



The Australian Industry Group
AMA Building
Ground floor, 42 Macquarie Street
Barton ACT 2600
PO Box 4986
Kingston ACT 2604
Australia
ABN 76 369 958 788

16 May 2018

Committee Secretary
Joint Standing Committee on Foreign Affairs,
Defence and Trade
PO Box 6021
Parliament House
Canberra ACT 2600

jscfadt@aph.gov.au

Dear Committee Secretary

The Ai Group Defence Council National Executive is pleased to provide the attached submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade inquiry into the Department of Defence Annual Report 2016-17.

Thank you for the opportunity to provide a submission to this inquiry. We look forward to discussing any aspect of the submission with committee members.

Yours sincerely

Kate Louis
Head of Defence and Industry Policy



**AUSTRALIAN INDUSTRY GROUP DEFENCE COUNCIL
SUBMISSION TO THE REVIEW OF THE
DEPARTMENT OF DEFENCE ANNUAL REPORT 2016-17**

Introduction

The Ai Group Defence Council (the Defence Council) is the peak representative body for the Australian Defence industry. The Defence Council welcomes the opportunity to provide a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade review of the Department of Defence Annual Report 2016-17.

We note the focus topics of the inquiry are:

- Defence Performance, including:
 -) Preparedness and Operations;
 -) Corporate and Military Enablers; and
 -) Workforce, including transitioning from the Services;
- Status of the Implementation of the Strategic Reform Programs; and
- Capability Development and Major Projects, including projects of concern.

The Ai Group Defence Council is pleased to provide the following comments focussed on industry-related aspects.

Key Issues

Implementation of industry policy - the Australian Industry Capability Program

The Defence Council commends the Government and Defence on the roll out of significant industry policies and programs since 2016 – including the Defence Industrial Capability Plan, the Defence Export Strategy, the Defence Innovation Hub and the Next Generational Technology Fund. The Annual Report makes several references to implementation of these policies and programs.

We also note the release of the strengthened Australian Industry Capability (AIC) Program on 29 June 2017 seeking to increase Australian industry involvement. The AIC program represents a significant and strategic initiative to maximise Australian involvement in large acquisition programs. We wish to highlight for the Committee's attention the importance of this program in the context of the Government's \$200 billion spend on Defence capability in the next decade. We note particularly the significance of:

- Ensuring clear and transparent guidance from Defence on the expectations in the AIC program.
- Ensuring that the requirements of the AIC program will transfer technology, intellectual property and substantive capability to Australia during and after any individual project is complete.
- Clear and transparent implementation and enforcement plans.

- Reporting of the progress and success of the program as a whole in the Defence Annual Report and other Defence strategic reporting documents.

Such measures are critical for the AIC program as a key implementation tool for the Government's industry policy, and to ensure development of our Australian sovereign capability.

Implementation of industry policies and sufficient resourcing

As noted, the Defence Council applauds the Government and Defence on the progress of significant industry related policies. The Ai Group Defence Council appreciates the level of industry engagement and consultation on these significant policies.

It is important that these policies and programs are sufficiently well-resourced to be effective. We have some concern that the weight of responsibility for implementation of these policies will fall to a small area in Defence – largely the Defence Industry Policy Division. This Division will have responsibility for managing the Defence Export Office, as well as development of the implementation plans for all 10 Sovereign Industrial Capability Priorities, development and implementation of the Skilling and STEM strategy, as well as the new Defence Industry Participation Policy. This is a very substantive body of new work that will require sufficient resources to be delivered in a timely and effective manner.

With the expected upsurge in work following release of the Defence Export Strategy, it will also be important to properly resource the Defence Export Controls branch to manage the extra workload.

Transparency of information and investment guidance

The Annual Report is an important reporting tool for Government, Defence and other stakeholders including industry. Together with other major reporting documents including the Portfolio Budget Statements and the Major Projects Report, the Annual Report provides significant information for industry and other stakeholders. In that context, the level, detail and quality of information in this documentation is important in providing advice and guidance for industry.

Our view is that there is scope for improving the transparency and reporting information in Defence's major reporting tools to help provide industry critical information on Defence's priorities, upcoming projects, timelines and investment, in particular:

-) Additional visibility of the Defence budget in a clearer, more understandable form than currently presented in both the Annual report and the Portfolio Budget Statements.
-) An online and regularly updated Integrated Investment Program.
-) Additional visibility and clarification where timelines for major projects have been significantly altered.
-) Additional information and advice on project budgets and spend profiles.

In terms of the Committee's review of preparedness, we suggest the Annual Report address elements of industry readiness, informed in the future by the Sovereign Industrial Capability Priority implementation process. For example, this might cover test and validation of platform, performance and crew readiness where supported by industry.

Additional clarity and transparency will assist industry understand Defence's budget, project schedules and priorities to guide industry investment, contributing to a more efficient and effective Defence and industry partnership.

Implementation of Key First Principles Review and other initiatives

Overall, the Government and Defence are to be commended on the First Principles Review and implementation process. The following initiatives have been of benefit to industry:

-)] The revised capability development process and resulting through-put of projects.
-)] Progress of the Defence Innovation Hub and Next Generation Technology Fund projects.

In terms of other aspects of the First Principles Review, we would highlight the importance of:

-)] the pace of reform of the Smart Buyer process and System Program Office reform.
-)] Implementation and progress of industry as a Fundamental Input to Capability. In this context it would be extremely helpful to develop and publish a consistent framework across the Capability Streams for implementation of Industry as a Fundamental Input to Capability.
-)] Examining the extent to which industry involvement is achieved early in the capability life cycle. The Defence Innovation Hub is an important mechanism but other substantive involvement is an important part of the capability development process.
-)] Clarity on the 'above the line' and 'below the line' concepts as the industry and Defence partnership continues to develop.

Transition management – Services personnel

This is an area of growing importance to Defence and industry. In the Annual Report it was noted that the separation rates increased from 8.3% in 2015-16 to 9.0% in 2016-17 and the numbers exceeded 5,000.

The Report refers to important internal support service arrangements provided focusing on families, the impact of transition and mentoring individuals.

Industry can also be in a position to provide practical assistance if it can be integrated into these service arrangements. This could be of great value to both Defence and industry, building on the value ex-service personnel already contribute through their experience and expertise.

We suggest there may be ways to further build initiatives to have industry work with Defence to develop and be involved in delivery of programs.

The Defence Council would welcome the opportunity to discuss these matters with inquiry members.