



Defence Teaming Centre Inc
The defence industry association of South Australia
Relevant, Responsive and Reliable

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Dr Kathleen Dermody
Secretary, Foreign Affairs, Defence and Trade References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Dr Dermody,

**DEFENCE TEAMING CENTRE SUBMISSION TO THE SENATE INQUIRY INTO
PROCUREMENT PROCEDURES FOR DEFENCE CAPITAL PROJECTS**

Thank you for your letter dated 16 February 2011, inviting the Defence Teaming Centre (DTC) to contribute to the Senate Inquiry into procurement procedures for defence capital projects, focusing on procurement procedures identified in the Defence White Paper, *Defending Australia in the Asia Pacific Century: Force 2030*.

The DTC's mission is to support its members to develop, maintain and represent their capabilities in order to maximise opportunities in the defence and security related industry sectors. The DTC's vision is to be nationally and internationally recognised as a model industry body that is relevant, responsive and reliable to its membership.

The DTC is South Australia's defence industry association representing in excess of 230 companies which are Australian-based Prime contractors, Small and Medium Enterprises (SMEs) and Professional Service Providers (PSPs) that are directly or indirectly engaged (or could be engaged) in the supply, support and development of defence capabilities. The 230+ companies in our membership employ in excess of 15,000 employees.

To provide a whole-of-defence industry perspective to the inquiry, the DTC broadly canvassed its membership, seeking their feedback and input to the Inquiry.

As the defence industry association of South Australia, the DTC is also the South Australian Chapter of the Australian Industry and Defence Network (AIDN). As the representative body for defence industry in South Australia, we offer the following input to the Senate Inquiry.

Point (a) Assess the procurement procedures utilised for major defence capital projects currently underway or foreshadowed in the Defence White Paper, including the operations of the Capability Development Group and its relevant subcommittees;

- Industry feedback on the DMO published Defence Procurement Policy Manual (DPPM) is positive. The DPPM is considered "robust", however, it is the differential tailoring and interpretation of these policies by the DMO that causes significant frustration and confusion for industry. This equates to significant investment for industry trying to learn the different interpretations of the processes with each project.



- Feedback suggests that rather than reform the DPPM, training in the interpretation of the manual across DMO would create a consistent interpretation and implementation of the DPPM, creating a more fluid and efficient procurement process with both the customer and contractor understanding and having the same interpretation of the policy.
- As a monopsonistic customer defence industry companies are reluctant to question or seek redress from the DMO for fear of potential repercussions.
- There is a strong perception that delays in the DMO's procurement processes are becoming more frequent and elongated. This only serves to further exacerbate industry in trying to forecast and plan workflow and resources.
- The DMO needs to decide if it wants to be a contract manager or a project manager. The belief is that the DMO should manage contracts with industry and allow industry to manage the projects. There is a perception that the DMO lacks and is unlikely to ever be able to secure appropriately qualified personnel to adequately project manage every project in the Defence Capability Plan.
- The DMO appears to lack any capacity to learn from failings in previous projects. There does not appear to be any drive or motivation within the DMO to capture lessons learned and pass them on internally and to industry.
- The DMO appears to have an adversarial approach to Australia's defence industry, implying that Australia's defence industry is trying to 'gouge' defence and not deliver. This could not be further from the truth, 99.9% of Australia's defence industry is professional and patriotic with a passionate desire to deliver defence with value for money capability on time and to budget. Australia's defence industry does not experience this adversarial approach when dealing with other areas of Defence such as the Defence Support Group.
- The DMO is process focused, not outcome focused – there are no incentives for them to be better at what they do or for industry to perform better. This is not the case with the rest of Defence. The DMO needs to develop a more commercial engagement culture that offers the 'carrot' more than the 'stick'.
- Industry considers a barrier to a more efficient and cost-effective defence procurement process is the risk adversity of the DMO. Risk aversion creates an unrealistic requirement for industry to provide insurances for projects that only a select number of larger defence industry companies in Australia can provide. This style of risk aversion creates an uneven playing field for innovative smaller defence industry companies trying to compete on large procurement projects.
- Feedback also suggests the perceived risk aversion of the DMO during procurement means more dollars are allocated to insurances rather than increased capability. Should DMO be able to share the risk on projects, companies could be more innovative and provide enhanced capability at a more cost effective price as smaller companies can compete for projects due to the reduced acceptance of risk required.
- Industry recognises a greater need to negotiate directly with the customer during the procurement process rather than contracted external parties to fully understand the capability requirements and negotiate innovative concepts within the contract. The



'legal override' through external parties controlling negotiations and creating clauses to protect against risk, industry is limited in their ability to innovate, be more cost effective and provide an enhanced capability the customer has not been given the opportunity to understand during negotiations.

- Industry feedback also suggests that a more direct relationship with the end user and customer would create a more accepting level of technical risk by the customer as industry can provide the advice, information and technical expertise for a greater awareness of the capability and the risks.
- Industry has placed emphasis on the loss of IP within the procurement process and believe that with increased IP protection and management by the DMO, Defence would receive more innovative, cost efficient and highly capable bids for projects as industry could ensure their IP is protected while contesting a contract award. In addition, with more faith in the innovation of industry due to less reliance of COTS/MOTS solutions, industry would be more willing to invest in research and development as assurance of an Australian-made purchase would provide incentive for industry to innovate and compete.
- Feedback from industry on their business relationship with DMO suggests they would benefit from a reduced staff turnover rate at DMO. Companies that deal with a consistent contact at DMO over an extended period of time benefit from a sustained understanding of the project and an established business relationship, resulting in quicker decision making between DMO and industry. In addition, it is understood the initiation time for a new DMO contact within a project creates a stagnant period of time for the project progression while re-education of staff takes place.
- Industry genuinely feels that they will always work to the best of their ability and beyond required scope as they are keen to not be considered the impediment within a project and genuinely will strive to meet timelines and specified costs. The DMO perception that suggests industry does not work in the best interest of the customer needs addressing and should be reversed to create a WIN/WIN culture for all parties in the procurement process.
- In discussion of contracts, industry does not understand the necessity for the arduous length of current defence contracts. It is suggested that the contract itself requires reform to create a more concise contract for procurement with a reduced size, less complexity and more succinct referral to the requirements of the contract for procurement of capability.
- Industry suggests that DMO should consider a culture reform to create an organisation with a commercial nature that is outcome driven, retains a high level of business acumen and most importantly, has measures for effectiveness and efficiency in which business performance and outcomes can be measured.
- Industry consultation suggests the role of the Capability Development Group (CDG) should be enhanced to establish a better relationship with industry. Industry needs to work with the CDG to establish a full and complete understanding of their capability requirement to effectively bid and fulfil the end user capability requirement. In addition, through greater consultation with CDG, the expertise of industry can be



utilised to inform CDG of enhancements in technology and capability now and into the future that should be considered within current project procurement requirements.

Point (b) Assess the timelines proposed for defence modernisation and procurement outlined in the Defence White Paper

- It is the view of industry that the Defence White Paper has provided realistic and attainable timelines for Defence procurement.
- There is a concern however, over the general slow-down in decision making in Defence and how that is having an impact on getting major project approvals.
- Industry also has a concern in relation to the time lapse from the bidding phase for a project to contract award and contract commencement. It is thought that this process requires reform and tighter timelines, especially for contract award, as the delayed time frame, sometimes years, eventually creates an unrealistic timeline in which industry must then deliver. In addition, the company may lose vital intellectual capability within their staff if not utilised within the original time frame proposed.

Point (c) Assess proposals arising from the Defence accountability reviews, including the Mortimer Review, the Pappas Review and the McKinsey report (2010), in regards to enhancing accountability and disclosure for defence procurement

- The industry perspective on the Mortimer Review is agreeable, the five principal areas of concern resulting from the review are consistent with the concerns of industry. Special attention however is attributed to the following:
 - *Personnel and skill shortages in the DMO:* industry has relayed the inefficiencies created by the high staff turnover at the DMO and the effect this has on timelines for projects. Rather than personnel shortages, industry suggests a skills shortage within the current DMO personnel. Through the utilisation of highly skilled DMO staff members working with specific companies on a specific project over a sustained period of time, the project will benefit from enhanced communication, an established business relationship, knowledge and expertise of the history of the project and capability requirements.
 - *Delays due to industry capacity and capability:* While it is the industry perspective that they maintain the capability, intelligence and innovation to service defence, industry will continue to see a decline in capacity as more defence dollars are spent on COTS and MOTS capital, diminishing the investment in local defence industry and therefore the economic strength of the industry to innovate and bid in the future.
- In consideration of the Pappas Review, it is industry's perspective that reform programs targeted at the DMO and the procurement process are warranted and needed. However, industry is weary that the reform program may result in a reduction in spending and cost cutting within projects rather than a true reform of processes to create efficiencies and cost savings.



- Reflection on the McKinsey Report from defence industry suggests there needs to be more transparency in relation to the project budget at each stage of the project. With this level of transparency, industry can understand how and where money is being spent within projects and investigate efficiencies that can be made to reach required budget expenditure.
- Industry also suggests there needs to be greater accountability within the DMO, the organisation itself needs measurable targets and outcomes that provide incentives for increased efficiencies within the organisation and a culture of motivation and goal achievement.

Point (d) make recommendations for enhancing the availability of public information and parliamentary oversight and scrutiny of defence procurement in the context of a guaranteed 3 per cent real growth in the Defence budget until 2017-18.

- Industry perspectives on the scrutiny of defence procurement relate to the recent report of some \$600 million of the Defence budget not being spent. With the budget available and project capability vital, dollars should be allocated and spent as outlined in the Defence budget. A current lack of budget spending results in a reduction in the capability of local industry to support the 3 per cent real growth in the future.

We thank you on behalf of all DTC members for taking the time to consult with defence industry in South Australia. If you have any queries regarding our submission, please contact me directly on 08 8260 8157 or chris.burns@dtc.org.au.

Yours sincerely,

Chris Burns, CSC
CEO
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