SUBMISSION No. 3 TO

THE FINAL REPORT OF THE FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

INTO

PROCUREMENT PROCEDURES FOR DEFENCE CAPITAL PROJECTS

REVISED AND UPDATED

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E.J. BUSHELL, Air Cdre (Rtd) ***6th June 2012***

EXECUTIVE SUMMARY

The Senate Committee should be commended for the manner in which it has approached its important inquiry into Defence management and capital procurement procedures. The Committee's Preliminary Report opens up Defence/DMO management to the light of day for the first time. Its findings included failures in Defence's ability to understand and coordinate the elements of capability development, ineffectiveness in its administrative processes, poorly defined responsibilities and accountabilities, poor risk management and limited understanding of Defence Industry matters. It also highlights the large number of reviews that have taken place which have not produced any significant improvement in capability development, acquisition or sustainment, but have only resulted in an ever-increasing number of processes and committees, as well as a bewildering array of administrative complexity that has dictated against improving outcomes, identifying who is accountable for what, or achieving good governance.

The Preliminary Report identifies a top-heavy, dysfunctional organisation lacking in critical operational and technical skills and project management competencies. The current situation must also be seen as a failure of Defence's matrix management model with its common-user, service-provider focus, which cuts across critical Service functional responsibilities, and introduces a chain of single-point failure nodes that dictate against achieving operational capability and sustainment. Within the DMO, entrenched capability and sustainment problems have resulted from the adoption of commercial, 'business'-like practices rather than project/engineering management practices based upon a thorough understanding of operational and technical requirements.

The cumulative effects of failures within both Defence and the DMO have been chronic and widespread, impacting adversely the ability of the Service Chiefs to *'deliver force capability for the defence of Australia and its interests, and enhancing the force's reputation and positioning the force for the future'.* Command, control, morale and discipline within the Services have also been degraded by civilian, masquerading as civil, intrusion into all aspects of military management. The current 'Pathways' route to widespread cultural change within the Services must be seen as a smokescreen to divert attention away from Defence failures.

If the Committee is to initiate effective and lasting improvements in the management of capability development, acquisition and sustainment, the current Defence/DMO/Service structures and accountabilities will need to be revised to align primary accountabilities with management responsibilities and resource allocation. Service responsibilities must be given priority over bureaucratic careers. As a general principle:

- The Department should be reduced to developing strategic advice to the Services, the exercising of good governance, and ensuring the availability of funds to meet Government programs. There is no need for the Department to micro manage the Services who carry the prime responsibility for the defence of Australia.

- There must be a reinvestment in Service numbers, their operational and technical skills and competencies, and an increase in Service self-reliance.

- Defence Industry must be developed to provide a deeper level of national self-reliance.

Investing in Service skills and competencies will give far quicker and better returns than investing in more bureaucratic process. In the end, governments have proven to be poor at identifying the when, where and what of threats. It has thus been up to the Services to make use of what capabilities that exist at the time, and take casualties until government finally accepts that a threat exists and begins to marshal Australia's defences.

However, next time around, Australia will have to depend upon downsized and de-skilled, under resourced and poorly supported Services to hold the line, with gaping holes in their capabilities. No amount of spin or process will be of any help then.

INTRODUCTION

As a result of an increasing number of major deficiencies and failures in capability development, acquisition and sustainment, the Senate Foreign Affairs Defence and Trade (FADT) References Committee undertook a *Review of Defence Capital Procurement Procedures.* The Committee released its Preliminary Report in December 2011, listing eight primary causes for concern with Defence/DMO management, as well as noting a need to look beyond Defence procurement processes to identify the root causes behind Defence's capability woes, and how these might be corrected.

This submission will highlight important matters arising from the Preliminary Report, and then identify the root causes behind Defence's capability problems, and the structural changes needed to correct them.

Firstly, the Senate Committee should be commended highly for the manner in which it has approached its inquiry into procurement procedures for Defence capital projects. The Committee's Interim Report notes the large number of internal and external Defence/DMO reviews and inquiries that have taken place over the years which have not produced any significant improvement in the management of capability development, acquisition and sustainment, but have only introduced an ever-increasing number of committees and processes, as well as a bewildering array of administrative complexity that have dictated against achieving the required outcomes or identifying who is accountable for what.

Mr Coles, in his review of the Collins Class submarine debacle, revealed the inevitable result of all this when he noted that no amount of business process refinement could overcome the loss of critical submarine expertise that had been allowed to occur. Mr Rizzo, in his inquiry into the supply ship debacle also highlighted the effects of the disbandment of the Navy's Engineer Branch and the downsizing and dispersion of its remaining engineering resources. Accountability within Defence was then reviewed by Mr Black, who highlighted areas of concern in cultural terms under existing administrative processes. It was not a functional management review where real accountabilities would have stood out.

The Preliminary Report, in opening up Defence/DMO management of capability acquisition and sustainment to the light of day, encourages debate as to what has gone wrong and how management may be improved. However, allowing more time for the multitude of recommendations made in the continuum of reviews and inquiries conducted to date to bear fruit is not an option, as the problems cannot be fixed through process, especially administrative and 'business' process. Current problems will yield only to operationally and technically skilled and experienced people working along project and engineering management lines, rather than administrative process or commercial, 'business' lines.

The Committee's Preliminary Report, and the many reports to which it refers, all confirm the lack of critical skills and competencies at every stage of the capability development, acquisition and sustainment life cycle.

COMMENTS ON THE PRELIMINARY REPORT

OVERVIEW

As part of its inquiry, the Committee should review how the current Defence and DMO organisations came about and with what objectives, and then determine whether the Tange structural changes, and those later imposed by the DRP and CSP, have been achieved and if so at what cost, or whether those objectives were inappropriate, have failed, and are unlikely to be achieved.

It may be useful here to retrace briefly the Defence (and Government) policy decisions that resulted in the current maze of committees and processes, and the entrenched lack of critical skills and competencies within the Services, Defence, the DMO, and Defence Industry. A deeper analysis is at (1).

The root causes behind the current problems are:

- The de-skilling and downsizing of the Services, which reduced their skills and competencies bases to the lowest possible level.
- The disbandment of the Services' Technical and Materiel Branches, together with their supporting policies, systems and procedures, as well as their Support Commands.
- The introduction of a 'General' List for senior officers, which has resulted in higher-level technical and project management functions being managed by unskilled 'generalists', both military and civilian, not having the required operational, engineering or management skills and competencies.
- The outsourcing of support tasks, particularly engineering, maintenance and supply, to foreign prime contractors, which has further reduced organic skills and competencies in the Services and Defence Industry.
- The trend for Defence to conduct itself as a proxy sales and marketing agency for contractors supplying equipment, rather than performing proper project management and due diligence (governance) tasks, mandated by best practice in procurement and engineering, resulting in the taxpayer being exposed to extreme risk through contractor mistakes.
- The imposition of a civilian (Public Service) 'culture' to replace historical military values, as Defence's perceived way of imposing bureaucratic, process-driven administrative control of all aspects of military activity through 'cultural change'.
- An erosion of governance oversight.

One of the driving policies behind the de-skilling and downsizing of the Services and the outsourcing of their support was that the skills and competencies lost would be provided by Industry under the Commercial Support Program. In justifying Defence's outsourcing decisions, the cost of support within the Services included all training overheads, whereas support from industry did not include any training costs. The assumption was that the skills

and competencies needed would be available at no cost from within industry, as and when needed. The widespread consequences of outsourcing were analysed at (2).

History has shown that this proved to be wrong. Industry skills and competencies soon eroded as they could no longer be drawn from the pool that used to exist within the Services, and then fell victim to the 'unintended' consequences of Defence/DMO supply and support contracts, as well as the absorption of much local industry by major foreign primes. Hence, we have the current, widespread, expensive and poorly managed attempts by Defence to recover critical skills and competencies in all areas of Defence, the DMO and Defence Industry through a maze of 14 different initiatives.

The architects of the Defence Reform and Commercial Support Programs repeatedly overlooked, or chose to ignore, the fact that technological expertise must be created by education, training and many years of practical experience, and that historically the engineering branches of the Services were the only entities capable and willing to make the necessary investments in personal education, training, and skills development to meet evolving national needs on the required scale.

Each project embodies a uniqueness determined principally by the operational requirement, the technologies involved, and the extent to which systems need to be integrated, tested and accepted. Project managers and their staff thus need to have a sound background of knowledge and experience in the particular operational and engineering disciplines of their specific project (at both system and equipment levels). Such skills cannot be replaced by any generic training or generic administrative processes, or the illusion surrounding paper-thin 'Masters of Military Systems Integration' or 'Masters of Systems Support Engineering'.

It is infeasible to imagine that Defence or the DMO will ever be able to establish and maintain the range and depth of the skills and competencies required for the proper management of projects over their entire life cycle, within the Services, Defence, the DMO, the DSTO, and in Defence Industry, under current, fractured processes and vague accountabilities. Current approaches are misguided and are bound to fail, and fail expensively. Any Defence requirements for professional operational, technical and support expertise must come from a professional core re-established within the Services where primary responsibility for the provision and sustainment of military capabilities rests. Defence Industry expertise will need to be re-established in direct support of, and under the direct engineering oversight of, the Services.

This will require the devolution of Defence/DMO capability acquisition and sustainment tasks back to the Services. There is sufficient evidence to show that, after more than a decade, the centralised capability acquisition and sustainment organisation, and the commercial/business-focussed processes that have evolved, have failed to demonstrate any improvement in capability and sustainment efficiency, effectiveness, or economy. The monolithic overburden of bureaucracy and processes that has evolved has led to expensive, endemic failures and problems that have degraded Service capabilities, and generated, for the first time, a lengthy "*Projects of Concern List*", resulting in a marked erosion of national self-reliance.

THE STRATEGY ANALYSIS AND NEEDS STAGE

General Comments

Chapter 4 identifies a large, typically complex, process-driven, administrative organisation, charged with the responsibility for providing government with the information it needs "*to assess the consequences of strategic decisions in terms of required defence capability, within the context of its overall budget."* However, experience to date has shown that the Defence organisation introduced by Tange, and expanded rapidly by the Defence Reform and Commercial Support Programs (with Government approval), has not been successful in achieving that objective. Coherent strategy has been lacking, capability proposals have not been soundly based, and capability analysis, selection, procurement and costing have too often been premature, overly optimistic, and managed poorly.

Capability costs can only be as accurate as the definition of all the elements comprising the capability and its sustainment – a Capability Configuration Baseline and Life Cycle Costing Development exercise. The whole strategy and needs stage depends upon having a good grasp of the capability in all its operational and technical aspects. Analyses of DMO Major Projects, however, (3 and 4) show that the vast majority of project difficulties stem from an inadequate understanding and specification of the operational and technical requirements of the capability, coupled with poor project and technical management.

The independent costings conducted during this Stage also raise questions as to the methodology used and their accuracy and completeness-that is, their usefulness. In the absence of a sound understanding of the capability, such costings cannot be accurate. The applicability of the Cost Spreadsheet used must also be questioned, as such spreadsheets must reflect the project accurately and completely, not the reverse. Costing should be developed by those having a proper understanding of the operational and technical requirements, not second-guessed from afar. In particular, manufacturers' capabilities and cost estimates need to be verified before being accepted.

Stage Documentation

The information provided by Defence to enable government to match strategic priorities with defence capability rests primarily upon:

- Force Structure Reviews.
- Defence White Papers.
- Defence Planning Guides.
- Defence Capability Plans.

However, the soundness of each of these documents depends wholly upon the soundness and consistency of the operational and technical baselines used, as well as the cost estimates underlying each capability option being considered. In achieving this, each document should be based upon the same underlying (and evolving) baselines in regard to operational and technical requirements, costs, and project management milestones.

It would be unreasonable to expect that dedicated skills and competencies can ever be established and maintained throughout each stage, or that the stages can be integrated and interfaced in an effective manner through Defence administrative processes. Furthermore, far too many pressures arise as a result of differences in viewpoint and political/executive imperatives for this to be possible. The Committee is thus faced with a need to simplify and integrate the minimum Defence functions needed to provide the information required by government, while ensuring that the Capability Managers are able to provide the skills and competencies required throughout the Strategic Analysis and Needs Stage.

In addition, *"Capability Managers will develop some of the documents that make up the capability proposals which define the requirements of each of the Fundamental Inputs to Capability (FIC) elements of the capability system. They identify the requirements to generate capability including personnel and workforce requirements, organisation, collective training, major systems, supplies, facilities and training areas, support, and command and management. They are also responsible for detailing the risks for each option."* (5)

However, Capability Managers also carry the much broader responsibility of raising, training and sustaining their forces, as well as an overarching role across the capability development cycle to ensure that it all comes together as a complete capability – in addition to having responsibility for the in-service realisation of the capability.

As mentioned previously, the big problem is that none of the Capability Managers now possesses the organisation or the skills and competencies base required to discharge their responsibilities. They can be reorganised, manned and skilled to do it, but until then the function cannot be done satisfactorily by them or anyone else. This has also been identified clearly in the analysis of the common reasons behind major project difficulties identified in DMO Major Projects Reports – Attachment 1 to Annex A (1).

Skills and Competencies (Including Defence Industry)

The need for critical skills and competencies has been a feature of many, if not most, of the reports reviewed by the Committee, as well as in internal Defence/DMO and Defence Industry reports. This has resulted in a proliferation of expensive training schemes that will not produce the required practical results because there are no breeding grounds where practical application and experience may be gained. Defence currently administers a suite of 14 programs, under its "*Policy for a Smarter and More Agile Defence Industry Base*" (6). Defence/DMO's futile attempt to establish and maintain the required skills and competencies across the range and depth of technologies operated and supported is a core reason behind the problems that have beset both organisations since their formation.

At present, the Department has called for consultants to review the 14 programs currently being administered, to:

- Map the current suite in order to better understand their focus, stakeholders, objectives and how they relate to other programs.
- Consider whether they could be adjusted or restructured to achieve greater impact.

- Consider mechanisms by which to measure and assess the overall effectiveness of the progress of the programs as a composite response.

In short, the Department wants someone to tell it where its 14 programs are, whether they are being effective, and what needs to be fixed. This is another good case study of an organisation that does not know where it is, what needs to be fixed, or how to fix its problems. This is hardly an organisation that will ever be able to develop a *"Smarter and More Agile Defence Industry Base."*

The Role of Procurement in Project Management

Project Management is based upon the tightly-integrated planning, organising, directing and controlling of all the functions related to the evaluation, specification, sourcing, acquisition, testing and acceptance of military capabilities. Once introduced into service, the sustainment of capabilities MUST become a CORE function of the Service operating it, project management being re-adopted periodically should the capability require major updating or a life extension. The extent to which project management applies will depend wholly upon the nature of the capability and the technological and operational challenges that it will present.

Project management is a technical function, undertaken by a team having sound knowledge and experience of the technologies comprising the capability, working under the guidance of skilled and experienced operators. Procurement is an activity that must be undertaken under close project management control. It is undertaken only as and when project management is satisfied that what it approves for procurement has been demonstrated to meet project management specified operational and technical requirements.

Defence, with government approval, has broken the project management chain by forming an independent, commercial organisation to administer capability acquisition and sustainment (the DMO). The DMO in turn has endeavoured to integrate tailored and truncated project and risk management functions into its commercial, 'business' administration model to overcome persistent problems and failures. However, the results have been expensively disastrous, leading to entrenched poor performance and bloated Defence/DMO organisations drowning in process and unable to identify what is happening, why and how to fix problems.

The Role of the DSTO

The DSTO is a principal source of advice on capability development decisions during this initial Stage, producing preliminary Test Concept Documents and providing independent advice on technical risk. However, the DSTO has been subjected to downsizing, de-skilling and outsourcing along lines similar to the Services, so it is infeasible to expect that the DSTO possesses the range and depth of operational and technical skills and competencies required across all the capabilities and technologies that move through the two-pass system.

Historically, DSTO worked closely with the Services, and comprised a mix of engineers and scientists. The organisation undertook a wide range of independent research and development projects intended to yield capabilities directly, as well as develop the skills

base and experience necessary to perform hard, objective assessments when called upon, such as in the critical fatigue assessment and management area. The shift towards being more of a consultancy organisation than a research and development organisation has produced damage very similar to that produced by the 'de-engineering' of the Services.

The difficulties that are endemic throughout Defence major projects would indicate that the DSTO's capability development, test and acceptance and technical risk assessment and management input have not been adequate. Such tasks were historically, and still should be, a natural extension of the fundamental responsibility of the Capability Managers for '*raising, training and sustaining force'*. DSTO certainly has a role to play, but it is one that supports the Capability Managers, not replacing or double-guessing them.

THE REQUIREMENTS STAGE

General Comments

The Preliminary Report describes an incoherent Babette's Feast of process and committees none of which possesses the range and depth of skills and competencies required for what is essentially a straight-forward project management task. Capability Development Group (CDG) is the focal point, but despite drawing heavily upon the Services for the specialist knowledge required, it is unable to get capability requirements fully and accurately identified, costed and risk assessed as they pass through. This is because the Services no longer possess the operational or technical skills and competencies that existed before the DRP and CSP 'reforms', and so cannot analyse, develop and provide the baseline capability requirements information required.

The DSTO has been called in to assist, staffing a Joint Decision Support Centre, providing detailed technical/technology analysis of options, and risk by providing a Technical Risk Indicator. However, the DSTO has limited practical operational and technical expertise since it no longer performs the technology demonstration projects necessary to develop and sustain the require skills base – projects that were a hallmark of DSTO until the late 1990s.

The DMO also becomes involved, in providing independent advice to government on cost, schedule, risk and commercial aspects, again from a very limited knowledge base

Industry also becomes involved, in establishing availability in the marketplace and providing an indication of whole-of-life costs and any innovative options, but it also lacks experience in the operational and technical aspects of the capability.

Finally, the Department of Finance and Deregulation has a specialist staff responsible for evaluating the costs and financial risk associated with Defence capability procurement proposals, again without possessing any capability skills or competencies base.

Throughout all this, the hapless Capability Manager who, while having responsibility for raising, training and sustaining his force (7), and has to provide the core project and technical skills and competencies required by the CDG, is also expected to undertake an overarching role across the whole of the capability development cycle to ensure that it all comes together as a complete capability. All this is expected from downsized Services not organised or skilled for such tasks.

Any hope that the complexities embedded at this or subsequent stages in the capability life cycle may yield to internal process should have been dispelled by the evidence given by Defence, the DMO and Service Executives. Instead of providing informed and incisive observations and advice based upon a sound background of experience and knowledge of military operations and the management of technology, military responses have reflected only a compliance with bureaucratic, administrative process and a desire to put the best face upon events. That is, senior Service officers are too often constrained to speak as members of the Defence Executive Team rather than as professional military officers with a clear responsibility to their Services and the people of Australia for providing military capabilities.

It did not take the Minister for Defence long to announce that his department had commenced implementing the recommendations of the Black Review, or the Secretary to direct that a comprehensive, end-to-end review of Defence's capability *business* process would be undertaken as recommended by Black. However, as identified in the Committee's Preliminary Report, nobody knows how this process works, so the inevitable result will only be to heap further process upon process, and increase the level of executive oversight, without identifying and rectifying the underlying problems with Defence management. As Mr Coles concluded in his Collins Class Inquiry, *"no amount of business process refinement could overcome this loss of experience.*"

Defence's inability to face hard facts such as these has been confirmed following the release of Defence's all-embracing solution to its problems – its '*Pathway to Change: Evolving Defence Culture (Response to the Defence Culture Reviews and Reform Directions) 2012'*. This document sees the solution to all of Defence's problems to lie in imposing another wave of Departmental, Public Service administrative processes throughout all levels and activities of the Department and the Services – not in applying structures and procedures appropriate to the proper management of technology dependent military capabilities. Adopting this '*Pathway'* will only result in further layers of process under a revamped Defence Committee System, with the hope that things will get better over the next five or more years. It is the wrong path, as discussed later.

It is probable that 'Pathways', as well as the recent push by Defence to impose further changes upon the Services that will see their police elements taken away and combined, are ill-advised changes that serve more as a smokescreen to deflect attention away from Defence's entrenched management failures.

Tensions between departmental capability development analysts and professional military operators and technical realists existed well before Tange introduced his structural changes, and persist today. The challenge for the Committee will be to obtain a balanced view of what is involved, and identify a simple organisation (ie, with the fewest 'stakeholders') that will bring together the two views in a constructive way, ensuring that tensions become productive. However, it is important that Defence input be operationally and technically competent – not simply a mechanism for imposing political/bureaucratic will.

The Role of Regulatory Authorities

This important subject was raised by the ANAO (Preliminary Report, Para 5.49). However, the Committee needs to be very clear on the role of technical regulation in regard to the RAAF's DGTA-ADF and Navy's newer Seaworthiness Board. Airworthiness/Seaworthiness is not a '*concept'*, as Defence sees it. It is a state of being that must be demonstrated consistently before it can be declared. It must also be monitored constantly to ensure its continued application and effectiveness.

Regulatory authorities are responsible for auditing and thus ensuring that Airworthiness/Seaworthiness standards are being maintained or not. The regulator is not responsible for establishing and maintaining the Airworthiness or Seaworthiness organisation, policies, systems and procedures needed for the proper management of Airworthiness/Seaworthiness. These are the responsibility of the Services. The regulator has to be careful that he does not cross this line, as that would place him in a grave conflict of interest.

The problem is that neither RAAF nor Navy, following the disbandment of their Technical Services Branches, now has the organisation, policies, systems, or procedures that will ensure Airworthiness/Seaworthiness across all their capabilities. Case studies of this problem and its consequences have been recorded, for Navy's LPA debacle and the loss of the Sea King at Nais Island, at (1) and (8).

RAAF has certainly evolved a sound regulatory authority, which may well form the framework for resurrecting a Technical Services Branch, but by itself it forms only part of the answer. The Services need their Technical Services Branches returned to ensure that Airworthiness/Seaworthiness and Battleworthiness standards are in place and effective at all times, and that maintenance is efficient, effective and economical and is coordinated and managed so as to have minimal impact upon capability availability.

THE CAPABILITY ACQUISITION STAGE

The decision by Defence (with government approval) to move from a project/engineering capability management methodology to commercial, 'business' – driven process took place over the period 1999 to 2001. The resulting subjugation of project and engineering management under 'business' processes led inevitably to:

- The inadequate specification of project operational and technical requirements, resulting in:
- Poorly defined and premature contracting, which has resulted in:
- The need for subsequent variations to the operational and technical scope of the contract, resulting in:
- Changes in capability, cost and schedule, revealing an:

- Inability within the DMO to understand and manage the technology comprising the project, especially any risks (and opportunities), resulting in:
- An extreme aversion to perceived risk in all its forms, particularly where any perceived technical complexity, hardware or software integration, or test and acceptance activities are involved, resulting in:
- Compromising the required capability outcomes by mandating MOTS/COTS capabilities quite unnecessarily, by introducing multiple Capability Milestones, and mandating 'supply and support' contracts, which have resulted in:
- Further de-skilling of the Services, and withering of Australia's Defence Industry base and thus national self-reliance, while embedding a wide range of potential risks during the life of such contracts, over which Australia will have little, if any, control.

Each of the above, singly and together, not only led to acquisition complexities, but has degraded the scope, clarity, and accuracy of the information in the documents upon which Parliament, Government and Defence take critical capability decisions, especially at Gate Reviews, as well as at the ever-escalating levels of executive oversight that are now triggered when projects get into difficulties.

The acquisition phase of any technology-dependent project should form part of project management planning, where contracting should take a relatively minor and supporting role. The key phases in project management relate to getting the operational and technical requirements established fully and accurately, evaluating contending systems against those requirements, and then developing the Project Management Plan (and its sub-plans) detailing how the acquisition of the system selected will be managed. That is, all project activities, including procurement, proceed under project management control, and payments may be made only when the Project Manager certifies that the contractor has achieved the requirements specified for each milestone. Under this arrangement, the customer knows exactly what he wants, the contractor knows exactly what is expected of him, and the project flows in an unbroken continuum from need to satisfaction.

However, the formation of a centralised organisation responsible for acquisition and sustainment, placed outside the project management discipline, has destroyed any ability to manage projects as an unbroken continuum from need to satisfaction.

Instead of commercial activities being integrated into, and driven by, project management, the DMO has had to develop a raft of processes and performance indicators in an effort to appear to fit its activities into some form of project-like framework. However, as the DMO's primary focus is commercial and legal, everything is seen from a commercial/legal (contract management) point of view. Not surprisingly, the DMO has faced the same lack of project and engineering skills and competencies as the Strategy Analysis and Needs and Requirements Phases – skills and competencies that cannot be made available or maintained for use as and when required through internally-generated 'qualifications'.

As identified in the Preliminary Report (Page 68), as soon as a project is passed to the DMO, the management axis shifts from project management to commercial (contract)

administration, which places the DMO in a position where it encounters project management challenges which it cannot meet. For example:

DMO Responsibility	Primary Responsibility
Release Tender Document.	Project Management.
Complete tender evaluation.	Project Management.
Contract Negotiation.	Project Management (with commercial input)
Contract Signature.	Administrative function.
Contract Management:	Project Management.
Change Management.	Project Management.
Risk Management.	Project Management.
Performance Management.	Project Management.
Project Management.	Project Management.
Milestone Management:	Project Management
Review Management (Requirements, Design, System Integration, Test and Acceptance.	
Delivery of Capability (now Materiel only).	Project Management.
Project Closure.	Project Management.

In short, the DMO is charged with managing what are, and always must be, project management functions that require a very high level of operational and engineering skills and competencies, which the DMO does not have and will never have.

Many of the reports referenced in the Preliminary Report exhort the DMO:

- To achieve a more '*business-like focus throughout the organisation*', and
- To align contracting to commercial practice.
- Work with Industry to identify key procurement and contracting issues that do not align with commercial practice.
- Adopt Public Private Partnerships (PPPs); in this, the DMO liaises with a PPP Center of Excellence in the Defence Support Group.

- Create the management incentives for performance improvements and structure contracts to retain competitive tension at prime, second and third tier contract levels, as well as ensuring contracts include incentives for annual improvements.

Just what is meant by '*a more business-like focus*', with what practical objectives and how these objectives might be measured for military capability acquisitions, is not defined. More importantly, the nature (the technology) of military capabilities, their specification and comparative analysis, their selection, procurement, and their operation and sustainment give challenges that no non-military commercial enterprises will usually encounter. The project management methodology was developed specifically to determine what is required, how the requirement may best be achieved, which contractor is best placed to meet the requirement, and at what cost. Under this approach, risk is minimised and commercial input is limited largely to the Commercial Terms and Conditions to be included in the contract

The commercial model adopted by the DMO may be applicable for contracting consumable, non-technical, commodity product supplies on the open market, but it is not, and will never be, appropriate for the acquisition and sustainment of highly technology-dependent, military capabilities, usually procured in small numbers. This subject is further explored later in this submission.

Under current processes, following Second Pass approval, management responsibility for the project is transferred, in accordance with a Project Directive signed by the Secretary and CDF, to

- The Capability Manager (CM) for overall responsibility for the in service realisation of the capability.
- The CEO of DMO through terms and conditions in the Materiel Acquisition Agreement, agreed between the CM, DMO and CDG.
- Other key enablers including the Chief Information Officer and Capability Development Scientists for provision of Fundamental Inputs to Capability.

It would be difficult to imagine a more convoluted process for what is essentially a straightforward project management phase.

The challenge to the Committee will be to establish whether the DMO is, or ever will be, a viable organisation that represents good value for money. It could never be judged this were it a commercial enterprise, or any military organisation.

THE SUSTAINMENT STAGE

The DMO's responsibility for capability acquisition was extended by the Minister at the time to include in-service support, on the grounds that he did not wish to have two purchasing organisations. The difference in roles between the two functions, and what was best for the Services, could not have been more misunderstood or ignored. Acquisition of capital

equipment requires very different skills and activities, compared to the sustainment of operational equipment.

Since being given the additional responsibility, the DMO has encountered chronic difficulties in providing in-service support in scope and time, and has pleaded that "*it may take years to establish the sustainment*".

Historically, the Services simply:

- Identified all support requirements as part of their project management activities.
- Developed a Support Requirements Sub-Plan of the Project Management Plan, such that all requirements were identified and managed so as to be in place by the time the capability entered service.
- Developed and maintained the System's Configuration Baseline, from which maintenance engineers could assess the range and quantity of spares needed to support the capability in accordance with defined maintenance policy, and provide the data items needed to drive through-life replenishment activities (defined through provisioning categories on the supply data base).
- Co-ordinated operational and maintenance effort such that all maintenance was planned and managed on time to give maximum weapon system availability with minimum impact on operations.

It is thus difficult to understand just why the DMO should encounter such chronic problems.

The inability of the DMO to discharge its sustainment responsibilities, both during the capability acquisition phase and throughout the in-service sustainment phase, has resulted, for example, in cases where major (Naval) capabilities have been allowed to deteriorate to the point of failure, leaving gaping holes in Australia's security.

However, of equal concern, is that under current Defence administration, responsibility for this was sheeted home to Navy, whereas primary responsibility rested wholly with the Minister, the Secretary, the CDF, and the DMO, and the root cause was the inevitable result of the Tange structural changes, and the subsequent DRP/CSP changes that denuded the Services of numbers, skills, and competencies and introduced the current Defence/DMO organisations.

Defence's response to sustainment problems has been to establish a Sustainment Reinvestment Office "*to integrate and oversee delivery of the Smart Sustainment Program*"; more high-sounding words for more process at higher levels of oversight by people who have no understanding of the problem or its solution – a typically ineffectual response to what is a straight-forward, indeed elemental, project engineering task.

The evidence given by the DMO before the Committee (Preliminary Report, Page 80) on sustainment can be described only as the ramblings of someone who has no idea of what to do, for example, it ends:

".....there may be a series of reviews that we put in place to oversee significant decisions that need to be made, but we have not got that detail."

At the same time, the DMO sets itself to be the *"premier program management, logistics and engineering services organisation in Australia."* (Preliminary Report, Page 74).

The challenge to the Committee will be to establish whether the DMO is, or ever will be, an organisation that represents good value for money. It could never be judged this were it a commercial enterprise, or a military organisation, and not having the public purse to support it.

Finally, throughout its discussion of sustainment, the Committee notes that "*Air Force has not been hollowed out in engineering and technical skills as the other Services, particularly Navy, and tends to breed its specialists"*, and *"has been able to retain its engineering and technical focus."*

There may be some basis for this judgement in relative terms, but the de-skilling and downsizing must be viewed in terms of their absolute impact on each Service. As the RAAF had achieved a higher level of technology management than the other Services, the impacts on the RAAF have been far more reaching than appear. Decisions and statements made by senior Air Force members evidence a remarkable lack of informed, professional operational and engineering advice when compared with that which was evidenced when the Chief of Air Force had a Chief Engineer with a Technical Services Branch to advise him. Poor engineering advice will always be evidenced by poor operational advice. Furthermore, the problems that have been encountered with every AIR project from the C-130J may be traced directly back to inadequate Air Force operational, project and technical skills. The judgement of some senior officers in the Defence Executive Team are just not supportable by evidence.

The challenge for the Committee here will be to identify the absolute span and depth of the skills and competencies base needed in the Services for their effective, sustained and safe operation and support.

Devolution of responsibility for capability development, acquisition and sustainment to the Services would remove the organisational confusion, complexities, lack of accountability and inefficiencies that have become embedded under Defence's service - provider methodology and the DMO's 'business' model. The current matrix approach has demonstrated no improvements in efficiency, effectiveness or economy – in fact quite the opposite.

OTHER FACTORS IMPACTING PROCUREMENT

THE JSF MARKETEERING TRAP

In its search for truth about the JSF Project, the JSCFADT has received evidence and presentations from Defence, the US JSF Project Office, and the Manufacturer, Lockheed Martin. Some members of the Committee may have noted a remarkable similarity in what it has heard from these three organisations, from the use of common language and even

PowerPoint slides. The answer lies in the fact that all have conformed to commercial, marketeering lines rather than historical Project Engineering disciplines.

Marketeering presentations are characterised by being delivered by senior representatives, whether service, departmental, or commercial, who have little, if any, real knowledge of the weapon system involved, but '*can make a good presentation'*, and can be relied upon to keep to the marketeering line. Marketeering presentations emphasise the 'good' news, avoid thorny questions, and when pressed will frequently shelter behind erroneous pleas of commercial/classified information. They are aimed at selling a product and containing fears, not providing objective capability, schedule and cost information upon which customers may take confident decisions as to the extent to which the weapon system satisfies their specified requirements or, more importantly, fundamental capability needs.

Another characteristic of marketeering is its intolerance of any contrary view, irrespective of its veracity. While project engineering actively seeks such input and uses it positively, marketeers reject it immediately as a commercial threat.

The marketeering syndrome outlined has also been identified in much of what passes for media analysis. Here, it is termed *'the assertion-based community'* , which will *"always have the upper hand, since the reality-based community is hobbled by trying to adhere to logic and evidence, whereas its opponents are free to say anything they wish and reject any need to verify or explain themselves"* (9).

The JSCFADT has also been provided with independent evidence on the JSF from professional operational and engineering analysts since 2004, based upon clearly auditable US governance reports that are in direct conflict with what the JSF marketeers, such as in regard to the weight status of the three aircraft variants. The marketeers have not been able to explain this conflict, but have declared those raising the matter to be '*a bunch of nutters who don't know what we know*'. Defence, with its stated cultural intent of "*We are trusted to defend, proven to deliver, respectful always"* would surely be watchful that such opinions did not come from within its organisation.

In the end, the JSF Project will be judged in the court of the laws of science, physics and mathematics – a court that has no time whatsoever for the smooth tongue of the marketeer who would try to distort or ignore these laws. Unfortunately, the court's decision has been delayed by forthcoming elections on both sides of the Pacific.

The commercial marketeering driving the JSF Project compares most unfavourably with the management of the F-III Project, which was also ordered prematurely and faced difficult engineering problems at birth. However, the F-III was managed under strict engineering management disciplines by the RAAF's Air Member for Technical Services (AMTS), reporting directly through the Minister for Air to the Minister for Defence. Drawing upon the skills and competencies within his Engineer Branch, AMTS was able to resolve the complex design and metallurgical problems being encountered, while providing valuable assistance to the USAF Project Office and the Manufacturer.

History records:

"*That highly successful outcome said a great deal about the RAAF. Malcolm Fraser's strong performance in his negotiations with Secretary Laird rested essentially on the Air Force's profound technical expertise; and that experience had not been acquired by chance. In the first instance it was attributable to the far sighted men who in 1948 had established a Technical Branch with a core of tertiary qualified engineers. And in this particular instance it also owed a great deal to the astute leadership of Ernie Hey, who held his nerve in hard times and ensured that the RAAF received the right answers by personally selecting his branch's best and brightest to manage the F-III program. Consequently, when Australia's Defence minister argued his case with the Americans, he did so from a position of authority"* (10).

ANZUS – PARTNER, BORROWER OR DEPENDANT?

The ANZUS Treaty has remained an important element in Australia's security planning since its inception, but has assumed greater importance with the rise of China, the resulting shifting of the US's global military posture, and the suggestion that Australia may have to decide whether the US or China will become its future 'uncle'.

The Treaty aims to achieve "...*collective defense for the preservation of peace and security in the Pacific Area."*, while Article II states that"...*the Parties separately and jointly by means of continuous self-help and mutual aid will maintain and develop their individual and collective capacity to resist armed attack*."

Force 2030, the Defence White Paper of 2009 assigns to the Australian Defence Force (ADF), as its principal task:

> "*..to deter and defeat armed attacks on Australia by conducting independent military operations without relying on the combat or combat support forces of other countries. This means that the ADF has to be able to control our air and sea approaches against credible adversaries in the defence of Australia, to the extent required to safeguard our territory, critical sea lanes, population and infrastructure."*

This was also reflected in the spirit of the opening paragraph of *"The Defence of Australia, 1987":*

> *"This government policy of defence self-reliance gives priority to the ability to defend ourselves with our own resources. Australia must have the military capability to prevent an enemy from attacking us successfully in our sea and air approaches, gaining a foothold on our territory, or extracting political concessions from us through the use of military force. These are uniquely Australian interests and Australia must have the independent military capability to defend them."*

Australia gave more tan lip service to the spirit of self-reliance embedded within Article II until about the mid-1970s, but since then has only espoused it in Defence White Papers and Defence Industry policy statements, while allowing the self-reliance capabilities that had been built up to decline rapidly. Since the establishment of a single Defence Department,

and the imposition of the Defence Reform and Commercial Support Programs, we have seen (examples only):

- The downsizing and de-skilling of the Services and the loss of their engineering and maintenance support facilities, coupled with declining morale in the face of continual pressures from Defence for cultural change. There has been no focus upon sorely needed operational and technical skills and competencies, or self-reliance.
- The loss of air superiority in our region, and a compromised new air combat capability programme.
- The decay of critical naval capabilities arising from the failure of the Defence/DMO service provider, 'business' model.
- The focus upon niche capabilities and jointery rather than wider force capabilities, especially single-Service roles.
- The erosion of Australia's Defence Industry due to the transfer of engineering, maintenance and supply support functions to overseas contractors under DMO's supply and support 'business' model.
- A continual reduction in defence investment, despite promises made by successive governments, to a level below that preceding WWII.
- A reluctance to take up and resolve political and capability acquisition problems (especially the JSF cancer) with the US in an open way, as a true Partner acting in the spirit of ANZUS.

The result of changes such as these has been to reduce Australia's contribution to the ANZUS Treaty from being a full Partner, one having real capabilities backed by a real measure of self-reliance, to becoming a 'Borrower', one who is willing to help, but needs an unreasonable level of US assistance for the help to be realised. 'Borrowing' was evidenced during the Libyan campaign when NATO forces, depleted through prolonged lack of government support, could not take the lead without calling upon an unreasonable level of US assistance. The US was rightly short with those countries involved.

As time passes, it may be expected that, under current Defence and government policies, Australia's military capabilities will deteriorate to the point where it will become a 'Dependent', unable to provide any significant capability and bereft of any self-reliance. In this case, Australia is in danger of being reduced to providing bases for the US, and little else. At this point, one or other of the signatories will have to question the risks against the utility of the Agreement.

Core Force. The concept of a core force raised recently is impractical. It may have some limited application in Army's ability to expand rapidly in non-technical areas, but the high technology Services – RAAF and Navy – are unable to expand in numbers of aircraft/ships or trained and experienced crews at short notice, unless a large and highly ready reserve force is standing by. The Services' maximum contribution to whatever emergencies that might arise will thus be limited to the number of aircraft/ships that can be made available and

kept available at the time. National self-reliance capabilities will be critical, but these have been sorely depleted. In short, success in meeting aggression will depend wholly upon the Services' capabilities available at the time.

The Budget. Over the flurry of comment on the adverse impacts of the Budget on defence, the Secretary of Defence assures us that our defence expenditure '*compared favourably with many countries in western Europe.*' However, he failed to acknowledge that Australia, with its land area (about the size of the continental US), and its maritime responsibility which covers an area probably greater than any other nation, presents a somewhat greater challenge than any western European country. Statements such as this do not reflect credit upon Defence. Government decisions have demonstrated clearly a lack of priority for defence that will not be lost to the Services, the public, or our neighbours and others.

THE US DOD AND ITS ACQUISITION ORGANISATION

The Committee should also note that the US Department of Defense and its acquisition organisation were declared broken almost three decades ago, as detailed at (4). The Goldwater-Nicholls Act of 1986 attempted to rectify the situation, but all action has been countered by the US Defence, Industrial, and Congressional Complex (as warned against originally by President Eisenhower).

The impact of the prolonged failure of US Defense administration was evidenced by the recent attempt by Todd Akin, Rep. Missouri, Chairman of the House Armed Services sea power and projection forces sub-committee, as well as senior member of the House Budget Committee, to establish, after 20 years of development, a firm Initial Operational Capability (IOC) date for the JSF. When news of this move was leaked, Lockheed Martin lobbyists swarmed the Armed Services Committee, and the DOD was required only to establish an IOC date, but without any consequences if they failed to do so – something done on multiple occasions before. The ranking member of the Committee said that "*holding this multi-billion dollar program accountable would send the wrong message to our allies; calling into question our commitment to the program.*"(11)

The JSF Project has always required a degree of management awareness and governance that has not been evidenced to date in Defence.

ACCOUNTABILITY AND CULTURAL CHANGE

Accountability in an organisation depends primarily upon the management system adopted. If accountability is required, then the organisation must be a functionally-focussed one, which:

- Ensures that all accountabilities are coherent and traceable directly to the functional objectives of the organisation, not diffused or duplicated.
- Defines all accountabilities clearly, unambiguously, and objectively.
- Ensures that all accountabilities are realistic and achievable.

- Ensures that those accountable are competent to discharge their accountabilities; that is, they have the requisite skills and competencies.
- Those accountable have the authority and resources required to discharge their accountability.
- Has a continuous performance measurement system in place that will provide timely advice of any departures from organisational plans and objectives to both those accountable and governance oversight.

If any of these links is missing or broken, the organisation will be blind to departures from its plans and objectives, unable to take timely and appropriate pre-emptive action, and so accountability becomes impossible – the situation seen continually within Defence.

Defence is not a functional organisation, and was never designed to be one. Mr R.C. Smith, Secretary, Strategy and Intelligence, and Later Secretary for Defence, in his address to a Senior Officer Study Period in 1995 (12) when Defence Reform was being enforced stated:

"*It is self evident that the very different natures of military and civilian service produce different cultures and it is important that these differences be recognised and understood if the two cultures are to work together effectively. To mention just a few of these differences, civilians are, for instance, generally more readily able to tolerate, and even be comfortable with, unclear lines of command, divided authority, and open-ended guidance or ambiguous instructions. They also tend to be willing to offer judgements and opinions on the basis of less hard data than their uniformed colleagues, and to accept that outcomes can't always be readily predicted or easily influenced. Again, the question of 'ownership', so important to military commanders who very understandably want to 'own' or have command of the assets needed to do the tasks for which they are responsible , is much less important to civilians, who are generally more comfortable about being dependent on others to deliver results."*

The incompatibility between military professionals, whose functions depend upon sharply-defined tasks, clear accountability, real measures of performance and sound management of the resources needed to achieve them, and the vague, open-ended ambiguous, poorer judgements, and reliance upon external dependencies that guide public service administration and process, is stark. The paramount difference is that the military are engaged in decisive, life and death decisions and actions that are in the front line of national security-Defence civilians carry no such weight of responsibility or accountability.

Notwithstanding these differences, which Smith stated '*must be recognised and understood*', Defence has embarked upon an unceasing and increasing process of changing the military culture to align with that of the Public Service and pressures from liberal minorities, while ignoring studiously service management implications.

In short, from the beginning, culture has been given precedence over functional responsibility, with the result that the Public Service Committee-based and process-driven administrative system has been unable to come to grips with the need for functional management, with its firmly embedded accountability, in military matters.

PATHWAY TO CHANGE?

Overview

On 16th March, the CDF advised the Senate Defence Sub-Committee that that there were currently six recent reviews examining Defence culture, and drew attention to the Department's plan to meet the cultural challenges identified. He was referring to '*Pathway to Change – Evolving Defence Culture – A Strategy for Cultural Change and Reinforcement – 2012.'* In this document, Defence sees its cultural problems as stemming from its culture tolerating shortfalls in performance, and believes that its failures are personal in nature, pointing to flaws and gaps in its processes, giving rise to the need to reshape aspects of '*our single Services and whole of Defence culture*'.

'*Pathway to Change'* is defined as a '*Statement of Intent'* that marks the start of a five year or longer program of concerted efforts to tackle its cultural challenges, including accountability, at their roots. Nowhere does *Pathway* identify Defence's lack of proper functional management as being the root cause for the rapid and widespread growth of its 'cultural' problems and its inability to accept accountability. Poor management fosters poor culture, and poor culture cannot exist with good management. The concentration on six 'cultural' reviews, weighted heavily towards those having high media attention, conveniently avoided having to face functional management problems. Other reviews should have been included to provide the complete picture, especially the Proust Review (13) which found:

- "*...Defence has become unwieldy to manage...as the number of groups has grown – each with its own leadership, reporting and administration overheads.*
- *The current structure is confusing.*
- *While it might be disruptive in the short term to attempt another reorganisation of Defence, it is necessary to get the structure right, by which we mean that the structure should be aligned with accountabilities and responsibilities."*

'Pathway to Change' is a Defence marketing document, a *'Statement of Cultural Intent'*, offering only a continuum of public service administrative processes over the next five years or more. Its primary function is to build upon the '*Results Through People'* leadership philosophy embedded in the Charters of the Service Chiefs, to the further detriment of the Services and their ability to discharge their primary responsibilities. The cost of implementation is not given. How it will be implemented, and how results and unintended consequences will be identified and measured against what objectives, also remain a mystery.

Many, if not a majority, of the report recommendations point to fundamental management failures, failures by those in authority to take appropriate action when required, but the classifications given them are completely non-managerial, even those relating to accountability being classified generically as 'cultural'. The classifications used are:

Classification of Recommendation	%age of Occurrences
• 1. Leadership and Accountability.	(13.7%)
• 2. Values and behaviours.	(11.5%)
• 3. Right from the Start.	(23%)
• 4. Practical Measures.	(24.5%).
• 5. Corrective Processes.	(14.4%)
• 6. Structure and Support.	(12.9%)

An analysis of the recommendation classifications shows:

Report	**1**	**2**	**3**	**4**	**5**	**6**	Total
Personal Conduct (Orme)	0	3	0	1	0	1	5
Use of Alcohol (Hamilton)	1	1	1	1	2	13	19
Social Media and Defence (Patterson)	1	4	0	0	0	2	7
Management of Complaints (Earley)	0	4	0	32	0	1	38
Treatment of Women (Broderick)	0	0	31	0	0	0	31
Employment Pathways (McGregor)	5	1	0	0	14	0	20
Accountability (Black)	11	1	0	0	3	0	15
Shares Services	1	2	0	0	1	0	4
Total:	19	16	32	34	20	18	139
Percentages (Rounded):	13.7	11.5	23	24.5	14.4	12.9	

That is, the majority of recommendations will be corrected through cultural change by 'Practical Measures' and 'Right from the Start'. Aligning the Defence management structure with responsibility and accountability were thus not factors deserving consideration in these reviews.

Assessment of 'Pathway'

'Pathway', and the Black Report from which it evolved, have nothing to do with the efficient, effective and economic management of Australia's Military capabilities, or their support. "Pathway' will only further increase bureaucratic overheads and introduce another raft of damaging, confused and ineffective administrative processes.

The core problem with Defence is that it has abrogated responsibility for military matters for which it is not organised or competent to discharge, so is endeavouring to mould the Services in its own image. Its incompetence has been demonstrated by its continued reliance upon inquiries and reviews to tell it, usually after problems have attracted unfavourable media attention, what has gone wrong and how it might be fixed – the signs of a failed organisational structure lacking in adequate governance oversight. In the meantime, capabilities have been allowed to deteriorate, and Service ethos and morale to erode.

The real thrust of '*Pathways'* is revealed at Section 3, which describes how leadership and accountability are perceived to be enhanced by cultural change, in particular:

- "*The introduction of mechanisms that promote partnership and shared responsibility for delivery of outcomes".* That is, the retention and extension of divided responsibility and hence diffused accountability.

- *"...the successful implementation of an expanded Shared Services model in Defence."* That is, the extension of Defence's 'one size fits all' philosophy which fails to recognise the different operational and technology management needs of the three Services.

- *"We will reaffirm and make more transparent the current integrated approach to considering star and Senior Executive Service (SES) level promotions. In doing so we will address the current misconception that these are managed through separate Service star plot and APS career management processes....We will reaffirm to our Captain/Colonel/Group Captain Executive Level 2 levels and above that they must identify with Whole-of Defence objectives in addition to representing their Service, Group or APS perspective."*

Under this last initiative, "*All senior Service officers must align their leadership behaviour with the 'Pathway to Change ..., and must work with jointery and integration as their prime decision- making lens...rather than Group or Service specific."* In short, dissention with Departmental decisions and actions, even where they lead to the destruction of military capabilities, faulty acquisition/sustainment decisions, or the erosion/displacement of historical (in affect the much lauded ANZAC) military ethos and morale, will not be tolerated. Case studies in all three areas have already surfaced with the Armadale, Supply Ship and Collins Class debacles, in the DMO's Major Projects Reports, as well as the six reviews forming the basis for 'Pathways', to name a few.

The myopic focus upon jointery also carries grave dangers for Australia's security. The concept fails to recognise that joint operation capabilities rely primarily upon each of the Services being highly competent in its specialist environment before it can be of any use in joint operations. This applies particularly to the two high technology Services, Navy and RAAF. For example, armies and navies cannot transit or operate in the absence of 'friendly air', which RAAF must be able to guarantee in its wider sense – that is, being able to establish and maintain at least air superiority in those regions where Army and Navy transit or operate. Similarly, Navy has to be able to establish and maintain Sea Power in its widest

sense before armies and their equipment may be moved or joint operations undertaken with safety. These have both capability and deterrent value.

In the absence of competent single Service capabilities, joint operations must remain a forlorn hope – never a reality. For example, under present Defence planning for the JSF, Air Superiority will not be achieved over the next several decades – the decisions leading to this situation have already been taken. In all, Australia has been consigned to becoming a 'Borrower' at best and a 'Dependant' at worst under ANZUS.

Meanwhile, a similar obfuscation and reliance upon words rather than deeds exists in the US, where '*The President's Openness in Government Initiative – Transparency on the Defense Acquisition Workforce'* was unveiled in April 2010, based upon the President's undertaking:

"My Administration is committed to creating an unprecedented level of openness in Government. We will work together to ensure the public trust and establish a system of transparency, public participation, and collaboration. Openness will strengthen our democracy and promote efficiency and effectiveness in Government".

This will be as successful in fixing the problems embedded in the US DOD and its Acquisition Organisation as our Defence's cultural change processes approach to embedding accountability through 'cultural reform' will be.

SOME THOUGHTS ON WHAT NEEDS TO BE DONE

(WITH PARTICULAR REFERENCE TO THE RAAF)

The impacts of the Tange and subsequent changes on the organisation and the skills and competencies base of the RAAF, with their affects upon capability acquisition and sustainment, were analysed in detail at (14). The following will thus only highlight some of the more important factors that should be noted during the Committee's inquiry.

The Department

The problems entrenched within Defence and the DMO reflected in the Committee's Preliminary Report, as well as the reviews to which it refers, relate to poor management, poor governance and inadequate skills and competencies, all problems that have arisen since the Tange structural changes were introduced and the DRP/CSP imposed.

Pre-Tange, the Service Chief reported directly to his Minister. The Service Chief managed his service through a Service Board which comprised the Secretary and the Chiefs of his dependent Branches, especially his Chief of Air Force Technical Services. There was usually a close bond of understanding and a strong sense of shared responsibility between the Service Minister, his Secretary and the Service Chief, and there was generally a good measure of faith and confidence in those relationships. There was also a strong sense of unity of direction. These arrangements resulted in:

- Direct civil governance of the Service.

- A direct command and control relationship between the Minister and his Service Chief.
- A direct Minister to Service Chief (and vice versa) strategic, financial, and moral accountability.
- An effective span of control.
- A trust born of mutual knowledge and responsibility.

Today, Defence has evolved to become a monolithic bureaucracy that shares none of the attributes that existed before. The security of Australia is now run by a Minister, acting as head of the Military as well as his Department, supported by 14 Deputy Secretaries and two Associate Secretaries, supported in turn by 14 civilian and six military bureaucrats at 'three star' level, who are in turn supported by 134 Senior Executive Service civilians and 178 'star ranked' military executives. Beneath them lies a web of public servants and military staff responsible for the administration of the accelerating mass of process and higher-level committees that have evolved under the cover of perpetual major reviews (some 33 since September 2010).

As management of the Services has become centralised under the Minister, through the Secretary, and the CDF, any day-today problems likely to cause embarrassment are pushed up the line until they demand the attention of the Minister and his executive leadership in an attempt to limit media attention, and divert accountability. The Department may feel that this is the way 'to keep the Services in their place', but it is really only a sure way to ensure that the Services become and remain militarily neutered and toothless.

The Services remain under-skilled, under-manned and ill organised to discharge their responsibilities. Their Chiefs are now simply extensions of the Defence executive, their priorities reviewed and set annually by the Secretary and the CDF in the form of an Organisational Performance Agreement, and their performance measured against these priorities. The Chiefs are also responsible for developing leadership behaviours that advance and embed the '*Results Through People'* leadership philosophy (7). Qualifications for promotion to higher ('Star') ranks have shifted from recognising and promoting the best military professionals to promoting those who will become good, 'affably compliant' members of the Minister's leadership executive team. All this has gone a long way towards killing military professionalism in the Services from the top down.

Much of this has come about as a result of '*civil control of the Military'* being corrupted within the Defence bureaucracy to mean '*civilian control of the Military'*, leaving the way open to civilian bureaucrats (acting in the name of the Minister, who alone should exercise civil control) to justify improper interference in professional military responsibilities, in the command of the Services by its uniformed commanders, and in the constitutional and ministerial control of those commanders and their troops by Ministers of the Crown (15). This has spread throughout the Services as a result of the Secretary being given responsibility for the administration of the Services. Hence, all Instructions, for example, are now issued as Defence Instructions, rather than Service Instructions, breaking the Service chain of command and control.

Combined with a severe reduction in military skills and competencies, the result has been poor strategic analysis, poor capability analysis and poor capability acquisition and sustainment, as well as a continued decline in Service command and control, discipline, ethos, ethics and capabilities, and a withering of Australia's Defence Industry base and national self reliance. The overheads involved in manpower, inefficiecies and lost opportunities can only be imagined, and yet the Department still insists that "*The series of reforms instituted over the past twelve months to strengthen procurement processes and improve accountability within Defence, which include the appointment of an Associate Secretary Capability, will build on the Kinnard and Mortimer Reforms"*(16).

The Committee thus needs to recognise that the DMO question forms but part of a wider malaise which, if not identified and corrected, will frustrate any move to improve DMO in isolation. The Committee is faced with a Defence organisation that has lost its way, is unable or rather unwilling to reform itself, and has to depend upon continuing reviews (and their resulting multitude of new, ineffectual processes) to find out what has gone wrong and how things might be fixed. The organisation appears to have been structured so as to obscure or avoid accountability, and to resist governance intervention. The Department is still moving along lines that will only further damage Australia's military capabilities and standing in the world.

The Committee should look to a return to first principles in a wide - ranging review of the adverse impacts of the Tange structural changes and the Defence Reform and Commercial Support Programs.

THE RAAF

The organisation of the RAAF that existed pre-Tange evolved through long experience during peace and war, and was driven mainly by the challenge to support a relatively small number of aircraft flying a relatively small number of hours in the absence of any significant support from an organic Defence Industry, as well as operating at great distance from the manufacturer. Because of our small numbers of aircraft, the loss of a few (unserviceable) aircraft represented a significant percentage loss of operational capability. The RAAF also insisted upon a high standard of serviceability and airworthiness at all times. This was to ensure that when launched, the aircraft could be depended upon to achieve their mission successfully, return, and be launched again – not fall in a heap. These factors led to the RAAF becoming a strongly maintenance-based service, with engineering, maintenance (and associated technical supply support) becoming the critical force enablers, and were managed accordingly.

The establishment of RAAF Maintenance Squadrons and Aircraft Depots safeguarded the RAAF's independence of operations and developed the deeper-level expertise need for the planning, acquisition and sustainment of new capabilities. They also provided a reserve of resources able to mount and support protracted operations in remote areas. They thus provided critical depth and persistence of air power – the front line of self-reliance.

The USAF, on the other hand, was from the start a production-based organisation, drawing heavily upon a large, established, Military Industrial Complex. Maintenance under this

arrangement received less importance in supporting force availability. The USAF, with its much larger aircraft numbers, also had the advantage of being able to mount and sustain effective operations while carrying higher losses and unserviceabilities. Aircraft and equipment needed to support operations came from organic aircraft and equipment manufacturers, so industry became the major force enabler, not an organic Service maintenance organisation. As a result, USAF technical training could be much shallower than that need by the RAAF, which trained in depth to obtain flexibility in employment across all aircraft types and depths of maintenance.

Australia's Defence policy, which at every turn tries to make the RAAF like a smaller USAF, is misguided. It ignores the differences in their primary force enablers as discussed above, and probably rests upon the view of a USAF that no longer exists, as it has also been impacted adversely by bureaucratic changes similar to those faced by the RAAF. The view is characteristic of those formed when ill-informed bureaucrats speak to equally ill-informed bureaucrats. The RAAF used always to keep abreast of developments in the USAF, but adapted rather than adopted only that which was considered useful. The RAAF had a well-founded belief that much of what the USAF could do, the RAAF could do better.

The RAAF, while no longer an Air Force, but a provider of force elements, still remains a maintenance-based organisation, despite the loss of its engineering and maintenance skills base, as well as its Maintenance Squadrons, its Aircraft Depots and its Support Command. In their place, the RAAF (and the other Services) must now rely upon Materiel Acquisition Agreements and Materiel Sustainment Agreements, and a web of contracts for its critical engineering, maintenance and supply support, all generating potential single-point failure nodes should the RAAF be put under any stress, such as the need to conduct genuine, medium to high intensity combat operations within our region.

Throughout its capability analysis and selection procedures, the RAAF historically waited until contending aircraft had been in production sufficiently long for design and production problems to have been resolved, the configuration baseline established, support requirements identified, and the operational performance demonstrated. As a result, capability acquisition and sustainment risk was close to zero.

However, the Defence/DMO assumption that what is appropriate to the USAF must also be appropriate to Australia is wholly misplaced and inappropriate. This has led to the adoption of US terms and project management concepts that were designed to manage the unique, complete design, development, and test and acceptance of major new capabilities where risk is highest – procedures that are inappropriate if Australia conducts its capability analysis and selection as above. The risks that so terrify Defence and the DMO are self-inflicted and spring largely from their complete lack of understanding of how high-technology should be managed, and their innocent (naive) dependency upon Manufacturer's marketeering PowerPoint presentations and comfortable reassurances in source selection decisions.

As a result, and lacking required skills, the DMO has undertaken capability acquisitions that were overly ill-timed, ambitious, not understood, and managed under the wrong methodology. The abandonment of the RAAF's operational and technology-based acquisition and sustainment systems has also led directly to consistently poor airpower decisions. For example, government policy states:

6.2 "*The Government has reaffirmed that the primary priority for the ADF to maintain the capability to defend Australian territory from any credible attack, without relying on the combat forces from any other country."*

8.39 "*The Government believes that Australia must have the ability to protect itself from air attack and control our air approaches to ensure that we can operate effectively against any hostile forces approaching Australia.*"

8.37 "*Air combat is the most important single capability for the defence of Australia, because control of the air over our territory and maritime approaches is critical to all other types of operation in the defence of Australia.*"

However, the Defence/DMO response, supported by senior Service members of the Defence Executive Team, has been to:

- Fabricate the premature retirement (and literal burial) of the F-111, denying Australia a major strategic deterrent capability that could have been extended so as to avoid any need for an interim capability pending the acquisition of a replacement.
- Acquire the Super Hornet on the basis that Australia is 'Hornet Country', and that its acquisition would be easy. Easy, but the aircraft is outperformed throughout the world, not purchased by any other country than Australia and the US, and cannot satisfy the strategic requirements government has mandated.
- Commit Australia to the JSF, an aircraft that still has no known cost, no known capability, and no known schedule, is already two generations behind its potential threats, continues to face intractable design and test challenges, and risks the failure of defence contractors in those countries committed to the aircraft.

In fact, there has not been a successful AIR Capability project since before the C-130J, with one unsuccessful project failing to the tune of well over $1Billion.

The mismatch between government policy and airpower planning is symptomatic of either poor operational and technical advice given by Air Force, or arbitrary executive decisions taken within Defence/DMO, or both.

The Committee should look closely at the impacts that the Tange and subsequent changes have had on the Services and their inability to be held accountable for '*raising, training and sustaining force'.* Experience in the RAAF with airpower development, and Navy for submarine and supply ship capabilities, represent good case studies.

CONCLUSIONS

The Committee's Preliminary Report has confirmed that there have been critical failures in the management of Defence and its capability acquisition and sustainment agency, the DMO.

Within Defence, these failures have been attributed to its inability to understand and manage the elements of that comprise capability development, the use of ever-increasing, but ineffective and administratively complex, administrative processes, rather than project-focussed procedures under the management of staff having the required operational and technological skills and competencies. The report also highlights poorly defined and overlapping responsibilities and accountabilities, poor risk management, poor governance, and poor development of Defence Industry as an effective element in national self-reliance.

The persistent problems noted must also be seen as a failure of Defence's matrix management model with its common-user, service-provider philosophy, which cuts across critical functional responsibilities of the Service chiefs, and introduces a chain of single-point failure nodes that dictate against achieving effective management of defence capabilities and their sustainment. While the Service chiefs have prime responsibility "*To deliver Force capability for the defence of Australia and its interests...*", they do not have the authority, organisation or resources to discharge their responsibilities. Their main function is to force Defence 'cultural reforms' through their Services, changes that displace historical military ethics, ethos and morale and erode the chain of command and control.

If Defence is to become a truly effective element in the management of defence, rather than micro administering the Services, the adverse impacts of the Tange structural changes must be recognised and corrected by aligning primary accountabilities with functional management responsibilities and resource allocation. In this, Service roles and responsibilities must take precedence over bureaucratic careers.

Within the DMO, entrenched capability acquisition and sustainment problems have resulted from the adoption of commercial, 'business-like' practices, rather than tight project/systems and engineering management procedures under the control of staffs having a sound understanding of the operational and technical requirements. This has been evidenced in all DMO Major Projects since the organisation was formed, but without being acknowledged or rectified. In short, the DMO's 'business' approach is not appropriate for military weapon systems and their sustainment.

If the Committee is to initiate effective and lasting improvements in the management of capability development, acquisition and sustainment, the current Defence/DMO/Service structures, accountabilities, and resource allocation will need to be reviewed. As a general principle:

- The Defence Department should focus upon developing strategic advice to the Services, exercising good governance, and ensuring the availability of funds needed to meet Government's programs. There is no need for the Department to micro manage the Services who carry the prime responsibility for the defence of Australia.

- There must be a reinvestment in Service numbers, their operational and technical skills and competencies, and a measure of organic self-reliance in engineering and maintenance.

- Defence Industry must be developed to provide a reliable and relevant, deeper - level of national self-reliance.

Investing in Service skills and competencies will give far quicker and better returns than investing in more bureaucratic process. In the end, governments have proven to be poor at identifying the when, where and what of threats. It has thus been up to the Services to make use of what capabilities that they have at the time, and take casualties until government finally accepts that a threat exists and begins to marshal Australia's resources.

However, next time around, Australia will have to depend upon severely downsized and de-skilled, under resourced and poorly supported Services, with gaping holes in their capabilities. No amount of spin or process will be of any help then.

(E.J. Bushell, Air Cdre (Rtd)) 6th June 2012

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