

Strategic Reform Program

Background

- 2.1 The Strategic Reform Program (SRP) was initiated in the 2009 Defence White Paper *'Defending Australia in the Asia Pacific Century: Force 2030'*. The SRP comprises a:

... comprehensive set of reforms that will fundamentally overhaul the entire Defence enterprise, producing efficiencies and creating savings of about \$20 billion.¹

- 2.2 As outlined in Defence's *'The Strategic Defence Program – Delivering Force 2030'* document, the reform program has three key elements as follows:

- Improved Accountability in Defence. Providing much greater transparency – that is, visibility of how Defence manages the close to \$26 billion annual budget – will strengthen the accountability of Defence, and individuals within Defence, to the Government, to Parliament and the Australian taxpayer.
- Improved Defence Planning. Improving strategic and corporate level planning will strengthen the link between strategic planning and the definition and development of military capabilities; better control the cost of military preparedness; and tighten governance and systems to ensure that Defence accurately forecasts and manages major acquisitions.

1 Department of Defence *'Defending Australia in the Asia Pacific Century: Force 2030'*, p. 107.

- Enhance Productivity in Defence. Implementing smarter, tighter and more cost effective business processes and practices will make sustainment and support management more efficient and effective; improve cost effectiveness for military capability and procurement processes; and create the basis for a more efficient Defence Estate footprint.²

2.3 According to the 2010-2011 Annual Report, the:

. . . Strategic Reform Program (SRP) remained this year as Defence's highest priority after the conduct of operations.³

2010-11 Cost Reductions

2.4 Defence's cost reductions target for savings under the SRP in 2010-11 was \$1,016 million. This has been achieved and successfully re-invested to assist the delivery of *Force 2030*.⁴

2.5 Some of the key areas where cost reductions were achieved include:

- upgrading and consolidating Defence's ageing Information and Communications Technology (ICT) infrastructure;
- conversion of military and contract positions into Australian Public Service (APS) positions;
- improved demand management of travel, training, professional services and garrison support;
- streamlining the maintenance of military equipment;
- making contract improvements across a range of support and sustainment services; and
- changing the way that financial risk is managed.⁵

A Second Phase of SRP-related Savings

2.6 In May 2011, the Minister for Defence announced that, in addition to the SRP measures already in place, the Government would implement a

2 Department of Defence 'The Strategic Defence Program – Delivering Force 2030', p. 5.

3 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 7.

4 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 7.

5 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 7.

second phase of SRP-related savings to be realised primarily through further improvements to shared services design and implementation.⁶

- 2.7 These new reforms to shared services and other efficiency measures mean that Defence can reduce overall forecast APS workforce growth by 1000 positions over the next three years. Savings from these reductions will be returned to the Budget.⁷

Current Status

- 2.8 The Committee asked Defence to provide an update on the current status of the SRP.

- 2.9 Defence advised:

. . . in the first year of SRP the savings of about the order of \$790 million were achieved. In the second year of the SRP, where the target was just in excess of \$1 billion, we achieved \$1.016 billion or \$1.018 billion; so that target was achieved. This year we have a target of about \$1.2 billion, and there is nothing to suggest that the target will not be achieved in this current round. The targets then start to climb and it becomes very difficult.⁸

- 2.10 Defence outlined that the performance management system has a number of metrics for each stream within the SRP program. These metrics cover financial, capability, delivery, and schedule of reforms.⁹
- 2.11 Defence provided a progress update on each of the SRP streams.

Smart Sustainment

- 2.12 This stream pursues opportunities to significantly increase effectiveness and efficiency in the maintenance of military equipment and inventory.¹⁰
- 2.13 Defence advised the Smart Sustainment stream is reporting well against all metrics, and is on target for programmed cost reductions of \$370 million this year largely through the adjustment of contract prices, the

6 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 7.

7 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 7.

8 Mr D. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 9.

9 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 9.

10 Department of Defence 'The Strategic Defence Program – Delivering Force 2030', p. 15.

removal of excess inventory purchases, and adjustment of maintenance levels.¹¹

Logistics

- 2.14 This stream aims to improve logistics planning, management and execution through better systems and practices. This will involve targeted investment in logistics technology, designed to give greater visibility to the whole supply chain, as well as return savings.¹²
- 2.15 Defence advised that the Logistics stream is tracking well and, to date, is meeting its project schedule. Its moderate cost reduction target for this year of \$8.3 million will be achieved, noting that the cost reduction profile of about \$360 million over the 10 years is heavily skewed towards the mid to late period. This skewing is a consequence of significant capital infrastructure being required to modernise the Logistics inventory management systems and infrastructure.¹³
- 2.16 The Committee requested advice on savings targets in the Logistics stream for next year.
- 2.17 Defence responded that savings targets will be \$18.6 million next year. Defence noted that the critical time will be 2014-2015 when the cost reductions for logistics jump to \$53.3 million, primarily driven by a move from the Defence National Storage Distribution Centre in Sydney into a purpose-built, modern, Defence-owned facility.¹⁴

Information and Communications Technology

- 2.18 This reform stream will deliver savings and increased effectiveness through a consolidated, standardised Defence Information and Communications Technology (ICT) environment, with a centralised strategy and governance framework.¹⁵
- 2.19 Defence informed the Committee that there are a major series of projects to deliver reform in this stream including refreshing the desktop computer environment and centralising processing facilities. Defence observed that

11 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, pp. 9-10.

12 Department of Defence 'The Strategic Defence Program – Delivering Force 2030', p. 17.

13 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 10.

14 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, pp. 10-11.

15 Department of Defence 'The Strategic Defence Program – Delivering Force 2030', p. 21.

many of these initiatives require major capital investment, however, ICT overall is going well.¹⁶

- 2.20 Defence advised that the ICT stream will meet its cost reduction target for this year of \$147 million, with the cost reduction target for next year being \$182 million and the year after \$206 million. Defence advised that ICT is nearing its mature point now, and has been assessed as having some risk:

. . . because of the relationship it has to providing systems to support the rest of the reform.¹⁷

- 2.21 Defence remarked that one unexpected byproduct of ICT reform has been that demand has grown in many areas for ICT to support reforms. Consequently, Defence is monitoring demand for ICT closely.¹⁸

Non-Equipment Procurement

- 2.22 The Non-Equipment Procurement Stream incorporates travel, building maintenance, professional services, clothing, training, research and development, advertising, freight and cartage, explosive ordnance, health services, removals, hospitality, catering and food, utilities, security services, other garrison support, cleaning, grounds maintenance, office supplies, waste management, stores management, office furniture and fuel.¹⁹

- 2.23 Defence advised that, at the moment, the program is meeting its cost reduction targets largely from process reforms, supplier reductions to contracts, and reduction of demand. The stream's cost reduction target for this year is \$206.6 million, for next year is \$260.1 million, and the year after is \$338.1 million. Defence noted that this stream is currently tracking as amber against SRP performance measures.²⁰

- 2.24 Defence further advised that a significant issue in this stream is the rescoping and preparations for tender for the next round of garrison support contracts and comprehensive maintenance contracts. These contracts have historically been:

. . . disaggregated across 12 contracting regions split between those two major categories [garrison support and comprehensive maintenance]. We are looking at a significant rebundling

16 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 10.

17 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 11.

18 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 10.

19 Department of Defence 'The Strategic Defence Program – Delivering Force 2030', p. 18.

20 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 11.

arrangement. We are dealing with industry via several iterations of approaches to market and getting feedback from industry players. We are in the process of planning for an expressions-of interest round about the second or third quarter of this year. . . The next round is possibly for three-, four-, five-year or longer contracts and that creates for us the potential to embed significant efficiencies in the way in which we are delivering the services at bases and regions around the country.²¹

- 2.25 The Committee queried the savings made by Defence by using the whole of government travel contract, rather than the previous Defence travel system.
- 2.26 Defence responded that a like for like comparison between Defence's previous travel contract and the Australian Government contract cannot be conducted as they are constructed differently. Whereas the previous Defence contract was with Qantas Airways and provided percentage discounts on only one fare category (fully flexible, fully refundable) and limited domestic routes, the Whole of Australian Government contracts are with four domestic and 13 international airlines and provide percentage discounts across all fare categories and a range of routes.²²
- 2.27 However, Defence observed analysis has shown that, with the availability of discount and route deal offers under the Whole of Australian Government contracts, Defence travellers are adopting different travel practices and selecting suitably priced fares across all fare categories depending on business requirements. This is being assisted by the use of an online booking tool. Consequently, Defence has seen a reduction in the average cost per trip, consistent with Department of Finance and Deregulation published information on savings as a result of the Whole of Australian Government arrangements.²³
- 2.28 The Committee questioned why, of 378 472 air tickets booked by Defence during the period 1 July 2010 to 31 October 2010, 43 per cent advised an exception code for not taking the cheapest flight option. The Committee questioned whether this is a normal trend for Defence.
- 2.29 Defence informed the Committee that, due to the nature of Defence business, there will always be a proportion of personnel who will need to

21 Mr S. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 11.

22 Department of Defence, *Submission 16*.

23 Department of Defence, *Submission 16*.

retain flexibility to change flights. Where that occurs, it is actually cheaper to take an option which will provide flexibility to change bookings.²⁴

2.30 Defence further noted that, prior to Whole of Australian Government arrangements, Defence personnel mostly purchased fully flexible, fully refundable fares, due to a combination of business requirements and because Defence's previous contract provided significant discounts on these types of fares. Under the Whole of Australian Government arrangements, the contracted airlines have offered discounts on multiple fare types and analysis shows that different travel practices are being adopted through the aid of applications such as the online booking tool, which provides visibility on the range of available ticket options and prices.²⁵

2.31 The Committee queried if Defence negotiates flight schedules with airlines to places where Defence has a significant presence.

2.32 Defence advised:

. . . under the Whole-of-Australian Government travel arrangements, the Department of Finance and Deregulation manages the head contracts with four domestic airlines and thirteen international airlines, including Qantas Airways and Virgin Australia. While Defence maintains productive relationships with these airlines to enable product updates and to manage day-to-day issues, Defence refrains from discussing flight scheduling to avoid possible expectations of Defence business on particular routes on particular airlines.²⁶

Workforce Productivity and Shared Services

2.33 The Workforce Productivity and Shared Services stream involves managing the mix of military, civilian and contractors to deliver savings and provide a more flexible and adaptive workforce. The three components of workforce reform include civilianising military support positions, converting contractor positions to APS positions, and redesigning business processes.²⁷

2.34 Defence informed the Committee that this stream now consists of an original shared services program, as announced in the Strategic Reform

24 Mr S. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 18.

25 Department of Defence, *Submission 16*.

26 Department of Defence, *Submission 18*.

27 Department of Defence 'The Strategic Defence Program – Delivering Force 2030', pp. 19-20.

Program in 2009, plus the extension of the shared services, as announced by the Minister for Defence in 2011. This extension of the shared services program advised that Defence would forego 1000 positions of APS future growth, and find, through the greater application of shared services, the ability to absorb that growth through efficiencies in, largely, administrative functions in HR, finance, ICT and central non-DMO procurement.²⁸

- 2.35 Defence noted there is an overlap between the two shared service elements, and attempts are being made to bring them into the same management area to ensure that achievement can be monitored effectively.²⁹
- 2.36 The Committee expressed concern about the real cost of civilianising Australian Defence Force (ADF) positions into APS positions. The Committee queried whether such a transition actually achieves savings, or whether it impacts on ADF capability.
- 2.37 Defence responded that, in the shared services stream of the SRP, 535 non-combat or non-combat related positions have been identified for civilianisation from ADF to APS positions. Defence advised:
- . . . they are administrative positions where the service chief has had an assessment saying that that position's functions can be discharged by an APS officer with no detriment to the military capability outcome and, indeed, that it is probably better in the longer run that a more stable APS officer is there to perform those functions and get more professionalisation. So that target was set right at the beginning. You can combine contractor conversions, which is a similar attempt to try to convert high-cost contractors that have been used to provide specialist skills, and build core competencies in APS officers to perform those specialist functions at a cheaper rate because the day labour rate is much less for an APS than for a contractor.³⁰
- 2.38 Defence advised that the target for contractor conversions is 881 positions over the whole program.³¹
- 2.39 Defence further noted, excluding senior officers, the differential between a uniformed member and an APS individual is about one-third.³²
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28 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 11.

29 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 11.

30 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 8.

31 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 8.

- 2.40 The Committee questioned whether factors which had previously led to a backwash, with administrative functions which had been civilianised or centralised being returned to Defence either formally or informally, had been considered as part of this process.
- 2.41 Defence responded that the practice of creating centralised shopfronts where military capability was reinvested into combat, rather than providing administrative support, continued. Defence noted the shared services component of the SRP will see more areas administered by centralised services, however, there will still be a requirement for some uniformed personnel to maintain skills in a number of areas and, consequently, some specialists will be embedded in uniform to ensure military personnel continue to retain skills as required.³³
- 2.42 The Committee asked whether, as these further elements of shared services are implemented, a recording mechanism will be implemented so that the cost of delivering a shared service can be measured against efficiency. The Committee observed that some areas of state level government had deconstructed shared services arrangements after it was proven they were not delivering efficiencies. The Committee noted the importance of ensuring that any shared services arrangements are effectively measured.
- 2.43 Defence advised that, during the planning phase of shared services implementation, baselining has, and continues to be, undertaken for areas of extant business such as processes and costs, current contracts, productivity levels, and service delivery. Additionally, to support the functional delivery of shared services, performance/partnership agreements are being developed. Establishing a current state baseline and a performance/partnership agreement for future service delivery will ensure transparency, and enable measurement of service delivery efficiency and effectiveness improvements.³⁴
- 2.44 Defence briefed the Committee on the transitioning of payroll and administrative functions into a single area under the original shared services program, advising it is tracking well. The career management component of the original shared services stream will be facilitated by the delivery of Joint Project 2080 Phase 2B1, a new ICT system for personnel, programmed within the next few years.³⁵

32 Mr D Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 8.

33 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 30.

34 Department of Defence, *Submission 16*.

35 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 11.

- 2.45 The Committee questioned the new ICT system and whether it would be a new ICT system for all three ADF services to use on an individual basis, or whether the shared service will result in a triService, Defence wide career management body.
- 2.46 Defence outlined that the three career management agencies will retain separate career managers dealing with their people on career management issues, however, there will be a back of the house shared services function. For example, all three services would use the same administrative support to run common processes such as promotion and performance boards. Defence advised the ICT system would provide the career management module in support of these activities and it will be one module which all three services utilise.³⁶
- 2.47 The Committee raised concerns that a previous attempt had been made to centralise individual service career management, and that, when it was found that this centralisation was not effective, many of those centralised functions returned to the services, however, the staffing resources did not return to the Services with the function. The Committee questioned whether the centralised organisation was going to reabsorb more people from the three services as part of the current reform process, even though it was previously supplemented to provide such services and was not reduced in size when those functions transferred back to the services.
- 2.48 Defence responded that there have been a number of reviews of the personnel management elements of the Defence Force over the past fifteen years. The 1997 Defence Efficiency Review Report resulted in activities such as workforce planning, career management and service conditions being collocated with the Defence Personnel Executive, created in 1998. During Financial Year 2000-2001, the centralised approach to career management was ended and the career management function and the associated workforce was returned to the Services. Defence noted a contributing factor to the function returning to the services was the introduction of a new Defence business model at that time.³⁷
- 2.49 Defence also observed that the shared service model reflects Defence's experience over the past eight or nine years. The three service career management authorities will also be physically relocated to the one area which will enable them to be exposed to each other's processes which should, in turn, lead to further process improvement.³⁸
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36 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 12.

37 Department of Defence, *Submission 20*.

38 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 12-13.

- 2.50 Defence noted the target for cost reductions in workforce and shared services for this year is \$237.6 million, for the next financial year it is \$292.5 million, and for 2013-14 it is \$363.2 million.³⁹
- 2.51 In terms of the overall stream, Defence advised that:
- . . . the current schedule for workforce and shared services is on track, it is making its cost reductions and it is also rated green [against performance measures].⁴⁰
- 2.52 Defence advised that the extension of the shared services program is an extension into other business areas to ensure a greater take up of shared services. It will remove positions from the funded APS base and is being led by accountable senior officers.⁴¹

Non-Cost Reduction Streams

- 2.53 Defence advised that there are also eight non-cost reduction streams within SRP. Rather than being about direct cost savings, they are aimed at transforming business processes to bring medium to long term sustainable efficiency improvements and ease future cost pressures.⁴²

Measurement and Reporting of the Strategic Reform Program

- 2.54 The Committee requested a list of the key performance areas, key result areas, and key performance indicators for the SRP.
- 2.55 Defence informed the Committee that key performance areas and key result areas for the program are:
- Reforms are being implemented on schedule;
 - Cost reductions are being achieved from the areas intended by reforms; and
 - Business and capability are continuing to be delivered as required by Government.⁴³

39 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 13.

40 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 11.

41 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 13.

42 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 13.

43 Department of Defence, *Submission 21*.

- 2.56 Defence further advised that, at the portfolio level, the SRP is measured through quantitative and qualitative information. Key Performance Indicators are measurements of both quantitative and qualitative achievements across the key performance areas of the program.⁴⁴
- 2.57 Defence further noted that cost reductions under the SRP are based on annual budgets. In 2011-2012, the cost reduction targets for the SRP is \$1283.9 million which will be delivered through initiatives under the seven SRP streams as follows:⁴⁵
- Information and Communication Technologies - \$147.5 million;
 - Smart Sustainment (including Inventory) - \$370.2 million;
 - Logistics - \$8.3 million;
 - Non-equipment Procurement - \$206.6 million;
 - Reserves - \$28.1 million;
 - Workforce and Shared Services - \$237.6 million; and
 - Other Cost Reductions - \$285.5 million.⁴⁶
- 2.58 Finally, Defence advised it will publish a full year SRP performance overview in the 2011-2012 Defence Annual report, scheduled to be released in late 2012.⁴⁷
- 2.59 The Committee asked Defence to provide an overview of the challenges it will face in achieving efficiencies under the SRP.
- 2.60 Defence outlined that the portfolio level challenges it faces in making the savings required under the Strategic Reform Program include:
- Resolving sustainment and capability issues which have been exposed through review and analysis both during SRP and through major external reviews such as the Rizzo review;
 - managing changing budgetary circumstances such as the efficiency dividend, the implementation of shared services across Defence, and reprogramming the Defence Capability Investment Program; and

44 Department of Defence, *Submission 21*.

45 Summation variances are due to rounding.

46 Department of Defence, *Submission 21*.

47 Department of Defence, *Submission 21*.

- implementing cultural change to sustain reforms and integrate them into the Defence culture, particularly aligning SRP changes with the *Pathways to Change* initiative and the Black Accountability Review.⁴⁸

Format of Defence Annual Report

- 2.61 The Committee observed that the current Defence Annual Report format makes it difficult to gain an effective overview of the SRP. The Committee believes the inclusion of a chapter in the Defence Annual Report which provides a summary of the SRP would be most useful, noting that Defence would still need to comply with Annual Report format guidelines.
- 2.62 The Committee further observed that the Australian Strategic Policy Institute (ASPI) have questioned why there is not a publicly available benchmark for the SRP to provide an easier reference for progress on the SRP. In fact, ASPI has gone so far as to state:
- . . . although the defence budget papers refer to the Strategic Reform Program (SRP) in a number of places, very little useful detail was provided. But, because the SRP and its \$20.6 billion worth of savings are an integral part of delivering the capability goals of the 2009 Defence White Paper, it deserves close examination nonetheless. Unfortunately, the information that has been made available about the SRP since its announcement twelve months ago is both fragmentary and continues to change as plans evolve.⁴⁹
- 2.63 Defence concurred that this recommendation to include a chapter in the Defence Annual Report on SRP was logical, and advised it would review the Defence Annual Report format to see if it could be achieved either as a separate chapter or as a summary section.⁵⁰
- 2.64 Defence noted that it was currently finalising a document to provide an update on the SRP. This document will assist to provide an overview of progress on the SRP to date.⁵¹

48 Department of Defence, *Submission 19*.

49 Australian Strategic Policy Institute, *The Cost of Defence: ASPI Defence Budget Brief 2010-11*, May 2010, p. viii.

50 Mr D. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 9.

51 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 14.

- 2.65 The Committee commented that this issue of readability also extends to the Defence budget itself, especially when trying to identify specific costs, such as those of operations, in a given financial year.
- 2.66 Defence responded that the budget format in the Defence Annual Report complies with Department of Finance formatting requirements. As questions about operational costs are common, tables have been included in the budget papers about the net costs and additional cost of operations. Defence informed the Committee that it will engage with the Department of Finance to discuss ways of presenting data on specific issues for improved readability, noting that specific areas of interest in the Annual Report sometimes change in any given year.⁵²

Recommendation

Recommendation 1

The Committee recommends a Strategic Reform Program (SRP) Summary Chapter be added to the Defence Annual Report to provide a consolidated overview of the SRP.

Delivery of Defence Capability

- 2.67 The Committee questioned how Defence was evaluating whether Defence capability is, in fact, being delivered after the implementation of SRP reforms.
- 2.68 Defence confirmed that the current Defence Preparedness Assessment system provides a summary of the capacity of the ADF to respond to required tasks. That report is reviewed monthly and includes inputs from the respective capability managers about their current status. Any identified issues are then addressed as required. This system enables Defence to monitor whether capability is available to support tasks as required by Government.⁵³
- 2.69 The Committee questioned how feedback from individuals at the working level of capability was being monitored. For example, how is Defence

52 Mr Prior, Department of Defence, *Transcript*, 16 March 2012, p. 17.

53 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 14.

ensuring that local level feedback about issues with garrison support can still be raised and resolved within a framework of nationwide contracts.

- 2.70 Defence advised that there are a number of reporting mechanisms which enable feedback to be provided and tracked. There are senior ADF officers in each location who monitor these issues. There are Key Performance Indicators (KPIs) in place for all contractors, and performance discussions are held with contractors on a regular basis. Defence assured the Committee that it is focused on delivering the best service possible through the contracts it has in place, and this can only be achieved through maintaining appropriate and responsive feedback loops.⁵⁴
- 2.71 Defence also noted the complexity associated with cultural change, as some complaints may actually be about the substance of the change rather than the delivery of service itself. For example, the SRP has seen significant changes to Defence messing arrangements and this change has been confronting to some members of the organisation. Defence affirmed it is continuing to manage cultural change closely as part of the reform process.⁵⁵

Risk

- 2.72 The Committee asked about the assessment of financial risk within the framework of the SRP.
- 2.73 Defence advised that risk was being reviewed as part of the SRP, and that it was continuing to eliminate duplication where possible. However, Defence noted there is a balance to be struck between ensuring risk is minimised while not conducting unnecessary checks of processes:

You would reduce the number of processes in play to whatever was effective, having made a judgment on the risk that you are therefore exposing yourself to. We could be farcical and eliminate risk, but the department would grind to a halt and produce nothing. That would be true of any large enterpriseYou can eliminate risk, but the cost of eliminating it to zero, in most cases, causes seizure within the organisation.⁵⁶

54 Mr S. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 14.

55 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 15.

56 Mr D Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 5.

Governance

2.74 The Committee asked how Defence would ensure there were no unintended outcomes from the SRP, as, for example, the United Kingdom experienced when undertaking major reforms.

2.75 Defence responded:

. . . if you look at the governance arrangements we put in place for each of the reform streams, which are all considered and led at the highest level in the department - it is all at three-star or SES band 3 level - with a range of health checks that look at each of those reform streams, a significant part of that process is each of the capability managers, particularly the service chiefs, being able to report back to give an assessment of the effect of reform on capability in terms of output and safety. One of the top lines in the reform streams is that we will not compromise the safety of our people and our capability through the reform process. So that is built into the governance and reporting systems.⁵⁷

Conclusions

2.76 The Committee notes that Defence reports it is tracking well against SRP planned milestones. The program will need continued monitoring to ensure it remains on target to achieve required savings.

57 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 6.