

Chair and members

Thank you for the opportunity to appear before you today to discuss the ANAO report on capability development.

The ANAO report is a comprehensive and positive contribution to the debate about this important subject.

The report highlights a number of recurring capability development themes and issues and made seven (7) recommendations.

Of the report's recommendations, six (6) were agreed by Defence, with one, recommendation 4, which addressed regular internal updates and reports on variations to projects, partly agreed. The Ai Group Defence Council generally agrees with the recommendations. The one caveat is that we wouldn't want to see implementation of the recommendations lead to increased complexity, delays and red tape within the capability development process.

One aspect of the report which I would draw your attention to were the comments made by the former Secretary of Defence, in May 2011, on the difficulty of matching capability aspirations with Defence's capacity to deliver. This was a healthy admission, one well known to your committee, within defence industry and the Australian community.

I want to place on the record that the Australian Industry Group Defence Council National Executive, chaired by Chris Jenkins, appreciates the

opportunity to engage with the Capability Development Group, led by the able and distinguished senior naval officer, Vice Admiral Peter Jones.

VADM Jones and his management team have a demanding and challenging role.

The scale of the Defence Capability Plan (DCP), which consists of more than 200 projects, many of which are highly complex, poses a major management task, one not always understood nor appreciated in the non-Defence community.

Defence industry engagement early in the capability development process is essential. The current arrangements, whilst helpful up to a point, need refinement in order to maximise the benefit of industry expertise, especially on risk minimisation in complex projects.

From an Ai Group Defence Council perspective, we believe that defence industry can contribute a great deal more to capability development than is suggested in the ANAO report. My colleague, Peter Nicholson, would be happy to expand on this subject.

Our chair, a number of our members and myself are members of the Capability Development Advisory Forum (CDAF), chaired by VADM Jones.

The various Environmental Working Groups which report to the CDAF comprise a range of defence industry representatives, among others.

We would be happy to discuss the dynamics of these groups, should Committee members wish.

The history of complex weapons acquisition procurement highlights the ongoing challenge of integrating complex systems into weapons platforms. This issue has been partly addressed through the Projects of Concern activity in the recent years and there are lessons resulting from that process which are worth further discussion on this subject.

From my perspective, I want to mention briefly a few matters which members may like to focus upon.

The first relates to the DCP. It is an important document, one which defence industry appreciates receiving on a regular basis. It offers companies an opportunity to plan with a degree of certainty, an important ingredient for making wise investment decisions, especially relating to infrastructure acquisitions and staffing.

However, the DCP tends to be overly ambitious, with inevitable slippages a cause of concern to, among others, defence industry. There is a case, we suggest, for reducing the number of projects in the DCP, with priority afforded to those projects which the Australian Defence Force considers to be essential. Perhaps we could learn from experiences in other countries, such as the UK and NZ.

Second, proper risk analysis is an ongoing concern. I think we need to give more attention to the risk analysis capability within defence companies,

especially the primes, early in the capability acquisition process. CDG and the DMO would benefit from such engagement.

Third, the ongoing issue of the skills levels of CDG personnel was highlighted by the ANAO. It would be useful, perhaps, to seek industry input on how to achieve a better situation, one drawing upon its expertise in training and retaining skilled personnel. Early introduction of a career stream for defence procurement officers makes considerable sense. Defence industry could play a part in development of such an arrangement.

Finally, the Projects of Concern activity has highlighted important lessons for avoiding recurrences of projects which have gone awry. There is a case for ongoing CDG, DMO and defence industry engagement on applying those lessons for major, complex projects which are about to enter or have just entered the DCP.