

Covering Letter – Submission on Commonwealth Contracting

E.J. Bushell

The Chair,

JCPAA Committee of Inquiry into

Commonwealth Contracting

**SUBMISSION TO INQUIRY
INTO COMMONWEALTH CONTRACTING**

The calling of this Inquiry is welcome. Almost daily, reports in the media draw attention to unsuccessful Commonwealth initiatives and implementation programs, usually at great cost to the public purse. Most point to their being poorly developed, poorly contracted and poorly implemented, resulting in facilities and services not achieving the desired results, behind schedule and well beyond planned cost. Too often, these programs fall early victim to ‘rent seekers’ and ‘rotters’ and leave little if any evidence of improvement in their passing. Not surprisingly, similar problems are also reported with State and Territory programs, which would indicate that there is a common causal chain to these failures. Identifying this causal chain would make identifying the appropriate corrective action more certain.

‘Commonwealth Contracting’ is a generic term that fails to identify the considerable differences between the two major types of contracting activity generally undertaken.

The first type includes those activities undertaken by Government Departments that comprise very few, if any, technical or project management functions. This type may be administered adequately under standard, public sector-based, acquisition processes and need little supervision (an important element of good governance). Such tasks include those that carry a low risk of failure.

However, over the past decade or more, the Commonwealth (and the States and Territories) have initiated larger undertakings that, under the pressures of size, cost, complexity and advancing technology, have presented the Australian Public Service with challenges that have not been manageable under traditional public sector-based acquisition processes. Such tasks require a different management methodology conducted by people having a sound background in project management and the technologies and operational requirements of the capability being acquired and operated.

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Government responses to change have been piece meal and mostly counter-productive, for example:

- The Commonwealth APS has expanded and been rewarded with pay and conditions well above those earned in the private sector, while continuing to perform poorly. Its role and skills and competencies requirements need urgent review if Government requirements, schedule and costs are to be managed appropriately.
- ‘Savings’ across the board have been demanded frequently of Departments, thus further reducing their ability to perform as required. Usually, the best leave, the others remain. As a result, nothing gets done properly.
- Governments and Departments seek to redress their problems by outsourcing functions to consultants, advisers and contractors, which results in ‘double-guessing’ Departments that should be ‘experts in their field’.
- Parliamentary, Ministerial and Executive governance have all been allowed to decay over time, leaving contracts open to maladministration and corruption.

The problems facing most Departments and Governments are now reflected in the ‘reformed’ Defence Organisation, which has adopted public sector based acquisition processes and commercial, business-orientated contracting processes to the acquisition and sustainment of military capabilities. Defence has been trying to implement an unbroken chain of processes over the past 35 years to manage centrally all defence requirements, but without success, and Defence/DMO have, over the past decade, adopted a ‘business model’, based on ‘best commercial practice’, also without success. These activities have been used as Case Studies to enable the underlying chain of causes to be identified and remedies developed. These cases also reflect the situation in other Departments and aid in reforming.

I hope that the attached Submission will be of assistance to the Inquiry.

Kind Regards,

(E.J. Bushell)

15th January 2018

Air Cdre RAAF (R’td)

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***SUBMISSION TO THE INQUIRY INTO
COMMONWEALTH CONTRACTING
CONDUCTED BY
THE JOINT COMMITTEE OF
PUBLIC ACCOUNTS AND AUDIT***

E.J. BUSHELL, Air Cdre (Ret'd)

15th January 2018

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ACRONYMS USED:

ANAO: Australian National Audit Office.

JCPAA: Joint Committee of Public Accounts and Audit.

DMO: Defence Materiel Organisation.

FADT: Foreign Affairs, Defence and Trade.

MPR: Major Project Report.

OEM: Original Equipment Manufacturer.

CASG: Capability Acquisition and Sustainment Group.

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INTRODUCTION

The JCPAA recently launched an Inquiry into Commonwealth Contracting, prompted by the ANAO's Report 19, 2017-18 on Australian Government Contract Reporting. The Inquiry comes at a time when questions have been raised publicly in regard to perceived fraud and corruption in Defence Contracting, the widespread, high cost of outsourcing government tasks to external advisors, consultants and contractors, and a continued lack of transparency in Defence capability and sustainment performance and expenditure. The protracted failure of the Department of Defence to manage its vastly broadened responsibilities since 1972, coupled with the costly failures of capability acquisition and sustainment projects, and their adverse impacts on Australia's security, make Defence the most urgent case needing the Inquiry's attention and action.

However, the Inquiry is most unlikely to be successful unless the factors underlying contracting problems are perceived and identified clearly and fully and its recommendations are both appropriate to the different types of contracting undertaken and will be capable of instituting lasting internal and external governance oversight.

In short, the JCPAA inquiry will need to proceed in a wider and far more relevant context, analysing and evaluating the changes that have taken place in Government, Departmental and Public Service functions and accountabilities that have evolved since the Defence reorganisation of 1972. This will be a considerable challenge to the JCPAA (even with ANAO support), but one that may be better understood through analysing two relevant Case Studies. A strong message that should come through from these studies is that the causal chain behind the failure of Australia's Defence Organisation is identical to those failures long seen at both Federal and State levels of government.

BACKGROUND

This submission is based upon:

- Previous Submissions made to the JCPAA and ANAO (in the form of detailed analyses) of all Defence Major Projects Reports raised from 2007-08 to 2013-14, together with analyses of several JCPAA Review Reports.
- Previous Submissions to FADT Committees in regard to Defence Annual Reports and

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specific subjects such as Australia's Regional Air Superiority and Combat Capability, the F-35 Project, and Procurement Procedures for Defence Capital Projects.

- Several letters to the Prime Minister and the Minister for Defence highlighting serious problems that have arisen from Secretary Tang's proposal to re-centralise the Department of Defence, and the 'Reforms' that followed.

The only positive result from this decade of effort was reflected in the Final Report of the FADT References Committee Inquiry into Procurement Procedures for Defence Capital Projects (Aug 2012). Regrettably, none of that inquiry's perceptive observations and recommendations regarding Defence's process-driven organisation and administration, and the need to align critical accountabilities with appropriate responsibilities and resources was adopted. See Annex A to Case Study 2.

Since that time, Parliamentary Inquiries have taken pains to accept Defence advice, even when that advice has been contradicted by official reports from the US Government Accountability Office and Defense's Director, Operational Test and Evaluation, as detailed at Case Study 1. Similarly, all ANAO and JCPAA Audits and Inquiries have been unable to stray outside Defence's evolved public sector based organisation in their search for transparency and performance.

REVIEW OF HISTORY

A review of the nine MPRs raised by Defence over the past nine years, audited by the ANAO and subjected to governance oversight by the JCPAA, indicates that there has been little, if any, meaningful improvement in the performance of Defence/DMO/CASG management of capability acquisition, and sustainment. While ANAO's audits have been classed as 'Performance Audits', the ANAO, after nine years of such audits, still has no transparent and reliable project data upon which Defence's performance may be measured, in essence, much the same as for 2015-16, identifying Defence as an organisation committed to doing the same thing time after time, while expecting to achieve a different outcome, and this will remain the case while the JCPAA and ANAO are constrained to audit Defence within its existing process-driven, bureaucratic structure and 'Business Model'- driven procurement system.

Defence's current contracting system was given a 'tick of approval' by JCPAA in its Report 436, following its review of DMO MPR 2011-12, when the Chair of the JCPAA Committee noted:

The DMO management "*looks to be improving*", and "*The DMO itself now more than ever, using public sector principles as first principles, is an example of where performance actually improves by doing so.*" However, analysis of all five MPRs that had been produced to that time showed no evidence to confirm this observation. Indeed, the facts showed that

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DMO continued to make the same mistakes with the same consequences, and the same high costs, and this has been the case, unbroken, to this day. However, it may explain why ANAO and JCPAA have not been prepared/permitted to audit and review Defence/DMO MPRs in the most appropriate manner. An extract from the author's submission to the JCPAA on DMO MPR 2011-12 at Annex A gives the picture at that time.

Over the past nine years, both the JCPAA and the ANAO would be expected to have raised the simple question: *“As Defence has been unable to deliver soundly managed projects, , and continues to make the same mistakes with the same consequences, is Defence’s public sector principles approach appropriate for the management of highly technology - dependent military capabilities?”* Clearly, under the pre-centralized Defence Organisation, the three Services had developed highly effective Project Management methodologies, tailored for each project, and they managed both acquisition and sustainment far more efficiently, effectively and economically than the Defence Organisation of today. (See Annex C to Case Study 2).

Until the JCPAA and the ANAO are free to ask this question and pursue the answer that best meets Australia's unique defence requirements, Defence's never-ending devolution will continue to be the greatest threat to Australia's defence capabilities, and thus to National Security.

Analysis of JCPAA Report on MPR 2015-16

The four recommendations made in JCPAA's report on MPR 2015-16 are a mere 'shifting of the deck chairs' that will now keep Defence's 'MPR Circus' rolling into its tenth year, while giving no confidence that any improvement will follow. For example:

- The recommendation that Defence seek guidance from the UK MoD lacks any understanding of history, as the UK MoD was 'reformed' many years ago along lines almost identical to those that we have today. Both countries have suffered greatly from the failure of their similar reorganisations. Any lessons learned in the UK should thus be taken as a warning rather than something that should be adopted. Australia's project management methodologies must align transparently with Australia's unique needs and competencies, not the UK's, the US's or any other Nation's.
- The recommendation regarding the need for a single methodology to calculate the cost per flying hour for military aircraft for use in all internal and public reporting reveals another lack of understanding of what is involved and is overly ambitious. The accuracy and usefulness of such costs only evolve over time as the configuration of the capability becomes more defined and reliability and maintainability data become available under operational conditions. The current perception of the role and importance of flying hour costs is unrealistic and unachievable under Defence's current acquisition organisation.

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The cost per flying hour may be of practical use during two phases in the capability life cycle:

To assist during the requirements analysis and source selection activities. A tentative cost may be possible to estimate at this time, especially if contending capabilities have been in service for some time, otherwise the accuracy will be less certain. However, calculating costs must be undertaken only by those who have a sound experience in project management methodologies as well as with the specific operation and technical requirements of the capability required. Importantly, such estimates must be supported by a Project Life Cycle Cost Analysis if meaningful estimates are to be obtained.

After introduction to service. When the final equipment configuration has been determined, the cost elements become more visible and firmer, allowing a more accurate indication of cost per flying hour to emerge, but even then the costs will vary over the operational life, for example with changes in capability, varying rates of effort, fatigue life and the age 'bathtub'. Eventually, a flying hour cost may be reached which indicates a need to look at retiring/replacing/updating the capability. Finally, it is important that during this phase the specific elements comprising the 'cost' are identified very carefully, as many factors may impact it, but are outside operational and engineering control or influence.

During the late 1990s/early 2000s, Defence decided to depart from the Project Management Systems and Methodologies that had been long developed within the Services' Operational and Technical Branches, and adopt standard Public Service processes for the administration and acquisition of government programs, goods and services. This approach relies upon contract administrators as 'managers', and involves a mix of tasks that are outsourced to successful contractors, most often under a 'set and forget' philosophy. The Defence Acquisition Organisation (DAO), later to become the Defence Materiel Organisation (DMO), soon realised that managing the advanced and 'complex' technology of military capabilities was not as simple as it seemed. Projects up to and over a billion dollars (eg, Sea Sprite) soon failed and keep failing (eg, Air Warfare Destroyer) to this day.

Defence/DMO Aspects

Following early failures, DMO sought support from ex-Service engineers with Project and Engineering and Maintenance Management skills and competencies. This need was met by highly qualified engineers, especially from the RAAF, who provided well documented guides to the systems and procedures involved. However, nothing changed, so it was assumed that the DMO managers at that time either did not understand what was being given them, or it was not acceptable as it conflicted with the Defence public sector principles that had been adopted. Nothing was achieved from this initiative. Since then, Defence has, at monstrous cost and adverse impact on Australia's military capabilities, endeavoured to develop public sector principles and processes to replace the

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highly successful Project Management methodologies that were in place pre-1972.

Along the way, Defence has wasted many billions of dollars, on for example:

- The impacts of the loss of the accumulated military intellectual property that was embedded in the professional branches of the Services with their systems and procedures and data and documentation, all guarding against repeating past mistakes while benefiting from past experience. This was a priceless resource, and Defence's MPRs have long proven that this critical resource cannot be replaced from within the Defence Organisation, or through advisors, consultants, or foreign or local contractors. This loss of intellectual property remains a major causal factor behind most Defence failures to date.
- Those Major Projects abandoned or that encountered 'complex' difficulties in trying to achieve Capability, Schedule or Cost targets, all of which have appeared in MPSs since 2007, but not transparently and costed adequately.
- Arranging supply and long-term support contracts with Original Equipment Manufacturers OEMs (usually foreign) without proper regard to value for money. These put the OEMs in a major conflict of interest; that is, to which does it owe primary responsibility – the Company or the Customer? As the contractor has a clear commercial advantage, the Company can be expected to exercise that which will maximises its profits.
- Training programs, especially the so called "*College of Complex Project Management*" developed for DMO, and others developed for Defence Industry, but none of which has been demonstrably successful.
- Uncontrolled Cultural Change Programs that at great cost have abrogated the Service Chiefs' accountability for their Service and their people, while diluting military professionalism. These cultural programs seem to come from United Nations or European Union human rights organisations that took root rapidly in Australia with Government and Defence support, but have worked against critical military culture and morale.

DMO's contracts also embedded a number of unacknowledged consequences, including:

- An inability to demonstrate value for money.
- An uncertainty of support under all perceived military circumstances.
- A loss of critical Service and local Defence Industry skills, competencies and facilities that provided deeper level support for capabilities – Australia's first line of security.

Defence's long-term outsourcing of engineering, maintenance and supply support to the

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OEM has left Australia in an exposed and vulnerable position militarily. It has not only denuded the Services of the numbers, skills and competencies critical to capability planning and development, and capability acquisition and sustainment, as has been revealed in continuing ANAO audits and JCPAA reviews, but it has also left Defence open to contracting problems and challenges that it is clearly not capable of managing. Openings exist for corruption and such contracts put the OEM in a position of conflict of interest in regard to where its primary loyalty lies - with the Customer or the Company? In real life, where money is concerned, the conflict is normally resolved in favour of the Company.

Most importantly, a fundamental trap that Defence/DMO, wittingly or unwittingly, set was the decision to outsource critical project and contract management tasks to contractors – tasks that are just not able to be outsourced without losing management visibility and control of a project. As observed in the Analysis of the DMO MPR at Annex A: DMO ***“Has now had to outsource its contract management and contract negotiation functions.”*** In doing so, Defence/DMO passed the reins to the contractor, and so the Defence Organization effectively lost visibility and control of its projects, as well as opening the door to fraud and corruption.

Defence’s procurement problems were then ‘cured’ through ***“implementation of a smart buyer approach (that) will involve tailoring procurement strategies appropriately...”*** as ***“The Capability Acquisition and Sustainment Group (CASG) would comprise a smaller core group of skilled public servants managing a ‘smart buyer’ function.”*** A ***“Managing Contractor Model”*** and a ***“Contract Negotiating Cell”*** were also formed within CASG.

Unfortunately, these actions will only further embed Defence’s incompetent procurement and sustainment of military capabilities, as detailed at Attachment A to Annex D to Case Study 2.

Finally, while the JCPAA Report still regards transparency seriously, and one of the key principles of the MPR process, the Committee is little, if any, nearer to achieving its goal after nine years of trying. The Committee’s confidence that implementation of the First Principles Report within the current Defence Organisation ***“will provide adequate reporting as soon as possible”*** rings completely baseless and hollow.

The Long Road to Irrelevance?

The current Defence Organisation (2) has evolved over the past 45 years, during which time the Department has proven consistently unfit for purpose and unable to reform itself, having to resort to a never-ending chain of reviews and inquiries (of the wrong type) to tell it where it went wrong and how to fix it. Over that time, the ANAO also conducted a series of performance audits that have reflected an organisation that is too centralised, having far too large a span of control, lacking the required skills, competencies and systems essential for the proper management of technology-dependent military capabilities, and without proper governance accountability and transparency. Parliamentary Inquiries have also been held into defence matters, and Major Project Reports have been raised since 2007-08 which have been subject to governance reports by the JCPAA.

By 2014, the lack of any meaningful improvement in Defence’s performance led to a ‘First Principle Review’ which proposed wide-ranging organisational and accountability changes

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which Defence would implement within two years. As shown at Case Study 2, the FPR was not a first principles review at all, and Defence will struggle for many more years trying to implement the recommendations, only to find them unhelpful and the problems supposed to be solved still there, only more intransigent.

After 45 years of trying to 'reform' the Defence Organisation, the time has come for Australia to become serious about its defence capabilities and their management. Australia's Defence Organisation is clearly a 'swamp to be drained'. Using public sector principles as first principles, public sector based acquisition (contract) processes and adopting a sustainment management approach that sees sustainment not as a technical discipline, but "*an over-arching business-orientated management function focused on meeting the outcomes required of Capability Acquisition and Sustainment customers (the Service Chiefs)*" has failed. The Defence Organisation is up to its neck in a swamp of alligators; all in-bred at great cost to the Treasury and Australia's defence capabilities.

THE CLEAN UP

Cleaning up the Defence Organisation to make it fit to face current and emerging threats , and placing true accountability where it should be, together with the resources required to discharge that responsibility, will be a task not unlike the mythological fifth labour of Hercules when he undertook to clean up the Augean Stables in a single day. He knew this job would mean getting dirty and smelly, but heroes have to do these things. He tackled his job (as an engineer would), using the technology and knowledge of physics of the time, and achieved his task. He who may be appointed to clean the stables of the Defence Organisation should be given all the support required, but he should also be rewarded more fairly than Hercules was.

The major guidelines for our Hercules may, for example, include:

Shape the Defence Organisation so that the Defence Department may concentrate upon what it needs to do, and is capable of doing best, for example only:

- Coordinate Defence matters, with External Affairs and other interfacing Department activities to develop agreed plans and objectives.
- Develop strategic guidance and major papers involving defence matters for action by Government.
- Advise the Services on strategic matters and set priorities.
- Shape the Services' Organisations so as to:
 - Reconstitute the Service Boards under a separate Minister to ensure effective

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management and good governance.

- Bring the military personnel now scattered throughout the Defence Organisation back under their parent Service.
- Create Service Systems Commands to relieve operating units of diversionary tasks and to support Service operations and support and manage capability acquisition and sustainment of the Force.
- Rebuild the operational, technical and other professional Service branches and expertise.
- Adopt mature and proven (ie, traditional) Project Management and Technical Management structures, training, systems and procedures.
- Develop a deeper level of organic support within the Services and in Defence Industry.

These changes should establish and maintain a sharp, professional separation between Defence Department planning and administrative functions, and Service force capability and management accountabilities.

In the longer term, the reform of the Defence organisation will provide the basis for reforming other major government organisations at both Federal and State levels.

CONCLUSION

The protracted failure of the Department of Defence to manage its vastly broadened responsibilities since 1972, coupled with the continued and costly failures of capability acquisition and sustainment projects, with their adverse impacts on Australia's security, make Defence the most urgent case needing the Inquiry's attention and action. Cleaning out Defence would provide sound guidelines for use in reviewing other government departments and ensuring that their structures, skills and competencies, and management procedures are effective.

However, the Inquiry is most unlikely to be successful unless the factors underlying contracting problems are identified clearly and fully and recommendations are both appropriate to the different types of contracting undertaken and will be capable of instituting lasting internal and external governance oversight.

In short, the JCPAA inquiry will need to proceed in a wider and far more relevant context, analysing and evaluating the changes that have taken place in Government, Departmental and Public Service functions and accountabilities that have evolved since the Defence reorganisation of 1972. This will be a considerable challenge to the JCPAA (even with strong ANAO support), but one that may be better understood through analysing the two Case

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Studies that follow. A strong message that should come through from these studies is that the causal chain behind the failure of Australia's Defence Organisation is identical to those failures long seen at both Federal and State levels of government in their management of projects.

(E. J. BUSHELL)

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15th January 2018

ANNEX A: Extract from Submission to JCPAA Review of DMO MPR 2012-13.

ATTACHMENT 1: Planned Acquisition of the F-35 Lightning 11.

ATTACHMENT 2: Analysis of Performance Audit of Defence's Management of Materiel Sustainment.

References:

1. Air Cdre E. J. Bushell AM (R'td) and Dr Carlo Kopp, "*The RAAF's Professional Mastery Problem: Symptoms, Causes and Measures to Reskill the RAAF*", Air Power Australia Analysis 2008-06, 12th July 2008.
2. The current Defence Organisation was introduced by the Whitlam Government in 1972 in response to a long-held ambition of the Minister for Defence, Sir Arthur Tange, to return to the fully centralised, public service run, pre-WW2 Defence Department organisation. Parliament had decentralised the Department under the threat of WW2 on the grounds that it would be unable to meet the challenges of war. The decentralised organisation, with each Service having its own Minister, proved to be highly successful throughout WW2, as well as during the major and minor threats that followed. The proposal put forward by Tange came from a report delivered by Lt Gen Sir Leslie Morshead (R'td) in 1957. In retrospect, Morshead's observations were frequently shallow and dodged critical structural and governance matters such as the Service Boards. They also failed to recognise the core differences between the roles of the three Services and their unique technological dependencies. Prime Minister Menzies did not accept the Report, so it remained in Sir Arthur's in-tray until it was resubmitted to Prime Minister Whitlam in 1972. Much, of

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course, had happened in roles and technologies over the intervening 15 years, but then the Morshead Report was only a Trojan Horse to be used for imposing total civilian control rather than a model for improved civil governance of defence.

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EXTRACT FROM SUBMISSION TO JCPAA REVIEW INTO DMO MPR 2012-13 (Mar 2014)

GOVERNANCE.

Current governance calls upon:

- ▲ Gate Reviews.
- ▲ The Projects of Concern List.
- ▲ The Early Indicators and Warnings System.
- ▲ Joint Project Directives.
- ▲ DMO's Business Systems Rationalisation.
- ▲ Earned Value Management System.
- ▲ The Project Skills Program

To repeat the author's comments on JCPAA Report 436:

“After some 13 years of evolution, Australia now has a dysfunctional capability analysis, acquisition and sustainment organisation that:

- ▲ *Proceeds to contract with inadequate statements of operational and engineering concepts and requirements, leading to the procurement of a wrong, inadequate or overpriced capability..*
- ▲ *Proceeds when the design is immature or not understood.*
- ▲ *Is unable to manage system or software development or integration, or test and acceptance.*
- ▲ *Is unable to identify and manage project risk (essentially operational and engineering factors) and has to resort to buying its way out of the resulting problems.*
- ▲ *Does not have the Operational, Engineering or Project Management skills and competencies essential to the projects being undertaken.*
- ▲ *Focuses upon buying materiel rather than managing projects.*
- ▲ *Has now had to outsource its contract management and contract negotiation functions.*

In fact, all the evidence points to Defence/DMO Major Projects suffering persistently self-

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induced injury through:

^□ Adopting public sector commodity product and service principles that have proven to be wholly inappropriate for the acquisition and sustainment of highly technology-dependent military capabilities.

^□ Failing to adopt the required long-trying and successful Project and Engineering Management methodologies.

^□ Replacing skilled and competent project and engineering managers with people lacking those skills and competencies.

The result has been (broadly):

^□ Projects have been put forward for approval and acquisition that have not been fully and accurately scoped and specified in project, operational or engineering terms.

^□ Source selection has been poorly managed, resulting in incorrect or poor acquisition decisions having inherent risks.

^□ Contract negotiation is now beyond DMO's capabilities as (lacking even basic project, operational and engineering competencies) the Department of Defence is no longer seen as an informed and smart customer.

^□ Project capability, schedule and cost risks inevitably arise that are beyond the DMO's competencies to manage. The problems arising from undetected risk are thus 'managed' through the Contingency Budget.

^□ Capability schedule delays and sustainment difficulties have left protracted, gaping holes in Australia's military capabilities.

This largely summarises the problems that will face the ANAO Hearing

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ATTACHMENT 1

CASE STUDY 1

BASED UPON:

***THE FOREIGN AFFAIRS, DEFENCE AND
TRADE***

REFERENCES COMMITTEE REPORT INTO

***THE PLANNED ACQUISITION OF THE F-35
LIGHTNING 11 Joint Strike Fighter***

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COMMENTS ON
THE FOREIGN AFFAIRS, DEFENCE AND TRADE
REFERENCES COMMITTEE REPORT INTO
The Planned Acquisition of the F-35 Lightning II
Joint Strike Fighter

EXECUTIVE SUMMARY

The Committee's Report and conclusions rest upon a number of critical observations that are not supported by any validated analysis or facts. The Report also concludes with three recommendations that should be approached with caution, as they may well have very long-term and high risk impacts upon Australia's air power capabilities, and the National security. Over-all, the Report merely follows the 'party line' long maintained by Defence, which in turn follows religiously the Manufacturer's/Project Office's changing marketing mantras. The reports issued by the Director of Operational Test and Evaluation (DOT&E), and recorded past history, the only source of validated Project status data, have simply been ignored.

It is clear that the Committee has not approached this inquiry with the same focus and soundly-based observations that characterised the References Committee's Report into Procurement Procedures for Defence Capital Projects of August 2012. Since the hasty implementation of Defence's First Principles Review, Defence now '*speaks with one voice*', by taking advantage of poorly advised governance oversight bodies in its efforts to maintain support for its position.

The JSF Project has now reached a 'tipping point' in the US, with its detailed status being provided in the DOT&E 2016 Report. The F-35A continues to strike long-term problems that may be 'resolved' only by accepting further reductions in capabilities and safety, combined with continued, increasing costs and schedule delays. The aircraft, in whatever configuration it may end up with will not meet Australia's current or future strategic capability requirements, or be competitive against emerging threats.

The committee should thus withdraw or qualify its report, or conduct a further, more rigorous, inquiry based on valid data.

Finally, the subject of the Committee's Report needs to be seen in the context of the changes in the management and accountabilities for Australia's Military Services and the Defence Bureaucracy, which will call for some effort and thought. The attached Annex A is thus

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forwarded to provide such context.

COMMENTS ON REPORT

The comments that follow focus upon Chap 6 of the Report – Committee View and Recommendations:

1. **Choice of F-35A (Para 6.2):**

The Committee stated the following definitive conclusions:

“The Committee is satisfied that the F-35A is the only aircraft able to meet Australia’s Strategic needs for the foreseeable future, and that sufficient progress is being made in the test and evaluation program to address performance issues of concern”

“The Committee is not convinced that any of the available alternative aircraft (suggested) are capable of meeting Australia’s air defence needs.”

“The Committee accepts that the F-35A will provide the air combat capability outlined by the Defence White Paper, and will be able to defeat airborne threats, prosecute attacks against both land and sea surface targets and support Australia’s land and maritime forces.”

However, the Committee Report also states in Chap 3 that: *“It is difficult to understand and critique the capabilities of the F-35A without access to detailed classified performance data. Hence the Committee cannot draw definitive conclusions regarding the details of the F-35A’s performance in testing.”*

If this qualification is accepted, then none of the Committee’s ‘definitive conclusions’ quoted above has any validity, and must therefore be classified as being baseless. The F-35 Project has from birth been driven by ‘Marketeers’, not by competent project managers supported by capable operations and technical analysts. Australia, being virtually de-skilled in project management and operations and technical analysis, has just ‘gone along with the show’, incapable of identifying and defending Australia’s national interests.

On the other hand, the Committee also noted in passing the considerable evidence received criticising the F-35A, with some calling for the aircraft’s procurement to be cancelled, but notwithstanding these submissions the Committee *“is satisfied the F-35A is the only aircraft able to meet Australia’s strategic needs”*. As these independent submissions appear not to have influenced the Committee’s Report, the qualification at Chap 3 seems to have been applied rigorously to external submissions, but waived for those coming from Defence, the Project Office and the Manufacturer. It is thus difficult to accept the Committee’s Report as being adequately informed or balanced.

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Input from ‘independent think tanks’ should also have been regarded with suspicion where such bodies rely wholly or substantially upon financial support from Defence. Such bodies can hardly be accepted as independent experts.

The following should also be noted:

- Australia’s JSF Project went ahead without any traditional Capability Analysis and Selection being conducted then or since.
- Despite statements to the contrary, the US did offer Australia the F-22 (in the same configuration as the USAF, with no development costs), but the offer was rejected rudely in favour of the JSF. (The Committee has the background to this).
- The JSF was designed from the start as a cheap bomb truck for operation after the F-22 had cleared any air defence systems and made the air space safe for JSF operations. Nothing has changed here, except that the JSF is now touted to cover both air superiority and ground attack roles, although the USAF now admits that the F-35 cannot operate without F-22 cover.
- The F-35 (all versions) have failed to meet even their original, 1990s design capabilities and continue to fall behind aircraft currently entering service in our region.
- Furthermore, after several decades, we do not have a Functional or Physical Configuration Baseline that defines any of the versions of the F-35 – we have only some 200 aircraft of various configurations still under Development and Test. As a result, customers still have no idea as to what capabilities their aircraft will eventually have, their schedule of delivery, or their cost.
- Finally, while primary attention is being paid to cost and schedule, the critical determinant for acceptance is its Capability. Despite the F-35 being marketed as a ‘do all’ aircraft, it is becoming clear that this is not so, and that the aircraft is well behind the capabilities of those now being marketed into our region.

When judged against this single measure of **Choice of the F-35A**, the Project must be judged a failure.

2. Performance of Aircraft in Testing (Paras 6.4 -6.6):

These Paras largely reflect the Committee’s acceptance of Defence and the Project Office’s assurances, such as:

- The Committee “*has confidence in the assessments made by Defence regarding both the air combat capabilities required by Australia and the F-35A’s ability to meet those requirements.*”
- The Committee “*is satisfied that the F-35 offers better stealth and electronic warfare capabilities than any other available aircraft.*”

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- Software development is “*effectively complete.*”

As these definitive conclusions are subject to the same qualifications contained at Chap 3, they must also be classified as baseless.

However, the statement at Chap 3 that “*It is difficult to understand and critique the capabilities of the F-35A without access to detailed classified performance data.*” is not wholly acceptable. Certainly, there are often some capabilities that need to be classified, but the Reports issued by the DTO&E recognise this so are designed to provide the range and depth of information, able to be understood by Congress (as well as the Project Office and the Manufacturer, and customers), to determine the Project’s Independent Operational Test and Evaluation status, the problems being encountered and the corrective action being taken, the risks involved, and the impacts upon capability, cost and schedule.

While the Committee refers to the DOT&E 2015 Report, it doesn’t draw any project status or risk conclusions from it, merely voicing some vague concerns, while accepting Project Office assurances that “*all issues are being identified and resolved.*”

However, the DTO&E Report for 2016 runs to 62 closely-typed pages, whereas the 2015 Report ran to 48 pages. At this point in any successful Project, especially with some 200 test aircraft produced, it would be expected that the number of items and their impact on capability, schedule and cost would have declined to a handful, but as time has passed, the F-35’s deficiencies, including capability, have simply snowballed, with an ever-increasing number left unresolved – not symptomatic of a project under control.

The only current, official and verifiable source of information on F-35 Performance in Aircraft Testing is contained in DTO&E’s Reports, the Executive Summary of the Report for 2016 giving its JSF Test, Strategy, Planning Activity and Assessment, as follows:

“The Joint Strike Fighter (JSF) Program Office (JPO) acknowledged in 2016 that schedule pressure exists for completing System Development and Demonstration (SDD) and starting Initial Operational Test and Evaluation (IOT&E) by August 2017, the planned date in JPO’s Integrated Master Schedule. In an effort to stay on schedule, JPO plans to reduce or truncate planned development testing (DT) in an effort to minimize delays and close out SDD as soon as possible. However, even with this risky, schedule-driven approach, multiple problems and delays make it clear that the program will not be able to start IOT&E with full combat capability until late CY 18 or early CY 19, at the soonest.”

However, past history suggests that these dates carry a high risk that they will not be met.

The Report then summarises 14 major problem areas which are analysed in detail in the 61 pages that follow, which include continual comments, such as:

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- *Continued Schedule delays*
- *Continued delays in completing flight sciences test points.*
- *Significant, well-documented deficiencies; for hundred of these, the program has no plan to adequately fix or verify within SDD.*
- *Over-all ineffective operational performance with multiple Block 3F capabilities delivered to date.*
- *Continued low aircraft availability.*

Achieving the JPO's new plan will simply involve reducing capabilities further and cutting out more development testing, so the risk factors to the customer will only increase. The Committee should recognise that this project has been run under high risk and optimistic, schedule/cost driven, commercial approaches which have resulted in the increasing number of capability deficiencies being detected during the transparent DTO&E audits.

The Committee is urged to read this Report fully and carefully and then decide whether the unsubstantiated and bland assurances that it has accepted as definitive conclusions are a sufficient assurance that the F-35A will provide the capabilities needed to guarantee Australia's future airpower needs. The risks associated with being wrong are far too great to accept.

Importantly, the capability gap of concern to the Committee is no longer a risk – this risk had matured, and the gap has existed since around the early 'retirement' of the F-111, when the F/RF-111C/G fleet had only just passed half of its original design life. In fact, ANAO reports and DSTO draft reports at the time showed that the F-111 fleet could be operated safely through to 2020 and beyond. The F-35A will never be able to plug that gap.

Finally, the Committee may recall the gap created by the late delivery of the F-111 and the lease of the F-4 Phantoms to cover it. The solution to the F-111's problems and the successful lease of the F-4s was a tribute to the RAAF's competencies and expertise. Unfortunately, these no longer exist, so plugging the F-35A gap will prove to be much more of a problem, but leasing remains one solution.

3. Benefits to Australian Industry (Paras 6.15-6.18):

As the JSF Project is now seen to be running out of time, being enmeshed in its failed acquisition and project management structures, and under the increasing weight of the self-serving US Military/Industrial/Congress (Political) Complex that has been allowed to build up unchecked since the Goldwater-Nicholls Act of 1986, no version of the aircraft will be capable of achieving their original let alone the additional roles that have been added over the years. The aircraft produced will be poor performing, overly costly and far too late to be of any real use.

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The project therefore needs to be put to rest as quickly as possible and the resources remaining used to provide real capabilities across the airpower spectrum. All participants in the Project now need to make plans to salvage as much as possible in intellectual investment and sunk costs in materiel and infrastructure. The new systems evolved for the F-35 will find better homes in other platforms, especially the F-22. The F-35 was just the wrong platform to choose for the capabilities required, and little may be expected to be salvageable from either the airframe or the engine.

Australian Industry should thus be alert to expect a major change in Project direction and plan so take advantage of the rapidly approaching post-F-35 era.

Finally, when determining and announcing how much Australian Industry may gain from a project, it should be mandatory that Defence speak in net gain, that is, the perceived gains less the costs associated with obtaining and supporting the required industrial capabilities. As the latter are frequently considerable, any perceived gains may be illusory.

4. The Three Recommendations:

Recommendation 1: The Committee recommends that the Department of Defence develop a hedging strategy to address the risk of a capability gap resulting from further delays to the acquisition of the F-35A. The strategy should be completed by 2018 and capable of implementation by 2019 at the latest.

As shown by ANAO Audit No 6 2013-14 into Capability Development Reform, Defence is incapable of discharging this task, and may be expected to be even less capable following the implementation of the First Principles Recommendations, which did not deal with the core deficiencies in Defence organisation with its lack of accountability, or the lack of appropriate management systems and required operational and technical skills and competencies throughout the Organisation. Defence may thus be expected to continue to adopt whatever 'party line' is set by the US Project Office and the Manufacturer.

Recommendation 2: The Committee recommends that the Department of Defence develop a sovereign industrial capability strategy for the F-35A to ensure that Australian aircraft can be maintained and supported without undue reliance on other nations.

The Committee does not seem to appreciate that the F-35 Project requires that logistics support be governed by the ALIS and be supported by the international supply chain. There is no known provision for participating nations to modify this arrangement in response to national objectives. The implications, especially in the configuration and software development fields, would raise extremely complex and risky engineering problems.

Recommendation 3: The Committee recommends that the government endeavour to establish Australia as the Asia-Pacific maintenance and sustainment hub for the F-35.

With the JSF Project poised for major review, and in the face of the risks identified in the

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2016 DTO&E Report, this recommendation carries far too high a sovereign risk. A decision on the future of the Project, together with far more valid information on what would be involved with such a task, are needed before this subject is even raised.

Conclusion:

The Committee's Report and Recommendations rest upon a number of critical observations and conclusions that are not supported by any validated analysis or facts. The Report also concludes with three recommendations that should be approached with caution as they may well have very long-term and high risk impacts upon Australia's air power capabilities, and the National security. Over-all, the Report merely follows the 'party line' established by Defence, which in turn follows religiously the Manufacturer's/Project Office marketing mantras. The reports issued by the Director of Operational Test and Evaluation (DOT&E), and past history, the only source of validated Project status data, have simply been ignored.

It is clear that the Committee has not approached this inquiry with the same focus and soundly-based observations that characterised the References Committee's Report into Procurement Procedures for Defence Capital Projects of August 2012. Since the hasty implementation of Defence's First Principles Review, Defence certainly now appears to '*speak with one voice*', even to appearing to take advantage of poorly advised oversight bodies in seeking support for its position. The Senate's Defence Sub-Committee Review of the Defence Annual Report 2013-14, which included the First Principles Review (FPR), was provided with the author's analysis and warnings of this review, but these do not appear to have made any impression.

The JSF Project has now reached a 'tipping point' in the US, with the detailed status being provided in the DTO&E 2016 Report. The F-35A continues to strike long-term problems that may be 'resolved' only by accepting further reductions in capabilities and safety, combined with greater costs and schedule delays. The aircraft, in whatever configuration it may end up with will not meet Australia's strategic capability requirements, or be competitive against emerging threats.

The committee should thus qualify its report, or conduct a further, more rigorous inquiry.

Finally, the subject of the Committee's Report needs to be seen in the context of the changes in the management and accountabilities for Australia's Military Services and the Defence Bureaucracy, which calls for some effort and thought. The attached Annexes A and B are thus forwarded update and provide such context.

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January 2017

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Annexes:

- A. *“Epilogue to Planned F-35 Acquisition.”*
- B. *“A Brief History of 44 Years of Defence Reform”, covering “The Decline in the Management of Defence, and the Impact upon Australia’s Airpower”.*

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ANNEX A

EPILOGUE TO PLANNED F-35 ACQUISITION

Dated: January 2018

The preceding comments and recommendations on the Planned Acquisition of the F-35 Lightning 11 Joint Strike Fighter were not acknowledged and none appears to have led to any project management action, despite the glaring differences between the Defence and Committee perceptions and the hard evidence of the Director, Operational Test and Evaluation.

However, since this submission was made, several highly relevant developments have occurred, namely:

- The Defence Major Projects Report 2015-16 and the Auditor-General's Report No 40, 2016-17 of July 2017 have been tabled.
- The Auditor-General's Performance Audit of Defence's Management of Materiel Sustainment dated 11 Jul 17 has been released.
- The US GAO Report 18-75, 26 Oct 17, into F-35 Aircraft Sustainment, especially readiness and cost transparency, was released.
- The House of Representatives launched its Inquiry into Commonwealth Contracting in Dec17.

This epilogue focuses upon the findings of the GAO Report, which have major implications not only for the F-35 Project itself, but for Australia's airpower capabilities over the F-35's planned 60 year life cycle, as well as those of the F-35 operators in the Asia Pacific region who will be relying upon our support.

Briefly, the GAO Report includes:

- Repair capabilities are 6 years behind schedule. Repair times average 172 days, double the planned time.
- Spare parts shortages are degrading readiness, keeping 22% of aircraft off line.
- Technical data requirements and cost have not been defined, delaying future sustainment contracts.

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- The ALIS (central to F-35 sustainment) continues to be complex and not fully funded.
- The operational performance requirements set for the three F-35 variants during the late 1990s, although reduced, are not being met and will likely need to be further reduced.
- The F-35 Life Cycle Sustainment Cost Estimates have risen 23.9% from 2012 to 2016.

Clearly, both operational capabilities and sustainment remain complex, and lack clarity and transparency.

These developments, or lack of them, place Australia in a high risk position because of our total reliance upon the F-35 for its (advertised) airpower capabilities, and Australia's eagerness to become the regional hub for the sustainment of Asia-based F-35s. Defence has 'signed a blank check' here, with the impacts and costs yet to become transparent—a classic case of taking policy decisions in the absence of transparency of implementation costs.

Current Summary:

It is now 11 years since the first JSF came off the production line, only to enter immediately overlapping design, development, production and test and evaluation project phases – an already well recognised project management danger signal at that time. However, instead of facing the inevitable operational, technical and project management challenges that this approach has embedded, the major organisations involved have turned a blind eye, and the Maker is now pushing hard to have the F-35 given a 'pass' at Milestone C so that full rate production may proceed and a bulk purchase approved. With the new Secretary of Air Force coming from Lockheed Martin, the chances of any Air Force General opposing this unacceptable chain of events will be remote to impossible.

In addition, of the over 200 aircraft produced to date against 'limited production' plans, the first 109 have been declared unable to be brought up to final production status, so will become largely a multi-billion dollar write-off.

Unfortunately, no challenges may be expected from Australia where all parties impacted have long followed the Project Office, Manufacturer and USAF 'party line'. It should also be noted also that the F-35's capability requirements, which have become increasingly unattainable, stem from the late 1990s, but are still expected to ensure Australia's air superiority in our region over its 60 year life cycle! While F-35 supporters have lauded its performance in combat trials, the aircraft has also been assessed as *'likely to lose a close-in combat encounter to a well-flown MIG-21 of 1950's Soviet fighter design'*.

The major drivers that have been missing with this project from Day 1 have been **Reality** and proper **Project Management**, and a **Defence Organisation unable or unwilling to face**

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reality.

A BRIEF HISTORY OF 44 YEARS OF DEFENCE 'REFORM'

During the years preceding WWII, it was clear that Australia had allowed its defence capabilities to decay to the point where national security was at risk. During those years, all defence capabilities were centralised under the Minister and his Department of Defence, where political and bureaucratic attention had long focused on the false economy of saving money rather than defending the Nation. Government then recognised that the existing organisation would be unfit to meet the challenges that lay ahead and decided to form separate departments of Defence, Navy, Army, Air Force, and Supply, mainly on the ground that the span of control was far too great for one Minister/department to handle. It was a wise move, as prompt, disciplined, skilled, focussed, and well-planned action was needed critically, rather than simple bureaucratic administration. The early failure of the Aircraft Production Commission was a salutary lesson as to how unsuited bureaucracies were to working in defence environments.

This successful wartime organisation continued after WWII, in times of war and peace, despite persistent bureaucratic pressure to return to the pre-war centralised organisation. In 1957, under the guise of a perceived need for better coordination, Lt Gen Sir Leslie Morshead conducted a review that recommended amalgamation of the four defence departments into one single department reporting to one Minister for Defence. This was rejected by the government of the day, but a Chiefs of Staff Committee was introduced to provide coordinated, high-level advice.

Following further changes during the 1960s, including a reduction in the power of the Service Chiefs and the formation of a Policy Planning Branch, both supposedly aimed at ensuring a more coordinated approach to strategic assessments, the Secretary of Defence, Sir Arthur Tange, with the approval of the Whitlam Government, initiated a major reorganisation during the period 1973-76. Those 'two-star' appointments in the Services with responsibilities to the Secretary of Defence in areas such as material acquisition and logistics were made 'two-hatted' – a concept that conflicted directly with the principle of unity of direction so central to military efficiency and effectiveness. The concept, which soon proved to be wasteful of resources, encouraged internal conflict and entrenched authority without accountability. The changes were ineffectual and only led to public servants 'double-guessing' those having direct functional military accountability.

The Defence Reform and Commercial Support Programs that followed mandated structural changes that downsized, de-skilled, disempowered and marginalised the Services. Australia's once highly respected and professional Services thus became a thin line of service

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providers, with the hard won operational, engineering and management expertise in capability acquisition, operation and sustainment stripped out of Defence over the period of the 1999-2002 'Purge of Critical Thinking from Defence', to be replaced by inappropriate public sector contracting processes.

The predictably flawed DMO experiment then came and went, almost certainly Australia's second most costly and damaging failed Defence enterprise, without any lessons having been learned.

The adverse affects of these changes in the Defence Organisation and DMO have been revealed in continuing reviews into Defence problems, ANAO Audit Reports, JUCPAA Reviews, and submissions to Parliamentary Inquiries, but all to no material effect. Probably the most searching and important inquiry was the Senate FADT References Committee Inquiry into Procurement Procedures for Defence Capital Projects. The Final Report (Aug 2012) identified an organisation:

- *Having a flawed management structure.*
- *Facing problems largely of its own making.*
- *Unable to manage risk, and incapable of learning from its past mistakes.*
- *Presiding over a disconnect between strategic guidance and capability development.*
- *Having deeply embedded, confused and overlapping lines of responsibility and accountability.*
- *Lacking the required management, operational, and technical skills and competencies base.*
- *Relying upon inappropriate administrative process and commercial, 'business model' approaches that have led to an ever-expanding web of complexity and confusion.*

Defence, the Government and the Parliament, however, simply 'turned a blind eye' to these findings, accepting that Defence was incapable of reforming itself, but also showing that our governance systems at the Executive (Secretarial), Directing (Ministerial) and Oversight (Parliamentary) Levels of Governance were no longer functioning. The Department of Defence, clearly unable to reform itself, was left again to do just that.

October 2013 then saw a critical, seminal ANAO audit of the Defence Capability Development Group that identified a recurring lack of appropriate skills, transparency and accountability, leading to poor strategic guidance going to government. However, these observations were only symptoms; the underlying causes and root cause identified by independent experts had not been acknowledged let alone accepted and so were not rectified. Independent analyses show these causes to be common throughout the Canberra-based Defence agencies, and central to Defence's widespread administrative, governance and competency deficiencies.

Against this background, the "First Principles Review", a token effort to 'reform' Defence, has turned out to be another marketing exercise selling the notion that all will be well and

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Defence has all the solutions. It has been used to throw a defensive screen around extended groupthink aimed at reinforcing the elitist centralisation of the Defence Bureaucracy. It has not led to the “*total systems approach, based on evidence, analysis, and sound principles and root causes rather than symptoms*”, that was promised. Defence has, in effect, again been left to reform itself, with the protection of bureaucratic reputations and vested self-interests shining through rather than the requisite ethos of “Service before Self”. This review has failed to redress the management fault lines that had been embedded across Defence, or resolve the widespread disconnects between responsibility, accountability and competencies across the Organisation. The critical deficiencies now embedded within the Canberra based agencies of Defence, and summarised below, simply remain:

- *Poor force structure and capability analysis leads to the selection of wrong or inadequate capabilities, which results in:*
- *The inadequate or simply incorrect specification of project operational and engineering requirements which results in:*
- *Poorly defined and premature contracting, which results in:*
- *The need for subsequent variations to the operational and engineering scope of the Contract, which results in:*
- *Changes in contracted capability, cost and schedule, revealing an:*
- *Entrenched inability within Acquisition and Sustainment to understand and manage the operational and engineering challenges of the project, especially risks (and opportunities) that arise, which results in:*
- *An extreme aversion to risk in all its forms, particularly where any perceived operational or engineering 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, and by introducing multiple Operational and Materiel Capability Milestones and adopting 'supply and support' contracts, which have resulted in:*
- *Further de-skilling of the Services and erosion of Australia's Defence Industry base, while embedding a wide range of potential risks to capability throughout the life of such contracts, risks over which Australia will have little, if any, control.*

Today, Australia faces much the same question it faced pre-WWII, but without being able to rely upon the span and depth of operational, engineering and management expertise that existed within the Services at that time. Can we depend upon Australia's 'reformed' Canberra-based Defence agencies to secure Australia's defence and national security in the face of current and evolving challenges? After 44 years of Defence 'reform', the evidence shows 'almost certainly not'. While the world moves on an uncertain trajectory, Australia's defence capabilities are held hostage to a widespread lack of management expertise and integrity that has been allowed to develop throughout the Canberra based Defence organization, strongly resistant to our traditional governance mechanisms.

While proper reform of the Defence Organisation has been unappealing to successive

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Governments and Parliaments, the risks involved in doing so are much lower than those that will surface by not preparing Australia for the uncertainties and potential threats that will inhabit the future. In many ways, we are back to pre-WW2.

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ATTACHMENT 2

CASE STUDY 2

BASED UPON:

***AN ANALYSIS OF
THE AUDITOR-GENERAL'S
REPORT No. 2, 2017-18, ON***

***AUSTRALIAN NATIONAL AUDIT OFFICE'S
PERFORMANCE AUDIT OF
DEFENCE'S MANAGEMENT OF
MATERIEL SUSTAINMENT, 11 Jul 2017***

(E.J. BUSHELL AM, Air Cdre, RAAF (R'td))

January 2017

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EXECUTIVE SUMMARY

The ANAO's Performance Audit has provided valuable insight into Defence's capability sustainment performance as well as the status of the implementation of Defence's First Principles Review. However, the Audit reflects much the same performance that was identified in the ANAO's audit of the first Major Projects Report (2007-08), and in the annual audits that followed. A retrospective analysis of ANAO's MPR audits suggests that Defence has long been committed to doing the same thing over and over, expecting to see its performance improve over time. As it is clear that this has not happened, the question that remains is:

Is Defence's acquisition and sustainment organisation '*Fit for Purpose*'?

ANAO's Performance Audit gives a tick of approval to Defence's management of capability sustainment, finding that the Organisation '*has established an appropriate governance and operational framework, established and implemented a high quality performance framework to support external scrutiny, and has achieved key outcomes expected from the Smart Sustainment reforms and has progressed its implementation of the reforms to sustainment flowing from the First Principles Review (FPR)*'. However, these optimistic findings are not seen to be supported by the detailed findings of the Audit.

The Audit's findings in regard to the FPR are of particular interest. The FPR was released, rather appropriately it seems, on 1st April 2015. 153 inputs were received, including 31 from Parliamentary stakeholders, 12 from external Departments/Agencies, 8 from the Community, 14 from the UK, 24 from Industry and the Unions, 48 from within Defence and 9 from the Defence Secretariat. Interviews were held with 17 authors of the 84 public submissions, as only 17 'met the guidelines for publication'. The FPR was conducted by a wide-ranging group of Defence-selected 'acknowledged experts', many from the business world, but few, if any, appeared to have any meaningful experience in the project management of military capabilities, but then Defence's focus was upon financial control and transparency problems and its centralised, 'One Defence business model', which in turn has made Australia's military capabilities too highly dependent upon outsourcing.

The FPR reads as just another exercise designed by Defence and orchestrated by Defence, for the benefit of the Defence Bureaucracy. Real First Principles are nowhere to be seen, and as the Audit reports, well after the planned implementation date: "*Defence has not put in place plans to evaluate either the FPR reforms or their implementation*". The FPR was also to be implemented within 2 years, but that timeframe has passed, and the ANAO Audit has revealed a confused Defence Department that has lost its way, a victim of its reform decision to downsize and de-skill the Services, dismantle their Technical Branches, and outsource their critical Engineering, Maintenance and Supply support functions, both in-Service and in Industry – an objective also voiced as 'putting the Services in their proper place'.

However, this Audit should also be assessed in the context of the Defence Organisation's

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broader responsibilities and performance over time. Looking back, Defence has now spent 45 years trying to achieve what was in place before the Tange organisational changes, and Parliament has spent a decade or more seeking performance and cost transparency through Major Project Reports, Defence Annual Reports and various Parliamentary Reports (especially by the Joint Standing Committee Public Accounts and Audit). However, analysis of these reports indicates that Defence has been unable to demonstrate any significant improvements in performance, only delivering a never-ending flow of excuses and additional processes accompanied by requests for more time to redress its deficiencies.

At a time when the World and Australia are on a very uncertain trajectory and a demonstrable military deterrent is most needed, Defence is clearly the weak link in the chain of National Security, for not only is:

Defence's capability acquisition and sustainment organisation clearly not 'Fit for Purpose', but

Australia's Defence Organisation as a whole is also not 'Fit for Purpose'.

While Parliament and Defence may be reluctant to undertake a further review of Defence, the lessons of the pre-WW2 years should be revisited as a matter of urgency, as Australia is not as well prepared today as it was then to move quickly to a functionally effective defence organisation. While the Services hold the line.

OVERVIEW OF AUDIT

The objective of the ANAO Independent Performance Audit of Defence's management of Materiel Sustainment (Page 7) was to determine if:

- Defence has established an appropriate governance and operational framework for the management of materiel sustainment,
- Established and implemented a high quality performance framework to support the management and external scrutiny of materiel sustainment, and
- Achieved key outcomes expected from the Smart Sustainment reforms and has progressed its implementation of the reforms to sustainment flowing from the First Principles Review.

The scope of the Performance Audit was given as "*the management of sustainment of specialist military equipment. It addresses sustainment at a high level and is not focused on the sustainment of individual aspects of their maintenance.*" (Page 19)

The Audit concluded (Pages 7, 8) that:

- The fundamentals of Defence's governance and organisational framework for the

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management of materiel sustainment are fit-for-purpose, although specific operational shortcomings remain as well as scope to improve performance monitoring, reporting and evaluation activities to better support management and external scrutiny, and

- Defence has clear and long-standing governance and organisational arrangements for managing sustainment.

However, these conclusions were then qualified by several Audit observations, including:

- Research and reviews conducted by Defence have revealed a range of operational problems that detract from efficient and effective sustainment of capabilities, including the functioning of the System Program Offices.
- An effective sustainment monitoring system has yet to be achieved.
- The completeness and transparency of publicly reported information need to be improved.
- While Defence had made efforts to keep track of the large number of diverse initiatives under its 'Smart Sustainment' reforms, it did not assess adequately the outcomes from its 'Smart Sustainment' Reforms.
- Reforms to the management of sustainment flowing from the First Principles Review remain at an early stage and are likely to take much longer than the two years forecast.
- Defence has engaged Industry expertise to assist with FPR reforms for both capability acquisition and sustainment, including a \$107 Million contract with a single company that is not performance based. These reforms are also expected to lead to greater outsourcing of current Systems Program Office functions.

The body of the Audit also contained observations of concern:

Governance and Operational Framework (Page 8):

The '*clear and long-standing arrangements for managing sustainment*' referred to in the Audit comprise the following three organisations:

- ***The Capability and Sustainment Group (CASG)*** (1), which is currently staffed by a mix of civilian and military personnel. Its accountabilities are to the Australian Government (through the Minister), the Secretary of Defence and the CDF, the Services through the Capability Managers (Service Chiefs) and Defence Industry.

The Audit later (Page 27, Para 2.18) noted that CASG is implementing reforms that will potentially increase reliance on Industry to deliver services, and that Defence therefore requires a robust framework to manage the many major risks associated with

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the widespread use of contracted services.

Comments:

In short, CASG will be the centre piece of an even larger web of processes, depending upon a marked increase in the use of Consultants, and a redirection of SPO focus towards contractor support and away from their Service technical tasks. The result will reduce further, probably to nil, any project management and operational and technical skills left in the Defence Organisation; skills upon which efficient, effective and economic acquisition and sustainment activities depend critically.

Australia is currently the second most attractive consulting market in the World, but the big contracts now coming out of Defence's shopping list in support of overly-ambitious local industry capabilities will most likely see Australia lead the World. However, all this is but a house of cards, as Defence does not have even the most basic understanding of or capability in Military Project or in Operational Analysis or Technological Analysis. The Audit's recommendation to expand the use of Major Project Reporting to include sustainment, if accepted, will only deepen Defence's long unacceptable acquisition and sustainment performance and embed the highest level of risk throughout the Organisation's Defence Industry initiatives.

- ***The Contract-like Arrangements*** for sustainment between CASG and the Service Chiefs (who are the Capability Managers). Within Defence, Agreements between CASG and each of the Capability Managers have set out the sustainment work, performance indicators, and price in Materiel Sustainment Agreements (MSAs). The Capability Managers are also responsible for the day-to-day sustainment activities falling to their System Program Offices.

However, Defence now intends to replace MSAs (and also Materiel Acquisition Agreements) with Product Delivery Agreements, which will cover both acquisition and sustainment of each capability over its entire life.

Comments: As the current system whereby the Service Chiefs provide Capability Requirements to a separate procurement organisation has not been successful, judged by the very late, underperforming and inflated costs reported in Major Project Reports over the past decade or more, adding sustainment will not improve matters. Indeed, *'Returning accountability to the Capability Managers for the capability life cycle'* will not lead to improvement, as they lost the required skills and competencies under the Defence and Commercial Reform Programs. Defence just wants to retain control, but outsource the risks involved.

- ***The Systems Program Offices (SPOs)***. SPO staff consists mainly of engineering and logistics experts trained to solve technical and practical problems, managing outcomes by testing quality and auditing activity rather than assuring capability outcomes governing supplier processes, resulting in limited oversight, duplication of

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effort, rework and delays.

The Audit (Page 27, Para 2.17) also noted that 3 SPOs had been found to have ‘shortcomings in the application of procurement principles, which exposed Defence to risks.’ Others had yet to be audited.

Comment: The SPOs are becoming more contract monitoring clerks and appear ineffectual in providing the engineering, maintenance and supply support required by the operational units. This US style organisation is entirely inappropriate for Australia’s military. The SPOs would be far more effective if they were centralised in a RAAF-wide Systems Command to become experts in Project Management and Unit planning, support and governance.

Audit Conclusions and Findings:

While the Audit concludes that “*The fundamentals of Defence’s framework for the management of materiel sustainment are fit-for-purpose*”, the Audit Findings (page 30) state that:

“The development of an effective sustainment monitoring system remains a work-in-progress, and the effectiveness of Defence’s internal reporting system for sustainment could be improved in several areas. Opportunities also remain to increase the completeness and transparency of publicly reported information regarding materiel sustainment.” and

“With the introduction of its Sustainment Performance Monitoring System, Defence continues to develop a basis for an effective monitoring system for sustainment. Once fully implemented, this system should be capable of systemically reporting against a suite of performance indicators ...” and observes that *“some core performance indicators need to be improved.”*

ANAO’s conclusion appears to be significantly less firmly based when these qualifications are taken into account.

Furthermore, the statements that *“Defence has clear and long-standing arrangements for the management of materiel sustainment for specialist military equipment.”* and *“the fundamentals of the sustainment management framework have been stable for over a decade.”* (Page 21) also beg comment:

While these statements suggest a long period of stability, and a presumption that this stability reflects a management system inherently ‘fit-for-purpose’, the findings of decades of Parliamentary oversight, ANAO Audits, Joint Committee Public Accounts and Audit (JCPAA) Reports and Major Project Reports (MPRs) have not revealed any meaningful improvement in either Defence Acquisition or Sustainment functions. In fact, all have revealed serious, common and persistent failures in project management and a trend towards a greater mass and complexity of increasingly centralised process under ever-higher levels of bureaucratic review. At the same time, there has been a continued hollowing out of the little-

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remaining operational, technical and project management competencies upon which military capabilities depend critically, replaced by ineffective contract managers supported heavily by costly consultants. The latest Major Project Report (2015-16) reads, fundamentally, much as the first 2007-08 MPR, highlighting poor management, and for the same reasons. The much-lauded Alliance contracted Air Warfare Destroyer and the Tiger/Taipan projects alone, for example, have contributed to heavy losses over a single year (5)

While the Audit concludes that “*The fundamentals of Defence’s governance and organisational framework for the management of materiel sustainment are fit-for –purpose*”, the Audit Findings record:

“The development of an effective sustainment monitoring system remains a work-in-progress, and the effectiveness of Defence’s internal reporting system for sustainment could be improved in several areas. Opportunities also remain to increase the completeness and transparency of publicly reported information regarding materiel sustainment.” (Page 30)

The Problems of Outsourcing:

Outsourcing in both acquisition and sustainment functions remains a key causal factor behind Defence’s continued inability to manage these functions competently. Put simply, when used inappropriately:

Outsourcing = De-skilling, and

De-skilling results in an inability to specify requirements fully and accurately,

an inability to assess competently and compare tender responses,

an inability to identify operational, technical and financial risks, and

an inability to manage capability, acquisition and sustainment competently,

that is, in an efficient, effective and economically sustainable manner.

This simple lesson, despite being long identified in Federal and State audits and inquiries, has been ignored at great cost by Parliament, Government and the Defence Bureaucracy (6). When combined with the failure of the governance oversight mechanisms within Parliament, Government and Defence, the direct and indirect costs of outsourcing have now become entrenched, and have led to major project failures.

Performance Framework. (Pages 9, 10):

The Audit also found that Defence’s Sustainment Performance Management System (SPMS):

- Has potential to improve some core Key Performance Indicators (KPIs) but was not fully implemented during the Audit.

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- The contents of Defence's Quarterly Performance Reports (QPRs) are neither complete nor reliable, takes two months to produce and its contents are difficult to understand. It fails to include information critical to reader understanding, and provides only a partial account of sustainment effectiveness. The ANAO recommends that Defence institute a risk-based, quality assurance process for the information contained in the Report.
- Defence has not implemented measures of efficiency for all sustainment products. The FPR calls for immediate implementation of measures of productivity, but 18 months after implementation started, there has been limited progress.
- Defence remains unable to measure or report reliably the total cost ownership, but plans to implement a new model, planned for completion in July 2018. Opportunities remain to improve the quality and transparency of publicly-reported information.
- Information in Defence's 2015-16 reporting was not complete or consolidated in one easy to locate area, not prepared in a way that enabled comparison of actual expenditure against estimates, or consistent in presenting clear reasons for variances. Performance summaries were also highly variable and inconsistent between public information documents.
- Defence has not published program level expenditure on a consistent basis over time, or time series analysis to assist with external scrutiny of its sustainment expenditure.

“Smart Sustainment” Reforms (Page 10):

The Audit found:

- There is no record of whether DMO's 2008 planned savings in sustainment costs were ever achieved.
- Defence has not kept a systemic record of outcomes of its 'Smart Sustainment' initiative of 2009. External consultants considered the program was failing because of shortcomings in governance, program management and Defence's approach to reform described by a major vendor as 'minor reform driven by a piecemeal, top-down budget pressure'.
- Smart Sustainment had a 10 year savings target of \$5.5 billion, and Defence claimed savings of \$2 billion over the first five years. However, ANAO was not provided with adequate evidence to support this claim and Defence was unable to account for how the \$360 million for 'seed funding' Smart Sustainment initiatives was used.

Materiel Sustainment Reforms vide the First Principles Review (FPR) (Page 11):

(Defence had declared that it had implemented 67 of the FPR's 75 Recommendations.)

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However, the Audit found:

- Defence has drawn heavily on contracted industry expertise to support its implementation of FPR recommended changes, at a cost of some \$120 million, but its principal provider's contract was not performance based.
- The System Program Office reforms, one of Defence's largest reforms, are likely to take much longer than the two years planned.
- Introducing performance-based contracting has been underway for over a decade, but Defence does not yet have a complete register of such acquisition and sustainment contracts.
- Initial establishment of 'Centres of Excellence' in CASG is now underway, but will take two more years to complete. A new CASG Business Framework is expected to take 'many years' to implement fully.
- Defence's concept of 'Smart Buyer' introduces risks in ensuring that SPO staffs have the necessary skills and competencies.
- It is not clear if Defence will continue to develop asset management strategy for specialist military equipment.
- Defence has not put in place plans to evaluate either the FPR reforms or their implementation.

The FPR was a rushed affair, and there appears to have been little time for review before implementation. This author was unable to make a submission specifically to the FPR, so made a submission as part of the JSCFADT Review of Defence Annual Report 2015-16. An extract from that submission is included at ANNEX D as many of the points made are relevant to those made in the ANAO's Audit.

Parliamentary Interest (Pages 11, 12):

In light of the Parliamentary interest and the Audit findings, ANAO considered that enhanced scrutiny of sustainment may be provided by a process similar to the Major Projects Report (MPR) compiled annually over the past decade to provide independent assurance of major project status. These reports are said to have "*added value to the review process and the transparency of information provided increased assurance to Parliament and Government, all achieved while managing risks to National Security*".

A key step identified in the MPR process has been the Project Summary Data Sheets, which ANAO believes shows that Defence has developed information systems that could support sustainment work.

ANAO sees three factors that would need attention:

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- Risks arising to National Security.
- The material produced should provide a 'Whole of Defence' view.
- Resourcing and cost benefits need to be identified.

Much may be said in regard to Parliamentary interest (3), but the following observations are pertinent:

The current Defence Organisation is an overly-large and completely centralised power structure that has far too large a span of control, lacks accountability and any ability to regulate or reform itself. That is, it is inherently uncontrolled and resembles more a gaggle of independent fiefdoms that have been evolving largely unchecked over some 45 years. Innumerable reviews and inquiries have produced little more than additional processes, greater concentration on outsourcing, late, overly expensive and poor performing capabilities, and a continued inability to reform itself. The Service Chiefs, who carry primary accountability for raising and maintaining military capabilities, are kept powerless, now owing their primary allegiance to the Defence Bureaucracy, 'Jointery' and Cultural Change rather than to their Services, or even the Minister. Successive Parliaments and Governments and their Ministers and Secretaries have proven unable/unwilling to exercise their Governance Oversight responsibilities, so nobody is held accountable for major capability failures and poor management of the Services. The current organisation appears content to accept incompetence at best and corruption at worst (7).

If Australia is to return to having an effective defence structure and a relevant capability then much homework needs to be done, no matter how daunting this may seem, as things are not going to get better!

Recommendations and Entity Response (Page 13):

The Audit made two recommendations:

- Defence institute a risk-based quality assurance focus for the information included in its quarterly performance reports.
- Defence develop and implement an evaluation plan to assess the implementation of the FPR's recommendations.

Defence:

- Welcomed the Audit.
- Noted the Findings.
- Concurred with the conclusion that the fundamentals of the governance and operational framework are clear and fit for purpose.

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- Noted that Defence's implementation of the FPR recommendations has also introduced a single, end to end capability development function...which will reduce previous delineation between the management of acquisition and sustainment activity.

Unfortunately, none of these Audit or Defence statements will result in the slightest improvement in Australia's Defence Organisation or its military capabilities as they fail to redress any of the underlying causes.

ANALYSIS OF AUDIT FINDINGS

The Findings of the Audit (Pages 17-19) raise additional qualifications, such as those that follow:

Background (Page 17 on):

Defence has commented that sustainment management is not a technical discipline:

“It is an overarching business-orientated management function focussed on meeting the outcomes required of Capability Acquisition and Sustainment Group customers.”, but adds:

“Typically, Sustainment entails repair and maintenance, engineering, supply support and disposal”.

These quotations reflect a conflicted lack of understanding of just what acquisition and sustainment really involve. Since about 2002, Defence had increasingly outsourced both acquisition and sustainment. DMO specifically outsourced, mainly to foreign major capability manufactures, the RAAF's long-standing engineering, maintenance and supply support functions, further distancing the Services' little remaining and scattered acquisition and sustainment skills and competencies, leaving the SPOs responsible mainly for support contract oversight and the shallowest of technical and supply support activities.

Traditionally, engineering, maintenance and supply support analysis, which are always unique to individual capabilities, were analysed, determined and acquired as part of a tailored, Capability- specific Project Management Plan. Defence's sustainment policies now dictate against project sustainment requirements being reliable, complete and appropriate for Australia's needs, which explains why capability projects, both acquisition and sustainment, keep meeting the same problems. These problems have been self-imposed by Defence, but the Organisation has strenuously resisted real reforms and Parliament and successive Governments have failed to provide cognisant decisions and proper governance.

The DAR Report for 2016-17 commented in regard to the Taipan Helicopter Project that *“reliability, availability and maintainability continued to impact the fleet”* (5), which is now 5 years late. This is not an uncommon example of what must occur when so called 'business'

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processes and public sector based acquisition processes administered by people lacking required competencies, are adopted by Defence rather than Project Management Teams comprising competent people.

Parliamentary Interest:

The Audit notes: *'The subject of reporting on sustainment expenditure has been the subject of JCPAA, Government, Parliamentary and ANAO review over the past three years, with the subject made overly complicated by including security sensitivities.'*

However, over the past decade or more, these reviews have failed to produce any material improvements in Defence management. Government and Parliament have hidden behind a plea of not having sufficient understanding to make judgements, while ANAO and JCPAA constrain themselves, or are constrained, to looking at Defence's processes only through Defence's eyes, so have never questioned whether Defence's 'business model' is working satisfactorily or not. They have thus only added to the problem.

Audit Approach:

The Auditors stressed that they addressed sustainment management at a high level and were not focused on the sustainment of individual platforms or the technical aspects of their maintenance. This statement is confusing, as pre-Reform there used to be a clear and accurate picture of the preparedness of our military capabilities available at all times to whoever needed to know. Such information was an output from the Services' operational/engineering and systems management reports on the capabilities operated. Defence's unchecked evolution to become operationally, technically and managerially blinkered resulted directly from Parliamentary, Government and Defence Bureaucracy decisions following the Tange proposals. The sustainment of individual platforms is the core function, not checking the number of beans in the big bottle.

The current overly centralised Defence Organisation, despite the First Principles Review (FPR), continues to adopt top-down administrative processes that are wholly inappropriate to the acquisition and sustainment of high technology military capabilities and the management of those who operate and maintain them. Such an approach is inherently incapable of responding to the constant and rapid changes that impact military capabilities in time, space, threat and technology. Even the FPR noted:

"In an organisation which routinely manages complex projects and programs we found it remarkable that there is no common project management architecture to support it. There are no standardised mechanisms or management processes, with all divisions having different methodologies and management systems." (Audit Report page 61, para 5.6).

Criticism of Defence's overly-centralised structure rarely comes to the surface, as reviews and inquiries into Defence are almost invariably restricted to the current and planned organisation, and are orchestrated closely by Defence. Any question as to whether this

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approach is appropriate to Australia's defence has thus been avoided, despite mounting evidence to the contrary. The only detailed review to date has been the Senate Foreign Affairs, Defence and Trade References Committee Inquiry into Procurement Procedures for Defence Capital Projects (Final Report August 2012). Its findings on key matters were quite clear and coherent, but neither Parliament nor Government was inclined to take action, and so the failings identified in Defence's management have been allowed to persist, grow, and become even more complex and unwieldy, all at great cost to Australia's, military deterrence, capabilities, and budget. The Executive Summary of this Inquiry is particularly relevant to this Audit, so has been included at Annex A. The observation that "*a 'One Defence' view does not produce an integrated enterprise*" is highly relevant.

While the reluctance of Parliament and Government to initiate another major review of Australia's Defence Organisation is partly understandable, it is not pardonable, as every deficiency in the organisation will surface under stress and have to be redressed by sacrifices by the Services – to hold the line as necessary changes are made by Government in haste, a repeat of the circumstances that existed pre WW2 when Australia's highly centralised Defence Organisation was found inappropriate to meet the demands of approaching war.

A good indication of an effective enterprise is usually found in its Organizational Structure, with a simple mapping of the interfaces between its functional elements. In effective enterprises, and particularly in any defence organisation, interfaces should be short and reduced to the minimum, and be clear and concise in identifying functional accountabilities. Resource allocations should then flow to those held functionally accountable.

ANAO Performance Audit Report No. 6 2013-14 into Capability Development Reform, Appendix 3 included a mapping of recommended major Defence reforms. A copy of this mapping is at Annex 2. Both the number of reviews and the number of and complexity of their interfaces reflect an organisation unable to reform itself and drowning in recommendations and their attendant webs of process. An ANAO mapping of the FPR 'reforms' would provide a better picture of what is happening, as each strand of each web represents a potential single-point of system failure that may well threaten Australia's military capabilities and the national security.

This approach should then be expanded to map the number and complexity of the activities that would be required if Australia had to mount and sustain protracted operations, in the face of a significant threat, without being able to rely upon allied forces.

Parliament, Government and the Defence Bureaucracy have also failed to understand that the modus operandi of the three Services and their core capability requirements are totally different, so trying to impose a common-user acquisition and sustainment process across the three Services is a futile exercise. Defence's persistent focus upon 'one size fits all' processes ensures that individual Service capabilities are not managed as individual systems. The real world of the Military and the real world of the core technologies critical to each

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Service's military operations are being ignored by Defence at Australia's peril.

Fit for Purpose?

The Audit assures Government and Parliament that Defence's governance and organisation, which have been in place for a decade' are '*Fit –for Purpose*', but nowhere is this measure qualified or quantified. Previous audits and performance measures have long recorded the opposite, but the primary causes have been studiously ignored as they conflict directly with the Defence Bureaucracy's entirely inappropriate businesses-centric acquisition and sustainment processes.

If a simple measure of '*Fit*' is accepted as being '*fit as a demonstrable deterrent to aggression and a military clearly capable of defending Australia in the absence of any external assistance*' then Australia's ADF is hardly '*Fit*'. However, a major element of this unfitness must be sheeted home to a Public Service Bureaucracy that has also been allowed to become wholly *Unfit for Purpose*. This judgement is revealed and reinforced almost daily in the number of reported major projects, both Federal and State that can only be described as unacceptably expensive failures. The Australian Public Service has thus also been allowed to become *Unfit for Purpose*.

A recent Australian Strategic Policy Institute paper highlighted Australia's rapidly changing strategic threats and called for '*the expansion of the ADF and its capacity to engage in high-intensive conflict in our own defence*' (4), in particular in regard to:

- Higher training levels.
- A demonstrable and sustainable surge capacity.
- Increased stocks of missiles.
- More maintenance spares.
- A robust fuel supply system.
- Modernised and survivable operational bases.
- The need to pay attention to the key issue of whether there is a sound basis for the timely expansion of the ADF.

All of these requirements were embedded in Australia's Military Services pre-1972, when each Service:

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- Maintained robust training organisations.
- Possessed the numbers and skills and the maintenance support facilities required for a demonstrable and sustainable deployment and surge capability.
- Maintained a credible weapons stock, with channels primed for replenishment.
- Maintained spares in their Stores Depots sufficient to sustain operational plans.
- Maintained sufficient fuel reserves, despite difficulties.

The Services were thus organised to provide a sound basis for the timely expansion of their forces, as well as acquiring and sustaining their evolving capabilities, without fuss. This capability had been well tried and demonstrated in peace and war from WW11 to 1972.

However, all of these capabilities were swept aside by the Defence Reform and Commercial Support Programs, without thought – to be replaced by 45 years of the Defence Organisation attempting, without success, to replace those long-established and proven Military capabilities with centralised bureaucratic process. The ANAO Audit thus merely ticks Defence's bid for another decade at least of increasingly complex processes, while Parliament, Government, the Minister and the Secretary choose to remain blind to the inevitable effects.

The Human Face of Defence

While the Audit concerns itself with sustainment capabilities, any demonstrable military capability that is fit to fight, as well as act as a continuing deterrent, will depend ultimately upon the morale, ethos, ethics, sound operational leadership, and the relevant technical and management skills of its members. All of these elements have been under siege from Defence's 'One Defence', Outsourcing and Cultural Change Programs that have been forced upon the Services over the past two decades or more.

A successful military will always be perceived as illiberal to some, but without it defeat is ensured. 'Diversity and Inclusion' may have some role in a purely civilian society, but in a military organisation such concepts will lead to illusion/delusion and divisiveness, eroding discipline, unity of direction and military cohesiveness and effectiveness. The warping of Military standards began within the Defence Force Academy, and was recorded in detail in the DLA – Piper Review. Unfortunately, the results of that Inquiry have never been disclosed by Defence, so nothing has changed. The major threat, however, has been the formation of the People Division within Defence which has imposed a Cultural Change Program on the Services, along lines emanating from the United Nations Human Rights Commission, an organisation without accountability, but allowed great influence in Australia. The Services have been further used as 'guinea pigs' through the Religious Advisory Council embedded within each Service. It seems that the Service Chiefs, who hold primary accountability for the development and maintenance of their forces, have little, if any, say in

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who is suitable and who is not for military service.

‘Human rights’ and ‘cultural change programs seem to have been afforded a higher priority than the national security and military preparedness.

In the absence of any debate about this situation in Australia, US Congressman Trey Gowdy’s observations are pertinent:

*“Nobody has a right to serve in the Military. **Nobody.***

What makes people think the Military is an equal opportunity employer? Very far from it.

The Military uses prejudice regularly and consistently to deny citizens from joining for being too young, too fat, too skinny, too tall or too short.

Citizens are denied for having flat feet, or for missing or additional fingers. Poor eyesight will disqualify you as well as bad teeth. Malnourished? Drug addiction? Bad back, Criminal History? Low IQ? Anxiety? Phobias? (and eight others) All can be reasons for denial.

The Military has one job. War. Anything else is a distraction and a liability. Did someone just scream “That isn’t fair? War is VERY unfair, there are no exceptions for being special or challenged or socially wonderful.

You change yourself to meet Military standards. Not the other way around.

The Military doesn’t need to accommodate anyone with special issues. The Military needs to win wars.”

Morale does not well up from below; it drips down from above.

Since the DRP, there has been a continual intrusion into our military; the pushing of wholly inappropriate policies by those having no accountability, or any regard for the primary accountability of the Service Chiefs for the development and sustainment of Australia’s military capabilities. For example, in recent weeks we have seen the Cultural Change Program at work, reporting:

- Defence refusing to release even the titles of some 17 documents written since 2013 by Canberra academic Dr Cromptvoets, a self described “*sociologist, feminist, taxidermist*”, whose personal company Defence has awarded social research contracts worth some \$3.6 million.
- Sydney-based mobile-only recruitment platform Found has landed its second funding round in six months, securing \$1.9 million following a deal with the Australian Defence Force to drive more women into the military. The aim is to promote diversity in the Military, helping to hire women for such roles as marine technicians, cargo specialists, military police and armoured cavalry.

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- The Defence Force has charged taxpayers more than \$1 million to pay for sex-change surgeries and provide treatment for personnel recruited experiencing gender dysphoria. Reportedly, there is no existing Defence policy for the management of transgender ADF members, so the Service Chiefs have no say in the practice and its adverse effects.

Defence makes much of ensuring that its contracts are performance based and achieve their ends, but in fact the opposite is more the rule. What ends have been achieved by the above that enhance military capabilities? Even a small part of the almost \$7 million expended on the diversity programs above, if spent in time to relieve the pain of long-suffering soldier Jesse Bird, would have resulted in better Service morale and pride. Instead, Defence only moved reactively, at a cost of \$31 million, after Bird's plight became embarrassingly public.

Furthermore, in the past three years alone, Defence has written countless policies on transgender soldiers and has, for 27 transgender soldiers:

- Established a Defence Gender Equality Advisory Board.
- Established an Army Gender Diversity Executive Council.
- Established a Defence Pride Network.
- Planned a Defence Lesbian Gay Bisexual Transgender Intersex Employee Network.
- Proposed a Defence LGBTI Ambassador Network.
- Appointed LGBTI Strategic Advisors.
- Appointed multiple LGBTI champions to the Defence Senior Leadership Group.

The unchecked intrusion of civilian social objectives that conflict with Service ethos, ethics, professionalism and effectiveness should be excised from Defence immediately.

CONCLUSION

While the Audit concludes that Defence's long-standing governance and organisational frameworks are '*Fit for Purpose*', the findings of the Audit do not support such a conclusion. In fact, little has changed for the better since the ANAO completed its first Major Projects Audit for 2007-08.

Furthermore, the findings of the Audit in regard to Defence's implementation status of the First Principles Review recommendations finds that after the planned implementation date of two years or less has passed "*Defence has not put in place plans to evaluate either the FPR reforms or their implementation*". Thus, Defence's objective of "*a single, end-to-end capability development function (The Capability Life Cycle) which will reduce previous*

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delineations between the management of acquisition and sustainment activity” remains a dream. This impossible dream, which was first envisioned in the 1980s, will remain impossible as Defence pursues a ‘*sustainable business model*’, based upon ‘*commercial best practice*’, and judged against ‘*industry benchmarks*’.

Pre-Tange (1972), military capabilities were managed under Project Management disciplines which covered both Acquisition and Sustainment, as each is a driver of the other throughout all Project Management Plan (and Sub-Plan) activities. The key requirements upon which Project Management depends are the Capability Baselines (Functional and Physical). However, both of these baselines require a System Configuration to be established to a specified level before Project Management can proceed. Tenders, evaluations and contracts may be undertaken only after the Project Manager has identified and mitigated risks identified in the configuration. Contracting under this methodology becomes a low risk and relatively simple end activity that is managed by the Project Team.

Pre-Tange, those working in Project Management were guided by the imperative:

Those who do not manage Configuration manage nothing!

Defence’s decision to abandon Project Management disciplines, as well as the skills and competencies upon which success depends, has resulted directly in the ‘complexities’ and ‘risks’ perceived by Defence with most, if not all projects, since 1999-2001. Aping the US Defense Organisation and its commercially- focused approaches is misconceived and the consequences have been bared in MPRs and the continuing flow of reports over the past 15 years. Trying to reinvent the military capability wheel around a common, commercial axle based on public sector based acquisition processes is a self-defeating task that is continuing to cost Australia dearly.

Since the Tange organisation changes of 1972 and the ‘reforms’ that followed, the Canberra-based Defence Bureaucracy has worked tirelessly to centralise the management of Australia’s Military Services and apply standard, public sector based principles of administration and acquisition processes. The result has been to put Australia in much the same position in regard to its defence and national security as was faced before WW2. Unfortunately, the threats faced today and into the future are much on the scale as pre-WW2, but our ability to respond has been degraded by Defence’s poor performance and, perhaps more importantly, Australia’s Services have been greatly reduced in numbers, as has their ability to meet those threats following their large-scale deskilling and lack of proper control of their capability acquisition and sustainment, and even their ‘work force’.

Clearly, Defence’s management of acquisition and sustainment is Not Fit for Purpose, and Defence’s higher organisation and functions require urgent review as they have also

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proven to be increasingly inadequate for purpose over time.

References:

1. E.J. Bushell, “*An Analysis of Defence Materiel Organisation Major Projects Management and What Needs to be Fixed*”, Air Power Analysis 2011-02, 23rd February 2011. Extract:

“During the mid-1980s, the US Congress decided that its Department of Defense and its Defense Procurement Organisation were broken and a range of urgent reforms were attempted under the Goldwater-Nichols Act of 1986. However, the Department was totally resistant to any reforms. Some 15 years later, the situation had only worsened. The Quadrennial Defense Review for 2010 and the Independent Panel’s review of the QDR contained many lessons that applied directly to Australia’s Defence Organisation and its Capability Acquisition processes:

- Defens/ce bureaucracies will inevitably plan short term, operate from the top down, think within existing parameters, and always affirm the correctness of existing plans and programs. They also resist long-term analysis as well as any challenges to their thinking, and focus upon self-justification.*
- Instead of real capability and acquisition management reform, they will merely increase the number and levels of the sub- processes comprising their decision-taking process, the intent being to further diffuse responsibility for inevitable shortcomings in performance.*
- Despite what happens, ‘business as usual’ will prevail under increasing layers of process, and the primary objective of the Organisation will continue to be to increase whenever possible the power of the bureaucracy.”*

Australia’s Department of Defence has not only adopted much US DoD language, organisation, and public sector contracting approaches, which have proven to be completely inappropriate to meet Australia’s needs, but has also demonstrated in the ANAO Audit the very bureaucratic characteristics identified above.

2. Defence, since the 1980s, has strived to establish an end-to-end chain of administrative processes, but without success. The number and complexity of such an unwieldy approach has only embedded delays, inefficiencies and ineffectiveness that have dictated against achieving any efficient, effective and economic delivery of military capability. A major causal factor has been Defence’s myopic focus upon becoming a ‘smart buyer’ (Audit page 72) within a commodity, common-user, service-provider, ‘business’-like structure. This approach continues to replace staff having critical operational and technical skills and competencies and systems engineering disciplines, with unskilled contact managers, embedding high risk and guaranteeing failure.

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3. E.J. Bushell, "*Submission 1 to the Inquiry into the Benefits of a Bipartisan Australian Defence Agreement.*" 21st July 2017. This submission covers many of the subjects covered in this Analysis. A major risk to any plan to improve Australia's defence capabilities will come from any change in government which shifts priorities from military preparedness to social 'imperatives'. When added to the weaknesses now embedded in Australia's Defence Organisation and its endless processes, National security and military preparedness will be unachievable.
4. *The Australian*, 15th November 2017, *Summary of an Australian Strategic Policy Institute Paper.*
5. Defence Annual Report 2016-17 records that the MH90 Taipan, is now running 5 years behind its Final Operational Capability (FOC) of 2018, "*reliability, availability and maintainability continued to impact the fleet*". The Tiger reached its FOC in 2016, 7 years late and with serious limitations. The two projects, have cost \$5Bn.
6. E.J. Bushell, "*The Widespread Consequences of Outsourcing*", Airpower Australia Analysis 2010-03, 31st September 2010.
7. Defence Annual Report 2016-17 "*Fraud and Ethics*". This section records 259 fraud investigations for the year, but gives no indication as to whether these arose from a lack of governance oversight (ie, simple supervision), or some other failure in management.

E.J. Bushell AM, RAAF (R'td)

15th January 2018

ANNEX A: EXECUTIVE SUMMARY, JSCFADT INQUIRY, August 2012.

ANNEX B: APPENDIX 3 TO ANAO AUDIT REPORT.

ANNEX C: RAAF CAPABILITIES BEFORE DEFENCE 'REFORMS'.

ANNEX D: EXTRACTS FROM SUBMISSION ON FIRST PRINCIPLES REVIEW.

EXTRACT – EXECUTIVE SUMMARY

FADT REFERENCES COMMITTEE INQUIRY INTO

PROCUREMENT PROCEDURES FOR DEFENCE

CAPITAL PROJECTS, AUGUST 2012

Defence's projects for acquiring major capital equipment face an array of internal and external forces and influences that create significant difficulties for the organisation. Indeed, such projects are of a scale and complexity that they present 'formidable and ever-increasing challenges'. The problems identified in defence procurement, however, are largely a function of the organisation's own making – unintentionally self-inflicted. In effect, Defence has a flawed management structure that stymies the work of dedicated professional and in many cases highly skilled personnel.

Current management structure

The Committee finds that the current management structure has produced an organisation that lacks a robust risk management regime: an organisation where its personnel are insensitive or unresponsive to risk, where no one owns risk. Defence is also an organisation that seems incapable of learning from past mistakes. This inability to learn from earlier project mishaps is particularly salient. Senior officers in Defence may well argue that the failures noted in this report are drawn from history: but if the organisation cannot or will not apply lessons from previous projects to current and future ones then it is destined to repeat them. The challenge for Defence is to change an organisational structure with entrenched attitudes that despite repeated reforms has:

- A growing disconnect between strategic guidance and capability development with the current foundation document – the 2009 Defence White Paper – setting an unrealistic and unachievable acquisition program for the Australian Defence Force's (ADF) future capability;
- a culture of non-compliance with policy and guidelines: where personnel get bogged down with too much paper work, produce a 'certain amount of nugatory work and miss the important things going on';
- confused or blurred lines of responsibility;
- accountability that is too diffuse to be effective – the organisation is unable or unwilling to hold people to account;
- a poor alignment of responsibility due to an excessive number of groups and agency

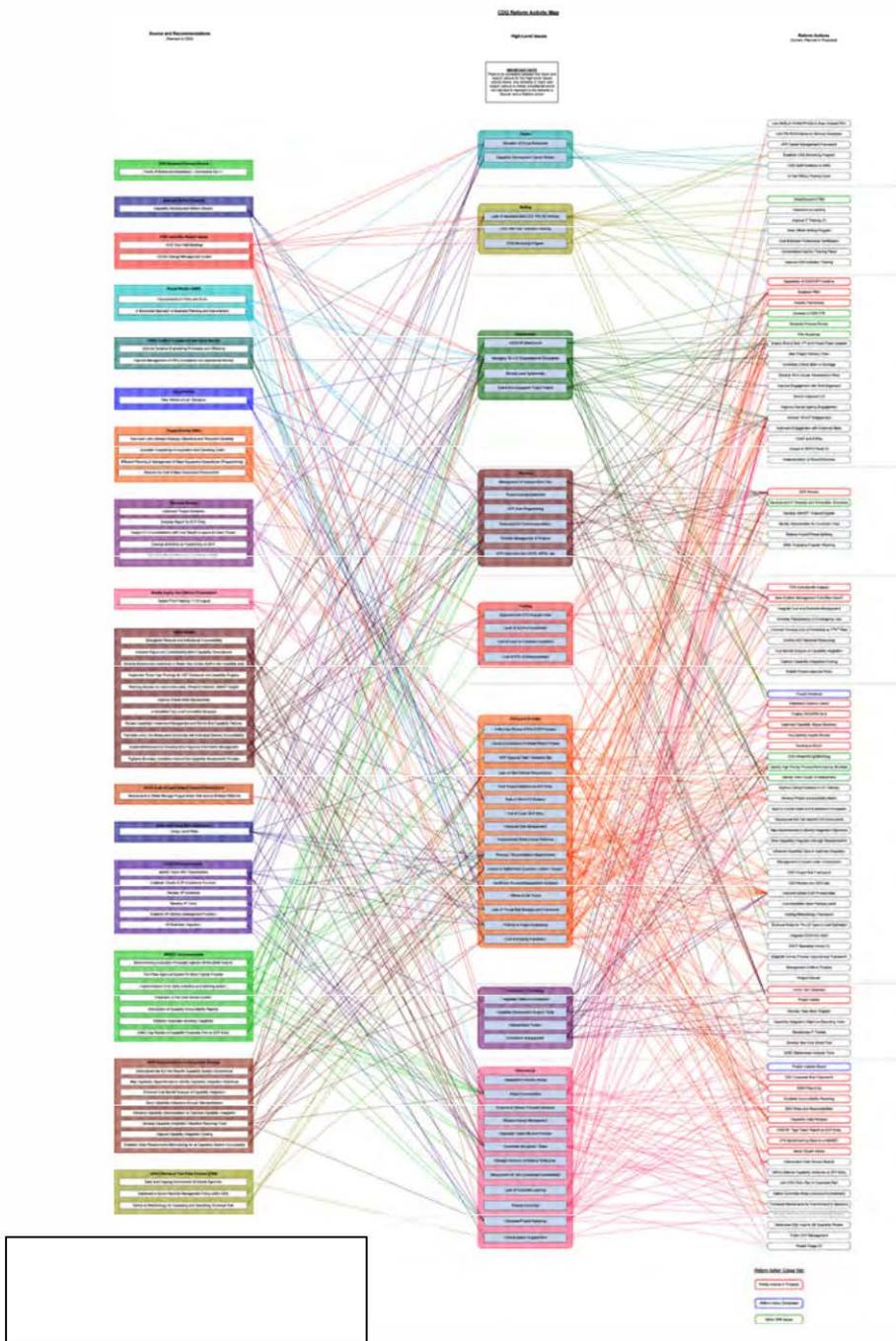
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functions, which gives rise to unhealthy management and organisational relationships – for example capability managers sidelined from active participation in an acquisition;

- little understanding or appreciation of the importance of contestability and a mindset that simply cannot, or refuses to, comprehend the meaning of ‘independent advice’;
- a ‘One Defence’ view that does not produce an integrated enterprise. Defence remains an organisational composed of separate groups working to their own agendas;
- difficulty attracting and retaining people with the required level of skill and experience to support acquisition activities, particularly engineering, which over the past 15 years or more has atrophied most notably with the hollowing out of technical skills in Navy; and
- yet to engage actively with industry as a collaborative partner in capability development and acquisition and to achieve the status of intelligent customer.

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ANNEX B



ANNEX C

THE RAAF – CAPABILITIES BEFORE DEFENCE ‘REFORMS’

Before the implementation of Defence Minister Barnard’s organisation changes, and the subsequent Defence-driven series of ‘reforms’, the RAAF was characterised as an organisation that:

- Maintained Australia’s air power at a high state of capability and readiness.
- Ensured that the force could be launched quickly in response to a wide range of tasks.
- Enabled the force, once launched, to be sustained, both home and abroad, from RAAF and Australian Defence Industry facilities.
- Provided a high degree of flexibility in the application of air power in time, space, and role.

These capabilities were achieved through the RAAF’s professional Branch organisation, but they stemmed, fundamentally, from one main factor:

The Chief of Air Force had, under his command and control, the resources needed to achieve the required results, principally an effective functional organisation, manpower and skills, money, equipment, and facilities. That is, there was an inherent clear unity of effort and direction.

Each one of these resources, including money, was managed in terms of the required force readiness, responsiveness, sustainability, and flexibility, which is precisely the proper management relationship between function and resources. The horse and cart were in their correct relationship.

Within this organisation, the RAAF was able, in a controlled and measured way, following well-established policies, systems and procedures born of hard won experience, to:

- Specify its requirements for aircraft, as well as the whole range of high technology environmental systems and equipment upon which it depended.
- Evaluate contending systems, both operationally and technically, and select that which best met RAAF requirements, a function which required sound Service operational and technical knowledge and experience, not merely contract ‘box ticking’, or accepting maker’s proposals.
- Negotiate, raise and manage the procurement contracts involved.
- Establish the engineering, maintenance, and supply bases needed to support new systems from the time of their acceptance. This included the development of appropriate local industry support.

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The RAAF thus had the skills that enabled it to introduce increasingly advanced weapon and support systems into service to specification, on time, within budget, and fully supported.

An honest evaluation of what the RAAF was achieving at that time would find that Australia was getting excellent value for money. Problems were certainly encountered, but they were capable of being resolved promptly and without undue stress. DSTO (ARL) played a critical supporting role in specialist areas, such as fatigue monitoring, through a close and continuing working relationship with RAAF on technical matters.

The Defence/DMO/CASG organisations have demonstrated consistently that they have been incapable of approaching the efficiencies, effectiveness, or economy of the organisation that characterised the RAAF before the 'reform' process.

The ability of the RAAF to handle these tasks successfully and without undue fuss was due in no small part to the existence within its organisation of an Engineer Branch, supported by a Supply Branch. The RAAF recognised that it was the most highly technological enterprise in Australia and had established formally an Engineer Branch in 1948. The head of the Branch was a member of the Air Board (later an Assistant Chief of Air Force) who managed two specialist directorates at Air Force Office level, Engineering and Maintenance. Within the Branch, the Director General Technical Plans (DGTP), was the focal point for translating all Air Staff plans, programmes, and priorities into interlocking and fully integrated technical policies, plans, programmes, and priorities, for technical manpower and skills, facilities, maintenance policies, documentation, and spares; indeed all technical support requirements. This proved to be a highly responsive, efficient, effective, and economic solution to a very complex and critical interface with operational requirements and capability plans.

The Supply Branch, in turn, developed supply plans and programmes to procure and position, in time and space, the range and quantity of equipment, both technical and non-technical, needed to support Air Staff plans and Maintenance requirements.

The point to be made here is that the success achieved by the RAAF in both project management and in-service support was due to:

- A proper delegation of responsibilities and resources, and
- A sound and tightly knit professional organisation, manned by people who were experienced and who followed a clear unity of direction which ensured success. Service ethos was high, as was the professional competence and ethics that sat at the core of the specialist, professional groups.

Traditionally, the RAAF's engineering and maintenance workforce was managed as a central resource, able to be moved into new projects, to operational bases, both at home and overseas, or into support areas in response to Air Staff plans, programmes, and priorities. New projects came and went; Project Offices were formed as required and then disbanded as the project was handed over to the normal support system. Air Force Office and Support

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Command provided technical and supply support policy and guidance, drawing resources and experience from across the Service, from local industry, and at times from overseas services and industry. The general thrust was to ensure that unit maintenance was focussed wholly upon supporting operations, and not subject to distractions. This was a highly robust, responsive and flexible operational support organisation.

The result was a force in which all operational and technical work was under sound professional control, ensuring satisfying, rewarding, and productive, if at times frustrating, work. The 'complexities' and utter waste of resources that have bedevilled the DAO/DMO from their inception would simply not have arisen under the RAAF's traditional organisation and management methodologies.

A Benchmark for Defence.

In measuring the competence of the current Defence Organisation to provide sound strategic analysis, new capability and in-Service support, the most appropriate baseline against which performance should be measured should be what the RAAF was able to achieve with usually constrained resources before the Government's structural changes were imposed.

For some 70 years, the RAAF, supported by its Technical Services Branch:

- Operated and manned three major Aircraft Depots which overhauled several aircraft types, the TF30 engine for the F-111, a wide range of aircraft sub-systems and equipment, and ground telecommunications systems.
- Operated and manned four major Maintenance Squadrons that provided direct support for the major operating elements – Bomber, Strike/Fighter, Transport, and Maritime.
- Operated and manned No 1 Central Ammunition Depot which managed all explosives ordnance.
- Carried out a comprehensive Engineering and Maintenance regulatory function, principally airworthiness management and maintenance efficiency.
- Managed an advanced fatigue life monitoring and management system with ARL.
- Planned and managed all major repair and overhaul arisings for aircraft, engines, repairable items and other technical equipment at RAAF facilities and Contractor facilities in Australia and overseas.
- Assessed and (with the Supply Branch) procured and distributed the technical spares and other equipment needed to support all RAAF operational and maintenance programmes, controlling a technical inventory of some 643,880 lines, while meeting engineering, maintenance, and supply inventory standards and requirements.
- Planned and managed the progressive capability enhancement and life extension programmes for all weapon and other systems in service.
- Planned and managed the replacement of extant capabilities, including the technical evaluation and source selection of new capabilities, ensuring the procurement, introduction and establishment of all levels of support for new capabilities by the time that they were introduced into service.
- Monitored the performance of all technical support facilities, taking timely management action when needed.
- Provided technical support for selected Army and Navy aircraft.

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Together, the Aircraft Depots and Maintenance Squadrons safeguarded the RAAF's operational independence of operation, and developed the deeper level expertise needed for the planning and introduction of new capabilities, while providing a reserve of resources able to support emergencies, surges and protracted operational deployments.

The whole focus of the RAAF was centred upon:

- Maintaining the Force at a high state of readiness.
- Ensuring that the Force could be launched quickly in response to a wide range of tasks.
- Enabling the Force, once launched, to be sustained, at home or overseas.
- Supporting a high degree of flexibility in the application of air power in time, space, and role.

These four objectives represent the benchmark against which all Defence Organisation decisions and activities should be measured.

Impacts of Resource Constraints.

The short and direct lines of command and control enabled the RAAF to absorb the inevitable ebbs and flows in Government policy and funding with a controlled, minimum impact upon core operational capabilities and the support infrastructure. Support plans could also be varied to respond appropriately and promptly to meet changing Air Staff Plans and Programmes, while protecting the Defence Industry Base upon which the RAAF depended and which Government required to be in place to sustain Australia's self-reliance. Under the current Defence Organisation, all this has become too disjointed and critical activities cross too many administrative (process) interfaces without achieving the required outcomes.

Unfortunately, as with the other two Services, the RAAF was downsized and de-skilled to the extent that it can no longer guarantee the air power and force sustainment expected by and relied upon traditionally by the Australian people.

The 'new age' excuse of increased complexity in the management of current day systems does not pass the common sense test or stand up to either expert scrutiny or past experience. Such 'complexities' were managed as a matter of course by the RAAF before the imposition of the DER/DRP/CSP changes.

Defence/DMO Performance.

Since the imposition of the DER/DRP/CSP structural changes, there have been continuing problems in every major area of Defence Organisation administration, ranging through recruitment, retention, morale, military justice, strategic analysis and force structure planning, project management, capability requirement definition, comparative analysis, and source

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selection, as well as in - service support. Coupled with this, there has been a continued de – skilling and withering of both Service and Defence Industry support capabilities. Repeated Parliamentary and internal inquiries and reviews have been largely ineffectual, leaving little, if any, evidence of their passing. In effect, Australia’s traditional parliamentary oversight processes do not work when dealing with the Defence Organisation.

DMO, now CASG, in particular, have cost the taxpayer billions of dollars, for example

- The \$A1.4 billion upgrade of four Guided Missile Frigates.
- The more than \$A1 billion Super Sea Sprite debacle, a capability intended primarily for a ship that never eventuated.
- The AEW&C and Tanker Projects.
- The F/A-18 Upgrade (HUG) Program.
- The upgraded M113 APCs, amongst a range of other Army projects from helicopters and transport to boots.
- All Air Power decisions covering the F-111, the Super Hornet, and the JSF.
- The Air Warfare Destroyer major cost increases and the Amphibious Ships projects, which have undergone inadequate vulnerability analysis against evolving air and other missile threats.
- The Army’s Tiger Armed Recce Helicopter and the Taipan..
- Critical failures in the Capability Development function.

The Services have been hollowed out and de-skilled and as a result, requirements cannot be specified fully and accurately, or analysed and managed with the degree of professionalism that was commonplace pre-reform.

Defence/CASG/Industry/Manufacturers have been unable to fill this gap and indeed cannot. Hence, critical operational and technical questions are not generally raised, and where they are the answers are incapable of being analysed and evaluated professionally. The Services, Defence, and CASG are simply constrained to accept whatever the Manufacturer offers them in terms of capabilities, cost, and schedule.

The Department does not have the policies, systems, or functional management methodologies in place needed for the proper operational and technical analysis of requirements, or any effective project management systems. When what the RAAF pre-reform was able to achieve, the Defence Organisation can hardly be assessed as being ‘*Fit for Purpose*’.

SUBMISSION ON
DEFENCE DEPARTMENT REFORM INITIATIVES
-THE FIRST PRINCIPLES REPORT-
EXECUTIVE SUMMARY

In simple terms, the First Principles Report (FPR) follows the path of almost all previous Defence reports and audits:

- It underlines the dichotomy entrenched by the Tange reorganisation, and reinforced by subsequent ‘reforms’, between the vested interest agenda of the Defence Bureaucracy, and the national interest agenda central to Military professionalism. The former is overly sensitive to public opinion and wholly determined to ‘keep the Services in their place’ through rigid, central control of policy, administration and resources, while the Military strives to keep its traditional integrity and ‘Service before Self’ ethos, both critical to maintaining an effective defence capability.
- Like most Defence reviews, the FPR is principally a marketing publication, selling the notion that all is under control and Defence has all the solutions, given time, whereas the evidence has long pointed to the contrary. The FPR is thus another exercise in misdirection of the Parliament, and a more appropriate package of corrective reforms should be applied, based upon actual rather than claimed root causes. The Report’s recommendations should thus not be implemented.

This submission should thus be read with these primary observations in mind.

Discontent with the performance of Australia’s Defence Organisation and the Defence Materiel Organisation continued throughout 2014, culminating in a First Principles Review of both organisations, the Report of which was released on 01 April 2015. However, a reading of the Terms of Reference and the Findings and Recommendations of the Report indicates that their objectives are neither achievable nor appropriate, and the Report will only shield Defence from any calls for real reform for another five years or more.

The continued mantra of “*One Defence*” may be read as ‘code’ for maintaining and expanding the centralised control of all military matters by the higher Defence Bureaucracy. While the Review promised “...*a total systems approach, based on evidence, analysis, sound principles and root causes rather than symptoms.*” there is little evidence that this approach was either understood, or applied. Putting people in charge of projects who will have to live with any discrepancies is the surest way to get outcomes-focussed capabilities, not adding power to the higher bureaucracy.

The Report identifies seven disparate “*First Principles*” in support of a vaguely-stated “*Outcome*”, which in turn leads it to claim three “*Root Causes*” for what ails Defence: *High operational tempo, Budget uncertainties, and Leadership churn from 1998.* Proper analysis

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would have revealed that the root cause was an entrenched focus on bureaucratic self-interest over the National interest, and the protection of bureaucratic reputations. These imperatives continue to provide Defence with an agenda, or motive, to maintain its highly centralised, top heavy control, its unwieldy span of control, and its other identified dysfunctions that facilitate the avoidance of accountability and the hiding of problems.

In fact, the root causes claimed are merely a defensive screen thrown up around Defence to protect it, not the results of any “*total systems approach, based on evidence, analysis, sound principles and root causes rather than symptoms.*” All three claimed ‘*root causes*’ present Defence as a victim of circumstances beyond its ability to control, and so is fault free, but this ignores the volumes of evidence that has accumulated showing Defence’s problems to be largely of its own making, and that it has long demonstrated that it is incapable of learning from its mistakes and correcting itself.

Likewise, the plea that the claimed ‘*root causes*’ resulted in a *Complacency and Inertia that prevented Defence from reforming itself* is false reasoning, as these problems are also ones that Defence either caused directly, or was incapable of managing due to its dysfunctional organisation, over-centralised and excessive span of control, and lack of required skills and competencies.

Of major concern is that the Report seeks to reinforce the Diarchy, which, in effect, means the Defence Bureaucracy, at further cost to the Capability Managers (the Service Chiefs) who carry primary responsibility for raising, training and sustaining their force capabilities, a move that will only deepen Defence’s dysfunctions. If Parliament is to regain Oversight Governance control of Defence, and restore Australia’s reputation as a ‘*Smart Buyer*’, the First Principles Report should not be allowed to proceed. The eagerness with which Defence has accepted the Report and its Recommendations is telling.

Finally, the Report calls upon Defence to undertake a wide range of major tasks in some 30 areas that the Department has already proven repeatedly to be incapable of doing, and which was the core reason for having the Review in the first place. In effect, Defence, which has long proven to be unable to reform itself, is now required by this Report to reform itself. This is simply magical thinking.

Recommendations:

- Conduct a proper Root Cause Analysis of Defence’s problems.
- Replace the FPR’s proposals and recommendations with a package of reforms designed to rectify the actual root causes.
- Choose carefully selected and qualified managers to establish the most effective organisational structure, and to implement the reforms.
- Design and embed management systems incorporating strong ethical standards and effective governance oversight.
- Reskill the Department and the Services in line with their unique professional requirements and accountabilities.

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BACKGROUND

Discontent with the performance of Australia's Department of Defence and the Defence Materiel Organisation continued throughout 2014, resulting in several calls for reform, including:

- A First Principles Review of the Department and the Defence Materiel Organisation.
- Implementation of the recommendations stemming from the Commission of Audit Report.
- An Auditor-General's audit of Major Defence Acquisition, Test and Evaluation.

The First Principles Review is the most important of the reviews, as such a review would be expected to identify the root cause, and the underlying proximity causes behind the problems perceived, would develop the functional management structure best suited to resolve them, as well as determine the appropriate authority, accountability and resources for each function. This work should, of course, be traceable directly to clearly defined, long-term, defence and national strategic objectives.

However, a brief reading of the Terms of Reference (TOR) indicate that this has not been the case, and hence the Review will not achieve the changes needed, but merely reshuffle Defence's existing dysfunctional structures, and in doing so will perpetuate the problems identified:

- Firstly, instead of guiding the Review along clearly - identified first principle lines, the TOR limit the scope of the review to Defence's current "One Defence Model", and DMO's current, failed, 'business model' for materiel acquisition and sustainment. Both organisations have been shown over time to be non-functional and so not outcomes-focussed, incapable of learning from their mistakes, and are unable to qualify and quantify risks and manage them before they cause major damage. Both organisations also act only after the event, a deadly practice where defence and national security are concerned. Whether Defence's higher organisation and DMO's 'business' orientation are functionally sound are questions that were clearly "*out of scope*".
- Secondly, the Commission of Audit Report (Recommendations 24: Defence, 32: Industry Assistance, and 34: Research and Development) understandably stem from budgetary objectives, and thus list many proposals that are resource sensitive, but show little, if any, understanding of their functional implications or how they might fit into a coherent Defence functional management structure. Thus "*establishing a more professional Capability Development Group*", "*reducing the staffing size...*" or "*improving the effectiveness and transparency of expenditure*" do nothing to identify the root cause or proximate causes behind the problems perceived, or support the recommendations made.

While the First Principles Report represents a fair listing of Defence/DMO problems, its

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perceptions of HOW these problems should be redressed and its recommendations are not persuasive. There is thus a risk, currently seen as CATASTROPHIC, that real reform of Defence/DMO will not result if the review's recommendations are implemented as proposed, but will be delayed for another five years or longer. The Defence Bureaucracy seems to have been at great pains to keep this review well away from the real causes and thus the real solutions.

DEFENCE POLICY AND FUNCTIONS

Defence policy has long been based upon the need to maintain self-reliant military capabilities that will ensure the Nation's defence and national security, the deterrent effect of which should never be underestimated. In addition, recent years have seen a greater emphasis being placed on our long-standing ANZUS Treaty as a means of bolstering our national security in the face of emerging shifts in world power dynamics in our region. However, that treaty also carries the responsibility that ***“The Parties separately and jointly by means of continuous and effective self-help and mutual aid will maintain and develop their individual and collective capability to resist armed attack.”*** (Treaty Article II).

It is not good policy to be over-reliant upon friends for our defence and national security, and it is far better and cheaper to have capabilities to hand rather than think about them after threats have arisen.

The capabilities needed to meet both Australian and ANZUS requirements were maintained until 1972, when the Tange - initiated reorganisation of the defence group of departments took effect, so as to *“move toward integrated defence management....and to more direct lines of control over the activities of the Services.”* From that time, the resources allocated to defence capabilities have been subject to unpredictable changes in bureaucratic/political will and priorities to the point where spending has fallen to a level last seen during the years immediately preceding WWII.

The 18 years or so that followed this reorganisation also saw a gross inflation in APS numbers, especially in the SES and in Department of Defence functions, the downsizing and de-skilling and restructuring of the Services, and the outsourcing of Service functions. This was followed around 1999 by the capability acquisition and sustainment of military capabilities being shifted from the Services to a centralised organisation (eventually the DMO), which adopted a 'business model' (outsource- centric) approach that replaced the Services' traditional operational/technical requirements analyses, with its model of capability decisions being implemented under rigorous Project Management disciplines. The problems seen in Defence over the past 43 years and in the DMO over the past 16 years have arisen directly from these changes, and will persist until their real causes have been accepted and rectified.

Since 1972, there has been a continuous series of reports and reviews into the effectiveness of Defence administration and the DMO's 'business' model. All such reviews and reports,

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however, have not led to any significant improvements in the performance of either organisation, as none has proceeded from identification and analysis of the underlying causes or the root cause behind any of the problems perceived. However, one report, that of the FADT References Committee Inquiry into Procurement Procedures for Defence Capital Projects (1), came closest to success in its Final Report, which included the need to move the capability acquisition and sustainment functions to come under the Service Chiefs, together with the required resources (especially financial). In effect, responsibility was being aligned with authority and accountability, a simple but key objective in any functional organisation. It should be noted that in making such a recommendation, the FADT ignored the “*One Defence Business Model*” (centralised control) mantra so treasured by Defence.

REVIEW OF THE FIRST PRINCIPLES REPORT

GENERAL

The *Title* and *Forward* of the Report both highlight the term “*One Defence*”, which it sees as ‘*a more unified and integrated organisation that is more consistently linked to its strategy and clearly led by its centre*’. In effect, the Review has been constrained to accept the current, fully centralised control of all defence matters, so that any recommendations made must align with the current, centralised Defence organisation. In short, the review must be limited to a re-shuffling of the bureaucratic deck chairs so as to further reinforce centralised authority at the top. In addition, the terms used throughout the report are those generated within Defence over the years, and so lack the incisive analysis expected of a true First Principles Review. These observations are reinforced by the six ‘*key*’ *Recommendations* made, and the repeated references to “*One Defence*”, which appears as ‘code’ for maintaining and expanding the centralised control of all military matters by the Defence Bureaucracy.

The First Principles Report (Page 12) states “*We have taken a total systems approach, based on evidence, analysis, sound principles and root causes rather than symptoms.*” The Defence Outcome used in the Report is then stated as being to: “*Protect and advance Australia’s strategic interests through the provision of appropriately prepared armed forces*”, which will be achieved through “*Defence prepares for and conducts military operations and other tasks as directed by Government.*” The intended nexus between these two statements is difficult to grasp. However, the Report then goes on to list seven “*First Principles*” in support of its stated Outcome:

- Clear authorities and accountabilities that align with resources.
- Outcome orientation.
- Simplicity.
- Focus on core business.
- Professionalism.
- Timely, contestable advice.
- Transparency.

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How these factors comprise “*a total systems approach, etc*”, is also difficult to grasp. The Report then goes on to identify three claimed “*Root Causes*” that it believes have led to Defence’s problems.

THE THREE CLAIMED ROOT CAUSES

The Report states: “*We were puzzled as to why Defence has been unable to reform itself.*”

The Report then concludes that “*Substantive change appears to have been too difficult for Defence leaders because of the root causes listed.*” and “*In seeking to determine what has prevented Defence from changing we noted three root causes which over the past decade have created complexity and inertia:*”

- *The high operational tempo and increasing national security demands over the past decade have demanded high levels of the senior leadership’s time and attention.*
- *Budget uncertainty.*
- *Leadership churn from 1998.*”

Firstly, none of the factors identified is a root cause; each is a symptom having underlying proximity causes which have not been identified and analysed in the Report. In fact, the *root causes* present as being no more than a defensive screen thrown up by the Defence Bureaucracy, not the results of “*a total systems approach based on evidence, analysis, sound principles and root causes rather than symptoms*”, as stated. They present Defence as a hapless victim of circumstances beyond its control, and so fault-free, whereas most of the problems seen in Defence today have been shown to be self-inflicted. (1)

The Report failed to identify the long-entrenched culture of self-interest over the National interest, the avoidance of accountability, and the hiding of problems that have been allowed to develop over the decades in the absence of any effective civil control by the Executive (the Secretary), the Directing (the Minister) and the Oversight (Government and Parliament) levels of governance. Brief analysis of these three ‘root causes’ reveals:

Operational Tempo. While the operational tempo (which includes peace keeping) may have been high at times, the forces involved have been relatively small, often more token than substantial, and have not required our Services to demonstrate their core land/sea/air control capabilities either singly or jointly. That is, being able to operate remotely and autonomously. The plea that the leadership has been overtasked appears to conflict directly with the Report’s concern that the Defence leadership has increased over 86% between 1998 and 2014 to administer the 200 active committees and the twelve layers of its organisation. In comparison, the far smaller pre-Tange organisation was able to fight major conflicts, while maintaining the Services’ skills bases critical to effective strategic planning and analysis, as well as the acquisition and sustainment of their capabilities and supporting systems. A comparative analysis of the pre and post Tange organisations would have been revealing, but

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seemingly was not considered. This review should have analysed the extent to which this perceived factor may have been caused by over-ambitious or poorly-informed bureaucratic/political decisions, especially those arising from weaknesses in Defence/ADF competencies and their skills base. Operational stress would also be overly difficult to manage as Defence and the ADF long ago ceased to be learning organisations, so that each operational challenge that has arisen is treated as something entirely new (2). Operational tempo problems are thus considered to be an effect of inadequate management which needs proper analysis; it is not and cannot be a root cause.

Budget Difficulties. Similarly, budget difficulties have been a constant factor over time, and again the pre-Tange organisation was far better at arguing for more stable defence budgeting, and was able to survive low points while maintaining the core skills and competencies critical to restoring capabilities rapidly as funds became available. In comparison, the current organisation, since 1973, has been unable to argue the case for stable and realistic funding, and seems more focussed upon growing itself and ‘saving’ money than providing required capabilities. Identifying the underlying proximate causes behind budget difficulties would have led to questions such as the political will to allocate resources in line with Government’s/Parliament’s own stated policies, the poor comprehension of military matters within the polity and the Defence Bureaucracy, the ability of the Defence organisation to meet current and future defence and national security needs, and the impacts of failure at all three levels of governance. This factor is thus an effect begging competent analysis rather than being a root cause.

Leadership Churn since 1998. This is a self-inflicted injury built in by the Tange reorganisation, embedded by the Defence Reform Program, and aggravated by the formation of the Defence Materiel Organisation. Hence, this ‘*root cause*’ is an effect stemming from decisions taken by Defence, and accepted by Government and Parliament. Analysis of the underlying proximate causes would include the false assumption that the Services’ skills and competencies bases, especially in strategic and operational analysis, and in engineering and project management could be recreated within the Defence/DMO bureaucracies, that APS administrative processes with a ‘One Defence’ focus were appropriate to the acquisition and sustainment of high technology military capabilities, and that common-user policies and outsourcing would lead to economies in efficiency, effectiveness and economy. There are other proximate causes, especially the excessively large span of control, and the overwhelming weight and complexity of Defence’s administrative processes that have evolved to meet the demands of a centralised control policy. Again, leadership churn is an effect, not a root cause. A well-designed functional organisation would also be designed to control churn, as without this ability the whole Defence structure would be at risk of collapsing under the weight of any significant threat with its associated operational and management pressures.

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THE QUESTION OF COMPLACENCY AND INERTIA

“We noted three root causes which over the past decade have created complacency and inertia.”

It is difficult to accept that the three ‘*root causes*’ identified would have caused ‘*Complacency and Inertia*’ within Defence; the very opposite would be expected.

Nevertheless, complacency and inertia have long been characteristics of the Defence Bureaucracy, but their underlying causes are far different from those identified in this report. A few of the more important include:

Complacency. This is a result of feeling free from being able to be held accountable, through:

- A Defence organisation with a stated self-interest driven imperative, as detailed in the Orme Report that of protecting its reputation at any cost. (3)
- A Defence organisation that diffuses accountability, and ensures that authority is held centrally at the top, while accountability is passed down.
- All governance mechanisms within the organisation have been made ineffective so as to protect offenders within the Organisation rather than those subject to abuses. Vested interest thus goes unchecked, and ethics is compromised. (4)
- The use of legal resources, and more recently legislation to stifle critics and protect offenders. (4)
- Manipulation of the Media to further protect the Department from criticism, and the stifling of strategic debate both within and outside the Defence Organisation. (2), (3)
- Hiding behind the protection afforded Secretaries and the Senior Executive Service by the progressive erosion of governance at all levels – Executive (The Department Head), Directing (Ministerial) and Oversight (Government/Parliament). (4)

Inertia. This problem is also an effect of many underlying causes, including:

- Reliance upon Australian Public Service (APS) administrative process, which has proven to be wholly inappropriate for the management of military functions and activities. Administrative Process seeks to establish a stable environment within which low-skilled people following simple instructions may take satisfactory decisions. This approach has not worked in government departments that have been faced with implementing policies having even low levels of technology (pink batts and school shelter sheds for example). Defence/DMO are both mired in process and have consistently fallen short in capability analysis, capability selection, acquisition and sustainment, and in the common-user support of the Services.

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- Reliance upon a “Business Model” for the acquisition and sustainment of military capabilities, which has also proven consistently to be inappropriate. Both the APS Administrative and DMO’s Business Model dictate against their being able to identify risk, or to take timely and informed action.
- Reluctance of the Defence bureaucracy to admit mistakes due to unacceptable risk to reputation.
- Lack of confidence throughout many in Defence in their competency to do the task they are allocated. This continues despite heavy investment in training and outsourcing core functions.

Both Complacency and Inertia have built up steadily over time and may be traced to the inevitable effects of the Tange reorganisation and the subsequent growth of APS SES control over all military matters following the Defence Reform Program.

THE KEY RECOMMENDATIONS

The six key recommendations made are:

No	Recommendation
1.	<i>Establish a Strong Strategic Centre to Strengthen Accountability and Top Level Decision Making</i>
2.	<i>Establish a Single End-to End Capability Development Function Within the Department to Maximise the Efficient, Effective and Professional Delivery of Military Capability.</i>
3.	<i>Fully Implement an Enterprise Approach to the Delivery of Corporate and Military Enabling Services to Maximise their Effectiveness and Efficiency.</i>
4.	<i>Ensure Committed people with the Right Skills are in appropriate jobs to create the ONE DEFENCE Workforce.</i>
5.	<i>Manage Staff Resources to Deliver Optimal Use of Funds and Maximise Efficiencies.</i>
6.	<i>Commence Implementation Immediately with the Changes Required to deliver ONE DEFENCE in Place Within Two Years.</i>

The core problems with these recommendations are that:

- Firstly, the Recommendations embed divided responsibility, authority without accountability, and positions that will not have the required skills and competencies.
- Secondly, the Administrative processes used by Defence and the “business’ models used by the DMO, are completely inappropriate for the management of complex, technology-dependent Military capabilities.
- Thirdly, the “One Defence Model” will be found to be unworkable, because the solution to

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Australia's Defence problems lies in a de-centralised organisation that aligns responsibility with accountability, is given the necessary resources, and has an effective civil governance system.

OTHER FACTORS

Under "*Direction*" (Page 16), the Report concludes that "*it is imperative that Defence evolves into a single, integrated system*", and "*Defence must become one end-to-end organisation.*" These objectives are clearly not based upon any acceptable analysis, and have been unachievable to date because of a defective organisational structure having an unmanageable proliferation of confused processes, and is lacking in required skills. The proposed changes will not help, as the remedies lie in decentralisation and skilling rather than increased centralisation.

The leading recommendation (page 17) is that the Report's recommendations "*be implemented in their entirety*", and "*adopted as the road map for Defence reform for the next five years.*" with no other reviews to take place in the meantime. This merely leaves the Defence Bureaucracy free to reinforce its centralised control of all military matters, but avoid facing the need for fundamental structural change and greater delegation of resources. There is an unjustified haste here that must be resisted.

Of major concern is that the Report reinforces the Diarchy, which in effect means the Bureaucracy, at the further expense of the Capability Managers (the Service Chiefs), who will become even less able to discharge their critical responsibilities for raising, training and sustaining their force capabilities. This is in stark contrast with the conclusions of the FADT Inquiry (1), which at Recommendation 3 proposed that the Capability Managers be given "*sole responsibility for acquisition projects, supported by staff seconded through the DMO, as well as maintaining relationships with contractors and sub-contractors*", that is, to decentralise the current organisation to where the real accountability and skills base reside.

The lack of any considered response from Defence to the FADT Inquiry (1) compared with the eagerness of Defence to embrace the First Principles Report is telling. This should be noted by the Oversight Level of Governance (Parliament), as the FADT Inquiry was vastly better informed and considered in its recommendations than the First Principles Report, and should thus become the baseline for any changes to Defence. Certainly, no action should be taken on the First Principles Report until this has been done.

Finally, the Report calls upon Defence to undertake a wide range of remedial tasks, in some 30 areas, that the Department has already proven to be incapable of doing, and which was in fact the core reason for having the Review done in the first place. In effect, Defence, which has proven to be unable to reform itself, is now required by this Report to reform itself. This is simply magical thinking.

While a complete analysis of the Report is beyond the scope of this submission, several

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critical, proximate causes behind Defence's problems have been identified. These are included as ANNEX A – First Principles Review Critical Factors.

RECOMMENDATIONS

If Defence is to be reformed meaningfully, the following recommendations are made:

- Conduct a proper Root Cause Analysis of Defence's problems.
- Replace the FPR's proposals and recommendations with a package of reforms designed to rectify the actual root causes identified.
- Choose carefully selected and qualified managers to establish the most effective organisational structure, and to implement the reforms.
- Design and embed management systems incorporating strong ethical standards and effective governance oversight.
- Reskill the Department and the Services in line with their unique professional requirements and accountabilities.

(E.J.BUSHELL)

Air Commodore AM, RAAF Ret'd

29th June 2015

ATTACHMENT A –First Principles Review – Critical Factors

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ATTACHMENT A

FIRST PRINCIPLES REVIEW - CRITICAL FACTORS

What is wrong with Defence/DMO has been largely identified in the many ANAO audits, reports and external submissions made, and which have generally been ignored. This submission aims to highlight, in simple terms, some key factors in the failure of the “Tange Experiment” as well as the changes introduced by the Defence Reform and Commercial Support Programs, factors that should have driven the First Principles Review.

1. THE ORGANISATIONAL FACTOR

Australia’s Services, following the long-recognised needs of Military organisations, developed along tightly-knit, vertically-integrated, functional lines, differing only to meet the unique and critical demands of their different operating elements (sea, land and air). The end objective was to maximise capability readiness, responsiveness, sustainability, effectiveness and flexibility, with regard to capability efficiency, effectiveness and economy. This approach served Australia well, as all in the functional chain knew their roles and their accountabilities, and were experienced and competent to discharge them. Unity of direction was assured.

Pre-1972, the Chiefs of the three Services were First Members of their Service Board, reporting directly to their Minister. The duties of each Board Member were delegated by the Minister. Those of the Chief of Air Staff, for example, ran to five lines, and those for the other board members ran from three to six lines, providing simple, but complete, descriptions of each member’s responsibilities. The line of civil governance was direct and unambiguous: Service Chief to Minister to Government to Parliament to the People of Australia, based upon (5):

- 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,
- A trust borne of mutual knowledge and responsibility, and especially
- An effective span of control.

In Air Force, for example, a simple management team of six, having the resources needed to discharge their responsibilities, specified, selected, acquired, operated and supported (through service and industry facilities) all air power capabilities and their supporting systems to a high degree of efficiency, effectiveness and economy.

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In contrast, the current Defence organisation is not a functional one, is not outcomes focussed, and so has failed repeatedly to achieve critical functional objectives in both military and government policy areas. As a result, Defence has evolved over the past four decades to become an organisation that (1):

- Has a flawed management structure (one not functionally integrated, or focused upon achieving functional outcomes).
- Faces problems largely of its own making.
- Is unable to manage risk, and is incapable of learning from its past mistakes.
- Presides over a disconnect between strategic guidance and capability development.
- Has deeply-embedded, confused and overlapping lines of responsibility and accountability.
- Lacks the required management, operational and technical skills and competencies base.
- Relies upon inappropriate administrative process, and has adopted an inappropriate procurement “business model”, leading to poor performance, an ever-expanding web of complexity and confusion, and a gross waste of money.

The Defence Organisation that has evolved since 1972 is a non-functional, public service construct that employs administrative process rather than functional management in an attempt to achieve its objectives. Defence’s intention, since the early 1980s has been to construct a set of administrative processes that would provide for the “seamless integration” of all Defence activities from the top to the bottom. That this objective has failed is evidenced by the long list of very expensive reviews and audits that have taken place over the past 40 or so years, to no significant effect. Each report identified clearly Defence’s inability to detect and correct problems before they caused unacceptable effects. The FADT References Committee Final Report (1) also emphasised the proliferation of process that had taken place over time, with its attendant complexity and confusion. This was an inevitable result of Parasitism (6), a condition common to large bureaucracies.

To date, Defence has ignored all significant criticisms, and our traditional Oversight Governance of Defence has been largely mute at both Government and Parliamentary levels.

Any “First Principles” Review of Defence must start with a rigorous Functional Organisation Review that must also ensure that the Services return to come under Civil control, as:

“Civil control of the Military is a constitutional function limited to Ministers (representing Parliament) alone, not one that can or should somehow be shared with public servants or civilians generally. Our tried and tested Westminster constitutional model deliberately separates control and command. This has long removed the gun from politics and the party politics from the institutional culture and operations of our military.” (5)

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2. THE SPAN OF CONTROL AND GOVERNANCE FACTORS

Successive Ministers have encountered an excessive span of control, effectively making them unable to exercise their responsibility for proper governance and a captive to the Bureaucracy, which has become the sole source of information or advice, too often containing inadequate/incorrect information, to the Minister, the Press, Government and Parliament. In effect, the Minister now works to protect the Bureaucracy rather than exercising his civil control over his Department on behalf of the Government, Parliament, and the Australian people. This is a problem that requires a joint Government/Parliamentary response.

3. THE CAPABILITY DEVELOPMENT FACTOR

ANAO Audit Reports, DMO Major Projects Reports, and independent Submissions made over the past eight or so years have identified why Defence/DMO have failed in their strategic and capability analysis, as well as their capability acquisition and sustainment functions, but to no meaningful effect. However, analysis of these reports and submissions (7) indicates that Australia now has a Defence organisation that:

- Proceeds to contract with inadequate statements of operational and engineering concepts and requirements, leading to the procurement of a wrong, inadequate or overpriced capability.
- Proceeds when the design is immature or not understood.
- Is unable to manage system or software development or integration, or test and acceptance.
- Is unable to identify and manage project risk (essentially operational and engineering factors) and has to resort to buying its way out of the resulting problems.
- Does not have the operational, engineering or Project Management skills and competencies essential to the projects being undertaken.
- Focuses upon buying materiel rather than managing projects.

Has now had to outsource its contract management and contract negotiation functions.

In fact, all the evidence points to Defence/DMO Major Projects suffering persistently self-induced injury through:

- Adopting public sector commodity product and service principles that have proven to be wholly inappropriate for the acquisition and sustainment of highly technology-dependent military capabilities.
- Failing to adopt the required long-proven and successful, conventional Project and Engineering Management methodologies.
- Replacing skilled and competent project and engineering managers with people

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lacking those skills and competencies, but well-equipped for public relations.

The result has been (broadly):

- Projects have been put forward for approval and acquisition that have not been fully and accurately scoped and specified in project, operational or engineering terms.
- Source selection has been poorly managed, resulting in incorrect or poor acquisition decisions having inherent risks.
- Contract negotiation is now beyond DMO's capabilities as (lacking even basic project, operational and engineering competencies) the Department of Defence is no longer seen as an informed and smart customer.
- Project capability, schedule and cost risks inevitably arise that are beyond the DMO's competencies to manage. The problems arising from undetected risk are thus 'managed' through the Contingency Budget.
- Capability schedule delays and sustainment difficulties have left protracted and gaping holes in Australia's military defences.

Both Defence and the DMO have studiously avoided identifying these factors for what they are, preferring to interpret them as problems to be redressed through administrative process or contract changes. The First Principles Report identifies 14 current shortcomings, but also fails to recognise any of these factors and their remedies, preferring to expand the role and authority of the Senior Executive and stick with administrative process and contract administration rather than more appropriate and proven management systems.

The First Principles Report sees the need for Australia to become a “*Smart Buyer*” through “*implementation of a smart buyer approach (that) will involve tailoring procurement strategies appropriately...*”. The solution to becoming smart is then given as “*The Capability Acquisition and Sustainment Group would comprise a smaller core group of skilled public servants managing a ‘smart buyer’ function*”. (Page 36). The Report and its solution fail completely to say how the very long list of current deficiencies listed above will be resolved before any requirement is ready to go to contract. The DMO has already abandoned its primary responsibility for smart contract management by its adoption of a “*Managing Contractor Model*” and a “*Contract Negotiating Cell*”, both of which are characteristic of a “*Dumb Buyer*” organisation that is incapable of managing its own interests.

The First Principles Report does not give any confidence that the reality of this situation is understood, or that it will be rectified by any of the recommendations made. If Australia is to become, once again, a respected “*Smart Buyer*”, implementation of the First Principles Report Recommendations will be found to be a blind alley.

4. THE SKILLS AND COMPETENCIES FACTOR

At all levels throughout the Defence Organisation, there has been a continuing paucity (often an absence) of the skills and competencies needed for critical defence capability planning and

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implementation. Despite considerable investment in training, especially within Defence, the DMO and Industry, few, if any, lasting improvements can be demonstrated. This situation has been aggravated by the widespread deterioration in critical thinking and written communication, a factor that has impacted especially upon the quality of Australia's strategic and capability analysis, upon which the effectiveness of our whole defence effort depends.
(2) (8)

Pre-DRP, these skills and competencies all resided within the Services, particularly within their Engineer Branches, and were applied across all Service capabilities through their Support Commands. New projects were planned, organised, directed and controlled by drawing upon organic expertise that kept abreast of technology and operational changes. This expertise was excised by the DRP on the assumption that it could be replaced by industry, which worked to a degree until the pool of redundant Service expertise dried up and could not be recreated elsewhere. Industry has no mechanisms for replenishing these skills sets, other than to recruit from overseas.

The First Principles Report does not reflect any recognition of, or solution to, this deficiency, other than saying Defence will undertake this or that miracle process; for example, the "*Strategic Workforce Plan*" proposed by the First Principles Report has no chance of success under the current Defence Organisation, as has been demonstrated by the lack of success of DMO's extensive training programs over the years.

The time has now been reached when Parliament must take some tough decisions: recognise that the 'Tange Experiment' has failed, and take steps to recapitalise the Services, to re-establish those tightly-knit operational and engineering skills and competencies needed to establish and support Service capabilities, but may also be fed into higher-level planning and analysis, as and when required.

If Defence is allowed to adopt the recommendations of the First Principles Report, real capability outcomes will be made far more difficult to achieve. Without a realistic solution to the skills and competencies problem, Defence, in its continuing attempt to outsource risk in its many guises, will simply follow the UK Ministry of Defence path to 'total outsourcing', which is a level of risk that goes straight to the heart of Australia's military capabilities, and national security.

If Parliament wants Australia to become, once again, a "*smart buyer*", able to conduct sound strategic and capability analyses in an ever-changing, technology-dependent world, and one able to select, specify, acquire capabilities, and maintain a highly responsive and flexible sustainment base, then major structural and management changes must be made now. That is, Government and Parliament must exercise their responsibilities for Oversight Level of Governance, and act.

Putting people in charge of projects who will have to live with any deficiencies is the surest way to get outcomes-focussed capabilities.

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5. THE CULTURAL FACTOR

While Defence's reform programs concentrated upon downsizing and de-skilling the Services and abrogating and outsourcing their long-standing capability acquisition and sustainment functions, a cultural change program was also launched with the aim of replacing the Services' military standards with Australian Public Service (APS) populist, ideologically-driven philosophies. Defence's focus upon Service abuses and its demands for cultural change ignores the fact that the 'poor culture' perceived was in fact a direct result of poor management - that is, higher management, both Service and Civilian, has committed, permitted or ignored abuses - an inevitable result of Defence's own Cultural Change Program, which puts the needs and 'rights' of the individual before those of their Service, changing 'Service before Self' to become 'Self before Service'.

Core differences between military and civilian organisations have also been consistently ignored.

To be effective, military organisations depend upon a set of characteristics that are unique to them. Firstly, a military ethos, grounded in ethics and integrity that emphasises the trust and loyalty that must exist between peers and their subordinates, and the mutual respect that must exist between peers. Discipline and tradition then provide the environment within which newcomers can not only develop their trust, but also gain the respect of their Service. Role models have a critical role to play within this arrangement. Secondly, military organisations depend upon short and direct lines of command and control (in effect, communications and management), sharply-defined functions with clear accountabilities, real measures of performance, and sound management of the resources need to discharge their functions. Management feed-back loops must also be in place to monitor, support and correct functional areas, and to ensure standards are maintained as well as unity of direction. In such organisations, ethical behaviour is mandatory at every level.

In describing what skills civilians will bring to his department, one Secretary of Defence explained:

“Civilians are generally more readily able to tolerate, and even be comfortable with, unclear lines of command, divided authority, and open ended guidance or ambiguous instructions.”
(9)

During war or peace, governments and parliaments should have little trouble deciding which approach has the better chance of guaranteeing Australia's defence and security, but both now appear reluctant to establish and maintain a Defence organisation that ensures that the national defence and security come before APS populist, ideological philosophies.

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Defence's Cultural Change Program has been embedded through:

- The Charters of the Service Chiefs.
- The document "*Beyond Compliance – Professionalism, Trust, and Capability in the Australian Profession of Arms – Report of the ADF Personal Conduct Review.*" 2011. Auth: Defence Committee, Sponsors: CDF and Sec Defence.
- The document "*Pathway to Change – Evolving Defence Culture – A Strategy for Cultural Change and Reinforcement.*" 2012. Author: Maj Gen C.W. Orme.

The latest statements on Defence's Cultural Change Program policy are contained in Defence Annual Report 2013-14, Vol1 (Performance, Governance and Accountability), Pt 3, Chap 7 – (Reform and Cultural Change). These include:

- ▲ "*In September 2013, the Minister for Defence agreed to a new Strategic Reform Program....Oversight of strategic reform in Defence rests with the Chief Operating Officer on behalf of the Secretary and the CDF.*" Page 112)
- ▲ "*Continuing (cultural) reform remains a strategic imperative for Defence*" (Page 112)
- ▲ "*In order to embed and further develop cultural reform, Defence has begun a four year collaboration with the Australian Human Rights Commission (AHRC)...The collaboration will see joint ADF/AHRC teams visiting 10 establishments annually...to deal with particular issues and advising Defence*"... (Page 113)
- ▲ "*Defence's capability is maximised by drawing on the diversity of its people, which reflects the variety of personal experience that arises from differences in culture and circumstance.*" (Page 115) Nowhere is this proven to be the case.
- ▲ "*To support the work of the AHRC, Defence has implemented a research program to provide an annual 'health check' of the perceptions of cultural reform and the organisation climate across Defence*". (Page 113)
- ▲ *Defence has continued its strong commitment to improving the diversity of its workforce through its Centre of Diversity Expertise and the development of the Defence Diversity and Inclusion Strategy, which is endorsed by the Defence Equity and Diversity Council.' and 'Defence seeks to give priority attention to attracting, recruiting, retaining and transitioning those groups in Defence requiring priority attention – women, indigenous Australians, people with disability and lesbian, gay, bisexual, transgender and intersex (LGBTI) people.'* (Page 115)
- ▲ "*Reporting on sexual misconduct in Defence (especially the ADF) is seen by Defence as 'providing a baseline for future reporting...to inform the understanding of trends....'*

In effect, we now have the 'culture' of Australia's military forces being determined by the Australian Human Rights Commission (AHRC), which lacks any accountability for its actions, and is forced upon the Services by the Defence Bureaucracy through its Defence People Group (DPG), which was established in May 2012 under the Chief Operating Officer Organisation which '*administers ongoing Defence reform such as Shared Services and the Defence Cultural Reviews*'. The Group comprises four divisions, including:

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- A People Capability Division.
- A People Policy and Culture Division, which drives Defence's cultural change program.
- A People Solutions Division.

The Group, however, appears to lack any balance by failing to recognise the need to maintain and enhance core, critical military values, especially morale, discipline and ethics; its focus is wholly *'human rights'*. It is well worthy of audit, as it has failed to realise that the *'unacceptable behaviours'* that it wants reported were a direct result of its own Cultural Change Program (ref), that destroyed the traditional military culture with its imperatives of integrity, ethics and honesty. The Group also seems blind to the fact that that AHRC and People Group policies will encourage and protect the formation of cliques that will further degrade critical military values. The Group has also been 'missing in action' where such problems as submarine crewing, the needs of traumatised service people, the health records problems, and the ad-hoc changes to pay and conditions of military service, are concerned, yet it consumed \$59, 606,036 (representing 96.8%) of Defence's Consultancies and Contracts (Advertising and Market Research) 2013-14 Budget.(DAR 2013-14, Page 175).

If the Report's Recommendations are adopted, this Group may well become part of the new Associate Secretary Organisation to be established within the Strategic Centre, where it will have even greater power to intrude unnecessarily and unproductively into Military personnel management.

The real cultural decline that has been allowed to evolve in both the Bureaucracy and the Military since the DRP was identified fully during the DLA-Piper Review, and documented in its Vol 1 and Vol 2 Reports. That these abuses, especially following the abortive and ineffective Defence Abuse Response Taskforce exercise, remain unresolved to this day should be totally unacceptable to both Government and Parliament, but the abuses have been allowed to sink without trace. Real cultural change, not that so occupying the DPG, "*which is caught up in the prissy, moral crusades of our time and driven by obsessions that bear little relation to the strategic purpose of Defence*" (10) should be a high priority.

Other Reading:

These critical factors, and those perceived by the First Principles Report, all stem from policy and cultural changes that have occurred since the Tange Reorganisation of the Defence Departments in 1972. An analysis of these changes and their affects over time was provided to the Joint Committee of Public Accounts and Audit in 2014, indicating that the 'Tange Experiment' has failed and will continue to fail until defence functions and accountabilities are severely restructured.

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References:

1. Foreign Affairs, Defence and Trade References Committee, Procurement procedures for Defence Capital Projects, Final Report August 2012:

Recommendation 2: Service Chiefs authority and resources align with their responsibility for procurement and sustainment of the capabilities for which they are responsible to operate and maintain.

Recommendation 3: Capability Managers have expanded responsibility and importantly financial responsibility after Second Pass.

See also Submissions to the References Committee.

2. Brown, James, "ANZAC's Long Shadow", Redback 2014. This book, especially Chapter 5, includes important feed-back from the operational 9interface, in particular:

"There is no tolerance of even the slightest difference in view over future defence policy between the government and the military – in itself the sign of a brittle and immature relationship."

"Increasingly, senior officers censor their comments because they are worried about creating even the tiniest ripple on Lake Burley Griffin.....senior officers pre-emptively censor the comments of their subordinates because they are overly sensitive to...causing domestic political friction."

"Very few officers or soldiers are permitted to write professionally; even fewer choose to do so."

"Rules on public discussion are draconian."

"He also observes: "a lack of professionalism in defence forces to the point that having a professional opinion in Australia can be career suicide, with a bureaucracy that serves to stifle discussion."

On learning, he notes (Pages 100/101) "The ANAO concluded ...2011 Report...that Defence's learning from its operations was 'patchy and fragmented' ... and "As yet there has been no commissioned history of the conflicts in East Timor, The Solomons Islands, Iraq or Afghanistan", which 9indicates no learning from experience.

3. Maj Gen C.W. Orme, "Beyond Compliance: Professionalism, Trust and Capability in the Australian Profession of Arms-Report of the ADF Personal Conduct Review", 2011. Page 4, Para 7 states:

"Media relations are also important in the development and maintenance of a good reputation. Unfavourable media reporting adversely affects both morale and public perception, while favourable reporting can be beneficial in terms of internal morale and reinforcement of desirable behaviour. The key is to have a relationship with the media that is characterised by integrity, trust, transparency and respect for the demands of each party." This statement hardly reflects the role of the media in a democracy, or the public good.

4. Jones, Brendan, "Royal Petition concerning Crime and Corruption within the Australian Public Service", <http://victimsofdaysto.byethost31.com/royal/>. Much other evidence is contained at the

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victimsofdsto website.

5. James, Neil, Executive Director, Australian Defence Association. “*Arthur Tange: Last of the Mandarins*” reviewed in ADA Journal “*Defence*”, Autumn 2006.

6. Kopp.C. “*Parasitism as an Abstraction for Organisational Dysfunction.*” 04 Sep 2013

7. See author’s Submissions to the JCPAA on all DMO Major Projects Reports and ANAO Reports issued over the period 2007-08 to 2012-13 (six years), in addition to Submissions on a number of JCPAA review reports issued over that period.

8. Air Power Australia Analysis 2009-03, 08 May 2009, “*The Decay of Critical Military Thinking and Writing.*”

9. Airpower Australia Analysis 2011-04, “*Australia’ Failing Defence Structure and Management Methodology*”, 28 Dec 2011, and Analysis 2008-10, *Rebuilding the Warrior Ethos*”.

10. Carter, Nick, Executive Director, Menzies Research Centre, Oped “*Shiny Pants Don’t Need a Pay Rise*”, the Australian, 04 Sep 2013.

This Oped notes DPG’s target as being “*To deliver sustainable people capability and high quality human resource outcomes across the Defence employment cycle.*” with its benchmarks being “*Integrated people systems, strategic reform outcomes, and a fair and respectful workforce.*” It finishes by observing: “*The fashionable argument for cultural change ignores the evidence that there are two ADF cultures. The first, a spirit of excellence, determination, ingenuity and achievement (that) continues to honour the Nation in the dangerous theatres in which our troops serve. The second, a culture of unbridled bureaucracy bent on building an empire of process, platitudes and pretence, is the one that must be reformed.*”