



Australian Government
Department of Defence

**Joint Committee of Public Accounts and Audit into Defence
Sustainment Expenditure**

**Department of Defence
Written Submission**

February 2017

Introduction

On 22nd December 2016 the Joint Committee of Public Accounts and Audit wrote to the Secretary of Defence to invite representatives of the Department to appear at a public hearing into Defence Sustainment Expenditure. Defence welcomes the opportunity to appear at the public hearing and provides the following written submission.

Background

1. Sustainment is the provision of the appropriate goods and services required to achieve readiness and sustainability goals for the life of the Defence Element. Defence Sustainment involves the provision of in service support, including repair and maintenance, engineering, supplies and replacement parts, configuration management and disposal action across 112¹ diverse sustainment products.

2. Sustainment can apply to platforms (ship, aircraft, vehicle fleets), commodities (clothing, combat rations, munitions) or services (calibration, provision of maritime target ranges).

3. Defence's sustainment activities are funded from its overall departmental appropriation, of approximately \$32.5 billion (2016-17 PAES price basis) this year. This includes a balance between expenditure on major investment and recurrent items, such as personnel and operating costs. This year Defence capability sustainment includes \$8,276.3m, of this, \$5,919.4m is for military capability sustainment, with the remainder primarily in ICT and Estate.

4. Details of Defence funding over the forward estimates period are outlined in Defence's Portfolio Budget Statements (PBS) – summarised in table 1 on page 17. Funding for sustainment activities is also outlined, at a high level, in the PBS – summarised in table 6 on page 21.

Mechanics of the Sustainment System

5. Sustainment primarily applies to major systems and supplies that Capability Managers (Service Chiefs and certain Group Heads) need to deliver capability.

6. The Sustainment phase of military assets commences just before or around the declaration of initial operational release. Activities during this phase include routine sustainment work and obsolescence management, managing any changes to preparedness levels, and the incorporation of pre-planned technology refresh activities or upgrades to maintain capability relevance. The effective sustainment of capability is crucial to maintain the preparedness of the Australian Defence Force (ADF) and to enable the conduct of Defence operations.

¹ As at 7 February 2017

7. For the vast majority of Defence's military assets, Capability Acquisition and Sustainment Group (CASG) is the service delivery group responsible for ensuring the efficient and effective management of the acquisition of ADF capital equipment and the sustainment of these assets throughout their in-service life and disposal. Decisions in particular about in-service requirements and priorities are decisions made by the Capability Manager in consultation with CASG, who implement and provide advice on the best means, risks and mitigation of issues.
8. The CASG Systems Program Offices serves as the single point of contact with industry, other government entities and with the Capability Manager partner. Generally, each major platform – such as an aircraft type or class of ship (for example Superhornet or the ANZAC Class frigates) will be managed by a single SPO, which may also manage the delivery of an associated commodity, service or capability upgrade program.
9. Under the CASG Sustainment Management Framework, each Sustainment product is categorised into one of four Materiel Sustainment Categories according to their strategic significance, complexity, cost, technical difficulty, operation and support implications and commercial factors. These factors influence the selection and execution of Sustainment Management activities.
10. Since 2005 Materiel Sustainment Agreements (MSAs) have been used as customer–supplier agreements to formalise the relationship between the Capability Manager and CASG. MSAs outline governance arrangements, respective roles and responsibilities, sustainment deliverables, performance reporting and monitoring arrangements, sustainment issues and risks, and dispute resolution procedures. They facilitate the effective and business-like relationships by setting out the level of performance and support required and have Key Performance Indicators (KPIs) by which service delivery is measured.
11. Capability Managers undertake formal and informal reviews of sustainment performance, then through consultative mechanisms with the CASG reprioritise sustainment funds to maximise capability outcomes. Capability Managers bid to the Enterprise Business Committee for the in-year sustainment budget, providing transparency of individual sustainment products funding.
12. In addition to routine monthly reporting regime supported by the Sustainment Performance Management System, since 2014 the CASG Independent Assurance Review process has targeted Sustainment Products over \$20m at intervals commensurate with product complexity and performance (approximately every three years). These intensive reviews identify sustainment products at risk of overspending or not delivering to the required service levels. It also supports the development of appropriate recovery strategies if needed.

13. For estate and ICT there are established through-life management teams who incorporate the support and management of the new capabilities into their operational systems.

Changes resulting from FPR implementation

14. Implementing the recommendations from the First Principles Review saw reform of how Defence manages its capabilities, including sustainment aspects, with the implementation of a portfolio and programmatic view of capabilities within the Capability-Life-Cycle.

15. The Capability-Life-Cycle is an end-to-end process from initiation (concept) to disposal and has the following main components:

- Capability development - where Defence provides comprehensive, considered and timely advice that enables Government and departmental decision-makers to make informed decisions about the acquisition and sustainment of Defence capabilities; and
- Capability delivery - where Defence delivers value for money through efficiently and effectively procuring, sustaining and disposing of Defence capabilities.
- Smart Buyer decision making framework - which uses industry best practice tools and techniques to execute projects throughout the Capability Life Cycle, including through Sustainment, in a way that strikes the optimum balance between performance, time and cost.
- CASG Systems Project Offices Reform project is undertaking a review of all SPOs across CASG. The outcome from this review is alignment of the SPO activity to Planning, Governance and Assurance roles, and enabling industry to undertake the management and delivery of sustainment activity, in particular the transactional functions required to maintain capability.

16. The FPR reforms of note are:

- Disbanding Capability Development Group and integrating its functions into the Vice Chief of the Defence Force Group, Services, Strategic Policy & Intelligence Group, and CASG.
- Disbanding the Defence Materiel Organisation and transferring its core responsibilities of capability delivery to Capability Acquisition and Sustainment Group.

- The creation of Force Design Division to support the Vice Chief of the Defence Force to deliver capability aligned to strategy and resource guidance as directed by the Government.
- Capability Managers being responsible for the management of capability throughout the life cycle, including capital and sustainment funding.
- The appointment of the Vice Chief of the Defence Force as the Joint Capability Authority.
- The establishment of the Investment Committee, chaired by the Vice Chief of the Defence Force – Membership includes all Capability Managers, Deputy Secretary CASG, and Deputy Secretaries from the Department of Prime Minister & Cabinet and the Department of Finance. Treasury is provided with all the relevant documentation prior to each monthly meeting.
- Central Agency briefings, which occur both before and after each Investment Committee meeting, prior to Government consideration.

Defence Preparedness and Reporting to Government.

17. Defence's sustainment framework reporting encompasses a number of different unclassified reports. This includes:

- Defence Annual Report
- Portfolio Budget Statements
- Portfolio Additional Estimates Statements

18. The level of information in the above reports is constrained to that which is publicly releasable, but does comprise expenditure information on the top 30 sustainment products, which is 77 per cent of total sustainment expenditure.

19. The Defence Ministers are provided with a Quarterly Performance Report (QPR), which includes Projects of Concern, Projects and Products of Interest and Performance Summaries for the top 30 Sustainment Products. The QPR outlines emerging risks and issues against the KPI's agreed to by the Capability Manager and CASG.

20. The Department also conducts a quarterly classified assessment called the Defence Preparedness Assessment Summary (DPAS). The Chief of Defence Force considers this report at the Strategic Command Group meeting. The outcomes and key judgements of this assessment process are provided to the Minister in the classified Preparedness and Concurrency Ministerial Advice.

21. The assessments contained in the report consider:
- any constraints or risks associated with the concurrent demands of undertaking current operations and being prepared to meet future operations or commitments as required by Government; and
 - a two-year outlook and is informed by the classified Quarterly Strategic Review – which considers likely developments in Australia's security situation and the possible military responses that might be directed by Government, which issues of sustainment are key inputs in the assessment process.
22. This assessment process has been refined considerably over the last four years and provides a high level of assurance to Government as to the capability of Defence to meet current commitments and conduct future operations.
23. In addition to the quarterly reporting provided in the QPR and DPAS, the manager's of major Defence capabilities (Service Chiefs and certain Group Heads) also provide broad capability targets in the PBS and their achievement against these targets in the DAR.
24. Finally, Defence provides an annual in-camera sustainment briefing to JCPAA to effectively balance Defence's obligation to allow parliamentary scrutiny of the expenditure of Commonwealth funds on sustainment, while protecting the classified information on capability readiness and availability.

Balancing Public Information and National Security Requirements.

25. Of utmost importance is the need to be cognisant of the National Security risks associated with providing a high level of public visibility regarding military capability. Assessments around the readiness and availability of major Defence capabilities are by necessity classified. A recent review by Defence Intelligence Organisation determined that the current public reporting regime is "safe". In this context any proposal for new reporting requirements will need to consider if the new information might be aggregated to disclose classified information on capability readiness and availability.
26. Defence is committed to implementing the reforms of the First Principles Review, which included as one of the principles "Transparency – Honest and open behaviour which enables others to know exactly what Defence is doing and why." The commitment to this principle is reflected in Defence's aim to earn and keep the trust of Government and the Central Agencies, with bi-annual attendance by the Minister at Defence Committee, and Central Agencies sitting on the Investment Committee.

Conclusion

27. Defence believes the current reporting arrangements should remain and provide a necessary balance between public parliamentary scrutiny and national security. The Portfolio Budget Statements, Portfolio Additional Estimates Statements and Defence Annual Report reporting to parliament, along with an in-camera briefing to JCPAA, effectively balances Defence's obligation for parliamentary scrutiny of the expenditure of Commonwealth funds on sustainment, while protecting the classified information on capability readiness and availability.