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via email: Rizzo.Review@defence.gov.au
Mr Paul Rizzo
Rizzo Review Submissions Secretariat
R2-4-D006 Russell Offices
Department of Defence
CANBERRA ACT 2600

Dear Sir

Babcock Rizzo Review Submission

It is our pleasure to provide a submission on behalf of Babcock as part of the forthcoming review into the "Reform of Amphibious and Afloat Support Ship Repair and Management Practices". Having provided support to the Royal Navy and Ministry of Defence (UK) for the Surface Ship Fleet (including amphibious vessels) over the last 30 years, covering both aspects of deep maintenance and in-service support, we feel we are adequately qualified and experienced to provide valuable input.

Based upon our direct involvement in similar transformation programs, coupled with a deep experiential base, we offer the following issues for consideration (examined in greater depth later in the submission):

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| ▪ Procurement Policy | Obvious imbalance between competition and the need to retain sufficient industrial capacity and capability |
| ▪ Unclear Defence Industrial Policy | The need to preserve competition can be at odds with the desired capacity required to support innovation and transformation |
| ▪ Smart Sustainment | The DMO has already signalled a positive intent for the delivery of reform starting with the Major Fleet Unit competition |
| ▪ Program Management Capability | Disparate approach between the overarching strategic defence capability programs and the execution of naval sustainment projects |
| ▪ New Platform Sustainment | Support solutions are not defined during acquisition programs but allowed to evolve |
| ▪ Fragmented Sustainment Enterprise | Current policies and/or interpretation of sustainment process denies a 'best for project' approach with no common strategic objectives or role definition between RAN, DMO and Industry |
| ▪ Transformational Leadership | The selection of industrial partners through competition demands appropriate organisational behaviours and strong leadership to execute. There will be more barriers to transformation than advocates but is the current practice delivering what is wanted or needed? |

Babcock has a track record of leading reform whilst delivering true output improvement, and, in our opinion, elements of transformation are beginning to take place such as Major Fleet Unit (MFU) but are already showing signs of dilution. We commend our submission for deeper analysis by your team and request further engagement such that we can expand on the material provided.

Yours faithfully


Craig Lockhart
Chief Executive Officer

Current Procurement Policy

From our international experience of managing the full range of ship and submarine platforms, and our analysis of the amphibious ship problems, we believe that a further causal issue has yet to be taken into account, one of inappropriate competition.

Competition at many contracting levels has significantly contributed to the inevitable loss of control of the material state of the ships, with no link between the:

- contractor defining/managing the maintenance specification;
- different contractor executing this specification;
- different contractor again, conducting upgrades; and
- DMO personnel responsible for the ship's material state.

Hence the DMO receives what it asks for in each contract, and no more, as the provider concentrates on delivering the specification only. The DMO carries the overall risk without the capability to manage the situation. Consequently, the management of the ship increasingly becomes reactive to the operational defects raised by the Ship's Company; the maintenance schedules become inadequate. Managing the numerous contractual interfaces, when overlaid with reactive defect management, means that key activities become neglected from the through life management of the ships.

No support solution was pro-actively seeking out issues before they affected availability and putting in place remedies to 'up engineer' the platform. Long term arrangements must exist, capable of taking the 'Best for Enterprise' decisions weathering short term expediency; it is imperative that mutual objectives exist at all layers of the competitive process.

We conclude that the current procurement policy is not producing the solutions that DMO requires over the longer term

The policy of preserving cost competition on a short term, piecemeal package basis, unwittingly results in the allocation of work, where the contractors merely wait for their turn to be kept in the market as the hungriest will bid lowest. Contractors are rewarded for poor performance and poor contracting behaviours while overall costs are actually increased through aggressive variation order management and emergency repair.

Numerous tactical competitions have locked a cost structure into the DMO which will be very difficult to reform. Strategic competition will inevitably result in some rationalisation in industry, but Long Term Performance Based Contracts and selecting the right cultural fit and behaviours, will create a win-win solution for all, de-constructing the current adversarial culture. Without this process, industry will lack the clarity around which to make significant investment decisions for continuous improvement.

Our conclusion is that without a clear defence industrial policy going forwards, innovation and transformation will be limited

Major Fleet Unit Group Maintenance Contract

The original Invitation to Register for the Major Fleet Unit (MFU) Group Maintenance Contract (GMC) aspired to an integrated program of repair, maintenance and configuration change for the class.

The first stage will be a competition for long term Repair and Maintenance; the second stage will extend the contracts to cover a Total Asset Management approach including Integrated Materiel Support.

Key Performance Indicators and incentive mechanisms would reduce the cost of ownership, increase material preparedness and allow an integrated asset management approach for new classes being introduced into service. The performance framework incentivises investment in the platform, not just to deliver the existing maintenance schedules.

We wholly support the above approach as it is the model which we have been successfully operating to in support of our international clients; Strategic Reform Programme objectives require a different contracting approach.

DMO has already signalled a positive intent for the delivery of reform to support starting with the MFU competition

However, existing multiple contracts on MFU will prove difficult to change until renewal; MFU GMC will therefore be hampered by lack of scope, having already been reduced from the original aspiration. Incumbents will seek to preserve their current position, by legal challenge if necessary, continuing to demonstrate poor behaviours. The DMO will fail to deliver strategic reform through strategic competitions due to complex existing tactical contracts and competitions.

Integration

Integrating all the activities across the 'enterprise' of naval sustainment, steadily reveals the Life Cycle Cost of operating a class of ships with savings (both in the contractor and the DMO itself) an inevitable and virtually unavoidable benefit of exposing this enterprise level information.

Short term local savings measures, annualised budgets and gapping of key DMO personnel gave no continuity of understanding of the myriad contracts and their complex interfaces. No single prime arrangement existed resilient to this process that could maintain the corporate memory. This level of competition failed to deliver through life management. Without aggregation, the DMO will not realise sustainable savings due to the vested interests of all parties currently involved in the delivery.

Future integrated programmes will need to detail the 'bigger picture' for the life of each class, including the Defence Capability Plan and Strategic Reform Programme.

There is a disparate approach between the overarching strategic defence capability programs and the execution of naval sustainment projects

New Naval Platforms

The aspiration for the MFU model to cater for current classes has been frustrated and may now need to be applied to the new ships first. The opportunity to introduce the best solutions must be taken now. Current classes will need to migrate to the new model once existing contracts expire and can be replaced by the new, improved arrangements. Historic problems can be avoided by pro-actively designing the support solution before the ships enter service and not allowing it to evolve over time as a reaction to problems.

If in new classes the transition into service is incentivised incorrectly, haphazard support solutions will perpetuate - existing problems. Evolving 'ad hoc' arrangements during transition will be exploited to lock in sustainment on a volume and not performance basis, leading to cost plus behaviours and solutions.

DMO will have great difficulty on two fronts: firstly, in creating a fair competition for a subsequent support solution once all the ships are in service (mid-2017 for AWD); and secondly, determining whether the support solution represents value for money. A new class of ships enables incentivisation mechanisms and Key Performance Indicators for all parties, including the Ship's Company and Fleet Support Units that ultimately secure a high level of preparedness.

It is critical, and of great benefit, to the through life costs of a class, that a specialist support contractor is involved during the design and build phase. The support contractor is able to work alongside the builder to develop an optimal solution, minimising life support costs which are some 65-70% of naval platform Total Cost of Ownership.

Support solutions are not defined during acquisition programs but allowed to evolve during introduction into service

Role of the DMO

For a new class the DMO can re-assess its role and strategic objectives in the light of the amphibious ships experience. Are the DMO provider and integrator of all aspects of materiel support or the decision maker and intelligent customer for this support? Each requires a completely different set of skills, competencies, training and education, imposing a cost base that is also orders of magnitude different. The amphibious ship experience would suggest that it is not able to generate and sustain the people and skills associated with the broad provider objective; Roles are allocated on competence, not as a result of blind process.

Our international experience is that best value for money is provided by the customer defining its role as deciding: what happens to the ships, when it is to happen and measuring the performance of industrial delivery. This is a much smaller footprint to sustain. The customer then contracts industry to deliver the strategic objectives: how, who, where and performance. The current inconsistent and fragmented approach by individual Systems Programme Offices is mirrored by an equally fragmented response from industry resulting in a continual mismatch between aspiration and outcome; denying the DMO the benefit of any economies of scale.

Current policies and/or interpretation of sustainment process denies a 'best for project' approach with no common strategic objectives or role definition between RAN, DMO and Industry

Proposed Solution

In our considered opinion success requires an integrated 'enterprise' approach operating a comprehensive asset management model with shared data. The model is delivered by a combined team from DMO, Navy and industry with clear responsibilities focussed around a Class Output Manager. An environment is created where whole ship solutions are provided that concentrate on cost and availability. A performance contract with carefully framed incentives has provided the solution that our customers have consistently selected in competition.

For new platforms, our experience has shown that the DMO could select a support specialist at an early stage to work alongside the builder and incentivise them to deliver an optimal solution, including during the Phase In and Ramp Up periods for new platforms. The selection of the support specialist should be based around the following criteria:

- Commitment to customer objectives;
- Track record with performance based contracts;
- Customer relationship;
- Willingness to commit to delivering performance;
- Commitment to continuous improvement.
- Relationship with the supply chain;
- Proven ability to deliver cultural change that DMO requires.

Early competitions for any new contracts should assess these characteristics and build long term partnerships – not minimum man-hours for notional scopes of work.

Culture and Responsibility

Whilst the DMO has put much effort into setting out the strategic path it wishes to follow, we believe that success requires long term strategic collaboration of industry, DMO and Navy leadership at all levels, to deliver the required cultural change in all parties. In our experience, the culture of client organisations is to wait for the next change in political leadership and the inevitable rotation of senior military and civilian figures to avoid delivering the required reforms. To overcome this, we have seen client organisations write their obligations for delivery of strategic reform into their long term contractual arrangements.

There is a rapid dilution of the leadership commitment to deliver transformation in the DMO below very senior management levels