

**Senate Standing Committee on Foreign Affairs, Defence and Trade****Inquiry into Defence Procurement****Submission by BAE Systems Australia****Introduction**

1. This submission addresses each of the Terms of Reference for the inquiry in turn. BAE Systems Australia can provide more detailed information and explanation in testimony if necessary.

**Procurement Procedures**

2. Defence procurement procedures should take into account the need to maintain the defence industrial base for both acquisition and subsequent sustainment of capability of the ADF.

3. Prerequisites of a procurement process that will facilitate high quality outcomes are as follows:

- a. Recognition of special measures required to ensure a level of independence and sovereignty;
- b. A robust indigenous industry capability;
- c. International benchmarks for comparison of cost, schedule and other measures of performance in responses to requests for tender;
- d. An integrated or program approach to procurement so that individual projects are fitted into a larger framework or operational architecture; and,
- e. A balance should be struck between compliance with the main performance measures of capability, cost and schedule with trade-offs between these providing an optimal solution.

4. Procurement procedures should include identification of aspects of the proposed solution that have a bearing on sovereignty and independent operations by the ADF. There will be occasions when the Australian government will want the option of acting alone or when the US or other suppliers have different priorities. In these circumstances the Australian defence industry sector will be required to support the ADF to a greater extent than at other times and the capability to accomplish this must be a factor in source selection. The need for self-reliance to support key Defence capabilities is a core part of the Defence Industry Policy Statement 2010. The Priority Industry Capabilities (PIC) and the Strategic Industry Capabilities (SIC) were introduced to facilitate these considerations but these have not been clearly defined or applied in a consistent manner. Hence, the PIC and SIC do not at present provide sufficient information for industry to make longer term investment decisions.

5. A robust indigenous industry requires a smooth and consistent demand to maintain capability. Procurement procedures should comprehend the time required to develop industry capability, typically about ten years to produce a systems engineer able to deal with complex projects. In addition, these procedures should comprehend

the amount of 'noble' engineering work necessary for industry to provide adequate sustainment of the ADF (*i.e.* future modernisation and upgrade in addition to continuing logistics and support). Fluctuations in demand will invariably lead to degradation in industry capability so this should be managed in those areas considered strategic. For example, the four year gap from 2014 to 2018 in ship building requirements of the present Defence Capability Plan will result in deterioration in workforce skills and expertise in the maritime sector.

6. There needs to be a balance in the measures of performance used to evaluate responses to requests for tenders. The usual measures are cost, schedule and the operational capability required. A single measure such as schedule should not be emphasised at the expense of others unless there is a compelling reason. Similarly, Military-off-the-Shelf (MOTS) and Commercial-off-the-Shelf (COTS) solutions should be used as a benchmark for the comparison of performance with a tendered response rather than the default acquisition option that often appears to be the case. In addition, competition at any price does not necessarily provide long term value for money particularly when subsequent sustainment capability is taken into account. The focus on value for money and market-based competition in key capability areas means industry becomes involved too late to propose the best and most cost-effective solution. Finally, the evaluation of responses should not focus on strict compliance with the specification or other performance measures but be framed to encourage technical and commercial innovation.

7. Finally, acquisition of defence capability is usually conducted on a project-by-project basis in which the complete operational capability requirement can be inadvertently lost or disguised. An integrated approach to individual procurement projects needs to take account of this larger operational framework or architecture. Sometimes, the performance measures used to evaluate responses to a particular project may need to be relaxed or modified in order to meet the operational objective of this integrated 'program' approach. To this end there should be early engagement with industry by Defence and the DMO to explore a wide range of options for solutions that will meet the systems architecture.

### **Capability Development Group**

8. The procurement process starts in the Strategy Group of the Department of Defence where the military strategy is formulated. Operational concepts for future capability are developed from the military strategy within the Strategy Group, the Service Headquarters and Capability Development Group. These operational concepts form the basis of the operational framework. In turn, the operational framework is used to define the system architecture that is the basis of system options for a solution to the operational requirement. The procurement process selects, competes and acquires the optimal system option trading off the performance measures of capability, cost and schedule as necessary.

9. Thus it follows that successful early engagement by industry in the procurement process necessitates knowledge of the operational requirement and, preferably the operational concept, well before first pass and approval of the requirement by Government. In the past, information on capability requirements was passed from defence to industry *via* the Capability Development Advisory Forum (CDAF). This information was then transmitted in more detail using the CDAF subsidiary Environmental Working Groups (EWG) for each warfare domain of

aerospace, maritime and land. The CDAF and the EWG have fallen into neglect in the past three years but are presently being reinvigorated. In addition, a further EWG is required for the C4ISREW domain and we understand this is also being developed.

10. However, in the past, the CDAF and its EWG were not vehicles for close engagement but rather a means for defence to inform industry of requirements and intentions. There was little opportunity for industry to inform defence of indigenous capability or contribute to the development of system options. A model that has proved successful is in the C4ISREW domain where an industry association, the Australian Defence Industry Electronics Sector Association (ADIESA), has arranged focus groups for specific subject areas or projects. Participants in these focus groups included relevant staff from Defence, including from the Service Headquarters, CDG, the Chief Information Officer Group (CIOG) and DSTO, together with people from industry with the appropriate background. A wider use of this model across all domains would greatly facilitate a two-way exchange of information and knowledge leading to better formulation of the operational requirement.

### **Timeline for Defence Modernisation and Procurement**

11. The time taken for consideration and approval by Government is an important factor in providing a predictable workload for industry. The National Security Committee of Cabinet (NSCC) needs to approve five to six projects per meeting or about 50 per year to meet the present DCP timeline. However, the present average is less than ten per year. One consequence of this is increased cost to industry as project teams are formed and disbanded. A more significant outcome is that the slow rate of approval aggravates the already severe problem of uneven workload.

12. Consistent and sustained demand is necessary for industry to develop and maintain both capability and capacity. This requires longer term contracts for sustainment that provide incentives for industry for investment, particularly in skilled people. In addition to the issue of industry capability, there is the equally important factor of capacity that requires a baseline level of work to maintain or alternatively sufficient notice and certainty for industry to ramp-up to the required level.

### **Defence Accountability Reviews**

13. A series of Defence accountability reviews have provided guidance to enhance accountability and disclosure for defence procurement. The recommendations of the Mortimer Review followed four themes that were largely accepted by Government around:

- a. Strengthening the Defence organisation's accountability and transparency;
- b. Improving DMO independent advice and accountability to government;
- c. Build a stronger business-like culture in the DMO; and,
- d. Enhancing the DMO-Defence Relationship.

14. While the Mortimer report in accordance with its terms of reference correctly dealt with the internal practices of Defence, it failed to highlight or even acknowledge the importance of industry to the overall performance of defence in acquisition and sustainment.

15. The 2008 Pappas Review (Audit of the Defence Budget) formed the basis of the Strategic Reform Program (SRP) that is discussed below. One of the significant findings of the Pappas review is that local sourcing should only be considered where it is a strategic priority or where it is competitive with other options, and if local sourcing is chosen outside these criteria, that the rationale be clearly articulated. Although the recommendation is qualified, it advocates a default position that local sourcing should be avoided. Hence it does not take into account the importance of the Australian defence industry sector in support of the ADF.

### **Strategic Reform Program (SRP)**

16. We believe that transformational change is required to deliver the scale of savings envisaged in the SRP. This will only be achieved through a collaborative approach involving all parties involved in the delivery of defence capability (*i.e.* capability managers, industry and the DMO).

17. The experience of BAE Systems both in the UK and Australia has indicated that the development of a trusted collaborative working approach takes some time to establish and requires strong leadership action.

18. Making Integrated Project Teams a formal requirement of sustainment contracts, with established rules of engagement, would assist in fast-tracking this process thus creating a more conducive environment for open discussions around strategic reform initiatives.

### **Public Information and Parliamentary Oversight**

19. It is self evident that public information essential for industry planning particularly around resourcing and investment. This is much improved recently with six monthly on-line updates of the DCP. However, this is again a one-way transmission of information after the DCP has been finalised. Meaningful discussion between industry and Defence early in the capability development process would improve the knowledge of both parties and lead to higher quality outcomes.

20. Concerning Parliamentary oversight, we have no comment provided it does not slow the process. However, we note that the mechanism for parliamentary oversight of defence procurement is resident in the existing committees, namely:

- a. Defence Sub-Committee of the Joint Standing Committee on Foreign Affairs, Trade and Defence;
- b. The References Committee of the Senate Committee on Foreign Affairs, Defence and Trade; and,
- c. The Legislation Committee of the Senate Committee on Foreign Affairs, Defence and Trade (also known as Senate Estimates Committee).