

ATTACHMENT B

Contribution to Ai Group Defence Council Submission to the Commission of Audit

Risk Reduction through Contracting Approach for Major Systems

- The precedent of leveraging the research and development spend of the USG and other governments through FMS and FMS-like contracting on existing product lines has ensured that the Commonwealth is acquiring best-in-class systems at the high-end of the technology curve and low end of the cost and risk curves. Where this reduces the potential for significant local content on the platform itself, local industry involvement can be engaged through successful programs like the DMO Global Supply Chain Program.

Contracting Period

- Relatively short term contract periods, such as 3 year sustainment contracts, do not allow industry or the Commonwealth to invest in longer term savings and efficiencies. They also increase the rate of re-competition, adding cost to both industry and Defence.
- Suggest some analysis by Defence of the optimal period of contract length based upon the competitive landscape, previous and potential “partnership” savings for long term arrangements and the cost (in both time and labour) of re-competition, or the benefits of performance based KPI contracting.

Acquisition Cycle Time

- The period from stated requirement to finalization of the contract routinely takes many years, even for minor contract renewals.
- When the total cost for each participant to respond is compared to the total potential earnings, especially for larger efforts with full blown campaign teams and lengthy decision cycles, the outcome is often a net loss for industry. This is not sustainable.

Acquisition Requirements

- Competitions which involve a small number of platform solutions potentially do not provide the best of industry solution for the entire package, as contractors with strong training or support capability may not be able to compete on one of

the primary platform competitor's team. Consideration should be given to having separate platform competitions, where there are only a couple potential platforms to participate. Other elements of the program, including system integrator role, training and sustainment can be completed separately, which might give a significantly broader set of industry options to the ADF.

Competition for Competition's Sake.

- There are several examples of DMO competing a program despite the absence of a competitive environment (e.g., Hawk Sustainment, Super Hornet Follow-On Sustainment). This drives up industry costs - which DMO ultimately pays for as overhead rates - without adding value. A more collaborative and open approach could yield substantially more strategic value, particularly where the contractor's previous performance has been sound. Longer term sustainment contracts with smart exit ramps (based on cost or performance by the contractor) can be established, which can drive value for money for DMO, without the need for numerous re-competitions.

Liability

- A significant cause of contracting delay is the DMO position on liability. Current template agreements place an unreasonable share of risk and liability on industry/suppliers, including risk and liability that the Commonwealth is in the better position (both operationally and cost-wise) to manage and mitigate (e.g. at Commonwealth sites with multiple suppliers). The actual and attempted transfer of risk to industry can be overwhelming even for large companies and is often the only impediment to contract finalization. It is also inevitably a cost driver for final contracting pricing. Companies cannot continue to assume responsibility for risks over which they may have no direct control that sum to many multiples of the potential total contract revenue.