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Australian Government

Department of Defence

SEC/OUT/2017/261

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

Dear Senator McKenzie

At the Supplementary Budget Estimates hearing of 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 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 Supplementary Estimates on 25 October 2017.

First Principles Review

The First Principles Review recommended a two-year implementation program. To date, 69 of the 75 recommendations made by the Review team have been implemented. A summary of the recommendations' implementation progress status is attached for circulation among the Committee members.

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

Mr Darren Box
First Assistant Secretary, Governance and Reform

Industry as a Fundamental Input to Capability

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

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

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including the Defence Industrial Capability Plan, the Sovereign Industrial Capability Assessment Framework and the Defence Export Strategy will be progressively released before the end of the year and will give practical effect to industry as a Fundamental Input to Capability.

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

Mr Marc Ablong
First Assistant Secretary Defence Industry Policy

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

Yours sincerely

Greg Moriarty
Secretary

| ○ October 2017

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 include 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 Services 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.
- 4.1 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.
- 4.7 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.
 - 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 (DIPS).

The integration of Australian industry as a Fundamental Input to Capability (FIC) 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 huge contribution that defence industry makes to Defence capability.

Full implementation of the Defence Industry Policy Statement (DIPS) and the integration of Australian industry as a Fundamental Input to Capability requires sustained engagement and will be achieved through a combination of initiatives. 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 is finalising for government consideration the Defence Industrial Capability Plan, the Sovereign Industrial Capability Assessment Framework and Defence Export Strategy. These policy documents will be released in late 2017.
- The Defence Industrial Capability Plan describes the Government's industrial strategy to grow Australia's defence industrial base over the next decade and it identifies the opportunities and support available to Australia's defence industry sector. It will also provide the initial Sovereign Industrial Capabilities and how they will be strategically managed and supported across Defence planning.
- The Defence Export Strategy will plan, guide, and measure defence export outcomes, supporting our foreign and trade policy, defence industry and defence capability objectives. The Strategy will build upon the current initiatives the Australian Government has in place to support defence exports.
- Defence is drafting a Defence Industry Participation Policy that will provide a consistent approach to how Australian and local industry will be involved in material and non-material procurements of \$4 million or above.
 - This Policy is the next step in entrenching industry as a Fundamental Input to Capability and will ensure opportunities for Australian businesses to contribute to Defence projects are maximised.
- Additionally, Defence is drafting an industry skilling and Science, Technology, Engineering and Mathematics (STEM) strategy to support defence industry developing the workforce and skills to deliver the Integrated Investment Program – complementing the Defence Industrial Capability Plan.

Integrated business processes

- Industry as a Fundamental Input to Capability has been embedded in Defence's strategic guidance as part of the implementation of the 2016 Defence White Paper and will be incorporated in updates to that guidance.
- Defence is embedding cultural change through the Capability Life Cycle:
 - The Capability Life Cycle includes requirements for industry to be involved early and as a key partner in the delivery of Defence capability.

- Industry is one of the core Smart Buyer design categories to ensure it is considered whenever a project strategy is being developed.
- Industry and innovation have been integrated into the Force Design Cycle.
- The Australian Industry Capability (AIC) Program is the major lever for maximising Australian industry involvement in our Defence capability investment – translating the goals of Industry as a Fundamental Input to Capability into practical industry outcomes.
- The Program applies to all Defence materiel procurements of \$20 million and above and has been strengthened with more explicit requirements on tenderers, for example:
 - The new requirements have already been embedded in the SEA1180 Offshore Patrol Vessel and will be applied across new materiel procurements that meet the AIC threshold.
- A new Local Industry Capability Requirement is being piloted in three major capital facilities projects. This new requirement seeks to maximise opportunities for local businesses to contribute to major capital projects in their region.
 - The results of the pilot projects will inform the development of the Defence Industry Participation Policy to be released in the first half of 2018.

The Centre for Defence Industry Capability (CDIC) and the Defence Innovation Hub

- The Centre for Defence Industry Capability and the Defence Innovation Hub were launched on 5 December 2016 and are key drivers of Australian industry as a FIC.
 - The Centre for Defence Industry Capability is the focal point for a range of business development, skilling and global supply chain services for small and medium enterprises. As of 19 September 2017, 213 applications for advisory services have been approved and 16 applications for a Capability Improvement Grant received, with 13 of these already approved.
 - The Defence Innovation Hub will invest in maturing and advancing technologies that can deliver better defence capability outcomes for Australia. As of 3 October 2017, the Defence Innovation Hub had registered 1155 users and received 303 innovation proposals.

The Next Generation Technologies Fund

- The Next Generation Technologies Fund was launched by the Minister for Defence Industry on 15 March 2017. The Next Generation Technologies Fund is focused on developing collaborative partnerships to conduct research in emerging and future technologies that have the potential to deliver game-changing capabilities for Defence.
- To engage fully with the national innovation system, Defence has established new initiatives including: Grand Challenges; Defence Cooperative Research Centres (Defence CRCs) and Small Business Innovation Research for Defence (SBIRD).

- Industry and academia have participated vigorously in the initial stages of these initiatives:
 - The Grand Challenges national roadshow attracted more than 650 registrants, leading to over 200 proposal submissions from parties including 76 companies and 23 universities. 36% of proposals were from applicants new to Defence collaboration.
 - The national roadshow for the first Defence Cooperative Research Centres addressing Trusted Autonomous Systems attracted more than 500 registrants, including 120 from small to medium enterprises, 37 from defence primes and 264 from universities. The first project plans from industry have now been submitted and the formation plan for the Defence Cooperative Research Centres for the Trusted Autonomous Systems company is targeted for completion by the end of 2017.
 - A pilot for the new Small Business Innovation Research for Defence initiative is under way, with 47 submissions received from industry and universities across Australia and New Zealand. Defence is finalising contracts with the two successful small businesses: iMeasureU Ltd and Myriota.
- In addition, 59 new strategic research projects with 22 partner universities have commenced. The universities are sharing \$5.7 million in project funding to initiate research into emerging technologies of interest to Defence, including quantum technologies, cyber, and enhanced human performance.