

Introduction

Inquiry into the *Defence Annual Report 2007-08*

Background

- 1.1 The Defence Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade held public hearings into the *Defence Annual Report 2007-08* in Canberra on Thursday 16 April, Friday 19 June, and Friday 21 August, 2009.
- 1.2 Witnesses from various parts of Defence, including uniform and civilian personnel, appeared before the Sub-Committee. Four submissions were received.
- 1.3 This Report reflects the Committee's key areas of interest, which are:
 - the ADF's ability to encompass its current range of tasks, including its current force structure in Afghanistan, and the influence of new factors on Defence, in particular the Global Economic Crisis and the release of the 2009 White Paper;
 - progress on major Defence procurement projects.
 - the management, recruiting, development and retention of Defence personnel, including pay systems;
 - constraints on Defence's ability to deliver on the ADF's capacity to fulfil its role, such as questions over oil security and climate change; and

- new and emerging areas of attention for the ADF, including the Proliferation Security Initiative and management of cyber warfare threats.

The Kinnaird Reforms

- 1.4 With regard to the procurement projects, the Committee notes the representations made to it, across a range of Defence's submissions that, under the Kinnaird process, future projects will not suffer the same fate. It is also noted that, at such an early stage in this reform process, Defence have not yet concluded a complex project under the new arrangements.
- 1.5 Throughout the committee hearings a number of major projects were characterised by delay and failure to provide contracted capability. It was common for Defence to state that these problems were in part, or in large measure, the result of pre-Kinnaird procedures.
- 1.6 These reforms should provide Defence with a more agile stance on procurement, allowing both rapid acquisitions and termination of arrangements where performance is considered unacceptable. These, in effect, increase Defence's power to manage relationships with contractors, and augur well for the future capacity of projects to be delivered within projected timelines.
- 1.7 However, the Committee is mindful these reforms will require continued follow-through, and championing from management in Defence, if they are to achieve their stated objectives. Cultural change in Defence requires effort over a sustained period, otherwise changes will be cosmetic.
- 1.8 The extent to which the Kinnaird reforms fully address these problems will be subject to close scrutiny by future Committee reviews.

Unique or leading Edge Military Off-The-Shelf and Commercial Off-The-Shelf solutions

- 1.9 The Committee is mindful of common factors that have led to delays or cancellations in the projects considered within this review. One is the tendency to adopt relatively unique or leading edge systems. This is at odds with current initiatives for Defence to adopt Military Off-The-Shelf (MOTS) and Commercial Off-The-Shelf (COTS) solutions where possible.

- 1.10 The unique nature of Australia's security environment sometimes requires tailored or special design assets and solutions. That said, many Australian defence needs can be properly met with appropriate MOTS acquisitions. The adoption of high-risk first-of-type acquisitions should only be entered into where it is clear that such an outlay, in terms of time and money, can be clearly justified by Australia's defence requirements. In the absence of a clear strategic case for such purchases, MOTS should be the default option.
- 1.11 A second common factor is a high level of technical complexity, involving a requirement to generate significant amounts of new software code. In the Committee's view, while this may be necessary in some instances, it would be reduced the more Defence adopts off-the-shelf solutions.

Recommendation 1

The Committee recommends that, in the absence of a clear strategic case for high-risk first-of-type acquisitions, military off-the-shelf purchases should be the default option for procurement projects.

This recommendation does not necessarily relate to any particular acquisitions currently under consideration but rather represents a broader statement of policy reflecting on issues relating to past acquisition programs.

Rapid Procurement

- 1.12 The Committee recognises the need for a rapid acquisition process capable of responding to emerging operational needs. This issue was raised during the public hearings by the Deputy Chair:

I would like to ask you about the rapid acquisition program. Can you tell me a little bit about it: how it operates; how requests go up through line; how they are determined; how they come back for approval; and what the time frames normally are for rapid acquisition programs?¹

1 The Hon. Bob Baldwin MP, *Transcript*, Friday 19 June 2009, p.14.

1.13 In response Defence stated:

Generally speaking, what will happen is, first of all, there will be a given set of circumstances on the ground in one of the operations we are conducting. The one at the moment that probably creates the circumstances for rapid acquisition potential is Afghanistan. So, if something happens in Afghanistan, we get into the rapid acquisition process. A classic case occurred when the government recently announced a fairly large expenditure on counter-improvised-explosive-device equipment. Fundamentally, what happens? Something happens on the ground which indicates a change in the circumstances. We make an assessment. We say, 'We need this to counter that.'²

1.14 At the public hearing on 21 August 2009 the Chair raised the following question:

I want to ask questions on a different topic: the rapid acquisition program, particularly for TAG-East and TAG-West. The committee has had the benefit of visiting those units over the course of the last year or so. Whilst there are examples of that rapid acquisition program working well, there were certainly examples drawn to our attention where it does not seem to work very well at all. I am not sure where in the chain of events these things break down. Examples include the provision of the night-vision goggles that TAG-East people use and interchangeable short barrels for weapons. These things seem to be comparatively low cost and straightforward but are nonetheless essential for the sorts of operations engaged in. However, the rapid acquisition program does not seem to produce an outcome. Can you tell us anything about that?³

1.15 Defence replied:

I would not categorise the night-vision goggles as an easy thing to procure. First of all, there are very strong release-ability issues with the US as to what technology we have access to. Secondly, some of the delivery periods out of the manufacturers are very long. We are hearing figures like one, two and three years for certain components of some of the most modern night-vision goggles. So I do not think it is some form of bureaucratic delay. I

2 Air Chief Marshal Houston, *Transcript*, Friday 19 June 2009, p.15.

3 The Hon Arch Bevis MP, *Transcript*, Friday 21 August 2009, p.18.

think it is just a delay related to how long it takes to get things from the manufacturers.⁴

Committee comment

- 1.16 Rapid acquisitions are highly specialised and not straightforward and may be beyond the control of the Department of Defence. Nevertheless, there will be occasions where operational requirements drive the need for rapid acquisition and it is important that Defence has a processes capable of responding.

Recommendation 2

The Committee recommends that the Department of Defence review its current procedures for rapid acquisition to ensure that it is meeting the ADF's needs, particularly where they are linked directly to overseas operational commitments.

Scope Creep

- 1.17 The issue of scope creep is covered in Chapter 2 with regards to the High Frequency Modernisation Project. This aspect of the Kinnaird review is an important part of the procurement process. The Committee notes that this issue was raised in last years report and the Committee will continue to scrutinise the effectiveness of specification scoping in the first phase of each project.⁵

4 Mr King, *Transcript*, Friday 21 August 2009, p.18.

5 Joint Standing Committee on Foreign Affairs, *Defence and Trade, Review of the Defence Annual Report 2006-07*, pp. 41-44.

