Dear Chair

Defence White Paper 2015

The PSU Group of the Community and Public Sector Union (CPSU) is an active and progressive union with approximately 55,000 members. The CPSU is the primary union representing employees at the Department of Defence including including the Defence Science and Technology Organisation (DSTO) and the Defence Materiel Organisation (DMO) and the broader Department.

Civilian employees in the Department of Defence play a pivotal role supporting the Australian Defence Force. They perform their roles in an efficient and effective manner in the national interest. The work they undertake for the Department is best performed by public servants who are accountable to the community and provide impartial advice. Reductions in staffing, the outsourcing of their functions and budget cuts only diminish the capabilities of Defence and undermine the quality of work that is delivered.

The CPSU welcomes the opportunity to make a submission to the Defence White Paper process. Our submission draws on the results of a survey of over 900 responses from CPSU members in the Department of Defence.

Executive Summary

The Department of Defence has experienced budgetary pressures for the past few years. These pressures are affecting the performance and capabilities of the Department of Defence. Budget cuts have led to reductions in services, delays in procurement, outdated IT systems and increased workloads.

The Commonwealth Government has also imposed a recruitment freeze that has created perverse incentives to hire contractors and ADF personnel when APS equivalents are less expensive. The increase in outsourcing, use of contractors and hiring of uniformed personnel has increased costs and in many instances delivered a lower quality of work. The contractors are also being upskilled and are taking their new skills with them when their
contract ends. Investment in the Defence workforce, particularly training and development should be prioritised to build the internal capacity of Defence, but this is being hampered by budget cuts.

The CPSU opposes any move to outsource DSTO. Despite current funding pressures, DSTO provides innovative support to the ADF on a small budget. Outsourcing would threaten this by risking the independence of advice, threatening important longer term research that is not seen as immediately profitable, and potentially leading to massive cost increases. The experience of the breakup of the Defence Evaluation and Research Agency in the UK suggests there is little to be gained through outsourcing, and that conflicts of interest may arise.

The CPSU also does not believe major changes to the structure of DMO will deliver significant improvements and strongly supports DMO continuing to manage projects. It is necessary to provide the checks and balances that ensure the taxpayer is protected and that complex projects are delivered. Rather than reducing the role of government in defence procurement, allies such as the United States are moving towards expanding and investing in their own government procurement workforce.

Any recommendations made by the White Paper process should also ensure that the civilian presence of the Department of Defence is maintained across the country in rural and regional areas. Nearly fifteen per cent of the Defence civilian workforce is located outside of major capital cities. These regional communities rely on Defence for economic activity and to provide secure, quality employment.

Defence Budget and Finances

*Commonwealth Budget*

Defence and its funding has been under review for some years. The 2009 White Paper process led to the Strategic Reform Program. This aimed to achieve a net saving of $18 billion by 2018–19 to fund the objectives of the 2009 White Paper.\(^1\) Additionally, the 2012-13 Budget included cuts of $5.5 billion to Defence across the Forward Estimates,\(^2\) though these were partially reversed.\(^3\)

While the 2014-15 Budget provided increased funding for Defence over the next three financial years, this is wiped out by the $2 billion cut estimated for the 2017-18 year (Table 1).\(^4\) The Defence Portfolio Budget Statement has also indicated civilian Defence staff reductions of almost 2,300 FTE over five years (20,300 in 2013-14 to 18,105 in 2017-18).\(^5\)

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Though the savings from the 2014-15 Budgets measure are to be reinvested in Defence capability, there is a limit to how many efficiencies can be gained from an agency without it affecting its performance and its capabilities.

Table 1: Defence funding profile changes ($ million)\(^6\)

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Reductions in standards of service

Defence has said there will be no reduction in standards of service in priority areas, especially support to operations, as a result of reducing staffing levels.\(^7\) CPSU members, however, have advised that cuts are affecting the quality of work and support they provide. More specifically:

- 54.6 per cent said that capabilities they provide that are critical to support ADF operations were not being adequately funded. Conversely, just 12.3 per cent said that funding was adequate.
  - These capabilities included a range of work undertaken by APS employees including acquisition, sustainment and disposal of ADF materiel, logistics support, payroll and procurement.
- 75.2 per cent said that resourcing levels were not adequate to meet their workloads in their work area. The main areas identified as having inadequate resourcing were human resources, defence equipment procurement and sustainment.
- 79.4 per cent reported that budget cuts are impacting on their work. Members provided examples of how budget cuts are impacting on their work including services no longer being provided to ADF personnel’s families, increased workloads due to the loss of administrative support staff, inability to replace outdated systems, contracting out because of the recruitment freeze, and delays in procurement. Comments included:

  **Rationalisation of services has resulted in gaps in service, for example, there are no longer DCO pre-enlistment interviews which assisted families to prepare for service life and acted as a preventative and resilience building activity and non-social workers are being used during social work intakes, raising the potential for issues not being identified for ADF families as not comfortable to disclose to non-social work staff.**

  **Cuts have meant that computer resources are slowly decaying as software becomes outdated, licenses expire, and some of these are not being renewed. DSTO's use of Matlab is a good example. Matlab is used for modelling and simulations. Divisional funding for Matlab licences has suddenly dried up, and no one knows what is happening there. The situation would be comical if it weren't so ridiculous.**

  **I am now jumping from one half completed project or task on to the next. Competing demands on available work time is resulting in nothing being completed to my acceptable standard.**

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\(^7\) Commonwealth of Australia, Defence Portfolio Budget Statements 2014-15, May 2014, p.21
In the current budget, there is not sufficient money for any development upgrades and research. A multi-million dollar platform is not being utilised due to financial constraints. Current funding only allows for basic maintenance and some repairs. Development upgrades are on hold for better funded years and operational use of the platform is paused until funding is available to conduct upgrades.

There is a growing backlog of engineering tasks. Due to resource constraints, this work cannot be processed internally or contracted out to industry.

We have actively dropped research tasks of 10-15 years work and cutting edge systems which would have greatly improved national security.

Personnel

The CPSU is concerned that the freeze on recruitment is encouraging outsourcing and the employment of uniformed personnel instead of APS equivalents. This trend reverses one of the key initiatives from the 2009 Strategic Program Review, getting Defence to manage its workforce in an integrated way based on funding available rather than setting specific targets and caps on staff.8

Rather than relying on contractors, Defence should invest in the development of its own civilian workforce who are accountable, allow Defence to respond quickly to emerging issues and are far less expensive.

Outsourcing

Nearly half (44.7%) of CPSU members surveyed said work in their group had been outsourced and three in five (61.8%) said contractors were employed in their work area:

- 48.2 per cent said the contractors were hired through an agency.
- 26.8 per cent said contractors were hired by an employment agency to undertake Defence work.

We are forced to contract out of tasks which would be cheaper if performed in house as well as retaining knowledge for the benefit of the DMO.

Due to the recruitment freeze we have to use contractors for contracting and other tasks. So we are upskilling outsiders and paying them more than it would cost using APS staff, only to see them leave at the end of their contract taking their new skills with them - a loss to Defence and a very poor short sighted solution.

There is limited information about the cost of contractors. The most recent publicly available information from 2009 suggests that contractors cost between 15 and 40 per cent more than their APS equivalents.9 Given that budgets are under pressure, the use of contractors is not the most efficient use of funds and the case for their use needs to be made. It is concerning that most members (81.7%) believe Defence does not provide sufficient information to staff about the benefits of outsourcing versus in-house provision before the decision is made. Only 3.8 per cent said that Defence provides sufficient information.

The CPSU notes that the US Government has singled out its Department of Defence as needing to exercise particular caution about the use of contractors and ‘is further required, to

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8 Department of Defence, Strategic Reform Program: Delivering Force 2030, 2009, p.19
the maximum extent practicable, to minimize reliance on contractors performing functions, closely associated with inherently government functions.”

Members were asked about the results of outsourcing:
- 83.8 per cent said they believed that costs to the taxpayer increased or significantly increased.
- 59.1 per cent said they believed the quality of work had decreased or significantly decreased.
- 54.5 per cent said that accountability to the department had decreased or significantly decreased.
- 53.4 per cent said delays had increased or significantly increased.

Two in five (39.1%) said there were problems associated with the employment of contractors. Members were asked what the problems associated with contractors were:
- 88.7 per cent said that they believed costs to the taxpayer have increased or significantly increased due to the hiring of contractors.
- 61.4 per cent said the quality of work had decreased or significantly decreased.
- 63.8 per cent said that accountability to the Department had decreased or significantly decreased.
- 56.2 per cent said delays had increased.

Civillianisation

The CPSU is also concerned that uniformed personnel are being employed in Defence when APS employees would be more appropriate. Uniformed personnel are significantly more expensive than APS employees. According to a Defence submission to a Senate inquiry, “the cost of employing an APS person is significantly less than the cost of employing an ADF person—something of the order of a 30 to 40 per cent difference, depending on which rank you might be looking at.”

Not only are personnel paid more, there are overhead costs such as associated health care, subsidised housing and equipment including simple things like the provision of uniforms. At the same time, these uniformed personnel are prevented from performing uniformed (ADF) duties. The CPSU believes that the encouragement of employing uniformed personnel for APS work is a direct result of the recruitment freeze across the APS.

Investment in the Defence workforce

Supporting the ADF requires a workforce that is adaptable, capable and has a deep knowledge of Defence. The outsourcing of functions and hiring of contractors has eroded the skills base of the Defence workforce. Defence should seek to rebuild its own internal capabilities by investing in upskilling and a career-based public service.

CPSU members were asked what they thought Defence could do to improve its investment in its workforce and enhance workplace culture. The most common responses were to value staff (88.8%), followed by provide more career opportunities (78.0%) and provide more learning and development opportunities (69.3%).

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10 Trevor Taylor and John Louth, What the Government must do in Defence Procurement, Royal United Services Institute, September 2013, p.4
12 Ibid
The vast majority of CPSU members said they do not feel they have opportunities for career advancement (84.7%). Many members said there were few opportunities for career advancement outside capital cities, a lack of training and opportunities for higher levels and that the recruitment freeze was having a big impact on career advancement opportunities.

Staff were also asked about how much non-mandatory training they had received over the previous year. Nearly two fifths (37.2%) said they received no training and a fifth (22.8%) said between two and less than five days.

A quarter (24.1%) said they applied for and were denied training in the past 12 months. The overwhelming majority (90.4%) of those who were denied training said it was relevant to their current job and development of their career. The most common reason given for denying training was budget pressures (48.7%), followed by cost of training (41.6%) and staffing constraints (33.1%). Given that seven in ten (70.9%) said that management is supportive or very supportive of training, it suggests that budgetary pressures are limiting opportunities for training and development.

The Department must prioritise investment in skills, providing funding for training and development to its civilian workforce and support a career-based public service if it wants a capable, agile workforce with a deep knowledge of Defence.

Science and Technology:

DSTO is very good at providing science and technology support to current ADF operations, are able to react quickly and provide innovative solutions on a small budget. Examples of solutions developed by DSTO include the Jindalee Operational Radar Network, Nulka and Black Box flight recorder.

Funding

CPSU members have expressed concerns about DSTO funding. An overwhelming majority (82.1%) of DSTO members did not believe current capabilities are being adequately funded. The implications included a loss of expertise, reduced operational effectiveness for the ADF and reduced breadth and depth of scientific research.

The CPSU notes that DSTO has decreased its focus on developing technological advantages for the ADF.13 As a proportion of defence budgets, DSTO expenditure has decreased from 2.31 per cent in 2001-02 to this financial year's budgeted 1.52 per cent.14

Risks from outsourcing

The National Commission of Audit recommended that DSTO should be assessed for its outsourcing potential.15 The CPSU does not support outsourcing of DSTO and an overwhelming majority of members (86.2%) want DSTO to remain in-house.

There would be significant risks if DSTO was outsourced. Many members emphasised that parts of DSTO would not be profitable and feared the impact that outsourcing would have.

14 ibid
Outsourcing would lead to:

- a loss of impartiality in advice;
- impact on science and technology support for the ADF;
- loss of effective working relationships with the ADF;
- a loss of technical expertise with more general analytical support from consultants with little or no exposure to defence and operations; and
- massive cost increases for quick turn around analytical support, particularly for decision making and acquisition.

Other concerns included a greater focus on short-term research, research being more financially driven, less continuity of research programs and the risk of sacrificing accuracy for price.

_Defence science and technology will become a money-making business rather than the means for developing clever solutions for a modern Defence Force._

Members were also concerned that outsourcing DSTO could affect Australia’s ability to cooperate with military allies. The loss of the ability to work government-to-government with key allies would not be in the national interest.

_British experience_

Some members cited the example of the United Kingdom which broke up and privatised the Defence Evaluation and Research Agency. The privatised entity, QinetiQ, became a Defence contractor that focused on overseas acquisitions. Any attempt to commercialise DSTO is likely to mimic this experience.

Privatisation led to the loss of many research facilities deemed to be commercially unproductive, questions over the ownership of intellectual property rights and concerns about the continuing availability of independent advice to Defence across the whole research field. There have also been concerns about conflicts of interest arising as QinetiQ is required to give independent advice on equipment it now supplies. Anecdotal evidence suggests that many scientists from the former Defence Evaluation and Research Agency left the United Kingdom are also now employed with DSTO.

There has been a range of other problems since privatisation. QinetiQ failed to identify problems that led to the crash of a Nimrod aircraft in 2009. QinetiQ was also targeted by hackers who, in 2009, were able to download 20 gigabytes of information before they were stopped. It is claimed that when a simple fix was suggested it was ignored. This all

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16 Bill Kincaid, _The Privatisation of Qinetiq, Royal United Services Institute_, 28 November 2007
17 House of Commons Committee of Public Accounts, _The Privatisation of QinetiQ_, 10 June 2008, p.8
20 Phil Muncaster, ‘Chinese’ attack suck secrets from US defence contractor, _The Register_, 2 May 2013, viewed 24 October 2014, http://www.theregister.co.uk/2013/05/02/china_us_hacking_qinetiq_apt/
suggests that the transformation of DSTO into a profit-driven private enterprise, a likely result of outsourcing, may result in security and safety risks.

**Improvements for DSTO**

DSTO members did, however, have some suggestions for organisational improvement. These included:

- Wider integration of DSTO personnel in supporting science and technology support to current operations.
- Devotion of more effort to Defence's Intelligence and cyber security capabilities.
- More freedom to advance areas of interest in emerging technologies and long range research, international research partnerships and partnerships with industry to develop technology and improve existing equipment.

**Industry Policy and the Defence Materiel Organisation**

The Commission of Audit recommended reintegrating Defence Materiel Organisation into the Department of Defence, with its size significantly reduced and with a renewed focus on contract management as opposed to project management. 21

The DMO is often tasked by the military to acquire cutting-edge but inevitably substantially risky technology. 22 Though there may be some issues getting projects completed on time, as the ANAO noted, the more developmental a project is, the more likely it will experience delays. The reasons for delays vary but primarily reflect the underestimation of both the scope and complexity of work by Defence. 23

The CPSU does not believe that a significant change to the business structure of DMO will deliver substantial improvements. While improvements can be made, rather than revising the entire structure of defence acquisition, Defence should build on reforms of the past while acknowledging areas for improvement. It should invest in internal capability and expertise that allows Defence to be responsive to changing circumstances and act as a smart customer.

Despite there being areas for improvement, there are many things DMO does well. Comments from members include:

- **DMO looks for improved ways to do business.** DMO is in the position where it can implement new commercial models and lead Industry to change.

- **DMO is often underrated.** If there was an equivalent private firm doing what DMO does it would be one of the largest Organisations. We manage the most complicated projects and sustain the most complicated air/sea/land fleets.

- **The DMO provides a professional support base for the ADF through an experienced and qualified workforce that only comes with continuity.**

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21 National Commission of Audit, Report of the National Commission of Audit – Phase One, p.134
DMO does things very well, especially considering the changing environment, operationally and future capabilities. DMO appears to be managing major projects very well (financial, schedule, capability requirements).

Project management

The CPSU strongly supports DMO continuing to be involved in project management. Over two thirds (69%) of CPSU members agreed that DMO should be involved in the management of projects and only one in ten (13.8%) disagreed.

Industry has a vested interest in a smaller DMO and the elimination of checks and balances. While processes can always be improved, there are limits to what checks and balances can be removed while still protecting taxpayers and ensuring the ADF gets what it needs.24

DMO members were asked about the potential risks if DMO focused only on contract management. Less scrutiny and accountability was the most commonly cited risk (76.3%), followed by increased costs for the taxpayer (68.0%) and reduced ability to negotiate and oversee contracts (64.9%).

It is worth noting that private industry generally runs about 25 per cent over budget on comparable projects and that operating costs for DMO are only 9 per cent of the budget.25 Operating costs may increase if the role of DMO is reduced and checks and balances are eliminated.

Members outlined the many reasons and benefits of DMO being involved in project management:

Project management is something DMO does very well, often better than Industry. Project and Contract management are closely linked. A contract will be a tool to a good Project Manager. A contract manager without Project Management skills is likely to end in disaster as acquisitions can not, and should not, be treated as individual items of equipment that can just be purchased simply. Integration with other assets and ADF training and responding to ever changing stakeholder needs is absolutely integral to Project delivery and should not be performed by a contract manager but by a project manager.

To effectively manage a contract, you must be involved in all aspects of developing the contract. DMO works with a range of functions to identify the capability requirements and translate them into contractual form. DMO should always work towards a holistic understanding of Defence's requirements, not be stove-piped into delivering a small subset. I don’t think the DMO model has failed, given the difficult conversations DMO has with the rest of Defence raise legitimate questions about what DMO is being asked to do.

Greater visibility of the projects internal workings, providing an opportunity to take corrective action where required. It is also useful to have technical expertise in house

to verify contractor’s comments and progress claims against reality - something which is not always clear cut for a commercial person to perform.

All of the disasters in the headlines right now are a function of Industry mismanagement, not the public sectors’. To effectively manage a contract you need to be undertaking project management practices - the two are indistinguishable from each other and to espouse otherwise is to reflect ignorance of complex contract and project management.

**Improving DMO**

DMO members did acknowledge there was room for improvement and made suggestions. The streamlining of decision making processes and improving communication were a common suggestions. More appropriate levels of staffing, particularly using in-house APS and staff with the required technical expertise were also mentioned.

*Streamlining their processes to ensure they stay on time and on budget.*

The acquisition process has been made into a very labour intensive process to negotiate. This is due to fear of failure and previous experiences. Needs to be looked at rationally and simplified will assist industry and defence to have a simplified and speedy acquisition process.

*Educate and liaising with Projects/Customer to define exact requirement, before approaching the market and entering in to contact.*

One practical suggestion was better tools:

DMO has very limited IT based tools to support Contract Managers or a Contract database linked to the financial management System (FMS). Linking a Contract Database to the FMS would ensure that expenditure against contracts is readily able to be consolidated against approved levels of expenditure against contracts. A searchable contract database would provide excellent information in relation to Contractors, their areas of expertise, input to their financial viability, current workload.

**Privatisation of DMO**

The CPSU does not support any proposals to outsource or privatise the DMO. Defence procurement should be considered an ‘inherently government function’. The CPSU notes that an outsourcing proposal for the British equivalent of DMO, Defence Equipment and Support, to adopt a Government-Owned Contractor Operated operating model was scrapped after little commercial interest.

The CPSU is not alone in opposing the outsourcing or privatisation of defence acquisition. A report by the Royal United Services Institute has emphasised that most aspects of defence procurement and contracting for equipment and support are fundamental responsibilities that should not be passed on to others. In the United States, “defence acquisition is seen as core business for the government, with significant restrictions placed on what can be entrusted to

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26 ibid, p.4
The US associates higher rather than lower costs with its past experience of placing more procurement functions in the private sector and is committed to a long-term programme to expand the size and develop the skills of its civilian acquisition workforce. Any move to outsource or privatise the DMO is likely to increase costs and is not in the interests of taxpayers. The DMO should instead focus on upskilling and investing in its workforce.

Defence and Regional Australia.

Defence makes substantial contributions to the local economy in regional Australia through local purchasing, creating direct and indirect employment and encouraging the commercial and support services that develop around a Defence community. A range of Defence’s functions are carried out in regional centres, for example, call centres in Newcastle and Cooma, NSW and centralising data processing such as accounts payable to Puckapunyal.

The most recent publicly available information from the Australian Public Service Employment Database internet interface (APSEDii) indicates that 3,249 or 14.8% of civilian Defence employees in Australia work outside of the major capital cities.

Maintaining the civilian presence of the Department of Defence across Australia must be a consideration in any recommendations made by the 2015 White Paper. Rural and regional employment of APS staff by Defence is crucial to maintaining those economies. The APS often provides quality, permanent, full-time employment in areas where employment options are limited.

If the Expert Panel requires further information from the CPSU in relation to the matters raised in this submission please contact Osmond Chiu on (02) 8204 6913 or osmond.chiu@cpsu.org.au.

Yours sincerely,

Rupert Evans
Deputy Secretary
CPSU (PSU Group)

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28 Trevor Taylor and John Louth, What the Government must do in Defence Procurement, *Royal United Services Institute*, September 2013, p.2
29 Ibid, p.5
30 Calculation based on APSEDii data from 2012-13 Financial Year