

## Chapter 8

### Key areas for future consideration

8.1 It is widely recognised that improvements have been made by Defence in terms of the capability development and acquisition process. One key area of improvement is in relation to the two-pass process which has become more robust. Furthermore, key strategic and policy documentation which serve as the basis for the capability process including the DWP, DCP, the MAA, and MSA provide some certainty and clarity about strategic objectives and operational requirements. However, the concern that has been raised to the committee is that the capability process is choked by unsurmountable layers of administration and bureaucracy. In this regard, the Pappas Report held the view that there were too many documents whilst the Black Review argued that there were too many committees, the combined result of which is a 'process labyrinth'.<sup>1</sup>

8.2 The Defence reviews and submission to this inquiry point to breakdowns in the capability life cycle through poor administration including a failure to follow processes and procedures as well as a diffusion of responsibility, decision making and accountability.<sup>2</sup> Dr Andrew Davies noted that '[t]here are too many viewpoints being represented at the table, and as a result decisions belong to everyone and they belong to no-one'.<sup>3</sup>

8.3 In this report, the committee endeavoured to present a coherent comprehensible account of Defence's procurement process, only to find a maze of practice and procedure, much of which appears to be ignored or by-passed.

8.4 Pappas argued that the process needs to be refined with better and stronger linkages. Whilst it is clear that the reforms need to be continued, consolidated and intensified, evidence suggested that the reform agenda should now focus on establishing clearer definitions and understanding of the process, the more appropriate allocation of responsibility and stronger accountability rather than continual reform of the process itself. One witness argued that the 'quality of decision-making has not improved by any measure since the introduction of the Mortimer reforms; the same work is simply taking much longer to perform'.<sup>4</sup>

8.5 One of the risks for Defence, however, is that reforms that have not been implemented to their full effect will be confused with failure to reform itself. Indeed, many submitters to the inquiry refer to reform fatigue or the endless fluidity and

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1 Miller Costello & Company, *Submission 30*, p. 3.

2 Andrew Davies, private capacity, *Committee Hansard*, 12 August 2011, p. 7.

3 Andrew Davies, private capacity, *Committee Hansard*, 12 August 2011, p. 7.

4 Returned and Services League of Australia, *Submission 5*, p. 1.

inconsistencies that result from a continual reform agenda.<sup>5</sup> What is of key significance is that the reforms that have been proven to work are built on whilst others that are only now being implemented are given time to work.

8.6 In its next report, the committee's task will be to strip back the layers of administration and process to identify and focus on the fundamentals. That is, to identify:

- who has (or should have) responsibility;
- who is accountable;
- how the process moves from one phase to another;
- how information, understanding and expectations, responsibilities and accountabilities transfer from one phase to another;
- whether the right people with the appropriate training and skills are in the right place at the right time;
- whether key personnel are adequately resourced and supported to perform key tasks; and
- the key checks, balances and safeguards meant to uphold the integrity of the process and the decisions that are made at each stage of it.

8.7 In this process-driven environment, the committee will identify key documents, their function and worth. It will then look at basic adherence to policy, compliance with manuals and the quality of record keeping which are all indicators of sound administration and shared understanding. These matters also go to the culture of Defence and its respective agencies. The committee will consider whether there needs to be a change in attitude and approach including in relation to Defence's perception of, and relationship with, industry. Importantly, the committee will look at the quality of analysis and information that informs decision makers and the decision making process itself with a particular emphasis on risk management throughout the capability life cycle.

8.8 The issue before the committee is how to make the development, acquisition and sustainment of Defence capability work more effectively without the need to introduce more major reforms. That is, how to make the reforms that have been implemented or should have been implemented work better. In pursuit of answers to these questions, a number of key themes have emerged in evidence which the committee intends to pursue.

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5 Miller Costello & Company, *Submission 30*, p. 2.

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## **Common concerns across the capability development lifecycle**

8.9 In considering the capability development, acquisition and sustainment life cycle, the committee identified a number of common concerns across the process. These concerns raise questions of:

- contestability and the value given to independent analysis and risk assessments including that of technical risk and how such information feeds into the decision making process;
- clear lines of responsibility and accountability for decisions at every stage and in relation to transition from one phase to another;
- timing and level of engagement with industry including the quality of information provided to industry as well as strategic consideration of Australia's defence industry and its sustainability;
- engineering and technical input and the impact of outsourcing;
- a competent and stable workforce adequately supported with necessary tools, structures and processes;
- consistency in relation to policy implementation and adherence including a consistent approach to industry; and the
- checks, balances and safeguards built into the system and extent to which they are adequately implemented, understood and adhered to.

8.10 Such issues and concerns are identified and raised in the various chapters of this report for consideration and deliberation in a latter report. As a means of encouraging further debate and discussion, the committee provides the following elaboration of the key thematic areas for further consideration and inquiry.

### **A holistic view of the entire process and its component parts**

- an overarching view of the capability process with linkages between strategic guidance and capability development;
- linkages between strategy and capability definition through the DCP, an integrated approach, defined expectations and priorities, accurate timelines, and over-programming;
- overarching guidance, clarity, understanding and compliance with agreed procedures and processes and consistent application across Defence;
- coordination, communication, integration, and a consistent message across Defence.

### **Improving efficiency in the process**

- early analysis and investment;
- early and ongoing industry engagement;

- early identification of logistic support and in-service requirements and capability;
- setting realistic schedule and mitigating slippage;
- adequate record keeping and consistent application of and adherence to policies and guides.

### **Responsibility and accountability at every phase and across the lifecycle**

- clearly defined roles, functions and responsibilities;
- correct alignment between function and responsibility;
- accountability for decisions, agreements and commitments as laid out in the DWP, DCP, CDS, MAA, and MSA;
- overarching responsibility and vision to enable early and appropriate responses to emerging issues;
- adherence to capability management principles and practices across the whole capability continuum;
- understanding and managing shared responsibility;
- providing for contestability and independent verification of estimates, assumptions and risks.

### **Skills and resources**

- attracting and retaining appropriate skills including technical and engineering expertise and the scale and scope of the challenge;
- initiatives to counter the impact of the skills shortage including contracting and tendering;
- collective training and initiatives directed at consistent policy application or a 'One Defence' response;
- complementing effective project management with systems engineering principles and matching management and technical expertise;
- building resources to ensure competence and consistency—staff rotation, matching skills and experience with allocated tasks, deployment of skills across Defence and industry;

### **Risk management**

- early identification and mitigation;
- establishing feasibility early;
- science and technology evaluations and their influence on decisions;
- incorporating corporate knowledge and lessons learned into verification and decision making processes;

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- MOTS and COTS and balancing procurement risk with battlefield risk and domestic industry capability;
  - through-life-costs and sustainment including linkage between ADF capability and industry sustainment;
  - test and evaluation.

### **Australia's defence industry**

- impact of MOTS on industry capability including skills;
- clarity of public information tools including DWP and public DCP;
- early engagement and contribution to sustainment considerations;
- Defence as a sole customer and relationship with Defence agencies;
- impact of National Security Committee of Cabinet annual approval rate;
- interconnection between industry viability and ADF capability;
- industry sustainment including workflow.

### **Contestability**

- contestability, independent verification and scrutiny of capability priorities identified in the DWP, DCP, and of projects at first and second pass.

### **Additional remarks**

8.11 It should be noted that on 13 December 2011, the minister released phase 1 of Mr John Coles' Collins Class Sustainment Review. His findings underscore many of the concerns raised throughout this report including poor risk management which was evident from the very beginning of the program:

Due to the failure to recognize fully what they were taking on, the various agencies involved did not make all the necessary investments post delivery and this, together with the unreliability of a number of key equipments in the submarines, got the program off to a bad start.<sup>6</sup>

8.12 Mr Coles' observation that the review was unable 'to identify anyone who was charged with taking full responsibility clearly and decisively for all aspects of the sustainment of the Collins Class Program' was of particular relevance.<sup>7</sup> The review found:

...many instances where accountability, authority and responsibility are misaligned, fragmented or simply not understood.<sup>8</sup>

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6 Mr John Coles, *Collins Class Sustainment Review*, Phase 1 Report, 4 November 2011, p. 8

7 Mr John Coles, *Collins Class Sustainment Review*, Phase 1 Report, 4 November 2011, p. 9.

8 Mr John Coles, *Collins Class Sustainment Review*, Phase 1 Report, 4 November 2011, p. 10.

8.13 The review also highlighted the importance of all the key strands of activity that deliver the submarine capability operating as an 'Enterprise'. It gained the impression, however, of 'highly-charged, difficult and often hostile relationships' between the Department of Finance and Deregulation, DMO, the Navy and Industry.<sup>9</sup>

8.14 Finally and importantly, the review drew attention to the successive initiatives in Defence, 'all of which seem to have added to the complexity of already complex structures, to the point where adequate levels of knowledge of the submarine domain no longer appear to exist.' The review concluded that 'no amount of business process refinement could overcome this loss of expertise'.<sup>10</sup>

8.15 This most recent review adds to the mounting and substantial body of evidence that the acquisition and sustainment of Defence's major capital equipment is beset by long standing problems that persist despite numerous reviews and reform programs.

Senator Alan Eggleston

The image shows two handwritten signatures. The first is a stylized, cursive signature that appears to be 'A. Eggleston'. The second is a more legible, cursive signature that reads 'Eggleston'.

Chair

Senate Foreign Affairs, Defence and Trade References Committee

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9 Mr John Coles, *Collins Class Sustainment Review*, Phase 1 Report, 4 November 2011, p. 9.

10 Mr John Coles, *Collins Class Sustainment Review*, Phase 1 Report, 4 November 2011, p. 11.