

ADBR'S DCP ON A PAGE

In anticipation of the first round of Defence Capability Plan (DCP) updates materialising shortly, ADBR researchers have reviewed July's DCP in light of formal Government statements and announcements through to end-December, and have incorporated this data into an A3 print-sized tabulation called **ADBR's 'DCP at a Glance'**.

This new product – which will be sustained as an on-going electronic service for magazine subscribers – charts all the principal information points and key milestones advised in the original document, as well as those elements subsequently changed via public statements running back to DWP'09 release, and ultimately, running forward to release of the next Defence White Paper.

The baseline chart, therefore, not only provides a useful summation with which to better comprehend the 2009 DCP, but also establishes a format to underpin future ADBR magazine editions covering the roll-out of Government decisions in relation to the provision of resources to drive the Australian military's 'Force 2030' vision.

The following summary outlines the key headings and analytical parameters of **ADBR's 'DCP at a Glance'**, along with a brief explanation of the source or derivation of the subject parameter. Due to the 2009 DCP's shift to broad banding key project parameters, several initiatives have been taken by our research team to provide more clarity to the data than initially declared in the Government's figures. Where this has occurred, an explanation of the methodology employed is provided.

- **Project Number/Phase** – The ADF has maintained for many years (ADBRs records go back to the 1997-2001 'Pink Book'), a consistent approach to the naming of new capability acquisition projects/project phases broken down into five categories: Sea, Joint Project, Land, Air and Defence (DEF).
- **New Capability Description** – This has been extracted from either the heading used in the 2009 DCP or DWP'09, or derived by ADBR researchers from reference to the fuller DWP'09 paragraphs where no specific heading was provided.
- **Year of First DCP Listing** – Consistent with the adage 'Everything Old is New Again', ADBR researchers have found, by tracking back through the three previous DCPs – that close to half of the projects/project phases presented as 'new' in the 2009 DCP, have their derivation in earlier DCPs or Defence White Papers. Some projects were also observed to have their roots in the DNMCEP.
- **ACATs** – The Defence Materiel Organisation (DMO) has struggled for years to find a methodology which is proficient at communicating to stakeholders (especially politicians), the complexity of acquisition projects it is dealing with, as well as its progress in retiring risk and executing its mission. An insight into the evolution of this mission was most recently stated in the DMO's 2008/09 Annual Report as, "in order to maximise the return on its investment in defence equipment, the government expects that the DMO will deliver and sustain required capabilities to high quality standards, at

optimum cost, and within tight schedules.”

Reflecting dissatisfaction with the utility of globally-available performance assessment tools (such as Earned Value Management, which tracks Expenditure, Schedule & Capability delivery) to encompass this task, the DMO since the 2003 ‘Kinnaird’ review has progressively developed (and adopted since 2004) a new Acquisition Categorisation (ACAT) framework. This framework tracks six key project attributes – acquisition cost, project management complexity, schedule, technical difficulty, operations & support and commercial – to derive a graduated quad-tier scale indicating the most demanding and complex projects (ACAT I), through projects that are less so, and ultimately the least demanding projects (ACAT IV). [See *Insert Box page 7 for further ACAT technical details*].

- Number of Units – Where they are listed in either DWP’09 or the 2009 DCP (or are otherwise known to ADBR via historical reference material), the number of units proposed to be acquired under each project/project phase are listed. [Note: An index to the acronyms used in ADBR analyses is available as a free download from www.adbr.com.au/data/ADBR-E_Prev.htm]
- New Capability, Likely Base Platform and/or Weapon – Where they are listed in either DWP’09 or the 2009 DCP (or otherwise known to ADBR), the nature of proposed new military capability acquisition proposals are listed.
- Legacy Platform/Weapon and/or Policy Decision – ADBR researchers have trawled through all the previous DCPs running back to 2001, as well as records held on the DIAR.com ‘On Line @ Your Office’ (OLYO) database, to compile a brief profile on historical or ‘legacy’ issues driving each new 2009 DCP project/project phase.
- DWP’09 New Capability Mix and/or Declared 2009 DCP Project/Phase Scope – This data is extracted from an analytical reading of either the DWP’09 or 2009 DCP text.
- Time Band for 2009 First Pass Approval – This data is extracted from the 2009 DCP text, which has adopted concepts canvassed in the ‘Mortimer’ review. Mortimer recommended the government adopt a concept of banding key timelines and budget figures as a means to protecting the Commonwealth’s negotiating interests, as well as providing additional flexibility for Defence managers to either advance the schedule for certain unapproved projects (or let them slip) in a manner less transparent in terms of public scrutiny.
As such, ‘first pass’ approval dates are expressed in the 2009 DCP over two financial years as a means of indicating when new military capability acquisition proposals might come up for consideration by higher decision-making authorities.
- 2009 DCP Second Pass Approval (Year of Decision) – Also extracted from the 2009 DCP text and expressed in bands of two financial years, officials now view the term ‘second-pass’ approval as also

indicating in future the 'Year of Decision', drawing on recommendations first canvassed in the 2003 'Kinnard' Review to tighten up the system, and subsequently enhanced in the 2008 'Mortimer' Report. Thirty-two projects/project phases are listed (*see 2009 DCP, page 207*) for 'second pass' consideration over the next few financial years (FY2009/10 to 2011/12).

In reviewing these projects, it is instructive to note how many involve total project expenditures less than \$100m. Further, of those projects with much larger proposed budgets, a large majority will require extensive study phases (of generally low annual expenditure) before the major acquisition financial commitment kicks in. Hence, ADBR's conclusion the 2009 DCP is merely 'treading water' until both the economic recovery and next Defence White Paper more comfortably match Defence's new military capability ambitions with the nation's ability to afford the associated costs.

- Potential for Single Second Pass Approval – The 2009 DCP indicated that where certain projects/project phases were listed with common consideration time bands, this could potentially be read to indicate that the subject project might achieve consecutive 'first' and 'second pass' approval. Recent approvals reforms also mean that only projects with a >\$100m expenditure threshold are required to go before the National Security Committee of Cabinet for consideration and approval. Below that, the approval decision rests with the Minister for Defence working in consultation with the Minister for Finance & Deregulation. Eighteen projects/project phases across the full DCP have been identified by ADBR researchers as potential candidates for consecutive 'first/second-pass' approval.
- Former 2006 DCP Year of Decision – This data is extracted from the 2006-2016 DCP.
- Number of Years Slippage (>) or Advancement (<) – This column is calculated by reference to the actual date listed in the 2006 DCP (or the latter of the time band date provided), with the later time band date provided in the 2009 DCP. Calculation of the difference between the two is intended to provide a ready indication of the Rudd Government's re-assessment of priorities between the two most recent DCPs, including the previously discussed indicative deferral of a number of high-expenditure projects (as a means to assist management of an early return to Budget surplus), into the latter years of the current forward estimates, or, outside of the current forward estimates period altogether.

As previously noted, it is generally accepted that early year progression costs for any new project listed in the DCP will be low, given they mainly involve the undertaking of desk-based studies, investigatory missions overseas or commissioned assessments/consultancies. Within the context of debate about the Government's management of the Budget deficit – as well as the quest for \$20 billion of forced savings over the next ten years under the Strategic Reform Program (SRP) – it is uncanny that the vast majority of projects listed in the 2009 DCP have been deferred by two to five years, when compared with their listing in earlier DCPs. Reflective of these observations, the Head of the Capability Development Group, Vice Admiral Matt Tripovich, conceded in a separate D+I address that the timing of some 60 DCP projects had been rescheduled, while the cost bands of 30 projects had been readjusted. Readers might wish to carefully check such advice against **ADBR's 'DCP at a Glance'** chart.

- Time Band for 2009 DCP Prospective IOC – Prospective (or target) Initial Operating Capability (P-IOC) dates are extracted from the 2009 DCP. ADBR has previously commented on how – in response to political pressure to manage technical difficulties or other project slippages – ADF new military capability developers have substantially written down (as a risk management initiative), the quantum of platforms now required to satisfy this measure. For example, does one helicopter flying at sea really represent a go-to-war capability?
- Previously Known Indicative In-Service Date or IOC Year – This data has been principally extracted from the 2006 DCP, with reference when necessary to earlier Defence White Papers or Defence Updates, or former Defence Portfolio Budget statements extending back to 2000/01.
- 2009 ACAT Cost Band – Having abandoned the practice of previous DCPs in stating closely banded (or specific) cost estimates, ACATs I to IV have been developed by the DMO to better reflect key risk and cost parameters. This action is said to have been picked up from the ‘Mortimer’ report, which considered in certain circumstances, that the declaration of narrower cost estimates might end up compromising the Commonwealth’s negotiation position. Such rationale has been disputed by industry. By disguising the real cost of a proposed acquisition, industry is left confused as to the real quantum of the business opportunity Defence is trying to communicate.
- 2009 ACAT Cost Range – The 2009 DCP adopts a new banding structure for project cost estimates: <\$100m; \$100m to \$500m; \$500m to \$1500m; and >\$1500m. For additional guidance, the 2009 DCP also indicates whether the cost is likely to fall in the Lower, Middle, or the Upper end of the band.
- Derived Nominal Project Cost – Reflective of the above, ADBR has developed a methodology to yield a Derived Nominal Project Cost (A-DNPC) estimate for each project, based on the DMO’s ACAT cost ranges. For example, for the <\$100m category: the ‘Lower’ band is determined by ADBR as being \$30m; the ‘Middle’ as \$50m; and the ‘Upper’ as \$80m, and so forth across the other bands. Cost estimation is made more difficult for the larger value projects, as the DMO provides only an open band of >\$1500m. A reasonable stab at likely expenditure can nevertheless be made by reference to known cost estimates floated by executive government, and/or reference to the published costs of international new military capability acquisitions of similar scope and size.
 For this last category, therefore, ADBR has adopted the following: ‘Lower’ – \$1500m; ‘Middle’ – \$3000m; ‘Upper’ – \$6000m; ‘High’ – \$12 billion (aka phases 2A/2B of the project Air 6000 JSFs); and ‘Ultra High’ – \$25 billion (as indicated by government officials to be reflective of project Sea 1000 future submarine acquisition costs, and Australia’s largest-ever new military capability acquisition project). To help complete ADBR’s estimation of the total value of the 141 projects/project phases canvassed in the 2009 DCP, we have decided that where an A-DNPC estimate could not be derived from 2009 DCP data, the higher of the cost band provided in the 2006 DCP would be adopted. This yields a figure of around \$75 billion for all 141 projects/project phases in ADBR’s consolidated DWP’09/2009 DCP tabulation, and around \$60 billion for the 111 projects listed in the 2009 DCP relating to the years 2009-2014.

- 2006 DCP Estimated Cost – This data is taken directly from the 2006-2016 DCP.
- Nominal Budget Variance (+) or (-) – This figure is established as a result of taking the difference between the A-DNPC estimate, and the higher of the 2006 DCP cost band. Choice of the higher of the cost band was made as a concession to acknowledged defence materiel cost inflation, and Defence's poor cost estimation record as observed in the 'Kinnaird' & 'Mortimer' reviews. Hence, the roughly \$6.5 billion indicated in ADBR's analysis provides a workable indication of the real increase in the value of estimated project expenditure between the two most recent DCPs.
- Priority Industry Capability (PIC) – As derived from cross-referencing the list of Priority Industry Capabilities released in concert with the 2009 DCP, and the range of apparent technological requirements for both locally-owned and foreign-owned entities taking up residence in Australia to support the ADF. Assessments (yes or no) were taken from an analytical reading of the 'DWP'09 New Capability Mix and/or Declared 2009 DCP Project/Phase Scope' column.
- DWP'09 DSTO Research Priority – As derived from cross-referencing the list of DSTO Research Priorities listed in DWP'09, when read against the range of apparent technology development and innovation requirements taken from a reading of the 'DWP'09 New Capability Mix and/or Declared 2009 DCP Project/Phase Scope' column.

Subscribers or interested parties with any particular questions in regard to compilation of ADBR's 2010 'DCP at a Glance' should email newsroom@busicom.com.au.