

Additional Comments by Senator David Fawcett

Executive Summary

In providing additional comments to the majority report, I wish to acknowledge the extensive effort that has gone into the inquiry, particularly on behalf of the Committee Secretary to collate an extensive array of evidence and record the varying opinions of witnesses and committee members in a coherent manner.

I have four key areas of concern, however, that I believe could have been addressed more thoroughly in respect to both scope and depth: Governance; Strategy; Sovereignty; and Industry.

Governance of the Australian Defence organisation (ADO) is dysfunctional. Civil control of the military should occur through the decisions of a well-informed, elected Minister who is connected into the governance processes of the ADO in an ongoing manner analogous to the Board Chair of a publically listed company. This is not currently the case due to the policy of “one voice” to Government and the unintended consequences of two decades of Government initiated measures aimed at reducing costs (well documented by Kinnaird, Mortimer, Black, Rizzo and Coles). Defence procurement does not occur in a vacuum and lasting improvement in this area will require changes to Governance of the whole ADO, the component parts of its system including the nature of their interaction with each other and Executive Government.

A strategic view of Australia’s national security interests should view Defence primarily through the prism of what we want it to be able to do, not just a list of the equipment we think it should have. This will lead to a logical definition of the capabilities needed to generate the military effects required by foreign policy and those capabilities required to support internal agencies (such as disaster relief and counter terrorism). One of the flow-on effects from dysfunctional governance is that the Minister and National Security Committee of Cabinet (NSCC) are not made aware of the increasing gaps between what they imagine Defence can do and what the ADO is actually funded for. The Defence White Paper (DWP) requires a more effective, closed-loop planning cycle to inform Government of the likely cost of procuring and sustaining the capability envisaged to support the national security strategy. Trade-offs, where required to ensure that the ADF is not a hollow force, need to be made before the DWP and consequent Defence Capability Plan (DCP) are published. These steps will increase capital productivity which has the potential to deliver significant savings in the defence portfolio over the medium term.

Sovereignty is about the ability to choose a course of action as a nation. It does not imply that we should attempt to emulate a super power which is able to design, develop, manufacture and support everything required for the defence of the nation. It does mean though that we cannot afford to be in a position where we have no option but to accept the level of capability, risk, cost, safety and availability another nation may deign to provide for us at their convenience. Being able to choose where we sit

along that spectrum requires that we retain the ability to understand technology and quantitatively assess the assertions of a would-be provider: the fabled smart customer. The ability to evaluate and where necessary, repair or modify and certify leading edge military technology to a chosen standard is one of the things separating a third world and a first world nation. Many of Australia's procurement problems stem from the growing gap between our perceived and actual ability in this regard.

Australia's defence industry has proven to be innovative and remarkably resilient in the face of entrenched cultural indifference or even antagonism within Government and Defence. ADO personnel frequently express the view that industry is just out to make a profit and should not be trusted. Executive Government appears to regard defence industry through the prism of jobs creation rather than as a part of Australia's national security capability. The Defence Materiel Organisation (DMO) appears to regard industry as having an unending capacity to absorb risk without cost, to respond at short notice despite indefinite delay to procurement decisions, and to be willing to create and retain advanced manufacturing capability without the cash flow arising from steady contracted work. Despite a rich history of world leading innovation in technology, manufacturing and programming, there remains a strong bias against contracting directly with Australian based companies.

The evidence presented during this inquiry identifies principles that must be respected if we are to be successful. Those principles lead me to outline one way that we might go about recreating true civil control of a strategically aligned defence force. A Defence force empowered to be self-critical, to respond to changed circumstances in a timely manner, funded to deliver the effects Government knows it can afford and in a constructive partnership with the industry stakeholders in Australia's national security capability.

Key Principles

1. Accountability requires that the responsible individual has both command and control over the people and resources needed to achieve the mission;
2. People who are qualified and experienced in areas directly relevant to their task will generally succeed, albeit their effectiveness and efficiency may be improved by following appropriate processes. Conversely, application of increasing layers of process to compensate for a lack of qualified or experienced people, will generally lead to failure at some point.

Elections and promotions mean that the personality and task-specific competence of individuals holding appointments in Executive Government and Defence will vary over time. This drives a requirement for a system of independent checks and balances coupled with transparent, closed-loop reporting to ensure compliance with best practice and to allow dissenting voices to be heard by the relevant decision-makers.

Major Conclusions

1. Accountability will only be achieved if Government empowers Defence to reduce the number of groups in the ADO and to restore the continuity of command by returning control of enabling functions to the ADF. Efficiency and effectiveness can be best achieved by having the Secretary oversee a regulator that: sets the standards to be complied with; determines the competence required before personnel will be authorised to exercise their authority (limited if required); and audits compliance.
2. Defence must build on successful measures such as Gate Reviews and Air/Seaworthiness Boards to establish a consistent framework for contestability. The framework must include a transparent, closed-loop reporting mechanism so that dissenting voices are heard by the relevant decision maker.
3. The success of the resolution process for Projects of Concern has demonstrated that it is possible to have senior stakeholders agree on trade-offs to cost, schedule and capability to avoid project failure. There may be times where such a trade-off should in fact be made pre 1st or 2nd Pass rather than delay submissions to NSCC. Conversely, insufficient information to be able to accept the risk profile of a project may mean that it should not proceed. Lack of capital productivity is a significant cost driver for Government in the defence portfolio and timely decision to commit, to defer for a defined period or to cancel has the potential to achieve significant savings over time.
4. The ADO is often under media and political pressure to reduce the number of “contractors and consultants” as a cost saving measure. If the Australian Public Service (APS) or uniformed personnel do not have the required competence for the role, this is not only false economy due to decreased productivity, it directly elevates the project risk. Government must be prepared to defend the right of Capability Managers to engage (employ or contract) the skills they need to complete the tasks they are given. If the nation cannot afford to engage task-competent people to manage multi-million dollar projects, the project should be deferred or cancelled.
5. The ADF has (or has had) the ability to identify risk in many circumstances prior to contract signature. This capability has not been used to best effect with dissenting voices sometimes ignored. The decision makers must have disclosure of the fact that dissent was made and the basis upon which the dissenting concerns were dealt with or discarded.
6. Defence Industry is part of Australia's defence capability, particularly for Through Life Support (TLS) but also in some areas of development and manufacture. The health (capacity and competence) of Australia's defence industry sector should therefore be considered as part of the Capability Development process. A key to reducing risk and cost is for Government to plan for a stable procurement workload (on defence and industry) which provides incentive for private sector investment in (and sustainment of) skills and infrastructure.

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1. SECTION I – CASE FOR CHANGE

1.1. Senate FADT 2012 Procurement Inquiry

1.1.1. 2012 Inquiry Report

- 1.1.1.1. While I share the conclusion reached by other Committee members that reform is required, I believe that the analysis could have been deeper and broader in scope in four key areas: Governance; Strategy; Sovereignty; and Industry.
- 1.1.1.2. Chapters 1-14 of the Senate FADT References Committee Report on Defence Procurement consider a range of issues raised by witnesses from the Defence organisation, industry, academia and commentators. Almost without exception, witnesses highlighted that people across industry and defence are working hard to achieve the best possible outcome for Australia's national security. Defence personnel are rightly proud of the work they are doing, the improvements they are making within the process they are required to use and the capabilities that are being delivered. Industry participants highlighted their concern not only to remain profitable but equally as important in their view, to make tangible improvements to the capabilities used by servicemen and women.
- 1.1.1.3. In spite of the hard work and good will of people involved, witnesses highlighted symptoms of dysfunction spanning risk management, accountability, contestability, organisational structure, a focus on process instead of competent people, and the inadequate interaction with industry. The efficacy (or otherwise) of past attempts at remediation and current policies were explored at length and some witnesses proposed changes to process or organisational responsibility in discrete parts of the ADO. The report makes valid observations and recommendations in each of these areas but it could go further.
- 1.1.1.4. Defence procurement does not occur in isolation. To find the underlying causes (as opposed to responding to specific symptoms) it is important to consider the role, actions and interface of all stakeholders, including Executive Government. For a solution to be effective it must consider the system as a whole. Any remediation must consider the interaction between component parts, rather than attempting to change the behaviour of just one part. To that end, witness suggestions such as the re-establishment of Force Development and Analysis (FDA), the abolition of DMO or the establishment of DMO as an executive agency may (or may not be) useful but in any case must be evaluated in the context of the whole system (comprising Executive Government, industry and the ADO).

1.1.2. **Introduction**

1.1.2.1. These additional comments seek to outline what a systems approach to reform of Defence procurement may look like. The comments are designed to stimulate debate at a level that moves well beyond the kind of specific actions (such as appointing an Associate Secretary—Capability or the recreation of FDA) which have previously been mooted to address symptoms of dysfunction in a particular area.

1.1.2.2. In developing these comments, it has been important to consider:

- a. what the intended outcomes were when the existing organisational structures and approaches to procurement were developed;
- b. to what extent have these outcomes been achieved vs how have previous reforms contributed to unintended consequences; and
- c. how, while taking action to recover from the unintended consequences, to minimise the prospect of voiding the improvements that have been made in past years.

The scope of these comments will therefore include a brief history which will touch on some highlights of policy decisions. It is not intended to be a detailed academic exercise but to provide a context for the changes the Defence organisation underwent in the two decades from 1990 to the present.

1.1.2.3. The conceptual outline discussed in these additional comments will also seek to take into account the principles that I believe have come to prominence through this inquiry being:

- a. Accountability requires that the responsible individual has both command and control over the people and resources needed to achieve the mission;
- b. People who are qualified and experienced in areas directly relevant to their task will generally succeed, albeit their effectiveness and efficiency may be improved by following appropriate processes. Conversely, application of increasing layers of process to compensate for a lack of qualified or experienced people, will generally lead to failure at some point.
- c. Elections and promotions mean that the personality and task-specific competence of individuals holding appointments in Executive Government and defence will vary over time. This drives a requirement for a system of independent checks and balances coupled with transparent, closed-loop reporting to ensure compliance with best practice and to allow dissenting voices to be heard by the relevant decision-makers.

- 1.1.2.4. In this report, when I use the following terms, I mean:
- a. Australian Defence Force (ADF—the Army, RAN and RAAF);
 - b. Australian Defence organisation or “Defence” (ADO—the ADF plus the many groups (peer organisations) that have grown around it over the past two decades);
 - c. Executive Government - which includes the Minister and NSCC of the Government of the day whether Labor or Coalition;
 - d. Competence - being the combination of qualifications and experience across a range of issues in the related field;
 - e. Task-specific competence - which recognises that an individual may be very competent in a given field (eg: an orthopaedic surgeon) but in respect to a specific task (eg: neurosurgery) you would not want them conducting the operation; and
 - f. Fundamental inputs to capability - (FIC) being the standard ADF definition of the broad range of considerations that must be considered (ie: funded) for a “capability” to be sustainable and effective. FIC includes the major equipment plus personnel, organisation, training, supplies, infrastructure etc¹.

1.2. Causes and Consequences

1.2.1. Peace Dividend

1.2.1.1. At the end of periods of conflict such as the Vietnam and Cold Wars, the public expected funds to be directed to more constructive purposes—a peace dividend. Vietnam for example had become communist but the domino-effect feared during the 1960s did not eventuate. The concept of (and capabilities required for) forward defence were discredited in the public’s eye. Regional cooperation appeared to be on the rise and Australia’s allies had begun to disengage from Southeast Asia. Australia was increasingly seen as being responsible for its own security in a benign regional environment. The costs of maintaining a balanced, deployable joint force of air, land and maritime capabilities were hard to justify and subsequently not considered a priority after the Dobb Report (1986) which led to the *Defence of Australia* policy, focussing almost entirely on defending the air-sea gap to Australia’s north. It has been argued that the White Papers that followed Dobb resulted in force structures that did not allow for a sustained, deployed ADF combat commitment regionally or globally.

1.2.1.2. The end of the cold war reinforced the notion that a draw down in military capability was justified. Despite small scale contributions to international

¹ www.defence.gov.au/capability/_pubs/dcdm%20chapter%201.pdf

military operations (1990–91 Persian Gulf War, peacekeeping missions to Somalia, Rwanda and Cambodia), it was not until Operation Morris Dance (Fiji 1987) or in a broader sense, the East Timor crisis that Australia's inability to deploy and sustain a credible combat force (even in regional terms) became apparent.

1.2.2. Unintended Consequences

1.2.2.1. On the back of *Defence of Australia*, the Government of the day sought savings from the Defence Department for investment elsewhere. The advent of more than a decade of peace meant that many of the enabling functions provided by specialised people and processes (such as logistics and engineering) that a military depends on to sustain an armed force in combat were easy pickings for cost savings.

1.2.2.2. The traditional structure of the three stand-alone services each owning their enabling support functions provided good accountability and allowed a depth of knowledge and experience to be developed and retained. There was, however, also duplication and inefficient practice, which led to an expectation that savings could be made by rationalising enabling functions on a tri-service basis. This started a process of external parties imposing change on how Defence worked internally. The key changes included:

- a. **Commercial Support Program (CSP).** Stemming from the Wrigley Review (1990) and the Force Structure Review (1991), this program targeted savings by outsourcing a number of Defence functions to industry and drawing down the numbers of members in uniform. The enabling functions that were targeted in the CSP included areas as broad as maintenance, training, logistics, facilities, administration, catering and health care. The Defence Minister informed Estimates in 1993 that, "*What we have said is that the bottom line is the dollar— that is, how we can do it cheapest and save money*". The savings were often based on industry tenders of the day which were premised on absorbing a workforce that had been qualified and given experience by Defence (particularly true in the area of maintenance and training). Over time some of these initial assumptions (and savings) changed as workers retired. With Defence having ceased to train the same scope or number of specialists (including technicians and engineers), industry had to factor in training and provision of experience for the workforce.
- b. Defence also lost many options to post people to deep-maintenance organisations where they had traditionally gained technical mastery of the equipment used by Defence. This had flow-on effects in Defence's ability to staff HQ and acquisition organisations with people who were competent in specialised technical and engineering roles. Coles, Rizzo and this Senate Inquiry all noted the decreasing capacity for the ADF to be an informed customer. These longer term consequences of the CSP may have been unintended, but they could hardly be called unforeseen. A

Parliamentary Library document from 1993 notes that Defence raised concerns regarding CSP in that it would lead to "*a reduction in ADF core skills, where reducing the pool of skilled service personnel may result in limitations to the future deployment capacity of some units of the ADF*". This has in fact now happened as highlighted by the failure of the amphibious fleet in 2011 and the subsequent Rizzo Review.

- c. **Shared Services.** Before the end of the decade, Executive Government continued the hunt for short term savings through the Defence Efficiency Review and Defence Reform program. The resulting application of shared services caused further externally-driven changes to a broad range of internal Defence processes. A wide range of enabling functions was affected including among other areas administrative support, information technology, personnel and defence estate. Defence moved from the three uniformed services being supported by a range of subordinate units (the basis for continuity of command), to the three services having to negotiate for support from a growing federation of peer organisations, each having their own management structures and priorities.
- d. This has led to a large number of negative, unintended consequences including: decreased productivity, increased costs associated with the creation of new management structures and large increases in senior management appointments, a breakdown in the continuity of command, and decreased effectiveness in the delivery of support². The Black Review in large part relates to the consequences of the implementation of shared services. The decreases in productivity across Defence have manifested in situations ranging from many day-to-day activities to service level capability decisions. Indicative examples at these extremes include:
 - i. A junior officer in charge of a maintenance workshop losing days of productive time while trying to get an eye-flush shower (required by OH&S) fixed by the Defence Support Group when all it required was a 50c rubber washer but he was not authorised to have one of his own staff fix it; through to
 - ii. The deputy Chief of Air Force and numerous subordinate staff spending weeks attempting (unsuccessfully) to use RAAF funds (approved for the purpose) to make a strategic acquisition of land near Woomera to develop the capability to conduct end-end testing and training with stand-off weapons but being opposed by Corporate Support and Infrastructure Group (CSIG³) who were

² These unintended consequences are comparable with the outcomes experienced by State Governments in Australia and some overseas nations that have attempted to achieve efficiencies through the implementation of shared services. WA and QLD have both abandoned shared services programs having found that the costs were greater than realized benefits.

³ Now Defence Support Group (DSG)

responsible to facilitate the purchase but whose senior management had different aims and priorities.

e. **Defence Procurement.** The process of centralisation continued with the materiel procurement function being removed from the three services and placed under the new Defence Acquisition Organisation (DAO). Further reform saw the services also lose the through-life support and logistics function to an expanded DAO which became the Defence Materiel Organisation (DMO). This was intended to professionalise Defence interaction with industry, better facilitate joint acquisition, ensure that acquisition took due account of ongoing logistic considerations and to impose a common approach to defence procurement. The very fact that this Senate Inquiry is being held and has elicited such a wide range of submissions indicates that the outcome has not been what was hoped for. Evidence to the Inquiry has highlighted that despite a large investment in courses and certification, DMO still has a challenge to develop those initial qualifications into task-competence and to retain experienced professional staff. The inquiry also found extensive evidence that standardisation remains an issue (despite extensive process and manuals).

1.2.2.3. **Kinnaird and Mortimer.** The next tranche of change came as signs of dysfunction increased. By December 2002 Kinnaird was engaged to conduct a review of problems associated with major Defence acquisition projects. The part-implementation of the Kinnaird Review recommendations resulted in wide-ranging process reform and over time was considered to have improved both capability development in Defence, and acquisition in DMO. A number of Kinnaird's recommendations were not heeded (eg: organisational change) by Government or not adequately funded, preventing effective implementation. By 2008, Mortimer (supported by competent defence officers) was engaged to review the effectiveness of procurement post Kinnaird and while noting improvements, concluded that significant problems still existed within Defence procurement. The Minister in accepting his report commented on the "*complex and bewildering processes, practices and acronyms that comprise Defence's procurement system*".

1.2.2.4. In his foreword, Mortimer refers to the "*necessary cultural and institutional changes that will be required to give effect to these reforms. Without these changes the Review is of the firm belief that some of its recommendations will be significantly weakened and will not deliver the full benefits intended*". Unable, unwilling or unconvinced, the Government again declined to consider major organisational change. The result was to address the symptoms of dysfunction with further layers of process and measures which this inquiry has shown to be largely ineffective.

1.2.2.5. At the end of two decades of constant change which was motivated by the pursuit of short term savings, is the tax-payer dollar being spent any more wisely? Without a defined reference baseline and with a constant process of

change layered upon ongoing change, Defence has been unable to provide the Parliament with quantifiable evidence of savings achieved through these measures. Indeed, when the cost of the unintended consequences (eg: the demise of the amphibious capability, failed or delayed projects etc) are factored along with the expense of multiple reviews, oversight committees and “change management” measures and re-building activities, it is probable that in net terms, the cost to the taxpayer has been, and continues to be, significant.

1.2.3. **We are not alone**

- 1.2.3.1. The United Kingdom Ministry of Defence (UK MoD) has also undergone substantial reform in the past two decades. Like Australia, many of these reforms have been driven by cost saving measures based on “commercial best practice” and have had similar results of downsizing uniformed technical workforce while outsourcing to industry. Like the amphibious fleet failure in Australia, the UK has also been impacted by the unintended consequences. The Haddon-Cave Report into the MoD after the loss of an Royal Air Force (RAF) Nimrod in 2006 condemned the change of organisational culture within the MoD between 1998 and 2006 in the wake of the Strategic Defence Review. Mr Haddon-Cave QC noted that short term costs savings and budget measures (such as outsourcing and matrixed management) had reduced the effectiveness and accountability of the MoD leading to catastrophic organisational failures. The report quotes: *There was no doubt that the culture of the time had switched. In the days of the RAF chief engineer in the 1990s, you had to be on top of airworthiness. By 2004 you had to be on top of your budget if you wanted to get ahead.* The UK Secretary of State for Defence noted: “This report must act as a wake-up call for us all—for politicians, for industry and for the military. Cutting corners costs lives. Wars cannot be fought on a peacetime budget.”
- 1.2.3.2. Likewise the United States Department of Defense (US DoD) has been subject to a range of reforms in an attempt to deliver savings. The sheer scale of the organisation makes potential savings large but corresponding challenges immense. In 1991 for example, the DoD had around 250 finance and accounting systems (most incompatible with each other), 18 separate military payroll systems and a history of independent action within each service. Like Australia and the UK, these reforms have come in waves and through the 1990s in particular, followed commercial concepts such as outsourcing. The drive for savings in the US has affected technology based organisation other the DoD. The Space Shuttle Columbia Accident Investigation Board found that externally driven savings measures had driven a culture change within the National Aeronautics and Space Administration (NASA) which had affected management and the ability of the engineering specialists to successfully challenge the cost savings measures of “business process reform” teams. The dilution of technically qualified and experienced people in the management structures meant that consensus became a way of doing business even in respect to technical

issues, rather than engineering principles being the baseline consideration that drove cost, scope and schedule decisions.

1.3. Analysis

1.3.1. Root causes

1.3.1.1. The underlying drivers of the symptoms identified in the Committee report (poor risk management, lack of accountability, inadequate contestability, dysfunctional organisational structure, a focus on process instead of competent people, and the inadequate interaction with industry) need to be identified if the situation is to be improved on a sustainable basis. The primary aim of such root cause analysis is to:

- a. identify the factors that drove the nature, magnitude, location, and timing of harmful outcomes of one or more past events, in order to
- b. identify the behaviours, actions (or inactions), and conditions which need to be changed to prevent recurrence of similar outcomes; and to
- c. identify the lessons that should be learned to promote the achievement of better outcomes in future.

1.3.1.2. As with any systems approach, the interaction of components within the system can be multi-faceted with multiple order effects. Analysis of any given symptom may therefore link to a number of principles and desired outcomes. Many volumes could be written in this area but I will seek to highlight what I believe to be the fundamental issues to be addressed.

1.3.1.3. **Accountability.** *Principle - Accountability requires that the responsible individual has both command and control over the people and resources needed to achieve the mission.*

1.3.1.4. The Committee noted the strong theme from witnesses and reviews such as Coles, Rizzo and Black regarding a lack of accountability. Principle would suggest that the underlying cause is a lack of control. Despite the assurances from the ADO that Materiel Acquisition Agreements (MAA) and Materiel Sustainment Agreements (MSA) provide the Capability Manager with control, the practical outcomes indicate otherwise.

1.3.1.5. Take the Rizzo Review as an example. Chief of Navy did not control the through-life support of his ships – he had a contract with DMO who was responsible for that and indeed Navy’s engineering workforce and technical regulatory structure (CN’s check and balance against poor DMO performance) had been downsized as part of the cost savings delivered to Government through CSP and the creation of DMO. Who should be held accountable? Take the example of the Captain and his workshop. He lodged the work order to have DSG fix the eye-wash shower and diligently pursued them in an attempt to get some action when it became apparent that they had

other priorities. Who is accountable for the loss of productivity and lack of compliance with OH&S? Who should be held to account for the late achievement of an operational capability of the stand-off weapon for RAAF? The Capability Manager or the ADO group that refused to facilitate the functions requested of them?

- 1.3.1.6. The assumption was made that the services only needed to use the facilities or “fight” with provided equipment. Someone else could buy them and look after them. Having services provided and non-combat roles filled by commercial, civilian or centralised agencies was seen to be a way to save money through economies of scale, lower on-costs for employees and standardisation. The flaw is the premise is that all the underlying modelling and assumptions will prove to be accurate. In reality failures occur, circumstances change, assumptions prove to be invalid, priorities and national commitments of Executive Government change. To be effective, ADF commanders must be able to respond and adapt in a timely manner. This requires an ability to re-prioritise, re-allocate resources and if necessary, adapt proven procedures to meet new circumstances. ADF commanders at all levels no longer have this flexibility due to the extensive network of committees and contracts established to manage the inter-group boundaries within the ADO which have proven to be so disempowering for ADF stakeholders. Black and Coles both highlighted the impact of excessive committees and confused responsibilities on both effectiveness and efficiency.
- 1.3.1.7. A new paradigm is required for the Capability Manager to be accountable (ie: able to command and control) while retaining the benefits that have accrued in some areas through CSP and the DER. The change is subtle but profound. Rather than strip the Capability Manager of responsibility and employ someone else to do the job, return responsibility to the Capability Manager and employ someone to make sure he does it in accordance with approved/standardised guidelines and regulation. This proposal is based on:
- a. **Civil precedence.** There have been many calls for Defence to be more businesslike but the current structures largely prevent that. CEOs who accept full profit & loss responsibility generally have the ability to control all parts of their business. Their actions however are moderated by the Board who set strategic direction and ensure that a strong compliance regime is in place with respect to relevant regulation set by the appropriate authority (eg: APRA – financial services, ACCC – competition, fair trading and consumer protection or CASA – aviation safety etc).
 - b. **Military precedence.** The ADF already has a successful model of this combination of unity-of-command subject to regulation. Each Capability Manager is responsible for the operation of the multiple types of aircraft in their service (including maintainers, aircrew, and ground support staff). They are held to account to comply with the standards set by two

regulators (the Director General of Technical Airworthiness (DGTA) and via the Defence Airworthiness Coordination and Policy Agency (DACPA)). These regulators audit and report on the level of compliance. DGTA also approves the level of delegated authority that an engineer may exercise when posted into an appointment by the Capability Manager. The results of these audits form part of the annual Airworthiness Board which evaluates the readiness or continuing airworthiness (people, training, facilities, logistics, engineering, operations) for each aircraft type. While DACPA and DGTA set the standards, there is a clear accountability for the services to adhere to these regulations while making other resource and priority based decisions in response to changing tasking and circumstances. Military staff working with Mortimer pointed to this model as the precedent that should be expanded when the role of Governance Boards were discussed in the context of procurement.

- c. **Evidence.** The Black Review identified the lack of accountability due to the ADO matrix structure but “*with the notable exception of the operational chain of command where clear lines of devolved accountability and responsibility are central to the military command chain*”. It is important to note that pre the CSP and DER reforms, the ADF applied these clear lines of accountability and responsibility to all of its enabling services (logistics, training, procurement etc). It may not have done it as efficiently as possible, but in hindsight it probably provided better value for the tax-payer than the raft of unintended consequences that have followed the reforms. By returning responsibility for controlling the enabling functions to the ADF (that Black has recently identified still retains a culture of accountability), the aims of the CSP and DER reforms can be better harnessed by alignment and best practice through regulation, audit and closed-loop reporting (eg: analogous with the airworthiness model).

1.3.1.8. I conclude that accountability will only be achieved if Government empowers Defence to reduce the number of groups in the ADO and to restore the continuity of command by returning control of enabling functions to the ADF. Efficiency and effectiveness can be best achieved by having a regulator that sets both the standards to be complied with and the competence required before personnel will be authorised to exercise authority (limited if required) in related areas. I also contend that the burden of excessive compliance reporting and successive audits from multiple parties that Defence is currently subject to is a function of the matrix management model where no one agency is responsible. Correct setting of priorities, schedule coordination and alignment of audits with unit activity could significantly reduce the burden which is currently placed on the ADO and achieve more efficient and effective outcomes.

1.3.1.9. I also contend that accountability is required from Executive Government to defence. There needs to be a recognition that the term “raise, train, sustain”

is there for a reason and that tasking part of the ADF is not a free good. After years of efficiency measures, there is not much redundancy or depth in many of the areas that directly generate the required military effects. Commitment of ADF forces to an unplanned task (regional intervention, natural disaster recovery etc) is a valid use of the ADF but if it comes on top of a high operational tempo supporting existing commitments, there will be a cost: always financial (direct operating costs, cancelled or deferred activities, accelerated maintenance) and sometimes also a capability gap while the deep-maintenance stagger for major equipment is re-established.

- 1.3.1.10. **Contestability.** *Principle - Elections and promotions mean that the personality and task-specific competence of individuals holding appointments in Executive Government and Defence will vary over time. This drives a requirement for a system of independent checks and balances coupled with transparent, closed-loop reporting to ensure compliance with best practice and to allow dissenting voices to be heard by the relevant decision-makers.*
- 1.3.1.11. A structured framework that facilitates contestability is one effective way of benefiting from alternative views and harnessing corporate knowledge. A Governing Board, Board of Reference or Board of Directors (eg: of a public company) are long-standing and effective ways to implement this. This can apply to Defence at various levels. Since the Levene review of 2011, the UK MoD for example operates under a Defence Board chaired by the Minister (Secretary of State for Defence) who has “directors” on the board speaking for the military as well as non-executive directors drawn from non-defence fields to provide alternative views. The ADF already use a different style of board as part of the airworthiness and seaworthiness process. DMO uses a Gate Review that can provide similar function.
- 1.3.1.12. In the Australian context, a framework to facilitate contestability (including transparent, closed-loop reporting) would need to be effective at multiple levels:
- a. **Strategic.** In developing the DWP, alternative views must be heard with respect to:
 - i. The operational concepts for how military capability will generate the effects required to support the national security strategy;
 - ii. The scope and duration of military effects the government requires defence to be able to generate (ie: wars of choice (Afghanistan or East Timor), wars of necessity (defence of mainland Australia), as well as regional and domestic contingencies (protecting sea lines of communication from piracy or interdiction, natural disasters etc));
 - iii. The true cost (and future growth pressures) of all the FIC elements required to generate the military effects including compliance costs

associated with whole-of-government regulations (eg: environmental and OH&S considerations for facilities);

- iv. The trade-offs that will inevitably have to be made if the DWP and DCP is going to reflect an affordable, achievable plan that the ADO, central agencies (Finance and Treasury) and industry can confidently use for planning; and
 - v. The extent to which Australia wishes to maintain its sovereign ability to choose the level of capability, safety and certification standards to be applied to military equipment.
- b. **Capability.** The need for improved contestability throughout the capability life cycle has been a major finding of the committee report. The choice/appointment of people to be the informed voices should be subject to checks and balances such that the issue of their competence for the role is contestable to avoid short-cuts being taken. A transparent and closed-loop reporting system is vital if contestability is to be effective. There should be full disclosure to the Minister and NSCC of the existence of dissenting voices. The nature of the dissent, actions taken to mitigate or manage identified risks or the reasons to discard the advice must be part of the brief flagged to Government. Relevant stages of the life cycle include:
- i. **Pre-First Pass to contract signature.** Checks and balances are required to ensure that the proposed capability aligns with the national security strategy as articulated in the DWP. Involving informed and experienced people in the system is the best form of recalling corporate knowledge (lessons learned) which can help constrain the conspiracy of optimism. The system requires the early engagement of competent people to speak to risk (technology, integration, certification, and industry capacity), the proposed contracting approach (appropriate risk sharing) and the long-term considerations such as whole-of-life costs, skills development and viability of strategic industry stakeholders.
 - ii. There should also be contestability around decisions to delay going to Government for 1st or 2nd Pass. The “tender quality” threshold that has become expected for information provided to government and the consequential delays have been shown to be a driver of risk due to the flow on effects for industry (eg: inability to retain project specific competence in workforce, cash flow and schedule compression if IOC is a fixed schedule requirement) and the Capability Manager (extension of legacy capability, re-alignment of personnel posting plans, re-training and possible re-contracting for other FIC elements). The success of the resolution process for Projects of Concern has demonstrated that it is possible to have senior stakeholders agree on trade-offs to cost, schedule and capability to avoid project failure.

There may well be times where such a trade-off should in fact be made rather than delay submissions to NSCC. Conversely, the inability of CDG to obtain sufficient information to be able to accept the risk profile of a project may mean that it should be cancelled. Lack of capital productivity is a significant cost driver for Government in the defence portfolio and a timely decision to commit, to defer for a defined period or to cancel has the potential to achieve significant savings over time.

- iii. **Acquisition.** Checks and balances are required to ensure compliance with approved procurement guidelines, and that changes in scope remain aligned with the 2nd Pass Approval. The Committee heard from both industry and ADO members about the adverse impacts of “project specific” culture that may develop in the relationship between the contractor and defence (be it adversarial or excessively compliant). Audit and review by experienced people (eg: Mortimer’s Governance boards or DMO Gate Reviews) can provide checks and balances to ensure an effective working environment prevails that maintains the aim of meeting the end users operational need within the terms and intent of the contract. Contestability around decisions to delay contract signature are subject to the same considerations as for 1st and 2nd Pass.
- iv. **In-service.** The failure of the ASLAV upgrade program due in part to poor through-life configuration control, the amphibious fleet failure, Collins sustainment issues all point to the need for periodic contestability around compliance with engineering/operational/training/logistic requirements and adequacy of resources provided for all required FIC elements. While not perfect, the airworthiness system in Defence is a proven system that affords this contestability across all three services in the aerospace domain. It has recently been extended to Navy for major systems and should be scaled appropriately across Defence for all major capability systems.
- c. **ADO.** Members of the ADF are currently subject to an excessive amount of compliance reporting and audit activity (internal and by external groups) that detracts from a focus on effective military outcomes. Greater efficiency and effectiveness may be achieved if a common framework was applied across the ADO in a coordinated manner. Where shared services (or whole of government obligations) are currently in place, the Minister should hold the Secretary accountable for developing/maintaining agreed standards to be applied across all three services and the consequential auditing and reporting of compliance.
- d. **Conclusion.** Defence must build on successful measures such as Gate Reviews and Airworthiness/Seaworthiness Boards to establish a consistent framework for contestability. This framework allows the Capability Manager to be held accountable for what is achieved while enabling a system of checks and balances that provides assurance the

quality / efficacy of how it is achieved. The framework must include a transparent, closed-loop reporting mechanism to ensure that dissenting voices can be heard by the relevant decision maker. The Government must also introduce contestability at the strategic level (noting the difficult balance required between national security and transparency).

- 1.3.1.13. **Process vs (task-competent) people.** *Principle - People who are qualified and experienced in areas directly relevant to their task will generally succeed, albeit their effectiveness and efficiency may be improved by following appropriate processes. Conversely, application of increasing layers of process to compensate for a lack of qualified or experienced people, will generally lead to failure at some point.*
- 1.3.1.14. The Haddon-Cave Review (UK) has been often seen by people predominantly as a report concerned with the RAF. The report is prescient, however, in its dissection of the nature and causes of dysfunction that have afflicted numerous western technical organisations following the 1990s when business trends were adopted by governments in the face of cost pressures. The lessons highlighted by Haddon-Cave are applicable across the ADO with regard to the dilution of technically qualified and experienced people in the management structures. In the UK this meant that consensus became a way of doing business even in respect to technical issues, rather than engineering principles being the baseline consideration that drove cost, scope and schedule decisions. The Committee has seen evidence of similar outcomes in the ADO with generalist ADF and APS staff relying on process rather than subject matter competence.
- 1.3.1.15. To have a role with authority in complex or technical project in civil community (eg: a pipeline engineer in the energy sector), there is often a competence matrix which provides guidance on the qualifications and experience required for given tasks. This approach is already applied in parts of the ADO in various forms. It must become a standard part of practice with scaled levels of detail and discretion for appointing authorities depending on the criticality of the role. The role of the external regulator who audits and reports on compliance is critical if this system is to be effective. While some parts of the ADO already make extensive use of external agencies (eg: Engineers Australia, Project Management Institute) to assist in the process of defining competencies, this should become standard practice. Existing ADF regulators such as DGTA and the Flight Test Airworthiness Authority should also be used to identify specific competence considerations for design engineering, developmental test and evaluation and certification roles.
- 1.3.1.16. There are areas where the ADO no longer retains sufficient competence or capacity to support all projects. Indeed it may not be viable to always maintain the numbers of professional required when concurrent projects are under way. Above-the-line professional service providers (PSP) have proven invaluable to many projects, provide competence and often, the

benefit of corporate knowledge and recall of “lessons learned”. Evidence provided to Senate Estimates indicates that the ADO is often under media and political pressure to reduce the number of “contractor and consultants” and even the annual defence report highlights efforts to replace contractors with APS. If the APS or uniformed personnel do not have the required competence for the role, this is not only false economy due to decreased productivity, it directly elevates the project risk. Government must be prepared to defend the right of Capability Managers to engage the skills they need to complete the tasks they are given. If the nation cannot afford to engage task-competent people to manage multi-million dollar projects, the project should be deferred or cancelled. Skills in this category could include engineers, project managers, contract negotiation specialists, integrated logistic support (ILS) professionals, test and evaluation (T&E) specialists (developmental or operational) and accounting or finance managers.

- 1.3.1.17. **Risk management.** The enquiry identified numerous examples where risk was either not identified or poorly managed throughout the capability acquisition process. The most telling cases were in situations where equipment that was marketed to defence and submitted to government as off-the-shelf, turned out to be developmental. This leads to several obvious questions:
- a. **Why was the risk not identified?** In giving evidence to the inquiry Defence claimed that it had developed increasingly robust processes to support their risk identification and management. Given the principle identified above regarding task-specific competence, it is worth asking about the skill sets and experience of the people implementing this process.
 - i. **Who is commonly involved?** Defence identified that their process requires DSTO to be responsible for conducting the technical risk assessment. DSTO have a valid role in the risk assessment, particularly where their staff have been involved with similar technology through alliance arrangements such as the technical collaboration program (TTCP) with the United States, Canada and the United Kingdom. Other people who may be involved in the process include desk officers from CDG and possibly staff from the relevant service and DMO.
 - ii. In evidence to the committee, DMO, CDG and DSTO admitted few if any of their staff had qualifications, expertise or experience in design engineering, developmental test and evaluation or certification. The majority of DSTO personnel come from a scientific rather than engineering background and their focus is predominantly on the technology itself rather than the application of the technology as part of a weapons system with all its associated integration, certification and fit-for-purpose considerations. Defence confirmed that staff from CDG and DMO were predominantly operators, engineers or

technicians who came from an environment where mature, in-service systems were the norm. Defence stated that these people were used to a culture where the manufacturer was the ultimate arbiter and authority with respect to the equipment in question. They confirmed that operators engineers and technicians in this environment would not be used to questioning the manufacturers advice or instructions.

- iii. It should come as little surprise then that when a manufacturer presents a solution and claims that it is off-the-shelf and presents a range of technical looking material to substantiate their claim that most desk officers will not be equipped to ask the relevant questions to establish the true status or extent of residual risk to close the gap in areas where development is acknowledged as being required.
- iv. **Who could be involved?** This has varied over time for the land, maritime and aerospace domains with the aerospace domain currently having most options. Over a number of decades, Defence has invested in the capability to conduct design engineering, developmental test and evaluation and certification activities for its aerospace equipment across all three services. These skills reside in the flight test engineers, experimental test pilots and flight test systems specialists from the Aircraft Research and Development Unit (ARDU—supporting Air Force and Army) and the Aircraft Maintenance and Flight Trials Unit (AMAFTU—supporting Navy).
- v. ARDU and AMAFTU in the past have been tasked to conduct evaluations prior to contract signature. Where there has been an operating product available, a Preview Evaluation (involving a series of ground and flight assessments) has been conducted resulting in a report that can inform contract negotiations about areas of risk. Where there is not yet an operational solution, they have been engaged to review requirements, specifications and to assess claims made by the manufacturer.
- vi. The competence that underpins their ability to add value to this task comes from the combination of qualifications and experience. The career path to becoming a productive member of ARDU or AMAFTU involves officer training, initial specialist training (pilots course, engineering or navigator/weapons system operator), at least one or preferably two operational tours, 12 months of tertiary level training at a specialist school in the United States, United Kingdom or Europe and then one or more years of supervised test activity within the Australian airworthiness and certification system. Only at this point are people deemed competent to support a significant development or acquisition project.
- vii. There are currently no comparable organisations in the maritime or land domains. In the past, Navy has had deep experience in shipyards

and its technical regulatory structures. There have also been centres of expertise, for example the Oberon class submarine combat system centre. The development of skill sets has tended to parallel the block replacement approach of major capabilities (ships, submarines) rather than retaining a standing capability. Land will increasingly require this capability as it moves from low-technology vehicles to complex weapons systems highly integrated into the digital battle space. Of note however, many of the systems engineering skills from the aerospace domain do transfer to other domains as evidenced by the number of ex-aerospace engineers engaged in the Air Warfare Destroyer programme and supporting land C3 (command, control and communication) projects. The aerospace capability is therefore a suitable basis for determining the types of qualification and experience required to provide this competence to the land and maritime sectors.

- b. **Why was the risk poorly managed?** Risk management only becomes an issue if the risk has been identified. As highlighted in paragraph a, scientists and service personnel who are very competent in their respective professional fields are not well equipped to work at a forensic level with design engineering and certification issues. That may go some way to explaining issues in the land and maritime domains. Given that some of the more notable failures over the past decade in Defence procurement have been in the aerospace domain, why did ARDU and AMAFTU not identify risk in a timely manner?
 - i. **Were they asked?** Since the creation of the DAO and then DMO the percentage of aerospace projects which have fully employed the capability afforded by ARDU and AMAFTU in a meaningful fashion throughout the whole capability development, acquisition, acceptance and introduction-into-service process has steadily decreased. There are several reasons for this including cost constraints, decreased awareness of their capability and role, and an increasing perception that with more off-the-shelf acquisition there is a diminishing requirement for the involvement of developmental test and evaluation organisations.
 - ii. Possibly one of the last full Preview Evaluations conducted was for Project Air 87 (Armed Reconnaissance Helicopter) which involved the significant expense of a team of test pilots and flight test engineers travelling to France to conduct a series of ground and flight tests. Other projects have involved ARDU or AMAFTU upfront to a lesser extent although nearly all have realised at some point, that the information they require to achieve certification requires some involvement of these specialist agencies. By then however, the unforeseen risks have often eventuated and schedules have started to become very tight if not already delayed. The multi-role tanker and transport (MRTT) project for example, was anticipated to be a largely off-the-shelf project and so made minimal investment in funding

project positions to enable a developmental test and evaluation capability upfront. Once the risks had materialised however, ARDU was requested at short notice to surge a large number of flight test personnel in an attempt to recover schedule.

- iii. **Were they listened to?** This question goes to the heart of the need for a system of checks and balances within a transparent, closed loop reporting system. ANAO reports often make comment to the effect that Defence was not aware of the developmental nature of the equipment and that issues became apparent after contract signature. The Committee received evidence that this “official record of events” was not always the complete picture.
 - iv. Documents provided to the Committee highlighted that the Preview Evaluation (conducted prior to contract signature) in support of Project Air 87 identified a number of risk areas including significant schedule risk due to the developmental nature of the helicopter. Numerous other software, integration and technical risks were identified, many of which subsequently eventuated and contributed to the delayed achievement of the operating capability. Despite the clear articulation of risk in the report, the contract negotiations proceeded as planned and the Committee has evidence showing DAO gave specific instructions not to release the report to the Capability Manager in Army.
 - v. In the case of the Super Sea Sprite, evidence received by the committee indicates that staff at AMAFTU on at least two separate occasions identified the high degree of risk associated with the proposal to develop a digital flight control system. A similar specific warning was made by a contractor to Defence who also stated in evidence that a significant amount of effort was made in an attempt to get project desk officers to understand or even acknowledge the implications of the risk.
 - vi. In the case of the MU90 torpedo (Joint Project 2070) the Aircraft Stores Compatibility Engineering Agency (associated with ARDU) recommended a range of evaluation activities to ascertain suitability of the torpedo for fit and integration with the AP-3C Orion. They were not funded for the proposed test activities nor was their advice heeded on the risk associated with the Project’s intention to combine integration activities for the MU90 with the JASSM.
- c. **Conclusion.** Clearly the ADF has (or has had) the ability to identify risk in many circumstances prior to contract signature. This capability has to be used to best effect if Australia wishes to retain some level of sovereignty (ie: be a “smart customer”). The competencies required to enable this risk identification must be extrapolated from aerospace and developed across the land and maritime domains. The acquisition

process must mandate their involvement early in the capability life-cycle such that the promises made by manufacturer or the assumptions underpinning indications of cost and schedule to senior committees or government can be tested and verified. There is a critical need for a transparent and closed-loop reporting system that ensures all relevant information (including dissent) is heard by appropriate decision makers. Accountability (ie: control) requires that the project director retain the discretion to assess dissenting voices and to make a recommendation to the Capability Manager and eventually to Government. The decision makers however must have disclosure of the fact that dissent was made and the basis upon which the dissenting concerns were dealt with or discarded. This disclosure needs to flow through to the Minister who may choose to consult the dissenting voice or to seek a further opinion.

- 1.3.1.18. **Organisational structure.** Post the Tange reforms of the 1970s and prior to the reforms of the 1990s, the three individual services operated largely as separate entities with command and control of all of the enabling functions. While manifestly inefficient, the arrangement was largely effective in terms of procuring and sustaining capability with a high degree of accountability (there was no one else to blame) and a solid reputation for being a smart, informed customer. The drive for efficiency as discussed above has had unintended consequences which appear to have cost the taxpayer dearly in net terms. Going back to three independent services in an attempt to remediate the unintended consequences, however, is not an option as the gains in efficiency (where they have been made) are essential to retain and develop in this cost constrained environment.
- 1.3.1.19. The analysis on accountability (above) identified that control of enabling functions must be returned to the service chiefs but subject to checks and balances from a regulator overseen by the Defence Secretary. This means that the organisation of defence must change. It will include a reduction in the number of groups and the creation of a new more defined role for the Diarchy whereby the CDF is held to account for what is done and the Secretary for how it is done (where non-military issues are involved eg: procurement, accounting, OH&S, common standards for administrative IT and pay systems etc).
- 1.3.1.20. The analysis on contestability (above) highlights that the governance of the ADO would be enhanced by a more structured engagement of the Minister through a defence board as well as developing the existing Gate Review and air/sea worthiness boards across major capabilities and projects. The concept for this new approach to Governance is developed further in Section II of these comments which outlines one approach to a systems based reform of Defence.
- 1.3.1.21. **Defence industry.** Despite the policy and the rhetoric, practice over past years has indicated that defence industry is not really seen as a key part of Australia's national security capability. For many MPs it is seen in the

context of job opportunities. For Defence, it appears to be seen as a service to be contracted when required, without much regard as to what happens in between requirements.

- 1.3.1.22. A commitment to competition appears to be paramount in DMO's thinking, even where such an approach actually drives up risk and cost in the long term. This approach is at odds with the UK for example where a single capability partner has been identified in areas where the barriers to entry are high eg: submarine construction. Long term partnerships between Defence and industry with regard to any given capability are generally desirable but must involve contracting terms that ensure value for money for the Commonwealth of Australia. This can be achieved through transparent cost structures, performance/productivity targets/reviews and options for re-tendering where value for money is not being achieved. In terms of rebuilding competence, Defence may also consider in some areas of TLS a balance of in-sourcing industry capacity (to a defence controlled engineering support system) rather than outsourcing the whole task (process and people) to industry.
- 1.3.1.23. The considerations of sovereignty apply to Australian Defence industry as much as it does to the ADO. The ability to produce everything required for the defence of Australia is not feasible. Nor is it desirable, however, to allow our technical abilities to atrophy to the point of having no choice but to accept whatever equipment another nation is prepared to sell us on their terms without understanding the true nature of capability and risk being offered. Assuming Australia wishes to retain the ability to be a "smart customer", an investment in developing industrial and technical capability has to be made at some point.
- 1.3.1.24. The health (capacity and competence) of Australia's defence industry sector should therefore be considered as part of the Capability Development process. Recommendations at 1st Pass to NSCC should include considerations of any industry capability health issue. If necessary, the 1st Pass recommendation should even constrain procurement or sustainment options in order to minimize long term capability risk as well as considering short term project risk.
- 1.3.1.25. A key to reducing risk and cost is for Government to plan for a stable procurement workload (on defence and industry) which provides incentive for private sector investment in (and sustainment of) skills and infrastructure. Defence is a monopoly purchaser, and defence industries in key areas do not have normal commercial opportunities to diversify their customer base. Where Government plans its procurement acquisition (and sticks to the plan), some manufactured and supported in Australia options can be as equally cost effective as MOTS/COTS. Investment in such procurement discipline will be of far greater value to sustaining critical defence industry capability than any form of subsidy. Where possible, priority and strategic industry areas should be supported primarily as a

function of procurement activity rather than via “access to” training funds or other support measures. Current Defence guidance on Priority Industry Capabilities (PIC) states for example: “*EW provides an essential capability edge for many of our major war-fighting capabilities there is a need to have a responsive and effective indigenous EW industry sector that can be relied upon to adapt and integrate new systems to meet the needs of our operational posture.*” Despite this, current acquisition decisions could see most aerospace platforms having EWSP systems designed and supported overseas within the decade. This will not only make the retention of this PIC problematic, it will be difficult to achieve the “*essential capability edge*” whilst lining up with other client nations looking for support from the provider when there is a new threat to be countered.

- 1.3.1.26. The committee found a distinct difference of opinion between defence and industry with regard to the timing and level of involvement in the capability development cycle. Defence cited concerns regarding probity as a reason to keep industry at arm’s length while industry cited more realistic development of requirements as a way of minimising risk. Both defence and industry agreed however that there are some mechanisms in place that allow a productive engagement well before contracts are being signed. One key example is the Rapid Prototyping Development and Evaluation (RPD&E) organisation which allows early exploration and development of concepts and technology. Of note, the Manager of RPD&E is chosen by industry and defence in collaboration such that all parties have confidence in the individual. This process holds considerable promise for other areas where all industry stakeholders and defence need to have mutual confidence with regard to probity, process and protection of IP.
- 1.3.1.27. The Committee heard significant concern from industry about the level of commercial experience within DMO, the culture, the practice and about contracting measures that resulted in lose-lose situations. Based on the process used to select the RPD&E Manager, industry should have a role in the selection of the chief executive officer of what I will call the Defence Procurement Centre of Excellence (PCOE - the group responsible to the Secretary for the setting and auditing of procurement guidelines and competencies). This same appointment could be responsible (directly or more likely via selected staff) to represent industries interests when submissions for 1st and 2nd Pass are being prepared for Government and during review boards during the life of a project. This is not at odds with the CEO’s role to advise service chiefs on procurement and sustainment as best practice will generally deliver the best outcomes for all parties involved in a contract.
- 1.3.1.28. Industry views the DCP as the key document to inform their investment decisions for workforce development and technology. Capability Managers use the DCP to plan the management of FIC for future capabilities. If the DCP is not realistic and predictable, industry incurs additional cost which either makes them unviable or eventually, is priced back into contracts with

the Commonwealth. This links back to previous discussion about the need for strategic alignment with the military effects that Government knows it can afford and commit to. It also links to the need to use proven approaches such as the Projects of Concern resolution process to make the cost / capability / schedule trade-offs required to keep projects aligned with the DCP schedule. Ministers and the NSCC must be better informed of the opportunity cost of deferring consideration of submissions for 1st and 2nd Pass approvals. Only then can they meaningfully decide if the business case actually supports the proposed delay, regardless of whether the reason is political, fiscal or just other priorities for the scheduled meeting of Cabinet.

- 1.3.1.29. The committee heard evidence about the risks and costs resulting from the stop-start nature of defence's "block replacement" approach to acquisition. The problems with the AWD build at BAES stemming from a low skill base due to gaps in ship building activity are a case in point. Evidence was also presented about the changing nature of military capability which is far more dependent on software and computing processor power. Numerous accounts were received of projects which witnessed one or more generational changes in IT technology just during the DWP to 2nd Pass approval stage. The concept of developing a specification that will provide the "right" solution for the next 30 years appears to be a paradigm of the past.
- 1.3.1.30. An alternative approach used with great success by the Japanese government in submarine construction) is phased procurement. Platforms are built with upgrades in mind (ie: designed for attributes such as access, additional power and cooling capacity). Lower production rates with continuous build programs reduces workforce risk (through improved retention of skills and design knowledge), reduces technical risk (evolving design elements rather than complete capability replacement) and spreads cost. The Collins replacement is a clear option for Australia to consider in this regard but it could equally apply to the replacement of vehicles for Army (Project Land 121 or Land 400) with phasing being aligned to the 36-month Force Generation Cycle of the three multi-role combat brigades established under Army's Plan Beersheba.
- 1.3.1.31. Evidence indicated a distinct bias against directly contracting with Australian based small to medium enterprises in the Defence sector. This has resulted in Australian designed and manufactured products being sold back to the DMO via overseas prime contractors with a significant profit margin attached. Australian SMEs have also played crucial roles in many significant acquisition programs. It was a small Australian company for example that conducted the analysis to show that the combat system being delivered with the original Collins class submarine (by an overseas prime) would not be fit for purpose⁴. Defence highlight the risk attached to

⁴ That same company was specifically excluded by the Commonwealth from providing an airborne system for the Coast Watch contract despite twice being selected by the prime contractor as the best for the job. The Commonwealth insisted on a European solution which ended up being very immature (despite the

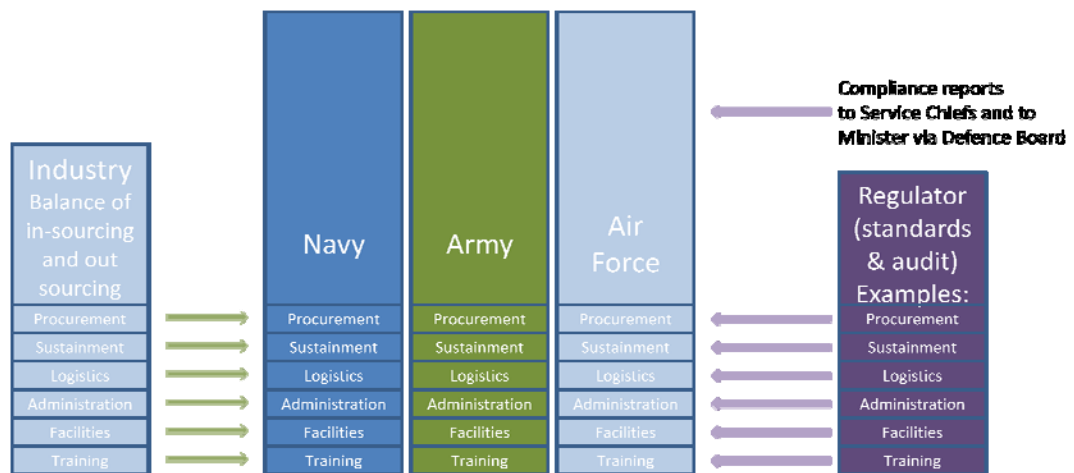
through-life-support as being one reason not to contract directly with Australian SMEs but evidence presented to the Committee indicates that this is more of a cultural issue than an issue of substance. The criteria used for source selection must be developed to provide a balance which allows Australian SMEs to compete on a level playing field where they have a technically compliant product and can demonstrate value for money.

2. SECTION II – A proposed systems approach to reform

2.1. Governance

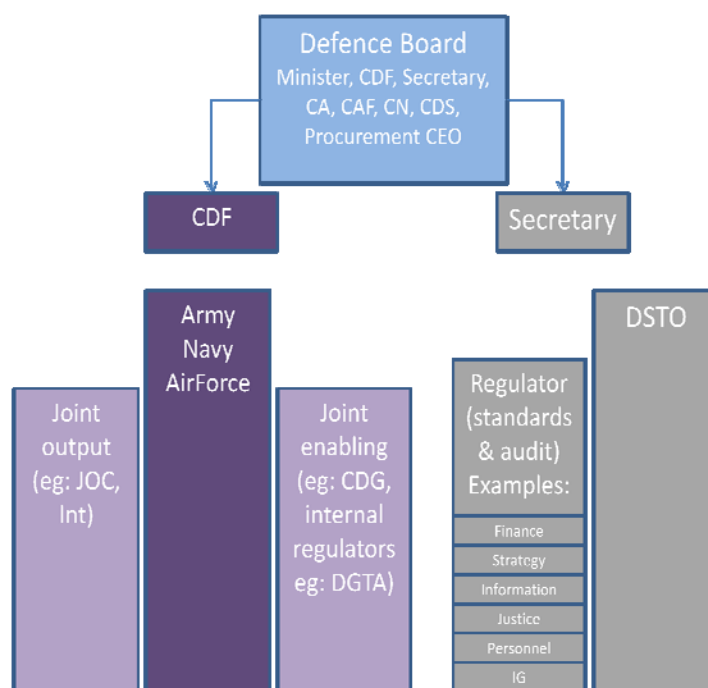
2.1.1.1. **General.** Reform of Defence is desperately needed but to date, the externally imposed and led reviews have all failed to deliver the intended outcomes, due in large part to a failure to address the underlying causes of dysfunction. The Diarchy have highlighted that the ongoing reviews merely serve to be a significant burden in terms of focus and resource at a time when the ADF is maintaining a significant level of combat and humanitarian operational commitment.

2.1.2. Drawing on the principles, analysis and conclusions in Section I, the following paragraphs attempt to outline what a systems approach to reform of the ADO might look like. It will outline a possible organisational form as well as describe the role of key stakeholders and the outcomes expected. One possible form is at Figure 1.



2.1.3. When discussing accountability, a common call by media and politicians is that defence should be run more like a business. Often their call is in relation to process but overlooks governance. The model of governance applied across nearly all public companies and not-for-profit organisations is that of a board of directors led by a chair who hold the CEO to account for the operation of the business. The chair does not run the business, but

he/she facilitates the process whereby a corporate direction is set and oversees the regular review and assessment of progress towards agreed goals as well as adherence to accepted standards and regulations. Importantly, deliberations and decisions of the board are documented and provide an auditable basis for accountability flowing both ways between the Chair and CEO. The model of a governing board, appropriately tailored, should be applied at various levels of defence, including at the interface with Government. It is compatible with the military chain of command, has been shown to work effectively across all three services (eg: in respect to airworthiness) and is the governance model of choice arising from the recent reforms in the UK. The model is effective because it uses people and process to inform an accountable decision maker, rather than bringing together a group of peer organisations, each following process in an attempt to agree by consensus. One possible form of ADO structure with a Defence Board is at Figure 2.



2.1.4. **Key elements:** In the context of Australia's defence, the key elements would be:

- a. **National Security Committee of Cabinet.** This group would continue to set the National Security Strategy, of which Defence, along with PM&C, Foreign Affairs, AG, Treasury would inform and be directed by their relevant Ministers. This National Security Strategy would provide direction for defence as to the effects and influence the Government expects the Defence Force to be able to deliver domestically, regionally and globally.

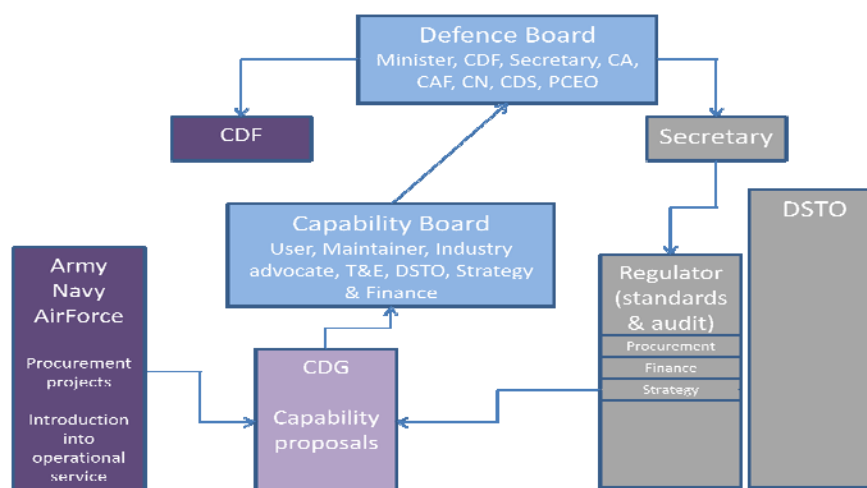
- b. **Defence Board.** The Defence Board would be chaired by the Defence Minister and meet on a regular basis throughout the year. Other members would include the CDF, the Defence Secretary, the Chief Defence Scientist, the three service chiefs⁵ and the CEO of the PCOE (ie: the procurement regulator reporting to the Secretary). The Board would act on guidance from the NSCC, approve Defence submissions to Cabinet/NSCC, set direction and approve global budgets for the department and also implement a rolling review of compliance with relevant internal and external regulation (eg: financial practice, procurement practice, OH&S, IT etc).⁶ Because the board meetings are minuted, accountability of the broader Defence portfolio to Government increases. For example, if the elected Minister of the day wishes to change Defence advice underpinning cabinet submissions, he is free to do so but it will clearly be a decision of the Minister rather than the current situation whereby ministerial staff “require” changes with no audit trail indicating that the final position was not that recommended by Defence.
- c. **Diarchy.** The Diarchy would continue but with clearly defined roles that take effect within the defence board structure. The CDF and Secretary could be considered as two CEOs in a joint venture (JV) with the Defence Minister as the Chair of the JV Board.
- 1) The CDF would in effect act as the JV CEO of the Defence Department and be accountable for the conduct and outcomes of the Department.
 - 2) The Secretary would become the JV CEO responsible for any governance regulations to be applied across the services (eg: financial practice, procurement practice, OH&S, IT). He would also be responsible to conduct regular audit and reporting to the Board of the qualifications of key appointment holders within Defence organisations (Services, DSTO etc) and the degree of compliance within each organisation. He would also be the sponsor for any ‘contestability’ functions that central agencies (eg: Finance) wished to apply to Defence processes (eg: capability development).
- d. **Capability Board.** The Capability Board receives direction from, and reports to, the Defence Board. The Board is chaired by the VCDF and like the successful Airworthiness Boards, captures both corporate knowledge and current regulatory knowledge by drawing on

⁵ The Minister may also choose to have non-executive directors on the board to provide broader perspective and experience to strategic and commercial deliberations.

⁶ This resolves the current dilemma whereby in the search for savings through alignment of process, shared services have broken the continuity of command and destroyed accountability. Under this model, alignment (efficiency) is achieved through common standards which are audited and reported to the Board (effectiveness), while the CDF and Service Chiefs retain command and control of all the personnel and resources they require to achieve their outcomes (hence accountability).

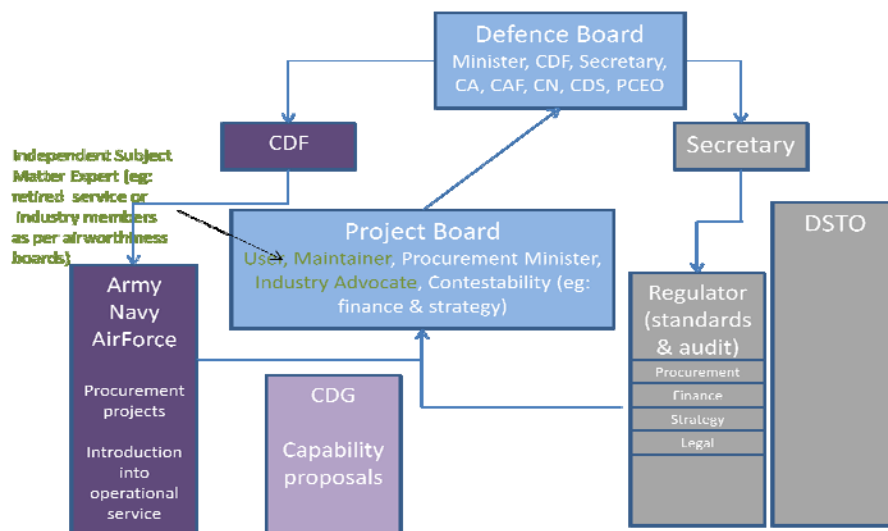
representatives of the key stakeholders (operators, maintainers, logisticians and industry) who are expert, experienced and independent. These members are balanced by representatives of the other key stakeholders who provide contestability being DSTO, PCEO, Finance and the Strategy group (under the Defence Secretary). Like the Airworthiness Board, the experienced members could be drawn from panels of active reserve senior officers from relevant professional streams and recently retired industry executives. This mix of backgrounds and experience address one of the fundamental weaknesses and criticisms of the current process whereby some commentators doubt the contestability, viability, strategic linkage of capability proposals that come to government for 1st and 2nd Pass Approval. The experience and independence of the Board would overcome the “conspiracy of optimism” that often accompanies a proposed capability case. The key Board outcomes include:

- 1) direction to the capability Development Group when a capability gap is identified and the capability development process is initiated;
- 2) review of the capability case (periodic eg: annual or at transition points in the process eg: pre 1st Pass) with report back to the Defence Board as a routine matter including recommended direction, constraints or enhancements to the capability proposal in question;⁷ and
- 3) A recommendation as to the level of oversight required during procurement based on the complexity, scope and cost of the capability in question.



⁷ This may include increasing or decreasing the scope of a capability, cancelling a capability, bounding the procurement options eg: a new C17 may be decided ahead of 1st pass Submission that it will be an FMS purchase.

- e. **Procurement Board.** Following 2nd Pass Approval, as the transition to a procurement process occurs, the ongoing audit of compliance with agreed scope, procurement procedures, schedule, cost and performance is taken up by a Procurement Board. This Board works on the same basis as an Airworthiness Board and reports via the VCDF to the Defence Board on a periodic or transition milestone basis. Depending on the level of review determined by the Capability Board, the seniority and scope of the members of the Board will be determined by the VCDF. This process overcomes the current flaws in reporting process whereby critical deficiencies or risks identified at the working level are transformed through various summation processes to a “Green traffic light” by the time the report reaches the CDF and Minister. This will allow earlier a specific and informed corrective action or re-scoping where required.



2.2. Strategy

- 2.2.1. **General.** In a fiscally constrained environment, good governance demands that strategy, planning, resource and Government expectations must align if national security is not to be compromised. Gone is the era where Defence is able to retain the unplanned capacity to surge at short notice for any sustained period of time to overcome shortfalls in governance. The NSCC is the key body in Government to decide on national security strategy and the role that Defence should play within that. Currently, the governance linkages do not appear to be connected. In the absence of classified briefings, the current correlation between NSCC strategic direction and the White Paper is assumed to be plausible. Without access to current classified Preparedness Directives, the correlation between NSCC and force structure and depth of military capability actually maintained is not known but it certainly does not appear to match the White Paper. While there will always be a trade off between the publically releasable White Paper (with its intended audience including regional powers) and full disclosure of the actual level of capability planned/maintained, feedback from senior officers

indicates that Government expectations and funding do not align with strategy and planning.

- 2.2.2. **Whole Government Approach.** Defence is just one of a number of agencies that contribute to national security. Australia's foreign policy should be a key driver for the scope and nature of military effects required by Government domestically, regionally and globally. Other agencies such as the AFP, ASIO, ASIS and ANO may well identify specific areas (such as counter terrorism) where specific Defence capabilities are required that will further shape Government's expectations of Defence capability and capacity. During this development process, Defence needs to provide proactive, iterative feedback about the likely real costs of acquiring and deploying the types of capability such that NSCC expectations are both realistic and affordable. The worst possible outcome would be to continue the situation whereby Government tasks Defence to develop a scope of military infrastructure and capability that the Government is unaware that it will never be able to adequately fund to allow Defence to maintain (to Commonwealth standards) or deploy on sustained operations.
- 2.2.3. **White Paper.** The White Paper process should be an opportunity to test, develop and contest broad guidance from NSCC and then present the concepts in a publically releasable form. Indeed the introduction to the 2009 White Paper states: *"This new Defence White Paper explains how the Government plans to strengthen the foundations of Australia's defence. It sets out the Government's plans for Defence for the next few years, and how it will achieve those plans. Most importantly, it provides an indication of the level of resources that the Government is planning to invest in Defence over coming years and what the Government, on behalf of the Australian people, expects in return from Defence"*. The fact that Defence puts up submissions not knowing if they will be approved and that the Minister can add, cancel or delay projects without changing the DCP or DWP indicates that the strategic alignment is not as robust as it should be. The key links that need to be reinforced are the iterative steps between NSCC guidance and the team undertaking enabling work that occurs prior to the White Paper process. The Government should understand and own the operational concepts and associated costs that enable Defence to fulfil the roles identified through the development of a whole of Government National Security Strategy. The White Paper should not be aspirational but a realistic balance between what is needed vs what can be afforded and when. Only then will the Defence Capability Plan return to being a meaningful document that can be used by Government, Defence and industry alike to plan productive capacity and an even spend spread over the validity period of the plan.
- 2.2.4. **Capability Evaluation.** If Defence capability is to be viewed through the prism of outcomes that support the National security strategy then a more effective measure of ADO and Executive Government performance can be developed. If for example our National Security Strategy called for the ability to repeat the kind of intervention undertaken in East Timor, then the

FIC that was required to mount and sustain the intervention can be quantified. Once the Government confirms its intent to be able to mount an intervention via the DWP, the DCP captures the nature and schedule of programs for any upgrades or replacement of equipment required for the task and the CDF is accountable to keep the capability available to Government at a specified notice. The public can also hold the Government to account such that any cuts to spending can be measured against the cost baseline and cost growth pressures. Various think tanks (eg: The Williams Foundation) have developed operational scenarios that provide an example of the way defined military effects and therefore capability could be identified and measured on an outcomes basis.

- 2.2.5. To borrow concepts from the US DoD model of the Quadrennial Review, the ability to evaluate capability derived from Strategy requires:
- a. a defined Defence strategy and operational concepts that are consistent with the most current NSCC National Security Strategy;
 - b. a defined force structure and readiness levels to enable the operational concepts for both wars of choice and wars of necessity as well as national tasking and humanitarian missions; and
 - c. Defence budget plans sufficient to provide for the maintenance to Commonwealth standards (or to exempted levels) of all fundamental inputs to the agreed force structure (organisation, personnel, collective training, major systems, supplies, facilities, support, and command and management) to support the raise, train and sustain function across the full range of missions called for in the operational concepts;
 - d. Defence budget plans and any additional resources needed to carry out such missions in a “a war of choice” (eg: Afghanistan) for an agreed period; and
 - e. Defence budget plans to acquire and maintain the level of reserve capability (“war stock”) Australia is prepared to maintain in the event of a war of necessity.
- 2.2.6. Under this model, accountability is increased. Defence knows exactly what they have to provide to Government for a range of operational concepts and Government knows exactly what options they have for the funding provided. Commitments by Government to UN or allied operations, disaster relief or other national tasking all has to come out of the capability and capacity that has been agreed. If Government wish to exceed the capacity, the Defence Board is in a position to identify to NSCC the short and long term costs of their proposed commitment. Both parties accept that a “lean” organisation cannot just surge without losing capacity or capability unless resources are increased. By adopting this model, the Executive Government

will be able to work constructively with Defence in an environment of mutual accountability.

2.3. Capability (Acquisition, Sustainment and Industry)

- 2.3.1. **General.** The Defence Capability Plan is currently an aspirational, moving feast of potential Government commitment. The uncertainty is highlighted by the current arbitrary decisions to defer billions of dollars of projects which is causing defence industry to be stressed to the point of failure (eg: some companies have gone into receivership and other companies are laying off staff). The governance and strategy models outlined above will go some way to providing certainty as well as effective, efficient and accountable processes for Government, Defence and Industry. Inherent in this governance structure is a principle that defence industry is part of National Defence capability. Capability Development Group therefore has a key role in determining what industry capability and capacity is critical to national security and then shaping procurement to provide an enabling path to sustain the desired industry sector.
- 2.3.2. **Link to strategy.** The Defence Board will take direction from NSCC via the operational concepts and White Paper and task the Capability Board to assemble a suitably qualified and experienced team to develop the capability proposal. Where operational requirements result in a capability gap being identified, the Defence Board will assess the budgetary and operational implications and as appropriate, direct the Capability Board accordingly. The other key link at this point is to industry. The Capability Board will assess the range of industry capabilities and capacity required to support Australia's ability to conduct an agreed level of independent operations and effect battle damage repair or operational modifications. The Board will then make recommendations to the Defence Board at 1st Pass Approval as to the method of procurement that will allow Australian industry to develop or sustain the required capability or capacity. Once agreed by the Defence Board, this will determine the procurement method, thus providing industry certainty. If for example the recommendation is for an FMS purchase (eg: an additional C-17), industry would know not to bother bidding whereas an early decision to manufacture and support in Australia would enable industry to make their own commercial risk decisions as to their place in the market and likelihood of success, confident that they would not invest in a bid team and staff build up just to have a late notice decision by Government to purchase a MOTS solution.
- 2.3.3. **Sovereignty.** The Capability Board would initiate consideration of the degree of sovereignty required by Australia in respect to indigenous industry capability and ADO competencies. Recent experience highlights however that the Defence Board and NSCC would also have significant input into the degree to which sovereignty consideration should affect force structure, procurement and deployment decisions.

- 2.3.4. There will need to be interaction between the Capability Manager and the Defence Board around the extent to which equipment procured as MOTS (even through FMS) may or may not be suitable for operations. The CH-47D is a case in point. Procured under an FMS case from the US Army, it was not considered suitable for deployment to the Middle East Area of Operations (MEAO) until a number of upgrades were conducted by Australia to overcome deficiencies in the standard US Army configuration. The upgrades included an effective EWSP suite, the M134 Dillon 6-barrel minigun, ballistic protection, the Engine Air Particle Separator (EAPS) system to protect the engines from sand and the Blue Force Tracker. Another recent example is the MRH90 helicopter which will have to have the OTS troop seating replaced, the door gun modified such that troops can actually egress the aircraft while the gun is providing protective fire and ongoing modifications to night vision related lighting and display equipment that have not proven suitable for tactical missions under low-light conditions.
- 2.3.5. In order to retain the long-term sovereign ability to assess risk and develop capability, the Defence Board may need to make specific procurement decisions on a different basis to current thinking. For example Australia is currently on track to have an entire fast jet fleet of Joint Strike Fighter (F35 JSF) which will have all its development, test and certification undertaken in the USA. Combined with a leased OTS lead-in fighter (BAE Hawk), the C17 (OTS), the C130J (OTS), the C27J (OTS) Australia could be in a position within the decade where it has lost the competence for design engineering, test, development, repair or certification activities in support of fixed wing aircraft and their subordinate systems.
- 2.3.6. As demonstrated by the CH-47D, situations will arise where Australia will require this indigenous capability to support operations and it will certainly need the capability as part of remaining a “smart customer” for future acquisition. Including long term “sovereign capability” considerations in capability planning could for example lead to:
- a. Identifying the need for political pressure on the provider nation (the USA in the case of JSF) to provide better access to Australian ADF, DSTO and industry; or
 - b. A decision to reduce the fleet size of the primary JSF platform so as to have funding available to procure an alternative platform that would allow this sovereign capability to be retained and developed⁸.

⁸ Choosing to have an additional aircraft type to support sovereignty would need the type be specifically chosen for its current performance, systems growth potential and the availability of a technology partner willing to share IP (one example being the F15 and Israel, a nation that Australian has had extensive technical military engagement with in the past). Like the F15-I, an indigenously developed platform also provides an element of unknown to a potential adversary with regard to actual capability.

2.3.7. **Procurement.** Procurement would be the responsibility of Service Chiefs as the Capability Managers. They would have control of their budget, staff and priorities such as to be able to balance training, operational and maintenance requirements of assets and the comparable demands on personnel. This is a critical interface which is currently poorly managed and often affects both legacy capability as well as the successful introduction into service of the new capability. The efficiencies envisaged through the creation of DAO and DMO will still be achieved through the Secretary exercising the regulatory authority and audit role to ensure compliance with defence standards, regulations and procedures. While the Service Chiefs would report to the Defence Board on the outcomes (ie serviceability rates), the Secretary would report on the extent of compliance. Feedback from senior Defence officers indicates that establishing additional groups within the enabling areas of defence just because the outcome is “joint” is wasteful and no longer required now that a combined arms defence culture is firmly established. Procurement for Joint capabilities would be facilitated by a lead Capability Manager.

2.3.8. **Sustainment.** Sustainment would also be the responsibility of Service Chiefs as the Capability Managers. Like procurement, they would have control of their budget, staff and priorities such as to be able to balance training, operational and maintenance requirements of assets and the comparable demands on personnel. The efficiencies envisaged through the creation of DMO will still be achieved through the Secretary exercising the regulatory authority and audit role to ensure compliance with defence standards, regulations and procedures. While the Service Chiefs would report to the Defence Board on the outcomes (ie serviceability rates), the Secretary would report on the extent of compliance.

2.4. Implementation

2.4.1. **General.** The implementation of this reform must not be preceded by another external review. Key stakeholders should be briefed on the desired outcomes (directive control) and then tasked to develop a transition plan that meets the Government objectives while allowing ownership of the process by defence.

2.4.2. **Stakeholders.** The principal stakeholders for planning and implementation must be the CDF and Secretary. Noting that many of the SES management across the broader Defence organisation may become redundant, they should be briefed by the Minister but only play an active role in developing the transition to the extent determined by the CDF and Secretary. Some workforce (APS and ADF) at all levels will transfer to the services and some will transfer to the new regulatory bodies to be established under the Secretary.

2.4.3. **Timeframe.** Once the CDF and Secretary have been briefed on the expectations of Government in respect to the new Governance model and

expected outcomes, the Diarchy should be given a finite period (three - six months) to develop their implementation plan. Over this period of transition planning, the defence Board should begin to meet, refine its own procedures and document decisions taken. Implementation in accordance with the schedule developed by the CDF and Secretary should be complete within the following 24 months during which time the Capability and Procurement Boards must commence their function.

Cost considerations. The direct savings in the order of \$1bn could be expected over the forward estimates from the elimination of the duplicated management structures. Attributed infrastructure cost over time will also be less due to fewer “groups” within the Defence department but transition costs would need to be allowed for. Within the scope of these comments, no attempt has been made to quantify the efficiency dividend of restoring accountability but given the numerous examples of waste identified during the inquiry, the savings are expected to be significant.

3. SECTION III – Conclusions

3.1. Conclusions

3.1.1. **General.** The current model of governance is dysfunctional and is a root cause of the lack of: accountability; efficiency; and effectiveness that characterises the broader Defence organisation. Unintended consequences arising from reforms over the past two decades have played a significant role in creating this situation.

3.1.2. Specific Conclusions from Section I regarding causes.

- a. Accountability will only be achieved if Government empowers Defence to reduce the number of groups in the ADO and to restore the continuity of command by returning control of enabling functions to the ADF. Efficiency and effectiveness can be best achieved by having the Secretary oversee a regulator that: sets the standards to be complied with; determines the competence required before personnel will be authorised to exercise their authority (limited if required); and audits compliance.
- b. Defence must build on successful measures such as Gate Reviews and Air/Seaworthiness Boards to establish a consistent framework for contestability. The framework must include a transparent, closed-loop reporting mechanism so that dissenting voices are heard by the relevant decision maker.
- c. The success of the resolution process for Projects of Concern has demonstrated that it is possible to have senior stakeholders agree on trade-offs to cost, schedule and capability to avoid project failure. There may be times where such a trade-off should in fact be made pre 1st or 2nd Pass rather than delay submissions to NSCC. Conversely, insufficient

information to be able to accept the risk profile of a project may mean that it should not proceed. Lack of capital productivity is a significant cost driver for Government in the defence portfolio and timely decision to commit, to defer for a defined period or to cancel has the potential to achieve significant savings over time.

- d. The ADO is often under media and political pressure to reduce the number of “contractors and consultants” as a cost saving measure. If the Australian Public Service (APS) or uniformed personnel do not have the required competence for the role, this is not only false economy due to decreased productivity, it directly elevates the project risk. Government must be prepared to defend the right of Capability Managers to engage (employ or contract) the skills they need to complete the tasks they are given. If the nation cannot afford to engage task-competent people to manage multi-million dollar projects, the project should be deferred or cancelled.
- e. The ADF has (or has had) the ability to identify risk in many circumstances prior to contract signature. This capability has not been used to best effect with dissenting voices sometimes ignored. The decision makers must have disclosure of the fact that dissent was made and the basis upon which the dissenting concerns were dealt with or discarded.
- f. Defence Industry is part of Australia's defence capability, particularly for Through Life Support (TLS) but also in some areas of development and manufacture. The health (capacity and competence) of Australia's defence industry sector should therefore be considered as part of the Capability Development process. A key to reducing risk and cost is for Government to plan for a stable procurement workload (on defence and industry) which provides incentive for private sector investment in (and sustainment of) skills and infrastructure.

3.1.3. **Specific Conclusions from Section II regarding reform:**

- a. The conclusions from Section I should be facilitated by adoption of governance model headed by a Board, based on existing practice in the commercial world and parts of the military. The Minister should Chair the Defence Board.
- b. The VCDF should be accountable for the capability development process to ensure a whole of defence outcome including recognition of the role that industry plays as a part of defence capability. The service chiefs, being the Capability Managers should be accountable for procuring, sustaining and operating capability.
- c. Defence Strategy must flow from a whole of government National Security Strategy and linkages between the strategy, government

expectations, operational concepts (including force structure and capability/capacity) and allocated resources must be clear and validated on a regular basis.

- d. The Government must commit to the development and retention of an agreed level of competence in the ADF and Australian industry to assess, repair, develop, and certify equipment to a standard of our choosing. Once the areas of competence and level of sovereignty is agreed, this must inform procurement decisions such that opportunities to retain and develop skills will continue to exist for Australians.
- e. The Government could use the concept proven by RPD&E (where industry and Defence jointly select an individual trusted by all parties to be the program manager) to have industry select the head of the procurement centre of excellence.
- f. The concept of directive control as practiced by the military should be used whereby the CDF and Secretary as the key stakeholders will be tasked by the Minister to develop within three–six months an implementation plan to achieve the agreed outcomes. Once agreed by the Board, the CDF and Secretary should be required to implement the transition in accordance with their plan but ideally within a period not exceeding 24 months.

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