

Sustainment

Background

- 5.1 The role of the Defence Materiel Organisation (DMO) in directly supporting ADF operations includes contributions to whole-of-Defence efforts such as the Force Protection Review, rapid acquisition of equipment, meeting ongoing operational supply demands, and sustainment of materiel already procured and deployed.¹
- 5.2 In some areas, notably in working with the Royal Australian Navy (RAN) and industry to provide and sustain amphibious supply capabilities, 2010-2011 has been a particularly difficult year. The DMO, in conjunction with the RAN, has committed to decisive action, including both immediate remediation work and ensuring that the systems are in place, to prevent recurrence of similar problems in naval fleets.²
- 5.3 The Smart Sustainment Stream of the Strategic Reform Program (SRP), incorporating inventory, maintenance and non-equipment procurement of explosive ordnance clothing and fuel, is intended to increase effectiveness and efficiency in the maintenance of military equipment, inventory and supply chain management.³

1 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 4.

2 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 4.

3 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 22.

- 5.4 In 2010-2011, the Smart Sustainment stream achieved its savings target of \$288 million.⁴
- 5.5 Savings were achieved through working cooperatively with capability managers (Navy, Army and Air Force) on more cost-effective arrangements.⁵
- 5.6 Other savings were achieved through working with industry. Examples include cooperative work to revise the maintenance strategy and overhaul program for the Hawk Lead-In Fighter, tendering for group maintenance and release of batching for ship repair, and reform of the P-3 Orion mission system support contract.⁶
- 5.7 Another significant contribution was made through inventory reform, where a standardised system for optimising inventory holdings is being progressively rolled out to Systems Programs Offices.⁷
- 5.8 Additionally, a series of Smart Sustainment pilot projects are being developed with a number of companies to seed new ideas as part of developing the reform agenda. All companies represented on the regular CEO Roundtables hosted by CEO DMO have been invited to contribute ideas to further develop the reform agenda for sustainment. Pilots have been grouped against a number of themes that include:
- overseas lessons learnt;
 - internal lessons learnt;
 - overheads;
 - contracts; and
 - engaging with small to medium enterprises.⁸
- 5.9 DMO is also leading the Procurement and Sustainment Reform Stream. This relates to the outcomes of the Defence Procurement and Sustainment Review, which was chaired by David Mortimer.⁹
- 5.10 DMO established and matured arrangements that underpin these reforms in 2010-2011. Additionally, the Gate Review System was expanded to a larger number of projects.¹⁰
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4 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 19.

5 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 19.

6 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, pp. 19-20.

7 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 20.

8 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 23.

9 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 20.

Smart Sustainment

- 5.11 The Committee sought an update on delivering savings in the smart sustainment program.
- 5.12 Defence advised that there is an active program in this area, which is resulting in savings each year. DMO works with the capability managers, who are ultimately responsible for delivering the capability, to identify potential savings. Currently, smart sustainment is on track to achieve its goals.¹¹
- 5.13 The Committee questioned the sustainment model for new and upcoming procurement purchases, such as Air 98, C-17, and the Joint Strike Fighter (JSF). The Committee observed that feedback had been received about the difficulty of relying on a single sustainment line to a country that is itself at war and, therefore, diverting spares for that platform type into theatre. The Committee queried how smart sustainment in future projects will ensure Australia is not locked into a sustainment model that results in single supply channels and dysfunction.
- 5.14 Defence concurred that this is an issue, particularly with the European supply chain for helicopters. Defence noted that the tiered work and consortium operating model in the European defence industry results in an overhead in terms of decision making and the supply chain when increase in demand is experienced. Defence advised:
- It has . . . raised serious issues about how we deal with the European industry going forward, and securing a focus on our needs in Australia. As I say, we have raised this at the highest levels in Europe, and I will be continuing to do that, because, if this were to become an established norm, it would really seriously challenge Australia's ability to source future capabilities if the European suppliers could not address that fundamental issue.¹²
- 5.15 The Committee questioned whether these concerns applied only to European suppliers, or if it was a more widespread issue.
- 5.16 Defence advised that this issue also applies to the United States supply chains. However, the United States often has larger quantities of parts and, at this stage, Defence is not experiencing an impact in respect of United States supply chains. Defence reinforced that it is continuing to

10 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 20.

11 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 44.

12 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 45.

- work to ensure that supply chains and sustainment models are right for Australia.¹³
- 5.17 Despite these ongoing issues, Defence noted that participation in global supply chains has had significant benefits, particularly for some elements of the Australian Defence Industry.¹⁴
- 5.18 The Committee questioned whether, as an example of the potential impact of such issues, supply chains of American parts had decreased during the Gulf War.
- 5.19 Defence took this as a question on notice, but noted that the experience in Iraq, for example, has actually been that the US and other partners have worked to ensure everyone keeps operational capability to support activities there.¹⁵
- 5.20 Defence subsequently advised that a review of DMO records did not indicate that supply chains supporting ADF aircraft involved in the Gulf War suffered due to high rates of effort.¹⁶
- 5.21 Defence further assured the Committee that it attempts to maintain diversity of supply where possible. Consequently, in the acquisition phase of any new platform, Defence attempts not to be locked into a specific supplier through restrictions such as intellectual property (IP) rights.¹⁷
- 5.22 Defence did note that, in the case of the Armed Reconnaissance Helicopter (ARH) and the Multi-Role Helicopter (MRH), not as much intellectual property was secured in the acquisition phase as should have been. Defence is currently trying to fix these issues in the existing contract through negotiations with Australian Aerospace, but noted that it is difficult to assess these requirements during the developmental stages of purchasing complex Defence equipment.¹⁸
- 5.23 The Committee questioned whether the issues with the European supply chain had been known prior to the purchases in question, and what would stop such situations reoccurring in the future.
- 5.24 Defence stated European supply chains have not produced the results desired by Defence for the past few years, particularly in the aerospace,

13 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 45.

14 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 45.

15 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 46.

16 Department of Defence, *Submission 18*.

17 Ms McKinnie, Department of Defence, *Transcript*, 16 March 2012, p. 46.

18 Ms McKinnie, Department of Defence, *Transcript*, 16 March 2012, p. 46.

specifically, helicopter, area. Defence advised this has occurred as a result of a combination of factors including:

- The high volume of NH90 [Australia's variant of this helicopter is the MRH90] sales and the resultant, unanticipated, high usage of spare parts;
- The 'nested' sub contractor supply network which leads to delays as a result of specific contractual exclusivity provisions; and
- High customer demand.¹⁹

5.25 Defence advised that, while the Government considered a wide range of risks prior to approving the purchase of the Armed Reconnaissance Helicopter and the Multi-Role Helicopter, there is now greater awareness of European supply chain issues as a consequence of issues with both projects.²⁰

5.26 Defence noted that the Kinnaird and Mortimer reviews have both made improvements to project risk assessment processes. Further, the Chief Defence Scientist now provides an independent technical risk assessment for all projects prior to Government consideration and the CEO DMO provides an independent assessment of overall risk. Additionally, DMO has updated its contracting templates, particularly those related to in-Service support.²¹

5.27 The Committee was concerned whether upcoming contracts for equipment, such as the Romeo, C-17, Super Hornet, and the JSF, provide capability to deal with anyone other than the original equipment manufacturer (OEM) around the maintenance of the aircraft. Specifically, with the current tranche of contracts, whether options for maximising IP had increased.

5.28 Defence advised that this is very much in DMO's current thinking about how programs can be structured, particularly for the JSF.²²

5.29 Defence provided specific feedback on upcoming projects as follows:

- Romeo. The Romeo was purchased through a foreign military sales (FMS) case with the US Government. In the letter of request, Defence requested the necessary IP to support the platform and the ability to sub-licence that IP to allow competition. Defence has received written

19 Department of Defence, *Submission 21*.

20 Department of Defence, *Submission 21*.

21 Department of Defence, *Submission 21*.

22 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 47.

advice that the US will permit transfer of IP rights in respect of data, and this will form an IP schedule to be provided as soon as possible after signing of the letter of acceptance. Defence notes that, while it cannot be certain at this time of the extent of the IP rights granted under the FMS case, it has a high degree of confidence that sustainment will be able to be competed. Defence further advised it has entered into direct IP Deeds with the original equipment manufacturers of the Romeo to obtain rights to compete for sustainment activities in return for a royalty fee in the event rights are not available through the US Government.

- C-17. Defence advised that, like the Romeo, the C-17 is purchased through a foreign military sales case. The acceptance of standard FMS terms and conditions, including IP, was a conscious decision made by Defence at the time of acquisition. Defence notes that this decision was based on the preferred sustainment methodology, leveraged off existing US sustainment arrangements for the global fleet, and provided cost benefits that made the acquisition and sustainment of a small C-17 fleet viable. Defence advised it is currently considering whether to contract out of a range of maintenance tasks currently being conducted in Australia.
- Super Hornet. Defence advised that the Super Hornet was also acquired through an FMS case. This case places limitations on Australia's ability to have the full scope of sustainment for the Super Hornet fleet contracted commercially, mainly as a result of the IP rights provided to the US Government by US Industry. Defence advised that these restrictions led to the current sustainment arrangements which have involved a combination of FMS cases and direct commercial contracting with Boeing. Defence further advised that the US Department of the Navy has indicated that, provided the US Department of State approves the request, there should be no impediments to providing technical data to industry, including related IP.
- JSF. Defence advised that Australia, as part of a nine nation partnership, is a signatory of the JSF Production, Sustainment, and Follow on Development Memorandum of Understanding. The philosophy in the Memorandum of Understanding is that the configuration of the air systems will be standardised as far as possible, and a common sustainment solution will be established. Defence notes that the US is the primary contracting agency on behalf of the partnership and Lockheed Martin is the prime contractor for the design and production of the air system. Defence stated that the partnership does not intend to acquire the IP rights to independently redesign or manufacture the air

system. Rather, it is intended that Lockheed Martin will continue to provide sustainment and follow on development of the air system. Defence further noted that an IP needs analysis is currently being conducted to identify what information will be required for sustainment.²³

5.30 The Committee noted that comments received suggested that longer term relationships with industry result in lower risk and lower costs to the Commonwealth, and more investment by industry. The Committee questioned what measures, development, and innovation DMO is seeking to implement in contracting models to provide partnership, while still retaining a competitive element to ensure value for money and redundancy in case of performance issues.

5.31 Defence responded that the in-service support contract for the Collins submarine exemplifies DMO's actions in this area:

The number of companies that could viably compete to maintain Collins effectively is very small. But we had a non-performance based contract with ASC, which was cost-plus. We felt it was not delivering value for money for the Commonwealth. ASC's management got together with us and we mapped out exactly that question: how do we give you a reasonable surety of work so you can invest in people and equipment while we also keep the competitive tension at least available if we go to an in-extremis case? There are two elements that we have put into the contract. The first is that we have committed to ASC that, provided they do a good job in accordance with the KPIs we establish – which deal with costs and performance and so on – they will be the maintainer of Collins to the end of Collins. But with regard to that other element, we have basically introduced a five-year window of work, for which we look to get efficiency dividends and so on established in that period. At the three-year mark of the five, we provide formally to ASC a rating about how they have performed relative to objective KPIs, and three conditions can emerge. The first is green: they are doing very well and we are very happy. We will then extend the window. So, at that point, they really only have two years of work left ahead of them. We will reset. . . Then there is another five years of work so that, once again, they can invest and there is a certainty of workforce and so on. The second is amber. In other words it is very marginal, in which case we would put them on notice that, unless within one year we got a

23 Department of Defence, *Submission 21*, 10 May 2012.

really serious performance improvement, we would go back to market. . . The third case would be red, in which case we would put them immediately on notice that we intend to test the market. . . . That is how we are keeping the competitive tension: the need for the company - not just ASC - any company - to perform.²⁴

5.32 Defence further stated:

The second element within the structure is a make or buy decision. So what we want ASC to do in a large number of areas is to be contestable internally about whether they should do it internally with a vertically integrated capability or bring in other elements of Australian or international business that are much more effective at getting answers.²⁵

5.33 The Committee noted that such a system is likely to be effective where there is leverage for both sides to come to an agreement, but queried how, when dealing with a large overseas based prime contractor where Australian Defence represents only a fraction of their customer base, this level of contracting and performance risk management can be implemented.

5.34 Defence observed:

The same basis was put in place, broadly, for the Wedgetail support contract. For the performance based contract, the first couple of years was giving the company the opportunity to learn and for us all to benchmark what it was going to cost. It also has a program of contestability, review, and improved performance, and Boeing have joined in on that program.²⁶

5.35 The Committee asked how this kind of thinking could be applied in a situation where Australia does not have that same contracting leverage, such as an FMS arrangement.

5.36 Defence concurred that this will sometimes be difficult, particularly where, for example, Australia only buys a small number of items out of a very large US fleet. However, Defence noted it has been working with the US Head of Acquisitions on such issues and current indications are that Australia will be able to be involved in discussions about how the FMS arrangement will be set up. Defence noted that this is a significant step

24 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 47.

25 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 47.

26 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 48.

forward which has only occurred in the past eighteen months and will take time to become established practice.²⁷

5.37 The Committee observed that the DMO Annual Report refers to a focus on improved maintenance processes to reduce waste and overservicing. The Committee asked for examples of this.

5.38 Defence replied:

In the case of the vehicles that we support for the Army, through conducting a reliability, availability and maintainability analysis, we were able to identify that we were overservicing. From that analysis we have changed the maintenance regime and that has resulted in savings. It has also resulted in increasing availability because we actually have the vehicles offline for less time and, so, they are available more often. Also, we have changed the servicing regime for F/A-18s and, through that, we have been able to deliver higher levels of availability for the Air Force. Those are just some examples of what we have done.²⁸

5.39 The Committee asked what triggers had led to identification of areas of overservicing. Defence responded:

It was through the reliability, availability and maintainability analysis. In the DMO we are increasing our capability in that area. We are moving to ensure that our maintenance regimes are based on careful analysis of the data of how these systems have been performing rather than historical maintenance plans. Through this process we found that we are able to reduce the cost of maintenance.²⁹

5.40 The Committee noted that it had recently been briefed on a range of issues with the ARH, including sustainment support, and that, while this briefing indicated there were a number of concerns, the DMO Annual Report gave a rating of 'substantially achieved' for this program.

5.41 Defence informed the Committee that the Portfolio Budget Statements 2010-2011 stated that DMO and the prime contractor for the ARH, Australian Aerospace, would focus on maturing the ARH logistics support system so that flying hour rates would increase and sufficient aircraft training and development could occur to achieve higher combat readiness.

27 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 48.

28 Ms McKinnie, Department of Defence, *Transcript*, 16 March 2012, p. 48.

29 Ms McKinnie, Department of Defence, *Transcript*, 16 March 2012, p. 49.

- 5.42 Defence advised that sustainment for the ARH was scored as substantially achieved as the logistic support system was matured during 2010-2011 and the flying rate increased to 2,359 hours, up from 1,798 hours in 2009-2010. Although this was less than the Army requirement of 4,150 hours, and, as a result, some Army aircrew training targets were not met, a rating of 'substantially achieved' was given when assessed against the stated 2010-2011 Portfolio Budget Statements objective.³⁰

Sustainment versus Procurement

- 5.43 The Committee asked about the agility of the sustainment system and, specifically, whether, when a model of ammunition or equipment is superseded, replacement ammunition or equipment is progressed through the procurement process or if it is able to be purchased as a sustainment item with a short lead time.
- 5.44 Defence outlined that there are provisions for obsolescence within sustainment budgets, so there are a range of options. For example, life-of type buys can be made, and explosive ordinance can be stockpiled. It is when potential major upgrades are required that a decision would be made about implementing a major new project or undertaking minor upgrades through sustainment. This decision is dependent on the assessed extent of the upgrade.³¹
- 5.45 Defence explained that one example is the Joint Project 90, which replaces the mode 4 Identification Friend or Foe system (IFF) with mode 5. In this project there is a high level of integration work for multiple platforms. Consequently, it did make sense to conduct a new project. However, with other projects, it may be better to conduct the replacement through a sustainment program.³²
- 5.46 The Committee noted that this decision has sometimes not been made effectively in the past, and queried how DMO is identifying 'lessons learned' to ensure it does not make the same mistakes in the future.
- 5.47 Defence advised that it is resolving this issue through a number of mechanisms. It has been recognised that not all sustainment organisations have an appropriate level of training, experience, skills and qualifications. Consequently, Defence is working on a professional development
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30 Department of Defence, *Submission 16*.

31 Ms McKinnie, Department of Defence, *Transcript*, 16 March 2012, p. 49.

32 Vice Adm. Jones, Department of Defence, *Transcript*, 16 March 2012, pp. 49-50.

program which will identify the skills required in sustainment and work to improve those skills. Further, all aerospace projects now work on identifying a mature project first, fitting it to one aircraft, proving that it works, and then rolling out the program, rather than upgrading the entire fleet before confirming the upgrade works effectively. To assist this situation, master schedules are established for all major platforms to provide a clear understanding of when ships or aircraft will be made available for updates, and managing that scheduling closely. Finally, Capability Development Group (CDG) has implemented a project initiation board process, which involves DMO and the Capability Managers for the respective platform. This board process ensures that issues such as the coordination of assets through an upgrade program will be managed.³³

- 5.48 Defence further remarked that, where projects have issues, the majority of issues start early in the project. For this reason, the project initiation board process is being strongly emphasised.³⁴
- 5.49 The Committee noted its approval of such a process, and also the use of Gate Reviews in Defence. However, the Committee expressed the view that involving people who are knowledgeable, but independent of the system, would add further value to DMO project boards and the project initiation board.
- 5.50 Defence confirmed that Gate reviews are being used in the pre-First pass and pre-Second Pass work within Defence. A recent Gate review which identified concerns with a project in its early stages has resulted in that project being referred to a project initiation board for review.³⁵

Delays in the Acquisition Process

- 5.51 The Committee noted some of its members had received feedback about the delay between an acquisition itself and negotiations for sustainment arrangements and IP. One suggestion has been to either mandate a timeframe in which DMO has to conclude contract negotiation, or force a referral up to a ministerial level for decision with a view to ensuring that there is not a significant delay in the process.

33 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 50.

34 Vice Adm. Jones, Department of Defence, *Transcript*, 16 March 2012, p. 51.

35 Vice Adm. Jones, Department of Defence, *Transcript*, 16 March 2012, p. 51.

5.52 Defence responded that, while the first and second pass processes are robust, the unintended consequence of this system is that there is a pause while the final decision is made. Defence noted that this is a whole of Government issue as these decisions have to be made through Cabinet. Consequently, Defence has been attempting to identify ways to reduce the impact of this delay. One proposal has been to move further down the negotiating path with companies before proceeding to second pass, thereby resulting in less issues to resolve in the negotiating phase. However, such an approach will also result in an unsuccessful company spending more time in the process, which, ultimately, wastes their resources. Defence advised it is very mindful of this issue and is working to resolve it, noting that the major issue here is not just loss of time, it is also a loss of momentum within the company. As there is often a team within the company that has been involved in this process, if there is a delay, either the team has to be restarted, or some of the key players may have moved to a new activity.³⁶

5.53 Defence further stated:

As part of our plan to reduce the cost of tendering we have introduced offer definition activities as a standard part of the tendering process, and that is our preferred option. Under the offer definition activities we seek enough information from industry to allow us to shortlist. We then run with the shortlisted companies through an offer definition activity that allows us to look at key risks that might have come in the tenders. It allows us to go through particular terms and conditions that may be problematic – to do some risk reduction work and the like – with the view then that at second pass approval we have done a fair amount of work with the companies to identify some of these issues with the view that when we do get approval we can sign the contract and that a lot of the issues will have already been thrashed out. Those offer definition activities can be either unfunded or funded. More and more we are seeking funding to allow us to do more work in the offer definition.³⁷

5.54 The Committee observed that feedback from industry has been that there are five clauses which are the prime reasons that DMO contract negotiations take so long. Industry feedback indicates that these clauses are unreasonable from Industry's perspective.

36 Mr King, Department of Defence, *Transcript*, 16 March 2012, pp. 51-52.

37 Ms McKinnie, Department of Defence, *Transcript*, 16 March 2012, p. 49.

- 5.55 Defence observed that issues which industry find unreasonable include the IP issue which has been extensively discussed by the Committee. Defence affirmed it will not resile from insistence on certain clauses such as liquidated damages and IP clauses. These issues are complex and need to be resolved to ensure that future problems do not occur with a project.³⁸

Collins Class Submarines

- 5.56 The Committee asked for an update on the number of Collins submarines which are currently operational.
- 5.57 Defence advised that, currently, two submarines are running with the expectation of there being three later in 2012, and up to four by the end of 2012. Defence noted that there are reliability issues in some key systems which are impeding availability, however, these are being addressed, and Defence is currently meeting Government preparedness and readiness requirements.³⁹
- 5.58 The Committee notes that having two, with the expectation of three, submarines available from a fleet of six, meets or exceeds international practice. The Committee noted this level of availability is comparable to the UK, US and French Navies.
- 5.59 The Committee asked for an update on the Collins Reform Program.
- 5.60 Defence explained that the first part of the Coles and team report had been released just before Christmas 2011. The second part of the report, the detailed phase, is expected by April 2012. Some international navies had now advised their preparedness to share some of their information and experience of submarine availability investment costs, and that information would be incorporated into the final Coles report. This will enable the Collins submarines not only to be reviewed in terms of availability, but also compared to other submarines. However, Defence noted that this is always a difficult process because each submarine type comes with its own design limitations and is also affected by the way the parent Navy operates it.⁴⁰
- 5.61 The Committee questioned the quantum of savings to be delivered by Collins through the Smart Sustainment Program. Defence replied that the

38 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 51.

39 Vice Adm. Griggs, Department of Defence, *Transcript*, 16 March 2012, p. 43.

40 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 44.

Collins will not deliver savings, rather, both Collins and amphibious capability will require investment.⁴¹

- 5.62 Defence also noted that, while Collins is not anticipated to deliver direct cost savings, there has been, and will continue to be, considerable reform. Such reform is exemplified by the implementation a new contract and the greater use of fleet support units through the Navy Submarine Continuous Improvement Program. These reforms will assist to ensure that the costs of maintenance do not increase.⁴²
- 5.63 Defence also noted the maintenance contract for Collins is currently being redeveloped and will change from a cost-plus contract to a performance based contract.⁴³

Civilianisation of Maintenance Personnel

- 5.64 The Committee questioned whether civilianisation of military positions involved in the maintenance and support of assets was eroding the military's capability to undertake required work. The Committee queried whether this action was actually resulting in cost savings, or if it actually costs more to have civilian or contracted workers in these roles, as, for example, overtime is not required to be paid to ADF personnel,
- 5.65 Defence responded that civilianisation of such functions was not a recent activity, rather, contractor support to military maintenance and sustainment has been occurring for many years.⁴⁴
- 5.66 Defence clarified that the Committee was specifically concerned about the potential erosion of the skill sets of the technical workforce in uniform. Defence agreed that it believed this had occurred to some extent, but it is currently being rebalanced. For example, Navy has recently completed a continuous improvement program into Submarines as part of the SRP:

One of the key planks of that program is to make more use of the fleet support units, intermediate maintenance units ashore, not just in submarines but across the whole Navy. We will see them doing more work, which in many ways is to the contractor's benefit because we start to get back some of the skills that may have been

41 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 44.

42 Vice Adm. Griggs, Department of Defence, *Transcript*, 16 March 2012, p. 44.

43 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 44.

44 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 43.

eroded slightly over the last decade or 15 years. It is still fundamentally critical for me for our technical people to be able to fix things in the middle of the ocean and keep things running. I do not want to see an erosion of those skills. I think greater use of our fleet support units, not just in submarines but across the board, is going to be an important part of that. We are moving forward with that as we speak.⁴⁵

Conclusions

5.67 The Committee notes the following in respect of Sustainment:

- Defence has identified issues with sustaining platforms that have single international supply chains, and is working to resolve any issues which may affect Australian's sustainment of these platforms.
- Defence is working to ensure that all future acquisitions have appropriate IP requirements identified and resolved, noting that it can be difficult to assess these requirements during the developmental stages of purchasing complex Defence equipment.
- Defence is seeking to implement contracting models that partner with industry, while still retaining a competitive element to ensure value for money and redundancy in the case of performance issues.
- Defence is working with industry to mitigate the impact of any delays which occur during decision making in the acquisition process.
- However, Defence has stated it will not resile from including complex elements such as IP in procurement and sustainment contracts to ensure that future problems do not occur with a project.
- Defence has implemented a project initiation board process, in addition to Gate Reviews, to identify issues with an acquisition or sustainment process early.
- Defence has stated it is currently achieving targeted sustainment savings through a range of initiatives.

45 Vice Adm. Griggs, Department of Defence, *Transcript*, 16 March 2012, p. 43.

Committee Comments

5.68 The Committee makes the following comments in respect of Sustainment:

- The Committee welcomes indications that Australia will have a greater say in the future structure of FMS arrangements between Australia and the US, and encourages continued progress in this area.
- While Defence clearly intends to defend its approach to how elements such as IP are included in procurement and sustainment contracts, the Committee also notes Industries' consistent advice that these elements cause significant complexities and challenges. Accordingly, the Committee believes that Defence should work collaboratively with Industry to develop a compromise position on this issue and will look for feedback on progress in this regard during the current year.