



**Australian Government**  
**Department of Defence**

**Secretary**

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SEC/OUT/2017/46

24 February 2017

Senator Chris Back  
Chair – Senate Standing Committee on Foreign Affairs, Defence and Trade (Legislation)  
PO Box 6100  
Senate  
Parliament House  
CANBERRA ACT 2600

*Chair*  
Dear Senator Back,

At the Supplementary Budget Estimates hearing of 19 October 2016, Defence agreed to provide the Committee with a summary of progress made against the recommendations made by the First Principles Review team and to provide a summary of progress to support integration of Australian industry as a Fundamental Input to Capability. Defence undertook to provide this information ahead of future estimates hearings.

First Principles Review

The First Principles Review recommended a two year implementation program. To date, 46 of the 75 recommendations made by the review team have been implemented. A summary of the recommendations' implementation progress status is attached for circulation among the committee members.

For further information about this matter, my departmental point of contact is:

Mr Darren Box  
First Assistant Secretary, Governance and Reform  
Telephone: 02 6265 6063  
Email: darren.box@defence.gov.au

Industry as a Fundamental Input to Capability

Since the release of the Defence Industry Policy Statement on 25 February 2016, Defence has made substantial progress to integrate Australian industry as a Fundamental Input to Capability. A summary of Defence's progress to date is enclosed for the Committee's information.

Two key Defence Industry Policy Statement initiatives – the Centre for Defence Industry Capability and the Defence Innovation Hub – were launched on 5 December 2016. These are critical drivers of Australian industry as a Fundamental Input to Capability. Defence has also strengthened the Australian Industry Capability Program, with new requirements for tenderers to show how they will maximise Australian industry involvement.

For further information about this matter, my departmental contact is:

Ms Kate Louis  
First Assistant Secretary Defence Industry Policy  
Telephone: (02) 6265 7915  
Email: [kate.louis@defence.gov.au](mailto:kate.louis@defence.gov.au).

I trust this information will be of interest to the Committee.

Yours sincerely

Dennis Richardson

**Attachments:**

1. Summary of progress against First Principles Review recommendations – FPR:  
Recommendation Tracking
2. Summary of progress to integrate Australian industry as a Fundamental Input to Capability

# FF6600FPR: Recommendation Tracking - as at 10 February 2017

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**Department of Defence**

1. Establish a strong strategic centre to strengthen accountability and top level decision-making			2. Establish a single end-to-end capability development function within the Department to maximise the efficient, effective and			3. Fully implement an enterprise approach to the delivery of corporate and military enabling services to maximise their effectiveness		
#	Recommendation	Status	#	Recommendation	Status	#	Recommendation	Status
1.1	This review be adopted as the road map for Defence reform for the next five years		2.1	Disbanding the Capability Development Group and dispersing its functions to more appropriate areas		3.1	Defence define the estate need as determined by future force requirements and Government agree to dispose of all unnecessary estate holdings starting with the 17 bases identified in the 2012 future Defence estate report	
1.2	A new One Defence business model		2.2	Disbanding the Defence Materiel Organisation and transferring its core responsibilities in relation to capability delivery to a new Capability Acquisition and Sustainment Group		3.2	Defence strengthen its capability to present options to Government for estate disposal including obtaining expert external advice as required	
1.3	The diarchy is retained		2.3	Developing a new organisational design and structure as part of the implementation process for the Capability Acquisition and Sustainment Group with reduced management layers		3.3	The Government amend the Public Works act 1969 to set a \$75 million threshold for referring proposed works to the public works committee, and re-consider recent adjustments to the 2015-16 budget operational rules that run counter to more efficiently managing investment spending	
1.4	The individual and shared accountabilities of the Secretary and the Chief of the Defence Force be clarified, formally documented and promulgated through the organisation		2.4	Examining each System Program Office to determine where each fits within the smart buyer function, the most appropriate procurement model and achieving value for money		3.4	The Associate Secretary be directed and resourced to implement enterprise information management that provides Defence with trusted information to inform decision-making and military interoperability, with the Vice Chief of the Defence Force as the design authority for the next generation of command, control, communications, intelligence, surveillance and reconnaissance	
1.5	A streamlined top level management structure for the department that is aligned with the One Defence business model		2.5	The Capability Managers specify the fundamental inputs to capability requirements with the Capability Acquisition and Sustainment Group having responsibility for developing and delivering an integrated project plan		3.5	The Information management agenda be governed at the band 3/3 star level by the Enterprise Business Committee to set overall direction and priorities, including the management of trade-offs and conflicts	
1.6	The strategic centre include the Associate Secretary and Vice Chief of the Defence Force as the integrators for the Defence enterprise and the future force and joint capabilities respectively		2.6	The accountability for requirements setting and management be transferred to the Vice Chief of the Defence Force and the Service Chiefs with strategic, financial and technical contestability being located with Deputy Secretary Policy and Intelligence		3.6	Supporting the Chief information officer to meet these responsibilities by formally recognising the Chief Technology Officer as the technical authority with appropriate 'red card' decision rights	
1.7	The Vice Chief of the Defence Force's decision rights be greatly strengthened, including the right to stop projects proceeding through the approval process until joint force integration is proven		2.7	That the Independent Project Performance Office and the Capability Investment and Resources division be relocated to Deputy Secretary Policy and Intelligence, significantly enhanced and strengthened to provide such contest		3.7	Defence establish enterprise-wide frameworks for architecture standards and master data management	
1.8	Legislative changes to formally recognise the authority of the Chief of the Defence and the Vice Chief of the Defence Force, including removing the statutory authority of the Service Chiefs		2.8	Revising the Defence Investment approval process for all large or complex capability projects		3.8	Defence embark on a pragmatic implementation road map to standardise business and information processes and their supporting applications	
1.9	That policy advice be strengthened by bringing all policy functions into one organisational unit in order to improve the quality of advice provided to Government		2.9	Introducing a new formal gate into the process at entry point - Gate Zero: Investment Portfolio Entry		3.9	Defence ensure adequate resourcing and funding for information management reform is prioritised as part of the fully costed 2015 Defence White Paper	
1.10	A strong and credible internal contestability function be built and led by the Deputy Secretary Policy and Intelligence with responsibility for strategic contestability, scope, technical and cost contestability		2.10	Government increase approval thresholds for capability development projects, with ministerial approval required only for projects above \$20 million, two ministers above \$100 million and cabinet above \$250 million		3.10	Geospatial information functions be consolidated into the Australian Geospatial-Intelligence Organisation following improved resourcing and connectivity	
1.11	That the policy and intelligence functions be combined under a Deputy Secretary Policy and Intelligence, who will have responsibility for providing policy advice and intelligence assessments to the Secretary and the Chief of the Defence Force		2.11	Significant investment to develop an operational framework which comprehensively explains how the organisation operates and the roles and responsibilities within it; detailing the life cycle management processes which provide project and engineering discipline to manage complex materiel procurement from initiation to disposal; and reviewing architecture to reinforce accountability at all levels and bringing together information upon which good management decisions can be made		3.11	The service delivery reform program, including full integration of the current Defence Materiel Organisation corporate functions, be completed	
1.12	The Defence Security Authority be repositioned under the Associate Secretary		2.12	The Deputy Secretary Capability Acquisition and Sustainment must sign off and assure the Secretary of the operational output of each of his/her divisions every quarter and on major contracts on a monthly basis		3.12	All corporate services (with the exception of finance but including the Defence Security Authority) be consolidated under the Associate Secretary	
1.13	The Defence committee be re-positioned as the primary decision making committee of Defence and the heart of the strategic centre with two supporting committees – Enterprise Business Committee and Investment Committee		2.13	The use of net personnel operating costs process cease immediately		3.13	All military enabling services (joint logistics command policy, joint health command, Australian Defence College, Australian Civil-Military Centre) be consolidated under a two-star officer who reports to the Vice Chief of the Defence Force	
1.14	That all other enterprise-wide committees be reviewed for their relevance and alignment with the One Defence business model with the aim of a substantial reduction in the number of committees		2.14	Developing a Defence Investment Plan which would include all capital and related investments (such as materiel, estate and facilities, workforce and information and communications technology)				
1.15	That the organisational structure reporting to the Vice Chief of the Defence Force be simplified through the incorporation of a two-star head of joint enablers role		2.15	That, on Government approval, the entire project acquisition budget is allocated to the Capability Acquisition and Sustainment Group to ensure expenditure is in accordance with the project delivery plan				
1.16	A strengthened centre-led, enterprise-wide planning and performance monitoring process be adopted		2.16	The Defence Science and Technology Organisation be required to clearly articulate its value proposition. This would include examples and actual amounts of value created				
1.17	That the Associate Secretary be the central authority to deliver enterprise planning and performance monitoring processes, in line with the requirements of the <i>Public Governance, Performance and Accountability Act 2013</i>		2.18	The Defence Science and Technology Organisation senior leadership be rationalised				
1.18	That the Minister for Defence meet with the Defence committee twice yearly to consider a formal strategic assessment of the alignment between Defence's strategy, funding and capability		2.19	The Defence Science and Technology Organisation strengthen partnerships with academic and research institutions to leverage knowledge and create pathways with academia and industry				
1.19	Defence conduct regular reviews of the capital program in consultation with the Minister and central agencies		2.20	Disbanding the Defence Science and Technology Organisation advisory board				
			2.21	Defence, in partnership with academia and industry, review its research priorities, their alignment with future force requirements and capacity to leverage allied partners to promote innovation				
4. Ensure committed people with the right skills are in appropriate jobs to create the One Defence workforce			5. Manage staff resources to deliver optimal use of funds and maximise efficiencies			6. Commence implementation immediately with the changes required to deliver One Defence in place within two years		
#	Recommendation	Status	#	Recommendation	Status	#	Recommendation	Status
4.1	That as part of the budget and planning process, Defence build a strategic workforce plan for the enabling functions, and incorporate workforce plans for each job family in order to drive recruitment, learning and development, performance and talent management		5.1	The use of the measures such as the teeth-to-tail ratio and the one third budget split should cease		6.1	No additional reviews on the organisational issues covered by this review are imposed on Defence, particularly within the early years of implementation	
4.2	Defence employ Australian Defence Force personnel in non-Service roles only when it is critical to achieving capability and for a minimum of three years to achieve best value-for-money from the premium paid		5.2	Appropriate efficiency measures are developed which link to the delivery of agreed outcomes		6.2	Past reviews and current reform initiatives should be assessed for currency and alignment to the One Defence model	
4.3	As many functions as possible be performed by public servants or outsourced if they are transactional in nature		5.3	The focus on public service reductions as the primary efficiency mechanism for Defence cease		6.3	Establishing an oversight board to provide close external scrutiny, advice on implementation progress and regular reports to the Minister	
4.4	Defence review the entirety of its enabling and military corporate workforce to ensure that it supports the Australian Defence Force with the minimum of overlap and redundancy, and with the greatest overall economy, efficiency and effectiveness		5.4	Defence manage its workforce numbers in line with good resource management practice where Defence is held to account for delivering on required outcomes within available resourcing		6.4	The Minister, with input from the department and the oversight board, report progress on implementation to the Government in March 2016 and March 2017	
4.5	Defence reduce organisational layers; increase the spans of control of managers; align workforce standards in accord with the requirements of the Australian Public Service Commission; and engage external assistance to facilitate this work as required		5.5	As part of the implementation process, Defence examine the headquarters functions for opportunities to achieve more effective and efficient arrangements		6.5	Stability in the key leadership positions, particularly over the next two years to provide consistency of direction and ownership of the change	
4.6	Defence implement a transparent performance management system that is consistently applied, recognises and rewards high performance and introduces consequences for underperformance and failure to deal with it							
4.7	As part of the Performance Management System, Defence take steps to create a culture where leadership, professionalism and corporate behaviour are valued and rewarded							

Legend	
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<span style="background-color: #cccccc; color: black;"> </span>	Incomplete

**FPR: Recommendation Tracking as at 10 February 2017**

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## **Summary of progress to integrate Australian industry as a Fundamental Input to Capability**

The integration of Australian industry as a Fundamental Input to Capability (FIC) will ensure Defence fully considers the industrial capabilities and the capacity of Australian businesses to deliver Defence capability. It is the explicit recognition by Government and Defence of the significant contribution that defence industry makes to Defence capability.

Full implementation of the Defence Industry Policy Statement (DIPS) and the integration of Australian industry as a FIC require sustained engagement and will be achieved through a combination of initiatives. Australian industry as a FIC is being institutionalised across the Capability Life Cycle and broader Defence policy and planning.

### **Strategic planning of the industry base**

- Defence is developing the Defence Industrial Capability Plan (the Plan) and Sovereign Industrial Capability Assessment Framework. The Plan will provide the vision for the development of Australian defence industry over the next decade and beyond.
- In parallel, Defence is reviewing its industry and youth assistance programs to update its industry skilling and Science, Technology, Engineering and Mathematics support strategy to ensure the defence industry is able to access the workforce it needs to deliver the Integrated Investment Program.
- Defence is also developing a defence export strategy to actively plan, guide, and measure defence export outcomes, supporting our foreign and trade policy, defence industry and defence capability objectives.

### **Integrated business processes**

- Defence is embedding cultural change through the Capability Life Cycle:
  - The Capability Life Cycle includes requirements for industry to be involved early and as a key partner in the delivery of Defence capability.
  - Industry is one of the core Smart Buyer design categories to ensure it is considered whenever a project strategy is being developed.
  - Industry and innovation have been integrated into the Force Design Cycle.
- The Australian Industry Capability Program has been strengthened with new requirements for tenderers to demonstrate how they will maximise Australian industry involvement, deliver an enduring industry capability and enable technology transfer and global supply chain opportunities.

### **The Centre for Defence Industry Capability (CDIC) and the Defence Innovation Hub**

- The CDIC and the Defence Innovation Hub were launched on 5 December 2016 and are key drivers of Australian industry as a FIC.
  - The CDIC is the focal point for a range of business development, skilling and global supply chain services for small and medium enterprises.
  - The Defence Innovation Hub will invest in maturing and advancing technologies that can deliver better defence capability outcomes for Australia.
- Defence is working to establish the Next Generation Technologies Fund to invest in strategic technologies that have the potential to deliver game-changing capabilities.