

Chapter 8

Communication, integration and collaboration

8.1 In November 2010, the minister stated that when dealing with the Secretary, the CDF and the CEO of the DMO, he was 'of course' dealing with 'One Defence'. He was not confident, however, that below this level he received a 'One Defence' view, but rather a perspective from a silo. He indicated that this situation could occur when ministerial submissions had not been properly considered across the portfolio or where appropriate meaningful consultation with external agencies had been absent.¹ Almost a year later, he again referred to a lack of integration within Defence with parts of the organisation working in silos.² Also in the previous chapter, the committee cited Dr Black who referred to 'organisational cohesion' and the importance of Defence functioning as a 'single integrated enterprise'.³ One witness noted that Defence is not like most departments. He explained:

In the military, ADF people put their lives on the line, and it has to execute and implement (rather than concentrate on policy work), which means the ADF needs a lifelong career development structure to do so...the intelligence organisations require linguists and specialists, as does DSTO with scientists. DMO requires a separate commercial culture staffed with business savvy experienced experts.⁴

8.2 Defence's challenge is to have a structure that allows the views of specialist groups to be expressed, questioned and debated. While their views may not prevail in the final decision, they should nonetheless be listened to as part of that consideration. In this chapter, the committee considers the quality of communication between the major groups involved in Defence's capability development process.

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- 1 Stephen Smith MP, Minister for Defence, Address to the Department of Defence Senior Leadership Group, Hotel Realm, Canberra, 26 November 2010, <http://www.minister.defence.gov.au/2010/11/26/address-to-the-department-of-defence-senior-leadership-group/> (accessed 16 April 2012).
 - 2 Minister for Defence—Press Conference—Black Review, Transcription, 9 August 2011, p. 9 of 15, <http://www.minister.defence.gov.au/2011/08/09/minister-for-defence-press-conference-black-review-9-august-2011/> (accessed 24 April 2012).
 - 3 Paragraphs 7.3–7.5.
 - 4 *Confidential Submission*. Another witness referred to Defence being a number of different organisations operating inside 'that bubble of Defence', *Committee Hansard*, in camera.

Shared understandings

8.3 In 2003, Kinnaird noted that the concept of 'no secrets and no surprises' has to be central to communication between government and agencies responsible for capability development.⁵ He stated:

Government must remain confident that it has a current and accurate understanding of the progress of capability development at every stage of the cycle.⁶

8.4 Kinnaird was unconvinced, however, that government had been receiving advice and information sufficiently adequate to enable it to make strategic decisions on an informed basis.⁷ A number of projects cited in chapter two confirm this view. Indeed in some cases expert advice was corralled even before it could be presented at a senior committee level or was simply disregarded at this level.

Strategy Executive and its relationship with CDG

8.5 With capability development, the first important exchange and transition of knowledge and responsibility occurs between the Strategy Executive, CDG and capability managers.

8.6 Kinnaird and Mortimer made a number of recommendations directed at strengthening the linkages between Defence's strategy and capability decisions. Defence responded to the Mortimer Review with the commitment to implement a 'planning process that institutionalises the links between strategic guidance, force structure, capability priorities and funding that have been developed during the White Paper process'. It was intended that the Strategic Policy Division within the Strategy Executive of the Department of Defence, with the support of CDG, would lead the strategic planning process and draft the classified Defence Planning Guidance.⁸

8.7 As part of an improved Defence planning process, the 2009 Defence White Paper announced the adoption of a five-year planning cycle for major defence decisions. This cycle would include an institutionalised Force Structure Review process intended to improve 'processes for force structure development, definition of capability requirements, and development of capability proposals'.⁹ As a consequence,

5 Department of Defence, *Procurement Review 2003*, p. 48.

6 Department of Defence, *Procurement Review 2003*, p. 48.

7 Department of Defence, *Procurement Review 2003*, p. 6.

8 Department of Defence, *The Response to the Report of the Defence Procurement and Sustainment Review*, 2009, p. 17,
http://www.defence.gov.au/publications/Mortimer_Review_Response.pdf
(accessed 16 April 2012).

9 Department of Defence, *Defence White Paper 2009*, paragraphs 8.74 and 13.12.

a Force Structure Development Directorate was established within the Strategic Policy Division to 'improve alignment between capability and strategy'.¹⁰

8.8 The Strategy Executive is also responsible for drafting the Defence White Paper. As the key national defence strategy document, the White Paper sets out the government's defence strategy for the nation. The Strategy Executive is required to translate the broad guidance of the White Paper into an annual Defence Planning Guidance to provide a more refined assessment needs. At the same time, the Strategy Executive must ensure that the development, acquisition and evaluation of capabilities aligns with Defence's strategic priorities. According to the Strategy Framework 2010, this alignment is achieved in close collaboration with the CDG and capability managers.¹¹

8.9 Once capability plans are identified in the White Paper and Defence Planning Guidance (DPG), CDG takes over and leads the identification and development of capabilities which make up the DCP. Because the documents have such a pivotal role, it is vital that they are based on robust analysis and reflect a consistent approach to capability acquisition.¹²

8.10 As noted in chapter 3, however, there is growing concern that the capabilities prescribed in the White Paper and contained in the DCP will not be delivered in accordance with the timeline articulated in the White Paper.¹³ It would appear that there is a disconnect emerging between government expectations of Defence to achieve an operational effect as set out in the White Paper and the capability currently operational or logjamed within the delayed procurement process. Any such discrepancy has implications for the linkages between strategic guidance and capability development and hence the efficacy of the capability process. In this regard, Henry Ergas and Mark Thomson made the following observations about the DCP:

Were that plan efficient, it would ensure two things. First, that the 'right' defence capabilities are sought consistent with prevailing circumstances and strategy. Second, that planned defence capabilities are deliverable with available resources—financial, human and bureaucratic.¹⁴

8.11 The primary concern is that there could be a mismatch between the acquisition and the retention of capability and strategic circumstances and

10 Department of Defence, *Strategy Framework 2010*, p. 39.

11 Department of Defence, *Strategy Framework 2010*, pp. 39–40.

12 Department of Defence, *Submission 21*, p. 16.

13 Graham Priestnall, Australian Industry and Defence Network Inc, *Committee Hansard*, 11 August 2011, p. 20.

14 Henry Ergas and Mark Thomson, 'More Guns without Less Butter: Improving Australia's Defence Efficiency', *Agenda*, ANU College of Business and Economics, vol. 18, no. 3, 2011, http://epress.anu.edu.au/apps/bookworm/view/Agenda%2C+Volume+18%2C+Number+3%2C+2011/7641/Text/ergasthompson.html#toc_marker-9 (accessed 20 January 2012).

requirements.¹⁵ Similarly, Pappas provided a range of recommendations directed at reducing the risk of misalignment between strategic requirements and procurement priorities and specifications. They included establishing a Force Structure Development cell responsible for 'integrating the end-to-end process of capability development and a mandate to ensure tight alignment between strategy and capability'.¹⁶

8.12 The Strategic Planning and Capability Development streams of the Strategic Reform Program are believed to be 'putting in place improved processes for strategic guidance, and better linkages between that guidance and capability development'.¹⁷ However, as Dr Black noted:

The Strategy Framework does not document the end products expected of, nor how to create, what would be recognisable in other organisations as a corporate strategy or plan.¹⁸

8.13 Indeed, the process should work and the DCP should be achievable if the DCP truly reflected a refined assessment of needs that align with strategic priorities, and if priority funding were identified prior to the Strategy Executive giving approval to CDG to develop the DCP. Clearly, this is not the case.

8.14 In August 2011, the Minister for Defence announced the establishment of an Associate Secretary (Capability) position to implement the Black Review recommendations. The Associate Secretary (Capability) was to be responsible for reviewing capability proposals before being considered for inclusion in the DCP, in order to ensure that they 'reflect the government's strategic requirements and that all risks are well understood'.¹⁹ This appointment is no longer going ahead and in this context the committee notes the already heavy civilian overload of senior positions. Driven in part by the complexity of the organisation and its processes, the number of deputy secretaries has increased from 4 in 1993 to 14 currently.²⁰ One witness

15 Stephan Frühling, 'The Missing Link: Politics, Strategy and Capability Priorities', *Security Challenges*, vol. 5, no. 2, (Winter 2009), p. 50.

16 Department of Defence, *2008 Audit of the Defence Budget*, 3 April 2009, p. 53.

17 Department of Defence, *Review of the Defence Accountability Framework*, January 2011, pp. 54–55.

18 Department of Defence, *Review of the Defence Accountability Framework*, January 2011, p. 55.

19 Stephen Smith MP, Minister for Defence, 'Improving personal and institutional accountability in Defence', 9 August 2011, <http://www.minister.defence.gov.au/2011/08/09/improving-personal-and-institutional-accountability-in-defence/> (accessed 24 April 2012).

20 Chief Operating Officer, Chief Finance Officer, Chief Information Officer, Deputy Secretaries for Defence People, Intelligence and Security, Strategy, Defence Support, SRP, Special Advisor Strategic Reform and Governance, Chief Defence Scientist, CEO, DMO and three general managers in DMO.

observed that with 'so many senior folk, it is no wonder that coordination requires so many extra committees'. Committees consume time.²¹

8.15 The primary step toward better alignment between strategy and capability development would be to ensure that the White Paper—'the corner stone document'—sets out a realistic and achievable program for capability development. The committee has made a recommendation to this effect (see recommendations, pp. 55 and 265).

8.16 In the following section, the committee looks at defence procurement as a combined Defence effort and considers the communication network and the degree of cooperation and collaboration across the numerous groups that contribute to capability development once a project enters the DCP. Again the committee draws attention to the hierarchy of advisory, review, oversight and decision-making bodies whose work feeds into the capability development process.

Management matrix and linkages between groups

8.17 According to Babcock, the success of a major project requires an 'integrated enterprise approach operating a comprehensive asset management model with shared data'.²² But as noted earlier, there are many groups that contribute to the final submission put to government for project approval and its ultimate delivery into service. The main ones are: the capability managers (end users); the CDG, (sponsors of the project); the DMO (acquisition agency); the DSTO (expert technical adviser); and finally industry, which delivers the product. While these four groups are the main ones, there are numerous others. Each has its own priorities and notions of what the end product should be, do and cost. At times, their views may clash even within Defence. Indeed, one industry representative described Defence as 'a mass of bodies acting largely independently'.²³ Another witness observed that:

Defence is and probably always will be a tribal community and culture made up of separate proud specialist units, each of which has its own important tradecraft.²⁴

8.18 Thus, Defence must find a way to counter the tendency for the various groups to work as segregated inward looking entities and create a structure that encourages the free flow of information, the exchange of ideas and genuine collaboration. Such a structure would be designed to prevent or at least discourage situations from developing where expert technical advice is corralled or misinterpreted, or CDG,

21 *Confidential Submission*.

22 *Submission 15*, p. [8].

23 *Committee Hansard*, in camera.

24 *Confidential Submission*. For an indication of the divisions that existed within Defence during 1960s and 1970s see Sir Arthur Tange, *Defence Policy-making: A Close-up View, 1950–1980, A Personal Memoir*, Canberra, 2008.

DMO, and capability managers have different expectations and understandings of an acquisition.

8.19 Such arrangements, however, are not intended to undermine contestability. Contestability needs to be resolved at the strategic level with all the elements of that advice going to coordinating agencies and government so that the complexity of the cases being put is understood, along with all the risks.

8.20 The Auditor-General told the committee that in Defence's search to improve its performance, there had been a level of centralisation of particular functions in key organisations, such as DMO. He explained that the great benefit—the strong positive—was in placing a critical mass of people with the right skills to deliver on project acquisitions and sustainment in the one agency. According to him, however, there was a downside, in that it:

...creates greater organisational linkages across the organisation for DMO and Navy to talk together and to communicate, and similarly across the services. In the interests of getting the skills in a central place and in getting the efficiencies and returning some savings to budget, you pay the price in increasing the complexity of communication and liaison within organisations.²⁵

8.21 Evidence indicates that the correct alignment of best practice and appropriate skilling in the organisation has not come to pass.

8.22 Also addressing the challenge of building healthy networks between the various groups, Air Marshal Brown told the committee that as a direct consequence of the matrix management system in Defence, 'the current organisational construct puts high transactional costs and a lot of communication between the groups'. He was of the view that there may be 'other constructs that would probably be more effective and efficient than the ones we have at the moment'.²⁶ In his view:

The thing you need to be careful of is that we have constructed a whole lot of input-focused organisations; that is the way we are at the moment. The reality is that we have an output that we have to produce. It is much better if you can get everybody involved focused on the output rather than what the inputs are.²⁷

8.23 According to Air Marshal Brown, one of the big disadvantages of a 14-group organisation is that an extraordinary amount of effort across the groups is required to get anything done.²⁸ In the following section, the committee looks at those engaged in a major acquisition program from an enterprise perspective.

25 *Committee Hansard*, 11 August 2011, p. 25.

26 *Committee Hansard*, 5 October 2011, p. 49.

27 *Committee Hansard*, 5 October 2011, p. 49.

28 *Committee Hansard*, 5 October 2011, p. 49.

Smooth transitions

8.24 Once a project is in the DCP, a number of witnesses pointed to the need for smooth transitions from one phase to the next as a capability progresses toward delivery and in-service operation. Mr Kim Bond, ANAO, explained that, during its audit into acceptance into service of Navy capability, ANAO looked for the overlying administration that would show adherence to basic systems engineering steps. This examination covered the initial requirements phase in deciding what is to be purchased, through to building, commissioning and decommissioning it. He stated:

We found a pattern of inconsistent application of steps...We show that while you can find the bones of those processes throughout Defence, we did not find them universally adhered to and we did not find them joined up. So where one organisation may have been given responsibility for one stage of the process, it has not necessarily smoothly handed over to the next phase of the process. Nor was there sufficient overlap.²⁹

8.25 The committee has referred to the divisions between the various groups engaged in defence procurement projects. Their ability and willingness to connect has significant implications for the success of a project. For example, Mr Bruce Green stated that DMO needs to be sure that it is 'not being given a hospital pass'. He argued that the people running the procurement are the ones at most risk if things go wrong and therefore need to be intimately involved in the discussion on technology, risk, timing, budgets, procurement methods and through life considerations.³⁰ He argued that the acquisition agency needs to be able to say to government that 'it is confident it will be able to deliver the capability at the defined cost and within the time determined as part of the Capability Definition process and approved by Government'.³¹

8.26 Dr Davies made similar observations about project risks coming home to roost in DMO. He referred to comments made ruefully by DMO executives about the Defence Capability and Investment Committee dreaming up a dead cat, which they then throw over the fence for DMO to 'reanimate'.³² Thus DMO needs to work cooperatively with CDG and capability managers to be certain that all parties are fully aware of the requirements of the project and the risks to its success.

8.27 Also in this context of collaboration, a number of defence analysts and reviewers have remarked on the distance between capability managers and the acquisition agency, most evident in the relationship between the Chief of Navy and the DMO. In its audit performance into acceptance into service of Navy capability, ANAO highlighted the importance of DMO and Navy working together to avoid

29 *Committee Hansard*, 11 August 2011, p. 29.

30 *Submission 20*, p. 3.

31 *Submission 20*, p. 2.

32 *Committee Hansard*, 12 June 2012, p. 38.

handovers to Navy becoming 'voyages of discovery' in the final stages of the project.³³ The ANAO found:

...greater emphasis needs to be applied by Navy, CDG and DMO, in maintaining a shared understanding of the risks to the delivery of the Navy capability agreed to by government.³⁴

8.28 While the ANAO identified the need for the three groups to share responsibility, as the committee noted earlier, each group should have distinct responsibility for key components of an acquisition and should be held accountable for their respective performance. The issue is ensuring that each group has the appropriate allocation of responsibility and that the respective responsibilities are complementary.

8.29 The audit then went further pointing to a need for the three groups to share the responsibility for mitigating those risks, 'including in relation to implementing effective recovery actions, when issues arise that threaten the acquisition of that capability'. It stated that, among other things, without improved communication and collaboration across the relevant parts of Defence during a project's lifecycle the necessary improvements in acquisition outcomes will not be achieved.³⁵

8.30 Clearly, when different agencies or groups within Defence assume carriage of a particular project, they must be fully aware of all aspects of the acquisition particularly any risks to its successful delivery. There should be no 'voyages of discovery', but more to the point, communication is most effective when the communication is limited to as few as two players—the more layers and more players, the more difficult communication becomes.

Involvement of capability managers

8.31 As noted in the previous chapter, Defence agreed that capability managers should act in a stronger assurance role to ensure there is appropriate oversight and coordination of all elements necessary to introduce a capability. It noted, however, that from time to time there may be tension 'between the DMO's ability to deliver a capability to its approved scope and/or schedule, and a Capability Manager's judgement that this capability can no longer meet his operational requirements (which

33 ANAO, Audit Report No. 57 2010–11, *Acceptance into Service of Navy Capability*, paragraph 29.

34 ANAO, Audit Report No. 57 2010–11, *Acceptance into Service of Navy Capability*, paragraph 33 and *Committee Hansard*, 11 August 2011, p. 24.

35 ANAO, Audit Report No. 57 2010–11, *Acceptance into Service of Navy Capability*, paragraph 33.

may have changed since the original approval)³⁶. Hence the committee believes that the client should be in charge with direct accountability from the provider, not through intermediaries.

8.32 Commenting on the relationship between capability managers and the DMO in his 2009 audit, Pappas also noted a breakdown in communication between them. He observed that there appeared to be insufficient linkage between the acquisition process for platforms and the delivery of their enablers (such as wharfs, refuelling facilities and communications equipment).³⁷ He explained that as a result, 'platforms had arrived without the enablers they needed to create a fully functioning capability, either due to poor programming or insufficient consideration of the requirements'. In his view, this situation was exacerbated 'by a lack of clarity as to who is responsible for delivering each of the Fundamental Inputs to Capability (FIC), and appears to be more severe for enablers that are separate projects (such as communication architecture)'. He surmised from this situation that interdependencies between projects were not as well understood as they could be.³⁸ This observation not only highlights the confusion and lack of clarity surrounding the roles and responsibilities of those contributing to the delivery of a capability but of the need for someone to exercise central authority for integrating the whole process. Clearly, the capability manager who accepts a capability into service and will use that capability is best placed to be that central coordinating authority.

Strengthening relationships

8.33 While Air Marshal Binskin acknowledged that prior to 2008 the capability manager may have been 'fairly removed from the process', he indicated that they were now more prominent: they were 'right up front':

...the capability manager signs off on projects as they start—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.³⁹

8.34 Mr King also accepted that there was a time post Kinnaird 'where the centralisation of the capability development under CDG and the DMO operating as the acquisition organisation 'appeared to disenfranchise the capability managers in the process'. He stated that the situation led to 'a period where, despite having the two pass process in place, the CM, CDG and DMO were not interacting, coordinating and

36 Department of Defence, *The Response to the Report of the Defence Procurement and Sustainment Review*, Government response to Mortimer's Recommendation 3.2—'As a fundamental principle, oversight and coordination of all elements necessary for the introduction of a capability should be exercised by the relevant Capability Manager', p. 26.

37 Department of Defence, *2008 Audit of the Defence Budget*, 3 April 2009, p. 56.

38 Department of Defence, *2008 Audit of the Defence Budget*, 3 April 2009, p. 57.

39 *Committee Hansard*, 5 October 2011, pp. 16 and 17.

integrating as well as they might'. This breakdown in communication was particularly evident in the maritime space. Mr King explained in simplified terms what he thought had happened:

...the customer base—the capability manager—had developed a feeling that DMO would just pass something or throw something over the fence at them and they would have to take it. I think they had fallen into a mode of 'Well, I'll see if I like it when I get it.'⁴⁰

8.35 He explained that although the correct processes were in place it was a matter of culture and the attitude of the people in the organisation who were executing them:

I think we had allowed that to fall into a state that was not as good as it could have been. I think we are working very hard and have worked very hard and have already made significant improvements. In particular, DMO is responding to and engaging with our capability managers and making sure that they are fully engaged and fully understand what we are doing and the challenges we are facing. I would be fairly confident or I would like to think that they would agree that we are making big steps forward in that direction.⁴¹

8.36 Air Marshal Harvey supported the view that capability managers now have a strong say throughout the process.⁴² Indeed, Defence is confident that some of the measures discussed in the previous chapters, such as project charters and MAAs, would not only help clarify responsibilities and improve accountability but also help to strengthen linkages and relationships.

8.37 An important question for the committee is how such a situation, which effectively disenfranchised the capability manager, was allowed to develop and whether the very management structure gave rise to the damaging culture and attitude cited by Mr King. While MAAs give the appearance of capability managers having responsibility, being accountable and working in lockstep with CDG and DMO, they do not of themselves enable the capability manager to exercise appropriate control or authority.

Materiel Acquisition Agreement

8.38 In Mr King's opinion, the introduction of project directives and the capability manager co-signing the MAAs has been an important shift toward improving the relationship. According to Mr King, Defence now have 'a very structured approach to not just how to deal with the materiel aspect but how to deal with how we are going to introduce a capability into service. That has been a more recent shift, which I think is

40 *Committee Hansard*, 7 October 2011, p. 54.

41 *Committee Hansard*, 7 October 2011, p. 55.

42 *Committee Hansard*, 7 October 2011, p. 15.

positive'.⁴³ He noted further that the MAA protects against scope creep—an unauthorised change or request for more capability. He explained:

So our project teams cannot operate outside the MAA. But if there is a real and genuine need that has emerged, new threat, because projects are long, then the process now in place is: we go back to the government and advise them of the need, obviously supported by the sponsor, the capability manager, and then government makes a decision to change its approval.⁴⁴

8.39 The ASLAV upgrade, which was cancelled within the last 12 months, shows that this measure is not working.

8.40 The committee has also discussed the value of project directives, project charters and the Ministerial Directive to DMO. Not only are such documents key accountability tools but they also help to establish shared understandings. One witness stated that forging a 'working together' approach could only be achieved if built on 'well defined, written projects foundations'. He said:

The most critical of these is the clear definition of the handoffs between those in the chain who contribute to the outcomes i.e. each party must know exactly what is expected of them so that fuzzy arguments are avoided about who is responsible.⁴⁵

8.41 If implemented and properly adhered to, such measures should go some way to prevent DMO from receiving a 'hospital pass' or the capability manager, embarking on a 'voyage of discovery' after taking delivery of a product. The committee has noted, however, the record of failed reforms that have focused on process. Despite Defence's confidence in its initiatives, the committee can envisage that, with the passage of time, the same damaging behaviours are likely to return to perpetuate the pattern of poor performance.

8.42 Defence has also introduced project initiation boards as an additional means to bridge the differences between those involved in an acquisition project and to bring them together as a group early in the process.

Project initiation and review board

8.43 In March 2012, Vice Admiral Peter Jones noted that during the recent DCP review the Service Chiefs made clear that they wanted 'to be involved at the very beginning, much more so than at the end, doing a final tick-off of the paperwork at a defence capability committee'.⁴⁶ At the same time, Mr King informed the Parliamentary Joint Committee on Foreign Affairs, Defence and Trade that the CDG

43 *Committee Hansard*, 7 October 2011, p. 16.

44 *Committee Hansard*, 7 October 2011, p. 17.

45 *Confidential Submission*, p. 21.

46 Parliamentary Joint Committee on Foreign Affairs, Defence and Trade, *Committee Hansard*, 16 March 2012, p. 51.

had commenced a project initiation board process, which involved CDG, DMO and capability managers. The board replaces the Options Review Committee (ORC) According to Defence, until recently projects were considered early in the capability development life cycle by the ORC but experience had revealed shortcomings:

A large number of Groups and Services were represented, often at junior level, making the committee unwieldy and lacking authority.⁴⁷

8.44 Vice Admiral Jones, who runs the board, explained that Defence was putting a lot of emphasis on the board, on knowledge management and getting general manager engagement. The membership of the board is smaller than that of the ORC and is more senior. The board enables these senior people, who bring project knowledge with them,⁴⁸ to 'nail down the scope [of the project] at the very beginning before people go off too far'.⁴⁹ He stated:

One of the benefits of doing the business cases in a joint environment is that you have a much larger number of projects from which to draw lessons across the environmental stovepipes. We see a lot of use at times of bitter experiences and lessons feeding into the projects.⁵⁰

8.45 Although the initiation board is intended to capture knowledge from past projects,⁵¹ it should be noted that Air Commodore (retired) Bushell argued that the project initiation board proposal, 'will not improve capital equipment acquisition'. He maintained that at that high level, the board would 'have nobody who has the faintest idea about the hard operational and technical aspects of the capability, or how the project should be managed'. While agreeing that the Service Chiefs need to be involved, he noted that they need to be genuinely accountable.⁵² The committee agrees that the experienced hands and technical subject matter experts need to be involved in the assessment and that dissenting voices must have a way of being heard. The examples cited in chapter 2, clearly demonstrate that in a number of cases critical technical advice on risk did not reach senior levels—ill-informed decisions were made.

Committee view

8.46 The committee notes the establishment and intention of the project initiation board as a means of bringing capability managers, DMO and CDG together at an early

47 *Supplementary Submission 21B*.

48 Parliamentary Joint Committee on Foreign Affairs, Defence and Trade, *Committee Hansard*, 16 March 2012, p. 50.

49 *Committee Hansard*, 13 June 2012, p. 27.

50 Parliamentary Joint Committee on Foreign Affairs, Defence and Trade, *Committee Hansard*, 16 March 2012, p. 50.

51 Parliamentary Joint Committee on Foreign Affairs, Defence and Trade, *Committee Hansard*, 16 March 2012, p. 50.

52 *Supplementary Submission 3F*, p. [5].

stage to build stronger communication networks and to lay the foundations for a collaborative approach. Although accepting the reasoning behind the creation of the boards, the point remains that they can only be as good as the information and analysis that they have at hand and their ability to ask the right questions. In this regard, the committee believes that much work remains to be done to ensure that the boards are able to tap into a deeper understanding of the feasibility of a proposal and reach a much better appreciation of the operational and technical aspects of the capability under consideration. This means that these most senior officers must ensure that the board is not only a top-down exercise but that it draws on expert analysis and the experiences of those directly involved in the project. Another niggling concern is that the board will turn out to be a simple re-badging of the Options Review Board and hence replicate the same shortcomings—an unwieldy committee made up of a number of groups lacking authority and whose members are too junior. The committee has heard nothing to indicate that, despite current enthusiasm for the boards, they will not revert to form.

8.47 Earlier in this chapter, the committee noted the government's intention to appoint an Associate Secretary (Capability). According to the minister, the officer was to be responsible for the integration of work in relation to capability development by Strategy Group, CDG, the DMO and the DSTO. He stated:

In particular, this officer will ensure the more effective contestability and integration of advice at the early stages of the process, as well as for ensuring the performance and accountability of the overall capability development, acquisition and sustainment chain.⁵³

8.48 As noted earlier, the government is no longer proceeding with the appointment but has yet to indicate how the identified problem is to be rectified.

Defence Science and Technology Organisation

8.49 DSTO is also an important participant in capability development. It has a central role in providing technical advice and support. Indeed, the Chief Defence Scientist is responsible for the provision of technical risk assessments, technical risk certifications, the development of Science & Technology (S&T) project plans and for providing other S&T support as required.⁵⁴

8.50 Pappas' audit found, however, that there was scope for DSTO to have a more constructive engagement in pre-approval assessments. He noted that some DSTO assessments were 'not always as helpful as they could be':

53 Stephen Smith MP, Minister for Defence, 'Improving personnel and institutional accountability in Defence', 9 August 2011, <http://www.minister.defence.gov.au/2011/08/09/improving-personal-and-institutional-accountability-in-defence/> (accessed 1 February 2012).

54 Department of Defence, *Defence Capability Development Handbook*, August 2011, paragraph 3.2.13(i).

...a number of risks on the AWD project were unknown, but were classified as 'High' (when they could have been anywhere from 'Low' to 'extreme')—which makes interpretation difficult. There is also the possibility that assessments use the 'High' risk category often that other parties become desensitised to risk.⁵⁵

8.51 He explained that a 'clearer indication of the most critical risks would help those tasked with risk management to know where to focus'. Worryingly, he also observed that:

DSTO involvement and assessments are not always paid the respect they should be; scope and specification changes make the conduct of a Technical Risk Assessment (TRA) very difficult and there does not appear to be consistent criteria that determine the degree of initial and ongoing DSTO involvement in retiring technical risk in projects. Closer cooperation will have two mutually reinforcing benefits:

- The grounds for risk assessments and potential ways to reduce/mitigate the major risks will be better communicated to and understood by the project teams responsible for the project.
- The DSTO staff performing risk assessments will develop a deeper understanding of how project teams can and do manage risk over time. This will help inform future recommendations.⁵⁶

8.52 Furthermore, Pappas found that wording in DSTO technical risk analyses was 'sometimes adjusted to conform to Cabinet submission writing conventions'. Although the final Technical Risk Certification remains unchanged and the Chief Defence Scientist agrees to the final version of the cabinet submission prior to sign-off by the Secretary and CDF, Pappas suggested that there was a risk that 'key messages and an independent perspective may be lost'.⁵⁷ It should be noted that Defence informed the committee that the Technical Risk Certificate for each project is 'taken verbatim into the advice to Government'.⁵⁸

8.53 Clearly, Defence must ensure that the technical advice from DSTO is provided to key decision-makers in a way that accurately reflects DSTO findings and is able to be understood and fully appreciated by them. The troubling history of persistent underestimations of the amount of developmental work required to bring a capability into service suggests that either there is inadequate or poor analysis or, as suggested by Pappas, DSTO assessments 'are not always paid the respect they should

55 Department of Defence, *2008 Audit of the Defence Budget*, 3 April 2009, p. 82.

56 Department of Defence, *2008 Audit of the Defence Budget*, 3 April 2009, p. 82. The audit recommended that technical scrutineers be involved in ongoing measurement and management of technical risk.

57 Department of Defence, *2008 Audit of the Defence Budget*, 3 April 2009, p. 50.

58 *Supplementary Submission 21B*.

be'.⁵⁹ In fact, it is said they are often ignored and written down so as to be meaningless.

8.54 Also, it is important to consider whether DSTO is currently being asked to do more than it is capable of doing or whether it has the right people to do the assessments. For example, DSTO personnel do not have an operational background and may struggle to make a considered assessment on the impact that a particular technical issue may have on capability, training or certification.⁶⁰ Finally, there is another matter of concern with possible conflicts of interest or moral hazard in that the opportunities for collaborative activities and funding have in the past driven DSTO to recommend a course of action that may not be in Defence's best interest.

Industry

8.55 Many witnesses recognised that Defence's relationship with industry is critical to the success of an acquisition. The committee has already noted the importance of the early engagement of industry, even as early as the White Paper stage, so that Defence is fully informed to prevent it from closing off options prematurely or embarking on a project that is not feasible. But engagement is also necessary as the project moves through the needs into the acquisition phase.

8.56 The Australian Business Defence Industry Unit spoke of the importance of having 'real partnerships between Defence and industry early in the development of capability concepts' as well as throughout the lifecycle of systems'. In its view, such a good relationship can 'only lead to better capability, better technology and lower life-cycle cost'. According to the Unit:

Early industry involvement can lower Defence risk and can be done in ways that maintain Value for Money objectives and market-based competition. Defence should work together with industry to find ways to promote early engagement.⁶¹

8.57 One industry representative stated, however, that he was 'not convinced that the right discussions go on to get the right capability and minimise the risk we enter into'. In his view, there was a significant gap in the discussion—that is the risk that industrial capability and capacity to deliver a project on time and on budget was missing in the entirety of Defence's conversation with industry.⁶²

8.58 In chapter 2, the committee noted a number of instances where there had been a breakdown in the relationship between Defence and the contractor—Super Seasprite and the FFG Upgrade, and serious misunderstandings with the AWDs. The committee

59 Department of Defence, *2008 Audit of the Defence Budget*, 3 April 2009, p. 82.

60 Evidence taken during private briefing with Defence.

61 *Submission 6*, p. 5.

62 *Committee Hansard*, in camera, p. 19 and information obtained during committee's visit to South Australia and Western Australia.

is firmly of the view that industry's relationship with Defence, particularly the DMO, must not only start early but remain on a firm and constructive footing throughout capability development, delivery and sustainment. The committee looks closely at the relationship with industry in Part VI of the report.⁶³

Conclusion

8.59 The committee has underlined the importance of Defence personnel being aware of their responsibility and accountable for the performance of projects under their purview. Ensuring that all engaged in procurement activities clearly understand their responsibilities and how they interact with those of others would be a firm step in the right direction. While on paper procedures such as MAAs and project initiation boards look promising, the committee remains to be convinced that in practice they would be effective. It has already raised concerns about non-compliance with policy and guidelines, disenfranchised capability managers and disempowered project managers.

8.60 Although groups may understand their responsibilities and be compelled to sign agreements, they cannot be made to work together harmoniously if there are structural, resource or skills impediments. In this regard, Defence needs to pay close attention to creating an environment, especially through its management structure, that is inclusive, counters the tendency for groups to work in silos and allows those with responsibility to exercise their authority. In doing so, Defence should also be intent on removing administrative layers not adding to them. As explained in chapter 15, there should be direct contractual agreements after second pass between clients (capability managers) and contracted providers without third party involvement. Without such a standard commercial approach, there will be no change, only more process, and more bureaucratic layers clogging up the system.

8.61 The committee also notes the establishment of the project initiation board but again reiterates its concern about such initiatives promoting form over substance. MAAs and new boards might be part of the answer but if not accompanied by deeper changes will only add another layer to an already complicated process without improving communication and strengthening the relations between the various groups.

8.62 The committee's recommendations look beyond process to the more important management matrix model.

Recommendation

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.

63 See for example paragraphs 2.6–2.7; 2.19; 2.27–2.30; 2.46 (MRH-90 Helicopter); 2.49–2.51; and 2.76.

Recommendation

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

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

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.

