
The Parliament of the Commonwealth of Australia

Review of the Defence Annual Report 2012-13

Inquiry of the Defence Sub-Committee

Joint Standing Committee on Foreign Affairs, Defence and Trade

October 2014
Canberra

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Foreword

The *Review of the Defence Annual Report 2012-13* is the first undertaken by the Defence Sub-Committee in the 44th Parliament. Reviews of Defence annual reports, which the Sub-Committee has undertaken annually in successive Parliaments since 2002, is an oversight activity that the Sub-Committee considers to be a key part of its role.

The Sub-Committee resolved to focus on five main areas for its *Review of the Defence Annual Report 2012-13*:

- Asset management and Capital Investment Programs;
- Defence Cooperation Program;
- Naval combat capabilities;
- Air combat capability; and
- Defence Materiel Organisation and Capability Development Group.

The Sub-Committee considered estate issues ranging from the cost pressures associated with heritage listed buildings through to the efficacy of Defence contracts to ensure that small to medium enterprises were paid in a timely manner by prime contractors.

The Sub-Committee also considered the scope of the Defence Cooperation Program and options for a Whole of Government approach to supporting regional partners.

As the Sub-Committee examined the last three of the five focus areas, it became apparent that despite some very positive developments, Navy's Seaworthiness System being one, Defence's approach to capability management remains fragmented. There does not appear to be a single contiguous system which Defence can use to conduct capability-assurance from definition, through acquisition and service-life, to disposal. Such a system, perhaps reporting through the Vice Chief of the Defence Force, would facilitate more effective capability management across groups within Defence while increasing transparency and enhancing oversight by Government and the Parliament.

The Sub-Committee notes the positive outcomes from the SEA 1000 industry Integrated Project Team and encourages further development of this initiative. The Sub-Committee also believes that there is greater opportunity to leverage the expertise developed within the private sector at all stages of the capability development life cycle. Rather than contracting for specific packets of work, greater benefit could perhaps be gained by entering into a teaming arrangement as part of a whole-of-life approach to identifying and managing risk.

The Sub-Committee was disappointed to note however that:

- As at the date of the Committee's adoption of this report, no response had been received to the recommendations of the Committee's *Review of the Defence Annual Report 2011-2012*;
- A copy of the independent review of the Joint Strike Fighter program commissioned by the Defence Materiel Organisation, that was discussed during the public hearing on 6 June 2014, has still not been provided to the Sub-Committee; and
- The lack of detail in the *Defence Annual Report 2012-13* on the progress of implementation of all the Coles review recommendations.

The Sub-Committee expects these matters to be addressed.

The Sub-Committee appreciates the growing importance of the cyber dimension to national security. In this regard, the important work being done by Defence, specifically by the Australian Signals Directorate and the Defence Science and Technology Organisation, was noted.

The Sub-Committee acknowledges the dedication and commitment of the servicemen and women of the Australian Defence Force (ADF) and commends them on the outstanding service they provide to the nation. It is also recognised that the members of the ADF are supported by an enduring network of families, friends and loved ones and to these people we give our thanks. Finally, the Sub-Committee notes the loss of Lance Corporal Todd Chidgey during 2014. Our deepest condolences and thoughts are extended to his family and friends.

Senator David Fawcett
Chair
Defence Sub-Committee



Membership of the Committee

Chair The Hon Teresa Gambaro MP

Deputy
Chair Mr Nick Champion MP

Members	The Hon Michael Danby MP	Senator Mark Bishop (until 30 June 2014)
	The Hon David Feeney MP	Senator Sean Edwards (from 1 July 2014)
	Mr Laurie Ferguson MP	Senator Alan Eggleston (until 30 June 2014)
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Membership of the Defence Sub-Committee

Chair Senator David Fawcett

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Terms of reference

Pursuant to paragraph two of its resolution of appointment, the Joint Standing Committee on Foreign Affairs, Defence and Trade is empowered to consider and report on the annual reports of government agencies, in accordance with a schedule presented by the Speaker of the House of Representatives.¹

The Speaker's schedule lists annual reports from agencies within the Defence and Foreign Affairs portfolios as being available for review by the Committee.²

On 19 March 2014, the Joint Standing Committee on Foreign Affairs, Defence and Trade authorised the Defence Sub-Committee to review the Department of Defence Annual Report 2012-13.

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- 1 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Resolution of Appointment*, viewed 25 July 2014, <http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/~/link.aspx?_id=D70AAF162277482DB939202EE1B1C4D3&_z=z>.
 - 2 Parliament of Australia, *44th Parliament Speaker's Schedule: Allocation to Committees of Annual Reports of Government Departments and Agencies*, p. 21.



List of abbreviations

ADF	Australian Defence Force
ADMM-Plus	ASEAN Defence Minister's Meeting-Plus
ANAO	Australian National Audit Office
APS	Australian Public Service
ARF	ASEAN Regional Forum
ASEAN	Association of South East Asian Nations
ASPI	Australian Strategic Policy Institute
AWD	Air Warfare Destroyer
BS	Base Service
CDF	Chief of Defence Force
CDG	Capability Development Group
CDIP	Capability Development Improvement Plan
CHL	Commonwealth Heritage Listed
CMS	Comprehensive Maintenance Services
CTMC	Capability and technology Management College
COTS	Commercial-Off-The-Shelf

DCP	Defence Capability Plan (Note. DCP is also used to refer to the Defence Cooperation Program)
DMO	Defence Materiel Organisation
DLTP	Defence Logistic Transformation Program
DSTO	Defence Science and technology Organisation
EEZ	Economic Exclusion Zone
EZ	Exclusion Zone
F100	A class of ship based on the Spanish Álvaro de Bazán class design which is also known as the F100 class
FFA	Forum Fisheries Agency
FCD	Full-Cycle Docking
FPR	First Principles Review
GPS	Global positioning System
HADR	Humanitarian Assistance and Disaster Relief
IPT	Integrated Project Team
ISCMMS	Integrated Ship Control Management and Monitoring System
JSF	Lockheed Martin F-35 Joint Strike Fighter
KPI	Key Performance Indicator
LCH	Landing Craft Heavy
LTPA	Long-Term Partnering Agreement
MOTS	Military-Off-The-Shelf
NACC	New Air Combat Capability
NSC	National Security Committee of Cabinet
P3	Lockheed AP-3C Orion maritime patrol aircraft
PPB	Pacific Patrol Boat

QA	Quality Assurance
RAAF	Royal Australian Air Force
RAN	Royal Australian Navy
RMI	Republic of the Marshall Islands
Single LEAP	Single Living Environment and Accommodation Precinct
SME	Small to Medium Enterprise (Note. SME is also used to refer to Subject Matter Expert)
T&E	Test and Evaluation



List of recommendations

2 Asset Management and Capital Investment Program

Recommendation 1

The Committee recommends that the Department of Defence review contract templates and procurement processes to ensure that, to the extent possible, payments flow to small and medium sized enterprises subcontracted by primes in a timely manner.

Recommendation 2

The Committee recommends that Government review the process by which Defence properties are placed on the Commonwealth Heritage List and ensure that, where properties are listed, they are suitably funded either by a specific appropriation or through a public private partnership.

4 Navy Combat Capability

Recommendation 3

The Committee recommends that the Department of Defence consider utilising independent subject matter experts in a system of Gate Reviews, starting with project conception in the Capability Development Group and continuing through life of type, as part of the Seaworthiness System.

Recommendation 4

The Committee recommends that the Department of Defence provide the Committee with a specific update on the implementation of each Coles review recommendation prior to the tabling of the Department's next Annual Report.

5 Defence Materiel Organisation and Capability Development Group

Recommendation 5

The Committee recommends that the Department of Defence increase the use of private sector expertise, particularly in the areas of test and evaluation, risk management, review and business case development, in order to enhance the capability development process and new capability proposals.

Recommendation 6

The Committee recommends that the Vice Chief of the Defence Force own a process that harnesses and coordinates the oversight and review functions currently exercised by the Capability Development Group, the Defence Materiel Organisation and the Services in order to integrate a whole of life approach to capability assurance.

Recommendation 7

The Committee recommends that the Department of Defence continue to build on the capabilities and processes that have been developed within the SEA 1000 industry Integrated Project Team (IPT) and ensure that the views of the IPT are transparently communicated to the National Security Committee of Cabinet as part of procurement decisions.

7 Other Issues

Recommendation 8

The Committee recommends that Defence Annual Reports include appropriately detailed information on the direction and development of the Department's cyber-security capabilities.