

**Department of Defence - Supplementary Submission on  
Capability Investment and Resources Division and  
the Project Initiation and Review Board to the  
Senate Foreign Affairs, Defence and Trade References Committee Inquiry into  
Procurement Procedures for Defence Capital Projects**

The Committee has sought further information on two issues: the role of Capability and Investment Resources (CIR) Division in providing contestability in the capability development process and on the Project Initiation and Review Board (PIRB).

**Improved capability development and approval process**

To understand contestability within Defence's capability development process, it is important to note that since the adoption of the recommendations of the Defence Procurement Review 2003 (the Kinnaird Review), the overall structure of the capability development process now provides much greater opportunities for robust contestability from within Defence and from central agencies. The process also provides much stronger, transparent advice to Government.

Before the adoption of the Kinnaird two-pass process, there was limited transparency of process, consideration of capability options was done in-house, and a single option was provided to Government for each acquisition. Defence sought approval for major acquisitions as part of the Budget process through an omnibus submission with only a paragraph or two on each project. Projects were often approved before Defence had conducted robust engagement with industry to understand cost and risk.

Under the Kinnaird two-pass process proposals are generally considered twice by Government. Before each pass proposals undergo robust scrutiny at a number of gates. At each pass Defence provides Government with option sets supported by detailed business cases addressing capability requirements, project scope, schedule, costs and risks.

**Capability Investment and Resources Division**

It is within this context that CIR Division performs its contestability function. CIR Division is led by a civilian Band 2 SES officer – First Assistant Secretary CIR (FASCIR). Administratively CIR Division falls within Capability Development Group (CDG). For a number of functions FASCIR reports to the Chief of Capability Development Group (CCDG) – these include the administration of the Defence Capability Plan and the secretariat function for the Defence capability committees.

CIR Division has over seventy staff structured in two branches, each led by a civilian Band 1 officer. Investment Analysis Branch (IA) analyses proposals holistically, examining capability, scope, schedule and risk. Cost Analysis Branch (CAB) focuses on cost – both acquisition costs and whole of life operating costs. CAB also manages and programs the Defence Capability Plan (DCP), Defence's unapproved capital equipment program.

CIR Division staff have both broad and deep expertise to support this role. There is no standard career or educational profile for CIR Division analysts, although most have higher degrees in relevant fields. CAB's staffing profile includes experienced project managers, engineers, and finance and accounting specialists. The blending of different backgrounds allows CIR Division to apply a multi-disciplined team with a mix of different perspectives and skill sets to its analysis of a project. Often an analytical mindset – that is, being able to ask the right questions and formulate logical arguments – is just as valuable as particular subject matter expertise.

CIR Division also draws on subject matter experts across Defence to ensure their views are appropriately considered in capability development decision-making.

## **CIR Division's Contestability Function in the Needs Phase**

CIR Division provides contestability in the early stages of the capability development process which is known as the Needs Phase. In the capability development cycle, the Needs Phase concludes when a project is entered into the DCP and the Requirements Phase, which develops solutions, begins.

Substantial changes to the DCP are made as part of the Force Structure Reviews (FSR) as part of White Papers. To support the FSR, CIR Division generates alternative DCPs to highlight the impact of different assumptions about funding guidance and the inclusion, omission or deferral of projects. As part of her contestability function, FASCIR advises the Secretary, CDF and CCDG on the affordability of various Force Structure options.

Less substantial changes to the DCP are done as part of an annual update cycle. Changes must be agreed by the Defence Capability Investment Committee chaired by the Secretary, where all competing proposals can be considered and prioritized for inclusion in the updated DCP. Again, FASCIR provides advice the Secretary as Chair of the DCIC on the affordability of any proposed changes to the DCP.

## **CIR Division's Contestability Function in the Requirements Phase**

Once a project has entered the DCP, it enters the Requirements Phase and progresses through a number of Defence capability committees as the capability proposal is developed and strengthened. This culminates in Government approval at first and then second pass. CIR Division plays a key role in providing contestability throughout this process.

FASCIR's advice generally takes the form of a comprehensive agenda paper to the chair of a capability committee (Head Capability Systems for the Capability Gate Review Board, CCDG for the Defence Capability Committee, and the Secretary for the Defence Capability and Investment Committee). The agenda puts specific questions to committee members and is circulated to all committee members a week before the committee sits to allow them time to develop the information required. The agenda structures the committee's consideration of projects and addresses the following kinds of questions:

- Does the capability sought meet the Government's strategic guidance?
- Have all viable options including Off-the-Shelf been considered? Is the justification for progressing or dropping options compelling?
- Is the Basis of Provisioning correct, that is, is the project acquiring too many or too few systems?
- Is the Acquisition Strategy sound and endorsed by the Chief Executive Officer of the Defence Materiel Organisation (CEO DMO)?
- Is the schedule achievable? Does it take into account interdependencies with other projects and enablers?
- Has the input of relevant subject matter experts from across Defence been taken into account?
- Are the costs of the appropriate quality? Is the solution value for money?
- Have the key risks been considered and mitigation strategies developed?

Overall the agenda assesses whether the project is mature enough to progress to the next gate or Government consideration, and if not, the information gaps that need to be remedied before it can progress. CAB devotes particular attention to assessing whether the costs are complete, well-supported, and of the appropriate quality for the pass sought. In practice the agenda forms the basis of committee discussion to critically assess the merits of the business case.

## **The outcomes of FASCIR's advice**

CIR Division engages with stakeholders and subject matter experts across Defence. However, FASCIR's advice is not endorsed or "vetted" by CCDG or the Service Chiefs before committee consideration. The agenda can explicitly disagree with the project sponsor's recommendations.

CIR Division prepared over 100 agendums in 2011 to support committee consideration of projects and DCP-related matters. An example of the later was an agendum prepared for the DCIC to critically analyze Army's Plan Beersheba. These agendums play a major role in identifying deficiencies in projects' supporting information and in ensuring strategies to remediate struggling projects were developed. While it is not the responsibility of CIR Division to remediate problems itself, its agendums highlight issues to decision makers, make any internal disagreements explicit, ensure all relevant subject matter experts are heard, and assign responsibility for rectifying problems or information gaps.

### **Robust cost analysis and assurance**

All projects are required to develop standardised cost estimates which utilise an Australian Defence version of an internationally recognised standard work break down structure, to ensure completeness of costs. Cost estimates are required to be supported by robust evidence and to be verifiable and repeatable. Pre-second pass cost estimates are internally developed using the most appropriate cost estimation technique for each cost element, such as analogy, engineering build up and parametric estimation, and market research. As projects approach second pass the estimates are primarily based on industry solicitation data, but even this requires specialist assessment, judgement as to completeness of cost data and adjustments to be made as required.

CAB reviews all project documentation to ensure that the costs presented reflect the complete scope and plans for the project, and then reviews in detail all elements of the cost estimates, the appropriateness of the cost estimation technique applied and the validity of the evidence presented. One of the more important assessments that CAB undertakes is the degree of cost risk faced by the project, and hence the contingency to be held.

### **Approval submission development**

CIR Division does not contest for its own sake. The Division is responsible for drafting Initial, First and Second Pass Cabinet (for projects over \$100 million) and ministerial submissions (for projects between \$20 and \$100 million) to support Government's consideration of a project. Because of this, CIR Division's agendums focus on developing the most accurate, robust business cases possible to support compelling approval submissions. The record number of 49 approvals in 2011 indicates that the current system results in strong, well-supported capability proposals.

### **Other sources of contestability**

CIR Division is not the only area of Defence with a mandate to provide contestability. Other sources of contestability have been discussed in previous submissions to the Inquiry. In brief, the Defence Science and Technology Organisation (DSTO) provides independent advice on technical risk. DSTO advice encompasses both technology and integration risk, and also highlights any issues which may limit the capability delivered by the project. The Technical Risk Certification provided by the Chief Defence Scientist (CDS) for each project is taken verbatim into the advice to Government.

As earlier submissions and witnesses have noted, that in accordance with the 2008 Defence Procurement and Sustainment Review (the Mortimer Review) the CEO DMO also provides the Minister with an independent Materiel Implementation Risk as well as assurance he can deliver the project according to the cost and schedule presented in the approval submission.

Externally the Departments whose Ministers comprise the National Security Committee of Cabinet, in particular Prime Minister & Cabinet and Treasury, as well as Finance and Deregulation, also critically examine the merits and robustness of Defence submissions.

### **Project Initiation and Review Board**

The Committee has also sought information on the PIRB. Until recently projects were considered early in their life-cycle by the Options Review Committee (ORC) chaired by CCDG with one- or two-star representatives from Defence's Groups and Services. The ORC was to confirm the option set that the

project was to develop for CGRB consideration and also identify potential issues that projects would need to resolve.

Experience revealed a number of shortcomings with the ORC. A large number of Groups and Services were represented, often at a junior level, making the committee unwieldy and lacking authority. Consequently, as part of the Capability Development Improvement Program and consistent with the outcomes of the Black Review, CCDG replaced ORC with the PIRB in early 2012. The main goals of the PIRB are to:

- a. confirm the project's scope, ensuring strategic and capability objectives are clearly defined and remain valid;
- b. agree to the project's approach to the Two-Pass process, allowing identification of projects that can be streamlined, or require additional work due to their complexity;
- c. identify initial concepts for developing options, including initial engagement with Industry, trials/evaluation and international cooperation;
- d. confirm the essential aspects and considerations for the acquisition strategy; and
- e. identify the resources, including personnel, committed to support the project to First Pass from CDG, the Capability Manager, the Acquisition Agent, and DSTO.

PIRB has a much smaller but more senior membership than the ORC comprising CCDG as Chair, Deputy Secretary Strategy, the CEO DMO, the appropriate Service Chief, CDS, Head Capability Systems Division (as the project sponsor) and FASCIR. On occasion the CDF will attend to give his strategic intent. This 3-star level membership ensures that the options to be developed meet both the Government's strategic guidance and the Capability Manager's needs, are technically viable, and can be delivered by industry. As part of her contestability function, FASCIR identifies key issues or risks that need to be addressed by the PIRB.

A key function of the PIRB is to agree on the strategy to develop the project for approval. Simpler projects could potentially follow a more streamlined approach, and in some cases seek combined pass approval. More complex projects, particularly those requiring substantial development funds may require an initial pass to ensure Government is fully informed of the risks of embarking on a large, developmental project before it commits funds. While it is early days for the PIRB, outcomes to date have been most promising with projects much better placed for having received such senior guidance early in their life.