

Executive Summary

In his 2003 report, Malcolm Kinnaird commented on the numerous reviews undertaken into Defence procurement, observing that 'too often implementation has not been given the priority necessary to ensure that there is sustainable momentum for change and reform.'¹ Eight years on and having witnessed an endless merry-go-round of reviews and implementation programs, the committee is convinced that the Australian Defence Organisation (Defence) is caught in a cycle of reforms that is adding further complexity to an already complicated and confused procurement process. The committee believes that the government and Defence must start to look beyond Defence's procurement processes to the root causes of its capability development woes. They must stop heralding reviews as a solution and accept them as a symptom of deep seated problems. Today's projects of concern list and the recent disintegration of Navy's amphibious capability stand as stark reminders of the magnitude of the problems before Defence.

In this preliminary report, the committee endeavoured to present Defence's capability development cycle in a clear and logical sequence. It found, however, a convoluted process overburdened by administration. Moreover, information provided by the Department of Defence and DMO did not help to bring clarity and certainty to the process or the roles of those responsible for it. The yet to be fully implemented recommendations and findings of the reviews still to be completed have complicated this task. Furthermore, recent reviews have highlighted the problem of non-compliance with revised manuals and guidelines on procurement practice and procedure. Indeed, evidence before the committee suggested that the convoluted process, lack of clarity and lack of compliance all point to failures of the governance structure within the broader Defence Organisation.

The committee notes, however, that Defence has made notable progress in some areas. These include improvements in the 'two-pass' capability development and government assessment process since 2003, the establishment of the Defence Capability Group, efforts by the Defence Materiel Organisation to become more business-like and the continuing efforts to improve the skills base of those involved in the capability development and acquisition process. Even so, while the committee acknowledges the efforts made to be more business-like in respect to the process, it also recognises that the governance structures within the broader Defence Organisation would not be tolerated in any successful business.

Overall, evidence before the committee identified the following major concerns:

- failure to appreciate the entire whole-of-life capability development process and its component parts and failure to adhere to and appreciate linkages between strategic guidance and capability development;

1 Malcolm Kinnaird, *Defence Procurement Review 2003*, p. 49.

- inefficiencies in the process from the earliest analysis, investment and industry engagement phase evident in ad hoc adherence to guidelines and manuals, and to changes to scope and delays;
- poorly defined responsibilities and accountabilities at every phase and across the lifecycle in relation to roles, functions and leadership which contribute to problems such as scope creep and schedule slippage;
- serious shortfalls in skills and resources compounded by difficulties attracting, developing and retaining technical and engineering expertise, and also by the trend to outsource—in this regard Navy's failure to address the scale and scope of the challenge is striking;
- poor risk management including failure to identify and mitigate risk effectively from the very beginning of the capability development process, loss of corporate knowledge and failure to incorporate lessons learned into verification and decision making processes;
- limited strategic consideration of Australia's defence industry including impact of off-the-shelf purchases, interconnection between industry viability and ADF capability, and relationship with Defence as sole customer;
- lack of contestability, independent verification (for example the role of DSTO in early risk analysis) and rigorous scrutiny of capability priorities identified in the Defence White Paper, Defence Capability Plan (DCP), and at first and second pass; and
- indications that Defence is already slipping behind its procurement schedule and will not meet the ambitious procurement program outlined in the White Paper, which highlights issues that go to the reliability of key documents, such as the White Paper and the DCP, and the transparency in Defence budgeting for stated future procurements.

The committee accepts that many of the above-mentioned outstanding issues have been raised repeatedly by various Defence reviews, in ANAO reports and by Defence analysts and observers over several years. As they are well-articulated and widely acknowledged, the key question for the committee is, therefore, why they persist.

Thus, while this preliminary report has highlighted long standing problems, its main purpose is to invite comment on the underlying causes that need to be fixed if Defence's reform program is to be effective and lasting. For example, it raises questions about whether an attitudinal sea change is required involving, on the part of Defence leadership, a commitment to genuine reform and to developing skills; openness to scrutiny; and willingness to accept responsibility, to be accountable and to lead. On the other hand, entrenched structural impediments to efficient and effective leadership within Defence could be at the source of Defence's procurement problems requiring reallocation and redefinition of roles, functions and responsibilities. Indeed, the current management matrix model may need overhauling or even dismantling. These are important questions that the committee will endeavour to answer in its main report to be tabled in the middle of 2012.