainment Group. While there are areas where Defence claims to have successfully transferred knowledge to Australian Public Service staff, Defence also acknowledges that there remain areas where knowledge transfer needs to be undertaken.

2.45 Skills transfer to Defence staff has become a management issue in implementing Review recommendations, particularly with capability development and delivery changes.

2.46 Defence has relied on contractors and consultants to help it to implement the Review, particularly in Capability Acquisition and Sustainment Group.<sup>53</sup> Four major work streams in that Group required ‘significant skills transfer’: the ‘Smart Buyer’ risk assessment and project execution framework; Systems Program Office reform; project performance reporting; and centres of

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49 Defence advised the ANAO that the three activities designed to address this recommendation are scheduled for completion in March 2018, August 2018 and July 2019, and have been scheduled to align with key points in the Defence budget allocation and reporting process. Defence further advised the ANAO (March 2018) that ‘Defence is continuing to mature the measurability of performance standards so these are developed and designed to track delivery of agreed outcomes. Two improvements to the performance standards process being implemented are: improving level of accountability and assurance on the quality of performance information; and providing detailed guidance to senior leaders on how to link agreed budgets to agreed outcomes’.

50 Defence advice to the ANAO of 4 December 2017.

51 First Principles Review, p. 67.

52 First Principles Review, pp. 64–69. Defence advised the ANAO in March 2018 that: ‘through the review of ADF positions in non-Service Groups and the requirement to offset around 2300 existing ADF positions in order to deliver the White Paper capability, Defence has been focused on the most efficient use of workforce resources’. Defence workforce issues are considered further in this report from para. 5.31 forward.

53 As noted in ANAO Report No.2 2017–18, *Defence’s Management of Materiel Sustainment* (p. 63), the estimated cost of all current contracts with one major supplier of consultancy services to assist with the reform of Capability Acquisition and Sustainment Group is for expenditure of over \$100 million.

expertise.<sup>54</sup> Defence advised the ANAO that the role of the principal contractor assisting the Group is to support, train and transfer knowledge to Defence staff: ‘The success of the contract will be measured by Defence’s ability to operate without [contractor] support at the end of the contract, rather than by any specific product delivered by [the contractor]’.<sup>55</sup>

2.47 Notwithstanding this expectation on behalf of Defence, senior contract personnel advised the Oversight Board in April 2017 that there were still ‘opportunities for Defence to grow into its mission—particularly around making the transition to Defence doing things itself instead of relying on [the contractor]’.<sup>56</sup> Further, in some areas, the contractor was finding it difficult to identify Defence staff to transfer knowledge to, given the large number of other consultants and contractors engaged by Defence.

2.48 This message was reinforced in the contractor’s ‘Contract Dashboard’, which it provided to Defence in July 2017. This identified, among four top risks, a lack of Capability Acquisition and Sustainment Group resources to implement Systems Program Office reform, for which the listed mitigation was to accelerate the establishment of a Commercial Specialist team, seeded with contractor personnel, pending Defence backfills.

2.49 Also in July 2017, the JCPAA asked Defence how and when it would assess the main contractor’s performance with its support, train and transfer work.<sup>57</sup> Defence testimony indicates that the contractor, rather than Defence staff, was ‘doing almost all of the reform activities’.<sup>58</sup> Shortly after that JCPAA hearing, the Secretary of Defence was briefed for a meeting with the contractor’s CEO (21 August 2017). The brief proposed that he express some concerns about the readiness of Defence staff to continue ‘driving reform’ when the contractor begins to transfer its work across to Defence ownership.

2.50 Defence advised the ANAO that, to transfer knowledge from contractors/consultants to Defence staff in the four areas of work mentioned above (paragraph 2.46), ‘in each case, contractor staff worked with, or are working with, Capability Acquisition and Sustainment Group personnel to transition skills to the Commonwealth’.<sup>59</sup>

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54 Defence advice to the ANAO, 18 December 2017. The use of contractors in this context is supported by the finding by the Oversight Board (October 2015) that intervention was required in the Capability Life Cycle stream because ‘people within that stream [were] trying to implement changes without the relevant experience or expertise’.

55 ANAO Report No.2 2017–18, *Defence’s Management of Materiel Sustainment*, paragraph 5.15.

56 Interview conducted with Bechtel staff for the Oversight Board’s Health Check, May 2017.

57 JCPAA, Inquiry into Defence Sustainment Expenditure, Public Hearing, 16 August 2017.

58 Hansard, JCPAA, 16 August 2017, p. 8.

59 Defence advice to the ANAO, 18 December 2017.

### 3. Implementing the recommendations on the creation of a strong strategic centre

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#### Areas examined

This chapter examines Defence's actions to implement the key recommendation for the creation of a strong strategic centre and subsidiary recommendations.

#### Conclusion

Defence has implemented the Review recommendation to establish a strong strategic centre to strengthen accountability and top-level decision-making. Generally, the recommendations leading to changes in organisation structure and changes in responsibility have been introduced promptly, including some important legislative changes. Introduction of the contestability function to test Defence investment proposals has been successful to date and is operating well. There has also been improved engagement with central agencies, but opportunities remain to improve the policy function, especially in regard to ministerial engagement.

#### Areas for improvement

The key challenges for Defence are: to ensure that the momentum gained by the program in the context of the Review does not dissipate before the full intent of the review work is carried out; and senior management remains aware of progress until the intended outcome is achieved. Areas that require ongoing attention for this reason are:

- the planning and performance monitoring process and the introduction of improved efficiency measures;
- the resolution of changes expected from the Australian Defence Force Headquarters review; and
- the restoration of the Defence geospatial capability.

#### One Defence (Recommendation 1.2)<sup>60</sup>

3.1 The central recommendation of the Review is that Defence adopt a new, *One Defence* business model. Achieving the *One Defence* approach is expected from a combined effect of the four main features proposed: a stronger strategic centre; an end-to-end approach for capability development; integrated, customer-centric enablers and a planned professional workforce. Defence closed this recommendation at the outset of implementation but its full effect remains contingent on effective implementation of the other recommendations that contribute to realising the overall intended outcome of the Review.

3.2 In considering Defence's progress in implementing the Review recommendations agreed by the Government, the ANAO considered progress made with the individual recommendations, aggregated by work stream. The first of these is the creation of a strong strategic centre.

3.3 Defence's strategic centre is the senior management structure in Defence that sets priorities, manages resources and sets direction for all Defence activities in support of government

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60 Review recommendations are referred to by their number (from 1.0 through to 6.05) below and in subsequent chapters. An index of First Principles Review recommendations is set out in Appendix 2.



outcomes. The Review found that Defence had too many voices in senior committees to be effective. It lacked clear, single points of accountability for outcomes, was more focused on detail than alignment with policy or strategy, and rewarded federated rather than enterprise behaviour.<sup>61</sup>

3.4 The key recommendation (1.0) to flow from this diagnosis was:

Establish a strong, strategic centre to strengthen accountability and top-level decision-making.<sup>62</sup>

3.5 This, in turn, was supported by a range of supporting recommendations.<sup>63</sup>

## Has Defence clarified top-level accountabilities?

Defence has clarified top-level accountabilities and reduced the number of voices at the top—including a reduction in membership of the Defence Committee from 17 to 6. The number of senior committees has been reduced from 72 to 26.

### Stability in leadership (Recommendation 6.5)

3.6 The Review recommended stability in the key leadership positions, particularly over the initial two years of implementation (1 July 2015 – 30 June 2017) to provide ‘constancy and unity in order to tackle Defence’s problem of inertia and make the bulk of the changes within two years’. The Review identified ‘leadership churn’ as a root cause of Defence’s inability to reform itself, citing the turnover from 1998 forward of ministers, secretaries and Chiefs of the Defence Force. Since the Review reported there has been a change of Defence minister, early in the implementation (Minister Andrews replaced by Minister Payne, 21 September 2015) and the Secretary has retired (12 May 2017), almost at the end of the two years of implementation. The Chief of the Defence Force (whose term expires in mid-2018) has remained in place.

### Top management (Recommendations 1.3, 1.4, 1.5 and 1.6)

3.7 Defence closed the recommendation for retaining the diarchy (1.3), which required no action by Defence, at the outset of implementation.<sup>64</sup> Similarly, the recommendation for clarifying the accountabilities of the Secretary and the Chief of the Defence Force (1.4) was implemented in line with a ministerial directive promulgated on 2 July 2015. Also adopted immediately was the recommendation to include the Associate Secretary and the Vice Chief of the Defence Force (VCDF) in the ‘strategic centre’ (1.6), in support of the diarchy.

61 First Principles Review, p. 20.

62 First Principles Review, p. 7.

63 Not all of the recommendations in the following discussion in this section are set out in the chapter of the Review relating to establishing the strong, strategic centre. However, they were grouped this way by Defence for the purposes of managing and monitoring implementation. The grouping adopted by Defence management has been reflected here.

64 ‘The diarchy’ is the term used to describe the dual leadership of Defence by the Secretary of the Department of Defence and the Chief of the Defence Force.

3.8 A related recommendation to streamline the top management structure (1.5) was implemented immediately and a new management structure was adopted.<sup>65</sup> Defence's implementation of this recommendation included the development of 'role charters' for each member of the senior leadership group (Australian Public Service Senior Executive Service and Australian Defence Force star-ranks) highlighting roles, responsibility and accountability.

### **Defence senior committees (Recommendation 1.13)**

3.9 The Review found that the Secretary and the Chief of the Defence Force required an effective strategic forum to make major organisational, capability and resource trade-off decisions. However, the Defence Committee then comprised 17 members. This was thought too large and unwieldy to function as an effective strategic centre. The recommendation that it be re-positioned as the primary decision-making committee of Defence and the heart of the strategic centre with two supporting committees—the Enterprise Business Committee and Investment Committee (1.13)—was adopted at the outset of implementation. Defence also adopted the recommendation that the Defence Committee comprise only six members.<sup>66</sup>

3.10 In its Health Check (May 2017), the Oversight Board concluded that the new senior committee structure was functioning well, based on the committees' business rules, behaviours and decisions, but the Board was unclear as to how well the committees operate collectively. The Board then made a further recommendation that the interdependencies and relationships among the enterprise committees be articulated and, where appropriate, be embedded in the committee charters and operationalised through business rules. Defence has advised the ANAO that a proposed streamlined framework is to be presented to the Defence Committee in June 2018.

### **Other Defence committees (Recommendation 1.14)**

3.11 Defence reviewed all other enterprise-wide committees for their relevance and alignment with the *One Defence* business model, in line with another Review recommendation (1.14). The Review's aim was a substantial reduction in the number of committees, though it specified no target or optimum number.

3.12 The Review had found that over 200 committees were active in the organisation, but a subsequent review by Defence identified some 325.<sup>67</sup> These comprised 72 senior committees (chaired by an SES Band 3 or ADF 3-star) and 253 lower-level committees (chaired by an SES Band 1 or 2 or an ADF 1 or 2-star). When Defence closed this recommendation (February 2017) these had been reduced to 42 senior and 242 lower-level committees, 284 in all, a 12.6 per cent reduction. The number of senior committees subsequently fell to 26.

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65 Some positions were not substantively filled until the establishment of Strategic Policy and Intelligence Group on 6 February 2016.

66 First Principles Review, p. 27. The members are: the Secretary of Defence, the Chief of the Defence Force, the Associate Secretary, the VCDF, the Deputy Secretary Strategic Policy and Intelligence, and the Chief Finance Officer.

67 First Principles Review, p. 13.

3.13 In its May 2017 Health Check (conducted shortly after the closure of the recommendation) the Oversight Board found that:

Ongoing review of the remaining 242 committees against the agreed definitions is expected to lead to further reductions. The Defence Committee has also agreed to a series of enduring committee governance arrangements, which will ... include an annual review of committees, and the requirement for any new senior committees to be approved by the Defence Committee.

3.14 Defence advised the ANAO that a review of Defence's Enterprise Committee Governance Framework is underway with a proposed streamlined structure to be considered by the Defence Committee in June 2018.<sup>68</sup>

## Has Defence implemented greater central control of strategy setting, and effective corporate planning and performance monitoring?

Defence has implemented greater control of strategy-setting by strengthening the decision rights given to the Vice Chief of the Defence Force and by removing the statutory powers of the Service Chiefs. Organisational changes have been made to support improved policy advice, though opportunities remain to improve the policy function, especially in regard to ministerial engagement. A new contestability function has been introduced, which has been operating well.

Planning and performance monitoring reforms remain a 'work-in-progress' and work towards improved efficiency measures has not yielded a demonstrable result. The results of an opportunity for improved efficiency—through a more integrated Defence headquarters—are not yet apparent.

### VCDF decision rights (Recommendation 1.7)

3.15 In accordance with a Review recommendation (1.7), the Vice Chief of the Defence Force (VCDF) was given strengthened decision rights as chair of the Investment Committee and Defence's Joint Force Authority. These rights include the ability to stop projects from proceeding through the approval process until joint force integration is proven.<sup>69</sup> Defence has cited an instance where this right has been exercised.

### Legislation to remove certain statutory powers (Recommendation 1.8)

3.16 When agreeing to the First Principles Review, the Government had also specifically agreed to introduce legislation into Parliament to implement a recommendation to formally recognise the authority of the Chief of the Defence Force and the VCDF, including removing the statutory authority of the three Service Chiefs (1.8). At that point, the Chief of the Defence Force did not have direct control of military capability other than through the Service Chiefs. The VCDF had no independent command authority and the statutory appointment did not reflect the practice of having the VCDF perform the functions of a true 'deputy Chief of the Defence Force'.

<sup>68</sup> Defence advice to the ANAO, 18 December 2017.

<sup>69</sup> 'Joint force integration' is defined by Defence as 'the integration of capabilities from across Defence and ensuring they function effectively as a whole' (Defence advice to the ANAO, 18 December 2017).

3.17 The VCDF gave testimony to the Senate (June 2015) that the recommendation reflected how Defence had operated for some time and ‘brought the law into line with practice’.<sup>70</sup> Legislation removing the statutory authority of the Service Chiefs and recognising the authority of the Chief of the Defence Force and the VCDF commenced on 1 October 2016.

### **Improving policy advice (Recommendations 1.9 and 1.11)**

3.18 A number of stakeholders had raised concerns with the Review regarding the quality of Defence policy advice. The Review recommended both that policy advice be strengthened by bringing all strategic policy functions into one unit (1.9) and that policy and intelligence functions be combined under a deputy secretary (1.11). Implementing these recommendations led to the creation of Strategic Policy and Intelligence Group, which commenced in February 2016.

3.19 Although Defence has addressed the organisational mechanics in line with the recommendations, actual improvements in policy advice were the intended outcome. However, there is no current mechanism for assessing such improvements.

### **Introducing a formal contestability function (Recommendations 1.10, 2.6 and 2.7)**

3.20 The Review recommended (1.10) that a strong and credible contestability function be built—a mechanism for critical review to operate at arm’s-length from internal owners and sponsors, up to the point of decision. In its 2017 Health Check, the Oversight Board characterised this recommendation as central to achieving the intent of the First Principles Review. The function was to aid rigorous analysis of investment decisions, particularly in capital equipment. Responsibility was to be transferred to the Deputy Secretary, Policy and Intelligence (2.6).

3.21 A proposal to close the recommendation was first put to the Implementation Committee in December 2016, but not accepted on the grounds that more time was required to mature the new function. The recommendation was eventually closed in April 2017.

3.22 The ANAO found that the contestability function has been implemented and is operating well. Substantial output—contestability briefs—can be observed in the Investment Committee papers. The Contestability Division has reported that it has faced challenges. For example, early in the operation of the new function, the quality and timeliness of the submissions it received limited the time it had to prepare contestability briefs before the relevant Investment Committee meeting. Nevertheless, there is evidence that it is now functioning as envisaged. For example, the Department of Finance has advised that, based on its interactions, the Contestability Division:

provides high quality analysis in its cover briefs, including on whether projects: are consistent with the stated requirements and strategic guidance; are in line with the investment plan; are integrated and interoperable with the current and future force; are affordable within the approved funding envelopes; have a development process proportionate to the risk and complexity of the proposal; and are technically and commercially feasible. These analyses greatly

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70 Senate Estimates, 1 June 2015. Other authors on Defence matters have traced the gradual ascendancy of the Chief of the Defence Force over the Service Chiefs over the past 40 years. See, for example, Graeme Dobell, ‘The Canberra Officer (6): CDF atop the diarchy’, *The Strategist*, Australian Strategic Policy Institute, 26 May 2014, <<https://www.aspistrategist.org.au/the-canberra-officer-6-cdf-atop-the-diarchy/>> accessed 17 November 2017.

assist the [Investment Committee] to make informed decisions about complex capability issues.<sup>71</sup>

3.23 A separate survey by external consultants, completed in July 2017, also provides a positive perspective. The subject of this work was the operation of the new Capability Life Cycle, of which the contestability function is an important feature.<sup>72</sup> The consultants' report found that the contestability role was 'developing well'. The relevant staff were widely respected and there was a sound working relationship with other areas within the Capability Life Cycle.

3.24 The Oversight Board's Health Check (May 2017) recommended continuing oversight of the contestability function for a further 12 months. A 12-month review of the operation of Contestability Division was underway during the audit. Initial findings were that 'the Division has performed remarkably well during the turbulence that accompanies significant change, and that the function the Division provides is well regarded by key stakeholders such as the Central Agencies and VCDF'.<sup>73</sup>

3.25 The Review recommended (2.7) that the Independent Project Performance Office (part of the former Defence Materiel Organisation) and the Capability Investment and Resources Division (part of former Capability Development Group) be relocated in the new Strategic Policy and Intelligence Group to provide resources for the proposed contestability function. Capability Investment and Resources Division was relocated to provide the required arms-length contestability function. Capability Acquisition and Sustainment Group (in effect, the Defence Materiel Organisation's successor) retained the Independent Project Performance Office personnel, who continued to conduct Independent Assurance Reviews<sup>74</sup> on acquisition and sustainment projects with broadened representation.<sup>75</sup>

3.26 Contestability Division's operational model is focused on contestability throughout the Capability Life Cycle.<sup>76</sup> However, Defence has focused its efforts in applying contestability at the early stages of the cycle, where greatest benefit can be derived. Currently, Defence has no timetable to extend contestability to projects and products during acquisition and sustainment.

### **Other organisational changes (Recommendations 1.12 and 1.15)**

3.27 The Review recommended that the Defence Security Authority be renamed and repositioned under the Associate Secretary (1.12) to ensure that the role of the Deputy Secretary

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71 Department of Finance advice to the ANAO, September 2017.

72 This was conducted through about 60 interviews with personnel from EL1 and EL2 (middle managers) to SES Band 2 and Band 3 and star-rank equivalents (senior leaders), all being considered stakeholders in the Capability Life Cycle.

73 Defence advised the ANAO (18 December 2017) that the review was not yet complete. However, it provided an initial consultancy report, 'Current State Review of Contestability Division' (October 2017). The 'central agencies' include the Department of the Prime Minister and Cabinet, the Department of Finance and the Treasury.

74 Independent Assurance Reviews were formerly called 'Gate Reviews'.

75 Defence has advised the ANAO (March 2018) that Independent Assurance Reviews have been broadened to include Capability Manager and other enabling group representatives: 'The objective of these consultative reviews is to provide guidance and expertise to project teams, help resolve project and product issues, and to assure the Defence Senior Leadership Group and Government regarding the status and outlook of major capital projects and sustainment products.'

76 Defence, Annual Report 2016–17, p. 25.

Policy and Intelligence did not become unmanageable in scope and to better align service delivery to user requirements. Defence implemented this change at the outset of implementation.

3.28 Given the changes that would increase substantially the workload of the VCDF, the Review recommended (1.15) that the structure of reporting to the VCDF be simplified by creating a two-star Joint Enablers role. This was also implemented at the outset.

### **Planning and performance monitoring (Recommendations 1.16 and 1.17)**

3.29 The Review found that, while the strengthened role of the VCDF and introduction of contestability were critical to a strong strategic centre, another change was also necessary:

Effective corporate planning and performance monitoring are vital to ensure the direction set in the strategic centre is effectively cascaded through the organisation and leaders are held to account for their performance.

3.30 Therefore, Defence needed to improve its corporate planning processes and ensure alignment with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).<sup>77</sup>

3.31 The Review recommended the adoption of a strengthened, centre-led, enterprise-wide planning and performance monitoring process (1.16) and that the role be assigned to the Associate Secretary (1.17). Defence assigned the role at the outset of implementation.

3.32 In 2017, the Health Check found that, although Defence had taken substantial steps towards enterprise-wide risk and performance management, it was still overly bureaucratic. This led to the Oversight Board finding referred to earlier (paragraph 2.42), and a new recommendation:

That Defence develop and implement an approach to risk management that is focused on operationalising risk-based planning, where decision-makers are held accountable for budgeted performance against their business plans.

3.33 Defence advised the ANAO that it was 'building activities into the next planning cycle for Defence corporate, business and reform plans that [extend over] the next 12 months' to give effect to this recommendation, and that:

Work against this recommendation is ongoing, and has been included in the Strategic Centre One Defence Detailed Project Plan for 2017–18. The activities designed to address this recommendation have been scheduled to align with key points in the Defence budget allocation and reporting process.<sup>78</sup>

### **Efficiency (Recommendations 5.1 and 5.2)**

3.34 One of the terms of reference of the First Principles Review was to improve the efficiency and effectiveness of Defence.<sup>79</sup> The Review found that Defence commonly used efficiency measures which were either outdated or misleading and not appropriate for measuring the

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77 First Principles Review, p. 29. The PGPA Act and Rule require accountable authorities to prepare an annual corporate plan which sets out entity purposes and performance measures, and an annual performance statement reporting on achievement against those purposes and measures.

78 Defence advice to the ANAO, 13 March 2018.

79 This is the third of five items in the terms of reference (First Principles Review, p. 81).

organisation's performance. Better metrics of efficiencies would draw on financial data showing the proportion of funds expended on core functions, outputs or force elements: 'That is, what is spent where in order to achieve the required outcomes'.<sup>80</sup>

3.35 This led the Review to recommend that Defence cease the use of measures such as 'teeth-to-tail' ratio and the one-third split (5.1).<sup>81</sup> Instead, appropriate efficiency measures were to be developed linking delivery to outcomes (5.2). Defence closed the first of these recommendations at the outset of implementation; Defence closed the second based on evidence that it had a framework in place to support improved organisational efficiency measures. It had not yet actually developed improved measures.

3.36 Defence advised the ANAO that it has been working with the Department of Finance on improving efficiency and effectiveness measures:

The recommendation 5.2 closure paper noted that Defence would continue to work with the Department of Finance to revise and refine its approach to developing appropriate efficiency and effectiveness measures in accordance with Public Governance, Performance and Accountability Act 2013 requirements.

3.37 However, the Department of Finance advised the ANAO that:

Finance has engaged with Defence on a one-on-one basis to discuss Defence's corporate plans, annual reports and performance information. These discussions have not been directed towards how to measure efficiency as there is no requirement under the PGPA Act or Rule that entities report on efficiency in the Commonwealth performance framework (corporate plans and performance statements), or to report financial details of efficiencies. We are also not aware of any reports that have been prepared, or conclusions drawn, for government on the topic of efficiencies derived from the implementation of the [First Principles Review].

3.38 A review of Defence's Annual Report 2016–17 shows that it has no efficiency measures in its analysis of performance against its three purposes and no data that would allow a comparison of efficiency year-to-year.<sup>82</sup> Defence stated to the ANAO in March 2018 that:

There is no requirement for Defence to report on efficiency measures through the annual performance statements within the Defence Annual Report. The Defence Annual Report 2016–17 does include trend over time workforce data (p. 88) and performance narratives on the effectiveness of the implementation of the First Principles Review recommendations throughout the report.

3.39 As the Public Governance, Performance and Accountability Act, Rule and guidance is principles-based, it does not contain explicit requirements to produce efficiency measures. However, the PGPA Act does require an accountable authority to govern their entity in a way that promotes the proper use and management of public resources—which is defined by the Act to

80 First Principles Review, p. 64.

81 The 'teeth-to-tail' ratio is 'the ratio of combat force to other personnel' (First Principles Review, p. 64). The one-third split is how Defence funds are divided among capital, operating expenses and employee costs. According to the Review, these have been relatively constant (p. 65).

82 Defence, Annual Report 2016–17, pp. 22–46. Defence's purposes under the *Public Governance, Performance and Accountability Act 2013* and related Rule change from year to year, hindering any comparative analysis of performance.

mean efficient, effective, economical and ethical—and to measure and assess the performance of the entity in achieving its purposes.<sup>83</sup>

3.40 In 2017, the Oversight Board's Health Check recommended that 'Defence develop and implement an approach to risk management that is focused on operationalising risk-based planning, where decision-makers are held accountable for budgeted performance against their business plans'. In effect, this recommendation reinforced Recommendation 5.2. The Oversight Board's recommendation remains open and is incorporated in Defence's *One Defence* plan (the next stage of reform). As at January 2018, Defence has not provided evidence of progress on recommendation 5.2 or the Oversight Board's further recommendation.

### **Australian Defence Force Headquarters staffing (Recommendation 5.5)**

3.41 The Review found that staffing levels in ADF Headquarters had grown substantially but the Review could not obtain enough information to make specific recommendations on changes. It recommended, therefore, that Defence examine the headquarters functions for ways to achieve more effective and efficient arrangements (5.5). The expected outcome was a new command and control model built around a more integrated headquarters for the ADF.

3.42 Defence conducted a review and developed a plan to integrate the existing single Service headquarters and VCDF staff into a single ADF Headquarters. Defence closed the Review recommendation in January 2017, though the plan for implementing the changes runs until at least December 2019.<sup>84</sup> Defence has stated in an internal paper that 'This activity is considered complete as the recommendation has been closed. Ongoing implementation of Headquarters review outcomes will be managed as a business as usual activity outside of the First Principles Review'.

3.43 If read narrowly, the Review recommended only that Defence examine the headquarters functions. Once this had been done, the required action was complete and the recommendation could be closed. Nevertheless, the task is unfinished. The Review made this recommendation in its chapter on efficiency with a clear purpose: 'an opportunity for Defence to find productivity savings'.<sup>85</sup> The recommendation reflected a specific concern about growth in staffing levels in headquarters since 1998. Harvesting any savings—whether for redeployment or return to the Budget—is an intrinsic part of the envisaged scope of work. The risk is that by labelling the task 'business-as-usual' the special management attention attracted by Review-related activity will diminish and the momentum will dissipate before the savings are harvested.

3.44 As mentioned earlier (paragraph 2.39), the review of headquarters, completed in December 2015, identified some 6414 positions in scope within which an oversupply of resources amounting to an estimated 1968 positions existed.<sup>86</sup> As of December 2017, Defence had not yet determined what savings or redeployment it could make in this area.

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83 *Public Governance, Performance and Accountability Act 2013*, sections 15, 8 and 38. See also ANAO Audit Report No.33 2017–18, *The Implementation of the Annual Performance Statements Requirements 2016–17*.

84 Defence advice to the ANAO, 18 December 2017. However, the entry for this task in the *One Defence* Project Plan (September 2017) has a finish date of June 2018.

85 First Principles Review, pp. 68–9.

86 The specific initial estimate of the resources oversupply was 1931 positions. This was to be refined upon further investigation. Where these are ADF positions they would become available for redeployment.



## Has Defence taken steps to engage more effectively with government?

Defence has taken steps to engage more effectively with government. It has arranged meetings between the Minister for Defence and the Defence Committee to consider strategy, funding and capability. Central agencies now participate in Defence's new Integrated Investment Committee. The Government's agreement to a new, risk-based approach to considering capability acquisition proposals has addressed the Review's concern about approval thresholds.

3.45 The Review took the view that its *One Defence* model should be based on strong alignment between strategy, funding and capability. This required transparency in resource trade-offs during strategy and planning and high-quality engagement with government:

This will enable the Minister and the National Security Committee of Cabinet to understand the alignment between strategy, funding and capability and the cumulative impact of decisions on this alignment ... Open and continuous dialogue with the Minister for Defence is important particularly in relation to major capital and operating funding decisions.<sup>87</sup>

### Defence Committee meetings with the Minister for Defence to consider strategy (Recommendation 1.18)

3.46 As part of its *One Defence* model, the Review recommended that the Minister meet with the Defence Committee twice a year to consider strategy, funding and capability (1.18). When Defence began discussions with the Minister's office about arranging the inaugural bi-annual meeting for this purpose, the Chair of the Oversight Board mentioned in one of his regular letters to the Minister on implementation progress (April 2016) that the Board acknowledged the importance of the opportunity and the critical message it conveys.

3.47 In July 2016, Defence wrote to the Minister for Defence proposing an initial meeting to discuss the focus and schedule for bi-annual meetings. The first such meeting was held on 30 January 2017. The Implementation Committee closed this recommendation in February 2017, after the inaugural meeting had been held. Defence has advised that a second meeting was scheduled for 7 June 2017 but deferred by the Minister's office and held on 30 January 2018; that a third meeting was held on 26 February 2018; and that a further meeting is planned for June or July 2018.

### Regular capital program reviews with central agencies (Recommendation 1.19)

3.48 In addition, the Review recommended that Defence conduct regular reviews of its capital program in conjunction with the Minister and central agencies (1.19). The Review had noted that central agencies lacked a common understanding of the major operating cost drivers of Defence and also lacked confidence in Defence's capacity to exercise internal contestability.<sup>88</sup>

3.49 Central agencies now have a place on the Defence Investment Committee which also places their involvement at a point in the Capability Life Cycle when they can best influence the key

87 First Principles Review, p. 29.

88 First Principles Review, p. 30.

decisions. Within Defence, there was a widespread view among those involved in the Capability Life Cycle that this had ‘paid great dividends’, was building trust and resulting in better outcomes.<sup>89</sup>

3.50 The Department of Finance has advised the ANAO that its participation in the Investment Committee has been particularly valuable in improving transparency:

Finance receives the opportunity to convey its views on specific project items both in terms of financial management and efficiency, and any broader budget approval requirements. Meetings are open and collegial, and Finance is not constrained in any way from holding its own view. Rather, Finance is provided an opportunity to signal any concerns early.<sup>90</sup>

3.51 In its closure paper for this recommendation (January 2017), Defence noted that:

The Minister for Defence now receives two Integrated Investment Program updates each year as part of the biannual meetings discussed above. The aim of the Integrated Investment Program updates is two-fold: firstly, to update the Minister on Defence’s progress delivering the Integrated Investment Program; and secondly, to request or discuss changes to the Integrated Investment Program considered necessary in order to align with Government strategic direction or in response to changing operational environments.<sup>91</sup>

### **Project approval by government: approval thresholds (Recommendation 2.10)**

3.52 The Review found that half of the Defence projects considered by government were worth less than six per cent of total program costs.<sup>92</sup> Capital cost above a certain threshold provided the trigger for requiring government approval. Therefore, the Review recommended (2.10) increasing the thresholds as this would result in a reduction in the number of Cabinet submissions and lessen the number of small projects occupying the Cabinet agenda. Senior attention should then be focused on critical projects.<sup>93</sup>

3.53 When the Government agreed to this recommendation it made that agreement conditional upon another recommendation being completed—the recommendation for revising the Defence investment approval process for all large or complex capability projects (2.8). This latter recommendation (2.8) is included in the substantial task of developing a new Capability Life Cycle, which was completed and began operation from April 2016.<sup>94</sup> The new investment approval process is essentially risk-based, rather than capital cost threshold-based. The Government agreed to the revised process in July 2017. Defence was then able to close recommendation 2.10 in August 2017.

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89 Defence, ‘Capability Life Cycle: Stakeholder Perspectives One Year In’, July 2017, p. 3.

90 Department of Finance advice to the ANAO, 14 September 2017.

91 Defence advised the ANAO (March 2018) that ‘the bi-annual updates on the Integrated Investment Program generally form part of the Portfolio Budget Statements and as a submission in its own right in line with the MYEFO timeframes. As such the Integrated Investment Program updates are a separate activity from the bi-annual Defence Committee meeting referenced [in the closure paper]’.

92 First Principles Review, p. 40.

93 First Principles Review, pp. 39–40.

94 This is discussed further in the section on capability development (paragraphs 4.5–4.15).

## Has Defence assessed and improved the Defence Science and Technology Group's contribution?

The Defence Science and Technology Group undertook analysis to set out the value it brings to Defence. The Group's senior management has been trimmed and it remains a separate Group within Defence. The benefits from possible outsourcing of elements of Defence Science and Technology Group's work have not yet been assessed.

### The value DSTG adds to Defence outcomes (Recommendation 2.16)

3.54 The Review found it difficult to understand the value added by the Defence Science and Technology Organisation (DSTO, now Defence Science and Technology Group, DSTG), finding that it 'struggled to articulate clearly to the review team the value that it contributes to Defence outcomes'. The Review recommended that DSTO clearly articulate its value proposition (2.16).

3.55 The Chief Defence Scientist proposed terms of reference for a study to take place of the value added by DSTG. Based on the analysis of ten case studies over the period 2003 to 2015, the work 'conservatively assessed the tangible economic benefits of DST Group's research ... as being approximately \$5.1 billion' from those ten case studies.<sup>95</sup> The Group's budget was \$432 million in 2015–16. The study concluded that an extension of its approach across the Group would show economic benefits of \$20 billion to \$25 billion. The study puts the view that even this is likely to significantly underestimate the economic value of DSTG. This work satisfied Defence's expectations and the Implementation Committee closed the recommendation.

### Top-heavy DSTG senior management (Recommendations 2.18 and 2.20)

3.56 The Review found that DSTG senior management was top-heavy and recommended it be rationalised (2.18). It also recommended the disbanding of the DSTO Advisory Board (2.20). Defence disbanded the Board straight away (by 30 June 2015) and abolished two DSTG Senior Executive Service Band 3 positions by December 2015.

### Whether DSTG should be part of CASG (Recommendation 2.17)

3.57 Perceiving DSTG to contribute mainly to Defence capability, the Review recommended that it become part of Capability Acquisition and Sustainment Group (2.17). The Government did not agree to this recommendation but wanted further advice when it received its annual updates and after full implementation of two other recommendations (2.16, relating to DSTG's value proposition, and 2.18, relating to DSTG's senior management structure).

3.58 Defence provided the advice, recommending in 2017 that the Government maintain its earlier position—that DSTG remain separate. The Government agreed and DSTG has remained a separate Group within Defence.

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95 Report to Defence Science and Technology Group, 'Establishing the Broad Economic Value of the Defence Science and Technology Program', 31 August 2015, p. 3.

## External assistance for DSTG work (Recommendations 2.19 and 2.21)

3.59 The Review saw opportunities in forming partnerships with industry, though it did not think wholesale outsourcing was wise and might be detrimental (2.19).<sup>96</sup> This recommendation was closed on the basis of the development of a 'partnering framework', rather than an assessment of outcomes. It could be of value to revisit this issue after an adequate time for implementing the outsourcing strategy, to assess its success.

3.60 Defence was also to review its research priorities in partnership with academia and industry (2.21). This was intended to help ensure that DSTG's 'blue sky' research focused on matters of special relevance to Australia. Again, this recommendation was closed on the basis of a new DSTG framework for reviewing research priorities being developed, rather than a full assessment of outcomes. The paper showed substantial progress had been made in aligning research priorities with future force requirements under the guidance of the 2016 Defence White Paper.

## Has Defence consolidated its geospatial functions and improved their functioning?

Defence has consolidated its geospatial functions. However, further action will be required to assess progress and ensure the restoration of the capability, as recommended by the Review.

3.61 The last Review recommendation that has been managed under the Strategic Centre work stream relates to Defence's geospatial intelligence capability. This capability is important as an estimated 60–70 per cent of Defence's major capital projects require geospatial data or services to reach their Final Operational Capability.

## Progressing the Geospatial Enterprise Review (Recommendation 3.10)

3.62 Drawing upon earlier work (the Defence Geospatial Enterprise Review, September 2014, an internal Defence report), the Review found that remediation of this key enabler was urgent and recommended reform be progressed with more resources (3.10). The Geospatial Enterprise Review had found that:

at its simplest, Defence does not have a functioning geospatial enterprise. It has a series of roles and organisations that collect, analyse, produce, maintain and distribute geospatial information ... but they do this with little reference to each other or a coherent plan for collective action.

3.63 The 2014 Review had also concluded that Defence's foundation geospatial information expertise was in decline, under-resourced, with poorly coordinated investment, limited leadership, obscure accountability, low management prioritisation and disaggregated thinking about strategy and direction. Further, Defence itself provided testimony direct to the First Principles Review that the geospatial function was being delivered in a dysfunctional way.

3.64 In March 2017, Defence closed Recommendation 3.10 on the basis that it had consolidated geospatial information functions into the Australian Geospatial-Intelligence Organisation, and developed an integrated geospatial capability development and delivery architecture. The legislation to support the consolidation of the Australian Hydrographic Office

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<sup>96</sup> First Principles Review, p. 42.

into the Australian Geospatial-Intelligence Organisation was passed later in the year, in October 2017.

3.65 Disparate organisational units with a geospatial function have been integrated and the design work for an improved geospatial capability has been done. Defence has also advised the ANAO of significant recruitment activities and effort. Whereas the earlier two internal surveys of geospatial information users had returned moderate results (50–60 per cent) for overall user satisfaction with geospatial services, there was an improvement in the November 2017 overall satisfaction level, with about 80 per cent of respondents rating the quality of geospatial services as 'good' or 'very good'. The closure paper for the Review recommendation itself noted that the work would take 'a couple of years to fully bed down'.

3.66 The challenge for Defence with a program of work such as this is to ensure that the momentum gained by the program in the context of the Review does not dissipate before the full intent of the review work is carried out and senior management remains aware of progress until the intended outcome is achieved.

## 4. Establishing an end-to-end capability development function

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### Areas examined

This chapter examines the key recommendation that Defence establish a single end-to-end capability development function within the Department to maximise the efficient, effective and professional delivery of military capability.

### Conclusion

Defence has established a single end-to-end capability function by implementing major organisational changes, such as the delisting of the Defence Materiel Organisation, creating the Capability Acquisition and Sustainment Group, and developing a new Capability Life Cycle.

Reform of the Systems Program Offices is expected to run until 2023. Completion of this significant project will be required to realise many of the expected improvements in the efficient, effective and professional delivery of military capability.

### Areas for improvement

That continued management attention be given to the reform of Systems Program Offices, given that the reform program extends well beyond the expected two-year implementation schedule.

4.1 Capability development is a core business for Defence and is critical in enabling Defence to perform its primary role of defending Australia and contributing to the protection of its national interests. The Review found that the problems of capability development within Defence had been extensively reviewed. There had been persistent commentary about its inadequacies:

- an organisational design where responsibility for capability delivery and accountability for capability outcomes shifts to different entities as projects proceed through the life cycle; and
- an inefficient, slow, and uncommercial approach to capability delivery, that too often leads to poor decisions and poor capability outcomes.

4.2 The Review's key recommendation (2.0) was that Defence:

Establish a single end-to-end capability development function within the department to maximise the efficient, effective and professional delivery of military capability.

4.3 Capability development is defined by Defence as the first of two stages in the new Capability Life Cycle developed by Defence while implementing the Review:

- *capability development*, where Defence provides comprehensive, considered and timely advice that enables Government and departmental decision-makers to make informed decisions about the acquisition and sustainment of Defence capabilities; and
- *capability delivery*, where Defence delivers value for money through efficiently and effectively procuring, sustaining and disposing of Defence capabilities.

4.4 The Capability Life Cycle is seen by Defence as a central part of the *One Defence* model emanating from the Review. It encompasses all major expenditure decisions taken by Defence, including major equipment, information and communications technology, facilities, workforce and

other service delivery functions. Many of the recommendations of the Review, particularly those listed under the key recommendation on capability development, are reflected in or given effect by the new Capability Life Cycle.

## Have the recommended organisational changes relating to capability development been introduced?

Defence has implemented the recommended top-level structural changes to support an end-to-end capability function, including the creation of a new Capability Acquisition and Sustainment Group and the disbanding of the Capability Development Group. It subsequently closed the recommendation that Capability Managers specify Fundamental Inputs to Capability, though later evidence suggests that this has not been adequately achieved. Defence has advised the ANAO that it has put a new process in place to address this risk. A new management structure has also been adopted in Capability Acquisition and Sustainment Group to address the Review finding that Defence's acquisition organisation had become top-heavy, complex and unnecessarily deep.

4.5 The Review recommended some major organisational changes to create an end-to-end capability development function. Some of these were relatively straightforward but others have involved detailed consideration of an appropriate structure and function.

### **Delisting the Defence Materiel Organisation and disbanding the Capability Development Group (Recommendations 2.1, 2.2 and 2.6)**

4.6 Delisting the Defence Materiel Organisation as a separate agency and transferring its core responsibilities in relation to capability delivery to a new Capability Acquisition and Sustainment Group (2.2) within the Department of Defence took place immediately, on 1 July 2015.

4.7 The Review also recommended disbanding the Department's Capability Development Group (2.1), which was completed by April 2016. This required the transfer of accountability from the Chief, Capability Development Group, to Capability Managers and the transfer of other functions to other parts of Defence. These functions included accountability for requirements setting and management, which were transferred to the Vice Chief of the Defence Force and the Service Chiefs (2.6). Given the Group's role in capability development, its disbanding could only follow the development and commencement of the new Capability Life Cycle.

### **Capability Managers specifying Fundamental Inputs to Capability (Recommendation 2.5)**

4.8 A consequence of disbanding the Capability Development Group was a need for others to take responsibility for specifying Fundamental Inputs to Capability for any new capability development project.<sup>97</sup> The Review recommended that this task be assigned to Capability Managers (2.5).

<sup>97</sup> The First Principles Review (p. 34) defines 'Fundamental Inputs to Capability' (FIC) as follows: 'the elements required to generate capability comprise personnel, organisation, collective training, major systems, supplies, facilities and training areas, support, and command and management'.

4.9 The case study below—relating to the period before Defence introduced changes to the capability life cycle under the First Principles Review—illustrates the importance of effectively assessing and integrating the Fundamental Inputs to Capability.

**Case study 1. How undue focus on a capital asset can detract from consideration of the Fundamental Inputs to Capability (FIC)**

Excerpt from a Defence internal report: 'Capability Life Cycle: Stakeholder Perspectives One Year In', July 2017, p. 11:

The consideration of capabilities through a project/product 'lens' has resulted in some serious FIC-related deficiencies, realised late in the development of new capability systems. Quite often, the capital asset (major system) is the easiest FIC element to generate, and the other FIC elements often are more challenging to coordinate and need a broader scale of investment and development. For example, for the *New Air Combat Capability* program over the period up to Government approval in 2014, much of the debate and the majority of risk was seen to be inherent in the actual F-35 aircraft. In reality, Australia's contribution to the technical development of the aircraft was fixed price, and Australia had almost no influence over the technical solution. The US funded all of the developmental cost increases on the program, and took full responsibility for achieving a successful aircraft. The key challenge for Australia in the F-35 program was actually around FIC integration, which rarely was debated or considered at senior levels, particularly within Government.

4.10 Defence closed this recommendation in September 2016 on the basis that the Implementation Office had recently reviewed eight projects submitted to the Investment Committee between April and August 2016 and found that all eight were correctly managing Fundamental Inputs to Capability. Nevertheless, the later review of the new Capability Life Cycle (July 2017) observed that 'the need for Capability Managers and their staff to adequately consider Fundamental Inputs to Capability aspects early in the Capability Life Cycle was identified as a performance gap'. To close this gap, Defence advised that, since December 2017:

All projects in the Integrated Investment Program go through the Smart Buyer Decision making Framework prior to consideration by the Investment Committee at Gate 0. Under this Framework, the Joint Capability Needs Statement, which contains the Capability Manager's fundamental inputs to capability requirements, are risk assessed. This, in turn, shapes the Project Execution Strategy. The Joint Capability Needs Statement and the Project Execution Strategy are then presented to the Investment Committee at Gate 0 for validation and ratification.<sup>98</sup>

4.11 The ANAO has not audited the new process.

### **New organisation structure for CASG (Recommendation 2.3)**

4.12 A further organisational change flowed from the Review finding that the Defence Materiel Organisation had become top-heavy, complex and unnecessarily deep.<sup>99</sup> The Review recommended (2.3) that Defence develop a new organisational design and structure as part of the implementation process for the new Capability Acquisition and Sustainment Group (CASG) with

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<sup>98</sup> Defence advice to the ANAO, 18 December 2017.

<sup>99</sup> First Principles Review, p. 35.



reduced management layers. The new Group would also have responsibility for developing and delivering an integrated project plan (2.5).

4.13 The Implementation Committee closed Recommendation 2.3—to develop a new organisational design and structure—in February 2017. A new management structure had been adopted for the Group. Significantly, this involved a reduction of four SES Band 3 positions<sup>100</sup>, and a reduction of two SES Band 2 positions.

4.14 A range of further activities were listed in the closure paper as ‘further embedding or supporting the changes made’. These were: the CASG Business Framework; the Defence Workforce Plan 2016–26; Systems Program Office Reform;<sup>101</sup> and changes to the CASG Business Management Domain EL2 (middle management) Structure. Of these, changes to the structure of Systems Program Offices are addressed under a separate recommendation (2.4, discussed below) and the workforce plan under a separate work stream.<sup>102</sup> The design and implementation of the new CASG Business Framework had earlier been considered a central element in addressing Recommendation 2.3. Later, it was considered to be part of recommendation 2.11.

4.15 Now that the primary recommendation (2.3) has been closed, it is not clear whether there is a mechanism or auspices under which the CASG middle management changes are being followed up or monitored. Defence found in 2016 that the workforce needed to be restructured and, as a result, the number of EL2 positions in the Group Business Manager Domain would be reduced from 118 to 78 (40 fewer positions, a 34 per cent reduction). The number of EL2 positions had declined to 94 (20 per cent reduction) as of December 2017.<sup>103</sup> Defence advised the ANAO that the Domain continues to undergo review and change activity in accordance with the Enterprise Agreement.

## Has Defence reviewed the Systems Program Offices?

The review and reform of Systems Program Offices, one of the most substantial changes to flow from the Review, is continuing, and the process is expected to continue until 2023.

4.16 As at 1 December 2017, Defence had 62 Systems Program Offices,<sup>104</sup> which manage the acquisition, sustainment and disposal of specialist military equipment.<sup>105</sup> They do this through a combination of internal work and commercial contracts. Systems Program Offices are located in different parts of the country but are organisationally part of the Capability Acquisition and Sustainment Group within Defence. They may be involved in acquiring new Defence capability, sustaining existing capability, disposing of capability which has been withdrawn from service, or all of these.

100 This removed a layer from management as it had existed in the former Defence Materiel Organisation.

101 The work of Systems Program Offices is discussed in paragraph 4.16 below.

102 See Chapter 5.

103 Defence advice to the ANAO, 18 December 2017.

104 Defence advice to the ANAO, 18 December 2017.

105 More information on Systems Program Offices is set out in ANAO Report No.2 2017–18, *Defence’s Management of Materiel Sustainment*, Chapter 2.

## Examining each Systems Program Office (Recommendation 2.4)

4.17 The Review recommended that Defence ‘examine each Systems Program Office to determine where each fits within the smart buyer function, the most appropriate procurement model and achieving value for money’ (2.4). Systems Program Offices are where several thousand Defence staff in Capability Acquisition and Sustainment Group are employed (both APS and ADF, supported in some cases by on-site contract staff). Their work, with much input from industry, under contract, delivers Defence capability to the Capability Manager. This is one of the Review’s most significant recommendations for improving capability delivery, and its implementation involves a substantial body of work.<sup>106</sup>

4.18 Early in implementing this recommendation, Defence found that the term ‘Systems Program Office’ was not used consistently and it had some units (such as ‘Project Offices’) which could usefully be included among Systems Program Offices. It undertook a program of consolidation which reduced the number of such offices from 78 in September 2016 to 62 in December 2017. This includes the creation of one new Systems Program Office.<sup>107</sup>

4.19 Defence has also set about a program of review of Systems Program Offices. Much of the review work has been undertaken by consultants. The reviews are seeking to devise rationalised structures and staffing levels, with more sophisticated contracting models.

4.20 The Chair of the Oversight Board wrote to the Minister on progress in March 2017, noting that the Deputy Secretary, Capability Acquisition and Sustainment Group had told the Board that:

System Program Office reforms were ongoing and results could not be generalised across all offices, with some being over-staffed, some under-staffed while many were under-skilled. The Group was increasingly relying on outsourcing certain skill requirements to contractors, allowing military and civilian members to focus primarily on managing contracts.

### *Timetable*

4.21 The Oversight Board’s Health Check (May 2017) indicated that implementing reforms to the Systems Program Offices was likely to extend as far as July 2019. This led to the Board’s recommendation that the oversight of these reforms continue for no less than 12 months.

4.22 By November 2017, Defence documents indicated that 60 Systems Program Offices had been reviewed and reports on those reviews completed.<sup>108</sup> The Implementation Committee considered Recommendation 2.4 in late November 2017, but sought more information on the Systems Program Offices to be reformed and the effect of reform on Commonwealth staff, including the regional impact.

4.23 Sixteen Systems Program Offices had completed reform or were found to be aligned with Review requirements by December 2017. By 2020, Defence expects all agreed recommendations from the first-stage reviews of Systems Program Offices to be complete, and a regular review

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106 This element of reform flowing from the Review was canvassed in ANAO Report No. 2 2017–18, *Defence’s Management of Materiel Sustainment*, pp. 58–77.

107 The new Systems Program Office is for project AIR6500 (Integrated Air and Missile Defence Capability).

108 Of the remaining five Systems Program Offices, four were reported as being at a stage that would make any recommendations obsolete before they could be implemented; one had just been created.

cycle to be embedded into business operations.<sup>109</sup> Defence plans the reform of Systems Program Offices to continue until 2023, including a transition period into 'continuous improvement'. Defence has advised that the duration of the program reflects existing supplier contracted time scales, maturing of the change in operating models, and reskilling, realignment and reallocation changes in the Capability Acquisition and Sustainment workforce.

### *Expected outcomes*

4.24 According to Defence's consolidated 'SPO Reform Plan' (November 2017) success will be measured through metrics such as efficiency, effectiveness and benefits realisation. The plan contains no estimate of the financial costs or benefits of the Systems Program Office reforms. Nonetheless, in December 2017, the Implementation Committee received estimates of changes in workforce numbers, by Systems Program Office.<sup>110</sup> The Committee was also advised that Defence would need to reskill up to one-third of the current Capability Acquisition and Sustainment Group workforce during implementation of the current reforms.<sup>111</sup> Moreover, the net size of the Systems Program Office workforce was expected to increase to meet the workload coming through from the current Defence Integrated Investment Program.

4.25 Recommendation 2.4 remains open. Defence expects to close it by mid-2018.

## **Has a new end-to-end Capability Life Cycle been developed?**

Defence has established both a new Capability Life Cycle (based on a joint, integrated perspective) and a revised, risk-based investment process. A stakeholder survey after a year of operation of the new Capability Life Cycle was positive but indicates: an ongoing need for cultural and behavioural change at middle management levels and below; and that sustainment still tends to be overlooked in comparison with acquisition.

Defence introduced its new Integrated Investment Program in early 2016, to replace the Defence Capability Plan. Although Defence began work on a total cost of ownership model for major new capabilities in 2016, it is not yet clear whether this model is in active use.

4.26 As discussed, the development of a new Capability Life Cycle addresses and integrates many issues raised by the Review. The Implementation Committee approved the new Capability Life Cycle detailed design at its 10 March 2016 meeting and transition to its use began on 1 April 2016. The new Capability Life Cycle is described in detail in an Interim Capability Life Cycle Manual (first issued 20 April 2016) and a document entitled 'Capability Life Cycle Detailed Design' (March 2016).

4.27 Defence's intention with the new Capability Life Cycle is to focus on 'a joint and integrated approach to the development of future Defence capability and ensuring that capability options

109 Defence, Capability Acquisition and Sustainment Group Implementation Plan, SPO Reform, November 2017, Version 9.1.

110 Of the 62 Systems Program Offices, 14 were expected to receive a net increase in their workforce through reform; 20 were expected to receive a net decrease; in nine cases the change in workforce numbers was yet to be resolved and the remainder were either expected to remain constant in net terms, or were new offices.

111 Defence has advised the ANAO that it has not costed this reskilling as it will vary depending on the individual Systems Program Office and on the level of change required between existing and required skills.

are aligned with strategic and resource guidance'.<sup>112</sup> It is also intended to embrace integrated planning across all Fundamental Inputs to Capability and comprise a flexible risk-based process. Arms-length contestability (see paragraph 3.20) is intended to be an integrated part of decision-making in the life cycle. The new process is expected to generate project documentation that is both reduced in size and improved in clarity.

### **Stakeholder views of the new Capability Life Cycle**

4.28 The changes to process introduced by the new Capability Life Cycle mainly affect capability projects early in their life. Major Defence projects take some years from initiation to realising Final Operational Capability, which means it will be some time before it will be possible to assess fairly the full consequences of these changes and related changes to procurement processes.

4.29 Nevertheless, Defence has conducted a survey of staff involved ('stakeholders') in the Capability Life Cycle after a year of operation, whose results give a range of insights into progress.<sup>113</sup> Overall, this assessment was positive, with supportive comments 'far outweighing any significant criticisms'. The stakeholder group found that the new Capability Life Cycle had enabled a more effective approach to managing business, reduced unnecessary documentation, increased project throughput, and had improved the link between strategy and capability.

4.30 On the other hand, areas needing attention included:

- the required changes to culture and behaviour were not fully developed, particularly below EL2 level;
- the trend to simple, less onerous project documentation was stalling;
- a proliferation of internal reviews was slowing the process;
- the new process was perceived as 'very acquisition focused' and seemed to overlook the transition to sustainment<sup>114</sup>; and
- there was a high re-work rate for documents prepared for the Investment Committee.

### **Revising the Defence investment approval process (Recommendations 2.8 and 2.9)**

4.31 The Review recommended that Defence revise its investment approval process for all large or complex capability projects. The previous process was regarded as over-reliant on process and documentation, excessively 'transactional', and with insufficient regard to risk. This resulted in government receiving requests to approve many individual projects with little strategic insight into how those projects fit into overall Defence capability. This is attributable to the traditional focus on a specific asset, as highlighted by the Defence internal review of stakeholder perspectives (see paragraph 4.29):

The Defence focus historically has been on the capital asset, as it is a tangible and visible product, rather than the abstract concept which determined the need for that asset. It is to be expected that professional military officers—whose perspective will have been shaped by the

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112 Defence, *Capability Life Cycle Detailed Design*, p. 2.

113 Defence, 'Capability Life Cycle: Stakeholder Perspectives One Year In' (July 2017). This work was based on 60 interviews from EL1/2 (middle managers) to Band 2/3 and star-rank equivalents (senior leaders).

114 A propensity for Defence to focus on acquisition and less on sustainment was noted in ANAO Report No.2 2017–18, *Defence's Management of Materiel Sustainment*, p. 26.

training and experience associated with their military corps or specialisation—will naturally view their approach to capability solutions through that prism.<sup>115</sup>

4.32 The 2016 Defence White Paper divided Defence capability into six streams, which themselves were subdivided into 40 programs, which in turn encompassed some 1500 individual projects at different stages in their life cycle. Defence proposed to reduce the number of individual approaches to government by adopting this structure to seek approval for a program or groups of projects with shared dependencies or relationships. This approach was intended to reduce the number of submissions but improve government's visibility of strategic capability. The Government agreed to this proposed approach in July 2017.

4.33 Defence intends now to work with central agencies to develop an annual forward work plan of proposed investment approvals to be considered by government annually. This is intended to develop an initial baseline of approvals, subject to change as new insights into risk develop. In each forward work plan, project pathways (essentially, the number and type of approvals it will require) are intended to be risk-based.

4.34 A key element in the new process attracted its own recommendation—introducing a new formal gate into the process at entry point—Gate Zero: Investment Portfolio Entry (2.9). In effect, this formalises what used to be termed 'entry into the Defence Capability Plan' stage of the Capability Life Cycle. This gate is implemented through the new requirement that capability investment proposals be considered by the new Investment Committee (see paragraph 3.9). The Implementation Committee closed this recommendation in September 2016. The ANAO's review of selected records of the Investment Committee indicated that investment proposals were put before the Committee for its consideration.

### **Operational framework (Recommendation 2.11)**

4.35 The Review recommended (2.11):

that there be significant investment in the development of:

- an operational framework which briefly but comprehensively explains how the organisation operates and the roles and responsibilities within it;
- a detailed set of life cycle management processes which provide the project and engineering discipline with which to manage complex materiel procurement from initiation to disposal; and
- a review architecture which reinforces accountability at all levels and brings together information at each level upon which good management decisions can be made.

4.36 The Implementation Committee closed this recommendation in April 2017. This decision was based upon a range of precedent activities including some which were themselves the subject of Review recommendations, such as the streamlined Defence investment approval process (2.8).

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115 The attempt by the 2003 Defence Procurement Review ('Kinnaid Review') to raise the focus of Defence capability planning above the project level and to focus first on an identified capability gap could be seen as having a parallel intention. (See the *Report of the Defence Procurement Review*, 'Kinnaid Review', August 2003, p. 15.) The July 2017 review of stakeholder perspectives, however, noted that the desired program focus is still a 'work in progress' and highlighted a comment from a stakeholder that 'Planning is still mainly done at the product/project level. Programs still tend to be an aggregation of projects'.

It also required the completion of the design of the new Capability Life Cycle, transition to a risk-based decision-making framework to help project execution strategies to be developed (approved on 13 October 2016) and implementing a business framework for Capability Acquisition and Sustainment Group (approved in August 2016). Two additional activities in Capability Acquisition and Sustainment Group which have commenced but will continue for some time are the establishment of Centres of Expertise (commenced April 2017) and the review of Systems Program Offices (paragraphs 4.17–4.25). The VCDF and Deputy Secretary, Capability Acquisition and Sustainment Group, were also expected to establish mechanisms for continuous improvement across the Capability Life Cycle. There is evidence that this has been completed.

### **CASG operational output (Recommendation 2.12)**

4.37 The Review recommended that the Deputy Secretary, Capability Acquisition and Sustainment must sign off and assure the Secretary of the operational output of each of his/her divisions every quarter and on major contracts on a monthly basis. The Implementation Committee agreed in April 2016 that this recommendation had been met by the production of the Capability Acquisition and Sustainment Group's Quarterly Performance Report.

4.38 The Quarterly Performance Report was considered in a recent ANAO performance audit which recommended that Defence institute a risk-based quality assurance process to ensure the accuracy, completeness and relevance of the information included in the report.<sup>116</sup> Defence agreed to the recommendation, provided evidence that it had completed implementation, and closed that recommendation.<sup>117</sup>

### **Replacing 'Net Personnel and Operating Costs' (NPOC) with a total cost of ownership model (Recommendation 2.13)**

4.39 The Review recommended (2.13) that the use of net personnel and operating costs cease immediately. The problem with this concept, as explained by the Review, is as follows:

Net Personnel and Operating Cost is Defence's current estimate of the personnel, operating and sustainment cost of a proposed capability. It is an estimate of the differential cost above that of the current capability and is included in submissions to Government for approval. This approach is problematic as it does not inform Government of the total cost of the project across the life of the capability. Net Personnel and Operating Cost is also hard to estimate and often inaccurate.<sup>118</sup>

4.40 The Oversight Board reviewed progress with all capability-related recommendations in September 2016 and concluded that the use of net personnel and operating costs had ceased, with all projects being considered by the Investment Committee from 14 April 2016 using estimated total costs and total personnel numbers. Subsequently, the Board noted in its May 2017 Health Check that Defence was developing a more comprehensive framework to capture the full cost of ownership throughout the life of an asset or system.<sup>119</sup> This was to be used for all Defence Integrated Investment Plan projects. Nevertheless, the Board took the view that:

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116 ANAO Report No.2 2017–18, *Defence's Management of Materiel Sustainment*, pp. 33–8.

117 Defence advice to the ANAO, 18 December 2017.

118 First Principles Review, p. 40. The complexity of NPOC was also discussed in ANAO Report No.6 2013–14, *Capability Development Reform*, pp. 321–22.

119 The Chief Finance Officer Group was working on the definition of a new Total Cost of Ownership model.

Noting that the model will take some time to fully implement and a further period before the Department achieves full competency in utilising the model as a tool, we recommend that oversight of these reforms continue for a period of not less than 12 months.

**4.41 Defence advised the ANAO that:**

Projects being submitted for Government approval now provide transparency of the total cost of ownership of the asset, rather than just the net additional costs. Defence has had the ability to track and report on each of these costs throughout the life of an asset. In order to improve future data capture and reporting on the total cost of ownership throughout the life of an asset or system, Defence has implemented a standardised Work Breakdown Structure (WBS) on its financial systems. The agreed WBS has been established for all new projects approved by Government since October 2016.<sup>120</sup>

**Defence Integrated Investment Plan (Recommendation 2.14)**

4.42 The Review recommended the development of a Defence Investment Plan which would include all capital and related investments (such as materiel, estate and facilities, workforce and information and communications technology) (2.14). This would replace and enlarge upon the former Defence Capability Plan. The Review concluded that the Defence Capability Plan was problematic as it was seen generally as a 'shopping list' of projects requested by the Services.

4.43 The Implementation Committee closed this recommendation in April 2016, following the release of the Integrated Investment Program in February 2016.<sup>121</sup>

**Project acquisition budget (Recommendation 2.15)**

4.44 The Review recommended that, on government approval, the entire project acquisition budget be allocated to the Capability Acquisition and Sustainment Group to ensure expenditure is in accordance with the project delivery plan. This is because, under the previous Defence structure and arrangements, the Department used to withhold a part of the funding allocation from the Defence Materiel Organisation (DMO) in anticipation of an underspend.<sup>122</sup> The Review saw this practice as inconsistent with 'holding people to account for delivery'.<sup>123</sup>

4.45 In March 2016, the Implementation Committee approved a new budget process developed by Defence's Chief Finance Officer. This allocates the entire project budget to the relevant Capability Manager, who then distributes the entire project acquisition budget to Capability Acquisition and Sustainment Group (or other delivery Groups as appropriate). The Implementation Committee agreed that this met the intent of recommendation 2.15 and the recommendation was closed.

120 Defence advice to the ANAO, 18 December 2017.

121 See: <http://www.defence.gov.au/whitepaper/docs/2016-defence-integrated-investment-program.pdf> (accessed 14 November 2017).

122 Until 1 July 2015, the DMO was a separate financial entity, with staff provided by the Department.

123 First Principles Review, p. 41.

## 5. Implementing the recommendations on enabling services, workforce and behaviour

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### Areas examined

This chapter considers whether Defence has implemented the Review recommendations on enabling services, workforce and behaviour changes.

### Conclusion

Defence has undertaken action to close all but one of the enabling services recommendations. The outstanding recommendation relates to estate enabling services. Defence's ability to improve enabling functions is limited by the lack of a coordinated, enterprise-wide plan to address the inefficiencies identified by the Review in the Service Delivery work stream. Defence has implemented the recommendations in the Workforce stream, but implementing the Strategic Workforce Plan, including Defence White Paper People initiatives, will take until 2021. Defence has implemented the recommendations relating to behaviours. Defence is not yet able to demonstrate that the intended outcomes of the recommendations relating to enabling services, workforce and behaviour have been achieved.

### Areas for improvement

Achievement of the intended Review outcomes on the workforce requires long-term commitment to and careful monitoring of the Defence Strategic Workforce Plan to ensure momentum is maintained.

5.1 This chapter covers recommendations relating to three Review work streams:

- Enabling services:
  - reducing Defence's estate footprint;
  - improving Defence's information management; and
  - increasing the effectiveness and efficiency of corporate and military enabling services.
- Workforce—ensuring Defence has the skills to deliver its mission and makes optimal use of its workforce; and
- Behaviours—improving performance management and corporate culture.



## Has Defence implemented the recommendations on the delivery of corporate and military enabling services? (Recommendation 3.0)

Defence has implemented the recommendations on estate and information management by developing plans and schedules that enable progress to be resourced, monitored and reported through appropriate channels within Defence.

Defence's implementation of the recommendations relating to service delivery has had an initial focus on improving the customer experience. Defence has implemented the organisational changes required to meet the recommendations, but has no comprehensive plan to address the inefficiencies identified in the Review and through Defence's benchmarking. This limits Defence's ability to maximise the effectiveness and efficiency of enabling services and meet recommendation 3.0.

5.2 The Review highlighted the importance of corporate and military enablers in the delivery of capability and indicated that consolidation and standardisation was required, especially in estate, information management, geospatial intelligence<sup>124</sup> and customer-centric service delivery. The key recommendation (3.0) for the enablers work stream is:

Fully implement an enterprise approach to the delivery of corporate and military enabling services to maximise their effectiveness and efficiency.<sup>125</sup>

5.3 The enablers work stream comprises 13 recommendations, broken down into three streams—Estate, Information Management and Service Delivery.

### Enablers—Estate (Recommendations 3.1, 3.2 and 3.3)

5.4 The Review indicated that Defence's estate portfolio did not meet current and future Australian Defence Force requirements and that insufficient funding to maintain the current portfolio was leading to further deterioration. Internal and external blockages had prevented disposal of property that was no longer required. Numerous reviews have identified the need to consolidate and re-align the estate but repeated efforts to do so have been unsuccessful.

5.5 The Review made three recommendations relevant to Defence's estate. The Government agreed in-principle to two of these—relating to disposal of estate holdings (3.1) and amending the *Public Works Act 1969* (3.3)—as progress with each would require further consideration.

5.6 In line with the Review's first recommendation on estate (3.1), Defence assessed the bulk of its estate holdings for functional alignment with force requirements and developed the *Defence Estate Strategy 2016–26*, and an implementation plan. The plan includes a schedule for disposal of surplus properties over the next five years.<sup>126</sup>

5.7 Disposal of Defence estate is generally subject to approval by the Government. To strengthen its capability to present options to government (3.2), Defence has sought expert

124 Recommendation 3.10, relating to geospatial functions was managed as part of the Strategic Centre work stream and is discussed in paragraphs 3.63 to 3.67 of this audit report.

125 First Principles Review, p. 44.

126 The 17 bases identified for initial disposal in the 2012 Future Defence Estate Report, and specified in Recommendation 3.1 for initial action, were reconsidered in light of the 2016 White Paper and the revised Defence Future Estate Profile.

external advice to assess the costs of relocation and remediation, identify sensitivities and estimate expected benefits from disposing of surplus properties. Independent preliminary assessments have been conducted for 32 properties. This information is now included in a more robust business case for presentation to government of each proposal for property disposal. Since commencing this strategy, Defence has identified six major properties for disposal, of which four have been approved by the Government and disposal has commenced. Disposal includes remediation assessment, funding approval and identification of disposal options.

5.8 The Review recommended changes to the *Public Works Act 1969* to increase the threshold for referring proposed works to the Parliament's Public Works Committee (3.3). These changes have been progressed by Defence to the extent of its authority<sup>127</sup>, but the recommendation remains open. New Budget Operating Rules, improved governance arrangements and integration of the estate life cycle into the Defence Integrated Investment Program have been implemented.

5.9 The ANAO saw evidence of considerable effort having been made to promote the importance of a strategically aligned estate and implement agreed reforms. Nevertheless, previous attempts to consolidate the estate have proven difficult and the current plan to bring the estate portfolio to a sustainable position that meets Defence's strategic objectives will take considerable further time and effort. Close monitoring by Defence's Estate and Infrastructure Group and the Enterprise Business Committee will be required to track progress against plans.

### **Enablers—Information Management (Recommendations 3.4, 3.5, 3.6, 3.7, 3.8, and 3.9)**

5.10 Inadequate interoperability between and within military platforms and significant shortcomings in corporate systems were identified by the Review along with a proliferation of system applications and fragmented accountability for information management.

5.11 The Information Management work stream comprised six recommendations aimed at clarifying accountability, standardising processes and applications and providing adequate resourcing to achieve reform. All six recommendations have been closed.

5.12 Three recommendations involved organisational changes and allocation of responsibility for information management. The first (3.4) was that the Associate Secretary be directed and resourced to implement enterprise information management that provides Defence with trusted information to inform decision-making and military interoperability, with the VCDF as the design authority for the next generation of Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance. It further recommended (3.5) that the information management agenda be governed at the SES Band 3/3 Star level by the Enterprise Business Committee to set overall direction and priorities, including the management of trade-offs and conflicts. In addition, it recommended (3.6) supporting the Chief Information Officer to meet these responsibilities by

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127 The Department of Finance is reviewing the Public Works Committee Legislative Framework.

formally recognising the Chief Technology Officer as the technical authority with appropriate 'red card' decision rights.<sup>128</sup>

5.13 A Joint Directive issued on 1 July 2016 sets out the responsibilities of the Chief Information Officer, the Chief Technology Officer and the VCDF in relation to the management of information in Defence. This satisfies the organisational and accountability requirements of the Review's recommendations 3.4, 3.5 and 3.6. Governance is provided by Defence's Enterprise Information Management Governance Group and the Architecture Management and Review Board.

5.14 A further three recommendations involved implementing enterprise-wide frameworks for architecture standards and master data management (3.7), standardising business and information processes and supporting applications (3.8), and prioritising resourcing to fund the reforms (3.9).

5.15 The *Defence Enterprise Information Strategy 2015–25* outlines an integrated approach for delivering Information Management that provides Defence with trusted information to inform decision making and military interoperability. A number of key documents provide further detail on information management requirements in Defence, including the:

- Enterprise Information Management Architecture;
- Current and target state architectures;
- EIM Business Requirements Summary;
- Domain roadmaps; and
- Master Data Management framework.

5.16 These documents provide a strategy to improve information management in Defence and provided the basis for closing recommendations 3.7 and 3.8.

5.17 On 21 July 2017, after the approval of an initial business case, \$11.6 million was approved from the Integrated Investment Program to fund detailed requirements development. This is the first step in delivering the Enterprise Information Management vision.<sup>129</sup> Further funding of \$500 million to \$750 million has been identified in the Defence Integrated Investment Program for Enterprise Information Management reform, as part of implementing recommendation 3.9. Although estimates of required expenditure have been made, Defence was unable to provide the ANAO with documented budget allocations or funding commitments. Finance has noted in advice to the ANAO that 'It is presently unclear to Finance whether there is adequate allocation of funding to [Chief Information Officer Group] to enable them to implement the ICT changes that need to underpin some of the [Review] initiatives.'<sup>130</sup>

128 Defence advised the ANAO (March 2018) that Enterprise Information Management governance arrangements have changed since the First Principles Review report was released. Enterprise Information Management is now progressed through an Enterprise Information Management Two Star Steering Group and an update is provided to the Enterprise Business Committee on a monthly basis.

129 The vision is that: 'Trusted and accurate information and information services are delivered to the point of need to enhance military and business operations'.

130 Department of Finance, advice to the ANAO, 14 September 2017. Defence advised the ANAO (March 2018) that it expects its Enterprise Information Management funding requirements to be clarified as part of the Gate 1 approval process, which is scheduled for September 2018.

5.18 Defence has identified and articulated its Information Management problems and developed a framework to deliver improvements. The framework has been endorsed by the Architecture Management Review Board, and progress is being monitored by the Enterprise Information Management Governance Group.

### **Enablers—service delivery (Recommendations 3.11, 3.12, 3.13 and 4.3)**

5.19 The organisational changes recommended for the service delivery enabling work stream are complete. Corporate services are consolidated under the Associate Secretary (3.12), and military enabling services under the Chief of Joint Capabilities (3.13). At lower levels, each enabling function is managed within the relevant Defence Group. For example, people services are managed within the Defence People Group and ICT is the responsibility of the Chief Information Officer.

5.20 The Review stated that Australian Defence Force personnel were conducting tasks that could be more cost effectively done by public servants or contractors, and recommended as many functions as possible be performed by public servants or outsourced if they are transactional in nature (4.3).<sup>131</sup> The submission on which closure of this recommendation is based does not provide sufficient evidence for closure. The submission states that ‘the majority of transactional services within Defence are already either currently outsourced or conducted by public servants’.<sup>132</sup> An attachment to the submission, dated September 2015, lists 36 transactional functions, of which seven are outsourced, 12 are insourced, one involves both insourced and outsourced labour, and 15 do not specify the current mode of delivery. This list does not appear to cover the full range of transactional services delivered by Defence.<sup>133</sup> The attachment does not provide any information on the number of staff (insourced or outsourced) involved in the listed functions, or indicate whether any are being conducted by Australian Defence Force personnel. It does not support the statement that the majority of transactional functions are delivered by public servants or outsourced, or provide any assurance that the use of Australian Defence Force personnel to deliver such services is minimised, as required by the recommendation.

5.21 Recommendation 3.11 required the Defence Internal Reform Program, commissioned in April 2014 for implementation by mid-2015, to be completed. Defence has implemented key initiatives from the program, such as formulating service offers, implementing customer satisfaction surveys, and conducting benchmarking and performance reporting. These initiatives are discussed at paragraphs 5.23 to 5.30.

5.22 The Review’s key recommendation 3.0 focused on maximising the effectiveness and efficiency of enabling services. Defence has implemented regular benchmarking, performance reporting and customer satisfaction surveys to assess the effectiveness and efficiency of its provision of enabling services.

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131 Transactional services are services that are high volume, low risk and low or medium complexity that lend themselves to scale, such as accounts payable and payroll administration.

132 Defence, First Principles Review Implementation Committee Submission – Recommendation 4.3 Completion, March 2017.

133 For example, the review referred to a logistic and transport workforce of 8000, which is not included.

## *Benchmarking*

5.23 Defence benchmarked selected corporate enabling service Groups in 2015 and 2017.<sup>134</sup> This work compared the efficiency and effectiveness of the enabling services<sup>135</sup> with established peer groups and world-class organisations. It captured data that could be used in the development of performance indicators; for example, the cost of processing an invoice, and the number of days to recruit staff. However, financial services is the only enabler that has incorporated such indicators in their performance reporting (see paragraphs 5.25–5.28).

5.24 The benchmarking reports made observations and recommendations to improve performance and identified common themes. Limited technology investment was found to be detracting from efficiency in five enablers and a process review was recommended for four of them. Defence has not addressed the recommendations arising from the benchmarking.

## *Measuring performance*

5.25 The Service Delivery Reform Baseline Dashboard Executive Summary report (the ‘dashboard report’) provides performance information for ten corporate enabling areas against strategic intent statements. Eight dashboard reports have been produced since 2015. The dashboard reports do not provide a target measure but deliver a green, amber or red result and a variance arrow that compares results to the previous report and a baseline. Without a target it is not possible to determine what Defence considers acceptable performance, or how close each enabling service is to achieving that performance.

5.26 The dashboard report contains few measures relating to cost or timeliness of service provision, even though these measures have been calculated in the benchmarking discussed in paragraph 5.23. Only the Finance Group reports any efficiency-related measures—total costs and the percentage of invoices paid on time.

5.27 The charter that Defence developed for the enabling services stream at the outset of implementation identified as a measure of success ‘Services are costed and benchmarked demonstrating value and return on investment’ (see Appendix 3). However, while Defence has benchmarked selected enabling services, it has not developed any simple measures of performance that indicate the cost of providing specific services, such as cost of processing an invoice or payslip, which could be used in the development of efficiency improvement measures.

5.28 The 30 June 2017 dashboard report stated that the next report, due 30 October 2017, would contain ‘new best practice Service Delivery KPIs, a benchmark KPI ... and KPIs that are of more value in informing continuous improvement.’ In August 2017, the Governance and Reform Division recommended that service delivery performance measures include at a minimum the overall satisfaction percentage obtained in the Customer Satisfaction Survey, and reporting against labour cost and total cost for benchmarked enablers. These statements indicate an acknowledgement of the shortcomings of the current performance measurement system, and a desire to improve the process. However, as at March 2018, although Defence had completed the

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134 In 2015, four of ten identified enabling services were included. In 2017 an additional three enabling services were included: Financial Services; People Services; Education and Training; Legal Services; Audit and Fraud Control; Security; Non-Materiel Procurement; Communication and Public Affairs; Base Services and ICT.

135 Defence contractors, government and large-scale organisations.

dashboard report that was due in October 2017, it had not yet developed the improved performance indicators it had intended to include.<sup>136</sup>

### *Customer satisfaction survey*<sup>137</sup>

5.29 To address the lack of service delivery culture referred to in the Review, initiatives focused on improving customer service have been implemented. These include development of an integrated service model, updated service offers, creation of single web and telephone entry points for customer access and bi-annual customer satisfaction surveys for ten corporate and enabling services. In closing recommendation 3.11 in June 2017, Defence referred to an improvement in overall customer satisfaction as a strong indication of improvement in service delivery culture. However, survey results provided by Defence indicate there had been minimal variation in reported overall customer satisfaction levels through to November 2017 (see Table 5.1).

**Table 5.1: Customer satisfaction survey overall ratings**

Survey date	Overall satisfaction rating %
February 2015	49
November 2015	46
February 2016	51
November 2016 <sup>a</sup>	50
November 2017	51

Note a: The survey frequency changed from bi-annual to annual.

Source: Information provided by Defence.

5.30 Defence advised the ANAO (March 2018) that the Department is aware that further work is required to fully address the duplication of service delivery functions and inefficiencies identified in the First Principles Review. Defence stated that it is addressing this during 2017–18, by developing a service delivery blueprint that will identify future work in this area.

## Has Defence implemented the recommendations on workforce?

Defence has taken action to implement workforce recommendations, but much work remains to address the workforce-related issues identified in the Review. A strategic plan has been developed for which Defence expects most activities to be complete by 2019. The use of Australian Defence Force personnel in non-Service roles has been reviewed but it is not clear whether all transactional work in Defence is being conducted in the most efficient way. There has been a small increase in spans of control at some levels, but Defence has reported no significant change in the number of organisational layers.

<sup>136</sup> Defence advised the ANAO (March 2018) that its service delivery key performance indicator dashboard is being updated and will include more appropriate and advanced performance measures in the future.

<sup>137</sup> In this context, customers are Defence employees.

5.31 The Review found Defence had a top-heavy workforce with a disproportionately large number of senior leaders, too many organisational layers and small spans of control. Key Recommendation 4.0 required Defence to:

Ensure committed people with the right skills are in appropriate jobs to create the One Defence workforce.

5.32 Seven subsidiary recommendations comprised the Workforce work stream: 4.1, 4.2, 4.3, 4.4, 4.5, 5.3 and 5.4.

5.33 Defence annual reports indicate that senior leadership numbers have been reduced slightly, both in total and as a percentage of the total Defence workforce (see Table 5.2).

**Table 5.2: Defence staff numbers 2014 to 2017**

	30 June 2014	30 June 2015	30 June 2016	30 June 2017	Decrease, 2014–17
ADF (Average Funded Strength)	56 922	57 718	58 578	58 612	
APS (Full-time equivalent)	19 988	18 787	17 423	17 308	
<b>Total Defence Workforce</b>	<b>76 910</b>	<b>76 505</b>	<b>76 001</b>	<b>75 920</b>	<b>1.287%</b>
SES (Including Secretary)	174	165	159	163	
Star-Ranked	190	179	179	188	
<b>Total Senior Leaders</b>	<b>364</b>	<b>344</b>	<b>338</b>	<b>351</b>	<b>3.57%</b>
Senior leaders as a percentage of the workforce	0.473	0.449	0.444	0.462	

Source: Defence Annual Reports.

## Strategic Workforce Plan

5.34 Defence developed the *Defence Strategic Workforce Plan, 2016–2026* (the Plan), as required by Recommendation 4.1. The plan includes 56 key activities against ten action areas to be completed by October 2018, with 30 activities due on 31 July 2017.<sup>138</sup>

5.35 On 17 August 2017, Defence People Group provided an update on progress against the plan to the Enterprise Business Committee. The update identified three risks to the implementation of the Plan<sup>139</sup> and stated that most activities were on track and scheduled for completion in early 2019.

<sup>138</sup> The activities include fundamental workforce activities that are yet to be developed within Defence, and represent a significant body of work. For example Action Item 1 requires the introduction of a system that identifies future demand for workforce skill categories.

<sup>139</sup> The risks related to: lack of funding to support implementation; reliance on technology solutions; and some parts of Defence progressing activities that are inconsistent with the Plan.

5.36 A progress schedule for the Plan dated 18 December 2017 shows that the number of activities had increased from 56 to 191, and expected completion extended to June 2021.<sup>140</sup> Defence has advised the ANAO that most activities will be completed in 2018 or early 2019 and the reason for the extension to 2021 is the inclusion of a White Paper People Initiative in the Plan, with funding from 2018–19 to 2020–21.

### **Optimal use of Australian Defence Force staff**

5.37 The Review recommended Defence use Australian Defence Force staff in non-Service roles only when critical, and for a minimum of three years (4.2). Defence reviewed 4005 Australian Defence Force positions in non-service groups, identified 365 to be returned to Service roles and implemented a process of regular review with the results to be reported to the Chiefs of Services Committee. In September 2016, Defence decided that, given the variety of factors that influence posting tenure, it would not be appropriate to enforce a three-year minimum tenure in non-Service Groups.<sup>141</sup>

5.38 Recommendation 4.3 required that as many functions as possible be performed by public servants or outsourced if they are transactional in nature. The closure submission stated that the intent of the recommendation had been met through: identifying transactional functions; transition of transactional work to non-Service Groups; and the System Project Office reform program. The Implementation Committee agreed that most transactional services were done by public servants or were outsourced and closed the recommendation on 27 April 2017.

5.39 Defence was to review the entirety of its enabling and military corporate workforce to ensure that it supports the Australian Defence Force with the minimum of overlap and redundancy, and with the greatest overall economy, efficiency and effectiveness (4.4). The closure submission referred to a number of activities conducted in support of other workforce-related recommendations that ‘provide an improved level of assurance that the current workforce meets anticipated capability requirements to deliver a One Defence workforce.’ The Implementation Committee agreed the intention of the recommendation had been met and closed it on 29 June 2017.<sup>142</sup>

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140 This update indicated 32 activities had been completed. Defence advised the ANAO (March 2018) that in November 2017, the Defence Civilian Committee agreed to implement a new business rule to ensure establishment discipline, which is: the total positions that each Group/Service within Defence manages is to be Full Time Equivalent (FTE) allocation +11 per cent. Defence also stated that reporting against this is provided in the monthly Workforce Report and that further detail will be provided quarterly to the Defence Civilian Committee.

141 In November 2016, the Implementation Committee agreed to aim for 90 per cent of postings to be for three years.

142 Defence advised the ANAO (March 2018) that further review of Australian Defence Force positions in non-Service Groups is now part of its ‘business as usual’ activities where Defence Groups are reviewed to determine what military skills might be required, looking out 18 months.



## Organisational layers and spans of control

5.40 The Review recommended Defence reduce organisational layers and increase spans of control (4.5).<sup>143</sup> Defence reported there has been no reduction in organisational layers, which remain unchanged at 13.<sup>144</sup>

5.41 An increase of 6.1 per cent in positions with more than six direct reports was reported to the Implementation Committee. However, there has been very little change in the number of positions in the middle management levels referred to in the Review. The number of Executive Level 1 positions (junior middle managers) with six or more direct reports increased from 3.7 per cent in March 2015 to 4.5 per cent at 30 June 2017. The number of Executive Level 2 positions (senior middle managers) with six or more direct reports actually decreased over the same period from 13.9 per cent to 12.6 per cent.

5.42 Recommendation 4.5 was closed in February 2017 with the Implementation Committee noting that Groups and Services had made 'reasonable progress' on spans of control and organisational layers. In October 2017, the Oversight Board expressed concern that Defence had closed the recommendation (4.5) with no apparent progress made.

5.43 A pilot work value review of the former Capability Development Group in October 2014 had found that 58 per cent of staff were incorrectly classified. On the basis of this, the Review recommended that Defence align its workforce standards with the requirements of the Australian Public Service Commission (4.5). Defence now conducts work value reviews to determine if the classification assigned to a position is correct when a new position is created, when a position is advertised for recruitment, or on request.<sup>145</sup> Indicative results suggest that around 20 per cent of positions reviewed are incorrectly classified.

## Resource Management

5.44 Recommendations 5.3 and 5.4 referred to the need to practice good resource management and deliver outcomes within available resourcing without using public service reductions as the primary efficiency mechanism.<sup>146</sup> The closure submission for these recommendations referred to the Strategic Workforce Plan, a cap on all Executive Level positions, transparent costing methodology and the total cost of ownership model.

5.45 A new total cost of ownership model was introduced in November 2016 that is intended to provide more transparent information on the costs of capability, including personnel costs (see

143 The Review reported up to 12 organisational layers between the Secretary and front-line staff, when six or seven was (in its view) normal practice, and that around 6000 middle managers typically supervise fewer than three staff, compared to a benchmark of five to eight staff (4.5). Conversely, the benchmarking exercise conducted for Defence Call Centres found that the span of control is almost twice as wide as peer groups, at 44 staff per manager.

144 Defence informed the ANAO that 'Defence's structure is based on capability requirements' and 'the number of layers within Defence does not necessarily reflect the number of management layers within the organisation'.

145 The FPR implementation originally planned to review all APS positions, but resource limitations prevented this approach. Groups were invited to request work value reviews where they thought it necessary.

146 Defence reduced its public service staff numbers from 18 787 in June 2015 to 17 308 in June 2017.

paragraph 4.40). This methodology will require evaluation to determine Defence's ability to correctly estimate employee costs, and the effect that it has on project delivery.

### **Workforce management issues identified during the course of the audit**

5.46 Defence has attempted to reduce the number of long-term vacant positions to enable appropriate prioritisation and workforce planning. In April 2016 and February 2017, the Secretary directed that the number of APS positions in Defence be reduced to more closely align with actual APS numbers, through inactivation of long-term vacant positions.<sup>147</sup> As a result of this directive, 3943 positions were inactivated between 30 June 2016 and 30 June 2017. However, in the same period 3868 new positions were created. In November 2017, Defence maintained around 5000 vacant positions (over 25 per cent more than actual staff numbers). This cycle of position inactivation and creation indicates Defence has not implemented the Secretary's directives, or employed good resource management practices as intended by recommendation 5.4. The cycle also represents unnecessary additional work, indicating that the waste, inefficiency and rework described in the Review continues.

5.47 Critical occupations are Australian Public Service employment categories that have existing or anticipated workforce issues that are expected to have a negative impact on the delivery of Defence outcomes. Defence has reported an ongoing and significant increase in the number of critical occupations between September 2015 and February 2018. At the latter date, there were 18 critical occupations across seven job families. This suggests that attempts to ensure that people with the right skills are employed in appropriate jobs have not yet been effective in relation to some Australian Public Service positions, and that key recommendation 4.0 has not been fully implemented.<sup>148</sup>

5.48 The 2015 Benchmarking report (see paragraph 5.23) found that Defence took, on average, 188 days to complete public service recruitments. The Defence Strategic Workforce Plan includes a key activity to review public service recruitment procedures and find ways to improve them, to be completed by 30 June 2017. On 17 August 2017, the Deputy Secretary, Defence People reported to the Enterprise Business Committee that this activity was either on track or completed. The 2017 benchmarking report found public service recruitment times had actually increased and now took an average of 198 days despite a 30 per cent increase in recruitment staff in 2016–17.

5.49 Defence has developed the *Defence APS Recruitment Strategy 2017–19*, through which Defence aims to reduce the recruitment time to 60 days, although the plan does not specify when this is expected to happen. Defence advised the ANAO in March 2018 that recruitment timeframes have decreased by 49 per cent since the 2017 Benchmark to 100 working days in January 2018 and continue to decrease.

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147 In April 2016 the goal was to align established positions to within 10.3 per cent of actual staff numbers. In February 2017 the goal was reduced to eight per cent.

148 Defence informed the ANAO that recruitment and separation rates of critical occupations are reported regularly to senior leadership committees, and recruiting actions have increased over the last three months (January to March 2018). Defence workforce planning and shortages in the Army and Navy were reviewed in ANAO Report No.44 2016–17 *Army's Workforce Management* and ANAO Report No.17 2014–15, *Recruitment and Retention of Specialist Skills for Navy*.

## Has Defence implemented the recommendations on behaviours (4.6 and 4.7)?

Defence has implemented the recommendations on behaviour through a range of initiatives to create a more professional culture and improve performance. Defence is not yet able to demonstrate that it has achieved the intended outcomes although evaluation of these initiatives is under way. Defence advised in March 2018 that Recommendation 4.6 was closed in February 2018.

5.50 The Review found that Defence had a sound performance management tool for staff at its disposal, but was not using it effectively. Performance goals were not always clear, outcome focused, or aligned with requirements cascaded from the Secretary level. Previous reviews had identified recurring issues with accountability and allocation of responsibility and a need for fundamental changes in attitude and culture. Recommendation 4.6 required implementation of a more effective performance management system, and 4.7 related to creating a culture where leadership, professionalism and corporate behaviour are valued. The Review's Oversight Board considered this work stream to be a critical component in achieving the intent of the Review.<sup>149</sup> Defence stated that it had closed Recommendation 4.6 in February 2018.

5.51 A number of initiatives were proposed to address recommendations 4.6 and 4.7, including:

- revised APS Performance Management Framework;
- performance and talent councils;
- orientation program for Executive Level 2 and equivalents;
- reward and recognition included in existing programs and online;
- promotion of development options for APS 1–6 staff;
- senior leader role charters incorporating key leadership behaviours;
- senior leader performance appraisals weighted towards leadership behaviours;
- 360 degree appraisal for senior leader behaviours;
- upward feedback program;
- leadership climate scan;
- senior leaders performance culture conversations program;
- mandatory annual workplace behaviours online learning package;
- One Defence Leadership Behaviours online awareness course;
- Pathway to Change program to encourage continued cultural change; and
- leading for reform program for APS6 and Executive Level staff.

5.52 Defence provided the following completion rate information (Table 5.3) for some of the behaviour-related programs in the list above. Defence advised the ANAO (March 2018) that it has established a cultural reform evaluation framework and that the evaluation of the first cultural reform priority, *Ethics and Workplace Behaviour*, is nearing completion.

<sup>149</sup> The role of the Oversight Board is discussed at paragraphs 2.20–2.21.

**Table 5.3: Attendance at behaviour-related programs, January–December 2017**

Course title	Completions
Leading For Reform (Executive Levels)	536
Catalyst Leadership Program (Executive Levels)	126
Gateway Leadership Program (APS)	393
Workplace Behaviour Mandatory Awareness	52 407
One Defence Leadership Behaviours Awareness Course	2 441
Sexual Misconduct Prevention and Response Office (SeMPRO) Awareness Training	19 235

Source: Defence advice to the ANAO, March 2018

5.53 Defence has reported some positive effect on the organisation from the new SES performance framework. It advised the ANAO (March 2018) of the following results in perceptions of the senior leadership group:

- positive employee perception of Senior Leadership accountability increased to 67 per cent (previously 60 per cent in September 2016);
- positive employee perception of Senior Leadership risk management increased to 77 per cent (previously 71 per cent in September 2016); and
- perceptions of performance management and unacceptable behaviour management also recorded small increases.

## 6. Achieving the intended outcomes of the First Principles Review

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### Areas examined

This chapter examines whether Defence, through its implementation of recommendations, can demonstrate its achievement of intended outcomes of the Review.

### Conclusion

Defence is now evaluating whether its implementation of Review recommendations has achieved the intended outcomes. Initial evaluation plans included only selected elements of the Review; however, Defence has now decided to adopt a more comprehensive evaluation framework encompassing all elements of the Review.

### Area for improvement

The ANAO has made a recommendation, in an earlier report, aimed at providing assurance of the extent to which the Review recommendations have been achieved.

### Has Defence identified the intended outcomes of the Review?

Defence identified the intended outcomes for each Review work stream, based on the problems articulated in the Review, and documented those outcomes as measures of success in work stream charters at the commencement of implementation in 2015. The concept of measuring the intended outcomes of the Review was not considered again until 2017.

### Case for change

6.1 The report of the First Principles Review acknowledges many earlier reviews of Defence and consequential improvements since the 1990s. Notwithstanding these, the Review states that ‘Defence needs to work much more effectively and ... in its current form is not best organised to meet the challenges of the next ten to twenty years.’<sup>150</sup>

6.2 The report asserts that there is general agreement about the nature of the problem:

The current organisational model and processes are complicated, slow and inefficient in an environment which requires simplicity, greater agility and timely delivery. Waste, inefficiency and rework are palpable.

Defence is suffering from a proliferation of structures, processes and systems with unclear accountabilities. These in turn cause institutionalised waste, delayed decisions, flawed execution, duplication, a change-resistant bureaucracy, over-escalation of issues for decision and low engagement levels amongst employees.<sup>151</sup>

6.3 Throughout the Review, particular problems are identified that the review team believe need to be addressed in order to ensure ‘Defence is fit for purpose and is able to deliver against its

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150 First Principles Review, p. 13.

151 First Principles Review, p. 13.

strategy with the minimum resources necessary'.<sup>152</sup> At the highest level, the report articulated the nature of Defence's problem in three broad categories:

- the current organisational model and processes are complicated, slow and inefficient causing waste, inefficiency and rework;
- proliferation of structures, processes and systems with unclear accountabilities results in waste, delayed decisions, flawed execution, duplication and change-resistance; and
- Defence operates as a loose federation with a weak, insufficiently strategic centre.

6.4 The Review's expression of the problem, together with the key recommendations, provided a basis for identifying improvements resulting from the implementation of recommendations. This allowed for a more holistic assessment of the outcomes of implementation, in addition to 'ticking off' scheduled activities completed in support of specific recommendations.<sup>153</sup>

### Work stream charters

6.5 Work stream charters, developed in June 2015, included measures of success that reflected key recommendations and 'the problem' identified in the Review, and addressed the intended outcomes of those recommendations (see Appendix 3).<sup>154</sup> A contractor was engaged in November 2015 to assess the measures and assist in developing them further. This indicates that Defence considered the intended outcome of the recommendations, as well as each recommendation in isolation, and how it would measure achievement of those outcomes, by work stream.

6.6 Once the Integrated Plan<sup>155</sup> was endorsed, and Groups began reporting progress to the Implementation Committee, they did so against specific activities they had identified as required to complete each recommendation. The concept of measuring the intended outcomes of the Review was not considered again until 2017.

6.7 As no measures of performance were recorded at the outset of implementation to form a basis for comparison, it will be challenging for Defence to evaluate the extent to which its implementation of recommendations has met the intended outcomes of the Review.

### Has Defence evaluated its achievement of the intended outcomes?

Defence has not yet evaluated its achievement of the intended outcomes of the Review. Originally, it commenced a limited evaluation of progress in selected areas of the Review using baseline data from September 2017, two years after the implementation period began. In December 2017, Defence decided to extend the scope of its evaluation to all work streams. As a separate exercise, Defence has developed a plan for ongoing reform—the One Defence Project Plan.

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152 First Principles Review, p. 5

153 The Review noted (p. 15) that previous efforts to reform the capability development process had been 'subsumed by box-ticking and process tinkering', without addressing the underlying problems.

154 Also see paragraph 2.9.

155 See paragraphs 2.7–2.8 of this audit report.

## The independent Health Check

6.8 Throughout the two-year implementation period, the Implementation Committee and Defence Groups focused on the activities contained in the implementation plan, completing milestones and closing recommendations.

6.9 In May 2017, in accordance with the Review's high-level implementation plan, an independent Health Check on implementation progress was conducted by the Oversight Board. The Health Check conducted a stocktake of evidence provided to the Implementation Committee as a basis for closing recommendations, assessed the success in embedding accountabilities into senior committees and progress in terms of improvement against 'the problem' identified in the review.

6.10 Key findings from the Health Check included:

- marked improvements across Defence through the new whole-of-life approach to capability development, clear accountabilities in decision-making, and the enterprise approach to delivering corporate and enabling services;
- eleven specific recommendations required an extension of oversight<sup>156</sup> particularly with respect to delivery against strategies and plans developed by the Department, such as the Defence Strategic Workforce Plan 2016–26 (see paragraph 5.34 of this audit), the Defence Estate Strategy 2016–21 (see paragraph 5.6) and the Enterprise Information Management Plan 2015–25 (see paragraph 5.15);
- particular focus was required in the areas of behaviours, Capability Life Cycle, service delivery, information technology and Systems Program Office reform;
- the senior committee structure was functioning well but would benefit from a clearer understanding of the interdependencies and relationships between them; and
- progress against the problems documented in the Review had been largely successful, although key stakeholders expressed concern in the areas of:
  - maintaining momentum;
  - management of risk;
  - workforce number and skills;
  - the level of attitudinal change below senior management; and
  - industry engagement.

6.11 The Health Check was presented to the Government in August 2017 as part of the First Principles Review – 2017 Annual Progress Report, and made four recommendations:

- **Recommendation 1:** That the Minister agree the overall success of the implementation of the First Principles Review, recognising that the necessary foundations have been laid during the implementation period to enable continual improvement toward fully realising the One Defence reforms;

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<sup>156</sup> The Health Check actually specifies 13 recommendations as not yet complete and/or likely to benefit from extended oversight: 1.9, 1.10, 2.4, 2.10, 2.11, 2.13, 3.3, 3.4, 3.8, 3.11, 4.4, 4.6 and 4.7.

- **Recommendation 2:** That the tenure of the Oversight Board and the Implementation Committee continue for a period of not less than twelve months in order to oversight ongoing reform in the areas of Capability Life Cycle, Service Delivery, Information Technology, Behaviours and Systems Program Offices;
- **Recommendation 3:** That the interdependencies and relationships between the enterprise committees be articulated and where appropriate embedded in the committee charters and operationalised through business rules; and
- **Recommendation 4:** That Defence develop and implement an approach to risk management that is focussed on operationalising risk-based planning, where decision-makers are held accountable for budgeted performance against their business plans.

## Developing an evaluation framework

6.12 In May 2017, in response to the Health Check findings, and following an ANAO recommendation to assess the implementation of the Review,<sup>157</sup> Defence's Governance and Reform Division proposed the development of an evaluation framework. The objective of the proposed framework was to:

- measure the degree to which the intent of the Review has been realised and to monitor and oversee ongoing work; and
- provide Government with confidence that the Review has been delivered.

6.13 The scope of the proposed evaluation framework was intended to cover the full range of initiatives delivered as part of the Review, including closed recommendations.<sup>158</sup>

6.14 On 19 May 2017, the Implementation Committee agreed to adopt an evaluation framework that did not include the full range of Review recommendations. The *First Principles Review Evaluation Framework* (the Framework) provides for 'monitoring the ongoing implementation' of four selected work streams:

- service delivery;
- behaviours;
- information management; and
- Capability Life Cycle, including capability acquisition and sustainment reforms.<sup>159</sup>

6.15 As a result of this reduction in scope, the Framework does not capture the totality of the Review and does not measure the degree to which the intent of the Review has been realised.

6.16 The Framework does not include three areas of reform that were specifically mentioned in the May 2017 Health Check as requiring extended oversight—the *Defence Strategic Workforce Plan 2016–2026*, the *Defence Estate Strategy 2016–2021* and the senior committee structure.

6.17 New metrics have been developed for each of the selected work streams and included in the Framework. The new measures are generally more detailed than the high-level measures of

<sup>157</sup> ANAO Report No.2, 2017–18, *Defence's Management of Materiel Sustainment*, p. 13. That earlier ANAO report is discussed in paragraph 1.12 of this audit report.

<sup>158</sup> This information was sent to the Defence Senior Leadership Group on 21 May 2017.

<sup>159</sup> Implementation Committee Paper, First Principles Evaluation Framework – Revised Metrics, 3 August 2017.



success developed in 2015.<sup>160</sup> However, the new metrics do not address all of the key recommendations of the Review nor the recommendations relating to efficiency. For example, key recommendation 3 is not addressed, which required the maximisation of effectiveness and efficiency in the delivery of enabling services.

6.18 In December 2017 the Implementation Committee agreed that the evaluation framework should be expanded to include all work streams. Defence advised the ANAO in March 2018 that the new evaluation framework was to be considered by the First Principles Review Implementation Committee later that month.

### *Evaluation framework reporting*

6.19 Commencing in September 2017, performance against each of the metrics (for areas that have been included in the evaluation framework to date) has been included in a quarterly report titled the *One Defence Dashboard* (the Dashboard). The Dashboard includes a baseline measurement, the current performance measurement, a target value and trend indicator.

6.20 The baseline data against which progress can be measured is from September 2017, meaning that progress during the Review implementation period is not included.

6.21 Some of the targets will be difficult for Defence to meet. For example, perceptions of support for managing underperformance, measured at 44 per cent in September and December 2017, have a target of 100 per cent, which is likely to be unachievable. Conversely, three activities have a target that is lower than the baseline measurement, suggesting that a reduction in performance would be acceptable.

### **One Defence Project Plans**

6.22 In July 2017 the Chief of the Defence Force directed the First Principles Review Implementation Office to provide a detailed program that articulated the next stage of reform for 2017–18. The purpose of the resulting One Defence Project Plan is not documented, but has been described by Defence as a continuation of enterprise reform following on from the Review. It comprises activity schedules for eight work streams:

- Strategic Centre;
- Capability Life Cycle Reform;
- Capability Acquisition and Sustainment Reform;
- Service Delivery;
- Enterprise Information Management;
- Workforce;
- Estate; and
- Behaviours.

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160 See Appendix 3.

6.23 The schedules contain a mixture of Review recommendations (some of which have been closed, such as 4.5—reducing organisational layers and increasing spans of control), issues raised in the May 2017 Health Check, activities copied from enterprise-level planning documents developed as part of the Review, and new reform activities.

6.24 It is not clear where the data for the One Defence Project Plan is sourced from, as it does not match data from other sources. For example, the completion dates for half of the activities in the Workforce schedule differ significantly from the dates for the same activity in the Defence Strategic Workforce Plan Summary provided by Defence on 12 December 2017.

### Recommendation no.1

6.25 That Defence ensures that its evaluation encompasses all of the recommendations of the First Principles Review and seeks to assess whether the intended outcomes of the Review have been achieved.

**Defence response:** *Agreed.*

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Grant Hehir  
Auditor-General

Canberra ACT  
17 April 2018

## **Appendices**

## Appendix 1 Entity response



**Australian Government**  
**Department of Defence**

**Ms Rebecca Skinner**  
**Acting Secretary**

**Air Chief Marshal MD Binskin, AC**  
**Chief of the Defence Force**

SEC/OUT/2018/60  
CDF/OUT/2018/201

**Mr Grant Hehir**  
Auditor-General  
PO Box 707  
Canberra ACT 2601

**DEPARTMENT OF DEFENCE RESPONSE – ANAO SECTION 19 PROPOSED REPORT –  
DEFENCE’S IMPLEMENTATION OF THE FIRST PRINCIPLES REVIEW**

Dear Mr Hehir

Thank you for your correspondence dated 13 February 2018, which contained the Section 19 Proposed Report for the ANAO performance audit: *Defence’s Implementation of the First Principles Review*. The effective and efficient implementation of the First Principles Review reforms are a high priority for Defence and Government. As such, we thank you for undertaking this audit, and appreciate the opportunity to review and comment on the Report.

Defence has made considerable progress with First Principles Review implementation, successfully completing 71 of the Review’s 75 recommendations. In completing these recommendations, Defence has made significant changes to the way it operates. Defence has reduced the size of its submissions to Government; obtained Government agreement to tailor project approval pathways based on risk rather than financial value; made it easier for industry to work with Government by streamlining commercial policies and practices; and improved the quality of advice and decision-making by reducing the number of senior committees.

Defence is also using an evaluation framework to monitor the embedding of First Principles Review reforms and to measure and report on the resulting benefits. This framework includes evaluation criteria, metrics and targets to assess whether the intent of the Review has been achieved.

Defence notes that it takes time to fully implement and embed transformational change, and expects implementation of the First Principles Review to be completed in 2020. This is consistent with the Review’s recommendations: while the Review stated that the majority of changes should be delivered within the first two years, it also recommended (Recommendation 1.1) that the Review be adopted as the roadmap for Defence reform for the next five years.

*Defending Australia and its National Interests*

Defence agrees with the recommendation within the Report and notes the findings of the audit report. Defence will endeavor to appropriately apply the Key Learnings identified with regard to Governance and Risk Management, and Performance and Impact Measurement.

Attached to this letter are Defence's Proposed Amendments, Editorials and Comments (**Annex A**), Responses to Requests for Information (**Annex B**) and Responses to Recommendations (**Annex C**). These constitute Defence's formal response to the Paper.

Defence remains committed to assisting you with the successful completion of this audit. We look forward to the upcoming Final Report.

Yours sincerely,



**Rebecca Skinner**  
Acting Secretary

8 March 2018



**MD Binskin, AC**  
Air Chief Marshal  
Chief of the Defence Force

12 March 2018

*Defending Australia and its National Interests*

## Appendix 2 First Principles Review Recommendations

No.	Recommendation	Discussed in this report (para. no.)	Status	Comment
<b>1.0</b>	<b>Establish a strong strategic centre to strengthen accountability and top-level decision-making</b>	Chapter 3	Closed	Substantially completed
1.1	This review be adopted as the road map for Defence reform for the next five years	2.2–2.3	Closed	
1.2	A new One Defence business model	3.1	Closed	
1.3	The diarchy is retained	3.7–3.8	Closed	
1.4	The individual and shared accountabilities of the Secretary and the Chief of the Defence Force be clarified, formally documented and promulgated through the organisation	3.7–3.8	Closed	
1.5	A streamlined top-level management structure for the Department that is aligned with the One Defence business model	3.7–3.8	Closed	
1.6	The strategic centre include the Associate Secretary and the Vice Chief of the Defence Force as the integrators for the Defence enterprise and the future force and joint capabilities respectively	3.7–3.8	Closed	
1.7	The Vice Chief of the Defence Force's decision rights be greatly strengthened, including the right to stop projects proceeding through the approval process until joint force integration is proven	3.15	Closed	
1.8	Legislative changes to formally recognise the authority of the Chief of the Defence and the Vice Chief of the Defence Force, including removing the statutory authority of the Service Chiefs	3.16–3.17	Closed	
1.9	That policy advice be strengthened by bringing all policy functions into one organisational unit in order to improve the quality of advice provided to Government	3.18–3.19	Closed	The recommendation has been implemented but no mechanism exists to assess improvements to policy advice.

No.	Recommendation	Discussed in this report (para. no.)	Status	Comment
1.10	A strong and credible internal contestability function be built and led by the Deputy Secretary Policy and Intelligence with responsibility for strategic contestability, scope, technical and cost contestability	3.20 – 3.25	Closed	Implemented and operating well. No timetable as yet for extension over project/product lifecycle.
1.11	That the policy and intelligence functions be combined under a Deputy Secretary Policy and Intelligence, who will have responsibility for providing policy advice and intelligence assessments to the Secretary and the Chief of the Defence Force	3.18 – 3.19	Closed	
1.12	The Defence Security Authority be repositioned under the Associate Secretary	3.27 – 3.28	Closed	
1.13	The Defence Committee be re-positioned as the primary decision making committee of Defence and the heart of the strategic centre with two supporting committees – Enterprise Business Committee and Investment Committee	3.9 – 3.10	Closed	Original recommendation implemented. Status unclear of Oversight Board further recommendation relating to interdependencies and relationships among committees.
1.14	That all other enterprise-wide committees be reviewed for their relevance and alignment with the One Defence business model with the aim of a substantial reduction in the number of committees	3.11 – 3.14	Closed	Senior committees reduced from 72 to 26.
1.15	That the organisational structure reporting to the Vice Chief of the Defence Force be simplified through the incorporation of a two-star Head of Joint Enablers role	3.27 – 3.28	Closed	
1.16	A strengthened centre-led, enterprise-wide planning and performance monitoring process be adopted	3.29 – 3.33	Closed	Recommendation has been closed but work is ongoing. Recommendation reinforced by further recommendation from the Oversight Board.
1.17	That the Associate Secretary be the central authority to deliver enterprise planning and performance monitoring processes, in line with the requirements of the Public Governance, Performance and Accountability Act 2013	3.29 – 3.33	Closed	

No.	Recommendation	Discussed in this report (para. no.)	Status	Comment
1.18	That the Minister for Defence meet with the Defence Committee twice yearly to consider a formal strategic assessment of the alignment between Defence's strategy, funding and capability	3.46–3.47	Closed	
1.19	Defence conduct regular reviews of the capital program in consultation with the Minister and central agencies	3.48–3.51	Closed	
<b>2.0</b>	<b>Establish a single end-to-end capability development function within the Department to maximise the efficient, effective and professional delivery of military capability</b>	Chapter 4	Open (pending closure of 2.4)	Substantially completed
2.1	Disbanding the Capability Development Group and dispersing its functions to more appropriate areas	4.6–4.7	Closed	
2.2	Disbanding the Defence Materiel Organisation and transferring its core responsibilities in relation to capability delivery to a new Capability Acquisition and Sustainment Group	4.6–4.7	Closed	
2.3	Developing a new organisational design and structure as part of the implementation process for the Capability Acquisition and Sustainment Group with reduced management layers	4.12–4.15	Closed	Reduction of middle management positions still in progress.
2.4	Examining each System Program Office to determine where each fits within the smart buyer function, the most appropriate procurement model and achieving value for money	4.17–4.25	Open	Major element in the Review and a large project expected to run until 2023.
2.5	The Capability Managers specify the Fundamental Inputs to Capability requirements with the Capability Acquisition and Sustainment Group having responsibility for developing and delivering an integrated project plan	4.8–4.11	Closed	Later review observed a performance gap in this area.



No.	Recommendation	Discussed in this report (para. no.)	Status	Comment
2.6	The accountability for requirements setting and management be transferred to the Vice Chief of the Defence Force and the Service Chiefs with strategic, financial and technical contestability being located with Deputy Secretary Policy and Intelligence	4.6–4.7, 3.20–3.25	Closed	
2.7	That the Independent Project Performance Office and the Capability Investment and Resources Division be relocated to Deputy Secretary Policy and Intelligence, significantly enhanced and strengthened to provide such contest	3.25	Closed	<i>[Managed as part of the Strategic Centre work stream]</i> Funds, not staff, transferred. Function retained in CASG to conduct Independent Assurance Reviews.
2.8	Revising the Defence investment approval process for all large or complex capability projects	4.31–4.34	Closed	
2.9	Introducing a new formal gate into the process at entry point—Gate Zero: Investment Portfolio entry	4.31–4.34	Closed	
2.10	Government increase approval thresholds for capability development projects, with ministerial approval required only for projects above \$20 million, two ministers above \$100 million and Cabinet above \$250 million	3.52–3.53	Closed	<i>[Managed as part of the Strategic Centre work stream]</i>
2.11	Significant investment to develop an operational framework which comprehensively explains how the organisation operates and the roles and responsibilities within it; detailing the life cycle management processes which provide project and engineering discipline to manage complex materiel procurement from initiation to disposal; and reviewing architecture to reinforce accountability at all levels and bringing together information upon which good management decisions can be made	4.35–4.36	Closed	Closure of other recommendations and actions was precedent, including the design of the new Capability Life Cycle.

No.	Recommendation	Discussed in this report (para. no.)	Status	Comment
2.12	The Deputy Secretary Capability Acquisition and Sustainment must sign off and assure the Secretary of the operational output of each of his/her divisions every quarter and on major contracts on a monthly basis	4.37–4.38	Closed	Closed following the production of a quarterly performance report. ANAO subsequently recommended the report be quality assured. Evidence of this process remains outstanding.
2.13	The use of net personnel operating costs process cease immediately	4.39–4.41	Closed	Use of the new comprehensive cost of ownership model not yet evidenced.
2.14	Developing a Defence Investment Plan which would include all capital and related investments (such as materiel, estate and facilities, workforce and information and communications technology)	4.42–4.43	Closed	
2.15	That, on Government approval, the entire project acquisition budget is allocated to the Capability Acquisition and Sustainment Group to ensure expenditure is in accordance with the project delivery plan	4.44–4.45	Closed	
2.16	The Defence Science and Technology Organisation be required to clearly articulate its value proposition. This would include examples and actual amounts of value created	3.54–3.55	Closed	<i>[Managed as part of the Strategic Centre work stream]</i>
2.17	The Defence Science and Technology Organisation become part of the Capability Acquisition and Sustainment Group	3.56	Not accepted by the Government	<i>[Managed as part of the Strategic Centre work stream]</i> Government position (non-acceptance) reaffirmed.
2.18	The Defence Science and Technology Organisation senior leadership be rationalised	3.57–3.58	Closed	<i>[Managed as part of the Strategic Centre work stream]</i>
2.19	The Defence Science and Technology Organisation strengthen partnerships with academic and research institutions to leverage knowledge and create pathways with academia and industry	3.59–3.60	Closed	<i>[Managed as part of the Strategic Centre work stream]</i> Closed upon the development of a framework. Outcomes not yet assessed.

No.	Recommendation	Discussed in this report (para. no.)	Status	Comment
2.20	Disbanding the Defence Science and Technology Organisation advisory board	3.56	Closed	<i>[Managed as part of the Strategic Centre work stream]</i>
2.21	Defence, in partnership with academia and industry, review its research priorities, their alignment with future force requirements and capacity to leverage allied partners to promote innovation	3.59–3.60	Closed	<i>[Managed as part of the Strategic Centre work stream]</i> Closed upon the development of a framework. Outcomes not fully assessed.
<b>3.0</b>	<b>Fully implement an enterprise approach to the delivery of corporate and military enabling services to maximise their effectiveness and efficiency</b>	Chapter 5	Open (pending closure of 3.3)	Moderate progress.
3.1	Defence define the estate need as determined by future force requirements and Government agree to dispose of all unnecessary estate holdings starting with the 17 bases identified in the 2012 Future Defence Estate Report	5.4–5.9	Closed	Work is well underway but will take some years to complete.
3.2	Defence strengthen its capability to present options to Government for estate disposal including obtaining expert external advice as required	5.4–5.9	Closed	
3.3	The Government amend the Public Works Act 1969 to set a \$75 million threshold for referring proposed works to the Public Works Committee, and re-consider recent adjustments to the 2015–16 Budget operational rules that run counter to more efficiently managing investment spending	5.4–5.9	Open	The Department of Finance is reviewing the Public Works Committee Legislative Framework.
3.4	The Associate Secretary be directed and resourced to implement enterprise information management that provides Defence with trusted information to inform decision-making and military interoperability, with the Vice Chief of the Defence Force as the design authority for the next generation of Command, Control, Communications, Intelligence, Surveillance and Reconnaissance	5.10–5.18	Closed	

No.	Recommendation	Discussed in this report (para. no.)	Status	Comment
3.5	The information management agenda be governed at the Band 3/3 Star level by the Enterprise Business Committee to set overall direction and priorities, including the management of trade-offs and conflicts	5.10–5.18	Closed	
3.6	Supporting the Chief Information Officer to meet these responsibilities by formally recognising the Chief Technology Officer as the technical authority with appropriate 'red card' decision rights	5.10–5.18	Closed	
3.7	Defence establish enterprise-wide frameworks for architecture standards and master data management	5.10–5.18	Closed	
3.8	Defence embark on a pragmatic implementation road map to standardise business and information processes and their supporting applications	5.10–5.18	Closed	Initial steps have been taken in a long-term project.
3.9	Defence ensure adequate resourcing and funding for information management reform is prioritised as part of the fully costed 2015 Defence White Paper	5.10–5.18	Closed	Estimates of funding requirements have been made but funding remains uncertain.
3.10	Geospatial information functions be consolidated into the Australian Geospatial-Intelligence Organisation following improved resourcing and connectivity	3.62–3.66	Closed	<i>[Managed as part of the Strategic Centre work stream]</i> Consolidation achieved and improved customer satisfaction observed but intended outcome—achievement of intended capability—yet to be demonstrated.
3.11	The service delivery reform program, including full integration of the current Defence Materiel Organisation corporate functions, be completed	5.21	Closed	No significant evidence of improvement in performance yet (cost or timeliness). Some evidence of improved customer satisfaction, except for Defence People Group.

No.	Recommendation	Discussed in this report (para. no.)	Status	Comment
3.12	All corporate services (with the exception of finance but including the Defence Security Authority) be consolidated under the Associate Secretary	5.19	Closed	
3.13	All military enabling services (Joint Logistics Command Policy, Joint Health Command, Australian Defence College, Australian Civil-Military Centre) be consolidated under a Two-Star officer who reports to the Vice Chief of the Defence Force	5.19	Closed	
<b>4.0</b>	<b>Ensure committed people with the right skills are in appropriate jobs to create the ONE DEFENCE workforce</b>	Chapter 5	Closed	Limited progress
4.1	That as part of the budget and planning process, Defence build a strategic workforce plan for the enabling functions, and incorporate workforce plans for each job family in order to drive recruitment, learning and development, performance and talent management	5.34–5.36	Closed	The Strategic Workforce Plan has been developed but completion continues to extend into the future.
4.2	Defence employ Australian Defence Force personnel in non-Service roles only when it is critical to achieving capability and for a minimum of three years to achieve best value-for-money from the premium paid	5.37	Closed	Defence reviewed Australian Defence Force personnel in non-Service roles, returned 365 to Service roles and implemented a process of regular review. Defence decided not to enforce a minimum three-year tenure.
4.3	As many functions as possible be performed by public servants or outsourced if they are transactional in nature	5.38	Closed	
4.4	Defence review the entirety of its enabling and military corporate workforce to ensure that it supports the Australian Defence Force with the minimum of overlap and redundancy, and with the greatest overall economy, efficiency and effectiveness	5.39	Closed	

No.	Recommendation	Discussed in this report (para. no.)	Status	Comment
4.5	Defence reduce organisational layers; increase the spans of control of managers; align workforce standards in accord with the requirements of the Australian Public Service Commission; and engage external assistance to facilitate this work as required	5.40–5.43	Closed	No change in organisational layers; small increase in spans of control of managers. Oversight Board expressed concern that recommendation is closed with ‘no apparent progress made’.
4.6	Defence implement a transparent performance management system that is consistently applied, recognises and rewards high performance and introduces consequences for underperformance and failure to deal with it	5.50–5.52	Closed	<i>Note: Defence reported that this recommendation had been closed after audit fieldwork was complete. Therefore this item has not been validated.</i>
4.7	As part of the performance management system, Defence take steps to create a culture where leadership, professionalism and corporate behaviour are valued and rewarded	5.50–5.52	Closed	
<b>5.0</b>	<b>Manage staff resources to deliver optimal use of funds and maximise efficiencies</b>	Chapters 2 and 5	Closed	Limited progress
5.1	The use of the measures such as the teeth-to-tail ratio and the one-third budget split should cease	3.34–3.40	Closed	[Managed as part of the Strategic Centre work stream]
5.2	Appropriate efficiency measures are developed which link to the delivery of agreed outcomes	3.34–3.40	Closed	[Managed as part of the Strategic Centre work stream]  Closed on the basis of a framework being in place. Outcomes not yet achieved. Recommendation reinforced by a further recommendation from the Oversight Board.
5.3	The focus on public service reductions as the primary efficiency mechanism for Defence cease	5.40–5.45	Closed	
5.4	Defence manage its workforce numbers in line with good resource management practice where Defence is held to account for delivering on required outcomes within available resourcing	5.40–5.45	Closed	Strongly related to Recommendation 5.2 and the subsequent Oversight Board recommendation.

No.	Recommendation	Discussed in this report (para. no.)	Status	Comment
5.5	As part of the implementation process, Defence examine the headquarters functions for opportunities to achieve more effective and efficient arrangements	3.41–3.44	Closed	<i>[Managed as part of the Strategic Centre work stream]</i> Closed upon completion of the headquarters review. Outcome yet to be achieved.
<b>6.0</b>	<b>Commence implementation immediately with the changes required to deliver one defence in place with two years</b>	Chapter 2		Substantially completed.
6.1	No additional reviews on the organisational issues covered by this Review are imposed on Defence, particularly within the early years of implementation	2.2–2.3	Closed	
6.2	Past reviews and current reform initiatives should be assessed for currency and alignment to the One Defence model	2.4	Closed	
6.3	Establishing an Oversight Board to provide close external scrutiny, advice on implementation progress and regular reports to the Minister	2.20–2.22	Closed	
6.4	The Minister, with input from the Department and the Oversight Board, report progress on implementation to the Government in March 2016 and March 2017	2.26–2.29	Closed	A third progress report is required by the Government in mid-2018.
6.5	Stability in the key leadership positions, particularly over the next two years to provide consistency of direction and ownership of the change	3.6	Closed	There has been a change of Minister and of Secretary.

## Appendix 3     First Principles Review—Measures of success

Defence presented these measures of success for its implementation of the First Principles Review to the Minister for Defence as part of its Integrated Implementation Plan, July 2015.

### **Strategic Centre**

- More timely, accurate and consistent advice for Government and improved relationships with Government and other agencies
- A robust and healthy contestability function with open and honest sharing of information
- A stronger enterprise-wide understanding of the strategic guidance including robust policy advice and a force design function
- Improved enterprise planning, risk and performance management informing decision-making
- Establishment of a unified geospatial enterprise that is a key enabler of Defence and National capability, with clear and transparent accountabilities and more focused, informed and strategically aligned investment.

### **Capability Development**

- An end-to-end capability lifecycle is created with projects being appropriately tailored to move through the most appropriate investment pathway
- All investment (including project and enterprise functions) is being managed through a single investment plan
- Government approves lifting of investment financial thresholds
- More timely and accurate capability advice for Government
- New capabilities are aligned with strategic direction and include total life costing (including all FIC elements)
- Business as usual elements of the organisation are not compromised during transition
- On budget and on schedule delivery of required capability
- An efficient CAS Group delivering what is required as a smart buyer

### **Corporate and military enablers (enabling services)**

- The provision of corporate and military enabling services is valued by the customers and they receive the services they need
- Services are costed and benchmarked demonstrating value and return on investment
- Technology-enabled services driving integration and innovation
- Consistency in approach and quality across regional locations
- Service delivery system implemented with continuous improvement, clear accountabilities and ongoing performance measurement
- The estate is aligned with the requirements of the current and future force
- Timely availability of reliable and accurate information



- Accepted and well-governed Enterprise Architecture

## **Workforce**

- Spans of control improved in line with categorisation
- Strategic workforce plan developed and in use to identify and maintain required skills
- Critical skills identified, matched and maintained
- Behavioural change is evident (i.e. streamlined decision-making; managers better engaged and challenged; strong culture of performance management)
- Overall workforce budget matched to people numbers, within identified parameters and relevant FTE headcount reduction completed
- Role charters in place and cascading accountabilities clear
- Diversity profile not negatively impacted

## **Behaviours**

- Work practice changes: Corporate Planning priorities and measures, cascaded group/personal plans, reduction in committees. Increased level of professionalisation. Strategic workforce plan with critical skills identified and recruited on time.
- Behaviour changes: Performance measures for all committees (not just what but how). Performance of the Behaviour stream is a meta evaluation tool for all other work streams; signature behaviour exemplified.
- Cultural changes: Your Say Climate and Leaving Surveys, Defence Attitude Survey, APS employee census, Mental health Claims, Unplanned leave days, Defence Health Report, engagement, post-separation and morale measures, diversity performance measures.