

# Chapter 2

## Background

### Introduction

2.1 This chapter will consider previous Defence reviews and parliamentary consideration which has addressed or touched on the capability of Defence's PSE workforce. In particular, it will summarise relevant aspects of the First Principles Review (FPR) report and the recent Defence White Paper 2016.

### Previous Defence reviews

2.2 Defence's PSE workforce capabilities have been part of a number of previous Defence reviews of the acquisition, support and general management practices of the Department, including Kinnaird (2003)<sup>1</sup>, Mortimer (2008)<sup>2</sup> and Rizzo (2011)<sup>3</sup>. For example, the *Plan to Reform Support Ship Repair and Management Practices* in 2011 (Rizzo review) included a recommendation that [Defence Material Organisation (DMO)] and Navy 'should develop an innovative and comprehensive through-life career plan for the recruitment, retention and development of their engineering talent'.<sup>4</sup>

### Parliamentary consideration

2.3 In 2012, the Senate Foreign Affairs, Defence and Trade References Committee report, *Procurement procedures for Defence capital projects*, identified a number of causes of acquisition project difficulties including shortfalls in skilled labour. The committee considered:

The critical shortage of engineers and allied technical skills is a matter that requires immediate and serious attention. While there are many external forces undermining Defence's efforts to attract and retain skilled engineers and technicians, the committee is of the view that it is imperative for Defence to grow its engineering and allied skills base. Otherwise, its in-house knowledge will struggle to identify thoroughly future capability

---

1 Department of Defence, *Defence Procurement Review 2003*.

2 Department of Defence, *Defence Procurement and Sustainment Review*, 2008.

3 Department of Defence, *Plan to Reform Support Ship Repair and Management Practices*, 2011.

4 Department of Defence, *Plan to Reform Support Ship Repair and Management Practices*, 2011, p. 12.

needs, to test and evaluate it against all other options, and advise government fully, accurately and objectively.<sup>5</sup>

2.4 In 2015, the Defence Sub-committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade report *Principles and Practice – Australian defence industry and exports* explored the impact of procurement policy and practice on the competence of the combined industry and Defence engineering workforce and subsequent effect on Defence capability. Recommendation 7 addressed the need for changes in workforce planning to be closely coordinated with changes in procurement practice. It recommended:

[W]here an industry-related fundamental input to capability has been identified, the Department of Defence prioritise Australian based procurement contracts so that relevant industry and Defence staff can develop competence in specific tasks via hands-on experience, or where this is not possible, through making the placement of Australian staff in original equipment manufacturers or foreign military engineering bodies a condition of contract.<sup>6</sup>

### **First Principles Review**

2.5 In August 2014, the Minister for Defence established the First Principles Review (FPR) to ensure that 'Defence is fit for purpose and is able to deliver against its strategy with the minimum resources necessary'.<sup>7</sup>

2.6 On 1 April 2015, the Minister released the FPR report *Creating One Defence*. The Minister noted that the government had agreed, or agreed-in-principle, to 75 of the 76 recommendations made by the FPR. In particular, the FPR recommended the Defence Materiel Organisation be disbanded and its core responsibilities transferred to a new Capability Acquisition and Sustainment Group (CASG) within the Department. The Capability Development Group would also be disbanded and its functions transferred to other areas. This included the Australian Defence Test and Evaluation Office and the Project Management Office moving to CASG.

2.7 The government did not agree to the recommendation relating to the Defence Science and Technology Organisation (DSTO) becoming part of the new CASG 'at this time'.<sup>8</sup> However, the Minister noted that 'this recommendation will be further considered as part of the annual updates on implementation progress'. The DSTO, as

---

5 Senate Foreign Affairs, Defence and Trade References Committee, *Procurement procedures for Defence capital projects*, August 2012, p. 192.

6 Defence Sub-Committee, Joint Standing Committee on Foreign Affairs, Defence and Trade, *Principles and practice – Australian defence industry and exports*, 2015, p. 63.

7 Department of Defence, *First Principles Review – Creating One Defence*, 2015, p. 5 (FPR).

8 The Hon Kevin Andrews MP, Minister for Defence, 'First Principles Review of Defence', *Media release*, 1 April 2015.

---

part of the subsequent restructure, was renamed the Defence Science and Technology Group (DSTG).

2.8 The FPR report advocated that Defence move to 'a leaner "smart buyer" model that better leverages industry, is more commercially oriented and delivers value for money'. The suggested definition of a 'smart buyer' was:

...one who retains an in-house staff who understands the organization's mission, its requirements, and its customer needs, and who can translate those needs and requirements into corporate direction. A smart buyer also retains the requisite capabilities and technical knowledge to lead and conduct teaming activities, accurately define the technical services needed, recognize value during the acquisition of such technical services, and evaluate the quality of services ultimately provided...<sup>9</sup>

2.9 The FPR also recommended 'that the focus on public service reductions as the primary efficiency mechanism for Defence cease'. It noted:

Downsizing is already occurring within Defence with full time equivalent staff reducing from approximately 22,300 in mid-2012 to around 19,500 in October 2014. These reductions have largely been achieved through natural attrition and a tightening of recruitment practices.

Whilst these arbitrary approaches are delivering results, the review team believes a more targeted approach would produce more control over the shape and skills of the workforce.<sup>10</sup>

## **Defence White Paper 2016**

2.10 On 4 April 2014, the Prime Minister and the Minister for Defence announced that a new Defence White Paper would be produced (originally scheduled to be released mid-2015). A number of the submissions to the Defence White Paper process highlighted PSE workforce capability issues. These issues were also picked up in the consultations undertaken by the External Panel of Experts report. For example, one of the recommendations of the panel was that the Defence White Paper 'ensure that appropriate priority is given to defence science as a critical enabler of innovation and military capability'.<sup>11</sup>

2.11 The Defence White Paper was eventually released on 25 February 2016. Under the plans in the paper, the permanent ADF workforce would grow from around 58,000 to 62,400 over the next decade. It also provided for a future Defence APS workforce of 'around 18,200 Full Time Staff Equivalent (FTE), down from 22,300 FTE in June 2012'. It stated:

---

9 FPR, p. 33.

10 FPR, p. 67.

11 External Panel of Experts on the 2015 Defence White Paper, 'Guarding Against Uncertainty: Australian Attitudes to Defence, *Report on Community Consultations*, March 2015, p. 58.

Within this total workforce of around 18,200 FTE, enhancements to intelligence, space and cyber security capabilities will involve 800 new APS positions. Four hundred new positions will be created in information technology support, simulation, support to Navy engineering and logistics, security, force design and analysis, and strategic and international policy, including civilian policy officers posted overseas.

These new APS positions in areas of high priority will be offset by ongoing reductions elsewhere in the APS workforce, including through the reform of service delivery areas of Defence's business, as part of the implementation of the Government's First Principles Review.<sup>12</sup>

2.12 The Defence Industry Policy Statement and the Integrated Investment Program, both also released on 25 February 2016, reflected the Defence White Paper's emphasis on innovation and technology as significant drivers of Defence capability. Key initiatives included:

- a Centre for Defence Industry Capability to provide a single governance framework to consolidate a number of existing Defence industry programs. This includes developing future delivery models for the Skilling Australia's Defence Industry program and the Defence Engineering Internship program.<sup>13</sup>
- a Defence Innovation Hub to manage a portfolio of existing funded investments in Defence innovation including the Defence Materials Technology Centre (DMTC). The Defence Innovation Hub will have funding of around \$640 million over the decade to FY 2025–26, inclusive of the \$3 million per year for the DMTC FY 2018–19;<sup>14</sup> and
- a Next Generation Technologies Fund with \$730 million over the decade to FY 2025–26 to enable Defence to better position itself to respond to strategic challenges, retain a technology 'edge' against adversaries and provide game-changing Defence capabilities for the future. The DSTG will take the lead in identifying, conducting and integrating research in next generation technologies that are relevant to Australia's national security.<sup>15</sup>

2.13 In relation to Defence workforce issues, the Integrated Investment Program included the following:

The generation of sustainable workforce capacity in key skill areas will require concerted effort well beyond the mid-2020s. There will continue to be challenges in attracting, recruiting and retaining the right people for the right jobs in an increasingly competitive market place. The strength of Defence's leadership and its ability to adapt and embrace a more diverse

---

12 Department of Defence, *Defence White Paper 2016*, 2016, p. 150 (Defence White Paper 2016).

13 Department of Defence, *Defence Industry Policy Statement*, 2016, p. 69 (Defence Industry Policy Statement).

14 Defence Industry Policy Statement, p. 71.

15 Defence Industry Policy Statement, p. 72.

and inclusive culture will be critical to attracting and retaining the workforce it needs for the future. Defence will employ a range of strategies to achieve the skilled workforce required in the timeframe needed to deliver and support the future force.

It is essential that Defence pursues enterprise solutions to workforce challenges, including a more strategic approach to workforce planning; enhanced information and communications technology systems will be critical to this work. This approach will need to better enable Defence to sustain a diverse range of specialist training and skills development, and will be further articulated in the strategic workforce plan being developed as part of the implementation of the First Principles Review.<sup>16</sup>

---

16 Department of Defence, *Integrated Investment Program*, 2016, p. 22 (Integrated Investment Program).

