

Executive summary

Defence's projects for acquiring major capital equipment face an array of internal and external forces and influences that create significant difficulties for the organisation. Indeed, such projects are of a scale and complexity that they present 'formidable and ever-increasing challenges'. The problems identified in defence procurement, however, are largely a function of the organisation's own making—unintentionally self-inflicted. In effect, Defence has a flawed management structure that stymies the work of dedicated, professional and in many cases highly skilled personnel.

Current management structure

The committee finds that the current management structure in Defence has produced an organisation that lacks a robust risk management regime: an organisation where its personnel are insensitive or unresponsive to risk, where no one owns risk. Defence is also an organisation that seems incapable of learning from past mistakes. This inability to learn from earlier project mishaps is particularly salient. Senior officers in Defence may well argue that the failures noted in this report are drawn from history: but if the organisation cannot or will not apply lessons from previous projects to current and future ones then it is destined to repeat them. The challenge for Defence is to change an organisational structure with entrenched attitudes that despite repeated reforms has:

- a growing disconnect between strategic guidance and capability development with the current foundation document—the 2009 Defence White Paper—setting an unrealistic and unachievable acquisition program for the Australian Defence Force's (ADF) future capability;
- a culture of non-compliance with policy and guidelines; where personnel get 'bogged down' with too much paper work, produce a 'certain amount of nugatory work' and 'miss the important things going on';
- confused or blurred lines of responsibility;
- accountability that is too diffuse to be effective—the organisation is unable or unwilling to hold people to account;
- a poor alignment of responsibility due to an excessive number of groups and agency functions, which gives rise to unhealthy management and organisational relationships—for example capability managers sidelined from active participation in an acquisition;
- little understanding or appreciation of the importance of contestability and a mindset that simply cannot, or refuses to, comprehend the meaning of 'independent advice';
- a 'One Defence' view that does not produce an integrated enterprise: Defence remains an organisation composed of separate groups working to their own agendas;

- difficulty attracting and retaining people with the required level of skill and experience to support acquisition activities, particularly engineering, which over the past 15 years or more has atrophied most notably with the hollowing out of technical skills in Navy; and
- yet to engage actively with industry as a collaborative partner in capability development and acquisition and to achieve the status of intelligent customer.

Need for structural reform

The recommendations in this report take account of Defence's attempts to remedy shortcomings. They also recognise that Defence has made efforts to change while simultaneously attempting to comply with multiple reform agendas arising from a string of government reviews and directives. The key recommendations deal with much needed organisational change directed at achieving the correct alignment of responsibilities and functions of relevant agencies, and providing them with the skills and resources they need to fulfil their obligations. They underscore the importance of Defence becoming a self critical, self evaluating and self correcting organisation. More specifically, the recommendations are intended to:

- return responsibility to capability managers, including for financial management, and make them accountable for decision-making and performance under their areas of authority;
- make the Defence Materiel Organisation (DMO) a streamlined and specialist acquisition agency;
- inject real contestability into decision-making and guarantee that the government is provided with independent advice from key agencies—Defence Science and Technology Organisation (DSTO), DMO and technical experts; and
- ensure that Defence's focus is on obtaining the right people with the right skills and experience and, importantly, matching their skills with the right job: that Defence also manages its skills base so that agencies complement their skill requirements and do not compete from the same pool of specialists.

New management model

The committee proposes a model that, after second pass decision, allocates one single point of accountability for every project to the relevant capability manager, supported by financial delegation and budget control. It reduces the role of the Capability Development Group (CDG) and DMO—producing savings and eliminating much overlap. It also reinforces the Kinnaird/Mortimer concept for internal independence for the purposes of genuine contestability, and minimises the waste of skill through inappropriate placement, duplication and misalignment of skills. The committee's proposal also introduces a direct client/provider model with precise accountability and without any intermediaries. Under this model, the DMO would become a contract and project management specialist supporting the capability manager at relevant points in the acquisition and sustainment cycles.

This model would remove the unnecessary layers of current vested interests and streamline the process through a single point of accountability. In short, it is a greatly simplified model aided by significant streamlining. It builds on the strengths of accountability in the services (as identified by the Black Review) and seeks to harness the learning and potential for alignment across the three services envisaged with the creation of the Defence Acquisition Organisation (DAO) and DMO.

Recommendations

Realignment of responsibilities

Recommendation 1— Strategic Policy Division *paragraph 8.63*

The committee recommends that all matters concerning strategic planning, capability planning, industry policy, costing and all matters for the coordination of contestability from DMO, DSTO and industry should remain with the current Strategic Policy Group and CDG in combination.

Recommendation 2—Capability Managers *paragraph 8.64*

The committee recommends that accountability for all service specific procurement items should be exclusively transferred with budgets to service chiefs, who should be responsible for all procurement and sustainment of their materiel. This transfer of responsibility occurs after proposals have been thoroughly tested internally and externally and after government decisions are made at second pass.

Recommendation 3—DMO and CDG *paragraph 8.65*

The committee recommends that the capability manager should have expanded responsibility and importantly financial responsibility after second pass. Under the committee's recommended model, for all acquisition projects, the capability manager would be the sole client with the contracted suppliers; DMO's role being limited to tendering, contracting and project management specialities, strictly according to the terms of the second pass decision. All specification changes should be monitored by CDG and put to government for agreement, as currently the practice, with the capability manager to be fully accountable.

Recommendation 4—CDG *paragraph 8.66*

The committee recommends that all matters of coordination, overall budget management monitoring and reporting after second pass should remain in the current CDG, but without budgetary control.

Contestability and independence

Recommendation 5—mandatory gate reviews

paragraph 10.77

The committee notes concern about the gate reviews losing their potency and simply becoming part of the process if overused. The committee believes an annual gate review for major projects would add value but recognises that the format and/or structure may need to be scaled to suit project scope/cost. The committee recommends that full gate reviews be:

- mandatory for major projects at the following specified milestones—Defence Capability Plan (DCP) entry; project initiation and review board consideration; first pass approval; second pass approval, contract solicitation and contract negotiation; and
- mandatory when a project starts to diverge from original cost or schedule or when significant changes to scope are proposed.

Recommendation 6—gate reviews and compliance

paragraph 10.78

In light of revelations about breaches of policy such as chairs of boards having line management responsibility and of misunderstandings stemming from the documentation provided to the gate review boards, the committee recommends further that the Independent Project Performance Office (IPPO):

- exert stronger compliance checks to guarantee the independence and impartiality of the gate review board particularly enforcing the requirement that the chair of the board must not have line management responsibility for the project under review; and
- exercise greater scrutiny of the documentation provided to the review board to ensure that it is relevant and complete including reports on technical risk.

To ensure that the IPPO has the authority and resources to discharge its functions, the committee further recommends that Defence consider carefully whether the functions of the Office should be located in CDG or another agency.

Recommendation 7—gate reviews and monitoring

paragraph 10.79

With regard to ensuring that the recommendations of the review boards are implemented, the committee endorses the Australian National Audit Office's recommendation that 'Defence ensures that a control mechanism be deployed to monitor the status and completion of actions recommended by Gate Review Assurance Boards and agreed by the relevant executive'.¹

1 ANAO Audit Report No 52 2011–12, *Gate Reviews for Defence Capital Acquisition Projects*, paragraph 4.21.

Recommendation 8—DMO and Minister's directive

paragraph 10.82

The committee recommends that the minister review, update and reinstate the Ministerial Directive to CEO DMO. The directive is intended to set boundaries and expectations and establish clear accountability for achievement of Defence capital acquisition programs. It should include the requirement that CEO DMO provides independent advice to the minister in DMO's specialist area of major capital projects.

Recommendation 9—DMO's independence

paragraph 10.83

The committee recommends that the government should again look carefully at making DMO a statutorily independent agency, as previously recommended by Kinnaird and Mortimer, but rejected by Defence and government. The CEO's salary should be set by the Remuneration Tribunal and, as stipulated in the previous recommendation, direct access to the minister should be restored pursuant to a reinstatement of a ministerial directive which has fallen into disuse. The intention behind this recommendation for the DMO to be a statutory agency is to find a better way to: guarantee DMO's independence and assist it to provide frank advice to government, have its functions and responsibilities spelt out in legislation, and allow it more latitude to employ specialist personnel.

Recommendation 10—DSTO's independent advice

paragraph 10.84

The committee recommends that the minister consider how best to ensure that DSTO's specialist advice on technical risk associated with Defence's major capability developments are conveyed to government in a clear and accurate way. The Ministerial Directive to CEO DMO may serve as a model.

Recommendation 11—DSTO and risk assessments

paragraph 10.85

The committee recommends that the Technical Risk Assessments and Technical Risk Certifications (currently presented to the Defence Capability Committee and the Defence Capability and Investment Committee) should be a joint activity overseen by the relevant Service test and evaluation (T&E) agency head and the Chief Defence Scientist. In light of past underestimation of technical risk, the intention would be to review past experiences and current documentation to determine how risk assessments could be better presented to non-technical experts to minimise the opportunity for risk assessments to be misinterpreted. The reporting structure also needs to be transparent such that assessments cannot be ignored without justification to the key decision-makers (e.g. minister).

Skilling Defence

Recommendation 12—Strategic Policy group

paragraph 11.93

The committee recommends that Strategic Policy Group and CDG should have more strategic analytical skills to test rigorously and independently the capability managers'

development of the Defence White Paper capability elements, restoring the creative tension but free of competition for skills.

Recommendation 13—Capability Managers *paragraph 11.94*

The committee recommends that, after second pass, capability managers have sole responsibility for acquisition projects, supported by staff seconded through the DMO, as well as maintaining relationships with contractor and sub contractors.

Recommendation 14—DMO *paragraph 11.95*

The committee recommends that the government ensure that the DMO has the funds, means and government support necessary to consolidate and build on the efforts already underway to develop its multidiscipline skills base with the ultimate goal of achieving a world-class acquisition community.

Recommendation 15—Streamlining *paragraph 11.96*

The committee recommends most strongly that the organisational changes specified in the recommendations dealing with skills be adopted, and that the streamlining and consolidation of skills identified be the primary focus and outcome in securing that change.

Future submarines SEA 1000

Recommendation 16—Early planning and analysis *paragraph 3.20*

Because the future submarine project is still at an early stage, and based on the RAND study, the Coles Report, independent defence analysts and the past performance of major Defence acquisition projects, the committee recommends that government and Defence start work immediately to:

- ensure that the program is directly managed by the Chief of Navy supported by the ASC and DMO where relevant, the scientific community and the public—support must be both external to the program and internal within the navy and submarine community;
- avoid early lock-in through premature weapons systems choices;
- ensure that the capability sought is available and minimises developmental risks;
- take drastic action to address the serious skill shortages identified by RAND before a decision on assembly in Australia is made, regardless of type and design;
- ensure that the program is open and transparent—full disclosure throughout the program is necessary to obtain government, industry and public support;
- involve experienced people in key management positions—this requires a strategy to grow people so they are experienced in various disciplines—a top-

level strategic lesson must be implemented far in advance of any specific program; and

- listen to technical community concerns about risk—the technical community, supplemented by outside expertise from industry and allied technology partners as necessary, should understand the state of technology and the degree to which a new design extends that technology.²

Recommendation 17—applying lessons

paragraph 3.22

The committee recommends that government and Defence respond publicly to the committee's criticisms made in this report with respect to lessons not learnt, and outline the detailed process and all the options on which current planning on submarines is taking place.

AIR 8000 Phase 2 (Battlefield Airlift—Caribou replacement)

Recommendation 18—Statement of Operational Requirement

paragraph 15.62

The committee recommends that the Chief of Air Force as the relevant capability manager require a report by the relevant test and evaluation (T&E) agency against the approved Statement of Operational Requirement to provide early identification of potential issues with the AIR 8000 Phase 2 project that could delay introduction into service.

Capability development and public information

Recommendation 19—2013 White Paper

paragraph 3.65

The committee recommends that the 2013 White Paper is prepared in such a way that all procurement proposals are costed and scheduled realistically and that Defence undertake comprehensive consultation with industry before decisions on inclusion are made, or alternately, a green paper is issued in advance for broader and open public consultation.

Recommendation 20—DCP

paragraph 3.66

The committee recommends that, commencing next financial year, Defence publishes as an addendum to its portfolio budget statements, all the current financial detail of planned capability from the time of inclusion in the DCP, right through to contract completion and provision for sustainment, for all projects over \$30 million for total procurement and lifelong sustainment.

2 A number of the recommendations are taken from, or based on, RAND, *Learning from Experience, Volume IV, Lessons from Australia's Collins Submarine Program 2011*, pp. xiii–xiv.

T&E—building capability

Recommendation 21—creating opportunities

paragraph 12.51

The committee recommends that the government make a long-term commitment to building technical competence in the ADF by requiring Defence to create the opportunities for the development of relevant experience.

Recommendation 22—T&E and DSTO pre-first pass

paragraph 12.52

The committee recommends that capability managers should require their developmental T&E practitioners to be an equal stakeholder with DSTO in the pre-first pass risk analysis and specifically to conduct the pre-contract evaluation so they are aware of risks before committing to the project.

Recommendation 23—policy and implementation

paragraph 12.54

The committee recommends:

- the immediate finalisation of central defence policy on T&E to be implemented by capability managers in line with the committee's recommended shift of full accountability for capability managers for all technical assessment of capability procurement and sustainment (independently assessed in conjunction with DSTO);
- full responsibility for the implementation of prescribed T&E processes be assigned to capability managers for all procurement activity from inception through to acquisition and sustainment; and
- each capability manager should ensure adequate skilled resources to oversee all T&E activity in line with central policy, as part of all acquisitions, including MOTS, as part of the capability managers' total responsibility for procurement, but prior to as well as after second pass.

Recommendation 24—training and experience

paragraph 12.55

The committee recommends that Defence build on the capability already extant in aerospace to identify training and experience requirements for operators and engineers in the land and maritime domains and apply these to the Australian Defence Test and Evaluation Office. Capability managers will need to invest in a comparable level of training to enable their personnel to conduct (or at least participate in) developmental testing. The intention is to provide a base of expertise from which Defence can draw on as a smart customer during the first pass stage and to assist in the acceptance testing of capability.

Recommendation 25—pre-first pass T&E

paragraph 12.56

The committee recommends that Defence mandate a default position of engaging specialist T&E personnel pre-first pass during the project and on acceptance in order to stay abreast of potential or realised risk and subsequent management. This

requirement is also to apply to Military-off-the-shelf/Commercial-off-the-shelf (MOTS/COTS) acquisition.

Defence industry

Recommendation 26— planning for investment

paragraph 13.55

The committee recommends that Defence make their Defence Capability Plan (DCP) a document that provides industry with greater certainty about Defence's plans and intentions for future capability development to enable industry to invest with confidence in capability development. In particular, it recommends that the next DCP include:

- a schedule that provides anticipated timelines for the construction and delivery of all DCP items, with continuity the key feature;
- a detailed explanation on this acquisition schedule indicating the reasoning and analysis behind it and how Defence has taken into account demand flows; and
- reliable cost estimates.

Recommendation 27—early engagement with Defence

paragraph 14.28

The committee recommends that Defence:

- continue to collaborate with industry to reinvigorate the Capability Development Advisory Forum and the associated environmental working groups as a means of engaging industry early in the capability development process. The committee recommends further than Defence ensure that such engagement with industry is a genuine two-way exchange of ideas and of information; and
- continue to support training programs such as Skilling Australia's Defence Industry (SADI).

Recommendation 28

paragraph 14.29

Given the reach back capacity of primes and their ability to tap into research and development of US and European headquarters, the committee recommends that industry consultation start at the earliest Defence White Paper and DCP stage.

