Australian Government
Department of Defence

First Principles Review

Creating One Defence

Defending Australia and its National Interests
www.defence.gov.au

Framework for First Principles Review

What is the strategy and mission of Defence?

- Deter, deny and defeat attacks or threats to Australia, its national interests, and northern approaches
- Make military contribution to support the security of maritime South East Asia and support the Governments of the South Pacific states to build and strengthen their security
- Contribute military capabilities to coalition operations that support Australia's interests in a stable Indo-Pacific region and rules-based global order

How is the context changing?

- Deliver **modernisation and growth** in the size of the force at levels beyond experience
- The strategic and operational integration of increasingly complex **joint capability**
- Operate within a broad and increasingly **globalised** Defence system
- Be adaptive and agile in an **increasingly turbulent** strategic and tactical environment
- National security as a broader concept: ever **growing demands** for Defence to play **different roles** (eg people smuggling)

What 'first principles' should guide the Review?

- Clear accountabilities and authorities that align with resources
- Outcome orientation
- Simplicity
- Focus on core business
- Professionalism
- Timely, contestability of advice
- Transparency

What is required to deliver this strategy? What runs counter? What is the root cause, and how do we overcome any obstacles?

1a Defence an **effective contributor** to the Whole of Government system

1b **Effective direction setting and control:** role of Minister, diarchy, accountability, strategy-led planning and control

2 Joint capability development and materiel acquisition – **to need, schedule and budget**

3 **Effective** materiel sustainment

4 Information management as a **true enabler** of the ADF and enterprise

5 **Optimised** Defence estate supporting force posture

6 **Trusted** policy advice and intelligence

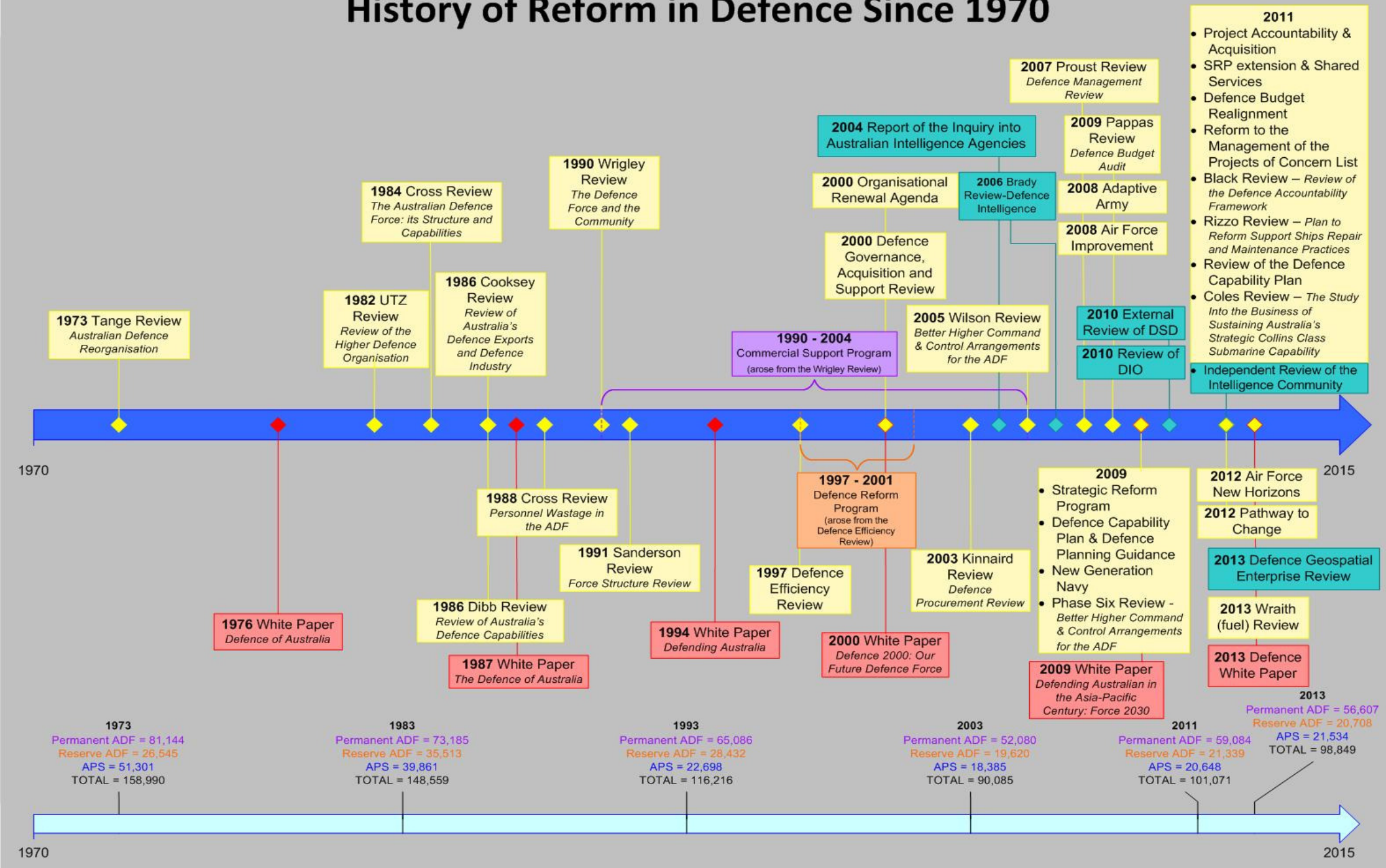
7 **Responsive and efficient** service delivery systems (e.g. logistics, health, base services, finance, HR, NEP, communications etc.)

8 People with **the right skills and behaviours**

How should the reform be implemented?

- Integrated view of Defence organisation
- Cohesive reform agenda / clears the decks of previous reviews
- Critical path, decision points and KPIs
- Implementation governance

History of Reform in Defence Since 1970



Defence faces five strategic challenges

Significant capability modernisation

- The largest most technically ambitious and complex portfolio we have ever delivered
- Creates the imperative to improve the efficiency and effectiveness of capability decisions

Rapid technological change

- Increases the cost and risks of delay in the capability portfolio
- Creates opportunities to gain advantage or cost efficiencies by leveraging technology

Budgetary uncertainty

- Increases the need for transparency and sound financial stewardship
- Means Defence must demonstrate value for money to the government and wider community

Economic growth in our region

- Driving rapid regional military modernisation
- Creates an uncertain strategic environment and increases the need for sound policy advice

Greater demand for military responses to various regional and expeditionary crises

- Requires a greater emphasis on joint capabilities
- Increases the need to deliver high quality policy advice and work effectively across government

Today the organisation is ill-equipped to meet these challenges

Requirement	What the Review Team found
A strong strategic centre to strengthen accountability and top-level decision making	"...the current organisation has too many voices to be effective... it lacks clear single points of accountability... and rewards federated rather than enterprise behaviour"
An end-to-end capability delivery function that is efficient, effective and professional	"The current... construct creates a disconnect between the customer and purchaser as well as multiple, unnecessary handover points which increase complexity and risk"
An enterprise approach to the delivery of corporate and military enablers	"Defence lacks a service delivery culture. This manifests in ...enabling functions not providing responsive services and customers duplicating functions...[due to lack of service]"
Ensuring committed people, with the right skills are in appropriate jobs	"Defence lacks the necessary skills to achieve its mission in some areas... Defence middle management is out of shape... hard performance management conversations are not occurring"

Our analysis of the problem

Symptoms	Root Causes	Result
Complicated **Slow** **Inefficient** **Federated** **Change resistant**	**High operational tempo** **Budget uncertainty** **Leadership churn** **Internal view of being different, special and separate** **Lack of performance management culture**	**Organisational drift and complacency**

Now is the time to set up Defence for the future

Strategy is being refreshed

- Whitepaper and Force Structure Review currently underway

Government expectations are changing

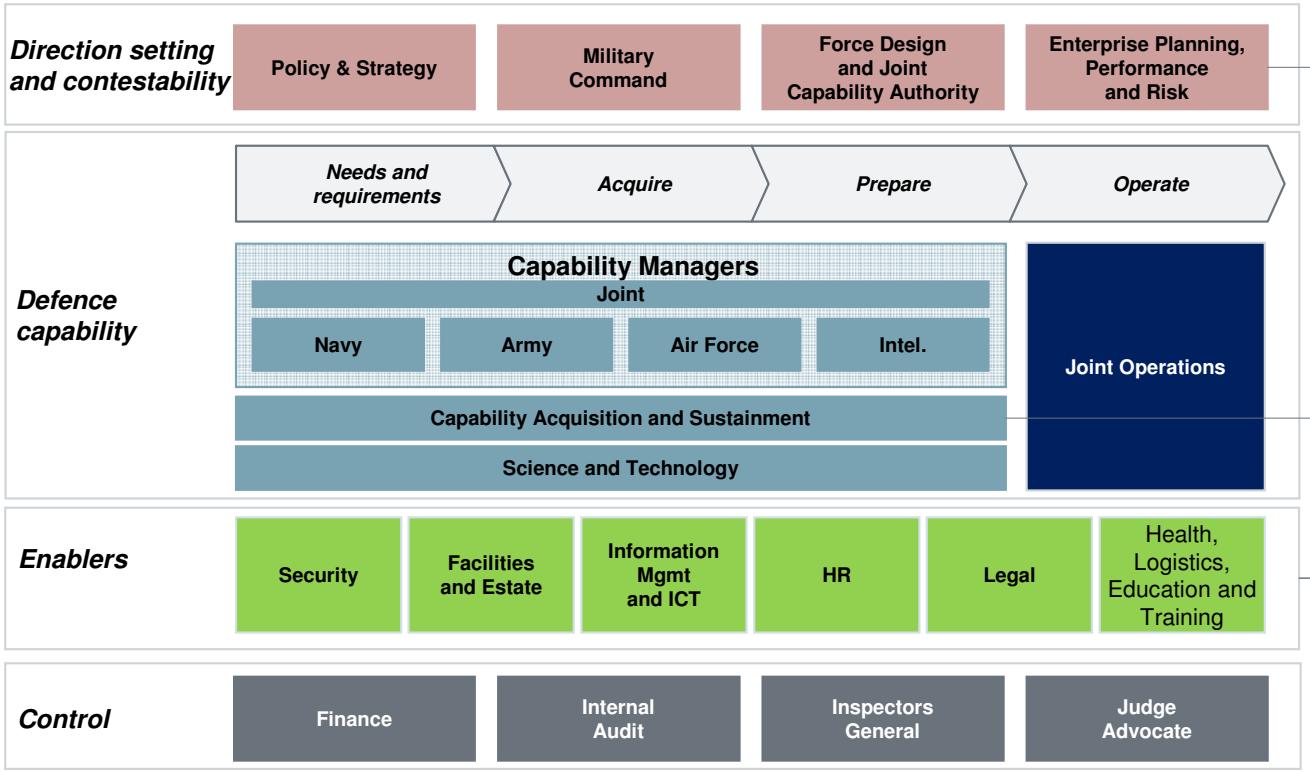
- Greater scrutiny and focus on financial stewardship in Defence
- Greater emphasis on alignment of strategy, capability and resources

A root-and-branch review has not been undertaken for some time

- Reviews such as Pappas, Proust, Coles and Rizzo have been specific rather than holistic or occurred in response to specific events

To meet these challenges Defence must operate as a single enterprise

One Defence Business Model



Business model requirements

- A strong strategic centre to strengthen accountability and top-level decision making
- An end-to-end capability delivery function that is efficient, effective and professional
- An enterprise approach to the delivery of corporate and military enablers
- Ensuring committed people, with the right skills are in appropriate jobs

Move to strategic centre will be facilitated by a number of organisational, governance and process changes

From ...	*To ...*
Large Defence Committee, representing both direction setting and delivery functions	Smaller Defence Committee, limited to the strategic centre supported by Enterprise Business and Investment Committees
VCDF has limited role in force design and limited power to enforce integration	VCDF leads a permanent force design function and increased authority over integration
Policy and contestability is fragmented and lacks influence on capability decisions	Consolidated policy and contestability functions, with deeper expertise and stronger decision rights that enhances capability delivery
Planning processes are fragmented with limited challenge from the centre	A centre-led annual planning and budgeting process, with direction and challenge from the centre
Government engagement is adhoc and focussed on individual project approvals	Regular review of the investment portfolio and engagement with the Minister and central agencies at the strategic level

Capability delivery reform

Problem

An organisation design where responsibility for capability delivery and accountability for capability outcomes shifts to different entities as projects proceed through the lifecycle

An inefficient, slow, and non-commercial approach to capability delivery, that too often leads to poor decisions and poor capability outcomes

What are we doing?

- Creating a single organisation with end-to-end responsibility for capability projects and bringing the people responsible for delivery (SPO directors) closer to the management
- Building stronger Capability Manager organisations accountable for achieving required capability outcomes
- Bringing procurement related activities together into a single organisation – creating a smart buyer
- Tailoring procurement processes to project requirements
- Outsourcing much more of the delivery of work to industry, but retaining the skills required for effective oversight in Defence
- Strengthening the approvals process so that it narrows towards a solution over time, full costs are incorporated and contestability ensures it is aligned with strategy, future force and available resourcing
- Changing the DCP 'shopping list' into a properly managed investment portfolio

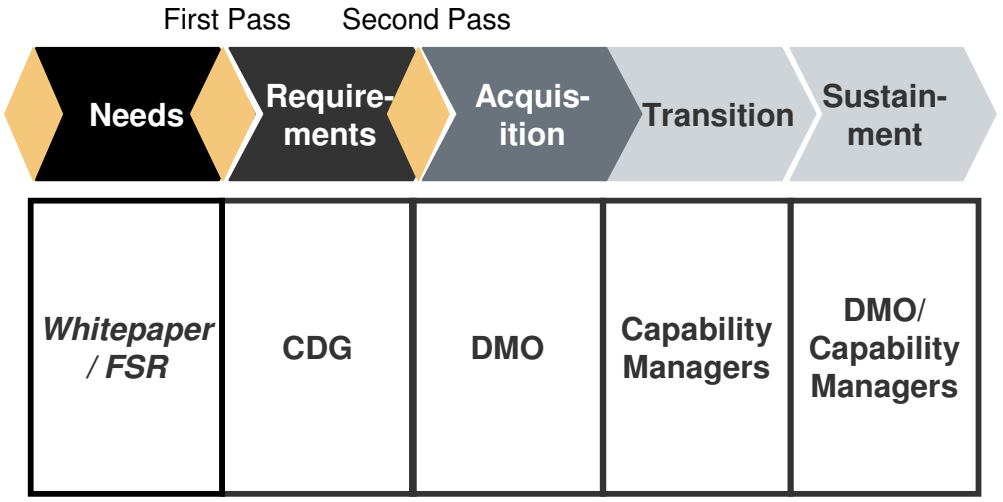
Align decision rights with accountabilities

Smart buyer approach with tailored procurement processes and better use of industry

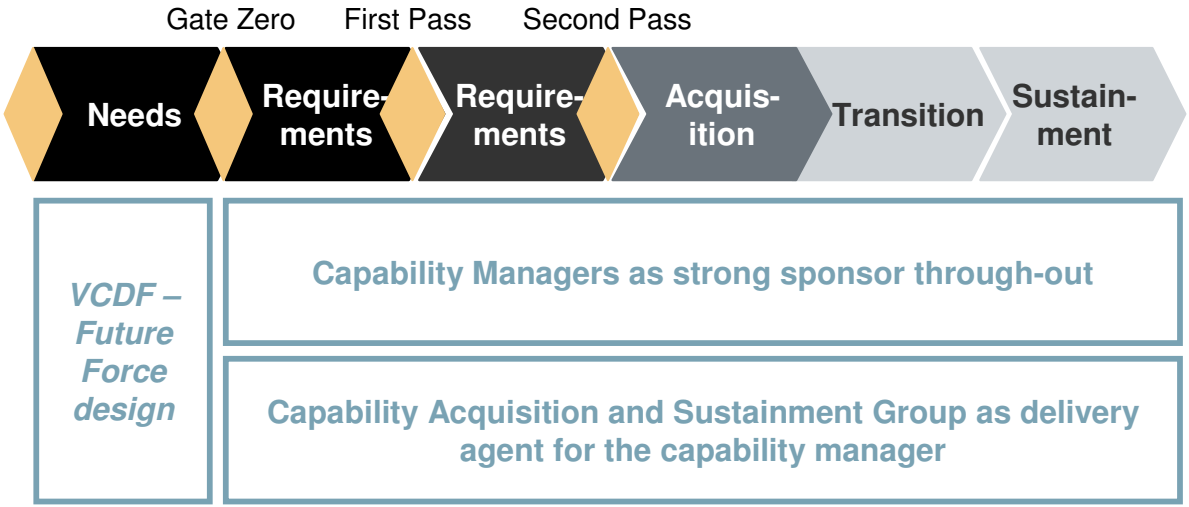
A more rigorously managed project portfolio and a process that supports better capability choices

Reform will lead to an end-to-end capability delivery organisation ...

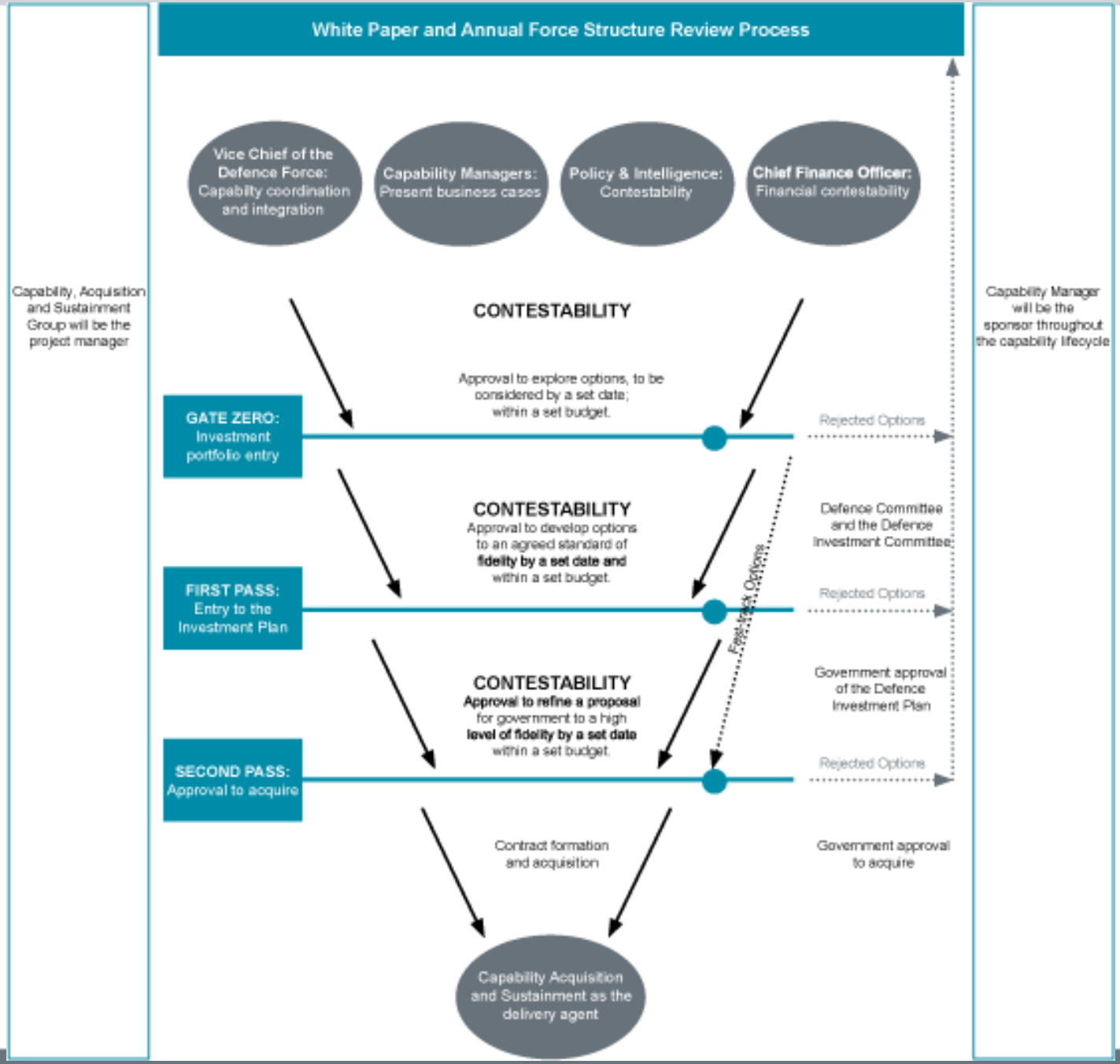
From organisations that are split across the capability delivery lifecycle ...



... to end-to-end accountability for capability delivery



A strengthened approval process,



... and a transformed capability delivery process

From ...	*To ...*
Defence planning the work and buying 'doers' from industry	Defence paying for outcomes and assuring plans developed by industry
A delivery methodology that is poorly defined and inconsistently applied	A standard, end-to-end project and sustainment methodology that is consistently applied across all projects
A two pass process which is burdensome and locks in solutions too early	An approvals process with less documentation and that narrows to a solution over time
A DCP which is a 'shopping list' of future projects with uncertain timing and inaccurate cost estimates	A properly budgeted and costed Defence Investment Portfolio, which recognises the extent to which individual projects are developed

Corporate and Military Enablers

Problem	An unsustainable and legacy estate infrastructure, a fragmented information management landscape and an enabling organisation that lacks a true service delivery mindset

What are we doing?

1. **A smaller, more efficient and more strategically aligned estate footprint**
2. **An enterprise-wide information management agenda, covering architectures, standards and master data management, ensuring efficiency and better decision making**

   More interoperable and integrated military platforms
3. **Standardised services, with clear lines of accountability and ownership and a service delivery mindset**
4. **A single geospatial agency with centralised expertise**

1 Estate reform will accelerate progress towards a sustainable, strategically aligned base footprint

From ...	*To ...*
A large number of legacy facilities, reflecting historical rather than future needs	A rationalised footprint aligned to Defence's strategic needs with the target state defined by VCDF
An ageing estate that is increasingly costly to maintain to basic OH&S and related standards	A smaller, sustainable footprint that is affordable to maintain
A funding position that is under pressure from rising costs, further reducing investment in modernising the estate	Proceeds from estate disposals available to be re-invested in modernising the estate footprint or other Defence priorities
Lack of ability and expertise to make estate disposal options compelling enough to gain government approvals	Capability to propose estate disposal bundles to government with compelling case balancing military needs, commercial and community considerations
Works estimated to cost $15m+ must be referred to the Public Works Committee driving substantial work	Works estimated to cost $75m+ must be referred to the Public Works Committee

2 An enterprise-wide information management agenda will maximise efficiency and effectiveness

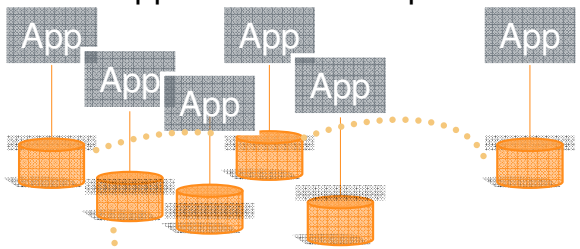
Enterprise

From multiple, overlapping processes, applications and systems

Inadequate management information

Overlapping and complex processes

Fragmented application landscape



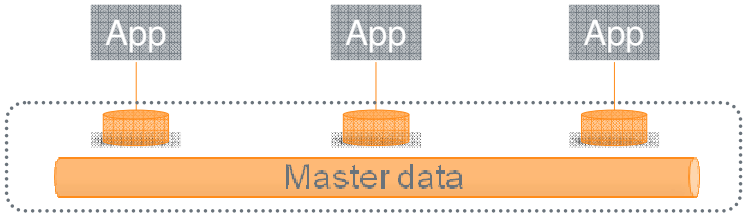
Lack of enterprise data

To an enterprise-wide information management agenda

Trusted information for better decision making

Streamlined enterprise processes

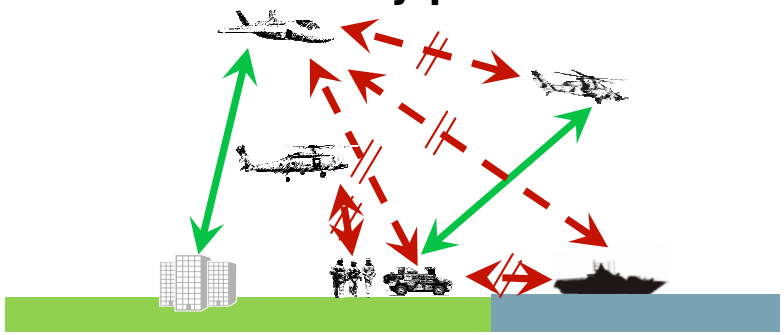
Simplified application landscape



Mix of local and enterprise data

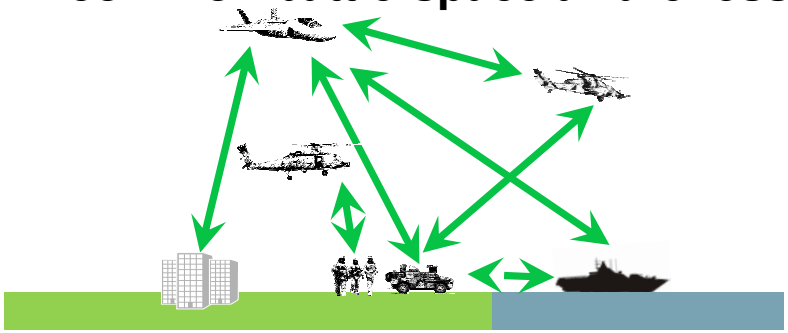
Capability

From cases of inadequate integration of military platforms



Incomplete or insufficient integration/interoperability (illustrative only)

To Integrated platforms provide common battle-space awareness



3 Service Delivery Reform will enable more responsive enabling services

From ...	*To ...*
Customers do not perceive service delivery is responsive to their needs, resulting in duplication	**Responsive service delivery that delivers on the intent of a customer-provider model and removes cause of duplication**
Customers and service providers do not negotiate effectively, customers duplicate	**Service delivery culture underpins effective customer-provider negotiation**
Large number of highly transactional services remain in-house	**Transactional services consolidated and out-sourced where appropriate**
Reluctance to empower single accountable officers across functional areas	**Single accountable officers empowered, service delivery is cross functional**

One Defence workforce

Problem	Defence struggles to build needed skills/ professionalisation across the Department and place the right people in the right roles at the right time to deliver Defence's mission. Defence's middle-management structure is out-of-shape.

What are we doing?

- Building a Strategic Workforce Plan for the enabling functions
- Employing ADF personnel in non-Service roles only: when it is critical to achieving capability; and for a minimum of three years
- As many functions as possible performed by public servants or outsourced if they are transactional in nature

→ A highly professional workforce with the necessary skills and balance of public servants and ADF personnel

- Introducing clear, outcome-focused accountabilities
- Making the performance management system more transparent and based on a distribution reflective of actual performance
- Recognising and rewarding high-performance and team leadership, including by 360 degree appraisal
- Dealing with underperformance and applying real consequences for not dealing with underperformance

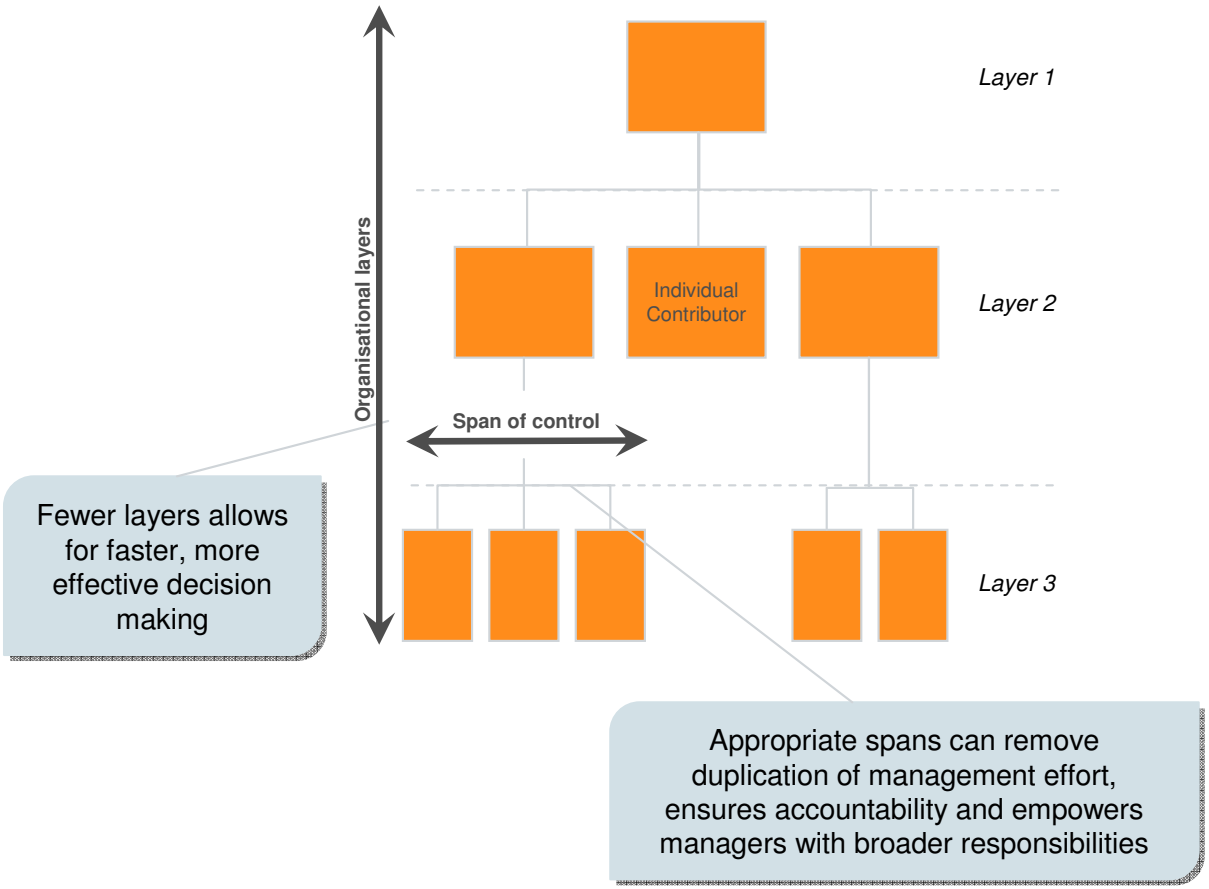
→ A performance management system that ensures leadership, professionalism and desired corporate behaviour are rewarded

- Reducing organisational layers and increasing spans of control

→ An organisational structure that empowers managers and enables fast, efficient communication, decision making and execution

Fewer layers and wider spans of control to enhance effectiveness & efficiency

The Review recommends Defence seek fewer layers and wider spans of control



… to drive improved organisational performance

Better decision making	• Senior managers closer to the action • Decisions implemented more rapidly and made by those with detailed understanding
Enhanced accountability	• Removal of "double-work" • Fewer "turf battles"
Faster, more reliable communication	• Communication mediated through fewer layers • Ideas less distorted as they move up organization
Better morale	• Supervisors no longer micro-managing • Employees empowered with broader responsibilities
More efficient structure	• Duplication and low value work eliminated • Opportunity for significant annual savings

Major reforms to the Defence workforce

From ...	*To ...*
Skills gaps and lack of career paths in critical job families across APS	**Clear view of current and future skills gaps; recruitment, learning and development and career paths address these gaps**
Posting of ADF personnel is largely historical and not always critical to the effective operation of the enabling workforce	**Employ ADF personnel in non-Service roles only when it is critical to achieving capability and represents best value for money – best fit for role for both ADF and APS**
Performance goals are not always clear or focused on outcomes; hard conversations and decisions have not been occurring	**Introduce clear, outcome-focused accountabilities; ensure managers manage underperformers and develop and foster talent**
Twelve layers between the Secretary and his front-line staff; middle-managers have a median span of control of two	**Fewer layers and increased spans of control to drive faster decision making, clearer accountability and empower managers**

Myths and Efficiencies

Dispelling myths

- Tooth to Tail and one third budget split should cease as measures
- Workforce should not be treated as a “free good” – manage as part of organisation’s resources to deliver on required outcomes
- Focus on public service reductions as primary efficiency mechanism should cease

This was not an efficiency review BUT our recommendations in combination can deliver efficiencies

Targeted not arbitrary reductions are recommended

- Strategic centre – 32% reduction in Band 3/3 Star level
- Capability development lifecycle
- Middle management spans and layers – including headquarters

Full implementation could deliver

- Around 1000 military staff reallocated to Services
- Public service workforce between 16,000 and 17,000

Implementation

Recommendations are package

- 75 from 76 are agreed or agreed in-principle
  - DSTO reporting line is not agreed
  - Stage the lifting of thresholds for capability projects and Public Works Committee and NPOC will cease once alternative is in place
  - Agree estate disposal on case by case basis

Requires leadership

- strong, clear, uncompromising

Transformational – big change

- structure, systems, processes and behaviours

High level implementation plan

- Balance direction and ownership
- Key milestones – 2 year timeframe

Oversight Board

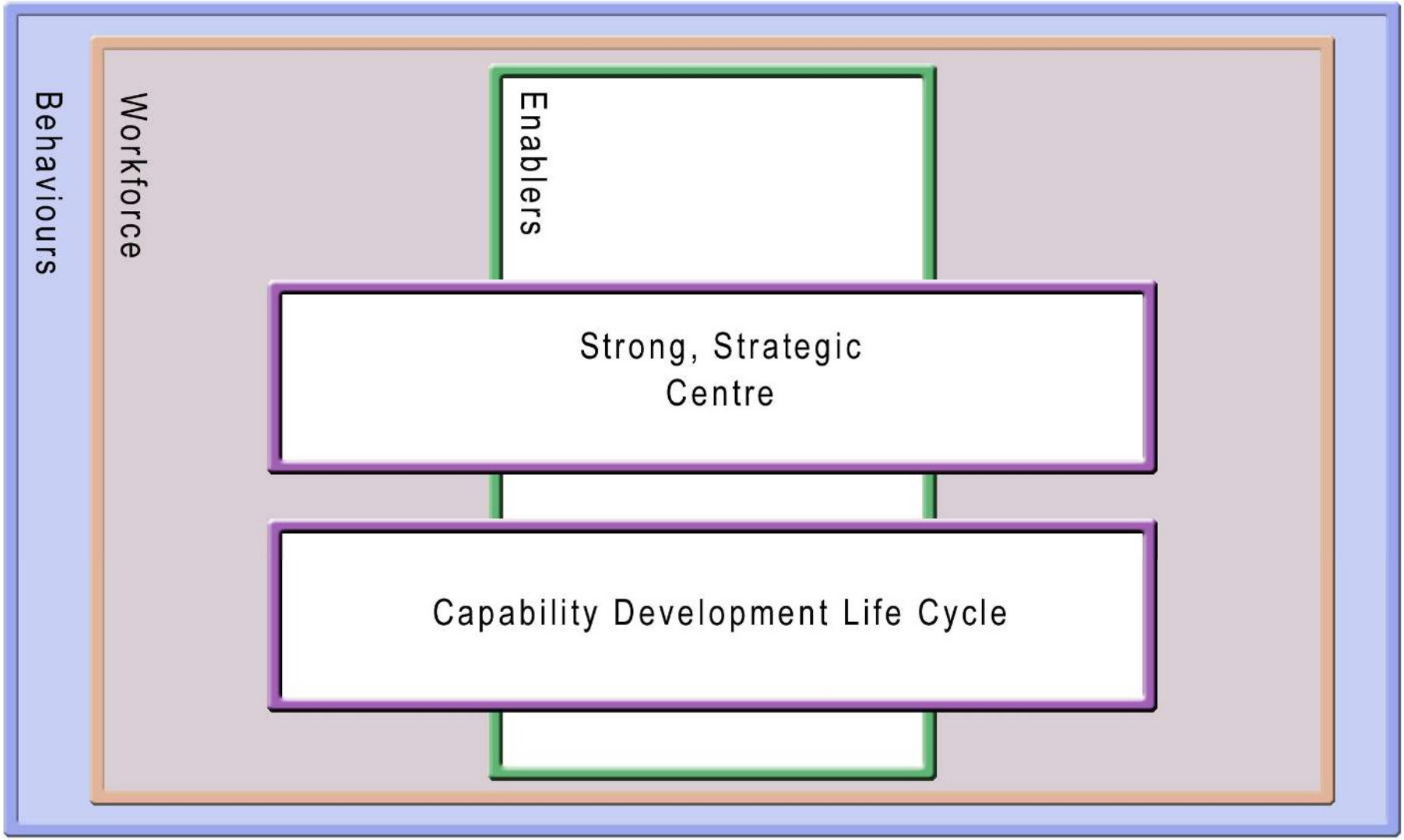
- Recommended comprise review team members and will include a female
- Regular reports to Minister

IMPLEMENTATION:

5 workstreams

- Strong Strategic Centre (DepSec P&I)
- Capability Development Life Cycle (VCDF)
- Enablers (Associate Secretary)
- Workforce (Associate Secretary)
- Behaviours (Associate Secretary)

First Principles Review



Principles to Guide Implementation

- **Commitment to implement the intent of recommendations – not debate**
- **Focus on fast paced implementation – aligned with review milestones**
- **Decisions are made in the interest of Defence as a whole – the corporate good**
- **The 7 first principles will guide design:**
  - simplicity
  - transparency
  - professionalism
  - clear authorities and accountabilities
  - outcome orientation
  - focus on core business
  - timely/contested advice
- **Organisational structure changes must be approved by the Secretary and CDF with baseline data as of 19 March 2015 informing resource allocation for functions**

Implementation Committee

- **Secretary and Chief of the Defence Force chairing a weekly Implementation Committee is the decision-making forum which sets direction and drive for the delivery of the First Principles Review Implementation Plan by 1 July 2015.**

- **Members are: Secretary, Chief of the Defence Force, Associate Secretary, Vice Chief of the Defence Force, Chief Finance Officer, Deputy Secretary Strategy, Deputy Secretary People and acting CEO of DMO.**

- **The five stream leads will report to this Committee about their specific plans and actions**

- **Weekly email to Senior Leadership Group post each meeting with expectation that they will discuss with their teams**

- **Monthly all staff email from Secretary and Chief of the Defence Force**

- **Anyone can email Implementation Office with questions and ideas –**

first.principles@defence.gov.au

Implementation Office

- **First Principles Secretariat is now the Implementation Office**
- **Led by Roxanne Kelley and Paul Symon**
- **Support to:**
  - Secretary and Chief of the Defence Force
  - Defence Committee
  - Oversight Board
- **4 Primary Objectives:**
  - Oversee implementation – coordinate Implementation Plan, set standards and reporting requirements, refer issues to the Defence Committee
  - Assist – provide guidance and tools, ensure alignment with intent of report
  - Do – manage and deliver tasks agreed by the Defence Committee
  - Communicate – keep stakeholders at all levels informed