



Australian Government
Department of Defence

THE STRATEGIC REFORM PROGRAM MAKING IT HAPPEN



MAKE EVERY MINUTE, DOLLAR AND ROUND COUNT

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FOREWORD

The 2009 Defence White Paper set out the Government's plan to build a stronger Australian Defence Force (ADF). This force – Force 2030 – provides the capabilities and supporting infrastructure that will keep Australia secure well into the future.

To achieve Force 2030 we need to change the way we have been doing business in Defence. We need to be smarter in the way we work, we need simplified processes that are not duplicated across the organisation and we need people that understand that the resources we are entrusted with are scarce and must be used wisely. The Strategic Reform Program (SRP) is the vehicle with which we will make the changes to our organisation that we need to deliver and sustain Force 2030. The SRP is a decade-long campaign of reform. It will change and improve the way we do business, it will reduce our costs and allow the resources freed up by those cost reductions to be re-invested into Force 2030. The SRP is, as you can see, very much about the future of our organisation. Our choice is a simple one – if we do not achieve the reforms we need to make as part of the SRP we will not have an organisation that can deliver and sustain Force 2030.

This booklet is aimed at every person in Defence; it provides you with an overview of this program and some of its more than 300 initiatives. This booklet is more than a list of things that are going to happen, it tells the story of why certain things are being done and it does not dodge those aspects of the program that will be difficult at times for us. Because of the complexity of the program this booklet will not answer all of your questions. A number of initiatives are still being finalised and more information will be made available to you in the coming months.

Reform and change are not easy. We know this. We, and each member of the Defence Committee, are absolutely committed to reforming Defence so that we can build Force 2030. We are also committed to ensuring the continued viability of our current capabilities that allow us to meet Government's requirements in a way for which we are renowned both at home and overseas. We will not weaken this.

The SRP is one of the most ambitious and complex reform programs ever undertaken in Australia. To achieve its aims we must ensure everything we do counts – every minute of our time, every dollar we spend and every round we fire.



I.J. Watt
Secretary



A.G. Houston
Air Chief Marshal
Chief of the Defence Force

THE STRATEGIC REFORM PROGRAM – MAKING IT HAPPEN

‘The SRP is a long-term program. Defence has always excelled at planning for military operations. Our shared challenge here is to apply that same care, rigour and discipline to planning and executing the decade-long campaign of reform that is the SRP’.

Senator John Faulkner, Minister for Defence
August 2009

Defence has embarked on one of the most significant periods of change for decades as we build Force 2030. This is the force structure Government has determined we need to continue to defend Australia and its interests over the coming two decades. When Force 2030 is fully delivered the Australian Defence Force (ADF) will be much more capable, muscular and hard hitting. But the way Defence works now is not well suited to delivering Force 2030. We need to improve Defence so that it can continue to produce the exceptional operational results we are renowned for while building the future force.

‘Force 2030 is not a far-off concept. Every piece of new equipment we buy, every facility we build and every recruit that graduates from basic training is part of it.’

The Strategic Reform Program (SRP) is the way that we will make those improvements. The SRP is one of the largest and most complex reform programs ever undertaken in Australia. It is a decade-long campaign of reform that needs the participation and support of every person in Defence. It is not a passing fad. It is not something that anyone can wait out – it is fundamental to the future of our organisation. Without it we simply won't be in a position to deliver Force 2030.

To achieve Force 2030 we are entrusted with a substantial part of the Government's budget and we have a responsibility to ensure that we use the resources under our control wisely. The only way to do this is to ensure that everything we do counts – every minute of our time, every dollar we spend and every round we fire.



Over the coming months there will be information available to help you understand the SRP in more detail. This booklet is a first step. It aims to give you an overview of the initiatives that make up the SRP. It does not go into great detail on every single initiative, but it does provide a sense of the scope and scale of the reform program and what we need to do to make reform happen so that we can deliver Force 2030.

‘Without reforming the organisation through the SRP, we will not be able to build Force 2030. We have been given the chance to shape our own future.’

The reforms outlined in this booklet are wide ranging. Some are better developed than others; most have been developed by people in Defence at a range of different levels across both the country and the organisation. As the reforms are further developed there will be consultation wherever appropriate and change will be clearly communicated – this is essential in any major reform program.

As you read this booklet it is important that you ask yourself how you can play your part in this program, keep the following in mind as you read:

- How can I play a role in making Defence a better organisation?
- How can I apply the reforms in my workplace?
- How can I make improvements in the way I do my job?
- How can I ensure I am spending dollars and time on the right things?
- How can I communicate my ideas on reform?

More reform?

All large organisations undergo regular reform, if they don't they lose relevance and ultimately fail. During the 2009 Defence White Paper process Defence identified a range of areas where our support structures and processes were not working well. As part of that process, an independent audit of the Defence budget was conducted.¹ This very comprehensive audit identified a number of areas where Defence could initiate reforms and be more efficient in the way it used its resources – it assessed that Defence could reduce costs by around \$20 billion over the period between 2009-2019.

As part of the White Paper, the Government agreed to a long term funding model for Defence which would allow us to plan the development of Force 2030 with some confidence. Part of that arrangement included allowing Defence to reinvest the additional resources freed up by reducing costs into Force 2030. Herein lies the key link, without reforming the organisation through the SRP, we will not be able to build Force 2030. We have been given the chance to shape our own future.

We have attempted significant reform in the past but, frankly, we have had mixed results. Other past reform efforts have not sufficiently recognised that in some cases you need to spend money to save it. The Government has recognised that without proper investment it is very difficult to make some of the deeper changes that are required. As a result the SRP includes around \$2.4 billion in the budget to support investment to enable the reforms to be implemented. Our reforms in ICT and Logistics are two examples where significant investment has been provided to allow the reforms to be properly implemented.

1. This audit is more commonly known as the Defence Budget Audit (DBA) or the Pappas Report.



Another key difference in the SRP is the detailed planning that has been conducted to develop the reform initiatives. Thousands of people were involved in a six month effort to develop the package of reforms. The Defence Budget Audit provided a very good starting point for this work, its assumptions and recommendations were tested and other opportunities identified. In many cases the initiatives incorporate suggestions from those in workplaces that will be affected. This has resulted in a package of reforms that are sensibly targeted, achievable and that can be sustained into the future.

How will the SRP work?

The SRP consists of over 300 separate initiatives which are managed in 15 individual 'reform streams'. These initiatives range from the very small which will be largely transparent to you, to major reforms that will be highly visible. Over half of the initiatives do not have cost reductions directly associated with them. In the broadest sense each reform is aimed at one or more of the following:

- Simplifying our internal processes to reduce time and/or waste;
- Consolidating where process work is conducted so it is not duplicated in other parts of the organisation;
- Aligning some of our more complex processes, like the acquisition of new capability, so there is a clear linkage between the identified need and the final product;
- Ensuring our policies reflect contemporary standards;
- Improving our decision making around expending resources;
- Reducing our demand for goods and services; and
- Building a cost-conscious culture in Defence.

Now that the SRP is in the implementation phase, the focus is on further development of initiatives, rolling them out and getting them to stick. This phase will take between two and four years for the benefits and associated cost reductions and savings opportunities to fully mature. Many reforms have already

been implemented and some are highlighted in this booklet. Others are more complex and will require ongoing consultation and careful implementation to ensure they are effective and sustainable.

In the second half of this decade Defence will reap the full benefits of changes that have been made and sustain the benefits through to the end of the program and well beyond.

A key feature of our approach to the SRP is flexibility. Despite the detailed planning we have undertaken, there will be initiatives that don't work as well as we have anticipated and there will be those that exceed our expectations in either the benefits they provide or the cost

reductions they allow us to make. This is simply the reality of a large and complex program and it forces us to continue to seek better, more efficient and cost-conscious ways of doing business and to adjust our efforts as we progress. Defence's budget to 2019 has already been adjusted to take account of the \$20.6 billion in reinvestment required for Force 2030 – this requires us to think less in terms of adding up savings and more in terms of living within our means.

'The SRP includes around \$2.4 billion in investment to enable the reforms to be implemented.'

The Strategic Reform Program

Streams that drive more efficient and effective outcomes but do not have cost reductions directly attached to them.



Streams that drive more efficient and effective outcomes and have cost reductions directly attached to them.



IMPLEMENTATION – MAKING IT HAPPEN

Planning is one of Defence's strengths. It provides the platform for our success on operations. The planning effort for the SRP has been meticulous and we are well positioned now to make implementation happen. However, implementation of a program on a scale like the SRP means that we must think and work in different ways. To help with this, a set of reform behaviours have been developed in conjunction with a group of people from across the organisation from a wide range of rank and classification levels. In adopting these behaviours you will be better able to consider new ideas, to find better ways to use our equipment and resources, and to act in ways which enable reform.

These behaviours are consistent with other change and reform programs already underway in Defence, including New Generation Navy, Adaptive Army, Air Force Improvement, the Defence Materiel Organisation's (DMO) 'Business Like Culture' and the Defence Support Group's 'Doing Business Better'. Practising these reform behaviours will enable you to contribute to the success of the reform process and make Defence a more efficient and effective place to work.

'No program can reduce costs by over \$20 billion in a decade and not involve some tough decisions and some significant changes to the way we do business.'

Reform Behaviours

To make reform work I will:

- “be open to new ideas and seek ways to improve the way I work”;
- “have confidence to put my ideas forward”;
- “ensure that time and resources are spent wisely – I will make every minute, dollar and round count”;
- “use it like I own it”;
- “work as part of a united Defence team”;
- “challenge myself to be the best that I can”;
- “eliminate wasteful practices, processes and behaviours when I encounter them”;
- “be mindful that what I do today will influence the quality of my tomorrow.”

KEY FEATURES OF THE REFORM PACKAGE

This section of the booklet describes the key initiatives that make up the SRP package. The aim is to be open and frank in describing what needs to be done; to explain why the changes are considered necessary, and what we are trying to achieve by them. Further detailed information sheets on the individual key reforms are available at the SRP intranet site on the Defence Restricted Network.

Information and Communications Technology (ICT)

ICT is a critical enabler in operating our networked force, supporting operations and for the efficient running of our business and administrative functions. Our ICT infrastructure has not always served us well. In the last 12 months there have already been significant improvements in the way our ICT system performs with up to 30% fewer unplanned outages on both the Defence Restricted and Secret networks.



The ICT reforms will be supported by around \$1.2 billion in investment between 2009-2019. This includes important remediation that will enable the reforms to fundamentally change your ICT experience in Defence. The key reform initiatives include:

- Creation of a trial single desktop environment using 'thin client multi-level security' technology by 2012 where the Unclassified, Restricted and Secret domains can be accessed from a single 'box';
- More effective secure communications and collaboration tools utilising the Defence Secret Network;
- Creation of a single Information Technology environment which will simplify the delivery and updating of software across the organisation;
- Remediation of the ICT backbone and architecture to further reduce system unreliability and fragility;
- Consolidation of the 200-odd data centres currently operated by Defence to less than 10, commencing in 2012;
- Smarter sourcing of Defence's hardware and software needs through a centralised approach; and
- Reinforcing the Chief Information Officer's central role and accountability for ICT across Defence.

Did you know?

In the last 12 months there has been 30% fewer unplanned outages on both the Defence Restricted and Secret networks – this has meant less interruptions to all of us in getting our work done.

ICT Reform – What will this mean?

- A modern and reliable ICT system to better support both operations and our administrative functions and to be better exploited by our technology-orientated workforce.
- Our ICT dollars are better focused on delivering the user better ICT services.

Logistics

Logistics is a critical support function for the ADF's operations around the globe. Our current system is widely dispersed, costly, inefficient and falls short of contemporary commercial practice. The Logistics reform stream seeks to implement a robust, flexible and responsive logistics system capable of providing future support to operations in the global context. To achieve this around \$630 million will be invested in the early part of the decade to enable the logistic reforms to occur. This investment will result in around \$350 million in savings to 2019 and some \$59 million² per annum each year after that. This is a major investment in long-term reform to improve our ability to support operations well into the future.

'Logistics reform includes significant investment in long-term reform to improve our ability to support operations well into the future.'

The key reforms to be implemented include:

- Reforms to the Wholesale Storage and Distribution Network, consolidating from 24 wholesale sites to seven – this involves building modern, purpose-built storage and distribution facilities in four locations (Amberley, Moorebank, Edinburgh and Darwin) and updating facilities at three existing sites (Townsville, Bandiana and Perth). These modernised facilities will meet industry best practice and will include streamlined processes and use standard commercial technology;
- Reduction of the current 200 separate warehouses in Defence to less than 100;
- Introduction of Automated Identification Technology (AIT) – AIT will deliver automated processes, improved accuracy and increased visibility for the tracking and management of

2. 2009–10 Budget constant dollars.

Defence inventory. It will improve inventory accuracy to over 98%. Introduction of AIT is expected to be complete by 2013;

- Improvements to Freight and Storage – there will be smarter use of freight prioritisation, sending lower priority freight on routine weekly schedules rather than daily ones, and developing a cost-conscious approach to assigning priorities to freight and the means by which higher priority freight is shipped; and
- Improving the operational availability of equipment and vehicles through the integration of Land Materiel Maintenance reform into the storage and distribution reforms, including the co-location of deep maintenance workshops with major storage facilities.

Logistics Reform – What will this mean?

- More efficient and timely delivery of stores and equipment to the warfighter when and where they are needed.
- Modern and efficient storage, distribution and tracking of our inventory.

Reserves

The Defence White Paper and the Defence Budget Audit considered ways to make better use of our Reserve forces. Because of its size, it is in the Army Reserve where the bulk of reform will be felt. Since the SRP was announced, the Chief of Army has undertaken a significant review of the entire Army structure and has assigned the Army Reserve critical roles in relation to supporting operations, a range of domestic security tasks, and of being one of the the first responders to domestic national emergencies when the ADF is called upon.



A Force Modernisation Review is underway in Army which will examine the whole of Army workforce to determine how each of the capabilities can be best delivered. This may result in further integration of full-time, part-time and civilian components.

The Defence Budget Audit proposed transferring some longer lead time war fighting capabilities such as Tanks and Artillery to the Reserves to reduce the overall cost of these capabilities. This was investigated, but not pursued because the capability trade-off that would have been required was too great for the savings that may have been possible. The complexity of these capabilities is such that insufficient Reservists would have been able to commit to the annual training load required to keep them at a viable level of preparedness.

However, there are a number of reforms that, in combination, will result in a Reserve force that is more sharply focused on its mission and which will support a greater amount of knowledge transfer between permanent and reserve forces. These reforms include:

- Increasing the number of permanent force members who transfer to the Reserve when they complete full time permanent service – this reform, to be implemented from 2012, will have the biggest impact on Army. It aims to increase the rate of transfer of those leaving the permanent forces to the Reserve by 15%. This provides for more direct knowledge transfer to the Reserves, reduces *ab initio* training costs and enhances overall capability of the Reserves;
- Developing a civil skills database to capture the civilian skills and qualifications held by members undertaking Reserve service which, if known to the ADF, can be used to enhance its overall operational capability;

- Rationalising the High Readiness Reserve (HRR) to focus on the requirement to provide six HRR combat teams (company size). In 2010-11, funded HRR positions in addition to the six combat teams will be reviewed to determine if their preparedness requirement warrants HRR status. Existing HRR contracts will not be affected;
- By 2014 a full review of HRR conditions of service, training and preparedness will have been completed to see how the HRR capability may be generated more efficiently;
- Improved delivery of Reserve training to reduce training wastage;
- Better targeted Reserve Employer Support Payments to ensure optimum value for money from the scheme;
- Reduce the Army Individual Readiness Notice (AIRN) requirement for Reserve personnel to an annual requirement; and
- Reviewing, and adjusting where appropriate, Air Force Reserve preparedness levels.

Reserves Reforms – What will they mean?

- Greater knowledge transfer between full-time and part-time members of the ADF.
- Greater understanding of the skills the ADF's part-time workforce possess.

Non-Equipment Procurement

Defence spends around \$2.8 billion per year on the acquisition of non-military goods and services from external suppliers. These suppliers include airlines, accommodation providers, cleaning contractors, stationery providers and healthcare providers, to name a few. There are significant opportunities to make the purchase of these non-military goods and services more efficient.

‘We must examine the need to conduct a particular activity each time it is planned as this is often the driver of the cost.’

The Defence Budget Audit identified removal of waste and reducing demand as the key components in this reform stream. To help bring about these changes, we have reduced funding for the Non-Equipment Procurement area by around \$2 billion across the 2009-19 decade. This reduction will require us to reform our current practices because there simply won't be the money available to do otherwise. The extent of this reduction is based on the opportunities for savings identified in the Defence Budget Audit. We have also developed a range of policy reforms to support the aim of lowering demand. The other major focus has been on examining whether there is a need for a particular activity to occur, as this is often the driver of the cost.

Non-Equipment Procurement is an area where it is important to develop a cost-conscious culture. A very large number of individual procurement decisions are made every day throughout Defence, often at relatively low levels. Cost-consciousness in procurement starts with an understanding of the relevant policy guidance and of individuals knowing their responsibilities in the approval process. It also involves a state of mind that places the importance of ensuring

that we get value for money each time we spend taxpayers' dollars at the top of our decision making process.

Did you know?

- Each year there are around 300,000 commercial flight movements by Defence personnel.
- If you submit a travel claim for less than \$10 because you could not get the exact amount from an ATM, it costs Defence around \$75 to process it.

Travel

The single biggest area of reform in the Non-Equipment Procurement stream is in the area of travel. Defence spends around \$500 million per year on travel and travel related expenses. If one in five travel journeys were not made, Defence would achieve the potential savings that were identified in the Defence Budget Audit without any other reform. We each need to examine the reason for travel on every occasion we contemplate or approve it. We need to ensure that the cost of travelling neither advantages nor disadvantages those who need to do so. In this respect, Defence is still one of the only Departments in the Commonwealth Government that continues to use a specified daily rate of travel allowance. This approach can have the effect of creating a financial incentive to travel when it may not be absolutely necessary.

A suite of travel related reforms will be implemented and integrated with the Whole-of-Government travel initiatives currently being developed by the Department of Finance and Deregulation. In Defence the following initiatives will be implemented:

- Move away from a specified daily rate of allowances for travel to a 'reasonable costs' model which will rely on a travel card that is very widely accepted both in Australia and overseas;
- Increase the use of cheaper 'less flexible' airfares for routine travel;
- Make remote locality leave travel benefits reflect contemporary conditions (see box);
- Centralise control over the booking of accommodation and an expansion of the use of the LIDO accommodation booking contract;
- Increase the use of video and audio conferencing to remove the need for travel; and
- Further consolidate delivery of travel services into business centres.

These reforms, in conjunction with a more disciplined approach to the 'Do I really need to travel?' question, will significantly change Defence practices in this area. The package of initiatives has focused on ensuring that you remain fairly recompensed (on a no-win no-loss basis) for travel when Defence requires you to be away from home.

Why examine remote locality leave travel?

Remote locality leave travel was introduced in the 1970s to compensate those personnel who lived in areas classified as remote, largely because they were not well served by communications links and lacked the facilities of major centres. No fundamental change has been made to what is considered to be 'remote' since the 1980s despite the significant changes in many of the areas originally classified as such – we are going to look at what remote really is in the 21st Century.

Travel Reform – What will it mean?

- That we work in an organisation where travel will only occur when it absolutely has to.
- A system that fairly recompenses you for expenses you incur when you must travel.

Bases and the Defence Estate

Much of the Non-Equipment Procurement reform will be realised on the major Defence bases around the country. Many of you will have already seen developments on a number of these bases such as Amberley and Edinburgh. Over the next decade there will be a significant injection of funding (over \$2 billion) both to improve current facilities and infrastructure and to build new facilities to support the development of Force 2030.

The Defence estate is one of the largest real estate portfolios in Australia. We own 370 properties and over three million hectares of land - including 120 properties on the Commonwealth Heritage List. That gives us 25,000 buildings, 6,000 other structures and 150,000 items of plant and equipment to be maintained in a safe and effective condition. We also lease 350 properties in Australia and 220 properties overseas.

So, you can see that the cost of running our bases and infrastructure is big business. As a result, a

large number of reforms have been developed so that we can get smarter in the way we manage contracts and deliver services. Some of the key reforms that will be implemented include:

- Moving to national standards so that products and services are delivered consistently across bases;
- Continuing to evolve the roles and responsibilities for base management under the Base Accountability Model;
- Revising the design of grounds on bases (water-smart garden beds, etc);
- Revising the grounds maintenance standards;
- Improving forward planning and contracting for our major utilities contracts (power, water and gas) – this reform is already underway and is realising significant cost reductions through better and longer range planning of these contracts;
- Better metering for utility use on bases and in buildings so that a more comprehensive user pays model can be established, thus rewarding those work areas that make efficiencies;
- Mandating energy efficiency standards in new buildings to reduce the overall cost of running the facility;
- Standardising cleaning standards across bases and aligning them to commercial standards where appropriate;
- Harmonising Defence and industry standards for the maintenance of fixed plant and equipment where appropriate;
- Centralising contract management and administration into hubs reducing back office costs;
- Improving management of sports and recreation facilities;
- Consolidating low volume messes (serving

Thoughts on Non-Equipment Procurement

- The full cost to Defence of providing a standard meal varies across bases from between \$4 and \$70 – why?
- Defence pays to keep some bars open on weekends where only one or two people visit the bar throughout the day – is this a smart use of our resources?

less than 2,100 meals a month) where multiple messes exist in close proximity;

- Rationalising bar operating hours;
- Investigating the viability of keeping low volume bars, particularly where there are other bars in close proximity;
- Rationalising steward services; and
- Sensible rationalisation of the range of meal options available (for example some messes have 6-10 meal choices; we would look to reduce them to 3-5).

- Introduction of the electronic health system to better manage medical records and reduce the overall staff effort required to maintain them;
- Converting contracted health workers into Australian Public Service (APS) positions;
- Using out-sourced diagnostic imaging facilities when needed, instead of maintaining dedicated facilities on base where there is no operational need; and
- Aligning our medical screening policy to wider community standards where appropriate.

Reform on our bases – What will it mean?

- Significant investment over the next ten years.
- Smarter use of our resources to support you.
- Reducing duplication of the same service on a base.

Australian Public Service Training

Defence is developing a Career and Talent Management System which is designed to meet the learning and development needs of the Defence APS workforce. This new approach will allow Defence to target the development of future and current supervisors and managers while improving the technical skills of APS employees. Over time, new programs will replace those currently conducted in Groups and the Services. These will be based on the best of existing

Health

The cost of healthcare is rising rapidly (at around 8% per annum) and is a constant pressure on the Defence budget. During the implementation planning phase we used external assistance to look closely at a range of reform options that did not compromise patient care or services.

The health reform package includes:

- Rationalising health facilities, particularly where there are multiple facilities in close proximity to one another (for example in Canberra and at Enoggera, Lavarack and Robertson Barracks);



Australian Public Service Commission and Defence training, with maximum use made of current ADF training and development expertise. Flexibility will be built in to accommodate Defence needs, individual career paths and Group and Service requirements. Training will be governed by stated training requirements, which will be an important part of managing training demand in the Non-Equipment Procurement area. Major benefits will be reduced duplication and better administration at a lower cost to Defence.

Removals

In the Defence Budget Audit the projected savings from removals were based around trying to flatten out the spike in demand and removal costs caused by the end-of-year posting period. This proved difficult to achieve without causing major disruption to family life and impacting on partners' jobs and childrens' education.

A team was formed to look at how the removal process could be made more efficient. The team was conscious of the need to preserve the hard won removal-related policy initiatives that had been achieved in recent years. It focused principally on the ability of the Services to reduce the number of removals required. The Services are working towards reducing the frequency of removals through maximising back-to-back postings, and by increasing the duration of postings wherever possible, consistent with operational and necessary career development requirements.

In line with other aspects of the program, a range of allowances and entitlements were reviewed to ensure they remained relevant and were consistent with contemporary community standards. There will, for example, be some reasonable limits imposed both on the number of vehicles and pets that can be relocated at

Commonwealth expense. There is work still underway in this area and more details will be released later in 2010.

Other Areas of Non-Equipment Procurement

The Non-Equipment Procurement stream involves a number of categories which do not naturally sit under the areas of the reforms that have already been discussed. Some of the reforms in these categories include:

- Establishment of a Centre of Excellence in Procurement and Contracting;
- Rationalising the number of panels from which we can engage external expertise and assistance – this will streamline the process and provide better value for money;
- Centralising library services and rationalising the number of multiple documents held;
- Rationalising and simplifying the range of 'glossy' in-house publications that Defence produces and maximising their online availability;
- Mandating the use of Defence facilities for training, conferences and planning activities wherever possible unless there are compelling reasons to use external venues; and
- Better targeted use of Defence-funded higher education schemes (such as Defence Force Assisted Study Scheme and Studybank) to meet Defence's specific requirements.

'We have all heard the phrase 'don't worry – it's a big company' – in relation to spending Australian taxpayers' dollars. This phrase and the underlying attitude that it reflects has no place in Defence today.'



Smart Sustainment

Smart Sustainment is the largest area of reform in the SRP. It is focused on instituting deep and ongoing reforms that better sustain ADF capability at a lower cost while ensuring that capability is safe, effective and affordable.

One of the key features of the Smart Sustainment reforms is the Lean methodology. Lean is a continuous improvement technique and way of working that focuses on the continual reduction of waste. By reviewing our processes with an eye to eliminating waste, substantial productivity improvements are made, quality is improved, available working time is increased and cost is reduced. A comprehensive approach to Lean involves optimising our planning and execution of maintenance, including performance management, spare parts provisioning and contract support. Of course it is not necessary to wait for the introduction of Lean techniques to identify waste, Lean simply provides a structured way to approach the task.

The reforms will focus on:

- Improved maintenance processes and reduced waste and over-servicing, using tools such as the Lean maintenance methodology;
- Improved performance metrics so that both the Defence Materiel Organisation (DMO) and the relevant Capability Manager³ has visibility of the effectiveness of the reforms and indications of any impact on capability;
- Changed practices by capability users (such as not using a radar 24/7 if it is not required for operational or training outcomes) that reflect a cost-conscious approach to the use of capability;
- Leveraging off approaches proposed by industry to improve efficiency and effectiveness;
- Further development of Materiel Sustainment Agreements (the document that governs the sustainment arrangements) between the DMO and the relevant Capability Manager;
- Optimising inventory stock holdings and adopting a risk weighted approach to inventory management;
- Smarter use of the ADF's fuel and explosive ordnance resources; and
- Smarter contractual arrangements with industry partners.

3. Capability Managers include the three Service Chiefs, the Vice Chief of the Defence Force (as Joint capability manager and Coordinator), Deputy Secretary Intelligence and Security as the Intelligence capability manager and the Chief Information Officer as the ICT capability manager.

An example of Smart Sustainment in action – Benefits of the C130 Lean Process Review

Some early benefits from the Smart Sustainment work already conducted on the C130 fleet include:

- Improved processes to ensure parts and supplies were ready when needed.
- Better planned maintenance activities requiring less re-work and re-entry of certain parts of the aircraft.
- Greater certainty about the working day, more predictable start and finish times improving work/life balance.
- The benefits of a number of small changes making a big difference.

Reforms undertaken must not compromise quality and safety, or transfer costs to other areas. They will be progressively rolled out as each of the DMO's product areas are subject to a Lean process review. These reviews will be conducted in close cooperation between Capability Managers, the DMO and industry. A number of these have already commenced (C130, Mine Hunter Coastal, Over the Horizon

Radar, ANZAC Frigate and Land vehicles) and are showing promise. The lessons from these early reviews will be applied across the remainder of the DMO product areas. The reforms will vary from capability to capability as they are carefully tailored to fit specific circumstances. There is no one size fits all approach to these reforms.

Industry is a critical partner in the Smart Sustainment process. Their support and involvement will be critical to achieving deep and sustainable reform. The DMO has the lead in maintaining this critical relationship, but it is something we all need to work on to develop strong, sustainable and commercially sound approaches to our relationships with industry suppliers.

Smart Sustainment Reforms – What will they mean?

- The sustainment of each capability will be streamlined by the DMO, Capability Managers and industry working together.
- Better planned maintenance work.
- Smarter and more efficient contracts.
- Changes to the way in which we use equipment when it is not required to achieve training or operational outcomes.

Workforce and Shared Services

Defence started its journey along the shared services path in the 1990s. Since then managers have become used to the notion that an organisation does not have to own all the functions that impact its ability to deliver what is expected of it. We have become used to service agreements between users and providers of services that allow for more efficient allocation of resources across Defence.

The SRP has provided the opportunity to take the next step on the shared services journey and move, wherever it is possible and sensible, to a more centralised shared services model. In constructing these reforms Defence did not take a one size fits all approach. The various areas that have been considered for greater use of shared services have developed models with different levels of centralisation. While the shape of the different shared services models are known, a number are still in their final stage of refinement and will be completed around the middle of 2010.

Some of the key features of Shared Services reform include:

- Process standardisation and simplification in the financial management area;
- Full centralisation of accounts processing;
- Simplification of the payment processes for pay and allowances to reduce the volume of transactions that need to be entered;
- Centralisation of simple procurement;
- Consolidation of APS recruitment cells;
- Greater integration of library search functionality on the Defence Restricted Network;
- Increased automation of payroll and personnel functions;
- Consolidation of both Navy career management agencies;
- Increased use of online and self service functionality to reduce demands on Customer Service Centre overheads;



- Standardised mail delivery and service levels;
- A more engaged APS workforce, operating within a more clearly defined and structured development framework;
- Further rationalisation of Defence training;
- Better coordination and use of Education and Training policy, processes and systems;
- A Defence Learning Environment to support further reform and rationalisation;
- Greater re-use of common training material across the organisation; and
- Consolidation of a number of publishing services into the Defence Support Group.

In May 2009, Defence announced that it would manage its workforce mix in an integrated way to obtain the skilled people it needs to deliver capability in the most cost effective way. This approach is essential to achieving the best workforce mix to meet capability needs within the allocation agreed with Government through the SRP. As a result of SRP reforms, Defence will convert at least 322 contractor positions to APS jobs. However, on the basis of further analysis, we expect that as the implementation process continues we are likely to achieve around 700 conversions. Already during the current financial year 245 positions have been converted primarily in the DMO, Chief Information Officer Group, and Intelligence and Security Group.

Between 500 and 600 uniformed military support positions will be civilianised between 2010 and 2014. APS employees cost on average 30% less than their ADF counterparts and this will result in a cost reduction of around \$400 million over the life of the program. The final number of positions to be civilianised cannot be confirmed until after the shared services models have been finalised.

Approximately 920 military positions will be reduced through the further development of the shared services model and civilianisation of military positions. Similarly, about 970 civilian positions will be reduced through shared



services. However, these reductions will be offset by additional civilian positions created from the civilianisation of military positions and conversion of contractor positions.

As a result of previously planned growth and White Paper initiatives there will be a net growth of around 3,800 ADF positions and 1,500 APS positions to 2018-19. This is a larger number of positions than previously advised in the booklet *'Strategic Reform Program: Delivering Force 2030'*. The implementation planning phase of the SRP did not produce the same level of reductions in shared services, civilianisations or contractor conversions as predicted in the Defence Budget Audit. As recommended in the Defence Budget Audit, the shared services implementation planning activity went to the next level of analysis and mapped the roles of positions across

Defence in some detail. Jobs with multiple roles or administrative jobs with important operational functions, for example, could not be considered for shared services because of their overall impact on capability.

So, while the overall workforce will grow to 2018-19 we will also see the workforce mix rebalanced as we move toward a leaner business model. Some areas, particularly administrative processing and back office functions in payroll, finance, contract management, base support and personnel administration, will have reductions in workforce numbers. Changes in these areas are still not finalised and will be carefully managed and will follow the well established staff and union consultation processes in Defence. Workforce reductions will be managed primarily through re-training and re-deploying staff and natural attrition wherever possible, noting the average separation rates for ADF and APS personnel of around 7%. The table at Attachment B shows the currently expected movements in the overall workforce to 2019.

Workforce and Shared Services Reforms – What will they mean?

- Critical ‘back office’ business functions not duplicated across Defence.
- A workforce which is more focused on delivering Defence outcomes.
- The need to re-deploy and re-train existing personnel to manage changes in the workforce mix.

Strategic Planning and Capability Development

Reforms in the strategic planning area may not be immediately visible to you on a daily basis, but they are fundamental in ensuring that Defence recommends the right capability solutions to Government that match our strategic circumstances and requirements. Additionally these reforms focus on ensuring that early on, when considering what capabilities are needed for our force structure, we get a good understanding of our true requirements and what they will cost.

The key features of these reforms include:

- The development of a five-year planning cycle that results in a Defence White Paper in the fifth year thus enabling our planning to more regularly reflect changes in strategic circumstances (this process has been established);
- The establishment of a Force Structure Development Directorate to institutionalise the processes of the Force Structure Review, which underpinned the last White Paper (this Directorate has already been formed and has started work);
- Improved governance arrangements to ensure the right capability decisions are made by the right people at the right time;
- Enhanced cost forecasting to improve the quality of long term cost estimations in the earliest stages of the capability development process (this initiative is already underway); and
- Improved management of funding for major capability acquisitions.



Procurement and Sustainment

The Government commissioned Mr David Mortimer, AO to conduct an independent review of DMO and the effectiveness of Australia's defence procurement systems. The Government agreed, or agreed in part, to all but one of the 46 recommendations of the report. A range of reforms were developed out of those agreed recommendations and these reforms make up the Procurement and Sustainment reform stream of the SRP.

Underpinning the reforms are four key principles that need to guide the improvement of our procurement practices:

- First, that Defence must become more accountable to Government and more transparent in managing the billions of dollars invested in building military capabilities;
- Second, that DMO must strengthen its capacity to give Government independent advice on the cost, risk, schedule and acquisition strategies for major capital equipment;
- Third, that DMO needs a stronger business-like culture to deliver projects on time, on budget and to Defence's requirements; and
- Fourth, that the already strong relationship between Defence and DMO must be further strengthened. The key priority is meeting Defence's military capability needs and, by achieving that goal, helping keep Australia secure.

Some of the key reforms include:

- Ensuring Defence provides accurate information to Government so that it can make procurement decisions based on the best information;
- Clearer guidance on the different responsibilities of the Capability Development Group, the DMO and the Capability Managers early in the acquisition process;
- A more active and stronger role for the Capability Manager throughout the acquisition process;

- Improving the commercial discipline in procurement processes through better estimation, disciplined scope management and performance measurement;
- Improving the commercial discipline in sustainment processes through better identification of requirements and cost-conscious decision making;
- Ensuring the Chief Executive Officer of the DMO has a high degree of autonomy to manage the DMO workforce to achieve identified business outcomes, and to provide greater flexibility on employment matters; and
- Making the DMO more business-like through clearer accountability, better control of resources and more efficient contracting.

Implementation of the reforms in this stream has been a high priority and a large number of processes to support them are either in place or very well advanced. The effects of some of these reforms will take time to be fully felt, particularly those relating to the procurement process for large complex projects.



Science and Technology

The Science and Technology (S&T) reforms are designed to ensure that the S&T function in Defence remains focused on supporting both the current force and the evolution of Force 2030. The reforms seek to get the balance between today and tomorrow right to ensure that our S&T capabilities are matched to the longer term needs of the organisation.

The major features of the S&T reforms include:

- Ensuring that S&T effort is included early in the capability development life cycle;
- Implementing a technology refresh program to ensure our S&T facilities remain at the cutting edge;
- Strengthening the Corporate Enabling Research program;
- Enhancing support to HQ Joint Operations Command and the Cyber Security Operations Centre;
- Ensuring S&T efforts are directed where needed through an enhanced and more transparent S&T prioritisation process;
- Developing a more streamlined S&T management system; and
- Enhanced management of the DSTO contribution in the non-Defence National Security domain.

Many of these initiatives have already been implemented or are in their final stages of implementation.

Preparedness and Personnel and Operating Costs (PPOC)

Preparedness describes Defence's ability to undertake military operations and is comprised of two key components – how ready we are for the task (readiness) and how we can sustain the effort once committed (sustainability). Activity levels, like the number of aircraft flying hours or the number of days at sea, vary depending on the level of preparedness that is required. As such preparedness levels are a key driver in Defence's personnel and operating costs.



Like many military organisations around the world, the ability to fully understand the true costs of our preparedness decisions has proven elusive over the years. Accurately forecasting the net change in personnel and operating costs when a new capability is introduced has been similarly challenging.

The reforms in the PPOC stream are not a silver bullet to the preparedness issue but they will provide more visibility of the impacts of our preparedness decisions and result in better decisions through:

- The development of a system to better analyse costs and benefits of preparedness decisions – an interim system will be in use by 2012 with a mature system to follow;
- Development of a model to understand the true costs of using Reservists which will be in place by 2012;
- An overhaul of the preparedness management system including the introduction of a system that ensures compliance with preparedness guidance and evaluates the overall system;
- Introduction of a standard methodology for the estimation of future personnel and operating costs; and
- Improving our corporate information systems to better support our understanding of preparedness decisions.

The reforms in this stream will not directly lead to specific savings but will be an important driver of the cost-conscious culture that Defence will need to ensure the success of the SRP. These reforms, by helping develop a deeper understanding of the cost of preparedness, will help focus Defence on the true cost of these activities. This will drive behavioural change in a number of other areas.

Intelligence Human Resources and ICT

Our intelligence services have for many years operated their largely specialist functions as separate entities. They have maintained a reputation for excellence in the products that are produced and for their support of both operations and senior decision makers. Recent reviews have found that there is considerable scope for greater commonality across these different organisations in the Human Resource (HR) and ICT areas. Consolidation of these two functions across the Intelligence and Security Group is well underway and in some areas is complete. Key reforms include:

- Reduction in duplication of HR policies and procedures;
- Increased use of common forms and processes;
- Elimination of duplication in the three agency-based ICT systems; and
- Greater use of Defence-wide ICT contracting and licensing.



The Defence Savings Plan and Other Reforms

There are a number of reforms that have been identified which do not fall neatly within one of the 15 reform streams, but which together, make a significant contribution to the overall reinvestment of resources into Force 2030. These include:

- Consolidation of the Gap Year scheme around Navy and Army participation where it provides the most benefit. The Air Force will suspend involvement in the Gap Year as it provides less of a recruitment benefit given the investment required. Navy participation will be reduced to 100 positions per year, Army participation will remain at current levels;
- Cancellation of the Financial Assistance Scheme – originally aimed to provide independent financial advice to personnel in receipt of bonuses. Most of the bonuses to be supported by this scheme have been distributed and the original intent of the initiative has passed;
- Deferral of the Job Options Scheme which aimed to improve retention by providing advice about alternate employment opportunities within the ADF. Given the current employment environment, this scheme will be reconsidered in 2013;
- Changes in the way that financial risk is managed in the annual budget through a zero-based budget review;
- Adjustments to the Net Personnel and Operating Cost provision from 2012-13 which allows for the productivity improvements that will occur through the other initiatives outlined in this booklet; and
- Cost reductions in the minor capital program, administration and facilities program.



How will we know if it's working?

A key challenge in any major program such as the SRP is to ensure that we know that the reforms are not only being implemented as planned, but also that they are having the desired effect. Just as important is the need to ensure the reforms are not having adverse unintended consequences which might damage Defence. The SRP has an Integrated Performance Management Model (IPMM). The IPMM is a comprehensive twice yearly look at how the SRP is travelling. It builds on the more regular monitoring of the program conducted through the established governance process, through 'Health Checks' of individual streams and initiatives, and through the day-to-day involvement of the relevant Stream Leaders. The IPMM seeks to answer four simple questions

which are, in effect, the four high level measures of success for the SRP. These are:

- Is Defence living within its means – is it living within the adjusted budgets allocated to it?
- Is there evidence of sustainable reform – are the reforms being implemented as planned and do they produce sustainable and ongoing benefits?
- Is Force 2030 being delivered – is the force structure being delivered as planned?
- Is Defence delivering across its full range of responsibilities – or has capability been compromised to achieve the goals of the SRP?

The Capability Managers will play a key role in the IPMM process to ensure that capability

is not compromised. The Defence Audit and Risk Committee will also provide another level of assurance to the Secretary and Chief of the Defence Force that the SRP is achieving the goals set for it with an annual 'sign off' process. The Minister for Defence has also established the Defence Strategic Reform Advisory Board, made up of private and public sector members, to ensure that the SRP is achieving its aims.

Where to from here?

This booklet is the first component of a significant communications effort to provide you with timely and relevant information about the SRP and what it will mean to you. In the coming months there will be a range of both general and specific briefings and more detailed information will be made available to you. Your command or supervisory chain will remain a good starting point for your questions about the SRP.

This package of reforms represents only the start of our task. The SRP will, over time, touch every part of Defence and challenge all of us to consider how we do our work. It will challenge us to innovate, to think differently about what we do and how we achieve our purpose. It will create new opportunities and call into question long established habit and custom. There is no improvement to a process or reduction in cost that is too small – we are not constrained to what is in the package of initiatives outlined in this booklet. We must be flexible and agile enough to look for, generate and seize new opportunities as they present.

Our biggest challenge is to turn a well planned program into a well executed program that delivers the benefits it promises. Delivering on this program means delivering Force 2030 and delivering the ADF and Defence organisation that Australia needs for the future.

ATTACHMENT A

STRATEGIC REFORM PROGRAM COST
REDUCTIONS BY REFORM STREAM

STRATEGIC REFORM PROGRAM	FE* \$m	TO 2018-19 \$m
SRP Stream Cost Reductions		
Logistics	-49.9	-350.4
Smart Sustainment (Including Inventory)	-1769.3	-5526.9
ICT	-665.3	-1947.9
Reserves	-98.8	-358.8
Non-Equipment Procurement	-1136.5	-3766.6
Shared Services	-582.8	-1864.1
Workforce	-327.2	-925.3
Total SRP Stream Cost Reductions	-4629.7	-14740.0
Other Cost Reductions		
Zero-based budgeting review	-1294.9	-3922.1
Cost reductions in Minor Capital Program	-89.2	-238.5
Cost reductions in facilities program	-166.4	-509.5
Administrative cost reductions	-47.2	-69.7
Productivity improvements	0.0	-356.5
Reduction to Net Personnel and Operating Costs guidance	-65.4	-585.5
Refinement of personnel initiatives	-100.3	-237.9
Total Other Cost Reductions	-1763.4	-5919.8
Total SRP Cost Reductions	-6393.1	-20659.7

* Forward Estimates covers the 2010-11 budget i.e. 2010-11 to 2013-14.

ATTACHMENT B

WHITE PAPER AND STRATEGIC REFORM PROGRAM WORKFORCE IMPLICATIONS⁴

	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19
Military Workforce											
Current Guidance	55,081	55,775	56,468	57,108	57,525	57,883	58,174	58,345	58,314	58,276	58,276
White Paper/SRP											
White Paper		679	1,201	1,375	1,656	1,887	2,077	2,157	2,225	2,165	1,979
SRP											
Efficiency Improvements		-54	-163	-223	-277	-292	-390	-404	-404	-404	-404
Civilianisation			-188	-531	-679	-690	-690	-670	-640	-570	-517
Support Productivity Improvements (-0.7 per cent)		0	0	0	0	0	-91	-182	-273	-364	-455
SRP Sub Total		-54	-351	-754	-956	-982	-1,171	-1,256	-1,317	-1,338	-1,376
White Paper/SRP Net		625	850	621	700	905	906	901	908	827	603
Final Total		56,400	57,318	57,729	58,225	58,788	59,080	59,246	59,222	59,103	58,879
Growth by year from 2008-09 base	55,081	1,319	2,237	2,648	3,144	3,707	3,999	4,165	4,141	4,022	3,798

Civilian Workforce (Australian Public Service and Contractors)											
Current Guidance	21,225	21,361	21,862	21,811	21,826	21,804	21,755	21,719	21,690	21,620	21,620
White Paper/SRP											
White Paper		999	1,332	1,556	1,801	2,064	2,153	2,193	2,347	2,303	2,290
SRP											
Efficiency Improvements		-72	-333	-567	-678	-690	-899	-925	-943	-961	-979
Civilianisation			188	531	679	690	690	670	640	570	517
Contractor Conversion (increase to civilians)		80	244	301	318	322	322	322	322	322	322
Contractor Conversion (reduction to contractors)		-80	-244	-301	-318	-322	-322	-322	-322	-322	-322
Support Productivity Improvements (-0.7 per cent)		0	0	0	0	0	-149	-296	-441	-586	-729
SRP Sub Total		-72	-145	-36	1	0	-358	-551	-744	-977	-1,191
White Paper/SRP Net		927	1,187	1,520	1,802	2,064	1,795	1,642	1,603	1,326	1,099
Final Total		22,288	23,049	23,331	23,628	23,868	23,550	23,361	23,293	22,946	22,719
Growth by year from 2008-09 base	21,225	1,063	1,824	2,106	2,403	2,643	2,325	2,136	2,068	1,721	1,494

4. These are the workforce implications as at December 2009. As the SRP evolves, these figures are likely to change to reflect the experience of implementation.

