



ARBN 115 614 803 ABN: 37 252 416 031
Registration: Y2843019

AUSTRALIAN INDUSTRY & DEFENCE NETWORK INC

PO Box 334
Ashburton
Victoria 3147
Australia

Tel: +61 (3) 9885 0907
email: admin@aidn.org.au
web: <http://www.aidn.org.au>

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First Principles Review of Defence
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CANBERRA BC ACT 2610

A SUBMISSION FROM THE AUSTRALIAN INDUSTRY & DEFENCE NETWORK (AIDN) TO THE GOVERNMENT'S FIRST PRINCIPLES REVIEW OF DEFENCE

INTRODUCTION

It is critical that the Department of Defence is capable of efficiently and effectively supporting the Australian Defence Force. In order to ensure optimal outcomes for Australia the agency responsible for materiel acquisition and sustainment, the Defence Materiel Organisation, must be commercially astute and fully accountable for their decisions.

Australia needs a capable Department of Defence to ensure that defence capabilities are secured in the most cost effective manner that takes into account the full economic impact of procurement decisions and the need to sustain a defence industry capability.

RECOMMENDATIONS

The Australian Industry & Defence Network (AIDN) makes the following recommendations following consultation with our members and key stakeholders. AIDN proposes that the First Principles Review of Defence takes into consideration the following:

- Recognition that Defence industry is a Fundamental Input to Capability. Consistent with the proposed definition, Government should recognise that industry contributes significantly to and underpins all of Defence's Fundamental Inputs to Capability (FIC). To this end, defence industry should be considered to be the ninth Defence FIC. The outcome of this should be the inclusion and consideration of industry in the FIC analysis for all Defence capability decisions;
- A reconsideration of the definition of value for money in the assessment of both defence capability and sustainment source selection options and defence industry programs to take into account long term maintenance of Priority Industry Capabilities (PICs) and Strategic Industry Capabilities (SICs) and a range of national interest considerations;
- An Australian Government and Defence/DMO commitment to the establishment and implementation of a rigorous program for the implementation of the PICs and SICs program with clear objectives and milestones, including comprehensive implementation strategies in AIC Plans for individual projects and with appropriate public reporting of implementation status;

- Implementation of a Strategic Sourcing Program to inform rigorous priorities for AIC Plans in projects, and to enhance self-reliance through broadly based support for PICs and SICs;
- The implementation of defence industry policy and related programs be energised through the establishment of KPIs for each key policy or program, and the public identification of the appointment with responsibility for the policy or program development and implementation;
- The Defence Materiel Organisation be required to provide sufficient resources to ensure the efficient and effective achievement of AIC Plan implementation and scrutiny;
- Prime contractors be held accountable for the achievement of AIC KPIs in their contracts, and the overall progress against current AIC plans be included in the DMO annual report. Failure to fulfil the requirements of endorsed AIC participation plans to have real consequences through the public reporting and impacts on future tender assessment of non-complying companies;
- AIC Plans to include contractually binding deeds of agreement between the prime contractors and supporting SMEs.
- Require the revision of procurement policy to include vastly simplified risk-sharing contract conditions and limited liabilities;
- Existing Defence initiatives like SADI be supported and expanded;
- Whole of life costs be considered in all procurements to ensure that acquisition and sustainment costs are clearly identified and included in the decision-making process;
- Implementation of Performance Based Contracting to reduce the requirement for Defence to undertake duplicative project management practices;
- Ensure Technology Transfer and Access to Intellectual Property for Offshore Acquisitions. This will ensure Australia's defence industry is able to provide maximum in-country support through the whole-of-life maintenance, upgrades and overhauls;
- The development of a mechanism that guarantees Defence carry out ongoing communication and interaction with industry, including the provision of early advice of decisions that change the shape of Defence's future expenditure program; and
- A single Industry Division be set up within Defence, led by a three-star equivalent Defence industry Ombudsman/Advocate with significant defence industry experience.

BACKGROUND

The Australian Industry & Defence Network (AIDN) is the peak industry organisation which represents defence Small and Medium Enterprises (SMEs). AIDN aims to maximise defence-related business for SMEs. Nationally, AIDN has over 800 members, with a total workforce of over 20,000. The submission indicates our strong and collective interest in ensuring that the First Principles Review addresses the key issue of "Defence and Industry".

DISCUSSION

Defence Industry as a Fundamental Input to Capability

Every major statement of Defence policy since 1976 has emphasised that a healthy and dynamic Australian Defence industry is an integral component of national security. To give effect to such statements, there needs to be a clear directive for Defence to implement and adhere to the Defence Industry policy.

AIDN believes the Department of Defence must acknowledge the importance of Australian industry to Defence capability and sustainment, supported by a benchmarked action program to achieve an effective relationship between Defence and Australian industry.

Defence industry is a long-term business with significant up-front investment requirements. It takes many years to develop an appropriate base of skills, technology and infrastructure. As such, **the Australian industry aspects of the provision and support of key ADF capabilities should be an important consideration in the force development planning process.**

AIDN believes **the First Principles Review must recognise that industry contributes significantly to and underpins all of Defence's Fundamental Inputs to Capability (FIC)**, not just the Major Systems FIC which has been the traditional area of focus for defence industry policy. AIDN believes that defence industry should be considered to be the ninth Defence FIC.

Value for Money

AIDN's assessment of current DMO procurement practices makes it clear that procurement decisions continue to be made on a narrow interpretation of value for money concept (i.e. lowest cost grounds) on a project-by-project basis.

It is clear that a reconsideration of the definition of value for money is required in the assessment of both defence capability and sustainment source selection options and defence industry programs. This reconsideration needs to take into account a range of national interest considerations to ensure that short-term project expediency and a narrow cost focus does not override the longer-term objective of maintaining PICs to ensure national self-reliance and future project support.

Such a revised definition of value for money in the area of defence capability and sustainment procurement should, in addition to cost, include assessment of the demonstrated responsiveness and flexibility of tenderers, demonstrated reliability in terms of quality and timeliness of project or service delivery, ability to innovate in response to changing operational requirements and the economic multiplier benefits of a contract on both a national and regional basis.

PICs and SICs

AIDN recommends that the remainder of the PIC 'health checks' be completed as a matter of priority. A similar program needs to be undertaken to assist in the clearer definition of the SICs. Following the definition activity, AIDN recommends an Australian Government and Defence/DMO commitment to the establishment and implementation of a rigorous program for the implementation of PICs and SICs with clear objectives and milestones for progressing each capability and with appropriate public reporting of implementation status.

PICs and SICs cannot be considered in isolation from sustainment requirements. Consequently, strategic planning for PICs and SICs needs to take into account:

- The totality of each capability including sustainment,
- Where the capacity to provide capability is located in Australia; and
- The current and future projects that will rely on this PIC or SIC.

AIDN considers that the mandatory inclusion of PIC and SIC requirements in AIC Plans is the strongest tool available to ensure their maintenance. However, to ensure that this measure is not compromised, effective integration of PICs and SICs into AIC Plans must include consideration of their maintenance and enhancement not only in the procurement phase but also in sustainment.

Strategic Sourcing

AIDN is strongly of the view that significantly more can be achieved to enhance industry capability and to ensure that Australian companies win more defence work, while at the same time enhancing self-reliance and not reducing value for money in Government procurement. To do this, AIDN proposes the establishment of a Strategic Sourcing Program (SSP).

Rather than the piecemeal and largely project-specific approach currently being taken with AIC Plans, the SSP would rely on the strategic analysis of total capability proposed above under Implementation Strategies for PICs and SICs to produce a Defence Industry Capability Map (DICM). The DICM would consist of:

- PIC and SIC total capabilities
- Capability gaps between PICs and SICs that would enhance the maintenance of the PICs and SICs
- Capability areas surrounding the PICs, SICs and gaps which would also contribute to the maintenance of PICs and SICs

Consequently, the DICM can be seen to be a strategically-focused, broadly-based map of the industry capability required in Australia to ensure on-going self-reliance. Project AIC Plans would then be formulated using the DICM to not only achieve project-specific industry capability outcomes but also to enhance innovation and longer-term capability objectives which contribute to self-reliance.

While the SSP would inform AIC Plan objectives for all projects, implementation in contracts would only occur where value for money for Defence is achieved through better and broader industry capability, equal or better pricing, improved delivery times, access to innovation, enhanced through-support and consequently enhanced self-reliance.

Global Supply Chains

The concept of using the leverage of major acquisition projects to integrate Australian industry into global supply chains is fully supported. Defence should actively monitor such initiatives to ensure that they are delivering real outcomes that would have not otherwise been realised. The DMO must exert maximum leverage from its purchasing power and contracting processes to ensure Australian firms, particularly SMEs, get an honest opportunity to earn a place in the global supply chains.

Skills Development

AIDN notes the sustainment of a core level of defence relevant skills remains vitally important to maintain sovereignty.

AIDN recommends that existing Defence initiatives like SADI be supported but the administrative processes be improved. The turnaround time in assessing applications needs to be reduced.

Industry Engagement

Changes, delays and unpredictability in Defence's demand for support from industry puts established and specifically developed defence industry capabilities at risk. This uncertainty also lessens the likelihood of companies continuing to invest in Australian Defence industry capabilities, research and development or innovations to the overall detriment of Australia's future ability to sustain its Defence capability.

AIDN considers that the recommendations from the First Principles Review must commit Defence to ongoing communication and interaction with industry, including early advice of decisions that change the shape of Defence's future expenditure program.

The Capability Development Group and the DMO must engage with Australian SME industry players to gain an understanding of whether they have the capability required, or the ability to contribute, to overseas capability being developed for Major Projects.

Defence, particularly DMO, should make better use of AIDN to provide a deeper understanding of the industry and support capabilities of SMEs.

Partnering between DMO and Australian industry avoids costly duplication and promotes the development of indigenous capability. **The First Principles Review should recommend a policy of partnering and risk sharing between the Department of Defence, particularly DMO, and industry wherever practicable and beneficial to both parties.**

Establish a Single Industry Division and a Defence Industry Ombudsman/Advocate

Defence lacks industry experience and its engagement with industry is often inconsistent and confusing. To address this, it is recommended that Industry Division, led by a three star equivalent Defence industry Ombudsman/Advocate with significant defence industry experience, be set up within Defence.

The Ombudsman/Advocate and their Division should be industry's conduit to all areas of Defence, including DMO, and answerable directly to the Secretary and CDF. To be successful, the Division should include personnel with defence industry experience. This would consolidate the various industry engagement/liaison elements within Defence to create a true "one-stop-shop" for all industry initiatives and issues. It would ensure a whole-of-Defence support for industry.

CONCLUSION

AIDN understands that the high level strategic objectives of the First Principles Review extend well beyond industry considerations. However, for the reasons discussed, we believe the First Principles Review presents a valuable opportunity to recognise the importance of industry to the nation's defence and to deliver practical strategic guidance that also benefits the Defence-industry relationship.

Yours Sincerely



Alan Rankins
AIDN – National President