

**THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA
THE SENATE**

Extracts from Journals of the Senate
No. 104 dated 9 October 2003

**37 FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE—GOVERNMENT RESPONSE—
MATERIEL ACQUISITION AND MANAGEMENT IN DEFENCE**

The Special Minister of State (Senator Abetz) tabled the following document:

Foreign Affairs, Defence and Trade References Committee—Materiel acquisition and management in Defence—Government response, dated October 2003.

Government Response
to the
Senate Foreign Affairs, Defence and Trade References
Committee Report
on
Materiel Acquisition and Management In Defence

**Government Response
to the
Senate Foreign Affairs, Defence And Trade References Committee Report on
Materiel Acquisition And Management In Defence**

Introduction

The Government welcomes the report prepared by the Senate Foreign Affairs, Defence and Trade References Committee on Materiel Acquisition and Management in Defence.

It is pleasing to note that the Committee has acknowledged the positive progress that has been made to date in relation to materiel acquisition and management in Defence.

The report also indicates that further improvements can be made within Defence to improve procurement and Defence industry outcomes. This is consistent with the Government's previously expressed view, that while the management of major Defence acquisitions has improved significantly since the establishment of the Defence Materiel Organisation, there is still a way to go. It is also consistent with the Government's decision last year to commission the Defence Procurement Review, which will report on the key challenges associated with the management of Defence projects, how these are currently being addressed, and any potential improvements that can be made.

The following section addresses the specific recommendations contained in the Committee's report. Comments on the benchmarks against which the Committee has proposed ongoing review of the Defence Materiel Organisation follow the specific recommendations.

Recommendations

Recommendation 1. The Committee recommends that in the years 2004 and 2006 the Defence Materiel Organisation seeks advice on the perceived effectiveness of System Program Offices from the Defence Industry Advisory Council, the Australian Industry Group Defence Council and the Australian Industry and Defence Network. That advice should be compiled into a short report, submitted prior to the 2004 and 2006 Budget Estimates to the Senate Foreign Affairs, Defence and Trade References and Legislation Committees, and to the Defence Subcommittee of the Joint Committee on Foreign Affairs, Defence and Trade.

Government Response

Agree.

Defence will seek views from non-government and industry sectors and will make these results available to the committees.

Recommendation 2. The Committee recommends that special training and professional development be undertaken jointly by capability and acquisition staff to ensure that all staff have a clear understanding of, and unequivocal commitment to, and the skills and knowledge to fully implement the practices specified in the *Capability Systems Life Cycle Management Manual 2002*.

Government Response

Agree in principle.

Ensuring that staff have an understanding of the Capability Life Cycle Management Manual 2002 requires an appreciation of the processes, policies, tools and training that underpin the capability systems life cycle.

As of May 2003, all Capability Systems and DMO staff have had access to an on-line IT system that provides process and reference information at a one-stop shop. Priority has been given to core processes constituting the capability management life cycle.

Recommendation 3. The Committee recommends that:

- (a) **AusIndustry undertake a specific promotional initiative to encourage and assist Small to Medium Enterprises (SMEs) to properly register their R&D activities with AusIndustry; and**
- (b) **The DSTO develop a special program to nurture partnerships between the DSTO, the CSIRO and SMEs with respect to research and development in areas of mutual interest, and to expand existing mechanisms by which SMEs can seek R&D and technology advice.**

Government Response

Agree in principle.

- (a) This recommendation is addressed to AusIndustry which has advised that this is consistent with the marketing initiatives it already undertakes. The Department of Industry, Tourism and Resources has advised that, as a result of strong marketing, 1,200 additional firms registered with AusIndustry between February 2002 and February 2003. The vast majority of these firms were SMEs, and the figure represents an increase of more than 50 per cent. AusIndustry has also reduced the size of the registration form from 13 to seven pages.
- (b) The Defence Science and Technology Organisation already operates a number of initiatives in this area and further development will be encouraged.

Recommendation 4. The Committee recommends that during Budget Estimates the DMO table before the Senate Foreign Affairs, Defence and Trade Legislation Committee an audited summary of the feedback provided by industry to the DMO via the 360 degree scorecard process.

Government Response

Agree.

The Department will respond to the Senate Committee as requested.

Recommendation 5. The Committee recommends that:

- (a) the Senate request the Auditor General to direct that the proposed 2003-04 audit of DMO by the Australian National Audit Office include a cultural audit that will assess:
- DMO's espoused corporate values and standards and staff compliance with these;
 - management and staff values, behaviours and competencies measured against the capability requirement;
 - employee attitudes, morale, beliefs motivation;
 - employee understanding of, for example, the DMO's customers, industry partners, strategies business plans, roles and contributions to the overall mission of Defence;
 - communication processes;
 - the effectiveness of change management programs, employee commitment to them and the extent of the benefits materialising; and
 - compliance with health and safety regulations.
- (b) on the basis of that cultural audit the Under Secretary Defence Materiel shall engage a suitably qualified change management specialist to assist the DMO to respond to the findings and recommendations of the audit.

Government Response

- (a) This issue is a matter for the Senate.
- (b) Disagree. Defence's response to the outcomes of any audit needs to be considered in the light of the audit findings.

Recommendation 6. The Committee recommends that:

- (a) a panel of suitably qualified case managers, endorsed by industry, be established within the Industry Division of the DMO to handle complaints or disputes that have not been resolved in a timely way between the two parties immediately concerned;
- (b) the case managers be trained, and given broad powers to explore issues across all levels and divisions within DMO and the relevant Service arm;
- (c) case managers shall report their findings and recommendations to the Under Secretary Defence Materiel, with copies to the Vice Chief of the Defence Force and the Project Governance Board (where applicable);
- (d) the DMO publish an account of its complaint handling and dispute resolution method which sets out the time lines to be observed, the role and powers of the case managers, and specifying the USDM as the ultimate decision maker in respect of a dispute.

Government Response

Defence accepts the need to deal with complaints expeditiously and constructively. The DMO will publish its complaint handling and dispute resolution procedures on its web site in order to make them publicly available.

The Inspector General also has an independent role in complaint handling and resolution.

Recommendation 7. The Committee recommends that the Defence Industry Advisory Council commission the development of an efficient formal mechanism for the promotion and handling of unsolicited proposals from SMEs. That mechanism should be applied at the level of the System Program Offices and be coordinated by the DMO's Industry Division. Receipt of unsolicited proposals should be promptly acknowledged, and a time frame specified within which follow-up should occur.

Government Response

Agree in principle.

Guidelines for the recently announced Defence Unsolicited Innovation Proposals Scheme will be released at the Defence + Industry Conference being held on the 24-26 June 2003. Industry was consulted in the development of this scheme.

Recommendation 8. The Committee recommends that:

- (a) in the latter half of 2003, the Defence Materiel Organisation convene a major seminar involving relevant Defence and industry representatives to assess the effectiveness of the 1998 *Team Australia* policy and to shape recommendations accordingly; and**
- (b) the proceedings of the seminar be tabled in the parliament along with a response from the Minister for Defence to the recommendations emerging from the seminar.**

Government Response

Agree in principle.

Defence has encouraged a 'Team Australia' approach to the Joint Strike Fighter project and more recently the United States littoral ships project. Development of the concept and its application in practice will be the subject of debate at the Defence + Industry Conference being held on the 24-26 June 2003.

Recommendation 9. The Committee recommends that:

- (a) in the event that a project milestone is missed or that a supplier flags a delay in the provision of a contracted deliverable, then the project manager shall instigate a written report on the matter to the USDM, with copies to the Project Governance Board and the relevant Service Capability Management Board; and**
- (b) should agreement between project manager and contractor about how to remedy the matter not be arrived at within 15 days of such a report being submitted, a case manager from Industry Division shall be commissioned to negotiate a remedy. The case manager shall report to the USDM within 15 working days. In the event that a remedy has not been negotiated, the matter shall be referred to the Project Governance Board for a determination as to how to proceed. The USDM shall then make a final decision taking into account the advice of the Project Governance Board.**

Government Response

Disagree.

Vigorous action is needed when milestones are missed or likely to be missed but the Government does not support the detail of this recommendation for a number of reasons.

Firstly, the highly prescriptive approach does not reflect the reality of project management and the need to tailor solutions to the particular problem. Secondly, Industry Division staff are not necessarily the most experienced in resolution of project management issues. Thirdly, the time frames proposed are unrealistic, particularly where the reasons for the delay are complex. Finally, the recommendations do not take account of the need to protect Defence's legal position.

DMO has released Project Management Methodology (version 2), which provides more practical project management guidance to project managers on risk management, exception reporting and dealing with contract delays or disputes. This Project Management Methodology guide provides a clear delineation of roles and responsibilities between a project and Project Governance Boards. The introduction of the Project Management Methodology (version 2) may deliver the outcome desired by the Committee.

Recommendation 10. The Committee recommends that the Senate request the Auditor General to:

- (a) produce, on an annual basis, a report on progress in major Defence projects, detailing cost, time and technical performance data for each project;**
- (b) to model the report on that ordered by the British House of Commons and produced by the UK Comptroller and Auditor General; and**
- (c) to include in the report such analysis of performance and emerging trends as will enable the parliament to have high visibility of all current and pending major projects.**

Government Response

This is a matter for the Senate. The Government notes that there is already substantial scrutiny of the Defence acquisition program by the Auditor General.

Recommendation 11. The Committee recommends that, in the event of Defence entering a long term partnership with a particular supplier, the DMO should remain in regular contact with the unsuccessful bidders. The DMO should report progress with the partnership, update potential suppliers on any changes to capability requirements emerging during the course of the partnership, and keep them abreast of strategic developments. The DMO should assist potential suppliers to be in a competitive position if and when an existing partnership expires and renewal is sought.

Government Response

Disagree.

Progress of the partnership would largely be commercial-in-confidence and significant changes in capability requirements are already publicised through the updated Defence Capability Plans or specific announcements in relation to the variation.

Assisting potential suppliers to be competitive is not practical as DMO would only be able to provide non-confidential information about requirements, not the incumbent's performance.

The proposal would also divert scarce, experienced resources from higher priorities.

Recommendation 12. The Committee recommends that:

(a) once a contract has been awarded for a Defence project valued at over A\$100,000, the details of the winning bid should be published, with the provision that information about specific matter which bear the necessary quality of confidentiality may be withheld from publication where detriment to either the contractor or Defence would ensue. Prior to publication of the details, Defence should seek a formal opinion from ANAO as to whether that publication meets the appropriate standards of transparency; and

(b) Defence should publish, with the contract details, a brief statement setting out its reasons for selecting the winning bid.

Government Response

Disagree.

Defence gazettes all contracts over \$2,000 and already publishes summary detail of contracts valued over \$100,000, in accordance with the Senate Order. Defence responds to parliamentary committees on the release of specific contracts, in camera if necessary where there are confidentiality aspects.

Publishing of further detail would add to costs, given the size of contract and the inclusion of sensitive data. It could reduce the quality of bids if it was to set benchmarks for individual pricing data.

Recommendation 13. The Committee recommends that the Senate, under Standing Order 164, order the production, upon its completion, of the report by Director of Trials (DTRIALS) of the Review of Test and Evaluation in Defence, and that the Senate refer the document to the Senate Foreign Affairs, Defence and Trade References Committee for examination and report.

Government Response

This is a matter for the Senate. However, if it is the wish of the Committee, the Review of Test and Evaluation in Defence report can be provided to the Committee when completed.

SUGGESTED PERFORMANCE BENCHMARKS

The Committee intends to monitor closely all aspects of the Defence Materiel Organisation over the next few years, culminating in a formal review of the organisation at the end of 2005. The Committee will also be examining the performance of the DMO undertaken by the Australian National Audit Office.

Government Response

The Government agrees in principle to these benchmarks. They are quite detailed and not all can be reasonably accommodated, however best efforts will be made to do so. The specific responses to each of the benchmarks are below.

| Performance Benchmark | Comments |
|--|---|
| Adherence to the requirements of the <i>Capability Systems Life Cycle Management Manual 2002</i> . | The intent of this benchmark is supported. DMO will use the manual as a steering point for continued development of its own policies and procedures, and shall work with Capability Systems staff to ensure that these requirements are consistent. |
| Adherence to the Goals and Values set out in the <i>Defence Materiel Guide 2002</i> . | The intent of this benchmark is supported, however it would be difficult to provide meaningful data for benchmarking |
| Achievement of the objectives and performance indicators contained in the DMO Balanced Scorecard. | Supported. |
| Full compliance with the Business Rules specified in the DMO's Corporate Governance Framework. | While compliance is clearly the objective, this benchmark would be exceptionally difficult to measure and impose a significant increase in workload across the organisation. |
| Implementation, by the end of 2004, of the Defence Business Model for in-service support, including a Customer-Supplier Agreement between Output Executives and Enabling Executives, and Service Level Agreements between the SPOs and the Force Element Groups. | The intent of this benchmark is supported. DMO is progressively implementing a Defence Customer-Supplier model in accordance with Defence policy. However it should be recognised that this will be an evolving process as parties work together to continuously improve performance measures. A correction should be made to this benchmark, as Service Level Agreements may not be made between just Systems Project Offices and Force Element Groups. |
| Between 2003-05, the Air 87 Armed Reconnaissance Helicopter project, the Airborne Early Warning and Control Aircraft project, and the replacement Patrol Boats project shall meet all scheduled milestones. | Not supported. It is unreasonable to expect that every milestone will be achieved. The suggested approach is that non-achievement of scheduled milestones will only be acceptable where sound analysis demonstrates that the associated risks are manageable and project level critical dates are not compromised. |
| Tracking and managing of enterprise risk in accordance with the DMO Risk Management Plan. | Supported. DMO is currently establishing processes and structures to support systematic and coordinated risk management in accordance with the DMO Risk Management Plan. |

| Performance Benchmark | Comments |
|--|---|
| Achievement, demonstrated by the results of the annual Defence Staff Survey, of the DMO's goal to 'create a climate where people are valued for doing their best.' | Supported. Staff attitude survey data can be provided to the Committee. |
| Timely provision by DMO to the Senate Committee, on an annual basis, of an audited summary of the industry feedback on the effectiveness of the Systems Project Offices. | Not supported. This benchmark is disconnected with the first recommendation made in the report, which seeks information on Systems Project Offices in 2004 and 2006. It would be preferable if the recommendation, rather than the benchmark was accepted. |
| Full compliance with the Defence Procurement Policy Manual and the requirements of the <i>Financial Management and Accountability Act 1997</i> . | DMO agrees with this benchmark as the policy and guidance is already in place to achieve it. However, measurement of this benchmark will be difficult. |
| Achievement by 2005 of tendering costs as a percentage of contract value being at a level equivalent to commercial industry standards. | Not supported. DMO does not agree with this performance benchmark due to the practicality of collecting the data and the utility of comparison with a commercial benchmark. |
| For each project, acceptance of materiel capability to be on the basis of fulfillment of the requirements of the Operational Concept Document and the Test Concept Document. | Public accountability and associated processes prevent the DMO from meeting commercial industry standards and the nature of Defence projects generally exceeds the complexity and risk observed in the private sector. |
| Successful implementation, by the end of financial year 2003-04, of policy and guidelines for achieving world's best practice in the acquisition and maintenance of software intensive systems, with particular references to independent verification and validation and the management of safety critical systems. | The intent of this benchmark is supported. DMO accepts the intent of this benchmark. Policy, training and guidance are already in place to facilitate achievement of this benchmark. It should be noted that projects approved before the implementation of the Capability System Life Cycle Management model were done so on the basis of a business case and contain different forms of documentation. |
| Establishment of a formal and transparent complaint handling mechanisms using a case management approach for implementation from the beginning of 2004. | The intent of this benchmark is supported. Policy and guidance for Independent Verification and Validation will be in place by the end of 2003-04. Safety related systems policy and guidance is in place, but is currently undergoing revision and updated and will be implemented prior to the end of 2003-04. Best practice in acquisition and maintenance of software systems requires ongoing implementation, piloting, evaluation and reissuing revised guidance. In addition to implementing policy and guidelines, the necessary tools and training are required to evolve with software standards, lessons learnt and revised policy. |
| Independently verified enhancement, each year, of the involvement of Australian industry in Defence acquisition projects, in accordance with the <i>Australian Industry Involvement Manual 2001</i> . | Not supported. The government will only consider the use of case managers when the complaints are of a serious nature involving conflict of interests, fraud or criminal activity. DMO is prepared to document its dispute resolution processes. |
| | Not support. Australian industry involvement will vary each year due to the Defence Capability Plan. |

| Performance Benchmark | Comments |
|---|---|
| <p>Establishment, by the end of financial year 2003-04, of a database of all Professional Service Providers engaged by Defence which will include details of the location and project upon which the PSP is engaged, the length of time for which the PSP has been involved in the project, and the anticipated duration of the PSP's engagement.</p> <p>Implementation, by the end of 2004, of a fully functioning inventory and asset management system (SDSS) with common software and common processes across all three ADF services.</p> | <p>This is a resourcing issue rather than a benchmark and is being addressed from a whole of Defence perspective. For DMO to establish a separate DMO database is cost prohibitive.</p> |
| <p>By the end of 2005, full integration of SDSS with Defence's financial management system.</p> | <p>Supported.</p> <p>Supported. Such integration is unlikely to be achieved through a single system.</p> |
| <p>In each of 2004 and 2005, at least twenty DMO staff will have completed the Masters degree level Project Manager Development Course.</p> | <p>The intent of this benchmark is supported. The critical number of staff completing the course will depend on staff availability and funding, considering that the indicated costing of this benchmark is \$800,000 per annum.</p> |
| <p>In each 2004 and 2005 at least three DMO staff will have participated in an industry exchange/work experience program of no less than 6 months duration.</p> | <p>Supported in principle but will be dependent on staff availability and funding.</p> |
| <p>By September 2003, the endorsement by the Defence Capability Committee of the report by DTRIALS addressing Defence's Test and Evaluation policy.</p> | <p>Supported. Defence Capability Committee members responses on the report are due by the end of May 2003.</p> |
| <p>By the end of 2004 each Systems Program Office and business unit will have established quality management systems, and 50 per cent will have been formally accredited.</p> | <p>The intent of this benchmark is supported. Twenty-nine per cent of the existing systems have been accredited and accreditation of the remaining systems is an ongoing activity. The priority is on ensuring that high quality processes are in place, documented and applied, rather than achievement of an accreditation.</p> |
| <p>By the end of 2005, the DMO will have achieved accreditation to ISO standard of its corporate level quality management system.</p> | <p>Not supported. The priority is on ensuring that high quality processes are in place, documented and applied, rather than achievement of an accreditation.</p> |
| <p>The Defence and Industry Advisory Council will have met at least twice per year in 2003, 2004 and 2005.</p> | <p>The Defence and Industry Advisory Council meets at the request of the Minister for Defence.</p> |