

DEFENCE

CHAPTER SIX MANAGEMENT REFORMS AND EFFICIENCIES

**IMPLEMENTING THE DEFENCE PROCUREMENT
REVIEW**

**PROGRESS ON BUDGET AND BUSINESS PROCESS
REFORM**

PROGRAM OF ADMINISTRATIVE SAVINGS

COMMERCIAL SUPPORT PROGRAM

DELIVERING INTERNAL SERVICES

DEFENCE INFORMATION ENVIRONMENT

PORTFOLIO EVALUATIONS

IMPLEMENTING THE DEFENCE PROCUREMENT REVIEW

The review of Defence procurement, led by Mr Malcolm Kinnaird, was completed in August 2003. In September 2003, the Government announced that, as part of the ongoing reform of Defence procurement, it had agreed to accept the recommendations of the review.

The principal decisions arising from the review were:

- to establish a new head of capability development at a senior level, with clearly defined accountability, who will improve the identification and costing of projects before they move to the procurement phase;
- to strengthen the 'two pass' system for new acquisitions with Government considerations dependent on comprehensive analyses of technology, cost (prime and whole-of-life) and scheduled risk subject to external verification;
- to appoint a new head of the Defence Materiel Organisation (DMO), appropriately remunerated, with clear responsibility and accountability for ensuring that the organisation operates in a business-like manner;
- to establish a high-level advisory board, accountable to the Ministers for Defence and Finance and Administration, to assist the head of the organisation, with four members, including the chair, from the private sector;
- to consider the remuneration and tenure of project managers, and to select staff, civilian or military, on merit; and
- to establish the DMO as a prescribed agency, accountable directly to the Minister for Defence on matters under the *Financial Management and Accountability Act 1997*, while remaining accountable to the Secretary of the Department of Defence and the Chief of the Defence Force for administration under the *Public Service Act 1999* and the *Defence Act 1903*.

Defence has successfully implemented a number of the recommendations with work continuing on the remainder. Recommendations that have been implemented to date include:

- a Capability Development Group has been established, headed by Lieutenant General David Hurley, who has been appointed for three years;
- the 'two pass' system for new acquisitions has been revised and agreed by the Government and is now in use for project approvals;
- Dr Stephen Gumley has been appointed as the Chief Executive Officer of the DMO, and commenced on 25 February 2004;

- the Defence Procurement Advisory Board had its inaugural meeting in March and is now meeting monthly. Chaired by Mr David Mortimer, Mr Malcolm Kinnaird will also serve on the board, along with Dr John White and Mr Kevin McCann;
- the roles and responsibilities of capability managers and providers of the fundamental inputs to capability have been clarified to ensure reporting is timely and accurate;
- a business model which provides the basis for establishing the DMO as a prescribed agency under *the Financial Management and Accountability Act 1997* from 1 July 2005, has been developed and agreed by the Defence Procurement Advisory Board; and
- at a more detailed level, arrangements are being completed for the employment of military personnel in the DMO from 1 July 2005, and Project Governance Boards broadening their oversight to address through-life support issues.

Priorities for Defence in 2004-05 include:

- establishment of the DMO as a prescribed agency which will:
 - have direct financial accountability;
 - have greater autonomy to manage and deliver its products and services; and
 - produce separate annual financial statements.
- implementing systems changes to support the operation of Defence and the DMO as two separate agencies under the *Financial Management and Accountability Act 1997*, with the least possible duplication of services and the completion of financial and business due diligence to assist in the separation of the finances of the two agencies.

PROGRESS ON BUDGET AND BUSINESS PROCESS REFORM

In 2000, Defence and the Department of Finance and Administration reviewed Defence's financial management arrangements. Subsequently, Defence has undertaken a range of improvements to its budgeting and business systems and processes. Substantial progress has been made in improving the financial and materiel management arrangements within Defence, although more work is required.

Defence recognises that it must achieve a best practice planning and budget system, best practice business processes and develop a well-regulated financial environment. The reform agenda will continue for several years. At the same time, new opportunities for improvements and the requirement to address emerging deficiencies (in part due to an improved understanding of underlying problems) need to be addressed to ensure that the reforms continue.

Defence has adopted a financial systems strategy to assist with budget and financial management reform. The strategy will embed lasting processes and understandings to support more effective planning and reporting of Defence finances.

The strategy aims to:

- link financial and capability planning, management and reporting to ensure alignment of financial processes;
- ensure processes maintain full compliance with legislative and charter requirements relating to financial management, such as the *Financial Management and Accountability Act 1997* and Defence's Chief Executive Instructions;
- achieve a higher return on investment in Defence's financial infrastructure through more effective planning and sustainment of corporate systems into the future, including a business process review to align workflows with a defined end-state and to minimise customisation of required applications in order to remain on the software upgrade path;
- deliver interoperability between, and upgrades to, key systems supporting financial management within Defence. This involves upgrading financial and personnel systems and introducing enhanced business system functionality to cater for initiatives such as e-business, cash management and travel cards. These initiatives are designed to streamline processes and produce administrative efficiencies;
- further develop the budget and output reporting information system to enable Defence to develop a range of program-level information for budgeting and reporting purposes. This will lead to greater consistency

and depth of financial information, as well as increasing transparency of the manner in which resources are used; and

- develop a product costing tool which will identify the costs (past, present, and planned) of each of Defence's force elements and products and services. It will underpin further development of customer service agreements and inform the long-term planning and budget process.

Important initiatives under way include:

- establishing the financial statements project board, chaired by the Secretary, which will drive the reform agenda and ensure that Defence meets the Government's requirement for auditable annual financial statements by 30 July 2004; and
- Project Resolve, which will oversee the implementation of more rigorous end-of-month financial procedures and all key aspects of the production of the 2003-04 financial statements to ensure that the statements are completed successfully and on time. It will also deal with the management of financial and accounting issues associated with the establishment of the DMO as a prescribed agency.

PROGRAM OF ADMINISTRATIVE SAVINGS

In the context of the 2003-04 budget, the Government agreed that Defence would absorb a range of cost pressures through a program of administrative savings. The program is designed to deliver administrative savings of \$200m per annum by 2007-08, in annual tranches of \$50m commencing in 2003-04 and with \$25m in each of the last two years. The savings targets are shown in Table 6.1 below:

Table 6.1: Program of Administrative Savings Targets

	2003-04	2004-05	2005-06	2006-07	2007-08	Ongoing
	\$m	\$m	\$m	\$m	\$m	\$m
Savings target	50	100	150	175	200	200

The program of administrative savings is being progressively implemented around four key themes, which involve:

- reducing Defence's overheads, which were growing at unsustainable levels. This includes reductions in civilian personnel numbers, professional service providers, the number of personnel posted overseas and travel;
- the structure of the Defence organisation, including the remaining overlaps of common services;
- business process improvements covering a range of financial transformation projects, including implementation of data imaging technology and travel and simple procurement reforms; and
- further outsourcing of functions, where feasible, in terms of military workforce structures.

The savings target for 2003-04 has been met and the 2004-05 target will also be achieved. Savings achieved to date are detailed in Table 6.2.

Table 6.2: Administrative Savings Programmed

Initiative	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Reductions in civilian workforce	9.6	28.4	46.5	46.5	46.5
Reductions in non-capability related suppliers, including professional service providers	22.0	41.7	41.7	41.7	41.7
Reductions in overseas travel	7.4	7.4	7.4	7.4	7.4
Reductions in domestic travel	11.5	11.5	11.5	11.5	11.5
Renegotiation of the Australian Defence Force Academy agreement	0.9	1.9	1.9	1.9	1.9
Reductions in non-operational overseas positions	4.8	13.4	19.2	20.4	20.3
Removal from service of three P-3 derivative training aircraft	-	-	5.5	5.5	4.0
Rationalisation of civilian personnel administration centres	1.3	1.3	1.3	1.3	1.3
Rationalisation of the former Public Affairs and Corporate Communication Division	2.7	3.2	3.2	3.2	3.2
Savings Programmed to date	60.2	108.8	138.2	139.4	137.8
Savings Target	50.0	100.0	150.0	175.0	200.0
Savings in excess of target (+)/remaining savings to be achieved (-)	+10.2	+8.8	-11.8	-35.6	-62.2

Savings achieved and planned in the future are being used to offset the unavoidable cost pressures shown in Table 6.3, thus ensuring cuts to capability are not required to absorb these costs in the longer term.

Table 6.3: Cost Pressures Offset by Administrative Savings

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Establishment of the Chief Information Office	4.9	4.9	4.9	4.9	4.9
Comcover premium increases	20.8	20.8	20.8	20.8	20.8
Comcare premium increases	12.5	12.5	12.5	12.5	12.5
Comsuper administration charge	5.4	5.4	5.4	5.4	5.4
Additional legal services and compensation costs	4.0	4.0	4.0	4.0	4.0
Establishment of the Defence Service Centre call centre (Cooma, NSW)	9.5	9.5	9.5	9.5	9.5
Defence Reform Program contracts ⁽¹⁾	80.0	100.0	100.0	100.0	100.0
Portfolio contribution to service allowance increase	29.8	29.8	29.8	29.8	29.8
Defence Force Review Tribunal allowance increases	7.0	7.0	7.0	7.0	7.0
Remuneration reform project costs	13.2	13.2	13.2	13.2	13.2
Overseas leases costs	2.3	2.3	2.3	2.3	2.3
Total cost pressures requiring funding	189.4	209.4	209.4	209.4	209.4
Savings to be used as offsets	50.0	100.0	150.0	175.0	200.0
To be absorbed from elsewhere in budget	139.4	109.4	59.4	34.4	9.4

Note

- Covers contracts not able to be funded from the reduced Defence Reform Program savings provision.

A number of other initiatives are being developed to deliver the balance of the savings program.

COMMERCIAL SUPPORT PROGRAM

The Commercial Support Program is a competitive tendering and contracting initiative through which Defence seeks to achieve best value for money in the delivery of its support services. Benefits can be achieved through contracting out activities and restructuring in-house arrangements.

Efficiency gains from market-testing of support services are redirected to combat capability and higher priority requirements.

The program has been used to market-test the work of about 16,000 positions since 1991. Of the activities tested, 80 out of 121 service delivery activities have been outsourced to industry. Efficiency improvements average around 30 per cent of original costs prior to market testing.

During 2004–05, an announcement is expected for information technology infrastructure support services in the ACT region. Another four commercial support program activities will be progressed during 2004-05. These activities, in most cases, are still in the early stages of planning.

Table 6.4: Identified Commercial Support Program Activities for 2004-05

Activity	Status
ADF rotary wing flying training – Army	The project scope is under assessment.
Routine pathology services	Appropriate service delivery method to be determined.
Information technology	Request for tenders issued October 2003 for ACT services.
infrastructure support services	Planning is progressing for market testing regional services.
Personnel services	Being rationalised and restructured under the business improvement project. Market-testing considerations are to follow as appropriate.
Navy technical training services	The project scope is under assessment and a business case is being finalised.

DELIVERING INTERNAL SERVICES

Corporate Services and Infrastructure Group (CSIG) supports the working and living environments of Defence personnel. With representatives at every Defence site around the country, CSIG provides essential services and support to more than 80,000 personnel.

The Group's structure incorporates three Divisions.

- National Operations Division provides conventional corporate support, manages major contracts for the provision of facilities maintenance and garrison support and manages the agreements with the Defence Housing Authority, and provides legal services and advice.
- Information Systems Division is primarily responsible for the Defence information infrastructure, including operation of and support for in-service systems and the development of new capabilities.
- Infrastructure Division is responsible for the development of the Defence estate, including major and medium facilities construction projects and property disposals, and policy for environment and heritage issues.

CSIG Initiatives for 2004-05

Key CSIG management initiatives for 2004-05 includes management of Defence infrastructure, environmental initiatives, business improvement and strategic planning.

Management of Defence Infrastructure

CSIG is responsible for developing and managing the Defence estate, which is in the order of 3 million hectares of land with some 25,000 facilities at a value of around \$16b. CSIG will strengthen its management of Defence infrastructure through:

- continuing to divest surplus Defence property assets;
- investigating innovative ways of funding major infrastructure assets, such as private-public partnerships;
- upgrading training ranges to ensure a safe, sustainable and technologically advanced capability to support ADF preparedness requirements; and
- more effective prioritisation of expenditure on the upkeep of the Defence estate.

Environmental Initiatives

Defence is committed to taking a leading role in pursuing sustainable environmental initiatives through improvements in energy management practices, which will result in reduced greenhouse gas emissions and operating costs. CSIG will continue to improve Defence's energy and environment management processes by:

- refining the Defence environment management system in order to better support Defence capability, reduce impacts on the environment and avoid non-compliance with relevant environmental legislation;
- assessing the viability of acquiring land buffer zones around certain bases to minimise the training impacts on surrounding communities; and
- implementing software for monitoring and managing energy use across Defence.

Business Improvement

A major reform program within CSIG is the business improvement project that will continue to drive a wide range of initiatives aimed at taking best advantage of current and emerging technology, improving management arrangements and reducing personnel and overhead costs. Major initiatives include:

- introducing more efficient travel administration, personnel administration and accounts processing;
- reviewing current arrangements for ADF hospitality and catering, ADF member relocations and commercial vehicles;
- market testing of IT support services in the regions; and
- identifying and eliminating duplication of services between CSIG and other Defence Groups, in areas such as the provision of stores, rations, fuel distribution and IT services.

Strategic Planning

CSIG will further improve its strategic planning capability and establish more robust links within the broader Defence planning domain. This will be achieved by strengthening ties with Capability Group and the DMO, and relevant committees. CSIG will also continue to make process improvements to deliver Corporate Services through regional areas to support capability by:

- determining whether new infrastructure requirements meet Government policy and have funding allocated to be delivered;
- ensuring early warning of personnel arriving to train or exercise;
- integrating specialist military equipment and facilities planning; and
- providing better estimates of through-life support operating costs.

Industry Engagement

A large proportion of the products and services for which CSIG is responsible are delivered by industry. CSIG places high importance on managing relationships with industry in an open and transparent way. During 2004-05, it is anticipated that major contracts will be tendered in various regions for the following areas:

- garrison support services and comprehensive maintenance services;
- electricity and other utilities;
- information technology support services; and
- property leases.

Almost \$2b of products and services are estimated to be delivered under contract in 2004-05. These contracts include the delivery of products and services in the areas shown below.

Table 6.5: Estimated Expenditure on Products and Services' Contracts

Service	Value \$m
Infrastructure investment including training range upgrades	425
Information technology and telecommunication services and products	286
Garrison support	346
Housing services	305
Facilities operations	247
Travel services	152
Property services	104
Utilities	95
Total	1,960

DEFENCE INFORMATION ENVIRONMENT

Work on the Defence information environment in 2004–05 will focus on maturing planning, measuring investment, articulating enterprise processes, assuring effective governance and continuing improvement of organisational arrangements. Establishing these fundamental enablers of mature management will build on substantial improvements already achieved.

This approach is considered to be essential to meet Defence's aspirations for its information systems and to enable sustainment and improvement of the Defence information environment's contribution to Defence capabilities. It will facilitate increasingly well-informed decision making by managers and assist in the effective and efficient delivery of an affordable, functional, interoperable, sustainable, dependable and secure information environment.

Priorities for the Defence information environment in 2004–05 include:

- further articulating the future shape of Defence's information environment using the future warfighting concept;
- producing more substantial, inclusive and comprehensive planning;
- developing a clearer picture of Defence's investment in information systems and capability using the baseline funding review;
- establishing an explicit framework of enterprise processes and ownership to articulate requirements for information systems to better support processes;
- implementing the recommendations of the portfolio evaluation review of the corporate governance of the Defence information environment; and
- utilising the findings of a study into Defence information environment organisational arrangements to inform decisions about future improvements.

PORTFOLIO EVALUATIONS

Portfolio evaluations endorsed by the Defence Audit Committee for calendar year 2004 are:

- the preparation of ADF officers for joint appointments;
- implementation of the customer-supplier model; and
- civilian performance schemes.

The foreshadowed topic, *Defence Strategic Workforce Planning Outcomes*, was dropped from the 2004 schedule because of the work done by the Strategic Workforce Planning Review.

The topic, *The Effectiveness of the Risk Management Framework*, was deferred from the 2004 schedule following a recommendation from the sponsor.

Portfolio evaluations agreed in principle by the Defence Audit Committee for calendar year 2005 are:

- the technical regulatory system;
- the effectiveness of personnel policy development and delivery; and
- the injury prevention program.

Results from portfolio evaluations conducted in 2004-05 will be reported in the Defence annual report.