
Reform in Defence? Governance, Decision-Making and Policy Formulation

Ross Babbage

The 2013 White Paper talks a great deal about reform in Defence. It is notable, however, that the areas of reform that are discussed relate primarily to processes of accountability, planning, reporting, consultation and reviewing. Some advances have been made in these fields. However, their effect has largely been to tune long-standing and well entrenched administrative systems. Deeper strategic or root and branch reform to achieve world's best practice in efficiency and effectiveness is hardly mentioned. If Defence is to win the internal functional savings directed by the 2009 Defence White Paper, much more rigorous and thorough-going processes of reform lie ahead.

The Prominence of Reform in the 2013 White Paper

At first sight, defence reform seems to be accorded great weight in the 2013 White Paper. After all, in the foreword to the White Paper Defence Minister Stephen Smith states:

The 2013 White Paper outlines an integrated reform agenda to embed in Defence at all levels the significant and wide ranging reform program which this Government has commenced in the areas of individual personal and institutional accountability, budget processes, procurement and capability and Defence conduct and culture.¹

Then, in the first chapter of the White Paper, the strategic imperatives for maintaining the processes of reform are spelt out:

To ensure that Australia is best positioned to manage the strategic transformation in the Indo-Pacific at a time of significant fiscal challenge, the Defence Organisation itself must continue to reform. To quote Defence's Pathway to Change: Evolving Defence Culture Program, "speed, discipline and clarity on operations needs to translate to all domains of Defence's work." This is essential for Defence to respond to (the) Government's priorities. The systematic defence reform and transformation agenda initiated by the Government will be sustained and strengthened for this purpose.²

These are interesting words. Indeed, it may be appropriate to apply them as a template for assessing the effectiveness of the specific reforms that are

¹ Commonwealth of Australia, *Defence White Paper 2013* (Canberra: Department of Defence, 2013), p. x.

² *Ibid.*, para 1.18.

listed in the body of the White Paper. As with the 2009 White Paper, this White Paper devotes an entire chapter to Defence reform. The main points made in this chapter are as follows:

Strategic and fiscal developments since 2009 have reinforced the importance of transformational reform. Defence must be more agile and adaptive in responding to changing currents—technological, economic and strategic.³ The reform program is focused on closing the gap between the Government's defence aspirations and the resources available to implement them.⁴ Key steps include making the right decisions in shaping capabilities and delivering them on time and on budget. It is also important that Defence be streamlined and efficient to eliminate waste and ensure that maximum funding can be directed to defence capability.⁵

Effective Defence reform requires strong personal and institutional accountabilities, unity across the Defence Organisation and the removal of barriers that prevent personnel contributing to their full capacity.⁶ The government reports 'significant progress' in implementing seven categories of reform since 2009, including some \$3.3 billion cost reductions in Defence's operating budgets during the first three years of the Strategic Reform Program. In addition, there have been improvements in capability and productivity.⁷

But strategic transformation of Defence is not just about achieving efficiencies. It is about transforming the way Defence does business. In response to the findings of each of the reviews into Defence's culture and the Review into the Treatment of Women in the Australian Defence Force (ADF), Defence is implementing over five years Pathway to Change: Evolving Defence Culture.⁸ Defence will build on important personnel reform initiatives including New Generation Navy, the Army Cultural Framework and the Air Force New Horizon Program.⁹

Defence is implementing a new Corporate Plan and a new Defence Annual Plan so as to improve defence strategic planning and set out key priorities for the next five years. It is also implementing a new Defence Enterprise Risk Framework that establishes the material risks to Defence for achieving outputs set by Government and puts in place controls necessary to reduce the likelihood and consequences of risk.¹⁰ Significant reform of the preparedness management system is underway to achieve greater

³ Ibid., para 9.2.

⁴ Ibid., para 9.3.

⁵ Ibid., para 9.3.

⁶ Ibid., para 9.4.

⁷ Ibid., para 9.7.

⁸ Ibid., para 9.17.

⁹ Ibid., para 9.18.

¹⁰ Ibid., para 9.9.

alignment between Government guidance, preparedness goals and ADF activity levels.¹¹

The Black review of the Defence Organisation's accountability framework recommended reforms to personal and institutional accountability; planning and decision-making; performance management; accountability and contestability in capability development; defence committees; financial management; the delivery of services across different parts of the Defence Organisation and skills development. Some changes have been made in these fields.¹²

Shared Services Reform is focussed on realising workforce reductions and increased process efficiency in corporate functions such as information and communication technology, finance and non-materiel procurement without reducing service standards in support of operations or capability development. Accountability for driving the greater uptake of a shared service delivery model within the accelerated timeframe has been assigned to specific senior Defence officers.¹³

Continuing to improve the relationship between Defence and industry is one of the most important components of the Government's transformation agenda for Defence. Key elements of these reforms within the Defence Materiel Organisation (DMO) have included:

- Greater accountability in procurement and sustainment including through Project Directives and Quarterly Personal Accountability Reports;
- A stronger role for capability managers in procurement and sustainment through formal Materiel Acquisition and Sustainment Agreements;
- Expanded use of Gate Reviews;
- Establishment of the Independent Project Performance Office;
- More DMO input prior to first and second pass consideration of acquisition and sustainment projects;
- The Chief Executive Officer of DMO providing independent advice to Government on acquisition cost, schedule, risk, etc.;
- Reforms of ship repair and management practices; and

¹¹ *Ibid.*, para 9.10.

¹² *Ibid.*, para 9.12.

¹³ *Ibid.*, para 9.14.

- More focussed attention on remediating problem projects.¹⁴

Over the last decade the DMO has reduced the average time to deliver capital projects by about 25 per cent, so as to be broadly comparable with the private sector.¹⁵ The Defence Reform Board, chaired by the Chief Operating Officer as the decision-maker, and supported by the Vice Chief of the Defence Force and the Chief Executive Officer of the DMO, will integrate effort not only for the Strategic Reform Program but also other applicable major defence reforms.¹⁶ The Minister for Defence intends to provide an annual report to Parliament on Defence's progress in implementing its extensive reform program.¹⁷

The Primary Drivers of Reform

If the issues listed above are the primary Defence reform themes discussed in the White Paper, why are these issues given such prominence?

For at least two decades defence ministers, senior officials, industry leaders and external commentators have noted the potential for the administration of the Department of Defence to be made more efficient and effective. Numerous reviews and reports have been prepared, many reform projects have been launched and in some parts of the Defence organisation significant progress appears to have been made. However, because of the complexities of measuring advances in reform, the real extent of this progress is difficult to determine.

When the 2009 Defence White Paper was being prepared, then Defence Minister, Joel Fitzgibbon, and other relevant ministers were keen to accelerate the processes of reform. In consequence, that document placed unprecedented emphasis on accelerating change through the new Defence Reform Program. The then government directed that the Defence Reform Program would yield some \$20 billion in savings during the following decade, for reinvestment on capability priorities within the Defence portfolio.¹⁸

In the period following the 2009 Defence White Paper the government abandoned the spending commitments made in that document. Indeed, in 2010-11 it cut the defence budget by almost 5 per cent and then in 2012-2013 it cut defence spending again by 10.47 per cent. This reduced Australian defence expenditure to 1.56 per cent of GDP, the lowest it had been since 1938.

¹⁴ Ibid., paras 9.20 and 9.21.

¹⁵ Ibid., para 9.24.

¹⁶ Ibid., para 9.29.

¹⁷ Ibid., para 9.32.

¹⁸ Commonwealth of Australia, *Defending Australia in the Asia Pacific Century: Force 2030* (Canberra: Department of Defence, 2009), para 13.3.

These on-going spending cuts did not, however, impact evenly across the Defence portfolio. Indeed, the government directed that one of the three main categories of defence expenditure—that of personnel funding—was to remain largely untouched. The number of uniformed personnel in the permanent force was to remain at about 59,000 and only modest trimming was to be made to the 22,000 civilian workforce.¹⁹

There was also very limited scope for cutting the second category of defence expenditure, that which is spent on operations and exercises. With Australia conducting combat operations in Afghanistan and also significant operations in East Timor, the Solomon Islands and in Australia's maritime approaches, there was little appetite for reducing the quality and level of support for forces in the field.

This meant that the primary weight of the budget cuts has fallen on the third category of spending, that allocated to system acquisition and sustainment. Some new equipment programs have been cancelled, many more have been deferred, the scale and complexity of numerous projects has been reduced and planning has commenced to operate many systems far beyond their normal retirement dates.

An important consequence has been to further increase pressure on Defence to accelerate meaningful reforms in order to free-up resources for reallocation to the dwindling acquisition and sustainment budgets. The primary driver has been to retain as many as possible of the new systems that were promised in the 2009 White Paper.

Achievements

What then can be said about the progress that has so far been made in Defence reform?

First, it is obvious that Defence reform has secured the attention of successive defence ministers and even prime ministers. This, in itself, is an achievement because it provides a platform for the National Security Committee of Cabinet to give the issue a degree of priority. Achieving this serious political interest and attention can have the effect of empowering senior officials and Defence Force leaders to challenge established habits of behaviour and press ahead with reform initiatives.

Second, it is reasonably clear that the quality of some management processes in Defence has improved. Perhaps this can be seen by the improved metrics achieved in some of the DMO's operations, in the performance of the Department in supporting forces deployed overseas, in the improved operational availability rates of some Defence systems, such

¹⁹ Commonwealth of Australia, *Defence White Paper 2013*, paras 10.4 and 10.6.

as the Collins Class submarines, and in the reduction in the number of senior committees within the portfolio.

Third, as noted earlier, Defence claims that some \$3.3 billion in cost reductions has been won from operating budgets during the last three years. Exactly how this figure has been determined remains unclear and there may be grounds for questioning some aspects. Moreover, even if this figure for cost savings were confirmed it would suggest that the processes of reform are running below the pace that was specified in the 2009 Defence White Paper. In that document the government directed that Defence save some \$20 billion by 2019.²⁰ Assuming that many of the 'low fruit' of Defence reform have already been harvested, the Department will need to accelerate the current rate of advance if the reform goal set in 2009 is to be achieved.

Disappointments

It should be noted that when the 2013 White Paper discusses reform within the portfolio it frequently refers to the Defence Reform Program or the defence reform process. These are, themselves, interesting descriptors. Even a cursory review of the main elements of reform summarised earlier in this chapter highlights the fact that much attention is being given to new and expanded processes. There are many new processes of planning, of reporting, of consultation, of reviewing, of accountability, etc. However, much less attention is being given to what might be called root and branch reform.

This raises a fundamental issue that is glossed over in the 2013 White Paper. What precisely does the government mean by defence reform? My view is that the core of defence reform is devising ways of providing those functions that are essential for high quality ADF performance in the most cost-effective manner possible. If that is the goal of Defence reform, then tweaking long-standing Defence systems, processes and capabilities with new reporting, accounting or reviewing processes will frequently amount to tinkering at the margins.

Many reforms listed in Chapter Nine of the 2013 White Paper describe modifications to, and expansions of, long-standing processes that have been employed within the portfolio for decades. Rarely does it appear that more basic questions have been addressed. What precisely is it that the Defence Force needs in this area? Is its supply critical for Defence Force performance? If it is not critical, why is the function performed at all? If the function is a high priority, how much does the Defence Force need? When does it need it? What alternative ways are there for providing this need? What is their relative cost-effectiveness? What represents world's best practice in delivering this type of capability? How do other corporate

²⁰ Commonwealth of Australia, *Defending Australia in the Asia Pacific Century*, para 13.3.

organisations deliver such needs? What savings and quality improvements can be attained by delivering the required outputs in new ways? The White Paper gives little indication that the basics of such root and branch reform have been addressed rigorously, except possibly in parts of the Shared Services Reform program.

In order to progress this type of deeper reform the government will, first, need to give it higher priority. Second, the government will need to work with the Department's leadership to review carefully the priority outputs of the organisation and whether current structures and systems represent world's best practice for their delivery. Third, there is a need to foster stronger analytical skills and processes in order to strengthen the quality of the Department's key decisions and other core outputs. And fourth, there is a need to properly empower the senior output managers to manage.

More specific doubts arise about the effectiveness of current reform efforts when one considers the progress that has been made in fields that the White Paper itself identifies as being critical to defence efficiency and effectiveness. For instance, the White Paper says that one key feature of a world-class defence organisation is "making the right decisions in shaping capabilities and delivering them on time and on budget".²¹

Making the right decisions in shaping capabilities is obviously critical if the government is to be certain that the ADF will possess the capabilities needed to successfully defend Australia at some time in the future. Making the right capability development decisions is also fundamental to assuring Australian taxpayers that their money is being spent wisely. However, it is difficult to argue that this has been achieved in the Department of Defence in recent years for several reasons.

First, the White Paper's discussion of the developing security environment and the potential defence challenges to Australia is remarkably thin and overlooks many factors of importance. This White Paper barely touches on the disturbing pattern of rapid military growth, the real state of regional tensions, the assertive use of military, intelligence and cyber capabilities and the serious implications for the types of security challenges that Australia may face during the next forty years. In obvious efforts to avoid any foreign offence, this White Paper fails to provide honest guidance for ADF developers concerning the security challenges Australia may face in the period ahead. If, as the White Paper states, a key feature of a world-class defence organisation is "making the right decisions in shaping capabilities", the fact that the discussion of the developing security environment is so thin suggests that one of the key functions of the Department still requires reform and strengthening.

²¹ Commonwealth of Australia, *Defence White Paper 2013*, para 9.3.

Second, the 2013 White Paper expresses little coherence in discussing the defence strategy or the 'game-plan' for how the country is to be defended in the event of future security crises. This weakness is partly a consequence of the failure of the essential background contingency gaming and other planning processes that need to be completed prior to writing every White Paper. During 2012 this vital Force Structure Review process was stillborn and failed to produce the robust analyses and clear guidance that are required. The bottom line is that in the absence of a rigorous process of contingency gaming and analysis of alternative force structure options, it is impossible to conclude with any credibility that the right decisions on future capabilities have been made. Indeed, it is almost certain that at least some of the right decisions have not been taken. This is a fundamental failure not only of defence planning but also of defence reform. Not only is the system not working but it has not been fixed.

A further weakness in the discussion of Defence reform is that it gives no indication that Defence is addressing in any critical manner the full costs of delivering the organisation's essential outputs. Symptomatic is that nowhere does the chapter on reform indicate that a major restructure of a key function has brought a 20% or 30% reduction in costs and the delivery of higher quality outputs in shorter timeframes. Nowhere are we told that Defence has reviewed the inefficiency of the long-standing process of delivering a certain output and decided to contract that function out to a commercial provider, with time and cost efficiency improvements now delivering world's best practice. Until a Defence white paper reports these types of advances, the processes of Defence reform will appear half-hearted.

The Future Trajectory of Reform

In summary, the over-riding impression given by the White Paper's discussion of reform, governance and decision-making is that so far the emphasis has been on the tactical tweaking of long-standing processes. Steps have been taken to strengthen various forms of planning, reporting, accountability, consultation and review. However, there is very little evidence of a more thorough-going process of strategic root and branch reform. This suggests that the task of serious reform to achieve world-class levels of efficiency and effectiveness still lies ahead.

Ross Babbage is Founder of the Kokoda Foundation and Managing Director of Strategy International (ACT) Pty Ltd. Ross served as a senior official in the Department of Defence and the Office of National Assessments. He also spent ten years working with the team that took the old loss-making Office of Defence Production in the Department of Defence and transformed it into the globally competitive and profitable ADI Limited. rbabbage@bigpond.com.