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THE RETURNED & SERVICES LEAGUE OF AUSTRALIA LIMITED

NATIONAL HEADQUARTERS

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Committee Secretary
Senate Foreign Affairs, Defence and Trade References Committee
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The Returned & Services League of Australia is pleased to make this submission to the Senate Inquiry into Defence Procurement.

Timelines

The procurement procedures currently being used to achieve the capabilities outlined in the 2010 White Paper are failing. The Defence Capability Plan requires the First or Second Pass approval by NSCC of some 50 projects per year, or about five per meeting. The current average is less than ten per year. This process, recommended by the Mortimer Review and instituted by Government, was designed to minimise project risk by better defining the capability required prior to final project approval. The down side of this laborious process is that there is no possible chance of the current Defence Capability Plan being achieved.

It is worth noting that the quality of decision-making has not improved by any measure since introduction of the Mortimer reforms; the same work is simply taking much longer to perform.

Sovereignty

The Government does not include considerations of sovereignty in its source selection and capability maintenance deliberations, despite the fact the life of platforms being acquired now is upwards of 40 years. While the Defence Industry Policy Statement 2010 lists Priority Industry Capabilities (PICs) and Strategic Industry Capabilities (SICs), there has been no action on the part of the Department or the DMO to give effect to this policy.

Instead, the general assumption seems to be that with most of our critical systems capabilities being sourced from the USA, Australia will always have access to the US support necessary for maintenance and upgrade of these systems, because of our Most Favoured Nation status through the ANZUS Alliance. To assume that over the next forty years there will never be a circumstance where we fall out of favour with the US over any strategic policy issue with commensurate loss of access is imprudent. (New Zealand's fall from grace in the early 1980s is a case in point, where loss of access was total, and it fell to non-aligned developing nation status for decades).

The consequence of this approach is that the Defence Capability Plan is project based, with no program architecture. This lack of program architecture fails to ensure that PICs and SICs are sustained over the long term. The current early difficulties in building the Air Warfare Destroyers are a case in point: it is five years since a ship of such complexity was built in Australian shipyards, the workforce was run down and capability was lost with virtually all of the necessary intellectual capital gone. A similar gap in shipbuilding requirements exists in

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the current DCP, with no construction planned for the four years 2014 to 2018, which will inevitably produce similar consequences.

Capability Development

The capability development processes are laborious, as noted above. They are also designed to isolate industry from collaborative participation in the process. The Government has recognised this and wants Defence to re-energise the Capability Development Advisory Forum (CDAF) and its supporting Environmental Working Groups (EWG). In the past, the EWGs have been fora for Defence to brief on projects in the DCP, and this has resulted in a one way communication process, with industry representatives understandably reluctant to discuss in open forum their intention and perspectives on individual projects. In future, these Groups need to focus on the PICs and SICs particularly, with papers being developed in joint Defence and Industry sub-committees that address national and strategic capability issues relevant to ADF and supporting defence industry development and sustainment.

Strategic Reform Program

The culture of competition that exists throughout the DMO in respect of industry, and the inevitable adversarial relationships that result, is antithetical to the development of a transformational culture of integrated endeavour that is essential if true reform is to be achieved. The three parties involved in the production and sustainment of a capability must be together engaged in the end to end analysis of that capability to identify all opportunities for reform and hence efficiency.

Unless this is done, the outcome of the SRP will vary from sub-optimal (for example, where industry improves its efficiency and delivers consequent savings in isolation from the demand customer), to outright failure (where innovation is resisted and savings are not realised). This non-achievement would prompt the response that has prevailed in all previous failed reform programs where savings were not achieved – the DCP will simply be reprogrammed to accommodate the non-realisation of the intended savings.

The critical relationship is between the end-user and the supplier, facilitated in a contractual sense by the contracting agency, in this case the DMO. Unfortunately, the DMO's System Project Offices, as the entities responsible for sustainment, are interposed into what is effectively now a serial process: operational unit to SPO, and SPO to supplier, making it very difficult to address real reform in an integrated team approach.

To remove this anomaly in the Defence and Industry environment, logic dictates that the relationship must change. That change means a reversal of the previous organisational change that placed sustainment of equipment under the DMO, and revert to an organization where the Service Chief is responsible and accountable for the in-Service sustainment of capabilities, aided by a contracting agency, and using his industry support partners in an integrated capability delivery model.

Parliamentary Committee Oversight

Regarding parliamentary committee oversight and scrutiny of Defence procurement, the RSL offers no opinion, except to observe that our constitutional arrangements are so totally unlike those of the US that any suggestion of a committee having authority over Government business is unlikely to be realised. However, should it eventuate the concern would be that it should not add to the time taken to reach decisions that are already delayed to the point where the planned schedule of Defence capability acquisition cannot be achieved.

Yours Sincerely,