

RECOMMENDATIONS

Chapter 1—The DMO's reform program

- The creation of a network of System Program Offices, dispersed across the country in an attempt to locate acquisition and logistics projects close to the service customers and the industry suppliers involved, was a key plank in the DMO's reform program. The Committee was generally impressed with the effectiveness of the SPOs it visited in the course of its inquiry. The feedback to the Committee provided from service personnel and from industry was largely positive. It is, however, relatively early days, and the Committee is aware that it encountered only a small sample of the SPO network. Given the crucial role of the SPOs in effecting then reform program the Committee intends to monitor their operations carefully.

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, to include a response by the Under Secretary Defence Materiel, and 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.

Chapter 2—Capability development and acquisition

- One of the significant problems hindering successful project outcomes in the past has been inadequate definition of capability requirements, and poor articulation of those requirements to those responsible for acquisition. In the capability development life cycle the nexus between the Requirements and Acquisition phases is crucial. The Committee is satisfied that the structural and procedural arrangements now in place to stabilize that nexus. It is imperative that all staff involved possess the skills, attitudes and understandings to properly implement the procedures.

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, an unequivocal commitment to, and the skills and knowledge to fully implement the practices specified in the *Capability Systems Life Cycle Management Manual 2002*.

Chapter 3—The DMO and industry

- Australia's Small to Medium Enterprises (SMEs) have a distinctive and important contribution to make to Australia's defence capability. It is imperative that they receive the support necessary to enable them to be full participants in Australia's strategic industry development, and to be competitive in the global supply chain. SMEs must be able to undertake sufficient R&D if they are to retain a place at the 'knowledge edge'.

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.

- A particularly useful initiative to strengthen relationships between Defence and industry, and to ensure that the project performance of each is visible to decision makers, is the development of the 360 degree scorecard. This provides structured feedback to each party and delivers an early opportunity to detect and remedy potential problems. The scorecard will also be a source of valuable information about DMO's progress in implementing procedural and cultural change.

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.

- While structural and procedural reforms are a necessary component of any strategic reorientation of an organization, they are not of themselves sufficient. They must be accompanied by the requisite cultural change, whereby people implementing the reforms adapt their attitudes and behaviours to the requirements of their new operating environment. The need for cultural change was emphasized by both Defence and industry witnesses. In the Committee's view, it is an aspect of the reform process that could easily be lost sight of. The Committee sensed a degree of unease about the DMO's capacity for, and readiness to embrace, the substantial cultural shift required.

The Committee recommends that

(a) the Senate request the Auditor General to direct that the proposed 2003–04 audit of DMO by the Australia 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; and**

(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.

- The Committee received some expressions of dissatisfaction with the DMO’s manner of dealing with criticisms and complaints, and explored the phenomenon of the so-called ‘disgruntled contractor’. The Committee was not in a position to judge the merits of the particular claims of individuals that the DMO had failed to deal with their concerns in a timely and transparent way. It is important that industry has confidence in the processes adopted by the DMO to deal with grievances.

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 timelines to be observed, the role and powers of case managers, and specifying the USDM as the ultimate decision maker in respect of a dispute.

- Encouraged by the policies and pronouncements encouraging much greater, and earlier, contributions by industry to capability development, many firms have sought to draw Defence's attention to ideas and opportunities developed by industry. Many of these 'unsolicited proposals' have the potential to enhance the efficiency and sophistication of Defence materiel. There is a feeling within industry that such proposals are not given appropriate consideration.

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.

- The 1998 Defence and Industry Strategic Policy Statement *Team Australia* has proven a key document in orienting Australian industry towards a serious commitment to, and investment in, the development of a viable defence industry that can be relied upon to deliver 'knowledge edge' capability to the Australian Defence Force. The Committee believes that it is timely to assess the success and relevance of that policy.

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.

Chapter 4—Projects and project management

- The success of projects is fundamentally dependent on the capacity of project managers to measure progress, and of contractors to deliver products and services on schedule and to the standard required. With the establishment of rigorous project management methodologies it is imperative that any significant variation in expected progress or deliverables be dealt with as soon as such variation is identified. Information must be conveyed quickly to decision-makers, and thorough attention must be given by both Defence and the contractor to resolving the issue. The Committee believes that this can be best addressed by establishing a clear mechanism for such resolution which is triggered as soon as a scheduled item is missed.

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.

- While the Committee acknowledges that there have been noticeable improvements in the ways in which progress on major projects is being reported to government, there is still relatively poor visibility of projects as far as the parliament and the public are concerned. The Committee seeks dramatic improvements in this area, and points to the kinds of parliamentary accountability being delivered to the House of Commons in an annual report on acquisition projects prepared by the Comptroller and Auditor General.

The Committee recommends that the Senate request the Auditor General:

(a) to 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.

Chapter 5—Tenders and contracts

- The advent of a strong policy commitment to partnerships between Defence and industry, and the development of sectoral plans to try and secure a long term future for key defence industries, has focused attention on how best to secure the benefits of collaboration without losing the efficiencies and innovation encouraged by competition. Given the relatively small scale of Australia's defence infrastructure and the industries that support it, a fully competitive approach to procurement is difficult to implement. The Committee acknowledges the imperatives as well as the merits of partnerships for capability, but believes that it is important to preserve some elements of competition among suppliers operating in any given sector.

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.

- Under circumstances where partnering is encouraged, the need for transparency in dealings is greater than ever. Competing contractors need to have confidence in the tender process, and that in the event of them losing a tender bid, they have no reason to suspect that there has been preferential treatment of the chosen contractor. It is important, too, that the parliament and the public have good visibility of what contracts entail. The Committee believes that this can be done without prejudicing the commercial and intellectual property interests of the winning contractor, nor the ability of Defence to achieve proper security for its capability strategies.

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 matters 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.

Chapter 6—Test and evaluation

- Successful project management demands successful risk management. Weapons platforms and support systems must be delivered to the specified levels of functionality and with safety-critical features assured. This can only be achieved if test and evaluation is given a prominent place in the management of capability development, acquisition and transition into service. The Committee is not completely satisfied that test and evaluation enjoys the status it deserves in capability development, and notes that a review of T&E policy is currently under way.

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.

