



Chapter 5

The Requirements Phase: First to Second Pass Approval

SECTION 5-1

Introduction

- 5.1 As indicated in Chapter 3, the outcome of First Pass approval is Government approval of:
 - a. the options to be explored between First Pass and Second Pass approval;
 - b. the options to be discarded;
 - c. the engagement of industry in this exploration; and
 - d. the funding needed in Defence to undertake the detailed analysis of the approved options, including any risk mitigation and test and evaluation required.
- 5.2 The outcome of Second Pass approval is Government approval for Defence to proceed to contract for an agreed capability solution with a defined acquisition budget, schedule and level of performance, and a budgeted whole-of-life cost.
- 5.3 This chapter outlines the process leading from First Pass approval to Second Pass approval, and consequential actions involving CDG staff. There are many similarities between this process and the process leading to First Pass approval, especially in relation to decision making bodies and mechanisms. The reader will find it useful to refer also to chapter 4, particularly the Key Consideration Checklist at paragraph 4.44, for further elaboration of features of the process that are common to both approval stages.

Focus of First to Second Pass Activities

- 5.4 Once Government has given First Pass approval to a capability proposal, the task for CS Div is to refine further the options agreed to by Government. This refined set of options is the set for which business cases will generally be developed and presented to Government at Second Pass approval, and from which them as the capability solution will be selected.
- 5.5 As in the case with lead up to First Pass approval, the project IPT is a key mechanism through which CS Div staff coordinate activities leading up to Second Pass consideration by Government. However, there are some distinctive features of the investigative and analytical effort leading to Second Pass approval, compared with First Pass approval. In the Second Pass approval stage:
 - a. the effort in CS Div is more concentrated on a the specific options endorsed by Government at First Pass (compared with the much broader approach leading up to First Pass approval);
 - b. there is a strong emphasis on producing detailed and robust estimates of both acquisition costs and sustainment costs;
 - c. there is a strong emphasis on *refining and specifying the operational performance requirements* to meet the capability requirement and how testing will be performed to evaluate this performance against the capability requirement;

- d. there is a strong emphasis on producing *detailed and robust workforce estimates*. The risks to achieving these requirements are identified and, where appropriate, mitigating strategies are detailed;
 - e. there is a strong emphasis on undertaking a detailed technical risk assessment of the specific options being considered;
 - f. there is a strong emphasis on refining the FIC transition strategies into plans that support the culmination of FIC at key release milestones in the AIS process; and
 - g. the proposed acquisition strategy, including scope for defence industry involvement, is considered in detail. Opportunities for defence industry to participate actively in the development and/or sustainment of the proposed capability are explored in depth.
- 5.6 First pass approval may also have included agreement to conduct specific studies and capability risk management activities to help develop and cost the options approved for further examination. Funding for conducting the studies and activities will also have been approved at First Pass, brought forward from funds earmarked for the acquisition of the capability, up to 10 per cent of the estimated project cost.
- 5.7 These studies and activities may include, for example, studies by DSTO or defence industry to help specify the performance requirements of a proposed solution, to assess technical risk, to model and analyse workforce factors, to understand environmental impacts, or to estimate costs. Another example could be studies conducted by CSIG (with an industry panel member) to analyse the related infrastructure requirements and develop a Strategic Business Case for infrastructure support and services, which would be included in the Second Pass approval documentation. These studies should be considered early to ensure risks to budgets and timeframes are minimised.
- 5.8 Funding may also be required for work to be undertaken by CIOG to determine how the DIE is affected and may need to be modified.
- 5.9 Although the amount of time for a proposal to pass the various steps of the Requirements Phase will vary from project to project, a rule of thumb is that the time taken to move from First Pass approval to Second Pass approval is around two years.



Section 5-2

Industry Solicitation

Pre Second Pass

Principles for Solicitation

- 5.10 During the First to Second Pass stage there is a strong emphasis on producing detailed and robust acquisition and sustainment cost estimates. Depending on the nature and complexity of the capability, it will generally be necessary to solicit formal quotations and estimates from Industry prior to Second Pass approval.
- 5.11 The DMO has the expertise and responsibility for handling solicitation activities, and will take the lead role with CS Div providing support and coordinating FIC issues as appropriate. Arrangements for the conduct of these activities will be a major element of the Second Pass MAA, which may require update and or amendment prior to the commencement of any solicitation activities.
- 5.12 The decision to undertake solicitation activities is to be made with due and appropriate consideration to industry, given the costs and timelines involved.

Planning Solicitation

- 5.13 **Acquisition Strategy.** Each capability option proposed for First Pass consideration must be accompanied by an acquisition strategy. Each Acquisition Strategy will:
 - a. detail the procurement approach, including details of the sequence of procurement activities and stages (if applicable) and when the procurement activities will take place;
 - b. explain how the procurement approach will maintain competition; and
 - c. outline the tender evaluation approach.
- 5.14 **Staged Procurement:** Staged procurement involving separate and sequential solicitations (eg Invitation to Register Interest (ITR), Request for Proposal (RFP) or Request for Tender (RFT)) with down selection at each stage lengthens the procurement timeline and is to be used judiciously and commensurate with the complexity, risk and the prevailing market conditions for the procurement.
- 5.15 **Direct Sourcing:** Direct sourcing is a procurement method which is to be used judiciously and should only be considered when competitive procurement methods are demonstrably neither effective nor practicable. The Commonwealth Procurement Guidelines 2005 prescribes strict conditions for direct sourcing that must be satisfied. The CPFP (through the Acquisition Strategy) must have justified a direct sourcing method, seek its endorsement from Government and provide means for the Commonwealth to maintain its bargaining position.

- 5.16 **Option Refinement:** The type of industry solicitation necessary to support option refinement must take cognisance of cost of tendering and the practicality of seeking and obtaining quality proposals from companies against the range and diversity of cost-capability tradeoffs to be investigated.

Development and Clearance of Solicitation Requests

- 5.17 **Pre-Solicitation Baselining.** Prior to the finalisation of Solicitation documentation, capability and acquisition documents are to be baselined. This includes the CDD, Acquisition Strategy and Acquisition PMP. Appropriate endorsements and approvals of these documents will be required prior to the release of solicitation documentation. Note that these documents will be updated and rebaselined following source evaluation and selection.
- 5.18 **Consultation:** Solicitation documents are to be developed in consultation with CDG to ensure that capability options and costs are sought in a manner that supports progression of First and Second Pass submissions to Government. HCS, FASCIR and the respective DMO Division Head's clearance and, where appropriate DMO General Counsel, is to be sought prior to the release of RFTs and RFPs.
- 5.19 **Authority:** The DMO is the authoritative agency for the development and release of solicitation requests.

Tender Evaluation

- 5.20 The tender evaluation approach is to be based on reducing the cost of tendering, maintaining competition and facilitating the rapid extraction of cost-capability issues and other significant considerations that enable development of Second Pass submissions to Government. RFTs should be structured to facilitate this.

Source Selection

- 5.21 Source selection is not to be finalised until Government has provided Second Pass approval. Contract award is contingent on Second Pass approval.



SECTION 5-3

Second Pass Documentation

Develop Capability Proposal Second Pass and Supporting Documents

- 5.22 This step is broadly similar to that of developing the Capability Proposal First Pass. The proposals to be considered by Government at Second Pass are described in a 'Capability Proposal Second Pass' (CPSP) and its supporting documentation. The key supporting documents are:
- an Acquisition Business Case for each option;
 - Second Pass capability cost estimates;
 - Capability Definition Documents;
 - Acquisition Project Management Plan (APMP); and
 - Acquisition Strategy.
- 5.23 At the Second Pass approval stage the emphasis is not just on what capability is to be acquired, at what cost and when the capability will come into service. There are also important issues about how the proposed capability will be acquired and introduced into service. These issues may relate to such things as the level of Australian industry involvement, intellectual property issues, through-life support and impacts on regional economic development in Australia, and how the transition to the new capability will be managed. A failure to address these issues within the CPSP and supporting documentation may delay the achievement Second Pass approval.

Capability Proposal Second Pass

- 5.24 The CPSP, prepared by CS staff, is the key document presented to the DCC, upon which the DCC Agendum and subsequent Second Pass Cabinet Submission prepared by CIR Div is based. The CPSP incorporates and summarises the key points of the ABCs for each option and recommends a preferred option to be acquired.
- 5.25 The content of the CPSP should therefore address:
- the project's background, including the capability gap being addressed, desired high level effects, current means of meeting the requirement (if any) and its life and any short term measure in place to meet the deficiency (if any);
 - previous Cabinet considerations, in particular the outcomes of the First Pass consideration such as options approved and industry solicitation endorsed;
 - relevant strategic guidance including White Paper guidance and annual strategic review determinations;
 - the proposed capability in terms of broad high level requirements and desired effects;
 - the options examined in broad detail;

- f. a comparison of the options against the requirements and effects described and detailed in the earlier proposed capability section, and including acquisition costs, mature operating cost and a value-for-money assessment;
- g. a summary of the risk assessment of cost, schedule, technical, environmental and workforce aspects of each of the proposed options;
- h. the option recommended for acquisition and an explanation of why this has been selected from the option set;
- i. how the selected recommended option will be investigated further, including the level of funding required;
- j. potential implications for Australian Industry; and
- k. any DCP schedule issues, including an analysis of whether the ISD will be met by the recommended options.

5.26 As for the CPFP, it is essential that project staff have a thorough understanding of the issues within the CPSP, and are able to explain and argue (if necessary) any aspect of the capability proposal or subordinate business cases.

Capability Proposal Supporting Documentation

Acquisition Business Case

- 5.27 For each option presented to Government for First Pass approval, there is to be a supporting ABC. In summary, an ABC should provide:
- a. an overview of the option;
 - b. an outline of the key advantages of the option (this should relate back to Defence planning guidance contingencies or planning scenarios);
 - c. schedule information for key events/decision points in the Requirements Phase, the AIS milestones in the transition through acquisition to in-service through, ultimately, to the planned withdrawal date of proposed capital equipment;
 - d. detailed estimates and confidence levels for acquisition and through-life costs, including source of both costs, contingency levels, financial spend-spreads, a brief outline of the major items to be acquired, gross and net operating costs, and affordability within current departmental provisions;
 - e. assessments for technical, schedule, cost, workforce and environmental risk, with endorsement of these assessments by relevant organisations in Defence;
 - f. the expected LOT for the option and an assessment of the likely obsolescence risk and potential treatment options;
 - g. advice as to industry implications, including the general intent for both acquisition and through-life support. Industry implications should cover both sectoral implications and regional implications in Australia; and
 - h. advice as to proposed subsequent reporting to Government on progress of the project.

Second Pass Capability Cost Templates

5.28 For each ABC presented, there is to be a completed Second Pass capability cost template. These templates will detail the Acquisition and NPOC estimates as refined from the respective First Pass cost estimates. The costs will generally be based on industry responses from solicitation conducted during the Second Pass activities.



Refinement of Capability Definition Documents

- 5.29 As discussed in Chapter 4, preliminary CDD documents will be developed for First Pass approval. These documents need to be refined and further developed for the specific options endorsed at First Pass.
- 5.30 **Operational Concept Document.** The OCD builds on the POCD developed during the First Pass stage (see Section 4-5). The OCD must support the detailed cost, schedule and risk assessments and any final cost capability tradeoffs presented to Government. The OCD will therefore be much more detailed than the POCD presented at First Pass.
- 5.31 Explosive ordnance requirements including proposed outfit, in-service usage and initial war reserve holdings are to be developed in conjunction with DGCP and endorsed by the War Reserve Explosive Ordnance Committee.
- 5.32 **Function and Performance Specification (FPS).** The FPS should be developed for each of the options being considered and provide detailed technical analysis and understanding (depth) to support the capability, cost, schedule and risk assessments required for Second Pass.
- 5.33 **Test Concept Document (TCD).** As for the OCD and FPS, the TCD submitted for each option at Second Pass must support the relevant capability, cost, schedule and risk assessments, and outlined the T&E strategy to be undertaken following Second Pass approval for each capability option. The associated resource and funding requirements are also identified in support of the detailed cost estimates provided in the ABCs.
- 5.34 Different documentation may be required for projects acquired by CIOG (Information Systems Division). For further information and advice contact CIOG (Director General Information Policy and Plans).

Acquisition Project Management Plan

- 5.35 The APMP is crucial to the management of the project throughout the Acquisition Phase, and is to be prepared by the DMO prior to Second Pass. This document will help the DMO to:
- achieve desired targets;
 - obtain the resources needed to achieve the targets within a timeframe;
 - give guidance to all project staff, stakeholders and contractors where applicable; and
 - gain commitment from the Project Management Stakeholder Group.
- 5.36 The detail in this plan will vary according to the size of the project and where the project is in the capability life cycle.

Acquisition Strategy

- 5.37 The intent of the Acquisition Strategy presented at Second Pass is to ensure that there is a common understanding of why a specific strategy is proposed from the range of possibilities available. It is developed from the Acquisition Strategy developed for First Pass and will show how the proposed acquisition strategy delivers value for money and that sound management and review will be applied to the acquisition in accordance with the legal and policy framework for Defence and Australian Government procurement.

5.38 As for First Pass, the acquisition strategy informs both Government and Defence delegates and builds their confidence that the basis for the acquisition of each capability option is well founded and will effectively support the delivery of the required capability.

SECTION 5-4

Second Pass Approval

Defence Committee Reviews

5.39 Once the Capability Proposal Second Pass and supporting documentation are completed, CS Div passes these papers through the same approval process by Defence committees as occurs at First Pass approval (see Section 4-6 Defence Committee Reviews).

Second Pass Approval by Government

5.40 Once capability development proposals for Second Pass approval have been agreed by the relevant Defence committees, they are submitted to Government for Second Pass approval. This process is the same as that described for First Pass (see Section 4-6).

