The Auditor-General Audit Report No.43 2003–04 Performance Audit

Defence Force Preparedness Management Systems

Department of Defence

Australian National Audit Office

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Canberra ACT 23 April 2004

Dear Mr President Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Defence in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Defence Force Preparedness Management Systems*.

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

Yours sincerely

Oliver Winder Acting 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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Report No.43 2003–04 Defence Force Preparedness Management Systems

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Abbreviations

| ADF | Australian Defence Force |
|---------|---|
| ANAO | Australian National Audit Office |
| ASJET | Australian Joint Essential Task |
| ASTOPR | Australian Theatre Operational Preparedness Requirement |
| CDF | Chief of the Defence Force |
| CFO | Chief Finance Officer |
| CJLOG | Commander Joint Logistics |
| COMAST | Commander Australian Theatre |
| COSC | Chiefs of Service Committee |
| CPD | Chief of the Defence Force Preparedness Directive |
| CSA | Customer Supplier Agreement |
| CSIG | Corporate Services and Infrastructure Group |
| DC | Defence Committee |
| DLOC | Directed Level of Capability |
| DMFP | Defence Management and Finance Plan |
| DMO | Defence Materiel Organisation |
| FEG | Force Element Group |
| FIC | Fundamental Inputs to Capability |
| HQAST | Headquarters Australian Theatre |
| MLOC | Minimum Level of Capability |
| MONICAR | Management of Naval Integrated Capability Assessment Reports |
| MRO | Military Response Option |
| OLOC | Operational Level of Capability |
| OOPR | On-Occurrence Preparedness Report |
| OPA | Organisational Performance Agreement |
| OPO | Operational Preparedness Objective |
| PMS | Preparedness Management System |

| QSR | Quarterly Strategic Review |
|------|----------------------------------|
| SLA | Service Level Agreement |
| SPO | Systems Program Office |
| USDM | Under Secretary Defence Materiel |
| | |

Summary and Recommendations

Summary

Background

1. Under the Defence capability architecture, the force structure¹ that is in place, when combined with its preparedness to undertake operations, delivers military capability. This allows for the separation of preparedness management (which relates to the current force-in-being²) from the longer term investment processes associated with new capital equipment.

2. Preparedness is conceptually broken down into the components of 'readiness' and 'sustainability'. This division is intended to recognise the separate nature of the management processes underlying the achievement of military readiness and the many factors influencing the length of time for which a military force may sustain operations³ on a particular mission.

3. Preparedness of the Australian Defence Force (ADF) is managed as an integral part of the processes by which Defence plans, resources, evaluates and reports its performance. The Preparedness Management System (PMS) has been developed to manage preparedness and is intended to be a performance enhancement process. Preparedness outcomes are linked with a range of other outcomes sought by Defence, such as military capability development and contributing to the Government's international policy commitments. The management of preparedness involves the allocation of resources to achieve strategic policy objectives, in order to prepare for possible contingencies. It involves four phases: development, implementation, reporting, and review.

4. The nature of preparedness means that many areas within Defence perform activities that are highly relevant to preparedness and, indeed, 'enable' it. The 2003–04 Defence Budget provides four capability outcomes (with a total budgeted price of \$13 781 million) and two functional outcomes (with a total budgeted price of \$616 million). All six are directed towards the defence of Australia and its interests.⁴

¹ The force structure of a unit would include such attributes as its personnel strength, technical equipment and the organisation of its sub-components.

² The force-in-being is a Defence term used to describe the present force as distinct from future force structures.

³ Referred to in this report as the 'sustainment' aspects of preparedness.

⁴ The four capability outcomes directly articulate military capability: Command of Operations, Navy Capability, Army Capability and Air Force Capability. The two functional outcomes of Strategic Policy and Intelligence produce inputs to the four military outcomes, but are regarded as separate deliverables with different performance characteristics and measurement systems. A seventh outcome adopted by Defence is not directly related to military capability as it concerns superannuation and housing matters for current and former personnel.

5. The objective of the audit was to provide assurance to Parliament concerning the adequacy of Defence preparedness management systems and to identify possible areas for improvement. The audit focused on the systems and processes that Defence uses to manage preparedness. We did not review the preparedness levels of specific capabilities, nor did we cover capital acquisition processes. The audit included coverage of:

- preparedness system architecture;
- control and direction of preparedness;
- coordination among contributors to preparedness; and
- performance management of preparedness.

Key audit findings

Management of Defence Force Preparedness (Chapter 2)

6. The ANAO found that the PMS provides a sound framework for preparedness planning down to the unit level. A number of linkages exist between Government strategic guidance, Defence operational planning and Service outputs. However, improvements could be made to the design of the system so as to strengthen and make more effective these linkages, which should result in better outcomes.

7. The PMS operates alongside operational planning arrangements which maintain more frequent review points for immediate planning of the use of ADF capability than the annual cycle of activities in the PMS. This means that, at operational levels, there are effectively two management systems working in tandem. While each system serves different purposes, there would be benefits to Defence in creating functional linkages between the two. This would enable the military task identification process in the PMS to be informed by the more frequent strategic assessments used in the immediate planning context, compared to using the current annual cycle in the PMS.

8. Defence is seeking to develop a common basis for military task definition that could be used across the Services. As a result, it has developed the Australian Joint Essential Task (ASJET) list. The ASJET list could be used to support consistent training and proficiency development, and to enhance consistency of approach across ADF units, a critical element in the conduct of joint operations. It could also contribute substantially to the interoperability of ADF units with those of other countries. This would enhance the PMS, as such cross-Service training and international interoperability aspects are not specifically developed in the present definitions of operational preparedness objectives.

9. At unit level, key preparedness management concepts and definitions are frequently understood in different ways. Also, at lower levels of capability management, there was found to be some latitude taken in determining actual numbers of force elements to be held at particular settings of Readiness Notice.⁵ Though individually minor, these differences, when aggregated, could lead to distortions in the reporting of overall preparedness.

10. The Directed Level of Capability (DLOC) assumes central importance as a standard for resourcing of preparedness in a financially constrained environment. It will be important to retain the concept of a Minimum Level of Capability (MLOC) so as to maintain a reality check on how difficult it may be to transition a force element from its resourced level of capability (DLOC) to the state of operational usefulness to perform particular tasks. Concerns should be raised where the DLOC status falls below the MLOC standard.

11. Management of the sustainment dimension of preparedness is subject to limited policy guidance. The arrangements for assessing sustainment requirements for core war-fighting needs, including reserve stockholding policies, are characterised by informal processes and complex planning structures. The deficiency reporting system is especially weak in sustainment aspects for the band of Military Response Options (MRO) with longer warning times (that is, greater than 365 days). Defence recognises the need to develop the PMS framework to incorporate a disciplined and coordinated assessment procedure for sustainment issues in the logistic and materiel areas.

Control and Direction of Preparedness (Chapter 3)

12. Defence governance systems and organisational structures generally facilitate preparedness planning and management. The Chief of the Defence Force Preparedness Directive (CPD),⁶ in combination with the Australian Theatre Operational Preparedness Requirement (ASTOPR)⁷ and the system of annually renegotiated Organisational Performance Agreements (OPA), create a coherent governance framework resourced and controlled through the Defence Management and Finance Plan (DMFP).⁸ The ANAO found that this framework provides a strong basis for policies, guidelines, directives and

⁵ Readiness Notice is the time a force element requires to move from one specified level of capability to another.

⁶ The CPD is at the head of a directive structure by which military aspects of preparedness planning are mandated through the military organisations in the ADF.

⁷ The Australian Theatre Operational Preparedness Requirement is distilled from Government guidance. It is against these requirements that the ADF's preparedness levels of readiness and sustainability are set.

⁸ The Defence Management and Finance Plan is a rolling financial plan revised annually and with a ten-year outlook. It is agreed between Defence and the Department of Finance and Administration and approved by the Government as part of the annual budget process.

financial management arrangements to be devised to satisfy ADF preparedness requirements.

13. The information base on which capability controls and reporting takes place is a composite of judgments and assessments made at various levels in the Services, using different methodologies, different sources and deriving from variations in understandings about the meanings of some concepts in the PMS. The ANAO found that quantitative information is generally lacking. Information technology systems are not major suppliers of reporting data used for PMS purposes.

14. Although individual Services are giving attention to improving and standardizing reporting from their capability outputs, no consistent means are employed to workshop 'best practice' ways of calibrating and reporting preparedness across the Force Element Groups (FEG) and capability output managers, which are the source of much of the data. To enhance the quality of preparedness data and ensure greater consistency of information proceeding to higher levels, Defence should introduce greater standardisation of preparedness measures and systems applied across the ADF and also promulgate common terminology for use in preparing inputs to the PMS.

Coordination Among Contributors to Preparedness (Chapter 4)

15. The Defence business model depends on the interlocking networks of customer supplier and service level arrangements between 'enabling groups' (the Defence Materiel Organisation (DMO)⁹ and the Corporate Services and Infrastructure Group (CSIG)) and the capability outcome groups. These present an incomplete picture of the underlying complexity of actual transactions. No mechanisms exist to map the range of interdependencies that have developed. The PMS only partly reflects them. Defence would benefit from mapping these interdependencies and identifying the implications for the architecture on the Defence preparedness arrangements.

16. The structures and supply arrangements in place between the ADF and enabling organisations that provide logistics and support services to meet preparedness requirements are not yet fully developed. The mechanisms for facilitating the contributions of the enabling groups to chosen levels of military preparedness need to be further developed if they are to play an effective role in the PMS and, in particular, in its control and risk management capabilities.

⁹ The 2003 Defence Procurement Review, chaired by Mr Malcolm Kinnaird AO, made recommendations for reforms into the DMO. The audit did not take into account the proposed reforms to the DMO.

17. The mix and different types of alignment in service provision being applied by DMO and CSIG to the needs of the capability outcome groups are often not congruent with the PMS. Coordination arrangements between DMO and CSIG and the outcome groups should be reviewed to take account of the different forms of supply delivered, and to determine whether their services are properly coordinated internally in each enabling group as well as being accessible to the outcome groups.

18. The translation of the capability outcome groups' preparedness management needs into concepts and measurement systems, that correspond to the operations of the materiel and supply 'worlds' in which DMO and CSIG must operate, is ineffective in some areas, or at least incomplete. On the other hand, some areas have done substantial work on these matters that could be studied for its relevance to other support areas. Without progress in achieving a better translation, the 'enablement' of preparedness will be not be fully effective. As a result, inaccurate management information may produce distortions in the preparedness picture.

19. Governance systems in place across Defence in the materiel and logistic fields leave gaps which do not allow adequate performance controls. No accountable point of responsibility beneath the head of the DMO has overall control of logistic support for 'capability', as against logistic support for 'operations'. The coordinating entities located, or based, in DMO have consultative functions only. The contribution of DMO to whole-of-Defence preparedness management processes could be enhanced through better governance arrangements. The Defence Committee¹⁰ (DC) does not possess mechanisms to enable it to take a holistic view of the related strategic, tactical and operational 'enablement' services that are directly relevant to preparedness, especially in regard to longer lead time preparedness planning.

20. DMO, in consultation with Headquarters Australian Theatre, the Service Headquarters and Policy Guidance and Analysis Division, needs to provide comprehensive and integrated materiel preparedness assessments to the capability managers.

Performance Management of Preparedness (Chapter 5)

21. Preparedness performance management is centred in each of the Services, but is aligned with Defence-wide strategic planning and management arrangements. A wide range of information-collection processes and systems is in use across the ADF, with some measurement systems being more robust than others. A central feature is the On-Occurrence Preparedness Report

¹⁰ The DC is the highest Defence civilian/military corporate governance body.

(OOPR) system controlled by Commander Australian Theatre (COMAST¹¹). This deficiency reporting system enables a reasonable measure of quality control. As well, enhancements to it are planned. The OOPR system has imparted an element of coherence and consistency to performance management in the PMS. It allows timely decision-making in those areas of preparedness relating to shorter warning time contingencies, though less so for contingencies in the post-365 day period.

22. The ANAO found that the PMS enables Defence to instigate corrective action for deficiencies in the range of shorter warning time contingency tasks, within the limitations of the current capability costing systems. It also permits Defence to manage the risks entailed in the gap between funded levels of capability and the levels that would be considered appropriate in an unconstrained environment. In this way, senior Defence management are broadly able to assure themselves that preparedness types and levels required by current Government guidance are delivered. However, the management process does not provide Defence with the ability to consider alternative preparedness levels on the basis of detailed relative costs. As a decision support tool, the PMS relies on the development of whole-of-Defence financial systems, in particular the implementation of full capability costing mechanisms. Until such systems are available, the PMS will not fulfil its potential.

23. The ANAO considers that the reporting framework could be developed by introducing more focussed consideration of preparedness for contingencies in the post 365 day warning time band at the whole-of-ADF level.

24. The effectiveness of the PMS should be made subject to formal review processes by the DC. This could be done in the context of the role and relevance of the PMS as tested in other Defence portfolio review activity. These other activities may throw light on the operation of the PMS.

25. In external reporting to Parliament, the different capability outcome groups present preparedness information in varying ways. With the exception of Navy, external reporting comprises primarily qualitative information, and the quantitative information related specifically to the PMS uses input metrics such as flying hours and aircraft numbers. This has meant that the development of PMS mechanisms in Defence over the last two years has not been well reflected in public reporting of capability on an ADF-wide basis. Navy's introduction of new indicators in the 2003–04 Portfolio Budget Statements for Defence was based on PMS metrics, reflecting some of the latter's dynamic features. This suggests that scope exists to improve external

¹¹ COMAST is the ADF joint operational commander.

reporting, while not compromising national security information requirements.

Overall audit conclusion

26. The Defence PMS supports risk management decisions on the preparedness levels of ADF capabilities. The ANAO found that the PMS is essentially a sound framework with a cascade of linkages between Government strategic guidance and the Service outputs. This enables Defence management to generate preparedness types and levels required by current Government guidance. Improvements could be made to the design of the system so as to strengthen the linkages with strategic review processes.

27. The PMS has a heavy reliance on subjective and professional military judgements in preparedness management processes, and on methodologies that vary between outputs. Scope exists for Defence to enhance the quality of preparedness measures and supporting systems for greater effectiveness and accountability for performance.

28. A significant weakness in the PMS is the relatively low level of development of the sustainment dimension of preparedness: in particular, the level of policy guidance, the ability to assess sustainment requirements and sustainment deficiency reporting. Strains have also been placed on the PMS as a result of the recent high operational requirement, in particular in regard to its flexibility to respond to system stresses associated with expeditionary deployments, and the changing strategic environment.

29. The relationships between capability outcomes and enabling inputs, while subject to continuing scrutiny and development, have not reached the point where they fully support preparedness management requirements. Governance issues in regard to the management of logistics and materiel that need to be better addressed impede the full development of the PMS. Management of these areas is characterised by complex networks of liaison, information and supply chain management, without adequate visibility at all relevant points of accountability. In particular, the DMO performance reporting processes in regard to its preparedness contribution need to be developed, so as to enable the DC to play a more comprehensive role in regard to sustainment matters.

30. Although there are security sensitivities that need to be recognised in the public exposure of any preparedness deficiencies, scope exists for enhanced and more consistent public performance reporting.

31. The openness of the PMS to continuing reform and development is crucial if the above issues are to be appropriately addressed by Defence. The role and relevance of the PMS need to be assessed on a regular basis.

Response to the report

32. The ANAO made seven recommendations on the management, governance, coordination and reporting of Defence Force preparedness. Defence provided the following overview paragraph.

33. Defence agrees with all of the seven recommendations and is pleased to see the acknowledgment on page 12 paragraph six stating:

The ANAO found that the PMS provides a sound framework for preparedness planning down to the unit level. A number of linkages exist between Government strategic guidance, Defence operational planning and Service outputs. However, improvements could be made to the design of the system so as to strengthen and make more effective these linkages, which should result in better outcomes.

Recommendations

Set out below are the ANAO's recommendations, with report paragraph references and an indication of the Defence response. The recommendations are discussed at the relevant parts of this report.

RecommendationThe ANAO recommends that, in order to improve the
timeliness and utility of preparedness management
planning, Defence enhance linkages between the
Preparedness Management System and the Quarterly
Strategic Review process.

Defence response: Agreed.

RecommendationNo.2Para. 2.40The ANAO recommends that, in order to facilitate coherence and rigour in the military skills proficiency building process, Defence develop the use of Australian Joint Essential Tasks in the Preparedness Management System.

Defence response: Agreed.

| Recommendation No.3 Para. 3.43 | The ANAO recommends that, in order to enhance understanding of the Preparedness Management System by its users, Defence: | | | | | |
|--------------------------------------|---|--|--|--|--|--|
| | (a) introduce greater standardisation of preparedness measures and systems applied across the Australian Defence Force; and | | | | | |
| | (b) develop and promulgate common terminology for use in preparing inputs to the Preparedness Management System. | | | | | |
| | Defence response:Agreed. | | | | | |
| Recommendation No.4 Para. 3.62 | The ANAO recommends that Defence consider the cost effectiveness of developing a closer alignment of the Preparedness Management System and Strategic Operations Division planning activities. | | | | | |

Defence response: Agreed.

| Recommendation | The | ANAO | recommends | that, | in | order | to | improve |
|----------------|-------|-------------|-----------------|---------|------|---------|-----|------------|
| No.5 | visib | oility of A | Australian Defe | ence Fo | orce | sustair | nme | nt issues, |
| Para. 4.39 | Defe | nce: | | | | | | |

(a) develop consolidated Defence Materiel а Organisation preparedness report dealing with operational and capability related logistics which would be submitted periodically to the capability managers; and (b) authorise the Defence Materiel Organisation, in consultation with Headquarters Australian Theatre, the Service Headquarters and Policy Guidance and Analysis Division, to provide monthly materiel preparedness assessments to the capability managers, for longer warning time contingencies.

Defence response: Agreed.

RecommendationThe ANAO recommends that, in order to adequately
monitor the effectiveness of the PreparednessNo.6monitor the effectiveness of the PreparednessPara. 5.44Management System, Defence review annually the role
and relevance of the Preparedness Management System
using the outputs of other Defence portfolio review
activity.

Defence response: Agreed.

Recommendation
 No.7
 Para. 5.64
 The ANAO recommends that, in order to continue improving the public reporting of Australian Defence Force preparedness, Defence generate coherent public performance information for the three Services and Headquarters Australian Theatre, using identified internal best practice and taking into account the different operating environments of each Service.

Defence response: Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter provides a background to the management framework for Defence Force preparedness and outlines the audit approach.

Defence preparedness management framework

1.1 The Defence PMS is positioned within an analytical framework connecting strategic-level guidance at the top, provided by the Government, to operational level activity across the ADF. Senior Defence leaders characterise the development of the PMS as a dynamic system: as a work-in-progress project, with amendments being made to it on an ongoing basis in both its broad design and to specific elements of the system.

1.2 It is unrealistic, given apparent resource constraints, for a defence force to be equally prepared for every contingency. In addition, some tasks will have a higher priority than others. Also, a force element cannot be continuously maintained at its highest level of capability (for example, skills that have been built up decay, and equipment deterioration requires it to be taken out of service for maintenance). Financial costs of preparedness increase rapidly at higher preparedness levels. In an environment of constrained public spending, levels of preparedness will be chosen in accordance with resources the Government makes available. By the same token, maintaining preparedness at lower levels than those needed could mean that the ADF may be adversely placed to respond appropriately to tasking contingencies that the Government needs it to perform. Defence preparedness is, therefore, one of the main risk management programs in Government administration.

1.3 Over time, Defence has employed various means of applying resources to produce military capability. In the last decade, command instruments such as 'capability directives' from the single Service Chiefs or joint force commanders have been used to set preparedness levels of forces under their control. The need for a consistent approach to preparedness management across the ADF has been identified in Defence as a core deliverable, requiring a separate focus in planning, ongoing management and reporting at all levels of the Defence organisation. As a consequence, Defence has progressively developed the PMS and incorporated it into formal statements of Defence 'doctrine'.¹²

¹² The situation in the ADF is similar to that of other armed forces: in the same broad timeframe as Australia, for example, the US and UK armed services have attempted to develop preparedness planning and management methodologies and to apply them to the allocation of financial, manpower and materiel resources. 'Doctrine' is the body of established fundamental principles by which military forces guide their actions in support of national objectives. It is authoritative but requires judgement in application.

1.4 The PMS attaches preparedness to the condition of specified forces, especially their proficiency and equipment. It thus focuses down to unit level and individual weapon platforms. Preparedness levels are determined with reference to specific mission, or war fighting, scenarios and the time at which they might be needed for such tasking. Finally, the preparedness of a force is driven by a sound appreciation of the period for which a force may need to be engaged and therefore sustained. As sustainment involves a wide range of inputs, including even industrial capability outside the area of direct Defence responsibilities, the management issues involved are highly complex.

1.5 The PMS has come to form a major part of the wider spectrum of management of Defence portfolio affairs. However, military preparedness does not itself comprise an outcome or output. Notwithstanding that, its targets and indicators form an important element in the operations of the Defence business model, which creates the framework for Defence's resource allocation and monitoring systems. It also contributes to the forming of the rationale of the structure connecting the various elements of the business model in their respective contributions to the achievement of the Defence mission.

1.6 The ADF is comprised of a series of specific capabilities,¹³ all drawing on range of human, physical and technological assets. The force elements that directly deliver these capabilities are spread across the Services and the joint operational command capabilities centred on the Chief of the Defence Force (CDF) and COMAST.

1.7 The different elements of capability—force elements and support elements¹⁴—have to interact to produce military force that can be put to use. The various levels at which the force elements are readied and resourced to do so, and targets for them to be sustained to do so, are identified by the PMS. The PMS is designed to balance military planning requirements and resource flows to all the elements of Defence capability delivery (including the support groups¹⁵), in such a way that the Government has as wide a range of options for the use of the Defence Force as possible, within the financial allocations made to Defence. A properly operating military preparedness system will thus

¹³ Defence doctrine defines capability as the power to achieve or influence an effect—usually a particular operational effect. Australian Defence Doctrine Publication 00–2, Chapter 1 paragraph 1.4 refers.

¹⁴ Behind the force elements that directly deliver the capabilities are a number of supporting groups that have major roles to play including the provision of logistical supply lines, as well as physical and technological infrastructure.

¹⁵ These support elements are provided by 'Enabling Groups': the Defence Materiel Organisation and the Corporate Services and Infrastructure Group; and by 'Owner Support' Executives such as the Chief Finance Officer.

enable the resourcing of capability to be logically and effectively related to planned levels of military activity.

1.8 The PMS provides for Defence resourcing of capability of the force-inbeing to take place at two levels. The first level is a 'steady-state', operating on an annual cycle relating to the Budget timetable, where actual levels of activity—mainly in the form of exercises in the Program of Major Services Activities—match planned levels. This steady-state level would enable tasks to be changed and re-prioritised in response to developments in the strategic environment, but to a level falling short of a requirement for budget supplementation. The second level is the one where, as a result of specific tasking by Government, preparedness is actually 'used' beyond that provided for at the beginning of the budget cycle, and added resources are needed to support the performance of this tasking¹⁶ over and beyond the funding required to maintain the preparedness steady-state.

1.9 The Defence PMS (outlined in Figure 1.1) is accordingly designed to be a whole-of-Defence model, with two equally important and interdependent aims:

- allowing the portfolio to generate measurable preparedness benchmarks and indicators for ADF force elements; and
- creating a matrix applicable to all Defence groups to enable control of the resources to be directed to the different capability outcomes and outputs produced by the ADF.

¹⁶ This two-level functionality of preparedness in terms of Defence resourcing is important to understanding how the PMS employed in Defence has operational significance at FEG and unit level. For example, one Force Element Commander described the operational meaning of the concept in terms of 'banking' a 'credit' in the form of achieving prescribed training levels to achieve set preparedness standards, and the impact on further training requirements to maintain preparedness of actually 'drawing down' that credit when the personnel and equipment concerned were deployed on an operation.

Figure 1.1

The major elements of the Defence Preparedness Management System



Source: Prepared by ANAO from documentation provided by Defence

A resourcing matrix for preparedness

1.10 The PMS is intended to make visible the financial constraints imposed on preferred preparedness levels. These constraints arise out of the actual resourcing levels made available in the annual budgetary cycle. The annual sequencing of the steps needed to achieve this visibility, based on the actual Budget estimates, is being implemented and refined (refer Figure 1.2).

1.11 Through this cycle, the PMS closely links preparedness levels across all ADF units and supporting groups with Defence portfolio planning, and in particular with the DMFP. The linkage of the PMS to the matrix arrangements applicable to all Defence groups to control the resources to be directed to the different capability outcomes and outputs produced by the ADF, was a specific intended deliverable for the introduction of the system. The linkage expressly acknowledges the fact that preparedness levels require financial resources and that an appropriate management model will facilitate the ongoing balancing of expenditure on current and future capability, on a risk-managed basis.

1.12 Effectively, the PMS incorporates a major structural tension as a deliberate design feature of the system. A military capability assessment process presents an annual statement of an aspiration for capability: that is, the ASTOPR. This aspiration represents what military commanders would wish to see being provided to meet contingencies foreseen in strategic guidance, if resources were 'unconstrained'. Ongoing strategic monitoring by the Theatre Commanders Group and the Chiefs of Service Committee (COSC) keep the ASTOPR under regular review.

Figure 1.2



Preparedness Management System resourcing cycle

Source: Prepared by ANAO from documentation provided by Defence

1.13 Side by side with this aspirational document, a system of financial allocations is linked to Directed Levels of Capability for each of the responsible outcome executives. These are incorporated as part of the annual OPAs,¹⁷ and present the 'real' capabilities—the ones that are authorised and to be paid for. The gap between the 'aspiration' and the 'real' must be risk-managed by the outcome managers, both within their groups' management processes and with corporate oversight of the DC.¹⁸

¹⁷ The OPAs are 'contracts' between the capability managers (ie. Service Chiefs plus the two non-military capabilities) and the Enabling Group Heads, and the Secretary/CDF showing what capabilities will be delivered against the financial resources provided through the approved Budget Estimates. There are thus two overlapping sequences in place for much of any one 12 month cycle: a current OPA definition process and a prospective OPA definition process for the following financial year. In this timetable, the OPAs remain in draft form through much of the period of drafting DLOCs, until the approval by Government in the Budget of the yearly Estimates, when the OPAs are signed and the DLOCs thereby come into effect. The DMFP commences during the time that the OPAs are being finalised in October. It is a rolling plan with a 10-year outlook.

¹⁸ The control systems in which these arrangements take place are examined in further detail in Chapter 3.

Audit approach

1.14 The ANAO conducted a performance audit preliminary study on the management of ADF preparedness in 1996. At that time, Defence was undertaking a range of initiatives to develop its preparedness planning methodology. Given the significant impact the developments were likely to have on preparedness management, the ANAO decided not to proceed with a full performance audit at that time. Audit Report No.17 1995–96, Management of Australian Defence Force Preparedness, was tabled in the Parliament on 2 April 1996. More recently, the ANAO conducted a performance audit on Navy Operational Readiness. Audit Report No.39 2002–03, Navy Operational Readiness, was tabled in the Parliament on 17 April 2003.

1.15 The objective of the current audit was to provide assurance to Parliament concerning the adequacy of Defence preparedness management systems and to identify possible areas for improvement. The audit focused on the systems and processes that Defence uses to manage preparedness but did not review the preparedness levels of specific capabilities. It included coverage of:

- the preparedness system architecture;
- the control and direction of preparedness;
- coordination among contributors to preparedness; and
- performance management of preparedness.

1.16 Audit fieldwork was conducted substantively in the period from July to October 2003. The audit covered a wide range of activities within Defence and involved extensive discussions and review of documents. Matters were discussed with relevant areas of Defence throughout the audit and the audit findings were responded to in a positive manner. A discussion paper consolidating the findings from the audit was provided to Defence in November 2003. An exit interview was held on 11 December 2003.

1.17 A consultant, Mr Christopher Conybeare AO, was engaged to provide expert advice to the audit team on Defence organisational constructs, corporate governance arrangements and performance management systems. The audit was conducted in conformance with ANAO auditing standards and cost \$435 000.

Report structure

1.18 The report is organised into four further chapters, as outlined in Figure 1.3. Chapter 2 outlines the Defence Force preparedness management framework. Under this framework Chapter 3 discusses the control and direction of preparedness, Chapter 4 identifies coordination issues among contributors to preparedness¹⁹ and Chapter 5 examines the performance management of preparedness.

Figure 1.3

Management of Defence Force preparedness—audit reporting framework

| I. Introduction ·Defence preparedness management framework ·Audit approach ·Report structure | | | | | | |
|---|--|---|---|--|--|--|
| 2. Management of Defend Preparedness | e Force •Ca •Ele •Su | •Capability measures •Elements of the preparedness architecture •Sustainability | | | | |
| 3. Control and Direction of •Preparedness control infrastru •Governance at the Service lev •Control arrangements below to level •Service output groups •The preparedness role of COM •The operational control enviro •Preparedness planning linkage | Preparedness ucture el he Service headquar MAST onment es to training and su | ters | 4. Coordination Among Contributors to Preparedness •Background •Enabling groups and preparedness •Alignment issues •Translation issues •Enabling groups and sustainability •Governance systems | | | |
| 5. Performance Managemer •Background •Service preparedness reports •Preparedness reporting to the | t of Preparedness Defence Committee | ∙Prep arra •Pub | paredness Management System review ngements lic reporting of ADF preparedness | | | |

¹⁹ Chapter 4 is supplemented by background information in Appendix 2, Machinery of Coordination with Enabling Groups.

2. Management of Defence Force Preparedness

This chapter considers the major elements of Defence preparedness management, as well as the readiness and sustainability planning frameworks.

Capability measures

2.1 Defence defines specific 'levels' of capability that comprise measures of the force development processes or stages reached in 'work-up' cycles of force elements. These levels are a mix of benchmarks of capability that are in the nature of standards (that is, prescriptive or 'pass-mark-like' measures); and levels that reflect objective or normative measures of capability (that is, measures that are determined by empirical considerations or which are not primarily for evaluative purposes).

2.2 These measures of capability play a central role in the PMS. As the means of calibrating capability, they enable visibility of the readiness levels of the ADF's units, as assessed for the different purposes being served by the PMS, and for capability management in operating levels of the Services. They form the basis of the 'traffic light' system for documenting performance.²⁰

- **2.3** The capability measures are:
- standards measures: Directed Level of Capability; and Operational Level of Capability (OLOC);²¹ and
- objective measure: Minimum Level of Capability.²²

Minimum Level of Capability

2.4 MLOC is a level of capability that a force element is $objectively^{23}$ required to have, in order for it to be able to progress to OLOC within the Readiness Notice period. The concept was considered for phasing out at the

²⁰ The 'traffic light' system is discussed more fully in Chapter 5 and the capability measures in Appendix 1.

²¹ The standards measures are the only ones in which operational commanders are interested. These are the measures that form the matrix for preparedness management for use of the ADF in operations and for resources management purposes. DLOC is the funded level of capability 'directed' to be maintained across all capability outputs. OLOC is that level of capability enabling forces to conduct specified operations effectively.

²² MLOC is relevant principally to capability managers within the single Services, but is no longer prominent in centrally determined PMS doctrine (Australian Defence Doctrine Publication 00–2).

²³ MLOC addresses practicality and feasibility considerations such as the availability of adequately skilled manpower, supplies etc.

time of introduction of the PMS in 2001, with DLOC replacing it. It is not prominent in current PMS doctrine. The DLOC documentation does not provide for any regular statement of MLOC status.

2.5 The MLOC concept varies widely in its perceived importance to capability managers across the ADF. For some, it is not regarded as important, and is not used. However, the MLOC concept is especially important to managers of some capability areas, to help ensure that their force elements do not degrade below a level that would permit them to achieve their OLOC within readiness notice and warning times.²⁴ Having an MLOC in place that is clearly visible should therefore assist in maintaining directed levels of capability and clearly signal when difficulties may be emerging.

2.6 In some Operational Preparedness Objectives (OPO), under the present year's settings, DLOC requirements may be at a lower level for some Force Elements than the relevant MLOC. This further underlines the importance of the MLOC concept as it would clearly signal areas of concern for the actual preparedness condition of forces, especially in regard to proficiencies and/or equipment condition where significant time might be required for work-up. This would impede the capability of the ADF to be able to respond to Government directions that may not have been fully anticipated in the structure and/or elements of OPOs as defined, and associated warning times and Readiness Notice.

2.7 MLOC can therefore be used by the Services to assess the long-term health of their capabilities. Where DLOC standards are set below MLOC for any OPO, this should be marked for the attention of senior Defence management and command.

Elements of the preparedness architecture

2.8 In the specific form in which it has been developed, the preparedness construct draws on a number of long-standing force planning concepts such as strategic warning time. It combines these in a management framework having a number of functional characteristics and inter-relationships.

2.9 Examination of PMS reports to the Defence Executive indicates that this management framework captures the three main dimensions of preparedness that can be particularised, assessed against standards, and documented:

• task—preparedness to do what;

²⁴ Australian Defence Doctrine Publication 00–2 defines MLOC in the following terms: '...MLOC is employed by the Outcome Executives to assist with the development of DLOC and the management and internal reporting of capability. MLOC is the level of capability which will allow OLOC to be achieved within Readiness Notice'.

- time—preparedness for action at some point into the future and required on task for a particular period of time; and
- unit—preparedness of what force element(s) to undertake the task.

2.10 The PMS does not presently identify further variables, such as geographic or climatic environment, for possible ADF deployments as standard dimensions of the preparedness construct (that is, preparedness to engage forces in what environment). Such variables are regarded as being included in the three specified parameters.

2.11 The ANAO was informed of a number of instances where force elements have faced specific difficulties that were not envisaged and for which they were unprepared during deployments in recent years. These included harsh conditions of operation (such as sand storms), with resultant adverse impacts on mechanical endurance of equipment and long turn-around times for maintenance.

2.12 In examining overseas examples of preparedness management, the ANAO learned that some other countries' systems take such parameters explicitly into account. Given the expeditionary deployment of ADF forces in recent years and the possible role of the ADF in remote locations in wider coalition operations,²⁵ it would seem desirable for Defence to consider whether the PMS should capture environmental aspects in its preparedness concept. This might be of particular value in increasing visibility of all relevant cost supplementation requirements (that is, costs arising beyond the 'steady state' of preparedness set forth in the PMS) resulting from deployments in particular environments. Such a variable would take into account the differences in the preparedness arrangements that would be relevant to planning for the deployed force, arising out of particularities in the theatre environment.

Task preparedness

2.13 The definition of the nature of the military task for which forces need to be prepared is the starting point for preparedness planning in the PMS. The nature of the task determines a wide range of military planning matters such as what combination of force elements is required to perform the task, what proficiencies are needed in the skill sets in which a designated force element is trained, and what specialised equipment and stocks (for example, ammunition), are required. A Peacetime National Task (such as maritime support) requires much less sophisticated and more narrowly based military capability than anti-submarine warfare; as well, amphibious operations are joint force activities requiring a mix of units from more than one Service.

²⁵ Australia's National Security, A Defence Update 2003, p.24.

Preparing task lists

2.14 Identifying the nature of possible military tasks involves contingency planning at all levels: strategic, operational and tactical. At the strategic level, Defence is the main, but not the only, Government agency involved in the assessments that precede such planning. Operational and tactical levels are almost exclusively the domains of Defence. Although the early, strategic, stages of this process are public,²⁶ later stages move into a strictly classified environment.²⁷ At present, the PMS review cycle is integrated with the annual Defence budgeting process, with the result that it is reviewed on a twelve-monthly cycle.

2.15 In the PMS, Defence has not formally progressed the listing of tasks below very broad categories, called 'objectives' or 'outcomes'. Using the cascade of guidance from Government, Defence has promulgated 24 Operational Preparedness Objectives.²⁸ Their derivation is the end-point of an extensive assessment process. Although the OPOs do not of themselves comprise 'tasks', they provide the basis for capability managers and commanders to define the precise format of tasks for which training should be undertaken, and that should be performed to achieve the relevant objective. While work has been done to develop Australian Joint Essential Tasks, promulgation of tactical and operational level tasks across the ADF has been a matter for each of the Services to this point.

2.16 The process of defining the OPOs starts with Government guidance in the form of the Defence White Paper and annual Defence Updates. These documents, along with the Australian Military Strategy—a classified development within Defence of the public documents—identify four major generic 'national tasks' for the ADF.²⁹ OPOs reflect some 103 MROs which have been grouped for ease of understanding into 24 Aggregated Military Response Options. They are defined in the ASTOPR, which is derived from the Australian Military Strategy and which provides guidance on warning times for deployment to operations.

²⁶ The most recent Defence White Paper, Defence 2000, was produced after an extensive round of public consultations—the first time a White Paper has been prepared with significant public input.

At the strategic level, the Government's Defence White Paper and annual Defence Updates provide the major external and explicit guidance. Such documents contain many policy formulations as well as military-strategic appreciations. Within Defence these reviews are taken forward in the annual Australian Military Strategy and, in turn, the CDF's Preparedness Directive.

²⁸ In most recent reporting documents, a further four sub-OPOs are listed. The cascade of guidance is outlined in Figure 1.1.

²⁹ The four National Tasks in the latest White Paper are defined very broadly. They are: Defending Australia, Contribute to the Security of the Immediate Neighbourhood; Supporting Wider Interests; and Peacetime National Tasks. The OPOs, as part of a listing of the four National Tasks and their genesis through 'military strategic outcomes' and 'military strategic effects' are in turn incorporated in the CPD document.

2.17 Apart from the White Paper, all these documents are (notionally) revised on an annual basis. The CPD document, as a series, has existed for many years. The OPOs from the ASTOPR were included in it from 2002. It is now the strategic cornerstone of preparedness planning in the PMS.

Concurrency standards

2.18 The range of forces available will always be a constraint on the number of tasks that can be performed at the same time. The PMS lays down 'concurrency' requirements. These are, standards indicating what multiple or combination of tasks may be required to be performed simultaneously by aggregate forces. The ASTOPR provides guidance for concurrency. The CDF resolves outstanding concurrency issues based on military-strategic circumstances at the time, and Government guidance.

Periodicity of task listing

2.19 Actual 'tasks', in the form of new operations, may arise outside the planned cycles as the geo-political situation evolves throughout the year. Operational-level military planning takes place on a much more frequent basis, driven by daily strategic monitoring and military appreciations undertaken on a continuing basis.

2.20 This immediate strategic monitoring and response planning activity takes place independently of the PMS. However, the CPD mandates that linkages be maintained between them through COMAST (which covers both and which is required to keep the ASTOPR under review).³⁰

2.21 Defence has experienced considerable taskings that have resulted from assessments taking place outside the cycle in recent years (that is, since the INTERFET operation in East Timor in 1999). The experience of such assessments, and the consequential raised operational tempo, have raised questions in Defence about whether the task identification procedure in the PMS has enough flexibility to take proper account of timeliness requirements in Government tasking of the ADF.³¹ This concern relates both to the periodicity of the task identification process and the attendant preparedness settings linked to these tasks.

³⁰ The conduct of such operational planning is undertaken in the direct line of command from CDF through to the Commander Australian Theatre. The Strategic Operations Division and HQAST are the principal staffs.

³¹ For example in PMS doctrine Australian Defence Doctrine Publication 00–2, the first of the aims for preparedness in the ADF is stated as 'The preparedness of FE [Force Element] is maintained at levels consistent with current guidance to allow Government credible military options to issues affecting national interests' (paragraph 1.13).

2.22 Defence produces a formal Quarterly Strategic Review (QSR).³² The carriage of this rolling review process is undertaken to support quarterly review of the ASTOPR. The QSR is intended to facilitate and keep under review immediate or operational planning. The QSR does not purport to provide analysis or commentary on settings made in the PMS. The QSR is considered through Defence processes which involve principally military commanders,³³ and which are separate to the mixed civilian/military committee processes which oversight the PMS (chiefly the DC).

2.23 The lack of congruence between the annually determined PMS framework and the more frequent QSR exercise has led to concerns about the linkage between the two.³⁴ It would seem that the gap per se would not matter if developments on the strategic assessment plane were less volatile and ADF responsiveness was not so closely tied to that volatility. But the QSR is regarded by numerous command elements as a benchmark appreciation process that could be used for more 'fine-grained' preparedness planning. In one of the Services, it was considered that the QSR should be used formally to test the need for adjustments to be made in PMS settings for preparedness of force elements. It was pointed out that the QSR, as distinct from the monitoring of the PMS in the DC, provides a much more timely scan of the politico/strategic environment and contains much clearer indications of trends that may result in the ADF being tasked to use its capabilities in some way.

2.24 Although changes have occurred in formal PMS preparedness arrangements on an ad hoc basis between the annual cycle of changes to the PMS's settings, no formal nexus exists between the QSR and the PMS.³⁵ The impact of the ongoing review process and the QSR influences the content of COMAST's contribution to monthly performance reporting. But this is through processes that are effectively invisible to the Services. The result is that two preparedness management arrangements are in simultaneous operation, one

³² The carriage of the QSR is by the Strategic Policy Branch, a separate staff to that which handles Preparedness. The preparedness staff provide input into the preparation of this document, which is considered by the Chiefs of Service Committee.

³³ The Chiefs of Service Committee (COSC) and the Theatre Command Group under COMAST control are key elements of the governance network in which the Quarterly Strategic Review receives consideration. The Chief Financial Officer is a member of the COSC that is principally the CDF's planning body for the ADF.

³⁴ These concerns were voiced to some extent across all Services but especially in Army, whose planning officers considered that the PMS reporting processes did not fully capture the actual strategic environment, despite its regular reporting. They felt that, for better functionality, the monthly PMS reporting cycle should be more closely aligned to the Quarterly Strategic Review process.

³⁵ In the CPD, it is indicated that, if strategic circumstances change, the CDF would authorise the shortening of force Readiness Notices or assign forces to meet operational commitments. The CPD states that, if this were to occur, CDF would decide whether the ADF's Readiness Table should be changed.

with the system working through the military operational command system, the other through the structured PMS.

2.25 The PMS's periodicity is driven by the OPAs between the Secretary/CDF and the output executives.³⁶ By its nature, this is an annual process. However, while the DC has the opportunity to consider any specific out-turn from the COSC and QSR process (through the COMAST's contribution to the Defence Monthly Performance Summary, and the input made to the QSR process by the Preparedness Branch), the PMS would benefit from a more formal link being made to channel the results of the QSR process into the PMS process.

Recommendation No.1

2.26 The ANAO recommends that, in order to improve the timeliness and utility of preparedness management planning, Defence enhance linkages between the Preparedness Management System and the Quarterly Strategic Review process.

Defence response

2.27 Agreed.

The definition of specific tasks

2.28 The OPOs stand at the head of a planning process that cascades effectively from Government guidance to the unit level across the Services. They were observed to be directly and extensively used as the basis for task definition across all the commands, FEGs and formations that were reviewed by the ANAO. They are used as the framework for preparedness and operations management systems used in the single Services. The OPOs, both in concept and in detail (including the more specific guidance set out in the MROs), are well established in analysis and policy development in the enabling groups.³⁷ Understanding them is important to enable these groups to effect the translation of preparedness concepts to supply and logistics concepts.

2.29 Though there were differences of view among various planning groups, the OPOs were regarded as forming a reasonable basis for the development of specific task requirements at subordinate levels in the Services. It was noted in several areas of the single Services that changes to the OPOs have the potential to have far-reaching implications. These include: long lead

³⁶ See Chapter 3 for detail about the OPAs.

³⁷ The DMO provides all services associated with materiel, through-life support for platforms and logistic supplies needed by the capability output executives, with the Corporate Services and Infrastructure Group providing corporate support functions such as IT systems and base management.
time planning being undertaken at operational levels for training; equipment; maintenance; demand for capability-supporting logistics (for example, rotable inventory); and the timing of usage/upkeep cycles for major assets.

2.30 Commanders in the single Services generally considered that the OPOs, as formulated, provided any necessary latitude while also creating the appropriate central disciplines in the preparedness management context. In some planning areas in the Services, concerns were expressed that the OPOs provide insufficient 'granularity' in defining what is required, leaving planning groups to develop the OPOs into forms useable in their operating units.³⁸ The capability of the OPOs to provide a basis for Service-specific task development and downstream proficiency development is well demonstrated in the Army's capability management framework.

2.31 In its Force Preparedness Directive (issued by Land Command), Army has identified some 90 sub-tasks, which it uses to plan against and then conduct all its tactical level training down to unit level.³⁹ All 90 of the sub-tasks are drawn from the OPOs and can be tracked to them. Army planners characterised the translation of the OPOs into Army-relevant tasks as relatively seamless. Fully integrated into the Army Capability Management System, it allows Army the flexibility to modify the tasks to which it trains independently from the ASTOPR revision process, but in a way that is fully aligned with the ASTOPR requirements.

2.32 There has been some adjustment to the listed items of the OPOs in the last year.⁴⁰ The OPOs are only summary groupings of a much larger number of Military Response Options, which are comprehensively listed in the Strategic Response Options Table annexed to the CPD. Planners with access to the Defence Secret Network have full access to this listing to obtain any needed clarification of what they entail.

2.33 Broad-based concerns exist about whether the OPOs form an adequate basis for conducting the dialogue on capability planning with Government. Should future capability review considerations result in changes to the definition of the tasks that form the basis of the DLOC system, it would have a major impact on the PMS and careful consideration will need to be given to the

³⁸ In Air Force, for example, it was noted that the OPOs in the DLOC Agreement do not specify where the force elements in the readiness tables are expected to be located in Australia, and that they are silent as well on threat levels.

³⁹ The sub-tasks are listed in Training Activity Resource Plans.

⁴⁰ Several of the OPO, for example, have been further subdivided into sub-OPOs in performancemonitoring documents in the past 12 months.

ramifications of changing this fundamental building block.⁴¹ For the present, however, there appear to be no moves to change it fundamentally. Sound planning suggests the need for minimum changes to basic parameters such as OPO definition.

Australian Joint Essential Tasks

2.34 In the joint environment, however, there are concerns to expedite the processes of articulating a more rigorous and comprehensive identification of detailed military tasks employed in the joint theatre of operations. Headquarters Australian Theatre (HQAST) would wish to see a firmer basis for appropriate cross-Service competency and skill development of forces assigned to theatre operations than exists at present. HQAST would wish to use ASJETs, originally commissioned to facilitate evaluation of results of ADF exercises, to achieve this purpose.⁴²

2.35 The development phase of the ASJET project is now completed. ASJET sets out a consolidated directory of essential tasks that need to be performed in the operation of joint forces in various types of combat and operations.⁴³ ASJET has built on models developed in similar defence forces overseas (US, UK and Canada), but has adapted them to the Australian environment and the circumstances of the ADF. They are derived from doctrine, historical records of operations, Australian Military Strategy and single Service task lists. The ASJET listing has strategic, operational and tactical 'layers' of tasks. It is intended to provide linkage between Australian and international doctrine and so would, if applied across the single Services, facilitate interoperability of ADF units with foreign defence services.

2.36 Although ASJET has been approved by COSC, its future use is uncertain. HQAST hopes to see it used to lay the basis for common competency-based training that would be used in single Service force preparation, as well as for joint training.

2.37 The ANAO noted that Mission Essential Task Lists and Joint Mission Essential Tasks, defined to similar degrees of 'granularity', are used in the US and the UK and that these lists form important parts of their preparedness

⁴¹ The Report of the Defence Procurement Review 2003, undertaken under the chairmanship of Mr Malcolm Kinnaird AO, made recommendations for changes in this system. These recommendations have been accepted by the Government, but it is unclear at this stage whether this will entail significant revision of the OPOs.

⁴² The project to develop AJETs was a collaborative activity lead by the Defence Science and Technology Organisation (DSTO) at the request of HQAST. The DSTO Joint Task List Tool indicates coalition relationships.

⁴³ The ASJET project defines ASJETs as those tasks that can or should be conducted in a joint environment, and which are essential to the preparation for, planning and conduct of operations.

management systems.⁴⁴ It is understood that the ADF Joint Warfare Centre has under review the value of the ASJET in designing training programs.

2.38 Adoption of ASJET would also create an important link between Australian proficiency development and that pursued in other countries' defence forces with which Australian forces could be involved in future combined operational deployments. This would facilitate interoperability with such coalition forces, a quality that is not specifically developed in the current OPO definitions.

2.39 The ANAO considers that there would be value in Defence exploring how the ASJET might be developed for use in the Australian PMS, as it would lend more coherence and rigour to the military skills proficiency building process and enhance the effectiveness of joint ADF capability.

Recommendation No.2

2.40 The ANAO recommends that, in order to facilitate coherence and rigour in the military skills proficiency building process, Defence develop the use of Australian Joint Essential Tasks in the Preparedness Management System.

Defence response

2.41 Agreed.

Time dimension of preparedness

2.42 The time dimension of preparedness relates to readiness and to sustainability. Strategic analysis needs to be applied on a continuing basis, to identify possible defence-related contingencies, and to determine the likely implications for military preparations and operations. Setting indicative warning times and sustainment periods is a crucial component of risk management in the PMS.

2.43 The Defence PMS identifies time dimensions in preparedness and in the application of military power, in the following three major ways:

• Strategic warning time categorises contingencies by grouping the Aggregated Military Response Options into four 'bands' of warning time frames.⁴⁵ The fourth band, with warning times in excess of one year, is designed to capture the range of less likely but possible contingencies with a long lead time, necessitating the maintenance of

⁴⁴ The lists are called JTLs or JETLs in these three countries.

⁴⁵ The four MRO Bands are: Band One < 28 days, Band Two 28-90 days, Band Three 90-365 days, Band Four > 365 days. The first three Bands are specifically relevant to the ASTOPR and the OPOs as they are regarded as the short-notice contingencies.

core war-fighting skills and organisational arrangements.

- **Readiness Notice** specifies the time assessed as realistic and appropriate to position a force element to the point where it will be 'operationally capable' for a designated task or mission.⁴⁶ Readiness Notice is the period during which a force element can 'work up' to become fully proficient in the skills needed for the mission, through collective training, and in which it can assemble all the necessary equipment and materiel resources⁴⁷ for the Operational Viability Period.⁴⁸
- **Sustainment period** is the time planned for the force element to be able to be deployed for a designated mission or task, after the Operational Viability Period. Capability managers and theatre commanders need to plan so that they can sustain a force in theatre for the prescribed sustainment period: that is, if necessary, by rotation of force elements. Sustainability entails the management of the very extensive range of logistic inputs a force needs to operate, such as fuel, ammunition, rations, health services and equipment spares. Sustainability issues present significant challenges to Defence in implementation of the PMS and in broader budgetary management, and are dealt with in detail later in this chapter.

2.44 Another PMS time-related concept is the Notice to Move.⁴⁹ Notice to Move has major relevance at the operational level as it is the time specified when all force resources, readied to an operationally capable level, have to be available to move from a base or a forward deployed point. A short Notice to Move places heavy strains on people and resources as it severely limits the scope for other tasking of units and for staff to utilise entitlements such as leave. In some units on continuing short Notice to Move, it can cause significant staff retention problems.

⁴⁶ Readiness Notice is the time a force element requires to move from 'DLOC' to 'OLOC'. DLOC is the Directed Level of Capability a force element should have at all times. OLOC is the Operational Level of Capability: that is, the capability required for a unit to perform a specified task. OLOC is therefore mission-specific.

⁴⁷ Readiness Notice is a key metric in the PMS as it is specified in military orders to Service commands for performance of tasks in the Bands 1-3 MROs in numbered hours or days.

⁴⁸ The Operational Viability Period is the period after initial deployment where the force element needs to sustain itself until the point where a separate logistic supply line is established. The Operational Viability Period therefore indicates the extent of logistics that a unit needs to carry with it during initial deployment ie. its operational viability resources.

⁴⁹ Notice to Move is effective when a force element has achieved OLOC. It is operation-specific, that is, it is only relevant to a force element once it has received notice of the mission it is to undertake.

2.45 The ANAO found that the meanings of some of these terms were not consistently understood across various commands and FEGs in the Services. In particular, the difference between Readiness Notice and Notice to Move caused confusion: some groups effectively considered that there was no difference in the meaning of the terms.⁵⁰ Various organisational elements understood that it was open to them to interpret the meanings of the terms in ways suiting their circumstances. Although the operational circumstances of different force elements and groups are very different, and management issues are frequently very complex, this variation in understanding could clearly lead to cross-Service distortions and inaccurate pictures of readiness at higher levels of command. The ANAO considers that the descriptors and meanings of the time parameters, as set out in Defence doctrine documents, could be reconsidered with a view to making them clearer and more widely understood.

Unit preparedness

2.46 The third dimension of the preparedness model used in Defence disaggregates the ADF into its constituent weapons systems, down to force element level. It enables specification of what particular assets will be held at what level of readiness, and in what numbers.

2.47 The ANAO found that the precise numbers of assets so specified in the documentation are subject to some flexibility of interpretation at lower levels of capability management (for example, at FEG level). Some FEG executives, for example, considered that the numerical specification of actual platforms to be at particular Readiness Notice, did not reflect operational realities related to equipment/crewing ratios and rotational requirements etc. It was felt that, as budgetary limits were maintained by the actual arrangements put in place, the gap between what was documented and what was being done on the ground was not considered to be of any significance for preparedness management.

2.48 The ANAO considered that there were some risks in this view because the composite picture made visible at higher command levels may lead to overestimation of the number of assets available for tasking, especially in situations of possible concurrency of requirements.

⁵⁰ Effectively, for units that are on very short Readiness Notice (say less than a few days), Notice to Move is the only relevant measure of time preparedness as they are maintaining OLOC all the time.

Sustainability

2.49 Broadly, sustainability⁵¹ is the ability of a force to continue to conduct operations once committed and deployed, until completion of assigned tasks. It also encompasses the generation of additional forces and support outside the 'area of operations'.⁵²

2.50 The sustainment component of preparedness exposes the effectiveness of the PMS to the activities of numerous functional areas of the Defence Organisation outside the outcome groups.⁵³ Sustainment is determined by the supporting infrastructure, both physical and technical, that is available, and how well that infrastructure may be able to perform in the future. Under the Defence business model, Defence delivers infrastructure through portfoliowide functionally organised groups. The management systems employed for the delivery of services within and between these groups, and the resourcing decisions made in these groups, are quite separate from the management systems in the capability outcome groups.

2.51 Because of this, the sustainability of force elements in the Defence business model is heavily dependent on output executives being able to count on the full benefits of high quality service delivery by the enabling groups.⁵⁴ At the same time, output executives are not without major responsibilities in making sustainment arrangements in their own realms. This is required by the CPD and Output Executive Preparedness Directives and the requirement to apply the Fundamental Inputs to Capability (FIC)⁵⁵ in assessing the

⁵¹ The sustainability concept is not consistently described in Defence publications. The definition used in Defence Instruction 'Australian Defence Force Determination and Management of Preparedness Stocks', DI(G) LOG 06-4, Draft no 7, 29 January 2003, at paragraph 5 is: 'Sustainability is the process of ensuring the ability of a force to conduct effective operations for the duration required to achieve its objectives'. At paragraph 14 in the same document, sustainability is defined as 'the ability to support forces in operations after deployment or commitment to operations and until completion of their assigned tasks. The period for which resources are required to be assured is called the Sustainability Period'. In the Australian Defence Doctrine Publication 00–2 sustainability is described as 'a force's ability to continue to conduct directed tasks. It is measured in terms of the FIC and is determined by adequate resources and demands caused by issues of concurrency'. Reconstitution, a requirement falling on the Outcome Executives, adds a further dimension to the sustainability equation as it raises a whole suite of infrastructure, engineering and deep maintenance requirements.

⁵² Chief of the Defence Force Preparedness Directive 02, p.3.

⁵³ Some Outcome capabilities (for some OPOs) are dependent on support from force elements in other Outcomes.

⁵⁴ According to Defence Instruction DI(G) LOG 06–4 Australian Defence Force Determination and Management of Preparedness Stocks, 'In the Australian Defence Organisation it is probable that actual physical sustainment will be delivered by organisations other than that which generates the requirement'. 7th Draft, Paragraph 5.

⁵⁵ The eight FIC are: Personnel, Organisation, Collective Training, Major Systems, Command and Management, Supplies, Facilities and Support. The Supplies FIC is broken down into 11 classes, separately grouping such items as Petrol, Oils and Lubricants.

OLOC/DLOC status of their forces. COMAST has particular logistic supply responsibilities in operations.⁵⁶

2.52 The FICs list a number of inputs that involve infrastructure. Three of the eight FICs do so explicitly.⁵⁷ Supply chain management, stockholding arrangements for the full spectrum of support elements that are used in the operation of current capability (ranging from spare parts to ammunition, fuel and food), are day-to-day variables that will strongly influence the degree to which forces can sustain operations over a period of time. Reserve stockholdings will be relevant to planning for higher-level contingencies. Less obvious among the sustainability tasks, but among the most challenging of support arrangements, are those embedded in other FICs such as the Command and Management FIC. This includes such issues as the consideration of funding 'not readily attributable to any other FIC element (for example, discretionary funding) and [this] encompasses the processes to ensure the correct and adequate allocation of resources to meet demands'.⁵⁸

2.53 Sustainment clearly needs to be an integral part of preparedness planning.⁵⁹ The CPD stipulates that the requirement includes planning for reserve stockholding,⁶⁰ a quite sophisticated and protracted process involving extensive technical, industry, and economic knowledge. However, the sustainment dimension of preparedness has received significantly less attention in development of the present preparedness model, and in development of appropriate procedures, than the operational readiness dimensions. Defence preparedness documentation acknowledges this lag.

⁵⁶ The COMAST role is discussed in Chapter 4.

⁵⁷ These are the Supplies, Facilities and Support FIC.

⁵⁸ Australian Defence Doctrine Publication 00–2, paragraph 1.5.

⁵⁹ Consideration of the 'sustainment' part of preparedness blurs the otherwise clean distinction between preparedness planning (relating to the force-in-being) and broader force development or capability planning (i.e. the investment in the future force). This is because of the grey areas around equipment upgrades and also as 'sustainability resources' are defined in accordance with Government accounting principles, as capital items requiring consideration by the Portfolio's capability investment process and governance arrangements.

⁶⁰ The CPD requires sufficient reserve stockholdings to support short notice operations and longer term MRO and they need to be calculated (or otherwise assessed), considered and procured against a conscious risk management decision largely based on threat (scenario-based), discretion, consequence, cost and availability.

2.54 Defence is currently seeking to redress this situation.⁶¹ The DC has initiated a number of related studies.⁶² It is understood that lack of resolution of sustainment requirements issues has been partly due to the complexity and perceived intractable nature of many of the issues that bear on sustainment.⁶³ Significant resources are involved for Defence: according to a recent study,⁶⁴ some \$4.9 billion per annum is spent in non-personnel operating costs, a component of the Defence Budget which, with personnel costs, is growing at a faster rate than was projected in the most recent White Paper in 2000.

Assessment of sustainability requirements

2.55 Outcome executives assess the requirements for sustainability and determine associated priorities. Requirements are driven by estimates of activity levels and usage rates (determined largely by activity levels) and by possible concurrency of tasks and use of force elements. As with the readiness component of preparedness, decisions on how much sustainability resources should be acquired require risk-managed judgements on what those activity levels will be.

2.56 Framework guidance for these judgements takes the form of defined 'concepts of operations' to meet roles and tasks, assessments of possible concurrency of tasks, the relative tempo and intensity of operations, the conditions under which operations will be conducted and the level of performance required. The judgements within this framework are essentially military ones, requiring intimate operational knowledge as well as understanding of logistical interfaces. These judgements involve the making of assumptions about what contingencies will be considered as well as activity levels within those contingencies.

⁶¹ Deficiencies in logistic arrangements experienced by the ADF's INTERFET force deployment in East Timor alerted Defence to supply problems, and considerable attention has now been given to the sustainability dimensions of preparedness planning and management. Preparations for the 2002–03 DMFP and the 2003–04 Defence Budget specifically exposed deficiencies in forward budgetary provision and for reserve stockholdings, and identified a major 'logistic shortfall' in the Forward Estimates. The establishment of adequate reserve stock arrangements for explosive ordinance was a major study in 2002–03. The 2003–04 Budget Estimates moved towards rectifying this situation by enhancing budgetary provisions for the 'logistics shortfall'.

⁶² A Defence Logistics Board (DLB) study (initiated by the DC in 2002), considered governance issues in the light of a briefing provided to the Committee on the development of an integrated Logistics Information Management system (JP 2077). The review resulted in the paper 'DLB Agendum Paper 5-2003 - Logistics Governance' which was considered at the DLB in July 2003. Aspects of logistics governance are considered in Chapter 4.

⁶³ In overseas fieldwork, the ANAO learned that similar difficulties have impeded progress in the US and UK in incorporating sustainability satisfactorily in preparedness planning and management.

⁶⁴ 'Sinews of War: The Defence Budget in 2003 and How We Got There' Australian Strategic Policy Institute, Canberra 2003, p.18.

2.57 The ANAO observed that a collaborative process takes place between the capability outcome managers and the enabling groups to pursue the definition of these requirements. At this stage, it is a largely informal process, complicated by complex and difficult planning structures.

2.58 The issues involved, however, are key ones for Defence. In the resourcing decisions made by Defence, the costs of investment in sustainability need to be made in competition with other capability options. In conditions of high operational activity, it would seem that the trade-off between sustainment investment and new capability investment might naturally tilt towards sustainment. The converse may be the case in peacetime.

2.59 The policy guidance currently articulated in Defence is limited in its scope at this time. In managing the risks of supply, the CPD provides for force elements held at short notice to be given priority in full resourcing (that is, readiness and sustainability resourcing). Priorities for other force elements are similarly determined for the rest of the force-in-being in order of Readiness Notice requirements. While directives require that the requirements of the longer warning time Band 4 OPOs (greater than 365 days) should be properly considered in this framework, the guidance to do so appears to be expressed in very general terms.

2.60 A specific concern is that, while outcome and output capability elements can and do submit OOPRs on deficiencies originating in supply and logistics/sustainability issues, they have no guidance on the presentation of OOPRs on logistics (that is, sustainment) issues for Band 4 OPOs. Extant directives do provide for upward referral of concerns about preparedness originating in longer-term support and sustainment from capability managers. However, no effective guidance on procedures has been issued in this area.

2.61 Associated with this apparent gap is the consideration that COMAST monitoring focuses on shorter warning time preparedness. The current format of reporting on preparedness performance by COMAST to the DC against the ASTOPR does not provide for reporting preparedness against longer warning time Band 4 MROs. Defence could consider developing the PMS framework, to formalise the inclusion of a disciplined assessment procedure that would substantially capture sustainability issues in regard to contingencies beyond the 365 days time frame.

3. Control and Direction of Preparedness

This chapter outlines the various preparedness control environments across the ADF, identifies the different governance systems within them and assesses how preparedness control arrangements extend into ADF operating areas such as military training programs and support.

Preparedness control infrastructure

3.1 In order to produce an ADF-wide picture of aggregate capability, the military capabilities of the Services are brought together into a coordinated ADF-wide composite 'whole' by central Defence areas, in particular the Policy Guidance and Analysis Division⁶⁵ (under Deputy Secretary Strategic Policy) and the Chief Finance Officer (CFO).⁶⁶ Both the results of the individual Services' separate corporate processes⁶⁷ and the analytical capability and financial reports generated by central Defence organisations, are provided to the DC.⁶⁸ The resulting documents also have visibility at Ministerial level.

3.2 The DC brings together all the military and civilian executives under the Secretary (for civilian functions) and the CDF (for military functions). The DC's prominent role in the PMS (a role which has been increasing in recent years) as the point to which the preparedness control system reports, imparts great authority to the PMS. Reporting systems and processes in regard to preparedness, endorsed or decided by the DC on advice from the Policy Guidance and Analysis Division and CFO staff, have the authority of the portfolio's military and civilian Chief Executive Officers. Preparedness control has a single point of accountability in Defence. DC decisions, based on the PMS reporting, are implemented by the output groups.

3.3 In addition to the capability generated by the single Services, the capability overseen and/or generated by COMAST is brought into the

⁶⁵ Within Policy Guidance and Analysis Division the Director General of the Preparedness Branch is the centre in the Defence headquarters system for this work. The work done in this Branch on the monthly reporting to DC is not confined to coordination. The Preparedness Branch draws material from other sources, for example from Strategic and International Policy Division, and from single Services, for example the Navy's Fleet Activity Schedule, and synthesises these sources to offer comment on opportunities for aligning operational planning with emerging strategic assessments. The Branch has a pivotal role to play in generating value from the PMS.

⁶⁶ The CFO receives all material from the Services and COMAST and produces the financial reporting and analysis content of the monthly performance summary.

⁶⁷ The contributions from the single Services are prepared by the Services specifically for the DC, based on material generated for their own corporate processes.

⁶⁸ The DC is the highest Defence civilian/military corporate governance body.

preparedness picture submitted to the DC. COMAST produces military capability for operations⁶⁹ and COMAST assessments of capability across the whole of the ADF have come to assume some prominence in the formal DC preparedness monitoring processes.

3.4 Underpinning the PMS is a formal cascade of directives and performance agreements that spread from the centre out to the Services and groups, and have two interlocking and mutually supporting streams. The first of the two streams, anchored in the CPD, tasks the military capability outcome managers (the three Service Chiefs and COMAST⁷⁰) to maintain levels of preparedness determined by detailed military planning set out in the ASTOPR.

3.5 The second stream commits all of the Defence outcome executives that is, the military outcome managers and the other Defence outcome managers—to deliver funded levels of capability determined in the annual budget process. The instruments by which this is articulated are OPAs between the Secretary/CDF (as a joint authority) and the outcome executives. The OPAs allocate to outcomes their share of aggregate resources for the portfolio, agreed in the annual DMFP. These outcome allocations are made against judgments as to the military preparedness levels that can actually be afforded with the resources available. These are set out in DLOC schedules (issued as part of the OPAs) to the outcome executives. The DLOCs are, in turn, broken down into output-level preparedness standards.

3.6 The main link between the two streams is via the CDF directing subordinates through the CPD, in order to deliver the capability determined in the OPAs. This linkage flows down through the Outcome Executive Preparedness Directives, to the outcome executive subordinate units and divisions. Thus the Army, Navy and Air Force Chiefs and COMAST produce these directives that dictate the capability standards intended for each of the military capabilities within each respective outcome area.

3.7 With the two directive streams emanating from the civilian and military figures who preside over the DC, the DC functions in a corporate way to ensure that Government strategic, policy and consequential Defence contingency planning, and Government budgetary policy for Defence, are aligned.

⁶⁹ This activity is described as capability outcome 1 in the Defence Outcomes/Output matrix.

⁷⁰ The CPD allocates specific responsibilities to the Service Chiefs and separate ones to COMAST.

3.8 The coordination as well as planning of these processes at staff level is performed by the Preparedness Branch within Policy Guidance & Analysis Division. It is the primary service point for the DC's preparedness interests. In performing this role it works very closely with COMAST and the Service Headquarters. The Director General of this Branch chairs a consultative forum, the Preparedness Working Group, which oversights the implementation and further development of the PMS on a whole-of-Defence basis. The Preparedness Working Group includes representation from the two enabling groups, DMO and CSIG. Figure 3.1 depicts this preparedness control infrastructure in graphic form.

Figure 3.1



Preparedness control infrastructure

Source: Prepared by ANAO from documentation provided by Defence

3.9 The chief measure and analytical tool used in the capability resource control environment is the establishment, monitoring and reporting of the DLOC standard, and the exceptions report system of OOPRs attached to it.

3.10 The DLOCs specify at FEG or output level, and according to OPO serial numbers, what force elements will be held at what Readiness Notice and Notice to Move, for what Operational Viability Period and what sustainment period.

3.11 Though proposals for the content of DLOCs (in the form of draft DLOCs) are made from lower levels in the Services, the Service Chiefs and the

Service Headquarters⁷¹ are the major participants in the annual processes of negotiating the content of the DLOC agreements.

3.12 The ANAO noted that a highly centralised environment creates the final DLOC 'products'. One bi-product of this is that it can, on occasion, produce results that do not align well with what capability planners at lower levels perceive to be realities of operational management of capability. This is discussed further below.

Governance at the Service level

3.13 Consistent with guidance provided by the Defence business model, each of the Army, Navy and Air Force utilise planning systems and corporate structures in their headquarters operations to combine and integrate the two streams of directives.

3.14 The Army uses the Army Strategy Map⁷² to guide its planning and performance management framework.⁷³ The Navy has developed two plans: Plan Green, a short-range plan (1–5 years outlook) and Plan Blue, for the further outlook. Air Force has developed the Air Force Plan. All these plans are subject to annual review.

3.15 Each Service Chief maintains a strategic advisory committee, comprising the heads of Headquarters departments and Service Commands. The strategic advisory committees all have representation from the relevant environmental division in DMO, that is, the Land Systems, Maritime Systems and Aerospace Systems Divisions—an important link between each Service to this further control environment in Defence.

3.16 Below the level of the strategic advisory mechanisms reporting to the Service Chiefs, structures that are very similar have been set up across the Services for the management and coordination of preparedness at the Service level. These mechanisms are all located in the respective Service Headquarters.

3.17 The Deputy Chief of each of the Services has oversight of the headquarters planning and management functions pertaining to capability issues, including preparedness. Functional specialisations are dealt with in the Services by different groupings of corporate committee arrangements located below these 'strategic' level committees. All Services have one committee

⁷¹ Generally the staffs performing this function are the Preparedness and Plans or Preparedness and Policy branches of the Service Headquarters, in collaboration with the Budget management branches. They normally report in the first instance to the Deputy-Chief of the relevant service. A corporate governance structure oversights the process.

⁷² Army Performance Management Framework Instruction, February 2003.

⁷³ The Balanced Scorecard system is linked with Strategy Maps in all the Services and for Defence as a whole.

dealing principally with capability management issues.⁷⁴ These committees maintain provision for participation by representatives of DMO and/or CSIG.

3.18 In the command chains from the Service Chief through the Deputy Chief, all the Services maintain a directorate of staff whose key function is preparedness planning and management, usually as part of a 'planning and policy' mandate. These positions are senior, generally at 'colonel level' rank. Staff work in each Service on the higher level or strategic preparedness matters is done in these directorates or branches. The work includes the production of all the PMS documentation such as draft OPAs, draft Outcome Executive Preparedness Directives and draft DLOCs. These branches coordinate and produce all performance reporting to the Service Chief (reviewed by the strategic advisory committees, using the Balanced Scorecards formats for each Service) and the preparation of each Service's contribution to the Defence-wide Balanced Scorecard performance reports considered monthly by the DC. This material is a selection of the material that is considered by the Service-specific processes.⁷⁵

3.19 The imperatives of time cycles for the production of the monthly processes in the Services and that for the central Defence report, mean that the Service contributions are typically incorporated in the central reporting documents that go to the DC, before the respective Service Chiefs and their strategic advisory committee can review them. The advisory committees and the Service Chiefs look at the reporting after it is submitted, but before the DC meeting that considers the combined report. The phasing is regarded as imperfect but inevitable. The Service Chiefs are able to brief the DC personally on any developments of concern to them, including any elements of their Service's documentation with which they disagree. No concerns were raised by any of the Service Chiefs about the operation of this system.

⁷⁴ These committees are the Army Capability Management Committee; the Navy Capability Committee and the Air Force Capability Committee.

⁷⁵ The material that is required to be provided to the DC may provide more operational detail than that considered to be necessary in the single Service governance structures. The reason for this seeming paradox may include the need to provide background for OOPRs that the Service Headquarters had not seen before the OOPR documentation went forward to Defence Headquarters (from the relevant environmental command), through COMAST. Views were also expressed to the effect that the DC's processes may mean that some issues were treated at some level of operational detail, compared to the strategic level.

Control arrangements below the Service headquarters level

3.20 Management of the directives' requirements below the headquarters level in each of the Services varies widely. The Service Chief, or Deputy Chief, typically addresses directives to subordinate units responsible for delivering the outputs that contribute to the respective outcomes. Directives may also be, and typically are, issued to commands that are not directly responsible for an output. For example, a directive has been issued by Chief of Air Force to Air Force's Training Command.

Variation in arrangements across the Services

3.21 The major variation across the Services is between different organisational arrangements chosen to deliver outputs. The Navy and Air Force have developed the FEG managerial concept to be accountable for delivery of their outputs within their outcomes. The Army has pursued a matrix management approach and considers this to be non-negotiable because its structure and roles in war fighting are different to those in the other Services.

3.22 Broadly, the Navy and Air Force capability outcomes are divided into outputs that align with group-based management structures. Each group has a specified commander and staff. Each of these structures groups together a cluster of weapon systems, functions or capabilities. Some of these weapons systems may be actual force elements. For example: the Navy's Surface Combatant FEG is the grouping of guided missile frigates; and the Air Force Air Lift Group is a FEG which groups the Hercules, Caribou and special purpose aircraft that perform the ADF aerial lift function.⁷⁶ Other groups may be formed around systems, such as radar and surveillance (in the Air Force), or hydrographic functions (in the Navy).

3.23 In the Navy and Air Force, the commanders of these FEGs are the means by which accountability of the respective Service Chiefs for the 'raise-train-sustain' responsibilities are actually delivered, as each FEG commander has clearly-established delivery tasks defined in the directive cascade.⁷⁷

⁷⁶ Even when organised on a weapons system basis, many FEGs have diverse responsibilities. The Air Lift Group, for example, has to handle seven different aircraft platforms operating out of four different locations.

⁷⁷ Between Navy and Air Force there are, however, significant differences in the structure of the FEGs and their levels of empowerment. In Air Force, for example, there are independent functions for the Wings within the FEGs.

3.24 In the Army, the Chief of Army maintains a much more centralised responsibility for land force capability management as a whole. There is less devolution of responsibility for capability delivery and generally no equivalent FEG construct. Army's capability management system involves the definition of functional outputs, such as Mechanised Operations and Motorised Infantry Operations, to cover all Army deliverables. These are horizontal functionalities and the many brigades, regiments and units are the force elements in the Army.

3.25 The result in Army is that, although the Army's control environment is simpler and its business planning processes more coherent (in that Chief of Army, and therefore Army Headquarters, is clearly the central authority for preparedness raise-train-sustain outcomes), it is also less transparent in the way in which accountability for specific preparedness deliverables is mapped to individual decision-makers within the organisation. In this environment, Army's Land Command plays the major role in structuring the way the Army outputs manage and report their preparedness performance.

3.26 Despite the inter-Service differences, in this control environment the FEGs in the Navy and Air Force and the capability groups (or outputs) in Army are clearly designed to be the principal building templates for capability management, especially preparedness.⁷⁸ They typically include a Staff Officer-Capability in their staffing to prepare material relating to preparedness. The FEG headquarters have the closest relationship with the Systems Program Offices (SPO) in DMO, which provide extensive support services for the delivery of outputs. The SPOs are frequently physically co-located with the counterpart FEG. In Navy and Air Force the material relating to preparedness management is channelled through the environmental command headquarters to the Service headquarters. In the case of the Army, it is Land Command which actually generates this material.

3.27 A further variation across the Services is the different ways chosen to group support functions, or 'inputs' to capability. Army and Air Force group training into separate Commands, directly reporting to the Service Chief. Navy incorporates training functions in a broader Systems Command and a separate training function for collective training in Maritime Command. Air Force groups functions around aircraft test and evaluation with combat-related electronic systems (which supports all three Services on a joint basis) in a FEG-like structure that is not a cost centre or output.⁷⁹ It would appear that the

⁷⁸ In the Services that have them, the FEGs have been undergoing some re-definition in their functions in the last two years. These changes are quite service-specific: in the Navy, for example their functions have recently been redefined to exclude any responsibilities in regard to new capability development. No such delineation between force-in-being and new capability roles has taken place in Air Force.

⁷⁹ This structure, stood up in mid 2003, is the Aerospace Operational Support Group.

single Services are moving towards the use of a DLOC-like tasking device to link subordinate commands and groups to the Service-specific DLOCs.⁸⁰

The roles of the environmental commands

3.28 The Maritime, Land and Air Commands are assuming increasing responsibility for coordination of capability management among their respective outputs. As noted above, Land Command is obliged to do so because of the absence of FEG groupings. Maritime and Air Commands are increasingly being driven by the Services' need to impose control over capability management taking place at lower levels.⁸¹

3.29 The rise in environmental command roles in capability management is also linked to the PMS's relationship with the outcome structure. The FEGs' reporting systems have to be responsive to HQAST's as well as the respective Service Headquarters' needs. At the level of day-to-day accountability, many FEGs consider that they have a two-fold reporting line of command: to HQAST in regard to 'command of operations' issues (where the standard of most concern is OLOC) and to Service Headquarters as the Service-specific outcome manager (where the main standard of concern is the DLOC measure).

Diversity of reporting sources

3.30 Service headquarters and environmental command headquarters staff in all three Services emphasised the relative weight of subjective judgments in the generation of analysis in the reporting material. This originated in the FEGs but often with significant modifications or additions from the environmental commands, and the relative sparseness of quantitative information used at all levels of reporting.

3.31 The ANAO considers that the prominence of subjective factors and the varied location of sources of reporting, underline the importance of maintaining consistent and well-understood business rules for the PMS across the broad range of FEG organisational units and among the environmental commands. Such consistency of understanding was not, however, always shown, with officers in FEGs and commands offering often quite different accounts of meanings and definitions of important PMS concepts. Information

⁸⁰ The ANAO understands that in the 2003–04 planning cycle in Air Force, Air Command and Training Command were to be treated as quasi-FEGs for this purpose. Air Command will be a 'command and control' 'FEG'.

⁸¹ In Maritime and Air Commands, the shift in emphasis has been from headquarters functions that regarded themselves as being task-oriented (Maritime Command) or AST-linked (Air Command) to being capability-focused as well as having operational roles. In the case of Maritime Command, this shift followed a policy review at the end of 2002 (the FEG Structure Review).

technology systems are not consistently used. Arrangements for managing operational resource control vary widely between the Services.

3.32 A specific concern that was noted in this regard was that, across the three Services, no particular pattern or direction appears to have been determined for enabling the FEG commanders and their managers to workshop issues in capability management on a combined basis, so that individual best practice ideas may be diffused among the FEGs. Practice varies between such mechanisms as periodic conferences and attendance at various forums.⁸²

Service output groups

3.33 In the main preparedness control environment, the FEGs and the Army outputs are the cost centres for the ADF, as well as being the deliverers of the outputs in the Defence outcomes/outputs framework.

3.34 To obtain a full understanding of how the FEGs support the PMS in Defence, the ANAO conducted detailed fieldwork at this level. The ANAO had extensive discussions with all of the Air Force FEGs, a broad cross-section of the formations and units performing Army output functions; and, through the previous ANAO audit of Navy operational readiness, all of the Navy FEGs.⁸³

3.35 This broad-based process of inquiry revealed that at the FEG or capability output level, Defence has in place a wide variety of constructs for creating accountability for capability generation, and consequently preparedness management and control, across the ADF, and within each of the Services.

3.36 The ANAO 2002–03 audit of Navy operational readiness found that the seven Navy FEGs are very diverse in their organisational purposes and are formed around both functional inputs and outputs (for example, the Hydrography FEG) as well as weapons-system or platform type (for example, the Surface Combatants FEG). The ANAO found that there was a mismatch between the accountability given to these groups and the resources, including command and authority, to actually fulfil this accountability. Navy has since moved to align accountability levels with control and resourcing in a review of FEGs in 2002. Navy has done this by taking the accountability level 'upstream', to the Maritime Command, which has been positioned to play a front-end role in FEG operational coordination and resource management.

⁸² The Air Force's quarterly conference of FEG commanders in Air Command would appear to offer a sound standard.

⁸³ ANAO Audit Report No.39 2002–03, *Navy Operational Readiness*, paras 2.24–2.28.

3.37 This same variety of type and organisation was found to characterise the Air Force's FEG structure: for example, the Air Force's Surveillance Control FEG is based on a combat capability; its Combat Support FEG is a provider of services. The Army's capability outputs also differ very widely. The form of one of Army's capability outputs, that of Army aviation operations, is almost the same as an Air Force or Navy FEG,⁸⁴ and in fact provides all of one Army output. But, as indicated above, most of Army's capability outputs are not matched with discrete management structures as they are in Navy and Air Force. The division of capabilities into the present set of outputs follows closely Army's combat doctrine.

3.38 All the FEGs and Army capability outputs have in common one attribute: that of not being the organisational elements that are used in operations. In the words of one Service officer, 'we do not fight in FEGs' and this comment is applicable to all Services. The ANAO noted that Air Force does endow the FEG Commanders with a command role in regard to operational activities, and the directives from the Chief of the Air Force require the commanders to maintain certain operational proficiencies. On the other hand, Navy now quite explicitly excludes the FEG commanders from roles in the military chain of command. Navy's FEGs are overtly held at the status of being 'coordinators' and advocates on behalf of the force elements attributed to them.

3.39 The ANAO found that the adoption of the FEG/output arrangements across the ADF has been characterised by extensive experimentation and exploration of different approaches, which have included both development of organisational forms (for example, Army Aviation, Air Force Combat Support Group, Navy Amphibious and Afloat Support) and determination of accountabilities. The following specific characteristics relevant to preparedness management were noted:

- FEGs are involved in very uneven ways in determining the preparedness settings leading to those set out in the DLOC agreements. The respective Environment Commands (Maritime, Land and Air) have, or are moving towards having, major roles in these matters.
- FEGs and lower level units originate some of the material that eventually goes into monthly reporting of preparedness to Service Chiefs and beyond. Numerous assessments are frequently made further up the command chain, based on military judgment of experienced officers on a subjective basis.

⁸⁴ The Army Aviation Operations capability has recently been equipped with a Headquarters function. The staff group that make up this Headquarters have responsibilities that make this Army capability output 'FEG-like' in the way the capability is accounted for and managed.

- In Army, because organisational units do not match specific capabilities (except for Army Aviation), the preparedness assessment functions need to be made by combat area specialists in Land Command, drawing from routine situation reporting from brigade, formation and even unit levels that does not appear to be generated from fully consistent and clear tasking patterns.
- FEGs have a very uneven understanding of the status of some preparedness settings: on key deficiency status issues, for example, some are intimately familiar with extant OOPRs, some have patchy knowledge.
- Little use is made of systematic information systems to generate preparedness information (as distinct from the use of such systems to manage ongoing programs such as training and operational resource allocations).

3.40 The ANAO considers that, while the diversity of template arrangements in which to invest 'capability outputs' across the ADF reflected the very widely different circumstances and roles of the different Services and relevant organisational units, and was probably appropriate from the point of view of command imperatives, this diversity is not consistent with robust preparedness assessment methodologies. It is accepted that military judgement will always, and quite appropriately, be paramount in assessing capability issues. However, the spread of practices across the Services means there is a high risk that aggregated information (especially when information is further collated and aggregated in summarised form) may not be robust in all areas.

3.41 The ANAO noted that staff officers in COMAST and in the central areas of Defence, who need to deal with preparedness management, have a reasonably sound appreciation of the systemic aspects of the diversity in shape and form of the FEGs, and accept that data quality in the flow of information needs to be improved as the PMS is developed. There is less appreciation of the degree to which the capability templates are different in their approaches to preparedness and in their governance arrangements.⁸⁵ A major reason for this is that current procedures mean that these officers need to regularly communicate only with the Service Headquarters and/or environmental commands, not with FEG-level staff.

3.42 The ANAO found that, for Defence as a whole, these aspects of operational resource control are relatively weak. It considers that the task of achieving greater standardisation of the templates, and the measurement

⁸⁵ Differences in approaches in FEGs also reflects varying levels of understanding of some basic PMS concepts and terminology at staff levels where information is collated.

systems applied by, or to, them, across the ADF, should be given higher priority than appears to be contemplated at present. Given that the underlying trend appears to be for the environmental Commands to take on increasing responsibilities in this area, this task might best be performed by Maritime, Land and Air Commands, each responding to strategic direction from the Service Chiefs.

Recommendation No.3

3.43 The ANAO recommends that, in order to enhance understanding of the Preparedness Management System by its users, Defence:

- (a) introduce greater standardisation of preparedness measures and systems applied across the Australian Defence Force; and
- (b) develop and promulgate common terminology for use in preparing inputs to the Preparedness Management System.

Defence response

3.44 Agreed.

The preparedness role of COMAST

3.45 COMAST is the manager of one of Defence's capability outcomes, Command of Operations, and 'negotiates' an OPA with Secretary/CDF. COMAST is also required by the CPD to issue a capability directive to the relevant Service hierarchies in HQAST, to implement the requirements of the CPD.⁸⁶

3.46 These arrangements are in line with the theory that it is the Service Chiefs who generate the elements of military capability, and COMAST (on behalf of CDF) who uses them in operations. Thus COMAST's principal focus in preparedness is formally the OLOC standard, as that is the standard that force elements will be required to have if they are committed to an operation.⁸⁷

3.47 In actual practice, the dividing line is not as clear between capability generation and management, and operational use of military forces, for three main identifiable reasons. First, as discussed above, COMAST's assessment of ADF joint capability is the principal vehicle for bringing the preparedness of the ADF to notice at DC level. COMAST is the principal whole-of-ADF preparedness assessor for the DC and carries the burden of ongoing holistic

⁸⁶ COMAST's Capability Directive had not been finalised by the conclusion of fieldwork on the audit.

⁸⁷ Some areas of the Services consider that the OLOC measure is the only interest of COMAST, leaving the Services to be concerned with DLOC issues. On this view the Services alone shoulder the responsibilities for Band 4 MRO issues. The terms of the CPD and the OPA do not support this view but the prevalence of it suggests a disjunction between formal directive and practice.

reporting of capability and deficiencies in it.⁸⁸ COMAST's assessments are based partly on the separate single Service streams of performance reporting against their DLOCs and, because COMAST controls the gateway to the OOPR database, the OOPRs across the ADF are a single dataset.⁸⁹ COMAST draws on a range of other data and its own military assessments of preparedness and these can diverge from those of the Services.⁹⁰

3.48 Second, COMAST has significant training obligations, in particular for collective training and joint training of forces. COMAST has strong interests in achieving the critical OLOC level of capability of forces and, though the situation varies in degree between situations,⁹¹ frequently plays a major part in ensuring that that level of capability is reached by force elements assigned to COMAST tasking and command. The Joint Task Force Commanders, who are assigned to particular missions, are under COMAST and these posts have major de facto 'train and sustain' interests and functions. COMAST has the pivotal role to play in delivering, as well as assessing, the preparedness of the ADF when it comes to joint activity.

3.49 Third, in both immediate planning for, and in conduct of, operations, COMAST has significant formal sustainment functions for the forces used in operations and maintains a substantial logistic capability to do so. It is beyond question that COMAST has a significant role in the 'sustain' part of the 'raise-train-sustain' continuum.

3.50 Many aspects of these three roles derive from the fact that COMAST, on behalf of the Chiefs of Service Committee, is the manager of the ASTOPR, which is the key military planning document of the ADF. COMAST's planning staff are, furthermore, major players in the design and development of the PMS as a control structure across the ADF. Some of the main conceptual

⁸⁸ COMAST produces monthly assessments of the capability of the ADF as a whole, to meet the preparedness requirements of the ASTOPR. COMAST identifies and lists the OOPRs that need to be drawn specifically to attention of the DC. This is COMAST's contribution to the Defence Balanced Scorecard Monthly Performance Summary to the DC. The non-financial part of this reporting is assembled by DG Preparedness Branch, with the CFO assembling the financial component.

⁸⁹ In the most recent format adopted for the Defence Monthly Performance Report, the COMAST report on combined ADF preparedness is the main document, with the single Services' ones being 'enclosures' to that main report.

⁹⁰ HQAST considers that its assessments are based on more rigorous methodologies and more constantly applied judgments and assumptions, than those of the single Services.

⁹¹ Paradoxically, in recent combined operations there has been a tendency for the single Services, notwithstanding the assignment of their force elements by CDF to theatre operations, to re-assume a control role during offshore deployments. This has evidently reflected the propensity of the Services to leverage optimally off relationships with their colleague Services of overseas countries. For example, the Australian FA/18 detachment in Operation CATALYST in Iraq is understood (because it worked most closely with the US Air Force and Royal Air Force in the international coalition command framework), to have connected closely to the Royal Australian Air Force's Headquarters command structure, working with CDF and Strategic Operations Division, rather than receiving guidance from COMAST.

features of the PMS have their origin in COMAST planning studies. The staff perform these functions in close cooperation with Preparedness Branch in the Policy Guidance and Analysis Division.

The operational control environment

3.51 COMAST's preparedness role as discussed in the foregoing section forms a part of the operational dimensions of ADF command and control and is integrated fully into it. The preparedness of the ADF is not managed separately to other aspects of portfolio management. Thus an important part of its value is that it is integrated into most management areas of the Defence organisation. As a portfolio that has to run a military organisation, military functional and organisational concepts play an important role in forming the control environment.

3.52 The CDF commands the armed forces and delivers military capability for purposes determined by the Government. A cascade of command and control elements supports the CDF in this role. Immediate planning⁹² for operations takes place in this cascade. This activity ultimately includes coordination of operations once they have commenced. Key strategic governance elements in this operational control framework, under the CDF, are the COSC,⁹³ the COMAST and the Strategic Planning Group. Under COMAST's command come the Commanders' Planning Group, Theatre Planning Group and the Theatre Administrative Planning Group.⁹⁴

3.53 A background planning process is the Joint Military Appreciation Process, which involves consultative activity between joint staff, component staff and specialist advisers. The injection of intelligence and strategic information take place in the cascade at all the governance levels. It is also provided, at frequencies matching operating requirements, to the subordinated planning groups such as Campaign Planning Group, both before operations and during them. The Strategic Operations Division provides staff support to the CDF and liaises with the political environment's stakeholders extensively, including the Office of the Minister for Defence. The theatre planning takes place in all these elements of governance and direction. They have ultimate accountability to the CDF rather than to the Secretary/CDF. They are not subject to processes that include the DC in its corporate governance role.

⁹² Defence uses the term 'immediate planning' to refer to operational level planning. It is distinguished from 'deliberate planning' which describes planning that does not relate to specific identified operations.

⁹³ COSC membership includes CDF, the single Service Chiefs and the CFO. It meets quarterly or more frequently as required.

⁹⁴ The Theatre Planning Group comprises COMAST and the environmental commanders and other staff. It meets as frequently as the operational tempo and any ongoing issues require.

3.54 The PMS is involved in this operational control environment through a number of working relationships in Defence, and in the way in which military capability is actually managed in the field, on a day-to-day basis. These linkages are formed by:

- the ongoing operational management of capability at FEG or unit (force element) level impinging on the ability to maintain PMS settings;⁹⁵
- the 'two-hatted' roles of the Component Commanders (for Sea, Land and Air) in HQAST;⁹⁶ and
- the role of Strategic Operations Division in initial planning of operations as part of its liaison role with Government.

3.55 The role of the branches of the Policy Guidance and Analysis Division in managing the QSR process provides a documented corporate linkage between the immediate planning plane and preparedness management. The QSR is considered by the COSC and goes no higher in Defence's governance system. In addition, COMAST uses the OOPR data to inform its role in the immediate planning processes.

3.56 The enabling groups have roles to play in these processes, and in the case of DMO, mainly through Commander Joint Logistics (CJLOG). The situation with CSIG is complex and COMAST and CSIG are seeking to formalise their relations in this area in the latest Customer/Supplier Agreement between COMAST and Deputy Secretary Corporate Services in charge of CSIG.

Strategic Operations Division and preparedness

3.57 The Strategic Operations Division is a major contributor in the operational control environment. This division is headed by an officer at the two star level and, although its functions are in formal terms limited to being a staff headquarters to the CDF, the division's activities inevitably make it appear to be an authority separate in the chain of command. The role of the division should create an entry point for preparedness management issues to play a role in operations. This is because of the strategic position it occupies, on

⁹⁵ The force elements are the entities that, through the chain of command up to the CDF, conduct operations. The day-to-day tasking of force elements may strongly affect the level of preparedness that a FEG possesses.

⁹⁶ The Component Commanders form part of COMAST's Headquarters and are accountable through COMAST to the CDF for operations matters. These commanders have major preparedness management responsibilities. They effectively sit astride the two different control environments of operations and capability management and as such shoulder many responsibilities in joint collective training and force sustainment, which may be complicated by operational demands placed upon them once deployments are ordered.

behalf of the CDF, in relation to the operations sphere and the preparedness sphere.

3.58 The Strategic Operations Division, in conjunction with the Service Chiefs, participates actively in immediate planning across the full spectrum of military tasks and interfaces on a day-to-day basis with the Government and the Parliament. It has the position, on behalf of CDF, of leading the small teams of officers that develop proposals to Government for actual military operations, prior to Government resource decisions being taken. Because of the public sensitivity of these issues, it is necessary to keep to a minimum, on a 'need to know' basis, the group of officers involved in preparing capability estimates and costs, and introducing force composition proposals and resource quantums, such as personnel caps on the size of joint forces.⁹⁷

3.59 In conducting these tasks, the Strategic Operations Division does not take information in the PMS fully into account. This would suggest that, the point at which preparedness management transitions to operations planning is neither under the control of the preparedness management arrangements, nor is informed by them. The ANAO learned from various field areas that sub-optimum arrangements frequently ensue from this procedure.

3.60 A particular improvement that could be made would be to involve COMAST more closely in the development of force deployment proposals being prepared for Government. This would lay a basis for preparedness information to be used more effectively in force deployment plans and decisions. COMAST could be used as the main source of advice on force deployment and costing proposals being developed for Government consideration and be given accountability for this role in Defence governance arrangements.

3.61 The ANAO considers that there would be benefits in Defence identifying ways in which to bring these two different Defence control systems into closer alignment. The interface between the PMS and the operations control system would seem to present an opportunity to measure and evaluate the ongoing performance of the PMS.

Recommendation No.4

3.62 The ANAO recommends that Defence consider the cost effectiveness of developing a closer alignment of the Preparedness Management System and Strategic Operations Division planning activities.

⁹⁷ This is called 'compartmentalisation' in Defence. Numerous officers in Commands and FEGs would prefer compartmentalisation to be organised on vertical, rather than horizontal lines.

Defence response

3.63 Agreed.

Preparedness planning linkages to training and support

3.64 An effective preparedness management system needs to include strong functional linkages between the settings determined within the PMS and the operational programs needed to meet them. These programs fall into the two broad categories of training and supplies—the two FICs which bear most closely on preparedness. Ensuring that units have appropriately trained manpower, and that groups receive the necessary collective training to specified proficiency levels, requires extensive management and coordination of numerous inputs from Service entities. The planning and implementation of necessary logistic and materiel supply arrangements involves a wide range of different planning and management systems, and close working interfaces with other enabling organisations in Defence. These linkages would include appropriate gateways to resource management systems and controls in each of the capability outcomes.

3.65 The three Services have made substantial progress in building systems to create these linkages, though they are at different stages of development. At the joint Service level, COMAST has been seeking to develop evaluation tools to measure progress in achieving joint training outcomes. In the logistic and materiel supply domain, some progress has been made in DMO's Maritime Systems Division to meet Navy's needs. In association with other initiatives being pursued in the Management Information Systems Division of DMO, these have the potential to be applied more widely across the ADF.

3.66 The ANAO noted that the three Services and COMAST are cognisant of the need to progress the initiatives that have been taken to date, which would have the effect of linking the PMS to programs in the training and skills development fields.

Service-specific linkages to training

3.67 The main mechanisms being used in the Services are their specific capability management systems, which align with the PMS. Most do not at this stage have electronic gateways into preparedness management reporting. In the Army the main system is the Army Capability Management System (ACMS), in Air Force the Capability Evaluation and Reporting Tool (CERT) and in Navy, Management of Naval Integrated Capability Assessment Reports (MONICAR).

3.68 The ACMS, launched during the period of audit fieldwork, has wide functionality in supporting the Army's need to be able flexibly to re-package

and re-group different units to create combat capability for each combat or exercise task. ACMS incorporates a system of Training Activity and Resource Plans to track training status and requirements of units so as to enable the Army to link its training programs to individual OPOs.

3.69 The Air Force's CERT program had not yet been fully launched during the period of audit fieldwork. Unlike the ACMS, this system is not designed to support the detail of the training requirements and systems across the various highly skilled disciplines in Air Force. Reflecting the traditional autonomy of some of the Wings, CERT will exist alongside specialist training control systems that are in use, for some time to come. An Air Force audit has been commissioned by CAF to ensure that the flow-through of CERT principles to the Wing level is effective. It is hoped that CERT will be able to present a comprehensive capability reporting system for Air Command once it is properly established.

3.70 Navy's fleet readiness measurement tool, MONICAR has been developed through two major revisions since it was introduced in 1999. MONICAR compiles 'Full Mission Capable' days from ships' weekly reports system, to capture linkages to the Maritime Command system of sea training and work-up. It captures training and equipment condition levels. In line with findings in the ANAO's audit of Navy Operational Readiness in 2003,⁹⁸ MONICAR has been developed to generate data that more directly reflects Navy's achievement of preparedness management standards—the concept of 'Unit Ready Days' for a platform. This data is also designed to be used in external reporting.

Joint force training

3.71 COMAST is applying fresh emphasis to the development of the collective training agenda for joint forces. COMAST and the Service commands are working on plans to enhance the effectiveness of activities in this area. At the time of audit fieldwork, the ASJET list was to be applied as an evaluation tool for the first time at Exercise Crocodile in September 2003. ASJETs have a close linkage with the PMS.

Logistic and materiel support

3.72 Less progress has been achieved across the Services and COMAST in associating the PMS settings with supply chain requirements in logistic and materiel support. Development work has been undertaken in parts of DMO to support specific Service requirements. The Maritime Systems Division in DMO has worked to Navy Headquarters requirements to produce a system based reporting framework for monthly monitoring of materiel support requirements

⁹⁸ op cit, ANAO Audit Report No.39 2002–03, paras 5.92–5.95.

for all of Navy's platforms against the OPOs. These relate sustainment needs, based on consumption modelling across various capability classes, tracked to current inventory stock levels. This study had completed pre-release testing at the end of the period of audit fieldwork but had not been fully introduced.

3.73 Potential exists for this work in Maritime Systems Division to be integrated into the much wider Defence 'data warehouse' initiative being conducted in DMO.⁹⁹ The Defence data warehouse proposal will provide a web-based single source of combat support information, supporting multiple perspectives and drawing on legacy Defence systems.

⁹⁹ The main data warehousing project is being conducted by DMO's Management Information Systems Division. This project is developing software capable of bringing data extracted from disparate source systems across Defence into a single decision support environment to enable better reporting, analysis, and modelling.

4. Coordination Among Contributors to Preparedness

This chapter identifies the principal structures and supply arrangements between the ADF and enabling organisations.

Background

4.1 The ADF's capability is supported by many networks of maintenance and supply that connect to the national and international industrial, technological and human resources base. They provide the through-life support of Defence equipment and weapons systems, the engineering and maintenance of equipment, and the supply of logistics and materiel to all fighting units. They identify and recruit the skilled and trained individuals whom Defence needs to staff its facilities and operate its assets. The operation of these networks is a cooperative effort involving most areas of the Defence Organisation. In many areas, especially at operating levels, the level of cooperation is very high.

4.2 DMO, CSIG and the Defence Personnel Executive are the major Defence organisations involved in these systems and the management of supply relationships with the world outside Defence.¹⁰⁰ Numerous other Defence entities, such as the Defence Science and Technology Organisation, play enablement roles and connect Defence to national scientific, technology and innovation infrastructures.

4.3 The major interfaces are those between the capability outcome groups, DMO and CSIG.¹⁰¹ Considerable work is being done on these interfaces in Defence, and on developing the roles and responsibilities of enabling processes, especially in DMO.¹⁰² The great majority of ADF supply needs are

¹⁰⁰ The human resources dimension of preparedness is directly influenced by the availability of skilled manpower from outside the Defence organisation. The audit focus was on the materiel aspects of sustainment and the linkages through the DMO and CSIG, rather than external factors affecting human resources aspects, where the Defence Personnel Executive is the key Defence enabling agency.

¹⁰¹ Appendix 2 provides background information on the machinery of the enabling groups' relationships with the capability outcome groups. Secondary interfaces are those between Defence and private industry contractors. Generally managed by DMO and CSIG, these contract management functions are beyond the scope of this report. 'Owner Support' executives like CFO also provide important support to the Outcome Executives, however the focus of this audit was on the more direct roles of the main enabling groups.

¹⁰² See for example the recent review of DMO, Report of the Defence Procurement Review 2003, chaired by Mr Malcolm Kinnaird AO. Implementation of the review recommendations may result in adjustments to the Defence business model described in this report.

borne by DMO and CSIG. Their services contribute important dimensions to Defence capability.

4.4 Under the Defence business model, the four capability outcome managers, (Service Chiefs and COMAST) and the Intelligence and Strategic Policy Groups, are the outcome groups to which the portfolio's funding for supplies is formally brought to account in external reporting. The model envisages customer/supplier arrangements being established to link the supply-providing or enabling groups with the outcomes groups. This intention is reflected in the terms of the preparedness directives issued by the CDF and the Secretary/CDF. The directives recognise that, when outcome managers are tasked 'to identify and provide the resources necessary to meet this directive's preparedness requirements', they expressly do so 'in conjunction with other Services and groups'.¹⁰³

4.5 Beyond the promulgation and active encouragement of the mechanism of the customer/supplier arrangements,¹⁰⁴ the actual patterns of interdependencies and relationships between the groups and the outcome groups, and between DMO, CSIG (and the Defence Personnel Executive), have not been mapped or otherwise addressed in any systematic way.

Enabling groups and preparedness

4.6 The Defence business model foresees that the roles of the enabling groups in regard to preparedness will be articulated through the combined operation of the Secretary/CDF's OPAs with them, and the system of Customer/Supplier and Service Level Agreements that are negotiated with the outcome executives (which include the Service Chiefs).

4.7 Senior Defence officers stressed that the functioning of the model in relation to capability and preparedness management was still evolving; and that, as the system matures, enhanced functionality in regard to the use of these tools in Defence business management would transpire. They considered that with the 2002-03 round of Customer Supplier Agreements (CSA) and Service Level Agreements (SLA), a sound start had been made. The OPAs with the enabling groups do not go into any detail on preparedness: their provisions are expressed in general terms, without reference to the metrics and structure of the PMS.

¹⁰³ Chief of the Defence Force Preparedness Directive 02, p.5.

¹⁰⁴ These are 'Customer Service Agreements' at Group level and 'Service Level Agreements' at lower levels.

4.8 The CSAs and SLAs as developed to date do not generally contain specific preparedness methodology and they mostly refer to capability in general terms. One CSA, that between CSIG and COMAST, contains a preparedness section and sets out some specific provisions for CSIG's roles and responsibilities in specific areas of ADF operations. This initiative has taken place in a relatively small area of ADF interaction with the enablers. It indicates a direction which could be taken in future preparation of other groups' and Services' CSAs.

4.9 The ANAO considers that the development of mechanisms to facilitate the role of the enabling groups in their contributions to chosen levels of ADF preparedness has some way to go before the PMS and the outputs of the enabling groups could be regarded as soundly coordinated.

4.10 Acknowledging that the system is still very new, and that good progress has been made, the ANAO found that Defence's coordination of contributions to preparedness made by the enabling groups is labouring under a number of unresolved deficiencies at the present time. Each of these deficiencies needs to be addressed adequately before the PMS will be able to deliver the potential of its control and risk management capabilities. Deficiencies originate in the following broad source areas: alignment issues; translation issues; sustainability issues; and governance systems.

Alignment issues

4.11 The mix and different types of alignment in service provision being applied by DMO and CSIG to the needs of the capability groups has often not been made congruent with the PMS.

4.12 The product lines of the enabling groups do not align with the ways in which the capability outcome groups deliver their outputs. They are, of course, not designed to do so. The Defence business model, reflecting Government policy, entails the generation of supplies for ADF capability, and their delivery, including infrastructure provision, in functional categories.¹⁰⁵

4.13 The SPO network in DMO and the regionalised structure for base support in CSIG are mechanisms developed in each group that seek to respond to both the supply needs of the individual structural output groupings in the Services and COMAST, and to the need for efficient and effective operations in DMO and CSIG. The CSA/SLA system creates a documented and reviewable pattern of relationships. Other relationship management infrastructure mechanisms support the operation of these relationships.

¹⁰⁵ This common service approach is designed to enable efficiencies to be gained from larger scale procurement operations, and synergies in industrial production and technical skill-sets to be put to use.

4.14 The ANAO noted, however, the following:

- Areas where the CSA/SLA system has developed most substance as a vehicle for structured relationship management are also those where reasonable congruence existed between the SPO-level groupings and their main client groupings. Thus in DMO's Aerospace Systems Division, a cascaded series of arrangements has been set up from the CSA down to SPO level SLA and Performance Level Agreements.¹⁰⁶ The Maritime Systems Division also aligns well in its constituent elements with several of the Navy's outputs. In Army, on the other hand, a CSA has been elusive and a different system has been developed for the SLA-level arrangements.¹⁰⁷ In both Air Force and Navy the congruence varies very widely at FEG and SPO level in many cases.
- The formal relationship management process has been supplemented by innovative concepts worked out between Services and the enabling groups and relevant divisional areas of them. Examples of these are the customer relationship reviews in CSIG¹⁰⁸ and the fleet screenings process in Land Services Division of DMO. This, however, only embraces the Army's fleet needs at present, not those of other Services nor of COMAST.
- Customer management by the enabling groups clearly has to be fully reflective of the complexity and diversity of service provision performed by both DMO and CSIG, and so no simple fixes will be possible. The relationship involves a series of webs of cross-relationships at lower organisation levels. SPOs in DMO, even when they have close correlation with a FEG, are by no means the only areas of DMO that service the needs of the FEG. The approach taken for DMO is that the SPO will not be a point of coordination for dealing with the respective Service grouping's needs; that is, that they will not

¹⁰⁶ This cascade, and its effectiveness, is actively monitored by some branch heads in DMO. For example, Air Combat Systems Branch in ASD, is actively involved in the operations of the SPOs. The Branch operates a program of liaison visits to the FEGs and helps to identify best practice management approaches.

¹⁰⁷ The CSA/SLA system appears to be an uncomfortable framework for much of the DMO supply arrangements for Army, that lie outside operational logistics supplied by JLC (in DMO). Paradoxically, this is the case despite the fact that Land Systems Division is the DMO Division with the closest broad alignment, at Division level, with one Service. Despite the Service-to-Division alignment, the Army's organisation around brigade, formation and unit, rather than FEGs, together with the fact that Army's materiel and engineering supply needs are widely distributed across many locations, appears to have made the current system inapplicable to that Service.

¹⁰⁸ These reviews are capable of reflecting a wide range of performance issues in the CSIG/Service relationship. The 2003 Air Force Customer Relationship Review, for example, dealt with most matters of concern that were raised with the ANAO during fieldwork at Air Force units.

have a one-stop-shop role. This suggests that a corporate function should exist in DMO to enable FEGs and output managers in the Services to receive assistance in accessing other functions in that organisation. The CSIG organisational construct has created a form of coordination of the whole organisation's service provision through the Regions and Bases divisional role.¹⁰⁹ The DMO organisational construct does not. The ANAO noted that numerous output managers are unsure of how to access services, especially those of DMO.

- Some CSIG areas of responsibility are very poorly linked to the preparedness requirements of specific ADF capability outputs. One clear example is in the domestic responsibilities of the Special Operations Command. CSIG is the point in the Defence system that has responsibility, and staffing, for interfacing of Defence with the Australian civilian authorities in carrying forward the 'Defence Aid to the Civil Community' and 'Defence Force Aid to the Civil Authorities' functions of the Defence Act. It has infrastructure provision obligations in regard to supply of support needs of Special Forces and other units deployed for exercises and operations in Australian centres outside their home bases. Specific OPOs, of some priority for Government, are assigned to these functions. While the COMAST/CSIG CSA for 2003 has set down several principles for cooperation in operations in these areas (among others), there is no provision in any Army/CSIG documentation describing the protocols for collaboration on such projects as counter-terrorism operations and plans. This has led to several operational difficulties for Special Operations Command.
- DMO's and CSIG's conduct of their mutual interlocking 'enablement' roles is not subject to clearly mapped processes and performance review opportunities.¹¹⁰
- The DMO Preparedness Working Group, which has the mandate of assisting the coordination of DMO's activities with the PMS, has

¹⁰⁹ Specific arrangements in Services may also facilitate the relationship with CSIG. Thus, for example, the fact that Air Force's Combat Support Group, with its capability function for all air bases (air bases being defined as a weapons system), means that there is one FEG which is a single Air Force customer for CSIG's regional managers/base managers.

¹¹⁰ CSIG provides many support functions for DMO that directly impact on preparedness. For example, the Air Force Surveillance and Control FEG draws support from the DMO Ground Telecommunications SPO. Ground telecommunications for all of Defence are run by CSIG. The GT SPO in turn is a heavy user of the services of CSIG in their network. Accordingly, considerable parts of the SPO's efforts are determined by CSIG performance. CSIG is perceived not to have the national level capability to engage in dialogue with SPOs on such facilities issues. In the result, there are significant risks in preparedness management that go uncaptured by the enablement process foreseen in the PMS. A specific example of a problem area is the condition of underground cabling at the East Sale base, on which Air Traffic Control at the aerodrome there depends (renewal of the 40-year old cabling appears to be a low financial priority for CSIG).

limited time/resources, and no executive authority in DMO. It has no performance reporting role into the DMO Balanced Scorecard performance management process.

4.15 The ANAO considers that the coordination process between DMO and CSIG, while formally well structured and, through the CSA/SLA system, providing visibility of needs and services, works in a poorly coordinated way. It should be reviewed to take account of the diversity of supply provided by each enabling group and the need for coordination arrangements to facilitate optimum whole-of-group service relationships with the capability outcome executives.

Translation issues

4.16 Another set of issues relates to the ineffective or incomplete translation of the capability outcomes' preparedness management needs into concepts and measurement systems that correspond to the operations of the materiel and supply 'worlds' in which DMO and CSIG must operate.

4.17 Outcome executives are responsible for specifying and prioritising the level of services they require from the enabling executives. In actual management of support and supply line arrangements, this formal position is only the beginning of the task.

4.18 In specifying the services, the capability outcome managers have to have regard to the metrics and standards set out in the PMS (for example, DLOC standards and time measures such as Readiness Notice). These measures and standards need to be 'translated' into the technically relevant categories and concepts of the supply and engineering worlds. 'Rate of Effort' measures, 'Rotable Inventory levels', 'Full Mission Capability' are all concepts defined by different parameters, relevant to particular practice areas.¹¹¹

4.19 In specifying the priorities, capability outcome managers need to be aware of the cost penalties or advantages involved in particular priority determinations, and participate with the CSIG/DMO managers in the risk management tradeoffs that are involved. On the other side, with DMO and CSIG making the actual financial allocation decisions against knowledge of opportunities for economies of scale, and having to manage the relevant contractual and supply chain links, other views of priorities, often driven by advanced logistic technical and/or budgetary knowledge held in these groups, may need to be determinative.

¹¹¹ Some FEG and SPO managers referred to the conflict at operating levels in Defence between two discourses: one of 'Operations-speak' and the other of 'Logistic-speak'—where each discourse identified different critical drivers for the determination of capability.

4.20 The ANAO found an awareness within DMO and CSIG of their capability support role and an equally strong appreciation by the Services as to the professional depth of the skills required in logistics support. However, elements in the enabling groups and in the capability outcomes have very different approaches to the authority of each other's management requirements in the preparedness management framework. There were also differences in each side's understanding of the meanings of the relevant terminology.

4.21 It was noted that some functional areas in the Service/DMO relationship have directed very close attention to the translation process, with considerable success.¹¹² In a small number of cases, awareness of these initiatives has transferred into wider circles even outside the specific Service and DMO systems division.¹¹³

4.22 The ANAO found evidence of better practice being pursued in a number of different areas of the outcome managers' relationships with DMO and CSIG, where these translation issues are involved. However, lack of progress in overcoming translation concerns seems likely to:

- create dysfunctional outcomes in the enablement of preparedness; and
- produce distortions in the transmission of critical preparedness management information to the capability outcome managers, since at present that is the only channel through which such information is systematically passed.

4.23 The ANAO considers that Defence should elevate these translation issues to higher levels of executive coordination than at present, with a view to developing a systematic way of harnessing innovatory practice and ascertaining how it can be disseminated across DMO functional support areas.

Enabling groups and sustainability

4.24 Another issue is the lack of consistency in Defence policy settings that describe arrangements to assess the needed quantum of supply products produced by different groups. Defence has faced difficulties in recent years in dealing with the planning and resourcing of the sustainment dimension of

¹¹² The work of the Maritime Patrol Systems Group and the Maritime Patrol FEG at RAAF Edinburgh has been identified as having made major inroads into the translation of ADF preparedness requirements into the complex processes of technical and logistic support. They have developed the concept of Serviceable Asset Target Levels, which is linked with modelling tools to plan and report its achievement of ASTOPR requirements including 'rates of effort' and concurrency aspects. MPG/MPSPO presentation 'P3 Logistics Requirement Determination'.

¹¹³ The DMO Preparedness Working Group has played an important role in this informal passage of information.

preparedness. The issues are complex and are inter-related with structural Defence management problems that are much wider than the PMS. In regard to readiness, the outcome executives need to determine their supply requirements to balance their needs across objectives that may not be mutually consistent.

4.25 The priority requirement—as mandated in the CPD—is for shorter term (MRO Bands 1–3 contingencies) to be addressed. At the same time the outcome executives are required not to neglect the longer-term needs, those related to maintaining core skills to enable the ADF to deal with Band 4 contingencies. This requirement clearly involves planning for the supplies needed for ensuring that equipment of the force-in-being is serviceable into the future, and can deliver the required capability. It thus entails the through-life support of all equipment as well as issues of determination of reserve stockholding levels. Determination of such requirements is the responsibility of the capability outcome managers.

4.26 As regards preparedness, the outcome executives are also squarely involved in operational sustainability of their force elements in the context of current deployments, which include the programs of exercises as well as any specific operations directed by Government.

4.27 The settings in which the requirements determination process for sustainability actually take place involve the enabling groups in major ways, with the outcome executives being dependent on the quality of assessment and modelling work performed in the enabling groups (in the case of DMO, in specific, uncoordinated SPOs across the organisation).

4.28 The ANAO noted that the work of the new Strategic Logistics Branch in Joint Logistics Command (created by the DC in December 2001) is a major Defence initiative seeking to bring these issues under control. The Strategic Logistics Branch collaborates closely with the Policy Guidance and Analysis Division and its Preparedness Branch, and with COMAST, to effect this control.

4.29 The conceptual framework for Defence's work on sustainability clearly requires coordinated attention at senior executive levels. Such consideration should include:

- mapping clearly the separate drivers of needs for different classes of materiel supply, for example, supplies required for operations and supplies required for through-life support of equipment;
- producing a single, whole-of-Defence data dictionary of data categories, with clearly prescribed specifications for how any permitted
Service variations from the standard should be approved and, once approved, how they will be managed in the enabling environment;¹¹⁴

- ensuring that the value of single Service logistics policy development work, including that designed to be applicable to 'internal services' produced in the respective Service, is maximised by being coordinated under an overarching Defence Logistic Management model, oversighted by a higher Defence committee or entity that has authority in the Defence governance system; and
- addressing personnel sustainability issues for preparedness.

Governance systems

4.30 Defence's governance systems make the outcome executives responsible for determining the requirements for the performance of the supply chains for much of the 'materiel' components of ADF preparedness. Their roles are performed collaboratively with the enabling groups that are broadly responsible for the supply lines. While the governance arrangements to make this collaboration effective with CSIG are relatively clear and transparent, those involving DMO's role are not.

4.31 Under DMO's OPA with Secretary/CDF, Under Secretary Defence Materiel's (USDM)¹¹⁵ role is to bring together acquisition of capital equipment and systems and through-life support of materiel for the ADF. USDM is also responsible for the delivery of materiel logistics support to operations, an activity for which CJLOG is responsible to the CDF as well as USDM. In the internal directive from USDM to CJLOG, CJLOG is appointed as the DMO logistics 'process owner'¹¹⁶ to develop and implement logistics processes and procedures.¹¹⁷

4.32 The Systems Divisions within DMO (Maritime, Land and Aerospace) are the areas of DMO that perform the USDM functions for through-life support of equipment. This function involves extensive logistic support called 'logistic support for capability', as distinct from 'logistic support for

¹¹⁴ Variations would be needed from a central standard as some Services have broad culturally driven approaches that would take some time to reshape. For example, Air Force 'logistics' includes engineering services.

¹¹⁵ At the time of audit fieldwork the Defence Materiel Organisation Chief Executive Officer position was the Under Secretary Defence Materiel.

¹¹⁶ For information management and accountability purposes, Defence employs the Enterprise Business Process Owners structure. DMO is thus the Enterprise Business Process Owner for materiel information systems.

¹¹⁷ The directive identified the requirement for a single point of accountability for material support to operations.

operations'. CJLOG does not control the Systems Divisions, as Joint Logistics Command is a Division-level part of DMO. Also, CJLOG has direct accountability to CDF for the provision of logistic support to the ADF when it is engaged in operations, but not for combat service support in the Area of Operations or theatre. These responsibilities cease at the edge of the Area of Operations. From that point the Services' internal processes take over.

4.33 Defence's higher-level governance arrangements affecting longer leadtime preparedness (mainly in the Band 4 MRO sector), include the operation of the Defence Capability Investment Committee. This forum considers the requirements for inventory across both capability support logistics for sustainability and operational support logistics for sustainability. It is in this forum where the claims for forward expenditure commitments against these materiel items are assessed in relation to new capability investment proposals.

4.34 The major gaps that are evident in this governance system are:

- there is no single accountable point of responsibility, under the office of USDM, for the provision of logistics support to 'capability' as distinct from 'operations';
- the coordination machinery directly supporting ADF preparedness, set up in or through DMO for dealing with the major materiel-related interfaces with the Services and COMAST (the Defence Logistics Board, the Strategic Logistics Branch, and the DMO Preparedness Working Group), is centred on CJLOG's role, whose formal powers are confined to 'operational' logistics;¹¹⁸ the Defence Logistics Board and DMO Preparedness Working Group do not possess executive coordination functions;
- the governance of the processes for interaction between the Services' internal service provision and the CJLOG processes is not mapped, even when those that are regulated by CSA/SLA arrangements with DMO's SPOs and with Systems Divisions/Branches are visible through the CSA/SLA review process; and
- although the DC is the ultimate point of resolution of the managerial issues involved, it needs to be equipped to do so in terms of performance management. The DC does not have regular ways of informing itself with a holistic view of the related strategic, tactical and

¹¹⁸ Joint Logistics Command is directly responsible as the acquirer, storer and distributor of resources such as fuel, ammunition and uniforms, but in respect of a large range of 'technical spares' items, JLC merely performs the mechanical role of handling these items. JLC does not know, for example, a Navy FEG's materiel preparedness, only that a considerable part of JLC's warehousing space contains a range of spares for that FEG. There is an absence of any coordinated view of the full spectrum of supply issues in DMO.

operational 'enablement' services that are directly relevant to preparedness. The gap is especially pertinent in the case of preparedness for contingencies in the Band 4 MRO categories.

4.35 Acknowledging the magnitude of the organisation structure issues underlying these gaps, the ANAO considers that the PMS in its present form is impaired by the process misalignments that result from them. They occur both from individual gaps and, perhaps more importantly, from their combined effect.

4.36 The ANAO considers that DMO's governance and internal reporting arrangements could be a starting point for addressing the preparedness aspects of these concerns. In particular, DMO could develop a structured process for coordinating internal management, so that the DMO Systems Divisions and CJLOG are jointly made responsible to USDM for developing a consolidated preparedness report, updated say quarterly. This report should cover supplies for both operational and capability logistics¹¹⁹ and identify areas of common concern (for example, reserve stockholding levels and resourcing) over which DMO has the main influence in Defence.

4.37 The present DMO Preparedness Working Group, if upgraded in authority, could form the nucleus of a corporate coordinating group, reporting to the USDM, to assist the USDM to bring CJLOG and Systems Divisional inputs together. The material on capability logistics issues would largely originate in the SPOs, which at present do not report systematically on through-life support activities in their contributions to the DMO Balanced Scorecard performance monitoring framework. Alternatively, the material generated could be coordinated through CJLOG and periodically be made available to the capability managers (Service Chiefs) to enhance their reporting in the whole-of-Defence environment.

4.38 Furthermore, it would be appropriate for DMO, in consultation with Headquarters Australian Theatre, the Service Headquarters and Policy Guidance and Analysis Division, to provide materiel 'traffic light' information to the capability managers. This information could contain joint assessments by COMAST and the Services, as well as DMO,¹²⁰ with input from Policy Guidance and Analysis Division, of Band 4 MRO readiness. It could be made available to the capability managers and DC as part of capability reporting.

¹¹⁹ The reporting process need not separately identify the operational and capability logistics data.

¹²⁰ The Strategic Logistics Branch of CJLOG would be ideally positioned to service this collaboration.

Recommendation No.5

4.39 The ANAO recommends that, in order to improve visibility of Australian Defence Force sustainment issues, Defence:

- (a) develop a consolidated Defence Materiel Organisation preparedness report dealing with operational and capability related logistics, which would be submitted periodically to the capability managers; and
- (b) authorise the Defence Materiel Organisation, in consultation with Headquarters Australian Theatre, the Service Headquarters and Policy Guidance and Analysis Division, to provide monthly materiel preparedness assessments to the capability managers, for longer warning time contingencies.

Defence response

4.40 Agreed.

5. Performance Management of Preparedness

This chapter reviews the ways Defence manages preparedness performance in the ADF. It looks at the structures and procedures in place at Service level and examines central Defence processes including the review role of the Defence Committee and the public reporting of ADF preparedness.

Background

5.1 With the Service Chiefs (both legally and in Defence administrative doctrine) responsible for the capability of their respective Services, (that is, for the raise-train-sustain dimension of capability management), preparedness management effectively centres on the Services. In fulfilment of this requirement, the Services all operate formal capability management systems on their own account. Consistent with the increasingly articulated requirements of the Defence performance reporting framework, they are now organising their performance management around the use of Service 'strategy maps' linked to a balanced scorecard. The Services and COMAST provide preparedness performance information to the DC via a standard 'core' of obligatory content and format.

5.2 The Service Chiefs' capability directives provide the framework and guidance principles for preparedness performance management. Frameworks for capability management used in the Services have had divergent forms in the past. While the Service Chiefs' capability directives continue to be different from each other in form and style, and the range of issues they address, the directives are now employing definitions and metrics that are progressively being aligned with Defence-wide strategic planning and management arrangements. The PMS's broad approaches and standards provide important common elements across all Services' performance management systems.

5.3 The capability directives indicate that the DLOC framework will be the principal framework for in-year management of resources. The directives all prescribe DLOC as the key preparedness management standard against which reporting from the outputs¹²¹ is required to be provided (specific Services, for example Air Force, also require capability reporting against other standards at varying levels of detail, for example, OPOs and FIC). Reporting is required

¹²¹ In the case of the Army, the requirement is imposed on the Army Commands.

monthly,¹²² which aligns with the central DC Defence Matters Balanced Scorecard assessment frequency.

5.4 Preparedness reporting is required to flow from subordinate units and commands¹²³ through two pathways: the COMAST OOPR database and the monthly Service-specific Preparedness Report, considered within each of the Service Headquarters governance systems. The capability directives typically charge preparedness reports to include assessments of ability to meet MRO within the DLOC context, matched with any outstanding OOPR.

5.5 Among all the Services, the locations or positions where these assessments are to be performed, and where the DLOC reporting process and the OOPR system information are brought interactively together, are not specified in any detail. The Service Headquarters' planning and policy directorates appear to be the primary centre for this work. However, assessments are clearly taking place at numerous other levels as well, depending on the functional area involved.

Service preparedness reports

5.6 The preparedness reporting that is undertaken monthly by all the Services is managed within 'balanced scorecard' formats. The reporting comprises Services' self-assessments against their individual OPA agreements.¹²⁴ The Services pursue different ways of separating capability management reporting related to the 'Force in Being' from reporting about future capability. All make the distinction in the analyses they present.

5.7 Based on their OPAs, the reporting incorporates the core features of the PMS in various ways that respond to their capability management circumstances. Army and Air Force, for example, include in their monthly performance documents, assessments against the specific FIC checklist.

5.8 Monthly performance reporting within Air Force provides an indication of the typical Service-specific reporting structure. The Air Force Plan identifies six 'results': Current Capability, Future Force, Advice, Reputation, Resource Management and Stewardship of People. In its performance

¹²² Specific capability directives may specify more detailed reporting, e.g. in the case of the Chief of Army Capability Directive, which requires any inability to meet an MRO with a Readiness Notice tighter than 30 days to be reported immediately by Land Commander to CA and to CDF through COMAST.

¹²³ These are the FEGs in Air Force and Navy.

¹²⁴ Defence acknowledges that the timing of OPA finalisation has not to date been ideal. During the first months of 2003–04, until the DMFP for 2003–2013 is finalised, the reporting is being conducted against OPAs that are in draft, rather than signed, form. Defence's intention is to follow the proper sequence for the OPAs from 2004–05 onward (that is, these OPAs will be based in the cascade through Defence of the 'contract' entered into by Defence with the Government in the DMFP that is finalised at the end of the previous year).

documentation prepared and considered monthly,¹²⁵ a summary of performance against each result is prepared which quantifies the level of performance against each of the performance measures identified in the Air Force Plan. The first measure for the Current Capability result is to 'deliver aerospace capability that is able to fight jointly and win'. Three types of assessment are then included: assessments against DLOC, OPOs and FIC. Responsibility for presenting all three preparedness reports is specified as the Air Commander's.

5.9 The Services' performance reports to the DC are required to be prepared in accordance with content prescriptions and format approved by the Committee. The business rules for these reports, prepared in Preparedness Branch of Policy Guidance and Analysis Division, are detailed.¹²⁶ The same guidance also presents the business rules for the presentation of reporting information for COMAST's ADF reports. The tabular information specified for the Services' reports includes financial management information: a year-to-date Financial Performance Projection showing actual spending against budget estimate.¹²⁷

Deficiency-based monitoring

5.10 Although the preparedness construct provides an annually changing plan for the 'standard' of preparedness to be reached across the ADF's capabilities, exception reporting is mandated on all units so that departures from the plan have visibility and any required corrective action can be taken in a risk-managed way.

5.11 The common system that has been instituted to maintain visibility of deficiencies across all four capability outcomes (Army, Navy, Air Force and COMAST) is the OOPR. The OOPR system is now a substantial database maintained by COMAST on a joint Service basis, providing an integrated deficiency reporting system through Defence Headquarters to the DC. It was initially mandated by CPD 02 for use across all Services.

5.12 OOPRs are intended to enable capability output managers to advise of any significant inability or developing trend that would mean that a force element could not deliver a capability or preparedness standard which is required to be met under the DLOC agreements. The deficiency report that

¹²⁵ Air Force Performance Summary, 23 June 2003.

¹²⁶ 'Defence Matters Balanced Scorecard Preparedness Reporting Format and Business Rules for Output 2-4 Reports'.

¹²⁷ The budget allocation is now included in the reports but the 'actuals' are generally not included. The Business Rules note that until Defence financial management systems allow disaggregation of Output level costs, these areas of the reports will be 'greyed-out' (unless Outcome Managers provide this data from their own systems).

reaches the DC would be one that the capability managers would not be able to rectify within their spans of control.

5.13 An OOPR could arise in any of the FICs. Capability output managers (for example, FEG commanders or unit commanders) can raise a draft OOPR. The OOPR is intended to be rectified at the lowest possible level of management. At the time of audit fieldwork, decisions on whether to admit a draft OOPR to the database (and thus give it visibility through the chain of command) were taken in COMAST, as the assessment authority for OOPRs. The ANAO understands that planned changes to the OOPR system provide for greater authority to be exercised by the Service headquarters. The gateway role for COMAST has reflected the view that for a deficiency to have operational relevance, it cannot be solved by other force configurations that could be decided by CDF on advice from COMAST.

5.14 Notwithstanding this joint control arrangement, lists of OOPRs maintain their single Service identity up the reporting line to the DC. There are two main groups of OOPRs: those that identify an 'agreed deficiency'—that is, where the capability output is at DLOC but cannot reach an OPO required in the ASTOPR; and those that report a deficiency against DLOC. This distinction enables Defence to monitor, to some extent, the gap between the 'real' as distinct from the 'aspired' or 'unconstrained' capability of force elements. The OOPR system has a significant role in making visible present and emerging problems from whatever source. It is evolving rapidly in response to the appreciation at all command levels of its relevance in the PMS and its impact at the DC level.

5.15 Capability outcome and output managers have positive views, as well as some concerns, on the operation of the OOPR system. On the positive side, the system ensures that even quite low-level deficiencies can obtain visibility at high levels very quickly, and as a result facilitate their resolution. It is valued within the Service Headquarters and in the component commands in HQAST, for its role in monitoring developments within capabilities as part of the DLOC arrangements and under their Balanced Scorecard performance management duties.

5.16 On the negative side is concern that the Services' capability management prerogatives may be compromised by the OOPR system, giving visibility too quickly to problems before opportunities for correcting them are

exhausted within the Services, thereby unnecessarily raising alarm at high levels. $^{\scriptscriptstyle 128}$

5.17 Because of its role in imparting underlying coherence and consistency to the PMS's performance management role, the ANAO considers it to be appropriate for Defence to give emphasis to the further development of the OOPR system.

Sources of preparedness performance information

5.18 The capability directives provide guidance of varying degrees of depth about how preparedness information relating to force element, unit and/or FEG should be collected. All the Services have, or are developing, sophisticated data coordination and management systems such as the Army Capability Management System, Air Force's Capability Evaluation and Reporting Tool and Navy's MONICAR to support their capability management (raise-train-sustain) responsibilities. These systems are used in various ways to help the preparedness management process.¹²⁹

5.19 Despite formal statements such as these, it is clear that much of the preparedness management data, and assessments that they create, come from other sources including subjective military judgments conveyed in narrative form. The ANAO found numerous different practices, conventions and, to some extent, understandings of the meaning of preparedness terms across Defence.

5.20 Although the environmental commands are each assuming a more active role in the process (driven partly by resource management discipline requirements), data fed from the subordinated groupings (for example, the FEGs) is based on numerous input sources with various levels of formal definition.¹³⁰ The process of collection is neither systematised nor automated. The ANAO considers that it would require significant further development in regard to consistency and purity of input data before a reliable automated system will be available in any Service.

¹²⁸ COMAST is understood to be preparing changes to the OOPR system that would address these concerns. The database would be separated into specific domains, with visibility of an OOPR outside a single Service or HQAST only after a clearance decision controlled by the capability outcome manager. Among the changes envisaged, these new joint OOPRs would be the only visible ones outside Service areas. The joint OOPRs would also be open to enabling groups to submit. Defence has proposed that initially the Joint Logistics Command in DMO would be the point of origination of all joint OOPRs from the enabling groups.

¹²⁹ The Service Capability Directives typically refer to these systems as the basis for the 'tools' to be used by Service planners to determine settings for DLOCs and for performance monitoring.

¹³⁰ Information collection for preparedness reporting is a mix of manually-collected and systems-generated data.

5.21 In the sustainment areas of preparedness, consistent capture of data and reliable modelling of requirements are even more immature. The issues with sustainment performance information, relate less to data availability than to inadequate policy development, and organisational alignment issues. Policy focusing and some organisational realignment need to take place in the materiel and logistic supplies areas as a precursor to better information collection in the sustainment dimension of preparedness management.

5.22 More generally, the ANAO found that little effort appears to be directed at identifying overseas best practice models for preparedness management. Despite the need demonstrated by recent combined missions with coalition forces, Defence has not sought to assemble cross-Service information on developments in the US or UK military's approach to preparedness methodologies and systems. The ANAO assembled evidence of significant advances in the US and the UK on these matters. It has been suggested that the experience of Singapore in developing its armed force's preparedness would also be of special relevance to Australia given its size and geopolitical position.

5.23 In addition to laying the basis for a form of benchmarking of Defence's preparedness management, the ANAO considers that some international benchmarking would also seem to be of importance in supporting Defence's tasks in addressing interoperability requirements with Australia's major potential coalition partners.

Preparedness reporting to the Defence Committee

5.24 The monthly Defence Performance Summary provides the framework for central performance management of preparedness of the ADF. The Defence Performance Summary presents 'results' on all six capability related Defence outcomes.¹³¹ The reporting seeks to synthesise the preparedness reporting that has been generated in all parts of Defence in relation to preparedness management over the previous month, draw conclusions from this synthesis and indicate possible needed policy directions.¹³²

5.25 The reporting presented to the DC is in three tiers, as follows:

• single Service (and other outcome groups other than COMAST) monthly reports; these focus on DLOC status but also include measures against OLOC and FIC. The outcome group reports are now included

¹³¹ The Monthly Performance Report therefore includes performance reporting from the Intelligence and Strategic Policy Outcomes as well as the three Services and COMAST.

¹³² The ANAO reviewed a three-month sample of preparedness reporting documentation considered by the DC in 2003: the months of May, June and July 2003.

as 'enclosures' rather than being part of the main report, although the covering document written by Preparedness Branch summarises them very briefly;¹³³

- COMAST's 'operational preparedness assessment' of the ADF as a whole: this comprises a narrative and tabular presentation of the current OPO status of the ADF against the ASTOPR and therefore focuses on OLOC issues rather than DLOC ones;¹³⁴ and
- a two-page summary document prepared by the Preparedness Branch which draws out key points in the outcome reports and identifies underlying trends, issues and potential problems on the horizon; this summary presents conclusions and recommendations for further action to the DC.¹³⁵

5.26 The coordination mechanisms used by Preparedness Branch to bring the Service and COMAST data streams into the monthly Defence Performance Summary seek to standardise approaches employed by the outcome groups to their own data generation, so that data supplied to the DC is as consistent as possible. Preparedness Branch officers cannot alter material in the Services' contribution, although active dialogue takes place on a continuing basis as the production of material takes place. Regular workshops are conducted by Preparedness Branch with officers in the outcome groups to pursue consistent application of procedures. For example, the 'traffic light' codes that are used to

¹³³ The change was introduced from the August 2003 DC consideration of the revised format. The revised format was proposed to make the report more readable and eliminate duplication.

¹³⁴ The COMAST assessment, 'COMAST SUMMARY: DEFENCE OPERATIONS', in its narrative content, identifies capability shortfalls, enumerates major operations and exercises and contribution to National Support Tasks, and separately identifies any activities performed by the ADF as Defence Assistance to the Civil Community and Public Events of Significance. Its tabular material is in two main tables: an OPO-by-OPO presentation of the COMAST assessment of the options currently available to COMAST to respond to the deliberate planning requirements of the ASTOPR, and a table detailing the ADF Readiness Tables and Concurrency Requirement, with comment on any concurrency issues. The COMAST tables, like the Outcome Groups' tabular material included in the Enclosure, employ 'traffic light' coding (RED-GREEN-AMBER colour codes) to summarise status. In the main table, relating to ASTOPR, columns show historical status in each of the prior three months, and the following quarter's estimate, as well as the current month. There is a column to indicate the deficiencies that may be relevant; and a column to enable a trend symbol to be shown (an upward or downward arrow). A summary 'consolidated' listing of the Deficiencies from the OOPR database is included.

¹³⁵ This summary, titled 'Results for Government as Customer', provided by Preparedness Branch examines the alignments between the COMAST material and that provided by the other Outcome Groups so as to highlight the methodology employed to generate the material. In its comment on the Outcome Groups it may, for example, explain that the reason why a Service showed a GREEN assessment, despite listing deficiencies, was that all the deficiencies registered against its OLOC requirements were registered as 'Agreed Deficiencies', that is, they were identified and negotiated as part of the design of the DLOC at the beginning of the cycle and formed part of the basic resourcing deal made at the time of the OPA negotiation. The parallel assessment by COMAST would show AMBERs and REDs against those categories as they in fact impacted OPOs in the ASTOPR.

describe the condition of reported items. Figure 5.1 outlines the reporting process to the DC.

5.27 The ANAO found that the monthly performance reporting to the DC is well coordinated and comprehensive. It noted that considerable effort is directed at the process in numerous areas of the ADF and Defence and that it consumes commensurate time. A characterising feature of preparedness reporting is that of ongoing change in its form and content. This change process corresponds with the circumstances noted by Defence that the PMS continues to be a work-in-progress.

Figure 5.1



Preparedness reporting to the Defence Committee

Source: Prepared by ANAO from documentation provided by Defence

5.28 The ANAO found some inconsistencies and apparent anomalies in these changes. One example was the discontinuation of a section of the reporting directed at 'Focus Areas for Preparedness Review', which had drawn from the most recent strategic guidance in the Quarterly Strategic Review. This material, in reporting produced in April, had been discontinued by July.¹³⁶ It was an attempt to align preparedness reporting in a more synchronized way

¹³⁶ Another example of change was the discontinuation at the time of the July Report of a table on Capability Management Assessment (containing forward projections of capability and linking to manpower resources), in favour of the development of a forward-looking assessment of preparedness performance.

with strategic environment updates through the QSR, from which changed Readiness Notices under certain OPOs might be judged necessary. This material would have addressed one of the criticisms of the PMS, that it insufficiently draws from the Quarterly Strategic Review process, and its removal would appear to be a step backwards.

5.29 While the ANAO is unaware of reasons for inclusions or discontinuance of material in the sequence of reporting, it found that the reports, and evident DC reactions to them, reflected a critical and openminded approach to the limitations and constraints in the methodologies being used. The DC's consideration of the documentation is an active process and provides a basis for further development of the effectiveness of the PMS as a performance management tool. This suggests that the PMS's capacity to provide a sound management and performance information basis of assessment for whole-of-Defence capability management will continue to improve.

5.30 The ANAO considered that the three tiers of analysis and information provided to the DC provide, in combination:

- valid insights into the state of ADF preparedness at end-of-month time points. Though it is derived from data that cannot be younger than 23 days by the time of its consideration, the material is not sufficiently sensitive to this timeframe, and the age of the data does not detract from the value of the assessment as a capability and resource management tool;
- visibility of those deficiencies that have consequences for known ADF tasking requirements, where deficiencies exist in the gap between the 'aspirational' capability in the ASTOPR and the actually funded, or DLOC-measured capability; and
- information and analysis, drawn mainly from the remediation content in the OOPR system of information, the single Service performance reports, and knowledge of changes in upcoming taskings/rotations and other operational information related to remediation of these highlighted deficiencies.

5.31 The ANAO considers that the performance management of preparedness, conducted on the basis of this information, enables Defence to instigate remedial action for deficiencies in the shorter warning time range of contingencies, within the limitations of current capability costing systems. It also permits Defence to be able adequately to manage the risks entailed in the gap between a funded level for capability (the DLOC) and the higher operational (OLOC) level.

5.32 The preparedness performance management process is, however, weak in regard to providing any power over choices of preparedness levels, or alternatives to those levels, on the basis of their costs. Significant proportions of the costs of capability are in the inputs provided by the enabling groups. At this time, and at least until 2004, these costs are attributed to the outcomes and output levels¹³⁷ at the time of the annual DMFP. The performance management system, in its financial dimension, consists merely of the monitoring of aggregate consumption of resources within these annual notional allocations. Even within this limited framework, material on year-to-date consumption of resources by output is not consistently possible to obtain and only sporadically included in the material provided to the DC.

5.33 Accordingly, Defence is not equipped by the PMS in its present form to consider alternatives to present preparedness levels and mixes, taking into account relative costs. The performance management system is even less robust for longer warning time contingencies that relate to the ADF's underlying higher-end war fighting roles and responsibilities. For the same reason Defence is unable to identify reliable costings for specific readiness level changes that might be required through Government tasking, outside the annual negotiation of resourcing levels in the DLOC process. Defence has, however, been able to use the PMS framework to generate indicative costs for preparedness changes to specific force elements.

5.34 This is because the focus of the formal reporting of joint ADF capability and concurrency is on the MRO Bands that have less than 365 days' warning time: that is, for Bands 1 to 3.¹³⁸ Such focus reflects the ASTOPR's ADF Readiness Tables¹³⁹ that themselves address 'short notice' contingencies (Bands one to three). These in turn reflect the CPD's direction to give priority attention to deficiencies in the shorter warning time group of MROs. Tabular information reporting of ADF Readiness Tables and concurrency requirements thus only show 'traffic lights' for Bands one to three. Reporting on status of Band 4 issues is relatively sparse in the whole-of-ADF reporting provided by the monthly preparedness reports.¹⁴⁰

¹³⁷ Defence cash and accrual costs are notionally assigned from the area where they are incurred, to one of the Defence Outcomes. Output managers have little involvement in or visibility of the allocation of Output costs.

¹³⁸ The Services' performance information included in the Defence Balanced Scorecard enclosures give closer attention to Preparedness Band 4 questions.

¹³⁹ The material in the performance report accordingly purports only to summarise Outcome Executives' ability to meet the ADF Readiness Tables that address the ADF concurrency requirements as promulgated in the ASTOPR and the OPAs, to meet short notice contingences.

¹⁴⁰ The Defence Monthly Performance Summary contains material on the ADF's maintenance of 'high-end' war fighting skills, and the underlying sustainability is dealt with mainly in narrative form in COMAST assessments relating to ADF participation in operations and exercises in the Defence International Engagement Program.

5.35 The ANAO found that, until full cost modelling of inputs is available to Defence in a more mature business model, the potential of the PMS in terms of performance management of ADF preparedness would be limited.

5.36 Changes that have been suggested for consideration include COMAST being provided with a whole-of-ADF capability assessment role in regard to the Band 4 raise-train-sustain areas, as well as in the current MRO Bands on which COMAST reports. It was suggested further that this change would reflect the increased COMAST role in preparedness management of capability that is already in place and accepted as part of the ADF's joint war fighting role. If this change were implemented, it would mean that the COMAST capability assessment material in the monthly performance reporting would include such systematic analysis of the Band 4 range of issues as a matter of course.

5.37 The ANAO considers that the monthly reporting framework should be developed better to include focused consideration of Band 4 preparedness reporting and require appropriate analysis of this at the whole-of-ADF level. When full costing of inputs from enabling groups into the capability outputs becomes available, it will be essential to ensure that both cash and accrual costing of inputs to Band 4 MRO preparedness levels will be able to be captured in the systems that are developed.

Preparedness Management System review arrangements

5.38 Formal doctrine for the PMS provides only very general guidance on how the PMS is made subject to review.¹⁴¹ In a formal sense this doctrine states that OPA performance is 'reviewed bilaterally' between groups and the CFO in the cyclical budgetary or Additional Estimates process, and that this provides review opportunities to the Defence Capability Investment Committee to make judgments about the need to rebalance performance or resourcing levels, or develop performance improvement strategies.¹⁴²

5.39 The doctrine also indicates that commanders make judgments about whether units have the resources that their DLOCs require; that preparedness levels are reviewed through the annual and quarterly strategic review processes; and that the PMS is used to guide short-term planning in view of changes in the strategic environment.

5.40 The ANAO noted that, in any case, much of this activity focuses on settings within the PMS itself. The formally enunciated doctrine does not define how the PMS is itself subject to review. The validity of its

¹⁴¹ Australian Defence Doctrine Publication 00.2, Chapter 2.

¹⁴² ibid p.2–2.

methodologies (for example, the use of OPOs) and structures, measured through such indicators as its effectiveness in preparing the ADF for actual operations, have not been considered.

5.41 The ANAO was made aware of a number of initiatives under way in Defence which are, or could be, used as part of an evaluation framework for the PMS. They could provide important review opportunities and assist over time in validating the PMS and its methodologies. These initiatives were as follows:

- The Defence Capability Review, ordered by the Government in 2003 but absorbing pre-existing work within Defence on medium term capability development planning.
- The development and use of Australian Illustrative Planning Scenarios (AIPS). These planning instruments have been endorsed by COSC to provide scenarios for planning, preparedness, sustainment and capability development.
- Post-activity reports and the ADF Activity Analysis Database System (ADFAAD). ADFAADs, sponsored by the ADF Joint Warfare Centre, are designed to capture the mandatory post-activity reporting conducted after all ADF exercises and operations. The database includes material on deficiency resolution and 'lessons learnt'.
- Output evaluation studies. The Directorate of Output Evaluation was established in August 2000 to conduct independent evaluations of the effectiveness of capability of the Defence outputs.
- Australian Joint Essential Tasks. HQAST, in concert with the ADF Warfare Centre and the Defence Science and Technology Organisation, has commissioned ASJETs as a performance tool to facilitate evaluation of training and exercise outcomes of joint forces.

5.42 The ANAO noted that the DC is itself a key review authority for the PMS. The DC is increasingly assuming an ownership role in respect of PMS processes and is instigating significant changes in it. To provide context for ongoing DC initiatives, the ANAO considers that it would be desirable for the Policy Guidance and Analysis Division to design and present to the DC a proposal for a systematic review framework, so that the Committee could conduct PMS review activity on a periodic basis.

5.43 This framework should be designed to enable the DC to oversight the overall performance of the PMS and identify activities taking place across Defence which could contribute to effective evaluation of preparedness management. If such a framework were updated annually, the DC could be equipped to position changes and improvements which it decided to make in

the PMS in ways that related to other policy development and review initiatives under way.

Recommendation No.6

5.44 The ANAO recommends that, in order to adequately monitor the effectiveness of the Preparedness Management System, Defence review annually the role and relevance of the Preparedness Management System using the outputs of other Defence portfolio review activity.

Defence response

5.45 Agreed.

Public reporting of Australian Defence Force preparedness

5.46 Defence reports publicly on its performance principally through the Portfolio Budget Statements (PBS) tabled in the Parliament at the start of the financial year, with revisions in mid-year through the Portfolio Additional Estimates Statements (PAES). The Defence Annual Report highlights achievements against performance targets.

5.47 The relatively recent introduction of the PMS¹⁴³ has meant that priority has been given in Defence to the development of the system as an integral part of internal capability management within the Defence business model. Design features of the external reporting of preparedness have not to date received as much attention as internal reporting and performance management.

5.48 The ANAO notes that preparedness information provided in the PBS, PAES and Annual Reports has varied in content and format over recent years.¹⁴⁴ These have been brought in as part of changes to the Defence organisation and the Budget Estimates Framework. Managers in the four capability outcomes have been given continuing flexibility in the ways in which they conduct external reporting of performance.

5.49 The 2003–04 PBS shows information relevant to ADF preparedness under 'Results to Government as Defence's Customer', by outcome group. Preparedness information is accordingly presented for each of: Command of Operations Outcome (COMAST) and the three outcomes of Navy, Army and

¹⁴³ The 2003–04 PBS described the preparedness reporting system as having been implemented from 1 July 2002.

¹⁴⁴ Changing formats and content in these reporting documents were examined in ANAO Audit Report No.39 2002–03, *Navy Operational Readiness*, pp.122–124.

Air Force. Common elements in the measures of quality of achievement across the four outcomes are:

- achievement of levels of preparedness directed by CDF for military response options; and
- achievement of a level of training that maintains core skills and professional standards against warfare areas.

5.50 Different targets and measurement approaches are used across the four outcomes. Although there is some narrative describing various 'preparedness', 'readiness' and 'sustainability' matters in the information provided on all outcomes, Navy has sought to develop new performance measurement metrics for its preparedness information.¹⁴⁵

Navy preparedness performance information

5.51 The Navy's component of the 2003–04 PBS contains a preparedness measurement focus. In it Navy is funded to provide force elements at levels of capability to meet Defence operations, international engagement requirements and levels of preparedness directed by the CDF for military response options.

5.52 To assist it to report on its achievement, Navy indicates that it has developed a new measure of capability, Unit Ready Days, as an indicator of the availability of maritime forces for tasking.¹⁴⁶ It foreshadows that it is planning to introduce during 2003–04 a new quality indicator, in addition to those already included, on 'achievement of mission capability'.¹⁴⁷ These new indicators are designed to enhance Navy's reporting of preparedness performance.

5.53 As part of the performance information provided in the PBS, performance targets for each of the FEGs' force elements (other than the Naval Aviation FEG¹⁴⁸) are presented in the numerical form of targets for the Unit Ready Days of each vessel type.

¹⁴⁵ The development of improved public readiness performance in the Navy was recommended in ANAO Audit Report No.39 2002–03, *Navy Operational Readiness.*

¹⁴⁶ Unit Ready Days is defined as 'the number of days a force element is available for tasking by the Maritime Commander, within planned readiness requirements'. Planned Unit Ready Days are determined for each FEG by aggregating days for the unit in commission, less all days when the unit is programmed to be in major maintenance and conducting pre-workup (preparations for initial operational training).

¹⁴⁷ According to the PBS, 'Mission Capability' is to measure capability for the assigned task. It is defined as 'the required level of unit readiness for the actual tasking for which the force element has been scheduled at any one time through its operational cycle. Tasking includes all scheduled activities to achieve assigned Defence operations, international engagement requirements, and levels of preparedness required for military response'.

¹⁴⁸ The Aviation FEG's targets continue to be expressed in flying hours.

Army, Air Force and Command of Operations performance information

5.54 Across most of the Army outputs, the performance metric is expressed in terms of achieving levels of preparedness directed by the CDF for military response options with a warning time of less than twelve months. The outputs are also required to achieve a level of training that maintains core skills and professional standards across all warfare areas. No more detailed commitments are made. For Army Aviation, flying hours' targets for each aircraft type, and number of each aircraft type, are included, as well as the two core qualitative targets.

5.55 Air Force FEGs that are linked to flying platforms include flying hours and aircraft type numbers. This quantitative information may be described as input metrics. The performance targets for all the FEGs are described in terms of the same two core qualitative targets as in Army and Navy. In addition, the entry for each FEG (output) includes a small list of specific commitments such as maintaining designated Wings and units, or capability-enhancing (or rectifying) measures, none of which are quantitative.

5.56 Performance material for the Command of Operations Outcome is largely descriptive material grouped in its three outputs: Command of Operations, Defence Force Military Operations & Exercises, and Contribution to National Support Tasks. The performance targets include that the forces identified in the ASTOPR for specific functions maintain required preparedness levels. In the case of the third output, numbers of flying hours for the P-3C maritime patrol aircraft and patrol boat 'days' are specified.

Preparedness performance reporting

5.57 The ANAO review of the 2003–04 PBS material showed that capability outcomes consider their preparedness performance reporting tasks in the external arena in widely different ways. The Navy has made a substantial effort to come to grips with the potential of the PMS to generate meaningful public reporting and has positioned itself to provide quantitative information that reflects meaningful and easily understood preparedness performance measurement information.

5.58 In the case of the other three Outcomes, the metrics and quantitative information (such as flying hours) are mostly activity-based descriptors and do not report results. They do not vary much from the performance information format that has been provided over a number of years in the PBS and Defence annual reports. With the measurement objectives set out in this form, it could be expected that performance reporting against them in Defence annual reports would be largely narrative and continue past arrangements.

5.59 With suitable generalization to ensure protection of confidential information, public reporting should be able to build on basic achievements of the PMS so as to generate one or a combination of:

- reporting on the extent and quality of actual delivery of outputs to Government;
- portfolio-level reporting of linkages with the DLOC system via the OPA; and
- the general levels of capability that are being maintained across FEGs and outputs in each of the Services and across the ADF.

5.60 The objective would be to enable understanding of Defence's preparedness performance achievements over the reporting period, and an appreciation of difficulties that have been managed by Defence over that period. If the indicators selected were maintained over a number of years it would enable some assessment of trends in preparedness management performance—a result which cannot be achieved until sound indicators are developed and settled as part of Portfolio performance management arrangements.

5.61 The guidelines on annual reports produced with the authority of the Joint Committee of Public Accounts and Audit by the Department of the Prime Minister and Cabinet in June 2003¹⁴⁹ provide that:

PBSs set out performance targets for departmental outputs and contributions to outcomes when funds are appropriated, and annual reports report on achievement. PBSs and annual reports provide the Government and the Parliament with detailed information about actual performance of departments and forecasts of future needs and expectations. The 'clear read' between PBSs and annual reports is an essential part of the accountability systems that compares budgeted targets and figures to those actually achieved, and places a strong emphasis in compatibility between the two documents regarding budget and performance information.¹⁵⁰

5.62 The initiatives taken by Navy in the 2003–04 PBS, and the foreshadowed further development of indicator material, should be significant forward steps towards the position enunciated in the Department of the Prime Minister and Cabinet Guidelines. The ANAO considers that the Navy's approach is a positive initiative towards bridging the gap between the PMS, as it is being implemented within Defence, and the need for informative public reporting on ADF preparedness. It could be examined by Defence as a 'better practice' approach that might be adapted by capability outcome managers to

¹⁴⁹ Refer also to ANAO Audit Report No.11 2003–04, Annual Performance Reporting.

¹⁵⁰ Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies, Department of the Prime Minister and Cabinet June 2003, para. 2–6(2).

their respective capabilities and used in external performance reporting in the PBS and Defence annual report. Indicators such as 'Unit Ready Days' and 'Achievement of Mission Capability' are concepts that should provide a basis for some reflection of key PMS objectives in the material made available in the public reporting cycle. Variations on these concepts for specific platforms and capabilities could be developed for better performance.

5.63 The ANAO found that Defence performance reporting to the Parliament, relative to the comprehensive performance reporting undertaken internally to the DC, could be improved. The ANAO acknowledges that, as the PMS is still in a development phase, it may take some time to develop a sound and stable basis of reporting externally on preparedness management, taking into account the need for classified information to be excluded from material put into the public arena.¹⁵¹

Recommendation No.7

5.64 The ANAO recommends that, in order to continue improving the public reporting of Australian Defence Force preparedness, Defence generate coherent public performance information for the three Services and Headquarters Australian Theatre, using identified internal best practice and taking into account the different operating environments of each Service.

Defence response

5.65 Agreed.

Canberra ACT 23 April 2004

Oliver Winder Acting Auditor-General

¹⁵¹ Until such time as a sound and stable system of performance measurement is introduced into Defence's external reporting of preparedness, it will not be possible for the Parliament to be able to assess the multi-year performance of Defence in implementing this important dimension of Defence's capability management. The ANAO made a similar observation in its report on Navy Operational Readiness (op cit), pp. 123 and 124.

Appendices

Appendix 1 : Capability Measures and Sub-elements

Directed Level of Capability

1. DLOC is the funded level of capability 'directed' to be maintained across all capability outputs. It is the result of the annual negotiation cycle through which the available resources in the year's Defence Budget are allocated corporately across the various outcomes and outputs.

2. The instruments through which the DLOC is determined and promulgated are the OPAs issued effectively as directives from the Secretary/CDF to the Defence outcome managers (which include the three Service Chiefs and COMAST). OPAs specify the tasks and funding allocations of the force elements under the control of the Service Chiefs on a financial year basis, linked to the DMFP,¹⁵² and creating linkages to the planning of future capability through the Defence Capability Improvement Plan.

Operational Level of Capability

3. OLOC is a (higher) level of capability enabling forces to conduct specified operations effectively. It is the result of forces being worked-up, and otherwise prepared, so that they achieve pre-set levels of proficiency attaching to a function, and being equipped with resources to perform the tasks of a specified OPO.

4. At OLOC, force elements or units have attained the combat or missionspecific 'pass mark'. Forces attain OLOC, for specific purposes, from the steady state of their DLOC status. The Readiness Notice denotes the outer limits of the period within which they are required to accomplish this status. Creating and holding upgraded levels of capability costs financial and materiel resources. While some force elements with very short warning periods (such as some units in the Special Operations Command) maintain capability at or around OLOC, others may not reach it for many of their tasks for long periods.

5. Defence capability managers are required to risk-manage the issues involved in progressing units from DLOC to OLOC in the framework of the PMS's deficiency reporting system.

Fundamental Inputs to Capability

6. The FIC concept has been developed in Defence over many years. The FIC have been assimilated into the PMS and are now used to ensure that the generation of capability, as measured by the DLOC—OLOC measures, is fully

¹⁵² The Australian Defence Doctrine Publication 00–2 describes the DLOC as an organisational requirement providing the mandatory link to annual financial resources.

comprehensive of all relevant components. The FIC are described by Defence¹⁵³ as a 'checklist' of the full range of inputs to capability that should be taken into account by capability managers in building a capability. The individual FIC will be present in different proportions and, for some tasks, some may not even be relevant—hence their characterisation as a 'checklist'.

7. The FIC connect with the capability measuring systems of OLOC and DLOC and capability managers are required to apply them when monitoring and reporting the units in their responsibility. Accordingly, a unit or force element is at OLOC when it has attained the prescribed FIC levels for a specified operational requirement. The same test would apply to assessing accomplishment of DLOC. Conversely, if a unit is dependent on a FIC that is deficient in some way in regard to the task for which it should be 'ready', a capability manager must consider proposing a deficiency report.

8. Applying the FIC to assessing the stages in capability achieved for units directly introduces the PMS to the wide range of surrounding factors and sustainment issues involved in creating capability. The 'Facilities', 'Supplies' and 'Support' FIC directly introduce these sustainment tests of capability in a very comprehensive way.

¹⁵³ Australian Defence Doctrine Publication 00–2, paragraph 1.5.

Appendix 2: Machinery of Coordination with Enabling Groups

Relationship management infrastructure

1. The Defence business model adopted in the context of the 2001–02 Budget envisages that the relationship infrastructure upon which the enabling groups in Defence contribute to ADF capability will have:

- documented customer/supplier relationships based on agreements with the capability outcome groups, supported by working liaison arrangements;
- visibility of associated costs of products and services in the inputs provided to the outcome managers by the enabling groups; and
- management information systems that convey reliable resource production and consumption information to all relevant managers.

2. These arrangements are to be integrated across Defence's corporate management system in the network of OPAs between the Secretary/CDF and all the group executives.

Customer Supplier Agreements/Service Level Agreements

3. The core documents linking the enabling groups with the ADF outcome groups are CSAs between the outcome managers and the provider groups. They are to be supported by cascading SLAs negotiated within the CSA framework between lower levels of the respective organisations. Between them, these instruments are intended to enunciate the principles for collaboration between all the participants in the capability-generation process including planning, service delivery standards, performance management/review and, ultimately, price.

4. Both DMO and CSIG employ coordination arrangements to develop their respective CSAs and SLAs, each group provides an extremely wide range of services and the wide differences between circumstances of units in the ADF, both organisation-related and geographically determined, need to be fully taken into account. Because of this diversity, the negotiation of the instruments is devolved, with little detailed higher level prescription.

5. Another consequence of the diversity of needs and services is that implementation of the CSA/SLA program has proceeded at a very uneven pace since the creation of DMO in 2000 and some pieces of the architecture are still incomplete (for example, the CSA between DMO and the Army). At the end of audit fieldwork, all the CSIG group-level CSAs were in place with four

capability outcome managers and many of the CSIG 'Base Level CSAs' had been finalised. $^{\rm ^{154}}$

6. In DMO, two CSAs—those Navy and Air Force negotiated during 2003—were in place. Numerous SLAs had been finalised though negotiations were continuing on a number. Several of the CSAs and SLAs had progressed into second year iterations—that is, building on instruments negotiated in 2002.

7. The CSAs and SLAs are characterised by a central core of provisions such as 'agreed commitments', statements of respective sides' responsibilities, how performance should be managed (some of the 2003 documents have annexed lists of Key Performance Indicators that proceed into some degree of detail; others have statements of 'High Level Performance Measures'¹⁵⁵). Beyond this common core, concepts of what CSAs and SLAs should cover vary from area to area.

8. The Army's arrangements with the enabling groups is inherently complicated by the highly regionalised and distributed basis of Army activity. While a group-level CSA between CSIG and Army has been finalised and signed, the key service provision issues are heavily localised. Army has implemented a range of base-level CSAs with CSIG regional managers.

9. The situation appears even more complex between Army and DMO. A CSA with DMO at group level is perceived to be a fair way off in the future. For a very large number of supplies on which Army is particularly dependent (for example, vehicles and small arms) DMO works in 'fleets'.

10. As the CSA/SLA system does not appear to be suitable for this relationship an annual 'fleet screenings' process has been implemented since 2002 to allow Army to feed its requirements into the DMO management system.

Fleet screenings

11. In the fleet screenings arrangements, Army and DMO's Land Systems Division have developed different processes to achieve a working relationship that reflects Army's capability needs, outside the CSA/SLA architecture. The arrangements also facilitate DMO's management processes in pursuing appropriate funding levels in the DMFP. Because of Army's Concept of Operations, in the combat system Army has heavy reliance on the fleet-

¹⁵⁴ CSIG and the Services have established 'CSA Steering Committees' to facilitate the negotiation of their CSAs.

¹⁵⁵ The 2003 Air Force/DMO CSA has such a statement.

managed items produced by DMO. The fleets are managed out of numerous units in the DMO Systems Divisions.

12. The present fleet screening process involves an annual cycle of meetings between Army Headquarters and the main DMO fleet management participants, and DMO's Materiel Finance Branch. In these meetings Army enumerates its requirements against the background of a preparedness briefing and the detail of its DLOC obligations. It specifies its priorities.

13. The timing of the cycle of meetings is intended to align with the DMFP cycle, to provide DMO with the information it needs to place bids for resources (reflecting Army's priorities) into the DMFP negotiating process.¹⁵⁶ The screenings result in a series of item-specific Fleet Management Agreements.

14. The screenings process is an innovative mechanism to enable convergence of one Service's business needs and the business needs of the relevant DMO areas.¹⁵⁷ Fleet screenings are an example of an informal process operating alongside the CSA/SLA system.

Support mechanisms for the relationships

15. The ADF outcomes groups and DMO and CSIG have set up a variety of mechanisms to liaise with each other and support their relationships. These operate typically in a cascade fashion from more strategic to operational levels. At strategic levels across DMO and across Defence, higher-level committees are the Defence Logistics Board and the DMO Preparedness Working Group, discussed further below.

16. The chief mechanisms bearing on preparedness management in the context of making the individual Service relationships work effectively are:

• **Business Partnering Forums**. These are at high level: at one-star rank in the case of their chairs. They monitor the operations of the relevant CSA.¹⁵⁸ The forums are jointly chaired by the two 'partners', and their business procedures are incorporated in the CSA. The partnership forums have enabled Services to elevate, to high-level consideration in

¹⁵⁶ The procedure was an initiative of the Chief of Army. The Army Fleet Screenings Committee is chaired by Army HQ's Director General of Preparedness and Policy.

¹⁵⁷ The fleet screening process starts with a preparedness briefing to DMO by Army.

¹⁵⁸ The CSIG customer forums appear to have had a separate genesis to the CSA framework requirements, though they have been brought under the CSA 'umbrella'. Previously, CSIG had worked with the Services through director-level working group arrangements. The Air Force Business Partnering Forum, for example, was established following the Relationship Review in 2002 and creation of the Forum at one-star level was an initiative taken both to address the recommendations in the Review seen to require higher level direction than the previous existing mechanism. Underneath the forum between Air Force and CSIG is a Customer Service Working Group at Director level—it existed beforehand as a Steering Group and had been established under the current CSA between Air Force and CSIG. The Customer Service Working Group reports to the Forum.

CSIG, savings issues that could have serious effects on capability. DMO's business partnering arrangements are still in the embryonic stage.

- **Customer Relationship Reviews**. CSIG has set up a formal review program of its customer relationships with each of the Services.¹⁵⁹ These go beyond the realm of the CSAs and embrace all issues and areas in the CSIG service realm.
- **Cross-membership in corporate governance bodies.** The practice in the Services' relationships with DMO is for the respective Service Chief's senior advisory committee to maintain, as a full member, the divisional head of the most closely aligned and relevant Division in DMO. In addition, the Electronic Systems Division in DMO provides a Branch-level representative to each of the Service advisory committees. Reciprocal arrangements apply to the Services' participation in governance arrangements of the Systems Divisions in DMO (Maritime, Land and Aerospace Systems Division). At the FEG/SPO level, each group typically participates in the others' strategic and operational management processes. The principal CSIG liaison with the Services is through the business partnering forums and the working group mechanisms set up under them.
- **Postings and secondments.** In Army, the decision was taken to position a senior officer in the DMO Land Systems Division to facilitate the development of the relationship and actively assist the Division to align its business processes with Army's needs. The Aerospace Systems Division has positioned in its headquarters group a senior officer with extensive background in the development of the PMS.

Visibility of costs

17. The development of a Defence-wide basis on which to identify the costs of inputs generated by the enabling groups is a major project of the Defence portfolio. The development of a full pricing model is integral to the Defence business model. It is dependent on the building and redevelopment of many Defence systems and processes that involve a wide spectrum of the Defence IT infrastructure.

¹⁵⁹ Two of the reviews (for the Air Force and Army) have been completed.

18. The principal project in which the work is being done is the Defence Decision Support Project. CFO has control of the project, jointly with the Chief Information Officer.¹⁶⁰

19. Some progress has been made through the BORIS Project to improve the visibility of costs across Defence.¹⁶¹ The objective is the better understanding across Defence of the gross cost of ownership of its assets and the ability to identify the total available resources to support new and replacement systems. Preparedness management forms a part of this much wider goal.

20. Cash-based information is now available to FEG/output level. It is intended to extend this to include accrual and cash information down to force element level. Due in part to the complexity of the task, its implementation has been delayed. The most recent estimate for its introduction is 2004–05.

21. Various initiatives have also been made by both outcome groups and the enabling groups to develop pricing models for their products and services, for example, the Land Systems Division costing model for fleets managed within the Division.

22. Until the implementation of the Decision Support Project, the achievement of a full activity-priced customer/supplier model will continue to be work-in-progress, as noted in the ANAO performance audit of Navy Operational Readiness in 2002.¹⁶² It will not be possible for the CSAs to have

¹⁶⁰ The Defence Decision Support Project aims to establish a central reference point for timely access of core, reliable management information, a Defence-wide costing framework and capability to model future Defence requirements. The project involves not only information systems (drawing data from existing systems such as PMKeyS, ROMAN, SDSS and data warehousing projects) but also initiatives to improve business processes, policies and procedures. The qualitative benefits Defence consider the project will deliver include:

more timely, cohesive decision making through greater trust and reliance upon the supporting information;

 $[\]cdot$ establishment of mechanisms that will drive Defence's control over information sources and quality;

better and common understanding of the costs of capability; and

an ability to more accurately model and assess the impact on capability of strategy resourcing decisions.

Defence Decision Support Project, http://intranet.defence.gov.au/cfo/projects/ddsp/welcome.htm, 10 Sept. 2003.

¹⁶¹ The Defence Budget Output Reporting Information System (BORIS) has been developed to help produce Output Financial Reports and model a consolidated budget. BORIS facilitates the development, reporting and management of output distribution by:

[·] meeting the statutory financial reporting requirements to Government;

providing the ability to input and revise distribution rules;

applying the distribution rules to both actual and budget data across the DMFP; and

providing visibility of individual and summary level Profit Centre/Account details.

¹⁶² ANAO Audit Report No.39 2002–03, *Navy Operational Readiness*, pp 92–93.

pricing information until that implementation. Nor will it be possible for the OPAs to be supported with fully robust resourcing information.

ADF preparedness in the enabling groups

23. Attempts have been made to position the enabling groups more closely to Defence's PMS and to assist with the resolution of Defence's problems with planning for and resourcing of immediate and longer term capability sustainment. These have taken two forms: the establishment of a new strategic logistics capability within Joint Logistics Command (JLC), working closely with the Policy Guidance and Analysis Division's preparedness planning (a Strategic Logistics Branch); and the convening or tasking of consultative groups operating at the strategic level of preparedness or logistics (the older-established Defence Logistics Board and, an initiative from within DMO, the DMO Preparedness Working Group).

Strategic logistics linkage to military strategic planning

24. The Strategic Logistics Branch was established in early 2002, chiefly in response to Defence concerns about the performance of logistic supply chains in the INTERFET operation in East Timor.

25. The Branch is concerned to ensure that arrangements are in place to provide sustainability to force elements at the various levels of readiness, through focusing on the strategic level functioning of logistic supply chains.¹⁶³ The Branch Head reports to CJLOG but has a very close working relationship with CDF and Deputy Secretary Strategic Policy.

Defence Logistics Board

26. The Defence Logistics Board and the DMO Preparedness Working Group are the two DMO-centred consultative bodies that are positioned to be able to examine preparedness and sustainability issues on a whole-of-Defence basis.¹⁶⁴

27. The Defence Logistics Board is chaired by CJLOG and is accountable to the Vice Chief of the Defence Force. It brings together all the areas in the ADO with an interest in strategic logistics. Its focus is on the development of doctrine at the 'top end', with the expectation that the Services will draw off it to set up their own logistic doctrine documents (at present this single Service activity is being done in Air Force).

¹⁶³ The Strategic Logistics Branch is involved in the Explosive Ordnance Study but does not manage it.

¹⁶⁴ Of the two bodies, the DMO PWG has a more internally, or DMO-focused, role but its activities have a Defence-wide agenda.

DMO Preparedness Working Group

28. This consultative body was established by DMO in 2002 in recognition that DMO has a major role to play in generating and sustaining ADF capability outside the capital acquisition role. As through-life support matters do not have structured reporting arrangements in the DMO, the DMO Preparedness Working Group (PWG) is intended to develop this relatively 'immature side' of DMO operations. It is designed to assist DMO to focus on what the organisation needs to do to enhance internal DMO responsiveness to the requirements of the PMS.

29. The terms of reference of the DMO PWG provide for the PWG 'develop a preparedness analysis and reporting system within DMO that supports PMS requirements'.¹⁶⁵ The PWG is also supporting the development of a methodology for validating sustainability, associated with the logistic shortfall modelling work being done in the Strategic Logistics Branch.

30. The objectives underlying the PWG's mandate and activities are central to the organisational performance of the DMO as an enabling group in ADF preparedness. However, as its role is strictly consultative, it would not seem to have the required authority to achieve these purposes at all expeditiously.

¹⁶⁵ DMO Preparedness Working Group Terms of Reference, undated. The DMO PWG focus is on items of materiel that traverse units in the ADF, not on specific equipment sustainability needs.

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