

**ADDRESS TO
THE ROYAL UNITED SERVICES INSTITUTE OF THE ACT
“The Role of the Defence Secretary”**

**by
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SECRETARY OF DEFENCE
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Introduction

[introduced by Air Commodore P.J. (Peter) McDermott AM CSC RAAFAR]

Thank you Peter for your warm introduction.

Good Evening Ladies and Gentlemen.

I am delighted to be here to address you as part of this well respected forum, and in acknowledgement of the close interest and affiliation you have with Defence issues and the Defence organisation.

I am now almost six months into the job, and I believe I am starting to settle in to the unique Defence environment.

It is now a week after the first Senate Estimates and we are well and truly in the swing of things for 2010 which is set to be a very challenging and demanding year for the ADF, the Defence organisation and the Australian Government.

Background

But before I talk about the changes and challenges ahead for Defence, I might begin by telling you a little about myself, and how I came to this position on 31 August last year.

I first joined the APS in 1971 in the Victorian Division of the Post Master Generals Department. I had completed three years of a degree and decided to take a break—and I needed the money. I worked for a year before returning to the University of Melbourne to complete my honours degree. During my year of work, I was awarded a Treasury cadetship, which bound me to move to Canberra, so I turned up here in early 1973, not long after the Whitlam Government was formed, but without generating the same sense of excitement.

After spending just over a year working in Treasury, I decided to return to Melbourne as my father was ill. I first took leave without pay and then resigned from Treasury and worked as a tutor and senior tutor at La Trobe University, while studying for a Masters degree and then a PhD.

It wasn't until 1985 that I returned to Treasury, starting on the same floor in B Block of the Treasury building, about twenty yards from where my desk had been twelve years earlier!

Ironically, Finance now occupies B Block, and in my previous post I would occasionally work in a little office which happened to be located only seven yards from where my original desk had been in 1973.

My wife used to comment, and very unkindly I might add, that I had come an entire seven yards in my public service career.

Between working in Treasury and starting with Finance, I occupied positions in several other Government departments, including Deputy Secretary at the Department of Prime Minister and Cabinet, and Secretary of the then Department of Communications, Information Technology and the Arts. I also spent two and a half years at the Embassy of Australia in Washington.

When I arrived in Finance in early 2002, it was an organisation that had lost its way, had lost too many good people and, as a result, it wasn't well-regarded by the wider APS, by the Government, or by many of its officers. Much of the organisation had to be rebuilt, and it needed better people, better training, better systems and a real sense of purpose. Around the time of my arrival, I was asked what my vision for the organisation was. I responded that I wanted Finance to be the policy adviser, the program manager, and the implementer of choice in its areas of responsibility. And that I wanted it to be at the Cabinet table when the decisions were made.

This required significant change. We were a long way from that position in early 2002, but I do believe that we were there by 2009, so I was fortunate to see much of my vision realised.

Accepting any new job was therefore a difficult decision. I was very reluctant to leave Finance and, indeed, had intended to finish my APS career there.

However, when Senator Faulkner asked if I would work with him in Defence, I took time to consider it and – in the end – said yes. My prime motivation in accepting the job was that I strongly believed that Senator Faulkner would make a difference to the Defence organisation, and I thought I could help.

Other factors were my belief that Defence had many of the foundations for change already in place, and that the new Ministerial team offered promise to build on those foundations.

And let me take this opportunity to say that I am proud to be working in the Defence organisation; proud to be working alongside our Defence Force, and proud to be among dedicated and professional public servants.

Initial Observations

Coming from a background in Finance, I started in Defence with some understanding of the intricacies of the portfolio—particularly in terms of budget and the capability acquisition process.

However, the past six months has certainly been a steep learning curve. You're familiar with the statistics: a \$26 billion per annum budget, a workforce comprising around 22,000 civilian staff, 56,000 uniformed members, and 20,000 reservists. The largest estate manager and holder in the Commonwealth. A science body that is nearly half as big as the CSIRO, half the Australian Government's intelligence agencies and our own (defence) foreign policy team. A genuine national and international reach. Finally, a combination of policy adviser, program implementer and program deliverer. The size, the range and the complexity of Defence are breathtaking.

And I have walked into this position during a period of significant and complex military operations. Currently there are around 3,300 Australian Defence Force men and women involved in 13 operations in Australia and overseas, and an additional 500 members actively protecting Australian borders and offshore maritime interests.

In addition, there is the 2009 Defence White Paper to be implemented, and the Strategic Reform Program to be fleshed out and implemented. In sum, no shortage of good work to be done.

So, against that setting, my initial priority has been to begin the process of getting to know the organisation and its people, understand the opportunities and problems, start to examine the issues we face, and start to grab the opportunities and solve the problems.

Defence is certainly a unique and complex organisation.

People argue that the Defence diarchy adds both to uniqueness and complexity. While it is unique by Australian standards, I think that most of that additional complexity reflects the fact of joint civilian and military responsibility rather than the diarchy per se. You will find most of that

complexity in military organisations world-wide no matter where you draw the line – whether it is a diarchy, or whether one member tends to be dominant as in the New Zealand case. Regardless, there are both military and civilians involved, issues that need to be addressed by both parties, and a military-civilian relationship to be managed. That is the point that adds complexity.

From my observation, while the diarchy may not be a perfect solution (there is no such thing as a perfect solution to anything), it has stood the test of time, it does work, and it can and should work well, and they are the things that matter.

The Chief of the Defence Force and I have individual and joint responsibilities. We need to work closely as the leaders of Defence, and we do.

To briefly distinguish our responsibilities, the Secretary is the government's chief civilian adviser, while the CDF commands the Australian Defence Force and is the principal military adviser to the Minister. We draw on different heads of power – the CDF the Defence Act, and the Secretary the Defence Act, the FMA Act, the Audit Act and the Public Service Act. We need to work closely together because our responsibilities overlap, often substantially.

Our offices also work closely together. We share common administrative processes and security systems, and have joint involvement in all necessary correspondence, ministerial submissions and strategic issues.

The CDF and I will often deliberate and make decisions together, and in consultation with the other senior leaders in Defence. While the military-civilian nature of Defence also means more organisational complexity, I don't see it as an insuperable problem. In sum, complexity doesn't frighten me. Rather, I see it as a challenge.

More generally, Defence has layers of complexity in both its structure and its processes. Some of these complexities are necessary, while others are not. However, we can't simplify a process without considering the organisation's broader functions and structure. Much the same if you were to try and squeeze one part of a balloon in order to make it smaller, you would thereby only make another part bigger. So if we are to really simplify and improve our processes, we need to take a considered and holistic approach.

Strategic Reform Program

Most of you here this evening will already appreciate the need for Defence to change. The necessity of this was articulated last year in the Defence White Paper which outlined the importance of fundamental reform.

The White Paper process comprised 12 major reviews of Defence, and the outcomes of those reviews have been integrated to form the Strategic Reform Program—or SRP. We are committed to delivering the SRP, and the Government has determined that – after Defence Force operations – our highest priority is reform.

Defence has undertaken further analysis and consultation since the White Paper, and we are now at the start of a decade long campaign of reform.

Between mid and late 2009, as recommended by the Defence Budget Audit, Defence conducted detailed diagnostic and implementation planning for SRP.

SRP reaches into most of Defence with a comprehensive set of reforms that will permanently lower our cost base to generate gross savings of \$20 billion over the coming decade which we will re-invest in ourselves. The Government has provisioned \$2.4 b of these gross savings to help with those cost reductions and the re-investment.

Although the savings will be re-invested, and although the Defence budget is a large one, our budget is capped and we will need to live within our means. In other words, there will be no additional funding for Defence, unless it is for operations, for the foreseeable future. This is how it will be for some time—this is the starting point for SRP.

SRP is an ambitious program, but these changes will provide a better equipped, stronger, more agile and hard hitting Defence Force—and a better and more efficient Defence organisation. It is often said that change comes out of a burning platform—do you stand still and face certain death or jump and face probable death? Defence has to change—we can't afford to stay still. Implementing the SRP will involve significant cultural change, and requires us to think differently about the way we do business.

There is no magic formula for successful change. But the most important thing is that the organisation, and the people in it, want to change. Or at least the leaders in the organisation want to change and so do a significant part of the organisation.

I see the want to change/need to change reflected in Defence's senior leadership. That is a big positive for change and that was not always the case in previous Defence programs.

What makes this reform different is it is not about slash and burn. It is about deep, structural and long-term reform. And the cost reductions achieved will be re-invested in Defence capability.

And as the reforms planned under SRP mature, Defence will be able to respond with greater precision to the Government's priorities.

The Government has instructed us to implement the White Paper, and has provided us with a terrific opportunity to build our organisation in a more efficient and effective manner. Very few organisations have that opportunity.

And that is not to say our Ministers aren't involved—of course they are, and very heavily at that. But in setting in place the White Paper, a 20-year Defence budget, and the SRP, the Government has given Defence the incentives and the tools to change itself.

A robust framework is in place to govern the SRP, and the program is being overseen, coordinated, and integrated – but not undertaken – by a small team.

There are instead 15 streams of reform. Each stream is led by a SES Band 3/3 Star, who is responsible for leading and managing the stream reforms and ensuring improvements are integrated across Defence.

Already Defence is on track to deliver around \$797 million of savings programmed for 2009-10, most of which will be delivered through relatively easy management-directed efficiency measures.

To cite one example, within the Information and Communication Technology stream, we will deliver both savings and increase our effectiveness through the introduction of a consolidated and standardised Defence ICT environment. This will not just reform our business objectives, but enhance our war fighting capability.

We are working towards a single ICT network connecting fixed and deployed locations built on a single set of standards and products. The system will be intuitive and able to determine the user's security level and authority for accessing information.

And over time we will have the capability to automate a number of functions including procurement, personnel and pay administration, vetting, recruitment, and performance management.

This type of capability is exciting for Defence. Other agencies have it – we should, but don't.

The Government has also established a Defence Strategic Reform Advisory Board (DSRAB) to provide advice to government and help ensure the Strategic Reform Program achieves its goals. CDF and I are on the board along with senior private sector representatives and my colleagues from Prime Minister and Cabinet, Treasury, and Finance.

So far the Board has met twice and its advice has already added value to the program.

Ultimately, the goals of the Strategic Reform Program will only be achieved through transforming Defence's business processes, practices and systems. That is where DSRAB can help.

Many promising government policies have failed because of poor implementation—be that a lack of effective coordination, project management, communication or excessive red tape. Or a lack of will and support from within the organisation.

Many people will, and no doubt already have, wondered how the SRP is any different from previous reform efforts, or whether it will, like others before it, simply fade over time. However, what they miss is that SRP will not fade away, as long as it remains the only way forward for Defence, and it will remain the only way forward as long as we have tough budgets. And we know that will be the case for a long time to come.

Defence has learnt valuable lessons from previous reform programs and we have also learnt to pay close attention to implementation planning and coordination, as well as to integration and to oversight.

Communication and change management are also essential to SRP success, and our senior leaders must be transparent and accountable—me included. Most importantly, we also know that genuine cost reductions will only come through a genuine assessment of every part of the way Defence goes about its business. What SRP does is drive cost reductions while fundamentally changing the way we do business. That is where it is different—it is, by its very nature, harder and more challenging.

Of course, not every aspect of SRP requires the same level of detailed implementation planning and some are already in train. For example, measures are underway to improve:

- the efficiency of our equipment repair and maintenance including our ships, the C-130 fleet, over the horizon radar and Army vehicles;
- the link between strategy and major equipment acquisitions;
- the way we estimate acquisition costs and scope projects; and
- how we manage our science and technology programs to ensure they are focused on strategic priorities.

SRP has been planned to allow sufficient time for the managed roll-out of reforms. In short, we are well positioned for long term success through a combination of:

- beginning the cost reduction program with sensible, management-directed efficiencies;
- getting on with those reforms that we are able to implement now;
- careful planning for the more challenging, longer term reforms, and
- making the most of external expert advice and scrutiny.

The CDF and I, Service Chiefs and Group Heads, and CEO DMO have conducted a number of briefings on the program to Defence staff in a range of locations. We have been impressed with the level of energy and commitment shown already by those involved in implementation planning and the roll out of early reforms. Over the next three years, these reforms will ramp up further, and we will work closely with the whole of the Defence community as we roll out the program.

The Government will soon be considering the full scale of Defence's SRP options to achieve the targets and the SRP implementation plan. We will then be in a position to provide more detail about each of the reforms and how we will achieve the \$20 billion reinvestment in Defence capability over the next ten years.

At that point, we will move to the full implementation of the program with a particular emphasis on tracking progress against milestones and savings targets, and deepening our consultation and engagement that will need to be maintained through the life of the program.

Conclusion

If we can succeed in introducing these reforms across Defence, and we will, we will have created a better place to work. We will have secured funds for reinvestment in current and future capability. And we will have simplified our processes and improved our systems to allow our people to better focus on the core business of supporting Operations.

We will do this by getting on and delivering the projects articulated in the White Paper.

The role of the Secretary is a challenging job. It is a demanding job. Above all, it is a rewarding job. But it is not something I can do in isolation.

It is a job built on the strong partnership of the diarchy. It is strengthened not only by the leadership team who support CDF and me, but by the men and women of Defence. It allows us to get on with our job and remit—protecting Australia and its national interests.

I might have only been here for six months, but even now I can look back and see that we have already come a long way in the journey.

Thank you. I welcome any questions.

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[Q&A]