

EXECUTIVE MINUTE

on

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT REPORT No.456

Defence Major Equipment Procurement and Evaluation, and Great Barrier Reef Regulation - Review of Auditor-General Reports Nos 51-52 (2014-15) and Nos 1-10 (2015-16)

Response to the recommendation(s)

Recommendation No. 1 paragraph 2.48

The Committee recommends that the Department of Defence provide evidence to the Committee that the lessons learnt from the failed first tender process for LAND121 Phase 3B have been incorporated into the Department's standard operating procedures for acquisitions. This evidence can take the form of:

- revised manuals;
- specific internal case studies and training briefings; and
- any other relevant material.

Response: Agree

The First Principles Review

The complexity and risk inherent in the acquisition of the major platforms and systems supplying capability to the Australian Defence Force will never be fully mitigated. However, broad reform in Defence, including most recently the First Principles Review, have generated changes that address the lessons learnt from the initial LAND121 Ph 3B tender process.

Recommendation 2 from the First Principles Review was to establish a single, end-to-end capability development function, within the Department, to maximise the efficient, effective and professional delivery of military capability.

The new Interim Capability Life Cycle Manual

In response to recommendation 2 of the First Principles Review, Defence has developed and implemented a new Capability Life Cycle described in the Interim Capability Life Cycle Manual, issued by Vice Chief of the Defence Force on 20 April 2016.

The new Capability Life Cycle is applicable to all investment decisions taken by Defence, including specialist military equipment, such as that acquired under LAND121 Ph3B, information and communications technology, facilities, workforce and other service delivery functions. Defence relies on the full and ongoing support of all groups in generating and sustaining capability over time.

The new Interim Capability Life Cycle Manual implements a process that provides:

- improved advice to the Government and Ministers;

- improved early engagement with industry;
- clarity on the accountability of key positions;
- an Integrated Investment Program;
- improved requirements definition;
- a Smart Buyer Decision Making Framework;
- test and evaluation; and
- streamlined acquisition processes.

Successful implementation of the new Capability Life Cycle, as described below, is anticipated to help Defence avoid many of the issues that arose in relation to the initial LAND121 Ph3B tender process.

Improved advice to Government and Ministers

The Capability Life Cycle operates within the Government's decision making framework and process. A central component of the Capability Life Cycle is the building and maintaining of relationships with key stakeholders:

- the Minister;
- the National Security Committee of Cabinet;
- the central agencies (Prime Minister and Cabinet, Treasury and Finance); and
- industry.

Capability outcomes will be enhanced through early and active engagement with key stakeholders. It includes biannual updates to the Minister (which will be copied to Central Agencies), and is aligned with the budget cycle.

At biannual updates, Defence will:

- report on the progress of implementing the Defence White Paper, and the Integrated Investment Program;
- provide advice on the submissions that will be coming forward over the next six months; and
- provide advice on Defence's budget position.

Improved early engagement with industry

Industry will be engaged early in the Capability Life Cycle, as a key partner in the delivery of Defence capability, and that engagement will be transparent. Defence will identify risks and be commercially aware through relationships with industry. Project management, acquisition and sustainment strategies will be developed to deliver value for money and to realise the maximum benefit through industry engagement.

Early engagement with industry is critical to getting their input into front end activity requirements including; development, understanding potential cost, capability and schedule trade offs. This will assist Defence in developing request documentation that seeks technically feasible, affordable and sustainable solutions, within acceptable risk tolerance, before any formal approach to market.

Clarity on the accountability of key positions

The new Capability Life Cycle clearly defines the accountability of the following key positions:

- VCDF;

- the Capability Manager;
- the Program Sponsor;
- the Project Sponsor; and
- the Delivery Group.

In addition to the above key accountabilities, the Secretary and CDF expect Defence personnel to be responsible and accountable for the consequences of departing from, or not adhering to, the content of the new Interim Capability Life Cycle Manual.

An Integrated Investment Program

For the first time, all elements of the Government's Defence investment, including new weapons, platforms, systems, and the enabling equipment, facilities, workforce, information and communications technology, and science and technology, are outlined in an Integrated Investment Program, published with the Defence White Paper in February 2016.

Defence has previously managed separate programs of investment for major equipment, facilities and information and communications technology, and has endeavoured to maintain appropriate project linkages, both within and between each program, including:

- the Unapproved Major Capital Investment Program (also known as the Defence Capability Plan);
- the Approved Major Capital Investment Program (i.e. those projects that have received final Government approval for acquisition);
- the Major Capital Facilities Program (including investment in Defence bases training ranges and infrastructure such as wharves and airfields);
- information and communications technology services; and
- Group and Service workforce plans.

Requirements definition

The Interim Defence Capability Manual provides detailed guidance on requirements definition. Requirements definition focuses on converting the Joint Capability Needs Statement into a contractible requirement statement and preparing for release of solicitation documentation. Requirements need to be standardised, fit for purpose, complete, and account for all fundamental inputs to capability. Requirements need to be developed to a sufficient level of specificity to support industry engagement, solicitation, acquisition and capability acceptance. This includes supporting detailed analysis (particularly of implications for the fundamental inputs to capability) to understand the project's scope, feasibility and risk. Effective early engagement with industry assists in the development of requirements.

In addition to the Interim Defence Capability Manual, the Capability Acquisition and Sustainment Group's Quality Management System contains a tiered series of instructions, documenting the oversight and governance requirements for engineering practices and deliverables under defined technical regulatory frameworks.

In relation to requirement engineering, the Function and Performance Specification Development Guide, Defence Materiel Handbook (Engineering) 12-3-005, dated July 2015, is relevant standard guidance. This document provides a complete guide in developing and assuring a fit-for-purpose Function and Performance Specification

(FPS) – including managing the FPS over its life, which includes understanding the applicable configuration baselines and the associated contractual requirements. The handbook specifically addresses the FPS requirements traceability issues which were a causal factor in the failure of the initial tender process for LAND121 Phase 3B.

Smart Buyer Decision Making Framework

Through the Smart Buyer model, Defence will be more effective at identifying key project risks and will be more commercially aware through having stronger relationships with industry. This will enable the development of project management, acquisition and sustainment strategies that deliver capability outcomes at the best possible value for money. Ultimately, this will ensure that timely and informed decisions can be made for each project, based on an understanding of key project risks.

Testing and Evaluation

ANAO Audit Report No.52 underlines the benefits of early test and evaluation of prospective vehicles, which strengthens Defence's ability to identify and mitigate risks, and provide informed advice for decision-making on a preferred supplier. This lesson was learnt and successfully applied on the subsequent re-tendering process for LAND121 Phase 3B.

It has also been codified in procurement process for acquisitions. For example, *Defence Materiel Instruction – Procurement – Procurement Policy and Process Requirements from Planning to Contract Signature for Complex Procurement Involving Material Acquisition and/or Support Requirements*, dated 29 June 2015, highlights that Offer Definition and Improvement Activities (ODIA) should generally be conducted as part of the procurement process for Major Capital Equipment Projects, which is a key part of the procurement process used to explore, understand and mitigate the risks of a solution prior to contract signature.

The format and scope of tenderer engagement activities that may be conducted as part of ODIA are flexible and include a range of activities such as:

- submission of further tenderer deliverables (e.g. project plans);
- tenderer workshops (often divided into streams – e.g. technical, project management, financial, commercial);
- discussions whereby Defence provides feedback to tenderers on key issues and risks associated with their tender;
- risk reduction studies, investigation of Commonwealth or tenderer initiated options; cost / schedule / capability trade-off analyses; and
- product demonstrations, testing, trials and the submission of an updated tender on completion of ODIA.

Value for Money

The new Interim Capability Life Cycle Manual will assist Defence to avoid the types of issues that arose in context of the initial LAND121 Ph3B tender process. Specifically it will:

- ensure better understanding of Defence requirements, achieved in part through better early engagement with industry and enhanced stakeholder engagement;
- deliver a streamlined acquisition process that focuses on key project issues and mitigation activities, achieved in part through the new Smart Buyer Decision

Making Framework, and through strengthening the accountability of key positions; and

- ensure improved test and evaluation, including as part of the tender process.

In addition to the above processes, Army has revised and rewritten *Defence Instruction (Army) Administration 64-1 Basis of Provisioning (BOP)* to address all lessons learnt and provide a robust framework for BOP. The Defence Instruction was published on 28 June 2016.

Recommendation No. 5 paragraph 4.50

To promote continued improvement in test and evaluation (T&E) of major equipment acquisitions by the Department of Defence, the Committee recommends that the department report back to the Committee at 12 months from the tabling of the Committee's report, on:

- *how T&E is being coordinated across the department and how this coordination is consistent with the recommended outcomes of the First Principles Review: Creating One Defence (2015)*
- *key improvements to T&E performance monitoring and reporting*
- *each element of the Australian National Audit Office recommendation on T&E competency and training, including the key findings of and actions from the competency and training needs analysis.*

Response: Agree

Defence is working to implement all aspects of this recommendation and will provide an update to the Committee within the stipulated 12 month timeframe (May 2017).



Dennis Richardson
Secretary of Defence



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Chief of Defence Force