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Mrs Lucy Wicks MP
Chair, JCPAA Committee

SUBMISSION TO CURRENT REVIEW

I am pleased to offer the JCPAA a submission to the *Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project – Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))*. This submission reviews key elements in the evolution of Australia's Defence and Procurement Organisations following the Whitlam Government's acceptance of the Tange proposal of 1972 to return to the centralised Defence Organisation that existed pre-WW2.

Over the following 47 years, there has been an unbroken chain of audits, reports and inquiries in an attempt to improve the Department's transparency, its quality of advice to government and its accountability and performance, all to little, if any, effect. The major bodies exercising governance oversight of Defence over that time have been your JCPAA Committee, the Australian National Audit Office, and various Department of Foreign Affairs, Defence and Trade Committees, with a strong focus upon Major Project Reports raised since 2007-08. However, these governance oversight bodies have focused generally upon annual reviews, which have provided no more than 'snap shots' in time rather than identifying entrenched systemic problems and their causal factors and appropriate remedies. As a result, there has been some 47 years of much apparent 'action' that has resulted in very little, if any, meaningful progress.

This submission provides a longitudinal analysis of what ails Australia's 'reformed' Defence and Procurement Organisations and includes two Case Studies – one focused upon JCPAA oversight and the other on F-35 Procurement oversight. These have been used to highlight the factors underlying the continued failure of Australia's governance bodies to control the Defence Organisation that government created in 1972.

I do hope that this submission will be of assistance to your committee, as I fear that Australia's current Defence Organisation will be no match for current and evolving strategic challenges, much as was the case pre-WW2 when Australia's then highly centralised Defence Organisation was considered unfit for meeting the challenges that were emerging.

It is only through such longitudinal analysis that the critical factors and their impacts may be identified by the JCPAA, and lead to effective reforms.

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(E.J. Bushell AM) RAAF (R'td)

Submission to JCPAA Inquiry

***SUBMISSION TO THE
JOINT COMMITTEE OF PUBLIC
ACCOUNTS AND AUDIT INQUIRY INTO***

***THE 2018-19 DEFENCE MAJOR
PROJECTS REPORT AND THE
FUTURE SUBMARINE PROJECT***

- AUDITOR-GENERAL'S REPORTS

19 AND 22 (2019-20) -



E.J. BUSHELL, Air Cdre (Ret'd)

8th March 2020

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ACRONYMS USED:

ANAO: Australian National Audit Office.

JCPAA: Joint Committee of Public Accounts and Audit.

DMO: Defence Materiel Organisation.

DOT&E: Director of Test and Evaluation

FADT: Foreign Affairs, Defence and Trade.

GAO: Government Accountability Office

MPR: Major Project Report.

OEM: Original Equipment Manufacturer.

CASG: Capability Acquisition and Sustainment Group.

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SUBMISSION TO JCPAA INQUIRY INTO AUDITOR-GENERAL'S REPORTS 19 AND 22 (2019-20)

EXECUTIVE SUMMARY

Some 47 years have passed since the Whitlam Government accepted Sir Arthur Tange's recommendation to return to the centralised Defence Organisation that existed pre-WW2, an organisation that the government at the time considered to be incapable of meeting the demands of an approaching war. Since 1972, there has been an unbroken chain of parliamentary and other reports, audits and inquiries into the new Defence Organisation's transparency, performance and the management of its acquisition and sustainment programs.

In particular, the Australian National Audit Office (ANAO) has conducted a stream of performance audits into Defence management and major capability projects which have then been reviewed by the Joint Committee Public Accounts and Audit (JCPAA). Additional inquiries have been undertaken by the Foreign Affairs, Defence and Trade (FADT) Defence Sub-Committees. These processes all formed part of Australia's governance accountability chain, but the reviews have proven over time to be ineffective in improving transparency, obtaining verifiable responses from Defence and improving its performance. Defence has largely been encouraged to continue along its chosen way, 'reforming' the Defence and Procurement Organisations in its own public service image, despite some governance reports finding that Defence's management structure was flawed, that Defence's problems were largely of its own making and that Defence was inherently incapable of reforming itself.

A longitudinal review of the evolution of Australia's fully centralised Defence and Procurement Organisations indicates that these are unfit for purpose, and cannot be made so. The Defence and Procurement reforms proposed by the Defence Bureaucracy, and approved by Government, may be traced to those that evolved in the US's Defence Bureaucracy and its Procurement organisation following the Goldwater-Nichols Act 1986, which found that both systems were broken and in need of urgent repair. Unfortunately, under commercial (profit-driven) pressures, the US's Defense and Procurement Organisations have become even more broken over time. The question to be asked here is why our Defence Department proposed the adoption of US Defense Organisations, which government approved, when both knew that these organisations had been declared by Congress in 1986 to have failed and have failed consistently since then.

This Submission provides a longitudinal analysis of Defence's 'reformed' organisation and its procurement methodologies based upon JCPAA and FADT reviews, supported by two relevant Case Studies.

The aim of this submission is to provide the JCPAA with a wider perspective against which the Major Projects and the Submarine Project Reports may be reviewed. Otherwise, the reviews will merely be another annual 'snap shot' that cannot identify the deeper causal factors underlying Defence's continuing, unsatisfactory performance.

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INTRODUCTION

This submission draws upon a number of the author's earlier works:

- A series of Submissions made to the Senate JCPAA and the ANAO in the form of detailed analyses of all Defence Major Projects Reports raised from 2007-08 to 2013-14, updated to the 2018-19 MPR, together with analyses of several JCPAA Major Project Review Reports.
- Submissions to FADT Committees in regard to Defence Annual Reports, specifically on subjects such as Australia are Regional Air Superiority and Combat Capability, the F-35 Project, and Procurement Procedures for Defence Capital Projects.
- US Governance reports on problems identified in the US Defence and Procurement Organisations that have persisted since the Goldwater-Nicholls Act of 1986.
- Several letters to the Prime Minister and the Minister for Defence highlighting serious problems that have arisen from Secretary Tang's proposal to re-centralise the Department of Defence, and the 'Reforms' that followed.

The only positive result from this 12 years of effort was reflected in the Final Report of the FADT References Committee Inquiry into Procurement Procedures for Defence Capital Projects (Aug 2012). Regrettably, none of that inquiry's perceptive observations and recommendations regarding Defence's process-driven organisation and commercial support focus, which highlighted the need to align critical accountabilities with appropriate responsibilities and resources, was adopted.

Since that time, all ANAO and JCPAA Audits and Inquiries, in their search for transparency and performance improvement, have been unable to stray outside Defence's entrenched bureaucratic organisation. Furthermore, FADT Defence Subcommittee Inquiries have also taken great pains to accept Defence's advice, even when that advice has been contradicted by official reports from the US Government Accountability Office (GAO), and the F-35 Project Director, Operational Test and Evaluation (DOT&E). Most importantly, however, has been the total failure of Defence and successive Governments to accept that the US Defense and Procurement Organisations, upon which Defence's Reform and Commercial Support Programs were based, were declared failures some 33 years ago and have resisted all efforts to reform them to this day.

The emerging problems associated with the Submarine Project should be no surprise as Defence is handling this project as a procurement, not as a project. The mistakes now surfacing have resulted inevitably from the bad practices adopted by Defence in its handling of the F-35 Project, practices that have been reused in the Submarine Project despite the sorry history of the F-35 Project .

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This submission comprises:

- Annex A: The Origin of Australia's 'Reformed' Defence and Procurement Organisations.
- Annex B: Analysis of ANAO/JCPAA Reviews.
- Annex C: Analysis of FADT References Committee Report into the Planned Acquisition of the F-35, Case Study 1.
- Annex D: Analysis of the Auditor General's Report No 2, 2017-18 on ANAO's Performance Audit of Defence's Management of Materiel Sustainment, 11 July 2017, Case Study 2.
 - Attachment 1: Extract from FADT References Committee Inquiry into Procurement Procedures for Defence Capital Projects, August 2012.
 - Attachment 2: ANAO Flow Chart.
 - Attachment 3: RAAF Capabilities before Defence 'Reforms'.
 - Attachment 4: Analysis of Defence's First Principles Report.
- Annex E: A Brief History of 47 Years of Defence 'Reform' at May 2019.
- Annex F: Some Observations on Political, Defence and Military Interfaces and Governance.

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ANNEX A

THE ORIGIN OF AUSTRALIA'S 'REFORMED' DEFENCE AND PROCUREMENT ORGANISATIONS

The Critical Common Factor.

The problems that have long been revealed in audits and inquiries into the performance of Australia's Defence Organisation were inherited directly from the US when the US DoD systems engineering based acquisition and sustainment organisations were replaced by commercially (profit) focused, logistics support based approaches. Australia later followed suit as part of its Defence Reorganisation and Commercial Support Programs. However, both countries are now faced with identical problems, problems that have persisted since the changes were adopted and have been highly resistant to needed reform.

The puzzling factor here is that Australia decided to proceed with two major Defence 'Reform' Programs, with Government approval and oversight, despite knowing that the US had declared its systems were broken in 1987, and has been unable to reform them to this date – after some 33 years of acknowledged failure. In addition, the FADT Defence Subcommittee, the ANAO, and the JCPAA have conducted governance audits and reviews that have found much the same problems since 20017, but have been unable to achieve any meaningful changes for the better. This history follows, and should be made a core factor in all reviews of Defence's poor performance since its Defence and Commercial Reform Programs were introduced.

Changes in the Management of Defense in the United States

Historical Perspective:

During the mid-1980s, the US Congress decided that its Department of Defense and its Defense Procurement Organisation were broken and so a range of reforms were undertaken under the Goldwater-Nichols Act of 1986. However, Defense, political, lobbyist, and contractor intransigence combined to block real change, so the problems persisted and inevitably became worse. The problems seen with major capability acquisition in the US today have become entrenched by a failure of good governance, a product of a too-cosy relationship between major capability manufacturers and the Pentagon, the Department of Defense, and the polity. By 2009 the accumulated mess of poor governance was left to a new President to clean up.

At one US House Committee hearing into Defense and Defense procurement, frustrated Committee Members charged contractors with outright deception, their sole objective being

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to make money. Underperforming weapons they said were being hawked that were overcharged and not delivered on time. There was a marked tendency, both here and in the US, for Defence Departments to blame the contractor for problems that they encounter with their projects. However, it is important to recognise that critical management deficiencies also existed on the part of customers, particularly customers working from within government bureaucracies that contributed significantly to, and indeed aggravated, problems with projects through their lack of expertise, lack of openness, and failure to follow due process.

On 30th January 2009, John Young, acquisition chief at the Pentagon, wrote to the Secretary for Defense giving his Office's assessment of the reasons behind the failures reported frequently by the Government Accountability Office, as well as other government oversight bodies. The principle reasons behind the perceived project failures, as seen by Young and remain to this day, together with the real reasons, may be summarised as follows:

The Cause of Problems:

Table 1: PRINCIPAL REASONS FOR PROJECT FAILURES:

1. **Artificially low cost estimates** at the start of the program to get it accepted (the 'bait').
2. **Lack of skills.** The Project Office must have the skills, competencies and processes to enable it to analyse the system configuration, identify operational and technological areas for problems and risk, evaluate these, and use its experience to generate a 'best cost' estimate. These skills and competencies are also invaluable in testing all contractor claims regarding cost, schedule and capability. If a project starts poorly, then it is likely to continue that way.
3. **Excessive performance requirements.** The Project Office must have a firm Statement of Operational Requirements and a supporting Technical Requirements Specification before proceeding, and must establish a tightly disciplined requirements change process.
4. **Too little understanding of the design.** The Project Office must have a skills and competency base appropriate to the operational and technological (including integration) characteristics of the project, supported by the relevant risk and project management processes. It is folly to proceed without these.
5. **Immature technology.** The Project Office must have even higher skills and competencies in those areas where the technology is immature so that it can ask the difficult questions and be able to evaluate the answers professionally.
6. **Complexity** in development and integration. Complexity is not a bar or an insurmountable challenge. Complexity simply requires skills in the process of technical and functional deconstruction of the whole into elements that can be

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managed with low risk along standard lines up to the point of integration where system integration skills come to the fore. Having the appropriate skills, competencies and processes makes complexity quite manageable.

7. **Optimistic schedule.** Optimism will always be a characteristic of bureaucracies and project offices that do not have the skills and competencies to construct and quantify the Project Work Breakdown Structure, and so construct realistic schedules.
8. **Fluid program strategy.** This is a product of inadequate skills and competencies aggravated by a lack of process and/or inappropriate bureaucratic/political decisions.
9. **Poor status** at the point where development and production start. This usually occurs from a combination of inadequate skills and competencies, often driven by arbitrary political/bureaucratic decisions aimed at hiding unpleasant facts and avoiding accountability. Shifting developmental work into the production phase, assisted by the creative accounting identified by the GAO, has been developed into a fine art by the JSF manufacturer. This project should be used as a case study of how not to manage a project.
10. **Runaway requirements** changes. See Item 2 above.
11. **Reductions in the number** of systems required. This more often occurs in response to budgetary decisions. The Services have to reduce the number of weapon systems they can afford to keep within budget restraints. However, this merely increases the unit cost and further reduces the affordable number, and so the cycle continues. A project that has reached this point is in dire trouble.

Table 2: PRINCIPAL REASONS BEHIND PROJECT FAILURES:

Young did not propose any changes to the US Defense acquisition process, concluding that there is reason for confidence in the Department's procurement process, and that somehow the widespread difficulties listed all lie outside the Department and its control. This is the type of response characteristic of bureaucracies which, by nature, are extremely self-serving, highly sensitive to any criticism, and careless with the facts when they are unwelcome. The situation seen in the US is fundamentally the same as that now seen in Australia, as well as other Western Nations, for much the same reasons.

Importantly, Young's 'reasons' are only symptoms of deeper problems and are identical to those that were put forward by Australia's DMO. Both failed to recognise the core problems of:

- A lack of the required skills and competency *base* within the Services and in Defense and its procurement organisation.
- A failure to analyse the evolving threat capabilities that must be met. This is a consequence of the Dunning Kruger Effect whereby the incompetent are unable to

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assess critically their own lack of relevant competencies, resulting in unwarranted optimism leading to high risk decisions.

- A failure to specify capability requirements fully and accurately.
- The failure of Defense and its procurement organisation to follow what are well defined and well established project management processes.
- A lack of visibility and failure to comply with the findings of governance audits, particularly by the GAO; and the presence of too many contractors and advisors working within Defense Department and its procurement organisation who came from major Defense Industry Contractors; contractors and advisors who carry far too much baggage that influences their decisions and advice.

In both the US and Australia, the skills and competency base that existed within the Services, which enabled them to manage efficiently the procurement of their capability requirements over many decades, were eroded and outsourced to the extent of sacking those military and civilian professionals who voiced concern over the way that their country's force capability development and force structure were being mismanaged. Until that skills and competency base is rebuilt, and takes a central role in defence planning and procurement, the problems that are now endemic to most Western Defence Departments will continue to degrade both National and Western capabilities, and impose an unnecessarily high risk to both security and cost.

In reviewing progress with Goldwater-Nichols Act reforms, the US Centre for Strategic and International Studies saw a need to strengthen Congressional oversight and to transfer acquisition programs back to the Service Chiefs who are legally responsible for supplying capabilities.

The same recommendations were made in Australia by the 2012 Senate FADT References Committee Inquiry into Procurement Procedures for Defence Capital Projects – better governance was needed as well as the return of capability acquisition to the Services where fundamental accountability for establishing and providing military capabilities resides.

Unfortunately, the US DoD demonstrated that it is far more broken than was first thought. This was evidenced by the strange and indefensible positions on the future of US air power taken jointly by Michael Donley, Secretary of the Air Force, and General Norton Schwartz, Chief of the Air Force, on 13th April 2009. That both parties were subject to coercion must be considered a strong probability in view of the dramatic, away from long-held, analytically based, calculations of USAF capability requirements that their new position reflected. In addition, it must be remembered that both their predecessors were sacked by Secretary Gates, seemingly for holding and voicing opinions that were contrary to those held by the Secretary and his advisors. The hurried 're-writing' of the US Strategic Basis of its air power by Secretary Gates and his advisors, in an attempt to make his decisions on budgetary cuts to air power a little more plausible, reflects only a dangerous detachment from reality. This 'cooking of the books' is seen often in Western defence bureaucracies when they are faced with inexplicable conflicts between capability requirements and flawed arbitrary policy/procurement decisions. The dogged and unsubstantiated stand taken by then Secretary

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Gates and his departmental advisors ignited a bitter division between Congress and the Defense Department executive, and drew the President into the mess. One senior House representative put it as follows:

“It is not a Democrat or Republican thing at all, but rather a Congress versus the Executive in terms of who is in charge. The Defense Department is there to execute. We cannot allow the executive to run roughshod over congressional responsibility. They need to learn who is in charge. The Congress is.”

The Gates proposal for the future defence of the US, when bulldozed through, amounted to implementing unilateral disarmament on the world stage in that the US would be abandoning its traditional, world-wide, air dominance capability and would concentrate upon small Global War on Terror roles. As a result, the US would be unable to balance or contain the military capabilities of emerging nations or give substance to its numerous treaties that provide for the protection of its friends and allies. This has now, under the Trump Administration, resulted in an effort to reverse these Obama era Strategic directives, at immense cost to taxpayers who are funding large block replacements of now irrelevant military equipment.

It remains to be seen whether the Department of Defense will control America's defence strategy, policy and direction or Congress. Much depends upon the answer, so Australia should follow this evolving situation most carefully. More detailed discussion on the situation that has developed in the US is covered well in ‘Gate's Epiphany’, an article authored by retired Air Force Lieutenant General McNerny and retired Army Major General Vallely, both highly-experienced and respected professional military officers.

The Underlying Reasons for Management Failures

Over the past two decades or more, the efficiency, effectiveness, and cost effectiveness of the defence departments and the procurement arms of most, if not all, Western countries have been found wanting. As a result, the deterrence and military capabilities of those countries have now been eroded, singly and jointly, to the point where the balance of military power is shifting away from them. This has been particularly so in the US.

The continuing decay in the management of US military capabilities has been the subject of a long line of reports which have resulted in little, if any, improvement. As long ago as the mid-1980s, the US Congress had determined finally that the Department of Defense was broken and that the situation could not be allowed to continue.

Despite bitter resistance from the Department, and more than four years of congressional hearings, studies, and analyses, the Goldwater-Nichols Department of Defense Reorganisation Act of 1986 was finally passed. That the situation has only continued to deteriorate since then, points to failures entrenched deeply within the Department of Defense and its procurement arm, as well as within the US system of governance.

The US *Centre for Strategic and International Studies (CSIS)* began reviewing progress with the changes required by the Goldwater-Nichols Act from 2004. Since then, CSIS has

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provided a steady flow of reports which have identified the factors that have singly or in combination continually hindered real progress.

The reports compiled by CSIS thus provide a valuable insight into a governance and management environment that has been unable to reform the Department of Defense, unable to introduce the core changes needed to ensure proper visibility, control, and governance of the nation's military capabilities. Importantly, the reports draw upon data developed by the Department of Defense, the Department of State, the Office of Management and Budget, the Congressional Budget Office, the Congressional Research Office, and the General Accountability Office, all part of the US system of governance.

(The above is an updated extract from Air Power Australia Analysis 2009-05, which treats the subject in greater detail.)

Relevance to Australia:

The problems identified in the US's Defence and Procurement Organisations are precisely the same problems that have plagued Australia's 'Reformed' Defence and Procurement Organisations, as revealed in detail in the analyses that follow. Australia's Department of Defence merely adopted the US's Defense and Procurement Organisations that had been proven to be an expensive failure since 1986, and remains even more so today. Australia has now become an extension of the US Military, having adopted the US's failed Defense management and acquisition and sustainment systems. As a result, Australia's military is now dependent upon a dense web of contractor supply chains - major Defence contractors who have left themselves exposed dangerously to supply chain risk by maintaining thin inventories and outsourcing major system components to foreign capability customers, all in an attempt to reduce production costs and lock in foreign customers. Such chains have now come under severe threat due to their thinness, lack of security, sensitivity to disruptions from external events including trade tensions, reverse factoring (supply chain financing changes) and even viruses. With inadequate (or delegated) engineering and quality control of outsourced structural and other components, and software, ensuring that Quality Assurance and Engineering Integrity standards are met has become far more difficult and risk laden.

In short, twelve years of FADT, ANAO and JCPAA audits and reviews, as well as a First Principles Reform have, not surprisingly, failed to achieve any material improvement in Defence's performance, which will continue to fail until Defence is reformed along functional lines that have long proven successful.

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The question that Australia's Defence Organisation should be charged with answering is:

How did Defence arrive at its organisational and commercial support 'reforms', and why was such a proposal put to Government when it had long been known to be a failure?

The question for Parliament to ponder is:

Why Defence's decision was accepted in the light of overwhelming evidence that the US had formally declared its system to be a failure in 1986, and has only deteriorated further, resisting reform to this day.

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ANNEX B

ANALYSIS OF ANAO/JCPAA REVIEWS

BACKGROUND TO RECENT JCPAA INQUIRY (2018)

The Joint Committee Public Accounts and Audit (JCPAA) launched an Inquiry into Commonwealth Contracting in 2018, prompted by the Australian National Audit Office (ANAO) Report 19, 2017-18 on Australian Government Contract Reporting. The Inquiry came at a time when questions had been raised publicly in regard to perceived fraud and corruption in Defence Contracting, the widespread, high cost of outsourcing government tasks to external advisors, consultants and contractors, and a continued lack of transparency in Defence capability and sustainment performance and expenditure. The protracted failure of the 'reformed' Department of Defence to manage its vastly broadened responsibilities, coupled with costly capability acquisition and sustainment project failures, with their adverse impacts on Australia's security, made Defence the most urgent case needing the Inquiry's attention and action.

However, the JCPAA Inquiry was considered most unlikely to succeed unless the factors underlying contracting problems were identified clearly. Any recommendations should also recognise the different types of contracting undertaken and effective and lasting internal and external governance oversight embedded.

In short, the JCPAA inquiry would need to proceed with a wider view, analysing and evaluating the causal factors that have evolved in Government, Departmental and Public Service functions and accountabilities since the Defence reorganisation of 1972. This would have been a considerable challenge to the JCPAA (even with ANAO support), but one that may have been better understood by analysing two Case Studies of Defence Management. A strong message that should come through from these studies is that the causal chain behind the failure of Australia's Defence Organisation is identical in many respects to the failures that have occurred in Federal, State and Territory Government Departments.

Unfortunately, the JCPAA's Inquiry was terminated due to the last Federal Election and was not continued by the new government, leaving its Terms of Reference unreported. In view of the importance of the matters raised, my submission to the JCPAA has been reviewed, updated to include FADT hearings, and amended to provide background to this Submission.

ANALYSIS OF PREVIOUS ANAO/JCPAA REVIEWS

Analysis of Major Projects Reports (MPRs) raised by Defence since 2007-08, audited by the ANAO, and subjected to governance oversight by the JCPAA, indicates that there has been

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little, if any, meaningful improvement in the performance of Defence/DMO/CASG management of capability acquisition, and sustainment. While ANAO's audits have been classed as 'Performance Audits', the ANAO, after twelve years of such audits, still has no transparent and reliable project data upon which Defence's performance may be measured by Government, revealing Defence as an organisation committed to doing the same thing time after time, while expecting to achieve a different outcome, and this will remain the case while the JCPAA and ANAO are constrained to audit Defence within its existing public sector driven, bureaucratic organisation and inappropriate 'smart buyer' - driven capability procurement approaches. Specific instances follow.

Defence's current contracting system was given a 'tick of approval' by the JCPAA in its Report 436, following its review of DMO MPR 2011-12, when the Chair of the JCPAA Committee noted:

The DMO management "*looks to be improving*", and "*The DMO itself now more than ever, using public sector principles as first principles, is an example of where performance actually improves by doing so.*" However, analysis of all five MPRs that had been produced to that time showed no evidence to confirm this observation. Indeed, the facts showed that DMO continued to make the same mistakes with the same consequences, and the same high costs, and this has been the case, unchanged, to this day. However, it may explain why ANAO and JCPAA have not been prepared/permitted to audit and review Defence/DMO MPRs in the most appropriate manner. An extract from the author's submission to the JCPAA on DMO MPR 2011-12 at Annex A gives the picture at that time.

Over the past twelve years, both the JCPAA and the ANAO would be expected to have raised the simple question: "*As Defence has been unable to deliver soundly managed projects, , and continues to make the same mistakes with the same consequences, is Defence's public sector principles approach appropriate for the management of diverse and highly technology - dependent military capabilities?*" Clearly, under the pre-1972 decentralized Defence Organisation, the three Services had developed highly effective Project Management methodologies, tailored for each project, and they managed both acquisition and sustainment far more efficiently, effectively and economically than the Defence Organisation of today. (See also Attachment 3 to Case Study 2 at Annex D).

Until the JCPAA and the ANAO are free to ask this question and pursue the answer that best meets Australia's unique defence requirements, Defence's never-ending 'reform' will never be more than a 'work in progress', and remain the greatest threat to Australia's National Security.

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EXTRACT - AUTHOR'S SUBMISSION TO JCPAA REVIEW OF DMO MPR 2012-13 (Mar 2014).

Governance:

Defence's Current governance relied upon:

- Gate Reviews.
- The Projects of Concern List.
- The Early Indicators and Warnings System.
- Joint Project Directives.
- DMO's Business Systems Rationalisation.
- Earned Value Management System.
- The Project Skills Program

The author's comments on JCPAA Report 436 included:

After some 13 years of evolution, Australia now has a dysfunctional capability analysis, acquisition and sustainment organisation that:

- Proceeds to contract with inadequate statements of operational and engineering concepts and requirements, leading to the procurement of a wrong, inadequate or overpriced capability..
- Proceeds when the design is immature or not understood.
- Is unable to manage system or software development or integration, or test and acceptance.
- Is unable to identify and manage project risk (essentially operational and engineering factors) and has to resort to buying its way out of the resulting problems.
- Does not have the Operational, Engineering or Project Management skills and competencies essential to the projects being undertaken.
- Focuses upon buying materiel rather than managing projects.
- Has now had to outsource its contract management and contract negotiation functions.

In fact, all the evidence points to Defence/DMO Major Projects suffering persistently self-induced injury through:

- Adopting public sector commodity product and service principles that have proven to be wholly inappropriate for the acquisition and sustainment of highly technology-dependent military capabilities.
- Failing to adopt the required long-trying and successful Project and Engineering Management methodologies.
- Replacing skilled and competent project and engineering managers with people lacking those skills and competencies.

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The result has been (broadly):

- Projects have been put forward for approval and acquisition that have not been fully and accurately scoped and specified in project, operational or engineering terms.
- Source selection has been poorly managed, resulting in incorrect or poor acquisition decisions having inherent risks.
- Contract negotiation is now beyond DMO's capabilities as (lacking even basic project, operational and engineering competencies) the Department of Defence is no longer seen as an informed and smart customer.
- Project capability, schedule and cost risks inevitably arise that are beyond the DMO's competencies to manage. The problems arising from undetected risk are thus 'managed' through the Contingency Budget.
- Capability schedule delays and sustainment difficulties have left protracted, gaping holes in Australia's military capabilities.

ANALYSIS OF JCPAA REPORT ON MPR 2015-16.

The four recommendations made in JCPAA's report on MPR 2015-16 are a mere 'shifting of the deck chairs' that will now keep Defence's 'MPR Circus' rolling into its tenth year, while giving no confidence that any improvement will follow. For example:

- The recommendation that Defence seek guidance from the UK MoD lacks any understanding of history, as the UK MoD was 'reformed' many years ago along lines almost identical to those that we have today. Both countries have suffered greatly from the failure of their defence reorganisations. Any lessons learned in the UK should thus be taken as a warning rather than something that should be adopted. Australia's project management methodologies must align transparently with Australia's unique needs and competencies, not the UK's, the US's or any other Nation's.
- The recommendation regarding the need for a single methodology to calculate the cost per flying hour for military aircraft for use in all internal and public reporting reveals another lack of understanding of what is involved, and is overly ambitious. The accuracy and usefulness of such costs only evolve over time as the configuration of the capability becomes more defined and reliability and maintainability data become available under operational conditions. The current perception of the role and importance of flying hour costs is unrealistic, inappropriate and unachievable under Defence's current acquisition organisation.

The cost per flying hour **may** be of practical use during two phases in the capability life cycle:

To assist during the requirements analysis and source selection activities. A tentative cost may be possible to estimate at this time, especially if contending capabilities have been in

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service for some time, otherwise the accuracy will be much less certain. However, calculating costs must be undertaken only by those who have a sound experience in project management methodologies as well as with the specific operation and technical requirements of the capability required. Importantly, such estimates must be supported by a Project Life Cycle Cost Analysis if meaningful estimates are to be obtained.

After introduction to service. When the final equipment configuration has been determined, and the capability has been in service for a time, the cost elements become more visible and firmer, allowing a more accurate indication of cost per flying hour to emerge, but even then the costs will vary over the operational life, for example with changes in capability, varying rates of effort, fatigue life and the age 'bathtub'. Eventually, a flying hour cost may be reached which indicates a need to look at retiring/replacing/updating the capability. Finally, it is important that during this phase the specific elements comprising the 'cost' are identified very carefully, as many factors may impact it, which are outside operational and engineering control or influence.

During the late 1990s/early 2000s, Defence decided to depart from the Project Management Systems and Methodologies that had been long developed within the Services' Operational and Technical Branches, and adopt standard Public Service processes for the acquisition and sustainment of military capabilities. This approach relies upon contract administrators and involves a mix of tasks that are outsourced to successful contractors, most often under a 'set and forget' philosophy. The Defence Acquisition Organisation (DAO), later to become the Defence Materiel Organisation (DMO), soon realised that managing the advanced and 'complex' technology of military capabilities was not as simple as it seemed. Severe problems arose and have continued to arise with failures to achieve required capabilities, lengthy project delays and unacceptably high cost overruns.

DEFENCE/DMO ASPECTS.

Following early failures, DMO sought support from ex- Service engineers with Project, Engineering and Maintenance Management skills and competencies. This need was met by highly qualified engineers, especially from the RAAF, who provided well documented guides to the systems and procedures involved. However, nothing changed so it was assumed that the DMO managers at that time either did not understand what was being given them, or it was not acceptable as it conflicted with the Defence public sector principles that had been adopted. Nothing was achieved from this initiative. Since then, Defence has, at great cost and adverse impact on Australia's military capabilities, endeavoured to develop public sector principles and processes to replace the highly successful Project Management methodologies that were in place pre-1972.

Along the way, Defence has wasted many billions of dollars, on for example:

- The impacts of the loss of the accumulated military intellectual property that was embedded in the professional branches of the Services with their systems and

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procedures and data bases and documentation, all guarding against repeating past mistakes and foreseeing future problems, by benefiting from past experience. This was a priceless intellectual property resource, and Defence's MPRs have long proven that this critical resource cannot be replaced from within the new Defence Organisation, or through advisors, consultants, or foreign or local contractors. This loss of this intellectual property remains a major causal factor behind most Defence failures to date.

- Those Major Projects abandoned or that encountered 'complex' difficulties in trying to achieve Capability, Schedule or Cost targets, all of which have appeared in MPRs since 2007, but not seen transparently or costed adequately.
- Arranging supply and long-term support contracts with Original Equipment Manufacturers OEMs (usually foreign) without proper regard to value for money. Such contracts put the OEMs in a major conflict of interest; that is, where does it owe its primary responsibility – to the Company or the Customer? As the contractor has a clear commercial advantage, the Company can be expected to exercise that which will maximises its advantage (profit).
- Training programs, especially the so called "*College of Complex Project Management*" developed for DMO, and others developed for Defence Industry, none of which has been demonstrably successful.
- Uncontrolled Cultural Change Programs that at great cost have abrogated the Service Chiefs' accountability for their Service and their people, while diluting military professionalism, morale and unity of direction. These cultural programs stem from United Nations or European Union human rights organisations that took root rapidly in Australia with costly Government and Defence support, but have worked against critical military culture and morale.

DMO's contracts that abrogate the Services' critical engineering, maintenance and supply functions also embedded a number of unacknowledged consequences, including:

- An inability to demonstrate value for money.
- An uncertainty of support under perceived military circumstances.
- Embedded potential single point failures throughout the capability supply chain.
- A loss of critical Service and local Defence Industry skills, competencies and facilities that provided deeper level support for capabilities – Australia's first line of capability sustainment.

Defence's long-term outsourcing of engineering, maintenance and supply support to the OEM has left Australia in an exposed and vulnerable position militarily. It has not only

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denuded the Services of the numbers, skills and competencies critical to capability planning and development, and capability acquisition and sustainment, as has been revealed in continuing ANAO audits and JCPAA reviews, but it has also left Defence open to contracting problems and challenges that it is clearly not capable of managing. Openings exist for corruption and such contracts put the OEM in a position of conflict of interest in regard to where its primary loyalty lies - with the Customer or the Company? In real life, where money is concerned, the conflict is normally not resolved in favour of the Customer. This has long been demonstrated in the US with its entrenched problems with Defense Contracting due to the influence of its Military/Industrial/Congressional (Political) Complex, the most glaring example being the F-35 Project.

Most importantly, a fundamental trap that Defence/DMO, wittingly or unwittingly, set was the decision to outsource critical project and contract management tasks to contractors – tasks that are just not able to be outsourced without losing management visibility and control of a project. As observed in the Analysis of the DMO MPR at Annex A: DMO ***“Has now had to outsource its contract management and contract negotiation functions.”*** In doing so, Defence/DMO passed the reins to the contractor, and so the Defence Organization effectively lost visibility and control of its projects, as well as opened the door to fraud and corruption.

Defence’s procurement problems were then ‘cured’ through ***“implementation of a smart buyer approach (that) will involve tailoring procurement strategies appropriately...”*** as ***“The Capability Acquisition and Sustainment Group (CASG) would comprise a smaller core group of skilled public servants managing a ‘smart buyer’ function.”*** A ***“Managing Contractor Model”*** and a ***“Contract Negotiating Cell”*** were also formed within CASG.

Unfortunately, these actions will only further embed Defence’s inappropriate procurement and sustainment capabilities, as at Attachment 1 to Case Study 2, Annex D.

Finally, while the JCPAA Report still regards transparency seriously, and one of the key principles of the MPR process, the Committee is little, if any, nearer to achieving its goal after twelve years of trying. The Committee’s confidence that implementation of the First Principles Report within the current Defence Organisation ***“will provide adequate reporting as soon as possible”*** rings completely baseless and hollow.

A LONG ROAD TO IRREVELANCE?

The current Defence Organisation has evolved over the past 47 years, during which time the Department has proven consistently unfit for purpose and unable to reform itself, having to resort to a never-ending chain of reviews and inquiries (of the wrong type) to tell it where it went wrong and how to fix it. Over that time, the ANAO also conducted a series of performance audits that have reflected an organisation that is too centralised, having far too large a span of control, lacking the required skills, competencies and systems essential for the proper management of technology-dependent military capabilities, and without proper governance accountability and transparency. Parliamentary Inquiries have also been held into defence matters, and Major Project Reports have been conducted since 2007-08, which have been subject to governance reports by the JCPAA, but to no effect.

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By 2014, the lack of any meaningful improvement in Defence's performance led to a 'First Principle Review' which proposed wide-ranging organisational and accountability changes which Defence would implement within two years. As shown at Case Study 2, the FPR was not a first principles review at all, and Defence will simply struggle for many more years trying to implement the recommendations, only to find them unhelpful and the problems supposed to be solved still there, only more intransigent.

After 47 years of trying to 'reform' the Defence Organisation, the time has come for Australia to become serious about its defence capabilities and their management. Australia's Defence Organisation is clearly a 'swamp to be drained'. Using public sector principles as first principles, outsourced public sector based acquisition (contract) processes and adopting a sustainment management approach that sees sustainment not as a technical discipline, but ***“an over-arching business-orientated management function focused on meeting the outcomes required of Capability Acquisition and Sustainment customers (the Service Chiefs)”***, has been a failed approach. The Defence Organisation has become a large swamp of incompetency; all in-bred, self-serving and an unsustainable cost to the Treasury and Australia's defence capabilities.

(The analysis above was dated 15th January 2018)

The Analysis above has now been updated dated as at December 2019 following the ANAO Audit of MPR 2018-19). General comments follow:

- To a large extent, Defence is still haunted by Risk, especially with Cost, the main concern of the JCPAA. Risk, however, whether in Capability, Schedule or Cost, needs to be controlled early and competently if it is to be minimised/mitigated, but such management requires a high degree of expertise and experience in requirements analysis, operational requirements, and engineering, maintenance and supply relevant to the technology of the System being acquired, all working to a Project Management methodology and Plan. Defence's public sector driven approach, as detailed in its First Principles Report, and approved by Government, is wholly inappropriate for the task, as has been proven over 12 years of ANAO MPR audits and JCPAA Reviews.
- In the absence of internal expertise and competencies, Defence is wholly dependent for advice and proposals from contractors/consultants/advisers that too often carry a conflict of interest. Attempts to outsource risk to Capability, Schedule or Cost will fail as Risk is a non-outsourcable factor. Project cost problems thus arise when significant risks materialise. The 2018-19 MPR Audit identifies a \$10Bn blowout over that year, of which almost \$2Bn falls to the AWD Project. Projects often need to include a contingency for anticipated budget over-run, but \$10Bn in one year on one project must warn of poor project planning/management.
- Furthermore, cost increases outside the contingency provision appear to be managed misleadingly. As mentioned in previous submissions to the JCPAA, large project cost

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increases have often arisen for which Defence sought Government approval for an increase in project funding. When Government approved the request, Defence then stated that the project was “*within the Government approved budget*”. This is misleading, and reasons are not pursued nor lessons learned. Project cost should be a simple calculation based upon the difference between the cost estimate at the time the project was approved and the final cost of that Project. The AWD Project is a perfect Case Study.

The following update is based upon Part 1 of ANAO’s Review and Analysis of MPR 2018-19:

This ANAO Audit covers 26 Major Projects and is the 12th in its series of annual reports. As noted in this Submission and reported in previous submissions, little, if anything of material value has been achieved over 12 years of ANAO audits and JCAA reviewing. In particular:

- (Pt 1 Para 10) noted that forecast information found in the PDSSs is excluded from the scope of the ANAO Review, that is that contained in:

Sect 1.2 - Current Status- Materiel Capability Delivery and Sect 4.1 – Measures of Materiel Capability Delivery, Sect 1.3 – Project Context – Major Risks and Issues, and Sect 5 – Major Risks and Issues, and forecast dates.

“The Independent Assurance Report by the Attorney General does not provide any assurance in relation to this information.”

- (Part 1, Para 11) The exclusions to the scope of the Review are due to a lack of Defence systems from which to provide complete and accurate evidence in a sufficiently timely manner to facilitate the review.

“This has been an area of focus of the JCPAA over a number of years.”

- (Part1, Para 19) The Acting Secretary of Defence Statement provides her opinion that the PDSSs for the 26 selected projects “*comply in all material respects with the Guidelines and reflect the status of the projects as at 30 Jul 2019*”. At Para 22, the AG agrees, but excludes the Forecast Information referred to at Para 10. However, The AG then goes on to note a number of observations made in the ANAO Review:

Defence is unable to provide point-in-time data on project personnel numbers and costs.

Instances of lack of oversight, non-compliance with corporate guidance and the use of spread sheets in the management of risks and issues.

Outdated policy guidance for the project maturity framework.

An increase in the number of MPR projects which have achieved significant

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milestones with CAEATS.

Cost Management: While all projects reported that they could continue to operate within the total approved budget, three projects were required to draw upon contingency funds to complete. The questionable manner in which additional major costs have been managed has been covered in more detail at the beginning of this update.

In summary, there is no evidence in this MPR Audit that Defence has learned any lessons over the past 12 years of reporting, nor has the JCPAA been able to influence Defence's Systems and processes to achieve any better performance. This is not surprising, as Defence persists in adopting totally inappropriate methodologies, skills and competencies for the management of high technology military capabilities. ANAO may be better employed reviewing the manner in which the Services and the pre-1972 Defence Organisation managed such tasks so successfully over the most dynamic challenges that arose from 1939 to 1972.

Update : Auditor General's Report No 22, 2019-2020 – Submarine Project.

Risks embedded throughout this project have been noted recently in the Attorney-General's Audit Report No 22, 2019-2020 into the Future Submarine Program. In common with other ANAO and JCPAA Reports, No 20 comes to conclusions not supported by body of the Report. The Report does not bode well for the planned 10 Year Naval Build Program because it is wholly contract centric and does not recognise the primacy and criticality of the project phases that must precede any contract activity. It is in this early phase that the following tasks (as examples) must be conducted by the customer – they are not outsourceable:

- Establish the strategic situation driving the project.
- Determine the system capabilities required to meet the requirement.
- Develop configuration baselines (functional and physical) for competing design solutions.
- Evaluate, select and specify the solution that best meets the requirement.
- Determine test requirements and acceptance criteria.
- Develop a Project Management Plan that coordinates and controls all project activity.

At Conclusions (Para 9-12), the Audit assures Parliament that:

“Defence has established the formal arrangements necessary for the effective administration of the Future Submarine Program ... and through the Strategic Planning Agreement has established a fit-for-purpose strategic partnership framework that addresses the Government's objectives for the Future Submarine Program.”

However, the Audit also finds that there is currently a nine months' delay in the design phase,

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with two major milestones extended and as a result, Defence cannot demonstrate that its expenditure of \$396M on design has been fully effective in achieving two major milestones. Furthermore, Defence expenditure on design requirements represents some 47% of all Program expenditure to 30 Sep 19.

The A-G (Paras 15-19) then deals with Program milestones, expenditure and risk. Para 16 advises that *“Defence has highlighted for attention differences in the commercial and engineering approaches of Defence and Naval Group, which it considers to have impacted on progress to date. There is active contract management by Defence to address these issues.”*

Defence has here identified a primary causal factor behind its protracted inability to manage the acquisition and sustainment of Australia’s military capabilities. It lies at the interface between Defence’s wholly outsourced, contract-driven administrative approach to development, acquisition and sustainment and the Contractor’s need to have the customer provide its clearly specified operational and technical requirements as well as its Project Management Plan before the scope of work can be identified, costed, planned and finally proceed to contract negotiation. **The French approach is seen as emphasizing outcomes, while Australia’s approach is wholly an emphasis on bureaucratic process.**

At present, Defence speaks only the language of contract administration, while the Contractor will necessarily reply in the language of standard systems and project engineering. Defence does not understand the language and practice of (eg) requirements analysis, ensuring operational and technical integrity throughout the design development, configuration management, or project planning and management. The Contractor, for his part, can hardly comprehend a customer entirely lacking in such core skills, but understands the possible business opportunities. Both sides, of course, are consigned to live in a rich broth of risks with each seeking advantage, but holding the other to account contractually when things go wrong.

Defence’s promise of *‘active contract management to address these issues’* will more than likely further complicate an already complicated and costly interface, and be centered upon process, not competence. Finally, the section covering risk is wholly unconvincing as most risks stem from system specified performance aspects of the project. Defence cannot identify these because of its lack of operational and technical skills, so is constrained to encounter such risks too late to rectify under the terms of the contract.

The emerging problems associated with the Submarine Project should be no surprise as Defence is handling this project as a procurement, not as a project. The mistakes now surfacing have resulted inevitably from the bad practices adopted by Defence in its handling of the F-35 Project.

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The Ten Year Naval Build Program.

Defence's ambitious program flies in the face of experience and reality as it does not seem to appreciate:

- The costs in time and money to establish the facilities needed to produce each capability.
- The small numbers of each capability required and the difficulty of competing with seasoned overseas competition for follow on orders if the capability is to survive.
- The wide range of different critical skills and competencies required by each capability.
- The need for different skills and competencies as each project develops.
- The limited ability to shift required skills and competencies between projects.
- The absence of critical systems and project management, and relevant technical skills in Defence and its reliance upon outsourced commercial contract support.
- The need for a stable government commitment over time in the face of political 'imperatives' and the vagaries of elections.

Australia once had one of the best performing shipyards in the World at Williamstown Victoria, totally lost to SA by political decision. The Australian Submarine Corporation was a further example of expensive bureaucratic/political decision.

Update: As at February 2020.

The month of February saw several reports reflecting continued systemic problems within the Defence Organisation, including:

- "Unrecoverable" delays and engineering deficiencies in a \$1.1 Bn upgrade of the Juindalee Operational Radar Network (JORN) resulting in a 10 month delay (to 2029) in achieving required capabilities, with the risk that JORN may become obsolete.
- The Capability Acquisition and Sustainment Group (CASG) also reported that Defence is still struggling with its fleet of 47 MRH 90 Multi-Role Helicopters – of concern since 2011. "There is an ongoing inability to meet capability delivery milestones and performance criteria".
- Delays also blew out on the Deployable Defence Air Traffic Control Management and Control System by up to 15 months to a total of 44 months.
- Defence's new Battlefield Command Systems were also experiencing "significant

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Cost and Schedule pressures”.

- Defence has raided its \$200Bn capital investment program, which covers new capabilities, to pay salaries and sexual assault victims, keep its IT systems functioning, and to clean up toxic pollution. Defence has refused to provide details of its Integrated Investment Program (IIP), but has admitted that the IIP has paid over \$1.75Bn for non- capital costs.

Defence’s response has largely been to emphasise how well projects are being managed, whereas persistent major problems indicate systemic faults embedded in Defence’s centralised and ‘reformed’ organisation. After 47 years, Defence continues to make the same mistakes, and while governance bodies continue to reveal these, no effective action has resulted.

Finally, an Auditor-General Report also noted that the ADF is failing to implement an *effective* media strategy. The Ministerial and Executive Co-ordination and Communication Division (MECC), which is responsible for the ADF’s media and communications, had spent \$9.256 M on staffing in 2016/17, jumping to \$11.624 M in 2017/18 and to \$18.842 in 2018/19, with staff numbers rising from 32 to 129 over that period, with the actual spend for 2018/19 reaching \$21.446 M.

The question is what does *effective* really mean? Reporting facts or creating ‘spin’ to protect the polity and/or bureaucracy?

THE CLEAN UP

Cleaning up the Defence Organisation to make it fit to face current and emerging threats, while placing true accountability where it should be, and properly allocating the resources required to discharge that accountability, will be a task not unlike the mythological fifth labour of Hercules when he undertook to clean up the Augean Stables in a single day. He knew this job would mean getting dirty and smelly, but heroes have to do these things. He tackled his job (as an engineer would), using the technology and knowledge of physics of the time, and achieved his task. He who may be appointed to clean the stables of the Defence Organisation should be given all the support required, and would hopefully be rewarded more fairly than Hercules was.

The major guidelines for our Hercules may, for example, include:

Shape the Defence Organisation so that the Defence Department may concentrate only upon what it needs to do, and is capable of doing best, for example:

- To coordinate Defence matters, with External Affairs and other interfacing Department activities to develop realistic higher level plans and objectives.

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- To develop informed strategic guidance and major papers covering defence matters for the guidance and approval of Government.
- To provide the Services with strategic guidance and set priorities.
- To shape the Services' Organisations so as to:
 1. Reconstitute the Service Boards under a separate Minister to ensure professional and effective management and good governance, and return Service management to the Service Chiefs.
 2. Bring the military personnel now scattered throughout the Defence Organisation back under their parent Service, recognising the need to support Joint Operations and planning..
 3. Create Service Systems Commands to relieve operating units of diversionary and inappropriate tasks, to undertake required Service and Joint operations and to plan and manage capability acquisition and sustainment teams as required.
 4. Rebuild the operational, technical and other professional Service branches and expertise.
 5. Adopt mature and proven (ie, traditional) Project Management and Operational and Technical Management structures, training, systems and procedures-that is, knowledge and experience based.
 6. Analyse ANAO/JCPAA Reviews to develop a deeper level of organic support within the Services and in Defence Industry – the only answer to the current widespread sensitivity to supply chain failures.

These changes should establish and maintain a sharp, professional separation between Defence Executive functions and Military capability and management functions.

In the longer term, the reform of the Defence organisation may well provide a template for reforming other major government organisations at both Federal and State levels.

CONCLUSION

The protracted failure of the Department of Defence to manage its vastly broadened responsibilities since 1972, coupled with the continued and costly failures of capability acquisition and sustainment projects, and their adverse impacts on Australia's security, make Defence the most urgent case needing Government attention and action. Cleaning out Defence would provide sound guidelines for use in reviewing other government departments and ensuring that their structures, skills and competencies, and management procedures are in

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place and effective.

However, any inquiry is most unlikely to be successful unless the problems associated with outsourcing (and its associated contracting difficulties) are identified clearly and fully and necessary changes are both appropriate to the different types of contracting undertaken and will embed lasting internal and external governance oversight.

In short, the JCPAA inquiry would have needed to adopt a wider and far more relevant context, analysing and evaluating the changes that have taken place in Government, Departmental and Public Service functions and accountabilities that have evolved since the Defence reorganisation of 1972. This would have been a considerable challenge to the JCPAA (even with strong ANAO support), but one that may be better understood through analysing the two Case Studies that follow. A strong message that should come through from these studies is that the causal chain behind the failure of Australia's Defence Organisation is largely identical to those failures long seen at Federal, State and Territorial levels of government in their management of tasks and projects. The lessons that stand out at Annex A also need careful attention.

References:

1. Air Cdre E. J. Bushell AM (R'td) and Dr Carlo Kopp, "*The RAAF's Professional Mastery Problem: Symptoms, Causes and Measures to Reskill the RAAF*", Air Power Australia Analysis 2008-06, 12th July 2008.
2. The current Defence Organisation was introduced by the Whitlam Government in 1972 in response to a long-held ambition of the Minister for Defence, Sir Arthur Tange, to return to the fully centralised, public service run, pre-WW2 Defence Department organisation. Parliament had decentralised the Department under the threat of WW2 on the grounds that it would be unable to meet the challenges of war. The decentralised organisation, with each Service having its own Minister, proved to be highly successful throughout WW2, as well as during the major and minor threats that followed. The proposal put forward by Tange came from a report delivered by Lt Gen Sir Leslie Morshead (R'td) in 1957. In retrospect, Morshead's observations were frequently shallow and dodged critical structural and governance matters such as the Service Boards. They also failed to recognise the core differences between the roles of the three Services and their unique technological dependencies. Prime Minister Menzies did not accept the Report, so it remained in Sir Arthur's in-tray until it was resubmitted to Prime Minister Whitlam in 1972. Much, of course, had happened in roles and technologies over the intervening 15 years, but then the Morshead Report was only a Trojan Horse to be used for imposing total civilian control rather than a model for improved civil governance of defence. See also Annex E.

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ANNEX C

CASE STUDY 1

COMMENTS ON

THE FOREIGN AFFAIRS, DEFENCE AND TRADE

REFERENCES COMMITTEE REPORT INTO

The Planned Acquisition of the F-35 Lightning 11

Joint Strike Fighter

EXECUTIVE SUMMARY

The Reference Committee's Report and conclusions rest upon a number of critical observations that are not supported by any validated analysis or facts. The Report also concludes with three recommendations that should be approached with caution, as they may well have very long-term and high risk impacts upon Australia's air power capabilities, and the National security. Over-all, the Report merely follows the 'party line' long maintained by Defence, which in turn follows religiously the Manufacturer's/Project Office's ever changing marketing mantras. The reports issued by the Director of Operational Test and Evaluation (DOT&E), and recorded past history, the only source of validated Project status data, have simply been ignored.

It is clear that the Committee has not approached this inquiry with the same focus and soundly-based observations that characterised the References Committee's Report into Procurement Procedures for Defence Capital Projects of August 2012. Since the hasty implementation of Defence's First Principles Review, Defence now '*speaks with one voice*', by taking advantage of poorly advised and poorly performing governance oversight bodies in its efforts to maintain support for its position.

The JSF Project has now reached a 'tipping point' in the US, with its detailed status being provided in the DTO&E 2016 Report. The F-35A continues to strike long-term problems that may be 'resolved' only by accepting further reductions in capabilities and safety, combined with continued, increasing costs and schedule delays. The aircraft, in whatever configuration it may end up with will not meet Australia's current or future strategic capability requirements, or be competitive against emerging threats.

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The committee should have thus withdrawn or qualified its report, or conducted a further, more rigorous, inquiry based on valid data.

Finally, the Committee's Report needs to be viewed in the light of the changes made to the management and accountabilities for Australia's defence capabilities following Defence's 'Reform' and Commercial Support Programs, both of which followed the adoption of the long - failed US Defence and Procurement Organisations. See detailed Analysis at Annex A.

COMMENTS ON REPORT

The comments that follow focus upon Chap 6 of the Report – Committee View and Recommendations:

1. **Choice of F-35A (Para 6.2):**

The Committee stated the following definitive conclusions:

“The Committee is satisfied that the F-35A is the only aircraft able to meet Australia's Strategic needs for the foreseeable future, and that sufficient progress is being made in the test and evaluation program to address performance issues of concern”

“The Committee is not convinced that any of the available alternative aircraft (suggested) are capable of meeting Australia's air defence needs.”

“The Committee accepts that the F-35A will provide the air combat capability outlined by the Defence White Paper, and will be able to defeat airborne threats, prosecute attacks against both land and sea surface targets and support Australia's land and maritime forces.”

However, the Committee Report also states in Chap 3 that: *“It is difficult to understand and critique the capabilities of the F-35A without access to detailed classified performance data. Hence the Committee cannot draw definitive conclusions regarding the details of the F-35A's performance in testing.”*

If this qualification is accepted, then none of the Committee's 'definitive conclusions' quoted above has any validity, and must therefore be classified as being baseless. The F-35 Project has from birth been driven by 'Marketeers', not by competent project managers supported by capable operations and technical analysts. Australia, being catastrophically de-skilled in project management and operations and technical analysis, has just 'gone along with the show', incapable of identifying and defending Australia's national interests.

On the other hand, the Committee also noted in passing the considerable evidence received criticising the F-35A, with some calling for the aircraft's procurement to be cancelled, but notwithstanding these submissions the Committee *“is satisfied the F-35A is the only aircraft able to meet Australia's strategic needs”*. As these independent submissions appear not to have influenced the Committee, the qualification at Chap 3 appears to have been applied rigorously to external submissions, but waived for those coming from Defence, the Project Office and the Manufacturer. It is thus difficult to accept the Committee's Report as being adequately informed or balanced.

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Input from 'independent think tanks' should also have been regarded with suspicion where such bodies rely wholly or substantially upon financial support from Defence. Such bodies can hardly be accepted as independent experts. The use of funded proxies role playing independent experts has become a feature of the Washington DC "swamp" exploited by all players, and this presents as yet another instance of Australia blindly appropriating practices from overseas.

The following should also be noted:

- Australia's JSF Project went ahead without any traditional Capability Analysis and Selection being conducted then or since.
- Despite statements to the contrary, the US did offer Australia the F-22 (in the same configuration as the USAF, with no development costs), but the offer was rejected rudely in favour of the JSF. (The Committee has the background to this).
- The JSF was designed from the start as a cheap bomb truck for operation after the F-22 had cleared any air defence systems and made the air space safe for JSF operations. Nothing has changed here, except that the JSF is now touted to cover both air superiority and ground attack roles, although the USAF now admits that the F-35 cannot operate without F-22 cover.
- The F-35 (all versions) have failed to meet even their original, 1990s design capabilities and continue to fall behind aircraft currently entering service in our region.
- Furthermore, after several decades, we do not have a Functional or Physical Configuration Baseline that defines any of the versions of the F-35 – we have only some 200 aircraft of twenty one or more configurations still under Development and Test. As a result, customers still have no idea as to what capabilities their aircraft will eventually have, their schedule of delivery, or their cost.
- Finally, while primary attention is being paid to cost and schedule, the critical determinant for acceptance is its Capability. Despite the F-35 being marketed as a 'do all' aircraft, it is becoming clear that this is not so, and that the aircraft is well behind the capabilities of those now being marketed into our region.

When judged against this single measure of **Choice of the F-35A**, the Project must be judged a failure.

2. Performance of Aircraft in Testing (Paras 6.4 -6.6):

These Paras largely reflect the Committee's acceptance of Defence and the Project Office's assurances, such as:

- The Committee "*has confidence in the assessments made by Defence regarding both the air combat capabilities required by Australia and the F-35A's ability to meet those requirements.*"

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- The Committee “*is satisfied that the F-35 offers better stealth and electronic warfare capabilities than any other available aircraft.*”
- Software development is “*effectively complete.*”

As these definitive conclusions are subject to the same qualifications identified at Chap 3, they must also be classified as baseless.

However, the statement at Chap 3 that “*It is difficult to understand and critique the capabilities of the F-35A without access to detailed classified performance data.*” is not wholly acceptable. Certainly, there are often specific capabilities that need to be classified, but the Reports issued by the DTO&E recognise this so are designed to provide the range and depth of unclassified information, able to be understood by Congress (as well as the Project Office and the Manufacturer, and customers), to determine the Project’s Independent Operational Test and Evaluation status, the problems being encountered and the corrective action being taken, the risks involved, and the impacts upon capability, cost and schedule.

While the Committee refers to the DOT&E 2015 Report, it fails to draw any project status or risk conclusions from it, merely voicing some vague concerns, while accepting Project Office assurances that “*all issues are being identified and resolved.*”

Tellingly, the DTO&E Report for 2016 runs to 62 closely-typed pages, whereas the 2015 Report ran to 48 pages. At this point in any successful Project, especially with some 200 test aircraft produced, it would be expected that the number of items and their impact on capability, schedule and cost would have declined to a handful, but as time has passed, the F-35’s deficiencies, including capability, have simply snowballed, with an ever-increasing number left unresolved, which is not symptomatic of a project under control.

The only current, official and verifiable source of information on F-35 Performance in Aircraft Testing is contained in DTO&E’s Reports, the Executive Summary of the Report for 2016 giving its JSF Test, Strategy, Planning Activity and Assessment, as follows:

“The Joint Strike Fighter (JSF) Program Office (JPO) acknowledged in 2016 that schedule pressure exists for completing System Development and Demonstration (SDD) and starting Initial Operational Test and Evaluation (IOT&E) by August 2017, the planned date in JPO’s Integrated Master Schedule. In an effort to stay on schedule, JPO plans to reduce or truncate planned development testing (DT) in an effort to minimize delays and close out SDD as soon as possible. However, even with this risky, schedule-driven approach, multiple problems and delays make it clear that the program will not be able to start IOT&E with full combat capability until late CY 18 or early CY 19, at the soonest.”

However, past history suggests that these dates carry a high risk that they will not be met.

The Report then summarises 14 major problem areas which were analysed in detail in the 61

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pages that followed, which include continual comments, such as:

- *Continued Schedule delays.*
- *Continued delays in completing flight sciences test points.*
- *Significant, well-documented deficiencies; for hundreds of these, the program has no plan to adequately fix or verify within SDD.*
- *Over-all ineffective operational performance with multiple Block 3F capabilities delivered to date.*
- *Continued low aircraft availability.*

Achieving the JPO's new plan will simply involve reducing capabilities further and cutting out more development testing, so the risk factors passing to the customer will only increase. The Committee should recognise that this project has been run under high risk and optimistic, schedule/cost driven, commercial approaches which have resulted in the increasing number of capability deficiencies being detected during the transparent DTO&E audits.

The Committee is urged to read this Report fully and carefully and then decide whether the unsubstantiated and bland assurances that it has accepted as definitive conclusions are a sufficient assurance that the F-35A will provide the capabilities needed to guarantee Australia's future airpower needs. The risks associated with being wrong are far too great to accept.

Importantly, the capability gap of concern to the Committee is no longer a risk – that risk had matured, and the gap has existed since around the early 'retirement' of the F-111, when the F/RF-111C/G fleet had only just passed half of its original design life. In fact, ANAO reports and DSTO draft reports at the time showed that the F-111 fleet could be operated safely through to 2020 and beyond. The F-35A would never have been able to plug the gap left by the F-111.

Finally, the Committee may recall the gap created by the late delivery of the F-111 and the lease of the F-4 Phantoms to cover it. The solution to the F-111's problems and the successful lease of the F-4s was a tribute to the RAAF's competencies and expertise. Unfortunately, these no longer exist, so plugging the F-35A gap will prove to be much more of a problem, but leasing remained one solution.

3. Benefits to Australian Industry (Paras 6.15-6.18):

As the JSF Project is now seen to be running out of time, being enmeshed in its failed acquisition and project management structures, and under the increasing weight of the self-serving US Military/Industrial/Congress (Political) Complex that has been allowed to build up unchecked since the Goldwater-Nicholls Act of 1986 (details at Annex A), no version of the aircraft will be capable of achieving their original let alone the additional roles that have

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been added over the years. The aircraft produced will be poor performing, overly costly and far too late to be of any real use.

The project therefore needs to be put to rest as quickly as possible and the resources remaining used to provide real capabilities across the airpower spectrum. All participants in the Project now need to make plans to salvage as much as possible in intellectual investment and sunk costs in materiel and infrastructure. The new systems evolved for the F-35 will find better homes in other platforms, especially the F-22. The F-35 was just the wrong platform to choose for the capabilities required, and little may be expected to be salvageable from either the airframe or the engine.

Australian Industry should thus be alert to expect a major change in Project direction and plan so take advantage of the rapidly approaching post-F-35 era.

Finally, when determining and announcing how much Australian Industry may gain from a project, it should be mandatory that Defence speak in net gain, that is, the perceived gains less the total costs associated with obtaining and supporting the required industrial capabilities. As the latter are frequently considerable, any perceived gains may be illusory.

4. The Three Recommendations:

Recommendation 1: The Committee recommends that the Department of Defence develop a hedging strategy to address the risk of a capability gap resulting from further delays to the acquisition of the F-35A. The strategy should be completed by 2018 and capable of implementation by 2019 at the latest.

As shown by ANAO Audit No 6 2013-14 into Capability Development Reform, Defence is incapable of discharging this task, and may be expected to be even less capable following the implementation of the First Principles Recommendations, which did not deal with the core deficiencies in the Defence Organisation with its lack of accountability, and its lack of appropriate management systems and core operational and technical skills and competencies throughout the Organisation. Defence may thus be expected to continue to adopt whatever 'party line' is set by the US Project Office and the Manufacturer.

Recommendation 2: The Committee recommends that the Department of Defence develop a sovereign industrial capability strategy for the F-35A to ensure that Australian aircraft can be maintained and supported without undue reliance on other nations.

The Committee does not seem to appreciate that the F-35 Project requires that logistics support be governed by the ALIS and be supported by an international supply chain. There is no known provision for participating nations to modify this arrangement in response to national objectives. The implications, especially in the configuration management and software development areas, would raise extremely complex and risky operational and engineering problems. The ALIS software is now being rewritten due to deep problems the manufacturer was unable to correct, and being rebadged to correct the poor reputation the

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product carried.

Recommendation 3: The Committee recommends that the government endeavour to establish Australia as the Asia-Pacific maintenance and sustainment hub for the F-35.

With the JSF Project poised for major review, and in the face of the risks identified in the 2016 DTO&E Report, this recommendation carries far too high a sovereign risk. A decision on the future of the Project, based upon far more valid information on what would be involved with such a task, is needed before this subject is even raised.

Conclusion:

The FADT Committee's Report and Recommendations rested upon a number of critical observations and conclusions that are not supported by any validated analysis or facts. The Report also concludes with three recommendations that should be approached with caution as they may well have very long-term and high risk impacts upon Australia's air power capabilities, and the National security. Over-all, the Report merely follows the 'party line' established by Defence, which follows religiously the Manufacturer's/Project Office marketing mantras. The reports issued by the Director of Operational Test and Evaluation (DOT&E), the US GAO, and past history, the only source of validated Project status data, have simply been ignored.

It is clear that the Committee has not approached this inquiry with the same focus and soundly-based observations that characterised the References Committee's Report into Procurement Procedures for Defence Capital Projects of August 2012. Since the hasty implementation of Defence's First Principles Review, Defence certainly now *'speaks with one voice'*, but takes advantage of poorly advised oversight bodies in seeking support for its position. The Senate's Defence Sub-Committee Review of the Defence Annual Report 2013-14, which included the First Principles Review (FPR), was provided with the author's analysis and warnings of this review, but these do not appear to have made any impression.

The JSF Project has now reached a 'tipping point' in the US, with the detailed status being provided in the DTO&E 2016 Report. The F-35A continues to strike long-term problems that may be 'resolved' only by accepting further reductions in capabilities and safety, combined with greater costs and schedule delays. The aircraft, in whatever configuration it may end up with will still not meet Australia's strategic capability requirements, or be competitive against emerging threats.

The Committee should thus have qualified its report, or conducted a further, and more rigorous inquiry.

Finally, the subject of the Committee's Report needs to be seen in the context of the Government's 1972 changes in the management and accountabilities of Australia's Military Services and the Defence Bureaucracy. Annex D is thus included to provide such context.

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UPDATE AS AT JANUARY 2018

Project Developments.

The comments and recommendations on the Planned Acquisition of the F-35 Lightning 11 Joint Strike Fighter that follow were clearly not considered by the FADT References Committee, as none appears to have led to any positive project management action, despite the glaring differences between the FADT Committee's perceptions and the hard evidence recorded in the DOT&E and GAO Reports.

However, since that submission was made, several highly relevant developments have occurred, namely:

- The Defence Major Projects Report 2015-16 and the Auditor-General's Report No 40, 2016-17 of July 2017 have been tabled.
- The Auditor-General's Performance Audit of Defence's Management of Materiel Sustainment dated 11 Jul 17 has been released.
- The US GAO Report 18-75, 26 Oct 17, into F-35 Aircraft Sustainment, especially readiness and cost transparency, was released.
- The House of Representatives launched its Inquiry into Commonwealth Contracting in Dec 17.

While all of these documents are relevant to the Defence References Committee's F-35 Project governance oversight, this Attachment will focus upon the findings of the most recent DOT&E and GAO Reports, both of which identify major implications not only for the F-35 Project, but for Australia's airpower capabilities over the F-35's planned 60 year life cycle, and identifies a major causal factor behind the inability of the Committee to come to verifiable conclusions and recommendations.

Briefly, the GAO Report identified:

- Repair capabilities are 6 years behind schedule. Repair times average 172 days, double the planned time.
- Spare parts shortages are degrading readiness, keeping 22% of aircraft off line.
- Technical data requirements and cost have not been defined, delaying future sustainment contracts.
- The ALIS (central to F-35 sustainment) continues to be complex and not fully funded.
- The operational performance requirements set for the three F-35 variants during the late 1990s, although reduced, are not being met and will likely need to be further

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reduced.

- The F-35 Life Cycle Sustainment Cost Estimates have risen 23.9% from 2012 to 2016.

Clearly, F-35 operational capabilities and sustainment remain complex, and lack clarity and transparency. That is, they do not enable governance oversight bodies to take verifiable decisions.

Clarifying the Failure to Advise the Committee of Validated DOT&E Project Findings.

The F-35A – A 5th Generation Capability?

The term ‘5th Generation’ has been used over recent years to discriminate between US ‘legacy’ aircraft (Gen 4) and the F-22 which possessed advanced design and performance capabilities that put it a class above Gen 4 aircraft. The F-35 was inappropriately moved into this level when production of the F-22 was closed down prematurely, but despite strong marketing pressures, the F-35 cannot be considered as being a 5th Generation aircraft. The RAAF’s ‘5th Generation Air Force’ has thus been so described as a result of the RAAF being equipped with the F-35A. However, the F-35 was never designed to take up the roles of the F-22 and has been found deficient repeatedly in its own contracted roles in assessments made by the US DOT&E Office.

Australia’s choice of the F-35 has been subjected to several reviews over the years, but despite much evidence to the contrary, Government and Defence have stuck doggedly to the optimistic marketing mantra lauding the extravagant claims made for the aircraft’s capabilities. The true status of the F-35 Project has been well shielded from Parliament, the RAAF and the public because Defence decided not to pass on the reports issued by the US Director, Operational Test and Evaluation (DOT&E) for independent Australian operational and technical analysis of their impacts upon Australia’s air power capabilities and planning. This observation is supported by the following:

- The ANAO was tasked to review the JSF project and issued its report on 27 Sep 2012. However, the ANAO had no jurisdiction over the US JSF Program and so it adopted the approach of providing a holistic account of the Program based on the US DOD Acquisition Instructions 5000.0x. Consequently the ANAO Report was quite flat and restrained. No meaningful project status was forthcoming, and it seemed to the ANAO that the Project was then at the point of being “*too big to fail*”.
- The Foreign Affairs, Defence and Trade References Committee also inquired into the planned acquisition of the F-35 and delivered its report in October 2016. The Committee noted:

“It is difficult to understand and critique the capabilities of the F-35A without access to detailed performance data. Hence the Committee cannot draw definitive conclusions

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regarding the details of the F-35A's performance in testing". The Committee did, however, go on to draw a number of definitive conclusions which merely followed Defence's 'party line'. The Committee referred to DTO&E Report 2015 but did not draw any conclusions from it, merely voicing vague concerns while accepting Project Office assurances that *"All issues are being identified and resolved"*.

As the only current, official and verifiable source of information on F-35 Performance in Aircraft Testing is that contained in DTO&E's annual reports, why were they not considered during the Reference Committee's deliberations?

- The answer to this question may be found in statements made by Dr Keith Joiner, until recently the Head of Test and Evaluation for the ADF, who advised 'A Background Briefing':
 - *"Australia does not participate in the testing of the troubled jet, we don't even have our test agencies read the US test reports."*
 - *"Australia has formally nominated the US to carry out all the testing on our JSF jets, which at \$17.8 billion so far are the most expensive Defence item we've ever bought."*
 - *"I asked for Australia to participate in flight tests, but Defence said no, because it would cost too much money."*
 - *"Australia does receive test progress reports out of the US, but those test reports are not being given to Australian test agencies."*

Defence should be required to explain why it did not provide the FADT References Committee with the DTO&E Report so that the Committee could have made a far more informed judgement as to the true status of the Project.

A Major Causal Factor Behind Inadequate Defence Department Advice to the Committee.

It is not difficult to understand why the References Committee was led to take the decisions and make the recommendations that it did, while stating: *"...it is difficult to understand and critique the capabilities of the F-35A without access to detailed classified performance data. Hence, the Committee cannot draw definitive conclusions regarding the details of the F-35A's performance in testing."* – despite the fact that the DTO&E Reports provided all the information needed.

However, it is understandable, but not pardonable, when the following is recognised:

- The FADT References Committee members were not operationally or technically competent to reach sound and demonstrably valid conclusions, a common problem with many Parliamentary inquiries. This made the Committee highly/wholly

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dependent upon 'specialist' advice from a Defence Department Bureaucracy no longer required to possess the skills and competencies needed to provide such advice. The underlying cause for this lies in current Australian Government Public Service policy which only requires:

- ***"...policy advising and top management is a distinctive and integrated function and even where a top management position does have a professional or technical content the choice of occupant should, in a high degree, be on the basis of administration and/or managerial abilities."***
- Such expert advice, pre the Tange/Defence/Commercial Support Reform initiatives, had long evolved within the Services, but was thoroughly stripped out and outsourced to (mainly) the original equipment manufacturer under the Defence Reform/Commercial Support Programs.
- That Parliament, Government, the Defence Department, the Services, Australia and its national security are now too dependent upon foreign major companies with their vested and conflicts of interest is no better evidenced than with the F-35A Project.

Over-all, these F-35 program developments emphasise the embedded and widespread deficiencies in Defence's 'business model' for the acquisition and sustainment of technology-dependent military capabilities. Furthermore, such deficiencies will continue to arise as the F-35 Project progresses. The Project, although believed to be "Too Big to Fail", is most unlikely to avoid that fate.

Until this situation is redressed, Australia's defence capabilities and national security must remain at high risk.

UPDATE POST- JANUARY 2018

Background.

From January 2018, several US Governance and Independent Analysts' Reports have been released, and critical changes made to F-35 Program Planning. Some of the more important were:

- The release of the DOT&E F-35 Status Report dated 23rd January 2018. (1)
- The US Government Accountability Office Report (GAO-18-321) "*Development is Nearly Complete, but Testing Needs to be Resolved.*" dated June 2018. (2)
- Plans have been made for testing the F-35 against the A-10 Thunderbolt II (Warthog) to demonstrate that the F-35 was superior to the A-10, F-16 and F-18 in ground

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support roles, as the F-35 Project is contractually required to demonstrate. (3)

- Independent analysis of the Project released by Defence - Aerospace. (4)
- Additional information has been received on the proposal to re-birth the F-22. (5)

Individually and collectively, these developments do not bode well for Australia's planned reliance on the acquisition the F-35 to provide the airpower capabilities promised by the Project and upon which Australia relies heavily to underpin its national security. In short, the F-35 Project remains an incipient failure in Defence's Capabilty Management and will be an increasing, major risk to Australia's national security.

Standard and well-proven Project Management disciplines require that each phase of a Project be completed to well-defined requirements before progressing to the next Phase. The F-35 Project, however, driven by marketing, financial and political vested interests, decided to ignore this philosophy and adopt a Phase-overlapping methodology. The results of this decision have become obscured from adequate public and governance scrutiny over the past 12 years, with dire consequences for F-35 capability, cost and schedule factors. Unfortunately, the Project has been allowed to survive under ineffective oversight by Government and Defense/Defence Departments, favouring Project Office/Manufacturer's inflated claims and promises over verifiable DOT&E data.

As a result, the F-35 Program, after some 16 years of development, produced its first F-35 some 12 years ago to meet capability requirements grounded in the late 1990s, but has been unable to achieve its most critical milestone in Project Management – the Design/Development Phase. In effect, the Project will deliver an aircraft that is unacceptable at the end of an incomplete Design Development Phase, and will move to a separate program having its own baseline and regular cost, schedule and performance reporting, yet to be dimensioned, planned or costed. This follow-on, 'Block 4 F-35 Modernisation' Plan gives no confidence that it will perform any better than the long-running, current program.

The DOT&E F-35 Status Report of January 2018.

This Report, released by a new Director, provides a fresh view and measure of the status of the F-35 Program. Not surprisingly, being based upon verifiable measures, it confirms and updates previous DOT&E findings and recommendations. Some of the Director's key observations follow:

- *The operational suitability of the F-35 fleet remains below requirements and is dependent on work-arounds that would not meet Service expectations in combat situations.*
- *Over the previous year, most suitability metrics have remained nearly the same, or have moved only within narrow bands which are insufficient to characterise a change in performance.*

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- *Overall fleet-wide monthly availability rates remain around 50 percent, a condition that has existed with no significant improvement since October 2014, despite the increasing number of new aircraft. One notable trend is an increase in the percentage of the fleet that cannot fly while awaiting replacement parts.*
- *Reliability growth has stagnated. It is unlikely that the program will achieve the FSF ORD (Operational Requirements Document) threshold at maturity for the majority of reliability metrics.*

The Director was also critical of the JPO's plan "to transition into the next phase of development – Continuous Capability Development and Delivery (C2D2) - beginning in CY 18, to address deficiencies identified in Block 3F development and to incrementally provide Block 4 capabilities." The original C2D2 Schedule for this he believed was not executable. In the meantime, the JPO was trying to close out the current SDD Phase, notably by deleting test points.

The complete listing of the failings and problems identified by DOT&E are contained in his report. Two examples of high interest follow:

- *As of mid-November 2017, the JSF development program was monitoring a total of 2,769 deficiency reports. These were reduced to a priority list of 301 Priority 1 and 2 deficiencies deemed necessary for the program to address for combat effectiveness and operational testing, but only 88 of the 301 Priority 1 and 2 deficiencies were in work, with the remaining 213 unresolved.*
- *Of particular concern is that the JPO suspended durability (fatigue) testing after completion of a second lifetime of testing in February 2017 as the test article had so many repairs it was no longer representative of the production aircraft. With the aircraft subject to continuing design and capability changes, the testing done so far will be wholly unrepresentative of the aircraft's multiple configurations that will be operated and will thus have no validity, leaving customers with no measure of the aircraft's safety in operation or fatigue life.*

The DOT&E Report thus gives no confidence that the JPO/Manufacturer's planning will succeed.

The GAO Report June 2018 (2).

In short, the GAO, which is required to review the F-35 acquisition program until it reaches full scale production, recommends that:

- *No funds are made available for F-35 Block 4 until DOD provides a sound business case for the effort.*
- *DOD resolves all critical deficiencies before full rate production.*

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These recommendations stem from the GAO's conviction that outstanding deficiencies need to be redressed before closing the SDD Phase and moving on to a Modernisation Program.

The GAO recommendations require an extended testing schedule, injecting a delay of 6 to 8 months, but notes: "*DOD plans to defer some critical deficiencies found in testing until after its full-rate production decision in October 2019, even though DOD's policy states that critical deficiencies will be resolved before then.* However, throughout this project, there has been a continued rise in critical deficiencies that have become an unmanageable backload, and this trend may be expected to continue throughout Block 4, which, after some 12 years, has yet to produce its first F-35 meeting even downgraded system design requirements.

The Joint Program Office (JPO) also declared arbitrarily that the SDD Phase will finish with the F-35 Block 3F (limited capability) baseline, and will thus be unfunded, by end-June 2018. The program is then proposed to come under a separately planned and annually funded Block 4 Modernisation Program under a new approach referred to as Continuous Capability Development and Delivery C2D2). DOD will establish C2D2 processes and improve the Block 4 baseline estimate over the next two years by:

- Completing design work on new data processors.
- Establishing laboratory and flight test assets for modernisation requirements verification.
- Addressing deficiencies from development testing.

As a consequence of this approach, the cost of rectifying and flight testing outstanding SDD deficiencies, in addition to those that will arise throughout Block 4, will need to be borne by the post-SDD (G2D2) annual budget. As the UK has already found, such costs will flow on to foreign customers, and based upon previous experience these costs will almost certainly be far greater than planned. The implications for Australia, with its drive to become the F-35 South West Pacific support hub, are immeasurable. Sorting out the work that was devoted to making the aircraft 'acceptable' as meeting moving capability requirements (and thus qualifying as a 'standard' configuration) and what work will be a 'modernisation' extra will be a nightmare.

As one analyst sees it (4): Defense-Aerospace.com, Mar 09 2018

"This means that the JPO is implying that a mere 20% (\$11bn) add-on to the SDD bill will pay for:

- *Completing and flight testing Block 3F.*
- *Fixing and flight testing 1000+ known and serious SDD deficiencies.*
- *Fixing and flight testing the myriad undiscovered deficiencies sure to emerge during*

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the much more rigorous IOT&E tests starting next year.

- *Developing and flight testing the whole wish list of Block 4 'modernisation' capabilities.*
- *Conduct planning and systems engineering work for initial capabilities for Block 4.*

This appears impossible and supports the 2017 DOT&E Annual Report assessment that the current C2D2 plan as “unexecutable”.

Capability Testing – Ground Support (3).

As part of Congress mandated tests, the F-35 Program is contractually required to show better mission effectiveness than the legacy aircraft it will replace - the A-10 Warthog and the F-16 and F-18. To this end, plans were made to have the F-35 fly off against the A-10. A set of unpublicized tests began on July 5 and concluded on July 12, according to a copy of the Test Schedule reviewed by the Center for Defence Information at the Project On Government Oversight, which concluded that the tests as designed were unlikely to reveal anything of real value about the F-35's ability to support ground troops in realistic combat situations. The Center noted the unrealistic nature of the tests, their non-compliance with the Senate's strict test requirements, and that the fate of each aircraft was hanging on the outcome. Other observations made by the Center include:

- *Air Force leaders came up with a simple solution to this dilemma. They are staging an unpublicized, quickie test on existing training ranges, creating unrealistic scenarios that presuppose an ignorant and inert enemy force, writing ground rules for the tests that make the F-35 look good – and they got the new testing director, the retired Air Force General Robert Behler, to approve all of it.*
- *No one from the USAF's Test and Evaluation Squadron was involved in the tests and no Army or Marine representatives participated. The testing should have been designed by the Joint Strike Fighter Operational Test Team.*
- *Rather than going through the proper channels, design of these tests was outsourced to a consultant from Tactical Air Support Inc., a company with a contract to provide adversary aircraft to serve as air-combat training opponents for the U.S. Air Force, especially for the F-35 squadrons, but also foreign air forces. In other words, the test was designed by someone with a vested interest in the F-35 Program, rather than by people whose primary interest is its performance in combat.*
- *The first day's test scenarios reveal numerous ways in which they were designed to favor the F-35: For example: The F-35's weapons load unrealistically lightens the aircraft in an attempt to give it a maneuverability advantage, the absence of specialized testing equipment makes it impossible to gain useful insights about the relative hits on the F-35 versus the A-10, and using only uncamouflaged targets*

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conflicts with the realities of actual combat. The subsequent tests reveal a similar pattern of distortion to favor the F-35.

- *The most significant failing in these tests is that the designers created a laboratory demonstration to show how aircraft can hit non-moving targets in a sterile environment, quite unrepresentative of actual combat conditions.*

The Center also notes that Air Force leaders are fond of saying the F-35's stealth characteristics will allow it to perform close air support in situations with heavy air defences in a way that the A-10 cannot. However, in the ground support role, the F-35 will have to carry external tanks to provide the loitering capability required, as well as carry ordnance stores on external hard points, thus destroying any pretense of stealth.

These secretive and contrived tests, designed to paint an overly-optimistic picture of the F-35's severely limited ground support capabilities, appear to be designed primarily to push the aircraft prematurely through its SDD Phase so that full-rate production may start. Unfortunately, they also call into question whether, in doing so, the DOT&E organization will from now be severely compromised and unable to discharge its independent test and evaluation responsibilities free from interference from a number of vested interests – the Military/Industrial/Congress (Political) Complex very much at work.

The Impacts of Premature Closure of the SDD Phase (4).

The impacts of closing prematurely the System Design Development Phase will be far reaching, causing radical changes in the aircraft's delivered capabilities, cost and schedule; in effect, rewriting the aircraft's performance, cost and schedule while it remains unable to meet its original contracted requirements. These impacts will hit all F-35 customer air superiority and ground support plans hard and call for re-evaluating their national security expectations. It is becoming a question as to just how 72 F-35s will fit into Australian Air Power planning. The results of the JPO's radical change in F-35 management have been well analyzed at Defense-Aerospace.com. Some key findings of this analysis follow:

Three quarters of all the F-35s delivered to foreign customers until 2023 will be obsolete and will require major retrofits before they can deliver their promised performance. Analysis of F-35 contracts awarded to date shows that 343 of the 460 export aircraft that Lockheed is to deliver until the end of 2024 will be in the current, obsolete Block 3F, Low-Rate Initial Production (LRIP) configuration.

Until 2023, all the LRIP aircraft ordered by Australia will be delivered to the current obsolete configuration under the following plan:

- *Aircraft ordered at 6/2018: 72.*
- *Aircraft to be delivered by 2024: 63 Up to Block 3F (to 2022) Lots 1 to 14.*

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9 Block 4 (from 2023) FRP Lot 15.

- *Percentage of early aircraft:* 87%.

All LRIP aircraft will require substantial and expensive upgrades to bring them up to the latest Block 4 standard at uncertain cost. The JPO currently sees 108 of these aircraft as being not cost-effective to upgrade. European operators seem to have “overlooked” mentioning the cost of upgrading their older aircraft to Block 4 standard when reporting to their Parliaments. The risk that Block 4 aircraft will still fail to meet requirements has not been faced.

Block 4 is non-negotiable as because, unless upgraded, all F-35s delivered before 2023 will be severely limited in their capabilities and will only be able to use very few weapons. Australia will, out of its 72 aircraft, have only 9 delivered to the Block 4 configuration. If Australia decides to retrofit Block 4 improvements, we will have to pay for it ourselves, on top of acquisition and post-delivery upgrade costs.

This is when foreign “partners” who have already paid a portion of the F-35’s development costs as well as paying for their own aircraft, will realize that they have been abused by Lockheed and the Pentagon who, in their rush to produce as many F-35s as fast as possible, have delivered “fifth-generation” aircraft that do not meet contractual performance and cannot match the capability of “legacy” aircraft like Typhoon, and the latest F-15 and F-16s.

Unfortunately, Australia’s Department of Defence and continuing Parliamentary F-35 Oversight Committees have, since the project was being even considered, been advised by experienced engineers of the risks involved, but all to no affect, apart from receiving disparaging comment. While the Author (Attachment 1) warned that the project was ‘on the brink’ of failure, the Project has now passed that stage and can only be described as a tragedy and a case study of bureaucratic and governance failures, highlighting the outcomes inevitable when high technology projects are administered by people having no understanding of the technologies involved or the project and systems engineering disciplines that must always be followed to ensure success.

GAO Report 321 25th April 2019

This GAO Report noted that “***The Pentagon has outsourced crucial F-35 support functions to Lockheed Martin from managing repairs and spare parts, to pilot training, to technical support***” and questioned what the Services will do since LM has been contracted to do almost everything. The Report also noted that aircraft sustainment faced:

- Spare parts shortages and limited repair facilities.
- Mismatched parts for deploying aircraft.

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- An immature global network to move F-35 parts.

The ALIS System's deficiencies were also detailed.

Despite this, Australia and LM signed a Strategic Deed together with an Integration, Maintenance and Administration Contract with the Commonwealth of Australia to support a sovereign capability in Australia. The signing of such a document, given the outstanding number of unacceptable performance classifications (often reduced without good cause) reflects a poor understanding of the operational, technical and cost risks involved and their likely impacts upon Australia's air power. See also "The F-35 and the Captured State", 10th June 2019. (4A).

Post April 2019.

Little further has been said about the outstanding post-SDD deficiencies, so aircraft will continue to be delivered with serious operational limitations. Attention has concentrated more on aircraft reliability and sustainment problems.

Lockheed's ownership of Intellectual Property (IP) rights has been challenged by the Pentagon, which should have very important impacts upon Australia. As the original F-35 contract allowed Lockheed to keep ownership of F-35 IP, despite it being funded by the Project Office and foreign customers, Lockheed alone to decide how much to charge for its services, and it alone also controls the ALIS software and its servers, without which the F-35s throughout the world cannot operate. Customer Nations will have only two alternatives: pay whatever Lockheed charges, or not pay and see their fleet become inoperative.

Report GAO-20-234T, 13 Nov 19, then highlighted three challenges related to F-35 sustainment:

- Spare parts shortages.
- Immature ALIS capabilities requiring personnel to perform time-consuming and costly manual workarounds.
- Lack of information needed to plan effectively for long-term sustainment

As a result, F-35 performance has not met warfighter requirements and sustainment costs are greatly excessive.

Unfortunately, none of the above warnings seem to have been taken seriously by Australia's Defence Organisation.

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DOT&E Report 30th January 2020.

This most recent test and evaluation report highlighted:

- The current 873 unresolved F-35 deficiencies, and *“Although the programme is working to fix deficiencies, new discoveries are still being made, resulting in only a minor decrease in the overall number of deficiencies.”*
- The F-35’s problems include 13 Category 1 deficiencies, those *“which may cause death or severe injury; may cause loss or major damage to a weapon system; critically restricts combat readiness of the using organisation; or results in a production line stoppage.”*
- *“Software changes, intended to introduce new capabilities or fix deficiencies, often introduced stability problems and adversely affected other functionality. Due to these inefficiencies, along with a large amount of planned new capabilities, DOT&E considers the program’s current Revision 13 master schedule to be high risk.”*
- *“..units flying newer F-35 aircraft discovered cracks in the outer mold-line coatings and the underlying chine longeron skin, near the gun muzzle, after aircraft returned from flights when the gun was employed.’*

A continual snowballing of reported deficiencies is an inevitable result of the decision to cut short the Design/Development Phase of the F-35 prematurely and to roll outstanding deficiencies into the Continuous Capability Development Phase - highly profitable to LM, but highly risk laden and expensive to all customers.

Through the Rear Vision Mirror.

Following the release of the RAAF’s AIR 6000 Project, a USAF sponsored F-22 Team, which had developed a special F-22A configuration to meet Australia’s requirements, travelled to Australia in 2001 to brief the AIR 6000 Project Office. However, en-route, the Team was advised that the visit had been cancelled, and on landing at Canberra was told to go home as Australia (RAAF and Defence) wanted the F-35 instead.

As a result, Australia lost both the opportunity to become the International Launch Customer for the F-22 as well as having the cost of the development and manufacture of the parts required for the A configuration included as part of the industrial participation package.

As the JSF was intended to be a cheap strike aircraft, designed to operate under friendly air established by the F-22, the cessation of F-22 production and the budget priority being transferred to the JSF left a gaping hole in the USAF’s capabilities. This was papered over later by attributing F-22 capabilities to the JSF that are quite beyond its proven incapacities.

On selecting the JSF, the marketing mantra emphasised its low cost, high stealth characteristics, high reliability, and low cost supportability. However, history has shown

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that:

- JSF project costs have accumulated over the still not completed or costed SDD Phase to make the JSF the most costly USAF project undertaken. Defence, however, has been unable/unwilling to advise Parliament of the total costs of the project to Australia to date.
- Stealth claims have not been met as the initial design provided only limited stealth in its forward sector, and the need for the aircraft to be fitted with external pods for the carriage of weapons and fuel tanks reduces the aircraft's over-all stealth to a non-viable level against advanced threats.
- Reliability (operational availability) has been unacceptably low since the aircraft's first flight and is the subject of continuing GAO/DOT&E/Project Office attention.
- Supportability has also been wholly unacceptable, driven by an unacceptably poor ALIS performance, which is incapable of integrating the operational/engineering, maintenance and supply support functions for the large number of different aircraft configurations produced to date, and the complexity and cost of its complex software.

Unfortunately, Australia is unable to go back to 2000 – 2001 and change its decision to back the JSF, but such a change was almost impossible as at that time the RAAF had been so downsized and de-skilled that the right decision was well beyond both RAAF and Defence comprehension.

The F-22, The Phoenix Rises (5).

As the newly 'reformed', centralized Department of Defence was flexing its muscles and being wooed by Lockheed Martin to commit to their Joint Strike Fighter with its promises of low cost, amazing capabilities and inexpensive sustainment, a USAF F-22 Team that had been discussing the release of the aircraft to Australia, arrived with an offer to provide the F-22 via most favourable conditions – under Foreign Military Sales arrangements, to standard USAF configuration and at no additional cost. They were met and greeted rudely with the news that Australia had selected the F-35 and that they should return. The details of this meeting have long been known by Defence and Parliament, but never acknowledged.

We now have the USAF repeating clearly that the F-35 would not be able to operate in the absence of F-22 cover, an assumption underlying the original F-35 specification. However, after much hype, in a bid to convince operators that the F-35 would also be capable of replacing the F-22, the long obvious has become visible: A genuinely dual role F-35 was never a possibility, and resuming production of the F-22 was required if US air superiority was to be regained.

There has been much poor media cover of the F-22, seemingly as part of an unceasing effort by proponents of the F-35 to prevent funds being drawn away from the F-35 program. There

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has also been a focus upon the 'high cost' of re-opening the F-22 production line and the unit cost of the aircraft. However, most estimates have been misleadingly high. Analysts now see:

- With F-22 production ceasing at 187 aircraft, it has become one of the most hotly debated and controversial procurement-related decisions of the time. Today, it is widely viewed, even among the USAF's top brass that this decision – made a decade ago by the Obama Administration- was short-sighted and we continue to find out new information as to how exactly it came to pass.
- Finally, in 2016 with pressure mounting for more F-22s, Congress mandated that USAF look into restarting the production line, but the reporting document has remained classified until now. Using RAND's conclusions from 2011, the USAF crafted a set of cost estimates and assumptions for what it would take to restart F-22 production for 194 aircraft. A review of that report found that it lacked depth and that the cost figures were high.
- The non-recurring costs appeared particularly high. The unit cost, estimated to drop to \$206m for the final aircraft, doesn't make sense considering all other major defense programs seem to tout steeper unit cost reductions over a production run, and especially over the first production lots. The fly-away costs of the last 60 F-22 aircraft which averaged \$137m were approaching the F-35A's cost during the same time in its production run.
- ***USAF General Mosley lost his job when he resisted the cut in F-22 production, noting: "We didn't, and still don't need a thousand of these things. But you need the right number...The last airplanes we took delivery of were \$87m...Had we been able to go another multiyear (contract) there was an understanding that we would be able to get them for \$85m...Find me an airplane out there right now that costs \$85m and has that capability."***
- The USAF is still determined that it was "technically feasible" to develop an export version and this would cut cost burdens.
- Further cost reductions could be realized beyond those the study states, considering the F-22 is a known commodity, not some new fighter just entering production. The conclusions of the study were likely baked into it before it really began. (The results preordained to satisfy non operational imperatives such as the stated risk to production numbers of the F-35.)

The Japanese Solution.

While Australia's Defence Organisation has persisted with accepting, without question, the inflated optimism of the F-35's capabilities and its design, development and testing status over the past 16 years, other customers have followed DOT&E's Reports more closely and

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with increasing concern. Some have, or are now, reviewing their orders, while others, those that have retained operationally and technologically competent Services and Defence Organisations, have moved to develop a 'Plan B' to ensure their future airpower requirements. Of these, Japan appears to be the clear leader, advising that it now aims to build its own stealth fighter, while *“considering domestic development, joint development and the possibility of improving existing aircraft”*.(6)

Almost immediately, Lockheed proposed a 'hybrid' F-22/F-35, but without any perceived configuration. US Military export policies also shifted rapidly: *“Trade, more than military strategy, seems to have spurred Washington’s change of heart. President Donald Trump looks to score political points by lowering America’s roughly \$70Bn trade deficit with Japan, and sees expensive military equipment as a prime tool for doing so.”*(6)

How Australia’s Defence Organisation will approach the F-35 Program changes reviewed in this submission will set in concrete Australia’s long-term airpower capabilities, both in air superiority and ground support roles, as well as determining Australia’s national security. Based upon previous experience, the current Organisation will fail to develop any coherent or effective Plan B as it does not now possess the required expertise in strategic and force structure analysis, or the operational and technological competencies needed to drive these activities, or any acquisition and sustainment functions. Australia’s security is thus now beyond its Defence Organisation’s ability to advise Government.

The task of identifying what needs to be done and the organisational structure best suited to implement change and embed required competencies now rests with Parliament, with the Defence R in the vanguard. Time is running out if Australia is to avoid a re-run of the 1930s.

Update, December 2019.

“Foreword

The government of Japan will soon choose a path to develop a new fighter aircraft to replace the Japan Self-Defence Force’s F-2. With tensions on the rise in the Asia-Pacific region, this decision will prove consequential for decades into the future. Air superiority is an essential capability required to secure a broad range of desired effects for territorial defense.

Executing this mission in the modern era demands several key attributes, including stealth-enabled survivability and the ability to gather, process, and share information in real time. Eventually, these capabilities and attributes will play a key role in actualizing the “combat cloud” construct, and will refine modern fifth-generation combat aviation. Of special concern to Japan, China has developed two fifth-generation fighters, the J-20 and J-31, and experts predict a fifth-generation bomber may soon follow. These investments threaten to alter the balance of power in the Asia-Pacific if left unchecked. Japan requires a fifth-generation air superiority solution for its ‘Future Fighter’ in the near term that is affordable, does not involve undue technical risk, and is optimized for its own unique mission demands

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within the Asia-Pacific region-particularly when it comes to range.

The Mitchell Institute report explores a potential path forward that would see Japan acquire a new fifth-generation fighter that leverages the physical design of the F-22 Raptor, enhanced with a larger, range-extending wing. This larger aircraft would also be outfitted with the modern sensing and computing power of the F-35 to assure initial capabilities. Not only would this hybrid approach afford valuable performance attributes, but it would do so in a time and budget conscious framework favourable to Japanese priorities. This F-2 replacement would also integrate seamlessly with existing allied F-35s and American F-35s.

The future security environment is far from certain in the Pacific region. What is clear is the need to invest in forward-leaning capabilities. Fifth-generation air superiority aircraft stand at the top of the list.

Lt Gen David A. Deptula, USAF (Ret)

Dean, The Mitchell Institute for Aerospace Studies

December 2019”

Despite the extravagant claims that have been made for the F-35, it cannot be conserved as being a fifth-generation fighter, nor an air superiority fighter.

Other Factors.

Australia's ability to mount and sustain military capabilities (Air, Land and Sea) depends critically upon the capabilities, responsiveness and effectiveness of its Military Integrated and Logistics Information System (MILIS). This logistics backbone of the ADF is known to be running on a program written in a language that no one now uses, is unsupportable, and the system supplier has been warning Defence of the risks involved for well over 5 years. Defence's response has been to hope that MILIS might stagger through to the early 2020s when its SAP-based Defence Enterprise Resource Planning (ERP) solution is planned. Strangely this requirement doesn't even rate a mention in Budget Papers, the Defence Annual Report or in ANAO's Major Program Reports, despite its being valued at \$1-2 Bn. This may be a good case study of systems critical to day-to-day military operations support being tagged on to a larger 'One Defence' system plan, losing sight of the role and importance of logistics support to military capabilities. See also "*The ADF's Logistics System is About to Fall Over*", *Australian Defence Magazine*, July 2019.

Conclusion.

There has long been a need to review Australia's current Defence Force organisation and its contracting processes in the light of Service needs as well as world and regional developments and the potential risks that they carry. Today, Australia's belated acknowledgement of Chinese and Russian intrusion into island chains in the South West Pacific only brings those risks into sharper focus. Clearly, Australia's Department of

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Defence is unable to analyse those threats, develop timely, appropriate and flexible strategic and tactical responses, provide matching military capabilities, or an achievable and financially responsible Defence Industry. After some 47 years, Australia's Defence Department exists primarily to maximize its vested self interests and to avoid scrutiny, while providing Government and Parliament with the advice that it feels governance oversight bodies will find most comfortable, both politically and financially.

The Australian Strategic Policy Institute's Peter Jennings in July 2018 noted the need for a Defence Plan B, listing 10 steps to achieve it. However, the past 47 years have shown that Defence is incapable of working through such a challenge. It has none of the skills, competencies, or methodologies required and is demonstrably incapable of 'outsourcing' these successfully. Until Defence's 'Smart Buyer Model' and contracting processes are replaced by successful models, Australia remains as unprotected as it was immediately pre-WW2.

Finally, although much debate exists in regard to Australia's dependence upon the ANZUS Treaty, there has been no acknowledgement of the fact that the treaty only requires the parties to consult. It does not guarantee that either party will come to the aid of the other when requested. Actual military support will only follow if the request is considered both politically and militarily acceptable at the time. Australia's experience has been that requests for support may well not be available when sought.

Australia must aim for a viable, independent capability to deter/defend itself in the absence of any allies, but Defence in its current form is not a suitable organisation to achieve and maintain this objective, as has been proven by endless reports and is still evidenced today.

Much of the problem arises from the adoption of inappropriate management and contracting processes for the acquisition and sustainment of technology-dependent capabilities, both military and non-military, and an almost total absence of the required critical skills and competencies - the inevitable result of following the long-failed US practices detailed at Annex A.

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3. Don Grazier: "Close Air Support Fly-off Farce", *Project on Government Oversight*, 10th July 2018.
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6. *Tyler Rogoway and Joseph Trevithick, “Here’s the F-22 Restart Study the USAF has Kept Secret” The War Zone 4th May 2018.*

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8. *The Diplomat: “F-35 Brains in an F-22 Body: Thinking Through Japan’s Next-Generation Fighter Options”.*

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ANNEX D
CASE STUDY 2

BASED UPON:
AN ANALYSIS OF THE AUDITOR-GENERAL'S
REPORT No. 2, 2017-18, ON
AUSTRALIAN NATIONAL AUDIT OFFICE'S
PERFORMANCE AUDIT OF
DEFENCE'S MANAGEMENT OF
MATERIEL SUSTAINMENT, 11 Jul 2017

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EXECUTIVE SUMMARY

The ANAO's Performance Audit No 2 has provided valuable insight into Defence's capability sustainment performance as well as the status of the implementation of Defence's First Principles Review. However, the Audit reflects much the same performance that was identified in the ANAO's audit of the first Major Projects Report (2007-08), and in all the annual audits that followed. A retrospective analysis of ANAO's MPR audits suggests that Defence has long been committed to doing the same thing over and over, expecting to see its performance improve over time. As it is clear that this has not happened, the question that remains is:

Is Defence's acquisition and sustainment organisation '*Fit for Purpose*'?

ANAO's Performance Audit gives a tick of approval to Defence's management of capability sustainment, finding that the Organisation '*has established an appropriate governance and operational framework, established and implemented a high quality performance framework to support external scrutiny, and has achieved key outcomes expected from the Smart Sustainment reforms and has progressed its implementation of the reforms to sustainment flowing from the First Principles Review (FPR)*'. However, these optimistic findings are not seen to be supported by the detailed findings of the Audit.

The Audit's findings in regard to the FPR are of particular interest. The FPR was released, rather appropriately it seems, on 1st April 2015. 153 inputs were received, including 31 from Parliamentary stakeholders, 12 from external Departments/Agencies, 8 from the Community, 14 from the UK, 24 from Industry and the Unions, 48 from within Defence and 9 from the Defence Secretariat. Interviews were held with 17 authors of the 84 public submissions, as only 17 '*met the guidelines for publication*'. The FPR was conducted by a wide-ranging group of Defence-selected 'acknowledged experts', many from the business world, but few, if any, appeared to have any meaningful experience in the management of military capabilities, but then Defence's focus was upon financial control and transparency problems and its centralised, 'One Defence business model', which in turn has made Australia's military capabilities too highly dependent upon outsourced contracts.

The FPR reads as just another exercise designed by Defence and orchestrated by Defence, for the benefit of the Defence Bureaucracy. Real First Principles are nowhere to be seen, and as the Audit reports, well after the planned implementation date: "*Defence has not put in place plans to evaluate either the FPR reforms or their implementation*". The FPR was also to be implemented within 2 years, but that timeframe has passed, and the ANAO Audit has also revealed a confused Defence Department that has lost its way, unable to comprehend the complexities of high technology military organisations and a victim of its decision to downsize and de-skill the Services, and outsource their critical Engineering, Maintenance and Supply support functions, both in-Service and in Industry – an objective voiced as 'putting the Services in their proper place'.

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However, this Audit should also be assessed in the context of the Defence Organisation's broader responsibilities and performance over time. Looking back, Defence has now spent 45 years trying to achieve what was in place before the Tange organisational changes, and Parliament has spent a decade or more seeking performance and cost transparency through Major Project Reports, Defence Annual Reports and various Parliamentary Reports (especially by the Joint Standing Committee Public Accounts and Audit). However, analysis of these reports indicates that Defence has been unable to demonstrate any significant improvements in performance, only delivering a never-ending flow of excuses and additional processes accompanied by requests for more money, time and staff to redress its deficiencies.

At a time when the World is on a very uncertain trajectory and a demonstrable military deterrent is most needed, Defence is clearly the weak link in the chain of National Security, for not only is:

Defence's capability acquisition and sustainment organisation clearly not 'Fit for Purpose', but

Australia's Defence Organisation as a whole is also not 'Fit for Purpose'.

While Parliament and Defence may be reluctant to undertake a further review of Defence, the lessons of the pre-WW2 years should be revisited as a matter of urgency, as Australia is not as well prepared today as it was then to move quickly to an effective defence organisation. Pre-WW2, the Services held the line, but today 'the line' consists only of thin and unskilled Services relying upon a web of very brittle supply chain contracts.

OVERVIEW OF AUDIT

The objective of the ANAO Independent Performance Audit of Defence's management of Materiel Sustainment (Page 7) was to determine if:

- Defence has established an appropriate governance and operational framework for the management of materiel sustainment,
- Established and implemented a high quality performance framework to support the management and external scrutiny of materiel sustainment, and
- Achieved key outcomes expected from the Smart Sustainment reforms and has progressed its implementation of the reforms to sustainment flowing from the First Principles Review.

The scope of the Performance Audit was given as "*the management of sustainment of specialist military equipment. It addresses sustainment at a high level and is not focused on*

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the sustainment of individual aspects of their maintenance.” (Page 19)

The Audit concluded (Pages 7, 8) that:

- *The fundamentals of Defence’s governance and organisational framework for the management of materiel sustainment are fit-for-purpose, although specific operational shortcomings remain as well as scope to improve performance monitoring, reporting and evaluation activities to better support management and external scrutiny, and*
- *Defence has clear and long-standing governance and organisational arrangements for managing sustainment.*

However, these conclusions were then qualified by several Audit observations, including:

- *Research and reviews conducted by Defence have revealed a range of operational problems that detract from efficient and effective sustainment of capabilities, including the functioning of the System Program Offices.*
- *An effective sustainment monitoring system has yet to be achieved.*
- *The completeness and transparency of publicly reported information need to be improved.*
- *While Defence had made efforts to keep track of the large number of diverse initiatives under its ‘Smart Sustainment’ reforms, it did not assess adequately the outcomes from its ‘Smart Sustainment’ Reforms.*
- *Reforms to the management of sustainment flowing from the First Principles Review remain at an early stage and are likely to take much longer than the two years forecast.*
- *Defence has engaged Industry expertise to assist with FPR reforms for both capability acquisition and sustainment, including a \$107 Million contract with a single company that is not performance based. These reforms are also expected to lead to greater outsourcing of current Systems Program Office functions.*

These observations hardly support the Audit’s Findings.

The body of the Audit also contained observations of concern:

Governance and Operational Framework (Page 8):

The ‘*clear and long-standing arrangements for managing sustainment*’ referred to in the Audit comprise the following three organisations:

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- ***The Capability and Sustainment Group (CASG) (1)***, which is currently staffed by a mix of civilian and military personnel. Its accountabilities are to the Australian Government (through the Minister), the Secretary of Defence and the CDF, the Services through the Capability Managers (Service Chiefs) and Defence Industry.

The Audit later (Page 27, Para 2.18) noted that CASG is implementing reforms that will potentially increase reliance on Industry to deliver services, and that Defence therefore requires a robust framework to manage the many major risks associated with the widespread use of contracted services.

In short, CASG will be the centre piece of an even larger web of processes, depending upon a marked increase in the use of Consultants, and a redirection of SPO focus towards contractor support and away from their Service technical tasks. The result will reduce further, probably to nil, any project management and operational and technical skills left in the Defence Organisation; skills upon which efficient, effective and economic acquisition and sustainment activities depend critically, as well as strategic analysis planning.

Australia is currently the second most attractive consulting market in the World, but the big contracts now coming out of Defence's shopping list in support of overly-ambitious local industry capabilities will most likely see Australia lead the World. However, all this is but a house of cards, as Defence does not have even the most basic understanding of, or capability in Project or Systems Management, Operational Analysis or Engineering Analysis. The Audit's recommendation to expand the use of Major Project Reporting to include sustainment, if accepted, will only deepen Defence's long unacceptable acquisition and sustainment performance and embed the highest level of risk throughout the Organisation's Defence Industry initiatives.

- ***Materiel Sustainment Agreements***. The Contract-like Arrangements for sustainment between CASG and the Service Chiefs (who are the Capability Managers) is unrealistic. Within Defence, Agreements between CASG and each of the Capability Managers set out the sustainment work, performance indicators, and price in Materiel Sustainment Agreements (MSAs). The Capability Managers are also responsible for the day-to-day sustainment activities that fall to their System Program Offices. The critical skills needed for this have long gone.

However, Defence now intends to replace MSAs (and also Materiel Acquisition Agreements) with Product Delivery Agreements, which will cover both acquisition and sustainment of each capability over its entire life.

Comments: As the current system whereby the Service Chiefs provide Capability Requirements to a separate procurement organisation has clearly not been successful, judged by the very late, underperforming and inflated costs reported in Major Project Reports over the past decade or more, adding sustainment will not improve matters.

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Indeed, ‘*Returning accountability to the Capability Managers for the capability life cycle*’ will not lead to improvement, as they lost the required skills and competencies under the Defence and Commercial Reform Programs. Defence just wants to retain control, but outsource the risks involved.

- ***The Systems Program Offices (SPOs)***. SPO staff consist mainly of people employed to solve technical and supply problems, and ‘*managing outcomes by testing quality and auditing activity rather than assuring capability outcomes governing supplier processes, resulting in limited oversight, duplication of effort, rework and delays*’.

The Audit (Page 27, Para 2.17) also noted that 3 SPOs had been found to have ‘*shortcomings in the application of procurement principles, which exposed Defence to risks.*’ Others had yet to be audited.

The SPOs are thus becoming more contract monitoring clerks and appear ineffectual in providing the engineering, maintenance and supply support required by the operational units. This US style organisation is entirely inappropriate for Australia’s military. The SPOs would be far more effective if they were centralised in a RAAF-wide Systems Command and return to being experts in Project Management, and Unit planning, support and governance.

Audit Conclusions and Findings:

While the Audit concludes that “*The fundamentals of Defence’s framework for the management of materiel sustainment are fit-for-purpose*”, the Audit Findings (page 30) state that:

“*The development of an effective sustainment monitoring system remains a work-in-progress, and the effectiveness of Defence’s internal reporting system for sustainment could be improved in several areas. Opportunities also remain to increase the completeness and transparency of publicly reported information regarding materiel sustainment.*” and

“*With the introduction of its Sustainment Performance Monitoring System, Defence continues to develop a basis for an effective monitoring system for sustainment. Once fully implemented, this system should be capable of systemically reporting against a suite of performance indicators ...*” and observes that “*some core performance indicators need to be improved.*”

ANAO’s conclusion appears to be significantly less firmly based when these qualifications are taken into account.

Furthermore, the statements that “*Defence has clear and long-standing arrangements for the management of materiel sustainment for specialist military equipment.*” and “*the fundamentals of the sustainment management framework have been stable for over a decade.*” (Page 21) also beg comment:

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While these statements suggest a long period of stability, and a presumption that this stability reflects a management system inherently 'fit-for-purpose', the findings of decades of Parliamentary oversight, ANAO Audits, Joint Committee Public Accounts and Audit (JCPAA) Reports and Major Project Reports (MPRs) have not revealed any meaningful improvement in either Defence Management or Acquisition and Sustainment functions. In fact, all have revealed serious, common and persistent failures in strategic analysis, a lack of project management competencies and a trend towards a greater weight and complexity of increasingly centralised processes under ever-higher levels of bureaucratic review. At the same time, there has been a continued hollowing out of the little-remaining, but critical, operational, technical and project management competencies upon which military capabilities depend, replaced by ineffective contract managers supported heavily by over-costly advisors, contractors and consultants. The latest Major Project Report (2015-16) reads, fundamentally, much as the first 2007-08 MPR, highlighting poor management, and for the same reasons. The much-lauded Alliance contracted Air Warfare Destroyer and the Tiger/Taipan projects alone, for example, have contributed to heavy losses over a single year (5)

While the Audit concludes that "*The fundamentals of Defence's governance and organisational framework for the management of materiel sustainment are fit-for-purpose*", the Audit Findings record:

"The development of an effective sustainment monitoring system remains a work-in-progress, and the effectiveness of Defence's internal reporting system for sustainment could be improved in several areas. Opportunities also remain to increase the completeness and transparency of publicly reported information regarding materiel sustainment." (Page 30)

The Problems of Outsourcing:

Outsourcing of management and acquisition and sustainment functions remains a key causal factor behind Defence's continued inability to manage these functions competently. Put simply, when used inappropriately:

Outsourcing = De-skilling, and

De-skilling results in an inability to specify requirements fully and accurately,

an inability to assess competently and compare tender responses,

an inability to identify operational, technical and financial risks, and

an inability to manage capability, acquisition and sustainment competently,

that is, in an efficient, effective and economically sustainable manner.

This simple lesson, despite being long identified in Federal and State audits and inquiries, has been ignored at great cost by Parliament, Government and the Defence Bureaucracy (6). When combined with the failure of the governance oversight mechanisms within Parliament,

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Government and Defence, the direct and indirect costs of outsourcing have now become entrenched, and have led to major project failures.

Performance Framework. (Pages 9, 10):

The Audit also found that Defence's Sustainment Performance Management System (SPMS):

- Has potential to improve some core Key Performance Indicators (KPIs) but this was not fully implemented during the Audit.
- The contents of Defence's Quarterly Performance Reports (QPRs) are neither complete nor reliable, taking two months to produce and its contents are difficult to understand. It fails to include information critical to reader understanding, and provides only a partial account of sustainment effectiveness. The ANAO recommends that Defence institute a risk-based, quality assurance process for the information contained in the Report.
- Defence has not implemented measures of efficiency for all sustainment products. The FPR calls for immediate implementation of measures of productivity, but 18 months after implementation started, there has been limited progress.
- Defence remains unable to measure or report reliably the total cost ownership, but plans to implement a new model, planned for completion in July 2018. Opportunities remain to improve the quality and transparency of publicly-reported information.
- Information in Defence's 2015-16 reporting was not complete or consolidated in one easy to locate area, not prepared in a way that enabled comparison of actual expenditure against estimates, or consistent in presenting clear reasons for variances. Performance summaries were also highly variable and inconsistent between public information documents.
- Defence has not published program level expenditure on a consistent basis over time, or time series analysis to assist with external scrutiny of its sustainment expenditure.

"Smart Sustainment" Reforms (Page 10):

The Audit found:

- There is no record of whether DMO's 2008 planned savings in sustainment costs were ever achieved.
- Defence has not kept a systemic record of outcomes of its 'Smart Sustainment' initiative of 2009. External consultants considered the program was failing because of shortcomings in governance, program management and Defence's approach to reform described by a major vendor as 'minor reform driven by a piecemeal, top-

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down budget pressure’.

- Smart Sustainment had a 10 year savings target of \$5.5 billion, and Defence claimed savings of \$2 billion over the first five years. However, ANAO was not provided with adequate evidence to support this claim and Defence was unable to account for how the \$360 million for ‘seed funding’ Smart Sustainment initiatives was used.

Material Sustainment Reforms vide the First Principles Review (FPR) (Page 11):

(Defence had declared that it had implemented 67 of the FPR’s 75 Recommendations.)

However, the Audit found:

- Defence has drawn heavily on contracted industry expertise to support its implementation of FPR recommended changes, at a cost of some \$120 million, but its principal provider’s contract was not performance based.
- The System Program Office reforms, one of Defence’s largest reforms, are likely to take much longer than the two years planned.
- Introducing performance-based contracting has been underway for over a decade, but Defence does not yet have a complete register of such acquisition and sustainment contracts.
- Initial establishment of ‘Centres of Excellence’ in CASG is now underway, but will take two more years to complete. A new CASG Business Framework is expected to take ‘many years’ to implement fully.
- Defence’s concept of ‘Smart Buyer’ introduces risks in ensuring that SPO staffs have the necessary skills and competencies.
- It is not clear if Defence will continue to develop asset management strategy for specialist military equipment.
- Defence has not put in place plans to evaluate either the FPR reforms or their implementation.

The FPR was a rushed affair, and there appears to have been little time for review before implementation. This author was unable to make a submission specifically to the FPR, so made a submission as part of the JSCFADT Review of Defence Annual Report 2015-16. Many of the points made in that Submission are relevant to those made in the ANAO Audit of the FPR.

Parliamentary Interest (Pages 11, 12):

In light of Parliamentary interest and the Audit findings, ANAO considered that enhanced scrutiny of sustainment may be provided by a process similar to the Major Projects Report

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(MPR) compiled annually over the past decade to provide independent assurance of major project status. These reports are said to have “*added value to the review process and the transparency of information provided increased assurance to Parliament and Government, all achieved while managing risks to National Security*”.

A key step identified in the MPR process has been the Project Summary Data Sheets, which ANAO believes shows that Defence has developed information systems that could support sustainment work.

ANAO identifies three functions that would need attention:

- Risks arising to National Security.
- The material produced should provide a ‘Whole of Defence’ view.
- Resourcing and cost benefits need to be identified.

Much may be said in regard to Parliamentary interest (3), but the following observations are pertinent:

The current Defence Organisation is an overly-large and completely centralised power structure that has far too wide a span of control, lacks accountability and any ability to regulate or reform itself. That is, it is inherently ungoverned and resembles more a gaggle of independent fiefdoms that have been evolving, largely unchecked, over some 45 years. Innumerable reviews and inquiries have produced little more than additional functions and processes, a greater concentration on outsourcing, late and overly expensive and poor performing capabilities, and a clear inability to reform itself. The Service Chiefs, who carry primary accountability for raising and maintaining military capabilities, are kept powerless, now owing their primary allegiance to the Defence Bureaucracy, ‘Jointery’ and Cultural Change rather than to their Services, or even the Minister. Successive Parliaments and Governments and their Ministers and Secretaries have proven unable or unwilling to exercise their Governance Oversight responsibilities, so nobody is held accountable for major capability failures and poor management of the Services. The current organisation appears content to accept incompetence at best and corruption at worst (7).

If Australia is to return to having an effective defence structure and a relevant capability then much homework needs to be done, no matter how daunting this may seem, the situation is not going to get better!

Recommendations and Entity Response (Page 13):

The Audit made two vague recommendations, seemingly unable to get to grips with its own findings:

- *Defence institute a risk-based quality assurance focus for the information included in*

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its quarterly performance reports.

- *Defence develop and implement an evaluation plan to assess the implementation of the FPR's recommendations.*

Defence:

- Welcomed the Audit.
- Noted the Findings.
- Concurred with the conclusion that the fundamentals of the governance and operational framework are clear and fit for purpose.
- Noted that Defence's implementation of the FPR recommendations has also introduced a single, end to end capability development function...which will reduce previous delineation between the management of acquisition and sustainment activity.

Unfortunately, none of these Audit or Defence statements will result in the slightest improvement in performance of Australia's Defence Organisation or its military capabilities as they fail to redress any of the underlying causes. Defence was once again been left to reform itself, continuing along a self-defeating path that will only further degrade its performance.

ANALYSIS OF AUDIT FINDINGS

The Findings of the Audit (Pages 17-19) raise additional qualifications, such as those that follow:

Background (Page 17 on):

Defence has commented that sustainment management is not a technical discipline:

"It is an overarching business-orientated management function focussed on meeting the outcomes required of Capability Acquisition and Sustainment Group customers.", but adds:

"Typically, Sustainment entails repair and maintenance, engineering, supply support and disposal".

These quotations reflect a conflicted lack of understanding of just what acquisition and sustainment really involve. Since about 2002, Defence had increasingly outsourced both acquisition and sustainment. DMO specifically outsourced, mainly to foreign major capability manufactures, the RAAF's long-standing engineering, maintenance and supply support functions, further distancing the Services' little remaining and scattered acquisition

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and sustainment skills and competencies, leaving the SPOs responsible mainly for support contract oversight and the shallowest of technical and supply support activities.

Traditionally, engineering, maintenance and supply support analysis, which are invariably unique to individual capabilities, were analysed, determined and acquired as part of a tailored, Capability-specific Project Management Plan. Defence's sustainment policies now dictate against project sustainment requirements being accurate, complete and appropriate for Australia's needs, which explains why capability projects, both acquisition and sustainment, keep meeting the same problems. These problems have been self-imposed by Defence, but the Organisation has strenuously resisted real reforms and Parliament and successive Governments have failed to provide cognisant decisions and proper governance.

The DAR Report for 2016-17 commented in regard to the Taipan Helicopter Project that "*reliability, availability and maintainability continued to impact the fleet*" (5), which is now 5 years late. This is not an uncommon example of what must occur when so called 'business' processes and public sector based acquisition processes administered by people lacking required competencies, are adopted by Defence rather than Project Management Teams comprising competent people.

Parliamentary Interest:

The Audit notes: *'The subject of reporting on sustainment expenditure has been the subject of JCPAA, Government, Parliamentary and ANAO review over the past three years, with the subject made overly complicated by including security sensitivities.'*

However, over the past decade or more, these reviews have failed to produce any material improvements in Defence management. Government and Parliament have hidden behind a plea of not having sufficient understanding to make judgements, while ANAO and JCPAA constrain themselves, or are constrained, to looking at Defence's processes only through Defence's eyes, so have never questioned whether Defence's public sector, 'business model' is working satisfactorily or not. They have thus only entrenched the problem.

Audit Approach:

The Auditors stressed that they addressed sustainment management at a high level and were not focused on the sustainment of individual platforms or the technical aspects of their maintenance. This statement is confusing, as pre-'Reform' there was a clear and accurate picture of the preparedness of our military capabilities available at all times to whoever needed to know. Such information was an output from the Services' operational/engineering and systems management reports on the capabilities operated. Defence's unchecked evolution to become operationally, technically and managerially blinkered resulted directly from Parliamentary, Government and Defence Bureaucracy decisions following the Tange proposals. The sustainment of individual platforms is a core function, not checking the number of beans in the big bottle.

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The current overly centralised Defence Organisation, despite the First Principles Review (FPR), continues to adopt top-down administrative processes that are wholly inappropriate to the acquisition and sustainment of high technology military capabilities and the management of those who operate and maintain them. Such an approach is inherently incapable of responding to the constant and rapid changes that impact military capabilities in time, space, threat and technology. Even the FPR noted:

“In an organisation which routinely manages complex projects and programs we found it remarkable that there is no common project management architecture to support it. There are no standardised mechanisms or management processes, with all divisions having different methodologies and management systems.” (Audit Report page 61, para 5.6).

Criticism of Defence’s overly-centralised structure rarely comes to the surface, as reviews and inquiries into Defence are almost invariably restricted to the current and planned organisation, and are orchestrated closely by Defence. Any question as to whether this approach is appropriate to Australia’s defence has thus been avoided, despite mounting evidence to the contrary. The only detailed review to date has been the Senate Foreign Affairs, Defence and Trade References Committee Inquiry into Procurement Procedures for Defence Capital Projects (Final Report August 2012). Its findings on key matters were quite clear and coherent, but neither Parliament nor Government was inclined to take action, and so the failings identified in Defence’s management have been allowed to persist, grow, and become even more complex and unwieldy, all at great cost to Australia’s, military deterrence, capabilities, and budget. The Executive Summary of this Inquiry is particularly relevant to this Audit, so has been included at Attachment 1 to this Annex. The observation that *“a ‘One Defence’ view does not produce an integrated enterprise”* is highly relevant.

While the reluctance of Parliament and Government to initiate another major review of Australia’s Defence Organisation is partly understandable, it is not pardonable, as every deficiency in the organisation will surface under stress and have to be redressed by sacrifices by the Services – to hold the line as necessary changes are made by Government in haste, a repeat of the circumstances that existed pre WW2 when Australia’s highly centralised Defence Organisation was found inappropriate to meet the demands of approaching war.

A good indication of an effective enterprise is usually found in its Organizational Structure, with a simple mapping of the interfaces between its functional elements. In effective enterprises, and particularly in any defence organisation, interfaces should be short and reduced to the minimum, and be clear and concise in identifying functional roles and their accountabilities. Resource allocations should then flow to those held functionally accountable.

ANAO Performance Audit Report No. 6 2013-14 into Capability Development Reform, Appendix 3, included a mapping of recommended major Defence reforms. A copy of this mapping is at Attachment 2 to this Annex. Both the number of reviews and the number of and complexity of their interfaces reflect an organisation unable to reform itself and

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drowning in recommendations and their attendant webs of process. An ANAO mapping of the FPR 'reforms' would provide a better picture of what is happening, as each strand of each web represents a potential single-point of system failure that may well threaten Australia's military capabilities and the national security.

This approach should then be expanded to map the number, complexity, and points of failure of the activities that would be required if Australia had to mount and sustain protracted operations, in the face of a significant threat, without being able to rely upon allied forces.

Parliament, Government and the Defence Bureaucracy have also failed to understand that the *modus operandi* of the three Services and their core capability requirements are totally different, so trying to impose a common-user acquisition and sustainment process across the three Services is a futile exercise. Defence's persistent focus upon 'one size fits all' processes ensures that individual Service capabilities are not managed as individual systems. The real world of the Military and the real world of the core technologies critical to each Service's military operations are being ignored by Defence at Australia's peril.

Fit for Purpose?

The Audit assures Government and Parliament that Defence's governance and organisation, which have been in place for a decade' are '*Fit-for Purpose*', but nowhere is this measure qualified or quantified. Previous audits and performance measures have long recorded the opposite, but the primary causes of repeated failures have been studiously ignored as they conflict directly with the Defence Bureaucracy's entirely inappropriate public sector, businesses-centric acquisition and sustainment processes.

If a simple measure of '*Fit*' is accepted as being '*fit as a demonstrable deterrent to aggression and a military clearly capable of defending Australia in the absence of any external assistance*' then Australia's ADF is hardly '*Fit*'. However, a major element of this unfitness must be sheeted home to a Public Service Bureaucracy that has also been allowed to become wholly *Unfit for Purpose*. This judgement is revealed and reinforced almost daily in the number of reported major projects, both Federal and State that can only be described as functionally unacceptably and expensive failures. The Australian Public Service has thus also been allowed to become *Unfit for Purpose*.

A recent Australian Strategic Policy Institute paper highlighted Australia's rapidly changing strategic threats and called for '*the expansion of the ADF and its capacity to engage in high-intensive conflict in our own defence*' (4), in particular in regard to:

- Higher training levels.
- A demonstrable and sustainable surge capacity.
- Increased stocks of missiles.

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- More maintenance spares.
- A robust fuel supply system.
- Modernised and survivable operational bases.
- The need to pay attention to the key issue of whether there is a sound basis for the timely expansion of the ADF.

All of these requirements were embedded in Australia's Military Services pre-1972, when each Service:

- Maintained robust training organisations.
- Possessed the numbers and skills and training systems, and the maintenance support facilities required for a demonstrable and sustainable deployment and surge capabilities.
- Maintained a credible weapons stock, with channels primed for replenishment.
- Maintained spares in their deeper level maintenance facilities and Stores Depots sufficient to sustain operational demands.
- Maintained sufficient fuel reserves, despite difficulties at times.

The Services were thus organised to provide a sound basis for the timely expansion of their forces, as well as acquiring and sustaining their evolving capabilities, without fuss. This capability had been well tried and demonstrated in peace and war from WW1 to 1972.

However, all of these capabilities were swept aside by the Defence Reform and Commercial Support Programs, without thought – to be replaced by 45 years of the Defence Organisation attempting, without success, to replace those long-established and proven Military capabilities with centralised bureaucratic process. The ANAO Audit thus merely ticks Defence's bid for another decade at least of increasingly complex processes, while Parliament, Government, the Minister and the Secretary choose to remain blind to the inevitable effects upon military capabilities.

The Human Face of Defence

While the Audit concerns itself with sustainment capabilities, any demonstrable military capability that is fit to fight, as well as act as a continuing deterrent, will depend ultimately upon the morale, ethos, ethics, sound operational leadership, and the relevant technical and management skills of its members. All of these elements have been under siege from Defence's 'One Defence', Outsourcing and Cultural Change Programs that have been forced upon the Services over the past two decades or more.

A successful military will always be perceived as illiberal to some, but without it defeat is

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inevitable. ‘Diversity and Inclusion’ may have some role in a purely civilian society, but in a military organisation such concepts will lead to illusion/delusion and divisiveness, eroding discipline, unity of direction and military cohesiveness and effectiveness. The warping of Military standards began within the Defence Force Academy, and was recorded in detail in the DLA – Piper Review. Unfortunately, the results of that Inquiry have never been disclosed by Defence, so little has changed. The major threat, however, has been the formation of a People Division within Defence which has imposed a Cultural Change Program on the Services, along lines emanating from the United Nations Human Rights Commission, an organisation without accountability, but allowed to wield overriding influence in the Military. The Services have been further used as ‘guinea pigs’ through the Religious Advisory Council embedded within each Service. The Service Chiefs, who hold primary accountability for the development and maintenance of their forces, including their ethos, ethics and morale, have little, if any, say in who is best suitable and who is not for military service.

Human rights and cultural change programs have, with government approval, been afforded a higher priority than the national security and military capability.

In the absence of any debate in Australia, US Congressman Trey Gowdy’s observations are pertinent:

*“Nobody has a right to serve in the Military. **Nobody.***

What makes people think the Military is an equal opportunity employer? Very far from it.

The Military uses prejudice regularly and consistently to deny citizens from joining for being too young, too fat, too skinny, too tall or too short.

Citizens are denied for having flat feet, or for missing or additional fingers. Poor eyesight will disqualify you as well as bad teeth. Malnourished? Drug addiction? Bad back, Criminal History? Low IQ? Anxiety? Phobias? (and eight others) All can be reasons for denial.

*The Military has one job. **War.** Anything else is a distraction and a liability. Did someone just scream “That isn’t fair? War is VERY unfair, there are no exceptions for being special or challenged or socially wonderful.*

You change yourself to meet Military standards. Not the other way around.

The Military doesn’t need to accommodate anyone with special issues. The Military needs to win wars.”

And finally:

Morale does not well up from below; it drips down from above.

Since the DRP, there has been a continual intrusion into our military; the pushing of wholly inappropriate policies by those having no accountability, or any regard for the primary

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accountability of the Service Chiefs for the development and sustainment of Australia's military capabilities. For example, in recent weeks we have seen the Cultural Change Program at work, reporting:

- Defence refusing to release even the titles of some 17 documents written since 2013 by Canberra academic Dr Cromptvoets, a self described "*sociologist, feminist, taxidermist*", whose personal company Defence has awarded social research contracts worth some \$3.6 million.
- Sydney-based mobile-only recruitment platform *Found* has landed its second funding round in six months, securing \$1.9 million following a deal with the Australian Defence Force to drive more women into the military. The aim is to promote diversity in the Military, helping to hire women for such roles as marine technicians, cargo specialists, military police and armoured cavalry.
- The Defence Force has charged taxpayers more than \$1 million to pay for sex-change surgeries and provide treatment for personnel recruited experiencing gender dysphoria. Reportedly, there is no existing Defence policy for the management of transgender ADF members, so the Service Chiefs have no say in the practice and its adverse effects.

Defence makes much of ensuring that its contracts are performance based and achieve their ends, but in fact the opposite is more the rule. What ends have been achieved by the above that enhance military capabilities? Even a small part of the almost \$7 million expended on the diversity programs above, if spent in time to relieve the pain of long-suffering soldier Jesse Bird, would have resulted in better Service morale and pride. Instead, Defence only moved reactively, at a cost of \$31 million, after Bird's plight became embarrassingly public.

Furthermore, in the past three years alone, Defence has written widespread policies on transgender soldiers and has, for 27 transgender soldiers:

- Established a Defence Gender Equality Advisory Board.
- Established an Army Gender Diversity Executive Council.
- Established a Defence Pride Network.
- Planned a Defence Lesbian Gay Bisexual Transgender Intersex Employee Network.
- Proposed a Defence LGBTI Ambassador Network.
- Appointed LGBTI Strategic Advisors.
- Appointed multiple LGBTI champions to the Defence Senior Leadership Group.

The unchecked intrusion of civilian social objectives that conflict with Service ethos, ethics,

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professionalism and effectiveness should be excised from Defence immediately.

CONCLUSION

While the Audit concludes that Defence's long-standing governance and organisational frameworks are *'Fit for Purpose'*, the findings of the Audit do not support such a conclusion. In fact, little has changed for the better since the ANAO completed its first Major Projects Audit for 2007-08, despite continual FADT/ANAO/JCPAA audits, reviews and inquiries.

The findings of the Audit in regard to Defence's implementation status of the First Principles Review Recommendations finds that after the planned implementation date of two years or less had passed "*Defence has not put in place plans to evaluate either the FPR reforms or their implementation*". Thus, Defence's objective of "*a single, end-to-end capability development function (The Capability Life Cycle) which will reduce previous delineations between the management of acquisition and sustainment activity*" remains a dream. This impossible dream, which was first envisioned in the 1980s, will remain impossible as Defence pursues its *'sustainable business model'*, based upon *'commercial best practice'*, and judged against *'industry benchmarks'*.

Pre-Tange (1972), military capabilities were managed under Project Management disciplines which covered both Acquisition and Sustainment, as each is a driver of the other throughout all Project Management Plan (and Sub-Plan) activities. The key requirements upon which proper Project Management depends are the Capability Baselines (Functional and Physical). However, both of these baselines require a System Configuration to be established to a specified level before Project Management can proceed. Tenders, evaluations and contracts may be undertaken only after the Project Manager has identified and mitigated risks identified in the configuration. Contracting under this methodology becomes a low risk and relatively simple end activity that is managed by the Project Team.

Pre-Tange, those working in Project Management were guided by the imperative:

Those who do not manage Configuration manage nothing!

Defence's decision to abandon Project Management disciplines, as well as the skills and competencies upon which success depends, has resulted directly in the 'complexities' and 'risks' encountered by Defence with most, if not all, projects since 1999-2001. Aping the US Defense Organisation and its commercially- focused approaches is misconceived and the consequences have been bared in MPRs and the continuing flow of reports over the past 15 years. Trying to reinvent the military capability wheel around a common, commercial axle based on public sector based acquisition processes is a self-defeating task that is continuing to cost Australia dearly.

Since the Tange organisation changes of 1972 and the 'reforms' that followed, the Canberra-

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based Defence Bureaucracy has worked tirelessly to centralise the management of Australia's Military Services and apply standard, public sector based principles of administration and commodity acquisition processes. The result has been to put Australia in a much worse position in regard to its defence and national security than was faced before WW2. Unfortunately, while the threats being faced today and into the future are evolving much on the scale as pre-WW2, our ability to respond has been degraded by Defence's poor performance, but more importantly because Australia's Services have had their traditional command and control functions dismantled and their Services greatly reduced in numbers and core skills. The Services' ability to meet threats resulting from these changes, followed by loss of proper control of their capability acquisition and sustainment functions, has resulted in a brittle and much reduced ability to respond to any significant threats.

Clearly, Defence's management of acquisition and sustainment is Not Fit for Purpose, and Defence's higher organisation and functions require urgent review as they have also proven to be increasingly inadequate for purpose over time.

References:

1. E.J. Bushell, "*An Analysis of Defence Materiel Organisation Major Projects Management and What Needs to be Fixed*", Air Power Analysis 2011-02, 23rd February 2011. Extract:

"During the mid-1980s, the US Congress decided that its Department of Defense and its Defense Procurement Organisation were broken and a range of urgent reforms were attempted under the Goldwater-Nichols Act of 1986. However, the Department was totally resistant to any reforms. Some 15 years later, the situation had only worsened. The Quadrennial Defense Review for 2010 and the Independent Panel's review of the QDR contained many lessons that applied directly to Australia's Defence Organisation and its Capability Acquisition processes:

- *Defens/ce bureaucracies will inevitably plan short term, operate from the top down, think within existing parameters, and always affirm the correctness of existing plans and programs. They also resist long-term analysis as well as any challenges to their thinking, and focus upon self-justification.*
- *Instead of real capability and acquisition management reform, they will merely increase the number and levels of the sub- processes comprising their decision-taking process, the intent being to further diffuse responsibility for inevitable shortcomings in performance.*
- *Despite what happens, 'business as usual' will prevail under increasing layers of process, and the primary objective of the Organisation will continue to be to increase whenever possible the power of the bureaucracy."*

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Australia's Department of Defence has not only adopted much US DoD language, organisation, as well as public sector contracting approaches, which have proven to be completely inappropriate to meet Australia's needs. The ANAO Audit has identified well the very bureaucratic characteristics identified above, but these have not survived into the Findings or Recommendations.

2. Defence, since the 1980s, has strived to establish an end-to-end chain of administrative processes, but without success. The number and complexity of such an unwieldy approach has only embedded delays, inefficiencies and ineffectiveness that have dictated against achieving any efficient, effective and economic delivery and sustainment of military capability. A major causal factor has been Defence's myopic focus upon becoming a 'smart buyer' (Audit page 72) within a commodity, common-user, service-provider, 'business'-like structure. This approach continues to replace staff having critical operational and technical skills and competencies and systems engineering disciplines, with unskilled contact managers, embedding high risk and guaranteeing failure.

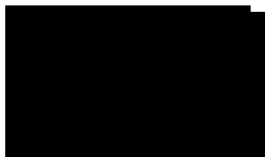
3. E.J. Bushell, "*Submission 1 to the Inquiry into the Benefits of a Bipartisan Australian Defence Agreement.*" 21st July 2017. This submission covers many of the subjects covered in this Analysis. A major risk to any plan to improve Australia's defence capabilities will come from any change in government which shifts priorities from military preparedness to social 'imperatives'. When added to the weaknesses now embedded in Australia's Defence Organisation and its endless processes, National security and military preparedness will be unachievable.

4. *The Australian*, 15th November 2017, *Summary of an Australian Strategic Policy Institute Paper.*

5. Defence Annual Report 2016-17 records that the MH90 Taipan, is now running 5 years behind its Final Operational Capability (FOC) of 2018, "*reliability, availability and maintainability continued to impact the fleet*". The Tiger reached its FOC in 2016, 7 years late and with serious limitations. The two projects have cost \$5Bn.

6. E.J. Bushell, "*The Widespread Consequences of Outsourcing*", Airpower Australia Analysis 2010-03, 31st September 2010.

7. Defence Annual Report 2016-17 "*Fraud and Ethics*". This section records 259 fraud investigations for the year, but gives no indication as to whether these arose from a lack of governance oversight (ie, simple supervision), or some other failure in management.



E.J. Bushell AM, RAAF (R'td) , 15th January 2018

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ATTACHMENT 1: EXECUTIVE SUMMARY, JSCFADT INQUIRY, August 2012.

ATTACHMENT 2: APPENDIX 3 TO ANAO AUDIT REPORT.

ATTACHMENT 3: RAAF CAPABILITIES BEFORE DEFENCE 'REFORMS'.

ATTACHMENT 4: EXTRACTS FROM SUBMISSION ON FIRST PRINCIPLES
REVIEW.

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ATTACHMENT 1 TO CASE STUDY 2

EXTRACT – EXECUTIVE SUMMARY

FADT REFERENCES COMMITTEE INQUIRY INTO PROCUREMENT PROCEDURES FOR DEFENCE CAPITAL PROJECTS, AUGUST 2012

Defence's projects for acquiring major capital equipment face an array of internal and external forces and influences that create significant difficulties for the organisation. Indeed, such projects are of a scale and complexity that they present 'formidable and ever-increasing challenges'. The problems identified in defence procurement, however, are largely a function of the organisation's own making – wilfully self-inflicted. In effect, Defence has a flawed management structure that stymies the work of dedicated professional and in many cases highly skilled personnel.

Current management structure

The Committee finds that the current management structure has produced an organisation that lacks a robust risk management regime: an organisation where its personnel are insensitive or unresponsive to risk, where no one owns risk. Defence is also an organisation that seems incapable of learning from past mistakes. This inability to learn from earlier project mishaps is particularly salient. Senior officers in Defence may well argue that the failures noted in this report are drawn from history: but if the organisation cannot or will not apply lessons from previous projects to current and future ones then it is destined to repeat them. The challenge for Defence is to change an organisational structure with entrenched attitudes that despite repeated reforms has:

- A growing disconnect between strategic guidance and capability development with the current foundation document – the 2009 Defence White Paper – setting an unrealistic and unachievable acquisition program for the Australian Defence Force's (ADF) future capability;
- a culture of non-compliance with policy and guidelines: where personnel get bogged down with too much paper work, produce a 'certain amount of nugatory work and miss the important things going on';
- confused or blurred lines of responsibility;
- accountability that is too diffuse to be effective – the organisation is unable or

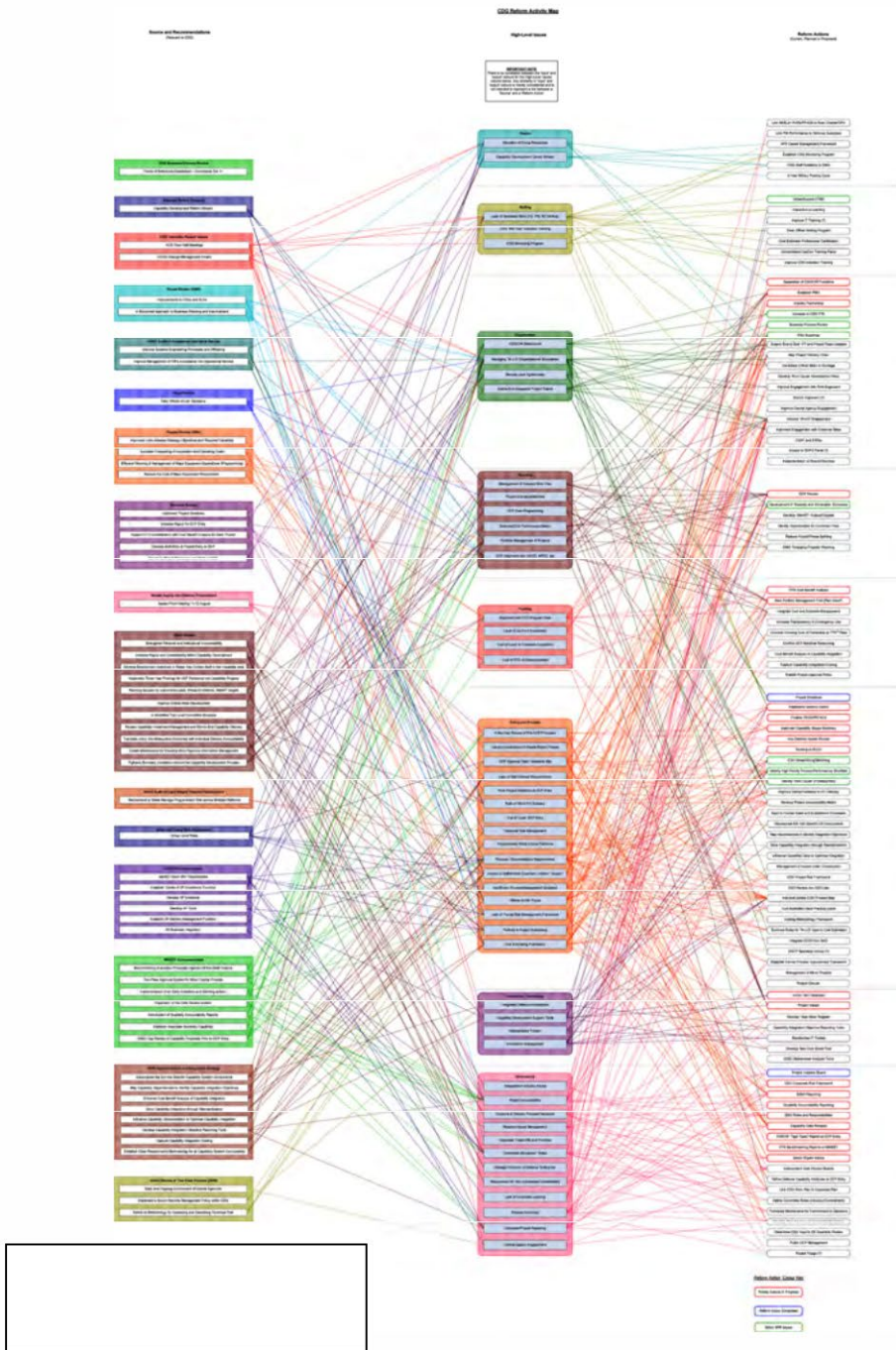
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unwilling to hold people to account;

- a poor alignment of responsibility due to an excessive number of groups and agency functions, which gives rise to unhealthy management and organisational relationships – for example capability managers sidelined from active participation in an acquisition;
- little understanding or appreciation of the importance of contestability and a mindset that simply cannot, or refuses to, comprehend the meaning of ‘independent advice’;
- a ‘One Defence’ view that does not produce an integrated enterprise. Defence remains an organisation composed of separate groups working to their own agendas;
- difficulty attracting and retaining people with the required level of skill and experience to support acquisition activities, particularly engineering, which over the past 15 years or more has atrophied most notably with the hollowing out of technical skills in Navy; and
- yet to engage actively with industry as a cognisant and collaborative partner in capability development and acquisition and to achieve the status of ‘intelligent customer’.

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ATTACHMENT 2 TO CASE STUDY 2



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ATTACHMENT 3 TO CASE STUDY 2

THE RAAF – CAPABILITES BEFORE DEFENCE ‘REFORMS’

Before the implementation of Defence Minister Barnard’s organisation changes, and the subsequent Defence-driven series of ‘reforms’, the RAAF was characterised as an organisation that:

- Maintained Australia’s air power at a high state of capability and readiness.
- Ensured that the force could be launched quickly in response to a wide range of tasks.
- Enabled the force, once launched, to be sustained, both home and abroad, from RAAF and Australian Defence Industry facilities.
- Provided a high degree of flexibility in the application of air power in time, space, and role.

These capabilities were achieved through the RAAF’s professional Branch organisation, but they stemmed, fundamentally, from one main factor:

The Chief of Air Force had, under his command and control, the resources needed to achieve the required results, principally an effective functional organisation, manpower and skills, money, equipment, and facilities. That is, there was an inherent clear unity of effort and direction.

Each one of these resources, including money, was managed in terms of the required force readiness, responsiveness, sustainability, and flexibility, which is precisely the proper management relationship between function and resources. The horse and cart were in their correct relationship.

Within this organisation, the RAAF was able, in a controlled and measured way, following well-established policies, systems and procedures born of hard won experience, to:

- Specify its requirements for aircraft, as well as the whole range of high technology environmental systems and equipment upon which it depended.
- Evaluate contending systems, both operationally and technically, and select that which best met RAAF requirements, a function which required sound Service operational and technical knowledge and experience, not merely contract ‘box ticking’, or accepting maker’s proposals.
- Negotiate, raise and manage the procurement contracts involved.
- Establish the engineering, maintenance, and supply bases needed to support new systems from the time of their acceptance. This included the development of

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appropriate local industry support.

The RAAF thus had the skills that enabled it to introduce increasingly advanced weapon and support systems into service to specification, on time, within budget, and fully supported.

An honest evaluation of what the RAAF was achieving at that time would find that Australia was getting excellent value for money. Problems were certainly encountered, but they were capable of being resolved promptly and without undue stress. DSTO (ARL) played a critical supporting role in specialist areas, such as fatigue monitoring, through a close and continuing working relationship with RAAF on technical matters.

The Defence/DMO/CASG organisations have demonstrated consistently that they have been incapable of approaching the efficiencies, effectiveness, or economy of the organisation that characterised the RAAF before the 'reform' process.

The ability of the RAAF to handle these tasks successfully and without undue fuss was due in no small part to the existence within its organisation of an Engineer Branch, supported by a Supply Branch. The RAAF recognised that it was the most highly technological enterprise in Australia and had established formally an Engineer Branch in 1948. The head of the Branch was a member of the Air Board (later an Assistant Chief of Air Force) who managed two specialist directorates at Air Force Office level, Engineering and Maintenance. Within the Branch, the Director General Technical Plans (DGTP), was the focal point for translating all Air Staff plans, programmes, and priorities into interlocking and fully integrated technical policies, plans, programmes, and priorities, for technical manpower and skills, facilities, maintenance policies, documentation, and spares; indeed all technical support requirements. This proved to be a highly responsive, efficient, effective, and economic solution to a very complex and critical interface with operational requirements and capability plans.

The Supply Branch, in turn, developed supply plans and programmes to procure and position, in time and space, the range and quantity of equipment, both technical and non-technical, needed to support Air Staff plans and Maintenance requirements.

The point to be made here is that the success achieved by the RAAF in both project management and in-service support was due to:

- A proper delegation of responsibilities and resources, and
- A sound and tightly knit professional organisation, manned by people who were experienced and who followed a clear unity of direction which ensured success. Service ethos was high, as was the professional competence and ethics that sat at the core of the specialist, professional groups.

Traditionally, the RAAF's engineering and maintenance workforce was managed as a central resource, able to be moved into new projects, to operational bases, both at home and overseas, or into support areas in response to Air Staff plans, programmes, and priorities.

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New projects came and went; Project Offices were formed as required and then disbanded as the project was handed over to the normal support system. Air Force Office and Support Command provided technical and supply support policy and guidance, drawing resources and experience from across the Service, from local industry, and at times from overseas services and industry. The general thrust was to ensure that unit maintenance was focussed wholly upon supporting operations, and not subject to distractions. This was a highly robust, responsive and flexible operational support organisation.

The result was a force in which all operational and technical work was under sound professional control, ensuring satisfying, rewarding, and productive, if at times frustrating, work. The 'complexities' and utter waste of resources that have bedevilled the DAO/DMO from their inception would simply not have arisen under the RAAF's traditional organisation and management methodologies.

A Benchmark for Defence.

In measuring the competence of the current Defence Organisation to provide sound strategic analysis, new capability and in-Service support, the most appropriate baseline against which performance should be measured should be what the RAAF was able to achieve with usually constrained resources before the Government's structural changes were imposed.

For some 70 years, the RAAF, supported by its Technical Services Branch:

- Operated and manned three major Aircraft Depots which overhauled several aircraft types, the TF30 engine for the F-111, a wide range of aircraft sub-systems and equipment, and ground telecommunications systems.
- Operated and manned four major Maintenance Squadrons that provided direct support for the major operating elements – Bomber, Strike/Fighter, Transport, and Maritime.
- Operated and manned No 1 Central Ammunition Depot which managed all explosives ordnance.
- Carried out a comprehensive Engineering and Maintenance regulatory function, principally airworthiness management and maintenance efficiency.
- Managed an advanced fatigue life monitoring and management system with ARL.
- Planned and managed all major repair and overhaul arisings for aircraft, engines, repairable items and other technical equipment at RAAF facilities and Contractor facilities in Australia and overseas.
- Assessed and (with the Supply Branch) procured and distributed the technical spares and other equipment needed to support all RAAF operational and maintenance programmes, controlling a technical inventory of some 643,880 lines, while meeting engineering, maintenance, and supply inventory standards and requirements.
- Planned and managed the progressive capability enhancement and life extension programmes for all weapon and other systems in service.
- Planned and managed the replacement of extant capabilities, including the technical evaluation and source selection of new capabilities, ensuring the procurement, introduction and establishment of all levels of support for new capabilities by the time that they were introduced into service.
- Monitored the performance of all technical support facilities, taking timely

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- management action when needed.
- Provided technical support for selected Army and Navy aircraft.

Together, the Aircraft Depots and Maintenance Squadrons safeguarded the RAAF's operational independence of operation, and developed the deeper level expertise needed for the planning and introduction of new capabilities, while providing a reserve of resources able to support emergencies, surges and protracted operational deployments.

The whole focus of the RAAF was centred upon:

- Maintaining the Force at a high state of readiness.
- Ensuring that the Force could be launched quickly in response to a wide range of tasks.
- Enabling the Force, once launched, to be sustained, at home or overseas.
- Supporting a high degree of flexibility in the application of air power in time, space, and role.

These four objectives represent the benchmark against which all Defence Organisation decisions and activities should be measured.

Attachment 3 to this Annex records in more detail the RAAF's capabilities that existed before the Defence and Commercial Support changes were imposed.

Impacts of Resource Constraints.

The short and direct lines of command and control enabled the RAAF to absorb the inevitable ebbs and flows in Government policy and funding with a controlled, minimum impact upon core operational capabilities and the support infrastructure. Support plans could also be varied to respond appropriately and promptly to meet changing Air Staff Plans and Programmes, while protecting the Defence Industry Base upon which the RAAF depended and which Government required to be in place to sustain Australia's self-reliance. Under the current Defence Organisation, all this has become too disjointed and critical activities cross too many administrative (process) interfaces without achieving the required outcomes.

Unfortunately, as with the other two Services, the RAAF was downsized and de-skilled to the extent that it can no longer guarantee the air power and force sustainment expected by and relied upon traditionally by the Australian people.

The 'new age' excuse of increased complexity in the management of current day systems does not pass the common sense test or stand up to either expert scrutiny or past experience. Such 'complexities' were managed as a matter of course by the RAAF before the imposition of the DER/DRP/CSP changes.

Defence/DMO Performance.

Since the imposition of the DER/DRP/CSP structural changes, there have been continuing

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problems in every major area of Defence Organisation administration, ranging through recruitment, retention, morale, military justice, strategic analysis and force structure planning, project management, capability requirement definition, comparative analysis, and source selection, as well as in - service support. Coupled with this, there has been a continued de – skilling and withering of both Service and Defence Industry support capabilities. Repeated Parliamentary and internal inquiries and reviews have been largely ineffectual, leaving little, if any, evidence of their passing. In effect, Australia’s traditional parliamentary oversight processes do not work when dealing with the Defence Organisation.

DMO, now CASG, in particular, have cost the taxpayer billions of dollars, for example

- The \$A1.4 billion upgrade of four Guided Missile Frigates.
- The more than \$A1 billion Super Sea Sprite debacle, a capability intended primarily for a ship that never eventuated.
- The AEW&C and Tanker Projects.
- The F/A-18 Upgrade (HUG) Program.
- The upgraded M113 APCs, amongst a range of other Army projects from helicopters and transport to boots.
- All Air Power decisions covering the F-111, the Super Hornet, and the JSF.
- The Air Warfare Destroyer major cost increases and the Amphibious Ships projects, which have undergone inadequate vulnerability analysis against evolving air and other missile threats.
- The Army’s Tiger Armed Recce Helicopter and the Taipan.
- Critical failures in the Capability Development function.

The Services have been hollowed out and de-skilled and as a result, requirements cannot be specified fully and accurately, or analysed and managed with the degree of professionalism that was commonplace pre-reform.

Defence/CASG/Industry/Manufacturers have been unable to fill this gap and indeed cannot. Hence, critical operational and technical questions are not generally raised, and where they are the answers are incapable of being analysed and evaluated professionally. The Services, Defence, and CASG are simply constrained to accept whatever the Manufacturer offers them in terms of capabilities, cost, and schedule.

The Department does not have the policies, systems, or functional management methodologies in place needed for the proper operational and technical analysis of requirements, or any effective project management systems. When what the RAAF pre-reform was able to achieve, the Defence Organisation can hardly be assessed as being *‘Fit for Purpose’*.

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Post Script: The RAAF was borne of the RAF, and proudly so. In the words of Air Vice Marshal Sir Roderick Hill RAF: **“In reviewing the Engineer Branch subsequently, there was a feeling that the Branch provided the mortar in the RAF’s structure. Without it, morale and unity of direction would suffer and the Force would become simply a group of disparate tribes.”**

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ATTACHMENT 4 TO CASE STUDY 2

SUBMISSION ON

DEFENCE DEPARTMENT REFORM INITIATIVES

-THE FIRST PRINCIPLES REPORT-

EXECUTIVE SUMMARY

In simple terms, the First Principles Report (FPR) follows the path of almost all previous Defence reports and audits:

- It underlines the dichotomy entrenched by the Tange reorganisation, and reinforced by subsequent 'reforms', between the vested interest agenda of the Defence Bureaucracy, and the national interest agenda central to Military professionalism. The former is overly sensitive to public opinion and wholly determined to 'keep the Services in their place' through rigid, central control of policy, administration and resources, while the Military strives to keep its traditional integrity and 'Service before Self' ethos, both critical to maintaining an effective defence capability.
- Like most Defence reviews, the FPR is principally a marketing publication, selling the notion that all is under control and Defence has all the solutions, given time, whereas the evidence has long pointed to the contrary. The FPR is thus another exercise in misdirection of the Parliament, and a more appropriate package of corrective reforms should be applied, based upon actual rather than claimed root causes. The Report's recommendations should thus not be implemented.

This submission should thus be read with these primary observations in mind.

Discontent with the performance of Australia's Defence Organisation and the Defence Materiel Organisation continued throughout 2014, culminating in a First Principles Review of both organisations, the Report of which was released on 01 April 2015. However, a reading of the Terms of Reference and the Findings and Recommendations of the Report indicates that their objectives are neither achievable nor appropriate, and the Report will only shield Defence from any calls for real reform for another five years or more.

The continued mantra of "*One Defence*" may be read as 'code' for maintaining and expanding the centralised control of all military matters by the higher Defence Bureaucracy. While the Review promised "...a total systems approach, based on evidence, analysis, sound principles and root causes rather than symptoms." However, there is little evidence that this approach was either understood, or followed. Putting people in charge of projects who will have to live with any discrepancies is the surest way to get outcomes-focused capabilities, not adding power to a larger and higher level in the Bureaucracy.

The Report identifies seven disparate "*First Principles*" in support of a vaguely-stated

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“*Outcome*”, which in turn leads it to claim three “*Root Causes*” for what ails Defence: *High operational tempo, Budget uncertainties, and Leadership churn from 1998.* Proper analysis would have revealed that the root cause was an entrenched focus on bureaucratic self-interest over the National interest, and the protection of bureaucratic reputations. These imperatives continue to provide Defence with an agenda, or motive, to maintain its highly centralised and secretive, top-heavy control, its unwieldy span of control, and its other identified dysfunctions that facilitate the avoidance of accountability and the hiding of problems.

In fact, the root causes claimed are merely a defensive screen thrown up around Defence to protect it, they are certainly not the results of any “*total systems approach, based on evidence, analysis, sound principles and root causes rather than symptoms.*” All three claimed ‘*root causes*’ present Defence as a victim of circumstances beyond its ability to control, and so is fault free, but this ignores the volumes of evidence that has accumulated showing Defence’s problems to be largely of its own making, and that it has long demonstrated that it is incapable of learning from its mistakes and correcting itself.

Likewise, the plea that the claimed ‘*root causes*’ resulted in a *Complacency and Inertia that prevented Defence from reforming itself* is false reasoning, as these problems are also ones that Defence either caused directly, or was incapable of managing due to its dysfunctional organisation, over-centralised and excessive span of control, and lack of required skills and competencies.

Of major concern is that the Report seeks to reinforce the Diarchy, which, in effect, means the Defence Bureaucracy, at further cost to the Capability Managers (the Service Chiefs) who carry primary responsibility for raising, training and sustaining their force capabilities, a move that will only deepen Defence’s dysfunctions. If Parliament is to regain Oversight Governance control of Defence, and restore Australia’s reputation as a ‘*Smart Buyer*’, the First Principles Report should not be allowed to proceed. The eagerness with which Defence has accepted the Report and its Recommendations is telling.

Finally, the Report calls upon Defence to undertake a wide range of major tasks in some 30 areas that the Department has already proven repeatedly to be incapable of doing, and which was the core reason for having the Review in the first place. In effect, Defence, which has long proven to be unable to reform itself, is now required by this Report to reform itself. This is simply magical thinking.

Recommendations:

A proper review would have:

- Conducted a proper Root Cause Analysis of Defence’s problems.
- Replaced the FPR’s proposals and recommendations with a package of reforms designed to rectify the actual root causes.
- Chose carefully selected and qualified managers to establish the most effective organisational structure, and to implement the reforms.

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- Designed and embedded management systems incorporating strong ethical standards and effective governance oversight.
- Reskilled the Department and the Services in line with their unique professional requirements and accountabilities.

BACKGROUND

Discontent with the performance of Australia's Department of Defence and the Defence Materiel Organisation continued throughout 2014, resulting in several calls for reform, including:

- A First Principles Review of the Department and the Defence Materiel Organisation.
- Implementation of the recommendations stemming from the Commission of Audit Report.
- An Auditor-General's audit of Major Defence Acquisition, Test and Evaluation.

The First Principles Review is the most important of the reviews, as such a review would be expected to identify the root cause, and the underlying proximity causes behind the problems perceived, would develop the functional management structure best suited to resolve them, as well as determine the appropriate authority, accountability and resources for each function. This work should, of course, be traceable directly to clearly defined, long-term, defence and national strategic objectives.

However, a brief reading of the Terms of Reference (TOR) indicates that this was not the objective, and hence the Review are not able to achieve the changes needed, but will merely reshuffle and expend Defence's existing dysfunctional structures, and in doing so will perpetuate the problems identified:

- Firstly, instead of guiding the Review along clearly - identified first principle lines, the TOR limit the scope of the review to Defence's current "One Defence Model", and DMO's current, failed, 'business model' for materiel acquisition and sustainment. Both organisations have been shown over time to be non-functional and so not outcomes-focussed, incapable of learning from their mistakes, and unable to qualify and quantify risks and manage them before they cause major damage. Both organisations also act only after the event, a deadly practice where defence and national security are concerned. Whether Defence's higher organisation and DMO's 'business' orientation are functionally sound are questions that were clearly "*out of scope*".
- Secondly, the Commission of Audit Report (Recommendations 24: Defence, 32: Industry Assistance, and 34: Research and Development) understandably stem from budgetary objectives, and thus list many proposals that are resource sensitive, but show little, if any, understanding of their functional implications or how they might fit into a coherent Defence functional management structure. Thus "*establishing a more professional Capability Development Group*", "*reducing the staffing size...*" or "*improving the effectiveness and transparency of expenditure*" do nothing to identify and rectify the proximate causes behind the problems perceived, or support the

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recommendations made.

While the First Principles Report represents a fair listing of Defence/DMO problems, its perceptions of how these problems should be redressed and its recommendations are not persuasive. There is thus a risk, currently seen as *CATASTROPHIC*, that real reform of Defence/DMO will not result if the review's recommendations are implemented as proposed, but will be delayed for another five years or longer. The Defence Bureaucracy seems to have been at great pains to keep this review well away from the real causes and thus the real solutions.

DEFENCE POLICY AND FUNCTIONS

Defence policy has long been based upon the need to maintain self-reliant military capabilities that will ensure the Nation's defence and national security, the deterrent effect of which should never be underestimated. In addition, recent years have seen a greater emphasis being placed on our long-standing ANZUS Treaty as a means of bolstering our national security in the face of emerging shifts in world power dynamics in our region. However, that treaty also carries the responsibility that ***“The Parties separately and jointly by means of continuous and effective self-help and mutual aid will maintain and develop their individual and collective capability to resist armed attack.”*** (Treaty Article II).

It is not good policy to be over-reliant upon friends for our defence and national security, and it is far better and cheaper to have capabilities to hand rather than think about them after threats have arisen.

The capabilities needed to meet both Australian and ANZUS requirements were largely maintained until 1972, when the Tange - initiated reorganisation of the defence group of departments took effect, so as to *“move toward integrated defence management....and to more direct lines of control over the activities of the Services.”* From that time, the resources allocated to defence capabilities had been subject to unpredictable changes in bureaucratic/political will and priorities to the point where spending has fallen to a level last seen during the years immediately preceding WWII.

The 18 years or so that followed this reorganisation also saw a gross inflation in APS numbers, especially in the SES and in Department of Defence functions, the downsizing and de-skilling and restructuring of the Services, and the outsourcing of Service functions. This was followed around 1999 by the capability acquisition and sustainment of military capabilities being shifted from the Services to a centralised organisation (eventually the DAO/DMO), which adopted a 'business model' (outsource- centric) approach that replaced the Services' traditional operational/technical system requirements analyses, with its model of capability decisions being implemented under rigorous Project Management disciplines. The problems seen in Defence over the past 47 years and in the DMO over the past 16 years have arisen directly from these changes, and will persist until their real causes have been

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accepted and rectified.

Since 1972, there has been a continuous series of reports and reviews into the effectiveness of Defence administration and the DMO's 'business' model. All such reviews and reports, however, have not led to any significant improvements in the performance of either organisation, as none has proceeded from identification and analysis of the underlying causes or the root cause behind any of the problems perceived. However, one report, that of the FADT References Committee Inquiry into Procurement Procedures for Defence Capital Projects, came closest to success in its Final Report, which included the need to move the capability acquisition and sustainment functions to come under the Service Chiefs, together with the required resources (especially financial). In effect, responsibility was being aligned with authority and accountability, a simple but key objective in any functional organisation. It should be noted that in making such a recommendation, the FADT ignored the "*One Defence Business Model*" (centralised control) mantra so treasured by Defence.

REVIEW OF THE FIRST PRINCIPLES REPORT

GENERAL

The *Title* and *Forward* of the Report both highlight the term "*One Defence*", which it sees as '*a more unified and integrated organisation that is more consistently linked to its strategy and clearly led by its centre*'. In effect, the Review has been constrained to accept the current, fully centralised, bureaucratic control of all defence matters, so that any recommendations made must align with the current, centralised Defence organisation. In short, the review must be limited to a re-shuffling of the bureaucratic deck chairs and an increase in their numbers so as to further reinforce centralised authority at the top. In addition, the terms used throughout the report are those generated within Defence over the years, and so lack the incisive analysis expected of a true First Principles Review. These observations are reinforced by the six '*key*' *Recommendations* made, and the repeated references to "*One Defence*", which appears as 'code' for maintaining and expanding the centralised control of all military matters by the Defence Bureaucracy.

The First Principles Report (Page 12) states "*We have taken a total systems approach, based on evidence, analysis, sound principles and root causes rather than symptoms.*" The Defence Outcome used in the Report is then stated as being to: "*Protect and advance Australia's strategic interests through the provision of appropriately prepared armed forces*", which will be achieved through "*Defence prepares for and conducts military operations and other tasks as directed by Government.*" The intended nexus between these two statements is difficult to grasp. However, the Report then goes on to list seven "*First Principles*" in support of its stated Outcome:

- Clear authorities and accountabilities that align with resources.
- Outcome orientation.

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- Simplicity.
- Focus on core business.
- Professionalism.
- Timely, contestable advice.
- Transparency.

There is no evidence that these principals were even considered in Defence's "*total systems approach, etc*". The Report then goes on to identify three claimed "*Root Causes*" that it believes have led to Defence's problems.

THE THREE CLAIMED ROOT CAUSES

The Report states: "*We were puzzled as to why Defence has been unable to reform itself.*"

The Report then concludes that "*Substantive change appears to have been too difficult for Defence leaders because of the root causes listed.*" and "*In seeking to determine what has prevented Defence from changing we noted three root causes which over the past decade have created complexity and inertia:*

- *The high operational tempo and increasing national security demands over the past decade have demanded high levels of the senior leadership's time and attention.*
- *Budget uncertainty.*
- *Leadership churn from 1998.*"

Firstly, none of the factors identified is a 'root cause' (there can only be one root cause); each is a symptom having underlying proximity causes which have not been identified and analysed in the Report. In fact, Defence's '*root causes*' present as being no more than a defensive screen thrown up by the Defence Bureaucracy, not the results of "*a total systems approach based on evidence, analysis, sound principles and root causes rather than symptoms*", as stated. They present Defence as a hapless victim of circumstances beyond its control, and so are fault-free, whereas most of the problems seen in Defence today have been shown to be self-inflicted.

The Report failed to identify the long-entrenched culture of bureaucratic self-interest over the National interest, the avoidance of accountability, and the hiding of problems that have been allowed to develop over decades due to the absence of any effective civil control by the Executive (the Secretary), the Directing (the Minister) and the Oversight (Government and Parliament) levels of governance. Brief analysis of these three 'root causes' reveals:

Operational Tempo. While the operational tempo (which includes peace keeping) may have been high at times, the forces involved have been relatively small, often more token than substantial, and have not required our Services to demonstrate their core land/sea/air capabilities either singly or jointly. That is, their being able to operate remotely and autonomously. The plea that the leadership has been overtasked appears to conflict directly with the Report's concern that the Defence leadership has increased over 86% between 1998

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and 2014 to administer the 200 active committees and the twelve layers of its organisation. In comparison, the far smaller pre-Tange organisation was able to fight major conflicts, while maintaining the Services' skills bases, which are critical to effective strategic planning and analysis, as well as the acquisition and sustainment of their capabilities and supporting systems. A comparative analysis of the pre and post Tange organisations would have been revealing, but seemingly was not considered. This review should have analysed the extent to which this perceived cause may have been the result of over-ambitious or poorly-informed bureaucratic/political decisions, especially those arising from weaknesses in Defence/ADF competencies and their skills base. Operational stress would also be overly difficult to manage as Defence and the ADF long ago ceased to be learning organisations, so that each operational challenge that has arisen is treated as something entirely new. Operational tempo problems are thus considered to be an effect of unanalysed inadequate management; it is not and cannot be a root cause.

Budget Difficulties. Similarly, budget difficulties have been a constant factor over time, and again the pre-Tange organisation was far better at arguing for more stable defence budgeting, and was able to survive low points while maintaining the core skills and competencies critical to restoring capabilities rapidly as funds became available. In comparison, the current organisation, since 1973, has been unable to argue the case for stable and realistic funding, and seems more focussed upon growing itself and 'saving' money than providing required capabilities. Identifying the underlying proximate causes behind budget difficulties would have led to questions such as the political will to allocate resources in line with Government's/Parliament's own stated policies, the poor comprehension of military matters within the polity and the Defence Bureaucracy, the ability of the Defence organisation to meet current and future defence and national security needs, and the impacts of failure at all three levels of governance. This factor is thus an effect begging competent analysis rather than being a root cause.

Leadership Churn since 1998. This is a self-inflicted injury built in by the Tange reorganisation, embedded by the Defence Reform Program, and aggravated by the formation of the Defence Materiel Organisation. Hence, this '*root cause*' is another effect stemming from decisions taken by Defence, and accepted by Government and Parliament. Analysis of the underlying proximate causes would include the false assumption that the Services' skills and competencies bases, especially in strategic and operational analysis, and in engineering and project management could be recreated within the Defence/DMO bureaucracies, that APS administrative processes with a 'One Defence' focus were appropriate to the acquisition and sustainment of high technology military capabilities, and that common-user policies and outsourcing would lead to economies in efficiency, effectiveness and economy. There are other proximate causes, especially the excessively large span of control, and the overwhelming weight and complexity of Defence's administrative processes that have evolved to meet the demands of a centralised, bureaucratic control policy. Again, leadership churn is an effect, not a root cause. A well-designed functional organisation would also be designed to control churn, as without this ability the whole Defence structure would be at risk

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of collapsing under the weight of any significant threat with its associated web of operational and management pressures.

THE QUESTION OF COMPLACENCY AND INERTIA

“We noted three root causes which over the past decade have created complacency and inertia.”

It is difficult to accept that the three ‘*root causes*’ identified would have caused ‘*Complacency and Inertia*’ within Defence; the very opposite would be expected.

Nevertheless, complacency and inertia have long been characteristics of the Defence Bureaucracy, but their underlying causes are far different from those identified in this report. A few of the more important include:

Complacency. This is a result of feeling free from being exposed or held accountable, due to:

- A Defence organisation with a stated, self-interest driven imperative, as detailed in the Orme Report—that of protecting its reputation at any cost.
- A Defence organisation that diffuses accountability, and ensures that authority is held centrally at the top, while accountability is passed down the line.
- All governance mechanisms within the organisation have been made ineffective so as to protect offenders within the Organisation rather than those subject to abuses. Vested interest thus goes unchecked, and ethics is compromised.
- The use of legal resources, and more recently legislation to stifle critics and protect offenders.
- Manipulation of the Media to further protect the Department from criticism, and the stifling of strategic debate both within and outside the Defence Organisation.
- Hiding behind the protection afforded Secretaries and the Senior Executive Service by the progressive erosion of governance at all levels – Executive (The Department Head), Directing (Ministerial) and Oversight (Government/Parliament).

Inertia. This problem is also an effect of many underlying causes, including:

- Reliance upon Australian Public Service (APS) administrative process, which has proven to be wholly inappropriate for the management of military functions and activities. Administrative Process that seeks to establish a stable environment within which no/low-skilled people following simple processes are expected to take cognisant decisions. This approach has not worked in government departments that have been faced with implementing policies having even low levels of technology (pink batts and school shelter sheds for example). Defence/DMO are both mired in process and have consistently fallen short in capability analysis, capability selection, acquisition and sustainment, and in the common-user support of the Services.
- Reliance upon a “Business Model” for the acquisition and sustainment of military

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capabilities, which has also proven consistently to be inappropriate. Both the APS Administrative and DMO's Business Model dictate against their being able to identify risk, or to take timely and informed action to avoid it.

- Reluctance of the Defence bureaucracy to admit mistakes due to unacceptable risk to reputation.
- Lack of confidence throughout many in Defence in their competency to do the task they are allocated. This continues despite heavy investment in training and then outsourcing core functions.

Both Complacency and Inertia have built up steadily over time and may be traced to the inevitable effects of the Tange reorganisation and the subsequent growth of APS SES control over all military matters following the Defence Reform Program.

THE KEY RECOMMENDATIONS

The six key recommendations made by the Review are:

| No | Recommendation |
|-----------|---|
| 1. | <i>Establish a Strong Strategic Centre to Strengthen Accountability and Top Level Decision Making</i> |
| 2. | <i>Establish a Single End-to End Capability Development Function Within the Department to Maximise the Efficient, Effective and Professional Delivery of Military Capability.</i> |
| 3. | <i>Fully Implement an Enterprise Approach to the Delivery of Corporate and Military Enabling Services to Maximise their Effectiveness and Efficiency.</i> |
| 4. | <i>Ensure Committed people with the Right Skills are in appropriate jobs to create the</i> ONE DEFENCE Workforce. |
| 5. | <i>Manage Staff Resources to Deliver Optimal Use of Funds and Maximise Efficiencies.</i> |
| 6. | <i>Commence Implementation Immediately with the Changes Required to deliver</i> ONE DEFENCE in Place Within Two Years. |

The core problems with these recommendations are that:

- Firstly, the Recommendations embed divided responsibility, authority without accountability, and positions that will not have the required skills and competencies.
- Secondly, the Administrative processes used by Defence and the “business’ models used by the DMO, are completely inappropriate for the management of complex, technology-dependent Military capabilities.
- Thirdly, the “One Defence Model” will be found to be unworkable, because the solution to Australia’s Defence problems lies in a de-centralised organisation that aligns responsibility

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with accountability, is given the necessary resources, and has an effective civil governance system.

OTHER FACTORS

Under “*Direction*” (Page 16), the Report concludes that “*it is imperative that Defence evolves into a single, integrated system*”, and “*Defence must become one end-to-end organisation.*” These objectives are clearly not based upon any acceptable analysis, and have been unachievable to date because of a defective organisational structure having an unmanageable proliferation of confused processes, and lacking in required skills. The proposed changes will not help, as the remedies lie in decentralisation and skilling rather than increased centralisation.

The leading recommendation (page 17) is that the Report’s recommendations “*be implemented in their entirety*”, and “*adopted as the road map for Defence reform for the next five years.*” with no other reviews to take place in the meantime. This merely leaves the Defence Bureaucracy free to reinforce its centralised control of all military matters, but avoid facing the need for fundamental structural change and greater delegation of resources to align with accountabilities. There is an unjustified haste here that must be resisted.

Of major concern is that the Report reinforces the Diarchy, which in effect means the Bureaucracy, at the further expense of the Capability Managers (the Service Chiefs), who will become even less able to discharge their critical responsibilities for raising, training and sustaining their force capabilities. This is in stark contrast with the conclusions of the FADT Inquiry, which at Recommendation 3 proposed that the Capability Managers be given “*sole responsibility for acquisition projects, supported by staff seconded through the DMO, as well as maintaining relationships with contractors and sub-contractors*”, that is, to decentralise the current organisation to where the real accountability and skills base should reside.

The lack of any considered response from Defence to the FADT Inquiry compared with the eagerness of Defence to embrace the First Principles Report is telling. This should be noted by the Oversight Level of Governance (Parliament), as the FADT Inquiry was vastly better informed and considered in its recommendations than the First Principles Report, and should thus become the baseline for any changes to Defence. Certainly, no action should be taken on the First Principles Report until this has been done.

Finally, the Report calls upon Defence to undertake a wide range of remedial tasks, in some 30 areas, tasks that the Department has already proven to be incapable of doing, and which was in fact the core reason for having the Review done in the first place. In effect, Defence, which has long proven to be unable to reform itself, is now required by this Report to reform itself. This is simply magical thinking.

While a complete analysis of the Report is beyond the scope of this submission, several critical, proximate causes behind Defence’s problems have been identified. These are

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included at Annex which follows.

RECOMMENDATIONS

If Defence is to be reformed meaningfully, the following recommendations are made:

- Conduct a proper Root Cause Analysis of Defence's problems.
- Replace the FPR's proposals and recommendations with a package of reforms designed to rectify the actual root causes identified.
- Choose carefully selected and qualified managers to establish the most effective organisational structure, and to implement the reforms.
- Design and embed effective management systems incorporating strong ethical standards specialist skills and strong governance oversight.
- Reskill the Department and the Services in line with their unique professional requirements and accountabilities.



(E.J.BUSHELL)

Air Commodore AM, RAAF Ret'd

29th June 2015

Annex – First Principles Review – Critical Factors

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ANNEX TO FIRST PRINCIPLES REVIEW - CRITICAL FACTORS

What is wrong with Defence/DMO has been largely identified in the many ANAO audits, reports and external submissions that have been conducted, all of which have generally been ignored. This submission aims to highlight, in simple terms, some key factors in the failure of the “Tange Experiment” as well as the changes introduced by the Defence Reform and Commercial Support Programs, factors that should have driven the First Principles Review.

THE ORGANISATIONAL FACTOR

Australia’s Services, following the long-recognised needs of Military organisations, developed along tightly-knit, vertically-integrated, functional lines, differing only to meet the unique and critical demands of their different operating elements (sea, land and air). The end objective was to maximise capability readiness, responsiveness, sustainability, effectiveness and flexibility, with regard to capability efficiency, effectiveness and economy. This approach served Australia well, as all in the functional chain had clear roles and accountabilities, and were experienced and competent to discharge them. Unity of direction followed.

Pre-1972, the Chiefs of the three Services were First Members of their Service Board, reporting directly to their Minister. The duties of each Board Member were delegated by the Minister. Those of the Chief of Air Staff, for example, ran to five lines, and those for the other board members ran from three to six lines, providing simple, but complete, descriptions of each member’s responsibilities. The line of civil governance was direct and unambiguous: Service Chief to Minister to Government to Parliament to the People of Australia, based upon

- A direct command and control relationship between the Minister and his Service Chief,
- A direct Minister to Service Chief (and vice-versa) strategic, financial and moral accountability,
- A trust borne of mutual knowledge and responsibility, and especially
- An effective span of control.

In Air Force, for example, a simple management team of six, having the resources needed to discharge their responsibilities, specified, selected, acquired, operated and supported (through service and industry facilities) all air power capabilities and their supporting systems to a high degree of efficiency, effectiveness and economy.

In contrast, the current Defence organisation is not a functional one, is not outcomes focussed, and so has failed repeatedly to achieve critical functional objectives in both military and government policy areas. As a result, Defence has evolved over the past four decades to

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become an organisation that (1):

- Has a flawed management structure (one not functionally integrated, or focused upon achieving functional outcomes).
- Faces problems largely of its own making.
- Is unable to manage risk, is incapable of learning from past mistakes and has an extreme aversion to perceived rather than actual risk.
- Presides over a disconnect between strategic guidance and capability development.
- Has deeply-embedded, confused and overlapping lines of responsibility and accountability.
- Lacks the required management, operational and technical skills and competencies base.
- Relies upon inappropriate administrative process, and has adopted an inappropriate procurement “business model”, leading to poor performance, an ever-expanding web of complexity and confusion, and a gross waste of money.

The Defence Organisation that has evolved since 1972 is a non-functional, public service construct that employs administrative process rather than functional management in an attempt to achieve its objectives. Defence’s intention, since the early 1980s has been to construct a set of administrative processes that would provide for the “seamless integration” of all Defence activities from the top to the bottom. That this objective has failed is evidenced by the long list of very expensive reviews and audits that have taken place over the past 40 or so years, all to no significant effect. Each report identified clearly Defence’s inability to detect and correct problems before they caused unacceptable effects. The FADT References Committee Final Report (1) also emphasised the proliferation of process that had taken place over time, with its attendant complexity and confusion. This was an inevitable result of Parasitism (6), a condition common to large bureaucracies.

To date, Defence has ignored all significant criticisms, and our traditional Oversight Governance of Defence has been largely mute at Ministerial, Government and Parliamentary levels.

Any “First Principles” Review of Defence must start with a rigorous Functional Organisation Review that must also ensure that the Services return to come under Civil control, as:

“Civil control of the Military is a constitutional function limited to Ministers (representing Parliament) alone, not one that can or should somehow be shared with public servants or civilians generally. Our tried and tested Westminster constitutional model deliberately separates control and command. This has long removed the gun from politics and the party politics from the institutional culture and operations of our military.” (5)

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THE SPAN OF CONTROL AND GOVERNANCE FACTORS

Successive Ministers have encountered an excessive span of control, effectively making them unable to exercise their responsibility for proper governance and a captive to the Bureaucracy, which has become the sole source of information or advice, too often containing inadequate/incorrect information, to the Minister, the Press, Government and Parliament. In effect, the Minister now works to protect the Bureaucracy and the Polity rather than exercising his civil control over his Department on behalf of the Government, Parliament, and the Australian people. This is a problem that requires a joint Government/Parliamentary response.

THE CAPABILITY DEVELOPMENT FACTOR

DMO Major Projects Reports, ANAO Audit Reports, JCPAA Reports and independent Submissions made over the past eight or so years have identified why Defence/DMO have failed in their strategic and capability analysis, as well as their capability acquisition and sustainment functions, but to no meaningful effect. However, analysis of these reports and submissions (7) indicates that Australia now has a Defence organisation that:

- Proceeds to contract with inadequate statements of operational and engineering concepts and requirements, leading to the procurement of a wrong, inadequate or overpriced capability.
- Proceeds when the design is immature or not understood.
- Is unable to manage system or software development or integration, or test and acceptance.
- Is unable to identify and manage project risk (essentially operational and engineering factors) and has to resort to buying its way out of the resulting problems.
- Does not have the operational, engineering or Project Management skills and competencies essential to the projects being undertaken.
- Focuses upon buying materiel rather than managing projects.
- Has now had to outsource its contract management and contract negotiation functions.

In fact, all the evidence points to Defence/DMO Major Projects suffering persistently self-induced injury through:

- Adopting public sector commodity product and service principles that have proven to be wholly inappropriate for the acquisition and sustainment of highly technology-dependent military capabilities.
- Failing to adopt the required long-proven and successful, conventional Project and Engineering Management methodologies.

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- Replacing skilled and competent project and engineering managers with people lacking those skills and competencies, but well-equipped for public relations.

The result has been (broadly):

- Projects have been put forward for approval and acquisition that have not been fully and accurately scoped and specified in project, operational or engineering terms.
- Source selection has been poorly managed, resulting in incorrect or poor acquisition decisions having inherent risks.
- Contract negotiation is now beyond DMO's capabilities as (lacking even basic project, operational and engineering competencies) the Department of Defence is no longer seen as an informed and smart customer.
- Project capability, schedule and cost risks inevitably arise that are beyond the DMO's competencies to manage. The problems arising from unidentified risk are thus 'managed' through the Contingency Budget.
- Capability schedule delays and sustainment difficulties have left protracted and gaping holes in Australia's military defences.

Both Defence and the DMO have studiously avoided identifying these factors for what they are, preferring to interpret them as problems to be redressed through administrative process or contract changes. The First Principles Report identifies 14 current shortcomings, but also fails to recognise any of these factors and their remedies, preferring to expand the role and authority of the Senior Executive and stick with administrative process and contract administration rather than more appropriate and proven management systems.

The First Principles Report sees the need for Australia to become a “*Smart Buyer*” through “*implementation of a smart buyer approach (that) will involve tailoring procurement strategies appropriately...*” The solution to becoming smart is then given as “*The Capability Acquisition and Sustainment Group would comprise a smaller core group of skilled public servants managing a ‘smart buyer’ function*”. (Page 36). The Report and its solution fail completely to say how the very long list of current deficiencies listed above will be resolved before any requirement is ready to go to contract. The DMO has already abandoned its primary responsibility for smart contract management by its adoption of a “*Managing Contractor Model*” and a “*Contract Negotiating Cell*”, both of which are characteristic of a “*Dumb Buyer*” organisation that is incapable of managing its own interests.

The First Principles Report does not give any confidence that the reality of this situation is understood, or that it will be rectified by any of the recommendations made. If Australia is to become, once again, a respected “*Smart Buyer*”, implementation of the First Principles Report Recommendations will be found to be a blind alley.

THE SKILLS AND COMPETENCIES FACTOR

At all levels throughout the Defence Organisation, there has been a continuing paucity (more often an absence) of the skills and competencies needed for critical defence capability

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planning and implementation. Despite considerable investment in training, especially within Defence, the DMO and Industry, few, if any, lasting improvements can be demonstrated. This situation has been aggravated by the widespread deterioration in critical thinking and written communication, a factor that has impacted especially upon the quality of Australia's strategic and capability analysis, upon which the effectiveness of our whole defence effort depends. (2) (8)

Pre-DRP, these skills and competencies all resided within the Services, particularly within their Engineer Branches, and were applied across all Service capabilities through their Support Commands. New projects were planned, organised, directed and controlled by drawing upon organic expertise that kept abreast of technology and operational changes. This expertise was excised by the DRP on the assumption that it could be replaced by industry, which worked to a degree until the pool of redundant Service expertise dried up and could not be recreated elsewhere. Industry has no mechanisms for replenishing these skills sets, other than to recruit from overseas.

The First Principles Report does not reflect any recognition of, or solution to, this deficiency, other than saying Defence will undertake this or that miracle process; for example, the "*Strategic Workforce Plan*" proposed by the First Principles Report has no chance of success under the current Defence Organisation, as has been demonstrated by the lack of success of DMO's extensive training programs over the years.

The time has now been reached when Parliament must take some tough decisions: recognise that the 'Tange Experiment' has failed, and take steps to recapitalise the Services, to re-establish those tightly-knit operational and engineering skills and competencies needed to establish and support Service capabilities, but may also be fed into higher-level planning and analysis, as and when required.

If Defence is allowed to adopt the recommendations of the First Principles Report, real capability outcomes will be made far more difficult to achieve. Without a realistic solution to the skills and competencies problem, Defence, in its continuing attempt to outsource risk in its many guises, will simply follow the UK Ministry of Defence path to 'total outsourcing', which is a level of risk that goes straight to the heart of Australia's military capabilities, and national security.

If Parliament wants Australia to become, once again, a "*smart buyer*", able to conduct sound strategic and capability analyses in an ever-changing, technology-dependent world, and one able to select, specify, acquire capabilities, and maintain a highly responsive and flexible sustainment base, then major structural and management changes must be made now. That is, Government and Parliament must exercise their responsibilities for Oversight Level of Governance, and act.

Putting people in charge of projects who will have to live with any deficiencies is the surest way to get outcomes-focussed capabilities.

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THE CULTURAL FACTOR

While Defence's reform programs concentrated upon downsizing and de-skilling the Services and abrogating and outsourcing their long-standing capability acquisition and sustainment functions, a cultural change program was also launched with the aim of replacing the Services' military standards with Australian Public Service (APS) populist, ideologically-driven philosophies. Defence's focus upon Service abuses and its demands for cultural change ignores the fact that the 'poor culture' perceived was in fact a direct result of poor management - that is, higher management. Both Service and Civilian higher management, have committed, permitted or ignored abuses - an inevitable result of Defence's own Cultural Change Program, which puts the needs and 'rights' of the individual before those of their Service, changing '*Service before Self*' to become '*Self before Service*'.

Core differences between military and civilian organisations have also been consistently ignored.

To be effective, military organisations depend upon a set of characteristics that are unique to them. Firstly, a military ethos, grounded in ethics and integrity that emphasises the trust and loyalty that must exist between peers and their subordinates, and the mutual respect that must exist between peers. Discipline and tradition then provide the environment within which newcomers only develop their trust, but also gain the respect of their Service. Role models have a critical part to play within this arrangement. Secondly, military organisations depend upon short and direct lines of command and control (in effect, communications and management), sharply-defined functions with clear accountabilities, real measures of performance, and sound management of the resources need to discharge their functions. Management feed-back loops must also be in place to monitor, support and correct functional areas, and to ensure standards are maintained, as well as unity of direction. In such organisations, ethical behaviour is mandatory at every level.

In describing what skills civilians will bring to his department, one Secretary of Defence explained:

"Civilians are generally more readily able to tolerate, and even be comfortable with, unclear lines of command, divided authority, and open ended guidance or ambiguous instructions."
(9).

During war or peace, governments and parliaments should have little trouble deciding which approach has the better chance of guaranteeing Australia's defence and security, but both now appear reluctant to establish and maintain a Defence organisation that ensures that the national defence and security come before APS populist, ideological philosophies.

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Defence's Cultural Change Program has been embedded through:

- The Charters of the Service Chiefs.
- The document "*Beyond Compliance – Professionalism, Trust, and Capability in the Australian Profession of Arms – Report of the ADF Personal Conduct Review.*" 2011. Auth: Defence Committee, Sponsors: CDF and Sec Defence.
- The document "*Pathway to Change – Evolving Defence Culture – A Strategy for Cultural Change and Reinforcement.*" 2012. Author: Maj Gen C.W. Orme.

The latest statements on Defence's Cultural Change Program policy are contained in Defence Annual Report 2013-14, Vol1 (Performance, Governance and Accountability), Pt 3, Chap 7 – (Reform and Cultural Change). These include:

- "*In September 2013, the Minister for Defence agreed to a new Strategic Reform Program....Oversight of strategic reform in Defence rests with the Chief Operating Officer on behalf of the Secretary and the CDF.*" Page 112)
- "*Continuing (cultural) reform remains a strategic imperative for Defence*" (Page 112)
- "*In order to embed and further develop cultural reform, Defence has begun a four year collaboration with the Australian Human Rights Commission (AHRC)...The collaboration will see joint ADF/AHRC teams visiting 10 establishments annually...to deal with particular issues and advising Defence*"... (Page 113)
- "*Defence's capability is maximised by drawing on the diversity of its people, which reflects the variety of personal experience that arises from differences in culture and circumstance.*" (Page 115) Nowhere is this proven to be the case.
- "*To support the work of the AHRC, Defence has implemented a research program to provide an annual 'health check' of the perceptions of cultural reform and the organisation climate across Defence*". (Page 113)
- *Defence has continued its strong commitment to improving the diversity of its workforce through its Centre of Diversity Expertise and the development of the Defence Diversity and Inclusion Strategy, which is endorsed by the Defence Equity and Diversity Council.' and 'Defence seeks to give priority attention to attracting, recruiting, retaining and transitioning those groups in Defence requiring priority attention – women, indigenous Australians, people with disability and lesbian, gay, bisexual, transgender and intersex (LGBTI) people.'* (Page 115)
- "*Reporting on sexual misconduct in Defence (especially the ADF) is seen by Defence as 'providing a baseline for future reporting...to inform the understanding of trends....'*

In effect, we now have the 'culture' of Australia's military forces being determined by the Australian Human Rights Commission (AHRC), which lacks any accountability for its actions, and is forced upon the Services by the Defence Bureaucracy through its Defence People Group (DPG), which was established in May 2012 under the Chief Operating Officer Organisation which '*administers ongoing Defence reform such as Shared Services and the*

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Defence Cultural Reviews'. The Group comprises four divisions, including:

- A People Capability Division.
- A People Policy and Culture Division, which drives Defence's cultural change program.
- A People Solutions Division.

The Group, however, appears to lack any balance by failing to recognise the need to maintain and enhance core, critical military values, especially morale, discipline and ethics; its focus is wholly '*human rights*'. It is well worth an audit, as it has failed to realise that the '*unacceptable behaviours*' that it wants reported were a direct result of its own Cultural Change Program which destroyed Australia's traditional military culture with its imperatives of integrity, ethics and honesty. The Group also seems blind to the fact that that AHRC and People Group policies will encourage and protect the formation of cliques that will further degrade critical military critical values and unity of direction. The Group has also been 'missing in action' where such problems as submarine crewing, the needs of traumatised service people, the health records problems, and the ad-hoc changes to pay and conditions of military service, are concerned, yet it consumed \$59, 606,036 (representing 96.8%) of Defence's Consultancies and Contracts (Advertising and Market Research) 2013-14 Budget.(DAR 2013-14, Page 175).

If the Report's Recommendations are adopted, this Group may well become part of the new Associate Secretary Organisation to be established within the Strategic Centre, where it will have even greater power to intrude unnecessarily and detrimentally into Military personnel management.

The real cultural decline that has been allowed to evolve in both the Bureaucracy and the Military since the DRP was identified fully during the DLA-Piper Review, and documented in its Vol 1 and Vol 2 Reports. That these abuses, especially following the abortive and ineffective Defence Abuse Response Taskforce exercise, remain unresolved to this day should be totally unacceptable to both Government and Parliament, but the abuses have been allowed to sink without trace. Real cultural change, not that so occupying the DPG, "*which is caught up in the prissy, moral crusades of our time and driven by obsessions that bear little relation to the strategic purpose of Defence*" (10) should be a high priority.

Other Reading:

These critical factors, and those perceived by the First Principles Report, all stem from policy and cultural changes that have occurred since the Tange Reorganisation of the Defence Departments in 1972. An analysis of these changes and their affects over time was provided to the Joint Committee of Public Accounts and Audit in 2014, indicating that the 'Tange Experiment' has failed and will continue to fail until defence functions and accountabilities are severely restructured.

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Update 6th February 2020.

On this date, the Government announced the establishment of a (standing) National Commissioner for Defence and Suicide Prevention, initiated by the 419 known veteran suicide cases since 2001, and highlighted by the tribulations of Army member Jesse Bird whose problems were raised at page 65 of this Submission. In addition, the Commissioner will make mental health recommendations and 'assess the reduction of suicide risk factors'.

Initial blame seems to have been aimed at the Department of Veteran Affairs' intransigency. However, if this inquiry is to be effective, it must look deeply into Defence's Cultural Change Program – its implementation, the changes imposed upon Australia's traditional military ethos, ethics and morale, the changes in the tasking of the Services under a totally centralised Defence Organisation, and the inevitable consequences of these changes.

Some of the factors that need attention relate to:

- The Commissioner should ask whether the Inquiry is looking at causes or effects. Many of the causes lie within the Defence Department, especially its Cultural Change Program, with the effects showing only in Veterans' Affairs.
- Whether Defence/DVA are driven more by financial factors rather than need and service delivery.
- See this Submission, Annex C (Case Study 2), The Human Face of Defence, page 65, which analyses Defence's Cultural Change Program, including the Jesse Bird saga.

References:

1. Foreign Affairs, Defence and Trade References Committee, Procurement procedures for Defence Capital Projects, Final Report August 2012:

Recommendation 2: Service Chiefs authority and resources align with their responsibility for procurement and sustainment of the capabilities for which they are responsible to operate and maintain.

Recommendation 3: Capability Managers have expanded responsibility and importantly financial responsibility after Second Pass.

See also Submissions to the References Committee.

2. Brown, James, "*ANZAC's Long Shadow*", Redback 2014. This book, especially Chapter 5, includes important feed-back from the operational interface, in particular:

"There is no tolerance of even the slightest difference in view over future defence policy between the government and the military – in itself the sign of a brittle and immature relationship."

"Increasingly, senior officers censor their comments because they are worried about creating even the tiniest ripple on Lake Burley Griffin.....senior officers pre-emptively censor the comments of their

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subordinates because they are overly sensitive to...causing domestic political friction.”

“Very few officers or soldiers are permitted to write professionally; even fewer choose to do so.”

“Rules on public discussion are draconian.”

“He also observes: “a lack of professionalism in defence forces to the point that having a professional opinion in Australia can be career suicide, with a bureaucracy that serves to stifle discussion.”

On learning, he notes (Pages 100/101) “The ANAO concluded ...2011 Report...that Defence’s learning from its operations was ‘patchy and fragmented’ ... and “As yet there has been no commissioned history of the conflicts in East Timor, The Solomons Islands, Iraq or Afghanistan”, which indicates no learning from experience.

3. Maj Gen C.W. Orme, “Beyond Compliance: Professionalism, Trust and Capability in the Australian Profession of Arms-Report of the ADF Personal Conduct Review”, 2011. Page 4, Para 7 states:

“Media relations are also important in the development and maintenance of a good reputation. Unfavourable media reporting adversely affects both morale and public perception, while favourable reporting can be beneficial in terms of internal morale and reinforcement of desirable behaviour. The key is to have a relationship with the media that is characterised by integrity, trust, transparency and respect for the demands of each party.” This statement hardly reflects the role of the media in a democracy, or the public good.

4. Jones, Brendan, “Royal Petition concerning Crime and Corruption within the Australian Public Service”, <http://victimsofdsto.byethost31.com/royal/>. Much other evidence is contained at the victimsofdsto website.

5. James, Neil, Executive Director, Australian Defence Association. “Arthur Tange: Last of the Mandarins” reviewed in ADA Journal “Defence”, Autumn 2006.

6. Kopp.C. “Parasitism as an Abstraction for Organisational Dysfunction.” 04 Sep 2013

7. See author’s Submissions to the JCPAA on all DMO Major Projects Reports and ANAO Reports issued over the period 2007-08 to 2012-13 (six years), in addition to Submissions on a number of JCPAA review reports issued over that period.

8. Air Power Australia Analysis 2009-03, 08 May 2009, “The Decay of Critical Military Thinking and Writing.”

9. Airpower Australia Analysis 2011-04, “Australia’ Failing Defence Structure and Management Methodology”, 28 Dec 2011, and Analysis 2008-10, *Rebuilding the Warrior Ethos*”.

10. Carter, Nick, Executive Director, Menzies Research Centre, Oped “Shiny Pants Don’t Need a Pay Rise”, the Australian, 04 Sep 2013.

This Oped notes DPG’s target as being “To deliver sustainable people capability and high quality human resource outcomes across the Defence employment cycle.” with its benchmarks being “Integrated people systems, strategic reform outcomes, and a fair and respectful workforce.” It

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finishes by observing: *“The fashionable argument for cultural change ignores the evidence that there are two ADF cultures. The first, a spirit of excellence, determination, ingenuity and achievement (that) continues to honour the Nation in the dangerous theatres in which our troops serve. The second, a culture of unbridled bureaucracy bent on building an empire of process, platitudes and pretence, is the one that must be reformed.”*

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ANNEX E

A BRIEF HISTORY OF 47 YEARS OF DEFENCE 'REFORM'

(May 2019)

During the years preceding WWII, it was clear that Australia had allowed its defence capabilities to decay to the point where national security was at risk. During those years, all defence capabilities were centralised under the Minister and his Department of Defence, where political and bureaucratic attention had long focused on the false economy of saving money rather than defending the Nation. Government then recognised that the existing organisation would be unfit to meet the challenges that lay ahead and decided to form separate departments of Defence, Navy, Army, Air Force, and Supply, mainly on the ground that the span of control was far too great for one Minister/Department to handle. It was a wise move, as prompt, disciplined, skilled, focussed, and well-planned action was needed critically, rather than simple bureaucratic administration. The early failure of the Aircraft Production Commission was a salutary lesson as to how unsuited bureaucracies were to working in military environments.

This successful wartime organisation was continued after WWII, evolving during times of war and peace, despite persistent bureaucratic pressure to return to the pre-war centralised organisation. In 1957, under the guise of a perceived need for better coordination, Lt Gen Sir Leslie Morshead conducted a review that recommended amalgamation of the four defence departments into one single department reporting to one Minister for Defence. This was rejected by the government of the day, but a Chiefs of Staff Committee was introduced to provide coordinated, high-level advice.

Following further changes during the 1960s, including a reduction in the power of the Service Chiefs and the formation of a Policy Planning Branch, both supposedly aimed at ensuring a more coordinated approach to strategic assessments, the Secretary of Defence, Sir Arthur Tange, with the approval of the Whitlam Government, initiated a major reorganisation during the period 1973-76. Those 'two-star' appointments in the Services with responsibilities to the Secretary of Defence in areas such as material acquisition and logistics were made 'two-hatted' – a concept that conflicted directly with the principle of unity of direction so central to military efficiency and effectiveness. The concept, which soon proved to be wasteful of resources, encouraged internal conflict and entrenched authority without accountability. The changes were ineffectual and only led to public servants 'double-guessing' those having direct functional military accountability.

The Defence Reform and Commercial Support Programs that followed mandated structural

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changes that downsized, de-skilled, disempowered and marginalised the Services. Australia's once highly respected and professional Services thus became a thin line of service providers, with the hard won operational, engineering and management expertise in capability acquisition, operation and sustainment stripped out of Defence over the period of the 1999-2002 'Purge of Critical Thinking from Defence', to be replaced by inappropriate public sector contracting processes. These changes largely followed those that had been imposed upon the US Defense and Procurement Organisations, with the consequences detailed at Annex A.

The predictably flawed DAO/DMO experiments then came and went, almost certainly Australia's second most costly and damaging failed Defence enterprise, without any lessons having been learned.

The adverse affects of these changes in the Defence Organisation and DMO have been revealed in continuing reviews into Defence problems, ANAO Audit Reports, JUCPAA Reviews, and submissions to Parliamentary Inquiries, but all to no material effect. Probably the most searching and important inquiry was the Senate FADT References Committee Inquiry into Procurement Procedures for Defence Capital Projects. The Final Report (Aug 2012) identified an organisation:

- Having a flawed management structure.
- Facing problems largely of its own making.
- Unable to manage risk, incapable of learning from its past mistakes and has an extreme aversion to perceived rather than accrual risk.
- Presiding over a disconnect between strategic guidance and capability development.
- Having deeply embedded, confused and overlapping lines of responsibility and accountability.
- Lacking the required management, operational, and technical skills and competencies base.
- Relying upon inappropriate administrative process and commercial, 'business model' approaches that have led to an ever-expanding web of complexity and confusion.

Defence, the Government and the Parliament, however, simply 'turned a blind eye' to these findings, accepting that Defence was incapable of reforming itself, but also showing that our governance systems at the Executive (Secretarial), Directing (Ministerial) and Oversight (Parliamentary) Levels of Governance were no longer functioning. The Department of Defence, clearly unable to reform itself, was left again to do just that.

October 2013 then saw a critical, seminal ANAO audit of the Defence Capability Development Group that identified a recurring lack of appropriate skills, transparency and accountability, leading to poor strategic guidance going to government. However, these observations were only symptoms; the underlying causes and root cause identified by independent experts had not been acknowledged let alone accepted and so were not rectified. Independent analyses show these causes to be common throughout the Canberra-based

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Defence agencies, and central to Defence's widespread administrative, governance and competency deficiencies.

Against this background, the "First Principles Review", a token effort to 'reform' Defence, has turned out to be another marketing exercise selling the notion that all will be well and Defence has all the solutions. It has been used to throw a defensive screen around extended groupthink aimed at reinforcing the elitist centralisation of the Defence Bureaucracy. It has not led to the "*total systems approach, based on evidence, analysis, and sound principles and root causes rather than symptoms*", that was promised. Defence has, in effect, again been left to reform itself, with the protection of bureaucratic reputations and vested self-interests shining through rather than the requisite ethos of "Service before Self". This review has failed to redress the management fault lines that had been embedded across Defence, or resolve the widespread disconnects between responsibility, accountability and competencies across the Organisation. The critical deficiencies now embedded within the Canberra based agencies of Defence, and summarised below, remain:

- Poor force structure and capability analysis leads to the selection of wrong or inadequate capabilities, which results in:
- The inadequate or simply incorrect specification of project operational and engineering requirements which results in:
- Poorly defined and premature contracting, which results in:
- The need for subsequent variations to the operational and engineering scope of the Contract, which results in:
- Changes in contracted capability, cost and schedule, revealing an:
- Entrenched inability within Acquisition and Sustainment to understand and manage the operational and engineering challenges of the project, especially risks (and opportunities) that arise, which results in:
- An extreme aversion to risk in all its forms, particularly where any perceived operational or engineering complexity, hardware or software integration, or test and acceptance activities are involved, resulting in:
- Compromising the required capability outcomes by mandating MOTS/COTS capabilities quite unnecessarily, and by introducing multiple Operational and Materiel Capability Milestones and adopting 'supply and support' contracts, which have resulted in:
- Further de-skilling of the Services and erosion of Australia's Defence Industry base, while embedding a wide range of potential risks to capability throughout the life of such contracts, risks over which Australia will have little, if any, control.

Today, Australia faces much the same question it faced pre-WWII, but without being able to rely upon the span and depth of operational, engineering and management expertise that existed within the Services at that time. Can we depend upon Australia's 'reformed' Canberra-based Defence agencies to secure Australia's defence and national security in the face of current and evolving challenges? After 47 years of Defence 'reform', the evidence shows 'almost certainly not'. While the world moves on an uncertain trajectory, Australia's

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defence capabilities are held hostage to a widespread lack of management expertise and integrity that has been allowed to develop throughout the Canberra based Defence Organization, practices which are strongly resistant to traditional governance mechanisms. These are identified at Annex F

While proper reform of the Defence Organisation has been unappealing to successive Governments and Parliaments, the risks involved in doing so are much lower than those that will surface by not preparing Australia for the uncertainties and potential threats that will inhabit the future. In many ways, we are back to pre-WW2.

ANNEX F

SOME OBSERVATIONS ON POLITICAL, DEFENCE AND MILITARY INTERFACES, AND GOVERNANCE

Background.

The performance of the Post-1972 Department of Defence has been subject to continued audits, reviews, inquiries and criticism over the past 47 years, and continues today, despite the Department now controlling all aspects of Australia's defence planning and capability acquisition and sustainment following government acceptance of its First Principles Review, which moved capability acquisition and sustainment into the Department. The pressures that formed Australia's totally centralised Department of Defence and its policies have been varied, including many that have arisen from Government decisions and Public Service proposals. Today, Defence is a wholly Public Service administered organisation, having stripped the Services and the pre-1972 Department of Defence of their long standing and proven expertise in the requirements analysis, operation, acquisition, and sustainment of military capabilities, all replaced now by public service administrative processes and contractor support. After 47 years of change and continued failings in Defence performance, it is now time to ask whether our centralised Defence Organisation will be better prepared to meet the challenges facing Australia more timely, efficiently, effectively and economically than the decentralised organisation that existed in 1972 - the same question that Australia had to answer just before WW2 struck.

Major Changes (Causal Factors).

Major changes that have impacted Defence directly, and through the Public Service (APS), include:

1. The Hawke deregulation drive and the associated change in the role of the Public Service that resulted.
2. The widespread impacts of the privatisation of public utilities, such as Government decisions to sell off public utilities, with the extensive loss of the functional organisations and specialist skills within affected departments. Such sales have also not achieved savings to the customer, but quite the opposite, and privatization has been used by State and Commonwealth Governments to increase tax by stealth and allow new owners to gouge customers.

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3. The widespread shift in the core function of management from a focus on functions to a focus upon financial performance, resulting in a loss of respect for reality and expertise.
4. The decision to outsource functions, including core management functions that should never be outsourced, such as risk and regulation, and adopting Sustainment Contracts covering Engineering, Maintenance and Supply support carrying potential risks to Australia's operational preparedness and sustainability due to their supply chain fragilities.
5. Further changes in the role of the Public Service over time, resulting in the loss of its specialist skills and competencies, leading to a proliferation of Consultants, Advisors and Contractors in Departments in an effort to recover lost 'expert' advice.
6. The prolonged failure of Australia's education system at all levels, the effects of which have spread into all facets of Australian life and thinking, reducing the Nation's skills base and requiring a constant flow of skilled migrants on work visas to fill the gaps. The long decay of Australia's education system has seen no sign of recovery over decades, will cost Australia its position as a leading nation which, coupled with the consequential spread of social and moral causes not sensitive to facts, reason or simple common sense, will make Australia's future in the world most uncertain and certainly more vulnerable.
7. Finally, the deskilling of the Services and the loss of their professional branches and their deeper level support facilities, both in house and in industry, which has radically reduced Australia's ability to mount and sustain operations with confidence.
8. Changes in business concepts from managing the functions critical to an organisation to a profit-driven culture managed along financial lines by executives lacking in required skills. In effect, corporations have now become bureaucracies run by executives rather than entrepreneurs, and carry the seeds of their own destruction.

Such causal factors were also covered in some detail in the Author's two submissions to the Senate Select Committee on the Establishment of a National Integrity Commission, dated 16th April 2016 and 23rd March 2017.

Of these, our Education System failures may be seen as the root cause behind weaknesses and deficiencies and in most of Australia's Public and Private organisations. Year after year both PISA and NAPLAN results have shown a steady decline in Australia's education standards. 2019's results highlighted this sharp downward trend, leading to a stream of lowly educated students entering public and private enterprises, as well as our university system where unacceptably low scoring graduates will teach underperforming students. Meanwhile, pressures mount for more 'temporary work visas' from much higher educated, hopeful migrants. This downward trend, which has continued into 2020, tracks Australia's persistent decline in productivity.

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Each of these changes has seen an increase in Public Servant numbers at all levels within both State and Commonwealth Public Services. The formation of a Senior Executive Service – supposedly to better align Public Service remuneration with non government organisations has resulted in a rapid increase in SES staffs and levels and has led to a blossoming of public service levels:

Today, there are more than 1,000 federal public servants for every federal politician, with departments now employing very highly paid Assistant Secretaries, Branch Heads, Group Managers, Executive Directors, First Assistant Secretaries, Division Heads, Group Executive Directors, Deputy Secretaries, Deputy Chief Executives and Departmental Heads and Secretaries of departments. Quasi Government Organisation Commissioners have also blossomed to administer rapidly growing ‘red tape’ while drawing excessive wages.

Unfortunately, there have been no meaningful improvements in APS or political performance, at any level, simply a steady decline, following closely the trend of Australia’s failed education system.

Governance and Political and Public Service Interfaces.

The Australian Parliament exercises its governance responsibilities to the People at three levels:

The Executive Level: Departmental Secretaries are responsible for governance oversight (accountability) of all activities performed by the executive staff.

The Directing Level: Ministers of a Department exercise governance oversight for their Department.

The Oversight Level: Parliament exercises oversight governance through Parliamentary Audits, Reports, Committees of Inquiry, and other bodies.

However, good governance at all three levels is a responsibility shared by the polity and the Australian Public Service (APS), the former setting policy and plans and the latter providing advice and informed input and then implementing plans efficiently, effectively and economically. In the absence of good governance, bureaucracies such as public services are prone to become parasitic – pursuing self interest rather than the public interest - often union and social interests before the public interest, eventually damaging or even consuming its host. Such temptations are also present within the polity; hence, good governance must be organic to all within the Organisation.

Those charged with maintaining good governance should thus be ever watchful for such indicators as bureaucracies:

1. Misleading Government/Parliament so as to avoid criticism and hence Government intervention. The Defence Bureaucracy has long been a growth industry, as have many

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others, as governments have moved towards increasing regulation, which enlarges or forms growth-hungry, new bureaucracies.

2. Employing tactics of 'entrapment' by downplaying or denying difficulties and failures, forcing governments over time to 'cover up' the problem.
 3. Providing unrealistic forecasts for the introduction of needed changes and pleading for more time and resources to get processes (promised competencies) in place, generally without success.
 4. Exhibiting 'willful blindness' when the facts conflict with the desired outcome.
 5. Controlling and guarding all input to government assiduously, often employing higher than necessary security classifications. No wrong may be admitted, and as '*all is under control*' there is no need for any change. The Defence Bureaucracy has refined this over time.
 6. Clearly lacking the management systems and skills required to discharge responsibilities. This is critical where tasks comprise the management of technological systems with core functions that are critical to Australia's defence and the National Security. Defence again is a good case study of this.
 7. Outsourcing work that is a core function of the Bureaucracy and should thus not be able to be outsourced.
1. The effects of the Hawke deregulation drive and the associated change in the role of the Public Service that resulted, so that public servants in specialist areas need not be specialists, but merely good administrators.
 2. The widespread impacts of the privatisation of public utilities.
 3. The widespread shift in the core function of management from a focus on functions to a focus upon financial performance, resulting in a loss of respect for reality and expertise.
 4. The decision to outsource functions, including core management functions that should never be outsourced, such as risk and regulation, and adopting Sustainment Contracts covering Engineering, Maintenance and Supply support carrying potential risks to Australia's operational preparedness and sustainability, due particularly to their supply chain fragilities.
 5. Changes in the role of the Public Service over time, resulting in the loss of its specialist skills and competencies, leading to a proliferation of Consultants, Advisors and Contractors in Departments in an effort to recover lost 'expert' advice.
 6. The prolonged failure of Australia's education system at all levels, the effects of which have spread into all facets of Australian life and thinking, reducing the Nation's skills base and requiring a constant flow of skilled migrants on work visas to fill the gaps.

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7. Finally, the deskilling of the Services and the loss of their professional branches and their deeper level support facilities, both in house and in industry, which has radically reduced Australia's ability to mount and sustain operations.

Such causal factors were also covered in some detail in the Author's two submissions to the Senate Select Committee on the Establishment of a National Integrity Commission, dated 16th April 2016 and 23rd March 2017.

As a result of the changes outlined earlier, Australia now has Ministers of Departments who are held captive to their bureaucracies as well as bureaucracies saddled with poorly performing ministers. However, where we have both Minister and Bureaucracy lacking even basic competencies in their areas of responsibility, it is a case of the blind leading the blind, with each tempted to cover up so as to avoid criticism – a case study also of failed governance.