

Chapter 4

Defence Procurement Reform in Australia

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Defence procurement has been a persistent subject of concern for governments across Western nations for several decades. The large dollar value of acquisition contracts, the positive employment return from major contracts, the advanced technology inherent in weapons systems to the national economy, the spin-off of political pressure on politicians in constituencies with a high concentration of defence employment, and the power of defence industry advocates combines to pressure national governments to generate employment through defence procurement spending. Indeed, the sophisticated, leading-edge technology necessary for the development and manufacture of advanced weapons systems produces the high-value employment that national governments want to foster, in large part for the 'multiplier effects' it provides within the domestic economy. The significant demand for defence-procurement funding stems from the rapidly evolving nature of modern warfare and the so-called revolution in military affairs. Most other government programmes are less dynamic and less prone to rapid technical change. Consequently, in comparison to these other government programmes, defence capital expenditure tends to overshadow capital expenditure in all other government departments.

A combination of significant and persistent cost growth in defence acquisition programmes and 'a systematic bias toward underestimating the costs' of procuring weapons systems (Arena et al., 2006) makes national military capital procurement programmes a lightning rod for the media, opposition parties, and interest groups opposed to defence spending. For these reasons defence procurement processes are constantly under review by governments seeking to increase efficiency, effectiveness, and timeliness in the acquisition process.

Australia is unique among Western-oriented nations because of its particular location in the Asia Pacific region, its size and primary export markets for goods and services. The considerable distance between Australia and allied Western nations necessitates a certain level of indigenous support for the defence industrial base in Australia.

Furthermore, the extensive geographical mass of the island nation makes the country – like Canada – both secure and indefensible. Again similar to Canada, although the protection of the country takes precedence, the focus of the Australian armed forces is deployed operations. The recent series of defence procurement reforms in Australia demonstrates that national governments make particular choices (Sokolsky and Middlemiss, 1989), a fact that is not adequately acknowledged.

Defence procurement reform in Australia in the post-cold-war era began with the Defence Reform Program in 1997 and continued through to the Defence Procurement and Sustainment Review in 2008. Over this period of dramatic change and active involvement by the Australian military in overseas operations, the focus of procurement reform – as in the case of the United Kingdom – has been remarkably consistent. Yet, the Australians have chosen a distinctly national approach to defence acquisition reform, shaped in part by their unique geopolitical situation.

Defence Reform Program

The management framework of defence in Australia for the past decade was largely established by reforms instituted by the 1997 Defence Reform Program (Department of Defence, 1997). The objective of the reform programme was three-fold:

- 1 To consolidate individual Service support and training activities to increase efficiencies;
- 2 To improve management effectiveness by merging headquarter functions; and
- 3 To produce savings through the sale of surplus defence properties.

These reforms resulted in a relatively centralised structure, as individual services left with limited control over numerous military capability inputs (Thompson, 2007). Although the Australian Defence Reform Program was not centred on acquisition reform, it did provide the foundation for the management framework under which subsequent acquisition-related reform would take place.

Defence and Industry Strategic Policy Statement

The 1998 *Defence and Industry Strategic Policy Statement* was noteworthy in that it explicitly linked defence policy at the strategic level with industrial policy at the national level. The statement provided a clearly defined policy framework that unequivocally identified Australian industry as an integral element of national defence capability. Indeed, the Australian Defence Force and industry were heralded as partners in the provision of national security. The 1998 *Defence and Industry Strategic Policy Statement* offered six strategies (listed below) to integrate the military and the defence industry better. In addition, 49 significant initiatives were identified to support the implementation of the policy.

Six strategies to integrate the military and industry better

- Integrate industry into capability development;
 - Enhance industry's contribution to the nation's capability edge;
 - Reform procurement;
 - Establish new ways to involve Australian industry in defence business;
 - Increase Australian exports and materiel co-operation; and
 - Commit to cultural change and improved communication.
- (Department of Defence, 1998)

A key initiative contained in the *Defence and Industry Strategic Policy Statement* was the building of a mechanism to move formally to a less adversarial relationship between the defence establishment and defence firms. While this approach was common in Western nations during the period, in Australia it was framed as 'partnering.' The statement took the position that 'partnering has become increasingly common in the private sector, where it has been found to reduce cost and schedule runs, encourage innovation, and make risk more manageable. Partnering can produce similar benefits for Defence.' (Department of Defence, 1998)

The objective of this desired partnership was to link defence and industry together in a relationship where both risks and rewards were shared. Given the significant problems faced by defence planners at the time, the potential advantages of collaborative problem-solving with industry were an attractive prospect, as was the possibility of transferring some risk to industry. Nevertheless, overcoming the long history of sometimes-difficult relationships between these two parties was a significant undertaking.

Few saw the strategy as a panacea that would resolve entrenched problems such as cost overruns or schedule slippage, even though the policy framework did provide both industry and defence with an explicit policy-based framework within which to improve their relationship.

Defence policy statements related to domestic industry provide direction to the defence department on how to relate to industry and are successful to the extent that the guidance is explicit and the implementation period provides time for the relationship to develop and mature. In the case of the 1998 *Defence and Industry Strategic Policy Statement*, the six strategies generally provided a suitable framework for industry and defence collaboration.

Defence 2000: Our Future Defence Force

The 2000 Defence White Paper, *Defence 2000: Our Future Defence Force*, continued the reforms begun in 1998 with the *Defence and Industry Strategic Policy Statement* and committed to organisational stability by providing significant, long-term additional funding. The Australian government's commitment to the defence industrial base was re-emphasised, with priority given to combat and system software and support as well as data management and signal processing. In-country support for repair, maintenance and modification of military equipment was also identified as a priority (Department of Defence, 2000:99). In particular, support for advanced technology was viewed as a key underpinning of the government's approach to the defence industry. However, in a nation outlaying only one per cent of world military expenditure (Department of Defence, 2000:99), this appears to be an improbable objective. Similarly, government support for defence exports – given their small market size – also appears to be over-ambitious.

A key decision announced in the White Paper related to acquisition reform, and was the adoption by the Australian Defence Materiel Organisation of commercial best practices as the standard organising principle. In addition, performance standards in the Defence Materiel Organisation would be measured against industry benchmarks. Furthermore, to improve the relationship between defence and industry, the defence department was given the responsibility of encouraging a closer relationship between the parties.

Defence Procurement Review

After a wide-ranging review of the national acquisition process, the 2003 *Report of the Defence Procurement Review* concluded that 'there is no single cause of the failures that have become apparent in the development of capability and the acquisition and support of defence equipment. Consequently, there is no single remedy that will ensure that problems do not occur in the future' (Department of Defence, 2003:47). This review both continued and re-emphasised the procurement reform begun in the preceding decade. Taking a more broad-ranging view, however, and mindful of the new and emerging threats in the international security environment, the report urged more rapid change, while stressing the need to fundamentally remodel existing structures, departmental systems and the culture inherent within the defence department. Specifically, the review emphasised that changes were needed within each phase of the acquisition process, as well as throughout all subsequent in-service life-cycle phases.

This review echoed defence reports in other Western nations and emphasised the importance of improving the departmental process for defining and assessing capability requirements. It followed similar approaches recommended in the United Kingdom, including an increased investment in the early stages of programme development and a special emphasis on technological, schedule and cost risks. The Australian review emphasised, especially, the importance of cost analysis for both acquisition and subsequent life-cycle costs.

In a period of change within any organisation, external advice and support is usually beneficial. The report recommended two important initiatives in this regard. First, it recommended the establishment of an advisory board, independent of operational processes, to 'provide the advice of people who have acquired business skills and experience in the private sector' (Department of Defence, 2003:32) to senior managers in defence acquisition. The board, it was assumed, would consequently enhance the commercial orientation within that department. Second, the report recommended that the mandate of departmental project governance boards shift from managing simply acquisition to managing both acquisition and through-life support in order to provide continued oversight of fleet operating costs.

One innovation specifically, making the use of off-the-shelf acquisitions a key project benchmark, has the potential to cause a positive, enduring change. In this regard, the report states: 'Off-the-shelf equipment is often cheaper and can usually be delivered faster. Accordingly, an off-the-shelf alternative must be part of any set of options put forward to government to ensure that a benchmark is established against which the costs, military effects, and schedule of all proposals can be assessed' (Department of Defence, 2003:19)

Inquiry into Materiel Acquisition and Management in Defence

The terms of reference of the *Report on the Inquiry into Materiel Acquisition and Management in Defence* (Foreign Affairs, Defence and Trade References Committee, 2003:v) centred on whether the existing defence materiel acquisition and management framework was effective in fulfilling military equipment requirements. Although the terms of reference were reasonably broad, the report was essentially a snapshot of a year and a half of reform following the December 2000 Defence White Paper.

Although the objective was to develop a series of benchmarks to facilitate measurement of the success of future materiel acquisition and management reforms, the report recommendations were quite narrow in their application. In essence, given the short time since the reform process had been initiated by the Defence White Paper of 2000, these fundamental observations on reform core processes or functions were made too soon and were, thus, only preliminary.

Nevertheless, the broad consultation of the committee and the examination of the reforms made to date did bring forward a number of appealing ideas.

The unequivocal Australian government endorsement of close links between government and the defence industry, and the 1998 *Defence and Industry Strategic Policy Statement* that explicitly encouraged Australian industry to be proactive in presenting ideas and innovations to the department of defence, resulted in the committee recommending 'an efficient formal mechanism for the promotion and handling of unsolicited proposals' (Foreign Affairs, Defence and Trade References Committee, 2003:59) from small and medium Australian enterprises.

This innovative approach to doing business was intended to help leverage the 'knowledge edge' of primary leaders in a range of defence technology fields.

The committee endorsed the merits of defence partnerships and alliances with industry, while recognising that both partners needed expertise in managing their relationship and negotiating effective, collaborative joint ventures. The committee acknowledged the efficiencies and benefits that a competitive market can bring to defence acquisition, noting that the Australian government policy commitment to partnerships could impede future competition among potential suppliers.

To counter potential decreases in future long-term contracts, the committee recommended that the department 'remain in regular contact with the unsuccessful bidders' (Foreign Affairs, Defence and Trade References Committee, 2003:92) The committee envisaged regularly updating, from government to firms, with any changes to capability requirements during the long-term contract, informing of developing strategies, and assisting potential future suppliers to be in a competitive posture at the contract renewal point. While this approach may not always succeed in maintaining competition in specific markets, it demonstrates government transparency and counters perceptions of preferential treatment towards the existing contractor. In a country with a defence industry the size of Australia's, it is imperative that the government nurture and encourage competitive firms in the defence sector, and governments have done this through an ongoing dialogue with corporations in that sector.

Parliamentary oversight of the defence capital programme and the publication of detailed programme information are indispensable to providing the visibility and transparency of projects. To this end, the committee recommended an annual progress report on major capital projects that would include project costs, time frames, technical performance data, and an analysis of project performance and trends.

Defence and Industry Policy Statement

The 2007 *Defence and Industry Policy Statement* builds on the foundation established by the 1998 *Defence and Industry Policy Statement*. The 2007 policy statement stresses the necessity of a domestic defence industry that is capable of simultaneously maintaining, repairing and modifying fleets purchased from external markets, while ensuring the ability to design and manufacture equipment domestically according to unique Australian Defence Force requirements (Department of Defence, 2007). While acknowledging the underpinning of the 1998 policy statement, the document criticises the lack of vigour in the implementation of that policy.

Nevertheless, the 2007 *Defence and Industry Policy Statement* endorses too many dissimilar policy objectives, some of which appear to be contradictory. Specifically, the diverse objectives of securing value for money and concurrently creating opportunities for Australian firms are both endorsed. Indeed, the expectation that a country with the economy and population of Australia could simultaneously support a domestic defence industry that can give priority to local industry capabilities, create opportunities for Australian businesses, encourage small and medium indigenous enterprises, as well as facilitate defence exports is not realistic in the current internal defence weapons market dominated by the United States and, to a lesser extent, some European firms, and a resurgent Russian defence industry.

Although the scope of the policy statement may be too broad, the emphasis of early joint government and industry engagement in project development in order to clarify capability requirements, refine costs and identify project risks together is well placed in the current international strategic environment. In addition, the report recognises the impact of globalisation and post-cold-war commercial realities in the defence sector. The importance of membership in multinational weapons systems programmes is acknowledged, and increased use of commercial off-the-shelf technology within military applications is again emphasised.

Defence Procurement and Sustainment Review (2008)

The 2008 *Defence Procurement and Sustainment Review* is a formal evaluation of the Defence Materiel Organisation within the Department of Defence, which aims to determine the effectiveness of reforms implemented subsequent to the 2003 *Report of the Defence Procurement and Sustainment Review*. The Australian government's expectations of the defence procurement and sustainment systems were four fold: first, achieve superior results for the Australian Defence Force; second, shift to enhanced transparency and accountability; third, move to superior efficiency and effectiveness; and fourth, obtain better value for money (Department of Defence, 2008:vii).

Although it was acknowledged that the reforms advocated in the 2003 *Defence Procurement and Sustainment Review* had improved the procurement system over the ensuing five years, the desired outcomes had not been fully achieved. Consequently, this report proposed a number of further defence procurement and sustainment reforms to the existing system. Significantly, they 'can be characterised under the themes of making the Defence Materiel

Organisation more business-like and imposing discipline on the defence procurement and sustainment processes' (Department of Defence, 2008:ix). The report identified five principal areas of concern, detailed below.

Procurement and sustainment: principal areas of concern

- Inadequate project management resources in the Capability Development Group;
- Inefficiency of the process leading to government approvals for new projects;
- Shortages in Defence Materiel Organisation personnel;
- Delays due to inadequate industry capacity; and
- Difficulties in the introduction of equipment into full service.
(Department of Defence, 2008:xi)

Although the review was geared towards progressing defence procurement reforms initiated in the preceding decade, and the majority of recommendations followed from that theme, a number of them have the potential to make a distinct difference. First, oversight is strengthened through the recommendations to establish an independent project performance office and an independent sustainment efficiency office. The proposed role of the project performance office is to review projects, as well as to facilitate problem solving within projects, where necessary. The proposed role of the sustainment efficiency office is to benchmark and to explore methods to enhance the delivery of sustainment to the military. Finally, the review recommended the dismantling of artificial – yet historical – financial barriers between procurement and sustainment budgets when deciding to purchase new equipment or maintain existing equipment. The primary financial consideration would be directed at subsequent life-cycle operating costs.

Conclusion

Australia, like the United Kingdom and Canada, has charted a distinctly national and consistent course in defence acquisition reform since the 1997 *Defence Reform Program*. Prominent throughout this period has been the relationship between the defence department and industry. Indeed, the clearly defined policy framework linking national defence capabilities and Australian industry has largely endured throughout the past decade. The benefit of this policy was that it provided defence and industry with a structure to improve their relationship. Although perhaps somewhat ambitious given the relatively modest size of the Australian defence industry and the changes that were occurring in the defence sector globally during this period, it did cater predominantly to the unique geographical and security circumstances of the country. The distinctively national approach taken with industry was complemented by the adoption of a number of defence acquisition reforms implemented by the United States and the United Kingdom. This consisted of embracing commercial best practices, taking a whole-life approach to equipment, increased investment early in procurement programmes, and enhanced programme oversight.

Table 4.1 Major Australian acquisition reforms

Defence Reform Program (1997) Although the Australian *Defence Reform Program* was not centred on acquisition reform, the management framework under which subsequent acquisition related reform would take place was established.

Defence and Industry Strategic Policy Statement (1998) The contribution of this statement is that a clearly defined policy framework was established that unequivocally linked Australian industry as an integral element of national defence capability.

Defence 2000: Our Defence Future Force (2000) Continued the reform begun in 1998 with the *Defence and Industry Strategic Policy Statement* and provided a commitment to organisational stability by providing significant long-term additional funding.

Defence Procurement Review (2003) Taking a more broad-ranging view, and mindful of the new and emerging threats in the international security environment, the report urged more rapid change, while stressing the need to fundamentally remodel existing structures, departmental systems, and the culture inherent within the organisation. One innovative proposal was to make off-the-shelf requirements a key project benchmark.

Report on the Inquiry into Materiel Acquisition and Management in Defence (2003) Given the short time frame that the reform process has been in progress since the defence white paper, fundamental observations on reform core processes or functions were too preliminary. In addition, the committee recommended the establishment of a formal mechanism for the promotion and handling of unsolicited proposals, as well as an annual progress report on major capital projects.

Defence and Industry Policy Statement (2007) The policy statement stresses the necessity of a domestic defence industry that is capable of simultaneously maintaining, repairing, and modifying fleets purchased from external markets, while ensuring the ability for unique Australian Defence Force requirements to design and manufacture equipment domestically.

Defence Procurement and Sustainment Review (2008) The reforms proposed in the report can be characterised under the themes of making the Defence Materiel Organisation more business-like and imposing discipline on the defence procurement and sustainment processes. In addition, improved oversight through the establishment of an independent Project Performance Office, as well as an independent Sustainment Efficiency Office was proposed.

The enduring themes in defence acquisition reform throughout the past two decades are perhaps not evident to the casual observer, or even to those working within defence department procurement organisations.

In a period of constant change it is imperative that all parties in this field understand the shifting landscape and be capable of responding appropriately. Defence acquisition reform consists of three distinct, yet interrelated, themes. In the current procurement environment, policy can and does make a difference. The role played by policy is integral to setting the appropriate conditions to facilitate success. An active policy regime also engages parliament and intensifies the relationship between the defence department and government. Policy also establishes the parameters for departmental management of the defence acqui-

sition process. Effective management through clear lines of communication, accountability and authority can make a difference, as can stability in project management leadership.

Finally, knowing, understanding and applying emerging leading-edge private sector practices is vital to improving performance metrics. The strategic, business, and procurement environments are now changing at a rapid pace, leaving the defence establishment continually struggling to keep pace. This reality has broadened the scope of needed reform and in recent years has ushered in a series of further studies aimed at better aligning acquisition processes with the needs of operational military units. What is noteworthy is that the pace of change does not appear to be abating. Consequently, a series of further defence acquisition reforms can be expected on the horizon as defence departments continue to strive towards a closer alignment of military operational requirements and delivery of timely new operational capability through the acquisition system. These enduring international themes in defence acquisition reform are listed below.

Enduring international themes in defence acquisition reform

Policy

- Establishment of a defence industrial strategy;
- Parliamentary oversight of the defence acquisition system;
- International collaboration;
- Close links between government and industry; and
- Use of an advisory board for defence acquisition.

Management

- Clear responsibility and accountability;
- Effective project governance regimes and decision processes;
- Configuration of technology to meet military needs; and
- Stable acquisition leadership.

Private sector practices

- Use of best-in-class private sector practices;
- Use of commercial products and processes;
- Improved cost-estimating practices;
- Consideration of both acquisition and in-service costs in decision making; and
- Responsiveness of the acquisition system.

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