



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES
COMMITTEE

Reference: Defence Materiel inquiry

WEDNESDAY, 9 OCTOBER 2002

MELBOURNE

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SENATE
FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE
Wednesday, 9 October 2002

Members: Senator Cook (*Chair*), Senator Sandy Macdonald (*Deputy Chair*), Senators Hogg, Johnston, Marshall and Ridgeway

Substitute members: Senator Bartlett for Senator Ridgeway

Participating members: Senators Abetz, Bartlett, Boswell, Brandis, Carr, Chapman, Coonan, Denman, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Forshaw, Harradine, Harris, Knowles, Lightfoot, Mackay, Mason, McGauran, Murphy, Nettle, Payne, Stott Despoja, Tchen, Tierney and Watson

Senators in attendance: Senators Hogg, Marshall and Johnston

Terms of reference for the inquiry:

To inquire into and report on:

1. Whether the current materiel acquisition and management framework of the Department of Defence is effective in meeting the organisation's equipment requirements.
2. In considering this matter, the committee is to examine and report on the following issues:
 - (a) whether the current materiel acquisition and through-life support system is meeting, and will continue to meet, the needs of Defence and Defence industries in a timely, cost-effective and qualitative manner;
 - (b) the impact of the Defence Materiel Organisation acquisition reform program on materiel acquisition and management;
 - (c) the current status of major equipment projects in meeting the organisation's requirements;
 - (d) the impact of the creation of decentralised System Program Offices on materiel acquisition and management; and
 - (e) any other issues relevant to the effectiveness of the current acquisitions framework which arise in the course of the inquiry.

WITNESSES

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Committee met at 2.08 p.m.

ACTING CHAIR (Senator Hogg)—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade References Committee, and I call the committee to order. Today the committee commences its public hearings into the defence materiel acquisitions and management framework. The terms of reference set by the Senate are available from the secretariat staff, and copies have been placed near the entrance to this room. Today's hearing is open to the public, but this could change if the committee decides to take any evidence in private. Today's hearing will adjourn at approximately 3 p.m. I want to place on record the committee's regret that there will not be an appearance today, as expected, by officials of the Victorian government nor by representatives of the Australian Defence and Industry Network. The views of state governments and defence industry representatives are important in enabling the committee to fulfil its obligations to the parliament, to investigate comprehensively the current state of affairs with respect to defence materiel procurement and management. We will be hearing from their counterparts in other states.

Witnesses are reminded that evidence given to the committee is protected by parliamentary privilege. It is important for witnesses to be aware that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. If at any stage a witness wishes to give any part of their evidence in camera, they should make that request to me as chair and the committee will consider that request. Should a witness expect to present evidence to the committee that reflects adversely on a person, the witness should give consideration to that evidence being given in camera. The committee is obliged to draw to the attention of the person any evidence which, in the committee's view, reflects adversely on that person and to offer that person an opportunity to respond.

An officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy. However, you may be asked to explain government policy, describe how it differs from alternative policies and provide information on the process by which a particular policy was arrived at. Witnesses will be invited to make a brief opening statement to the committee before the committee embarks upon its questions.

[2.10 p.m.]

ACUTT, Colonel Peter Anthony, Director, Wheeled Manoeuvre System Program Office, Land Systems Division, Defence Materiel Organisation

MEDBURY, Mr Grant, Director, Materiel Operations and Support, Land Systems Division, Defence Materiel Organisation

PLUCK, Mr John Patrick, Director, Tracked Manoeuvre System Program Office, Land Systems Division, Defence Materiel Organisation

POTTER, Lieutenant Colonel Gary, Program Manager, Small Arms, Armament System Program Office, Defence Materiel Organisation

WILLIAMS, Dr Ian Sidney, Head, Land Systems, Land Systems Division, Defence Materiel Organisation

ACTING CHAIR—Do you have any opening statements to make?

Dr Williams—We do not have an opening statement as such, but I will make a few comments by way of background. I will set the scene, so that you know who is here and where we fit into the organisation. In essence, two of the DMO divisions are headquartered in Melbourne, both in Victoria Barracks. One is Land Systems Division, which is my division and from which all five of us come, and the other is the Joint Logistics organisation, of which Major General Peter Haddad is the head. Within Land Systems Division we have three broad entities. One entity is Contracting Policy and Operations, which sits for administrative purposes in my division and provides contracting policy and support for the whole of the Defence organisation. The second area is the Land Engineering Agency, which is based in Bourke Street in Melbourne but also at areas in Maribyrnong and Monegeetta. It provides engineering support for a range of Army activities and in particular for our general business. The third and, from your perspective, most significant element is the System Program Offices, which are spread across two branches. There are a total of eight SPOs. We have representatives from four of them here. All of those SPOs are located here at Victoria Barracks. A few people are still posted in Canberra and elsewhere but, essentially, we are all located here.

John Pluck is the head of the Tracked Manoeuvre SPO. In essence, he is responsible for the M113 armoured vehicle fleet and the projects associated with it, and the Leopard tank fleet, projects and fleet support. Colonel Acutt is the head of the Wheeled Manoeuvre SPO. That involves the Bushranger project, the ASLAV project and the subsequent introduction of those fleets into service. Gary Potter is in the Armament SPO. They deal with a range of small arms, artillery and a range of weapons of that sort. Finally, Grant Medbury has for the last two years been my right-hand man in the change management process in the organisation, so he can comment on some of the change process we have gone through. Grant has just recently moved across to manage the Surveillance, Electronics and Simulation SPO. That gives you a bit of a feel for the range of expertise we have here. We are happy to take any questions.

ACTING CHAIR—Does anyone else wish to make an opening statement? If there is nothing that you would like to enlighten the committee on, we will embark on questions.

Senator JOHNSTON—Have you all read the white paper, Defence 2000? Have you also read both the speech to the National Press Club on 13 June by the then Secretary of the Department of Defence, Allan Hawke, and the address to Defence Watch on 4 April 2002 by your departmental undersecretary, Mick Roche? Are you all familiar with those assessments?

Dr Williams—I am trying to remember which particular speech was on which occasion, but certainly we would have seen all the speeches by the principals. If you are referring to them, yes, we would have had some visibility.

Senator JOHNSTON—The broad thrust of both of those speeches very generally is that the DMO is headed in the right direction with respect to the reforms and that the movement of the SPOs out to be adjacent to their units looks to be successful. I would like to hear your opinions as to whether you think the broad thrust of the reforms are heading in the right direction? I have a lot of other questions. For starters, are we headed in the right direction? Do you agree with the proposition that the SPOs on site with their units and with their asset is the way to go?

Col. Acutt—In terms of land systems we are not actually near the customer; we are actually all in Melbourne. It is a different model to the maritime and air models. I think it has been successful for us. The situation has brought the old Support Command and the Acquisition Organisation together so we can cradle to grave. Many of us have, over the years, said that this would be a good move and we should do it. Now we have done it. We are getting a lot out of it. In my case, which is running the LAV program, we now have in the same building, on the same floor and in the same area the guys acquiring the equipment and the guys we are going to hand it to to look after. From that perspective, it has actually been a good move and it has actually worked pretty well for us.

ACTING CHAIR—You were there when the old processes were in place. You had acquisition and support and so on. How is it different now to what it was then?

Col. Acutt—The key difference is that we own the whole process. In the past—this is my fourth time in the acquisition game—we used to buy the equipment—

ACTING CHAIR—Have you done something wrong, have you?

Col. Acutt—Yes, obviously. I am going to get it right. We would then hand it over to support command to manage. Really that was not acceptable to both sides. They often did not like what we gave them. The second problem for us was actually getting them to clearly define what they wanted so we could give it to them. Because we are now in the same location and the same team goes to all the meetings and is part of the whole process, we very clearly understand what we have to do. As an example, the project manager for ASLAV is not going to do something wrong at the front end which is going to affect him at the back end because he owns the whole process and he is responsible for everything.

Senator JOHNSTON—ASLAV is what?

Col. Acutt—The Australian light armoured vehicle. It is the eight-wheeled reconnaissance vehicle.

Senator JOHNSTON—I am dysfunctional with respect to acronyms so you will have to spell it all out for me, I am sorry.

Col. Acutt—That is a clear example of how it works. We now have an in-service fleet. The armoured fighting vehicles which we are looking after are with 2nd Cavalry in Darwin and we are buying new vehicles to go into Brisbane. As an entity we are able to make sure that we get that all right. In the past we would have found that very difficult. The M113 case is a similar example.

Mr Pluck—We have had exactly the same experience and the same benefits obvious to us from the amalgamation.

ACTING CHAIR—But there were problems with the M113 project at one stage, if my recollection serves me correctly?

Mr Pluck—The M113 project has a long history.

ACTING CHAIR—I think that sums it up.

Mr Pluck—I will not say we got it right in the past; clearly we did not.

ACTING CHAIR—It is not a criticism; it is mainly for the record. We might be familiar with it, but it helps to put it in context for those reading if there is a little bit of background.

Mr Pluck—I will comment more widely before we go on. We keep using the word ‘reform’ as if it is something novel and recent. My own observation is that it is more a case of continuous reform. DMO is pretty much an overnight sensation which took years, if not decades, to come about. Over a period of 20 or 30 years since I have been in Defence there has been a gradual process of evolutionary change and continuous reform, if you want to use that word, going on, which is all a similar trend. It seems to be focused on aligning ourselves better with capability and its development, management and implementation.

We have seen a lot of changes to processes. The idea of SPO, for example, is almost a natural progression of the way the organisation was changing 10 years or so ago when we started to reform. Integrated logistic management units were actually put out with the units in a lot of cases—and that worked. We have got to a point where we have a watershed—we were trying to integrate the through processes, the acquisition and support systems, and it was not effective. We had to have organisational change to go with it to make it work. That essentially was the DMO being formed.

ACTING CHAIR—It would be fair to say that there has, over a long period of time, been reluctance to change because it would have upset the comfortable situations that people had found themselves in?

Mr Pluck—In many cases. That is human.

ACTING CHAIR—That is right. So change was never going to be brought about easily?

Mr Pluck—No, whether it is process or organisational. It does not matter. In terms of my own system program office, the changes have been very apparent since we have combined—even though we are in Melbourne rather than out with the units. In terms of the M113 project specifically, the ability to merge the ongoing support of the existing vehicle, the upgrade of that vehicle whilst still operating and maintaining the fleet and transitioning that into a seamless introduction into service of the upgraded vehicle with the existing fleet would have been a very high risk operation without that co-location. My view is that to have tried to do this as an acquisition project in Canberra and still trying to talk to the logistics people down in Melbourne and coordinating the provision of the parts and so on that is common to both would have added extremely high risk in terms of future delays.

Senator JOHNSTON—Just going to the detail, how would that have occurred? Can you give me an example?

Mr Pluck—We need to coordinate the provision, identification and availability of vehicles to be put into the program to be stripped of spare parts. Those parts have to be overhauled under the logistics organisation and system and existing contracts, for that matter was well.

Senator JOHNSTON—So you are saying you have to be there to see it happening?

Mr Pluck—To a point, yes. To make it happen effectively. There were different people managing these. They can talk to each other a lot more readily if they are side by side rather than separated by 600 kilometres. That is the problem with doing it from Canberra. I am not saying it was impossible, but it would have been much more difficult and there would have been a lot of risk of having things go wrong and then delays resulting.

Senator JOHNSTON—What size is your team.

Mr Pluck—My total program office comprises 60 people.

Senator JOHNSTON—So obviously you defer and delegate to them quite substantially?

Mr Pluck—Yes.

Senator JOHNSTON—But you believe that being on location gives you an advantage over being in Canberra?

Mr Pluck—Absolutely.

ACTING CHAIR—Were you Canberra based prior to that?

Mr Pluck—Yes, I was personally.

Senator JOHNSTON—How are you handling the shift? If you want to be perfectly frank, we will understand all of your reservations. I would like you to be frank.

Mr Pluck—At a personal level I thought it was great. I asked for it. When the DMO was formed I saw it as an opportunity and specifically sought a job of running one of the SPOs. That was an opportunity to change from what I was doing up in Canberra.

Senator JOHNSTON—You do not have to answer this question but can you disclose to me how your contemporaries in Canberra who are in a similar position to you related to the idea of everybody leaving Canberra and going out to be adjacent to their target assets?

Mr Pluck—I can only speak to a degree based on anecdote. I am aware that the feelings were mixed. Clearly, there were people who did not want to move. As you observed earlier, there was reluctance to change. A lot of those people stayed.

Senator JOHNSTON—Do you discern any change in that attitude? Naturally, it would have been greeted with a degree of negativity. I am trying to reconcile some of the statements in these speeches.

Mr Pluck—It was not entirely negative. There were a lot of positive feelings about it when it was first announced. There were some people who grasped the opportunities, as I believe I did. There were others who did not want it. In those cases they generally managed to find accommodation in Canberra—found alternative careers. Those who were on side went with it. Talking amongst my peers, I have found that there is more acceptance of it now that it is actually in place and starting to work than there was initially.

ACTING CHAIR—There would have been a degree of scepticism that this was another bout of change that we are going to have—‘someone somewhere has come up with a you-beaut idea and we have lived through too many of these you-beaut ideas’. There would have been an element of that around as well, would there not?

Mr Pluck—That is true, yes.

ACTING CHAIR—Last year this committee conducted an inquiry into retention and recruitment. In the Defence Force recruitment organisation we found that they had eight reviews in eight years with eight reports making eight sets of recommendations. They were change weary by the time they had been through those eight sets of recommendations. With the churning of personnel they ended up not knowing where they were going. It would be fair to make that assessment as well, would it not, but not to the same extent?

Col. Acutt—Many of the changes in the past were moving the deck chairs in Canberra, in reality. This is a major change. This was a very different change in that it affected people moving out to different locations if they chose to move.

Dr Williams—It was a fairly demanding time in terms of the move. It is understandable that, if people are living in one location—particularly if they have families and the like—it can be difficult. In our case, the division is about 1,000 in round figures, and there were about 130 or 140 positions that moved.

ACTING CHAIR—When you say ‘moved’, where were they moved to?

Dr Williams—These were positions running major projects relocated from Canberra down to Melbourne to form integrated SPOs. Again, it has to be put in perspective; it is 14 per cent of the total number. The other thing worth noting is that we did have a pretty good uptake. About one-third of the people chose to move. One of the successes was that, under Peter Dunn’s leadership as the change manager, some very good arrangements which I think had not always existed were in place to facilitate people’s moves. I would see that as a real positive. Having seen from afar some of these moves in the past, the other thing that pleased me was that, where there is often a small, core group of people who at the end do not want to move and who cannot find another job and you have the difficulty of finding what to do, to my surprise we did not have anyone in that boat. People were snapped up. The problem, if anything, was that people had alternatives and were moving before we were ready to relocate, so we were trying to move quickly to recruit to replace them.

As a measure of success, one-third of the people moved, we recruited quickly in Melbourne to fill the vacancies and those people who did not move were found other jobs almost always in DMO. That side worked very well. I take the point: often changes are small and are organisational changes in titles. This was very clear; people said, ‘This is the move; it is integrated SPOs moving out to regions.’ Understandably, people look at their personal interests, but to me was the success was in the fact that it was clean and clear and that we moved ahead and put the mechanisms in place.

Senator JOHNSTON—Mr Pluck, you said that some people left the department; that they did not want to move, they were disheartened and they left. Do you have any opinion as to whether their loss in terms of their experience and their ability—and I do not know how extensive your knowledge is as to who went and who we lost from the department—was an acceptable, sustained piece of damage in the overall process yielding a higher success? In other words, was it worth it to lose them to get to where we have got to? Do you have an opinion on that?

Mr Pluck—Yes. Firstly, they did not all leave the department as such. With regard to the people I know, only one person left the department; the others all found jobs within the department and usually within DMO. In terms of the cost, yes, there was a short-term cost in loss of corporate knowledge and expertise, particularly on the projects I was dealing with. My view at the end of it all, having suffered through it, is that, yes, it was worth while. There is an upside to some extent in that the recruiting process brought in some new ideas and new blood, which is always beneficial. The gains we made from the better integration of the acquisition and support people—so they were actually talking to each other—and the increased effectiveness we are getting from that are more than enough to offset the loss. It was short term, and we are now very well on the way to overcoming that. We have had several successes over the last six to 12 months with recruiting programs. In my SPO, for example, vacancy rates have dropped from about 40 to 50 per cent, where I started, to about 10 per cent.

ACTING CHAIR—What therefore makes the SPOs and the DMO more accountable now than they were previously, in another form in another life? Accountability is paramount in terms of the parliament.

Dr Williams—I am happy to make a comment, and John may follow up. From my point of view, in the past there were often stove pipes that resulted in turf disputes. Take the example John gave of the support area: if you run into difficulties then you can get debates as to whether the project did not adequately provision the integrated logistics support package and they handed over a dud project to the logistics people or whether the logistics people perhaps did not do the preparation and get in early enough.

ACTING CHAIR—Traditional blame shifting.

Dr Williams—And again that is human nature. You will never get rid of that entirely, but at the moment we have got a situation where at the end I am accountable for that. I cannot duck and John's and Ted's areas et cetera are the same; they cannot duck.

ACTING CHAIR—How do we, as members of parliament, see this improved accountability? This is one thing that I have been trying to come to grips with. We have gone through this shift. We have now got the creation of the new organisation and in part that is what this inquiry is about, so that we can get some feeling as to where the benchmarks are. How do we come to grips with this and say, 'This is not just another monster that has been created.' Somewhere down the track, whether we or our successors are sitting here, we are going to be confronted with much the same situation, saying, 'What's going on?'

Dr Williams—It is worth putting it in perspective. The nature of the MO business is very long term. The sorts of projects you heard of for the ASLAV et cetera are up to decades long, so it is very difficult to get rapid runs on the board. If you have got a change that took many months to bed down and then you have been in train for a year, it is fairly hard to get clear evidence, but I believe there are some examples coming forward already.

ACTING CHAIR—If you can take that on notice and give us some of those examples, that would be helpful.

Dr Williams—I will do that. In our case, I will give you some examples. The other thing that needs to be noted is that the nature of the business is all about risk management. In the US, something like—this is the public and private sectors—85 per cent of software projects fail to achieve budget and schedule, and it is the nature of the risk management business. You can look at similar examples around here in the private and public sector. I think what you have to do to do a measure is not just say, 'Have there been failures?' Of course there have been; that is the nature of the business. It is about asking if the balance is moving in the right direction, and how we benchmark against others. My own measure would be, and it is early days—you mentioned the M113: when we were set up, the M113 had been around for many years—

ACTING CHAIR—We did have a few discussions about it at estimates, if I remember.

Dr Williams—We have, indeed, on many occasions. The problem is that the aspirations exceeded the money, basically, so it would never quite get up and it would be thrown back in for reconsideration. What John and his team were able to do was set some realistic targets right at the start and we then proceeded, in pretty short time actually, to get the contract. We finished up getting a contract for a higher level of capability than we thought we might and we really squeezed a good deal out of it, so that is already a success. That is not to say that with a project

where you are replacing the engine and the drive train, stretching a vehicle et cetera there is not a risk. If things do not go wrong, I would be amazed, but we have taken what has been many years of problems and turned it around. Similarly with Bushranger, the original contract had some fundamental weaknesses and under this regime we have turned it around and the onus is now on ADI to perform, and I guess you will find out tomorrow what their views are. But, in essence, we have now got a much better contract.

ACTING CHAIR—So you are saying that the contracts were the weakness in the first instance?

Dr Williams—Not entirely, but it is in some cases, and in that case it certainly was. In that case you had a contract that was probably developed with the notion of two government agencies working in a sort of partnership. When you then find that problems arise, and particularly when it becomes a private sector to government, everyone is obviously trying to argue their case, so I think the contract was developed in a different environment.

Some of the work on the contracting branch in my division is looking at new contracting templates; we are trying to get common standards. Instead of everyone going out and inventing their own contract and looking at what their friends did, we are trying to get standard contracts. In fact, Dianne and some of her workers looked at the statement of works element to get consistency. That is a work in progress. As you can imagine, the number of different types of contracts we have is huge, so it is going to take us some time to progress through; but already you are getting a bit of consistency. From my perspective, if you look at a contract, you are familiar with the clauses so you do not have to go back to scratch. There will be differences. We have already seen some examples but the team can probably give views from a more detailed perspective than I can.

Lt Col. Potter—From my perspective, sitting a bit lower down in the hierarchy—and to come back to your point on accountability—the synergistic effort and effect of the SPOs being in one location cannot be underestimated. It is a cradle to grave philosophy. Clearly, if you are looking for a person to take accountability for a problem, you only have to go to one location. You can start at the head of land systems and work your way down, but clearly if it is in 113 you have a director of 113; if it is in armaments, where I sit, you come to the one person, who has got the whole philosophy from cradle to grave.

Senator JOHNSTON—But he gets changed over. He gets removed after three years, doesn't he?

Lt Col. Potter—Clearly, within the military we have to go through a posting cycle.

ACTING CHAIR—But that raises the issue of whether or not there should be careers within the DMO structure which enable people to make their full military career.

Lt Col. Potter—That has recently been addressed within the officer career stream. People can now elect to come away from their dedicated corps allegiances. In artillery, for example—and I have not elected to take this option, because I still consider that I have other options in the wider ADF—people can say: 'I am now a dedicated project manager. I want to remain here.' Some of the major projects in artillery that are enunciated in the Defence Capability Plan will be

coming down for 10 to 15 years. So, if I were happy to remain with that project, I could sign up for that option.

Senator JOHNSTON—Do you think your peers are going to view the non-operational aspect of a career SPO outlook as being attractive?

Lt Col. Potter—I cannot actually quote the number of people in the uptake.

Senator JOHNSTON—But you have not.

Lt Col. Potter—I have not.

ACTING CHAIR—We just want a gut feeling.

Lt Col. Potter—I think the answer is yes, that it will be of benefit to people. But it is very much a personal decision, and it also depends very much on their tenure and career at that time. If you are a senior major or lieutenant colonel coming up around the 15- to 20-year service mark, the thought of going back, running around, living under a gum tree and that type of activity may not be quite so enticing. But, for a whole host of other personal reasons, people may choose the ability to stay in one location.

Senator JOHNSTON—But is there a culture amongst active servicemen that says that operational performance is much better and that that is what they joined for, as opposed to being a competent professional administrator? I actually think that, if the competent professional administrator fails, there is an awful lot of pain and suffering. An objective view is that he is just as important, if not more important, in some respects than the operational front-line guys.

Lt Col. Potter—I think that actually drives to the heart of the issue. Certainly, the warrior culture usually takes precedence over the logistics support, but we are trying to address that balance. Clearly, if they get the logistics wrong, the implications, as you say, can be painful.

Col. Acutt—I have lived in both fields. My last job was commanding the Australian contingent in the Sinai. Before that, I commanded the tank regiment. My time has been punctuated by command in the other world. The reality is that, for most arms corps, it is seen as detrimental to move into the acquisition environment. I think that is just the result of an unawareness. There is much to be gained by being in both fields. If you know how something is going to be used, you are better suited to know where to get it from. That is certainly the case. In the logistics corps it is not really the case; I think it is very beneficial to be part of this world, because it is part of your game, it is a measurement skill and therefore you come into it. That is not to say that it does not happen, and different corps have different views as to how much they value it. My corps is Armoured Corps which, because it is equipment based, actually values being in the acquisition world and tries to send a number of its better officers into it. It realises that, if it sends the lesser lights in there, the equipment it will get 10 or 20 years down the track will not be what it requires. But you are correct in that there is a feeling out there, which is perhaps perpetuated by the non-qualified, that coming here may be the end of your career. Army has attempted to do a lot to say, 'You can move between both. You can succeed in both worlds if you are prepared to put in an attempt to do it.'

Senator JOHNSTON—Do you think it follows that, to be a successful SPO, you must have had operational service?

Col. Acutt—That is not necessarily the case.

Senator JOHNSTON—What about in your defined area? Is that your experience?

Col. Acutt—What I am saying is that this has come through the mix of military to civilian within the DMO. If you were to choose any position, I would defy you to say that that position would have to be military or civilian. But there needs to be, within any organisation, a number of military, because you need a mix of advice on how to do things—operational experience and the like—to inform the SPO so that they get the right kit. You need, I suppose, a centre of mass of advice back and forth. That is the first point. The second point is that if you are going to have military within the organisation there has got to be a centre of mass for it to survive. There is no use having only 10 per cent or five per cent of military within the organisation, because there is no stream: you cannot actually grow a major to a lieutenant colonel or a colonel to a brigadier and so forth. So you need at least a certain number. I think they are two driving forces which say how many military should be in the DMO: sufficient to give the advice but also sufficient for a career structure—as Gary pointed to. Without that career structure and the knowledge of how to do it, it takes you ages to grow, just like it does anywhere else in the world. If you learn something as a major you can make lieutenant colonel, and you can continue learning. But you cannot just bring a colonel or a brigadier in at the top level and think he is going to perform within this environment; he cannot easily.

ACTING CHAIR—Really what you are saying to us is that there is a quite specific role, outside the role and purpose of the DMO itself, for the career advisers within Defence.

Col. Acutt—Certainly. Yes, they have a role.

ACTING CHAIR—It really means that those people need an in-depth understanding of what happens within DMO. I do not know if that has taken place; if there is an understanding of the change in culture that is being presented to us. I am not saying that I agree that there has been a change of culture, although I am at least conceding that there has been an attempt to change the culture, and I will come to that in a few minutes. But it would seem to me that they are absolutely important; otherwise you are going to miss out on the right people, getting the right mix and match, within the SPOs and within DMO. Is that a fair proposition?

Col. Acutt—I think so.

Senator JOHNSTON—In terms of the DMO, you say that it appears to have the flexibility to accommodate both the civilian expertise and a career path for the service personnel to make a professional contribution on that side of the ledger, at SPO level and beyond?

Mr Pluck—Certainly; yes.

Senator JOHNSTON—Do you think that there is a better equation now than there was with the old system, pre reform?

Col. Acutt—It is an interesting question, because the performance of the officers within those areas is to do with knowledge and experience. The new organisation makes us more efficient and therefore we are learning better lessons, perhaps. But the reality is that the new organisation has not changed the requirement for people to have various skills or various competencies. The people within those jobs still need the same competencies as they did in the past. There is greater accountability, which means there is greater emphasis now on being competent. There is greater emphasis now on actually being able to fulfil the requirements of the certain roles and carry them out. The amount of training that is now required of officers within the various areas has certainly increased. There is a clear understanding within the DMO, and Land Systems in particular, that a certain level of competency is required of each person in fulfilling their job, and training is therefore organised for them to achieve that competency.

Senator JOHNSTON—I would like to continue with this.

ACTING CHAIR—You go right ahead. Senator Marshall is still waiting. We are not trying to cut you out, Senator Marshall.

Senator MARSHALL—I want to talk about partnering and private sector alliances.

ACTING CHAIR—That is why we kept you up our sleeve.

Senator JOHNSTON—Dr Williams, I think I missed a bit of your opening commentary. You have got land systems and land engineering support?

Dr Williams—Just to clarify, Land Systems Division is the division. Within that, there are three broad entities. One entity is the Land Engineering Agency, and I have a branch head who runs that. It provides engineering services. I have the Contracting Policy and Operations Branch. Again, a branch head runs that. That is a service he provides more broadly across the whole of Defence, so it is policy for all Defence not just Land. The final area is the System Program offices, of which there are eight, and they are split across two branches. I have two brigadiers running them.

Senator JOHNSTON—The land engineering systems deal with what, precisely?

Dr Williams—Perhaps Grant could add to this, having spent some time there. To give you an example—and presumably tomorrow you will hear a bit about Bushranger—at the moment the prototype vehicles that ADI need to demonstrate a level of performance with are now located at Monegetta range, which is run by the Land Engineering Agency. Those vehicles will undergo trials there under very stringent conditions. We have a fairly rigorous arrangement. There are different sorts of terrain and they work the vehicles—

Senator JOHNSTON—So you do the earthworks, all the perimeter fencing—

Dr Williams—No, purely engineering tests. The detailed engineering in terms of earthworks is done with the Army engineering corps. This is professional engineering in terms of designing, testing and the like. Grant may wish to add a bit.

Senator JOHNSTON—When you say ‘land engineering’, is that as distinct from maritime engineering?

Dr Williams—Yes. The arrangements are different in each of the services, but each of the services would have some capacity for some engineering trials and test work. Within Army that group sits within my division.

Senator JOHNSTON—And contract policy is a unit that formulates what type of contract fits the jigsaw puzzle for a particular project?

Dr Williams—Contracting policy is a relative small group that looks at the templates and policy. For example, there was a recent Senate requirement that we have a contract register that lists all contracts with commercial-in-confidence information. The contracting policy area in my area are responsible for tasking the people to set that up, to maintain it et cetera and they also deal with the templates. There is then the contracting operations side which comes within the branch. Within that there are sections that are outposted to each of the other divisions. I have one outposted to my own land division to provide contracting operational support. They provide advice to the projects.

Senator JOHNSTON—What qualifications do these people have?

Dr Williams—There is a range. Many of them, particularly the younger ones coming in now, would have legal qualifications. Some of the old ones probably learnt on the job, and some of those can actually be the best.

Senator JOHNSTON—No doubt.

ACTING CHAIR—The school of hard knocks.

Dr Williams—So we have a mix, and we try to encourage that mix. I outposted a group to maritime and a group to aerospace, and I am pretty hands-off. They have that as an ongoing advisory service to them.

Senator JOHNSTON—Is this the same or similar group—or is it replicated in Canberra?

Dr Williams—The centre of it is in Canberra. The policy area and some of the central projects that are still in Canberra are based there. The land group is based here. There is a significant aerospace group also based here. We have smaller groups located across in the West and a handful of people at Amberley and a few of the other locations. It is always a difficult balance between wanting to post contracting experts out to the individual areas, because the workload may not be consistent, and trying to get an economy of scale. We are sort of toying with what is the right balance.

Senator JOHNSTON—How often do you bring all those people together? How often do you have forums? I am seeing a massive change with alliance contracting and there are other things that I see happening just in passing with small business enterprises et cetera, where there is an element of success through direct contractual arrangements. How often do we gather the positives together and learn from what is happening out there?

Dr Williams—I think we are probably doing more of that at the moment in trying to get templates in place. We are trying to address things like intellectual property and the costs that industry have to bear. We are trying to make the contracts more plain English and less onerous, particularly on the SMEs, where for some of them the guarantees that are expected could make life difficult. We are trying to learn from experience. You mentioned alliancing and other contracting areas. We are also trying to pursue some of those more model contracting areas. On alliancing, there are a couple of projects. They are not in my shop, so I am not the person to speak to, but we do have a couple of trials and we are trying to learn from experience. Once we get some experience we then hope to develop policy and templates as appropriate that we could push more broadly. The one risk is that at times you can get the sort of flavour of the month and you have to be a little careful that you do not rush down a particular avenue before you have really tested. We try to be reasonably innovative but, at the same time, we try to avoid rushing off down every rabbit hole.

Senator JOHNSTON—Given that most of our equipment is purchased offshore, a lot of the intellectual property is owned by foreign commercial entities. Are your people familiar or involved with the drawing up of those acquisition contracts such that we can manufacture without inhibition the component parts for those should they fail?

Dr Williams—There are a couple of issues here. Yes, the people in the contracting area are responsible for addressing those issues, as are the project staff—the contracting people advise us. Regarding the philosophy of the past, I guess we have toyed with intellectual property over many years to try to get the right balance. There was a time when there was a view that we ought to own all of the intellectual property, and we really did not need to—we would pay a price in contracts for that. If it was a clever Australian innovation, we did not have the capacity to develop it, so it did not do much good having it. We are now trying to take an approach with intellectual property—and it is one of the key shifts in our contracting—to try to actually get the access to the intellectual property we need to be able to maintain the asset and to upgrade it. What we do not want to do is to find that we get to a midlife upgrade and we have only one company we can go to because we do not own the intellectual property rights. But, as I said, we do not have to own it; we have got to have access to it. So the focus is more on access rather than owning.

Senator JOHNSTON—And that is a product of the up-front contract as well.

Dr Williams—Yes. Again, as I commented earlier, given that contracts run in some cases well over a decade for the bigger projects, obviously you can shift your policy, but it takes time. We are still dealing with contracts in old formats, so it is a slow process.

ACTING CHAIR—Could I follow on in a sense and go back in another sense. You are describing new structures and systems to us and Mick Roche, in his speech on 4 April this year, had this to say about this:

We can set up new structures and systems, but if there isn't any fundamental behavioural or cultural change, then we are not going to achieve the outcomes we want.

He goes on in the next paragraph to say:

I am also pushing for our people, particularly our leaders, to change the way they approach their work; to stop being slaves to process.

What is happening within your organisation now that the change has taken place to ensure that there is a fundamental behavioural and cultural change, or have you just brought people across with the same routines—people who were in a rut?

Dr Williams—I will give my perspective, but the others may have a closer view. Some of the comments made by John and Ted earlier I think illustrate that, in running projects like M113 and Bushranger et cetera, we have people who are aware that they have to look after the through-life support as well as the project. They are not playing silly games on projects to try and juggle the dollars at the expense of through-life support or vice-versa. So I think we are already achieving a change.

The other area that Mick Roche is very keen on is trying to simplify our tendering process. For example, if we are going out with a sole-source approach to a company and perhaps a follow-on buy, then we are trying to avoid what, in the past, would have been very cumbersome, significant documentation. We are trying to move more quickly to get into contracts. With all of this, of course, it is always double edged: you need to be careful that you do not move too quickly and have contracts that are so light on that you have not got adequate teeth in them to enforce what you want. But certainly we are trying to move more quickly and be less prescriptive. The M113 is probably a good example of where, having sorted out the dollars, we actually moved pretty quickly to contract and worked very closely with Tenex—it was a joint development. So, in my view, I think there is a cultural change from where I sit; but, again, the team might differ.

Mr Pluck—In terms of specific processes and the culture change that goes with those, in setting up the SPO one of the very first things we have started doing is re-examining our processes. We are doing that both within the SPO at the microlevel as well as reviewing those at a higher level across the DMO where there are common processes. What I have found is that some of those practices of the past are ones that we do not want to hang on to—people have been doing things not well or sometimes just blatantly wrong—and the opportunity to actually sit down and re-examine all that, bring in new ideas for the extra recruiting and so on and marry the acquisition practices together with the logistics people so they can each learn from each other has in fact led us to change quite a few of our processes. We are right now still trying to finalise that and document everything we do at the moment.

Senator JOHNSTON—How do we benchmark this? You are telling us things that are very believable and no doubt 100 per cent accurate, but, in terms of benchmarking the performance at these levels, how are we going about that and how reliable is our feeling that things are better and working better? Do we have something to point to?

Mr Pluck—At the end of the day, the prime measure is the availability of the prime equipment that we are delivering to Army. The measure of that is the availability of that equipment, because our part of the capability we support for Army is the equipment side of it.

Senator JOHNSTON—Availability and quality?

Mr Pluck—And quality. That means not only does the equipment have to be at the right unit at the right time but also it has to be in a condition that works. The difficulty in setting benchmarks in terms of how we are improving on that is that not a lot of data was gathered in the past about those processes and the end results. To some extent, we are treading new ground in establishing those benchmarks as we go. We are setting availability targets for the equipment and we are also monitoring and setting targets for the performance of the process that gets us to the point. We are working to set measuring processes in place to collect the data.

Senator JOHNSTON—Can you give me an example of the measurements you are using? How do you go about measuring these things?

Mr Pluck—We measure the availability of serviceable M113s, for example, in all of the units. We measure the time taken to respond to demands for supply of spare parts. We look at the time it takes to overhaul and repair items as they go through the overhaul processes, to identify trends and improvements. They are the prime measures. We measure the cost of doing all that so we are also working to establish life cycle cost models for our equipment.

Senator JOHNSTON—To make time comparisons?

Mr Pluck—Yes.

ACTING CHAIR—I want to read to you something that Mr Gary Brown, a witness who was appearing before us in a private capacity, said to us at our hearing on Friday, 27 September. He said:

The department get a low bid which they can then take to government and get approval for more easily than a high bid, and then two or three years later they say, 'Oh, yes, and by the way, we really do need to add in capabilities X, Y and Z, and of course this will add X dollars to the project cost,' and then they get the approval. The upshot is that they now have a project much more elaborate than was originally intended, without having to go through the trauma of getting the approval for the higher cost at the outset, and this creates the perception of course that the project is blowing out. Had they been straight-up in the first place and said what the real requirements were, then this would not happen, but of course perhaps some projects would not be approved.

Given the new systems, how do you stop that from happening?

Dr Williams—This is an interesting area and it is probably one of the areas that is most misunderstood, particularly in the media, in terms of performance. At one level, of course, what is often seen as a cost increase is simply price or exchange as you would be aware from your committee roles. We need to distinguish that from real increases. We have a difficult situation. We are normally expected to go to government to seek approval for a project—this has been true of governments of both sides—before we actually have formal solicitation processes with industry. In other words, you need government approval in order to start talking seriously to industry but, in order to get serious reliable dollars, you need the solicitation process to get the quality, and it is a bit of a chicken and egg situation.

We are trying to push the two-pass approval—we have probably not pushed it far enough yet, but it is certainly something Mick Roche wants to push—where we try to get in early with an approval. For example, you may say to government, 'Capability X costs around \$1 billion', but until we go out we are not sure. So you would go to government saying, 'Are you prepared to spend that order of money?' Having gone out then, we would have some authority to go to

industry. If it came back and it cost \$2 billion—hopefully we would not be that far off the mark—government could say, ‘We don’t want that.’ But if it came in, you would refine it. It might be \$900,000 or \$1,100,000. I think the problem in the past was that, without the two-pass approval, we had to make the best estimate we could. I have had discussions with many people, ministers and others, over a long time and the comment is: why don’t we get it right up front? The only way you can do that is to load on a very high contingency level. If you load enough money on up front to make sure you have plenty to cover it, it sounds nice and simple but it risks the very thing that your witness was saying: having got it, you approve the money. In my view a healthy part of the process is actually having some projects where you try to push them so you do not go over the top—whether it is by having a 10 or 20 per cent margin I do not know. The project would come back and you would say, ‘In that case we made our margin a bit too tight.’ I personally do not see it as a failing.

Senator JOHNSTON—Ten or 20 per cent is dead right, but when you go from \$67 million to \$200 million plus there is a fundamental problem in that, isn’t there?

Dr Williams—Again, it depends. You need to be careful with what is price or exchange and what is real. In some cases, in terms of the real, we come back and a company has said, ‘Here is an option that you were not aware of.’ To me, where we would be very wrong would be if we actually signed a contract and then went to government and said, ‘We now need more money.’ But if we are not at that stage we could be saying, ‘We have got the information from the solicitation process. It costs more than we thought. Do you want to proceed, government, or don’t you?’ The M113 was a good example. When we came in we reassessed, having inherited the project, and said it was a good couple of hundred million short. The government had the option of saying, ‘Proceed,’ or, ‘Don’t proceed.’ There was no lost money. The decision was taken to proceed, with additional funding, and we have now gone to contract.

Senator JOHNSTON—Isn’t that the solution? Ultimately, a properly advanced, properly costed, legitimate, desirable project is going to get through the thresholds. We can all be nervous that it is not. But surely we have to function on the basis that government, with the right advice, given all of the constraints, is going to make the right choice in terms of its priorities. If that project does not get up, logically there will be other projects that were of greater priority.

Dr Williams—That is true. I was going to say that the issue is really about the ability to predict costs reliably. That is why I am quite a fan of the two-pass process, where you get a broad order of magnitude agreement from government but not an expectation that it is to decimal places, and you then refine it and go back.

Senator MARSHALL—I am just wondering if any of your group are involved in private sector partnerships or alliances in terms of support services. And if you say no that might be the end of my contribution.

Dr Williams—In terms of true alliance contracts, there are a couple being trialled. They are both in the maritime environment, so you would really need to catch up with either Mick Roche or the maritime people to get a view of where that is going. Obviously there are commercial support programs—for example, at Bandiana we have a commercial support program where Tenix are providing support. Increasingly—again, take the M113 project—we are trying to

work with industry, we are trying to develop contracts jointly in order to engage earlier. So we are doing things, but I do not think it is in the context of what you would call alliances.

Senator MARSHALL—Is that because the opportunity does not arise with your responsibilities or because you just have not got to that extent?

Col. Acutt—We now have the flexibility to choose the sort of contract we want to get into; and it depends on the piece of equipment we are buying, and who from, as to what we want to use. If we look at the Bushranger case or the LAV case, we are going to buy 100 of these and we know what they are, so there is no use being in an alliance or a partnering arrangement where we are going to share the risk. We know what we want, and they are going to tell us it is going to cost us \$2½ million each, or something of that order, so we will say, 'All right, let's have 100.' We will define to make sure we get it right and then we are going to test it to make sure what we ask for does all it says it is going to do. We have the capacity to choose the contract, the alliance or the partnering which suits what we are buying. So if we were going to buy, say, 1,000 machine guns it would not make sense to do an alliance contract for 1,000 machine guns.

Senator MARSHALL—What about the 20 years of support for those 100 machines that you have bought?

Col. Acutt—There is some work being done in the contracting area on templating to set up the template for the through life support contracts. You are right, that arrangement is different. I am actually at a stage now where, for both Bushranger and LAV, we are starting to get into talks with both companies on how we are going to do this. The structure of those two contracts will be based on the template that has come out from the contracting people and it will be more partnering in nature, there is no doubt. But we have not taken that step yet. We are starting the process. On LAV, we will start talking to the company next week. In the Bushranger case, we will let them get through this reliability trial first to see if we have actually got a project, but we are pretty confident. We will see what happens.

Senator MARSHALL—Do you have any concerns about the partnering approach with the private sector?

Col. Acutt—No. If we are talking about 20 years, I think that is a good approach. If we are looking at through life support et cetera, I think it is the only way. Some companies do not like it. They would prefer you to come to them and give them a straight fixed price contract, because it decreases their overheads and they can say, 'All right, we have got to build that many,' and do it. Some of them do not like to get in the warm and fuzzy area; they would prefer someone to come to them and just say, 'This is what we want and this is how much we are going to pay you,' then they can do their planning and get on with it. The bigger companies would prefer some of that, but some other companies actually prefer the other way.

Senator MARSHALL—If there is not any direct experience with it, there is not much I have to ask about those matters.

Col. Acutt—If we look at the Bushranger case which Dr Williams talked about, some of the issues were with the contract and why it needed to be modified. We attempted a partnering

approach—this was before my time—then it came down to accountability when things started to go wrong. Who owned the responsibility?

ACTING CHAIR—So this was pre-DMO?

Col. Acutt—Yes.

Senator MARSHALL—How was that resolved? One of the concerns that I have is that it seems to have gone a step further where people talk about risk sharing. We do not have fixed price or expectations and we all share the risk. The private sector promises to be innovative and constructive and cooperate with those of us who see ourselves as servants of the public in order to deliver savings in that approach. This is on the basis that if things do not go well, the Commonwealth effectively will pay. It does not seem to come down to risk sharing as the Commonwealth in fact takes all the risk. We live in hope and rely on the fact that any benefits that the private sector may achieve, in their goodwill they will pass them back to the Commonwealth. How do we benchmark it? How do we take the step from a tender process, where we have specifications and the best price against a specification can win it? This is against someone who promises to give us the best all-round service and therefore all-round best price, where it is very difficult to then benchmark it back. We got that example from one company in particular that was the only private sector company that was realistically able to provide the service to us anyway.

Col. Acutt—It is difficult for us to comment and perhaps it is a contracting area. It would be about how the contract was set up to see how the risk was shared and that would have to be clearly defined at the start point. If we talk about the Bushranger contract, we have gone back to the age-old system, because we have to make sure that the risk is with the company. We are going to do exactly what you have just said as the risk-free option. It is a clear specification. It is a clear set of trials they have to pass. We are going to put them through the hoop and if they pass, they get paid. If they do not pass, they are in trouble. It is because of the situation that we are currently in and the accountability to government, to the Australian people, as to why we have moved away from the partnering and we are going to run this one in the age-old way. That is because that is exactly what we have to do.

ACTING CHAIR—Does that mean that that is going to be the case in every instance that is going to come up?

Col. Acutt—No, I do not think so. We now have greater options and we have the capability to choose the most appropriate from the age-old system right through to alliancing. That has to be sold to government as an acquisition strategy in the second pass that these are the people we want to go with and this is how we intend to go with it.

ACTING CHAIR—Where will the will come from in the Bushranger question? There seems to be tension around closer or more direct personal relationships between project managers and contractors in the following sense: on the one hand, closeness between the SPOs and contractors means that things can be fixed quickly, efficiency is developed and so on; on the other hand, the interests of the DMO officers and the contractors become fused. It may become harder, if there is a need for a tough decision to be made, for tough talk to be required when it emerges that things start to go off the rails. You are talking about that closeness. My colleague is just raising

that issue: what happens? You are saying you are going to shift the risk back to the supplier in this case. We have heard from organisations that Defence, DMO, under whatever guise it was, was risk averse, transferred all the risks to the provider and that made it very unattractive for the providers. How are you doing to get yourself out of this?

Col. Acutt—What you are asking is how we get them to come to the table in the first place if we are going to transfer the risk to them. Is that you are saying?

ACTING CHAIR—Not only if you are going to transfer the risk but, if you are going to work with the SPOs and the contractor in a very close, fused relationship and you hit this crunch point where it is almost like separation in a relationship, you are going to have to step back and say, ‘Now we’re going to have to do the hard things that you said. We’re going to have to get you to jump this hurdle, jump that hurdle and jump another hurdle’, when you have been in there cuddling up and snuggling up to each other.

Col. Acutt—I can only talk about it from a LAV perspective. LAV is wheeling and dealing with the Canadians and the Americans and with Bushranger. We do not have a cuddly relationship; we have a professional relationship but not a cuddly one. They have to produce at certain times. If they do not produce then, we inform them of what is required. So, while we have constant communication between the two parties, it is certainly not like a love relationship. This is a key professional relationship that we would see develop between any two commercial companies.

Senator JOHNSTON—Is it Bushranger or Bushmaster?

Col. Acutt—Bushmaster was the vehicle; Bushranger is the program.

Senator JOHNSTON—Good, I am glad we have cleared that up.

ACTING CHAIR—So am I.

Senator JOHNSTON—Let’s stay with Bushranger. Do you have a knowledge of the history of the project?

Col. Acutt—Roughly, yes.

Senator JOHNSTON—Good. Are you happy to discuss that with us now?

Col. Acutt—Some of the issues. I am prepared to answer what I know, yes.

Senator JOHNSTON—The genesis of that project was for a light armoured vehicle of a particular type for a particular need. What did we want?

Col. Acutt—It was for the defence of Australia, and it was for the mobility of infantry. It was to move our infantry organisations around in the defence of the Australian environment. That was the basis.

Senator JOHNSTON—So it was an onshore vehicle—

Col. Acutt—At the time.

Senator JOHNSTON—and I see the SAS driving around Perth on those—I think they are Land Rovers, aren't they?

Col. Acutt—Yes, they are a six-by-six variant of a Land Rover.

Senator JOHNSTON—Is that the sort of vehicle that we want to modify, take up and expand?

Col. Acutt—The basis of it was, and still is, to move infantry in a vehicle which protects them against small arms, mortar fragments and artillery fragments and which has strong mine protection.

Senator JOHNSTON—How many people are on board?

Col. Acutt—There are 10 people on board. It is an infantry section.

Senator JOHNSTON—This was a 300-vehicle specification.

Col. Acutt—It was a 370-vehicle specification.

Senator JOHNSTON—Did we call for tenders?

Col. Acutt—It was a process with a number of steps. The original process went out to IDR. There was to be an assessment—

Senator JOHNSTON—It went out to where?

Col. Acutt—Sorry, an invitation to register interest.

Senator JOHNSTON—Right. There was an advertisement nationally.

Col. Acutt—Yes, to a number of companies. From that, they then put out a tender. What was going to happen was that they would choose up to three, and they would competitively trial the vehicles against each other.

Senator JOHNSTON—Prior to putting out the tender, was there any face-to-face discussion with the industry?

Col. Acutt—Yes, there were significant discussions with industry on this program.

Senator JOHNSTON—Prior to tender?

Col. Acutt—Prior to tender. There was the normal sort of talking with industry. Remember, Mulgara was running at the same time before it was cancelled.

Senator JOHNSTON—What is Mulgara?

Col. Acutt—Mulgara was a light reconnaissance vehicle which might have gone to reserve units but, basically, it was a frame with a big engine in it. There were three people on board. It was eventually cancelled because it could not meet the specification. But this was the concept for the defence of Australia at the time. Because these vehicles were going to be built in this country, there was a lot of talk with industry and a lot of enthusiasm from industry at the time.

Senator JOHNSTON—Did you attend any of the meetings?

Col. Acutt—No, I did not. I was not in the program. I was in the director of vehicles systems' projects at the time, but I was not actually in the program.

Senator JOHNSTON—So we called for tenders?

Col. Acutt—Yes.

Senator JOHNSTON—And how many did we get? Did we get a lot?

Col. Acutt—There were three main contenders. There was the ASVS vehicle, a South African vehicle which was going to be built in Queensland with ANI; there was the Perry vehicle, which was eventually sold to ADI; and became the ADI bid. There was also a British Aerospace vehicle, but they pulled out before it went ahead. I could be wrong, but I believe four vehicles of each type were built and then competitively trialed.

Senator JOHNSTON—The price for those 370 vehicles was \$67 million, as I understand it.

Col. Acutt—No, that would not be correct. The original contract was roughly \$170 million.

Senator JOHNSTON—It was \$170 million; I got that wrong. What has taken place since?

Col. Acutt—In a nutshell, if we put it in simple terms, they could not deliver the 370 vehicles to the reliability standard required for the cost.

ACTING CHAIR—Where did it go off the rails, in your view?

Col. Acutt—In my view?

ACTING CHAIR—Is it just that or were there problems right across—

Col. Acutt—I think there was a whole series of problems, of which some were on the Defence side and some were on their side. But the reality was that, to put it in a nutshell, the ADI bid was based on 500 hours to build a machine and it was going to take them 1,400 hours to build the machine.

Senator JOHNSTON—How could they get that wrong?

Col. Acutt—I do not know.

Senator JOHNSTON—They did; they got it wrong.

Col. Acutt—Obviously.

Senator JOHNSTON—Over double the number of hours needed to build each machine?

ACTING CHAIR—Nearly trebled.

Senator JOHNSTON—Close to treble.

Col. Acutt—You put yourself in a position where you have to make some changes—

Senator JOHNSTON—What are they going to say about that when I say to them, ‘Hang on, you said 500 hours per vehicle’?

Col. Acutt—I think they will also turn to us and say there were some things we should have got right.

Senator JOHNSTON—What are they going to say?

Col. Acutt—I do not know.

Senator JOHNSTON—Have a guess. I am interested to hear what you think they are going to say.

Col. Acutt—I think their perception will be that, yes, they got things wrong but that we also—in the relationship being a close relationship, which we were talking about before—were party to that and were part of the decisions that were being made and that therefore we are partly responsible.

ACTING CHAIR—How is that going to differ from the new structure you have in place?

Col. Acutt—The new structure and the way we are conducting it is that they are going to produce some prototypes which we are going to trial. In the contract there is now a pass-fail criterion. They will be assessed and, if they do not pass it, we will go back.

ACTING CHAIR—Have I misunderstood what you said? Isn’t that the process in the first instance?

Col. Acutt—No. In the first instance, the basis of the trialing system was to say, yes, it met Army’s requirements. It was based on, ‘We are getting the vehicles, and is this the vehicle to meet this requirement?’

Senator JOHNSTON—We have not even built a vehicle, have we?

Col. Acutt—Sorry?

Senator JOHNSTON—No vehicle has been built yet, has there?

Col. Acutt—Yes. They are being trialed now; they started on Monday.

Senator JOHNSTON—But isn't it the case that we should have known that 500 hours as opposed to 1,500 hours was a pretty glaring problem in their tender?

Col. Acutt—I cannot comment on that because I was not there.

Dr Williams—All of us can fortunately claim it was before our time, but I suspect it was just a very optimistic estimate. You can say Defence should have checked on it, but we had a contract and ADI were prepared to sign up to it. Part of the problem, and probably what ADI will claim, is that they thought it was a commercial, off-the-shelf product. In reality, it is a series of commercial, off-the-shelf products but, when you integrate them in a new vehicle, it is not a commercial vehicle any more; it is a combination. You might take a perfectly respectable braking system but, when you put it on a vehicle of different weight and configuration, you run into problems so you have to try to get a change. What the team has done very well in recent times is formulate a reliability growth program which should have been done right at the start to recognise this was developmental. My view is that ADI would be pushing to say they did not know it was developmental; nevertheless, they will say that is why they got it wrong.

Senator MARSHALL—But they had four vehicles they had built already, didn't they? The braking system would have been the braking system that worked through the trials.

Dr Williams—The problem is that the vehicles did not meet the reliability requirement right from the start. The vehicles were used in Timor and were fairly effective in capability terms. That is why we were keen to try to keep it running. But, at the end of the day, the reliability was a factor of 10 below what we wanted. You could not operate.

Senator MARSHALL—So, when they built the four—we had the two lots of four competing against each other—we said, 'This is the vehicle that is the closest to what we want but these are the sorts of changes we want,' and that was the contract then let for the rest of them. It was still a developmental vehicle. We really were not saying, 'That is the vehicle we want.'

Col. Acutt—Yes. I think that is what caused some problems in that the whole acquisition strategy thought that when they competed the two off they would be so close to what we really needed that they would just say, 'We'll have 300 of those.' In reality, as Dr Williams said—

Senator MARSHALL—We should have got them to build another four—

Col. Acutt—it was more developmental than that and it was further away from that. Therefore the acquisition strategy needed to have changed but because of time pressures and a willingness to get this thing up and running, I think that is what happened—we just kicked on.

ACTING CHAIR—So was it talked up—beefed up—a bit too much?

Col. Acutt—There is always pressure within the program to get things done on time and achieve the result and get moving.

ACTING CHAIR—So what systems do you now have in place to overcome those particular sorts of difficulties? Those pressures will always be there. What has changed?

Col. Acutt—I suppose it is better if Dr Williams talks about that overarching requirement.

ACTING CHAIR—That is fine.

Dr Williams—In terms of Bushranger specifically?

ACTING CHAIR—Bushranger specifically and other projects.

Dr Williams—Let me deal with that because I think every case is unique and we try to deal with it on its merits. In this case, in going back we believed that this vehicle, Bushranger, was something which was very useful. The original concept, based on the defence of Australia, in my view was probably overtaken in some ways by a peacekeeping role, and I think the likes of Peter Cosgrove saw utility in that sort of vehicle. I would argue that from a capability point of view some of its value shifted and grew in some respects so we are fairly keen to try and keep it going.

But we had a problem in that ADI would not have proceeded to contract. They would have made a huge loss. There is always enough greyness in a contract in terms of whose fault it is. You will go to court and you will spend forever and it does not gain us—we lose the capability—and even if we win the court case it is way down the track. We tried to see if there was a way of getting a contract that would hopefully deliver but, if it did not, have an unambiguous exit point. So what we have done is negotiate in the contract a couple of very clear exit points. The two prototype vehicles will go into the trials program. If they pass and meet the reliability standards then we will proceed with the initial production.

ACTING CHAIR—If I may stop you there, who ticks off at that stage? Is it the people in the SPO who tick off or is it someone else?

Dr Williams—The contract had to pin down in far more detail than the original exactly what the requirement would be. That was one of the problems in what was a partnering arrangement. It was an understanding that we would come to an agreement. But if the vehicle fails, it does not work that way. So we have restructured the contract to be very clear on what it must do and both we and ADI—and at the margins there is always go to be some greyness—do not anticipate a problem. So if the vehicles fail then the contract is fairly clear: we exit, and the conditions of that exit are quite clear. We would then look at our alternatives. If they pass, they proceed to the next test, which is to develop the initial prototype vehicles. They have already started some of

the setting up for that. They will then trial those initial production vehicles, and again they must meet a standard. The reason for doing both initial production and prototype is that you can build individual vehicles but when you transition to production you want to make sure the production line element is working.

ACTING CHAIR—Who does the ticking off? I am sorry, I must have missed that.

Dr Williams—The System Program Office—

ACTING CHAIR—They do in each instance?

Dr Williams—are ultimately responsible, yes. There are agreed terms and it will be quite clear to us and ADI. We have tried to avoid ambiguity.

ACTING CHAIR—So it is not the sort of thing where someone from Canberra will run interference, necessarily? It will be at the SPO level where the decision is made, and that probably stands it apart from the previous process.

Col. Acutt—The SPO will observe the complete trial and note every single fault. It is a reliability trial, so they have to achieve fewer than a certain number of faults when they do the various courses and those sorts of things. That result will then be passed up the chain of command for what action needs to be taken now. If they achieve it then it is easy: we continue on with the contract. If, however, it is in the grey area where they have barely missed it or barely made it then that information will be passed up the chain for a decision.

ACTING CHAIR—All right. My point is: where does the buck stop? That is what I am trying to find out.

Dr Williams—In terms of continuing, we have the authority to push on. If they pass the test and it is clear then we will continue on and deliver the outcomes.

ACTING CHAIR—Let us say there is a doubt.

Dr Williams—If there is a doubt, there are three possibilities. The first is that it passes. We have the authority through the SPO to keep going and deliver the vehicles. The second possibility is that it fails fairly clearly. We would then have to go to government, obviously, with a project of this size, to terminate. My expectation would be that government would say, ‘We gave them a chance; it didn’t work,’ so the contract would be terminated. But the authority sits with government. I guess the one that would worry me most is that grey area in between. We have to be realistic. You are dealing with statistical interpretation. You are doing a trial on a finite number of kilometres and you have greyness. I guess that is the most worrying one. We would formulate an opinion. We would have to make a judgment in the SPO, which, as has been said, we would pass up. Ultimately, it could be a government decision to say go or no go.

ACTING CHAIR—I am not trying to be overly precise. I think it is important to get a fairly clear idea where the decision making process lies in this new system. You say it would be passed up and government might ultimately—

Dr Williams—If we wish to terminate a major project, that is a delegation that sits with government. It does not sit with us. We would have to refer that through the minister and perhaps on to cabinet, depending. On the other hand, if the project works, we have the authority and we do not have to pass anything up the chain. We would advise, obviously.

ACTING CHAIR—You do not have to go through—

Dr Williams—We have the authority to push on. Basically, if ADI deliver at the two milestone tests, we will deliver vehicles and we will hand them over to the Army and we have full authority to go. If it is the reverse, though, if it is to fail, that has to be a government decision, ultimately.

ACTING CHAIR—Yes, but previously—I do not know if it was the case in Army, but it was particularly the case in Navy—the Chief of Navy had a power of veto over accepting a particular project that had been done. And that is why I am trying to find out where the actual responsibility lies.

Dr Williams—It is a matter of whether we get to the grey area. Let us say that we are aiming at 1,500 kilometres between minor failings, if that is the target. If they reach or achieve that, life is simple. If they fall well below 1,000, it would be simple: they are just not going to make it. The problem is that, if they are within 100 or so kilometres of that, they are pretty close. With a decent reliability program, you could probably get that extra bit over time. We would then have a judgment because, if we decide to give them another go, then we are essentially conceding a bit of ground under the contract. We would want to be careful that we did not forgo our rights. That is an issue.

Secondly, we would have to be sure that they could actually make it up. When we got to that point, we would probably consult with the Chief of Army and say, ‘Look, at the end, you are the operator of it. The consequences of having that slightly lower reliability would be less availability of vehicles. Are you comfortable?’ So we would consult in that grey area.

Senator JOHNSTON—Is the contract flexible enough to permit the grey area?

Dr Williams—Yes. What we try to do is to structure it so we have the ability to stop it. We have that ability because we wanted to have that very clear. In meeting some of the ADI costs, we wanted to make sure they took the risk, and that was a very key feature of it.

ACTING CHAIR—When you say they took the risk, do you mean the whole risk? What part of the risk is now being taken by Defence?

Dr Williams—Normally, if you terminate a contract, there are a few ways to do it. You can terminate for default where the company clearly fails. You can terminate for convenience. If we were trying to do that, we would then find ourselves in a situation where ADI could claim loss of profit, damage to image—there are a whole lot of things. We could pay a significant amount. Termination for default is the clear path. The problem was that, under the original contract, it was sufficiently grey that lawyers would have made a lot of money over a long time debating the issue. We tried to make this contract as clear as we can so that, if they fail, we have a mechanism to exercise termination under very clear conditions.

ACTING CHAIR—You are saying to the committee today that there is an improved standard of contract being put in place to deal with the ongoing project. Is that a fair assessment?

Dr Williams—That is exactly what we are trying to do, yes.

ACTING CHAIR—And there is the opportunity for you to claim damages there?

Dr Williams—Yes.

Col. Acutt—If they fail in the production vehicles, we terminate for default and then they are open to damages if we choose to go after them.

ACTING CHAIR—That has been one of the criticisms.

Senator JOHNSTON—That is the second phase. You have the two vehicles first that you are going to approve and then you are going to give them the go-ahead for production. If they fail in that, that is the second gate. The second gate is pretty obvious and clear.

ACTING CHAIR—One of the criticisms of Defence in the past is that they have been very reluctant, where a project has failed or failed to come up to the standards that have been set in the contract, to seek damages.

Dr Williams—It is always a very grey one. At the moment doing—

ACTING CHAIR—Is that the fault of the contract?

Dr Williams—No, I think the reality is that we are dealing with more than just a simple black and white contract. The reality is that, if you take Bushranger as a good example, we have a capability at Bendigo in terms of a manufacturing facility that is providing high speed engineer vehicles et cetera. If Bushranger finishes, it would probably make it very difficult for that facility to keep running. It is fairly critical. So you have an issue there. There is a capability that could be quite important for Defence, and for us to terminate we may be forgoing that.

Senator MARSHALL—While you say the contract would enable you to terminate, you have also said that the Army would not terminate—that it is a government decision. So you are giving yourself a power that you would not even exercise.

Dr Williams—We have put a recommendation to government that if it fails—again, there is a greyness—we would terminate. That is the clear understanding with ADI.

Senator MARSHALL—I assume the next stage, which would be to recover some damages, would also be a government decision?

Dr Williams—No, we could probably then go pretty much into auto mode; we would have our lawyers engaged to pursue that. We were trying to say that ADI faced an increased cost. In my view, it was probably a reasonable cost. Frankly, the vehicle is not bad value for money, if

they can deliver—and that was one of the key underpinnings. If we terminate, we will not have this vehicle. It would take time to get something else, and there was nothing else that offered the same capability for the cost, so we would be cutting off our own noses if we terminated. So we are saying, ‘Let’s give it one go. Let us avoid all the debate about who was responsible and have a clear contract. You’ve got one more opportunity, ADI. If you succeed, we’ll meet that additional cost so you don’t go broke.’ They have cut their profit margin to zero but again, if they can manage it well, they might be able to squeeze a bit out of the management reserve. They have been prepared to forgo profit on this in the hope of further exports and sales.

Senator MARSHALL—And hence avoid litigation.

Dr Williams—We have tried to drive a fairly hard bargain, and they were keen, because they wanted to keep the facility going. They felt that there were opportunities for this vehicle, and they still think there could be a market overseas. It was interesting that, when we looked around, there was nothing that quite fitted that niche.

Senator MARSHALL—That brings me back to how much difference there was between the tenders. If we compared two vehicles and we chose ADI, did we choose it because it was half as cheap or three times as cheap, or was it a better vehicle and more expensive?

Dr Williams—You are going back. It was better value for money.

Col. Acutt—I do not think cost was a major driver. The two factors were capacity—it is a bigger vehicle—and reliability. Even though it has its reliability problems, the other vehicle had twice the number of reliability problems and, therefore, it became a no-brainer. The reality is that it is a better vehicle and has greater capacity. The key thing is that its mine protection level is exceptional, because it was designed for mine blast protection from the very beginning. So for many parts of the world, it is ideal for a peacekeeping role. When you are trying to drive infantry around, and there is the threat of mines, it is an ideal vehicle. If they can make this—if they are successful—then there are some options out there.

Senator MARSHALL—But that is assuming that that was one of the requirements we asked of the vehicle.

Col. Acutt—It was.

Senator MARSHALL—So did the other vehicle have that capability too?

Col. Acutt—Yes, it did.

Senator JOHNSTON—So we liked that vehicle and we thought, ‘We need some of these.’ What was the difference between the tender specification and what we saw; do we know how that panned out? How different was what we wanted compared to what we saw?

Col. Acutt—I could be wrong, but from memory the specs for this vehicle grew out of the requirement, for the defence of Australia, to move our infantry around. It was not as though they saw some of these sorts of vehicles around. This is why it is quite different from anything else around. There are some vehicles like this in South Africa, and that is why they tried to

adopt the South African design to bring across here. But many of the other vehicles of this nature, like peacekeeping vehicles, do not have the same cross-country performance and mine protection levels.

Senator JOHNSTON—How many officers do we have on this project? How many Defence people a year?

Col. Acutt—The project has roughly 30 people.

Senator JOHNSTON—And where are they dispersed—Melbourne and Bendigo?

Col. Acutt—They are all in Melbourne at the moment—although there are obviously some observers at Monegeetta—and we are currently recruiting a liaison officer for the Bendigo facility.

ACTING CHAIR—When will that happen?

Col. Acutt—That action is ongoing. In the APS style, I think we will probably get in there in a few weeks.

ACTING CHAIR—Is someone from the SPO actually involved in observing the trial first-hand?

Col. Acutt—Yes—in the trial, definitely. We have constant observation of the trial.

Dr Williams—The trial is being run on our facilities at Monegeetta.

ACTING CHAIR—I mean an SPO as part of the assessment team.

Col. Acutt—Of course, the beauty of Bendigo is that it is so close to Melbourne, so there is a constant tripping and movement to the Bendigo facility by the team.

Senator JOHNSTON—Do we have a project management system in place for the Bushranger?

Col. Acutt—Yes.

Senator JOHNSTON—How many people are involved in that?

Col. Acutt—There are 30 in the team. A lieutenant colonel is the program manager. He has extensive experience in this area and is going to instruct at the Army technical staff officers school next year. He has been involved in this, either logistically or in the acquisition world, for some time. He has a couple of majors under his management and a civilian staff of about 25.

Senator JOHNSTON—What sort of system are we using to manage the project? Are we using a critical path analysis type template? Is it Prince2?

Col. Acutt—They are certainly using the normal project management tools. It is all part of the Prince2 methodology—which we call project management methodology—which is used right throughout the DMO. They are following that system. But because of what they have been through, the systems and templates they are using are an example for most programs now. They had to go through this process because of what might have happened. They have a very good systems engineering section set up. In terms of the ILS deliverables, all of the plans and systems to support this program are well in place.

Senator JOHNSTON—Have they been in place from day 1, from our side of the ledger?

Col. Acutt—I would suggest that it has taken the discipline of the current team, over the last 18 months, to work very hard to get the system in place.

Senator JOHNSTON—When did we start this project?

Col. Acutt—We started back in the early nineties.

Senator JOHNSTON—When did we call for tenders?

Col. Acutt—We signed in June 1999. I think the trial was in the mid-nineties, so we would have called for tenders in the mid-nineties.

Senator JOHNSTON—Without trying to labour the point, I note we have a 23 per cent drop in vehicle, or overrunning, costs—whichever way you want to look at it—which increases the individual cost per vehicle now to about \$1 million.

Col. Acutt—The individual cost of each vehicle is around \$550,000 to \$600,000. With every component there is a prime equipment cost but there is also through-life support and support elements et cetera which, in an armoured vehicle project, tends to make up 40 per cent to 50 per cent of the cost. What tends to happen is that people say, ‘This is how much the program is worth. Divide it by the number of vehicles and that is your vehicle cost.’ In reality, that is not it at all.

ACTING CHAIR—So we have a through-life cost with this project.

Col. Acutt—Yes. I talked about the through-life support contract. There are all sorts of deliverables which come to make this capability, not just the prime equipment itself. The fuel truck and water trucks et cetera which are going to support this fleet also have to be procured under this program.

Senator JOHNSTON—Have we done anything along the lines of addressing that issue in the current contracting environment? Have we combined any of those through-life support issues with the current contract?

Col. Acutt—No. There is a just a line in the contract, I believe, which says that we will consider ADI as the OEM in the through-life support system. Certainly, they will be the first people we will go to, to see if we can set this up.

ACTING CHAIR—Is that the next stage?

Col. Acutt—Yes, it is.

ACTING CHAIR—When will that stage be addressed?

Col. Acutt—We need to have made the first steps by mid next year.

ACTING CHAIR—When does the first vehicle officially roll off the production line for acceptance into service?

Col. Acutt—September next year. The first vehicle is scheduled to come off the assembly line in the latter half of next year.

ACTING CHAIR—Will it be accepted for service at the same time?

Col. Acutt—No. That vehicle will be part of that trial and the trial will go ahead into March of the following year. We need more than one. The initial production is one a month for a number of months, to make sure they get their act together. When we get three, we are going to trial them. We have to go through the same trial process that we are currently going through, which is taking us from about now through to December. We will have to do exactly the same thing again and, when they have proven themselves again, we will give them the go-ahead for the major production.

Senator JOHNSTON—But during the major production or the movement to major production, the decision has to be made on the life support.

Col. Acutt—Yes, we do need to make a decision on the through-life support. The ideal case is to sign for the through-life support when you sign the initial contract.

ACTING CHAIR—That is why I am surprised that that has not been done.

Col. Acutt—The other problem with that is that sometimes in a development program it is hard to define your through-life support to a point where you can actually sign a contract. So the decision was made when they went with the original contract that it was not an appropriate time for the through-life support contract. It is now seen that we need to set up this through-life support contract in time so that when it comes into service in the 2005 time frame—

Senator JOHNSTON—That was the right decision, wasn't it, with respect to the through-life support?

Col. Acutt—In respect of this vehicle, it is the right decision.

Senator JOHNSTON—Am I right in suspecting that we used the through-life stick as a lever with respect to the resolution of this contractual problem?

Col. Acutt—The answer to that question, having been in the negotiation, is no, we did not use that stick. It was not really a stick. What is the alternative? We either make this thing happen and produce the capability for Army or we have nothing. From the company's perspective, either we negotiate out and find a solution here or they get nothing—or we get into a large contractual battle. I think the contract negotiation was a realisation that we needed to find a solution within the amount of money we had.

ACTING CHAIR—But that is always the problem with large defence projects that are fairly innovative in their nature, isn't it?

Lt Col. Potter—Yes, and that is why the through-life support aspect is so important, but post the trials. Part of the methodology of through-life support is to determine the usage of spares and the wear rates on pieces of equipment, and you cannot do that until after you have done the trial.

Senator MARSHALL—What is the life expectancy of this equipment?

Col. Acutt—At least 20 years, if we go on history.

Senator MARSHALL—What is the ballpark figure for the through-life contract for maintenance on that? Are we talking \$50,000 a year per vehicle? Are we talking about a multimillion dollar a year contract? Obviously it will be more expensive the older they get.

Col. Acutt—The magnitude of the support contract will probably be about \$5 million a year.

ACTING CHAIR—And the ideal would be to have that with the OEM, wouldn't it?

Col. Acutt—Yes, that is the ideal, because they have sourced all the various components and parts to actually build it. Therefore, if they can still maintain and do that for you, that is an advantage. The key factor, though, is that sometimes the OEMs like to charge a bit too much for sourcing them for you, and we need to be very careful that we are getting value for money.

Senator JOHNSTON—Do we get any benefit from export by this company in terms of price?

Col. Acutt—Not this time, no.

Senator JOHNSTON—Is that a fair thing? We are funding all of the development of this vehicle, aren't we? The Americans would never let them get away with this. You can get on board and get the benefit of the group reduction in cost on these development items. We are funding these guys to develop something they are going to sell around the world, they are going to make a nice profit on it and we have given them the capital to start.

Col. Acutt—Traditionally, I do not think—and I could be wrong, but certainly from my experience in the land game—we have never put those clauses in our contracts. They may be in other contracts.

Dr Williams—It gets back to the intellectual property issue. If we try to drive intellectual property ownership so that we have the ability, the price goes up in the contract. So that is a trade-off you have to make. The other thing would be that it does not do us much good. You could say that we could get some royalties back, I suppose. But, as it is now, we have cut the profit to zero in the renegotiated contract. So you would have to say that ADI are probably doing it the hard way and that, if they do get to sales overseas, they probably deserve it.

The other thing would be that, if we find these vehicles useful, we have the option of buying more later, and we would certainly hope then to get the marginal cost benefits of a bigger market. There is always a line judgment to be made. When trying to pursue intellectual property in the past, we found that so few items do actually become big sellers overseas that all we tended to do was to disrupt industry and make it more difficult for them, with no real benefit to us. But there were some cases in the past where we tried that.

Senator JOHNSTON—It just seems that peacekeeping is an ever-growing industry out there, with the landmine situation the way it is, and we have been getting these people over the line. I am paraphrasing what we have been discussing for the last half hour. It has been our flexibility that has got this project back on the rails.

Col. Acutt—I think they have tried very hard to make this a goer. I think the message they will give you tomorrow is that they are trying very hard, they are throwing their resources at it and they are keen on achieving. You would have to say that they were concerned about committing resources before the new contract, because it was obviously dead money and they would have to negotiate. But, since they have seen this thing turning around, they have actually put their shoulder to the wheel. I think we have seen a major change in their approach and in their commitment.

ACTING CHAIR—What will be the first milestone that we will see reached that will let us say, ‘Yes, this project is on course; yes, it will proceed’? When will we see that?

Col. Acutt—There is a contract meeting in early March next year where the trial results will be formally presented.

ACTING CHAIR—So soon thereafter we would expect that the minister would make some announcement as to whether the project was on course and was going to proceed or whether the project had hit the wall?

Col. Acutt—In the contract, there is a time period. I could be wrong, but it is roughly in the vicinity of a couple of months.

ACTING CHAIR—I am not going to hold you to a specific time.

Col. Acutt—I think it is a couple of months. We have to make a decision because, if you look at it from their perspective, they are saying, ‘Okay, we don’t want you to dangle us out there for 12 months while you make a decision.’ In the contract, it literally says, ‘They produce the results on a certain day’ and I think we have a couple of months to get back to them about what we are going to do about it.

ACTING CHAIR—I think we are fast running out of time, but there is a question that we do need addressed. We have had several SMEs tell us that they are effectively denied the benefits of DMO's reforms because it is the primes that have the relationship with the DMO. They claim that this makes communication difficult with the end user—that is, the soldier et cetera. Do you have a view about the relationship of yourselves, either as the SPO or as the DMO, with SMEs?

Dr Williams—First of all, you need to look at the differences from division to division. The nature of land is that we have fewer of the very big projects—we have focused on Bushranger, which is the bigger end but a lot of our projects are minor projects or ongoing replenishment—so probably we have a slightly greater opportunity for some of the smaller companies to get work. It is a perhaps a pity that ADIN did not come today because they have been fairly keen—

ACTING CHAIR—I expressed bitter disappointment. I did not say 'bitter disappointment', but let me say it now. There is bitter disappointment that they did not come here today.

Dr Williams—They are very keen to see land systems based out of Victoria Barracks, and we have been arranging briefing sessions and in fact they have invited me over to chat to them at the end of the year. So I think they see it as positive. That said, I think you also have to be realistic and say that often the desires of the SMEs are a little over the top.

ACTING CHAIR—In what way?

Dr Williams—The reality is that we are not in a position to go in and take all the risk of contracting with every SME direct and then be responsible for the pulling together and the risk of the integration et cetera. That would be unacceptable risk. The minute something goes wrong, the prime would say, 'Well, you picked them.' So it is important that we recognise that there will be a lot of the larger projects where the SMEs will need to come in. I would have to say my impression is that some of the primes do play it fairly rough, but there is a limit to what we can do. But within land there are a lot of smaller items where—

ACTING CHAIR—But at the end of the day, if the primes are playing it fairly rough, that could have a significant impact on the value for money that the Commonwealth will get out of the project.

Senator JOHNSTON—Particularly where that organisation is a specialist, niche provider that we want to retain onshore in Australian ownership and that we want to see survive commercially.

ACTING CHAIR—I understand what you are saying. How do we get the balance?

Dr Williams—Again, in the land case, there are some things where we go direct to a range of companies—for boots, uniforms, webbings, sandbags, you name it. A lot of things we get are very low scale and we do go direct into the companies. If you are asking with something like an M113 or a Bushranger—something of that size—would I want to go and dictate who the SMEs will be and what the conditions are between them and the primes, no, I would not, because I would bear the risk. To some extent, we had some of those tensions in the M113 project with Tenix in dealing with potential subcontractors. The subcontractors would come to us and want

us to direct and whatever. There is no way that we are going to dictate who will team with whom. We would then bear the full risk. So I think on the big projects we need to be careful.

ACTING CHAIR—But how does one develop? If you have the SPOs in place supposedly to allow for a greater relationship between the contractor and the client—in that case being the SPO—you have a subbie out there who does not do anything other than go through the contractor to the SPO. As was pointed out to us not only this morning but by a number of people previously, quite often the prime does not have the expertise or the knowledge. By the time it gets through from the subbie to the SPO, the message is lost. How does one overcome that problem?

Dr Williams—From one point of view, we certainly have very regular dialogue with the companies. They come through regularly and, if they have concerns, they raise them and we will, where we can and where there is a genuine issue and a concern, address them. But at the end of the day, it is difficult. With land projects, we have a bit more flexibility because there are so many smaller ones.

ACTING CHAIR—I would love to hear from your colleagues.

Col. Acutt—I will give you an example. We had a relationship with a subbie. The prime and the subbie were having a problem. We became aware of it because we have dialogue with all of these people. We said to the prime, ‘You have a problem in this area. We understand there is a problem. We won’t tell you where we got the information but there is a problem. We would like you to fix it.’ It went on. They said they would fix it but not too much happened. We set up a meeting in Canberra between the prime, the subbie and us. We sat in the same room and said, ‘There is a problem here. We want you to sort it out.’ They said, ‘Yeah, all right.’ And then we sorted it out that way.

ACTING CHAIR—It need not necessarily be a problem. It can be that the communication that comes from the subbie does not get through to the SPO because of that block, which is the prime.

Senator JOHNSTON—It can even be jealousy. It can be all manner of things.

Col. Acutt—There is control of information. I agree with you.

ACTING CHAIR—How does the new system, which you have put in place, overcome those sorts of difficulties? We are not being critical. We are just trying to get an understanding.

Col. Acutt—I do not think you are ever going to overcome all of those difficulties.

ACTING CHAIR—You are not.

Col. Acutt—The only good thing is, because there is a central point of contact, these guys know where to come. Therefore, if the SMEs have a problem in a particular area, instead of having a shotgun problem, at least they know they can talk to one central organisation.

ACTING CHAIR—In that instance, how do you know if there is a problem with the subbie, apart from getting some scuttlebutt?

Col. Acutt—The processes set up are quite rigorous in terms of our contract management requirements and the number of contract progress meetings et cetera, we have. We get information. We just did one for ASLAV and the actual information given to us by the company was this thick.

ACTING CHAIR—I would worry about that because my general view is the more they give—

Col. Acutt—I agree with you. It is in certain areas. There would be a finance component, a system engineering component and an integrated logistic support component. We literally just divide it and give it to the section of expertise. We go through that in detail. Take the LAV system engineering; a couple of those guys have been in that area for over 10 years. They know the whole history of the program and, if there is a comma out of place, they will pick it up. They can sense from what is happening, what these words are saying to us, whether there is a problem. That is the key point. When you sense a problem, you can investigate it. It is all about scheduling, cost and quality concerns. That is how you find out initially that there might be a problem.

ACTING CHAIR—This is my worry because in the past, these sorts of controls were reportedly in place under a different guise. But you have projects that have quite infamously gone off the rails. Of course, those controls—this is not a criticism of you—were never seen to be tight enough, rigorous enough or to make the people accountable enough.

Col. Acutt—I have a saying which goes, ‘No process saves you from a dumb idea.’ It does not matter what process you have in place, there is a personal element to it and if the people running that process and those controls are not up to the mark or prepared to let it go, then there is nothing we can do about it. All I can say is that the PMM process, which is the structure upon which we are based, is a very sound project management system. It is widely used throughout the world. If you follow it correctly, we should at least know the problems are coming. We can therefore highlight that they are coming and not put them under the carpet for two years until they really come and hit us hard. Again, it comes down to the people and the judgments of those people. If those people are not at the point where they do that, then we are still going to have those sorts of problems you have talked about.

Senator JOHNSTON—This morning we heard about a methodology called ‘integrated project teams’. It struck me that where you had a prime who had no expertise in a particular niche area, for instance underwater communications, I would have thought there desperately needed to be some interface between the end user and the technology provider, even if he is fourth or fifth down the chain. What concerns us—forget about the jealousies, the monopolisation of information, the fact that the prime wants to retain total control and the way he treats his subbies—is that the very good and able niche technology service provider, which may be less than five per cent of this contract, has no line of communication with the end user other than through the prime who is totally ignorant of what he is talking about.

Col. Acutt—Except if access was written into the contract when it was set up.

Senator JOHNSTON—I am concerned that our contracts do not anticipate that problem.

Col. Acutt—The contracts are flexible enough to do this. There are choices about acquisition strategies; they are flexible enough. But it will take the judgment of the person in charge to say, ‘This is important to me and therefore I need to put it in the contract.’

Senator JOHNSTON—They are telling me that the contracts are not taking those things into account. I raise that for your benefit. That is the criticism and I think it might be legitimate.

Dr Williams—My experience of a couple of years in this world has been that companies are more than happy—be they subs or sub-subs or whatever—to come through my door to tell me where they have concerns. One company that you visited this morning, Rosebank, which does some very good work for the RAAF, have expressed an interest in doing work for us. I have been to two of their facilities and I have teed them up to meet with our engineering people and, indeed, John has links with them. We have to make a value for money judgment. In that case we also have a relationship with Tenix, whom they are partnering.

Senator JOHNSTON—It was not them by the way.

Dr Williams—I doubted that it would be them. But in that case they feel quite comfortable to come and to raise the issues, and we put them in contact.

Senator JOHNSTON—They were very positive; we did not have any major issues there.

Dr Williams—I would expect that from them; they are a fairly professional outfit.

Senator JOHNSTON—They are bigger than most.

Dr Williams—The thing that takes up most of my time is companies coming up complaining because they did not get a tender or they are not happy with this. Probably the biggest single thing I do is to try to sort it out, and it actually absorbs a lot of time.

Senator JOHNSTON—They are free to do that when they have not got the tender and they are out there with nothing happening. But when they are locked into a contract it is difficult because they have that discipline. The prime runs the show; they are like mushrooms and they do their little job. But they are saying to us, ‘We could do it better. From experience when we have been directly contracted to the frontline serviceman, things happen much better. If we were involved, even just to sit there and understand the concept from the outset, it would make their job better, more reliable and the end service would be a better one.’

Col. Acutt—I think some of the primes put it in their contracts that you cannot contact them. It actually ties them up. The only way is if we can pre-empt it and see the situation included in the contract up front. That is a judgment call. It takes some mental power to see the program and say, ‘This is a critical area here; I have to be able to do that.’ If you do not think of it and you just go through the contract, surely a lot of the hard-boiled primes will control the subbies to their benefit.

Senator JOHNSTON—Hard-boiled primes are a problem by the look of it. That is the feeling that we are getting a couple of months into this inquiry.

ACTING CHAIR—One of the things that has been said in the inquiry is that, if something goes off the rails badly, it is generally as a result of wrong decisions being made very early on in the process. That evidence was given to the committee and I put it in as broad terms as that. However, our experience is that many of the subbies are not involved very early on in the process, yet they are the people who have to deliver many of the final outcomes that are needed in the projects.

Senator JOHNSTON—And they pay a greater price for the problem.

ACTING CHAIR—So you end up with a dumb idea that becomes very difficult to address. Do you have a solution to that problem? You can take it on notice. You have to understand, we are trying to test a lot of things. We have no rigorous views on this at this stage. We are trying to tease out a number of situations such that we can make a number of sensible recommendations to the parliament.

Dr Williams—The point you raise is extremely valid. However, the reality is that the problem is certainly not unique to Defence; it applies to the private sector and very much to the US. Some of the big US companies will absolutely drive their subbies into the ground. It is a problem. I do not think we have a simple solution. We try to have a dialogue. We keep track of the SMEs. We try to listen to their concerns.

ACTING CHAIR—It is different in this sense from dealing with the private sector: we are dealing with the defence of Australia which is something that is fundamental and important to every person in Australia. It is something that we have to get right and something we cannot afford to play around with and get wrong. If there has to be a different approach in Defence, then it might be that there is no apology for that. I am not suggesting that you are saying that. It may well be that when it comes to scrutinising the way in which the subcontract levels within a prime are addressed, there is a need to adopt a different approach. We have found that some of these subbies are three and four layers deep and embedded in a contract. When it comes to a major defence platform that we need for our future, if we cannot get that equation right now at the outset, then all we are doing is deferring our defence in the longer term.

Dr Williams—To some extent, the alliance contracting we are trialing can be a vehicle to engage not just a single prime but a series of companies in a partnership arrangement, or you can have subordinate levels of alliancing below that. As we commented earlier, there are very substantial overheads in getting that set up, so there is a cost and a time. It certainly does not apply to a standard 'Let's buy widgets off the shelf.' In answer to your question: are we doing anything? Yes we are, in the sense that we are exploring those options. I take your point on the defence of Australia and the issue of the private sector. Experience in the US is probably far more extreme than ours, from what I have seen, in terms of the big companies there really dominate.

Senator JOHNSTON—We have a problem with that. Let us take Rosebank. Without Rosebank, we have a major dysfunctional problem with the F111. There is a little company I think we have nurtured. We have done everything right. There are a hell of a lot of Rosebanks

underneath the primes that have the capacity to do things onshore. You do not even have to go to tender. We were hearing about things happening in companies today, where they have quite large contracts, where no tenders have been called. They have the capacity, can deliver instantaneously and arrest a major problem, so that we are operationally ready. We need to be very careful when we go to a prime and simply handball all the problems to him and say, 'You just present all this, and we don't care where you get it from.' What happens to these people onshore? Underneath that umbrella is an asset that Australians desperately need, unlike America, where they can kill them off like ninepins. This does not really matter to the Americans, because they will just fund it to get it somehow or other. We do not have those resources. There are lots of Rosebanks out there and we need to be vigilant that, when we are doing these big contracts, we try to look after them a bit.

Dr Williams—It is a difficult problem because again, how do you deal with it? Rosebank is in contract with RAAF, so we are trying to pick up that expertise.

Senator JOHNSTON—Very successfully, I believe.

Dr Williams—That has been an excellent example for RAAF. In the ACT, there is a company, Phased Array Radar, which is advancing. Again, we have concept technology demonstrator programs and others, where we can fund companies to do some work. There are vehicles. I do not think there is a single solution. You can look at alliancing. You can look at concept demonstrators to fund companies. We can get access through contracts. I think we try various things. In the end, we have to be a bit careful in terms of how we try to intervene in what are commercial arrangements. The point you raised, which is important, is if the companies have good ideas, that is what we want to hear.

In the past if companies had good ideas they would come to us, but we did not have a very disciplined and formal way of trying to review it. We are developing a more formal policy in which we will set up a small cell that is responsible for getting into these new ideas, for putting that to the experts to review. We need to get the legal aspects of intellectual property and other issues dealt with, but the intention would be to give a vehicle to companies with good ideas. In those areas, we are doing things. But when you get to a hard-nosed contract, it is always a little difficult.

ACTING CHAIR—You spoke about the capability technology demonstrator. We understand that it is a DSTO plaything and that SMEs do not get a look in. Is that right?

Dr Williams—No, there is a large number of SMEs. It certainly would have a DSTO focus and more of an R&D focus. It depends whether you talk to companies who are at the R&D end or slightly more down the track. Most of them are with SMEs to develop particular technologies.

ACTING CHAIR—The last issue I want to raise is to do with the relationship with DSTO. What sort of relationship do you have, if any?

Col. Acutt—We have a good one.

ACTING CHAIR—I am just curious.

Senator JOHNSTON—Value adding what you do, is there some sort of tangible benefit you see flowing to where we are at in Defence?

Col. Acutt—If you have a clear understanding of what you want from them and you define it and you treat them like a normal company and make sure that they deliver on time, in my experience, on a number of occasions, they have produced exactly what has been required. I think what sometimes happens is that they are given the task and no-one goes and sees them for 12 months and they wonder, when they turn up in 12 months time, why they have gone off the rails and gone over into this thing here—because they are scientists. But I think if you keep on them—

ACTING CHAIR—So apart from dealing with the mad scientists, has that been a result of the way in which acquisitions were previously organised—logistics and support and so on—rather than the new DMO structure that you have?

Col. Acutt—I think that it is a whole new defence structure which is embracing DSTO to a larger extent. It is incorporating them earlier in the definition of solutions and certainly then transiting to help us and what we might procure. So I think we are embracing more of what DSTO is doing. I think that they now have to do more for us. Historically, as long as you have asked them and clearly defined it, they have normally stood up to the plate. It is a bit like what happens with companies: it is a two-way street; not everyone is completely to blame.

Lt Col. Potter—I have noticed in my area that they have become far more proactive. They are coming to my door and knocking and saying, ‘We have seen this particular project in the white paper or in the Defence Capability Plan. We can value add this result. We are here to help.’

Senator JOHNSTON—What problems do you have? What ideas to benefit the restructure process have you got that you would like to put on the table, if any? I suppose it is the penultimate question for a hearing like this: ‘We are from the government, we are here to help you.’ I am using that generically. The point is that we are very concerned to see that operational objectives are supplied and serviced properly by this reformed organisation. It is fundamentally crucial. If you have got problems or if you think things can be done better, we need to know about that. Obviously, you have never got enough resources; I think that is a given.

Lt Col. Potter—As a general statement from where I sit, I would like to see some degree of structured, operational pause, if you like, on the change process. The senator said before that we have gone through more changes and we are very change weary. We have not established a culture. You do studies on culture and those types of things and often it takes three to five years to establish an organisation’s culture once you have gone through a fundamental change. We have gone through that many fundamental changes within a 12-month period, it is no wonder people have lost their linkages with their past. So you can help from wherever. Take it from me now: the SPOs are working. From my perspective, it is a great initiative. Give us time to actually embed it and make it work.

ACTING CHAIR—That is a very helpful comment. Can you comment about the feedback from DMO into the Defence capability development process?

Dr Williams—In terms of whether we are having enough influence?

ACTING CHAIR—Yes.

Dr Williams—One of the issues that is fairly critical is that, with this division located down in Melbourne, we need to make sure that we retain the links with the capability development people in Canberra. We do that by ensuring we travel back and forward. I sit on the Defence Capability Committee, so that gives me a pretty broad overview. We do maintain pretty strong links. I have an interesting view here: in the past we probably had the problem of both the roles merging for too long. We need to understand the different roles. DMO is not about saying, ‘What does the Army need?’ That is not our call. Once Army is developing its ideas, we need to be engaged early, to be testing the acquisition strategy: is it feasible; can we go and buy it; at what cost? In the past there was a tendency not to have the roles delineated. The capability development process should involve the people in R1 in Canberra, largely, who are defining the requirement and what they want. We then should be engaged and get teams set up a bit earlier in order to test some of that, to do some preliminary tests with industry to see what is possible et cetera, so that by the time we go to government, and perhaps in a first pass approval, at least we are in the ballpark.

ACTING CHAIR—But you were saying that that is not happening now?

Dr Williams—I think we are moving in that direction.

ACTING CHAIR—You are moving but it is not happening?

Dr Williams—I think there was mention of resources earlier. One of the problems is that we are under a mechanism where, until you get project approval, you can’t really set up a team to run it. One of the challenges we are facing and trying to address is to get some seed funding early to set up teams early so we can be working with the capability people doing our part of the business. Even with projects that are a few years down the track, if they are significant enough, we are trying to get the genesis of a team to do some work. I think that is critical. At the other end, we need to make sure that we have a clear understanding once the project is agreed. What we do not want is to have the capability folk changing their minds and shifting as we go. It is not to say that they are not engaged, because there will be some valid decisions, but I think we need a much clearer understanding that once they have said, ‘This is it, it’s approved,’ we then need to get on and deliver it. I think we need to make sure we have a clear delineation of roles.

Senator JOHNSTON—I want to put to Dr Williams the statement from Mr White, which is along the lines of what he has just said. It is quite a long statement, but I would like you to give us the benefit of your time on this.

Dr Williams—He is the only person who has longer statements than I do.

ACTING CHAIR—I would not start taking bets on that.

Senator JOHNSTON—You might have commented on what he said, but I think it is fair to put this to you, because it is an issue that was raised in public hearing. The transcript of evidence reads:

Senator JOHNSTON—What would you do to fix it, in detail?

Mr White—My suggestion as to how to fix it would be a fairly radical one, and that is to change in a fairly deep way the relationship between the acquisition and logistics process—the DMO function as it is performed at the moment—and the capability development function. A very high proportion of the cost-capability trade-offs are choices, and therefore a very high proportion of the decisions—which, if made correctly, can produce a good project and, if done incorrectly, can produce problem projects of the sort we are discussing—are made during the process of source selection, somewhere between the time at which a senior committee in Defence produces a one-page specification of what is required in a broader sense, and somebody signs a contract that might be several feet thick, specifying exactly what is required on the other.

I think the best way to improve that interaction would be to move a lot more of the source selection process into the capability development end of the structure. In a sense I should declare my own origins on this issue. I worked in the centre—and I have not worked in the Defence Materiel Organisation—so that perspective might be seen to be a sort of headquarters-centric view—but when working on these issues I have often been struck by how quickly the centre, the headquarters with a strategic perspective, loses control of and loses track of the cost-capability trade-offs, which really drive the cost and schedule and technical risk of the projects as they are actually delivered. I think a better approach would be to move that responsibility back into the centre.

Senator JOHNSTON—You want to bring some DMO people, with their cost and knowledge in anticipating where things are going—the costs drivers, if you like, back into the strategic planning side?

Mr White—Yes.

Dr Williams—I would disagree with that last conclusion. I think there is some merit in the basic principle. He and I have discussed those issues and probably have similar views. The first issue is: should we go out with a firm requirement and say, ‘We want X,’ go to industry, tell them exactly what we want, get a price and then deliver it? Or, at the other extreme, should we go out and say, ‘What will you give us, industry, and what will it cost?’ then go back and weigh up the options? The former process is easier, cleaner, perhaps even simpler, from a procurement point of view, but you run the risk of asking for something which may push it just over the limit of some step function. You may finish up asking for a bigger engine which, if you had only known, you would not have asked for.

On the other hand, if you keep it too broad and have a huge range of options, you make it very expensive for industry and somewhat of a nightmare for evaluation. You run the risk then of constantly shifting and you will never get to the end point. So I suspect the truth is a little bit between what Hugh is saying. I think we probably are too requirement focused—that is a personal opinion—and we are trying to be a little more functional in what we ask for. I think the two pass approval process lends itself to that, because the first pass can keep it broad. In coming back, you can then go back to government with some flexibility and options, but there is balance.

Should the people go into the headquarters? No. My view would be that it is much better to have the experts where they are and define the roles and the interactions. I think a small outposted team would lose touch with the reality. I come from a similar background to Hugh’s. Quite frankly, two years in the DMO is quite a revelation. Things that you think are just oh so simple are a hell of a lot harder when you get there. In part what he is saying is right, but I would not go as far as he suggested.

Mr Pluck—Perhaps as an example of how we have done that on M113, the centre or the capability development area have not defined for us a one-sheet specification of what they wanted; they have given it to us in about 10 sheets, so it is a fair bit more detailed. They then

had a representative from their organisation participate with us in the development of that into a broader, higher level specification at the front that the contractor works from, and they have signed off on it as such. So they are part of that process. They get the feedback to make sure that the two are actually the same and will deliver what they want.

ACTING CHAIR—Are there any closing remarks that you would like to make? The hearing has gone a lot longer than we said it would. We sincerely thank you for appearing here today. This is an important inquiry. This is a relatively new organisation, as you know, in the form that it is in now. As I said, the committee is seeking to make a number of positive recommendations arising out of this which will assist the process and give those who follow us, at some stage in the future, some real means by which to measure the effectiveness of the change to the DMA. Who knows what assessment they may make of the evidence that we have heard from you and the views that we have expressed to you this afternoon. Your input has been valued by us and we thank you and your team for coming along this afternoon.

Committee adjourned at 4.19 p.m.