

## **Joint Committee of Public Accounts and Audit**

Defence Sustainment Expenditure – 16 August 2017

### **ANSWER TO QUESTION ON NOTICE**

Department of Defence

**Topic:** Salary of Seconded Managers

**Question reference number:** 1

**Member:** Mr Hill

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 15 September 2017

#### **Question:**

**Mr HILL:** The audit report mentions that there are advisory services and also a senior manager seconded into CASG in a division head role. What's equivalent salary paid to that senior manager on a full-time equivalent basis for a year?

**Mr Gillis:** I would have to take that on notice.

#### **Answer:**

Defence has seconded a senior manager from Bechtel Management Pty Ltd (Bechtel) into a division head role within the Capability Acquisition and Sustainment Group. Defence does not pay a specific salary for this embedded role. The costs associated with the role are included under the broader contract between Defence and Bechtel for First Principles Review implementation support, and are charged in accordance with the contract's pricing rates.

## **Joint Committee of Public Accounts and Audit**

Defence Sustainment Expenditure – 16 August 2017

### **ANSWER TO QUESTION ON NOTICE**

Department of Defence

**Topic:** Outcome Framework for Bechtel

**Question reference number:** 2

**Member:** Mr Hill

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 15 September 2017

#### **Question:**

**Mr Gillis:** Bechtel is working with us to reform the way we're reporting sustainment, the way we're reporting acquisition. They're working on the smart buyer model and they're working on a range of different organisational structures for the organisation. So it's not just a single task; they are doing almost all of the reform activities inside the acquisition organisation. But it's not just for the CAS Group; it's for the Estate Group and it's for the CIO. We have them working across all of the delivery organisations to make sure that they're consistent.

**Mr HILL:** We do get a sense of that from the table on page 64 about the tasks, but none of them seem to be very outcome focused. Perhaps if you could take it on notice and provide us with a copy of the evaluation outcome framework and address the question as to when you think you'll be independent of Bechtel.

**Mr Gillis:** I'm happy to do that.

#### **Answer:**

The Department of Defence has contracted Bechtel Management Pty Ltd (Bechtel) to support implementation of the First Principles Review, with a focus on transitioning skills and experience from Bechtel to Defence staff. The contract is due to conclude on 29 June 2018.

The performance of Bechtel is measured in the contract against the following four criteria:

- a. Quality of work met a professional standard considered appropriate for the Service Category and Skill Level Standards;
- b. Agreed milestones were met;
- c. Key Persons supplied were suitable to deliver the Services; and
- d. Minimal turnover of Key Persons during the course of the Contract.

## **Joint Committee of Public Accounts and Audit**

Defence Sustainment Expenditure – 16 August 2017

### **ANSWER TO QUESTION ON NOTICE**

Department of Defence

**Topic:** CASG Consultants and Contractor Savings

**Question reference number:** 3

**Member:** Mr Julian Hill

**Type of question:** asked on Wednesday, 16 August 2017, Hansard page 8

**Date set by the committee for the return of answer:** 15 September 2017

#### **Question:**

**Mr HILL:** I might invite the Auditor-General to comment on the value-for-money issue and the findings. The government more broadly, in Budget Paper No. 2, page 79, this year outlined \$304 million of savings over four years, including a significant reduction in the use of consultants and contractors. Can you advise the committee on what contribution CASG will be required to make for that?

**Mr Gillis:** Yes, it's 10 per cent, but I've recently taken over responsibility for—

**Mr HILL:** Sorry, 10 per cent of what?

**Mr Gillis:** Ten per cent of the cost of contractors.

**Mr HILL:** For your group or 10 per cent of \$304 million?

**Mr Gillis:** Across the whole of Defence.

**Mr HILL:** Sorry, I don't understand.

**Mr Gillis:** We've all been given a reduction of 10 per cent. My reduction is 10 per cent, the vice chief's is 10 per cent, the estate's is 10 per cent—every group is 10 per cent.

**Vice Adm. Griggs:** That's to achieve the \$304 million?

**Mr Gillis:** The other role I've taken on recently is that I'm—

**Mr HILL:** So what's your total consultant bill or contractor bill over four years, then?

**Mr Gillis:** I'd have to take that on notice.

**Mr HILL:** It's 10 per cent of something?

**Mr Gillis:** Yes.

**Mr HILL:** If you could flesh that out, that would be helpful.

**Answer:**

The table below shows the total CASG – Consultant, Contractors and Business Travel Budget and Reductions as part of the total Defence savings as per Table 2 Page 20, PBS 2017-18):

	2017-18	2018-19	2019-20	2020-21	Total
	\$m	\$m	\$m	\$m	\$m
CASG – Consultants, Contractors and Business Travel Budget	145.4	150.4	179.7	198.4	673.9
CASG – Reduction to Consultants, Contractors and Business Travel	-14.5	-15.0	-18.0	-19.8	-67.4

## **Joint Committee on Public Accounts and Audit**

Defence Sustainment Expenditure – 16 August 2017

### **ANSWER TO QUESTION ON NOTICE**

Department of Defence

**Topic:** Definition of COTS and MOTS

**Question reference number:** 5

**Senator:** Brodtmann

**Type of question:** asked on Wednesday, 16 August 2017, Hansard page 15

**Date set by the committee for the return of answer:** 15 September 2017

#### **Question:**

**Ms BRODTMANN:** I have a different line of questioning. Thanks to the ANAO for making that comment about the quality assurance issue. As part of that process, can we get some universality and agreement on terminology about what constitutes commercial off the shelf and what constitutes military off the shelf, because the Tiger was billed as a military-off-the-shelf capability, and it was not that, as the fact that it was seven years late can bear out. I know that there is disagreement. It was billed to government and to the community as military off the shelf. So, if we can get some agreement on what actually constitutes COTS, MOTS and developmental capability, that would be very useful.

**Mr Gillis:** We can take that on notice.

#### **Answer:**

Defence provided the Committee with the official definition of Off-The-Shelf on 25 May 17, in response to Question on Notice No. 2. In a supplementary response provided to the Committee on 21 July 2017, Defence clarified that the definition provided was sourced from the Defence Capability Development Manual (the official manual at the time), Part 2 para 4.22.

In brief, OTS solutions may either be Military Off-The-Shelf (MOTS), or Commercial Off-The-Shelf (COTS). There is no individual definition for MOTS, COTS or Australianised OTS/COTS/MOTS. However, the policy explains these variations of OTS, including 'Australianisation' to meet Australian Defence Force operational requirements.

## **Joint Committee of Public Accounts and Audit**

Defence Sustainment Expenditure – 16 August 2017

### **ANSWER TO QUESTION ON NOTICE**

Department of Defence

**Topic:** Updated Framework for Risk Management

**Question reference number:** 6

**Member:** Mr Hill

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 15 September 2017

#### **Question:**

**ACTING CHAIR:** I think the Auditor-General's words seem right that, in that sense, there has to be a robust framework to manage that risk. Perhaps if you could provide more detail on notice about how you have updated that framework and so on. Also this question on value for money in the procurement is something of interest to me and I suspect other members of the committee going forward.

#### **Answer:**

Defence has a robust and comprehensive procurement policy framework to give effect to the Commonwealth Procurement Rules (CPRs). The Defence Procurement Policy Manual (DPPM) reflects these requirements, including the core rule regarding value for money.

The streamlined and simplified DPPM was released on 7 April 2017. Although the internal audit did not identify any fundamental breaches or systemic issues, the DPPM was revised to more strongly articulate the CPR requirements. Amongst other things it specifically addressed the CPR issues identified in the internal Defence audit paragraphs 18 (a) (that entities must not use third parties to coordinate procurement on their behalf to avoid the CPRs) and (b) (that suppliers must not act dishonestly, unethically or in an unsafe manner and that officials should seek tenderer declarations to this effect). Tenderer declaration requirements were also addressed in Australian Standard for Defence Contracting tendering and contracting templates. The DPPM requirements regarding value for money, risk management, conflict of interest, probity and record keeping continue to reflect CPR requirements.

Defence's Commercial Reform Program is also supporting a range of initiatives to enhance compliance and commercial outcomes, including but not limited to:

- procurement professionalisation and training of staff to build commercial capability and commercial acumen; and
- action to replace the Capability Acquisition and Sustainment Support Services panel (formerly Defence Materiel Organisation Support Services panel) with the Defence Support Services panel. This includes establishing the Major Service Provider/ Integrated Work Package arrangements, which more clearly define the requirement to use the Defence Support Services panel, management of conflict of interest, and includes an improved governance and assurance function.

## **Joint Committee of Public Accounts and Audit**

Defence Sustainment Expenditure – 16 August 2017

### **ANSWER TO QUESTION ON NOTICE**

Department of Defence

**Topic:** Defence's Performance Framework for Materiel Sustainment

**Question reference number:** 8

**Senator:** The Committee

**Type of question:** provided in writing

**Date set by the committee for the return of answer:** 15 September 2017

#### **Question:**

The Audit states that Defence expected the Sustainment Performance Management System to be fully operational and that all sustainment projects will be using the system by the end of June 2017 (p. 31). Has this occurred, and if not, can you advise when the system will be in use for all sustainment projects?

#### **Answer:**

The Sustainment Performance Management System is fully operational in the Defence protected environment, with 110 out of 114 sustainment products now managed through the system. The Sustainment Performance Management System sustainment team is currently engaged with Collins Class Submarine sustainment representatives and aim to have the product supported through the Sustainment Performance Management System by the end of 2017. The three remaining sustainment products, being Air Warfare Destroyer, Pacific Patrol Boats and C130 will be scheduled for transition after Collins as the Air Warfare Destroyer is new to service and the Pacific Patrol Boats and C130 are near end of life.



## **Joint Committee of Public Accounts and Audit**

Defence Sustainment Expenditure – 16 August 2017

### **ANSWER TO QUESTION ON NOTICE**

Department of Defence

**Topic:** Performance Reporting

**Question reference number:** 9

**Senator:** The Committee

**Type of question:** provided in writing

**Date set by the committee for the return of answer:** 15 September 2017

#### **Question:**

The ANAO found the effectiveness of sustainment gate reviews could be increased if the lessons obtained from these reviews were routinely incorporated into management reporting on sustainment (p. 36). How can Defence better incorporate information from sustainment gate reviews into management reporting on sustainment?

#### **Answer:**

Sustainment Gate Reviews (now known as Sustainment Independent Assurance Reviews) of product schedules are completed on a rolling basis, with reviews of between 15-20 (of a total of approximately 114) product schedules completed each year. The Outcomes of the reviews are widely distributed amongst stakeholders, and summarise major issues and likely challenges facing the product and the related Systems Program Office. In those cases where a review has been held during any given reporting cycle the information from these reviews is incorporated into sustainment management reporting.

## **Joint Committee of Public Accounts and Audit**

Defence Sustainment Expenditure – 16 August 2017

### **ANSWER TO QUESTION ON NOTICE**

Department of Defence

**Topic:** Sustainment Program Reporting

**Question reference number:** 10

**Senator:** The Committee

**Type of question:** provided in writing

**Date set by the committee for the return of answer:** 15 September 2017

#### **Question:**

1. Why has Defence not provided program level estimate data on a consistent basis over time?
2. Given the findings of the audit, especially the variabilities and inconsistencies in reporting (pp. 46-50), how can Defence improve public reporting of sustainment activity to provide a 'clear read' across accountability documents - Corporate Plans, Portfolio Budget Statements and Annual Performance Statements?

#### **Answer:**

Defence acknowledges the observation made by the ANAO in the Audit Report on Defence's Management of Materiel Sustainment that "Defence has not published program level expenditure data on a consistent basis over time, or time series analysis, to assist with external scrutiny of its sustainment expenditure".

Defence will address issues of consistency raised by the ANAO within the Portfolio Budget Statements, Portfolio Additional Estimates Statements and the Defence Annual Report.

These reports along with an in-camera briefing to JCPAA, effectively balance Defence's obligation for parliamentary scrutiny of the expenditure of Commonwealth funds on sustainment, while protecting the classified information on capability readiness and availability.

Existing Defence processes, including the management of sustainment through the use of Materiel Sustainment Agreements, provide Defence with appropriate Governance mechanisms to allow the Secretary of the Department of Defence, the Chief of the Defence Force and the Minister for Defence clear linkages and understanding of the budget being expended for sustainment and the outcomes of that expenditure compared to the plan.

## **Joint Committee of Public Accounts and Audit**

Inquiry into Defence Sustainment Expenditure – 25 August 2017

### **ANSWER TO QUESTION ON NOTICE**

Department of Defence

**Topic:** Costs and Benefits of Smart Sustainment SRP Stream

**Question reference number:** 12

**Senator:** The Committee

**Type of question:** provided in writing

**Date set by the committee for the return of answer:** 15 September 2017

#### **Question:**

The ANAO found that the costs and benefits of the Smart Sustainment initiative are uncertain. Further, there was no evidence that Defence developed a planned approach to a reform program supported by clear objectives or benchmarks (pp. 56- 7). In Defence's view, why was this program unable to adequately report on its outcomes, and what lessons can be taken to evaluating future major change programs?

#### **Answer:**

- Defence disagreed with this ANAO finding. Savings anticipated from Smart Sustainment initiatives were identified against each sustainment product and harvested from the forward budget allocations at the commencement of the program. Achievement against forecast was tracked and audited by the former DMO using a robust tracking system, and this data was provided to the ANAO during the course of their research.
- The great majority of around 1000 individual initiatives across over 100 sustainment products did not require investment funding. As a result, DMO System Program Offices (SPOs) were operating within their reduced budgets and continued to achieve performance targets agreed with their customers. The customer-supplier agreements (Materiel Sustainment Agreements) and the bi-annual planning forums in place between the Capability Managers and the former DMO provided both parties with visibility of the progress and impact of individual reform initiatives.
- The more detailed information maintained by SPOs undertaking specific initiatives have long since been archived and resources have not been prioritised to locate descriptive records of individual initiatives for which the required savings had already been harvested.

- Notwithstanding, lessons can be drawn from the Smart Sustainment initiative on the need to appreciate the complexity and overhead of establishing and maintaining a robust performance measurement system(s) within the geographical and technologically diverse Defence environment. The concept of “bottom up” aggregation of information on Smart Sustainment initiatives minimised overhead and focused senior management on the strategic goals of the program. Another key lesson is that an overly rigorous approach to planning, or as in the case of Smart Sustainment, to the forward programming of savings, stifles agility and can lead to missed opportunities as programs develop.