

Procurement and Sustainment Review 2008

Submission

Australian Business Defence Industry Unit

Organisation	Australian Business Defence Industry Unit
Mailing Address	PO Box 4255 Manuka ACT 2603
Contacts	Mr Paul Fisher, Senior Manager Mr Ben White, Manager
Telephone No.	(02) 6239 1488
Fax No.	(02) 6239 1947
Email Address	Paul.fisher@australianbusiness.com.au Ben.white@australianbusiness.com.au
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Topic (TOR No)	1.a. the implementation status of Defence Procurement Review reforms
Response	ABDIU is not aware of any issues.
Solution : How the problem could be addressed (if applicable)	N/A

Topic (TOR No)	1.b. an assessment of Defence Procurement Review reforms
Response	ABDIU is not aware of any issues.
Solution : How the problem could be addressed (if applicable)	N/A

Topic (TOR No)	1.c. actions required to complete implementation of the Defence Procurement Review reforms
Response	ABDIU is not aware of any issues.
Solution : How the problem could be addressed (if applicable)	N/A

Topic (TOR No)	2.a. The effectiveness of the current framework for DMO financial and staff management
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Response	ABDIU believes that this is an internal DMO issue.
Solution : How the problem could be addressed (if applicable)	N/A

Topic (TOR No)	2.b. Strategies to improve the skills, capacity and accountability of senior DMO staff
Response	ABDIU believes that this is an internal DMO issue.
Solution : How the problem could be addressed (if applicable)	N/A

Topic (TOR No)	2.c. The potential for greater and more effective use of private sector project management and financial and legal expertise
Response	<p>The question is whether Defence wants to devolve project management and to what level?</p> <p>Within industry there are two schools of thought regarding devolving project management :</p> <ul style="list-style-type: none"> • Professional services providers (above the line) are generally in favour of devolving more to the private sector; and • Prime contractors (below the line) are concerned that devolving project management can dilute project management experience in below-the-line operators and within Defence itself as project managers are recruited by professional services providers. <p>Project management cannot be devolved to the private sector piecemeal, it is either at whole-of-project level or not at all.</p> <p>From the perspective of ABDIU, the Department of Defence must first decide if they wish to devolve project management, to what level, who to and essentially what are the advantages and disadvantages of doing this.</p>
Solution : How the problem could be addressed (if applicable)	N/A

Topic (TOR No)	2.d. The potential for utilisation of private sector involvement, such as through public-private partnerships, within defence procurement and sustainment
Response	<p>ABDIU believes that a proper review of overseas and Australian experiences is required given that the Australian Department of Defence has been considering additional public-private partnerships for a number of years with little progress to date.</p> <p>Some ABDIU members believe that there is significant scope for additional public-private partnerships , particularly based on evidence from experience in the United Kingdom and some Australian Department of</p>

	<p>Defence projects.</p> <p>ABDIU believes that further consideration should be given to greater private sector involvement based on recent studies such as <i>Performance of Public Private Partnerships and Traditional Procurement in Australia</i> dated 30 November 2007 (found at http://www.infrastructure.org.au/research/publications.htm).</p> <p>This study concludes that the cost savings of public-private partnerships over traditional procurement only becomes apparent after the project has been concluded. Given that savings can range from 11-30%, there is a need to capture likely cost overruns in traditional procurement in the tender evaluation process in order to give proper consideration to any benefits of a public-private partnership.</p>
Solution : How the problem could be addressed (if applicable)	Conduct detailed reviews of international and Australian public-private partnership experiences, including those Department of Defence projects that have already been trialled in Australia.

Topic (TOR No)	2.e. Mechanisms by which changes to the scope and specifications of procurement projects can be made more accountable following second pass approval
Response	The possibility of project scope creep should be the responsibility of project governance boards. In order to increase the level of accountability for project scope creep, these boards could be required to recommend changes to the Minister for Defence for ultimate approval.
Solution : How the problem could be addressed (if applicable)	See above.

Topic (TOR No)	2.f. The potential advantages and disadvantages of the greater utilisation of Military Off The Shelf (MOTS) and Commercial Off the Shelf (COTS) purchases
Response	<p>The inclusion of MOTS/COTS options in the First Pass Approval process enables the potential advantages and disadvantages to be assessed.</p> <p>However, if the MOTS/COTS options deliver the desired capability in accordance with the value for money requirement, then these options should be considered.</p> <p>There are two aspects that must be monitored :</p> <ul style="list-style-type: none"> • COTS purchases should not be over-specified which can result in the cost, simplicity and quick delivery advantages not being seen and can preclude many COTS options. Some ABDIU members advised that there have been cases of over-specification occurring at the DMO level where the originator of the COTS request has been satisfied with a relatively unmodified COTS purchase.

	<ul style="list-style-type: none"> In considering these options however, the through life support of MOTS/COTS purchases must be considered in order that a support capability is readily available in Australia.
Solution : How the problem could be addressed (if applicable)	See above.

Topic (TOR No)	2.g. Methods to improve the planning, management and oversight of developmental projects involving a high level of technical risk
Response	The use of Evolutionary Acquisition methodology should be used in these circumstances.
Solution : How the problem could be addressed (if applicable)	See above.

Topic (TOR No)	2.h. Ways to provide more effective government oversight of the Defence procurement process including the future of the Defence Procurement Advisory Board
Response	ABDIU cannot comment on additional ways to provide oversight beyond highlighting that the Defence Procurement Advisory Board is not visible or transparent to the majority of industry. The Board's profile is not such that ABDIU can make an assessment regarding its future. The Board may be more visible internally to Defence or to the CEOs of Prime Contractors, however to the majority of industry there is little communication about the Board's activities.
Solution : How the problem could be addressed (if applicable)	<p>It may be useful to increase the profile of the Defence Procurement Advisory Board through direct communication to industry and presentations at forums such as Defence + Industry Conferences.</p> <p>As per response to 2.e. more effective government oversight could include project governance boards regularly reporting to the Minister for Defence or another Parliamentary process to ensure that procurement processes are in accordance with Government directives.</p>

Topic (TOR No)	3.a. Options to optimise Australian Defence Industry involvement while maintaining a high level of marketplace competition and value for money for the Australian taxpayer
Response	<p>ABDIU believes that industry needs to be engaged as early as possible (before First Pass) in identifying the industry capability outcomes for Defence projects. This should include the engagement of SMEs as well as the Prime and larger Sub-Contractors.</p> <p>Defence needs to adopt a broader inter-project approach when it presents its business cases to Government, and in doing so address a whole-of-Government approach to skills such as resources, facilities and budgets. Defence needs to look at broader outcomes than the mere delivery of capability. An Industry Impact Statement before First Pass that focuses on the effects on regional economies, job creation, and skilling of the</p>

	<p>workforce should be mandatory in any tender process.</p> <p>ABDIU believes that setting a compulsory fixed level of Australian Industry Involvement would undermine Defence's flexibility in choosing the most efficient and effective solution.</p> <p>However, reducing the threshold for Defence procurement and sustainment contracts requiring Supply Chain Management Plans from its current level of \$50 million could increase Australian industry participation, particularly SMEs.</p> <p>SMEs would also benefit from improved communication and transparency within the Minor Capital Equipment Program and a reduction in the threshold to \$2 million.</p> <p>The main advantage of reducing the threshold in the Minors Projects is that it is these projects that allow Australian SMEs to develop world-class capabilities and up-skill their project managers to support future and Major Capital Equipment programs.</p> <p>Maintain and enhance Defence engagement with industry. This should include a wide-ranging level of engagement and not be limited to the RPDE program members or other specific groups.</p> <p>In addition, a major constraint to enhancing the cooperation between industry and Defence is the lack of a Defence functional directory such as the former DRB6 which has not been issued since 2003. The issuing of an annual functional directory to Defence industry would greatly improve connectivity, communication and cooperation between Defence and industry.</p> <p>ABDIU was a member of the original Defence Industry Advisory Council (DIAC) and would support the continuation of this council and its aims. ABDIU supports a broad membership of DIAC and would be willing to assist in setting terms of reference for the future of DIAC.</p>
<p>Solution : How the problem could be addressed (if applicable)</p>	<ul style="list-style-type: none"> • Introduce Industry Impact Statements by Defence, along with an early engagement with industry (before First Pass). • Adopt a whole-of-Government approach to projects in order to address broader outcomes including regional economies, job creation and skilling. • Reduce the threshold for Defence procurement and sustainment contracts requiring Supply Chain Management Plans from its current level of \$50 million. • Improve the transparency within the Minor Capital Equipment Program and reduce the program threshold to \$2 million. • Ensure that DMO maintains engagement with a wide variety of industry stakeholders and does not limit itself to any one channel

	<p>that does not capture the range of defence industry members.</p> <ul style="list-style-type: none"> • Reissue a Defence functional directory, such as the DRB6, to defence industry on an annual basis.
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Topic (TOR No)	Other Procurement Aspects – Project Delays
Response	<p>It has been noted by ABDIU members that while Defence requires Contractors to perform to contracted requirements, extensive delays in tender processes and contract awarding are common which result in expense, staffing and planning problems for industry.</p> <p>Industry capabilities cannot generally be brought online quickly due to cost and staffing limitations thus when there are significant delays between the tender process and the contract award an issue is created for the contractor. Delays in this period can adversely affect the contractor's ability to complete the work as originally planned for which the contractor is held accountable.</p>
Solution : How the problem could be addressed (if applicable)	Improve DMO's project management capability.

Topic (TOR No)	Other Procurement Aspects - Skilling
Response	<p>The availability of skilled labour within defence industry is a fundamental aspect of industry's ability to support Defence procurement and a major constraint in the current labour market.</p> <p>In the past, the various Government-sponsored apprenticeship schemes provided a feed of skilled workers to defence industry. With the demise of many of these schemes this resource no longer provides sufficient skilled workers, particularly those that might see defence industry as a career.</p> <p>Defence, and DMO, may need to work closely with industry to determine means to provide sustainable career paths within defence industry that will ensure that Australian industry retains the capability to support procurement in the future.</p>
Solution : How the problem could be addressed (if applicable)	See above.

Topic (TOR No)	Other Procurement Aspects – Intellectual Property Policies
Response	Some ABDIU members believe that the value of Australian defence industry intellectual property can be further enhanced by leaving IP ownership with industry and licensing to the Commonwealth. This would allow industry to further develop the IP for the benefit of Australian industry and the Commonwealth such as for export markets.
Solution : How the problem could be addressed (if applicable)	See above.

Topic (TOR No)	Other Procurement Aspects – Sustainment Contracting
Response	<p>Some ABDIU members are supportive of the sustainment contracting model and believe that it should be maintained as it provides greater certainty for industry including contract personnel working in remote areas and those seeking longer tenure within their industry.</p> <p>Some ABDIU members advocate the consideration of transitioning sustainment contracting to lifecycle contracting for existing in-service equipment to provide further certainty to Australian defence industry.</p>
Solution : How the problem could be addressed (if applicable)	DMO could consult further with industry as to the advantages or disadvantages in additional sustainment contracting.

About the Australian Business Defence Industry Unit:

The Australian Business Defence Industry Unit (ABDIU), a wholly owned subsidiary of the New South Wales Business Chamber, was established in Canberra in 1998 as a strategic investment by the NSW Business Chamber, to represent the interests of Australia’s defence industry to both the Department of Defence and the Federal Government and assists members in their business related activities with specialist defence related business advice.

The current membership of over 200 companies is representative of all sectors of Australia’s defence industry not just in New South Wales but other States and Territories and includes large, medium and small businesses.

Part of the ABDIU’s role is to provide policy advocacy on behalf of its members and this submission includes a number of member’s views.