

SPECIAL REPORT

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One Defence: one direction?

The First Principles Review of Defence

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Introduction

The recently released report of the First Principles Review of Defence, *Creating One Defence*, is set to reshape the Defence enterprise over the next few years. This ASPI special report explains the review's recommendations and analyses the consequences for Defence.

Background

Consistent with its election promise, the Abbott government initiated the First Principles Review on 5 August 2014. The five-person review panel was chaired by David Peever (former Rio Tinto managing director) and included Peter Leahy

(former Chief of Army), Jim McDowell (former BAE Systems executive), Robert Hill (Defence Minister in the Howard government) and Lindsay Tanner (Finance Minister in the Rudd government). The panel was assisted by the Boston Consulting Group and an in-house secretariat from Defence.

In announcing the review, the Defence Minister said that it would 'make recommendations designed to ensure Defence's business structures support the Australian Defence Force's principal tasks out to 2030'. The review's lengthy terms of reference are reproduced in Appendix A of this ASPI report. They're a peculiar mix of the general and the specific. On



Aerial view of Russell Offices in Canberra © Department of Defence.

the one hand, the review was given a wide remit to look at Defence's structure and business processes. On the other, it was tasked to report on a range of very specific issues, from the organisational arrangements for geospatial intelligence to improving cash-flow estimation for capital investment.

What's the problem?

According to the review, there have been 35 significant reviews of Defence since the absorption of the three single services into the Department of Defence in 1973—and no fewer than 20 were undertaken between 2008 and 2011. In many cases, the reviews were direct responses to specific events. For example, the 2011 Rizzo review of naval sustainment followed the unexpected collapse of the RAN's amphibious lift capability just before a cyclone struck the coast of Queensland. Other reviews, such as the 2003 Kinnaird review of defence procurement, reflected long-term dissatisfaction with performance in a core function. The First Principles Review falls into a third category: a comprehensive review of the entire enterprise, in the manner of the 1996 Defence Efficiency Review, the 2006 Defence Management Review and the 2008 Defence Budget Audit.

There's no point paraphrasing the problem that the First Principles Review sought to address, because *Creating One Defence* provides a concise and unflinching diagnosis:

The current organisational model and processes are complicated, slow and inefficient in an environment which requires simplicity, greater agility and timely delivery. Waste, inefficiency and rework are palpable.

Defence is suffering from a proliferation of structures, processes and systems with unclear accountabilities. These in turn cause institutionalised waste, delayed decisions, flawed execution, duplication, a change-resistant bureaucracy, over-escalation of issues for decision and low engagement levels amongst employees.

Going back to first principles

The review team 'conducted an end-to-end holistic review based on the outcomes required of Defence and founded on the first principles agreed by the review team'. The outcome required of Defence was taken to be its Strategic Direction Statement from government:

Protect and advance Australia's strategic interests through the provision of appropriately prepared and

equipped armed forces. To achieve this, Defence prepares for and conducts military operations and other tasks as directed by the Government.

The seven 'first principles' agreed by the team were:

- **Clear authorities and accountabilities that align with resources:** decision-makers are empowered and held responsible for delivering on strategies and plans within agreed resourcing.
- **Outcome orientation:** delivering what is required with processes, systems and tools being the 'means not the end'.
- **Simplicity:** eliminating complicated and unnecessary structures, processes, systems and tools.
- **Focus on core business:** Defence doing only for itself what no-one else can do more effectively and efficiently.
- **Professionalism:** committed people with the right skills in appropriate jobs.
- **Timely, contestable advice:** using internal and external expertise to provide the best advice so that the outcome is delivered in the most cost-effective and efficient manner.
- **Transparency:** honest and open behaviour which enables others to know exactly what Defence is doing and why.

Although it's doubtful that the seven principles apply in every circumstance, and even less clear that they include everything to be desired of Defence, they're a reasonable and uncontentious starting point. Certainly, a defence organisation that fully reflected the seven principles would be a good thing.

Notwithstanding the 'first principles' methodology, the review has also clearly been influenced by reforms to the UK Ministry of Defence following the 2011 Levene review.

The report

The review panel's report, *Creating One Defence* (henceforth *One Defence*), was released by the Defence Minister on 1 April 2015. 'One Defence' refers to the proposed end-state for Defence—'a more unified and integrated organisation that is more consistently linked to its strategy and clearly led by its centre'. Presumably, **One Defence** (which appears in bold

text throughout the report) is intended as a catch-cry for use in the forthcoming implementation period.

In releasing the report, the Defence Minister said that the government had agreed, or agreed in principle, to 75 of its 76 recommendations—the exception concerned the future of the Defence Science and Technology Organisation (DSTO). Implementation will commence immediately, and most of the changes are planned to be completed within two years. The review panel, along with a yet-to-be-identified woman, will form an Oversight Board to monitor implementation, provide regular reports to the government, and assist Defence in making annual progress reports to the government.

One Defence runs to 78 pages exclusive of appendixes, so there's roughly one recommendation per page. Although the report is fairly direct and to the point, a degree of familiarity with the Defence organisation is helpful in understanding its arguments and conclusions.

The review makes six key recommendations, which guide the structure of its report:

1. Establish a strong, strategic centre to strengthen accountability and top level decision-making.
2. Establish a single end-to-end capability development function within the Department to maximise the efficient, effective and professional delivery of military capability.
3. Fully implement an enterprise approach to the delivery of corporate and military enabling services to maximise their effectiveness and efficiency.
4. Ensure committed people with the right skills are in appropriate jobs to create the **One Defence** workforce.
5. Manage staff resources to deliver optimal use of funds and maximise efficiencies.
6. Commence implementation immediately with the changes required to deliver **One Defence** in place within two years.

The remainder of this ASPI special report is in three parts. Part 1 examines the overall consequences of the review's recommendations for Defence's structure, processes, workforce and efficiency. Part 2 provides our individual assessments on different aspects of the planned reforms. Part 3 comments on each the review's specific recommendations.

Part 1: Consequences for Defence

The First Principles Review's numerous recommendations make a concise summary difficult. Consequently, what follows is only the 'big picture' impact on Defence. A more detailed exploration and critical analysis of the proposed changes follows.

Structure—One Defence in two parts

The One Defence model divides the existing unitary organisation into two halves: a mostly civilian part reporting to the Secretary of the Defence Department, and a mostly military part reporting to the Chief of the Defence Force (CDF). The resulting structure is shown in Figure 1.

For comparison, the existing organisation structure is shown in Figure 2. The main changes, which are summarised in Table 1, are as follows:

- The new Associate Secretary Group subsumes the current Chief Operating Officer Group and its subsidiary parts.
- A new Policy and Intelligence Group will be formed by combining the current Strategy Group and most of the existing Intelligence and Security Group.
- The Defence Materiel Organisation (DMO), which is currently a quasi-independent prescribed agency, will be disbanded and a new Capability Acquisition and Sustainment Group will take its place within Defence.
- The Capability Development Group will be disbanded and most of its functions divided between the services and Vice Chief of the Defence Force (VCDF) Group, with some additional elements going to the new Capability Acquisition and Sustainment Group and Policy and Intelligence Group.

Figure 1: The One Defence structure

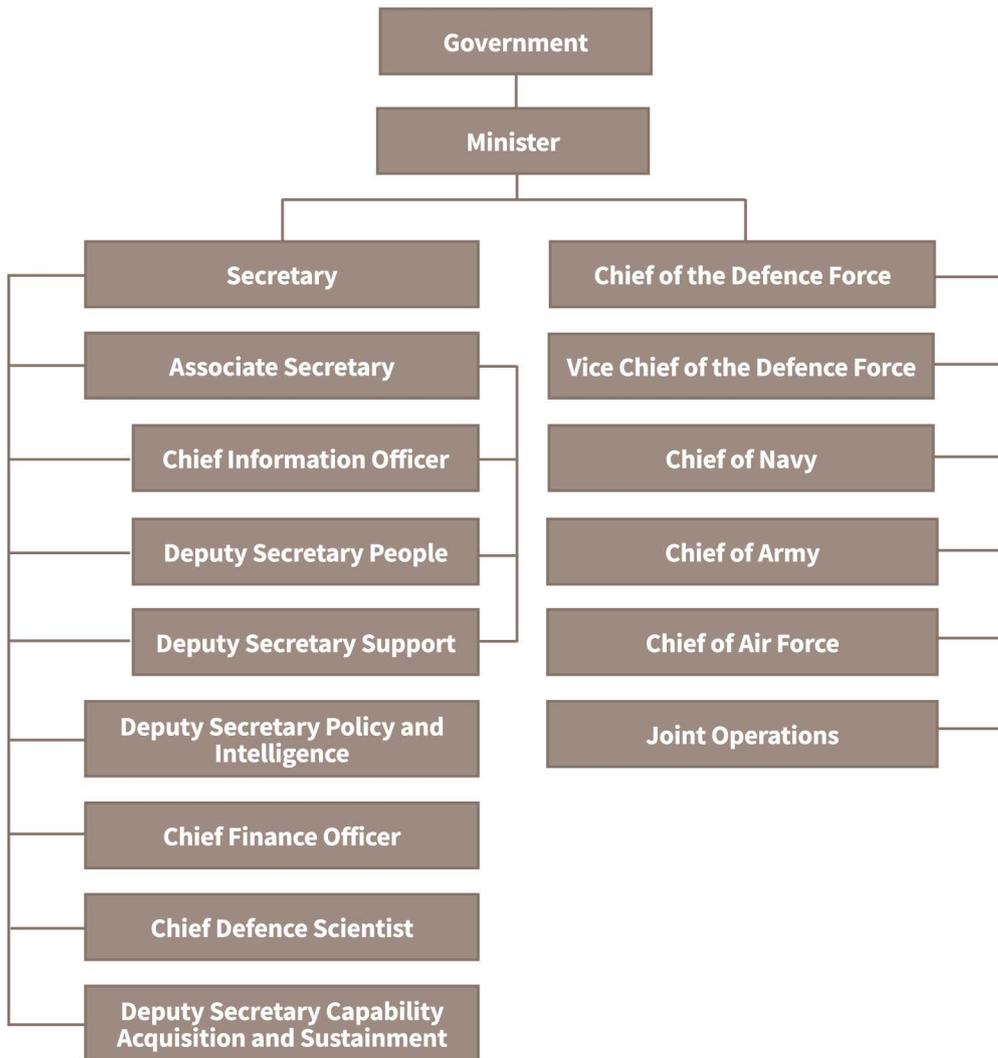


Figure 2: The existing Defence structure

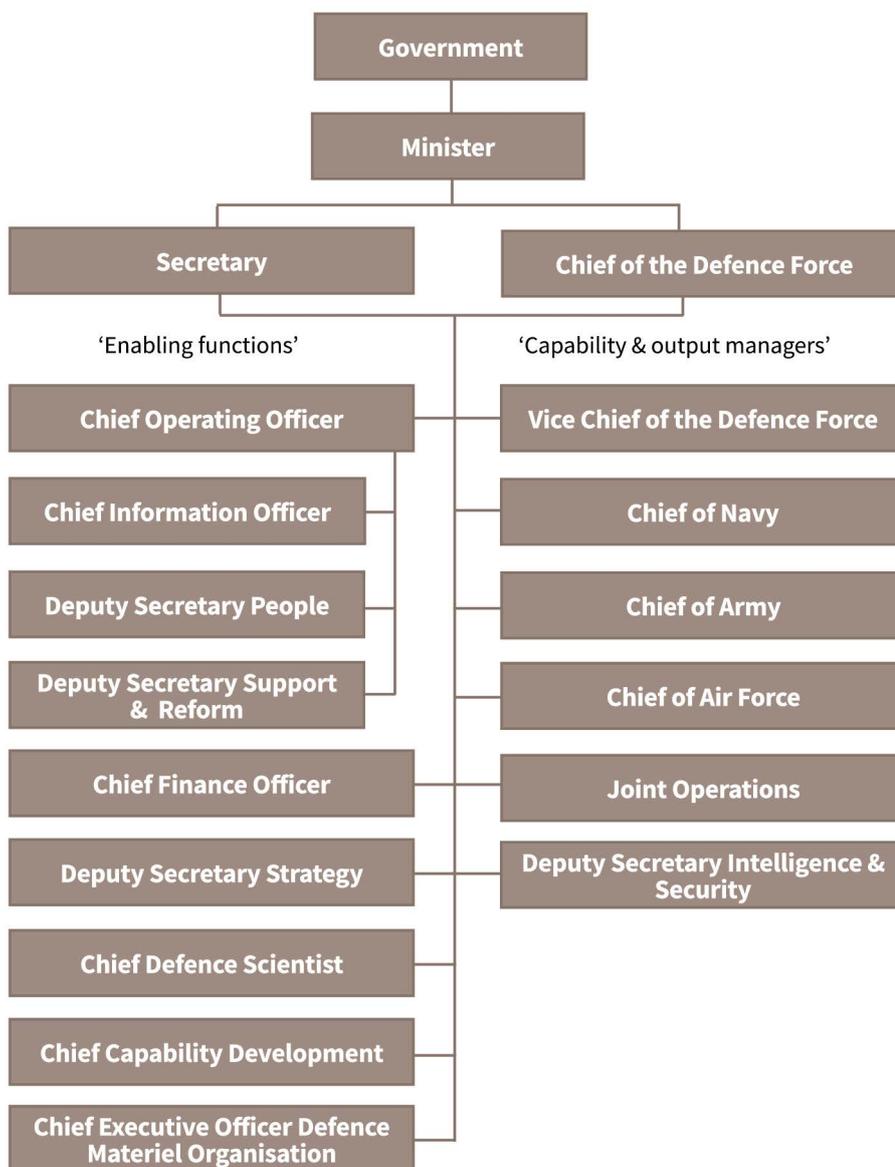


Table 1: The old and the new

Existing organisation	'One Defence' organisation
Chief Operating Officer	Associate Secretary
Deputy Secretary Strategy	Deputy Secretary Policy and Intelligence
Deputy Secretary Intelligence & Security	
Defence Materiel Organisation	Deputy Secretary Capability Acquisition and Sustainment
Chief of Capability Development	Disbanded and divided between Navy, Army, Air Force, Capability Acquisition and Sustainment Group, and Policy and Intelligence Group

Table 2: Group and service categories under One Defence

	Direction setting and contestability	Defence capability: delivery	Defence capability: joint command	Enablers	Control
Associate Secretary					
Deputy Secretary Policy and Intelligence					
Chief Finance Officer					
Deputy Secretary Capability Acquisition and Sustainment					
Chief Defence Scientist					
Vice Chief of the Defence Force					
Chiefs of Navy, Army and Air Force					
Joint Operations					

Just as the existing organisation is divided into *enabling functions* and *capability and output managers*, each of the new high-level organisational units is allocated into one or more of five categories, as shown in Table 2. The *delivery* and *joint command* categories are self-explanatory. *Enablers* support the generation of capability, while *direction setting and contestability* perform headquarters functions. The Chief Finance Officer is in a category all his own—*control*.

A new One Defence business model will be introduced with three key features:

- a stronger and more strategic centre
- an end-to-end approach for capability development, with capability managers assigned clear authority and accountability
- enablers that are integrated and customer-centric.

Governance—a stronger and more strategic centre

The diarchy has been retained, and new list of joint and separate accountabilities for the Secretary and the CDF has been drafted (see Table 3). Ministerial directives along the same lines have been promulgated in the past. Key changes from the last publicly disclosed ministerial directive (circa 2007) are as follows:

- The Secretary and CDF are now separately responsible for managing their respective parts of the organisation.
- The design of the defence force is now the sole responsibility of the CDF; the Secretary is responsible

for contesting specific capability investment options. Previously, the Secretary and CDF were jointly responsible for the ‘identification, development and provision of current and future capability’.

Responsibility for the department’s key processes is divided between the Associate Secretary and the VCDF, who together form a sort of junior diarchy that mirrors the division of accountabilities between the Secretary and CDF. The Associate Secretary will be responsible for enterprise planning, performance monitoring and risk management, and the VCDF will be responsible for force structure, preparedness and military strategy. The review envisages the Associate Secretary and VCDF as the ‘integrators for the Defence enterprise and the future force and joint capabilities respectively’. As the central authority for alignment, the Associate Secretary will ‘challenge’ the subsidiary plans put forward by the groups and services to ensure alignment with strategy and priorities.

A new Defence committee structure will be established, as set out in Figure 3, with memberships as listed in Table 4. The Defence Committee will focus ‘on the major capability and resource trade-offs and the shared accountabilities of the Secretary and CDF’. The Enterprise Business Committee will be responsible for running the Defence enterprise, including ‘planning, performance monitoring and reporting, enterprise risk management, information management and service delivery reform’. The Investment Committee will consider the equipment and facilities investment programs along with individual projects.

Table 3: Accountabilities of the Secretary and the CDF

Shared accountabilities	
<ul style="list-style-type: none"> • Provide integrated, timely policy and strategic advice to Government • Set top level organisational goals and responsibilities, approve group and service plans and manage performance • Manage and mitigate strategic and organisational risks 	
Accountabilities of the Secretary	Accountabilities of the CDF
<ul style="list-style-type: none"> • Coordinate the provision of timely advice to Government, including on Defence strategic missions, and the policy aspects of operational deployments • Set and manage the Defence budget, ensuring Defence remains within the allocated budget • Ensure that capability and capital investments options are appropriately contested for policy, financial and technical alignment • Enable capability managers to deliver capability into service in accordance with plans agreed with Government • Provide intelligence outputs including to whole of Government • Set top level budgets and manage allocation of resources across Defence • Provide enabling services to agreed service levels, including Defence science and research, human resources, information and communication technology, information management, facilities, estate, security and legal • Manage the Defence organisation within your reporting line, including design, control and reform of structures, processes, and policies • Ensure sound management of financial and other resources in accordance with the <i>Public Governance, Performance and Accountability Act 2013</i> • Set workforce and employment framework for the public service • Provide stewardship of the Australian Public Service workforce 	<ul style="list-style-type: none"> • Command the Australian Defence Force • Advise Government on the deployment of the Australian Defence Force to achieve Government objectives • Propose force structures to meet Government objectives within the allocated resource envelope • Deliver capability outcomes based on capability needs agreed with Government within budget and schedule • Ensure preparedness of the force through development and sustainment of military capability consistent with Government requirements • Manage the Defence organisation within your reporting line, including design, control and reform of structures and processes • Set requirements for enabling functions that provide input to capability • Manage within agreed budgets • Set a workforce framework and conditions of service for the Australian Defence Force • Provide stewardship of the military workforce

Source: First Principles Review, *Creating One Defence*.

Figure 3: The One Defence higher defence committee system



Table 4: The One Defence senior committee structure

Defence Committee	Enterprise Business Committee	Investment Committee
Secretary (Chair)	Associate Secretary (Chair)	Vice Chief of the Defence Force (Chair)
Chief of the Defence Force	Vice Chief of the Defence Force	Associate Secretary
Associate Secretary	Deputy Secretary Policy & Intelligence	Deputy Secretary Policy & Intelligence
Vice Chief of the Defence Force	Chief Finance Officer	Chief Finance Officer
Deputy Secretary Policy & Intelligence	Chiefs of Navy, Army and Air Force	Chiefs of Navy, Army and Air Force
Chief Finance Officer	Deputy Secretary Capability Acquisition and Sustainment	Deputy Secretary Capability Acquisition and Sustainment
	Heads of human resources, information and communication technology, facilities and estate	Finance Department representative

Note: The role of the Chief Defence Scientist on committees is yet to be made clear.

Other enterprise-wide committees will be reviewed with the aim of substantially reducing their number. It is noteworthy that the service chiefs are not members of the Defence Committee. In addition, legislative changes are planned to formally 'recognise the authority of the CDF and VCDF' and remove the statutory authority of the service chiefs.

Capability development—an end-to-end approach

The dissolution of the Capability Development Group will mean that requirements-setting will be transferred to the service chiefs (for land, sea and air proposals) and to the VCDF (for joint proposals). In addition, the current contestability function will go to the new Policy and Intelligence Group, along with responsibility for seeking project approval from government. The Australian Defence Test and Evaluation Office and the Project Management Office will move to the new Capability Acquisition and Sustainment Group.

Investment proposals will be considered by the Investment Committee chaired by the VCDF. A new Defence Investment Plan will be created, which will include all 'capital and related investments (such as materiel, estate and facilities, workforce and information and communications technology)'. In a new process for the initial entry of projects into the Defence Investment Plan—Gate Zero—the services will effectively bid to have new projects included.

Following entry into the investment program, capability managers will have 'authority and accountability as sponsors for the delivery of capability outcomes to time and budget'. Simultaneously, the new Capability Acquisition and Sustainment Group will manage projects 'from Gate Zero through to Final Operating Capability, including the integration of all Fundamental Inputs to Capability'. In doing so, the group will prepare proposals for first- and second-pass approval.

As proposals are brought forward in the Defence Investment Committee, the Policy and Intelligence Group will provide 'significantly enhanced and strengthened' contestability of the proposals—including 'red card' decision rights—on the basis of 'consistency with financial, technical and strategic guidance'. To support this, Defence's core policy functions (apart from force structure policy) will be consolidated into one unit under the Deputy Secretary Policy and Intelligence.

Although the essential features of the existing two-pass process for capability development will be retained, the investment approval process will be revised for large and complex projects to ensure that a wide range of options are considered initially for each proposal, and well as to reduce unnecessary documentation at each stage.

Under the 'smart buyer' construct, the Capability Acquisition and Sustainment Group will make greater use of industry in

managing both sustainment and acquisition. The existing System Program Offices will be reviewed to determine the best procurement model in each instance, and outsourcing will occur where it offers best value for money. In a similar manner, DSTO will form closer partnerships with industry and academia.

Enabling services—an enterprise-wide approach

The review makes several recommendations to improve the efficiency and effectiveness of enabling services. As a first step, it says that all unnecessary estate holdings should be disposed of, beginning with 17 bases identified in the 2012 *Future Defence estate report*. The review says that the net present value of the disposal is \$1.4 billion over 30 years. Neither the *Future Defence estate report* nor the list of bases has been made public.

The Associate Secretary will be the ultimate authority for information management, and the VCDF will be the design authority for C4ISR (command, control, communications, computers, intelligence, surveillance and reconnaissance). Management information systems will be bolstered to provide better decision-making and military interoperability. Business and information processes will be standardised and 'enterprise-wide frameworks for architecture standards and master data management' will be established. The Chief Information Officer will have 'red card' decision rights to stop corporate or C4ISR projects that don't comply with interoperability standards. All geospatial information functions will be consolidated into the Australian Geospatial Intelligence Organisation.

The shared service model of centralised support will be fully implemented across Defence, including in the new Capability Acquisition and Sustainment Group. All corporate services (apart from finance) will be consolidated under the Associate Secretary.

Personnel—the right people in the right jobs

Several recommendations have been made with the goal of creating an appropriately skilled and cost-effective Defence workforce. As a first step, a strategic workforce plan will be developed for the civilians in enabling functions to guide recruitment, learning and development, performance and talent management. At the same time, the enabling and military corporate workforce will be reviewed to ensure 'the greatest overall economy, efficiency and effectiveness'. Where consistent with the maintenance of capability, military personnel in enabling and corporate functions will be replaced by public servants or the function will be outsourced if it is transactional.

The review found that Defence suffers from too many layers of management and anomalously narrow spans of management supervision. Accordingly, the number of organisational layers will be reduced and spans of control will be increased. Consistent with this, seven Band 3 (deputy secretary) positions will be cut, including six from DMO and DSTO. Finally, a new performance management system that 'rewards high performance and introduces consequences for underperformance and failure to deal with it' will be introduced.

De-layering of the organisation, along with other changes, will result in workforce efficiencies. Around 1,000 fewer civilians and 950 fewer military personnel will be required in the new Capability Acquisition and Sustainment Group, and around 650 fewer civilians and 100 fewer military personnel will be required elsewhere in Defence.

Implementation

The review has provided an implementation plan and governance structure to guide the forthcoming reforms. It's planned that the bulk of changes will be complete within two years. The review team will stay on (augmented by a new female member) to provide external assurance. Regular reports will be made to the Defence Minister, and the government will receive yearly progress reports.

Part 2: Three perspectives on the forthcoming reforms

Peter Jennings: One Defence—root causes, risks and values

Smiling faces beam from the cover of *One Defence*. These happy folks, who are balanced for gender and service, are pleased that Defence business processes have had their 36th substantive review since 1973. They may agree with the report that there are ‘low engagement levels amongst employees’, that they are ‘inward looking, complicated and difficult to manage’, that they are ‘risk averse and resistant to change’, and that they are ‘subsumed by box-ticking and process tinkering’ and badly in need of ‘changes to behavioural mindsets’. If so, One Defence is the answer to their problems, for it’s nothing less than an ‘end-to-end holistic review’ and a ‘total systems approach based on evidence and analysis’.

It’s important to look beyond the business-speak of *One Defence*, because David Peever and his colleagues on the review team are correct in their diagnosis of Defence’s management problems. Their critique is all the more stinging because of its accuracy. If implemented, the 70 recommendations in the report will modernise the organisation. A small number of recommendations should have been taken further and a few left out altogether but, as reviews go, *One Defence* is sensible, serious and purposeful. It needs to be studied closely.

Root causes—here to stay

The reviewers ‘were puzzled as to why Defence has been unable to reform itself’ and identified three ‘root causes’ that have created ‘complacency and inertia’:

- ‘The high operational tempo and increasing national security demands over the past decade have demanded high levels of the senior leadership’s time and attention;
- Budget uncertainty with \$18.2 billion removed from the Defence budget from 2009–10 onwards which has led to reactive planning, deferred military capability and a hollowing out of enablers ... and
- Leadership churn from 1998 to the present resulting in nine ministers with an average tenure of two years, six

Secretaries with an average tenure of two and a half years and five Chiefs of the Defence Force with an average tenure of four years.’

Defence might take some comfort from this diagnosis because none of those factors is the organisation’s doing. A high operational tempo is the result of worsening strategic circumstances. The fact that the operational record since 1998 has been exemplary surely says something worthwhile about Defence’s management skills. Australians love to indulge in the ‘lions led by donkeys’ myth, but operational success is based on good military and civilian leadership as well as good fighting forces. Looking forward, a savvy reading of our strategic outlook would judge that Defence’s operational tempo will remain high. Senior military leaders and our politicians will continue to be absorbed by military operations. So this root cause of ‘complacency and inertia’ will remain, but let’s remember that Defence is there for the purpose of *doing* military operations—it’s not a planned diversion.

On the second root cause—budget uncertainty—Peever’s team is 100% correct. Strip mining \$18.2 billion in a couple of years after 2009 essentially destroyed Defence’s capacity to implement the Strategic Reform Program—the implementing plan for the 2008 Pappas review, which was the last big externally led review of Defence until this one. The spending plans of defence white papers since 1976 were all rapidly undercut by government-directed budget rethinks. The 2000 White Paper is partially exempted from that generalisation because, while it underestimated key program costs, the document also committed to a 10-year spending plan that was exceeded by a government riding high on the minerals boom. The global financial crisis put an end to such largesse, but while the government cut funds there was no change to the grandiose force structure plans set out in 2009 and 2013.

The message for government is clear: if you want Defence to manage itself better, you need to stick to deliverable and long-term spending plans. Those two requirements call for a large measure of political bipartisanship and a willingness to not overpromise. It would be naive to think that Defence is out of the woods about its future financial stability. Broader economic pressures on government are growing, and the central money agencies in Canberra are circling because that’s what white pointers do. So Peever’s second ‘root cause’ won’t go away either.

It would be nice to think that leadership churn will go away, but *One Defence's* third root cause is probably a permanent feature of our political system and the way it intersects with the Australian Public Service. Thirty-six month terms in office mean that governments are never far from campaign mode, so ministerial longevity is a rare thing. The tenure of Defence Department secretaries and CDFs is the gift of governments. It's obvious from the shorter tenure of secretaries that governments are happier to tinker with those positions than with CDFs. Of the previous six secretaries before Dennis Richardson, four left the job in publicly unhappy circumstances. The report doesn't dwell on the point, but an obvious lesson for any government is that it needs to get its relationship with secretaries right—and not just in Defence. Leadership churn is a feature of modern public life, and no-one should imagine that One Defence will make that phenomenon go away.

Risks and red cards

This ASPI special report looks in detail at each of the review's 70 recommendations, assessing the value and achievability of each. In aggregate, our shared view is that One Defence offers a sensible reform program for Defence, although uncertainty about details of implementation remains. If implemented carefully, with a willingness to sensibly modify approaches as the plan unfolds, One Defence will produce a more effective organisation. But there are clear risks, too. Three stand out as being most threatening to the project.

First, the wholesale redesign of DMO and Capability Development Group will take place at the same time as Defence has to develop recommendations for government on the Future Submarine, the Anzac frigate replacement and a slew of significant projects that will be the core of the 2015 Defence White Paper. A failure to proceed in a timely fashion with these projects will create capability gaps, produce budget underspends and risk the sustainability of key industry partners. As a rule, one wouldn't advise trialling a new capability development and acquisition process on the largest and most complex defence projects ever.

Second, the report emphasises clarifying individual responsibilities of key decision-makers, but does so at the expense of acknowledging that the whole system must work together to deliver outcomes. A number of players are explicitly handed 'red card' powers that enable them to stop projects dead if their particular areas of concern

aren't addressed: the VCDF, the Deputy Secretary Policy and Intelligence, the Chief Information Officer. On a worst-case reading, that's a recipe for deadlock. The only way the machine will tick over is if people bring cooperative mindsets to the business.

Third, One Defence takes a similarly uncollegial approach to structuring the diarchy between the CDF and the Secretary. As important as it is to clearly state their separate responsibilities, the success or failure of the diarchy depends on how the two principals work together, rather than what they control separately. The diarchy won't function properly if the Secretary and the CDF attempt to separate their roles. At best, that would produce a stalemate between the two positions, with starchy correspondence exchanged between the two offices. Perhaps that should lead to an additional accountability—let's call this a 'prime directive': the Secretary and the CDF must at all costs work together, collegially, as a team. If the need for collegiality is overlooked at the expense of defining separate domains, the risk is that the One Defence form of diarchy will enshrine two kingdoms in one realm—a dangerous path in a *Game of Thrones*.

Values—the key missing ingredient

The only mention of values in *One Defence* is a passing reference on the very last page of the report:

Underlying these changes though is the need for a behavioural shift in order to give true effect to the One Defence system. Behavioural elements include 'the attitudes, belief systems and core values that drive behaviour and guide daily activities and decision-making throughout the institution'.

Never was an afterthought so true. The reality is that Defence can work effectively, produce good equipment solutions, offer good policy advice, fight and win wars, and in fact do everything government needs of it using any number of senior leadership organisational structures. Far more important than the organisational design is the way people behave towards each other when they come to work. And, ultimately, behaviour is shaped by values.

Although this suggestion will set eyes rolling and heads shaking, Defence needs to have a new internal discussion about the values its people should hold. Organisations that tolerate bad values—behaviours like bullying, failure to delegate authority, risk aversion and disrespectful treatment

of staff—will fail to deliver high performance no matter what their organisational structure. The 2014 *State of the Service Report* on the Australian Public Service suggests that these are widespread problems. Defence will not be immune to these challenges. As a key measure to implement One Defence, the organisation should start an internal discussion about how to encourage the right values and behaviours, from senior leaders to the most junior staff. This will create the most constructive context for implementing change.

Andrew Davies: The capability development life cycle

The First Principles Review has recommended the formation of ‘a single and end-to-end capability development function’. Two casualties of this approach are the Capability Development Group (CDG) and DMO.

CDG was formerly responsible for the capability development process from project inception through to second-pass approval, after which responsibility would pass to DMO for project management and delivery. The Capability Acquisition and Sustainment Group will subsume most of the responsibilities of CDG (but few of the staff currently doing the work) and all of the responsibilities of DMO. Critically, however, the services and the VCDF will take responsibility for identifying capability requirements and sponsoring them through the approval and acquisition phases. CDG’s contestability and internal costing functions will transfer to the Deputy Secretary Policy and Intelligence and the Chief Finance Officer, respectively.

Force structuring and capability definition

The First Principles Review institutionalises an annual force structure review—an activity that’s traditionally been confined to the development of a Defence White Paper. Given the time it takes to develop and implement force structures—the capability initiatives from the Defence 2000 White Paper are still not completely delivered—it’s not clear that an annual review will repay the effort needed to do it properly.

Once the ‘big picture’ force structure is decided, individual capability proposals from the capability managers will now face a ‘Gate Zero’ in the capability development process—a ‘new, formalised point in the approval process where a concept is given approval to progress for development and potential consideration at first pass’. That’s a potentially

valuable step, albeit one that could add even more time to an already lengthy process. Previously, much attention was given to capability proposals at first and second pass, but relatively little scrutiny was applied to the initial entry into the process. The combination of organisational inertia and the raised expectations of industry made the Defence Capability Plan fill up with proposals that might seem reasonable enough in isolation, but didn’t work at a portfolio level.

Given that the capability managers will shoulder responsibility for Gate Zero, but the Capability Acquisition and Sustainment Group will prepare the business cases for first- and second-pass approvals, the new process has removed the ‘artificial handover point’ that previously arose between CDG and DMO after second pass. Different parts of the organisation will still take the lead before and after Gate Zero approval, but it’s a much softer handover in the sense that it’s now—as intended—an ‘end-to-end capability development function’ from approved needs identification through to delivery. That’s a good thing, and the review can take credit for removing a major artificiality from the capability development process.

But there are a couple of things that will need watching. First, there’s still an opportunity for the services to game the system by specifying needs narrowly and thereby steering the outcome several steps down the line. Effective contestability at Gate Zero will be important. Second, a substantial fraction of the staff resources of the former CDG will still be required after Gate Zero, but those resources appear to return to the services. The implementation plan will have to address the staffing requirements of the Capability Acquisition and Sustainment Group.

Under the new process, the VCDF will be responsible for coordinating and integrating overall requirements through the Investment Committee—he’ll be the gatekeeper of the capital investment program. Presumably, any ‘big picture’ force structure changes suggested by the annual force structure review will be the responsibility of the VCDF as coordinator. At the same time, the Deputy Secretary Policy and Intelligence and the Chief Finance Officer will contest the business cases brought forward by the capability managers.

The VCDF will also be the capability manager for joint capabilities. By itself, that’s a good thing (and something I’ve previously argued for) because the ‘joining up’ of ADF

capabilities hasn't had a champion on the same footing as single service capabilities. But the VCDF has a conflict of interest if he's to act as both gatekeeper of the capital program and champion of joint capabilities. It would be better to either make the Deputy Secretary Policy and Intelligence the gatekeeper (in the way that the Deputy Secretary Strategy and Intelligence managed the capability program in the 1990s) or make the Chief Joint Operations the proposer for joint capabilities, if not the Joint Capability Manager (as the UK has done).

Contestability

The 'arm's length contestability' sought by the review looks more than a little like the old Force Development and Analysis (FDA) division in the post-Tange review organisation. Tange deliberately built 'creative tension' into the capability development process, intending to ensure that only well-developed and defensible proposals went forward for government consideration. A degree of rancour was the result—when strongly held views reflecting a robust service culture are second-guessed by an 'outgroup', hard feelings are inevitable.

The trick to making contestability work properly is to develop as much collegiality as possible while maintaining independence of views and developing the required skills and professionalism. The old FDA was too removed from the service side of capability development, which often led to unnecessary and avoidable ill-will. But it was replaced by CDG's internal contestability, which was insufficiently at arm's length. The result was a poorly disciplined and heavily oversubscribed Defence Capability Plan. However, over the past decade, CDG has done some good work developing the required skills within its workforce. This has at least partly overcome the problems that result from a posting into capability development being only a brief part of a military career. Increasingly, capability development has come to be seen as part of the professional skill set required of officers in particular career streams. That approach needs to be kept.

Reconstituting a high-performing contestability mechanism won't be easy. At the height of its effectiveness, FDA was supported by a large quantitative analysis organisation that performed operations research and mathematical modelling in support of force structure deliberations. By the mid-1990s, when relations between FDA and the services reached their

lowest point, expertise in the required highly specialised analytical techniques had grown thin, and the value-add of FDA had fallen commensurately.

The implementation of the review will have to take into account the scarcity of the required expertise and allow time for it to mature. Ross Babbage, who ran the Force Development branch of FDA in the 1980s, is cautiously optimistic that it can be done, but adds that it isn't possible by relying on Defence's internal resources. His preferred approach would be to:

- assemble some of the best analytical brains in the ADF and the public service (DSTO has some people with appropriate skills and experience)
- contract in, either full or part time, some of the 'old hands' who are still capable of this work and prepared to help kickstart the initiative
- engage some high-calibre personnel from the US and UK for the first few years
- restart the active program of fostering and training a new generation of young Turks in Defence to be skilled in this work and, for some, to make it the backbone of their careers.

As well, and consistent with what the review envisages, it should be possible to supplement in-house analytical work with outsourced activities by organisations such as the RAND Corporation and other specialist consultancies, as has been done in support of submarine and shipbuilding project planning.

But it'll be important not to sit the 'contesters' in one place and the service developers of capability needs in another—conflict would result. And scattering the capability developers to the four winds would impede coordination, training, mentoring and career development. The system will work best if those responsible for contesting business cases work closely with those responsible for developing them.

The aim, ultimately, has to be a set of options for government with accurate costings and the pros and cons of each clearly set out. Contestability will be working if the service's preferred option (there'll usually be one) is on the same rigorous footing as the others.

Acquisition

The abolition of DMO is predicated on removing unnecessary layers of management, rationalising the workforce more generally, streamlining processes, and eliminating the tension between Defence and DMO. The aim is to produce a ‘smart procurement’ model that operates more effectively than DMO has been able to.

Given that much organisational energy was being expended in unproductive ‘turf wars’ between Defence proper and DMO, the reabsorption was inevitable and is probably justified. However, there was undeniably merit in a more arm’s length relationship, and care will be needed to keep the benefits. In particular, the Kinnaird and (especially) Mortimer reviews wanted strong independent risk analysis of projects. That happened at various times, but always came with a cost to relationships within the department.

In that context, it’s worth noting that DMO’s independence was potentially most effective when there was a minister with responsibility for defence acquisition who could be advised by the CEO of DMO. In practice, that introduced another potential tension, this time between the two senior defence ministers, with one being advised by the Secretary and CDF and the other by DMO. So pulling DMO back into the department probably doesn’t come at much cost to the contestability of advice to government in practice.

Structurally, removing layers of management in acquisition and streamlining the workforce while reducing process are good ideas in principle but, as with other elements of the restructuring about to happen, much will depend on the details of implementation. There are several major potential downsides in a substantial cut in the levels and numbers of people working in acquisition. First, cutting the number of high-level (and thus highly paid) positions risks losing the skills needed to manage smart procurement and sustainment. Large corporations don’t pay public service salaries to executives charged with managing big projects or operations.

Second, moving to a smaller organisation overall is fine, but it needs to be a smarter organisation with the right skills. One of the aims of placing DMO at arm’s length from the department in the first place was to allow it to recruit staff with the appropriate experience and professional skills and pay them commercially competitive salaries. For the

most part, the commercial salaries didn’t happen, mostly because of the tensions with the department proper. But DMO did manage to raise the average level of qualifications in project management and engineering. That’ll be even more important with a smaller workforce, and it mightn’t come cheap. The alternative is outsourcing project management, but that’s likely to cost more still. As well, the interests of the government have to be protected in any outsourcing.

That’s also true in the redesign of acquisition and sustainment management processes. Of course reducing pointless process makes sense, and would no doubt make defence industry happy—frustration with DMO process is a common theme when speaking with industry—but part of DMO’s role is regulatory, and that has to be protected. As a monopsony buyer of many goods and services, the Commonwealth is a special type of customer and standard commercial practices don’t always apply.

Capability management and sustainment

One of the outstanding problems in Defence since the Kinnaird and Mortimer reforms were brought in has been a mismatch between the responsibilities of the capability managers and the resources they control. Under the system that emerged following those reviews, they have the responsibility to ‘raise, train and sustain’ force and capability elements for their respective domains, but don’t have direct management responsibility for the resources needed to do so. Instead, DMO manages sustainment on behalf of the capability managers, in arrangements formalised in materiel sustainment agreements.

In practice, it meant that everyone and no-one was responsible for serious failures. The then Secretary and CDF said as much when responding to the Defence Minister after a collapse of the Navy’s amphibious capability (which resulted in the 2011 Rizzo report). And the underperformance of the Collins class sustainment over many years had many owners—but none who was ever held to account. Addressing these issues isn’t a theoretical exercise in organisational arrangements.

The First Principles Review proposes several changes to the arrangements for capability management, but doesn’t seem to fix the core problem of diffuse accountability. The civilian–military division of responsibility remains much the same—only the names have been changed. At the highest

level, the Secretary has the responsibility of enabling ‘capability managers to deliver capability into service in accordance with plans agreed with Government’ while the CDF will ‘Deliver capability outcomes based on capability needs agreed with Government within budget and schedule’ and ‘ensure preparedness of the force through development and sustainment of military capability consistent with Government requirements’.

At the next level down, the capability managers will ‘specify the Fundamental Inputs to Capability requirements, with the Capability Acquisition and Sustainment Group having responsibility for developing and delivering an integrated project plan.’ The implementation plan for the review needs to make this arrangement clear—as it stands, the review is confusing (or perhaps confused) about who has responsibility for projects and the integration of the fundamental inputs to capability (training, logistics and so on). Is it the services or the Capability Acquisition and Sustainment Group? As near as I can tell, sustainment will still depend on something closely resembling the materiel sustainment agreements which will now be between renamed parties but with still-to-be-defined accountability. It’s hard to see what’s been gained there.

Mark Thomson: One Defence in two parts

Confronted with the First Principles Review’s 70 detailed recommendations, it’s easy to lose sight of the forest for the trees. Viewed clear of the details, the two most important outcomes are the decisions—one explicit, one implicit—to leave things as they are: to retain the civilian–military diarchy, and to preserve the shared services model for materiel and corporate support.

These outcomes were not pre-ordained. There are some who would like to see the diarchy done away with and the CDF put in charge—either with or without a parallel civilian-led Defence Department. And there are others who would like to see the services reabsorb the materiel sustainment and enabling support functions. In each case, the arguments hinge on clarity of accountability and its alignment with authority. A typical rhetorical question would be: How can a service chief, or indeed the CDF, be held to account for delivering capability if they don’t control the resources needed for the task?

Although the first principle of the First Principles Review was ‘clear authorities and accountabilities that align with

resources’, the review team members weren’t persuaded—most likely because they recognised the need to balance accountability with other competing factors. For the shared services model, it was the substantial efficiencies available through economies of scale and the central rationing of service levels. For the diarchy, it was avoiding the conflict of interest that would arise if the military were the government’s sole source of advice about the military. I think the review made the right decision in both cases.

One Defence

Having decided to retain the diarchy and shared services model, the review was left with the task of building an improved business model incorporating those two features. Its solution is interesting and in some ways unexpected.

The first step is to split the department into two parts—one part reporting to the Secretary and the other reporting to the CDF. At the same time, the joint and separate accountabilities of the Secretary and CDF have been revised to reduce the number of joint roles (from 6 to 3) and increase the number of separate roles (from 15 to 21). As a result, the operation of the diarchy has shifted emphasis from joint administration to dual administration. Most importantly, the previously joint responsibility for the ‘identification, development and provision of current and future capability’ has been replaced by the sole accountabilities of the CDF to ‘propose force structures’ and ‘deliver capability outcomes’.

While it looks as though the Secretary has been handed an apron and told to get on with the corporate housekeeping, that’s not really what’s going on. To start with, the Secretary retains accountability for advising the government on ‘Defence strategic missions, and the policy aspects of operational deployments’. More importantly, he’s also been tasked to ‘ensure that capability and capital investments options are appropriately contested for policy, financial and technical alignment’. And contestability isn’t restricted to the development of the future force: the Associate Secretary will ‘challenge’ the annual plans put forward by the groups and services to ensure that they align with strategy and priorities.

In some ways, it’s an elegant solution. The Secretary will manage the overall budget and ensure that shared services (including procurement, sustainment and corporate support) are delivered so that the CDF can focus on generating military capability. At the same time, the civilian side of the

department will provide contestability of the military's short- and long-term plans. So, does the new model add up?

One plus one equals ...

Having divided the department into two, the question is whether it will be greater or less than the sum of its parts.

There's always been some parallelism in Defence administration—the nature of military command and the strictures of the Public Service Act and the Financial Management and Accountability Act guaranteed it—but the new model entrenches and widens the civilian–military divide in Defence. This in itself is a concern, because it sends the wrong message to staff; Defence will always perform better when there's close and continuous cooperation across the enterprise, unhindered by artificial divides.

But perhaps the division into two parts can be justified on the grounds that it clarifies accountabilities? I'm doubtful. Many of the accountabilities split between the civilian and military sides of the Defence are indivisible in practice.

Consider the management of enabling services. The Secretary is accountable for the provision of enabling services (and the setting of their budget), whereas the CDF is responsible for setting performance requirements for enabling functions. But budgeting and performance requirements are two sides of the same coin—one can't be set without reference to the other. So who has primacy? Does the CDF trim his performance requirements to fit within the budget allocated by the Secretary, or does the Secretary allocate whatever resources are needed to fulfil the CDF's requirements (robbing Peter to pay Paul)? Exactly the same problem arises with the division of accountabilities for capability development.

So what's the alternative? Although the review aspires to build a 'strong strategic centre', it has in fact produced two strategic centres—one centred on the Associate Secretary and another on the VCDF. The alternative would be to build an integrated headquarters with the analytical capacity to make informed trade-offs between capability outcomes and internal resource allocations, with the Secretary and CDF jointly accountable for its process and outcomes.

One minus one equals ...

For all the reasons cited in the review, the reinstatement of contestability into Defence is long overdue. But the devil is in the detail, and there are several aspects of the proposed contestability regime that deserve close scrutiny.

First, although the goal is to have a 'continuous contestability function that operates throughout the capability development life cycle from concept to disposal', the emphasis is clearly on the investment program and in particular on the approval of capability proposals. If the Associate Secretary's 'challenge' of annual plans affecting in-service capability is to be effective, a substantial investment will be needed to build the necessary analytical capacity. The planned enhancement of management information systems is a necessary but not sufficient step.

Second, advice on the commercial and industry aspects of capability acquisitions is conspicuous by its absence from the new scheme—perhaps because this was one of the many points of contention between DMO and the Defence centre. Whatever the reason, it would be a pity to lose the baby with the bathwater.

Third, the proposed 'red card' decision rights accorded to the Deputy Secretary Policy and Intelligence are problematic. It makes no sense to give them (or indeed the Chief Information Officer) a veto over the decision rights of the VCDF as chair of the Investment Committee on what is ultimately the prerogative of the Secretary and CDF. A more workable approach would be to give the Deputy Secretary Policy and Intelligence the right to be heard when a project comes before the Defence Committee for final sign-off. Contestability shouldn't be about vetoes, but about ensuring that decision-makers receive credible advice from more than one source.

Accountability

The shared services model unavoidably separates capability managers from the direct control of the resources needed to deliver the outcomes that they're accountable for. But, in contrast to the concerns expressed by Andrew Davies in the previous section, I think that the problem is often overstated.

In the most critical area—materiel sustainment—the service chiefs already hold the purse strings and are able to make trade-offs between cost and the level of support they receive. And their ability to do so has been enhanced in recent years through cooperation with industry facilitated by DMO. In terms of garrison and corporate support, the capability managers do not hold the budget, and service levels are largely set centrally. But this is no different from what happens in many parts of the private and public sectors. The essential point is that the shared services model (even in its current form) doesn't prevent capability managers being held to account for their performance. With the improved monitoring and performance management of the groups and services under the One Defence model, the situation can only get better.

When it comes to capability development, the review envisages 'Capability Managers having clear authority and accountability as sponsors for the delivery of capability outcomes to time and budget'. This is fanciful. The acquisition phase of capability development will be executed by the new Capability Acquisition and Sustainment Group as the agent for the capability managers. It's neither feasible nor practical for the capability managers to monitor and closely supervise the details of contracting, tender evaluation and project management. Conversely, the Capability Acquisition and Sustainment Group doesn't control the level of risk that they're directed to bear by the VCDF and services via the choice of equipment solutions. Capability development is a department-wide activity in which accountability rests with the diarchy and ultimately the minister.

Over the years, a great deal of attention has been placed on Defence's structure and governance in an effort to 'improve accountability'. *One Defence* continues the great quest. In the final analysis, however, accountability is something that one person imposes on another. And while structures and governance can facilitate or impede accountability, the real problem in Defence has been a systemic unwillingness to manage underperformance—from the top down. Consequently, the emergence of greater accountability will depend much more on cultural change within the organisational than on the intricacies of wiring diagrams.

Prospects

Over the past decade, we've been promised a veritable cornucopia of improvements from Defence. Just about every aspect of the enterprise—governance, accountability, reporting, planning, efficiency—has been slated for enhancement, improvement or 'being made more strategic', yet here we are again.

The First Principles Review cites three 'root causes' for why Defence has been unable to reform itself in recent times: funding volatility, operational demands and leadership churn. There's no denying that those have all been important factors, but I think that there's more to be said about the seemingly endless cycle of Defence reform.

Let's start with the acquisition function. Problems with major Defence projects periodically give rise to reviews followed by reforms. But there's only so much that can be done to mitigate the inherent risk in acquiring cutting-edge weapons systems. With a large portfolio containing many risky projects, problems are inevitable. And when things do go wrong, Defence (or its acquisition agency) is blamed and the search for a solution begins anew. Unless the government is willing to always buy proven equipment off the shelf, or accept the risks that it signs up to, we're doomed to repeat the cycle of reviews and reforms.

In terms of the overall structure and processes of the Defence enterprise, cyclical reform arises because nobody knows how to tame the beast. I have a bookshelf filled with reviews of Defence, from Tange's 1973 report onwards. Each claims to have diagnosed the problem correctly, and each proposes a remedy with equal confidence. None has stood the test of time. Instead, incremental progress has been made by trying new ideas, retaining what works and rejecting what doesn't. The quasi-independent DMO is an example of an idea that's been tried and rejected.

As a result, the long-term progress of Defence reform owes as much to trial and error as it does to intelligent design. That's arguably the lens through which the current round of reforms should be viewed. It's one more opportunity to discard failed ideas and try some new ones. On past experience, the net result will be positive.

Part 3: The recommendations in detail

In addition to its six key recommendations, the First Principles Review made a further 70 specific recommendations, which are examined below.

Key Recommendation 1: Establish a strong, strategic centre to strengthen accountability and top level decision-making.

Recommendation 1.1: This review be adopted as the road map for Defence reform for the next five years.

The 2009 Defence White Paper also made the case for five-year reviews:

... the Government intends to prepare a new Defence White Paper at intervals no greater than five years.

This quinquennial White Paper development process will be the centrepiece of the Government's new strategic risk-based approach to defence planning.

(Paragraph 3.24)

Of course, the plan didn't survive even one five-year period, as the subsequent white paper was brought forward to 2013. For *One Defence* to be adopted as a five-year road map, the plan would have to survive two federal elections and last beyond the likely incumbency of all current senior players. A more realistic outcome is that the review will have a clear run at least to the next federal election. After that point, changes of personalities and of necessity will see *One Defence* morph into new shapes.

Recommendation 1.2: A new One Defence business model.

At the heart of the proposed changes is a new business model. *One Defence* provides two diagrams: one for the existing business model and one for the proposed *One Defence* business model.

Peter Jennings says: With the then Vice Chief of Defence, David Hurley, I was responsible around 2010 for developing what was described as the Simplified Defence Business Model, illustrated on page 17 of *One Defence*. This was part of the implementing work for the Strategic Reform Program and replaced an even more elaborate model known rather caustically as the 'Taubman's paint chart'. Business models provide a visual description of how an organisation works by

describing the entity's purposes, the ways of achieving them and key internal relationships.

The Simplified Defence Business Model certainly had its flaws, but it had been debated at some length by the Defence Committee and for that reason was broadly accepted. A new organisational structure needs a new business model, which *One Defence* offers on page 18. The model's only real weakness is that it hasn't been produced by the current leadership team—it's an injection from Peever's review. If you haven't been on the journey, the risk is that the model looks more like an aggregation of boxes and arrows. Getting the Defence senior leadership group to 'own' the model is an essential task.

Recommendation 1.3: The diarchy is retained.

Recommendation 1.4: The individual and shared accountabilities of the Secretary and the Chief of the Defence Force be clarified, formally documented and promulgated through the organisation.

Although the review recommends that the diarchy be retained, it sets out a starker division of roles than has previously been the case. As a result, shared accountabilities are reduced to a mere three high-level matters. In effect, the administration of the department has been divided into two. The CDF has accountability for all things to do with the military (including the critical role of proposing force structures to the government), while the Secretary is responsible for finance, enabling services and some policy matters.

The problem is that many of the accountabilities allocated to either the Secretary or the CDF are interdependent. For example, the Secretary is responsible for the overall Defence budget, while the CDF is responsible for components of the budget. Does that mean that the CDF is accountable to the Secretary on budget matters? If not, how can the Secretary be accountable for managing the budget when he has no control over the CDF's component? There are good reasons why shared accountability has been the backbone of the diarchy for more than four decades.

As important as it is to clearly state the separate responsibilities of the Secretary and the CDF, the success of the diarchy is built on how the two principals work together, rather than what they control separately. This is much harder

to put into a list of accountabilities but it reflects an essential reality of the two positions. The diarchy won't function properly if the Secretary and the CDF attempt to separate their roles. At best, that would produce a stalemate between the two positions.

Recommendation 1.5: A streamlined top level management structure for the Department that is aligned with the One Defence business model.

The division of accountabilities between the Secretary and the CDF extends to the organisation as a whole.

In the interests of clarity, *One Defence* tries hard to separate the roles of civilian 'direct reports' to the Secretary and military 'direct reports' to the CDF, as shown in Figure 1. It's harder to document the reality of life at the top of Defence. In the real Defence world, these direct reports need to work to the shared interests of both the Secretary and the CDF. The newly titled Deputy Secretary Policy and Intelligence will spend at least as much time in the CDF's office developing the strategic basis for operations or setting force structure priorities. Likewise, military folk will be talking to the Secretary on everything from funding issues to accessing enablers. The new organisational structure will work well if people bring a collaborative instinct to the job.

Recommendation 1.6: The strategic centre include the Associate Secretary and Vice Chief of the Defence Force as the integrators for the Defence enterprise and the future force and joint capabilities respectively.

In effect, the Associate Secretary and the VCDF will form a junior diarchy with responsibility for 'integrating' complementary halves of Defence. To some extent, they'll constitute the core of a headquarters function for Defence. By 'integrate' is meant 'bring others together, make trade-offs and drive cooperation to create joint outputs'.

In terms of responsibilities, the Associate Secretary will have both a 'headquarters' and a 'service delivery' role. The former includes responsibility for enterprise planning, performance and risk management. The latter amounts to delivering a range of non-military enabling services. These will include 'facilities and estate, security, information and communications technology, information management, human resources, legal and audit'.

The VCDF will be responsible for 'joint force integration, interoperability and designing the future force' as well as preparedness setting and military strategy. In addition, the VCDF will continue to be responsible for a range of military enabling services, including joint logistics, health, cadets, reserves and military education.

In some respects, One Defence designs itself around the principals—the people already in senior jobs—rather than the principles of key organisational priorities. This is clear in the recommendations dealing with top positions in the 'strategic centre' of Defence. For example, the mini-diarchy function created between the Associate Secretary and the VCDF would probably be better if it were between the new Deputy Secretary Policy and Intelligence and the VCDF. The 1997 Defence Efficiency Review's report, *Future directions for the management of Australia's defence*, described the role of the (then titled) Deputy Secretary Strategy and Intelligence and the VCDF as 'the intellectual powerhouse that drives the coherent functioning of the whole organisation'. Because of the roles these two positions have in strategy and capability, that remains the case today. But, recognising the current positions, One Defence pairs the VCDF with the Associate Secretary, who is largely responsible for corporate governance and enabling areas, as the basis of the new mini-diarchy. Time will show whether that's the right pairing.

Recommendation 1.7: The Vice Chief of the Defence Force's decision rights be greatly strengthened, including the right to stop projects proceeding through the approval process until joint force integration is proven.

The position of the VCDF is rightly elevated, adding considerably to their authority for joint capability. This is an overdue step that Defence should have taken some time ago. We've yet to see the personnel costs associated with increasing the VCDF's throw-weight, but there will be costs. It will take almost superhuman capacities to manage the position's span of control.

The recommendation's emphasis on joint capability integration is understandable, but the VCDF will have the power to decide which projects go forward anyway, because they'll chair the Investment Committee.

Recommendation 1.8: Legislative changes to formally recognise the authority of the Chief of the Defence Force and the Vice Chief of the Defence Force, including removing the statutory authority of the Service Chiefs.

This recommendation seeks to address how the Defence Act apportioned command authority. Briefly, the issues are as follows.

1. Under the Defence Act, the service chiefs command the services and the CDF commands the service chiefs. Consequently, the CDF only commands the services through the service chiefs. When the service chiefs are removed from the picture, the CDF will then directly command services.

From the perspective of the service chiefs, there's arguably more at stake. Under current legislation, they directly advise the minister on matters pertaining to their services. With this comes (or so it's often claimed) an implicit 'right of approach', whereby they can approach the minister outside of the chain of command. This would presumably be lost under the proposed revision of the Act.

The 1997 report of the Defence Efficiency Review considered removing the statutory authorities of the service chiefs, saying:

The idea that the Service Chiefs (or anyone else) should have a formal right to bypass their superior officer is contrary to sound management theory and practice ...

At that time, however, this was considered a step too far and no recommendation was made to change the Defence Act. Eighteen years later, *One Defence* makes the right call to cement the leadership authority of the CDF and the Secretary in relation to the service chiefs. In 2015, the change looks more symbolic than substantive: it would be a strange decision for a minister not to see a service chief if one of them demanded a meeting, regardless of statutory authority. Symbols are important, though, and there's bound to be some push-back, if only from past service chiefs.

2. The review further proposes that service chiefs 'be explicitly subject to the direction of the Chief of the Defence Force'. The current Act says only that the

service chiefs exercise command 'under the Chief of the Defence Force'.

3. The review proposes that the VCDF's role as deputy to the CDF be codified in legislation. The current Act allows the delegation of administration from the CDF to the VCDF but is silent on the delegation of command.

Recommendation 1.9: That policy advice be strengthened by bringing all policy functions into one organisational unit in order to improve the quality of advice provided to Government.

Defence provides policy advice to the government on myriad issues, from contracting to health. The consolidation of all such functions wouldn't be feasible. The intent of the recommendation is only to consolidate core defence and strategic policy functions, including strategic and international policy. Even then, the consolidation will be incomplete because force structure policy will reside with the VCDF. Although the review doesn't say so, the new unit will come under the Deputy Secretary Policy and Intelligence.

Recommendation 1.10: A strong and credible internal contestability function be built and led by the Deputy Secretary Policy and Intelligence with responsibility for strategic contestability, scope, technical and cost contestability.

This recommendation pertains to the capital equipment program. ASPI has long argued for just such an initiative, and it's pleasing to see that the review agrees. Contestability in capability development is important to ensure that Defence rigorously defines the military capabilities that it needs based on an intelligent appreciation of Australia's changing strategic outlook.

Note that the review envisages that the Deputy Secretary Policy and Intelligence will have a veto power over the progress of projects. That's fine, but once again the logic of dividing accountabilities between the Secretary and the CDF comes under challenge. How can the CDF be solely accountable for force structure proposals if the Secretary (through their subordinate) has veto power over the construction of the force structure?

A key challenge for the Deputy Secretary Policy and Intelligence will be to manage the workload, and that can only be done through substantial delegation of responsibility.

That runs counter to the normal Defence practice, which is to push decision-making to higher levels. As important as the contestability function is, the Deputy Secretary Policy and Intelligence's primary role must remain helping to deliver Defence outcomes, whether by providing policy advice or by playing a necessary role in defining military capabilities. The job therefore calls for a complex mix of being able to facilitate as well as to 'red card' equipment projects. Hard work, indeed.

Recommendation 1.11: That the policy and intelligence functions be combined under a Deputy Secretary Policy and Intelligence, who will have responsibility for providing policy advice and intelligence assessments to the Secretary and the Chief of the Defence Force.

This recommendation will see the work of two deputy secretaries done by one person. Given that this was the case not so long ago, there's no reason why it shouldn't occur. If nothing else, it will set a precedent for 'de-layering' the organisation.

The review points to the potential benefits of cooperation between intelligence and policy officers as a result of the consolidation. Provided this is done with due regard to the critical separation of the policy and intelligence functions (an issue that the review discusses at length), there could indeed be benefits beyond saving the taxpayer a deputy secretary's salary.

The loss of the term 'Strategy' may have had little more to it than a desire to avoid an unfortunate acronym for a job title involving Policy, Intelligence and Strategy. But for an organisation uniquely concerned with the classical purpose of strategy—using armed force to achieve political objectives—losing the title is beyond regrettable. Strategy isn't just about business planning; nor is most 'policy' strategic.

Recommendation 1.12: The Defence Security Authority be repositioned under the Associate Secretary.

The Defence Security Authority is a service provider and therefore fits most naturally under the Associate Secretary.

Recommendation 1.13: The Defence Committee be re-positioned as the primary decision making committee of Defence and the heart of the strategic centre with two supporting committees—Enterprise Business Committee and Investment Committee.

The new committee structure appears in Figure 3 of this report, and the membership of the new committees appears in Table 4.

Just like those titans of modern music, the lamentable One Direction, One Defence will have its own slimmed down boys' band (yes, all boys of course—for now, anyway) in the form of a radically reduced Defence Committee. The review team should be congratulated for biting the bullet and shrinking the Defence Committee. The exclusion of the service chiefs from the committee is consistent with a move from a federated to a centrally run enterprise.

Debate will continue about whether the right membership is proposed. For example, the absence of the Deputy Secretary Capability Acquisition and Sustainment position from the committee is bizarre and will surely be changed in time. On the other hand, the continuing presence of the Chief Finance Officer position is unnecessary. That role should be in the Associate Secretary's domain.

The Defence Committee will focus 'on the major capability and resource trade-offs and the shared accountabilities of the Secretary and CDF'. The Enterprise Business Committee will be responsible for running the Defence enterprise, including 'planning, performance monitoring and reporting, enterprise risk management, information management and service delivery reform'. The Investment Committee will consider the equipment and facilities investment programs along with individual projects.

Apart from the Investment Committee, which is clearly an advisory committee with the VCDF as sole decision-maker, the review is silent about how decisions will be reached. Presumably, the Associate Secretary is the sole decision-maker in the Enterprise Business Committee. But what about the Defence Committee?

Conspicuous by its absence is the Chiefs of Service Committee. It's neither preserved nor done away with. Although it's not an enterprise-wide committee, it's normally been included in previous descriptions of Defence's higher committee structure.

Recommendation 1.14: That all other enterprise-wide committees be reviewed for their relevance and alignment with the One Defence business model with the aim of a substantial reduction in the number of committees.

There's nothing new in this recommendation. Once again, Defence is being told to weed its bureaucratic garden of committees. And just as in a real garden, it will need to do so again in the not too distant future.

But while it's fashionable to decry committees, they can serve a useful purpose. In a diverse organisation such as Defence, it's often necessary to bring together disparate expertise to properly inform complex decisions.

Recommendation 1.15: That the organisational structure reporting to the Vice Chief of the Defence Force be simplified through the incorporation of a two-star Head of Joint Enablers role.

With the goal of lessening the workload of the VCDF, a new two-star position will be created to oversee the hodgepodge of seven disparate entities currently under the control of the VCDF, including various military education institutions. Another option might have been to assign some joint tasks to the Commander Joint Operational Command role, or indeed to a service chief to manage the task as a joint role on behalf of the whole Defence organisation as a net addition to their raise, train and sustain role. The key point is to find ways to make the VCDF role manageable.

Recommendation 1.16: A strengthened centre-led, enterprise-wide planning and performance monitoring process be adopted.

Recommendation 1.17: The Associate Secretary be the central authority to deliver enterprise planning and performance monitoring processes, in line with the requirements of the *Public Governance, Performance and Accountability Act 2013*.

These recommendations strengthen recent progress in Defence planning. Among other things, it's proposed that the Associate Secretary will not only develop the overall Corporate Plan, but will also 'challenge' (by which is meant 'contest') the resulting subsidiary planning documents from other parts of the organisation to ensure alignment with strategy and priorities. In effect, the contestability envisaged for the capital investment program will be extended to all recurrent operating activities across the organisation. This is an excellent idea.

There's also a new emphasis on performance monitoring, which makes sense: performance management is the natural

flip side of planning. The difficulty of this task shouldn't be underestimated. Apart from a handful of quantified results—financial and otherwise—and the attainment of concrete milestones in equipment acquisition projects, most performance measures in Defence are qualitative and self-reported. The Associate Secretary will have their work cut out for them.

Recommendation 1.18: That the Minister for Defence meet with the Defence Committee twice yearly to consider a formal strategic assessment of the alignment between Defence's strategy, funding and capability.

Ministers commission reviews, and their own roles and functions are seldom directly considered. It's telling that the First Principles Review feels the need to urge ministers to meet formally with their departments. The recommendation makes perfect sense and points to a rather sensitive observation that the work practices of ministers could benefit from a more explicit examination. Few ministers visit the Russell offices. Those that do will be welcomed for their leadership and get a more detailed insight into the working of the organisation than can be conveyed by hasty and too frequently interrupted meetings in the ministerial wing of Parliament House.

The focus on alignment is appropriate. Over the years, strategy, funding and capability have rarely been in concert. For a long time, this has been because of careless or deliberate underestimations of costs by Defence. More recently, a gap emerged due to the failure of government to make good on funding commitments. Given this history, having the two parties sit down with the facts on the table can't do any harm. It would make sense to invite the Minister for Finance to the meetings.

Recommendation 1.19: Defence conduct regular reviews of the capital program in consultation with the Minister and central agencies.

The First Principles Review wasn't asked to review wider processes supporting government decision-making on defence. With this review completed, and with a much stronger costing framework in place for capability development, the need is to streamline the roles of other agencies in cabinet decision-making. One solution would be to trade off endless departmental wrangling over first- and

second-pass equipment approvals with the annual review proposed here.

The review also suggests that ‘a senior representative from the Department of Finance on the Investment Committee would also facilitate this engagement’. That used to be standard practice.

Key Recommendation 2: Establish a single end-to-end capability development function within the Department to maximise the efficient, effective and professional delivery of military capability.

Recommendation 2.1: Disbanding the Capability Development Group and dispersing its functions to more appropriate areas.

This is one of the most consequential and most risky of the One Defence recommendations. It’s consequential because, regardless of the organisational structure, Defence has a critical need for capability development. It’s risky because in the next few years the government will have to make two of the most expensive capability decisions ever—for new submarines and new surface ships. So those proposals will be developed by new entities, even as these structures are being set up.

Just because something is risky doesn’t mean it shouldn’t be attempted. Capability Development Group (CDG) got some unfair bad press, but it was clearly not meeting Defence’s or the government’s needs. Deep investment will be needed to upskill the capability development workforce—this is central to making any new structure more effective. While *One Defence* clearly identifies the new roles that the services, the VCDF and the Deputy Secretary Policy and Intelligence will play, it’s less clear about how equipping the VCDF and the Deputy Secretary Policy and Intelligence with all the red cards will help to create a ‘green for go’ ethic in the organisation. Remember, the aim is to deliver capability.

At present, CDG develops capability acquisition proposals (usually on behalf of the services) and seeks approval from government for acquisition to occur. Once approval is granted, the project is transferred to DMO for execution. In practice, CDG and DMO work together both before and after project approval. The review recommends that CDG be disbanded and that its core components be relocated as follows:

- The current (weak) contestability function and responsibility for seeking project approval from government go to the new Policy and Intelligence Group.
- The requirement development function goes to the VCDF (for joint proposals) and the service chiefs (for land, sea and air proposals).

It’s unclear where responsibility for managing the Capital Investment Plan will reside.

Shifting the contestability function to the new Policy and Intelligence Group makes sense (indeed, it reflects a return to pre-1997 arrangements), but the merit of dividing the remainder of CDG among the three services and the VCDF is difficult to fathom. Doing so can only make coordination, standardisation and staff development more difficult.

But things might not pan out as suggested by the review. Defence has advised ASPI that (although the report doesn’t say it) the Capability Acquisition and Sustainment Group will be responsible for seeking first- and second-pass approval under the new process. The capability managers will be responsible only for seeking Gate Zero approval. Moreover, Defence has further advised us that the reallocation of personnel from CDG is pending the formulation of the implementation plan.

The obvious inference is that many of the staff slated in the review to move to the VCDF and the services will instead move to the Capability Acquisition and Sustainment Group. Indeed, it makes good sense that the staff currently engaged in the specialised tasks of preparing paperwork for first- and second-pass in CDG will continue to do so under the new arrangement.

But if the core staff in CDG move to the new group, what’s really changed? One day, you have a group doing capability development; the next, you have a division within a group doing capability development. And although the new arrangement will potentially foster greater cooperation between the ‘proposers’ and the ‘acquirers’, the two groups have always worked closely during the pre- and post-approval phases of capability development.

Recommendation 2.2: Disbanding the Defence Materiel Organisation and transferring its core responsibilities in relation to capability delivery to a new Capability Acquisition and Sustainment Group.

Creating the new Capability Acquisition and Sustainment Group under a deputy secretary within the structure of Defence's 'strategic centre' is the mirror opposite of what was recommended in the 1997 Defence Efficiency Review. Eighteen years ago, the then Deputy Secretary for Acquisition was renamed the Chief of Defence Acquisition, given more autonomy and set on the path to becoming DMO. Now the imperative is to bring acquisition more strongly back into alignment.

It may be that *One Defence* has swung the pendulum too far back from the high-point of DMO's perceived autonomy. The new Deputy Secretary Capability Acquisition and Sustainment doesn't have a seat on the Defence Committee and has to report to the VCDF in the new Investment Committee and to the Associate Secretary in the Enterprise Business Committee, and to formally report quarterly and monthly to the Secretary to assure them that all operational outputs and major contracts are on track. This, the review says, is because 'de-layering and greater empowerment of the organisation is [sic] essential for efficient operation'. More de-layering will be needed soon.

DMO had the clout to push back on Defence regarding the risk and cost estimates for projects, and it proved to be a formidable counterparty when dealing with defence industry. It remains to be seen whether those characteristics can be maintained under the new arrangements.

There's more to this recommendation than the Capability Acquisition and Sustainment Group taking over the roles of DMO. The new group will also take on the supply chain and delivery components from Joint Logistics Command (a long overdue commonsense move), the non-materiel procurement function from the existing Defence Support and Reform Group (which won't make much of a difference) and a yet-to-be-determined slice of CDG. Although it's not a formal recommendation, the review says that Industry Division should be transferred to the Department of Industry. DSTO was to become part of the new group, but the government rejected that recommendation.

One thing is certain. The new Deputy Secretary Capability Acquisition and Sustainment will be very busy, not only shouldering the workload previously done by a CEO and four deputy secretaries in DMO, but also taking on the bulk of the work previously performed by CDG. To make matters worse, there's the added challenge of attracting scarce talent

with reduced salaries. The risk is that the new group will lack the skills and experience to negotiate effectively with their private sector counterparts.

Recommendation 2.3: Developing a new organisational design and structure as part of the implementation process for the Capability Acquisition and Sustainment Group with reduced management layers.

Subsequent recommendations effectively extend this sensible recommendation to the remainder of the organisation.

Recommendation 2.4 Examining each System Program Office to determine where each fits within the smart buyer function, the most appropriate procurement model and achieving value for money.

DMO has progressively moved towards closer partnerships with industry, including through the introduction of performance-based contracts. At the same time, work's been done on transferring a greater share of acquisition and sustainment management to industry. The review supports those initiatives and recommends the systematic rollout of what it terms 'smart procurement' approaches where they're applicable. Provided this is done with care, it has the potential to deliver value for money and allow the size of the Capability Acquisition and Sustainment Group to decline over time. The risk is that the greater commercial acumen of industry will see Defence locked into disadvantageous long-term contracts.

Recommendation 2.5 The Capability Managers specify the Fundamental Inputs to Capability requirements with the Capability Acquisition and Sustainment Group having responsibility for developing and delivering an integrated project plan.

The entry of new capability into service is sometimes delayed because the 'fundamental inputs to capability', such as personnel, training systems, facilities and sustainment services, aren't ready in time to support the introduction of new equipment. This recommendation seeks to forestall that possibility by allocating responsibility for identifying and planning the introduction of capability into service. In practice, the capability managers and the Capability Acquisition and Sustainment Group will need to work closely to identify the inputs and develop the plan—even more so when it comes to executing the plan.

We'll need to see more from government about the role of industry as a fundamental input to capability. It may have been out of the review's remit, but it hasn't adequately addressed how industry needs to be more effectively brought into the capability development, acquisition and sustainment process.

Recommendation 2.6: The accountability for requirements setting and management be transferred to the Vice Chief of the Defence Force and the Service Chiefs with strategic, financial and technical contestability being located with Deputy Secretary Policy and Intelligence.

This recommendation reflects and reinforces Recommendation 2.1. In the case of requirements setting, it will make very little difference. The capability managers (that is, the service chiefs) already closely control that phase of projects. More generally, the recommendation highlights the essential collaborative nature of Defence's business. The Deputy Secretary Policy and Intelligence won't be able to exercise financial contestability without the closest cooperation of the Chief Finance Officer or to exercise technical contestability without the Chief Defence Scientist.

Recommendation 2.7: That the Independent Project Performance Office and the Capability Investment and Resources Division be relocated to Deputy Secretary Policy and Intelligence, significantly enhanced and strengthened to provide such contest.

This recommendation reflects and reinforces Recommendation 1.10.

Recommendation 2.8: Revising the Defence investment approval process for all large or complex capability projects.

The present multi-pass capability development system is slow and cumbersome, so it's good that the review sensibly commends the current process of fast-tracking acquisitions where it's sensible to do so.

The review also suggests that the approval process be revised to ensure that a wide range of options is considered initially for each proposal and to reduce unnecessary documentation at each stage. While those are laudable goals, they'll be difficult to achieve. The strengthened prerogatives of the service chiefs (who usually know what they want) will limit rather than expand the range of options, and it's

always easier to add paperwork than delete it (as the next recommendation demonstrates).

Recommendation 2.9: Introducing a new formal gate into the process at entry point—Gate Zero: Investment Portfolio entry.

This recommendation simply formalises what used to be termed the 'entry into the Defence Capability Plan' stage of the capability development cycle. It makes the two-pass process into a three-pass process from the perspective of sponsors. But the discussion accompanying the recommendation raises worrying questions about how the review envisages capability planning and development.

The Defence Capability Plan is currently a 10-year plan (20 years in its classified form) for how the ADF will evolve. It's an evolving plan that's constantly updated as strategic, technical and financial future estimates change. Without a long-term plan, it's impossible to balance investment between different capabilities over time. Every purchase we commit to today places limits on the options we have for future investment through both the direct impact of acquisition costs and the indirect impact of personnel and operating costs.

The review puts an emphasis on projects being closely contested before entry into the Defence Capability Plan to ensure that they're 'likely to fit with the future capability needs of Defence'. As far as it goes, that sounds reasonable. But the review then goes on to say that 'each Capability Manager would need to maintain a pipeline of potential new capability projects which are under consideration (based on their view of the evolving capability needs within their domain) but not yet ready to enter the Defence Investment Plan'.

While such a piecemeal approach of adding projects 'at the margin' to the portfolio makes perfect sense if you're running an investment bank or mining company, it doesn't in the defence planning context. Apart from hedging risks, there are limited interactions in a commercial investment portfolio. In contrast, the interactions between the various parts of a military force are fundamental to its utility.

Projects should only enter the Defence Investment Plan through the periodic examination of the plan as a whole, not by having the individual services maintaining a stable of bright ideas ready to line up at the starting gate.

Recommendation 2.10: Government increase approval thresholds for capability development projects, with ministerial approval required only for projects above \$20 million, two ministers above \$100 million and Cabinet above \$250 million.

Cabinet routinely considers non-defence proposals costing less than \$100 million. What is it about Defence that provides confidence that its proposals warrant less scrutiny than those from the Treasury, the Health Department or other parts of government? On past experience, the case is unpersuasive, but there's a practical reality to take into account.

The Kinnaird reforms brought in a two-pass cabinet approval system for defence projects. In practice, many projects, especially larger ones, will have multiple visits to the National Security Committee. An elaborate whole-of-government structure has been built around this system, which is so cumbersome that it's collapsing under its own weight. The review points to this in a section titled 'The problem':

Project approval processes are lengthy and expensive. The average government submission is 70 pages long, takes 16 weeks to move through the Cabinet preparation process and an average of 46 months to progress from first pass initiation through to second pass approval. (p. 14)

Anything that helps to break this gridlock is welcome. Lifting the dollar value of ministerial and 'two-minister' approvals will prevent Defence project minnows from cluttering up the cabinet agenda. Of course, ministers need to be accountable for their own decision-making, which needs to be rigorous, based on appropriate processes and publicly recorded.

Recommendation 2.11: That there be significant investment in the development of:

- **An operational framework which briefly but comprehensively explains how the organisation operates and the roles and responsibilities within it**
- **A detailed set of life cycle management processes which provide the project and engineering discipline with which to manage complex materiel procurement from initiation to disposal**
- **A review architecture which reinforces accountability at all levels and brings together information at each level upon which good management decisions can be made.**

The standardisation of processes and reporting makes sense.

Recommendation 2.12: The Deputy Secretary Capability Acquisition and Sustainment must sign off and assure the Secretary of the operational output of each of his/her divisions every quarter and on major contracts on a monthly basis.

Okay, but why isn't this simply part of the performance management regime to be managed by the Associate Secretary?

Recommendation 2.13: The use of net personnel operating costs process cease immediately.

Defence has long made use of net personnel and operating cost (NPOC) estimates for planning purposes. NPOC estimates are the estimated net additional cost (or saving) from the introduction of new capability into service. Given that most capabilities are replacements of existing capabilities, the notion of NPOC is very useful from a planning perspective.

The review takes exception to the use of NPOC. It argues that NPOC misleads government by failing to disclose the total cost of capability and is hard to estimate and often inaccurate. Both points are valid, but even taken together they're unpersuasive.

While it's true that NPOC is hard to estimate, it's easier to estimate than the 'total' cost. Moreover, NPOC is clearly and unambiguously defined: it's the extra cost of the proposal. In contrast, there's no unambiguous or even commonsense way to define the total cost of an individual capability within the overall defence budget. Any estimate of the total cost depends on a complex set of attribution rules with hundreds of parameters to apportion the cost of common supporting activities (such as training, administration and so on) across the force structure.

It would be good to see the total cost of capabilities reported according to a consistent set of attribution rules, but that's probably not worth the effort. Defence attempted to report the total cost of capabilities in the early 2000s, but the scheme was abandoned after volatility (due to changing attribution rules) rendered the numbers useless. It's been tried and it failed.

There's a third possibility: the direct marginal cost of owning and operating a capability. That would be the cost of acquisition plus the direct cost of personnel and support (that is, excluding the impact on overheads and economies of scale). While there's still some ambiguity about what's direct or otherwise, a reasonable estimate can usually be made.

NPOC is useful and should be retained. At the same time, the government should also be advised of the direct marginal costs of future (and indeed current) defence capabilities.

Recommendation 2.14: Developing a Defence Investment Plan which would include all capital and related investments (such as materiel, estate and facilities, workforce and information and communications technology).

This was the intent of the Defence Capability Plan when it was first set out in the 2000 Defence White Paper. Over time, the extent to which non-equipment items have been included has varied. It's understood that the current Defence Capability Plan includes NPOC estimates. Whatever can be done to make the plan more complete is worthwhile. Nonetheless, it's unavoidable that capability proposals will be less well defined and less well costed in the outer years of the plan. The inherent ambiguity needs to be managed rather than wished away.

The review says that the plan should be reviewed annually. If that isn't already occurring, what was routine practice only a few years ago must have deteriorated.

Recommendation 2.15: That, on Government approval, the entire project acquisition budget is allocated to the Capability Acquisition and Sustainment Group to ensure expenditure is in accordance with the project delivery plan.

This recommendation follows a measured discussion of the use of slippage in defence planning, which the review endorses as a legitimate management tool. The recommendation refers to the practice of Defence withholding money from DMO in anticipation that DMO will underspend. To be clear, the recommendation doesn't want the entire multi-year project budget to be transferred to the Capability Acquisition and Sustainment Group at project approval. Rather, it wants Defence to give the group every opportunity to spend annual funding allocations on schedule.

Recommendation 2.16: The Defence Science and Technology Organisation be required to clearly articulate its value proposition. This would include examples and actual amounts of value created.

It's not clear what's expected from asking DSTO to mark its own homework. It will give itself a pass with flying colours.

Recommendation 2.17: The Defence Science and Technology Organisation become part of the Capability Acquisition and Sustainment Group.

The government has rejected this recommendation. That's the right call. DSTO has played important roles in a range of operational activities that go well beyond capability development and have enhanced Defence's safety and performance on combat operations. It's important that the organisation retains the capacity to do that work, as well as to contribute to capability development.

Recommendation 2.18: The Defence Science and Technology Organisation senior leadership be rationalised.

DSTO has three deputy secretary level positions labelled as 'Deputy Chief Defence Scientist'.

Recommendation 2.19: The Defence Science and Technology Organisation strengthen partnerships with academic and research institutions to leverage knowledge and create pathways with academia and industry.

Recommendation 2.20: Disbanding the Defence Science and Technology Organisation advisory board.

While hardly critical to DSTO operations, the advisory board was an element of outreach to the wider research and industry communities. If DSTO is to make progress on Recommendation 2.19, it will surely need something like this board to facilitate stronger partnerships.

Recommendation 2.21: Defence, in partnership with academia and industry, review its research priorities, their alignment with future force requirements and capacity to leverage allied partners to promote innovation.

There is insufficient public information to assess the merit or consequences of implementing this recommendation.

Key Recommendation 3: Fully implement an enterprise approach to the delivery of corporate and military enabling services to maximise their effectiveness and efficiency.

The recommendations below deal with corporate and military enabling services. Before the 1997 Defence Reform Program, many enabling services were duplicated across the services and other organisational units. The program sought to establish consolidated ‘shared service’ entities to provide enabling services to the organisation in functions such as IT services, facilities management, finance, personnel management, non-materiel procurement and materiel sustainment. The underlying goal was to improve efficiency by generating economies of scale and centrally rationing performance levels.

Although the Defence Reform Program put in place the basic building blocks of a shared services regime in Defence, there were resistance and backsliding in many areas. For example, the services quickly regenerated many of the personnel management functions that had nominally been centralised. It wasn’t until the 2009 Strategic Reform Program that serious efforts were made to complete the transition to a shared model for enabling services. Although encouraging progress has been made in many areas over the past six years, the task remains incomplete—in part because of resistance to change in some quarters. The recommendations below seek to complete the process and, moreover, improve the performance of the enabling services.

Recommendation 3.1: Defence define the estate need as determined by future force requirements and Government agree to dispose of all unnecessary estate holdings starting with the 17 bases identified in the 2012 Future Defence Estate Report.

Because the 2012 *Future Defence estate report* hasn’t been made public, it’s impossible to properly assess this recommendation, but some general points can be made. Estate consolidation works as follows. A base is closed and after potentially expensive remediation the property is sold (possibly yielding a positive cash flow). At the same time, new facilities are built at an existing base to house the displaced units (yielding a negative cash flow). In the years that follow, savings may accrue from the economies of scale generated at the consolidated site.

It’s problematic to assume that profits will automatically flow from sales. In some cases, the facility has heritage value or is difficult to sell for commercial purposes. On many Defence sites, sometimes dating back to World War II, industrial processes, the use of ammunition and practices no longer considered safe (such as using asbestos in construction) create the need for very costly remediation before the property can be brought to market. The result is that the upfront costs of selling the property can delay savings for Defence.

The review says (without any context or explanation) that a ‘conservative net present value estimate of the disposal of these sites over 30 years is \$1.4 billion, including property sales at a market value of \$570 million, of which a bare minimum of \$210 million would accrue in the first 10 years.’ So it would appear that there’s some money to be saved over the longer term. (Although, as an aside, it’s difficult to see how the net present value of savings in the past two decades can exceed those in the first by such a large margin, unless the discount rate was exceedingly small.)

Governments are often loath to consolidate Defence bases because of the adverse local economic and political impacts. Moreover, in a time of budget stringency, governments tend to be more focused on short-term savings than on investing in order to achieve long-term savings. It’s no surprise, then, that this recommendation was one of those only ‘agreed in principle’ by the government.

Unless the revenue from the sale of a base exceeds the cost of relocation, the government is right to be cautious. That the proposed sales will generate a positive net present value over the long term does not by itself justify the sales. If there are large upfront costs, base relocations should be compared with alternative investment options. For example, the net present value of a civil infrastructure project may well exceed that of consolidating a defence base.

Recommendation 3.2: Defence strengthen its capability to present options to Government for estate disposal including obtaining expert external advice as required.

Okay, but it may still be an uphill battle. There’s no getting around the fact that a base relocation can be economically advantageous from a national perspective but economically disadvantageous from a local (and therefore political) perspective.

Recommendation 3.3: the Government amend the *Public Works Act 1969* to set a \$75 million threshold for referring proposed works to the Public Works Committee, and re-consider recent adjustments to the 2015–16 Budget operational rules that run counter to more efficiently managing investment spending.

The review says that the current lower thresholds delay the commencement of medium projects by one month and major projects by six months. Rather than reduce parliamentary scrutiny of Defence public works, delays could be avoided by Defence simply taking account of the approval timeframes and planning accordingly. Indeed, the time taken to achieve approval from the Public Works Committee is only a ‘delay’ if Defence is tardy in submitting its paperwork relative to the planned commencement of construction. Nonetheless, the current threshold of \$15 million is small on the scale of public works projects.

Recommendation 3.4: The Associate Secretary be directed and resourced to implement enterprise information management that provides Defence with trusted information to inform decision-making and military interoperability, with the Vice Chief of the Defence Force as the design authority for the next generation of Command, Control, Communications, Intelligence, Surveillance and Reconnaissance.

The review passes the function of being the C4ISR capability manager from the Deputy Secretary Intelligence and Security to the VCDF. This may be appropriate, especially given the VCDF’s vastly increased authority on joint capability management, but it creates some new complexities. First, the C4ISR capability management role faces enormous challenges in coming years, and those challenges are critical to the ADF being able to operate as an integrated organisation. Second, there’ll be a need to ensure that the interests of the intelligence agencies are being adequately addressed—this isn’t simply about ADF warfighting requirements. Finally, the Deputy Secretary Policy and Intelligence must balance the contestability role at the same time as advocating for the intelligence part of the group. Overall, a higher priority focus on C4ISR is welcome.

Recommendation 3.5: The information management agenda be governed at the Band 3/3 Star level by the Enterprise Business Committee to set overall direction

and priorities, including the management of trade-offs and conflicts.

Recommendation 3.6: Supporting the Chief Information Officer to meet these responsibilities by formally recognising the Chief Technology Officer as the technical authority with appropriate ‘red card’ decision rights.

Another red card, and a pattern begins to form here. Remember that the challenge is to create an organisation that works—and not just in being able to red-card each other. Somehow, all these red cards must assemble into a machine infused with a ‘green for go’ spirit.

Recommendation 3.7: Defence establish enterprise-wide frameworks for architecture standards and master data management.

Recommendation 3.8: Defence embark on a pragmatic implementation road map to standardise business and information processes and their supporting applications.

The five preceding recommendations are the latest attempt to impose order on the complex Defence information environment. Progress has been made over the years, but the multitude of legacy systems and the continuous emergence of new technologies make it a difficult and ongoing task. Good luck.

Recommendation 3.9: Defence ensure adequate resourcing and funding for information management reform is prioritised as part of the fully costed 2015 Defence White Paper.

While every effort should be made to implement this recommendation, rapid changes in technology and its potential applications will necessitate constant revision and updating.

Recommendation 3.10: Geospatial information functions be consolidated into the Australian Geospatial-Intelligence Organisation following improved resourcing and connectivity.

This move is overdue and a critical element in strengthening Defence’s commitment to enabling technologies, without which many new equipment acquisitions will not work to their full potential.

Recommendation 3.11: The service delivery reform program, including full integration of the current Defence Materiel Organisation corporate functions, be completed.

There are unavoidable trade-offs between centralised and decentralised service delivery. The former yields cost savings, while the latter guarantees responsiveness and clearer accountability. Swings and roundabouts. But the decision has been made (some 18 years ago) in favour of centralised delivery—it's time to complete the task.

Recommendation 3.12: All corporate services (with the exception of finance but including the Defence Security Authority) be consolidated under the Associate Secretary.

This makes sense.

Recommendation 3.13: All military enabling services (Joint Logistics Command Policy, Joint Health Command, Australian Defence College, Australian Civil-Military Centre) be consolidated under a Two-Star officer who reports to the Vice Chief of the Defence Force.

This duplicates Recommendation 1.15.

Key Recommendation 4: Ensure committed people with the right skills are in appropriate jobs to create the One Defence workforce.

Recommendation 4.1: That as part of the budget and planning process, Defence build a strategic workforce plan for the enabling functions, and incorporate workforce plans for each job family in order to drive recruitment, learning and development, performance and talent management.

Compared to the services, where workforce planning is comprehensive, Defence does far less to manage its civilian workforce employed in enabling functions. The review makes a persuasive case that a strategic workforce plan is needed in those areas.

Delivering a professional civilian workforce for Defence will require deep investment in training to increase the skill levels of people. One can only agree with the review's harsh but accurate judgement that there are 'low engagement levels amongst employees' in Defence. Much of this disengagement comes from a pervasive cynicism that the organisation 'talks the talk but doesn't walk the walk' when it comes to valuing civilian employees. Initiative is discouraged; training is ad hoc and much of what's available is inadequate;

management decisions affecting staff can seem arbitrary; and, as the review notes, the system discourages effective performance management. *One Defence* concludes that 'we view this as a failing of leadership and management', so much so that external assistance is needed to catalyse change 'and set it on the right path'.

The good news for Defence is that prompt attention to making these changes happen will go a long way towards improving morale and building support for broader reform. In fact, the improvements to workforce management in *One Defence* are the changes most needed to develop behaviours and values supporting large-scale change.

Recommendation 4.2: Defence employ Australian Defence Force personnel in non-Service roles only when it is critical to achieving capability and for a minimum of three years to achieve best value-for-money from the premium paid.

Recommendation 4.3: As many functions as possible be performed by public servants or outsourced if they are transactional in nature.

Recommendation 4.2 refers to the 4,300 ADF personnel posted to non-service groups (at an additional cost of around \$300 million per year compared with civilian employees), and Recommendation 4.3 refers to the 12,800 ADF personnel delivering corporate functions within the services. The latter group includes personnel working in logistics, legal affairs, human resources, finance and administration.

As a general proposition, it makes sense to use civilians in place of military personnel where no adverse impact on capability arises, and some effort has been made to do so. Under the 2009 Strategic Reform Program, around 1,100 military positions were slated for 'civilianisation'. The extent to which that occurred is hard to gauge, given the rubbery figures involved in the program.

While there's a sensible cost-based rationale for minimising the use of ADF personnel in non-service roles, that change must be implemented carefully. Defence has gone a very long way to remove the deep divides that occurred between civilian and military personnel as late as the 1980s. Of course there have been exceptions, but for the most part the organisation works well as a workforce blending civilians and military people. Defence personnel have important roles to play in intelligence, international policy and strategy functions and many other areas. An ADF presence is needed

to lend an essential defence character to the purpose and intent of the organisation. Civilians serve equally important roles in predominantly military parts of the organisation. As one recruiting slogan puts it, ‘the team works.’ It would be a dire mistake to allow the separation of civilian and military workforces to proceed to the point that old suspicions arise again.

Recommendation 4.4: Defence review the entirety of its enabling and military corporate workforce to ensure that it supports the Australian Defence Force with the minimum of overlap and redundancy, and with the greatest overall economy, efficiency and effectiveness.

This recommendation refers to the use of ADF personnel in enabling groups and service corporate functions, as well as the duplication of roles (civilian and military) nominally provided by enabling groups under the shared service model.

It will be interesting to see how the proposed review is undertaken. To be effective, it will need to be taken out of the hands of the military (that have no incentive to reduce their own numbers). Given the role of the Associate Secretary in contesting group and service plans, it naturally falls to them. Some historical context may be useful. Back in the 1990s, as an adjunct to the Commercial Support Program (that is, outsourcing), the ‘members required in uniform’ process was established to systematically test the need to retain service personnel in non-combat roles. From memory, the process was neither speedy nor smooth, as the services fought to retain as many people in uniform as possible.

Recommendation 4.5: Defence reduce organisational layers; increase the spans of control of managers; align workforce standards in accord with the requirements of the Australian Public Service Commission; and engage external assistance to facilitate this work as required.

ASPI has long argued for this. In fact, the table presented by the review to demonstrate the rise in management numbers (Annex D in *One Defence*) closely resembles analysis presented in the annual ASPI Budget brief for some years.

However, while the review has recognised the need to review the enabling and corporate service workforce (Recommendation 4.4), it hasn’t done so in this instance. Perhaps that’s because there’s a more expedient solution: impose structural constraints on group managers; that is, set benchmarks for spans of control and the number of layers within groups.

As a start, the review has advised the Secretary and the CDF that seven SES Band 3 and one 3-star position should be disestablished. It further expects that ‘organisational restructuring will cascade throughout the senior leadership group and will necessarily change the shape and reduce the numbers of the leadership group.’

We can only hope that this recommendation is applied to the military as well as the civilian components of the organisation.

Recommendation 4.6: Defence implement a transparent performance management system that is consistently applied, recognises and rewards high performance and introduces consequences for underperformance and failure to deal with it.

The discussion accompanying this recommendation is interesting. The review found that ‘Defence has a sound performance management tool at its disposal, but is not using it effectively.’ At the risk of oversimplification, underperformance isn’t being managed. And, although pay increments are contingent on satisfactory performance, almost everybody is rated as at least satisfactory, thereby blunting incentives and removing sanctions.

The review notes, correctly, that this reflects a ‘failing of leadership and management’ and suggests a range of measures, including 360-degree appraisal and ‘real consequences for poor performance generally and not dealing with underperformance’. So far, so good, but the critical suggestion is that the performance appraisal system should be ‘transparent and applied consistently with *normal distribution techniques being incorporated*’ [our italics].

If performance appraisals (and therefore pay increments) were constrained to a normal distribution, there would be a clear and consequential link between performance and pay. As worthwhile as this would be, it will require deft negotiating in the next round of civilian and military workplace agreements.

Recommendation 4.7: As part of the performance management system, Defence take steps to create a culture where leadership, professionalism and corporate behaviour are valued and rewarded.

This is a good idea.

Key Recommendation 5: Manage staff resources to deliver optimal use of funds and maximise efficiencies.

Recommendation 5.1: The use of the measures such as the teeth-to-tail ratio and the one third budget split should cease.

It certainly should. The review argues clearly why each of these measures is flawed. While it would be possible to hammer more nails into their coffins by raising still further objections, little would be gained. May they rest in peace.

Recommendation 5.2: Appropriate efficiency measures are developed which link to the delivery of agreed outcomes.

Okay, but the difficulty of doing so shouldn't be underestimated. Even temporal changes in costs can be difficult to disentangle from broader economic factors, and international comparisons are particularly fraught. To build useful efficiency measures, Defence will need some combination of external assistance and an in-house capacity for economic analysis.

Recommendation 5.3: The focus on public service reductions as the primary efficiency mechanism for Defence cease.

Yes. Efficiency means finding the optimal mix of labour (civilian and military), capital (equipment and facilities) and purchased goods and services. There's no reason to presume that the optimal mix coincides with a minimisation of civilian personnel numbers. It can only be hoped that One Defence will encourage a move away from the formulation: 'military good, civilians bad', which would so easily fit into a George Orwell novel and has done so much damage to workforce morale in the past decade.

Recommendation 5.4: Defence manage its workforce numbers in line with good resource management practice where Defence is held to account for delivering on required outcomes within available resourcing.

Precisely. Arbitrarily fixing the quantum of labour input almost guarantees less than optimal efficiency.

Recommendation 5.5: As part of the implementation process, Defence examine the headquarters functions for opportunities to achieve more effective and efficient arrangements.

The review identified a number of personnel reductions, including:

- seven Band 3 SES and one 2-star position (with ensuing flow-on consequences)
- 1,000 Australian Public Service (APS) and 950 ADF personnel from the creation of the Capability Acquisition and Sustainment Group (note that this shouldn't be viewed as a saving because in most cases it will cost money to have the private sector take up the work previously done in-house)
- 650 APS and 100 ADF personnel from reducing the number of management layers.

While the APS positions refer to reductions, the review talks about the unneeded ADF positions as available for reallocation. Why it assumes that long-established service positions in DMO are needed elsewhere in the organisation is unclear. This appears to be the observed error of assuming that fewer civilians is always a good thing and fewer military personnel is always a bad thing.

This recommendation reflects the review's inability to form a view about possible savings from the new headquarters arrangement.

Key Recommendation 6: Commence implementation immediately with the changes required to deliver One Defence in place within two years.

Recommendation 6.1: No additional reviews on the organisational issues covered by this Review are imposed on Defence, particularly within the early years of implementation.

One Defence ends by circling back to echo Recommendation 1.1; to paraphrase, 'Let this review be the guiding light, and let no others compete with it for Defence priority.' This is wise advice, but unlikely to stay current for long because of the shortness of Australia's parliamentary

terms and the inevitable movement of senior figures. The very factors that gave rise to this review—a pre-election commitment by the then Opposition—will come into play again at some point. There’s also the risk that bad news will be greeted by a resort to further reviews. Few people would have thought that Private Jake Kovko’s sad end in Iraq in 2006 would lead to the 2007 Proust review of (civilian) defence management. The wheel keeps turning, and that means the best hope for One Defence is an accelerated implementation plan.

Recommendation 6.2: Past reviews and current reform initiatives should be assessed for currency and alignment to the One Defence model.

Clearly, the First Principles Review has reset the clock on Defence reform and should take precedence. Nonetheless, the review sensibly notes that the Pathway to Change initiative should continue unimpeded.

Recommendation 6.3: Establishing an Oversight Board to provide close external scrutiny, advice on implementation progress and regular reports to the Minister.

The review has created a high-level implementation plan with milestones for all areas, extending out to two years. In addition, it has outlined the governance arrangements for implementation. It makes sense for the review team to stick around and oversee the process.

Recommendation 6.4: the Minister, with input from the Department and the Oversight Board, report progress on implementation to the Government in March 2016 and March 2017.

Recommendation 6.5: Stability in the key leadership positions, particularly over the next two years to provide consistency of direction and ownership of the change.

Two years, of course, takes the implementation beyond the maximum life of the current Parliament. While the principle is sound, continuity of positions is not within any government’s gift. The only basis for One Defence to have an impact is the hope that its recommendations are sound and will continue to appeal to subsequent generations of political, military and civilian leaders.

Annex A: The First Principles Review—terms of reference

1. Ensure that the Department of Defence’s business structures support the ADF’s principal tasks, as determined by the 2015 Defence White Paper, and other whole of government responsibilities out to 2030;
2. ensure a commercially astute, focused and accountable materiel acquisition and sustainment capability;
3. improve the efficiency and effectiveness of Defence;
4. guide the implementation of recommendations from the Commission of Audit not otherwise covered above; and,
5. ensure the ongoing delivery and reporting of agreed recommendations.

Issues for consideration

In addition to any issues the review team considers important to examine in addressing the Terms of Reference, the Review team should also consider the following matters:

1. Ensure that the Department of Defence’s business structures support the ADF’s principal *tasks*, as determined by the 2015 Defence White Paper, and other whole of government responsibilities out to 2030, including by:
 - a. Reviewing the cost, efficiency, timeliness and appropriateness of Defence’s current business model and processes, including compliance with external processes and responsiveness to Government, with an aim to simplify and improve accountability;
 - b. Reviewing the capacity of Defence to develop strategy and key policy options, particularly, future White Papers, Force Structure and prioritisation of capability investment;
 - c. Examining the efficient arrangements of the intelligence functions, particularly those involving geospatial intelligence; and
 - d. Examining the functioning of the separate and shared responsibilities and accountabilities of the Secretary and Chief of Defence Force.

2. Ensure a commercially astute and focused materiel acquisition and sustainment capability, including by:
 - a. Examining the benefits and costs of the following three approaches to reforming the Defence Materiel Organisation (DMO) and recommending a preferred option and how it should be implemented:
 - i. Current model with improvements to commercial skills and improved arrangements to manage larger and more complex projects;
 - ii. DMO to be re-integrated into Defence with a focus on contract management, as recommended by the Commission of Audit; and
 - iii. An independent and commercialised DMO in whole or in part.
 - b. Either as part of 2a, or separately, undertake an examination of specific initiatives to improve business processes including, but not limited, to the following:
 - i. Options to further improve the professional knowledge and skills within the capability development function, particularly program and project management, systems engineering and cost and schedule estimation (particularly at DCP entry);
 - ii. Options to provide greater assurance to Government on the capital and sustainment costs and schedule of large complex capabilities including utilising relevant private sector experience;
 - iii. Options to significantly accelerate the capability development process, including examination of whole of government issues and risk based approaches;
 - iv. How Defence sustains and supports capabilities and extending lessons from the Coles review across all areas of sustainment;
 - v. Options for improved project control particularly through the mandatory use of Earned Value Management for all elements of projects that meet an appropriate threshold; and
 - vi. Opportunities for improved certainty in program-level cash flow estimation, project and program level funding arrangements for DMO and alternatives to the use of over-programming as a management tool in the DCP.
3. Recommend further options to improve the efficiency and effectiveness of Defence by:
 - a. Assisting Defence to develop appropriate implementation plans, including appropriate benefits realisation plans, to deliver agreed outcomes of the Commission of Audit and the First Principles Review, to be followed by a progress review in March 2016 to measure the effectiveness of the implementation of the recommendations;
 - b. Developing recommendations for the further rationalisation of IT systems, particularly financial and personnel, and further clarify accountability for them and their cost effectiveness;
 - c. Examine and recommend options for reaching and maintaining a sustainable balance between Defence's personnel, operating and capability budgets;
 - d. In the above context, specifically consider what can be done about rising personnel costs, particularly for the ADF, that are putting the capital investment budget under significant pressure;
 - e. Examine outstanding recommendations from other reviews and make recommendations on whether they might be retired or re-invigorated; and
 - f. Recommend further options for the enhanced commercialization of Defence functions, including DSTO but excluding DHA.
4. Recommendations from the Commission of Audit not otherwise covered above.

Acronyms and abbreviations

ADF	Australian Defence Force
APS	Australian Public Service
C4ISR	command, control, communications, computers, intelligence, surveillance and reconnaissance
CDF	Chief of the Defence Force
CDG	Capability Development Group
DMO	Defence Materiel Organisation
DSTO	Defence Science and Technology Organisation
FDA	Force Development and Analysis
NPOC	net personnel and operating cost
RAN	Royal Australian Navy
VCDF	Vice Chief of the Defence Force

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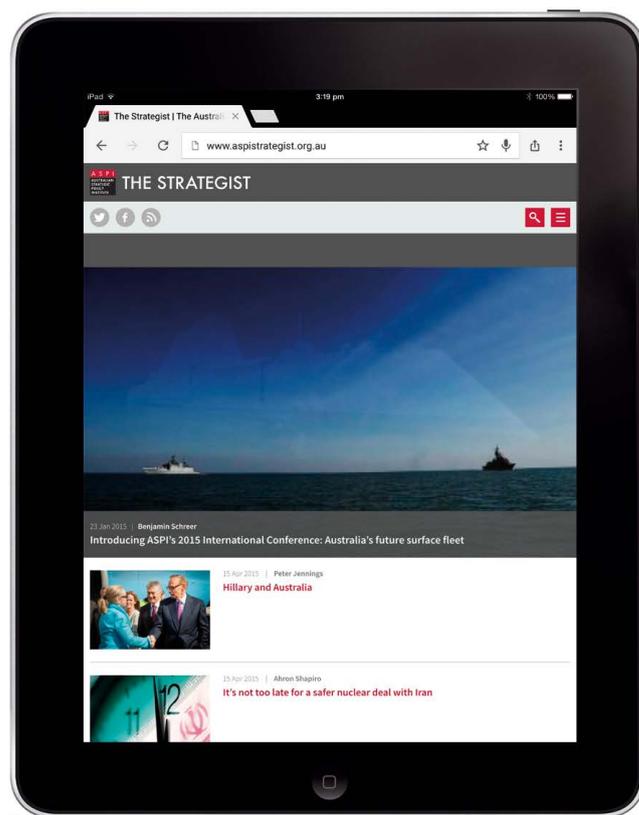
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