



Australian Government  
Department of Defence

REPORT OF THE  
DEFENCE MANAGEMENT REVIEW

2007





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**Australian Government**  
**Department of Defence**  
Australian Defence Headquarters  
Defence Management Review

The Hon. Dr Brendan Nelson, MP  
Minister for Defence  
Parliament House  
CANBERRA ACT 2600

Dear Minister

We are pleased to present the report of the Defence Management Review which you established on 18 August 2006 to examine organisational efficiency and effectiveness in the Defence organisation.

We thank Ms Celia Perkins, the other Secretariat staff and all those who have assisted the Review for their efforts and contributions.

Yours faithfully

Elizabeth Proust  
Chairman

Chris Ritchie

Alan Kallir

John Azarias

Members

30 March 2007



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## **MEMBERS OF THE REVIEW TEAM**

The Minister for Defence (the Hon. Dr Brendan Nelson MP) appointed Ms Elizabeth Proust as Chairman of the Review, and appointed as members of the Review Team:

Vice Admiral Chris Ritchie, AO, RANR  
Dr Alan Kallir  
Mr John Azarias.

## **TERMS OF REFERENCE**

1. The Review should examine and assess organisational efficiency and effectiveness in the Defence organisation, and make recommendations with particular regard to:
  - (a) decision making and business process, having regard to best practice in organisations of comparable size and complexity;
  - (b) the appropriateness of and need for military personnel in non-operational or executive positions in the organisation and the efficacy of Defence preparation for senior postings;
  - (c) structure, processes and procedures for managing information and providing timely and accurate information to stakeholders; and
  - (d) the adequacy of the information management systems which support business processes and reporting requirements.
2. The Review should provide direction on the role and work programme of the Defence Business Improvement Board.
3. While the Review should be cognisant of business processes in the Defence Materiel Organisation, noting the continuing reforms underway in DMO and the role of the Defence Procurement Advisory Board in that regard, the Review should not seek to specifically address business processes in DMO. Nor should it consider the ADF operational chain of command.
4. The Review should have due regard for relevant past reviews and studies.
5. The Review Team will be supported by a small secretariat.
6. The Review Team should report to the Minister for Defence by the second quarter of 2007.



## OVERVIEW

The Defence Management Review Team was established by the Minister for Defence on 18 August 2006. We have focused our efforts on a high-level consideration of Defence decision making, business processes, human resources, finance and information management processes and systems. Our Terms of Reference precluded consideration of Australian Defence Force (ADF) operations and command. We have also refrained from examining specific Defence Materiel Organisation (DMO) business processes and Defence industry and procurement matters which were covered by the 2003 Defence Procurement (Kinnaird) Review.

The team undertook an intensive program of consultations with some 140 key people, seeking their views on Defence management issues within our Terms of Reference. Approximately half this number were inside Defence, and half were outsiders who regularly deal with, observe or comment on Defence. Many of the latter were former senior Defence officials and military officers. We are grateful for the candour of these discussions, which gave us valuable insights into the challenges facing Defence and some of the options for addressing them. Annex B lists the people we consulted. In relevant sections in the report, we have quoted (without attribution) some of the views put to us. These quotations are not necessarily the precise words used, but reflect the tenor of the points being made.

The Review did not invite submissions, but nevertheless received 14 submissions, mostly from expert commentators and retired officers and executives. A list of submissions received is at Annex C.

From the outset it must be said that Defence—both uniformed and civilian—is an organisation that comprises outstanding individuals and which makes Australians very proud.

The essential features of the current Defence organisation were established over 30 years ago in peacetime. Today, in a period of high operational activity, we found an organisation struggling to deliver administratively when its main focus is on supporting military operations in nine major deployments around the world.

The Defence organisation has undoubtedly made significant progress over the last decade: in military operations, in defence policy, and in a range of public sector reforms. While acknowledging these, we found that the current range and nature of military operations is causing stress in Defence, and excessive pressures on senior people. We also found that the organisation has confused its accountabilities, and that there is a lack of alignment between responsibility and accountability in key parts of the organisation.

While past reforms have led to a more effective organisation, we found that the current comparative wealth of Defence means that there is now less concern about efficiency than in the past. Management information is inadequate, and many of the processes we would have expected to find to support such a large, complex organisation (information technology and human resources) are also deficient and in some cases not aligned with the desired future direction of Defence.

We propose a number of changes to Defence's internal management to ensure that it is better able to meet current and future demands. These changes will impact on the higher organisational structure and committee system. We also propose the recruitment of specialist external people to a few key executive roles to improve management skills and processes, specifically in information technology and human resources. We address the need for a sense of urgency around these changes and for the senior leaders to own them and drive them within Defence and most importantly, we advocate clear accountability for resources and outcomes. In addition, we address issues around implementation of our recommendations, including timing, costs and risks.

We have been careful to focus on delivering a practical, implementable report. This will assist in aligning the organisation and ensure that, whatever the military operations the ADF is called to participate in, the whole of Defence will be able to support that effort, while undertaking the other tasks required of it by the Government.

## 1: BACKGROUND, CONTEXT AND ISSUES

1.1 This Chapter opens by explaining the rationale behind the Review and its Terms of Reference (ToR). It then looks at the external factors which both drive Defence in its day-to-day work and impose upon Defence the need for continuous change and improvement. Previous reviews and their success or otherwise are described. It notes Defence's achievements and gives the first brief indication of those areas where change and improvement have not kept pace with external demands.

### **Rationale for the Review**

1.2 The Minister for Defence formally announced a review into the organisational efficiency and effectiveness of the Defence organisation on 18 August 2006, having foreshadowed the need for such a review in May 2006. The ToR are in the preliminary section of this report. The rationale behind the ToR might be seen as:

- The passing of ten years since the Defence Efficiency Review (DER), which put in place most of the current business process in Defence and which, in its own report, recommended periodic review of its outcomes. No such review had been conducted since the DER.
- The challenge for any new Minister and his staff to become familiar with the complexities of Defence, and their need to understand fully the way the organisation conducts its business.
- The apparent success of externally driven reforms in the Defence Materiel Organisation (DMO) arising from the Defence Procurement Review ('Kinnaird Review').
- The pace of external change impacting on Defence.
- Ongoing audit attention by the Australian National Audit Office (ANAO) to Defence's business processes.
- Obvious shortcomings in the flow of management information in Defence and in its IT infrastructure.

### **External Impacts on Defence**

1.3 While most of the above is self-explanatory, the pace of change deserves more description. It can fairly be said that at no time in the last 50 years has Defence been required to respond to so many external drivers, most of which are beyond its ability to regulate in terms of demand and timing. These influences should not be seen as necessarily negative—indeed most are positive—but they all demand that Defence change its way of doing business. Prominent among these are:

- The changing nature of current conflict, demanding as it does a whole-of-government approach and a wide-ranging flexibility of scope in the tasks required of the ADF.
- A consistent increase in the operational tempo and the consequences in terms of strategic comprehension, commitment and sustainability.
- Government commitments to increase the defence budget by an average of 3% real growth until 2015-16, creating relative economic security in Defence. This leads to a new challenge of managing increased budgets and at the same time delivering a significant investment program.
- Current and projected demographic and economic trends impacting on the ability to sustain the Defence workforce.
- The demands of strong, Cabinet-led government and close ministerial involvement.
- The intense and public scrutiny by the Parliament and the media of Defence.

1.4 The Government and the Defence organisation have attempted to respond to these challenges through both internally and externally driven changes and reviews. It is not intended to list them all or to expand on their many achievements, but for the purposes of this Review it is necessary to acknowledge and comprehend the more important of them to understand the scope and depth of the journey that Defence has undertaken in recent years.

### **Defence Reviews**

- The DER of 1996–1997 (externally driven) and its internal implementation program, the Defence Reform Program, sought efficiencies through rationalisation of support functions and reduction of duplication of effort throughout Defence. The current Defence service provider model and shared service organisations have their origin in this review.
- The Senate Select Committee review of ‘A Certain Maritime Incident’ (2001–2002), and the complementary internal reviews, led to a number of changes to procedures relating to the passage of information between Defence and the Minister.
- The 2003 Defence Procurement Review (‘Kinnaird Review’) led to the establishment of the DMO and the Capability Development Group (CDG) and the introduction of more professional and business-like processes in procurement and sustainment.
- The 2004 Report of the Inquiry into Australian Intelligence Agencies (‘Flood Review’) led to improvement in the management of the three intelligence agencies within Defence.

- The 2004 Boston Consulting Group study of the Defence Information Environment led to a reorganisation of the Chief Information Officer Group (CIOG).
- The 2005 Review of Recruitment and Retention ('Henry Review') led to further internal activity and current initiatives in these areas.
- The 2005 Review of Australian Defence Force Higher Command and Control Arrangements ('Wilson Review') established a streamlined, joint model for staffing the operational headquarters.

## **Defence Achievements**

1.5 Partly as a result of these and other external influences, and partly because of the efforts of the leadership of Defence over recent years, much has been achieved in meeting the challenges which have confronted Defence. While the most visible of Defence's achievements are in the ADF's operational performance, the broader Defence organisation has undergone significant reforms in the last few decades to support both ADF operations and increasing demands for efficiency and accountability. Much of this has gone unrecognised.

1.6 Defence has become a significantly more efficient organisation. Throughout the 1980s and 1990s Defence corporatised and then privatised industrial activities, embarked on significant programs of civilianisation and outsourcing, consolidated support functions into more streamlined service provider organisations and introduced corporate-wide networks and information services. The Defence workforce dropped from around 70,000 full-time ADF and 40,000 civilians to 52,400 ADF and 18,600 civilians,<sup>1</sup> at the same time maintaining and in some areas enhancing capability.

1.7 Defence has embarked on the largest re-equipment exercise since the 1960s. Since the 2000 White Paper, over \$85 billion worth of projects have been approved and planned.<sup>2</sup> Defence has made significant changes to improve its performance including establishing the DMO as a prescribed agency, placing new emphasis on the professional standards of acquisition staff, and more rigorously enforcing the two-pass process for gaining government endorsement of new capabilities. As part of the more disciplined approach identified in the Kinnaird Review, Defence has produced the first of what will be a series of classified updates called the Defence Planning Guidance.

1.8 Defence command and control arrangements have been progressively refined to reflect the essentially joint nature of modern warfare. From establishing the first standing joint headquarters in the 1980s, Defence has now established a fully joint operational headquarters to command all operations. The new Headquarters Joint

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<sup>1</sup> Defence Annual Report 2005–06. These figures show ADF Permanent Force members and APS ongoing employees.

<sup>2</sup> The Defence Capability Plan 2006–2016 quotes \$79 billion worth of projects. In addition, the Government has recently announced \$6 billion for new Super Hornet aircraft, to be fully supplemented in the 2007–08 Budget.

Operations Command will move into purpose-built facilities at Bungendore when they are complete.

1.9 A major challenge for Defence has been changing financial accounting standards. Because of its size, complexity and the number and variety of assets, Defence was affected by these changes more than most government departments. Improving Defence's financial statements required significant work including mapping financial processes, documenting controls, stocktaking and cataloguing, and improving financial skills. There was a significant turnaround in 2005–06. Now only Inventory and Repairable Items is the subject of audit qualification, and significant progress has been made with this.

1.10 Defence has become a better place to work. Each of the Services has introduced programs to emphasise organisational values. There has been extensive reform of the military justice system to ensure better provision for both discipline and fairness. Defence has made significant progress in breaking the stereotype of being a workplace for fit, Anglo-Celtic males. Defence disability management strategy won the 2005 Diversity@work award for large organisations. In addition, Defence won awards in the 2001 and 2003 Australian Public Service Workplace Equity and Diversity Awards.

1.11 There is a greater sense of Defence as a corporate whole, with a common mission. Defence has increasingly taken a more joint and integrated perspective on its activities. Integrated organisations and processes are the norm across most of Defence. Virtually all ADF officers have been exposed to joint education through ADFA, the staff colleges, or other joint schools.

### **Continuing Challenges to Defence's Continuing Success**

1.12 Despite the undoubted achievement of the last decade, Defence continues to be challenged, largely by the external demands mentioned earlier, and will be required to respond to these challenges swiftly and effectively. This Review sees the primary concerns, in relation to Defence's ability to do this, in the following terms:

- The nature and scope of the current operational tempo is stressing the organisation, suggesting that organisationally and in workforce terms it is not well balanced. The focus of the most senior leadership seems to be directed overwhelmingly towards military operations.
- Accountabilities are confused, absent or accorded a low priority.
- The comparative wealth of the organisation undermines respect for cost and efficiency.
- There are issues of lack of confidence in corporate commitment at higher levels leading to a misalignment of intent and action.
- In some areas there is misalignment between the strategy and the business. Information and communication technology (ICT) and human resources (HR) are two such examples.

- There is concern that the financial ability to acquire new equipment and infrastructure should be matched by the ability to sustain that equipment into the future.

1.13 Much of this is recognised at the very highest levels of Defence, but less so in other areas of the organisation. Before moving on to specific issues it will therefore be useful to look briefly at how the organisation sees itself.





## 2: DEFENCE TODAY—THE VIEW FROM WITHIN

2.1 Following the external view of the issues facing Defence as outlined in Chapter 1, this Chapter seeks to describe the current Defence organisation and capture some of what Defence believes about itself. It looks to identify and describe the internal drivers of senior leadership behaviour. Importantly it seeks to portray the sense of dominance of the day-to-day issues driven by the operational and administrative tempo that is so evident in talking to Defence's senior leadership. The Chapter does not seek to resolve issues, but to give a sense of the organisational and belief systems that dictate how Defence performs.

### What interviewees told us

"Defence is not unique in terms of size and complexity (e.g. Kodak, Microsoft, Siemens), but the sense that it is unique serves as a comfort internally."

### The Defence Organisation

2.2 The current high-level structure of the Defence organisation is shown at Annex A.

- Essentially the CDF and the Secretary exert close control over the Australian Defence Headquarters (ADHQ), which comprises military operations, strategy, capability development, finance, personnel and a coordination function.
- Two of those functions, operations and strategy, are regarded as Defence outcomes. The other Defence outcomes (Navy, Army, Air Force and Intelligence and Security) sit outside ADHQ, as do the enabling organisations, DMO, Defence Support Group (DSG), Chief Information Officer Group (CIOG), Joint Logistics Group (JLG) and the Defence Science and Technology Organisation (DSTO).
- The DMO is a prescribed agency, giving its head a direct responsibility to the Minister for the DMO's performance and a degree of financial independence.
- The Vice Chief of the Defence Force (VCDF) (who is also responsible for operations) and the Service Chiefs are statutory appointments under the *Defence Act 1903*, under which the Service Chiefs have a responsibility to advise the Minister on issues concerning their Services.
- The heads of all of these organisations outside the ADHQ are responsible and accountable to the CDF and the Secretary although, in practice, control is clearly less tightly exercised than for those inside the ADHQ. These 'external' organisations are therefore run as semi-independent entities.
- Financially, the Chief Finance Officer (CFO) exercises supervision across the portfolio on behalf of the Secretary (including, but to a lesser degree, the DMO), with an increasingly improving awareness and ability to intervene when problems arise or are foreseen.

- Since the DER, the provision of common services has moved into the hands of large service provider organisations: DMO for equipment acquisition and sustainment; DSG for estate acquisition and maintenance, health services, legal services, garrison support and parts of Information and Communication Technology (ICT); and CIO Group for ICT policy and some parts of ICT provision and support. Governance arrangements are as yet immature, process and pricing of services are invisible to most. These issues are dealt with in later chapters.

2.3 The most unusual part of the Defence model is the diarchy, under which the Secretary and the CDF share responsibility and accountability for most of the functions in Defence. There are two significant exceptions: CDF commands military operations and the Secretary is responsible for finance under the *Financial Management and Accountability Act 1997* (FMA Act). The wisdom of this is dealt with in Chapter 5, but we would note here that the consequences of the diarchy are many and are felt at all levels of the Canberra-based elements of the Defence organisation.

### **Operational Model**

2.4 Since 1996 Defence has had a joint structure for the conduct of operations. This is progressively being strengthened and integrated under the operational leadership of the VCDF, drawing on the experience of recent and current operations. Under this approach the Services provide trained and equipped forces to the CDF for operational employment and the CDF employs those forces on operations. This Review has no charter to comment on these processes per se but they are described in brief because (together with the Intelligence and Strategy outputs) they comprise the business of Defence. Everything else examined in this Review only exists to enable these functions. The Review Team was highly conscious of this and requests the reader to maintain a similar awareness.

### **Internal Drivers – Defence Cultures**

2.5 Defence comprises at least four organisations (Navy, Army, Air Force and the Australian Public Service [APS]), which have their own organisational culture. It may well be that there are seven cultures, given that the joint military world and the DMO are developing entities in their own right and that the DSTO has always been different from the mainstream APS. At their best, these cultures are similar in that they are all task-focused, team-oriented, self-confident and have a ‘can-do’ attitude. At their worst they can be risk-averse, insensitive to cost, rule-bound and tribalistic. These qualities are offered as context for the issues the Review has been asked to deal with, although indeed some of the less admirable traits are the subject of this Review.

2.6 A contextual issue for this Review is the relevance to the vast majority of Defence personnel outside Canberra of much of what is written and said about Defence management. Senior management problems in Canberra are seen as remote to most in the field. So a central issue for Defence leadership is in separating that which has universal relevance from that which is for Canberra management

only, and getting the message across in a manner which is both understood and acted upon.

### **How Defence Sees Itself – the Senior View**

2.7 In our informal discussions, most of the Defence hierarchy sees itself as consumed by the operational tempo and the management of day-to-day issues. The leadership believes that it is stretched in operational policy and planning and in some operational categories. The Government has agreed to increase ADF personnel numbers, but Defence has great and increasing difficulty in recruitment and retention, much of which it sees as due to nationally favourable economic circumstances and an unfavourable demographic outlook. Defence has secured Government commitment to its future force structure and is acquitting itself well operationally. It has centralised its operational and response structures in order to respond better to current demands. Improved delivery of materiel, sustainment and services is now in the hands of a new generation of civilian expertise, as is the continued remediation of Defence's accounts. Enterprise Resource Planning (ERP) systems remain an issue where inadequacy is recognised, as is lack of traction in finding a solution. Business improvement is in the hands of the accountants and enablers and does not directly involve those who deliver Defence outcomes. Many see little reason to change, other than as is necessary to secure the future workforce and to ensure the flow of funds from Government—in which sense some already predict potential for a leaner future despite a Government commitment to 3% real growth for the next ten years.

### **The Less Senior View**

2.8 At the next level down, all agree that operational tempo is the greatest driver of behaviour. This in turn engenders consequences in the minds of many, but admittedly not all, which perhaps does not accord with the more sanguine state expressed in the previous paragraph. The Review heard much at this level about:

- Overworking of senior people.
- A focus on exposing and dealing with current problems, but not necessarily attending to broader and longer-term responsibilities and outcomes.
- A lack of clarity and understanding of the legitimate needs of Government among senior military personnel as they themselves deal with increasing operational responsibilities.
- A similar lack of understanding by ministerial staff of the demands on senior Defence personnel of running the Department and concurrent operations as ministerial staff seek to satisfy the legitimate demands of Government.
- Over-centralisation and upwards delegation in order to reduce the risk of mistake, increasing already large workloads and slowing down response times.
- A reactive and overly intense response to issues of media interest.

- An overly secretive approach to issues of public interest.
- A tendency to plan inadequately for the demands of the future.
- A belief that performance is adequately measured by the operational outcome.
- Less focus on those parts of the organisation that are not directly impacting on operations.
- The over-exercise of organisational independence without due regard for corporate intent or action.

2.9 We have considerable sympathy with these views. It is necessary to compare the confident Defence view of its operational success with the preceding paragraph and the closing comments of Chapter 1. Taken together, they imply that while Defence has made significant advances in many areas, in other areas it might not be so well-placed were it to confront a financially less secure future, due to the combined effects of the tempo and scope of current operations, the lack of real accountabilities and an apparent indifference to efficiency. The following chapters of this report are directed towards resolving these challenges.

### 3: DEFENCE TODAY—THE VIEW FROM OUTSIDE

3.1 This Chapter examines external views of Defence, looks at some of the current impediments to effective relationships with Defence, and makes recommendations for improvements.

3.2 In the course of the Review we spoke with an extensive range of stakeholders, as we sought to develop an understanding of perceptions and attitudes towards Defence. We divided the key relationships into two groups:

- external stakeholders including other government agencies and industry; and
- ministerial relationships.

#### External Views

3.3 The national security architecture that has evolved since 1996 has led to a much closer working relationship with other parts of the Federal Government. The changing scope and tempo of operations have taken national security and defence to centre stage in Government, and Defence is integral to the functioning of two key committees of Government: the National Security Committee of Cabinet and the Secretaries' Committee on National Security.

3.4 The changing nature of operations and the need to improve the efficiency of Defence has also seen rapid change in the way Defence does business. This has included ongoing market testing and outsourcing of work previously done internally, through the Commercial Support Program from 1991, and more significantly on the back of the DER. This has led to greater interaction with the private sector.

3.5 We sought the views of the heads of relevant Commonwealth agencies as well as the representatives of companies which are contractors to Defence, or otherwise providers of Defence services. We also sought the views of key think-tanks and other informed observers of the organisation.

3.6 The picture which emerges is one of a complex, sometimes unwieldy organisation that can be slow to respond. It differs from the rest of the Commonwealth public sector not only in size, scale and complexity but also in not having adopted readily the financial and other management reforms of recent times. The fact that the previous Secretary had to spend so much time and energy on financial management issues is testimony to the fact that Defence was slow to respond to government decisions on issues such as accrual accounting and the Australian Accounting Standards.

3.7 Everyone we interviewed acknowledged the enormous effort that has gone into the military operations over the last decade in numerous countries. They paid great tribute to the efforts of the men and women serving abroad and the significant effort in the broader Defence organisation to support deployments. However, to many outside observers, the organisation is somewhat of a mystery. It does not

operate like other large organisations, even in its administrative functions. Within the APS, Defence is perceived as insular and inwardly focused.

3.8 This is not the case at senior government and industry levels. The senior public servants we spoke to acknowledge the central role Defence plays in both policy and operational matters, and support this role. They are aware, however, of shortcomings in the work of Defence, in particular around policy development. What is most obvious to those outside Defence is the quality and timeliness of policy advice to government. There is a perception that Defence staff, and specifically

military staff, do not have a well-developed understanding of the policy development process or of the importance of providing advice to government. There is also a question about the adequacy of training provided in these roles through staff colleges (and in other ways) before military officers take on senior roles in Canberra. We have more to say about this in Chapter 6.

**What interviewees told us**

“I believe that at times Defence sees the Government as an ‘obstacle’.”

“The information flow can be frustrating. The Minister’s saying “I am informed that...” but other things tend to turn up later. Abu Ghraib was one instance of this.”

“The general point is that the relationship generally works very well. There is extensive consultation... As with any relationship, there is a need to keep working on it. Defence’s size and complexity make it difficult for outsiders to penetrate. You can’t always be sure that a Defence view is *the* Defence view... Defence advice can be slow, too detailed and too technical.”

“It’s a matter of basic systems and convincing people to use them, even when under pressure.”

“Only a change of culture will prevent problems recurring.”

3.9 Other issues raised by senior public servants outside Defence included perceptions of the absence of accountability in Defence; a traditional, excessively rules-based culture; confusion in Defence about the role of the Minister; slowness of decision making; the isolation of Defence from the rest of the public service; and a lack of agility, trust and empowerment.

3.10 The private sector people we spoke to raised similar issues in terms of responsiveness to external stakeholders. They were, however, largely supportive of Defence. Their key concerns are outside our Terms of Reference.

3.11 We spoke to a number of well-informed observers of Defence. While they too were largely supportive, they spoke of a number of problems. These included deficiencies in leadership, especially around accountability and responsibility; a disconnect between strategy and capability; and the pressures on senior leaders. A common concern was the perceived lack of clarity in the roles and responsibilities of over-burdened senior officials, both military and civilian.

3.12 Many commentators argued that the committee structure within Defence compounds accountability issues by making several people responsible for any one project or decision. This diffusion is cascaded down to the lower levels of management and ingrained as part of the culture.

3.13 Finally, there was a great deal of focus on Defence’s strategic approach and the breakdown of the link between strategic thinking and capability. A number of

commentators drew particular attention to a degradation of skill and experience in strategic policy, including among the civilian workforce. We found no particular disagreement with this view within Defence, but based on our discussion with the Senior Leadership we are satisfied that Defence has recognised this and taken steps to address the shortfall. We recommend that Defence continue to give focus to Defence strategic policy and planning capability.

## **Ministerial Relationships**

3.14 The Defence portfolio has not had the stability that some other portfolios have had over the last decade or so. For example, Prime Minister and Cabinet, Treasury and Foreign Affairs and Trade have had the same ministers for a decade. The turnover of Defence ministers, secretaries and CDFs has meant that Defence has had to establish and then re-establish relationships between these office-holders, each with different personalities and styles, and this of course extends to turnover of ministerial staff. Within these dynamics, relationship management does not seem to have been made the priority that one might expect.

3.15 In his valedictory speech, the former Secretary of the Department of Defence observed that the size and role of ministerial offices had grown significantly, and that ministerial staff have become a whole new level of government, providing ministers with policy advice independent of their departments. At the same time, the job of ministers has become more demanding as they cope with the rapid pace of the information age, the growing volumes of departmental advice and the expectations that they can reach into the detailed workings of their departments. The agreed implications are that public servants need to consider dealing with the ministers' offices as a job-critical skill and need to be sensitive to the policy and political implications of their decisions. We would also agree with the former Secretary's recommendation that workshops should be held for newly appointed ministers and agency heads on their respective roles and responsibilities.<sup>1</sup>

3.16 Defence has two ministers and a parliamentary secretary. While all appreciate the work of Defence and entirely support the operational effort, all pointed to opportunities for Defence to improve its support for their activities as ministers. Issues raised included concern about lack of fiscal discipline; lack of benchmarking; little integration of HR and ICT; an organisation that values process over outcomes; variable responsiveness to the needs of government; the quality, reliability and timeliness of some of the advice to government; and limited understanding of the need for a whole-of-government approach.

3.17 The perception of unresponsiveness has led to tension in the ministerial-departmental relationship. While this is a problem, we believe that immediate steps can be taken to turn this around. Indeed, during our time reviewing Defence, it was clear that this was underway. Part of the problem lies in the expectations that the various players have of each other and of their roles.

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<sup>1</sup> Ric Smith, *Thirty-eight years in the vineyard: a valedictory address*, 29 November 2006. Available at <<http://www.apsc.gov.au/media/smith.pdf>>.

3.18 The Australian Public Service Commission (APSC) guide, *Supporting Ministers, Upholding the Values—a good practice guide*,<sup>2</sup> outlines a number of better practice principles for working with ministers and their staff. The guide emphasises the importance of a quick response to requests from the ministerial office (and early warning where the advice might take longer to compile) and using the modes of communication that suit the minister's staff.

3.19 The perception is that Defence performance in quality, reliability and timeliness of advice remains poor despite having many of the better practice processes in place. In examining the issue, we concluded that the factors behind this were:

- The lack of common understanding between ministers' offices and Defence can mean that expectations are not always met.
- The size, complexity and hierarchical nature of Defence can delay responses.
- A culture in Defence which emphasises due process over timely responses.
- Lines of communication to the Minister and his office are limited to very few people (the Secretary and CDF, for example) and not many others.

#### *Relationship Building with Ministerial Offices—Building Closer Links*

3.20 Many of these factors could be dealt with by improving familiarity between Defence staff and ministerial staff about respective roles and expectations, and improving responsiveness to ministerial needs within Defence.

3.21 Defence, like all portfolios, provides substantial briefings for incoming ministers. While it is always a very busy time when a new minister and his or her staff arrive in a portfolio we recommend that Defence undertake more extensive induction for the minister and advisers, to begin to educate new staff about Defence. At the same time, senior departmental staff should seek briefs from ministerial staff for advice on a new minister's requirements and expectations.

3.22 The physical distance between Parliament House and Defence's various Canberra offices means that people need to work hard at engaging each other on an ongoing basis about their shared roles. It would be easier if there were an induction process both when a new minister and his or her staff arrive, and when new staff arrive in the minister's office. We see merit in the idea of workshops for the new teams and their departmental counterparts focusing on their respective roles and responsibilities. This approach has been used in the United Kingdom since 1997.

3.23 Defence's size, hierarchy, and reliance on due process are necessary and understandable for a military organisation where the key output to government is military capability and the ability to conduct operations. Nevertheless, it is clear that in the central, Canberra-based headquarters more needs to be done to build a

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<sup>2</sup> Australian Public Service Commission, 2006. Available at <<http://www.apsc.gov.au/publications06/supportingministers.htm>>.



common understanding of what is required to support the ministers, to build good relationships with ministers and staff, and to adapt existing processes to make them more timely and responsive. We recommend that Defence review the tasking and clearance process for rapid response inputs like Question Time Briefs, and delegate responsibility to the most appropriate level. Obviously, this will need to be supported by clear directions of expectations and performance requirements.

3.24 We recommend increased training for Defence staff to improve their understanding of how to best support ministers. We are aware of a number of initiatives that already exist in this area, and would encourage Defence to build on existing tools like the Senate's half day seminar *Parliament, Privilege and Accountability*, which all Senior Leadership Group (SLG) members are required to attend; existing ministerial writing courses; and the courses under development in the newly formed Ministerial Awareness and Training Section. We would also see benefit in ADF One Star officers on promotion in Canberra attending APSC orientation activities for the Senior Executive Service (SES).

3.25 Both familiarity and responsiveness would be assisted by SLG members being encouraged to improve their external communication skills and engage effectively with ministerial offices, which would also relieve some of the pressure on already overstretched senior people. As noted above, dealing with ministers' offices is a job-critical skill, and the importance of such skills might be facilitated by getting an external stakeholder perspective (including from ministerial staff where relevant) via 360 degree appraisals for SLG members, which we recommend.

**What we were told in submissions**

"Defence management will continue to be a problem for successive Defence Ministers until they develop a climate of partnership founded on trust and mutual respect."

**Observations – Defence Information Management Processes**

3.26 Part of the problem with Defence performance in this area lies with the quality and accessibility of the management information available within Defence. It is not of the level which we would have expected to find in such an organisation. Defence does not have the tools to have real-time visibility of its processes and at times struggles to respond as quickly as it might to stakeholder requests, or does so in a way where the desired level of quality is missing.

3.27 A number of factors relate directly to the quality of Defence's ICT. For instance, poor Intranet design, unconnected networks and systems, inadequacies in electronic record-keeping technology, lack of an integrated ICT strategy, and under-investment in ICT for business purposes are a fundamental cause of many of the problems outlined above. We deal with answers to some of these issues in Chapter 8.

3.28 Organisational culture and design contribute to poor external communication. It is perhaps not surprising that an organisation the size of Defence should display many characteristics of a silo-based organisation. This means that information is not well shared or communicated, and again reinforces the pressure on senior people to know everything. This is particularly so in the Russell Offices.

3.29 Further, many key processes span Defence groups and accountability is not adequately assigned. Ambiguity about roles and responsibilities, combined with incompletely defined business processes, can make finding a responsible manager who has easy access to the relevant facts more difficult than it should be. This is the subject of the next chapter.

### **Recommendations**

The Review team recommends that:

- R1 Defence continue to give focus to Defence strategic policy and planning capability. [3.13]
- R2 Defence undertake more extensive induction for incoming Ministers and advisers and senior departmental staff, to educate new staff about Defence. This might include workshops for new ministerial teams and their departmental counterparts, focusing on their respective roles and responsibilities. [3.21 and 3.22]
- R3 Defence review the tasking and clearance process for rapid response Ministerial inputs like Question Time Briefs, and delegate responsibility to the most appropriate level. [3.23]
- R4 Defence increase training for Defence staff to improve the understanding of how to best support Ministers. This might include building on existing training tools like the Senior Leadership Group (SLG) attendance at the Senate's half-day seminar *Parliament, Privilege and Accountability*; existing ministerial writing courses; and the courses under development in the newly formed Ministerial Awareness and Training Section. [3.24]
- R5 In order to improve external communication skills, Defence introduce a 360 degree appraisal process for SLG members, which includes an external stakeholder perspective. [3.25]

## 4: ACCOUNTABILITY AND SERVICE DELIVERY IN DEFENCE

4.1 This Chapter is in many ways pivotal to this whole report. It goes to the heart of efficiency and effectiveness. We examine the current business model in the light of organisational best practice and propose ways to make it work better.

4.2 It is evident from all we have observed and been told that the Defence organisation, if measured in terms of outputs to government, is effective. However, Defence is not well supported by the governance, accountability or information systems that are required to manage efficiently.

4.3 With that in mind, this Chapter looks at improving Defence business processes and building the necessary tools to refine the Defence service delivery model and address efficiency in Defence.

4.4 While the principles described below apply to organisations generally, this Chapter focuses on the delivery of ‘shared services’<sup>1</sup> to Defence groups. We have not investigated in detail all the service delivery organisations, but on the basis of size, cost and complexity have focused on the Defence Support Group (DSG) and the Chief Information Officer Group (CIOG). The principles we will outline for shared services apply equally across Defence.

### **Business Process Design in Large Complex Organisations—the Service Provider Model**

4.5 Any large organisation would typically be built around a structure that includes leadership; policy and strategy; operations or business units; and service provision.

4.6 Best practice leadership would be characterised by articulation of a vision for the organisation, a strategy for the future, and a relentless commitment to both. Effective leaders demand adherence to the organisation’s vision and strategy, set the example for organisational behaviour, and act decisively when required standards are not met.

4.7 The strategy or policy function would be focused on translating the vision into the organisation’s business plan; and the operations or business units would deliver the outputs. Most large organisations have a number of shared or corporate service elements delivering HR, ICT, finance and other corporate functions. The last decade has seen a strong trend in the public sector to shared service models to consolidate and standardise support functions and drive efficiencies.<sup>2</sup>

4.8 Supporting the shared service part of the business, one would expect to see a model that encompassed:

- accountability

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<sup>1</sup> While Defence does not yet have a genuine shared service model, we use the term as commonly understood in the public sector.

<sup>2</sup> Accenture (2005), *Driving High Performance in Government: Maximising the Value of Public Sector Shared Services*, Accenture Government Executive Series.

- governance mechanisms
- relationships
- cost visibility and transparency of cost structures
- business processes
- product standardisation
- continuous improvement.

4.9 The primary function of **accountability** arrangements is to ensure principles of personal responsibility and consequences for outcomes, clarity of roles, and clarity of communications about decisions and actions. As a general indicator, an organisation with effective accountability arrangements will have staff and management who accept responsibility and know, understand and communicate clearly their own roles, powers and responsibilities and how these relate to others in the organisation. Within service delivery models, this would recognise the individual accountabilities of providers (timeliness, quality and cost), users (priorities, standards, payment) and business owners (demand and cost).

4.10 **Governance mechanisms** would include agreement to the business model, a top-down strategy; clarity of organisational roles and responsibilities; and arrangements to agree and measure performance and conformance. Specific governance structures would also be in place for service delivery arrangements, and would include Agreements, Service Level Agreements (SLAs) or Customer Supplier Agreements (CSAs), that include metrics to define services, quality, cost, timeframe, agreed communication mechanisms, mutual obligations and dispute resolution.

4.11 **Relationships** would focus on the business of the organisation and a common understanding of constraints and ambitions within the organisation, and would be characterised by trust, transparency and mutual obligation.

4.12 **Cost visibility and transparency of cost structures** of elements of the business model and of service delivery would be available via management information systems and could be contested, including through competitive tendering. All users of services would be aware of the costs of any services provided to them.

4.13 **Business processes** would be understood end-to-end. There would be clear ownership of business processes, links to management information systems and agreement across the organisation to adhere to these processes.

4.14 **Product standardisation** would provide a known baseline of products and services which in turn would lead to greater visibility of the services delivered for a given cost, reduced ambiguity as to the quantum of service delivery, easier construction of SLAs and opportunities to achieve greater efficiency of scale.

4.15 A **continuous improvement** model would seek ongoing productivity improvements based on well-conceived metrics. It would include identifying and addressing impacts of organisational change on the business model. Any savings brought about through improvements would be shared on a previously agreed basis, and could include price reductions, improvements in service quality, introduction of new services, or a combination of these.

## Defence and the Service Provider Model

4.16 Defence's leadership model will be dealt with more fully in Chapter 5, but we have formed the view that the diarchy, and the reality of a two-headed organisation, leads to a diffusion of commitment to and compliance with leadership visions and goals throughout the organisation. Moreover, achieving consistency in articulating a vision and strategy will always be more difficult in a diarchy than in an organisation with one leader.

4.17 The Secretary and CDF must set the vision and strategic direction for Defence jointly and must ensure adherence to the strategic direction and corporate governance and confront the consequences when adherence does not occur.

4.18 Defence currently translates its vision and strategy through a hierarchy of documents and planning processes. These are in turn delivered by the business units of Defence, supported by the enabling groups. We have formed no views on this part of the organisation, other than those described in Chapter 5 in terms of higher organisation and decision making structures.

4.19 The Defence organisation exists to provide military capability to the Government for the conduct of military operations, and every aspect of the organisation must contribute to that objective. The core elements of this objective—strategy, capability development, the 'raise-train-sustain' function of the Navy, Army and Air Force, and the conduct of operations—are clearly articulated, well understood, and the clear focus of the senior leadership. Conversely, keeping adequate focus on the elements of Defence that support the core purpose is one of the key challenges for Defence management today.

4.20 The 1996 DER and subsequent Defence Reform Program fundamentally reshaped the business elements of Defence by establishing centrally coordinated and controlled shared support services. The DER proposed a number of reforms to reduce duplication across the Navy, Army, Air Force and APS, and where possible to rationalise and perform functions jointly, with a view to greater economy, efficiency and effectiveness in the provision of personnel, education and training, health, legal, logistics, facilities, information technology and administrative support services. The central premise for these reforms was to realise efficiencies and budget savings for reinvestment in the ADF capability; and to improve the 'teeth to tail' ratio of ADF members performing operational and support roles. The DER report stated:

"Predominantly, we have recommended the creation of strong cross-Service structures to force efficiencies and effectiveness improvements. We are ourselves uncomfortable with the apparently centralised nature of some of the arrangements we have proposed, and we accordingly regard them as temporary."<sup>3</sup>

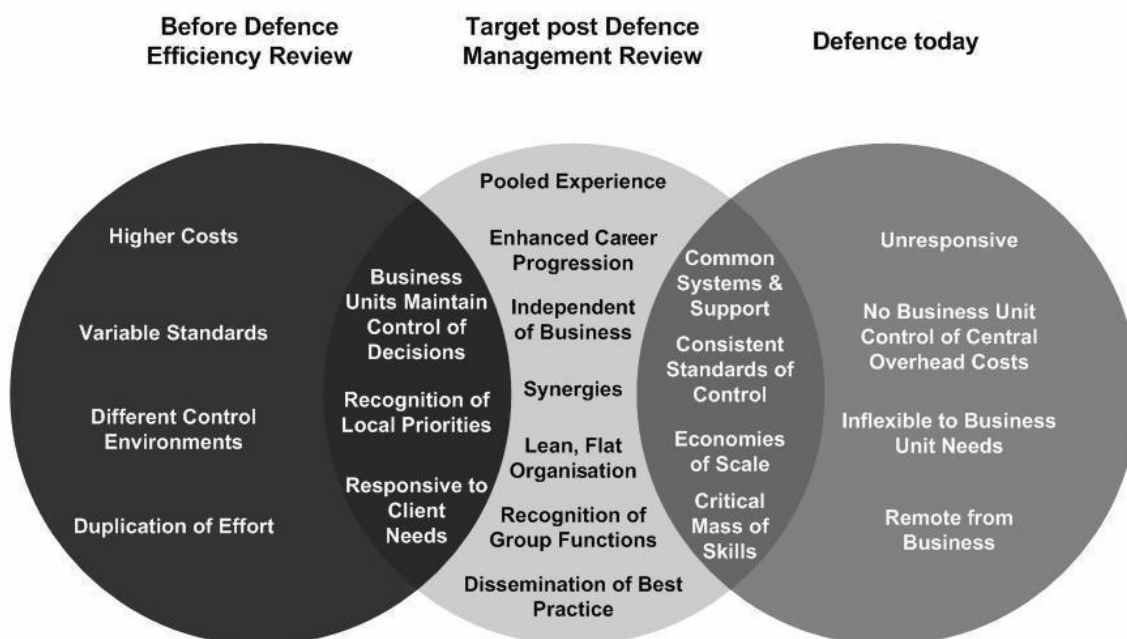
4.21 Since the DER, Defence has been centralising the purchase and delivery of these 'shared services' and is to be commended on its achievement to date. The DER measures resulted in net recurrent savings of \$457 million by 1999–2000 and a

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<sup>3</sup> *Report of the Defence Efficiency Review 1997*, vol. 1 p.55.

total of \$77 million in one-off savings.<sup>4</sup> The original model has evolved significantly over the last decade, and the shared service elements have been progressively 'grouped up' to a number of key entities: DMO, DSG, Joint Logistics Group (JLG), CIOG and the Personnel Executive (PE). The Defence shared service model has reached different levels of maturity in these various groups. We will say more about the specifics of the Defence shared service model below, but it was evident from our investigations that the shared service model is at the heart of a number of issues around accountability and satisfaction in Defence.

4.22 The description of service delivery models below<sup>5</sup> represents the evolution Defence has undergone from prior to the DER to the current situation, and suggests a possible evolution to a more balanced shared service model.



Source: Adapted from Shared Services: Adding Value to the Business Units by Donniel Schulman et al ISBN 0-471-31621-0

4.23 In order to deal more fully with the health of the current Defence service delivery model and progress toward a more balanced model, as above, we have contrasted our observations of Defence with the description of typical organisational elements outlined in paragraph 4.8 above.

<sup>4</sup> Year 2000 dollars. Australian National Audit Office (2001), *Defence Reform Program: Management and Outcomes*, Audit Report No.16 2001–2002, paragraph 2.19.

<sup>5</sup> Schulman et al. (1999). *Shared Service: Adding Value to the Business Units*, PriceWaterhouseCoopers.

## Accountability

4.24 In Chapter 1 we noted among our first impressions the apparent lack of accountability in Defence, an inadequate focus on cost and efficiency and a lack of confidence in corporate commitment at higher levels leading to misalignment of intent and action. During our review, this issue was commented on extensively by many people.

4.25 At a macro level, accountability in Defence has been diffused by lack of commitment, role clarity and consequences within Defence, particularly as the shared service model has evolved over the last ten years. Defence is a complex business, with many diverse elements. There are six real businesses (outputs to Government): Navy, Army, Air Force; Operations, Intelligence, Strategy. But in the post DER model, the creation of large enabling support groups has at times blurred the 'real business' and these enablers have themselves operated as separate businesses, confusing the focus on the Defence outcome.<sup>6</sup>

4.26 In Defence, the support groups deliver most of the services that enable Defence's business and spend a considerable part of the Defence budget. The output executives currently have little knowledge of how that money is spent, what the total cost of delivering a capability is, or whether the current way of doing business represents value for money. They are, realistically, not able to take personal responsibility for the outcomes of decisions taken in directing their business or to deal with the consequences of faulty decision making or mismanagement.

4.27 At the level of individual accountability, we found that existing governance mechanisms were limited in their usefulness; specifically, the Defence Charters would benefit from a much clearer statement of individual and shared

### What interviewees told us

"A sense of urgency or passion is limited when one does not 'own' a function, ...but at the same time I don't care to own the money—I just want a say in how it's spent."

"Accountability issues arise as a result of group heads having limited ability to manage flexibly. In my role, I am responsible for an agreed staff and budget, but I can't control numbers of ADF staff allocated and can't increase numbers of civilians."

"There are gaps in the lines of responsibility, both horizontally and vertically. The lines of accountability and responsibility are not clear."

"There is a significant lack of responsibility and accountability in Defence. I have observed over a long period of time that people in Defence insist on having processes set out for them so as to escape accountability—this is a systemic problem."

"There is evidence of corporate fragmentation—groups doing their own thing and getting away with it; behaving as owners rather than tenants; looking after their own interests with no regard to cost or the difficulties they cause other Defence stakeholders or the portfolio as a whole."

"As a general problem across the organisation, people just don't take accountability."

<sup>6</sup> 'Outcomes' and 'outputs' have a specific meaning in the budgetary context which we have not followed in the text. Since the 2003–04 Budget, Defence has seven outcomes: Command of Operations, Navy Capability, Army Capability, Air Force Capability, Strategic Policy, Intelligence, and Superannuation and Housing, each with a number of subordinate outputs. Prior to that, these were all defined as outputs contributing to a single outcome, '*The defence of Australia and its national interests*'. The older structure more closely reflects the plain English meaning of the terms.

responsibilities. The Charters lack a specific definition of accountability, contain overlap of accountabilities, and lack clarity of roles between group heads. Charters should resolve ongoing debate over issues of contention or previously agreed positions, eroded over the passage of time. We recommend that Defence governance structures, including Charters, be designed to facilitate real accountability by senior executives.

### *Governance mechanisms*

4.28 Within the service delivery model, the Defence shared service model is unique. Defence has a customer supplier model in which the supplier holds both the goods and the means of payment. The customer has a general agreement on demand and an overview of how that demand is satisfied in terms of effectiveness. Customers have no visibility of the cost of many services and the overheads being incurred, nor do they have any means of contesting the supplier.

4.29 This differs from most other shared-service arrangements which are typically either a purchaser-provider model, in which the user is allocated a budget and sets up fee-for-service arrangements with their suppliers (for example, Australia Post, Boral Limited and Centrelink); or an attributed budget model, in which the supplier has the funding, but maintains an attributed budget for each customer which is drawn against as services are provided. The supplier's budget is visible to the customer.<sup>7</sup> A number of NSW Government departments have adopted this model.

4.30 Defence's approach was originally adopted to avoid the cost of internal transactions to 'pay' for services and to free other Defence leaders from the burden of managing administrative overheads. The disadvantage has been that the model does not encourage customer co-ownership of Defence resource issues, nor a sense of accountability.

4.31 The service delivery model evolved over the last decade without being led by any executive vision of the desired business model. Ongoing changes to the structure and scope of service delivery groups have at times blurred the distinction between policy and service delivery. Management of the model has also fallen short: specifically, there is no sense of mutual obligation for shared service delivery functions at senior levels of the organisation or even general understanding and agreement about roles in the development of robust, mutually beneficial customer-supplier agreements. We recommend that the Defence leadership commit to a high-level business model which clearly defines roles and responsibilities, and distinguishes policy and core business from service delivery.

4.32 In terms of the maturity of service delivery models, we noted the effects of senior commitment and attention. The DMO, with the benefit of the Kinnaird Review and consequent intense management oversight, appears to be on the right track and its governance and processes are well defined and accepted. The still-evolving DSG has not had the benefit of the impetus of external intervention since 1996 nor of government and senior management focus. The main intervention has been to

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<sup>7</sup> Department of Defence (2005), *The Effectiveness of the Defence Customer–Supplier Model*, Portfolio Evaluation Report No 41.



progressively add into DSG support services from elsewhere in Defence—most recently, health and personnel services.

4.33 In a sense the DSG has long been the poor cousin, its products being less glamorous than those of the DMO and its struggle for resources much more difficult. Indeed, when we refer to a relatively wealthy Defence, we acknowledge that increased budgets are mainly directed at major capital equipment and much less towards estate management and facilities maintenance, garrison support or administrative support. So resources are hard won in these areas and yet, surprisingly, there seems to be little customer involvement in helping the supplier (DSG) become more efficient. We recommend that Defence senior leadership provide the DSG with a mandate on a par with that of the DMO in order to reform and improve the operation of the Group.

4.34 Accountabilities for externally contracted services are well understood and built into contracts in line with normal contractual arrangements, but in the internal relationship:

- Service providers lack basic metrics or key performance indicators of timeliness, quality and cost at a meaningful level.
- Payment is not the prerogative of the customer; nor do customers have visibility of the cost of services; or visibility of a meaningful bottom line against which costs could be attributed.
- There is poor understanding of the impact of demand on supply and an inability to inform decision making on the basis of cost or of changing priorities.
- Defence is reluctant to apply measures of performance with sanctions/rewards.
- Where Service Level Agreements (SLAs) exist, they have not evolved to a level of maturity that supports the business model. Existing SLAs are more about roles and responsibilities which should be dealt with in the Charters rather than in SLAs.
- Defence also seems to have no effective mechanisms for dispute resolutions, other than to resort to senior committees or the Secretary and CDF.

4.35 Our view is that Defence's internal agreements should reflect more of the rigour put into externally contracted services. Where service delivery relationships exist, we recommend agreements should include relevant performance metrics, including time, quality, cost and demand. Agreements should also be specific in terms of mutual obligations and dispute resolution at the appropriate level.

### *Relationships*

4.36 Evidence suggests that senior leaders do not have sufficient confidence in the corporate commitment of each other to work to achieve corporate goals.

Relationships are also impeded by both enablers and outputs having a limited understanding of constraints and ambitions. Again, the lack of cost visibility and the 'free good' mentality contribute to this. Constraints other than costs (including personnel, priorities and operational requirements) ought to be more visible—but seem to be accorded a low priority.

4.37 Where relationship mechanisms exist in SLAs, they are often ignored. For example, DSG mechanisms include a Business Partnering Forum and a performance feedback tool. The take up and use by customer groups of either of these mechanisms is limited, and shows insufficient commitment to using performance/feedback mechanisms in the interests of better relationship management. We recommend that all groups commit to active participation in business partnering forums and commit to the use of consistent, regular reporting mechanisms.

### *Cost Visibility and Transparency of Cost Structures*

4.38 While we have no doubt that service delivery groups do their best to reduce costs, we would contend that without the active and informed involvement of the customer, the cost of services cannot be optimised. Instead, the customer treats the services as free goods to which they are entitled. Demand is unrestrained by the reality of resources. Dissatisfaction with supply can lead to alternative, but equally inefficient and duplicative, arrangements being put in place by the customer,

negating the intent and value of shared service arrangements. Additionally, the customer in planning their business outcomes can make unrealistic demands of the supplier because of a built-in inability to comprehend the resource implications. All of this occurs in Defence today.

#### **What interviewees told us**

"We have next to no idea what DSG services cost. When DSG has offered to pass some activities back to us, I was naturally unenthusiastic without some assurance about costs. A transfer would simply move risk from DSG to us."

"Defence has a way to go in establishing a consistent, corporate approach to measuring efficiency and effectiveness. There is still a basic issue about the quality of information to support resource allocation."

4.39 Defence cannot derive an understanding of costs in the usual way by competitive tendering and other forms of contestability. Only limited use has been made of benchmarking and Defence will need internal costing information if it is to make sense of the cost of activities and services and be able to assess its efficiency.

4.40 This was recognised in the July 2005 Portfolio Evaluation Report, *The Effectiveness of the Defence Customer Supplier Model*,<sup>8</sup> which recommended:

- "Costing of Military Capability—CSIG [Corporate Services and Infrastructure Group]: The Force Element Product Costing Model and the CSIG Product Costing Model should be developed to the point where reference to the models would better inform Output managers of the impact of CSIG

<sup>8</sup> Department of Defence (2005), *The Effectiveness of the Defence Customer-Supplier Model*, Portfolio Evaluation Report No 41. (Recommendation 1C, 2B.)

products/services on the delivery of military capability. This information should be made visible to down to base and unit commanders.

- Costing data in Customer Supplier Agreements: Once the Product Costing Model permits, CSAs and Base Support Agreements (BSAs) should include cost data”.

4.41 While DSG, CIOG and DMO have made considerable advances in product costing, further development has stalled due to the lack of a corporate costing-system with which to integrate. A project to develop a corporate costing tool, known as Force Element Product Costing (FEPC), sought to associate costs with force elements and provide a basis for forecasting costs. However, FEPC proved to be inflexible and failed to provide the information managers needed to support decision making. In addition, it suffered from problems with its source data. As a consequence, development was suspended.

4.42 We are, however, aware of a recent proposal from Defence to redesign the outcome/output structure of its statutory budget reporting to treat all the organisational groups or budget holders as output groups. The rationale behind this change was to align organisational and financial structures and to avoid the complexity involved in attributing costs from the enabling groups. An encouraging development is that Defence is augmenting this suite of budget information by progressively moving to product level budgets.

4.43 The establishment of the DMO as a prescribed agency on 1 July 2005 provided a catalyst to move to project and product level budgets for acquisition and logistics sustainment. All major capital equipment projects are managed under individual Materiel Acquisition Agreements. The logistics sustainment function is now managed under some 100 separate Materiel Sustainment Agreements which are based on products at platform and fleet level, and in the 2007–08 Budget logistics sustainment will be broken down to product level.

4.44 The work that has been done with the DMO provides an ideal opportunity to move to product level budgets in DSG and CIO to realise cost visibility. Existing CSAs specify products and services, and the next step is to understand the costs and cost drivers at this level and then move to product budgets. This work will take both time and the planned upgrade of Defence’s financial management system (ROMAN) to achieve, but will drive better resource allocation decisions and facilitate the move to a sound activity-based management system.

4.45 Adequate costing information is a critical precursor to any efficiency initiatives. Therefore we recommend that Defence give strong support to the CFO’s move to achieve cost visibility through robust costing models and management information systems, and the proposed product-level budgets being developed by the CFO. This is discussed further in Chapter 7.

### *Business Processes*

4.46 Defence business processes are undoubtedly complex. Major sub-processes such as strategy, capability development, finance, personnel and planning are highly

interdependent, and responsibility for the management of these is split across organisational boundaries.

4.47 Many of Defence's business processes are, however, fundamentally the same as those found in other government agencies and in private industry. The fact that in some cases the systems to support these processes need to be deployable places an additional requirement that is not commonly found in other environments.

4.48 Defence's business processes have evolved in piecemeal fashion over a period of decades. While there have been a number of efforts to map these processes, they have lacked a corporate focus and most were prepared within specific groups and aimed to address specific organisational concerns. Enthusiasm for these initiatives rarely extended beyond the sponsor organisation. In addition, a number of groups, such as DMO, are engaged in significant separate exercises to map their own processes.

4.49 Process improvement has frequently been directed at fixing an immediate problem rather than at taking a holistic view of root causes. Consequently, Defence has the legacy of many ad hoc solutions, adding to the complexity of the processes and detracting from efficiency and effectiveness.

4.50 Although ownership of end-to-end processes is assigned, most processes span several organisational boundaries. Consequently, there is often little focus on the end-to-end process and the process owner has little incentive or organisational credibility to implement any process improvement initiatives. Decisions on processes are being made without proper consideration of the overall impact on Defence and are difficult to quantify, as there is little volume and cost data available. Opportunities for end-to-end processes improvement and redesign are lost; redundant processes are not eliminated; and systemic issues are not addressed.

4.51 A good example of the limitations inherent in not having a sound understanding of business processes can be seen in some outsourcing experiences. We looked at a number of significant Defence contracts involving pre-existing Defence business processes. One we examined is extremely prescriptive and apparently locks the supplier into executing Defence's previously used processes. There is little opportunity or benefit for the supplier to invest in process improvement, and even less opportunity for Defence to share any benefit. Another similar-sized contract pays a fixed-dollar amount for tasks using the software systems supplied by Defence. The contractor, and therefore Defence, cannot benefit from any investment in innovative software technology to execute more efficiently and there is little, if any, opportunity for the supplier to improve its performance.

4.52 A clearer understanding (and simplification) of Defence's business processes might provide a basis to improve current outsourcing arrangements or future outsourcing opportunities. Outsourcing opportunities would need to be assessed on the basis of the structural cost advantages, the competitiveness of the supplier markets and the transaction costs.

4.53 Two recommendations fall out of this discussion. First, we recommend that Defence undertake business process mapping with a view to seeking process

efficiencies, increasing cost visibility and—where appropriate—more informed outsourcing; simultaneously reviewing business process ownership and policy responsibilities to ensure managers have the authority and interest to optimise business processes. Second, we recommend that Defence move to outsourcing arrangements where benefits in performance improvement can be shared between Defence and its suppliers based on an open book evaluation.

### *Product Standardisation*

4.54 We have seen strong evidence that groups have laid the foundations for product standardisation. The DSG's predecessor organisation first developed a rudimentary Product Catalogue in 2002 that has progressively evolved as CSIG/DSG has grown. DSG's National Operations products are well articulated, and work is underway on product catalogues for newer elements of the DSG. The CIOG maintains an online catalogue of ICT products and services and is developing a fully interactive catalogue, expected to be available mid 2007, through which customers will be able to directly request ICT products and services online.

4.55 We recommend that product standardisation be maintained and implemented for any services not yet covered, and serve as a basis for negotiating basic and additional service with a clear understanding of costs involved.

### *Continuous Improvement*

4.56 One commentator observed that Defence has traditionally been 'mugged' by external reviews. Periodic external reviews such as this one have their place, but it is healthier for the organisation to have an institutionalised practice of continuous improvement. We also see a need for balance between improvements initiated at the corporate level and those introduced by lower level managers. Managers at all levels should see themselves as having a role in improving the organisation.

4.57 There is a need for the top managers to drive performance improvement across the organisation. Examples of what can be done include:

- Adopting a structured approach to organisational improvement, identifying organisational weaknesses and options for improvement. This could be integrated into an organisation-wide business strategy.
- Targeting evaluations, benchmarking studies and external reviews based on the issues identified as requiring a deeper understanding of Defence's performance.
- Addressing areas where performance is in greatest need of improvement, including initiatives for process simplification, automation and outsourcing.

4.58 Creation of an Organisational Development Unit will give Defence the capability to manage continuous improvement within Defence, as outlined in Chapters 5 and 9.

## Recommendations

The Review team recommends that:

- R6 The Secretary and CDF set a joint vision and strategic direction for Defence and ensure adherence to the strategic direction and corporate governance and confront the consequences when adherence does not occur. [4.17]
- R7 Defence governance structures, including Charters, be designed so as to facilitate real accountability by senior executives. Charters should provide more explicit guidance on the executives' responsibilities within the Defence service delivery model and be specific about the ownership of resources, service delivery obligations and the development of service level agreements. [4.27]
- R8 The Defence leadership commit to a high-level business model which clearly defines roles and responsibilities, and distinguishes policy and core business from service delivery. [4.31]
- R9 Defence senior leadership provide the DSG with a mandate on a par with that of the DMO in order to reform and improve the operation of the Group. [4.33]
- R10 Service delivery agreements include relevant performance metrics including time, quality, cost and demand. Agreements should also be specific in terms of mutual obligations and dispute resolution at the appropriate level. [4.35]
- R11 All Groups commit to active participation in business partnering forums and commit to the use of consistent, regular reporting mechanisms. [4.37]
- R12 Defence continue to move to achieve cost visibility through robust costing models and management information systems, and the proposed product-level budgets being developed by the CFO. [4.45]
- R13 Defence undertake business process mapping with a view to seeking process efficiencies, increasing cost visibility and—where appropriate—more informed outsourcing; simultaneously reviewing business process ownership and policy responsibilities to ensure managers have the authority and interest to optimise business processes. [4.53]
- R14 Defence move to outsourcing arrangements where benefits in performance improvement can be shared between Defence and its suppliers based on an open book evaluation. [4.53]
- R15 Product standardisation be maintained and implemented for any services not yet covered, and serve as a basis for negotiating basic and additional service with a clear understanding of costs involved. [4.55]

## 5: ORGANISATIONAL DESIGN AND GOVERNANCE

5.1 In this Chapter we examine whether the current structure and organisation of Defence are optimal, and recommend changes to ensure that the senior people in Defence are able to focus on the key strategic issues facing them today and into the future.

### Organisational Principles

5.2 A recurring theme in our Review has been the effects of the changed pace and scope of operations since 1999, after a quarter-century of relatively benign strategic circumstances. We have also observed and been told that this has placed a significant strain on many parts of the organisation, which is felt not only in the operational ADF but also in the general workload, turnover of personnel in key roles, and staffing pressures in Non-Service Groups.

5.3 The DER recommended as an organising principle that Defence should be “*organised for war and adapted for peace*”. This remains an apt guideline for Defence, but the stresses endured over eight years of ongoing operations would indicate that the organisation is still structured for peacetime, which does not enable it to easily meet the competing demands of operations and management of the Defence organisation.

5.4 With this in mind, we recommend a number of guiding principles for the organisational design of Defence:

- The organisation must be able to maintain a high operational tempo while providing sufficient capacity for longer-term issues, including the development of long-range strategy and policy.
- The structure must facilitate the considered strategic leadership of the organisation.
- The design must make sense to the organisation—be understood and easily communicated.

5.5 The Review team considered how current organisational structures help or hinder the effective operations of the Defence organisation. The major aspects we considered included:

- The diarchy—the joint leadership of Defence by the Secretary and CDF.
- The higher organisational structures, and particularly the Australian Defence Headquarters (ADHQ).
- The structures intended to provide advice to the Secretary and CDF in their role of managing Defence as a whole.
- The committee system.

## The Diarchy

5.6 The diarchy has been a central feature of Defence leadership since the unified Department of Defence was established through the Tange reforms of the mid-1970s. The diarchy describes the joint leadership of Defence by the Secretary and CDF, both under the Minister for Defence. Within the diarchy, the Secretary and CDF are responsible for 'joint administration' of the ADF. The CDF commands the ADF and is the principal military adviser to the Minister. He has responsibility for all aspects of military operations and for the military workforce. The Secretary is the principal civilian adviser to the Minister and carries out the functions of an agency head within the APS. The Secretary has responsibility under the *Financial Management and Accountability Act 1997* and is responsible for the civilian workforce.

### What interviewees told us

"The diarchy is essential to the good management and operation of Defence."

"The diarchy works very well."

"The diarchy, like democracy, is the worst way to run a defence organisation apart from all the alternatives."

"Although the diarchy is a difficult construct, it is not impossible. There is, however, a need to demonstrate the integrated model at all levels to relieve tensions."

"The diarchy is central to the operation of Defence and needs to stand—but we could explore legislative, accountability-led fixes to clarify accountabilities."

"The diarchy bifurcates decision making, blunts the leadership signals and creates a diverse culture."

"The diarchy is becoming more and more of a problem. It worked 20 years ago, but the culture of the two organisations is now profoundly different. Rigid vertical structures, with strictly controlled access to ministers, are becoming unworkable."

5.7 While it was assumed in our Terms of Reference that the diarchy was not under consideration, it provoked much discussion, and many people offered us thoughtful views on it. Interestingly, and perhaps understandably, the arrangement had more support from current and former incumbents of the two top positions than from observers.

5.8 There is no one agreed model by which nations organise their defence function, although in countries that follow the Westminster system of government it is normal for responsibilities to be divided between a senior military commander and a

senior public servant. In New Zealand and South Africa the two head up separate organisations, with the bulk of the resources allocated to the defence force. In this model the civilian organisation concentrates on higher policy issues and oversight. The United Kingdom and Canada are much closer to the Australian model, with the military and civilian heads sharing the administration of an integrated organisation (even though, as in Australia, the armed forces and the Department of State retain separate legal identities). Typically the Chief of Defence Force is responsible for military operations, force preparation, and military personnel issues; while the Secretary is responsible for resource management and civilian personnel issues. Unusually the ministerial directive to the CDF and Secretary in Australia emphasises the shared responsibilities of the two heads, and says little about their separate responsibilities (a model which has been followed since 2000 when a single Directive was introduced with the intent of emphasising the joint nature of the diarchy). In



contrast, the equivalent documents of the other nations examined emphasise their separate responsibilities, with little said about shared roles.

5.9 A few people we spoke to urged us to consider the NZ model whereby the Chief of Defence Force runs the New Zealand Defence Force as a discrete entity, and a civilian Secretary runs a small policy department with a clear separation between the two. The New Zealand structure was introduced in 1990, and followed the 1988 Resource Management Review<sup>1</sup> which sought to improve the efficiency of the New Zealand Defence organisation and established NZ as “the only country in the world with two defence departments—one to reflect and one to fight”. Prior to that time, the New Zealand approach was closely modelled on that of Australia. We have examined the NZ model and spoken with its architects and other close observers, and do not believe that it would work in a Defence organisation as large and complex as Australia’s.

5.10 Having examined the arrangements and some alternatives, we believe that the diarchy is still an appropriate way to run what is the most complex portfolio in Government, and one of the most complex organisations in the country. There is no compelling case to make the Secretary subordinate to the CDF, or vice versa. The combination of an experienced CDF and an experienced public servant is the most convincing of the models we have found to manage Defence. Moreover, most occupants of these positions have made the shared responsibilities work at their level.

5.11 Nevertheless, shared responsibility will inevitably create difficulties as the two leaders seek to reach agreement on a wide range of shared issues. Because of the diarchy, many people in Defence have aspects of duality and overlap in their roles. This leads to confusion throughout the organisation, which shows up in the current organisational structure. People outside the organisation are struck by the difficulties that this causes.

5.12 We believe, therefore, that the diarchy would benefit from greater definition of the roles of the two leaders. This could be achieved through greater clarity of the roles and responsibilities set out in the ministerial directive which is issued periodically by the Minister for Defence. An example of what this might look like is contained in Appendix A to this Chapter.

5.13 This issue is one, however, that would benefit from being monitored. Further changes to the tempo of operations, and the skills and attitudes which future occupants of these positions can bring, might lead to the issue being revisited. It may not be too long before one should ask whether the diarchy is still the most relevant way to run Defence in Australia.

#### *Clarifying Roles within the Diarchy*

5.14 We propose that the single and shared responsibilities of the CDF and Secretary be better defined than they are at present. This does not mean that the CDF and Secretary give up their shared leadership of Defence, nor does it diminish

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<sup>1</sup> Strategos Consulting Ltd, (1989) *New Zealand Defence—Resource Management Review 1988*.

their need to work closely with each other. It does, however, signal to the rest of Defence, the Government and the bureaucracy where the lead is on a particular issue. When time is important, both in terms of deadlines and in respect of the imposition that lack of time has on an individual's ability to do his or her job competently, this is an efficiency gain with great impact on the achievement of successful outcomes. Responsibilities might be divided as follows:

- **Secretary:** Finance, civilian personnel, acquisition and sustainment of all major capital equipment, logistics pertaining to sustainment of capability, ICT, Defence science and support services.
- **CDF:** Military policy and plans, military preparedness, military operations, military personnel, military ICT and operational logistics.
- **Shared:** Strategic policy, capability requirements for major capital equipment, intelligence and organisational development.

### Higher Organisational Structures

5.15 In late 2005, the Secretary and CDF were concerned that Defence had become unwieldy to manage, as over the years the number of groups had grown—each with its own leadership, reporting and administrative overheads. As a consequence, the Defence Committee agreed to a number of structural changes aimed at streamlining Defence processes. Introduced on 1 July 2006, the main changes were:

- creating an integrated ADHQ in order to improve performance of the central policy functions;
- establishing a Defence Support Group (DSG) to provide a more cohesive service delivery model; and
- creating a Defence Coordination Centre to improve coordination and visibility of issues for the Secretary and CDF.

5.16 These changes attempted to reduce the number of groups, through incorporating smaller groups into ADHQ or DSG. While we agree with this aim, the number of groups has, in reality, not been reduced and the span of control is no smaller.

5.17 The current structure is confusing. The rationale for it is not clear throughout the organisation, and support for the ADHQ is limited, even among ADHQ executives. Some parts of Defence, now located outside ADHQ, have taken their exclusion from the 'centre' as a message that their role is somehow freed from the constraints of central coordination, or that their role is not central to the business of Defence. The confusion suggests that the changes which were behind the reorganisation were not well communicated.

5.18 While it may be disruptive in the short term to attempt another reorganisation of Defence, it is necessary to get the structure right, by which we mean that the

structure should be aligned with accountabilities and responsibilities. What we propose should be capable of implementation with minimal disruption and will assist with the smoother running of Defence in the medium to long term. Appendix B to this Chapter shows our proposed high-level structure. Essentially, we follow the redefined lines of responsibility for the diarchy in defining the overall organisation. Accordingly, direct reports to the CDF and Secretary are as follows:

<b>Secretary</b>	<b>Joint</b>	<b>CDF</b>
Chief Finance Officer	DEPSEC Intelligence & Security	Vice Chief of the Defence Force / Chief of Joint Operations
DEPSEC Defence Support	DEPSEC Strategy	Chief of Navy
Chief Defence Scientist	Chief Capability Development Executive	Chief of Army
Head of Strategic HR	Office of the CDF and Secretary	Chief of Air Force
Chief Information Officer		Chief of Joint Logistics
CEO Defence Materiel Organisation		

5.19 All executives would naturally be responsive to both members of the diarchy for issues falling within that member's primary responsibility.

5.20 We therefore propose disbanding the current ADHQ, and that the title 'ADHQ', if used at all, be attached to the management levels of the Canberra-based Defence organisation.

5.21 Disbanding the current ADHQ raises the issue of how to coordinate day-to-day events. The creation in 2005 of Chief of Staff ADHQ (COSADHQ) and enhanced coordination arrangements in 2006 were designed to support the CDF and Secretary better in their day-to-day work. While the Defence Coordination Centre seems to be working well, we contend that the COSADHQ/Coordination and Public Affairs (CPA) function is not working as intended, probably because it has evolved into an unwieldy mix of coordination of crisis and current issues, public affairs, ministerial and parliamentary support, statutory reporting, corporate management and long-term planning and governance. We therefore propose some change to the existing coordination arrangements, and the creation of an Office of the CDF and Secretary.

5.22 The Office of the CDF and Secretary would comprise those functions that directly support the CDF and Secretary in their shared responsibilities and in the day-to-day running of the broader Defence organisation: Coordination; Policy Development; Corporate Management and Organisational Development.

5.23 We propose that the current Chief of Staff's role be redesigned to focus his efforts in supporting the CDF and Secretary in coordination and crisis management. He would be supported by a coordination unit that might encompass the Defence Coordination Centre, public affairs, and ministerial and parliamentary support. Coordination would be the key role, with a focus on ensuring the organisation is suitably aware of the intent of its leadership, is marching in step and is speaking to Government, the bureaucracy and the Australian people with one voice.

5.24 The proposed new policy development staff could reside in the Office of the CDF and Secretary.

5.25 We also believe that Defence needs to have a small organisational development unit reporting both to the Secretary and CDF to assist with organisational change and continuous improvement, governance structure, business process management and design.

5.26 The fact that there have been so many reviews of Defence by outsiders such as ourselves is one indication that the organisation lacks an internal function which can assist with development and internal review. Many of the elements of an organisational development function already exist in Defence, but are scattered across the groups and lack the authority and access to key decision makers to drive meaningful and lasting change. In this environment they can easily become burdened with routine functions and ad hoc tasks, rather than focused on improving the organisation. This unit would have two primary functions: corporate governance, and organisational strategy and development. A third—temporary—but closely related function is the implementation of this Review.

5.27 The Office of the CDF and Secretary could also include the branch currently devoted to ADHQ corporate management. We intend no change to its functions and suggest that while it be directly responsible to the group heads it continues to serve for its primary functions, it might be administratively sensible to place it under the Organisational Development Unit.

5.28 All of these organisations could be formed from the existing COSADHQ/CPA Division, existing implementation teams, and the proposed FAS Policy Development. All of these units could reside within the Office of the CDF and Secretary. The structure is intended to emphasise the shared functions that are important to the coordination of the business aspects of Defence. Appendix C to this Chapter shows the structure in diagrammatic form.

### **The Committee System**

5.29 We were struck by the time-consuming and often bureaucratic nature of the Defence committee system. It takes up too much time, buries the organisation in paper and does not always assist in focusing Defence on the key strategic issues. The time taken to come to a decision must be unnecessarily extended and too many decisions are pushed too far up the organisation, leaving people in middle and junior management with far less autonomy than we would have expected to find, and adding to the pressure on senior people.

5.30 Defence is a large and diverse organisation and the committee system is a major component of the 'glue' that binds it together. Our intention therefore is not to denigrate the system but to suggest ways of improving it. In doing so, we acknowledge the efforts of many others to do just this and commend the improvement initiatives that are now in place. They should continue.

5.31 The guiding principles for the number of committees might be to retain only those that both contribute to the effective and efficient running of the organisation and reduce the pressure and workload on senior people.

5.32 The top three committees, those which involve many of the group heads, the CDF and Secretary are the Defence Committee (DC), the Chiefs of Service Committee (COSC) and the Defence Capability and Investment Committee (DCIC). Their governance and membership frameworks are at Annex F. We would not change the DCIC other than to emphasise that its purview should encompass all significant investment decisions, and not be limited to those represented by the major capital equipment program. Many of the military matters which might once have been discussed at the COSC are now addressed in the less formal Strategic Command Group (SCG). It might therefore be possible to dispense with the COSC and absorb its remaining functions into a revamped DC, rotating the chairmanship of that committee between the CDF and Secretary as the subject matter changes.

**What interviewees told us**

“The committee process is still driven too much from the bottom up. Too much information is ‘down in the weeds’.”

“The Defence Committee does not sufficiently operate at the conceptual strategic level. A lot of committee time is spent on the process of governance and accountability, rather than thinking about what kind of Defence organisation we want to be.”

“Defence and its clunky committee system are all about orderly, neat, linear progression of views to government. The reality is a cascade of paper through the hierarchy.”

“There is a mindset that we tend to kick things up to the committees when we should be making the decision.”

“The committee structure within Defence is not focused on the strategic direction of the organisation. In addition, the committees lower the accountability of individuals by making several people responsible for any one project or decision. This is transferred down to the lower levels and ingrained as part of the culture.”

“The committees need to be run better and they need to be smaller. The Chairman has to take control and vest authority definitively and there needs to be more collegiate decision making out of these forums. Fundamentally, it’s about behaviour and leadership. In my opinion some of the committees I sit on are generally a waste of time.”

5.33 We would recommend one top executive committee, which we would term the Defence Strategic Management Advisory Council (DSMAC). The name sets the level of the council’s business (strategic management), acknowledges that the decision makers are the CDF and Secretary, and denotes a collegiate advisory approach. Of course, the name is a matter for the CDF and Secretary, and we could support any other name as long as the nature of the committee reflects these principles, that is, the composition, tasking and conduct of the committee.

5.34 The purpose of the DSMAC is to:

- Set the strategic direction for Defence—that is, within Government direction and guidance, set the intent for the Defence organisation so that it can meet foreseen and unforeseen geopolitical, economic and demographic challenges.
- Provide direction to and oversight of the organisational development of Defence.

- Give high level oversight of and focus on financial performance.
- Ensure compliance standards are set and met.

5.35 All of this might be considered as the ‘What’ the organisation will do in a business sense and ‘What’ it will seek to become. It is not about the ‘How’ of management. This latter aspect should be seen as the role of the Secretary and CDF acting in their capacity as joint CEOs working directly with those senior executives who are tasked with the execution of the intent. While we use a business analogy, there is really no difference in our proposal to the way operations are conceived and conducted, with the Strategic Command Group (SCG) being integral to the conception of what will be done within government direction—in effect the parameters of the operation—and the execution being the direct responsibility of CDF and his operational commanders.

5.36 Achieving a useful reduction in membership from the current 14 on the DC will be difficult if not done decisively and with an obvious rationale. While it is attractive to have representational membership and to seek to be inclusive in reaching decisions, best practice, common sense and efficiency suggest that membership should be limited to those who are essential to reaching informed decisions. This serves to bind the decision makers together, to enhance unity of effort and thus prevent fragmentation and to release others from the considerable pressures of committee preparation and deliberation. In the case of the highest committees this might comprise those responsible for the Defence outputs, those best fitted to contribute to the strategic direction of Defence. Of course, those others who enable the Defence output must be invited to the committee, both to report on their area of endeavour and to contribute when their area is under discussion. All of this supposes that each committee has a clear purpose and, at the very top, a clear sense of its strategic obligations.

5.37 We considered whether the Minister might be brought more directly into the decision making process. The *Defence Act 1903* (section 28) still refers to a formal decision making body, chaired by the Minister, called the Council of Defence. This has not met for two decades, and the governing regulations were repealed a decade ago. While a formal arrangement such as the Council has some merits, we believe that the interests of the Minister and Defence could be better met through informal arrangements, which ensure regular contact between the Minister and senior Defence executives as happens now.

5.38 It seems there are three possible models for the DSMAC. We propose a committee of seven: Secretary, CDF, Chief of Navy, Chief of Army, Chief of Air Force, Chief Finance Officer and Deputy Secretary Intelligence and Security. The rationale is that they are in the main the major Defence output owners. VCDF is not there because his output—operations—is the concern of the SCG. Deputy Secretary Strategy is not there because his output—strategic advice to Government—is of a higher order and not directly concerned with the management of Defence.

5.39 There could be variations on this theme. All output executives could be included, bringing in VCDF and Deputy Secretary Strategy to make nine. The major enablers, CEO DMO and Deputy Secretary Defence Support, could be made

permanent members for a total of 11. An extreme option might be to dispense with permanent members altogether, noting that the decision makers are CDF and the Secretary. Such a model would see all other executives invited or ex officio members. Given that it is unlikely that the CDF and Secretary could reach any informed decisions by listening only to each other's counsel, one might imagine that invited members would normally be present in increasing numbers and the result would look little different from the overpopulated, less-than-optimal DC of today. The choice of model is a decision for the Secretary and CDF, but the need to limit numbers should guide their decision. Should the decision be taken to retain the status quo in terms of numbers on the top committee, we would not recommend the abolition of the COSC.

5.40 The DSMAC would use subcommittees to achieve its purpose and to lighten the load on its members. This process would involve DSMAC members' involvement in the subcommittees and would also see non-DSMAC group heads serving at this level. Not only does it spread the workload, it also gives purpose to the corporate role of each of the DSMAC members. Essential subcommittees are:

- Audit, with an independent Chair, the CFO, at least one other DSMAC member and a selection of non-DSMAC group heads;
- People, chaired by a Service Chief with suitably representative membership;
- OH&S, chaired by a Service Chief with suitably representative membership; and
- Risk, chaired by a Service Chief with the Inspector General, a representative of the CFO and non-DSMAC group head membership.

5.41 There may be other subcommittees considered necessary by the CDF and Secretary, for example ICT, if that is to be an area of priority endeavour. The Defence Business Improvement Board (DBIB) could also be a subcommittee of the DSMAC.

5.42 Consideration should be given to abolishing many of the lesser existing committees in favour of a team-based approach to reaching decisions on matters that need some consensus. Such teams could be formed as an issue arises, empowered to achieve results and disbanded when a solution is reached. Clearly there will be a desire to retain some of the existing committees. We have not attempted to state which committees should remain and which should be abolished. That should be the decision of those best placed to do so: the senior leadership of Defence. We set out, though, some guidelines to assist in the decision making around the committee structure.

5.43 Each committee should be subjected to a review (we suggest the implementation review group does this) and a decision should be made on its retention, abolition or alteration based on answers to the following questions:

- Does this committee enhance the strategic focus of Defence?

- Is it the best use of senior people's time?
- Could these outcomes be achieved in another way?

5.44 Once a decision is made on the number of committees needed, then a similar analysis should be devoted to their composition. It appears to us that some membership is decided merely on rank or representation, rather than on whether those attending are needed at the meeting. Committee membership should be on the basis of the relevance of the person to the decisions being made at the committee and on no other basis.

5.45 Once the need for committees and their composition has been decided, all future committees proposed should then be subject to the same analysis and if established should have an agreed purpose and composition together with a sunset clause at which time their existence can be considered again.

5.46 Finally, consideration needs to be given to the timeliness and volume of committee papers. It appears to us that too many papers are late and that many are too long and obtuse to aid good decision making.

5.47 Whatever approach is taken, committee numbers, membership and agendas need a major overhaul in order to ensure that the focus is on the strategic issues that face Defence now, and into the future.



## Recommendations

The Review team recommends that Defence:

- R16 Apply the following guiding principles for organisational design:
- The organisation must be able to maintain a high operational tempo while providing sufficient capacity for longer-term issues, including the development of long-range strategy and policy.
  - The structure must facilitate the considered strategic leadership of the organisation.
  - The design must make sense to the organisation—be understood and easily communicated. [5.4]
- R17 Give greater definition to the individual and shared roles of the CDF and Secretary in the diarchy, in accordance with the suggestion at paragraph 5.14, and reflect these roles in the Ministerial Directive. [5.14]
- R18 Redefine the higher Defence organisational structure to:
- align direct reports to Secretary/CDF based on their suggested individual and shared roles; [5.18]
  - establish an Office of the CDF and Secretary that comprises those functions that directly support the CDF and Secretary in their responsibility for the management of the Defence organisation including Coordination, the new Policy Development unit, and establish an Organisational Development Unit. [5.21]
- R19 Establish a new top executive committee (the 'Defence Strategic Management Advisory Council') to replace the DC and COSC: [5.33]
- with a more streamlined membership and strategic focus; [5.39]
  - supported by subcommittees including audit, personnel, OH&S, risk and possibly other committees. [5.40]
- R20 Review the need for all other committees, adopting a team-based approach to issues where possible. [5.43]





**MINISTER FOR DEFENCE**  
**MINISTERIAL DIRECTIVE TO**

**MR NICK WARNER, PSM**  
**Secretary of the Department of Defence**

**AIR CHIEF MARSHAL ANGUS HOUSTON, AO, AFC**  
**Chief of the Defence Force**

**Preamble:** In accordance with my powers under section 8 of the *Defence Act 1903*, I hereby issue the following directive to the Chief of the Defence Force and the Secretary of the Department of Defence.

**Accountability:** You are jointly responsible to me for the management of the Australian Defence Organisation as an integrated organisation including the Department of Defence, the Australian Defence Force and the Defence Materiel Organisation. You are accountable to me for Defence's performance, having regard to our statutory responsibilities. Any authorisation or delegation of my authority with respect to Defence is through you, within the limitations below.

**Results:** I expect you, jointly and individually, to deliver:

***Responsibilities of the Secretary of the Department of Defence:***

- a. timely, accurate, coordinated and considered advice as my principal civilian adviser;
- b. not limiting your responsibilities under the *Financial Management and Accountability Act 1997*, sound management of financial and other resources, operating within budgeted financial performance, meeting statutory requirements for preparing financial statements and optimal management and use of the Defence estate;
- c. not limiting your responsibilities under the *Public Service Act 1999*, proper stewardship of the public service workforce, through developing and maintaining workforce skills and career structures, building and maintaining Defence's reputation and providing a living and working environment that attracts and retains people;
- d. working in conjunction with Chief Executive Officer of the Defence Materiel Organisation, acquisition and sustainment of all major capital equipment and logistics pertaining to sustainment of capability;
- e. advising on the performance of the Defence Materiel Organisation and other entities within the portfolio as identified in my separate directive or statement of expectations to those entities;
- f. not limiting your responsibilities under the *Archives Act 1983*, proper management of information and records within Defence;
- g. the provision of support services, including infrastructure, personnel, legal, health, travel, publishing and printing, library services, mail and freight, business transaction processing, base services and administrative support;
- h. the provision of information and communications technology; and
- i. the provision of Defence science research.

***Joint Responsibilities of the Secretary of the Department of Defence and the Chief of the Defence Force:***

- a. management of the Australian Defence Organisation, including the setting of organisational goals and responsibilities, the design of the organisation and its business processes, measurement and reporting of performance, and the establishment of organisational policies;
- b. development of advice to government and strategic policy for use within Defence reflecting the best response to Australia's changing international environment;
- c. identification, development and provision of current and future capability to enable our armed forces to defend Australia and its national interests;
- d. intelligence capabilities, responsive to whole-of-government requirements;
- e. continual development of the Australian Defence Organisation so that it works in a more holistic, responsive, efficient and effective manner; and
- f. appropriate planning, evaluation and reporting documents, including an annual Defence Management and Finance Plan, the Defence Capability Plan, the Defence Planning Guidance, and periodic Strategic Reviews and White Papers, incorporating matters related to your individual and joint responsibilities.

***Responsibilities of the Chief of the Defence Force:***

- a. timely, accurate, coordinated and considered advice as my principal military adviser;
- b. operational deployment of the ADF to enhance our national strategic interests and our alliance relationships, to strengthen regional security and to successfully conduct joint military exercises and operations;
- c. adequate preparedness of forces and the preparation of military policy and plans;
- d. not limiting your responsibilities under the *Defence Act 1903* and related legislation, proper stewardship of the military workforce, through developing and maintaining workforce skills and career structures, building and maintaining Defence's reputation and providing a living and working environment that attracts and retains people;
- e. management of operational logistics; and
- f. management of military information and communications technology.

**Guidance:** You should pursue these results through effective leadership and management and should ensure that:

- a. your actions are prudent, lawful and ethical;
- b. your actions are consistent with Government policy;
- c. you make decisions, and offer advice, considering:
  - i. the impact on relationships with others who contribute to national security, including with the leadership of foreign Armed Forces and other Australian agencies with national security interests;
  - ii. my separate directive to the Chief Executive Officer of the Defence Materiel Organisation and the statutory responsibilities of appointments within Defence;
  - iii. the risk to the sustainable delivery of Defence outputs; and
- d. the CDF's proposals for promotions to Brigadier equivalent and above are made in consultation with the Secretary, Vice Chief of the Defence Force and the Service Chiefs.

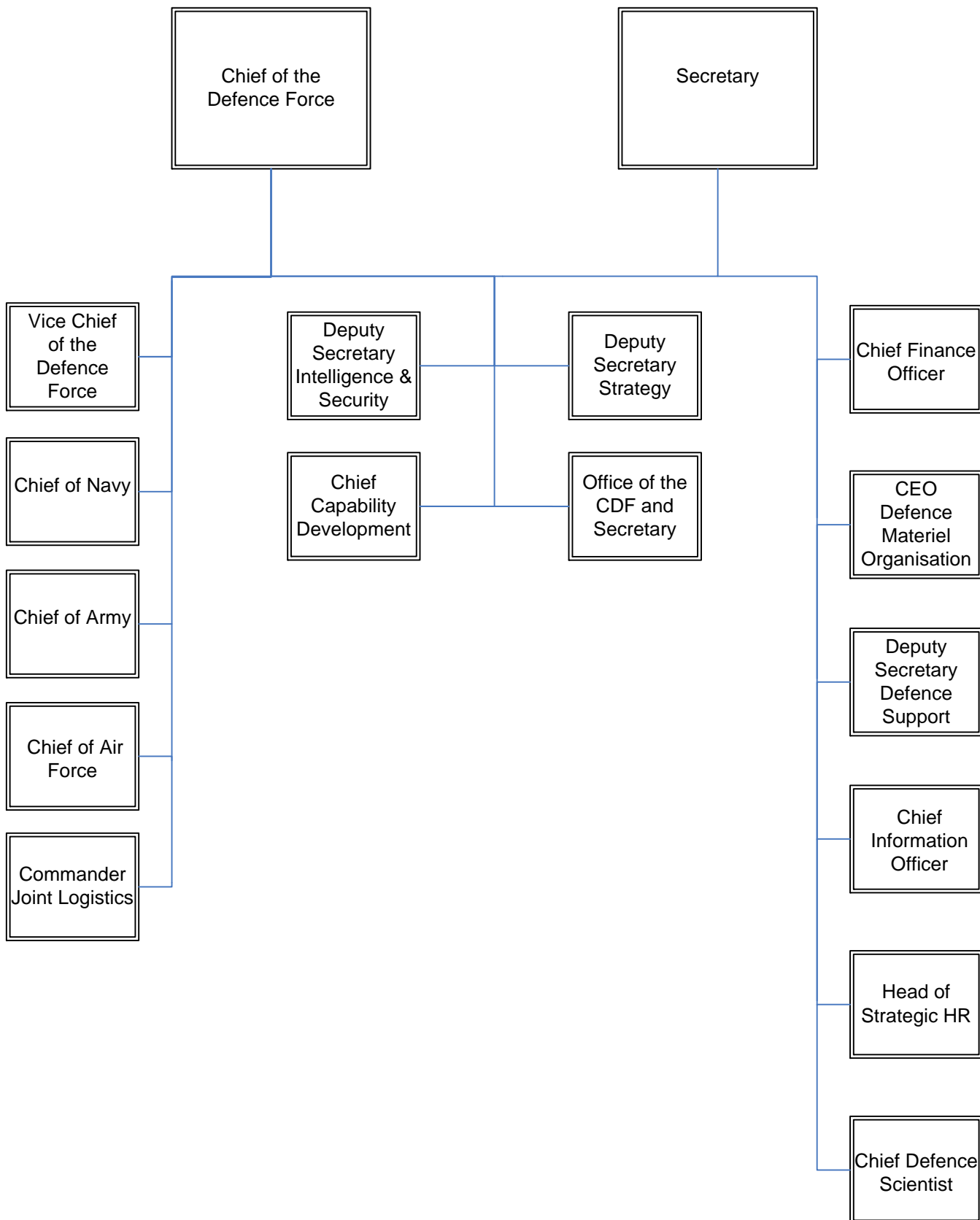
**Previous Directives:** This directive replaces all previous ministerial directives to the Chief of the Defence Force and the Secretary of the Department of Defence.

**BRENDAN NELSON**  
**MINISTER FOR DEFENCE**

**DATED THIS                      DAY OF APRIL 2007**

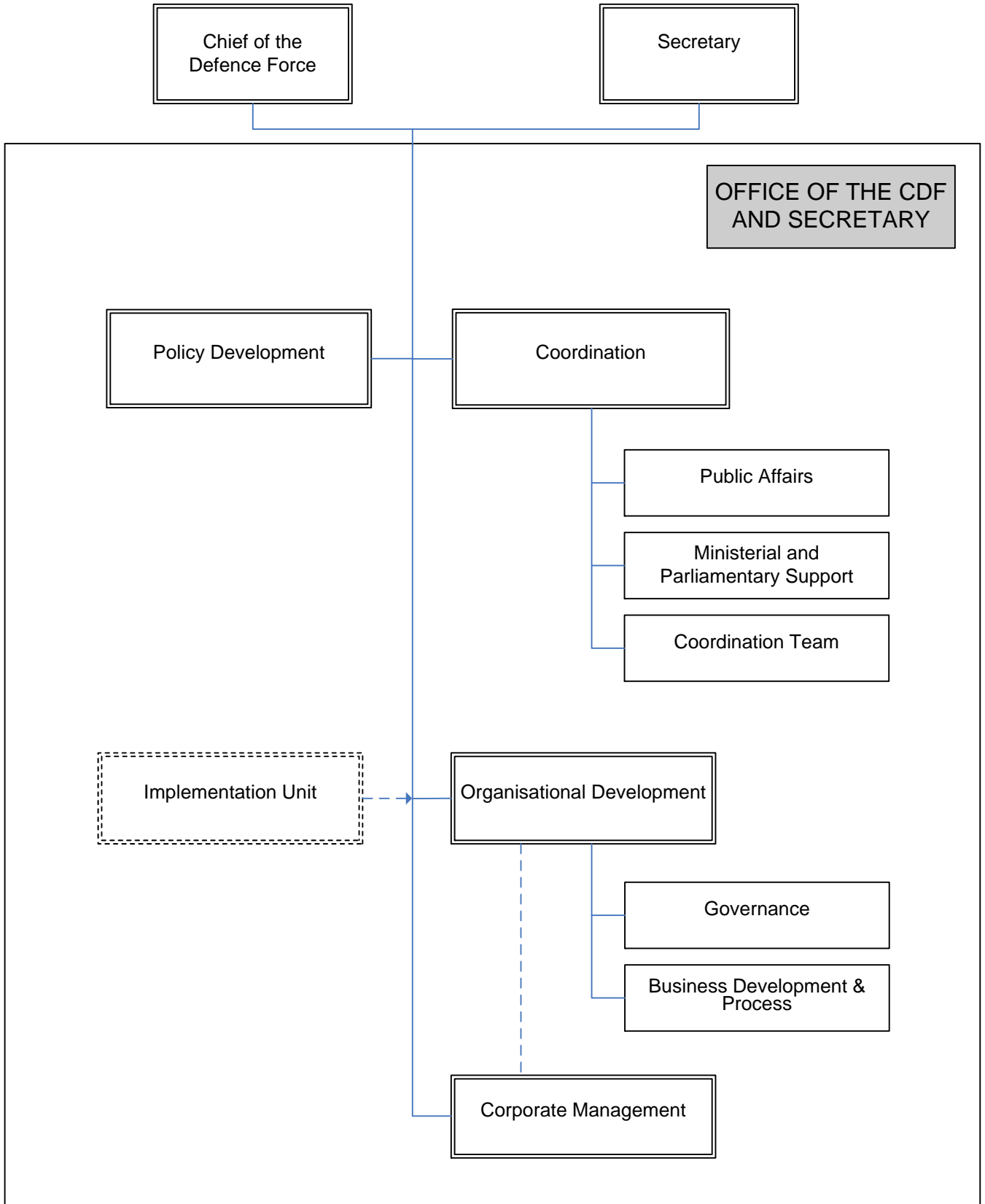


PROPOSED HIGH-LEVEL ORGANISATION CHART





**PROPOSED ORGANISATION CHART:  
OFFICE OF THE CDF AND SECRETARY**







## 6: PEOPLE

6.1 This Chapter examines a number of issues to do with the people in Defence, how they are managed and led, and proposes changes to the Human Resources (HR) function.

### **Current Pressures**

6.2 As with much of Defence, the personnel system is under strain. The ongoing high operational tempo and the challenge of maintaining both the ADF and APS and expanding the ADF in a tight labour market are providing new challenges for Defence in what is already a difficult people management environment.

6.3 ADF recruitment and retention are the main ongoing challenges against the backdrop of generational change, a flourishing economy, plans for rapid expansion of the military and ongoing ADF reputational issues. An extensive personnel effort is focused on turning this around. Recent Government initiatives (including a \$1 billion funding package for recruiting and retention) are aimed at meeting the top people priority of sustaining and growing Defence's military workforce by maintaining the ADF as an employer of choice; streamlining ADF recruitment processes; increasing the pool of people who might want to join; creating more ADF career pathways; and providing mechanisms to evaluate and adjust policies and programs.

6.4 At the same time, staffing across the broader organisation is also under stress. Defence has for many years had an integrated staffing model. That is, beyond the operational Armed Forces, a broad range of strategic, management and service delivery functions across Defence are staffed jointly by ADF members and Defence APS (civilian) employees. The model has assumed that an agreed number of ADF members will be posted in Non-Service Groups (NSGs) to meet whole-of-Defence and individual Service requirements. This approach has come under pressure in recent years as a result of a marked shortfall in the availability of ADF personnel—in particular, in the experienced cadre of mid-level officers required in both operational headquarters and for managing complex roles in NSGs. This is due predominantly to increased operational requirements and ongoing shortfalls in the ADF owing to recruitment and retention difficulties.

6.5 We also identified a strain in people management arrangements. The DER model that formed the Personnel Executive (PE) and other shared training and personnel service delivery staff has never been a well-accepted model in Defence. It was not subject to the same rigour to reduce duplication, nor to increase efficiency gains as were other common functions. As a result, responsibility and accountability for people management issues have been diffused.

### **Key Structural Issues**

6.6 We identified two key structural issues in Defence people management that impede Defence's ability to tackle these challenges.

6.7 First, the people function is split between a number of parts of the organisation (the PE, the DSG, the Services and other groups), but in a manner that

lacks clear accountability and responsibility for the elements of personnel policy and delivery.

6.8 Second, despite seeing some innovative long-term strategic HR work under development, the HR function is not generally well-aligned with the overall strategy of Defence. Much of the personnel function remains focused on transactional, regulatory and process issues such as pay and conditions; it is not fully linked to decision making in Defence, or to integrated strategic HR planning with the wider business.

6.9 In order to position itself for a demanding future of ongoing workforce challenges, we believe Defence needs to:

- develop a strategic HR function aligned with Defence decision making;
- refine roles, responsibilities and accountabilities in the HR continuum; and
- find innovative solutions to ongoing staffing challenges including executive development, the future of the Integrated Staffing Model, active career management for all its people, and professionalisation of the workforce.

## **TOWARD A STRATEGIC HR FOCUS**

### **What is Best Practice in HR?**

6.10 Strategic HR is about developing policies for the people in an organisation, with the clear goal of optimising business outcomes at all levels. This includes responsibility for developing policies to attract, recruit, and develop people in the organisation; and (crucially) to foster a climate in which people want to join the organisation, want to work at their best, and want to stay. Over the last decade or so, in many leading organisations (public and private sector) strategic HR has become a key part of the organisation. It has developed from a relatively unimportant area focusing on pay and conditions to one having a central strategic capability.

6.11 Much of what we saw in the Defence PE is reminiscent of personnel functions and policies in the public service of several decades ago. Defence has not adopted many of the modern innovative practices of the APS or of other modern organisations.

### **How to Link the Defence HR Effort to Strategic Decision Making?**

6.12 Defence HR, as HR in other high-performing enterprises, should:

- be in equal partnership with senior business managers, in ways that support and contribute to optimum strategic outcomes;
- maintain an innovative, long-term strategic focus on people issues from a business perspective;

- focus on timely implementation and evaluation of projects with greatest strategic benefit for Defence, and eliminate low-value activities (which are often devolved);
- create a work climate that motivates employees to perform at their best;
- help Defence to identify, develop and reward its future leaders as a top priority;
- be outward-looking, expert, professional, influential and add genuine value on HR issues; and
- in its behaviours, be a role model for the rest of Defence.

### **How Does Defence Measure Up Against This?**

6.13 Currently, Defence HR represents good practice in a number of features:

- Head Personnel Executive (HPE) has ‘a seat on the board’ (DC) and senior HR executives participate in key committees and forums throughout Defence.
- There are a range of medium to long-term strategic HR plans and frameworks on such matters as ADF/APS workforce planning, ADF recruiting, people issues, leadership development, and OH&S.
- There are whole-of-Defence information activities, surveys and scans (e.g. the Defence Attitude Survey, the Personnel Environment Scan 2025, and the establishment of PMKeyS).
- The HR function has been driving long-term reform, for instance restructuring the officers’ pay framework, introducing employee self-service from a range of channels, and initiating e-learning.
- Defence has maintained a competitive employment offer for the APS workforce.
- Priority is given to areas of essential need such as ADF housing and welfare.
- The Defence Senior Leadership Group or SLG (272 people<sup>1</sup> comprising ADF Star Rank and SES employees) is increasingly treated as a collegiate management group, with a focus on leadership development, values, capabilities and behaviours.
- Defence has developed a focus on strategic policy aspects of some issues (e.g. ADF recruiting), with devolution of some transactional work to the DSG and contractors.

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<sup>1</sup> Defence Annual Report 2005–06. Excludes Reserve officers, those on acting or higher duties and supernumerary personnel.

## But This is Not Yet Best Practice

6.14 While significant progress has been made, Defence HR performance could improve further to cope with known strategic challenges in the people domain. All employers are facing these difficulties, and Defence is no exception. Anything less than a first-rate strategic HR function will imperil the prospects of matching Defence people in sufficient quantity and quality with increasingly sophisticated military capabilities, at a price that governments can afford.

6.15 The areas where Defence HR falls short are:

- the needs of the Minister, Secretary and CDF for timely, affordable, implementable policy advice are not well met;
- the HR function at all levels is not well regarded by client groups: it is seen as inward-looking, unresponsive and slow;
- there is a continuing perception that people aspects of new capability are considered late, if at all;
- there is a strong focus on the ADF workforce and a much more limited focus on the APS workforce;
- there is a conflict of focus between what is good for ADF members and APS employees (individually or collectively), and what is good for Defence outcomes;
- while remuneration generally appears to be adequate, Defence has more work to do on important but less tangible features of its employment offer;<sup>2</sup>
- DC and other committee membership is not a substitute for an HR function that is fully embedded as an equal partner;
- unclear boundaries and fragmentation of HR effort exist between the PE, DSG and the Services and other groups; effective engagement between silos in the HR 'team' is elusive;
- there is a preoccupation with activity (committees, plans, expenditure) rather than analysing, delivering and evaluating measurable achievements for Defence;
- there is a focus on controlling HR clients through rule making, rather than working with them to take advantage of flexibilities provided in the public sector employment framework. In the absence of a truly principles-based approach, a complex and outmoded regulatory framework is applied to the Defence workforce;

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<sup>2</sup> Defence has already identified from internal surveys a need for further work on career management and development; perceptions of the fair application of merit in the APS promotion system; change management; communication; and perceptions of senior leadership.

- the HPE position is ranked below other key executives. This conflicts with the Defence 'people rhetoric' and makes it difficult to establish an equal partnership to support business goals. The position has also become a military appointment (we have been told that this was not the original intent) which struggles to combine extensive ADF operational experience with an appropriate level of HR expertise for both the ADF and APS workforce; and
- the function is not strongly focused on innovative ways to add HR value to clients' outcomes, and is preoccupied with fixing short-term problems.

6.16 Implications of the current Defence HR capability include:

- HR policy, research and information are not always adequately reflected in the kinds of decisions made by the Minister, Secretary and CDF. HR information activities are only useful if they inform policy development activities which happen in time to inform critical decisions possibly affecting Defence's future; and
- Defence HR does not respond quickly and effectively to emerging needs, such as the long-term sustainability of both the workforce and new capability proposals, possibly under future financial constraints.

6.17 In addition, we did not identify, outside the ADF, a strong culture of learning and of continuous improvement. When this is coupled with too rapid turnover of people in roles and the fact that Defence does not have a long history of looking to the marketplace for its non-operational executives, then one begins to understand the people issues facing Defence.

6.18 We recommend that Defence develop a strategic HR function aligned with Defence decision making, and recast PE as a strategic, central policy unit led by an HR expert at the SES Band 3 level.

6.19 The strategic HR role will be enhanced through a high-level focus given to the key HR committees recommended in Chapter 5 as essential subcommittees to support the work of the DSMAC. Defence currently has committees with similar names and perhaps functions. The purpose of recommending these subcommittees is to tie these functions more closely with strategic decision making at the highest levels of Defence.

6.20 The People subcommittee would deal with the key current and functional issues involving the people of Defence. This would include attraction, retention and development; education and non-military training; remuneration plans; and strategic workforce planning. In particular, it would be responsible for identifying the underlying causes of these problems.

6.21 The last decade has seen a significant increase in awareness of the importance of workplace health and safety, and a resulting elevation of these issues in most organisations. The Occupational Health and Safety subcommittee would be responsible for identifying current gaps and monitoring plans for closing them; it would also be responsible for developing best practice in this area.

## DEFENCE'S PERSONNEL CONTINUUM

6.22 Notionally, the PE is responsible for policy, DSG for personnel service delivery, the Services for ADF people management (welfare, discipline, training, postings, and career development) and other groups for devolved personnel administration. Within Defence, the Services and some other groups (for instance the DMO and DSTO) have a considerable degree of autonomy in people management.

6.23 However, the boundaries are blurred for many of these functions. Between the PE and DSG for instance, the PE retains a number of processing functions, and DSG have some policy responsibilities in the training and education sphere. There are similar issues between DSG and the Services on HR service delivery (e.g. for deployable military units). In addition, the PE is *“developing policies and providing services that attract, remunerate, support, develop, conserve, retain and transition military and civilian personnel”*<sup>3</sup> but the three Services are deeply and rightly involved at all steps of this continuum.

6.24 We also heard many views that the main PE focus was on the ADF workforce, to the detriment of the nearly 20,000 APS employees in Defence for whom training, development and career management seem to be accorded a much lower priority.

6.25 We recommend responsibility for management of the Defence workforce should be formally recognised within Defence as the role of:

- Service Chiefs for the leadership, management and development of military personnel of their Service; and
- group heads for the leadership, management and development of people of their group.

### Relationship between Policymakers and Service Providers

6.26 The inconsistent split of personnel functions between PE, DSG, the Services and others raises issues about the relationship between policy and services; the overall efficiency of the HR function; and continuity of HR processes and who owns them.

6.27 In concept, the separation between a unit which only makes policy, and one or more units which execute the policy and deliver the services, is quite compatible with our proposal for the Defence HR function to become more strategically focused. In effect, HR service delivery has been devolved within Defence. For it to work properly, the split between policy and process must be logical, consistent and easily understood, and relations between the two arms must be close. On this latter requirement, we understand that the PE is now giving a high priority to more communication with the DSG.

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<sup>3</sup> Australian Defence Headquarters Handbook 2007, p.17.

6.28 We recommend that Defence should revisit the basis for the split of functions between the PE and DSG. We consider that it was not as clear and logical as it could have been, and therefore did not yield efficiencies to the extent it could have. For example, there are areas where some mainstream service delivery functions remain with the PE. Trust and confidence are the keys to reopening a dialogue about more efficient ways to restructure the boundaries between the groups.

### **Overall Efficiency of the HR Function**

6.29 As noted earlier, the personnel function was not subjected to the same focus on removing duplication or streamlining as other Defence elements after the Defence Efficiency Review. Overall staff numbers in the combined HR function appear high, with about 1,000 staff in the PE, 1,000 in the DSG and 800 in the Services: a total of about 2,800, excluding many more engaged on training delivery and ADF health services. We are not necessarily saying that numbers should be reduced, but it may well be that existing staff can be deployed on emerging issues where they can add greater value. We recommend that Defence should review HR staffing levels in the context of the move to strategic HR and a more logical break-up of functions.

### **Continuity of HR Business Processes**

6.30 A major drawback for Defence is the lack of an integrated HR model and the integrated information system to support it. HR functionality becomes stovepiped because of isolated practices and systems in groups.

6.31 Currently there are some 30 separate systems in the Defence-wide HR domain in addition to PMKeyS, and a multitude of processes. These systems are maintained by the Services and other groups, and include duplicate functionality for (to name a few examples) civilian and military pay, posting and promotion information, and allowance payments.

6.32 Best practice would be a single integrated system. Retention of multiple systems prevents high-level business processes from being efficient and effective, and interferes with the gathering of management information.

6.33 As outlined in Chapter 4, there is a clear need for identification and mapping of Defence business processes. In the case of HR, this activity would feed into a business-led strategy to rationalise the systems that support Defence HR (and other domains). This cannot occur in isolation, but must be part of a whole-of-Defence approach to improving its information management. In particular, the HR model increasingly needs to link in with finance and other relevant Defence business processes.

## **FUTURE STAFFING CHALLENGES: FINDING INNOVATIVE SOLUTIONS**

6.34 This section addresses how Defence HR can approach three specific areas of concern:

- senior executive placement and development, including the role of Star Ranks (commodore, brigadier and air commodore levels and above) in key positions;

- the future of the Integrated Staffing Model; and
- professionalising the workforce.

## Senior Executive Placement and Development

6.35 We had a specific term of reference to:

“examine and assess organisational efficiency and effectiveness in the Defence organisation, and make recommendations with particular regard to:

- (b) the appropriateness of and need for military personnel in non-operational or executive positions in the organisation and efficacy of Defence preparation for senior postings”.

### What interviewees told us

“I don't agree with the contention that ADF members are not good in joint roles. Embedding service positions in 'civilian' groups is essential for respite and 'cross-fertilisation'.”

"I don't understand why a distinguished military officer is sitting in Russell Offices trying to do a public servant's job."

### What we were told in submissions

“Civilian and military officers both bring unique knowledge, skills and attitudes to the management of Defence and only their combined contribution will result in a high performance organisation.”

“Within the armed forces the warrior culture dominates—after all the armed forces exist to fight, something that outsiders sometimes overlook. Within the Public Service the culture of the policy bureaucrat tends to dominate...The transition from *warrior* to *policy bureaucrat*, *management bureaucrat* or *technocrat* can be a traumatic experience for many if not most officers.”

6.36 This issue is focused on senior executive roles in the SLG. During our review, we heard two divergent views: on the one hand, that the suitability and high performance of well-rounded military staff is a strength of the Integrated Staffing Model; and on the other hand, concerns expressed with aspects of the model—notably the experience and skills fit, and the short time spent in senior positions.

### Contestability

6.37 Increasingly, senior roles are considered open to competition between uniformed and civilian applicants in the DMO, and to a limited extent in some senior positions in the Defence Intelligence Organisation, Strategy Executive, Capability Development Executive

and Chief Information Officer Group. In 2006 the DC considered the potential effects if this policy were to be applied across Defence and agreed with the principle “that the contestability provisions adopted for the DMO are not to be applied generally to ADF positions in the other non-Service groups but there may be negotiated exceptions on a case-by-case basis”, on the basis that this would:

- “disrupt career management agencies ability to plan future postings of ADF members;
- result in short-notice changes in ADF posting plans with commensurate disruption to ADF families;



- potentially jeopardise the Services' willingness to invest in developing members to fill specialist positions in the NSG;
- potentially jeopardise the sustainability of some ADF employment groups; and
- increasing the governance overhead for implementing contestability on a Defence-wide basis."<sup>4</sup>

6.38 We agree that these are valid concerns if applied across the totality of the ADF workforce. At the senior executive levels of Defence, however, the demands of a modern organisation mean that the very best people must be recruited and retained in key roles such as ICT, Finance and HR. The training needed to produce highly skilled military people in the ADF is not necessarily compatible with producing military officers who can also be expected to direct complicated functional areas. The training and experience needed for this is at least as long as that required to produce senior military leaders. These non-military roles are thus much more likely to be filled successfully by people in the APS, the State public services or the private sector.

6.39 We recommend that Defence, in recruiting to key senior roles, look inside and outside for the right person.

#### *Career Management*

6.40 One of the strengths of the manner in which the ADF manages the careers of its people is the intense focus on each senior person, and particularly on those with potential for advancement. Through a process known as the Star Plot in relation to SLG appointments, there is evidence of detailed career planning and management of the top echelon in the ADF. We believe that this should continue and that a similar model should be extended to APS senior executives in Defence, within the constraints of formal requirements under the *Public Service Act 1999* and related instruments. In this context we note that selection for SES vacancies is based on an open merit competition in which the Public Service Commissioner has a prominent role. However, there would be opportunities for the senior leadership to jointly consider movements of key SLG members within this framework. This methodology has been used before in Defence without any practical difficulty, but we note that the outcome—effective management of the SLG—is more important than the process used. We recommend that a process similar to the Star Plot be considered to manage SES staff.

6.41 There is also scope for building greater flexibility into the process for filling particular SLG roles. This might involve some use of discretion about which positions are traditionally reserved for either the ADF or APS. Defence should apply a general principle of selecting the best person for the job. For example, a position which is designated for military occupancy in a generalist area should be able to be filled by an SES employee if there is an obvious SES candidate available and no readily suitable Star Rank officer, and vice versa. This is consistent with our comments on

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<sup>4</sup> DC Agendum 28/2006, 'Principles for Staffing Military Positions in the Non-Service Groups', 29 May 2006.

contestability. The aim should be the best outcome for Defence, not rigid adherence to particular staffing formulas.

### *Executive Churn*

6.42 We found that only 6% of Star Ranks had been in their current position for three years or more, compared with 20% of Defence SES employees. As at September 2006, 39% of the Defence SLG (and 47% of One Star officers) had been

#### **What interviewees told us**

“The posting cycle of 2–3 years, reorganisation cycle of 5 years and capital investment cycle of 25 years mean that organisational knowledge is dissipated before learning can be applied.”

in their current position for less than one year. The mean periods of occupancy were 1.96 years for the SES and 1.25 years for Star Ranks; as a group, One Star officers had the shortest mean period at 1.21 years.<sup>5</sup>

6.43 Many people we consulted in the course of the Review raised this issue as a serious problem, with many adverse impacts for Defence. These rates of churn—for both APS and ADF leaders—have consequences for senior executives’ ability to become fully proficient in a position, and to develop a level of mastery in their function. We consider that the current situation contributes to many of the problems raised elsewhere in this report, including discontinuity in corporate memory, information flow, service delivery functions, project management and so on.

6.44 A previous CDF directed that churn be addressed by implementing minimum periods of tenure in the interests of greater staffing stability, but other pressures (in particular the need to staff a growing number of operational command roles, and long-standing ADF career management principles) have intervened to prevent strict adherence to the directive.

6.45 At the most senior levels good progress has been made with fixed-term contracts for critical roles like CEO DMO and Chief Capability Development, but operational demands are eating into longevity at the lower SLG levels—particularly Army positions. We recommend that Defence should identify those management positions that would suffer unduly from churn and commit to leaving SLG members—APS or ADF—in those roles for an appropriate length of time.

### *SLG Training Priorities*

6.46 Defence has a comprehensive leadership development program for the SLG, including its ‘Capstone’ induction program for new members. However, as mentioned in Chapter 3, senior people need greater training in the support that should be provided to Government and ministers, in particular on policy development, submission writing, and high-level business skills. Consideration should also be given to facilitating greater understanding of the military business of the Defence organisation for APS employees. We observed that the military/civilian relationships seem to work well, but that there is a need to ensure greater understanding and greater integration on both sides. All of these elements could be included in a reinvigorated Capstone program.

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<sup>5</sup> Analysis of PE *Senior Leadership Staffing Report* as at 12 September 2006.

6.47 We recommend that Defence review its senior leadership development program to ensure coverage of those issues outlined in paragraph 6.46.

### The Future of the Integrated Staffing Model

6.48 The *Defence Strategic Workforce Plan 2007–17* acknowledges that “current arrangements for allocating large numbers of military personnel to the NSGs are unsustainable”. It notes that:

- the approved strength for ADF members in the NSGs in 2006–07 is 6,311 or 12.2% of total ADF strength;
- the decline in ADF strength is hampering the capacity of the NSGs to meet agreed levels and standards of service delivery; and
- shortfalls against planned ADF strength in the NSGs are usually in the range of 500–600, or around 10% of the total planned allocation.<sup>6</sup>

#### What interviewees told us

“The integrated workforce model is essential but it needs to be ‘owned’ by the CDF and Secretary and managed via a global integrated workforce plan. Civilian staff need to increase their professionalism and understanding of the ADF, military strategy and capability and Military staff need to understand the machinery of government and improve their ability to work in the Headquarters environment.”

6.49 Defence is developing measures aimed at reducing the number of military positions employed in NSGs, thereby reducing staffing stress, including:

- a set of principles to guide military staffing in the NSGs;
- a review to:
  - rationalise the established military positions in NSGs so that establishment aligns with the group’s military personnel allocation;
  - classify all military positions in NSGs as either ‘Military Essential’ or ‘Military Preferred’<sup>7</sup> (with the Services agreeing as a principle to fill all ‘Military Essential’ positions); and
  - establish a process to deal with future changes to the NSG’s military establishment;
- a system for the NSGs to employ temporary APS members to cover the current military staffing shortfalls, involving the temporary transfer of ADF average funded strength to the APS;
- progressive reduction in the number of military positions in NSGs, supported by plans for a net growth in APS staffing numbers and by strategies for

<sup>6</sup> *Defence Strategic Workforce Plan 2007–17*, pp 37-42.

<sup>7</sup> ‘Military Essential’ denotes NSG positions which must be filled by an ADF member if possible. ‘Military Preferred’ denotes positions which desirably should be filled by an ADF member.

reducing the ADF's structural dependence on the NSGs to provide respite postings for its personnel;

- opportunities for greater employment of Reserve personnel;
- alternative staffing models to reduce the need for military positions in the NSGs, including plans to use APS employees with military experience in non-traditional roles; and
- separate military workforce agreements between the DMO and the Services.

6.50 We support these measures. They should be combined with a continuing overall effort to optimise the 'teeth to tail' ratio so as to reduce the impact of uncertain ADF staffing levels on the NSGs.

#### What interviewees told us

"Defence APS employees spend an average amount of time on [in-house] training, but below average on [externally provided] APS-wide training. The ADF spend a lot more time training, but still find it hard to understand the basic democratic principle of serving and supporting the Minister."

"Defence is seen as one of a group of agencies (including the Tax Office, the Treasury, and DFAT) that recruit internally, employ people for long periods, and are somewhat apart from the career mainstream. It is unhealthy if a department develops in isolation and lacks senior people who can ask the new questions."

#### Professionalising the Workforce

6.51 Effective training, development and education are vital in professionalising the workforce. We believe from our consultations during the Review that more needs to be done to professionalise and develop Defence people—not least through a reinvigorated commitment to domain-led training and education. Many people told us about a disparity in training effort between the Defence APS and the ADF.

6.52 Defence workforce characteristics indicate that Defence is not an open employment market to the same extent as other APS agencies, which rely more heavily on external recruiting and training. For instance:

- about 27% of Defence APS employees are former ADF members;<sup>8</sup>
- only about 16% of Defence APS employees have worked outside Defence in another APS capacity<sup>9</sup> (for the Defence SES, the figure is 34% compared with an average of 58% for other major APS agencies);<sup>10</sup> and
- Defence had the third highest rate of internal promotion (97%) among the major APS agencies, just behind the Australian Taxation Office and Centrelink, and ahead of the APS average of 92%.<sup>11</sup>

<sup>8</sup> *Defence Strategic Workforce Plan 2007–17*, p. 28.

<sup>9</sup> Defence Census 2003.

<sup>10</sup> APSC data on *Composition of agency SES leadership teams* as at June 2006.

<sup>11</sup> APSC, *State of the Service Report 2005–06*, p. 20; *APS Statistical Bulletin 2005–06*, Table 33.

6.53 This brings a consequential responsibility on Defence to ensure that it maintains a first-rate training and development regime, especially for its non-ADF staff.

6.54 It is clear that training and development of ADF members is intensive, well planned and well executed. It is also clear that this is not the case for APS members whose training and development is more ad hoc and driven by the individual not the organisation. The existence of a strategic HR function and a civilian personnel steward would go some way towards redressing this imbalance.

6.55 Although one former senior Defence manager commented that no agency could afford to train and develop APS employees on the scale provided for ADF members, we consider that more needs to be done for the non-military workforce. The strong emphasis placed by the DMO on professional development should be emulated by the rest of the Department. This is an issue for all administrative areas of Defence (including the HR function itself).

6.56 Much good work has been done to promote APS training and development through initiatives such as the new Defence Collective Agreement 2006–2009 (DeCA), the accreditation of Defence standards, and the recognition of prior learning for individual staff. We found that further improvement could be made in the following areas:

- there is some fragmentation of training effort between the PE (which has a small policy unit), the DSG (which delivers optional training services and monitors performance) and the other groups (which to a large extent manage their own training effort); and
- the business skilling initiative has not progressed as envisaged. We recommend that Defence should recommit to the business skilling program, with responsibility vested in group heads for the professional development of their workforce.

## Recommendations

The Review team recommends that Defence:

- R21 Develop a strategic HR function aligned with Defence decision making, and recast PE as a strategic central policy unit led by an HR expert at the SES Band 3 level. [6.18]
- R22 Formally recognise within Defence the roles of:
- Service Chiefs for the leadership, management and development of military personnel of their Service; and
  - group heads for the leadership, management and development of people of their group. [6.25]
- R23 Revisit the basis for the split of functions between the PE and DSG. [6.28]
- R24 Review HR staffing levels in the context of the move to strategic HR and a more logical break-up of HR functions. [6.29]
- R25 Build greater flexibility into the process for filling particular SLG roles and apply a general principle of looking inside and outside Defence to select the best person for the job. [6.39–6.41]
- R26 Consider a process similar to the Star Plot to manage SES staff. [6.40]
- R27 Identify those management positions that would suffer unduly from churn and commit to leaving SLG members—APS or ADF—in those roles for an appropriate length of time. [6.45]
- R28 Review its senior leadership development program to ensure coverage of those issues outlined in paragraph 6.46. [6.47]
- R29 Recommit to the business skilling program, with responsibility vested in group heads for the professional development of their workforce. [6.56]

## **7: MAINTAINING THE FOCUS ON FINANCIAL REFORM**

7.1 This Chapter provides the background to the audit qualifications of Defence's accounts for the 2003–2005 period and the remediation measures undertaken by Defence. It goes on to describe the financial management framework implemented by Defence. It then briefly describes the CFO's initiatives to achieve greater visibility of costs across the organisation and touches on the long-term financial challenges faced by Defence. It concludes by outlining the role audit and risk committees could play in maintaining executive focus on the financial reform agenda.

### **Commonwealth Reforms in Financial Management**

7.2 Ongoing reforms in public sector accountability and governance over the last few decades have required significant adaptation in the way Defence has approached financial management and accountability. The introduction of output budgeting and accrual accounting, the FMA Act, and the move in 2000–01 away from a one-line or a global Defence budget have all been designed to enhance transparency and good governance in government expenditure. The implementation of these reforms has impacted significantly on Defence.

### **Audit Qualification and Remediation**

7.3 Most notably, issues relating to Defence's financial management, specifically the ability of Defence to meet corporate governance and accounting standards, have acquired some public notoriety in recent years. In 2003–04 and again in 2004–05 the Secretary and the Auditor-General were unable to form an opinion of Defence's Financial Statements due to uncertainty affecting a number of areas of the Financial Statements. Primarily this was the result of problems in maintaining adequate 'books and records', and in demonstrating effective controls and systems. Defence's inadequate preparation for the transition in the nineties from cash-based accounting practices to an accrual-based method compounded these problems.

7.4 Defence has worked extensively to address the 95 ANAO 2003–04 audit findings and the 46 ANAO 2004–05 audit findings. Defence has developed and implemented 16 remediation plans that include the establishment of a best practice financial management framework together with substantial reform work in the financial systems and process areas.

7.5 For the financial year 2005–06 the Secretary and the Auditor-General were able to conclude that the financial statements for Defence were again true and fair, except for two qualifications relating to records of Defence's inventory management. This was achieved in a year in which the separation of the accounts of DMO from those of Defence was completed, and the DMO's first financial statements were found to be true and fair and without qualifications. It was also a year in which Defence, as with the rest of the public and private sectors, adopted the Australian Equivalent of International Financial Reporting Standards.

7.6 The remediation work is ongoing, but we would stress the need for Defence leaders to maintain the focus on financial management, financial systems reform,

commitment to a ‘culture of economy’ and to being recognised by government as highly competent, professional and business-like managers.

**What interviewees told us**

“Overall Defence financial administration is among the best in the world.”

“After two years of being unable to form an opinion about Defence’s financial statements, it is pleasing that the effort and focus on financial management reform has delivered a tangible result.”

“There are profound problems with finance and this is symptomatic of projects not being successful—you can’t manage a project if you can’t manage or see the finances. Defence needs a single system for financial reporting.”

7.7 It is important to note that Defence’s cash management has not been in question. Defence has budgeted well, allocated funds across the organisation in a timely way, spent funds to a few percentage points of the appropriated budget, and accounted for its spend to the satisfaction of the Government and the Auditor General. For example, in 2005–06 the Auditor-General had no concerns with Defence’s management of some \$36 billion worth of transactions.

### **Financial Management Framework**

7.8 The remediation program relies on the implementation of a well-documented and clearly articulated financial management framework. Implementation of the framework is well underway and is modelled on the Committee of Sponsoring Organisations (COSO) integrated internal controls framework, which is recognised internationally as best practice.

7.9 The framework:

- has identified key financial risks and key controls
- has mapped financial processes
- has provided standardisation to financial management in Defence
- is delivering a skilling development program for Defence’s financial and business needs.

### **Achieving Greater Visibility of Costs**

7.10 As outlined in Chapter 4, a key component of making the shared business model successful is that both the users and the providers should be fully aware of the cost of meeting the demands made. This should achieve two benefits, namely

**What interviewees told us**

“Costing has been very weak. Defence hasn’t put the effort into costing. The culture is that we tend to worry more about the future costs in the DCP, rather than current costs.”

“I was incredulous that we don’t have more information on costs. Yet no one was keeping on the pressure for change.”

enabling the providers to enhance their efficiency, and the users to understand the whole-of-life cost implications and consequences of all their requirements.

7.11 We agree that the recent proposal from Defence to redesign the outcome/output structure of its statutory budget reporting to treat all the organisational groups or budget holders as output groups. This, supplemented by



the further CFO intention to move progressively to product level budget, will provide Defence with the kind of cost visibility needed to understand costs and ultimately measure efficiency. As recommended in Chapter 4, Defence should continue with these initiatives.

## Long-Term Financial Challenges

7.12 As Defence is one of the largest organisations in Australia, the Government and the community have high expectations that Defence's financial management will be first class. This expectation also leads to a high degree of scrutiny of Defence from the media, who still perceive Defence as not achieving full value for money. Specifically, this comment lies in the area of matching resources to capability.

7.13 The DMR team has considered these concerns, and while we recognise a history of problems in long-term planning and budgeting, there is significant evidence that Defence recognises the need to develop robust estimates for personnel and operating costs and continues to work to improve its capability development processes and capital acquisition. This has been done in line with the Government's initiatives that stem from the 2003 Kinnaird Review and the two-pass Cabinet approval process.

7.14 It is also worth noting that the Government has sought to address sustainability of planned investments in capability with funding of investment in additional personnel and operating costs and the rectification of pre-existing logistic shortfalls.

7.15 The Defence 2000 White Paper<sup>1</sup> committed the Government to increase Defence spending by an average of 3% real growth a year from 2000–01 to 2010–11. This commitment has been extended until the year 2015–16, which will result in \$10.7 billion in new funding and includes \$2.4 billion for the DCP and a further \$1 billion for associated net personnel and operating costs. Since 2000 the Government has allocated \$3.9 billion to the operating costs of new and upgraded equipment to be acquired through the DCP.

7.16 Notwithstanding the unprecedented level of budget certainty and continued budget growth over the last few years, we recognise a significant risk if Defence planning fails to strengthen the organisation and retain the skills to plan and manage in an environment where resource certainty is reduced. There is also a need to retain a focus on the real long-term cost of Defence. Defence will increasingly need to remain agile and efficient, and maintain the skills and processes necessary to plan and manage in a time of reduced budget certainty.

### What we were told in submissions

"The current approach could easily become unsustainable. If threat perceptions fall or the government's strong fiscal position erodes, Defence will be left with a much-expanded inventory of equipment and insufficient funds to operate it. Defence planning needs to give the government a clear vision of future costs so that it can make an informed commitment to sustaining the defence force under development"

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<sup>1</sup> *Defence 2000: Our Future Defence Force*, Defence Publishing Service.

## **Keeping the Focus on Reform: the role of Audit and Risk**

7.17 In Chapter 5 we referred to two key subcommittees of the senior Defence executive committee—audit and risk—which would help the senior executive maintain a focus on financial management and risks to Defence business.

7.18 While Defence currently has an audit committee, we recommend its membership be elevated and directly linked to the proposed DSMAC. The audit subcommittee membership should include an experienced and independent chairman, the CFO, another DSMAC member and other group heads. The audit subcommittee can help a number of Defence's senior leaders to focus on financial reporting, internal control systems, audit and performance evaluation.

7.19 A risk subcommittee can identify risks to organisational outcomes and develops strategies to mitigate them. It should work closely with the organisation's internal audit function (in Defence, the Inspector General) and act as a warning mechanism for senior management.

7.20 Ideally, the risk subcommittee should be chaired by a member of the proposed DSMAC to demonstrate the organisation's commitment to risk identification and mitigation, and to ensure that senior management is engaged in considering the possible unintended consequences of their decisions. Participants should include the Inspector General and other group heads, as well as a representative of the CFO.

### *External Audit*

7.21 At this point, a few comments about the ANAO's audit approach are in order. The National Audit Office (UK) and the Government Accountability Office (US), in addition to examining compliance in their defence organisations, look at organisational culture and the causes of project failure. The ANAO does not place as much emphasis on a performance-oriented approach when reviewing Defence, nor does it contribute its expertise and skills to the resolution of issues it identifies. It would be useful if Defence could encourage the ANAO to engage in this manner.

## **Recommendations**

The Review team recommends that Defence:

- R30 Maintain the focus on financial management and financial systems reform. [7.6]
- R31 Ensure that Defence develops and maintains the skill-sets and capabilities to enable a robust resource management system in an environment where resource certainty is reduced. [7.16]
- R32 Maintain a focus on the real long-term cost of Defence. [7.16]
- R33 Use the proposed audit and risk subcommittees to keep the senior leadership focused on financial reform and risk management. [7.17]
- R34 Encourage the ANAO, in reviewing Defence, to adopt a performance-oriented approach and contribute its expertise and skills to the resolution of issues it identifies. [7.21]



## 8: INFORMATION MANAGEMENT

8.1 This Chapter examines Defence's ICT systems and discusses their development. It reports progress over the past two years and sets out recommendations to continue this progress. This Chapter includes discussion of Defence ICT strategy and the direction of the development of Defence's Enterprise Resource Planning (ERP) systems.

### Background

8.2 We cannot overemphasise the importance of getting the approach to ICT correct so as to ensure effective outcomes for Defence. In all other aspects of this report a consistent theme is the lack or inadequacy of management information systems. It follows that improved ICT is central to even the most minimal progress in the successful development of Defence management processes.

8.3 In summary, while there has been recent improvement in Defence's information systems, this function has historically been problematic and still requires considerable dedicated management attention. Time, effort and funds are needed to bring the function up to standard.

8.4 Defence's senior leadership team almost universally recognised the need to improve the performance of the information management function. While the prevailing thinking within the Defence leadership seems to be that information technology for administrative purposes is a necessary cost of business, there did not appear to be a consensus view of the actual objectives and what needed to be done and how.

8.5 The primary output of any ICT organisation is to maintain basic ICT services and to respond proactively to customer needs. Defence ICT does not appear to be meeting these requirements, at least as far as basic ICT services and support of business systems are concerned.

#### What we were told in submissions

"Information Management Systems represent an oxymoron: they do not have robust information, and they do not manage it."

"The long and sorry history of Defence's faltering attempts to put in place effective management information systems needs to be seen against the intrinsic difficulty of the task. Nonetheless, it is of little surprise that the results have been so poor given that the projects have often been conceived and run by individuals with little or no project management or IT experience."

### Recent Reforms

8.6 Considerable reform of Defence's information management process and systems has been undertaken in response to a review in 2003–04 by the Boston Consulting Group (BCG) into the Defence Information Environment (DIE) organisational arrangements. The study assessed how well the needs and priorities of major business users were being met, with particular focus on the management information domain and Defence systems and networks.

8.7 BCG observed that Defence's ICT was characterised by:

- inadequate systems and network functionality to meet business needs;
- systems developed in functional silos (although operational capability development was considered adequate);
- insufficient interoperability between key systems and poor data management leading to inadequate data quality;
- high levels of complexity, fragmentation, duplication and redundancy leading to systems performance and reliability issues; and
- lack of adequate network performance and capacity management.

8.8 The recommendations of the study were to:

- enforce greater end-to-end, single point accountability for Defence ICT planning, development and delivery;
- provide a more holistic customer focus, enterprise business-driven, perspective of ICT needs, priorities and architectures;
- provide greater process, cost and performance measurement transparency and discipline; and
- enable the effective implementation and management of the enterprise process owner model and the Defence capability management principles and processes.

8.9 Defence subsequently integrated a number of disparate ICT functions into a single group with a Chief Information Officer (CIO) to manage and administer the DIE and better align the end-to-end functions it inherited.

8.10 In the last two years since the BCG report was delivered, significant progress has been made:

- The CIO Group (CIOG) was established by merging the previous Office of the CIO with Information Systems Division which was in DSG.
- ICT investment planning has improved substantially with an approach that currently encompasses planning to support military strategies and, to a lesser degree, administrative business requirements.
- Business management reviews have led to better understanding of current Defence spending and investment in ICT and baselines for CIOG to identify future resource and funding needs. The work conducted to date should be

considered a cornerstone of future business planning for information management in Defence.

- Performance measurement in the CIOG has identified opportunities for performance improvement. For a sampled month, operational key performance indicators (measured through the J6<sup>1</sup>) met or exceeded their targets. However, this was not the case for the administration and support key performance indicators, demonstrating that further work is required.

8.11 Other initiatives that indicate progress is being made by the CIOG include:

- A whole-of-organisation approach to ICT planning, through the DIE Strategic Planning Framework.
- The Information Systems Division (ISD) remediation project to alleviate the backlog of development and sustainment work.
- An integrated planning of ERP upgrades and enhancements and more inclusive ERP future planning.
- An internal review of the outsourcing contract for the central office ICT infrastructure to facilitate a more efficient and effective delivery of the contracted support services.

### **Current Situation – Getting the Basics Right**

8.12 The CIOG continues to suffer from poor perception of its ability to adequately deliver ICT services to Defence customers. This can be attributed to past failures, continued periods of low network reliability, and an ongoing inability to adequately service standard requests such as network access, password resets and drive access. CIOG itself estimated in early 2006 that the ISD was delivering only 10-15% of the customer demand.

8.13 The problems are compounded by a lack of customer prioritisation, relationship management and appropriate customer communications. The lack of incrementally better levels of ICT service delivery has continued to frustrate customers, particularly in regard to standard service desk requests. We recommend that CIOG should seek Defence-wide agreement to a customer prioritisation model, enhance its customer communications and measure customer satisfaction to facilitate continuous improvement.

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<sup>1</sup> The Strategic J6 is the senior military authority accountable to the CDF through Commander Joint Operations for the delivery of information and electromagnetic spectrum (EMS) support to the ADF. The Strategic J6 is also responsible to the Service Chiefs for information and EMS support to their 'raise, train and sustain' functions.

8.14 A number of initiatives aimed at rectifying these issues are under way. However, the service level targets Defence is trying to reach in this area remain unclear. CIOG does not appear to have a simple, clear and concise set of measurable parameters by which to evaluate its performance in the provision of information systems for administrative services, nor does Defence appear to understand how it compares with other Government agencies and private industry. The fact that the information systems leadership cannot unequivocally point to the fact that 'it has got the basics right' undermines its credibility within Defence.

8.15 We recommend that Defence establish high-level quantitative and qualitative benchmarking of the ICT service levels for its administrative systems. The benchmarking should include comparisons along functional lines as well as overall cost-efficiency metrics. The purpose of this benchmarking is to establish the performance measures, determine where Defence stands against these measures and use that information to inform ICT planning priorities.

8.16 The unnecessarily diverse range of technologies operating on Defence's network appears to be a significant cause of disruption and lower than desirable performance. Despite the CIO formally being the technical control authority for the DIE, there is not, as yet, recognition of established technical controls for DIE networks. This prevents CIOG from taking a professional engineering approach to managing the DIE. We recommend that Defence move towards establishing single responsibility for technical control over deployed networks and systems that interface with current CIOG-controlled networks.

8.17 Before Defence can focus on the future, it must get the basics right. For this to occur, CIO's resources and structure should be prioritised to focus on customer needs.

8.18 Support to military operations is the most critical area of service delivery, and as discussed above, this area appears to be operating effectively. Continuing to assign military operations the highest level of support and customer priority should prevent any detrimental impact on this area.

### **ICT as a 'Free' Good**

8.19 The problem of insatiable demand for what is, in the user's view, a free good, has been addressed in many information technology environments by the introduction of a user-pays or charge back model. This is clearly the trend both in industry and government but it is not without its own difficulties. As an example, the recent attempt to charge users for installation and training of a record management system had the unintended consequence of reducing the uptake of a core administrative system.

8.20 One of the key recommendations in Chapter 4 is the introduction of cost visibility and resource accountability for all services consumed within Defence. This applies equally to the provision of ICT services as the information technology component of many processes or services in Defence is significant and therefore must be quantified to set the price of other Defence products. Cost visibility also



provides a cost comparison for outsourced information technology services and drives a standardisation of the internally delivered services. We recommend that CIOG provide basic administrative services on a standardised product basis with specific service levels and cost transparency.

## **Governance**

8.21 Governance was covered in detail in Chapter 4, and is no different for ICT than for DMO or DSG. That is, governance arrangements should clearly establish roles, responsibilities, product specification, pricing, service levels, timelines and include a dispute resolution mechanism. While progress is being made towards these goals, there is still a way to go. There is also a need for the customers to understand that CIOG is delivering a service and that they as customers have responsibilities as described in Chapter 4.

## **Better Strategies and Business Planning**

8.22 It is not apparent that Defence has a well-developed ICT Strategy that easily converts into a business plan for the group. As such, we observed that while solid technical remediation work was being done across the group it could be better organised through a clearer ICT Strategy that prioritises work in accordance with clear customer objectives or outputs. This is required to facilitate a coordinated range of activities rather than the apparently random approach to strategy that is currently occurring. We recommend Defence develop an ICT strategy that incorporates:

- alignment of ICT with corporate strategy
- desired outcomes of Defence ICT infrastructure
- customer role and requirements
- high level assessment of current status of ICT delivery
- identification of gaps
- key directions and performance measures to close the gap.

## **ICT Organisation and Leadership**

8.23 The authority of the CIO role was strengthened substantially as a result of the BCG recommendations. However, the level of the position is not commensurate with that of other key Defence decision makers in the appropriate peer group. Other Commonwealth agencies have seen the need for Band 3-level leadership in ICT design, investment and service delivery.

### **What interviewees told us**

“Often the CIO role is not senior enough. This type of work needs sponsorship at the highest levels of the organisation in order for it to be treated seriously.”

“Defence IT management is comparably no worse than any other agency; it is just several orders of magnitude larger.”

8.24 Given the considerable complexity of Defence’s ICT environment, the future CIO will need to be a person with strong leadership and influencing skills steeped in information management discipline and with experience in transforming significant

information technology organisations. It is unlikely that such a person will be found within Defence.

8.25 Numerous opinions were put to us regarding the placement of the CIOG in Defence, including the option of incorporating it within DSG. Given the vital nature of information technology as a key enabler for almost all Defence outputs, the extensive reform agenda of both CIOG and DSG and the extent of improvement required in both organisations, the placement of CIOG in DSG would remove the necessary focus on and management visibility of Defence ICT.

8.26 We recommend that CIOG should remain an independent group, reporting to the Secretary. We also recommend that an expert CIO be recruited at the Band 3/3 Star level.

8.27 Significant elements of ICT support remain in DSG. This results in fragmented end-to-end IT delivery processes, unclear understanding of responsibility for logical segments of the processes and confused demarcation of responsibility and accountability for delivery of the fixed and deployed network environments. To alleviate these issues, we recommend CIOG be responsible for all ICT service delivery in Defence, including regional ICT.

### **Business Processes and ICT**

8.28 In Chapter 4, we recommended that Defence further enhance its understanding of the current state of its business by mapping the key processes to seek efficiencies. As most of Defence's business processes have some ICT component and many are completely dependent on ICT for their implementation, representatives from CIOG will need to play an ongoing part in the cross-functional teams doing this work. We recommend that CIOG develop further the skills to contribute to cross-functional business process reengineering efforts or assessment that Defence undertakes.

### **Rationalisation of ICT Systems**

8.29 As many of Defence's IT systems were originally developed and implemented by the responsible business owners, Defence has many bespoke legacy ICT systems. We note CIOG's ongoing rationalisation of systems to reduce complexity and waste.

8.30 We also observed that many of these legacy systems supported individual functions and individual groups' information management needs. As an example, performance measurement and reporting appeared to be conducted in each group on an almost standalone and manual basis, notwithstanding that in at least one group in Defence, an enterprise-wide licence for a relevant tool has been implemented. We recommend that Defence review the status of performance measurement and reporting within Defence with a view to transitioning and consolidating the disparate approaches into a Defence-wide integrated system.

8.31 Enterprise-wide business management information systems were either absent or poorly utilised if available. For example, there did not appear to be any Defence-wide facility that would allow effective management accounting or answers to ad hoc queries from management and the Government to support fact-based decision making.

8.32 We recommend that Defence plan to develop and implement Defence-wide management information systems.

### **Acquisition**

8.33 There is an apparent lack of ICT acquisition policy that delivers best value for money. Instead, isolated acquisition of ICT occurs in CIOG and until recently DSG, the DMO, and possibly other areas of the Department, driven largely by historical organisational structures.

8.34 Major capital ICT investments are subject to the standard two-pass approval process and once approved, acquisition for most projects is managed through the CIOG. DMO retains management of the acquisition of logistics and deployable ICT systems.

8.35 Standard ICT products and services were, until recently, acquired on an ad hoc basis with variable contractual arrangements that did not maximise value for money. CIOG has recently embarked on a revised procurement strategy to acquire ICT products and services via an integrated panel arrangement. It is expected that this will provide a significant improvement in the capacity and timeframes for delivery to Defence customers.

8.36 We recommend that Defence clarify its approach to purchasing policies and acquisition strategies for Defence ICT products and services in line with the roles and accountabilities of the groups involved.

### **Outsourcing**

8.37 In recent years Defence has outsourced a range of ICT functions in central operations and support and more recently the regional IT functions.

8.38 Ideally, in accordance with the approach outlined in Chapter 4, a clearer understanding (and simplification) of Defence's business processes might provide a basis to improve current outsourcing arrangements or future outsourcing opportunities. Outsourcing opportunities would need to be assessed on the basis of the structural cost advantages, the competitiveness of the supplier markets and the transaction costs.

8.39 We recommend that until Defence understands its business processes and associated benchmarks and costs, it is not appropriate to consider outsourcing additional ICT services.

## Enterprise Systems

8.40 Defence has three core ERP systems covering personnel, finance and logistics, which date back to the mid 1990s. They were the best available at the time and are still largely stand-alone systems which were acquired at a time when there was no centralised ICT networks and systems were set up on a Service or group

### What interviewees told us

“If Defence was to consider a single system solution, it must first resolve the bigger issue of defining Defence processes.”

“Defence’s business processes need to be more clearly articulated to service the business requirements for the decision about consolidating the ERP systems.”

“The main issue with the Australian Defence ERPs is a question of who is in charge of deciding the business processes ... In the absence of a ‘super decision maker’ it remains difficult to define an end-to-end process and therefore the associated data elements.”

basis. Over the years significant, but now unquantifiable, investments have been made in customising and upgrading these applications.

8.41 The situation Defence is facing with its ERP systems is not uncommon. Defence establishments around the world have information systems in use that were envisioned in the 1970s, built in the 1980s and are now so heavily customised that these systems cannot operate effectively in an integrated fashion.

8.42 The CIOG is currently engaged in assessing and analysing Defence’s ERP integration and upgrade requirements.

Accordingly, further significant investments are currently being planned for Defence’s ERP systems. While we recognise the need to upgrade, we would warn against unnecessary upgrades or extensions of existing ERP systems as a substitute for a coherent Defence-wide approach. We recommend that Defence should transition to a single ERP system in the medium term (ten years) and necessary upgrades to existing systems should be directed towards facilitating this goal. CIOG should lead in this endeavour.

8.43 The CIOG has, during this review, commissioned a cost-benefit analysis for the various development paths and to inform the development of Defence’s long-term ERP strategy. We recommend any future work in this area be prefaced with the planning assumption of Defence transitioning to a single ERP system within the next ten years.

## Recommendations

The Review team recommends that:

- R35 CIOG seek Defence-wide agreement to a customer prioritisation model, enhance its customer communications and measure customer satisfaction to facilitate continuous improvement. [8.13]
- R36 Defence establish high-level quantitative and qualitative benchmarking of the IT service levels for the administrative information systems. The benchmarking should include comparisons along functional lines as well as overall cost-efficiency metrics. The purpose of this benchmarking is to establish the performance measures, determine where Defence stands against these measures and use that information to inform future ICT planning priorities. [8.15]
- R37 Defence move towards establishing single responsibility for technical control over deployed networks and systems that interface with current CIOG-controlled networks. [8.16]
- R38 CIOG provide basic administrative services on a standardised product basis with specific service levels and cost transparency. [8.20]
- R39 Defence develop an ICT strategy that better informs a new business plan which encompasses:
- alignment of ICT with Corporate Strategy;
  - desired outcomes of Defence ICT infrastructure;
  - role of CIOG and associates in delivering Defence ICT;
  - customer role and requirements;
  - high-level assessment of current status of ICT delivery;
  - identification of gaps; and
  - key directions and performance measures to close the gap. [8.22]
- R40 CIOG remain an independent Group, reporting to the Secretary, and an expert CIO be recruited at the Band 3/3 Star level [8.26]
- R41 CIOG be responsible for all ICT service delivery in Defence, including regional ICT. [8.27]
- R42 CIOG develop further the skills to contribute to cross-functional business process reengineering efforts or assessment that Defence undertakes. [8.28]
- R43 Defence review the status of performance measurement and reporting with a view to transitioning and consolidating the disparate approaches into an integrated Defence-wide system. [8.30]
- R44 Defence plan to develop and implement Defence-wide management information systems. [8.32]

- R45 Defence clarify its approach to purchasing policies and acquisition strategies for Defence ICT products and services in line with the roles and accountabilities of the groups involved. [8.36]
- R46 Until Defence understands its business processes and associated benchmarks and costs, it is not appropriate to consider outsourcing additional ICT services. [8.39]
- R47 Defence transition to a single ERP system in the medium term (ten years) and necessary upgrades to existing systems should be directed towards facilitating this goal. CIOG should lead in this endeavour. [8.42]

## 9: IMPLEMENTING THE RECOMMENDATIONS

“Defence, and DMO, have been the subject of a series of reviews over the past few years... However, too often implementation has not been given the priority necessary to ensure that there is sustainable momentum for change and reform.”

Defence Procurement Review 2003

9.1 In our Terms of Reference, we were asked to pay due regard to previous reviews and studies and, in the course of our work, we looked at a number of them. They were all soundly based, yet many of the problems that they identified remain. This highlights the difficulty of change and indeed it is well recognised that in many organisations, reform initiatives frequently fail. For Defence, change management is even more difficult because of its size, complexity and strong and differing cultures.

9.2 At the heart of the Review was the question of why Defence is not as dynamic and responsive an organisation as it should be. We found many reasons, including accountability structures, business processes, the quality and availability of management information, the preparation of senior managers and prevailing attitudes. These have been dealt with in the preceding chapters. Importantly however, we recognise that these are also the factors that act to prevent successful implementation of change.

### **A Sense of Urgency**

9.3 Effective change requires people at all levels to want to change the way that they work. The biggest threat to most change initiatives is passivity. The team recognises that Defence’s considerable and ongoing successes operationally, and the key reforms already undertaken, might make it difficult to create the sense of urgency necessary to keep working on improvement.

9.4 Another threat to successful change is that Defence may passively and outwardly accept the Review but be less than rigorous in its implementation. Our preference would be that Defence challenge our findings if it disagrees, and propose alternatives.

### **Leadership**

9.5 For the change to be effective, it must be led from the top. In successful transformations, the leadership:

- makes the change meaningful to staff, engages with them to make the change personal, provides a vision of what can be achieved and highlights successes;
- provides a role model for the desired behaviours;
- builds a strong and committed management team, and consciously works to improve the motivation, skills and team behaviours of the organisation; and
- is personally involved in managing reform, monitoring progress, adjusting goals and ensuring accountability.

9.6 Given this, there can be no doubt that the implementation process needs the visible support of the Secretary and CDF. No one should be in doubt that the leadership hold this as a top priority. By extension, the Senior Leadership Group needs to promote the Review's outcomes within their organisations.

9.7 Responsibility for implementation should be clearly assigned. Many of our recommendations relate to the functional responsibilities of an existing manager, who should be made responsible for implementing the recommendations. In other cases, the issue will span organisational boundaries. Here a lead manager needs to be identified, with the authority to implement changes.

## **Communications**

9.8 With any large-scale change program, it is not possible to over-communicate. Managers and staff need to know what is happening, what their role is in the change, and what the new behaviours are. There should be no room for ambiguity about what is happening. Effective communication demands messages that are clear, compelling, personal and repeated. Explanations of the Review's conclusions, its rationale and Defence's actions to institute the required change should be prepared and distributed widely in multiple media. The communications strategy, with its key messages, is a crucial and early responsibility of the implementation team.

## **Implementation**

9.9 We see a need for significant work in implementing the recommendations of the Review. This will include:

- preparing an implementation plan that breaks down the recommendations to specific activities with assigned responsibilities, goals and milestones; and
- overseeing the change management process and monitoring progress.

9.10 It is too easy to look at individual recommendations of this Review and conclude that the change is minor, and can be accommodated within the existing processes of the organisation. An incremental approach such as this would risk failing to address fully Defence's shortcomings. Collectively the issues identified are fundamental and require a large-scale change-management effort to gain a tangible improvement in performance.

9.11 What gets measured gets done and an effective system of performance measurement is central to successful implementation of the Review's recommendations. Additionally, monitoring by an independent body can provide a measure of discipline to ensure that the recommendations are being implemented. To assist the Secretary and CDF, we see the need for a dedicated implementation team with a manager of sufficient seniority and resources to ensure that change happens. This group could go on to form the nucleus of the Organisational Development Unit recommended in Chapter 5.

9.12 The Defence Business Improvement Board (DBIB) was originally envisaged as having a role in implementing this Review. We recommend that the DBIB assist



with specific improvement initiatives that emerge from this Review. The issues we believe the DBIB might most usefully concentrate on are:

- Defence governance structures, including Charters [Recommendation R7];
- improvements to CSAs and SLAs [Recommendation R10];
- improvements to costing [Recommendation R12];
- the level of staffing of the HR function [Recommendation R24];
- the impact of churn on senior positions, and identification of those that need longer tenure [Recommendation R27]; and
- business skilling [Recommendation R29].

9.13 While external monitoring provides an important measure of discipline, implementation needs to be reflected in internal performance measurement as well. This should include key deliverables and milestones, as well as quality and satisfaction measures. Key objectives should be built into groups' organisational performance agreements and the statement of Defence Priorities. They should also be cascaded through organisational business plans.

### **Embedding Continuous Improvement**

9.14 The recommendations made in this Review represent a vision or perhaps more practically, the starting point for reform. We have not specified all the steps Defence will need to take after it has embarked on the path of reform. Changed circumstances and experience will lead to further initiatives.

9.15 Periodic external reviews such as this one have their place, but it is healthier for the organisation to have an institutionalised practice of continuous improvement. There is a need for the top managers to drive performance improvement across the organisation.

9.16 We found, unsurprisingly, that many of the problems we described were well understood by many people in the Defence organisation. In some cases, they had clear ideas on how to improve Defence. The difficulty was that Defence, as a traditionally hierarchical organisation, is slow to respond to initiatives at the working level. Decision making is held towards the top of the organisation and lower-ranked staff often lack the authority and resources to pursue initiatives that might benefit the organisation as a whole. We recommend that Defence more consciously engage staff in a process of continuous improvement.

### **Sequencing**

9.17 In developing an implementation plan, Defence will need to consider a number of issues, including the time needed to develop further some of the recommendations, the ability of senior managers to deal with multiple parallel initiatives, and the budget cycle.

9.18 It will be important to establish and maintain momentum for change and to have a rigorous and detailed plan for implementation. Based on this consideration, we would propose an initial view of the short, medium and long term sequence of implementation.

- The first month. Announce the broad shape of the reform agenda and allocation of responsibilities, establish the implementation unit, advertise for a new Head of Strategic HR and CIO, and announce those initiatives that require little if any further analysis (such as the new ministerial directive and the new DSMAC).
- Short Term (the first six months). Announce the new joint vision; put in place the new organisational structures (the Strategic HR organisation, the incorporation of regional ICT in CIOG, and creation of the Office of the CDF and Secretary including an Organisational Development Unit); put in place the new governance structures with the high level business model and the revised committee system and commence ICT benchmarking.
- Medium Term (the first year). Complete those activities which require more substantial preparation such as revised career management for the SLG, the review of the HR function, and revised training arrangements. Put in place systems for the 2008–09 Budget and financial year including the initial version of the whole of Defence planning process, product level budgets for DSG, CSAs/SLAs with better metrics, a better ICT prioritisation model and an improved performance measurement system.
- Long Term (more than twelve months). Some activities, because of their complexity, can only be addressed over a longer timeframe. These include the development of costing tools and detailed business process mapping and developing Defence-wide management information systems and progress towards a single ERP.

## Cost

9.19 We have not attempted to produce budget-quality costings for the Review recommendations. Further work on costs will need to be done by the Implementation Team. As a rough order of magnitude, the main incremental costs could be expected to include:

- Expansion of the Office of CDF and Secretary, including the Implementation Team and Organisational Development Unit – \$3 million per annum;
- Creation of Head of Strategic HR and upgrade of CIO – \$0.3 million per annum plus \$0.2 million executive search;
- Increased Government Awareness Training – \$0.3 million per annum;
- Expanded 360 degree feedback for SLG members – \$0.1 million per annum; and
- Development of a costing model for Department of Defence – \$0.5 million plus \$0.2 million per annum.

9.20 The biggest uncertainty is associated with business process mapping, the longer term consolidation of ERPs and the provision of management information

systems. Each of these by themselves would cost millions of dollars, some of which is already factored into Defence forward estimates. (We are aware that Defence is already embarked on a cost-benefit analysis of its ERP strategy, and this is expected to provide better cost estimates in this area.) While the gross costs are large, we recognise that many activities are already underway or budgeted, including the planned upgrades for ROMAN, PMKeyS and SDSS and the systems rationalisation initiatives.

9.21 Other costs will be relatively small, and mostly represented in staff time. We see that all of these have natural offsets, as less productive or obsolete activities are replaced with more productive ones.

9.22 Likewise, we have not attempted to quantify savings measures, although clearly some will eventuate from more efficient systems and the review of HR staffing. While we are conservative in our expectations, if the recommendations are well implemented, savings should easily exceed the costs of the new measures proposed, at least in the medium to long term. Unless Defence's ERP strategy cost-benefit analysis recommends an early investment in new systems, we see no need to supplement the Defence budget in the foreseeable future.

### **Immediate Recommendations:**

The Review team recommends that:

- R48 Defence establish a small dedicated implementation team led by a 2 Star or SES Band 2 officer (reporting directly to the Secretary and CDF) to work with Defence's leaders in implementing the report recommendations within their areas of responsibility. [9.7]
- R49 The implementation team as a matter of priority develop an implementation plan including a communications strategy and timeframes for implementation. [9.8]
- R50 The Defence Business Improvement Board concentrate on specific improvement initiatives that emerge from this Review, specifically:
- Defence governance structures, including Charters [Recommendation R7];
  - improvements to CSAs and SLAs [Recommendation R10];
  - improvements to costing [Recommendation R12];
  - the level of staffing of the HR function [Recommendation R24];
  - the impact of churn on senior positions, and identification of those that need longer tenure [Recommendation R27]; and
  - business skilling [Recommendation R29]. [9.12]
- R51 Key review recommendations be built into the Defence performance management systems, including the annual report and portfolio budget statements, Organisational Performance Agreements, the statement of Defence Priorities and business plans. [9.13]
- R52 Defence take a structured approach to business planning and improvement, including identifying organisational weaknesses, options for improvement, assigning resources and assigning analytical and review tools. [9.15]
- R53 Defence more consciously engage staff in a process of continuous improvement. [9.16]

## 10: SUMMARY OF RECOMMENDATIONS

### Chapter 3: Defence Today—the View from Outside

The Review team recommends that:

- R1 Defence continue to give focus to Defence strategic policy and planning capability. [3.13]
- R2 Defence undertake more extensive induction for incoming Ministers and advisers and senior departmental staff, to educate new staff about the role of Defence. This might include workshops for new ministerial teams and their departmental counterparts, focusing on their respective roles and responsibilities. [3.21 and 3.22]
- R3 Defence review the tasking and clearance process for rapid response Ministerial inputs like Question Time Briefs, and delegate responsibility to the most appropriate level. [3.23]
- R4 Defence increase training for Defence staff to improve the understanding of how to best support Ministers. This might include building on existing training tools like the Senior Leadership Group (SLG) attendance at the Senate's half-day seminar *Parliament, Privilege and Accountability*, existing ministerial writing courses; and the courses under development in the newly formed Ministerial Awareness and Training Section. [3.24]
- R5 In order to improve external communication skills, Defence introduce a 360 degree appraisal process for SLG members, which includes an external stakeholder perspective. [3.25]

### Chapter 4: Accountability and Service Delivery in Defence

The Review team recommends that:

- R6 The Secretary and CDF set a joint vision and strategic direction for Defence and ensure adherence to the strategic direction and corporate governance and confront the consequences when adherence does not occur. [4.17]
- R7 Defence governance structures, including Charters, be designed so as to facilitate real accountability by senior executives. Charters should provide more explicit guidance on the executives' responsibilities within the Defence service delivery model and be specific about the ownership of resources, service delivery obligations and the development of service level agreements. [4.27]
- R8 The Defence leadership commit to a high-level business model which clearly defines roles and responsibilities, and distinguishes policy and core business from service delivery. [4.31]

- R9 Defence senior leadership provide the DSG with a mandate on a par with that of the DMO in order to reform and improve the operation of the Group. [4.33]
- R10 Service delivery agreements include relevant performance metrics including time, quality, cost and demand. Agreements should also be specific in terms of mutual obligations and dispute resolution at the appropriate level. [4.35]
- R11 All Groups commit to active participation in business partnering forums and commit to the use of consistent, regular reporting mechanisms. [4.37]
- R12 Defence continue to move to achieve cost visibility through robust costing models and management information systems, and the proposed product-level budgets being developed by the CFO. [4.45]
- R13 Defence undertake business process mapping with a view to seeking process efficiencies, increasing cost visibility and—where appropriate—more informed outsourcing; simultaneously reviewing business process ownership and policy responsibilities to ensure managers have the authority and interest to optimise business processes. [4.53]
- R14 Defence move to outsourcing arrangements where benefits in performance improvement can be shared between Defence and its suppliers based on an open book evaluation. [4.53]
- R15 Product standardisation be maintained and implemented for any services not yet covered, and serve as a basis for negotiating basic and additional service with a clear understanding of costs involved. [4.55]

## **Chapter 5: Organisational Design and Governance**

The Review team recommends that Defence:

- R16 Apply the following guiding principles for the organisational design:
  - The organisation must be able to maintain a high operational tempo while providing sufficient capacity for longer-term issues, including the development of long-range strategy and policy.
  - The structure must facilitate the considered strategic leadership of the organisation.
  - The design must make sense to the organisation—be understood and easily communicated. [5.4]
- R17 Give greater definition to the individual and shared roles of the CDF and Secretary in the diarchy, in accordance with the suggestion at paragraph 5.14, and reflect these roles in the Ministerial Directive. [5.14]

- R18 Redefine the higher Defence organisational structure to:
- align direct reports to Secretary/CDF based on their suggested individual and shared roles; [5.18]
  - establish an Office of the CDF and Secretary that comprises those functions that directly support the CDF and Secretary in their responsibility for the management of the Defence organisation including Coordination, the new Policy Development unit, and establish an Organisational Development Unit. [5.21]
- R19 Establish a new top executive committee (the ‘Defence Strategic Management Advisory Council’) to replace the DC and COSC: [5.33]
- with a more streamlined membership and strategic focus; [5.39]
  - supported by subcommittees including audit, personnel, OH&S, risk and possibly other committees. [5.40]
- R20 Review the need for all other committees, adopting a team-based approach to issues where possible. [5.43]

## **Chapter 6: People**

The Review team recommends that Defence:

- R21 Develop a strategic HR function aligned with Defence decision making, and recast the PE as a strategic central policy owner led by an HR expert at the SES Band 3 level. [6.18]
- R22 Formally recognise within Defence the roles of:
- the Service Chiefs for the leadership, management and development of military personnel of their Service; and
  - group heads for the leadership, management and development of people of their group. [6.25]
- R23 Revisit the basis for the split of functions between the PE and DSG. [6.28]
- R24 Review HR staffing levels in the context of the move to strategic HR and a more logical break-up of HR functions. [6.29]
- R25 Build greater flexibility into the process for filling particular SLG roles and apply a general principle of looking inside and outside Defence to select the best person for the job. [6.39–6.41]
- R26 Consider a process similar to the Star Plot to manage SES staff. [6.40]
- R27 Identify those management positions that would suffer unduly from churn and commit to leaving SLG members—APS or ADF—in those roles for an appropriate length of time. [6.45]
- R28 Review its senior leadership development program to ensure coverage of those issues outlined in paragraph 6.46. [6.47]

- R29 Recommit to the business skilling program, with responsibility vested in group heads for the professional development of their workforce. [6.56]

## **Chapter 7: Maintaining the Focus on Financial Reform**

The Review team recommends that Defence:

- R30 Maintain the focus on financial management and financial systems reform. [7.6]
- R31 Ensure that Defence develops and maintains the skill-sets and capabilities to enable a robust resource management system in an environment where resource certainty is reduced. [7.16]
- R32 Maintain a focus on the real long-term cost of Defence. [7.16]
- R33 Use the proposed Audit and Risk subcommittees to keep the senior leadership focused on financial reform and risk management. [7.17]
- R34 Encourage the ANAO, in reviewing Defence, to adopt a performance-oriented approach and contribute its expertise and skills to the resolution of issues it identifies. [7.21]

## **Chapter 8: Information Management**

The Review team recommends that:

- R35 CIOG seek Defence-wide agreement to a customer prioritisation model, enhance its customer communications and measure customer satisfaction to facilitate continuous improvement. [8.13]
- R36 Defence establish high-level quantitative and qualitative benchmarking of the IT service levels for the administrative information systems. The benchmarking should include comparisons along functional lines as well as overall cost-efficiency metrics. The purpose of this benchmarking is to establish the performance measures, determine where Defence stands against these measures and use that information to inform future ICT planning priorities. [8.15]
- R37 Defence move towards establishing single responsibility for technical control over deployed networks and systems that interface with current CIOG-controlled networks. [8.16]
- R38 CIOG provide basic administrative services on a standardised product basis with specific service levels and cost transparency. [8.20]



- R39 Defence develop an ICT strategy that better informs a new business plan which encompasses:
- alignment of ICT with corporate strategy;
  - desired outcomes of Defence ICT infrastructure;
  - customer role and requirements;
  - high-level assessment of current status of ICT delivery;
  - identification of gaps; and
  - key directions and performance measures to close the gap. [8.22]
- R40 CIOG remain an independent Group, reporting to the Secretary, and an expert CIO be recruited at the Band 3/3 Star level. [8.26]
- R41 CIOG be responsible for all ICT service delivery in Defence, including regional ICT. [8.27]
- R42 CIOG develop further the skills to contribute to cross-functional business process reengineering efforts or assessment that Defence undertakes. [8.28]
- R43 Defence review the status of performance measurement and reporting within Defence with a view to transitioning and consolidating the disparate approaches into an integrated Defence-wide system. [8.30]
- R44 Defence plan to develop and implement Defence-wide management information systems. [8.32]
- R45 Defence clarify its approach to purchasing policies and acquisition strategies for Defence ICT products and services in line with the roles and accountabilities of the groups involved. [8.36]
- R46 Until Defence understands its business processes and associated benchmarks and costs, it is not appropriate to consider outsourcing additional ICT services. [8.39]
- R47 Defence transition to a single ERP system in the medium term (ten years) and necessary upgrades to existing systems should be directed towards facilitating this goal. CIOG should lead in this endeavour. [8.42]

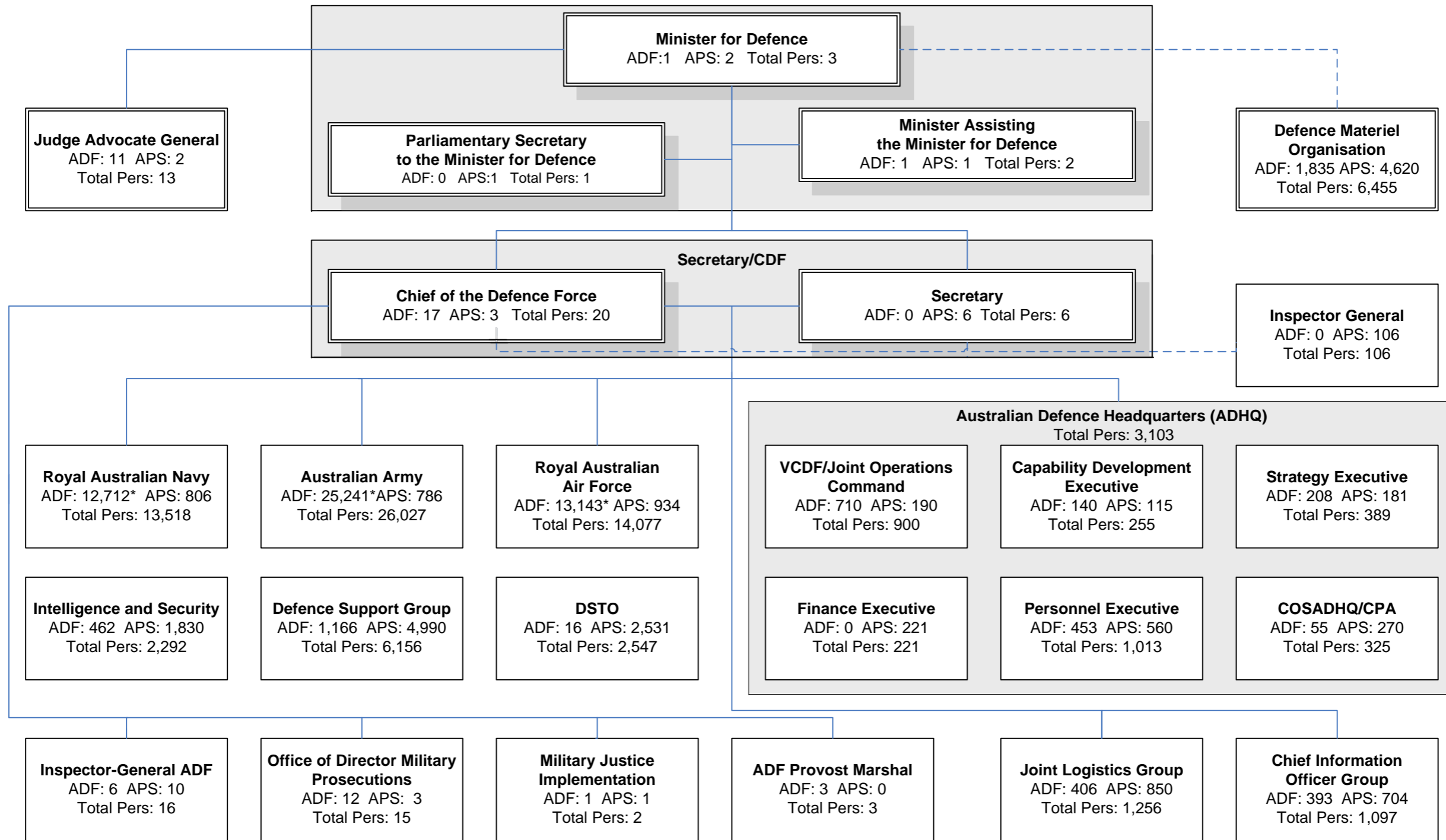
## **Chapter 9: Implementing the Recommendations**

The Review team recommends that:

- R48 Defence establish a small dedicated implementation team led by a 2 Star or SES Band 2 officer (reporting directly to the Secretary and CDF) to work with Defence's leaders in implementing the report recommendations within their areas of responsibility. [9.7]
- R49 The implementation team as a matter of priority develop an implementation plan including a communications strategy and timeframes for implementation. [9.8]

- R50 The Defence Business Improvement Board concentrate on specific improvement initiatives that emerge from this Review, specifically:
- Defence governance structures, including Charters [Recommendation R7];
  - improvements to CSAs and SLAs [Recommendation R10];
  - improvements to costing [Recommendation R12];
  - the level of staffing of the HR function [Recommendation R24];
  - the impact of churn on senior positions, and identification of those that need longer tenure [Recommendation R27]; and
  - business skilling [Recommendation R29]. [9.12]
- R51 Key review recommendations be built into the Defence performance management systems, including the annual report and portfolio budget statements, Organisational Performance Agreements, the statement of Defence Priorities and business plans. [9.13]
- R52 Defence take a structured approach to business planning and improvement, including identifying organisational weaknesses, options for improvement, assigning resources and assigning analytical and review tools. [9.15]
- R53 Defence more consciously engage staff in a process of continuous improvement. [9.16]

**CURRENT DEFENCE ORGANISATION CHART**



**Notes:**  
 Personnel figures accurate as at 5 March 2007.  
 \* Does not include Reserve personnel.



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Dr Mark Thompson	Australian Strategic Policy Institute



## SUBMISSIONS RECEIVED

The Defence Management Review received written submissions from the following:

Mr Allan Behm  
Director, Knowledge Pond Pty Ltd

Mr John Bradford  
*Retrospective Posthumous Recognition for Australian FEPoWS*

Dr Richard Brabin-Smith, AO  
Former Deputy Secretary, Department of Defence

AIRCDRE E K Bushell (Retd)  
*The Proust Review into Defence Management*

MAJGEN Bill Crews, AO (Retd)  
National President, Returned and Services League of Australia

CMDR Geoffrey Evans, RANR, OBE, VRD (Retd)

MAJGEN John Hartley, AO (Retd)  
National President, Royal United Services Institute of Australia

Mr Neil James  
Australia Defence Association

Dr Nick Jans  
*Administration in the Defence Organisation*

LTGEN Des Mueller, AO (Retd)  
Former Vice Chief of the Defence Force  
*Defence Management: A few thoughts on what might be done*

AVM Peter Nicholson, AO (Retd)  
Former Chief Knowledge Officer, Department of Defence  
BAE Systems

Mr Michael O'Connor, AM  
Former Executive Director, Australia Defence Association  
*Restructuring the Higher Defence Organisation*

Mr Mark Rea and Mr Phillip Somerville  
Specialist Support Systems

Dr Mark Thompson  
Australian Strategic Policy Institute  
*Special Report: Improving Defence Management*



## GLOSSARY OF TERMS

**A**

ACM	Air Chief Marshal
ADF	Australian Defence Force
ADFA	Australian Defence Force Academy
ADHQ	Australian Defence Headquarters
ADM	Admiral
AM	Air Marshal
ANAO	Australian National Audit Office
APS	Australian Public Service
APSC	Australian Public Service Commission
AS	Assistant Secretary
ASPI	Australian Strategic Policy Institute
AVM	Air Vice Marshal
AWA	Australian Workplace Agreement

**B**

BCG	Boston Consulting Group
BPF	Business Partnering Forum
BRIG	Brigadier
BSA	Base Support Agreement

**C**

CA	Chief of Army
CAF	Chief of Air Force
CAPT	Captain
CCDE	Chief Capability Development Executive
CDE	Capability Development Executive
CDF	Chief of the Defence Force
CDRE	Commodore
CDS	Chief Defence Scientist
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CIO	Chief Information Officer
CIQG	Chief Information Officer Group
CJOP	Chief of Joint Operations
CMDR	Commander
CN	Chief of Navy
COO	Chief Operating Officer
COSADHQ	Chief of Staff Australian Defence Headquarters
COSC	Chiefs of Service Committee (formerly Chiefs of Staff Committee)
COSO	Committee of Sponsoring Organisations
CPA	Coordination and Public Affairs Division

CSA Customer Supplier Agreement  
CSIG Corporate Support and Infrastructure Group

## D

DBIB Defence Business Improvement Board  
DC Defence Committee  
DCIC Defence Capability and Investment Committee  
DCP Defence Capability Plan  
DeCA Defence Collective Agreement 2006–2009  
DEPSEC Deputy Secretary  
DER Defence Efficiency Review  
DFAT Department of Foreign Affairs and Trade  
DIE Defence Information Environment  
DMO Defence Materiel Organisation  
DMR Defence Management Review  
DNSA Defence Network Support Agency  
DPE [former] Defence Personnel Executive  
DSG Defence Support Group  
DSTO Defence Science and Technology Organisation

## E

EMS Electromagnetic spectrum  
ERP Enterprise Resource Planning

## F

FAS First Assistant Secretary  
FEPC Force Element Product Costing  
FMA Act *Financial Management and Accountability Act 1997*

## G

GEN General

## H

Hon. Honourable  
HPE Head Personnel Executive  
HQJOC Headquarters Joint Operations Command  
HR Human Resources

## I

ICT Information and Communications Technology  
IG Inspector General  
I&S Intelligence and Security  
ISD Information Systems Division  
IT Information Technology

**J**

JLG Joint Logistics Group

**L**

LTGEN Lieutenant General

**M**

MAJGEN Major General  
MP Member of Parliament

**N**

NSG Non-Service Group

**O**

OH&S Occupational health and safety

**P**

PE Personnel Executive  
PMKeyS Personnel Management Key Solution  
PSM Public Service Medal

**R**

RAAF Royal Australian Air Force  
RADM Rear Admiral  
RAN Royal Australian Navy  
ROMAN Resource and Output Management Accounting Network

**S**

SCG Strategic Command Group  
SES Senior Executive Service  
SLA Service Level Agreement  
SLG Senior Leadership Group

**T**

ToR Terms of Reference

**V**

VADM Vice Admiral  
VCDF Vice Chief of the Defence Force



## ADF EQUIVALENT RANKS AND APS CLASSIFICATIONS

### ADF equivalent ranks and APS classifications

1. This table shows senior ADF equivalent ranks and APS classifications.

Navy	Army	Air Force	‘Star Rank’	APS classification <sup>1</sup>
Admiral	General	Air Chief Marshal	4 Star	Secretary
Vice Admiral	Lieutenant General	Air Marshal	3 Star	SES Band 3
Rear Admiral	Major General	Air Vice Marshal	2 Star	SES Band 2
Commodore	Brigadier	Air Commodore	1 Star	SES Band 1
Captain	Colonel	Group Captain		Executive Level 2
Commander	Lieutenant Colonel	Wing Commander		Executive Level 1

<sup>1</sup> This column is a guide for comparing ADF and APS ranks and classification levels for clerical duties that do not require the exercise of military command. It is not used as a statement of equivalent ranks and classifications.





**SENIOR DEFENCE COMMITTEES—GOVERNANCE AND MEMBERSHIP**

Outlined in this Appendix are the governance and membership frameworks for the following senior committees:

- Defence Committee (DC)
- Chiefs of Service Committee (COSC)
- Defence Capability and Investment Committee (DCIC).

## DEFENCE COMMITTEE

### GOVERNANCE PRINCIPLES

1. The Minister for Defence, under section 9A of the *Defence Act 1903*, provides the Secretary and CDF strategic direction and purchases outputs to achieve the Government's defence outcome—to defend Australia and its national interests. The Ministerial Directive requires the Secretary and CDF to deliver:

- successful joint conduct of military operations, the CDF retaining sole command authority;
- capability to enable the armed forces to defend Australia and its national interests;
- timely and responsive advice;
- proper stewardship of people and of financial and other resources, including operating within budgeted financial targets; and
- a Defence Management and Finance Plan, incorporating the points above for Ministerial approval.

### ROLE

2. The Defence Committee (DC) is the pre-eminent committee supporting the Secretary and CDF in meeting their obligations under the Ministerial Directive. The DC derives its authority from the Secretary and the CDF, and their commitment for the committee to deliberate on strategic issues that require collective consideration in relation to achievement of the Ministerial Directive. The Secretary is the principal civilian adviser, in line with his statutory responsibilities and authority, particularly under the *Public Service Act 1999* and the *Financial Management and Accountability Act 1997*. The CDF is the principal military adviser and is the commander of the Defence Force, in line with his statutory responsibilities and authority under the *Defence Act 1903*. The DC is also responsible for governance policy for Defence.

### DC MEMBERSHIP

3. The members of the DC are:

Secretary (Chair)	CEO Defence Materiel Organisation
Chief of the Defence Force	Chief Capability Development Executive
Vice Chief of the Defence Force	Deputy Secretary Strategy
Chief of Navy	Deputy Secretary Intelligence and Security
Chief of Army	Deputy Secretary Defence Support Group
Chief of Air Force	Chief Defence Scientist
Chief Finance Officer	Head Personnel Executive

4. The Secretary of the committee is Director Review Implementation and Senior Committees.

## **CHIEFS OF SERVICE COMMITTEE**

### **GOVERNANCE PRINCIPLES**

#### **ROLE**

1. The role of the Chiefs of Service Committee (COSC) is to provide military advice to the CDF to assist him to discharge his responsibilities in command of the Defence Force and as principal military adviser to the Government, as outlined in the Ministerial Directive.

#### **COSC MEMBERSHIP**

2. The following principals are members of COSC (any absences are to be approved by the Chair and alternate attendance is not to be below 2 Star/Band 2 SES without the approval of the Chair).

3. Permanent Members of the COSC are:

- Chief of the Defence Force (chair)
- Secretary
- Vice Chief of the Defence Force
- Chief of Navy
- Chief of Air Force
- Chief of Army

4. Permanently Invited Members of the COSC are:

- Deputy Secretary Strategy

5. Other personnel will be invited to attend COSC by the Chair. Senior military and civilian officers are to propose their attendance, through the COSC Secretary, when they believe they have an important contribution to make on a particular item. The Chair may invite any person to attend, observe or present to the Committee.

6. Secretary and Advisers to the COSC are:

- Staff Officer (Policy) to Chief of the Defence Force
- Chief of Staff to Chief of the Defence Force
- Principal Adviser to the Secretary
- Chief of Staff Australian Defence Headquarters

## DEFENCE CAPABILITY AND INVESTMENT COMMITTEE

### GOVERNANCE PRINCIPLES

#### ROLE

1. The DCIC will strengthen independent review by seeking to ensure that resourcing, including capital investment and operating costs, is consistent with Defence's strategic priorities and resourcing strategy. The DCIC will focus on:

- the overall shape of capability/balance of resource allocation/Ten Year Defence Plan;
- force structure, including Service plans;
- the balance between the different Organisational Performance Agreements;
- force disposition;
- the broad New Major Investment program—programming, through-life costs, and whole-of-life affordability;
- operating/capital mix [preparedness versus modernisation]; and
- other issues with a significant impact on capability.

2. The Defence Committee (DC) is the pre-eminent committee supporting the Secretary and CDF in meeting their obligations under the Ministerial Directive. Notwithstanding its membership, the DCIC is a sub-committee of the DC. The DCIC Chair will table the outcomes of DCIC meetings at the DC and highlight decisions with major capability and investment implications.

3. The DCIC is supported by the Defence Capability Committee (DCC) which will look at individual projects, as well as preliminary programming of the major capital budget.

#### DCIC MEMBERSHIP AND ADVISERS

##### Members of the DCIC are:

Secretary (Chair)  
Chief of the Defence Force  
Chief Executive Officer DMO  
Chief of Navy  
Chief of Army  
Chief of Air Force  
Chief Capability Development Executive

##### Advisers to the DCIC are:

Vice Chief of the Defence Force  
Deputy Secretary Strategy  
Chief Finance Officer  
Chief Information Officer  
First Assistant Secretary Capability,  
Chief Defence Scientist (as required)

4. Other Group Heads will be invited for matters that are within their responsibilities. Attendance of others would be on an exceptional basis and must be cleared by the Chair.

**ACKNOWLEDGMENTS**

The Review Team would like to acknowledge the assistance of Celia Perkins and the other members of the Secretariat for their help with the Review:

Roger Bacon  
Helen Cooper  
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Penny Bourke  
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Debbie Smith.

We would also like to acknowledge many others who were involved in providing material, administrative support and guidance in the course of the Review and to thank all the people with whom we met for the candour of their insights into Defence management issues. A full list of people consulted is at Annex B.

