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## OVERVIEW

This Chapter provides an overview of the DMO, including the purpose and vision of the organisation, as well as opportunities and challenges. The chapter includes a review of the year by the Chief Executive Officer.

1.1 YEAR IN REVIEW

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(SPECIAL FEATURE)

# YEAR IN REVIEW BY THE CHIEF EXECUTIVE OFFICER



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2005–06 was the first year of the DMO as a prescribed agency.

It was also a very successful year, thanks to the professionalism and dedication of our hard working staff, who aggressively managed the fastest business tempo we have seen in Australian defence acquisition and sustainment for decades. Productivity per person increased by over seven per cent in the year, a good figure for any business in Australia, and especially good for a public sector organisation.

In 2005–06, the DMO achieved both its acquisition and sustainment business targets. Six and a half thousand DMO staff at our 50 sites throughout Australia and the 20,000 staff from over 500 of our suppliers in industry deserve congratulations for this outstanding result.

One of our themes at the DMO is benchmarking. This is done against like organisations, for example, acquisition and sustainment organisations in the United States of America, United Kingdom and Europe, and in other sectors of the Australian economy. The results are encouraging.

This year the Australian public showed much interest in an Australian icon, the fabulously successful Snowy Mountains Hydro Electricity Scheme, that was built by our grandparents in the years after World War II. Comprising 16 major dams and seven power stations of various sizes and complexities with associated tunnels and aqueducts, the Snowy Scheme was technologically challenging with

sophisticated engineering. It was truly nation building in economic and social impact. The overall program cost about \$17.5 billion when measured in today's dollars.<sup>1</sup> The average annual spend between 1949 and 1974 was about \$700 million in today's money.

Compare this with the DMO, which has over two hundred major projects, each costing over \$20 million, with the largest, the New Air Combat Capability, at \$12 billion. In 2006–07, the DMO's annual budget is more than \$8 billion, or over ten times the annual size and scale of the Snowy Scheme. As did the Snowy, the DMO takes a decade-long view of capability, with a strong emphasis on skills formation, in its own organisation and in industry.

Not everyone understands the vast magnitude of what the DMO has been asked to do by the Government. Under the Government's bold *Defence Capability Plan 2006–16*, we have \$60 billion worth of projects under management, each at different stages from initial planning and costing, to implementation, to finalisation and introduction of equipment into service with the ADF. These projects involve some of the most complex technology known. The DMO is responsible for acquiring and maintaining advanced stealthy fighter/strike aircraft, complex surveillance and detection aircraft, sophisticated satellite and terrestrial communications, warships of graded complexity and strike power, stealthy and deadly submarines with advanced surveillance capability, guided missiles and

<sup>1</sup> Historical dollar cost of the whole project was about \$818million. \$17.5 billion is today's value of this by using average weekly earnings as the value of money deflator for each year's expenditure between 1949 and 1974.

ammunition, armoured vehicles – so our troops are protected as they go about their dangerous duties on deployment – artillery, and a full range of weapons and support equipment.

There are major risks to be managed on a daily basis. The DMO intentionally takes on risk, noting that the “safe way” of accepting only low risk projects would leave our warfighters vulnerable and compromise Australia’s national security. Our job is not to avoid risk, but to deliberately accept it and then manage that risk intensively. Shortcomings will, and do occasionally occur, but we learn from those and get on with the job.

Like the Snowy, which took 25 years to complete, the timescales for Defence projects can be long. For example, the \$6 billion Air Warfare Destroyer project, which is currently going through its design phase, with production expected to start in 2009, has been in planning for eight years and will not be complete until about 2018, 20 years in all. These ships will serve with our Navy for 30–35 years, eventually paying off in about 2050. During that time, the DMO will maintain the three ships and upgrade their weapons systems probably once a decade, so that our warfighters continually have the best technology. Overall, it is a fifty-year responsibility that is hugely technologically challenging for the DMO and Australian industry alike.

This is why the DMO must be an enduring organisation, staffed with experienced professionals, dedicated to serving our country’s national security interests. I am proud to report that staff showed they were exactly this in 2005–06, our first year as a semi-independent prescribed agency, connected closely to Defence, but being charged by the Government to be more businesslike, outcome-driven and efficient.

I would like to thank the Secretary of Defence Mr Ric Smith and the Chief of the Defence Force Air Chief Marshal Angus Houston for their consistent strong support for the DMO and their wise counsel when difficult problems have emerged. The support of the Service Chiefs and Deputy Secretaries in Defence has also contributed to excellent teamwork, both with projects and sustainment, but also with rapid acquisitions in support of operational deployments. Lieutenant General David Hurley, Chief of the Capability Development Group, has also driven the DMO’s successes in 2005–06 and we thank him and his team for the energy with which they have prosecuted new projects.

The DMO can only ever be as good as the Australian and international industry that actually does most of the direct work for projects, upgrades and sustainment. We thank them for reducing in-year slippage in major capital project expenditure in 2005–06 to about 14 per cent in aggregate, compared with 2003 when schedule delays on the same measure were around 20 per cent.



**TOP LEVEL GOALS FOR THE DMO**

Defence Mission: *Goals*  
 ‘Defending Australia and its National Interests’

DMO Purpose:  
 ‘Equip and Sustain Australia’s Defence Force’

Optimise capability to military and nation by:

- Delivering projects and sustainment (‘effectiveness’):
  - On time
  - On budget
  - To required quality
  - To required safety
  - To required capability
- Make DMO more business like, accountable and outcome-driven (‘efficiency’)

**CAPITAL EXPENDITURE BUDGET**

DMO has about 210 major projects  
 Total value of projects in the capital plan is \$60b  
 In the 3 years since July 2003, 93 Major Capital projects have been closed (worth about \$5.5b). Of these:  
 10 projects required real budget increase (\$131m) which equates to only 2% of the total program value (this excludes the effects of 'intentional' capability increase)  
 51 have managed a real budget decrease, returning an unspent budget of about \$94.5m  
 This equates to a Nett Variation of \$36.5m (only 0.7% of the total)  
 Australia's problem is not COST, it is SCHEDULE



*The Minister for Defence, the Hon Dr Brendan Nelson, with Dr Gumley and Lieutenant General Hurley at the launch of the Defence Capability Plan 2006–16 at the Defence and Industry Conference June 2006.*

**DMO 06/07 BUDGET**

**Over \$8 Billion**

**More than 40% of Defence budget**

**About 0.8% of Australia's GDP**

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We are seeking a figure under 10 per cent which is benchmarked from like projects in best practice private-sector organisations; though we note that skills and infrastructure constraints are currently testing such performances in other sections of the economy.

2006–07 will be exciting and challenging. The Government has requested that the DMO's work output be increased by about 20 per cent compared with 2005–06, a figure that will test the resources available in the economy. We are giving it our best shot.

**Dr Stephen J Gumley**  
 Chief Executive Officer  
 Defence Materiel Organisation

# PURPOSE AND VISION

The DMO equips and sustains the ADF. Its goals are to deliver capability and sustainment on time, on budget and to the required capability, safety and quality; and to become more businesslike, accountable and outcome driven.

The DMO's vision is to be Australia's premier program management and engineering services organisation.

The DMO aims to:

- continue improving the delivery of acquisition and sustainment requirements, to meet the operational demands of the ADF;
- substantially lift outputs with a minimal increase in resources;
- continue implementation of a major change program, to make the DMO more outcome-focused and businesslike;
- strengthen partnerships with Australian industry, enhance the national skills base and build industry's capacity to support Defence through a careful mix of competitive tendering and appropriately negotiated contracts; and
- enhance the depth and breadth of skills and expertise in the DMO workforce.

# STRUCTURE

The DMO is structured around ‘domains’, ‘operations’ and ‘major programs’.

During 2005–06, the new position of Materiel Advocate was created to concentrate on assisting Defence exporters.

Within the DMO, the term ‘domain’ is used to describe acquisition and sustainment activity related to a specific environment. The ‘domains’ are Aerospace Systems, Maritime Systems, Land Systems and Electronic and Weapon Systems. System Program Offices exist within each domain and are the focal point for the procurement, delivery and sustainment of equipment. Each System Program Office is responsible for one or more fleets of equipment.

The ‘operations’ divisions are responsible for corporate or business services. The Chief Operating Officer provides information technology, strategic communications, corporate governance, and personnel services. Contracting services, financial services and industry relations are managed by General Counsel, the Chief Finance Officer and Industry Division respectively.

The term ‘major programs’ is used to describe activities associated with the acquisition of specific high-value, high profile capabilities. The major programs are for the Air Warfare Destroyer (AWD), Amphibious Deployment and Sustainment Capability (ADAS), New Air Combat Capability (NACC), Land Vehicle Systems (Overlander), Airborne Early Warning and Control (AEW&C).

The structure continues to evolve in response to the increased demands being placed upon the DMO. In July 2006, an additional domain division for Helicopter Systems was created. It is expected that the NACC function will be elevated from Branch to Division status at first pass approval in coming months.

More detail on the structure of the DMO is included in Chapter Three—Governance.

## CHART 1.1 DMO ORGANISATIONAL CHART



**CHIEF EXECUTIVE OFFICER**  
Dr Stephen Gumley



**DEPUTY CHIEF EXECUTIVE OFFICER**  
**AMPHIBIOUS DEPLOYMENT & SUSTAINMENT**  
Kim Gillis

### DOMAINS



**ELECTRONIC & WEAPON**  
Shireanne McKinnie



**MARITIME**  
Rear Admiral Trevor Ruting  
RAN



**LAND**  
Colin Sharp



**AEROSPACE**  
Air Vice-Marshal Clive Rossiter



**HELICOPTER**  
Major General Tony Fraser

### OPERATIONS



**CHIEF OPERATING OFFICER**  
Frank Lewincamp



**CHIEF FINANCE OFFICER DMO**  
Dr Ian Williams



**GENERAL COUNSEL**  
Gillian Marks



**INDUSTRY**  
Kerry Clarke



**DEFENCE MATERIEL ADVOCATE**  
Major General Jim Molan

### MAJOR PROGRAMS



**AIR WARFARE DESTROYER**  
Warren King



**AIRBORNE EARLY WARNING & CONTROL**  
Air Vice-Marshal Chris Deeble



**NEW AIR COMBAT CAPABILITY**  
Air Commodore John Harvey



**OVERLANDER**  
Brigadier David O'Brien

# RESOURCES

The total expenses for the DMO in 2005–06 were \$7,592m, including \$60m to provide policy advice and management services to the Government.

In June 2006, the DMO had 6,416 personnel, comprising 4,952 civilians and 1,464 military in approximately 50 locations throughout Australia and overseas.<sup>1</sup>

With over \$60 billion in projects under management, the DMO is one of the biggest contracting organisations in the country. It is involved in many of the largest and most demanding projects in Australia. If the DMO were a private business, it would be among the largest on the Australian Stock Exchange.

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<sup>1</sup> Further information on Defence Materiel Organisation's people can be found in Chapter Five—DMO People.

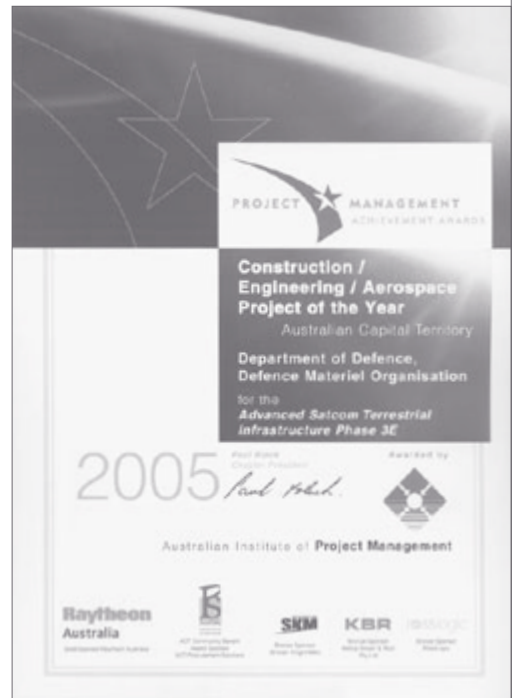
# PROJECT MANAGEMENT IN THE DMO

The DMO's performance in 2005–06 was recognised in awards from the Australian Institute of Project Management. The DMO was represented by eleven acquisition projects. The successful nominees were:

- Joint Project 2008 Phase 3E Advanced SATCOM Terrestrial Infrastructure, which was awarded the overall State winner and Construction category winner (ACT Chapter);
- Land 53 Phase 1E Ground Surveillance Radar, winner of the Construction category (Victorian Chapter); and
- AIR 5416 Phase 4A Electronic Warfare Self-Protection, overall winner and winner of the Product Development category (NSW Chapter).

A number of projects received special commendations at the awards including:

- Joint Project 2084 High Frequency Surface Wave Radar (Construction) (South Australian Chapter);
- SEA 1348 Harpoon Missile Launch Capability (Construction) (Western Australian Chapter); and
- SEA 1444 Armidale-class Patrol Boat (Construction) (ACT Chapter).



# SUPPORT TO OPERATIONS

The DMO provides strong and effective support to ADF operations through the rapid acquisition of equipment and supplies, sustainment of ADF capabilities and deployment of specialist staff.

Equipment including Bushmaster infantry mobility vehicles, unmanned aerial vehicles, ballistic and other protection upgrades to helicopters, fixed wing aircraft, land vehicles, extreme cold weather clothing, specific weapons, and communications equipment has all been subject to accelerated or rapid acquisition to ensure that the best equipment available is provided to troops when they need it.

The Bushmaster from ADI is operating effectively in Iraq and Afghanistan and is very highly regarded by our troops and our allies. The Bushmaster is being considered by the United States, Iraq and Canada to provide highly capable operational vehicles. The Netherlands has shown its interest and procured 25 Bushmasters. This is a world-class product.



# RISK ENVIRONMENT

For the DMO to achieve the ambitious goals that the Government has set for it, we must be one of Australia's best managers of risk. We have to identify, select, mitigate and manage the vast array of engineering, operational, commercial, financial, regulatory and other risks in our business.

## AS A RISK MANAGER THE DMO FACES SOME DAUNTING CHALLENGES

The DMO is Australia's largest project management and engineering services organisation. It has an average strength of some 6,600 personnel, rising to 6,800 beyond 2006 (a mix of Australian public servants, ADF personnel and external service providers) and works directly with over 20,000 personnel in Australian and international industry. It operates Australia-wide, in numerous overseas locations, and in direct support of ADF operations world-wide. As the DMO operates in several international jurisdictions, its business may be impacted by the actions and decisions of numerous domestic and international companies and governments.

The DMO is engaged in a complex, high-risk enterprise, acquiring, modifying and sustaining high technology capabilities. In many cases, this involves innovative and leading-edge technology and highly complex systems integration. In such activity, the DMO is highly exposed to the risk of its partners failing to meet required deliverables, or of non-DMO related events impacting on their businesses.

## THE GOVERNMENT'S AND DEFENCE'S EXPECTATIONS OF THE DMO ARE HIGH

In order to maximise the effectiveness of its investment in Defence, the Government expects that the DMO will deliver and sustain the required capability at optimum cost and to tight schedules. This requires the acceptance and management of a high level of risk. It would not be acceptable for the DMO to remove risk by significantly increasing project cost and schedule. While this would ensure that the DMO nearly always met its deliverables with minimal risk, it would have a major impact on the Defence Capability Plan, through the significant opportunity cost of funds tied up unnecessarily in additional contingency funds, delayed starts for new projects, and unnecessary overlaps in the retirement of old platforms and the introduction of new ones.

Nor is it feasible for Defence to take a more conservative approach by acquiring only tested and fielded technology and platforms. This would not meet the Government's policy requirement of maintaining a technology edge within ADF capability, and would not provide adequately for Australia's defence. A more conservative approach would itself be more risky, albeit in other ways, with the risks mostly borne by ADF members.

Instead, the Government and Defence expect the DMO to manage a high level of risk—prudent, not reckless risk; risk accepted only after calculated and sensible assessments, mitigated where practicable, and in all cases, carefully monitored and intensively managed.

Inevitably, in some circumstances, the DMO or industry will fail to meet fully Defence's plans and targets. The DMO's task is to minimise such shortfalls, pick up problems early and effectively manage risk-related issues as they arise. If there were no shortfalls, the DMO might rightly be criticised for having an insufficient risk appetite. It must therefore manage the challenges, maximise the successes and continue to improve outputs and productivity.

### **FRAUD CONTROL MEASURES**

The DMO complies with Section 45 of the *Financial Management and Accountability Act 1997* and has in place appropriate fraud control plans, risk assessments and prevention, detection, investigation and reporting procedures. These comply with the Commonwealth Fraud Control Guidelines 2002. Detection and Investigation Services are provided to the DMO by Defence under a Shared Services Agreement.

# PROFESSIONALISE OUR WORKFORCE

The DMO Professionalisation Program provides the framework for up-skilling and professionalising the DMO workforce and is a key instrument for driving cultural change and transforming the DMO into a more businesslike, accountable and outcome-driven organisation. The program involves the implementation of an integrated, consistent and disciplined approach with, activities based on industry standards and closely aligned to the DMO's business practices.

A key aspect has been the introduction of certification programs within the DMO. These programs are focused on the professionalisation of all DMO staff including project directors, project managers, engineering and technical officers, lawyers, accountants, commercial and business managers, and procurement, contracting and logistics staff.

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**TABLE 1.1** CERTIFICATION OF PROFESSIONAL GROUPS IN THE DMO AS AT 30 JUNE 2006

	Project Managers	Chartered Engineers and Technical Officers <sup>(1)</sup>	Chartered Accountants	Practising Lawyers
<b>Program Commencement Date<sup>(2)</sup></b>	March 2005	May 2004	January 2005	April 2005
<b>Total target group</b>	300	1,327	106	-
<b>Number certified at commencement date</b>	10	125	18	-
<b>Total enrolled post commencement</b>	576	437	67	13
<b>Total certified since commencement</b>	336	107	23	13
<b>Total certified</b>	346	232	41	13

Notes:

1. Technical officer target is an estimate of technical officers able to meet Engineers Australia charter requirements
2. Engineers and Technical Officers program commenced in May 2004, Accountants program commenced in January 2005, Project Managers program commenced in March 2005 and Legal Officers program commenced in April 2005.

The development and professionalisation of both existing and prospective staff has been undertaken through:

- recognition and certification of competencies;
- funded assistance for professional development, through programs and standards developed in conjunction with leading professional bodies;
- funded leave for full or part-time study;
- establishment of a corporate institute, to provide industry-recognised training programs at vocational and tertiary level in areas such as project management, contracting, procurement, logistics, and communication;
- introduction of new leadership programs, incorporating mentoring and a specialist assessment centre;
- establishment of pools of specialist personnel whose careers and development opportunities are closely managed;
- opportunities for staff to undertake work placements in order to broaden and deepen skills; and
- encouragement of life-long learning.

The DMO has introduced a range of initiatives to develop and enhance the skills of our existing workforce, to attract additional people to the DMO, to retain staff for longer careers within the DMO, and to develop the skills and expertise available within the wider Australian defence industry. It includes the following:

- Launching the DMO Institute. The Institute provides strategic education and training, including project management, logistics and postgraduate programs.
- Providing leadership programs. Courses have been designed for specific target groups with the *Catalyst* course for Executive Level 1 and Executive Level 2 staff and the *Gateway* course for APS 5 and 6 level staff and their military equivalents. All training is based on the DMO Leadership Capability Framework.
- In November 2005, introducing the DMO Project Management Training and Project Management Coaching program to assist project managers in the development of acquisition and sustainment activity and augment the existing Project Management Development Program.
- Promoting greater business acumen among staff. In 2005–06 the DMO provided training to 633 staff in private sector business and commercial skills. By December 2006, 375 more staff will complete the program.

The development of the DMO's workforce continued during 2005–06 through non-operational training and the extension of its graduate development program.

**TABLE 1.2****DMO NON-OPERATIONAL TRAINING 2005–06<sup>(1)</sup>**

Type of Training	Total Student Days	Number of Students
<b>Leadership<sup>(2)</sup></b>		
Catalyst	696	116
Gateway	684	114
<b>Sub-Total Leadership</b>	<b>1,380</b>	<b>230</b>
<b>Business Acumen<sup>(3)</sup></b>		
Leaders	1,161	387
Practitioners	738	246
<b>Sub-Total Business Acumen</b>	<b>1,899</b>	<b>633</b>
<b>Writing for Results<sup>(4)</sup></b>		
Practitioner	20	20
Manager	12	12
<b>Sub-Total Writing for Results</b>	<b>32</b>	<b>32</b>
<b>Practitioner Courses</b>		
Open Plan Professional	222	74
Diploma of Project Management <sup>(5)</sup>	200	40
Fundamentals of Project Management <sup>(5)</sup>	132	66
Scheduling	126	63
Workforce Breakdown Structure	42	42
Dynamic Object Oriented Requirements Management System	18	9
Logistics Support Analysis <sup>(6)</sup>	60	12
Integrated Logistics Support Awareness Support <sup>(6)</sup>	48	24
Contract Management	128	64
ASDEFCON Complex 1	17	17
ASDEFCON Complex 2	40	20
ASDEFCON Support	42	14
Foreign Military Sales	335	67
Quality and Environment Management System	10	10
<b>Sub-Total Practitioners Course</b>	<b>1,420</b>	<b>522</b>
<b>Grand Total</b>	<b>4,731</b>	<b>1,417</b>

## Notes:

- The data represents courses run over fiscal year and by individual modules.
- DMO-specific leadership programs are Catalyst—targeted at Executive Level 1–2/Military (Equivalent) staff, and Gateway—targeted at APS 5–6/Military (E) staff. The programs are delivered by Mt Eliza School for Executive Education and are linked to the Employee Performance Agreement. All leadership programs are aligned with the DMO Leadership Capability Framework.
- Business Acumen for Leaders targeted at Executive Level 1–2/Military (Equivalent) and Business Acumen for Practitioners targeted at APS 5–6/Military (Equivalent) and are linked to the Employee Performance Agreement.
- Writing for Results for Managers targeted at Executive Level 1–2/Military (Equivalent) and Writing for Results for Practitioners targeted at APS 5–6/Military (Equivalent).
- The professional education framework for project management is aligned to the A Categorisation and Certified Practising Project Manager frameworks.
- The professional education solution for logistics is based on two separate streams with a total education initiative for each stream from Diploma to a Masters Level. The streams are Acquisition Logistics Engineering and In-Service or Supply Chain logistics.

## PEOPLE TRAINING AND DEVELOPMENT

During 2005–06, a partnering arrangement between the DMO and DeakinPrime (the commercial arm of Deakin University) was established to form the DMO Institute. The Institute aims to professionalise the DMO workforce. DeakinPrime has partnered with other institutions, including TAFE NSW, the University of Technology Sydney, Melbourne Business School and the Mt Eliza School for Executive Education, to design and deliver targeted learning and development initiatives for DMO staff.

With the Institute, the DMO sought to align corporate learning and development programs with industry and professional standards in design and content, and to reflect recognition offered by professional bodies.

Table 1.2 classifies non-operational training provided to DMO staff, according to total student days and number of students, recognising that DMO staff also undertake training provided by Defence. Refer to Defence Non-Operational Training—Table 4.14 in the Defence Annual Report.

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## GRADUATE DEVELOPMENT PROGRAMS

The DMO views the Materiel Graduate Scheme as an important initiative targeted at building a professional workforce and future leadership capability for the DMO.

Through the Materiel Graduate Scheme, the DMO recruits and provides structured rotations and development opportunities for graduates in two professional disciplines, engineering and commercial (legal, finance, business and commerce). Graduates have their rotations in capital cities and regional DMO System Program Offices.

Table 1.3 shows the number of graduates recruited by DMO since 2003–04, and the projected number of graduate placements for 2007.

A traineeship program targeting technical and further education-level students studying for diplomas and advanced diplomas in fields like engineering, business, contracting, financial management and human resource management, was trialled in the Electronic and Weapon Systems Division.

<b>TABLE 1.3</b>	<b>DMO GRADUATE PROGRAM—RECRUITMENT NUMBERS</b>				
<b>Graduate Program</b>	<b>Actual 2003</b>	<b>Actual 2004</b>	<b>Actual 2005</b>	<b>Actual 2006</b>	<b>Projected 2007</b>
Engineering Stream	24	22	18	19	-
Commercial Stream	22	8	15	25	-
<b>Total</b>	<b>46</b>	<b>30</b>	<b>33</b>	<b>44</b>	<b>100</b>