

**SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES
COMMITTEE
PROCUREMENT PROCEDURES FOR DEFENCE CAPITAL PROJECTS
HEARING ON 12TH JUNE 2012
RESPONSES TO SENATOR BISHOP'S DEFENCE GOVERNANCE ISSUES
PAPER
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Introduction

Senator Bishop's Issues Paper on Defence governance has identified correctly many of the key problems that have bedevilled Defence capability development, acquisition and sustainment over the past decade or longer. However, these very problems have been identified, and corrective measures proposed, repeatedly over just as lengthy a period, but to no avail, as discussed in the Overview to my responses to the Committee's Issues Paper. Nonetheless, this does not distract from the Committee's excellent work in identifying many of the problems facing Defence and their causes, and seeking proposals as to how these might be rectified. My responses to the Committee's Issues Paper identified the root cause behind the problems identified by the Committee as being the displacement of critical operational/technical/project management skills and competencies by institutionalised conformance and compliance (that is, an institutionalised form of Janis' Group-Think), this in turn arising as a result of the Dunning-Kruger Effect. The nodes at which the culture of "conformity and compliance" was imposed, and is still being imposed by Defence's '*Pathways to Change*', are the senior portfolio officials within Defence. The result of this has been and continues to be a pervasive loss of critical thinking skills, especially in critical defence areas of domain expertise.

Problems, Solutions and Governance

While many of the problems identified by the Committee, as well as their causes, may be correct, many might be classified as being 'perceived' or 'anecdotal' at this time, as the causal chain needs to be analysed before appropriate solutions can be determined through formal Performance Assessment and Root Cause Analysis (PARCAA), and implemented to ensure permanent change for the better. This technique is discussed further under Item 1 of my comments on the Committee's Issues Paper.

However, returning capability acquisition and sustainment to the Services will certainly result directly in the abolition of the interfaces and the associated administrative processes that have been built up between the customers (the Service Chiefs) and those supporting them. This, in turn will clear the way for a review of the higher level functions associated with strategic analysis and capability determination, a streamlining of Defence administration and a better focus upon capability outcomes rather than administrative processes.

However, before being able to take up this responsibility, the Services will require reorganisation, principally to re-introduce their Engineer Branches. This need has been recognised by both the Coles and Rizzo Reports, but it needs careful planning as the re-establishment of Service Engineering skills and competencies impacts

numbers, trade structures, training, maintenance policies, officer categories and the general officer list, all tasks better suited to ex- Service engineers rather than 'management experts'.

Finally, it is important to note that correcting the problems seen by the Committee must recognise the three levels of governance that exists, namely:

- The Executive Level of Governance. The Department responsible for executing the policies and directions of the Directing Level of Governance.
- The Directing Level of Governance. The Minister responsible for executing the policies and directives of government.
- The Oversight Level of Governance. Parliament, which is responsible to the people of Australia.

Since the Tange structural changes of the 1970s, these boundaries have become blurred and at times transgressed, giving rise to blurred, absent and at times avoided accountability. For example:

True accountabilities are not being sheeted home to those who should be held accountable because politicians at both the Directing and Oversight Levels of Governance keep letting themselves be blamed for mistakes (decisions and proposals) that have been recommended to them by the Executive Level of Governance. There is type of 'Catch 22' situation here, where the Executive level makes recommendations to higher authority which, when accepted by government, become 'Government decisions'. The Executive can then always say that the bad decision was a government decision, not theirs.

Conversely, those at the upper levels of governance may cross the boundaries of governance, often through frustration, trying to micro manage activities for which the Executive Level holds responsibility.

The Committee may need to be watchful in its commendable efforts to fix the problems it sees in Defence/DMO that it is not tempted to cross the boundaries between the three levels of governance.

COMMENTS ON FUTURE PROCUREMENT ORGANISATIONAL MODEL

1. Service Chiefs to be Fully Responsible for all Procurement Projects...

The proposal that the Service Chiefs be made responsible for capability acquisition projects is sound, placing the task with those carrying primary responsibility for the delivery of military capabilities. However, the qualifications regarding the interfaces with the DMO and the CDG may need better identification. Having been given responsibility for project management, the Service Chief should also have the authority to approve payment when specific project milestones have been achieved to his satisfaction, in accordance with his Project Management Plan – he signs off on payments in accordance with contract Terms and Conditions. The CDG then needs only to be kept advised on project status – in terms of capability, schedule and cost – against the Project Management Plan through periodic reports.

It is important to recognise that project management is not a 'box ticking' exercise as now seems to be the case – but a real, hands-on, management function under the control of people with skills and competencies relevant to the capability being procured and sustained.

2. Service Chiefs Should be Responsible for all Technical Input...

Agreed. This would be a logical and necessary extension of the Chiefs' responsibilities at 1. above for capability project management. There are several reasons for this, including:

- The only body of knowledge and experience that exists in regard to the operation and maintenance of military systems and equipment resides in the Services, even though this needs much re- strengthening and reorganising for better effect.
- Demands for project management, and operational and engineering skills varies with the type of capability being procured and the challenges that will be faced, as well as the various phases over the project life cycle. Such demands start at a high level where strategic questions and evaluations arise, and proceed to lower levels as the project proceeds. The Services are best placed to identify and respond to these varying demands. This also overcomes the current problems faced by the DMO, where short posting cycles of service personnel and the lack of experience as well as the requisite expertise disrupt projects. The Services will be able to better integrate project and service demands for numbers, skills and competencies, and develop a pool of skills and capabilities in line with emerging technological developments.
- The capability acquisition and sustainment phases overlap – the latter being driven by analyses done and the data output during the acquisition phase. The DMO has failed to grasp this. Sustainment must be managed such that it is in place when the capability enters service. This was historically the case in the RAAF pre-reform. There is a need for only one in-service date, avoiding the complexity of the current multiple Operational

and Materiel Milestones, which at best are seen as attempts to confuse and confabulate where clarity and simplicity are what are needed.

- The Services are better able to work with local industry in setting up and maintaining local support, especially for the repairable or consumable items that are critical to the sustainment of operations – the first line of national self-reliance. The reason for this is simple. Being the users, the Services have first hand, real time, knowledge of what is required.
- The reintroduction of Engineering Branches into the Services will provide a professional focus on Engineering leading to better technical administration and managerial understanding of the needs of operations and maintenance that is sadly missing now. In addition, this will have a direct impact upon job satisfaction, morale, and discipline, all of which have suffered over the past few decades.
- Finally, but most importantly, as the Services must suffer all problems and deficiencies encountered by failing projects, they are the most motivated to ensuring that their projects succeed.

3. DMO's Responsibilities

The responsibilities of the DMO following the Services' taking over the project management function will need careful assessment in view of their wide-ranging functions. Clearly, the organisation has not been as successful in capability acquisition and sustainment as the Service management models that preceded its evolution. Of this there can be no doubt – the DMO model of a centralised service provider in procurement is an absolute failure. Furthermore, this failure will inevitably continue so long as DMO retains its current functions, as the DMO cannot replicate and maintain the range and depth of skills and competencies required for the management of the various technologies that it encounters. In addition, the contract/'business' model currently employed by the DMO is inappropriate for the management of high technology military capabilities and their sustainment. The DMO may thus evolve to provide:

- Contracting services to the Service Project Managers.
- An acquisition agency for all non-technical equipment required throughout Defence and the Services. There may be exceptions to this division, such as ordnance, but these need to be better identified.

The functions listed at 3. For the DMO, especially systems engineering and systems integration (the functions that have been the constant bane of the DMO), are core elements of project management, so should form part of the responsibilities of the Service Chiefs for project management.

4. Capability Planning...

Agreed in principle. The question of the role of FDA has been discussed at Item 4 of my responses to the Committee's Issues Paper.

The key factors are:

- The function must possess the required competencies.
- It must have clear lines of supported/supporting relationships.

- It must be placed within a well designed control and governance feedback loop.

The past experience with a dysfunctional FDA indicates that governance and competencies are critical for any entity that can block the progress of future acquisitions. Any future entity which might be established as a “check and balance” to test the integrity of capability planning proposals must have genuine and deep competencies in the core areas of all three services, the lack of which was a persistent problem with the former FDA and a frequent cause of unnecessary arguments and delays in approving projects. Generalists in operations analysis are not intellectually equipped to understand CONOPS, the doctrinal framework of such, and more than often the operational context and tactical/operational/strategic implications involved.

The sorry history of FDA shows that inappropriate governance models, and often diametrically different viewpoints, led to a confrontational rather than consultative and collaborative relationship between the FDA and the capability development community. A better model is one in which the feedback provided by a “check and balance” entity is applied directly within the capability development group during the forming of the proposal, a model much closer to the test and evaluation community or “red teaming” approaches, rather than the research grant approval model borrowed from academia and used in FDA quite inappropriately.

Any future “check and balance” entity must be equipped to recognise the difference between “good proposals for bad ideas”, “bad proposals for good ideas”, and “bad proposals for bad ideas”, the intent being to identify good ideas and ensure that good proposals for these are submitted. The evidence provided to the committee by former FDA personnel is illustrative – the pervasive theme was “us and them” and a focus on “we (FDA) knew better”. The purpose of any future “check and balance” entity must be to help produce the best possible proposals and weed out the non-viable proposals, rather than compete with capability development entities over “whose idea was the better one”.

After all, effective capability development should be about what is right and what is best for the defence of Australia, not who is right.

5. CDG Involvement in Technical Matters...

Agreed. The project managers would be required to:

- Respond to requests from CDG for operational and technical support, as required.
- Provide periodic Project Status Reports to CDG, and others requiring project status information.

A recurring problem with the current CDG is that the lack of technological competencies and effective strategic guidance within the organisation results in frequently non-viable proposals entering the acquisition cycle. With a technologically de-skilled CDG and DMO, the result is inevitably one of the “blind leading the blind”.

Conversely, a model in which the Services manage projects using technically competent Engineering personnel, and capability proposals developed by technically competent personnel, with proposals for new capabilities rigorously assessed and tested in a “red teaming” feedback loop environment, produces an entirely different dynamic in capability development and acquisition.

6. Naval Matters.

This proposal may provide an interim management measure, particularly in the current environment where pressures exist to proceed with a submarine project, despite an apparent absence of any robust requirements determination – that is, we do not know what the capability is required to do, where it must operate, or what systems will be needed to satisfy the capability requirements. Just where does it fit in to Australia’s strategic objectives and force structure? It appears to be yet another case of cart before the horse, where many of the risks are self induced and the level of risks being extreme from the start. Much better to get the baselines right before talking about what is needed.

In the mid to longer term, Navy needs to re-establish and build up its Engineer Branch, and manage its engineers as a central resource so as to best manage its operational elements and its projects.

Then, Navy may form a submarine section within its Engineering organisation to manage and oversee submarine engineering functions, such as Seaworthiness, design, operations and maintenance within Navy and Contractors.

7. Streamlining Procurement Processes.

A prime objective of any reform effort must be to reduce the number of areas involved in the capability acquisition function to those holding primary accountabilities. At present, there are far too many functional, administrative, financial, and bureaucratic interfaces that work against timely and efficient management.

Passing project management to the Service Chiefs will immediately sweep away a range of interfaces that have frustrated capability management since they were established, such as Materiel Acquisition Agreements, Materiel Sustainment Agreements and Project Charters to name a few.

Additional Item – the Charters of the Service Chiefs and Governance.

The charters to which the Service Chiefs are beholden need revising if they are to better reflect their primary accountabilities for providing and sustaining their specialist capabilities, and isolate them from undue pressures from the Defence bureaucracy.

For Air Force, (see Annex A), the Service Chief’s primary responsibility is currently buried at 5a, under ‘Results’. The Chief of Air Force is *“accountable for the provision and sustainment of the aerospace capability required for the defence of Australia and its interests”*

The key items of interest in his Charter that impact his ability to discharge his primary responsibility in a professional, military way, relate to:

2. Accountability:

"Your priorities will be reviewed and set annually by us (the Secretary and CDF,) in the form of an Organisational Performance Agreement (OPA). We will measure your performance and provide feedback against these priorities." and

5.b, 1 Results:

(To manage his service by):

"developing leadership and behaviours that advance and embed the Results through People leadership philosophy."

The first item hardly establishes and recognises the status and competence of the Chief of the RAAF, and requires that his performance be measured annually by people who will typically have no understanding of what is involved with the management of the aerospace capabilities required in defence of Australia, and who themselves are not so measured.

The second mandatory requirement conflicts directly with the fostering and management of the military mores, ethos and morale required of service people, and has much to do with the lack of discipline and morale that has developed. It may be also be traced in origin to the Department's continuing pressure for conformance and compliance throughout Defence and the Services, currently being furthered under the guise of *"Pathway to Change – Evolving Defence Culture"*.

In short, the Department continues to be focussed upon imposing conformance and compliance rather than on generating and sustaining capabilities.

This Charter smacks of a lack of respect for the position of Chiefs of the Services and fosters the perception that the aim in Defence is to *"keep the Services in their place."*, that is, under civilian, rather than civil control.

The Role of Governance

At a higher level, the Preamble to the Charter states:

"Through us, the Portfolio Minister provides strategic direction that contributes to achievement of the Government's Defence mission "To defend Australia and its interests.""

However, what follows can hardly be described as strategic guidance - it is essentially bureaucratic administration, and a mandatory cultural directive.

Proper civil control of the military rests with the Minister and he alone must be held accountable to government and parliament for Defence matters. His accountability

may not be delegated to the Secretary or the CDF, or anyone else, which raises the question as to the legality of the current arrangement.

The background to this situation was well traced by Mr N. James, Director of the Australian Defence Association, in his Defence Brief No. 141 of 2010:

“The amalgamation of the Defence group of departments in 1974 satisfied bureaucratic objectives but greatly weakened the exercise of ministerial oversight. It over-centralised it in one minister and then over burdened him as the department grew and spread relentlessly... the structure and practice of ministerial supervision faced ever-growing bureaucratic obstacles - as the Morshead Review in 1957 had so ably predicted.

A departmental structure and culture designed by bureaucratic mandarins (both civil and uniformed) to suit, breed and nurture themselves has continued to frustrate effective ministerial control for decades, while at the same time often successfully disguising this flaw from ministers and their shadows. Ministers have been increasingly snowed under by paperwork and bureaucratic process. Proper civil control of the military has been increasingly and wrongly displaced by civilian bureaucratic control, resulting in a poisonous departmental culture and constant frustrations in ADF – Public Service relations.”

This adds yet another dimension in regard to the problems observed in Defence today.

ANNEX A: Charter of the Chief of Air Force.

CHARTER

Air Marshal Geoffrey Shepherd, AO
Chief of Air Force

Preamble

1. Through us, the Portfolio Minister provides strategic direction that contributes to achievement of the Government's Defence mission "To defend Australia and its national interests".

Accountability

2. Through us, you are directed to achieve the results outlined in this Charter within the guidance principles set out below. You are accountable to us for your performance and for the performance of those you authorise, or to whom you delegate authority, having regard to the statutory responsibilities of all parties. Your priorities will be reviewed and set annually by us, in the form of an Organisational Performance Agreement (OPA). We will measure your performance and provide feedback against these priorities.
3. In the event of the CDF's temporary absence, you will be accountable for carrying out any of his responsibilities that are delegated or authorised to you in writing, or otherwise.

Results

3. You are to command the Royal Australian Air Force.
5. We expect you to set the standard in everything you do, and to:
 - a. deliver Air Force capability for the defence of Australia and its interests, including the delivery of aerospace capability, enhancing the Air Force's reputation and positioning the Air Force for the future;
 - b. raise, train and sustain Air Force forces by proper stewardship of people and of financial and other resources, in particular through:
 - i. developing leadership and behaviours that advance and embed the Results through People leadership philosophy,
 - ii. developing and maintaining Air Force workforce skills, career structures and promotions up to and including Group Captain,
 - iii. building and maintaining the reputations of the Air Force and Defence as a whole, and
 - iv. achieving or bettering budgeted operating results;
 - c. coordinate and manage strategic aspects of Australian Defence Force aviation;
 - d. act as the Australian Defence Force airworthiness authority;
 - e. provide timely, accurate and considered advice, in particular:
 - i. via input to intelligence and policy advice that enables the Government to assess its strategic direction continuously,
 - ii. on Air Force and military capabilities for the force in being and the future force, and
 - iii. through your membership of the Defence Committee, the Chiefs of Service Committee, the Defence Capability and Investment Committee and other committees in support of whole-of-Defence results;
 - f. contribute to Defence and Government security by supporting strategies to raise security awareness, establish a strong security culture and improve security management.

Guidance

6. You should pursue these results through effective leadership and management; and should ensure that:
 - a. your actions are prudent, lawful and ethical;
 - b. your actions are consistent with:
 - i. Government policy, including Government-approved options for current and future capabilities,
 - ii. Air Force, APS and Defence values,
 - iii. the CDF's authority as commander of the Defence Force under the Defence Act 1903, his statutory responsibilities and his role as principal military adviser,
 - iv. the Air Force Act 1923,

- v. the Secretary's statutory responsibilities and authority, particularly under the Public Service Act 1999 and the Financial Management and Accountability Act 1997, and his role as principal civilian adviser, and
- vi. Defence departmental frameworks, policies and standards;
- c. your decisions and advice consider the impact on others, (including the leadership of foreign forces), and you:
 - i. consult and collaborate as appropriate,
 - ii. properly manage risk,
 - iii. meet explicit and implicit mutual obligations to other Service Chiefs, Group Heads, Australian Defence Headquarters (ADHQ) Executives and the CEO DMO, including supporting Defence Committee decisions, and
 - iv. inform the Secretary and CDF (and other Defence Committee members as appropriate) of advice you offer to the Ministers and the Parliamentary Secretary; and
- d. your decisions and advice take into account the impact on sustainable delivery of Defence's outputs.

ACM A.G. HOUSTON
Chief of the Defence Force
13 September 2006

R.C. SMITH
Secretary
13 September 2006