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Australian Government
Department of Defence

SEC/OUT/2018/31

Senator Linda Reynolds
Chair – Senate Standing Committee on Foreign Affairs, Defence and Trade (Legislation)
PO Box 6100
Senate
Parliament House
CANBERRA ACT 2600

Dear Senator Reynolds

At the Supplementary Budget Estimates hearing on 19 October 2016, Defence agreed to provide the Committee with a summary of progress made against the recommendations made by the First Principles Review team, and to provide a summary of progress to support the integration of Australian industry as a Fundamental Input to Capability ahead of future estimates hearings. Defence is next scheduled to appear at the 2017-18 Additional Estimates on 28 February 2018.

First Principles Review

The First Principles Review recommended a two-year implementation program. To date, 71 of the 75 recommendations made by the review team have been implemented. A summary of the implementation of these recommendations is enclosed for circulation to the Committee.

For further information about this matter, my departmental point of contact is:

Mr Darren Box
First Assistant Secretary, Governance and Reform

Australian industry as a Fundamental Input to Capability

Since the release of the Defence Industry Policy Statement on 25 February 2016, Defence has continued to integrate Australian industry as a Fundamental Input to Capability. A summary of Defence's progress to date is enclosed for circulation to the Committee.

Defence continues to progress implementation of key initiatives to build the capacity and capability of Australia's Defence industry to support Defence's needs.

For further information about this matter, my departmental contact is:

Mr Marc Ablong
Acting Deputy Secretary, Strategic Policy and Intelligence

I trust this information will be of use to the Committee.

Yours sincerely

Greg Moriarty
Secretary

15 February 2018

Enclosures:

1. Summary of progress against First Principles Review recommendations – FPR: Recommendation Tracking
2. Summary of progress to integrate Australian industry as a Fundamental Input to Capability

Summary of progress against First Principles Review recommendations – FPR: Recommendation Tracking

The following recommendations have been completed:

1. Establish a strong strategic centre to strengthen accountability and top level decision-making.
 - 1.1 This review be adopted as the road map for Defence reform for the next five years.
 - 1.2 A new One Defence business model.
 - 1.3 The diarchy is retained.
 - 1.4 The individual and shared accountabilities of the Secretary and the Chief of the Defence Force be clarified, formally documented and promulgated through the organisation One Defence business model.
 - 1.5 A streamlined top level management structure for the department that is aligned with the One Defence business model.
 - 1.6 The strategic centre includes the Associate Secretary and Vice Chief of the Defence Force as the integrators for the Defence enterprise and the future force and joint capabilities respectively.
 - 1.7 The Vice Chief of the Defence Force's decision rights be greatly strengthened, including the right to stop projects proceeding through the approval process until joint force integration is proven.
 - 1.8 Legislative changes to formally recognise the authority of the Chief of the Defence Force and Vice Chief of the Defence Force, including removing the statutory authority of the Service Chiefs.
 - 1.9 That policy advice be strengthened by bringing all policy functions into one organisational unit in order to improve the quality of advice provided to Government.
 - 1.10 A strong and credible internal contestability function be built and led by the Deputy Secretary Policy and Intelligence with responsibility for strategic contestability, scope, technical and cost contestability.
 - 1.11 That the policy and intelligence functions be combined under a Deputy Secretary Policy and Intelligence, who will have responsibility for providing policy advice and intelligence assessments to the Secretary and the Chief of the Defence Force.
 - 1.12 The Defence Security Authority be repositioned under the Associate Secretary.
 - 1.13 The Defence committee be re-positioned as the primary decision making committee of Defence and the heart of the strategic centre with two supporting committees – Enterprise Business Committee and Investment Committee.
 - 1.14 That all other enterprise-wide committees be reviewed for their relevance and alignment with the One Defence business model with the aim of a substantial reduction in the number of committees.
 - 1.15 That the organisational structure reporting to the Vice Chief of the Defence Force be simplified through incorporation of a two-star Head Joint Enablers role.
 - 1.16 A strengthened centre-led, enterprise-wide planning and performance monitoring process be adopted.
 - 1.17 That the Associate Secretary be the central authority to deliver enterprise planning and performance monitoring processes, in line with the requirements of the *Public Governance, Performance and Accountability Act 2013*.

- 1.18 That the Minister for Defence meet with the Defence Committee twice yearly to consider a formal strategic assessment of the alignment between Defence's strategy, funding and capability.
- 1.19 Defence conduct regular reviews of the capital program in consultation with the Minister and central agencies.
- 2.1 Disbanding the Capability Development Group and dispersing its functions to more appropriate areas.
- 2.2 Disbanding the Defence Materiel Organisation and transferring its core responsibilities in relation to capability delivery to a new Capability Acquisition and Sustainment Group.
- 2.3 Developing a new organisational design and structure as part of the implementation process for the Capability Acquisition and Sustainment Group with reduced management layers.
- 2.5 The Capability Managers specify the Fundamental Inputs to Capability requirements with the Capability Acquisition and Sustainment Group having responsibility for developing and delivering an integrated project plan.
- 2.6 The accountability for requirements setting and management be transferred to the Vice Chief of the Defence Force and the Service Chiefs with strategic, financial and technical contestability being located with Deputy Secretary Strategic Policy and Intelligence.
- 2.7 That the Independent Project Performance Office and the Capability Investment and Resources division be relocated to the Deputy Secretary Policy and Intelligence, significantly enhance and strengthened to provide such contest.
- 2.8 Revising the Defence investment approval process for all large or complex capability projects.
- 2.9 Introducing a new formal gate into the process at entry point – Gate Zero: Investment Portfolio entry.
- 2.10 Government increase approval thresholds for capability developments projects, with ministerial approval required only for projects above \$20 million, two ministers above \$100 million and cabinet above \$250 million.
- 2.11 Significant investment to develop an operational framework which comprehensively explains how the organisation operates and the roles and responsibilities within it; detailing the life cycle management processes which provide project and engineering discipline to manage complex materiel procurement from initiation to disposal; and reviewing architecture to reinforce accountability at all levels and bringing together information upon which good management decisions can be made.
- 2.12 The Deputy Secretary Capability Acquisition and Sustainment must sign off and assure the Secretary of the operational output of each of his/her divisions every quarter and on major contracts on a monthly basis.
- 2.13 The use of Net Personnel Operating Costs process cease immediately.
- 2.14 Developing a Defence Investment Plan which would include all capital and related investments (such as materiel, estate and facilities, workforce and information and communications technology).

- 2.15 That, on Government approval, the entire project acquisition budget is allocated to the Capability Acquisition and Sustainment Group to ensure expenditure is in accordance with the project delivery plan.
- 2.16 The Defence Science and Technology Organisation clearly articulate its value proposition. This would include examples and actual amounts of value created.
- 2.18 The Defence Science and Technology Organisation senior leadership be rationalised.
- 2.19 The Defence Science and Technology Organisation strengthen partnerships with academic and research institutions to leverage knowledge and create pathways with academia and industry.
- 2.20 Disbanding the Defence Science and Technology Organisation advisory board.
- 2.21 Defence, in partnership with academia and industry, review its research priorities, their alignment with future force requirement and capacity to leverage allied partners to promote innovation.
- 3.1 Defence define the estate need as determined by future force requirements and Government agree to dispose of all unnecessary estate holdings starting with the 17 bases identified in the 2012 future Defence estate report.
- 3.2 Defence strengthen its capability to present options to Government for estate disposal including expert external advice as required.
- 3.4 The Associate Secretary be directed and resourced to implement enterprise information management that provides Defence with trusted information to inform decision-making and military interoperability, with the Vice Chief of the Defence Force as the design authority for the next generation of command, control, communications, intelligence, surveillance and reconnaissance.
- 3.5 The information management agenda be governed at the band 3/3 star level by the Enterprise Business Committee to set overall direction and priorities, including the management of trade-offs and conflicts.
- 3.6 Supporting the Chief Information Officer to meet these responsibilities by formally recognising the Chief Technology Officer as the technical authority with appropriate 'red card' decision rights.
- 3.7 Defence establish enterprise-wide frameworks for architecture standards and master data management.
- 3.8 Defence embark on a pragmatic implementation road map to standardise business and information processes and their supporting applications.
- 3.9 Defence ensure adequate resourcing and funding for information management reform is prioritised as part of the fully costed 2015 Defence White Paper.
- 3.10 Geospatial information functions be consolidated into the Australian Geospatial-Intelligence Organisation following improved resourcing and connectivity.
- 3.11 The service delivery reform program, including full integration of the current Defence Materiel Organisation corporate functions, be completed.
- 3.12 All corporate services (with the exception of finance but including the Defence Security Authority) be consolidated under the Associate Secretary.
- 3.13 All military enabling services (joint logistics command policy, joint health command, Australian Defence College, Australian Civil-Military Centre) be

consolidated under a two-star officer who reports to the Vice Chief of the Defence Force.

4. Ensure committed people with the right skills are in appropriate jobs to create the One Defence workforce.

- 4.1 That as part of the budget and planning process, Defence build a strategic workforce plan for the enabling functions, and incorporate workforce plans for each job family in order to drive recruitment, learning and development, performance and talent management.
- 4.2 Defence employ Australian Defence Force personnel in non-Service roles only when it is critical to achieving capability and for a minimum of three years to achieve best value-for-money from the premium paid.
- 4.3 As many functions as possible be performed by public servants or outsourced if they are transactional in nature.
- 4.4 Defence review the entirety of its enabling and military corporate workforce to ensure that it supports the Australian Defence Force with the minimum of overlap and redundancy, and with the greatest overall economy, efficiency and effectiveness.
- 4.5 Defence reduce organisational layers; increase the spans of control of managers; align workforce standards in accord with the requirements of the Australian Public Service Commission; and engage external assistance to facilitate this work as required.
- 4.6 Defence implement a transparent performance management system that is consistently applied, recognises and rewards high performance and introduces consequences for underperformance and failure to deal with it.
- 4.7 As part of the Performance Management System, Defence takes steps to create a culture where leadership, professionalism and corporate behaviour are valued and rewarded.

5. Manage staff resources to deliver optimal use of funds and maximise efficiencies.

- 5.1 The use of the measures such as the teeth-to-tail ratio and the one third budget split should cease.
- 5.2 Appropriate efficiency measures are developed, which link to the delivery of agreed outcomes.
- 5.3 The focus on public service reductions as the primary efficiency mechanism for Defence cease.
- 5.4 Defence manage its workforce numbers in line with good resource management practice where Defence is held to account for delivering on required outcomes within available resourcing.
- 5.5 As part of the implementation process; Defence examine the headquarters functions for opportunities to achieve more effective and efficient arrangements.

6. Commence implementation immediately with the changes required to deliver One Defence in place within two years.

- 6.1 No additional reviews on the organisational issues covered by this review are imposed on Defence, particularly within the early years of implementation.
- 6.2 Past reviews and current reform initiatives should be assessed for currency and alignment to the One Defence model.
- 6.3 Establishing an oversight board to provide close external scrutiny, advice on implementation progress and regular reports to the Minister.

Enclosure 1

- 6.4 The Minister, with input from the department and the oversight board, report progress on implementation to the Government in March 2016 and March 2017.
- 6.5 Stability in the key leadership positions, particularly over the next two years to provide consistency of direction and ownership of the change.

Summary of progress to integrate Australian industry as a Fundamental Input to Capability

Defence Industry Policy Division continues to progress the implementation of key initiatives of the 2016 Defence Industry Policy Statement.

The integration of Australian industry as a Fundamental Input to Capability will ensure Defence fully considers the industrial capabilities and the capacity of Australian businesses to deliver Defence capability. It is the explicit recognition by Government and Defence of the contribution that defence industry makes to Defence capability.

Full implementation of the Defence Industry Policy Statement and the integration of Australian industry as a Fundamental Input to Capability requires sustained engagement and will be achieved through the implementation of a range of initiatives. Implementation is being closely coordinated across Defence, particularly with Naval Shipbuilding Plan implementation, noting the interdependency between the naval shipbuilding sector and broader defence industry development and support.

Australian industry as a Fundamental Input to Capability is being institutionalised across the Capability Life Cycle and broader Defence policy and planning.

Strategic planning of the industry base

- Defence has completed substantial work on the major policy initiatives that will plan and guide development of the defence industry over the next decade to ensure that defence industry can meet our capability needs and mature into an internationally competitive and sustainable industry. Considerable progress has also been made to maximise Australian industry involvement in defence materiel procurements.
- The Australian Government released the Defence Export Strategy on 29 January 2018. The Strategy builds on the Government's defence industry policies by setting out a comprehensive system to plan and guide defence export outcomes. It is aligned with Australia's foreign and trade policy, defence industry and defence capability objectives.
 - The Strategy establishes a comprehensive defence export system to support industry to build export readiness, identify export opportunities and achieve greater export success.
 - This includes establishing the Australian Defence Export Office within Defence in the first quarter of 2018 and establishing an Australian Defence Export Advocate to provide industry advocacy.
- Defence is finalising for Government consideration the Defence Industrial Capability Plan, including the Sovereign Industrial Capability Assessment Framework for release in the first half of 2018.
 - The Plan will describe the Government's industrial strategy to grow Australia's defence industrial base over the next decade and identify the opportunities and support available to Australia's defence industry sector.
 - It will also outline the initial Sovereign Industrial Capability Priorities and how they will be strategically managed and supported across Defence planning.

- Defence is drafting a Defence Industry Participation Policy that will provide a more consistent approach to how Australian and local industry will be involved in material and non-material procurements of \$4 million or above.
 - This Policy will be released in the first half of 2018 and will ensure opportunities for Australian businesses to contribute to Defence projects are maximised.
- Defence is developing a Defence Industry Skilling and Science, Technology, Engineering and Mathematics (STEM) Strategy to support industry to develop the workforce and skills to deliver the Integrated Investment Program and help meet Defence's capability needs. The Strategy will be aligned with the Naval Shipbuilding Plan and the Naval Shipbuilding College initiative and is scheduled to be released in mid-2018.

Integrated business processes

- Defence is continuing to embed industry as a Fundamental Input to Capability across Defence policies and the Capability Life Cycle. Already the Smart Buyer, Capability Life Cycle and Force Design Cycle have integrated earlier and more regular consideration of industry.
- Defence projects are actively engaging with industry to raise awareness of the opportunities on offer to Australian industry and help small and medium enterprises demonstrate their capabilities to prime contractors.
 - In 2017, seven project-supported industry showcase events were conducted for the LAND 19 Phase 7B (Short Range Ground-Based Air Defence) project, allowing Australian businesses to connect with Raytheon Australia. 184 companies from around Australia registered interest and 145 individual showcases occurred.
 - Throughout 2017, 337 Australian small and medium enterprises demonstrated their capabilities to LAND 400 Phase 2 (Mounted Combat Reconnaissance Capability) shortlisted tenderers, BAE Systems Australia and Rheinmetall.
 - Involvement of Australian industry in the Future Submarine Program is of vital importance to the construction and sustainment of the submarine fleet into the future, creating job opportunities across Australia. Naval Group and Lockheed Martin Australia have already commenced engagement with Australian industry, with eight open submarine industry days completed to date.
- The Australian Industry Capability Program continues to be central to achieving the goals of recognising industry as a Fundamental Input to Capability.
- The strengthened Australian Industry Capability Program is being rolled out across all materiel procurements of \$20 million or above, ensuring that tenderers are maximising opportunities for Australian industry and helping to develop Australia's defence industry.
- The Defence Industry Participation Policy will complement the Australian Industry Capability Program by ensuring Australian, and local, industry is being engaged across all procurements of \$4 million or above.

- The Policy will incorporate results from the new Local Industry Capability Requirement which is currently being piloted in six major capital facilities projects.

The Centre for Defence Industry Capability and the Defence Innovation Hub

- The Centre for Defence Industry Capability and the Defence Innovation Hub have now been active for over a year.
- The Centre for Defence Industry Capability has established itself as the focal point for a range of business development, skilling and global supply chain services for small and medium enterprises.
 - As of 23 January 2018, the Centre for Defence Industry Capability has received 311 applications for services of which 295 applications have been approved and progressed to engagement planning. Of the 26 applications received for a Capability Improvement Grant, 22 have been approved.
 - In the year ahead, the Centre for Defence Industry Capability will continue to support implementation of industry as a Fundamental Input to Capability by providing ongoing support for Defence major projects and policies. The Centre will also deliver a series of 'New to Defence' forums across regional centres and state and territory capitals in the first half of 2018.
- The Defence Innovation Hub is continuing to build the innovation capabilities of Australian industry and research organisations, and to deliver innovative solutions for Defence capability.
 - As of 23 January 2018, the Hub has received 388 innovation proposals and executed 30 new contracts with a combined contract value of \$47.8 million.

The Next Generation Technologies Fund

- The rollout of all the new major initiatives in the Next Generation Technologies Fund has been completed. This included the first Grand Challenge, a Defence Co-operative Research Centre and Small Business Innovation Research for Defence.
- Participation in the first Grand Challenge, which is on the topic of Counter Improvised Threats, is underway. In December 2017, 14 contracts were established with industry and university partners. A total of up to \$19 million has been budgeted for this Grand Challenge.
- The first Defence Co-operative Research Centre, which is on the topic of Trusted Autonomous Systems, was announced in July 2017, with a budget of up to \$50 million over seven years. The formation plan for the company received ministerial approval from the Minister for Defence Industry in December 2017.
- Awards of \$700,000 were made to two small businesses for the first Small Business Innovation Research for Defence, which is on the topic of a Fight Recorder.
- The Next Generation Technologies Fund committed \$16.3 million in 2016-17 and is on track to commit \$29.1 million in 2017-18 in line with the increased resources being delivered through the Integrated Investment Program.