

DEFENCE

CHAPTER FOUR ENABLING BUSINESS PROCESSES

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PROGRAM OF ADMINISTRATIVE SAVINGS

In the context of finalising the 2003-04 budget, the Government agreed that Defence would absorb certain non-logistic and personnel cost pressures through a program of administrative savings. The program is designed to deliver savings of \$200m per annum when mature, within a timeframe of five years, as shown in Table 4.1.

Table 4.1: Administrative Savings Targets

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

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

- reduction in overheads, including numbers of civilian personnel, professional service providers and personnel posted overseas and travel;
- organisation/structure – the number and structure of Groups, including the overlap of common services;
- business process improvements covering a range of financial transformation projects, including implementation of data imaging technology, travel reforms and the credit card management system; and
- outsourcing – further outsourcing activities which are feasible while suiting workforce structures/profiles and where harvestable savings more than offset the cost of the contract.

Table 4.2 shows that, to date, savings totalling \$54.7m in 2003-04 and \$117.5m from 2005-06 have been achieved through reductions in overheads and organisation/structure changes. Savings from other initiatives will be progressively programmed as they are realised.

Table 4.2: Administrative Savings Programmed

Initiative	Administrative Savings Theme	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Reductions in civilian workforce	Reduction in overheads	9.6	28.4	46.5	46.5	46.5
Reductions in non-capability related suppliers, including professional service providers	Reduction in overheads	22.0	41.7	41.7	41.7	41.7
Reductions in overseas travel	Reduction in overheads	7.4	7.4	7.4	7.4	7.4
Reductions in domestic travel	Reduction in overheads	11.5	11.5	11.5	11.5	11.5
Removal from service of TAP 3 training aircraft	Reduction in overheads	-	-	5.5	5.5	5.5
Rationalisation of civilian personnel administration centres	Organisation/structure	1.3	1.3	1.3	1.3	1.3
Rationalisation of the Public Affairs and Corporate Communication organisation	Organisation/structure	2.9	3.6	3.6	3.6	3.6
Savings Programmed to Date		54.7	93.9	117.5	117.5	117.5
Savings Target		50.0	100.0	150.0	175.0	200.0
Savings in Excess of target (+)/remaining savings to be achieved (-)		+4.7	-6.1	-32.5	-57.5	-82.5

DEFENCE MANAGEMENT REFORMS AND EFFICIENCIES

PROGRESS ON BUDGET REFORM

Defence is continuing to make steady and consistent progress in addressing several budget challenges facing the organisation. A new portfolio budgeting system is being introduced to facilitate budgeting at the outcome, output and program level. A rolling program of zero-based budget reviews is under way, aimed at improving the overall quality and accuracy of Defence's estimates so that large-scale unforecast variations will be eliminated.

Notable achievements to date include:

- strengthening of Defence's business model and internal business rules;
- continuing development of a portfolio-wide budgeting system;
- the development of a ten-year view of the budget, approved and released to Group Heads prior to the commencement of 2003-04;
- the ongoing development of a financial management strategy and its alignment to financial activities;
- a rigorous and systematic Defence-wide approach to the financial statements process and controls;
- upgrading of the Standard Defence Supply System, which records Defence's asset inventory; and
- improvement initiatives being undertaken in relation to data quality, particularly debtor and cash management.

Defence is committed to implementing its continuous improvement campaign to ensure that the department is recognised by the Government and stakeholders as a respected financial manager. Defence is working to resolve a number of outstanding Australian National Audit Office findings. This work is being undertaken as a project (Project Resolve) under the direction of a newly established project management board. While Defence's financial statements may be subject to qualifications in some areas for some time, there has been considerable improvement to the way Defence conducts its business and reports to the Government.

This is demonstrated in the work that is currently being undertaken to improve the interoperability of Defence's key enterprise resource platforms (ROMAN, PMKeyS and SDSS) to improve data quality and business processes. Defence has completed a series of targeted programs upgrading existing enterprise resource platforms to ensure that these critical business capabilities continue to provide support to Defence decision makers, as well as meet requirements to external stakeholders and the Government. By improving the linkages between

these key systems, Defence is realising significant gains in areas such as business efficiencies, reporting accuracy and data integrity.

Defence continues to run a number of programs to specifically improve the quality and consistency of the data contained in these platforms. This work includes initiatives that examine and improve information technology and business process improvements. Defence recognises the importance of data integrity and continues actively to seek implementation solutions to improve the quality of information provided to Defence leaders, external stakeholders and the Government. This is an ongoing exercise and Defence has highlighted its importance in the next round of improvement initiatives.

In the recent adoption of a financial transformation program, Defence identified the following five key areas of improvement that will be the focus in the short to medium term:

- effective planning and prioritisation;
- effective programming and budget processes;
- best practice performance reporting;
- best practice business processes; and
- unqualified financial statements.

This program will continue to build on the successes of the previous initiatives by further developing existing capabilities as well as identifying future projects. Central to this will be the development of an overarching financial domain architecture framework and financial systems strategy. The establishment of a finance domain demonstrates the importance Defence places on financial management. The output from this initiative, and the Budget Estimates Framework Review requirements, will inform the development projects and ensure that Defence continues to meet its financial management obligations.

Further improvements to the budgetary process will continue to be aimed at achieving a best practice budgeting system in line with the Australian National Audit Office's guidelines. The benefits of these endeavours will become increasingly apparent in 2003-04 and beyond.

DEFENCE MATERIEL REFORM

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

The principal decisions arising from the review were:

- to establish a new head of capability development at a senior level, with clearly defined accountability, who will improve the identification and costing of projects before they move to the procurement phase;

- to appoint a new head of the Defence Materiel Organisation, appropriately remunerated, with clear responsibility and accountability for ensuring that the organisation operates in a business-like manner;
- to establish a high-level advisory board, accountable to the Ministers for Defence and Finance and Administration, to assist the head of the organisation, with four members, including the chair, from the private sector;
- to consider the remuneration and tenure of project managers, and to select staff, civilian or military, on merit; and
- to establish the organisation as a prescribed agency, accountable directly to the Minister for Defence on matters under the *Financial Management and Accountability Act 1997*, while remaining accountable to the Secretary of the Department of Defence and the Chief of the Defence Force for administration under the *Public Service Act 1999* and the *Defence Act 1903*.
- An implementation team has been established within Defence to address the review's recommendations. Recommendations that have been implemented to date are:
- Mr David Mortimer has been appointed as the chair of the Defence Procurement Advisory Board. Mr Malcolm Kinnaird will also serve on the board;
- Dr Stephen Gumley has been appointed as the Chief Executive Officer of the Defence Materiel Organisation. He will take up duty on 25 February 2004; and
- the new Capability Development Group has been established, headed by Lieutenant General David Hurley, who has been appointed for an initial three-year period.

As a prescribed agency under the *Financial Management and Accountability Act 1997*, the Defence Materiel Organisation will have direct financial accountability; greater autonomy to manage and deliver products and services; and produce separate accounts in auditable form.

DELIVERING INTERNAL SERVICES

Industry Engagement

A large proportion of the products and services that Corporate Services and Infrastructure Group provides are delivered by industry through contracts worth over \$2b in 2003-04, an overall increase of \$42m since the 2003-04 budget. These contracts include the delivery of the products and services outlined in Table 4.3.

Table 4.3: Estimated Expenditure on Products and Services' Contracts⁽¹⁾

Service	Budget Estimate	Revised Estimate	Variation
	\$m	\$m	\$m
Infrastructure investment	359	365	6
Information technology and telecommunication services and products	352	320	-32
Garrison support	335	345	10
Housing services	311	315	4
Facilities operations	233	278	45
Travel services	166	166	-
Property services	129	116	-13
Utilities	95	93	-2
Training range upgrades	17	17	-
Total	1,997	2,015	18

Note

1. These contracts are funded through the allocations described elsewhere in this document as part of Defence's capital, personnel and suppliers budgets.

Explanation of Significant Variations

Infrastructure Investment

The revised estimate is due to refinement of the 2003-04 capital investment program.

Information technology and telecommunication services and products

The revised estimate is a result of misclassification of contract expenses for information technology and telecommunications for the *Portfolio Budget Statements 2003-04*.

Garrison Support

The revised estimate is due to an increase in customer requirements.

Housing Services

The revised estimate is a result of an update of the budget for the Defence Housing Authority relocations agreement.

Facilities operations

The revised estimate is due to the inclusion of capital elements of the facilities maintenance program in the revised value.

Property services

The revised estimate is due to refinement of requirements for property services.

Utilities

The revised estimate is due to energy efficiency initiatives undertaken by Defence.

DEFENCE INFORMATION ENVIRONMENT

Improvements to the efficiency, effectiveness and security of the Defence information environment will continue to be delivered progressively during the remainder of 2003-04. The strategic direction of the information environment is continuing to improve as are coordination arrangements for the development, operation and management of Defence information capabilities.

The priority goals for the Defence information environment remain as reported in the *Portfolio Budget Statements 2003-04* with the following addition:

- Optimising integration of information from enterprise resource systems.

PORTFOLIO EVALUATIONS

Portfolio Evaluations

Portfolio evaluations endorsed by the Defence Audit Committee and the Defence Committee for calendar year 2003, in order of priority, are:

- a review of Defence leave policy and administration, expected to be finalised in February 2004;
- Corporate Governance of the Defence Information Environment (Phase 2), expected to be finalised in March 2004; and
- adventurous training in the ADF, expected to be finalised in March 2004.

Results from portfolio evaluations conducted in 2003-04 will be reported in the Defence annual report.