

## Chapter 6

### Capability acquisition

#### Overview of the capability acquisition phase

6.1 The second major phase of the capability life cycle concerns the acquisition or procurement of an appropriate materiel system to meet the identified requirements or establishment of the approved capability solution. This phase covers the period from government approval for a project (at second pass) to the transition of the acquired equipment into service. During the acquisition phase, the DMO works with industry to turn government-endorsed requirements into functional military equipment.<sup>1</sup> The project will move out of this phase and into the sustainment or third phase when the capability is transitioned from the DMO to the end user, namely the Defence Services. Whilst responsibility for the acquisition rests with the DMO, the respective Capability Manager will give advice on the capability the DMO needs to deliver. Once acquired by the DMO, the equipment is then entered into service by the Capability Manager.

6.2 Both Kinnaird and Mortimer emphasised the importance of the DMO developing into a more business-like organisation.<sup>2</sup> As Kinnaird emphasised, the role of DMO is to manage the acquisition and support of Defence equipment.<sup>3</sup> Recommendations emanating from the respective reviews focused on accountability and improving governance across the Defence agencies including the DMO as well as improving performance across projects including skill development and contract management.

6.3 Both the Kinnaird Review (recommendation 6) and Mortimer Review (recommendation 5.1) supported the establishment of DMO as an Executive Agency under the *Public Service Act 1999* whilst retaining its status as a Prescribed Agency under the *Financial Management and Accountability Act 1997*. The government, however, did not agree with such recommendations. When the issue was raised during committee hearings, DMO representatives argued that there were no significant advantages in DMO operating under an executive agency model.<sup>4</sup> The committee intends, however, to consider the evidence in support of the change and of the rationale for it.

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1 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, p. 30.

2 Malcolm Kinnaird, *Defence Procurement Review 2003*, p. 31, David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, p. 68.

3 Malcolm Kinnaird, *Defence Procurement Review 2003*, p. 31.

4 Harry Dunstall, Defence Materiel Organisation, *Committee Hansard*, 7 October 2011, p. 36.

## Process

6.4 The various stages in the acquisition phase include:

- release of tender document and completion of tender evaluation;
- development of a Contract Negotiating Directive—providing the terms of reference and constraints within which the chief Commonwealth negotiator is required to operate and establish a negotiation team;
- commencement of the contract comprising Conditions of Contract (or the rules of engagement between the Commonwealth and contractor for the operation of the contract) and a Statement of Work (which represents the work undertaken by the contractor and includes contract milestones) and contract start-up activities;
- management of the contract by:
  - tracking changes that are made to the Contract Baseline and control over personnel who may order or agree to changes and thereby potentially prevent the Commonwealth from exercising its rights under the contract;
  - monitoring and reviewing the performance indicators, standards and risks throughout the life of the project;
  - agreeing on informal remedial action in the early stages of underperformance and identifying appropriate counter-action; and
- capability realisation and creation of a Project Transition Plan to move the project from Project to Sustainment Managers.<sup>5</sup>

6.5 The key milestones in relation to a project at the acquisition stage may include the following:

1. release of tender documents and completion of tender evaluation;
2. contract signature;
3. completion of requirements definition reviews, preliminary design reviews, and detailed design reviews;
4. commencement of systems integration;
5. commencement of test readiness reviews;
6. completion of system acceptance;
7. delivery of the first increment of material systems;
8. commencement of the transition of capability to service; and
9. project closure activities.<sup>6</sup>

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5 Defence Materiel Organisation, *DMO Acquisition and Sustainment Manual*, 2007, pp. 65–72, 78.

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### ***Alignment of contracting with commercial practice***

6.6 As part of efforts to make DMO into a commercially oriented body, Mortimer argued that the DMO should establish a General Manager–Commercial position to manage strategic commercial issues and acquisition strategy and to support the CEO to 'achieve a more business-like focus throughout the organisation'.<sup>7</sup> Mortimer also recommended that the DMO align its contracting to commercial practice and apply public-private partnerships (PPP) to appropriate projects.<sup>8</sup>

6.7 Towards this end, the General Manager–Commercial, appointed in February 2007, works with industry to identify key procurement and contracting issues that do not align with commercial practice. Changes have been made to templates and policies to reflect this requirement.<sup>9</sup> In relation to PPP, Defence held that the Mortimer recommendations had been implemented to the extent that:

On a project by project basis DMO is applying the Defence PPP checklist to evaluate capabilities suitable for acquisition under PPP arrangements. DMO liaises with the PPP centre of excellence in Defence Support Group in relation to PPP opportunities.<sup>10</sup>

### **Structure**

#### ***CDG to DMO***

6.8 Mortimer recognised the transition of a project from CDG to the DMO following second pass approval as a 'critical step' in the capability development cycle demanding close cooperation prior to second pass approval.<sup>11</sup>

6.9 The two key documents that specify roles and responsibilities which are agreed to and signed off on by the relevant Capability Manager (CM), DMO and CDG include the Joint Project Directive (Joint PD) and Materiel Acquisition Agreement (MAA). The Joint PD is issued by the Secretary of Defence and CDF following second pass approval and it covers the time from that approval to the closure of the acquisition business case. In terms of the transition of the project from CDG, the DCDH describes the Joint PD as the means through which this is achieved:

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6 Defence Materiel Organisation, *DMO Acquisition and Sustainment Manual*, 2007, p. 69.

7 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, p. 69.

8 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, Recommendations 3.7 to 3.9, pp. 37–40.

9 Department of Defence, Additional information, received 4 October 2011.

10 Department of Defence, Additional information, received 4 October 2011.

11 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, p. 31.

After Second Pass approval, management responsibility for the project is transferred to the CM through the Joint PD. Before handing over leadership to the CM, changes made to a project's scope, schedule and budget at Second Pass must be reflected in the Joint PD and other relevant project documents. Once these changes are made, the acquisition agency assumes responsibility for managing the CDD and associated documents. Where the DMO is the acquisition agency, they begin to report against the MAA at this stage.<sup>12</sup>

6.10 Thus, the Joint PD assigns accountabilities and responsibilities to:

- the Capability Manager for overall responsibility for the in-service realisation of the capability;
- CEO of the DMO through terms and conditions in the MAA; and
- other key enablers including the Chief Information Officer and Chief Defence Scientists for provision of FIC elements.<sup>13</sup>

6.11 The MAA is an agreement between the CEO of the DMO, relevant Capability Manager and Chief of CDG. As noted in the previous chapter, a draft First to Second Pass MAA is required as part of first pass approval. Its development is the responsibility of the CDG Capability Systems Division Desk Officer who will work in conjunction with the DMO Emerging Project Team and in consultation with the Capability Manager and DMO Systems Program Office.<sup>14</sup> At second pass, the draft MAA will detail the scope and cost of the acquisition and 'commit the signatory agencies to completing assigned tasks and providing the necessary resources and assets to ensure effective management of the Acquisition Phase'. The draft MAA is finalised and approved by government after second pass.<sup>15</sup>

### ***Defence Materiel Organisation***

6.12 During the acquisition process, the DMO works with industry to turn government-endorsed requirements into functional military equipment. The *DMO Acquisition and Sustainment Manual* recognises that the responsibility, authority and accountability for management of the acquisition phase is vested in the DMO's line management, the 'focal point of which is the designated Project Manager for the acquisition project'.<sup>16</sup>

6.13 Mortimer emphasised that Defence must hold the DMO to account for the provision of the equipment and support it has agreed to deliver. Mortimer's Recommendation 5.8 states therefore that 'Defence should manage its relationship

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12 Department of Defence, *Defence Capability Development Handbook*, August 2011, pp. 86–87.

13 Department of Defence, *Defence Capability Development Handbook*, August 2011, p. 80.

14 Department of Defence, *Defence Capability Development Handbook*, August 2011, p. 58.

15 Department of Defence, *Defence Capability Development Handbook*, August 2011, p. 78.

16 Defence Materiel Organisation, *DMO Acquisition and Sustainment Manual*, 2007, p. 65.

with DMO in terms of costs and delivery against performance levels'. Furthermore, Mortimer highlighted that there can be gaps between what a project delivers and the expectations of the Capability Manager at the point of acceptance into service. The Mortimer Review held that in principle, therefore, DMO should be held to account for delivering equipment and services as set out in the MAA.<sup>17</sup>

6.14 In accordance with Mortimer's recommendation, DMO, as acquisition agency, has primary responsibility for the acquisition or procurement of an appropriate materiel system as set out in the MAA. The MAA specifies the scope, schedule, price, milestone completion criteria and customer for work assigned to DMO for an individual project as approved by government. In fulfilling these responsibilities, DMO is required to advise the relevant Capability Manager and CDG of project progress against the MAAs.<sup>18</sup> Mr Warren King, DMO CEO explained the importance of the MAA:

Where we are now, after the Mortimer review, is that the project directive, which is the enunciation of what governments agreed, is now formalised. It has three participants in that, the CDG, DMO and the capability manager. Then the MAA, which is the agreement between DMO and Defence to what they are going to supply when, is a derivation of that. Again, all three signed to it.<sup>19</sup>

6.15 Another area of concern to the reviews in relation to accountability was that of acquisition contracts. Pappas emphasised the importance of contractual conditions creating the right incentives for performance improvements and recommended that contracts should be structured to retain competitive tension at prime, second and third tier contractor levels, and ensure contracts include incentives for annual improvements.<sup>20</sup> Mortimer recognised the importance of establishing critical milestones as a means of increasing accountability and alignment. The *DMO Acquisition and Sustainment Manual* notes that contract milestones are a requirement under the Statement of Work which details the work undertaken by the contractor with completion of a milestone triggering a milestone payment under the Conditions of Contract.<sup>21</sup> However, evidence before the committee suggested that critical milestones were not always adhered to as the ANAO found in relation to the Super Seasprite project which was ultimately cancelled in 2008:

Critical milestones, if not achieved, are intended to allow Defence to stop all contract payments until the milestone is achieved. The ANAO's audit of the Super Seasprite project found that although critical milestones were

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17 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, p. 44.

18 Defence Materiel Organisation, *DMO Acquisition and Sustainment Manual*, 2007, p. 65.

19 Warren King, Defence Materiel Organisation, *Committee Hansard*, 7 October 2011, p. 16.

20 George Pappas, *2008 Audit of the Defence Budget*, Department of Defence, 3 April 2009, p. 126.

21 Defence Materiel Organisation, *DMO Acquisition and Sustainment Manual*, 2007, p. 66.

included in the original contract for some design reviews, these protections were not preserved.<sup>22</sup>

6.16 The committee is interested in establishing the key checks and safeguards in relation to accountability mechanisms such as contract milestones and the extent to which they are enforced and adhered to.

### ***Capability Development Group***

6.17 Air Marshal Harvey explained that CDG operates as the sponsor of a post-second pass project once it is approved or as the 'owner of the scope that government has approved'. CDG is responsible, therefore, for ensuring that performance meets cost, schedule and capability requirements approved by government. Air Marshal Harvey continued:

We will be involved in any discussions on clarification of exactly what the scope was and what the risks will be. We work on behalf of the capability manager and with the capability manager to see what was required and what the mitigation strategies are on the way ahead, how you might address the risk as you go through. So we keep involved throughout the process.<sup>23</sup>

6.18 Mortimer highlighted the importance of a robust process to manage scope changes after second pass. He noted that it was inappropriate to 'arbitrarily apply project contingency funding to facilitate changes in scope as the application of contingency would 'depend on a thorough analysis of the original project scope and the scope change envisaged'.<sup>24</sup> Further, Mortimer recommended that changes to the scope of projects 'should occur through a disciplined process that considers the merit of the change mindful of the impact on cost and schedule'.<sup>25</sup>

6.19 As the Defence agency responsible for project scope and managing changes to it, CDG is responsible for recommending and obtaining approval from Defence or government for any proposed changes to alter the specific project scope, cost, workforce, schedule or risk parameters agreed by government. The DCDH allows for any changes within the project parameters agreed by government to be considered and approved by authorised Defence officials. Such approvals are exercised providing the Capability Manager has concurred and 'there is no additional workforce requirement, or any adverse change to the risk profile of the project, or the whole of life costs to the capability system'.<sup>26</sup> Therefore, all proposed changes to the capability baseline must

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22 Australian National Audit Office, *Submission 22*, p. 8.

23 Air Marshal J Harvey, Department of Defence, *Committee Hansard*, 7 October 2011, pp. 39–40.

24 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, p. 44.

25 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, Recommendation 3.13, p. 44.

26 Department of Defence, *Defence Capability Development Handbook*, August 2011, p. 90.

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be cleared by the Chief of CDG in consultation with the Strategic Policy Division and the Capability Manager before 'the acquisition agency approves any engineering change proposal, contact change proposal, waiver or deviation that affects the approved baseline'. Whether a project baseline change is approved by Defence or government will depend on the Project Approval threshold and the accumulation rule.<sup>27</sup>

6.20 One of the key tasks of CDG throughout the acquisition phase is to contribute to remediation plans for projects of concern. CDG will provide information on whether a project will cost more and whether funds are available within the DCP to draw on. Furthermore, as Mr King, CEO of the DMO explained:

If it [the remediation plan] has a knock-on effect, for example, on other capabilities that are also being introduced under the DCP that are dependent on it or interrelated with it then the CDG look at those dependencies and the impact on the broader capability program we are introducing, to make sure we understand all the consequences of that remediation. We need all three parties [CDG, DMO and Capability Managers] coming up [with] the solution, understanding the impacts of that solution and then implementing it.<sup>28</sup>

6.21 On 6 May 2011, the Minister for Defence noted that Defence would accelerate the implementation of Mortimer's recommendation concerning the creation of a more disciplined process for changes in scope of a project, including the requirement that Defence seek government approval for significant changes to the scope of a project.<sup>29</sup> The statement raises questions about the veracity of current practice and whether government approval as a policy requirement is appropriately sought. It goes to the question of adherence to necessary checks and balances within the system to ensure the integrity of the process.

### ***Capability Managers***

6.22 Kinnaird argued that Capability Managers (CMs) should be responsible for monitoring and reporting to government on the whole of capability from second pass approval through to the retirement of the capability. Kinnaird emphasised, however, that this responsibility did not imply 'any authority to directly instruct the DMO on any aspect of its function as the manager of equipment acquisition'.<sup>30</sup> Mortimer argued that such a recommendation provided for an oversight function but left open the question of a coordination function during the acquisition phase. Mortimer held that whilst the delivery of capability elements was the

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27 Department of Defence, *Defence Capability Development Handbook*, August 2011, pp. 90–91.

28 Warren King, Defence Materiel Organisation, *Committee Hansard*, 7 October 2011, p. 40.

29 Minister for Defence and Minister for Defence Materiel, 'Strategic Reform Program', Press Release, 6 May 2011, <http://www.defence.gov.au/minister/Smithtpl.cfm?CurrentId=11766> (accessed 25 August 2011).

30 Malcolm Kinnaird, *Defence Procurement Review 2003*, Recommendation 4, pp. 24–25.

responsibility of individual agencies, there remained a need for a single point of accountability to coordinate all facets of capability during this phase.<sup>31</sup> To meet this requirement, Mortimer recommended that Defence implement a framework through the CMs to coordinate all the inputs to developing military capability (Recommendation 3.3) and that CMs provide advice on the status of capability development projects for which they are accountable (Recommendation 3.4).<sup>32</sup>

6.23 Defence informed the committee that CMs have 'prime responsibility' during the acquisition phase for ensuring that the project as a whole is brought together through the coordination of the Fundamental Inputs to Capability (FIC).<sup>33</sup> Vice CDF, Air Marshal Binskin explained that CMs are now central to the whole process:

Right up front now the capability manager signs off on projects as they—and it is all part of their maturation as they go through—that it will meet the needs, will there be capability gaps or not, risks that are foreseen, and whether the service or the capability manager can even accept that into service in the time. So the capability manager is more up front now.<sup>34</sup>

6.24 Air Marshal Binskin argued that as CMs are responsible for signing off on the MAA for the delivery of capability, Defence is assured that the DMO is procuring what the CM wants or has agreed to and that the DMO must deliver to that MAA.<sup>35</sup>

## People

### *Defence Materiel Organisation*

6.25 Kinnaird found that DMO Project Managers lacked the skills and experience required to manage technically complex and financially risky projects. He noted the remuneration level and structure within the DMO made it difficult for the organisation to attract and retain sufficient numbers of quality staff. For his view, such a situation had contributed to high staff turnover which was detrimental to both ongoing project development as well as relations with industry.<sup>36</sup> Recognising the need for highly skilled project managers, Kinnaird recommended that they be drawn from the military, industry or public service, be appointed by the head of the DMO and have minimum tenures of five years.<sup>37</sup>

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31 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, pp. 33–34.

32 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, Recommendations 3.2 to 3.4, p. 34.

33 Department of Defence, *Defence Capability Development Handbook*, August 2011, p. 12.

34 Air Marshal M Binskin, Department of Defence, *Committee Hansard*, 5 October 2011, p. 16.

35 Air Marshal M Binskin, Department of Defence, *Committee Hansard*, 5 October 2011, p. 41.

36 Malcolm Kinnaird, *Defence Procurement Review 2003*, p. 39.

37 Malcolm Kinnaird, *Defence Procurement Review 2003*, Recommendation 7, p. 40.



6.26 Kinnaird found that approximately 25 per cent of over 2000 DMO staff were from the military. Further, he noted that the short military posting cycle often combined with no clear requirement for minimum project management skills, was not 'consistent with the development of the professional project management culture and the commercial focus essential for enhancing the DMO's performance'.<sup>38</sup> Kinnaird found that this situation was exacerbated if military staff regarded themselves as 'remaining within their respective Service reporting chain rather than being accountable to the head of the DMO'.<sup>39</sup> While acknowledging that Service loyalty was an integral part of military culture, he argued that it should not be confused with the reporting arrangements of a commercially focused organisation. The Kinnaird Review's recommendation, which emanated from these findings, was that the head of DMO should be consulted on military postings to the DMO and accept only those ADF personnel who possess the requisite skills and experience.<sup>40</sup> Notwithstanding this recommendation, however, Kinnaird also recommended that the Service Chiefs retain the right as CMs to place military staff in the DMO to monitor acquisition and logistics placement on their behalf.<sup>41</sup>

6.27 In response to the staffing challenges within the DMO, Mortimer recommended that the CEO of DMO should have greater flexibility to manage the organisation's workforce including control over appointments, remuneration and performance management.<sup>42</sup> In June 2009, the government agreed to Mortimer's recommendation 5.9 noting that the CEO of DMO would manage DMO's workforce under a total labour cost model with the powers and functions devolved to the CEO. The government further noted that the autonomy of the CEO to exercise such powers over the DMO would be codified accordingly.<sup>43</sup>

6.28 Air Marshal Harvey, Chief of CDG, explained to the committee that the DMO has worked progressively towards an integrated professional workforce with 'vocational, university and professional accreditation and has introduced a professional industry standard certification framework for procurement and contracting staff'.<sup>44</sup> In response to concerns raised in evidence and by the committee regarding the need to attract and retain engineers specifically, the DMO emphasised that it attracts engineers and technical staff via a number of avenues. These include the materiel TAFE employment scheme, materiel graduation scheme, materiel undergraduate scheme and the engineering undergraduate scholarship at the

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38 Malcolm Kinnaird, *Defence Procurement Review 2003*, p. 41.

39 Malcolm Kinnaird, *Defence Procurement Review 2003*, p. 41.

40 Malcolm Kinnaird, *Defence Procurement Review 2003*, Recommendation 8, p. 41.

41 Malcolm Kinnaird, *Defence Procurement Review 2003*, Recommendation 9, p. 42.

42 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, p. 67.

43 Department of Defence, Additional information, received 4 October 2011.

44 Air Marshal J Harvey, Department of Defence, *Committee Hansard*, 7 October 2011, p. 3.

Australian Defence Force Academy. Furthermore, to attract and recruit high quality engineers and technical staff, memoranda of agreement have been established with Engineers Australia and the Australia Maritime College. In addition, the DMO is continuing to support the Australasian Procurement and Construction Council initiative to develop strategic procurement courses at Australian Technology Network universities and the University of Canberra.<sup>45</sup>

6.29 Mr King, CEO, also noted that the DMO was particularly interested in attracting and retaining individuals with skills at the Australian Public Service or equivalent Executive Level 1 and 2. With this in mind, Mr King explained that a building Defence capability plan has been introduced which 'allows some flexibility to add increased base salary payments and retention payments for a commitment to stay three years or something like that'. He noted that this initiative had proven successful in retaining skills.<sup>46</sup>

6.30 Notwithstanding these initiatives and improvements, the committee received considerable evidence which emphasised the importance of:

- DMO retaining skills and project management in-house throughout the life of a project;<sup>47</sup>
- DMO and Defence more broadly retaining an adequate number of appropriately qualified engineers who are in a position to influence the procurement process;<sup>48</sup> and
- the challenges in doing so within current and future workforce constraints.<sup>49</sup>

6.31 The committee notes that the DMO sets itself to be the 'premier program management, logistics and engineering services organisation in Australia'.<sup>50</sup> Notwithstanding the evidence, which suggested that improvements need to be made in the area of program management, a question for the committee is whether the DMO's aspiration in relation to program management is appropriate.

6.32 Furthermore, evidence before the committee emphasised the importance of DMO attracting personnel with commercial acumen and technological knowledge. In this regard, industry and other stakeholders supported the approach of paying private

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45 Air Marshal J Harvey, Department of Defence, *Committee Hansard*, 7 October 2011, p. 3.

46 Warren King, Defence Materiel Organisation, *Committee Hansard*, 7 October 2011, p. 35.

47 Australian National Audit Office, *Submission 22*, p. 8; Defence Teaming Centre Inc, *Submission 16*, p. 4.

48 Royal Institution of Naval Architects (Australia Division), *Submission 18*, p. 3.

49 Australian National Audit Office, *Submission 22*, p. 6.

50 Defence Materiel Organisation, About DMO, <http://www.defence.gov.au/dmo/about/index.cfm> (accessed 5 December 2011).

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sector salaries where necessary to secure such skills and private sector incentives and sanctions to drive performance.<sup>51</sup>

6.33 While building the required skills base is central, evidence before the committee also emphasised the need for greater discipline within Defence to implement its own policies and to maintain adequate records to support appropriate monitoring of capability development performance.<sup>52</sup> Indeed, the gap between policy and practice is a constant theme throughout evidence to the committee. Some submitters argued that the consequent lack of common understanding of procurement policy across the DMO was reflected in its 'poor implementation and apparent non compliance' with the various manuals, schedules and processes.<sup>53</sup> For industry, this lack of application can translate into an inconsistent message and different expectations. The committee intends to pursue these matters.

### ***Defence industry***

6.34 The Mortimer Review drew attention to DMO analysis which demonstrated that approximately 50 per cent of project schedule slippage is due to delays by local or overseas suppliers.<sup>54</sup> Mortimer identified two primary factors behind this failure including the fact that industry was working with capacity constraints imposed by the skills shortage in the wider economy which was particularly acute in relation to skilled engineers. In response to DMO analysis, which suggested that industry may need to recruit up to 20 000 skilled workers over the next decade, Mortimer suggested that the government consider measures to assist industry. In this regard, he recommended that the government work with industry and state governments to address the skills shortage.<sup>55</sup> The second primary factor behind slippage was identified as 'poor scheduling, planning and risk appreciation by industry'.<sup>56</sup> In relation to this factor, Mortimer noted that just as Defence and DMO find it hard to formulate 'realistic expectations of project progress, so too does industry'.<sup>57</sup>

6.35 Defence held that the majority of schedule delay was caused by slower than forecast supply from industry in the acquisition stage but did not provide explanation

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51 Andrew Davies and Mark Thomson, *Submission 8*, p. [2]; Mark Thomson, personal capacity, *Committee Hansard*, 12 August 2011, p. 3.

52 Auditor General, *Committee Hansard*, 11 August 2011, p. 24.

53 Australian Industry & Defence Network, *Submission 19*, p. 3.

54 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, p. 41.

55 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, Recommendations 3.10 and 3.11, p. 42.

56 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, p. 41.

57 David Mortimer, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, September 2008, p. 41.

for the slow response.<sup>58</sup> Other submitters argued that industry had failed to deliver capability to the contracted schedule across a large number of projects but again did not go to the reasons why.<sup>59</sup> This is another area for committee consideration.

6.36 The committee recognises that there are a number of initiatives underway to address the skills challenges within industry including the Industry Skilling Program Enhancement (ISPE) package. According to Defence, major achievements in implementing the package include the establishment of the Defence Industry Innovation Centre and three Defence Industry School Pathways Programs. Other initiatives include funding for an industry component of the Defence Technical Scholarship Program, Engineering Scholarship Program, Defence Industry Sector Branding Strategy as well as expansion of the DMO Institute and Masters of Military Systems Integration and introduction of a Masters of Systems Support Engineering.<sup>60</sup> Furthermore, in August 2011, the minister announced that 109 companies would share in nearly \$14 million for more than 4000 trained places to boost the skills of the Defence industry workforce including \$1.4 million to support approximately 250 apprentices in trades including aerospace skills, engineering fabrication and electro technology.<sup>61</sup>

6.37 Moreover, Defence informed the committee that the Kinnaird, Mortimer and Pappas recommendations continue to be implemented resulting in 'increased rigour and reduced slippage rates'. Defence noted further that 'implementation and maturation of an early indicators and warning system will improve Defence's and government's ability to react to failing projects'.<sup>62</sup>

6.38 In response to Mortimer's recommendations regarding a Joint Industry Training Task Force (JTTF), Defence held that a number of recommendations regarding the JTTF have been incorporated into the ISPE proposal. Further, it is now intended that Defence and the Industry Skills Taskforce will replace the JTTS and provide advice and analysis to ensure a critical mass of skills relevant to the Defence sector and future sustainment of these skills. In addition, the new taskforce will identify and grow the skills to deliver and sustain the capability and equipment of the ADF as detailed in the 2009 DWP, CDG and Priority Industry Capabilities.<sup>63</sup>

6.39 The committee recognises the skills shortage across Defence and industry as a key challenge in the capability development and acquisition process. Indeed, the committee intends to consider the skills question both in terms of industry skills including technical and engineering skills as well as the Defence skill set and the

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58 Department of Defence, *Submission 21*, p. 23.

59 Andrew Davies and Mark Thomson, *Submission 8*, p. [3].

60 Department of Defence, Additional information, received 4 October 2011.

61 Department of Defence, Additional information, received 4 October 2011.

62 Air Marshal J Harvey, Department of Defence, *Committee Hansard*, 7 October 2011, p. 3.

63 Department of Defence, Additional information, received 4 October 2011.

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challenges, implications and consequences across the acquisition process in detail in a latter report.

6.40 Another key area of concern in relation to DMO and industry raised in evidence is that of the nature of the working relationship. In this regard, Defence industry stakeholders held that the relationship between DMO and industry was often not harmonious or productive and that this leads to project failures.<sup>64</sup> Moreover, the question was raised as to why the Industry Division sits within DMO, when it 'belongs at the highest strategic level underneath the secretary and the CDF' in order to look at how Defence interacts with all of industry and 'not just those related to major systems'.<sup>65</sup> These questions will be pursued by the committee.

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64 Returned and Services League of Australia, *Submission 5*, p. [2]; Australian Industry Group Defence Council, *Submission 10*, p. [2].

65 Christopher Burns, Defence Teaming Centre Inc, *Committee Hansard*, 11 August 2011, p. 18.

