



Australian Government

Department of Defence

Joint Standing Committee on Foreign Affairs,
Defence and Trade

Report into the Defence Annual Report 2007-08

Government Response

July 2010

Recommendation 1

The Committee recommends that, in the absence of a clear strategic case for high-risk first-of-type acquisitions, military off-the-shelf purchases should be the default option for procurement projects.

This recommendation does not necessarily relate to any particular acquisitions currently under consideration but rather represents a broader statement of policy reflecting on issues relating to past acquisition programs.

Government Response

Agreed in principle.

The Defence White Paper 2009 states at para 16.17 that the “Government has decided that military-off-the-shelf and commercial-off-the-shelf solutions to Defence's capability requirements will be the benchmark against which a rigorous cost-benefit analysis of the military effects and schedule aspects of all proposals will be undertaken. Such an approach is consistent with the Defence Procurement and Sustainment Review.”

The Government's response to the Defence Procurement and Sustainment Review (the Mortimer Review) stated that off-the-shelf (OTS) options will be considered as an option for all procurements. Defence will provide Government with clear information on the costs and benefits of OTS options for all procurements.

The Department of the Prime Minister and Cabinet updated its Cabinet Handbook in July 2009. The associated *Drafter's Guide – Preparation of Cabinet Submissions and Memoranda* states, “The options must include at least one off-the-shelf option, where such an option exists, and where it is judged not to exist, this must be explained in the first-pass approval submission.”

Defence is fully implementing these requirements.

In summary, where an off-the-shelf option does exist, it will be presented for Government consideration and will be the benchmark against which a rigorous cost benefit analysis of the military effects and schedule aspects of all proposals will be undertaken; and when an off-the-shelf option is judged not to exist, this will be explained in the first-pass submission to Government.

Recommendation 2

The Committee recommends that the Department of Defence review its current procedures for rapid acquisition to ensure that it is meeting the ADF's needs, particularly where they are linked directly to overseas operational commitments.

Government Response

Agreed.

Defence has a robust and flexible rapid acquisition policy in support of operations. This policy and its processes were re-issued in February 2008, and are subject to regular review to ensure they meet the Australian Defence Force's requirements. The policy and procedures are currently being reviewed by the Defence Logistics Working Group. All acquisitions follow a rigorous and responsive process where the customer is engaged at all stages. The Defence Materiel Organisation also reports its progress every six months to the Chief of the Defence Force, the Service Chiefs and other key staff.

The purchase of capital equipment by rapid acquisition, which by-passes the usual two pass approval process, is used where an unforeseen operational capability is urgently required by the ADF for current operations. The Government may provide additional funding to Defence, in cases of exceptional circumstances, where such a capability is required as a result of major operational or strategic discontinuities or in cases of exceptional and unanticipated operational contingencies. Defence will bring forward any such requests on a case-by-case basis for Government consideration in accordance with the standard approval thresholds for major capital equipment. For instance, National Security Committee or Prime Ministerial agreement is required for acquisitions over \$100 million. The Government decides on a case-by-case basis whether supplementation will be provided or Defence will absorb the cost of rapid acquisition proposals. Generally speaking the Defence Capability Plan is the source of funding for meeting Defence's major capital equipment needs, both current and future, particularly where there is an ongoing utility past the immediate requirement associated with the equipment being procured.

Recommendation 3

The Committee recommends that Defence places a high priority on developing a solution to the difficulties that it, and KPMG, has identified with the current pay systems.

Government Response

Agreed.

Defence does not have a modern, integrated human resource and pay system for its total workforce. The current separate systems – PMKeyS, ADFPAY and CENRESPAYII – feature old technology and vendor support is expensive and problematic.

These systems represent a significant business continuity risk to Defence. Additionally, the technology and platforms are not capable of enabling the business reform expected of Defence under the Strategic Reform Program (SRP), and particularly that required to move to a shared services business environment in human resource administration.

Defence will address these problems by bringing forward investment in sustainment and modernisation of these systems, and integrating those projects with business redesign and reform. This will be achieved, initially, through a Technical Refresh of the core management information system PMKeyS and, in the longer term, through a system upgrade under Defence Capability Plan Project JP2080 phase 2B.1. In the interim, some changes have been made to existing business processes and systems.

Further, simplification of the remuneration structure and the remediation and modernisation of Defence personnel and pay systems will take place as part of the broader workforce and shared services reforms and will be conducted in accordance with an Integrated Master Plan.

The cost of the Personnel Systems Technical Refresh, which is estimated at \$61m and will take 23 months to complete, will be funded from the Chief Information Officer Group's operating budget. JP2080 phase 2B.1 is listed in the Defence Capability Plan 2009 as having an acquisition cost of \$100m-\$500m (towards the upper end of the band) and will be decided during 2012-13.

The Defence senior leadership is committed to the remediation and modernisation of Defence's personnel systems to enable a shared services business future and achieve identified SRP savings outcomes.

On 2 February 2010 the then-Minister for Defence Personnel, Materiel and Science announced the establishment of a high powered ADF Payroll Task Force to be co-chaired by Lieutenant General David Hurley, Vice Chief of the Defence Force, and Mr Martin Bowles, Deputy Secretary Defence Support.

The Task Force will focus on the reform of the ADF Pay and Personnel processes and will:

- Review and report on the adequacy of existing payroll procedures and compliance with them;

- Create a small specialist deployed civilian payroll administration cell that will drive consistency between the in-theatre and in-country payroll processing;
- Undertake quality assurance checks of International Campaign Allowance payments;
- Promote a common customer access channels strategy including the 1800 DEFENCE number for members and their families to contact about pay related issues;
- Review the entire process for payment of deployed allowances and put in place revised checks and balances to ensure members are paid correctly;
- Enhance quality assurance processes that provide greater focus on control, supervision and checking of personnel data from local commander to the transactional processing area;
- Widen the current performance management regime to include control and compliance reporting on payment of ADF allowances;
- Develop a systematic forward looking Audit program to support the controls and compliance reporting around payroll processing; and
- Issue further official advice outlining the steps being put in place to improve the payroll system. This advice will also emphasise the obligation of personnel to meet their responsibilities on payroll matters including review of payslips and notification of errors as soon as possible.

The Task Force will also focus on ensuring long term reform of the ADF pay and personnel processes. In keeping with the Strategic Reform Program this will include the consolidation of all military payroll processing under one area of responsibility within 18 months. This will result in complex transactions and manual processing being undertaken by one central authority, not fragmented as is currently the case.

Recommendation 4

The Committee recommends that Defence ensure the provision of submarine escape training at HMAS Stirling be re-established.

Government Response

Agreed in principle.

The provision of Submarine Escape training at HMAS Stirling has never ceased. Rather one element of the submarine escape training course, namely the two day pressurised escape training component is currently being undertaken in Canada.

Activities are well progressed for pressurised escape training to be re-established at HMAS Stirling. The escape tank and life support systems remain under remediation and are expected to undergo final set to work and certification in April 2010. The significant repair and refurbishment program was necessitated by contaminants in the breathing air system, complicated by significant obsolescence issues prior to rebuilding to ensure the hyperbaric systems comply with contemporary standards. A contract has been put in place with “The Underwater Centre Fremantle” to provide in-water instructors, whose competency training will complete once the tank and life support systems are approved for use.

Current planning has the in-water instructor competency training completed and submarine crew pressurised escape training commencing in July 2010.

Recommendation 5

The Committee recommends that the deployability issues governing the Australian Submarine Rescue Vehicle (ASRV) Remora be resolved without delay.

Government Response

Agreed in principle.

The ASRV Remora is in storage in Western Australia having been repaired, upgraded and recertified by Det Norske Veritas (DNV), subject to final sea trials that will occur once the Launch and Recovery System (LARS) is recertified. Both the ASRV Remora and LARS are receiving all appropriate layup maintenance while in storage.

In December 2008 the Classification Society DNV advised the DMO that there were re-certification issues with the submarine rescue vehicle's LARS. The LARS Original Equipment Manufacturer (OEM) Caley subsequently proposed a modification to satisfy DNV contemporary certification requirements. The DMO engaged DNV to review the Caley modification for its acceptability. The design concept was endorsed by DNV with Caley engaging to develop a detailed design. Delivery of the detailed design solution by Caley was due in December 2009, but delayed by coincident litigation by the Commonwealth of Australia against Caley for loss of Remora in December 2006. Once received, DNV will be contracted to review the design for its acceptability and identify any limitations that they might impose on its operation. This detailed design review by DNV is not expected to be complete until April 2010, assuming the design is received in January 2010.

There remains some risk that the design modifications could ultimately fail to achieve final DNV certification, which would present further difficulties in the recommissioning of the existing LARS system.

A decision on the future of the existing ASRV Remora and LARS will not be possible until July 2010 following evaluation of the DNV design review. The decision will require careful consideration of the system's utility, particularly if significant operational limitations are identified by DNV. A final decision would also need to include consideration of the cost and capability that might be achievable if the current LARS was replaced with a new system.

It should be noted that an interim submarine rescue capability has been contracted with James Fisher Defence United Kingdom. Their LR5 submarine rescue system has been prepositioned at Henderson Western Australia, and is maintained at 12 hours notice for emergency deployment in the event of a disabled submarine. A demonstration of the capability and subsequent *Black Carillon* exercise is planned for the first quarter of 2010.

Recommendation 6

The Committee recommends that Defence adopt a more assertive strategy with regard to oil shocks and alternative fuels, with the specific purpose of providing a capability to mitigate risk due to a dependence on oil-based fuels. Defence should provide such a capability, sufficient to maintain an identified core capability, within a timeframe of 10 years.

Government Response

Agreed in principle.

Defence supports the recommendation that it adopt a more assertive strategy to minimise the impact an oil shock may have on Defence and its ability to fulfil its role. Defence, however, does not agree that it should be developing capability that is not dependant on oil-based fuels within 10 years. To agree to such a commitment would impose significant challenges for Defence.

Defence has established a number of bodies as a response to the raising cost of oil, as well as to examine potential alternative fuels options for use by Defence. The Directorate of Strategic Fuel, within Joint Logistics Command, was established in December 2008 to resolve some of these challenges and has focused initially on identifying fuel issues and opportunities across Defence with the primary aim of developing an integrated Fuel Strategy and Defence Fuel Manual.

The Defence Fuel Management Committee has been set up within the Directorate of Strategic Fuel to coordinate and over-sight strategic fuel management and policy across Defence, including sponsorship of research into alternative fuels and energy through collaboration with Defence Science and Technology Organisation, fuel companies, Defence industry and allied forces. Defence, through the Defence Science and Technology Organisation, engages with the US and other countries in the research of alternative fuels for military application.

Defence strategic planning takes account of possible disruptions to fuel supplies. The Department of Resources, Energy and Tourism is the lead agency responsible for developing a national, whole-of-Government approach to resolving Australia's future energy security challenges. Defence is a member of the National Oil Supplies Emergency Committee, which provides the main channel through which the Commonwealth and the State and Territory Governments formulate an overall management response to any national liquid fuels emergency.

Alternative fuels are only expected to be used as a supplement to the use of oil based fuels over the next 20 years. It is expected that there will be a growth in the use of flexible fuel vehicles, hybrid electric drive designs and semi-synthetic fuel blends. However, currently there are limited fuel alternatives to petroleum product for military transport. It is expected that the likely higher cost of oil based fuels to 2030 will generate investment and production of synthetic fuels and biofuel, and further stimulate research and development in alternative and renewable energy sources.

Defence will continue to work together in a national approach with other agencies and allied forces to investigate the use of viable alternative fuels for use in its platforms and will continue to develop robust policy and strategy for the management of its fuels and to reduce the impact of oil shocks.

Recommendation 7

The Committee recommends that new fuels developed to mitigate risk to Australia's defence capability from oil shocks and oil scarcity be designed to reduce Defence's carbon footprint, where possible, in balance with energy yields and other practical considerations.

Government Response

Agreed in principle.

Defence supports the recommendation that it develop strategies to reduce its energy carbon footprint but does not agree to develop new alternative fuels. Defence does not have the ability to drive commercial research or the type of commercial fuels available and therefore needs to work with whole-of-Government and allied partners in investigating possible alternative fuels for use by Defence.

Fuel is a critical component of Defence capability as it provides the ADF with the means to operate its military platforms. However, it should be noted that Defence represents less than two per cent of the total National liquid fuels market and therefore as a relatively small customer.

Defence is considering its transport fuel mix in response to global developments and working in a national approach with agencies such as the federal Department of Resources, Energy and Tourism and the Commonwealth Scientific and Industrial Research Organisation, on the use of viable alternative energy sources and in the reduction of Defence's carbon footprint.

Petroleum is expected to be available for military use past 2030, and during this time is expected to remain the dominant military fuel source. Trends in conventional military fuels are cleaner fuels, and more efficient use of fuel through hybrid energy systems. Alternative fuels, energy sources, and propulsion systems are considered part of the mobility and energy solution for ADF platforms and operations.

Defence also sponsors a number of reports and studies on peak fuel and the feasibility of using alternative fuels in the ADF and has undertaken some initial preparatory research into the effects of possible alternative fuels on some ADF platforms.

It should also be noted that International military organisations, such as the United States Air Force and the United Kingdom Ministry of Defence are playing a significant role in promoting the uptake and commercialisation of alternative fuels and power generation (for example, gas/coal/biomass to liquids for aviation fuels). However, in general, these processes are being developed in the commercial arena. The Defence Science and Technology Organisation is a partner with the US, UK and Canada in a Study Group examining future military power and energy requirements and supplies, to identify collaborative opportunities in the energy domain. The exchange of this information will allow Defence to position itself to exploit the benefits of alternative fuels as they are certified for use and become commercially available.

Defence is well placed to meet the challenges of the future and is focused on policy reform, internal realignment and strategic engagement to provide a more comprehensive whole-of-Defence approach to fuel management and carbon reduction.

Government Current Position

The Government is currently developing an Energy White Paper that will identify a comprehensive policy framework out to 2030.

The development of a White Paper on energy issues was agreed to by the Australian Government in September 2008. In developing the White Paper, the Government intends to ensure the provision of clean, adequate, reliable and affordable energy supplies to meet Australia's growing energy needs. The White Paper is due for completion in mid to late 2010.