

Defence Industry Support and Skill Development Programs

Department of Defence

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Canberra ACT
3 February 2016

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Defence titled *Defence Industry Support and Skill Development Programs*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely



Grant Hehir
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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Summary and recommendations

Background

1. Industry has an important role in supporting the Department of Defence (Defence) and the Australian armed forces, supplying over \$5 billion of materiel and equipment each year.¹ In the Australian context, eight defence industry prime contractors (primes) deliver approximately 70 per cent of the value of defence materiel annually.² The industry also includes a number of small to medium enterprises (SMEs).³ Around 29 000 to 30 000 Australians are employed in the defence industry in support of military acquisition and sustainment tasks – around half of whom are employed in SMEs.⁴

2. In 2010, Defence released a Defence Industry Policy Statement to provide Australia's defence industry with an indication of future policy directions. The Policy Statement announced that \$445.7 million in funding was to be allocated to 19 industry support and engagement programs over the period 2009-19. The Government of the day committed to increasing the opportunities for, and improving the competitiveness of, the Australian defence industry. Since that time, several of the programs have been discontinued, and other programs have been announced. There are currently 11 main industry programs. A new Defence Industry Policy Statement and Defence White Paper are due for release in 2016.

Audit objective and criteria

3. The audit objective was to assess the effectiveness of Defence's administration of industry support and skill development programs.

4. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- Defence effectively coordinates, promotes and monitors the performance of the suite of industry programs; and
- for the three programs examined in depth, Defence has implemented sound management arrangements for the programs; and the programs are meeting their objectives.

1 *Defence White Paper 2013*, <http://www.defence.gov.au/whitepaper/2013/docs/WP_2013_web.pdf> [accessed 16 July 2015], p. 115, para. 12.1.

2 The eight Defence prime contractors are ASC Pty Ltd, Australian Aerospace, BAE Systems Australia, Boeing Defence Australia, Raytheon Australia, Saab Systems, Lockheed Martin Australia, and Thales Australia. ASC Pty Ltd is the only Australian headquartered prime contractor and is an Australian Government Business Enterprise. Source: *Building Defence Capability – A Policy for a Smarter and More Agile Defence Industry Base*, 2010, pp. 28-29.

3 Small to medium enterprises are defined as Australian and New Zealand firms with less than 200 employees. *Building Defence Capability – A Policy for a Smarter and More Agile Defence Industry Base*, 2010, p. 28.

4 Estimate provided by Defence.

Conclusion

5. To give effect to the Defence Industry Policy Statement, Defence delivers programs that aim to support the Australian defence industry and build its skill base. Responsibility for individual programs is dispersed across Defence, and there has been no overarching framework to help coordinate Defence's management of the large number of programs and monitor their alignment with the goals of the Policy Statement. Across the suite of industry programs, less than half have effective performance frameworks in place. As a result it is difficult for Defence to assess: whether a program's outcomes are meeting its objectives; the value for money of these programs; or an individual program's contributions to the achievement of the Policy Statement. There is also limited or inconsistent information available about Defence's industry programs through relevant websites.

6. For the three programs examined in detail by the ANAO, there remains scope to improve compliance with relevant business processes and program requirements, and a need to focus on strengthening performance management frameworks to provide assurance that program outcomes are being realised.

Supporting findings

Governance arrangements for Defence's industry programs

7. Defence has administered a large number of small programs over the last five years without an overarching framework to help coordinate activity. These programs have been managed and administered by various areas within Defence and other government departments, and include involvement from industry and research agencies.

8. There was limited and inconsistent information available about Defence's industry programs through their websites.

9. Defence does not adequately monitor program performance at a collective or, in most cases, at an individual level. Only a few of the programs report on performance and outcomes. The others do not undertake any reporting against KPIs or assess how they are meeting the program objectives. Not tracking performance for the programs means that Defence cannot assess whether program outcomes are meeting defined objectives, or the contribution made by individual programs towards achieving the overall objective of the Australian Government's Defence Industry Policy Statement.

10. The ANAO has made a recommendation aimed at improving performance measurement, monitoring and reporting of the industry programs.

Skilling Australia's Defence Industry program

11. The Skilling Australia's Defence Industry (SADI) program provides funding support for training or skilling activities in trade, technical and professional skills in defence industries.

12. The SADI program has a clearly defined objective and eligibility criteria. Key documents, such as guidelines and the assessment process, were provided to potential applicants on the SADI website. The ANAO tested a sample of applications for funding of 350 training activities

over the last three SADI rounds and found that Defence followed the approved assessment processes, although record-keeping could be improved in some cases.

13. There are also opportunities to improve the program through communicating to potential applicants the list of eligible courses, improving data collection for support relating to apprentices⁵, and assessing the benefit of elements of the program such as on the job training.

14. In the last three years, the SADI program has awarded grants totalling \$25 million to fund 1743 training activities, 2223 apprentice supervision positions and 752 on the job training positions. However, Defence has struggled to accurately forecast likely demand for the program, which has had a cumulative forecast error of \$67 million since its inception. The department's inability to expend all program funds represents a lost opportunity for potential recipients.

15. The SADI program does not have a performance measurement and reporting framework in place, and Defence has no basis on which to assess whether the program is achieving value for money or meeting its objectives.

Global Supply Chain program

16. The objective of the Global Supply Chain (GSC) program is to provide opportunity for Australian industry, particularly SMEs, to win work in the global supply chains of large multinational defence companies working with Defence.

17. Management arrangements for key aspects of the GSC program have recently been improved. Following a review in 2013, Defence improved the GSC contracts and has been rolling them out with prime contractors. There is now a clearer definition of a GSC 'contract' for reporting purposes, and clearer reporting requirements, including a reporting template and expectations for performance.

18. The GSC program is promoted through a range of channels including industry associations, Defence publications and other industry programs.

19. Since the program's inception, the value and number of GSC contracts has risen but remains concentrated among a small number of companies. Defence has sought to assess the value for money of the program through a return on investment performance indicator, and has calculated that the program's overall return on investment is higher than the initial target. The program's performance framework has been improved by linking indicators to outcomes and moving from a 'best endeavours' to an activity-based reporting approach. However, the performance indicators do not measure the extent to which a prime's participation in the GSC program results in work for SMEs that they otherwise would not have obtained, and performance reporting still relies on self-assessment from the participating prime. To reduce the risks associated with a self-assessment approach, Defence could directly approach a sample of SMEs awarded GSC contracts on a periodic basis to validate the self-reported performance of the primes.

20. Industry generally views the GSC program as beneficial, and industry stakeholders have identified some opportunities for improvement through better aligning the program with the

5 Defence informed the ANAO that the SADI program funds the supervision of apprentices and not the apprentices themselves.

Priority Industry Capability areas, developing a closer relationship between Australian primes and their overseas counterparts, and making more data on the program publicly available.

Rapid Prototyping Development and Evaluation program

21. The Rapid Prototyping, Development and Evaluation (RPDE) program was established to accelerate and enhance Australia's warfighting capability through innovation and collaboration in Network Centric Warfare. Using a partnering arrangement with industry, the RPDE program is delivering important technical guidance, advice and solutions to Defence that may not otherwise be delivered in a timely manner using a conventional acquisition process.

22. The RPDE program has clear and well documented management, advisory and governance arrangements. The arrangements also reflect the collaborative nature of the program, which is intended to involve Defence, defence industry and academia.

23. The RPDE Board has reduced its monitoring of program performance. Current performance reporting to the Board provides minimal information on the RPDE program's overall performance, and focuses largely on the status of individual program activities at a particular point in time. Further, a 2009 Board resolution makes no mention of the Board having a continuing role in performance monitoring. The ANAO has recommended that Defence clarify the roles of the RPDE Board.

24. Defence has well documented administrative arrangements for its RPDE program activities. However, compliance with key requirements has varied, including in respect to financial approvals.

25. Since 2005, the RPDE program has undertaken 169 activities (112 Quicklooks and 57 Tasks) at a total reported cost of \$129 million. The RPDE program seeks to monitor the completion of its individual activities and report their outcomes. However, the program no longer produces an annual report on its activities and program-level performance monitoring and reporting is limited.

Recommendations

Recommendation No. 1 The ANAO recommends that Defence:

Paragraph 2.15

- (a) assesses the performance of the Defence industry support programs and their contribution to achieving the intended outcomes of the Australian Government's Defence Industry Policy Statement; and
- (b) monitors and reports on the performance of each industry program against clear targets, based on measurable performance indicators.

Defence's response: *Agreed.*

**Recommendation
No. 2**

Paragraph 5.15

To provide assurance about the governance of the Rapid Prototyping, Development and Evaluation program (RPDE), the ANAO recommends that the new RPDE program Relationship Agreement and Standing Offer clearly sets out the roles of the RPDE Board, and that Defence ensures that the Board's activities are consistent with the specified roles.

Defence's response: *Agreed.*

Summary of entity responses

26. The proposed audit report was provided to Defence, with extracts provided to the Defence industry primes Finmeccanica, Boeing Defence Australia, Lockheed Martin, Raytheon, BAE Systems, Thales, and Northrop Grumman.

27. Defence, Raytheon and BAE Systems provided formal responses to the proposed audit report for reproduction in the final report. Summaries of these responses are set out below, with the full responses provided at Appendix 1.

Department of Defence

Defence thanks the Australian National Audit Office for conducting the audit of *Defence Industry Support and Skill Development Programs*. Defence accepts both recommendations and has already made significant progress on the implementation of the recommendations relating to the Rapid Prototyping, Development and Evaluation Program. Defence sees both recommendations contributing to management of its industry support and skills development programs.

Defence remains dedicated to building an enduring partnership with Australian industry and as noted in this report, has implemented a large number of investment and support programs to help achieve this objective. The upcoming Defence White Paper, together with the Defence Industry Policy Statement, will articulate the future strategic direction of Defence's partnership with industry.

Raytheon

Raytheon Australia appreciates the opportunity to comment on the extract of the proposed report into Defence Industry Support and Skill Development Programs.

Raytheon Australia is committed to the sustainability of the Australian Defence Industry, and to the development and growth of Australian small-to-medium enterprises (SMEs) to enhance Australian industry capability across the sector. Raytheon Australia has a long and successful pedigree in supporting the Department of Defence and the Australian armed forces across a range of programs, including our involvement in the Global Supply Chain Program.

BAE Systems

The vision of GAP [Global Access Program] is to develop a more competitive and technologically advanced Australian Defence industry that mutually benefits the Australian Defence Force, and BAE Systems. We endeavour to deliver this vision by increasing the number of SMEs winning work in the global supply chain of BAE Systems.

The challenges for industry and all of the Prime participants on the Global Supply Chain program are; the extremely competitive international market, the protectionist policies of overseas

countries and the impact of offset obligations on the volume and types of opportunities afforded to Australian industry.

What GSC program participants can and do, influence, is; identifying and creating the opportunities, matching suppliers to the opportunities, mentoring and assisting SMEs with their responses, providing targeted and sustained training and development of SMEs and advocating for Australian companies at the highest levels within our organisation. The Australian GSC program is unique in the worldwide Programs of Offsets and Industrialisation in this regard and gives unprecedented exposure to overseas supply chains.

Audit Findings

1. Background

Introduction

1.1 Industry has an important role in supporting the Department of Defence (Defence) and the Australian armed forces, supplying over \$5 billion of materiel and equipment each year.⁶ In the Australian context, eight defence industry prime contractors (primes) deliver approximately 70 per cent of the value of defence materiel annually.⁷ The industry also includes a number of small to medium enterprises (SMEs).⁸ Around 29 000 to 30 000 Australians are employed in the defence industry in support of military acquisition and sustainment tasks – around half of whom are employed in SMEs.⁹

1.2 Successive Australian governments have released Defence Industry Policy Statements to provide industry with an indication of future policy directions. The current Policy Statement, *Building Defence Capability – A Policy for a Smarter and More Agile Defence Industry Base*, was released in 2010. A new Defence Industry Policy Statement, together with the Defence White Paper 2016, is due for release in 2016.

1.3 The 2010 Policy Statement announced that \$445.7 million in funding was to be allocated to 19 industry programs over the period 2009–19.¹⁰ The then Australian Government committed to increasing the opportunities for, and improving the competitiveness of, the Australian defence industry. Since that time, several of the programs have been discontinued, and other programs¹¹ have been announced. Defence industry programs fall into three categories:

- **Industry development and engagement programs** – aim to create opportunities to develop and leverage local industry capabilities required by defence, and to ensure that industry is aware of Defence’s capability needs.
- **Innovation programs** – aim to encourage innovative capabilities, technologies, and processes for Defence.
- **Skilling programs** – aim to address capacity and capability gaps, including encouraging participation in science, technology, engineering and mathematics.

6 *Defence White Paper 2013*, <http://www.defence.gov.au/whitepaper/2013/docs/WP_2013_web.pdf> [accessed 16 July 2015], p. 115, para. 12.1.

7 The eight Defence prime contractors are ASC Pty Ltd, Australian Aerospace, BAE Systems Australia, Boeing Defence Australia, Raytheon Australia, Saab Systems, Lockheed Martin Australia, and Thales Australia. ASC Pty Ltd is the only Australian headquartered prime contractor and is an Australian Government Business Enterprise. Source: *Building Defence Capability – A Policy for a Smarter and More Agile Defence Industry Base*, 2010, pp. 28–29.

8 Small to medium enterprises are defined as Australian and New Zealand firms with less than 200 employees. *Building Defence Capability – A Policy for a Smarter and More Agile Defence Industry Base*, 2010, p. 28.

9 Estimate provided by Defence.

10 This included \$104.8 million announced in the *Defence White Paper 2009*.

11 Defence’s engagement with the Defence industry usually takes the form of a program, but can also be delivered through other means, such as forums or task forces. In this audit, the term ‘program’ is used to cover all of these engagements.

1.4 Most of the programs are now managed by Defence’s Capability Acquisition and Sustainment Group¹², with some managed by the Defence Science and Technology Group and the Department of Industry and Science. Figure 1.1 below outlines the 11 main industry programs, categorised according to their type. A description of each of these programs, and details of their administration and funding, is included in Appendix 2.

Figure 1.1: Current main Defence industry support programs by type

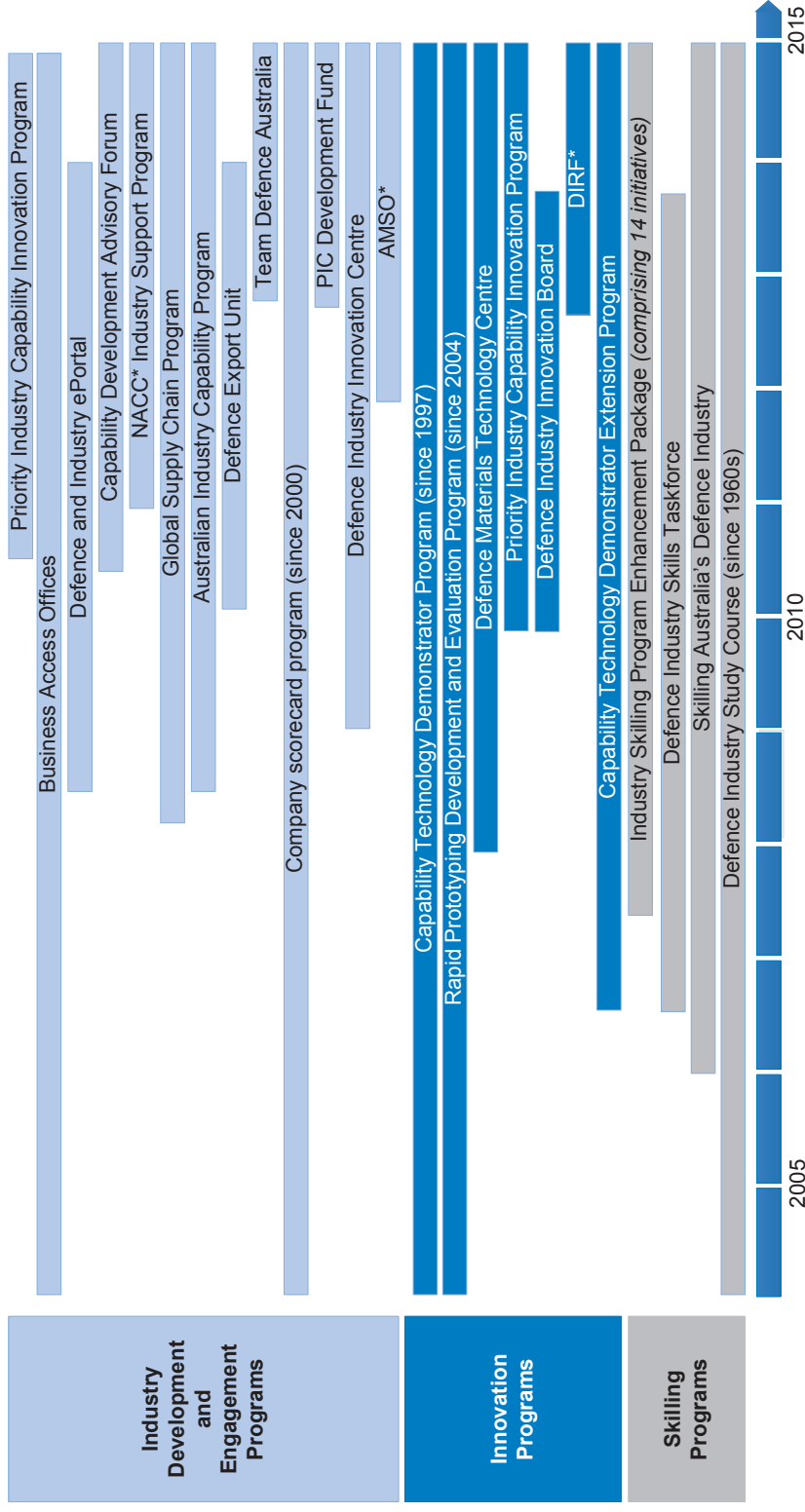
Industry Development and Engagement	Innovation Programs	Skilling Programs
<ul style="list-style-type: none"> Global Supply Chain Program Defence Export Unit and Team Defence Australia New Air Combat Capability Industry Support Program Defence Industry Innovation Centre 	<ul style="list-style-type: none"> Capability Technology Demonstrator Program Rapid Prototyping, Development and Evaluation Program Defence Materials Technology Centre Priority Industry Capability Innovation Program Defence Innovation Realisation Fund 	<ul style="list-style-type: none"> Skilling Australia's Defence Industry Program Industry Skilling Program Enhancement: <ul style="list-style-type: none"> Re-engineering Australia Sponsorship School Pathways Program Advanced Technologies Industry School Pathways Program Marine Industry School Pathways Program Manufacturing Defence Engineering Internship Program

Source: ANAO analysis of Defence documentation.

1.5 Defence has administered at least 57 individual industry support programs over the past decade (including the current set of Defence industry programs). To illustrate the spread of programs and provide an indication of timeframes, Figure 1.2 below outlines 25 of these programs by type and duration from 2005 to 2015.

12 As a result of the *First Principles Review*, released by Defence on 1 April 2015, the then Defence Materiel Organisation was abolished on 1 July 2015 and replaced by the Capability Acquisition and Sustainment Group.

Figure 1.2: Timeline of industry programs by type 2005-2015



Notes: NACC – New Air Combat Capability; AMSO – Australian Military Sales Office; DIRF – Defence Innovation Realisation Fund.
Source: ANAO analysis of Defence documentation.

Audit approach

1.6 The audit objective was to assess the effectiveness of Defence's administration of industry support and skill development programs.

1.7 To form a conclusion against the audit objective, the ANAO adopted the following high-level audit criteria:

- Defence effectively coordinates, promotes and monitors the performance of the suite of industry programs; and
- for the three programs examined in depth, Defence has implemented sound management arrangements for the programs; and the programs are meeting their objectives.

1.8 The audit scope included an assessment of Defence's overall approach to its industry support and skill development programs including their objectives, funding and administrative arrangements. The audit also included a detailed analysis of three higher value programs managed by Defence: the Skilling Australia's Defence Industry grant program; the Global Supply Chain program; and the Rapid Prototype Development and Evaluation program. These programs each fall into one of the three categories of Defence industry programs, illustrated in Figures 1.1 and 1.2.

1.9 The audit involved analysis of Australian Government and Defence policies, manuals and procedures relevant to the industry programs, including grant program policies and guidance, and a review of records held by Defence in relation to the development of guidelines, administration of the programs and adherence to the guidelines. The audit team also conducted interviews with key Defence staff, and met with industry stakeholders (including primes, SMEs and industry groups) involved in the programs.

1.10 The audit was conducted in accordance with the ANAO auditing standards at a cost to the ANAO of approximately \$569 000.

2. Governance arrangements for Defence's industry programs

Areas examined

This chapter examines Defence's:

- coordination and promotion of industry programs; and
- arrangements for program performance monitoring and evaluation.

Conclusion

Defence has not implemented an overarching framework to help coordinate its management of the large number of government industry support programs and monitor their alignment with the goals of the Australian Government's Defence Industry Policy Statement. For many of the programs, the direct benefits to Defence are not measured and there are shortcomings in the relevant performance frameworks. As a result it is difficult for Defence to assess: whether a program's outcomes are meeting its objectives; the value for money of these programs; or an individual program's contributions to the achievement of the Policy Statement.

Area for improvement

The ANAO has made a recommendation aimed at strengthening the performance framework for Defence industry programs.

Does Defence effectively coordinate and promote its range of industry programs?

Defence has administered a large number of small programs over the last five years without an overarching framework to help coordinate activity. These programs have been managed and administered by various areas within Defence and other government departments, and include involvement from industry and research agencies.

There was limited and inconsistent information available about Defence's industry programs through their websites.

2.1 Current Defence industry programs are administered by three Defence groups¹³; other government agencies; and contractors. There is no one area within Defence responsible for coordinating the suite of industry programs. The number of Defence industry support programs and the diffusion of administrative responsibility places a premium on the effectiveness of Defence's coordination arrangements. This issue has been noted by a number of Defence reviews

13 Defence has 11 major organisational units known as groups. The three groups administering industry programs are Capability Acquisition and Supply Group, Capability Development Group and Defence and Science Technology Group. See Appendix 2 for a more detailed list of the programs and their administrative features.

over the last several years including the recent review of industry programs undertaken by PricewaterhouseCoopers in preparation for the next Defence Industry Policy Statement.¹⁴

2.2 Defence communicates with industry on its range of industry programs through various channels including Defence publications such as the Defence magazine, forums, engagement with Defence industry groups, Business Access Offices, the Defence Industry Innovation Centre and the websites for its individual industry programs.

2.3 An ANAO review of 28 program websites¹⁵ indicated that the information provided was limited and inconsistently presented. In summary:

- program information was difficult to find without a single point of entry, websites were located on eight different domain names, and there was inconsistent presentation of information across those websites;
- six of the programs did not have websites, and public information on these programs was difficult to find¹⁶; and
- several websites had links that are no longer active.

2.4 While Defence has made some attempts to coordinate the range of industry programs, and better communicate these programs to industry, the attempts have not always been successful:

- The Defence and Industry ePortal was established in 2008 to help Australian industry, particular Small to Medium Enterprises (SMEs), advertise their capabilities and access information on industry programs. At that time it was intended that the functionality of the ePortal would be broadened to allow Australian industry to provide confidential feedback on Defence's industry policies and programs. The Defence and Industry ePortal was subsequently closed, on 1 December 2014, due to the expense of maintenance and limited utility for industry users.
- The 2010 Defence Industry Policy Statement established the Defence Industry Innovation Board to better coordinate and communicate the range of industry programs. The board was suspended in 2014 pending revisions to its membership and terms of reference.¹⁷

2.5 Notwithstanding Defence's efforts to date to promote and coordinate its industry programs, the suite of programs remains fragmented. The report on community consultation for

14 The PricewaterhouseCoopers review of Defence's current industry programs noted that: 'The programs are being managed independently by different areas, and were not linked to Defence strategy, or with consideration of interactions or impacts on other existing programs.'

15 The ANAO reviewed the websites of the 11 main Defence industry programs, and 17 other smaller programs.

16 Two of these programs have closed, but some recipients are still receiving payments from Defence under ongoing agreements.

17 Defence informed the ANAO in October 2015 that the board has not met since late 2013 and that Defence is seeking Ministerial agreement to proposed revisions to the terms of reference and board membership.

the development the upcoming Defence White Paper noted this fragmentation and the lack of awareness among industry of the programs.¹⁸

2.6 Implementing a uniform approach to the planning and management of the programs was recommended by the 2012 internal review of the Industry Programs Financial Reconciliations. In October 2015, Defence confirmed that it had not implemented a uniform management approach across the industry programs, as recommended by the review.

Does Defence adequately monitor the performance of its industry programs?

Defence does not adequately monitor program performance at a collective or, in most cases, at an individual level. Only a few of the programs report on performance and outcomes. The others do not undertake any reporting against KPIs or assess how they are meeting the program objectives. Not tracking performance for the programs means that Defence cannot assess whether program outcomes are meeting defined objectives, or the contribution made by individual programs towards achieving the overall objective of the Australian Government's Defence Industry Policy Statement.

Performance indicators and targets for the industry programs in the Portfolio Budget Statements are not meaningful

2.7 Performance information plays an important role in assessing program effectiveness. The industry programs in the 2015–16 Defence Portfolio Budget Statements are included under: *Outcome 1: Contributing to the preparedness of Australian Defence Organisation through acquisition and through-life support of military equipment and supplies*; and *Programme 1.3 Provision of Policy Advice and Management Services*. The program's objective, Key Performance Indicators (KPI) and performance targets are included in Table 2.1 below.

18 Department of Defence, *Guarding Against Uncertainty: Australian Attitudes to Defence*, March 2015 <http://www.defence.gov.au/Whitepaper/docs/GuardingUncertainty.pdf> [accessed 3 July 2015], p. 63.

Table 2.1: Defence Materiel Organisation 2015–16 Outcome 1 and supporting Programme 1.3 Objective, KPIs and performance targets

Outcome 1: Contributing to the preparedness of Australian Defence Organisation through acquisition and through-life support of military equipment and supplies	
Programme 1.3 Objective	Programme 1.3 KPIs and performance targets
The DMO will meet Government, Ministerial and Departmental expectations and timeframes for the provision of policy, advice and support and delivery of industry programmes.	<p>The DMO is meeting Government, Ministerial and Departmental expectations and timeframes for provision of policy, advice and support and delivery of industry programmes.</p> <p>Programme 1.3 performance targets include:</p> <ul style="list-style-type: none"> Enhancing Australian industry support to the Australian Defence Force through delivering effective Defence industry programmes and engagement in accordance with the Defence Industry Policy Statement.

Note: The 2015–16 Defence Portfolio Budget Statements also list a range of industry development initiatives under the Programme 1.3 performance target.

Source: 2015–16 Defence Portfolio Budget Statements.

2.8 In 2015–16, the KPIs and performance targets included in Defence’s Portfolio Budget Statements did not provide a useful basis for reporting on performance in the Department’s next annual report, and Defence would need to expand its performance reporting in the 2015–16 annual report to provide the parliament and stakeholders with a meaningful assessment of its administration of industry programs.

Performance monitoring at the program level is variable

2.9 Table 2.2 below provides a summary of the ANAO’s assessment of the objectives, performance measures, reporting and monitoring arrangements for current key Defence industry programs.

Table 2.2: Defence industry programs – objectives, performance measures and monitoring

Program	Objectives clearly identified?	KPIs linked to program objectives?	Regular reporting against KPIs?	Regular monitoring of program?
Priority Industry Capability Innovation Program	Yes	Yes	Yes	Yes
Team Defence Australia	Yes	No	No	Yes
Re-Engineering Australia Sponsorship	Yes	No	No	No
New Air Combat Capability Program	Yes	No	No	Yes
Engineering Internship	Yes	Yes	Yes	Yes

Program	Objectives clearly identified?	KPIs linked to program objectives?	Regular reporting against KPIs?	Regular monitoring of program?
School Pathways ^a :				
Advance Technologies Industry (SA)	Yes	No	No	No
Marine Industry (WA)	Yes	Yes	No	No
Manufacturing (NSW)	Yes	No	No	No
Skilling Australia's defence industry (SADI) ^b	Yes	No	No	No
Global Supply Chain (GSC) ^b	Yes	Yes	No	Yes
Rapid Prototyping, Development and evaluation (RPDE) ^b	Yes	No	No	No

Note a: The School Pathways initiative has three programs based in three states aimed at introducing students to the skills required for defence industry careers. The ANAO examined the performance monitoring and evaluation for these three programs separately.

Note b: The SADI, GSC or RPDE programs are assessed in Chapters 3, 4 and 5 respectively.

Source: ANAO analysis of Defence documentation.

2.10 In summary, objectives have been clearly identified for each of the industry programs reviewed by the ANAO. For the majority of programs, performance measures are poorly aligned to program objectives and monitoring and reporting arrangements have either not been implemented or are not regular. Shortcomings in the performance framework were identified as an issue in the internal review of industry programs for the upcoming Defence White Paper, which noted that programs had 'only loose connections back to Capability Managers, with limited KPIs to assess value and performance'¹⁹ This was particularly a problem for the skilling programs.

2.11 The current performance framework limits Defence's capacity to: monitor program performance; assess the achievement of value for money; and assess program outcomes against objectives. The framework also provides limited transparency and assurance to government, Parliament, and stakeholders.

The operating context for the defence industry programs is changing

2.12 Defence has begun implementing the recommendations of the April 2015 Defence First Principles Review, which included significant organisational design changes. The review noted a number of organisational units had emerged within Defence doing work that may be more efficiently carried out by other areas of government, or not at all. The review also drew attention to the Industry Division within the then Defence Materiel Organisation, suggesting that the division's roles and functions should be transferred to the Department of Industry so as to better position defence industry within the broad Australian industrial landscape.²⁰

¹⁹ PricewaterhouseCoopers, 2015 Defence Industry Programs Cost Assurance, Version 1.1 Final, May 2015, p. 9.

²⁰ Department of Defence, *First Principles Review: Creating One Defence*, April, 2015, p. 37. The review was 'tasked with ensuring that Defence is fit for purpose and is able to deliver against its strategy with the minimum resources necessary'.

2.13 As discussed, a new Defence White Paper is expected to be released in 2016. The White Paper is expected to be accompanied by a new Defence Industry Policy Statement. In preparation, Defence tasked PricewaterhouseCoopers with recommending a streamlined and more coherent suite of Defence industry programs in accordance with Defence priorities.

2.14 As a result of the structural changes to Defence and likely defence industry policy changes, the operating context for the industry programs is also likely to change. These developments provide an opportunity for Defence to reconsider its overarching management and coordination arrangements for the industry support programs, and to address weaknesses identified in this audit, particularly in regards to a meaningful performance framework for the programs, consistent with the new Commonwealth Performance Management Framework.²¹

Recommendation No.1

2.15 The ANAO recommends that Defence:

- (a) assesses the performance of Defence industry support programs and their contribution to achieving the intended outcomes of the Australian Government's Defence Industry Policy Statement; and
- (b) monitors and reports on the performance of each industry program against clear targets, based on measurable performance indicators.

Defence's response: *Agreed.*

21 The *Public Governance, Performance and Accountability Act 2013* requires all Commonwealth entities to measure and assess their performance. To address this requirement the Department of Finance developed a revised Commonwealth Performance Framework that came into effect on 1 July 2015. Available at: <http://www.finance.gov.au/resource-management/performance/> [accessed 20 November 2015].

3. Skilling Australia's Defence Industry Program

Areas examined

This chapter examines the:

- management arrangements for the Skilling Australia's Defence Industry (SADI) program; and
- performance of the program.

Conclusion

The SADI program has been administered consistently with key elements of the Commonwealth Grant Rules and Guidelines and ANAO testing of a sample of applications for funding indicated that Defence was applying the documented assessment processes. The ANAO also identified some opportunities to improve program administration including documentation of key decisions, performance measurement and forecasting.

The SADI program does not have a performance measurement and reporting framework, and Defence has no basis for assessing program outcomes or value for money. Defence has also struggled to accurately forecast likely demand for the program, and there have been consistent underspends in the program in recent years.

Program overview

3.1 The Skilling Australia's Defence Industry (SADI) program was announced during the 2004 election campaign to address a shortfall in engineers, technical trades and project management skills in order to meet future Defence requirements.²² The program provides funding support for training or skilling activities in trade, technical and professional skills in defence industries. The program is now administered by Defence's Capability Acquisition and Sustainment Group.²³ At the time of the audit there were five staff in the SADI team and, when required, contractors assisted in the assessment process.

3.2 The original budget for the SADI program was estimated at \$200 million over a 10 year period. Defence advised the ANAO that the actual expenditure to July 2015 was \$54.8 million, a substantial underspend. The structure of the program has changed significantly over its life and has undergone several administrative changes around eligibility, sourcing, type and levels of funding. The key changes for the program over the last decade are summarised in Table 3.1.

22 The then Government noted that it would achieve this objective 'by investing around 0.5% of the money spent on major defence capital equipment projects ... to generate additional skilled positions, up-skill existing employees and improve the quality and quantity of skills training'. Source: A Stronger Economy, A Stronger Australia: The Howard Government Election 2004 Policy, Skilling Australia's Defence Industry, p. 2.

23 Until July 2015 SADI was administered by the Defence Materiel Organisation's Industry Division.

Table 3.1: Key changes in the SADI program 2005–2015

Year	Key changes or events in the program
2005	The original 2005–06 budget projecting expenditure of \$74.5 million over four years.
2006	The 2006–07 Portfolio Budget Statements note that SADI funding is transferred to DMO along with additional funding.
2007	The Defence Industry Policy Statement 2007 expands the SADI program to include applications from third parties such as industry organisations.
2011	The 2011–12 Portfolio Budget Statements mention grants for the first time. The 2011–12 round was the first administered as a ‘grants’ program.
2012	Defence runs two grants rounds to get more coverage and better align with training semesters.
2014	SADI program funding changed from reimbursement to upfront payment method.

Source: ANAO analysis.

3.3 It was originally intended to fund SADI by accessing contingency risk funding built into major projects. In practice, the SADI program was funded from Defence’s Departmental Budget. As noted in Table 3.1, in 2011 the program was changed to a grant program in response to the introduction, in July 2009, of the new Commonwealth Grant Guidelines by the then Department of Finance and Deregulation.

The future of the SADI program

3.4 Since 2011 Defence has administered five SADI grants rounds. Defence entered into an agreement with the Department of Industry and Science to administer the 2015 round for the program. Defence informed the ANAO that the Department of Industry and Science has systems in place that mean it is better suited than Defence to administer the 2015–16 SADI round. A Memorandum of Understanding between the departments has been signed but the schedules were still being negotiated as at October 2015. As of October 2015, the cost to Defence of program administration was \$603 000 for 2015–16.

3.5 In June 2015, the Minister for Defence extended the program for an additional year (resulting in a funding round for 2015–16). This round opened on 27 July 2015. A decision on the future of the program will be made when the upcoming Defence Industry Policy Statement and Defence White Paper are released.

Has Defence implemented sound management arrangements for the SADI program?

The SADI program has a clearly defined objective and eligibility criteria. Key documents, such as guidelines and the assessment process, were provided to potential applicants on the SADI website. The ANAO tested a sample of applications for funding of 350 training activities over the last three SADI rounds and found that Defence followed the approved assessment processes, although record-keeping could be improved in some cases.

There are also opportunities to improve the program through communicating to potential applicants the list of eligible courses, improving data collection for support relating to apprentices, and assessing the benefit of elements of the program such as on the job training.

The SADI program's objectives are clearly defined

3.6 The objectives of the SADI program have changed over time. Since 2011, the objectives have been:

to support defence industry to increase the quality and quantity of skilled personnel available through training and skilling activities in trade, technical or professional skill sets where that training is linked to a defence capability. This will support the Australian Defence Force in acquiring the capabilities it needs to defend Australia and its national interests.

The SADI Program has three main objectives:

- generating additional skilled positions;
- upskilling existing employees; and
- increasing the quality and quantity of skills training.²⁴

The SADI program has clearly defined eligibility criteria

3.7 The Commonwealth grants framework requires grant programs to have straightforward and easily understandable eligibility criteria. The SADI program guidelines include clear high level criteria relating to the eligibility of the company and the type of training activity (see Table 3.2).

Table 3.2: High level criteria for the SADI program

The entity must:
<ul style="list-style-type: none"> • be registered, solvent and have an Australian Business Number or an Australian Company Number; • have a current Defence contract, or can show the chance of a serious tender in the next 12 months; • require the training/skilling to meet a current or future capability; and • not be an individual; a federal agency; or a training agency.
The training activity must:
<ul style="list-style-type: none"> • commence within the relevant funding period; • provide a strategic benefit to Defence; • demonstrate value for money in achieving the objectives of the SADI grant program; • be able to be acquitted (which includes being verified, substantiated and evidenced) and where necessary audited to the satisfaction of the Commonwealth; and • be undertaken by individuals who are employed by the successful applicant company (which is an Australian entity that currently holds an Australian Business Number).

Source: Department of Defence, *Skilling Australia's Defence Industry Program Guidelines, 2014–15 Round One*, pp. 9–10.

3.8 The SADI guidelines have also outlined the particular costs that can, and cannot, be covered by the program funding. For example, in the 2014–15 guidelines, online training course fees and interstate and international travel were allowed while taxis and wages of employees attending were not. The list of items provided was not exhaustive and allowed for some flexibility in the claims.

²⁴ Department of Defence, *Skilling Australia's Defence Industry Program Guidelines, 2014–15 Round One*, p. 9.

Promotion of the program to industry is mainly via the internet

3.9 The SADI program has primarily been publicised on the internet, with the SADI website providing a range of information including details of the successful applicants dating back to 2008–09.²⁵ For each round, key documents were made available on the website: SADI program guidelines, the SADI draft funding agreement and a frequently asked questions sheet for completing the application. The guidelines included a brief outline of the assessment process.

Defence has used a grant management system over the last three rounds

3.10 The use of a well-designed automated Grant Management System can assist in monitoring the progress and outcomes of grants. Defence purchased a Grant Management System for use with the SADI program at a cost of \$921 755. This system does not provide any connectivity to other defence systems, such as Defence's primary record management system Objective, meaning that manual work around by staff was needed to complete an application round.

3.11 Prior to 2012–13, all applications were paper based and companies were required to provide hard copies of brochures and quotes. Since the second round in 2012–13, Defence has required that SADI applications be completed using the online Grant Management System. Defence informed the ANAO that it made allowances in quality and the amount of information provided for in 2012–13 applications, to provide applicants some flexibility. Defence further advised that since then, there has been a strict enforcement of the guidelines and this has meant that some applications were rejected due to the lack of supporting material or descriptive evidence required to fully assess them.

Defence assessed applications according to the published guidelines

Funding priorities

3.12 The SADI guidelines have over time included the criteria used for deciding funding priorities. Skilling activities that support a Priority Industry Capability²⁶ are to be given precedence over other activities. In the last three application rounds, a total of \$7.36 million (29 per cent) was awarded to training activities in industries that Defence accepted were Priority Industry Capability related. Where a company self-identified Priority Industry Capability relevance in their application the applications were sent to the relevant Defence team for further evaluation. An analysis of the data shows that Defence's system for such evaluation caused no delays in the assessment process.

3.13 A funding cap can be applied where the value of applications exceeds available funds. The only time the funding cap was applied was in 2014–15 and this affected two companies.

25 The program is also promoted at defence industry forums and by Defence Business Access Offices. Defence describes Business Access Offices as 'Providing Australian businesses with information, guidance, and advice on doing business with Defence; and Providing the Australian Defence Organisation with insight and access to industry capability and regional information'. Source: <http://www.defence.gov.au/dmo/DoingBusiness/Industry/FindingOpportunities/BusinessAccessOffices/> [accessed 4 September 2015].

26 Priority Industry Capabilities are defined as those capabilities that confer an essential strategic advantage by being available from within Australia and which, if not available, would significantly undermine defence self-reliance and Defence's operational capability. There are currently 11 Priority Industry Capabilities.

Assessment criteria

3.14 The Grant Guidelines require agencies to develop policies, procedures and guidelines for the sound administration of grants.²⁷ Consistent with this guidance, Defence developed a grant assessment plan for use in conjunction with the Grant Management System in 2013–14 and 2014–15. The plan described the assessment process, governance arrangements and the documentation required to evidence the assessment process. The plan also outlined how applications would be assessed and selected for funding. Defence also included:

- in the SADI guidelines for each year, a brief summary of the assessment process that would take place;
- a merit ranking during the assessment for the 2014–15 round in case funding cap decisions may be required. Each training activity was given a ranking from 1 (Eligible– PIC Relevant) to 5 (not eligible); and
- a conflict of interest form to be signed by each staff member who completed the in-house training.

ANAO testing of a sample of applications

3.15 The ANAO examined a sample of applications relating to the funding of 350 training activities and 109 company applications. The ANAO focussed on Defence's assessments for application eligibility and training activity eligibility. Each application was required to include an external training activity quote and on the job training summary. No additional information was required for apprentice supervision support.²⁸ For each criterion the ANAO considered whether the documentation required under the SADI guidelines was provided, and whether it matched the description in the application. The quotes provided in the application were also compared with the attached documents to see if they matched. The outcomes of the ANAO's testing are set out below.

Table 3.3: ANAO sample of applications

	2012–13 ^a	2013–14	2014–15	Total
Number of companies that applied	55	58	58	109 ^b
Number of training activities requested	95	119	136	350
Training activities approved	67	94	79	240
Number of students requested	422	556	648	1,626
Number of students approved	289	362	309	960
Requested Activity Amount (\$m GST exclusive)	1.15	2.29	1.63	5.07
Funded amount ^c (\$m GST exclusive)	0.716	1.33	0.721	2.77

Note a: The figures for 2012–13 refer to round 2 applications. Round 1 applications for 2012–13 were not assessed by the ANAO.

Note b: Some companies applied in more than one year.

Note c: The funded amount is the dollar value agreed to in the signed funding agreement.

Source: ANAO analysis of Defence documentation.

²⁷ *Commonwealth Grant Rules and Guidelines*, para 3.5 (b), p. 9.

²⁸ Defence informed the ANAO that the SADI program funds the supervision of apprentices and not the apprentices themselves.

Box 1: ANAO sample of applications

Company eligibility

For the three rounds reviewed by the ANAO, six companies were found by Defence to be ineligible. One was a late application and the others did not have the required Defence contract. Records of the assessment of companies' eligibility for SADI grants were made, but not always saved in Objective by the assessors, as required.

Training activities

For the ANAO sample, 66 per cent of training activities were approved. The quality of the decision records was mixed: some records were detailed and others lacked certain information. For example, for around 10 per cent of assessments there was a lack of detail included in the records for rejected applications for training activities. Not all assessors recorded details of the reasons for rejecting training activities, or the specific sections of the guidelines which referenced why particular training activities were rejected.

Issues warranting further examination by Defence

3.16 The ANAO noted a number of issues to do with the SADI program that warrant further examination by Defence, relating to the consistency of funding decisions, and consulting with stakeholders on opportunities to streamline administrative arrangements.

Box 2: Issues warranting further examination by Defence

Inconsistent funding decisions

The ANAO identified several cases where particular training courses or activities were initially rejected and then accepted in subsequent rounds, and vice versa. For example, at various times the following courses were both rejected and accepted for different rounds and different companies:

- Diploma in Management;
- Introduction to Radar Systems; and
- Master of Project Management.

Opportunities for streamlining administrative arrangements

As indicated below in Table 3.4, there is a low rate of success for on the job training applications (37 per cent of the amount requested has been funded) compared to companies applying for other training activities (a success rate of 61 per cent for external training activities and 81 per cent for apprentice supervision positions). One company interviewed by the ANAO advised that the reason it did not apply for on the job training was the complexity of the application process. The company highlighted that Defence required evidence of log books and supervisor costings, when other training activities only required a quote and course description.

Box 2: Issues warranting further examination by Defence

In 2014–15, the method for payment was changed from a reimbursement model to an upfront payment to applicants with repayment of unused funds to Defence. This change allowed applicants to change and adjust their studies without additional administrative burden. Companies interviewed by the ANAO provided mixed responses on the benefit of the change, with some indicating that it did not necessarily improve SADI's administrative processes.

These examples indicate that there would be benefit in defence periodically consulting with key stakeholders on opportunities to further streamline administrative processes.^a

Note a: Commonwealth Grant Rules and Guidelines, effective from 1 July 2014, p. 15.

3.17 On the question of consistency, Defence advised the ANAO in December 2015 that:

... funding decisions are based on each specific application, and the relative merit of the applicants claims. Whilst this may give an appearance of inconsistency, it actually reflects the complexity of a fully considered assessment process.

At times it may appear that there is inconsistency in decisions relating to a particular course title across years because an activity is funded in one year and not in another, but there are a range of factors beyond the course name which influence eligibility. The various criteria for determining activity eligibility can also result in a particular course being supported for one applicant, but not another, as a company has not met all the eligibility criteria in their application. The eligibility of a training activity is assessed on the qualitative analysis of the information provided as well as determining that the required supporting evidence is provided.

What has been the performance of the SADI program?

In the last three years, the SADI program has awarded grants totalling \$25 million to fund 1743 training activities, 2223 apprentice supervision positions and 752 on the job training positions. However, Defence has struggled to accurately forecast likely demand for the program, which has had a cumulative forecast error of \$67 million since its inception. The department's inability to expend all program funds represents a lost opportunity for potential recipients.

The SADI program does not have a performance measurement and reporting framework in place, and Defence has no basis on which to assess whether the program is achieving value for money or meeting its objectives.

Distribution of funds

3.18 Forty per cent of SADI funding over the last three years, totalling \$10 million, was awarded to 11 large defence contracting firms—'primes'.²⁹ Sixty per cent of funding (\$15 million) was awarded to 165 SMEs. The primes received an average of \$900 000 each, while SMEs averaged \$90 000. Table 3.4 provides an overview of the applications for the last three rounds of SADI.

29 Overall Defence contracts awarded in a two year period to these companies are valued at well over \$10 billion.

Table 3.4: Applications summary for the last three rounds of SADI

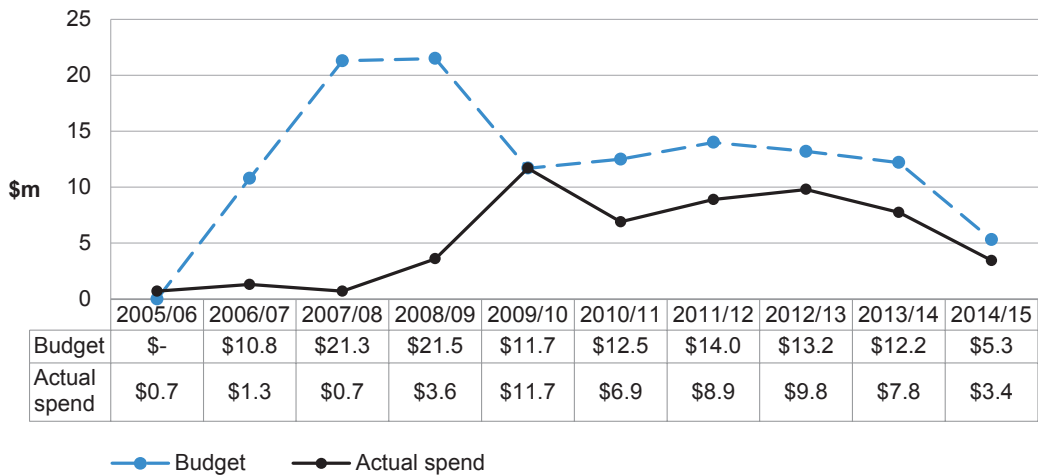
All training activities	2012–13	2013–14	2014–15	Total
Number of companies that applied	128	133	118	194 ^a
Funding applied for (\$m GST exclusive)	12.46	18.55	17.51	48.52
Funding awarded (\$m GST exclusive)	6.92	11.21	6.55	25.47
External training activities				
Number of training activities applied for	779	942	1103	2824
Number of activities awarded funding	513 (65%)	701 (74%)	530 (48%)	1743 (61%)
Funding awarded (\$m GST exclusive)	4.64	6.95	4.42	16.02
Apprentice supervision positions				
Number of positions applied for	586	1248	901	2735
Number of positions awarded funding	564 (96%)	968 (77%)	680 (75%)	2223 (81%)
Funding awarded (\$m GST exclusive)	1.53	2.5	1.6	5.63
On the job training				
Number of students requested	367	538	1110	2015
Number of students funded	118 (32%)	374 (70%)	260 (23%)	752 (37%)
Funding awarded (\$m GST exclusive)	0.75	1.75	1.3	3.81

Note a: Some companies have applied for multiple rounds over the last three years.

Source: ANAO analysis of Defence documents.

Not all SADI program funding has been spent

3.19 Since the program's inception, it has had a cumulative forecast error of over \$67 million. The gap between budgeted and actual expenditure was greatest prior to SADI being treated as a grant program. However, there has still been a consistent underspend in recent years (see Figure 3.1), pointing to ongoing difficulties in Defence's ability to forecast likely demand for the program. The Department's inability to expend available program funds represents a lost opportunity for potential recipients. For example, if all of the \$67 million had been expended on apprentice supervision, approximately 3300 more positions could have been supported under the program.

Figure 3.1: SADI budget and expenditure 2005–06 to 2014–15


Note: The 2006-07 *Portfolio Additional Estimates Statements* allocated an additional \$0.3 million to the SADI program.

Source: ANAO analysis of Defence documentation.

3.20 The program has been included in a number of Defence internal reviews over the past five years. The findings of these reviews identified shortcomings in the management and administration of the program including around strategy, planning, communication arrangements and performance monitoring.

There is no performance monitoring and reporting framework for the SADI program

3.21 No performance measures were developed for the SADI program when it was established, and no effort has been made to develop a performance framework for the program. As a consequence, while the program's objectives are clearly stated in the program guidelines, there are no KPIs to measure how well Defence is meeting these objectives or to assess Defence's administrative performance.

3.22 To comply with the Grant Guidelines agencies have to take into account the principle of achieving value with relevant money.³⁰ In the sample of grants the ANAO examined, some companies' applications had been rejected or had their funding amounts reduced as a result of a value for money assessment.³¹ However, at a strategic level there has been no assessment of the program's overall value for money, and the absence of any performance measures for the program means that Defence has no basis for making such an assessment.

3.23 Defence advised the ANAO that it was 'too difficult to develop performance measures during the life of the program' and that performance information could be resource intensive to collate. The ANAO considers that the main objective of SADI (see paragraph 3.6) is measurable, and Recommendation No.1 in this performance audit report (see paragraph 2.15) should apply to the SADI program and any future programs of this nature.

30 *Commonwealth Grant Rules and Guidelines*, effective from 1 July 2014, p. 26.

31 Defence described this assessment as involving a panel from the SADI program team discussing the queries from, and decisions of, assessors. Any changes to outcomes were documented.

4. Global Supply Chain program

Areas examined

This chapter examines the:

- management arrangements for the Global Supply Chain program; and
- performance of the program.

Conclusion

Defence has recently improved its administration of key aspects of the GSC program, including contracts and the performance framework. However, the new performance framework is still being implemented and the impact and benefit to Defence of the GSC program remains largely unassessed. Program performance data under the new performance framework relies on unvalidated self-reporting by the participating multinational prime contractors. The program is promoted widely to industry and industry generally sees the program as beneficial.

Area for improvement

The ANAO has made a suggestion aimed at reducing the risks associated with the self-assessment approach to the new program performance framework.

Program overview

4.1 The objective of the Global Supply Chain (GSC) program is to provide opportunity for Australian industry, particularly Small to Medium Enterprises (SMEs)³², to win work in the global supply chains of large multinational defence companies working with Defence ('primes'). This, in turn, aims to facilitate sustainment of a capable defence industry to support Defence's needs.

4.2 In 2007 Boeing received \$2 million in funding from Defence to form Boeing's Office of Australian Industry Capability. The intention was that Boeing would work with Defence to identify globally competitive Australian companies and facilitate the release of bid opportunities for those companies to supply Boeing. Defence advised that this activity led to orders for Australian companies worth around \$20 million.

4.3 In July 2009 the then Government announced the GSC program to assist other defence multinationals set up GSC teams within their offices, and assigned a budget of \$59.9 million over ten years.³³ Defence advised the ANAO that 115 SMEs have been involved with the program and they had entered into 664 contracts totalling \$713 million.³⁴ Funding for the GSC program was reduced in 2013, and the forthcoming Defence White Paper and Defence Industry Policy Statement are expected to clarify the funding source and level for the program.

4.4 Under the GSC program, Defence funds small teams within the primes to identify bid opportunities across their defence and commercial business units and advocate inclusion of Australian industry on bid requests. The engagement and funding of primes to participate in the

32 For the GSC program SMEs are defined as companies with less than 200 employees and an Australian Business Number. New Zealand firms are excluded from receiving work under the program.

33 The GSC program is currently administered by two FTE within Capability Acquisition and Sustainment Group.

34 These figures include contracts awarded to subsidiaries of the participating primes.

program is effectively exempt from the Commonwealth Procurement Rules.³⁵ In addition to providing bid opportunities, the GSC primes are required to advocate on behalf of Australian industry, train and mentor companies in the primes' purchasing practices and methods, and provide a range of market assistance including facilitating visits and meetings with key decision makers.

4.5 In early 2015, Defence engaged consultants PricewaterhouseCoopers to review the range of Defence industry programs to inform the development of the upcoming Defence White Paper and the Defence Industry Policy Statement. The review recommended that the GSC program be delivered by the Department of Industry and Science.

Has Defence implemented sound management arrangements for the GSC program?

Management arrangements for key aspects of the GSC program have recently been improved. Following a review in 2013, Defence improved the GSC contracts and has been rolling them out with prime contractors. There is now a clearer definition of a GSC 'contract' for reporting purposes, and clearer reporting requirements, including a reporting template and expectations for performance.

The GSC program is promoted through a range of channels including industry associations, Defence publications and other industry programs.

The agreements between Defence and the primes have been improved

4.6 In 2013, Defence engaged a contractor to review the GSC program, including its current effectiveness and future opportunities. The report (known as the Wilton review) was finalised in October 2013, and made 20 recommendations aimed at improving the GSC program including recommendations to improve the performance framework³⁶ and increase the pool of SMEs engaged in the program.

4.7 Following the Wilton review, the deed and annex arrangements with the participating primes were replaced with GSC agreements. Table 4.1 below outlines the key differences between the previous deed and annexes and the new GSC agreements.

35 Paragraph 2.6 of the CPRs and the Defence Procurement Policy Manual (DPPM) 1.2.17 provide that an entity's accountable authority may apply measures necessary for the protection of essential security interests.

36 In addition, the Minister for Finance wrote to the then Minister for Defence on 13 March 2014 regarding the GSC program during the approval process for AIR 7000 Phase 2B – Maritime Patrol Aircraft Replacement. The Finance and Defence departments subsequently agreed to apply a new performance framework for the GSC program and to ensure that payments to Boeing were subject to ongoing performance review.

Table 4.1: Key differences between previous deed and annex arrangement with the primes and new GSC agreements

Previous deed and annex arrangement	New GSC agreement
Type of arrangement	
The deed was an umbrella agreement, and there were annexes with defined activities to be undertaken by the prime.	Single agreement to manage the relationship with the prime.
Definition of a GSC contract	
The scope of a GSC 'contract' for reporting purposes was not defined in the annex or the deed.	The scope of a GSC contract for reporting purposes is now clearly defined. Australian subsidiaries of the prime are now excluded for reporting purposes.
Performance reporting and assessment	
Reporting was largely subjective (a 'best endeavours' approach) and activity based, not linked to performance.	Performance now reported against defined expectations, and linked to renewal of agreements.
Primes required to have a biannual program management review to report on the performance and outcomes of all activities.	Prime required to report to the Australian Government on a quarterly basis in addition to a biannual program management review.
Not explicitly stated how the Australian Government will assess outcomes of program management reviews.	Clearly states how the Australian Government will assess the performance reporting information provided by primes.

Source: ANAO analysis of Defence documentation.

4.8 The change from the deed and annex arrangement to a GSC agreement has led to:

- a clearer definition of the scope of a GSC contract for reporting purposes; and
- clearer reporting requirements including a reporting template, expectations for performance and a better understanding of how performance will be assessed by the Australian Government (performance reporting for the program is discussed in the following section).

4.9 In August 2014, the first participating prime signed the new agreement, and by October 2015 a further three primes had also signed agreements. Defence advised the ANAO that, for the remaining three primes, the previous contractual arrangements continued to apply and that negotiations were underway about moving to the new agreements. Defence expects this process to be completed by September 2016.

The funding arrangements are complex

4.10 Since the 2010 Policy Statement through to April 2015, the total funding commitment for the GSC program was \$59.9 million compared to actual expenditure of \$41 million. Funding for the GSC program was originally a combination of: program funding to initiate arrangements with multinational prime companies; and funding from projects awarded to the respective prime contractors. Defence informed the ANAO that this approach created administrative issues for the

program, as project offices did not always allocate a discrete funding line for the GSC program (although project offices are required to do so under the Defence Capability Plan³⁷).

The program has been promoted widely and industry has been forthcoming in providing feedback

4.11 Defence promotes the GSC program widely, through:

- industry associations;
- Defence's external website;
- Business Access Offices;
- the Defence Industry Innovation Centre;
- Austrade; and
- Team Defence Australia trade missions and exhibitions and major Defence shows and conferences.

4.12 GSC forums are also held biannually, and include attendees from Defence and each of the primes' GSC teams. Topics discussed include any updates to the GSC program, the global supply chain environment and activities of the primes.

4.13 Defence informed the ANAO that until very recently, feedback from SMEs on the program has been largely anecdotal, with the GSC team receiving feedback from SMEs and primes when accompanying the primes on site visits to SME offices.³⁸

4.14 In June 2015, the GSC team interviewed 17 SMEs currently engaged in the GSC program, that have been awarded one or more contracts or have the potential to be awarded contracts in the future. These interviews were conducted in order to understand the impact of the GSC Program on SMEs and to assess the SME's relationship with the prime under the program.³⁹ The responses from the SMEs included:

- mixed opinions on the quality of feedback provided to the SMEs by the primes. Some SMEs reported seeking feedback and received none, others reported receiving confusing or unclear feedback, and some were satisfied with the feedback received.⁴⁰
- mixed opinions on the marketing efforts of the prime representatives. SMEs with high-end technology reported that prime representatives did not understand their capability, and highlighted the importance of the primes involving technical experts.
- positive views were expressed by many of the SMEs about the training opportunities provided, and the changes to the program, in particular the new performance framework focussing on program outcomes.

37 The Defence Capability Plan outlines Defence's capability development priorities including projects planned for first or second pass approval over a four year period.

38 Defence advised the ANAO in December 2015 that while no formal process was in place, the Wilton Review in 2013 did include interviews with both SMEs and Primes on the program.

39 At the time of audit fieldwork, Defence had not completed the interview program.

40 Under the new quarterly reports, primes must now provide a reason for the win or loss of a bid opportunity.

What has been the performance of the GSC program?

Since the program's inception, the value and number of GSC contracts has risen but remains concentrated among a small number of companies. Defence has sought to assess the value for money of the program through a return on investment performance indicator, and has calculated that the program's overall return on investment is higher than the initial target. The program's performance framework has been improved by linking indicators to outcomes and moving from a 'best endeavours' to an activity-based reporting approach. However, the performance indicators do not measure the extent to which a prime's participation in the GSC program results in work for SMEs that they otherwise would not have obtained, and performance reporting still relies on self-assessment from the participating prime. To reduce the risks associated with a self-assessment approach, Defence could directly approach a sample of SMEs awarded GSC contracts on a periodic basis to validate the self-reported performance of the primes.

Industry generally views the GSC program as beneficial, and industry stakeholders have identified some opportunities for improvement through better aligning the program with the Priority Industry Capability areas, developing a closer relationship between Australian primes and their overseas counterparts, and making more data on the program publicly available.

Defence collects data on the number and value of GSC contracts, but this should be read with care

4.15 The number, and value, of GSC contracts has risen over time. As discussed, Defence has advised that 115 SMEs had participated over the life of the program, with 664 contracts entered into. Table 4.2 (below) summarises these reported results, totalling \$713 million and shows that there is a strong correlation between the length of time a prime has participated in the program, and the number and value of SME contracts that had been reported. The ANAO observed that:

- over three quarters (76.4 per cent) of the value of all GSC contracts have been awarded to six SMEs. A 2013 review also noted the concentration of contracts and recommended the GSC program adopt a target to substantially increase the pool of prime-contractor-ready SMEs, from the existing base of 64 to a 5-10 fold larger pool within a five year period. In the two years since the review, the number of SMEs with a GSC contract has nearly doubled, rising to 113 at 30 June 2015.
- as of September 2014, 57 GSC contracts (12 per cent) worth \$119 million (some 18 per cent of the total value of all GSC contracts) had been awarded to subsidiaries of the participating primes.

4.16 The new agreements with the participating primes include a program 'return on investment' performance indicator. Defence has defined this indicator as the ratio of Australian Government expenditure⁴¹ over the term of the company's participation in the GSC Program, against the total value of contracts awarded to Australian SMEs by the participating prime. Defence set performance bands ranging from poor (less than 2:1), fair (between 2:1 and 10:1),

41 'Australian Government expenditure' excludes the administrative costs of running the GSC program. Over the last five years, the administrative costs of the program have been approximately \$3 million.

good (between 10:1 and 20:1), to superior (greater than or equal to 20:1).⁴² As Table 4.2 below illustrates, the performance of the GSC primes varies widely.

Table 4.2: GSC primes – contract values, payments and return on investment to August 2015

Prime	Months in Program	Number of contracts ^a	Value of awarded contracts (\$m)	GSC Payments (\$m)	Return On Investment ^b
Finmeccanica	28	8	0.436	2.763	– ^c
Lockheed Martin	41	30	33.52	4.959	6.8
BAE Systems	41	103	6.941	4.564	1.5
Northrop Grumman	45	35	10.716	5.82	1.8
Thales	59	64	25.176	8.041	3.1
Raytheon	70	114	273.665	9.328	– ^c
Boeing	85	327	362.871	14.631	– ^c

Note a: Includes contracts awarded to the subsidiaries of most participating primes. BAE systems advised that the data does not include any contracts to the BAE systems subsidiaries.

Note b: Return On Investment is one of seven performance measures used to determine value for money and measure success in the program. The other performance measures include the identification and engagement of new Australian companies, the award of multiple, longer duration contracts, high order work, the delivery of value-add activities and the company's behaviours in delivering the program.

Note c: Raytheon and Finmeccanica are still operating under the previous agreement that does not include a 'return on investment' performance indicator. Defence advised that Boeing is not currently a participant in the program.

Source: ANAO analysis of Defence data.

4.17 Program data on the number and value of SME contracts, and the estimated return on investment, should be read with care. The performance indicators do not measure the extent to which a prime's participation in the GSC program results in work for SMEs that they otherwise would not have obtained. Further, as discussed below, the data relies on unvalidated self-reporting by the primes.

The program performance framework has been improved

4.18 Until 2014, the GSC program employed a 'best endeavours' performance reporting framework.⁴³ Under this reporting framework, the program's key performance indicators (KPIs) largely related to the enabling activities performed in support of industry.⁴⁴ The 2013 review of

42 Defence informed the ANAO that return on investment is not used as the sole indicator of program success as it can be influenced by many variables. Other key aspects of performance which are considered include high order work, repeat work, and identification and engagement of new companies.

43 In Australian contract law, best endeavours means that: 'parties are usually obliged to do all that is reasonable in the circumstances to achieve the obligation, having regard to the nature, capacity, qualifications and responsibilities of the parties. The obligation does not involve going beyond the bounds of reason.' Source: Australian Law Dictionary – Oxford Reference.

44 Examples of enabling activities include: marketing assistance such as introducing SMEs to a prime's executive; and offering training to SME staff in 'Proposal Costing'.

the GSC program identified limitations with this ‘best endeavours’ approach to performance reporting, noting that there was: ‘no benchmarking against a specifically articulated strategic vision for the success of the Program, nor operational targets relating to capability building or market access’.⁴⁵

4.19 Since the 2013 review, Defence has introduced new performance reporting arrangements in conjunction with the new GSC agreements. Defence informed the ANAO in March 2015 that the change in focus is essentially moving the program from one where performance is assessed against ‘activity’ to a framework based on program outcomes and measures of ‘effectiveness’. The new performance monitoring arrangements outlined in the new GSC agreements with participating primes are included in the boxed text below.

Box 3: New performance reporting framework

The Company will provide a Report to the Australian Government on a quarterly basis ... Each Report will include, in respect of the relevant Reporting Period:

- (a) detail of the Company’s performance and achievements against the individual PPIs [Program Performance Indicators] and SPMs [Strategic Performance Measure⁴⁶] during the Reporting Period⁴⁷;
- (b) measures being taken by the Company to maintain and improve performance;
- (c) proposed adjustments to the PPI and SPM (if any);
- (d) the number of bidding opportunities provided by the Company to Australian Companies;
- (e) the number of contract awards made by the Company to Australian Companies;
- (f) a description of the enabling activities provided by the Company to Australian Companies to increase their competitiveness;
- (g) a description of any concerns that the Company has in relation to the performance of the Company’s GSC Program; and
- (h) details of any projected Bid Opportunities and other GSC activities over the next Reporting Period.

Source: Funding Agreement in relation to Defence’s Global Supply Chain Program, sections 4.1.1 and 4.1.2.

4.20 The program performance indicators are now based on the desired outcomes for the program and are tied to industry support contracts. The program performance indicators focus on SME participation, SME contract awards, SME contract values and return on investment. The strategic performance measures include: responsiveness (of the Contractor to all correspondence); relationships between the Prime, the Australian Government and third parties; and performance culture, including the Prime’s ability to transparently deliver the GSC program. Each program performance indicator and strategic performance measure includes assessment criteria, and is provided a performance rating based on predetermined expectations.

45

Dr Peter Wilton, A review of the Global Supply Chain Program of the Defence Materiel Program, Final Report, October 2013, p. 13.

46

A Strategic Performance Measure is a behavioural or overall system performance measure.

47

Examples of indicator and measures are set out in Appendix 3 of this audit report.

4.21 At the time of audit fieldwork, the new performance framework was being implemented and outcomes were yet to be reported. The impact and benefit to Defence of the GSC program therefore remains largely unassessed.

4.22 Participating companies are responsible for conducting a 'self-assessment' against each of the program performance indicators and strategic performance measures. Defence advised that it makes the final approval of the self-assessment. If a company assesses its performance as 'poor', the company is able to provide reasons for this in their self-assessment. Defence has noted that:

... unlike a traditional performance arrangement in Defence, we are not holding the prime's payment at risk against their achievement. The new Agreement also allows the prime to provide an explanation against each measure as to their performance rating for the quarter ... Where Defence accepts this justification, an overall rating of Satisfactory can be applied to the prime's efforts for that reporting period.⁴⁸

4.23 Defence provided the following reasoning for this approach:

There is a multitude of factors influencing the prime's achievement against each of the performance measures. These include the length of time the prime has been involved with the program, the global competitiveness of the SME and the prime's commercial drivers / capability focus. Technology related contracts can take up to three years to be awarded due to trials and testing whereas contracts for lower order work such as machining tend to be awarded within a six month timeframe.⁴⁹

4.24 Defence informed the ANAO that where a prime's performance is assessed as unsatisfactory, there are clauses in the agreement that allow for termination. Further, the quarterly reports process provides a framework for discussions between Defence and the primes, and remedial action may be taken if necessary.

4.25 The new performance measures and monitoring arrangements are an improvement on the previous arrangements. The improvements include the removal of subjective reporting, and links between performance and renewal of agreements with the primes. There is also an expectation that the primes will focus not only on the number and value of contracts, but also aim for contracts of longer duration, and aim to increase the SME base.

4.26 The new performance arrangements still rely on self-assessment by the primes, and where performance is assessed as 'poor', companies can provide reasons for this and their overall performance can still be rated by Defence as satisfactory. To reduce the risks associated with a self-assessment approach, Defence could directly approach a sample of SMEs awarded GSC contracts on a periodic basis to validate the self-reported performance of the primes, particularly in assessing how well the primes engage with SMEs in providing training and marketing assistance.

Defence industry stakeholders regard the program as beneficial but have identified opportunities for improvement

4.27 The Joint Standing Committee on Foreign Affairs, Defence and Trade commenced an inquiry into opportunities to expand Australia's defence industry exports in May 2014. The

48 Minute to Head of Industry Division 20 February 2015, GSC Program Brief, pp. 2-3.

49 Minute to Head of Industry Division 20 February 2015, GSC Program Brief, p. 3.

Committee sought input from stakeholders, particularly Defence Industry, as to how Government can better facilitate export of Australian defence products and services.

4.28 Many of the submissions to the inquiry commented on the GSC program. The boxed text outlines the comments from the submissions mentioning the program.⁵⁰

Box 4: Summary of industry submissions referencing the GSC program

- Many saw the GSC program as beneficial and had provided opportunities to their businesses, and would like to see the program continue into the future.
- One submission viewed the GSC program as being based on the interests of the participating primes rather than national needs and requirements.
- Several of the submissions noted possible areas of improvement for the GSC program including:
 - A better alignment between the program and Priority Industry Capability areas.
 - Developing a closer relationship between Australian primes their overseas counterparts in order to support Australian SMEs seeking access to international supply chains.
 - Making information publicly available on the breakdown of Australian SMEs winning contracts under the GSC program and the value of these contracts.

Source: Submissions to the Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Government Support for Australian Defence Industry Exports.

50 The Committee's report was tabled in the Parliament on 3 December 2015.

5. Rapid Prototyping, Development and Evaluation Program

Areas examined

This chapter examines the:

- management arrangements for the RPDE program; and
- performance of the program.

Conclusion

The Rapid Prototyping, Development and Evaluation (RPDE) program differs from other programs listed in the Defence Industry Policy Statement, in that it is a collaboration between Defence and industry to provide innovative solutions to Defence for urgent, high risk capability issues. The program has clear and well documented management, advisory and governance arrangements, but the ANAO's analysis of a sample of RPDE program activities indicated that some key processes were not always followed.

Defence monitors program performance at an activity-level, but is not well positioned to assess program-level performance. The RPDE Board has reduced its role in monitoring the performance of the RPDE program, and a 2009 Board resolution makes no mention of the Board having a continuing role in monitoring performance.

Area for improvement

The ANAO has recommended that the new RPDE program Relationship Agreement and Standing Offer should clearly set out the roles of the Board, and that Board activities should in future be consistent with those roles.

Program overview

5.1 The Rapid Prototyping, Development and Evaluation (RPDE) program was established in February 2005 to accelerate and enhance Defence's warfighting capability through innovation and collaboration in Network Centric Warfare.⁵¹ The RPDE program was announced by the then Minister for Defence as a new 'Network Centric Warfare' initiative that was designed to speed up the acquisition of emerging capabilities.⁵²

5.2 The RPDE program has a different character to other Defence industry programs, which are intended to support and develop Australia's defence industry. In contrast, the RPDE program focuses on innovation, and involves the collaboration of Defence, industry and academia to 'resolve urgent, high risk capability issues [for Defence] for which a solution does not exist' and that conventional acquisition processes might not be able to solve in a timely manner. The RPDE program also evaluates options to improve Defence's warfighting capability in the near-term, with an emphasis on network-centric capability.

51 Network Centric Warfare was one of the key enabling concepts that underpinned the Defence's Future Joint Operations Concept when it was released in 2003. At this time Network Centric Warfare was a 'means to achieving a more effective warfighting capacity'.

52 Department of Defence, Media Release, 'New Defence NCW Initiatives Announced', 11 February 2005.

5.3 The RPDE program involves two main types of activities: Quicklooks and Tasks⁵³ (see Table 5.1).

Table 5.1: RPDE program activities as at February 2015

Activity	Time taken	Description	Number of activities	Examples of activity
Quicklook	Three months or less	Delivers guidance, advice and input on a Defence issue in the form of a report provided to the relevant Defence sponsor.	112	Quicklook activities have related to the Defence Innovation Strategy, Support to future Navy electronic warfare systems and aspects of the Collins Class submarine
Task	18 months or less	Delivers a solution to Defence. The solution may be a report, a proof of concept, or a physical prototype (limited to Technical Readiness Level 6 ^a). The Task report focuses on all Fundamental Inputs to Capability ^b elements and on identifying, understanding and facilitating change.	57	Tasks have related to improvised explosive device hand held detection, Explosive ordnance data logger and Defence's e-health system.

Note a: The Technical Readiness Level framework describes the technology maturity of systems and provides a standard method for conducting technical readiness assessments, and a standard language and definitions for technology readiness levels. Technical Readiness Level 6 is defined as a: 'system/subsystem model or prototype demonstration in a relevant environment'.

Note b: The Fundamental Inputs to Capability comprise the following inputs: personnel; organisation; collective training; major systems; supplies; facilities and training areas; support and command and management.

Source: ANAO analysis of Defence documents.

5.4 The RPDE program has a mixed-funding model, with the majority of core funding—some \$12 million per year—being drawn from the Defence Capability Development Group's Project Development Funds.⁵⁴ Since 2004–05, RPDE program total expenditure has been some \$129 million. On average RPDE has had a staffing level of around four full time equivalent staff. The average administrative cost of the program over 2013–14 and 2014–15 was approximately \$2 million per year.

5.5 The RPDE program's remit has evolved over time. As Table 5.2 shows, the original focus on Network Centric Warfare was changed in late 2010 to provide a more general remit: to accelerate and enhance Australian Defence Force warfighting capability.

53 Department of Defence, 'Interface with RPDE', Edition 1, 2013, p. 6. As of 29 May 2015 the RPDE program involved a third type of activity, Quickanswers, which respond to an urgent or simple need from Defence that requires industry input to inform, shape, guide or solve an issue. Individual Quickanswers are funded up to \$50 000 by Defence.

54 The Project Development Fund supports the development of the capability portfolio, programs and projects in the Defence Capability Plan and can be assigned to Defence Groups supporting the Capability Development Group. Source: Defence, 'Standing Orders for Capability Development Group Project Development Funds', May 2014.

Table 5.2: Summary of changes to RPDE mission statement

Years	Mission statement
2005–2007	To enhance ADF [Australian Defence Force] warfighting capability through accelerated capability change in the NCW [Network Centric Warfare] environment.
2008–2010	To enhance Australian Defence Force (ADF) warfighting capacity through accelerated capability change in the Network Centric environment. ^a
2011–2016	To accelerate and enhance ADF warfighting capability through innovation and collaboration.

Note a: At this time, a Defence internal audit observed that RPDE workload was shrinking and this posed a risk to the program.

Source: Defence documentation.

Has Defence implemented clear management, advisory and governance arrangements for the RPDE program?

The RPDE program has clear and well documented management, advisory and governance arrangements. The arrangements also reflect the collaborative nature of the program, which is intended to involve Defence, defence industry and academia.

The RPDE Board has reduced its monitoring of program performance. Current performance reporting to the Board provides minimal information on the RPDE program's overall performance, and focuses largely on the status of individual program activities at a particular point in time. Further, a 2009 Board resolution makes no mention of the Board having a continuing role in performance monitoring.

RPDE has clear management, advisory and governance arrangements

5.6 The RPDE program's core management, advisory and governance arrangements are summarised in Table 5.3. The structure of these arrangements was intended to reflect the nature of the program as a collaboration between Defence, defence industry and academia in solving urgent issues for Defence in a timely manner.

Table 5.3: RPDE program management, advisory and governance framework

RPDE management	Defence One Star Steering Group	RPDE Board
Personnel		
<ul style="list-style-type: none"> General Manager (engaged from defence industry under a services contract). Core team of four Defence personnel. Varying activity teams (comprising personnel from defence industry and academia). 	<ul style="list-style-type: none"> 14 Defence One Star members.^a Chaired by the Director General Integrated Capability Development. 	<ul style="list-style-type: none"> 12 members. Chaired by the Head of Capability Systems. All other members of the Board are drawn from industry. Defence, Science and Technology Group, and any other relevant Defence representatives can attend meetings, as invitees.
Roles and responsibilities		
<ul style="list-style-type: none"> Day-to-day operations. Completion of RPDE program services and products. 	<ul style="list-style-type: none"> Approve RPDE activities. Endorse funding RPDE activities. When necessary, prioritise activities. Monitor active Tasks through steering gate process. Provide direction on activity options. Note the outcomes of Tasks. 	<ul style="list-style-type: none"> Acts as a Governance Board. Strategic focus. Supported by sub-committees.

Note a: A Defence One Star officer is the equivalent of an Australian Public Service Senior Executive Service Band 1.

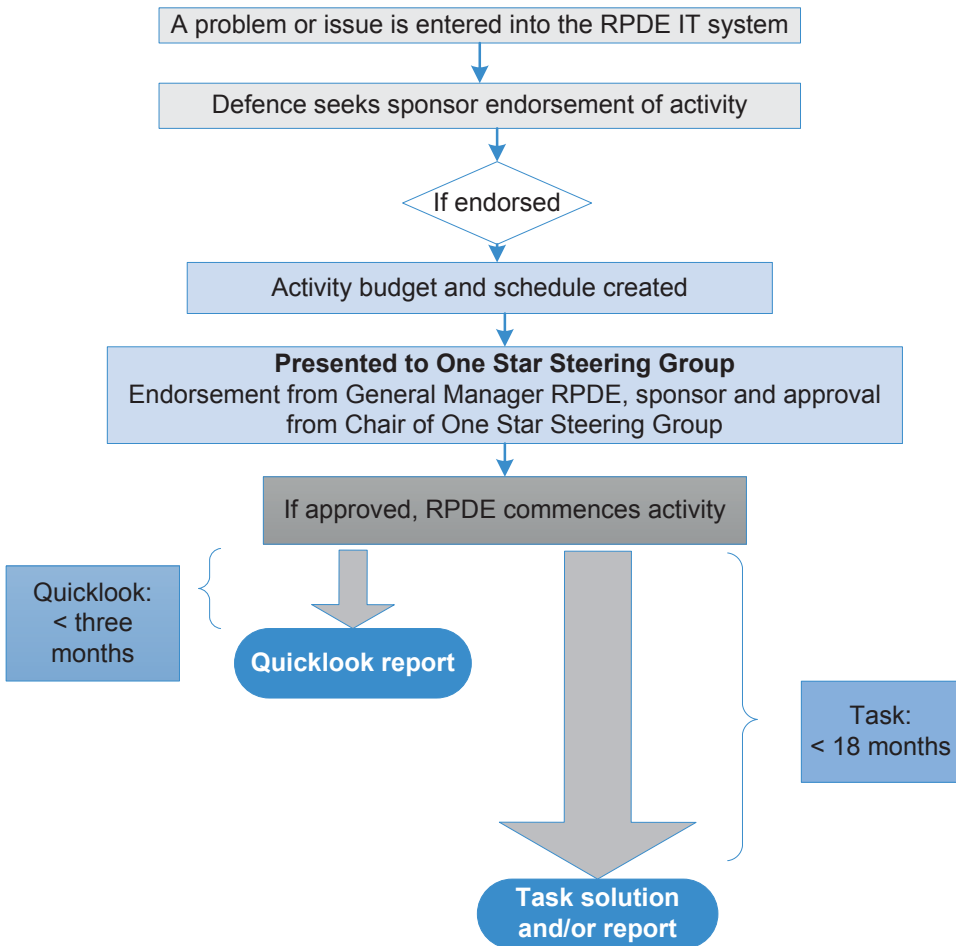
Source: Department of Defence, 'Interface with RPDE', Edition 1, 2013.

5.7 The RPDE program is presently administered by Defence's Capability Development Group.⁵⁵ The Head of Capability Systems is the Chair of the RPDE program Board and is responsible for the expenditure of Project Development Funds, from which the majority of RPDE program funding is drawn.

5.8 Each proposed RPDE program activity requires a Defence One Star sponsor, who is the key stakeholder representative for the activity. The sponsor presents the proposed activity to the One Star Steering Group for their consideration and endorsement for funding. Key processes for proposed and approved RPDE program activities are summarised in Figure 5.1.

55 As part of the implementation of the First Principles review, Defence has advised that the future of the Capability Development Group will be decided in 2016.

Figure 5.1: Key processes for considering proposed RPDE program activities



Source: ANAO analysis of RPDE program process.

Contractual framework

5.9 The RPDE program has two overarching contractual arrangements that establish the overall obligations, terms and conditions for the program and the arrangements under which defence industry participants are selected for particular RPDE program activities. There are over 260 parties (the Australian Government, defence industry companies and academic institutions) to these arrangements, which are summarised below:

- **Relationship Agreement:** governs the operation of the program by setting out the obligations, terms and conditions for participation.
- **Standing Offer:** the mechanism by which defence industry participants are selected for their services, equipment or otherwise. Industry personnel seconded to the RPDE program are to be selected on a 'best candidate' cost model. The Standing Offer also includes rates of service for seconded industry personnel.

The RPDE program Board has ceased to monitor the performance of the program

5.10 The roles of the RPDE program Board are set out in the Relationship Agreement, and are summarised below.

Box 5: RPDE program Board roles, as outlined in the Relationship Agreement	
<ul style="list-style-type: none">• Provide overall governance and leadership to the program;• Recommend to the Commonwealth the appointment, removal or replacement of the General Manager;• Monitor and report to the Commonwealth on the performance of the General Manager;• Issue directives to the General Manager;• <i>Monitor the performance of the program including endorsing and monitoring the implementation of strategies and undertaking liaison with the Commonwealth to monitor customer satisfaction;</i>• Approve and disseminate the Strategic Plan and Business Plan in accordance with policies;• Approve or amend policies nominated by a Board Member as requiring approval or amendment by the Board;• Endorse strategies developed by the General Manager and monitor their implementation;• Undertake a review of the Program;• Resolve program disagreements;• Ensure that the program is involved in continuous improvement of the program’s processes and practices, including the structure and processes of the Board;• Convene general meetings of the Participants, at least biannually; and• Ensure that policies are established to facilitate the smooth running of the program.	

Source: Defence, RPDE Relationship Agreement Schedule 3, 7.13 and 7.14 [emphasis added].

5.11 On 20 August 2009 the RPDE program Board passed a resolution about these roles. This resolution was explained in the Board Handbook⁵⁶ as follows: ‘the Board has agreed the following resolution which outlines the Board’s preferred interpretation of duties and responsibilities - particularly with respect to the relationship between the Board and GM RPDE.’ The preferred roles of the Board, following this resolution, are outlined below.

56 The Handbook is designed to assist new members to understand Board operations, administration and responsibilities.

Box 6: Preferred roles and responsibilities of the RPDE program Board

- A sub-committee of the Board will be established to select and recommend the appointment of the General Manager;
- Through the review of reports and other interactions, the Board will monitor the performance of the General Manager;
- The Board may agree to issue directives to the General Manager;
- The Board will endorse strategies developed by the General Manager and monitor their implementation; and
- The Board's collective interaction with the General Manager is facilitated through the Chairman as the Board's representative.

Source: Minutes of RPDE Board Meeting No.50, Thursday 20 August 2009.

5.12 Many of the RPDE program Board's roles set out in the Relationship Agreement are encapsulated in the broad terms of the 2009 resolution. However, the resolution makes no mention of the Board having a continuing role in monitoring the performance of the RPDE program, and no formal endorsement for the preferred interpretation was sought from Capability Development Group. In practice, the RPDE Board has reduced its monitoring of program performance.⁵⁷ Defence advised that, since 2009, program performance reporting to the Board had occurred through: a balanced scorecard (discontinued in 2012); General Manager's reports to the RPDE Board; and weekly meetings or emails to the Board Chair. These latter reports provide minimal information on the RPDE program's overall performance, and focus largely on the status of individual program activities at a particular point in time.

5.13 Monitoring performance is a conventional role for a governance board and no sound reason was given for the Board to withdraw from this role. Further, as the Relationship Agreement—a contractual arrangement—has not been amended,⁵⁸ there is a reasonable expectation that the Board would continue to monitor the performance of the program performance pursuant to the Agreement.

5.14 The Relationship Agreement and Standing Offer expired at the end of 2015. New agreements were being prepared during the course of the audit that came into effect on 31 December 2015.

57 The ANAO also observed other instances where current practice departs from the terms of the Relationship Agreement. For example, as described in paragraph 5.27, the RPDE program no longer produces an annual report on its activities, as required under the Agreement.

58 The Relationship Agreement includes a provision that it 'will not be varied or supplemented except by agreement in writing signed by all of the Parties'.

Recommendation No.2

5.15 To provide assurance about the governance of the Rapid Prototyping, Development and Evaluation (RPDE) program, the ANAO recommends that the new RPDE program Relationship Agreement and Standing Offer clearly sets out the roles of the RPDE Board, and that Defence ensures that the Board's activities are consistent with the specified roles.

Defence's response: *Agreed.*

Has Defence implemented sound administrative arrangements for the RPDE program?

Defence has well documented administrative arrangements for its RPDE program activities. However, compliance with key requirements has varied, including in respect to financial approvals.

The RPDE program has well documented administrative processes for its activities, but they are not always followed

5.16 The RPDE program has prepared clear internal standard operating procedures covering the administration of proposed, current and completed program activities. Key elements of these procedures cover, for example, the approval processes for proposed activities, and a five-step 'Steering Gate' review process for approved RPDE Tasks. Steering gates provide an opportunity for the One Star Steering Group to review the Task and provide authorisation for the Task to continue.

5.17 The ANAO examined a sample of RPDE program activities, from 2008 to July 2015, to assess compliance with key elements of the program's standard operating procedures. The ANAO examined 25 activities: 15 Quicklooks and 10 Tasks. The activities tested had a total cost of some \$12 million. The sample included completed and ongoing activities. The ANAO examined each activity's approval process, steering gate documentation and financial approvals.

5.18 In respect of the 15 Quicklooks examined by the ANAO, most standard operating procedures were followed. However, some non-compliance was observed in relation to Quicklook approvals, and there was a generally low success rate in obtaining post-activity surveys from the Defence One-Star sponsor (see Table 5.4).

Table 5.4: Results of ANAO testing of 15 RPDE program Quicklooks

Description of testing	Number	Brief summary
Percentage of Quicklooks that had appropriate sign-off for approval to commence	80 per cent	Defence could not locate One Star Steering Group approvals for three Quicklooks.
Percentage of Quicklooks that had appropriate Regulation 9 financial approvals ^a	93 per cent	Defence could not locate financial (Regulation 9) approval for one Quicklook. Total expenditure on this Quicklook was reported at \$265 494.
Percentage of Quicklooks that had surveys or follow-up feedback	6 per cent	Defence located a sponsor survey for one Quicklook. Defence did not provide surveys for other Quicklooks because they were either not implemented at the time, or were not completed.

Note a: Regulation 9 of the Financial Management and Accountability (FMA) Regulations required an approver to be satisfied that a particular spending proposal accorded with the policies of the Australian Government and would make proper use of public money. FMA Regulation 9 was replaced by section 18 of the Public Governance, Performance and Accountability Rule on 1 July 2014.

Source: ANAO testing of various RPDE Quicklooks.

5.19 In respect of the 10 Tasks examined by the ANAO⁵⁹, most standard operating procedures were followed. However, compliance with the Steering Gate requirements was variable (see Table 5.5).

Table 5.5: Results of ANAO testing of 10 RPDE program Tasks

Finding	Brief Description
30 per cent of Tasks were supported by a Steering Gate 1 Memorandum	Steering Gate 1 Memorandums provide a detailed breakdown of the activity's scope, budget and expected outcomes.
60 per cent of completed Tasks had Steering Gate 1 approvals	Four Tasks did not have appropriate approvals for Steering Gate 1: Defence could not locate any documentation for two Tasks, and for two other Tasks, could not locate a signed approval.
70 per cent of Tasks had complete Steering Gate 2 approvals (provided and signed)	Defence did not provide documentation for one Task. Two Tasks did not have signed or other evidence of approval.
40 per cent of Tasks had combined Steering Gates	Approval can be sought to pass through more than one Steering Gate at the same time. There was often limited documentation of the reasons why the activity was seeking combined gate approvals.

Source: ANAO testing of Defence Task documentation.

5.20 The ANAO's findings, in 2015, echoed the findings of a 2010 Defence internal audit. That audit tested a sample of RPDE program activities and found that key documentation for some Tasks could not be located. The internal audit indicated that staff turnover and workload pressures meant that documentation was given a low priority. The ANAO's analysis highlights ongoing shortcomings in basic administrative practices.

⁵⁹ At the time of the ANAO's testing, two Tasks were still active. The remainder of the tasks had been completed.

5.21 Defence informed the ANAO in October 2015 that on 10 April 2015 it introduced a SharePoint site which is aimed at addressing such shortcomings.

What has been the performance of the RPDE program?

Since 2005, the RPDE program has undertaken 169 activities (112 Quicklooks and 57 Tasks) at a total reported cost of \$129 million. The RPDE program seeks to monitor the completion of its individual activities and report their outcomes. However, the program no longer produces an annual report on its activities and program-level performance monitoring and reporting is limited.

5.22 The RPDE program has a large number of participants, with the majority being smaller Australian companies and academic institutions (see Table 5.6).

Table 5.6: Types and numbers of RPDE program participants

Type of member	Description	Number	Value of contracts received (\$m)
Industry	Industry Members are larger Prime companies with significant defence capability and formal research and development programs.	13 (5%)	26.5 (18%)
Associate	Associate Members are generally academic institutions or specialist Australian companies with a research and development program of relevance to RPDE	248 (95%)	124.5 (82%)
Total		261	150.9

Source: Defence documentation.

5.23 As discussed, the majority of the RPDE program funding has been drawn from the Capability Development Group’s Project Development Funds.⁶⁰ Table 5.7 shows RPDE program total expenditure per financial year.

Table 5.7: RPDE budget and total expenditure, by financial year

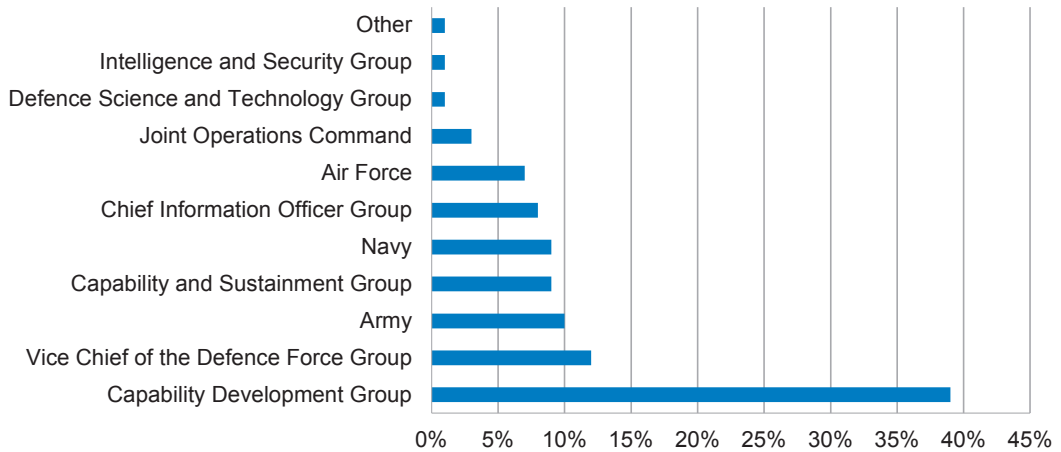
Funding type	2010–11 (\$m)	2011–12 (\$m)	2012–13 (\$m)	2013–14 (\$m)	2014–15 (\$m)
Project Development Funds	13.51	12.67	6.23	9.93	9.91
External funding	5.02	1.39	2.53	1.95	2.62
Total expenditure	18.53	14.06	8.76	11.88	12.53
Budgeted expenditure	18.52	14.81	9.19	8.78	15.81

Source: ANAO analysis of Defence documents.

5.24 Figure 5.2 shows that sponsorship of RPDE program activity has been concentrated in Capability Development Group (39 per cent).

60 The RPDE was originally funded from the Project Development Funds because it was designed to reduce risks in achieving ADF Network Centric Warfare capabilities and had the potential to generate synergies and savings in Defence Capability Plan projects.

Figure 5.2: Defence groups by percentage that have sponsored RPDE program activities from 2005 to 2015



Source: Defence, RPDE Outcomes Report, February 2015.

The RPDE program seeks to monitor its individual activities and report their outcomes

5.25 The RPDE program has completed 169 activities and, since March 2014, has reported the outcomes of its activities in a quarterly 'Outcomes Report'.⁶¹ The Outcomes Report usefully provides a breakdown of activities by: sponsor; their link to Defence Capability Plan projects; and their status and/or outcomes. However, the report does not include the cost or timeframe of activities, and information on activity outcomes was not always clear. In respect to 18 per cent of completed Tasks identified as implemented in the report, no information was provided on the nature of the implemented activity.⁶²

5.26 In January 2015, the RPDE program Board approved a 'Task Prototyping Success Factors Analysis Report' conducted by its core staff. The report is a positive step for the program in trying to identify and quantify its outcomes. The report investigated common success factors in the program's prototyping (Task) activities. The report stated that 22 per cent of the Tasks that had been completed at the time, were 'operationally employed'. However, Defence could provide little or no evidence to support this statement for half of the completed Tasks.

The RPDE program no longer produces an annual report on its activities

5.27 The RPDE Relationship Agreement requires the Board to approve and disseminate an Annual Report, and these Annual Reports were produced from 2007–08 to 2010–11. Notwithstanding the requirement set out in the Relationship Agreement, no RPDE Annual Report has been produced since 2010–11.

⁶¹ The Outcomes Report provides a high level summary and overview of RPDE program activity outcomes over the life of the organisation and is released quarterly.

⁶² Forty per cent of completed Tasks were identified as implemented. Five Tasks were 'in progress' at this time and three Tasks were listed as 'partially implemented'.

Program-level performance monitoring, reporting and business planning is limited

5.28 The performance of the RPDE program has been reported intermittently in Portfolio Budget Statements (PBS) and Defence Annual Reports since 2004–05. Between 2012–13 and 2014–15 Defence reported on the RPDE program against the following PBS deliverable⁶³:

Under the Rapid Prototyping Development and Evaluation programme, work collaboratively with Australia's Defence industry to develop innovative solutions to complex issues affecting capability and operations.⁶⁴

5.29 There was no specific performance indicator or target associated with this deliverable. In 2015–16, no deliverable for the RPDE program was included in the PBS.

5.30 The RPDE program has prepared a Strategic Plan 2014–16 that outlines three strategic goals underpinned by 13 objectives and 18 performance measures. However, Defence has not monitored the RPDE program's performance against any of the objectives and performance measures detailed in the Strategic Plan. The Strategic Plan is also intended to be supported by annual Business Plans which provide more detail on the key objectives. The most recent Business Plan for RPDE that could be located was dated 2012.

5.31 Defence advised the ANAO in October 2015 that the lack of recent performance monitoring for the program was due to resourcing constraints.

Time and cost of completed activities

5.32 One of the objectives set out in the RPDE program's Strategic Plan 2014–16 is to 'deliver analysis and solutions within agreed timeframes (nominally within 18 months of Task initiation and with 6 months of Quicklook initiation).'⁶⁵ In the absence of any monitoring of this objective by the RPDE program, the ANAO sought to assess the cost and time it took to complete all RPDE program Quicklooks and Tasks.

5.33 Defence was unable to supply complete data on the timeliness or costs of its RPDE program activities. Defence provided the ANAO with information on the timeframe and cost for 19 of the 57 Tasks completed. The 19 Tasks had a total cost of \$18.9 million (with the most expensive costing \$2.7 million) and took an average of 15 months to complete (with the longest taking 2.4 years). Of the 112 Quicklooks completed, Defence provided cost data for 38 Quicklooks totalling \$6.2 million, but could not identify how long the Quicklooks took to complete.

There is limited reporting on the value for money of the program

5.34 Defence initially planned a review of the value for money of the program in 2008–09, however this did not occur and no similar review has been completed. Value for money was reported in RPDE Annual Reports from 2007–08 to 2010–11 as a comparison of activity cost against overhead costs. Over this period, the program reported meeting the value for money performance measurement target, spending more on activities than overhead costs at a ratio of

63 This deliverable was listed under the Department's Program 1.11 deliverables in 2012–13. Department of Defence, 2012–13 Portfolio Budget Statements, p. 74.

64 Department of Defence, 2014–15 Portfolio Budget Statements, p. 63.

65 A key element of the original concept and design of the RPDE program was to implement change in a timely manner.

\$3 to \$1 or higher. The planned review would have provided a vehicle for validating these assessments.

5.35 The RPDE program has also been the subject of two Defence internal audit reviews in 2007 and 2010, and was reviewed by the Defence Capability Investment Committee in August 2006 at the end of the program's trial period.

5.36 The RPDE program has not been subject to any significant independent review, and little information has been collected to assess value for money, some 10 years after the program's launch, with \$129 million expended to 30 June 2015.

Changes to innovation program investments

5.37 Defence informed the ANAO in October 2015 that defence industry programs covering innovation activities will be funded through the Integrated Investment Program supporting the future White Paper. The Government is yet to make a final decision on these funding matters. The details are expected to be released in the forthcoming Defence White Paper and Defence Industry Policy Statement.

5.38 As discussed, the RPDE program differs from the other defence industry programs listed in the Defence Industry Policy Statement. For example, success for the RPDE program may involve the provision of advice to Defence that identifies the value in not progressing a particular project or solution. As a result, traditional program key performance indicators may not always be appropriate for an innovation program such as RPDE. However, key measures of program performance – such as timeliness, cost and stakeholder satisfaction – have relevance for a program such as RPDE. At present the RPDE program does not monitor its performance against such measures, and should address this shortcoming in the context of any future changes to Defence's innovation investment strategy. In its implementation of Recommendation 1 of this performance audit report, Defence should give consideration to developing meaningful performance measures for the RPDE program should it continue.



Grant Hehir
Auditor-General

Canberra ACT
3 February 2016

Appendices

Appendix 1 Entity responses



Australian Government
Department of Defence

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CDF/OUT/2015/1596

Dr Thomas Clarke
Executive Director
Australian National Audit Office
PO Box 707
Canberra ACT 2601

AUSTRALIAN NATIONAL AUDIT OFFICE PROPOSED AUDIT REPORT ON DEFENCE INDUSTRY SUPPORT AND SKILL DEVELOPMENT INITIATIVES

1. Thank you for your correspondence which contained the Proposed Report for the subject audit. We thank you for undertaking this audit, and appreciate the opportunity to review and comment on the Proposed Report.
2. Attached to this letter are Defence's Proposed Amendments, Editorials and Comments (Enclosure 1); Responses to Requests for Information (Enclosure 2); Agency Response (Enclosure 3); and Response to Recommendations (Enclosure 4).
3. Defence remains committed to assisting you with the successful completion of this audit.

Dennis Richardson
Secretary

18 December 2015

R1-5-CDF Suite
PO Box 7900
Canberra BC ACT 2610

R.J. GRIGGS, AO, CSC, RAN
VADM
A/CDF

17 December 2015

Enclosures:

1. Proposed Amendments Editorials and Comments
2. Responses to Requests for Information
3. Agency Response
4. Response to Recommendations

Raytheon

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14 December 2015

Dr Tom Ioannou
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Dr Ioannou,

Subject: Defence Industry Support and Skill Development Programs

Reference: ANAO Letter dated 2 December 2015

Raytheon Australia appreciates the opportunity to comment on the extract of the proposed report into Defence Industry Support and Skill Development Programs.

Raytheon Australia is committed to the sustainability of the Australian Defence Industry, and to the development and growth of Australian small-to-medium enterprises (SMEs) to enhance Australian industry capability across the sector. Raytheon Australia has a long and successful pedigree in supporting the Department of Defence and the Australian armed forces across a range of programs, including our involvement in the Global Supply Chain Program.

Yours sincerely
Raytheon Australia Pty Ltd



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22 DEC 2015
9.30

18 December 2015

Dr Tom Ioannou
Group Executive Director
Performance Audit Services Group
GPO Box 707 CANBERRA
ACT 2061

Dear Dr Ioannou,

Please find below at **Section 1** BAE Systems response to the audit report which is to be included as an appendix to the final report, also included at **Section 2** is a summary of our formal response including commentary on matters of an editorial nature, recognising that Section 2 may be included in the text of the final report but not included as part of our formal response to the audit report.

Section 1 Response

BAE Systems Global Access Program (GAP) —A key contributor to industry development.

BAE Systems Global Supply Chain program-GAP was established in Feb 2012 and since that time has facilitated for Australian Industry a wide range of opportunities. As at 31 July 2015 we have progressed qualified contractable opportunities for Australian Industry in; automotive (10), aerospace (74) and maritime (54) worth \$90-\$145 million dollars.

The vision of GAP is to develop a more competitive and technologically advanced Australian Defence industry that mutually benefits the Australian Defence Force, and BAE Systems. We endeavour to deliver this vision by increasing the number of SMEs winning work in the global supply chain of BAE Systems.

One of the key benefits delivered by the program is the training and development of Australian industry to assist an understanding not only how to bid to BAE Systems but also to the wider defence market. GAP has delivered its highly commended Estimating and Pricing fundamentals course in all Australian States to 106 companies, followed this year with 28 companies attending Estimating and Pricing Master Classes. This course has been reported as being instrumental in SME's winning work not just with BAE Systems but other customers both domestically and exports.

GAP also facilitates introductions through trade missions, industry events and business-to-business introductions to enable collaboration between SME's. To date GAP has supported 141 Australian Suppliers in this way.

The challenges for industry and all of the Prime participants on the Global Supply Chain program are; the extremely competitive international market, the protectionist policies of overseas countries and the impact of offset obligations on the volume and types of opportunities afforded to Australian industry.

These challenges are why there are wider performance measures on the program. The aim is to provide a holistic view of the program with the measures covering new opportunities offered/bid, the types and longevity of contracts, the level of complexity/value, the responsiveness of the team, collaborative working with industry and government and behaviours.

Therefore to ROI measure at table 4.1 of the report is not the only KPI by which the program participants are measured on. In reality, GAP (and other prime participants) cannot control

the outcome of buyer/program/customer behaviour in our overseas businesses and/or the competitive behaviour of the Australian SME in bidding the work. The ROI KPI is therefore a measure of *industry's* collective ability to convert opportunities into orders in a particular market, some markets being more competitive than others and recognising differing barriers to entry.

What we can and do influence, is identifying and creating the opportunities, matching suppliers to the opportunities, mentoring and assisting SMEs with their responses, providing targeted and sustained training and development of SMEs and advocating for Australian companies at the highest levels within our organisation.

Section 2 -Editorial comments

The table states that the data is from August 2014 we assume you mean August 2015.

In the note under the table you state that this includes contracts awarded to subsidiaries of the participating primes. The BAE Systems value does not include any contracts to a BAE Systems subsidiary.

The numbers in your table are not as reported to the GSC team as at 31 July 2015. BAE Systems had been on the program for 41 months, been paid \$4.478m, had program recognised orders of \$5.28m, had a ROI of 1.6 and had 100 contracts awarded.

Section 2 – Summary of our formal response

The vision of GAP is to develop a more competitive and technologically advanced Australian Defence industry that mutually benefits the Australian Defence Force, and BAE Systems. We endeavour to deliver this vision by increasing the number of SMEs winning work in the global supply chain of BAE Systems.

The challenges for industry and all of the Prime participants on the Global Supply Chain program are; the extremely competitive international market, the protectionist policies of overseas countries and the impact of offset obligations on the volume and types of opportunities afforded to Australian industry.

What GSC program participants can and do, influence, is; identifying and creating the opportunities, matching suppliers to the opportunities, mentoring and assisting SMEs with their responses, providing targeted and sustained training and development of SMEs and advocating for Australian companies at the highest levels within our organisation. The Australian GSC program is unique in the worldwide Programs of Offsets and Industrialisation in this regard and gives unprecedented exposure to overseas supply chains.

Regards



Sharon Wilson
General Manager Global Access Program

Appendix 2 Defence's industry programs

Table A.1: Current Defence industry support programs

Program	Description
Industry Development and Engagement	
Global Supply Chain Program	Aims to create opportunities for Australian companies in the global supply chains of multinational defence companies and their major suppliers. The program is covered in detail in Chapter 4.
Defence Export Unit / Team Defence Australia	Together with the Australian Government, Australia's defence industry sector unites as 'Team Defence Australia' to showcase Australian defence capability solutions.
New Air Combat Capability Industry Support Program	To enable Australian companies and research organisations to support the development of new or improved capability to win work in the production, sustainment and follow-on development phases of the F-35 Joint Strike Fighter program.
Defence Industry Innovation Centre	The Defence Industry Innovation Centre provides targeted advisory services designed to link small and medium defence businesses to new ideas, technologies and markets.
Innovation Programs	
Capability and Technology Demonstrator Program	Aims to improve Australia's Defence capabilities by giving industry opportunities to demonstrate new ideas and approaches related to using technology.
Rapid Prototyping, Development and Evaluation	Collaboration between Defence, industry and academia. Its projects are funded by Defence and staffed by personnel from industry and academia. The program is covered in detail in Chapter 5.
Defence Materials Technology Centre	Collaboration between Defence, defence industry, and research agencies. It aims to develop new materials and manufacturing technologies to enhance Australia's defence capability.
Priority Industry Capability Innovation Program	Aims to provide assistance (in the form of repayable, matched grants) to companies, especially small to medium sized enterprises, in innovation projects to enhance Priority Industry Capability activities.
Defence Innovation Realisation Fund	Established to support the development of innovative technologies from initial research or technology demonstration to maturity as a capability ready for Defence acquisition.

Program	Description
Skilling Programs	
Skilling Australia's Defence Industry	The program is designed to 'increase the skills base of the defence industry, create pathways into the sector and address the skills capability gap'. The program is covered in detail in Chapter 3.
Industry Skilling Program Enhancement	Package of programs that aim to expand the pool of skilled workers from which defence industry can recruit, enhance work and career pathways and address specific skills gaps in defence industry capability. The programs are: Sponsorship of Sponsoring Re-Engineering Australia: F1 in schools Subs in Schools; Master of Military Systems Engineering; PHD Systems Engineering; and School Pathways program: Advanced Technologies Industry (SA). Marine Industry (WA) Manufacturing (NSW)

Source: Defence documentation and public information.

Table A.2: Current industry programs in Defence including origins, administering area, and funding

Program	Administered by	Funding delegate	Year	Initiated through	Budget to 2014–15 (\$m)	Expenditure 2010 to 2015 (\$m)	Funding 2015–16 to 2022–23 (\$m) ^e
Capability Technology Demonstrator	Defence Science and Technology Group	Capability Development group (CDG)	1997	1997 Defence Efficiency Review ^a	73.7	51	103.2 ^d
Skilling Australia Defence Industry	Capability Acquisition and Support Group (CASG)	CASG	2005	The then Government's 2004 Election Policy	55.9	36.4	49.6
Rapid Prototyping Development and Evaluation	CDG with Defence industry participants	CDG	2005	Announced by then Minister for Defence.	62.3	65.8	Unknown ^d
Team Defence Australia/ Defence Export Unit ^b	CASG	CASG	2007	2007 Defence Industry Policy Statement	9.0	8.7	18.3
Industry Skilling Program Enhancement (ISPE) package	Contractors and CASG	CASG	2008	Announced by then Minister for Defence.			
Re-Engineering Australia Sponsorship (F1 in schools and Subs in Schools).	Re-Engineering Australia ^c	CASG	2008	Part of the ISPE package	2.0	2.4	6.9
School Pathways Program	CASG	CASG	2009	Part of the ISPE package	10.7	9.7	21.3
Defence Industry Innovation Centre	Department of Industry, Innovation and Science	CASG	2009	Part of the ISPE package	21.5	19.0	28.7
Defence Engineering Internship Program	AITEC Pty Ltd	CASG	2010	Part of the ISPE package	2.9	1.9	5.7

Program	Administered by	Funding delegate	Year	Initiated through	Budget to 2014–15 (\$m)	Expenditure 2010 to 2015 (\$m)	Funding 2015–16 to 2022–23 (\$m) ^e
Defence Materials Technology Centre	Defence and private sector	Government, industry and research sector	2008	Launched by then Minister for Innovation, Industry, Science and Research.	30.8	22.1	8.4
Global Supply Chain	CASG	CASG	2009	Defence White Paper	30.9	29.5	38.1
New Air Combat Capability – Industry Support Program	CASG and Department of Industry, Innovation and Science	CASG	2010	2010 Defence Industry Policy Statement	6.4	6.4	13.0
PIC Innovation Program	CASG	CDG	2010	2010 Defence Industry Policy Statement	17.9	17.9	2.6
PIC Development Fund	CDG	CDG	2013	2010 Defence Industry Policy Statement	10	0	Unknown ^d
Defence Innovation Realisation Fund	Defence Science and Technology Group	CDG	2013	<i>Defence White Paper</i>	11	7	80.0 ^d
TOTAL					317.1	277.8	375.8

Notes:

- The 1997 Defence Efficiency Review was released in March 1997, and aimed to identify key management processes across the Defence program structure, assess the efficiency and effectiveness of current management and financial processes, and make recommendations for reforming Defence management and financial processes.
- While the Defence Export Unit was closed in 2014, Team Defence Australia continues to operate.
- ReEngineering Australia is a not-for-profit organisation that was established in 1998 to address skill shortages in engineering and related technical fields through encouraging students into science, technology, engineering and mathematics activities, trades and professions.
- Defence informed the ANAO that Industry programs covering innovation activities will be funded through the Integrated Investment Program supporting the White Paper 2016. The Government is yet to make a final decision on these funding matters. The details will be released in the upcoming Defence White Paper and Defence Industry Policy Statement.
- These figures will be announced in the Defence White Paper to be released in the coming months.

Source: ANAO analysis of Defence documentation.

Appendix 3 Examples of GSC Performance Reporting

Figure A.1: Example Program Performance Measure

PERFORMANCE MEASURE PROFILE																			
Performance Measure No.:		Program Performance Indicator (PPI) - 01																	
Key Result Area (KRA):		GSC Program Success																	
Performance Measure Name:		Company Participation																	
ALIGNMENT AND ACCOUNTABILITY																			
Purpose (Outcome/Output/Process Measured)																			
<div>1. This PPI represents, as Good or Fair, the Company's performance in increasing opportunities for the participation of Australian Companies in their global supply chains.</div> <div>2. The purpose of this PPI is to continuously monitor the growth of company participation through the Company's business opportunity pipeline.</div>																			
BUSINESS RULES																			
<div>1. Company Participation shall be assessed by the Company as the trend in the total (cumulative) number of Newly Identified, Pre-Qualified / Assessed, Invited to Quote / Tender and Contracts Awarded over the term of the Company's participation in the GSC Program, as:</div> <table><tr><th>Performance Band</th><th>Newly Identified</th><th>Pre-Qualified/ Assessed</th><th>Invited to Quote/ Tender</th><th>Contracts Awarded</th></tr><tr><td>GOOD</td><td>Increasing number of Australian Companies</td><td>Increasing number of Australian Companies</td><td>Increasing number of Australian Companies</td><td>Increasing number of Australian Companies</td></tr><tr><td>FAIR</td><td>Increasing number of Australian Companies</td><td>Increasing number of Australian Companies</td><td>Increasing number of Australian Companies</td><td>Increasing number of Australian Companies</td></tr></table>					Performance Band	Newly Identified	Pre-Qualified/ Assessed	Invited to Quote/ Tender	Contracts Awarded	GOOD	Increasing number of Australian Companies	Increasing number of Australian Companies	Increasing number of Australian Companies	Increasing number of Australian Companies	FAIR	Increasing number of Australian Companies	Increasing number of Australian Companies	Increasing number of Australian Companies	Increasing number of Australian Companies
Performance Band	Newly Identified	Pre-Qualified/ Assessed	Invited to Quote/ Tender	Contracts Awarded															
GOOD	Increasing number of Australian Companies	Increasing number of Australian Companies	Increasing number of Australian Companies	Increasing number of Australian Companies															
FAIR	Increasing number of Australian Companies	Increasing number of Australian Companies	Increasing number of Australian Companies	Increasing number of Australian Companies															
<div>2. In calculating PPI-01 the following business rules are to be used:</div> <div><div><div>a. Newly Identified – the number of new Australian Companies identified for the Review Period by the Company, with skills and capabilities relevant to the Company's global business;</div><div>b. Pre-Qualified / Assessed (includes RFI) – the number of new Australian Companies pre-qualified for the Review Period for future Opportunities identified by the Company;</div><div>c. Invited to Quote / Tender (RFQ / RFT) – the number of Australian Companies that have been invited to quote or tender for the Review Period;</div><div>d. Contracts Awarded – the number of companies awarded contracts for the Review Period.</div><div>e. Contract or Contract Award is defined as an agreement where the Australian Company is actually paid via a purchase order, including testing or trials, and not the potential, projected or total value of the bid opportunity (includes collaborative or strategic arrangements).</div></div></div> <div>3. The overall PPI score is assessed by:</div> <div><div>a. assessing the Company performance against Newly Identified, Pre-Qualified / Assessed, Invited to Quote / Tender and Contracts Awarded; and then</div><div>b. averaging the assessed performance bands for Newly Identified, Pre-Qualified / Assessed, Invited to Quote / Tender and Contracts Awarded, rounding up where necessary (e.g. if Newly Identified and Pre-Qualified / Assessed = GOOD and Invited to Quote / Tender and Contracts Awarded = FAIR, then the average is rounded up to GOOD).</div></div> <div>4. The Company shall provide the Commonwealth a report on Company Contract Awards a minimum of once per quarter.</div>																			

DATA MANAGEMENT AND REPORTING	
Data Source	Company
Data Owner	Company
Review Period	Quarterly
PERFORMANCE TABLE	
Tolerance Green	Good
Tolerance Amber	Fair

Source: Defence documentation.

Figure A.2: Example Strategic Performance Measure

PERFORMANCE MEASURE PROFILE	
Performance Measure No.:	Strategic Performance Measure (SPM) - 01
Key Result Area (KRA):	Behaviours
Performance Measure Name:	Responsiveness
ALIGNMENT AND ACCOUNTABILITY	
Linked To	Agreement Renewal
Purpose (Outcome/Output/Process Measured)	
<ol style="list-style-type: none"> 1. This Strategic Performance Measure (SPM) represents as Good, Fair or Poor, the Company's responsiveness to all correspondence (written, electronic, or via voice) to ensure that all correspondence is answered informatively within agreed timeframes. 2. The purpose of this SPM is to continuously monitor the Company's ability to respond to the Commonwealth in a timely manner with a quality response. 	
BUSINESS RULES	
<ol style="list-style-type: none"> 1. Responsiveness shall be assessed as: <ol style="list-style-type: none"> a. Good – the majority of all questions are answered completely in a succinct, accurate and coherent manner, and is fully consistent with previous advice (or explains the difference); b. Fair – some questions are answered in a succinct, accurate and coherent manner but with some ambiguity and is fully consistent with previous advice (or explains the differences); or c. Poor – there are examples of questions or enquiries where the response has not been answered through avoiding the question, providing an answer where significant details are missing or vague, and/or unable to explain any inconsistencies with previous advice. 2. The Company shall provide the Commonwealth a report on all correspondence a minimum of once every six months. 	
DATA MANAGEMENT AND REPORTING	
Data Source	Company Self-Assessment
Data Owner	Company
Review Agency	Commonwealth
Review Period	Six Monthly
PERFORMANCE TABLE	
Tolerance Green	Good
Tolerance Amber	Fair
Tolerance Red	Poor

Source: Defence documentation.