



Australian Government

Department of Defence

Defence Materiel  
Organisation

DEFENCE MATERIEL ORGANISATION

# DMO ACQUISITION AND SUSTAINMENT MANUAL



© Commonwealth of Australia 2007

This work is copyright. Apart from any use as permitted under the *Copyright Act 1966*, no part may be reproduced by any process without prior written permission from the Defence Materiel Organisation.

**Announcement Statement:**

May be released to the public.

**Secondary Release:**

May be released to the public.

**Requests and enquiries should be addressed to:**

Director, Strategic Communications and Ministerial Services  
Defence Materiel Organisation  
Russell Offices, R2-5-A164  
Canberra ACT 2600

**Sponsors:**

General Manager, Corporate & General Manager, Systems  
Defence Materiel Organisation

**Feedback** on the DMO Acquisition and Sustainment Manual is welcome. Users of the manual are invited to make comment and may do so by forwarding their comments to the Director, Strategic Communications and Ministerial Services at the address shown above.

**Questions** regarding any information provided in the DMO Acquisition and Sustainment Manual can be submitted via email to [DMO.communication@defence.gov.au](mailto:DMO.communication@defence.gov.au).



## PREFACE

The Defence Materiel Organisation (DMO) was established in 2000 through the merger of the Defence Acquisition Organisation and Support Command Australia, with the purpose of providing a cradle-to-grave acquisition and in-service support organisation. The *Defence Procurement Review 2003*, also known as the 'Kinnaird Review', has resulted in fundamental changes to the way in which capability development, project approval and procurement of major capital investment projects are undertaken in Defence. This has given rise to major organisational change, new policy and, most of all, keystone changes to the way the DMO does business and interacts with Defence.

Following the government's adoption of the recommendations of the Kinnaird Review, DMO was prescribed under the *Financial Management and Accountability Act 1997* (FMA Act) on 1 July 2005. As a prescribed FMA agency, the DMO has become a more business-like organisation, with a Chief Executive Officer at its head, and operates under formal purchaser-provider arrangements.

The changes that have followed prescription, coupled with DMO's vision '*to become the leading program management and engineering services organisation in Australia*', have further transformed the DMO's business and its business processes.

Managing the DMO requires a strong governance and regulatory regime and effective management and control. Of equal importance is a sound understanding of its key business operations and the context in which they are performed. Without this, we —along with those with whom we work in Defence, other agencies and industry—would be less informed about our business, why we do things in certain ways and what drives our behaviour and our expectations.

An underpinning concept of the DMO as a prescribed agency is that the DMO earns, and spends, its own funds. The DMO is effectively run as a separate 'business' from the rest of the Defence organisation. The DMO charges Defence, and to a much smaller extent government, amounts sufficient to cover the costs of the projects and products it provides them with.

As a client of the DMO, Defence has the right to examine and, if necessary, challenge the amounts the DMO has charged it. For this and other reasons, the DMO must accurately record all financial transactions and ensure its actions provide value for Defence.

The DMO Acquisition and Sustainment Manual has been written to help our people, our customers and our key stakeholders understand our business operations.



## FOREWORD



Welcome to the inaugural edition of the DMO Acquisition and Sustainment Manual. This manual outlines the underpinning characteristics of our business to everyone involved in achieving DMO's mission to "equip and sustain the Australian Defence Force".

DMO must meet both effectiveness and efficiency demands in delivering acquisition projects and through-life support of ADF equipment on time, on budget and to the required levels of quality, safety and capability. By virtue of the value, size and complexity of our business, along with the geographic spread of our people, DMO's business is a complicated system of systems. Through the efforts of 7,000 DMO staff who manage and direct the support of about 28,000 Australians in industry, we deliver on our customers' and owners' expectations.

This manual focuses on DMO's acquisition projects and the sustainment of specialised military equipment – activities that represent around 99 percent of DMO's annual budget. It explains what we do and why we do it in certain ways. I trust it will provide a better appreciation of the context in which you – either as one of DMO's people or as one of those who support and enable us to fulfil our mission – need to operate.

Importantly, this manual is not complex or unwieldy. In the fundamentals of our operations, our business is becoming more efficient in the way it achieves its outcomes, but we still have a way to go. There are areas where we do have flexibility, where we can make things easier and be innovative.

In the midst of change, there are some things that remain constant. In achieving our outcomes, DMO's business will continue to be underpinned by the organisation's six reform themes, namely:

- *Professionalise*—professionalise our workforce and encourage life-long learning
- *Reprioritise*—reprioritise our work
- *Standardise*—standardise our business practices
- *Benchmark*—benchmark ourselves against best practice
- *Improve industry relationships and industry performance*—encourage open and honest dialogue and reward good performance
- *Lead reform*—embrace change.

The DMO Acquisition and Sustainment Manual provides an authoritative point of reference on DMO's business operations.

I commend it to you.

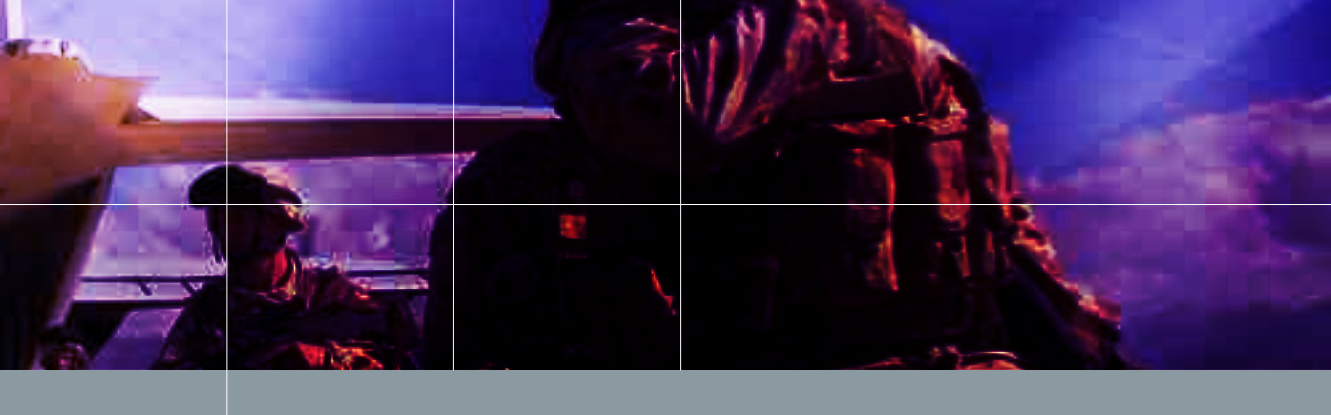
A handwritten signature in black ink, appearing to read "Stephen J Gumley". The signature is fluid and cursive, written over a white background.

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



# CONTENTS

<b>■ CHAPTER 1: OVERVIEW OF THE DEFENCE MATERIEL ORGANISATION .....</b>	<b>1</b>
Defence Materiel Organisation—Business Perspective .....	2
Overview .....	2
Purchaser-provider arrangements .....	3
Chief Executive Officer .....	5
DMO's relationship with Defence .....	6
Defence and parliamentary committees .....	7
Audit, review and scrutiny .....	8
DMO policy and instructions .....	9
DMO councils .....	10
<b>■ CHAPTER 2: ACQUISITION AND SUSTAINMENT PRINCIPLES AND PRACTICES .....</b>	<b>11</b>
Introduction .....	12
Acquisition and sustainment principles .....	12
Risk environment .....	14
Acquisition and sustainment management practices .....	17
Acquisition and Sustainment Baselines .....	23
Categorising acquisition and sustainment business .....	27
Acquisition and sustainment maturity .....	29
Engineering and logistics management in the DMO .....	31
ADF technical regulation .....	39
<b>■ CHAPTER 3: MANAGING ACQUISITION .....</b>	<b>45</b>
Overview of the Capability Development Life cycle .....	46
First and Second Pass approvals .....	47
Capability life cycle organisational arrangements .....	47
DMO support and involvement in capability life cycle phases .....	48
Materiel Acquisition Agreements .....	49
Government's requirements for First Pass options .....	50
DMO's part in getting to First Pass .....	51
Government's requirements for Second Pass options .....	55
DMO's part in getting to Second Pass .....	56
DMO's participation in Defence capability decision making .....	61
Types of procurement .....	62
Managing the acquisition phase .....	65
Engineering and logistics management .....	70
Capability realisation .....	72



<b>■ CHAPTER 4: MANAGING SUSTAINMENT</b> .....	<b>81</b>
Introduction .....	82
Sustainment and logistics in the DMO .....	82
Materiel Sustainment Agreements .....	83
Capability and preparedness levels.....	84
Materiel sustainment in the in-service phase.....	85
Availability planning for maintenance, modifications and upgrade .....	86
A systems view of in-service support.....	86
In-service support models .....	89
In-service support management .....	91
The materiel logistics job family.....	93
Disposal of ADF materiel .....	94
Disposal of ADF assets.....	95
<b>■ CHAPTER 5: KEY ENABLERS TO ACQUISITION AND SUSTAINMENT</b> .....	<b>99</b>
Introduction .....	100
DMO's legislative environment .....	100
Financial Management and Accountability Act 1997—Overview .....	101
Financial Management and Accountability Orders and Regulations.....	102
Financial delegates .....	104
Financial approvals .....	105
Delegations and accountability .....	107
Certificate of Compliance .....	108
Budget framework.....	109
Financial analysis and reporting .....	111
Internal and external reporting .....	112
Procurement management .....	114
Engagement of external professional services.....	120
Professionalising the DMO.....	121
Australian Industry Capability (AIC) Program .....	122
<b>Acronyms and Abbreviations</b> .....	<b>127</b>
<b>Glossary of Terms</b> .....	<b>130</b>





OVERVIEW OF THE DEFENCE  
MATERIEL ORGANISATION

01

# DEFENCE MATERIEL ORGANISATION— BUSINESS PERSPECTIVE

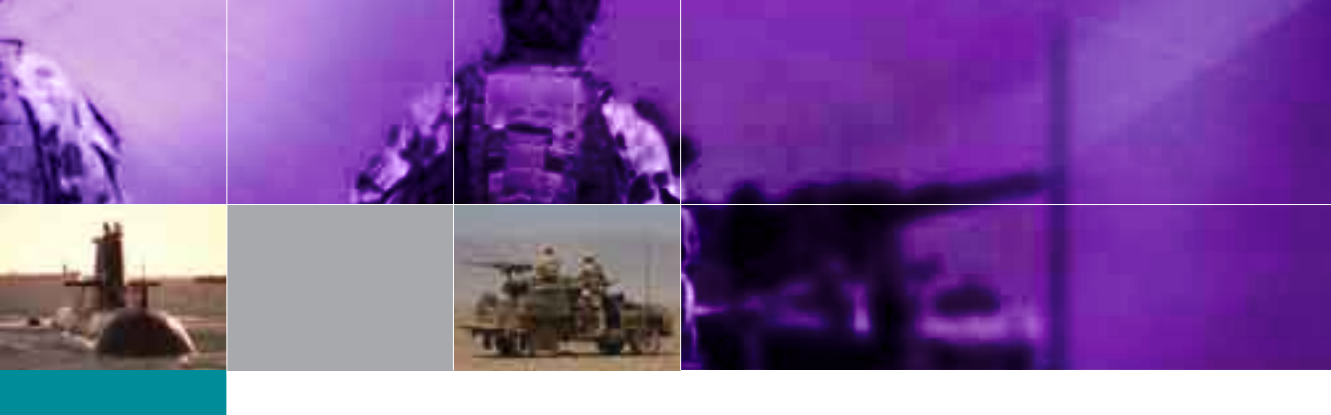
## Overview

- 1.1 The Defence Materiel Organisation (DMO) is a service delivery agency responsible for equipping and sustaining the Australian Defence Force (ADF) through the acquisition of capital equipment assets and the sustainment of these assets throughout their in-service life. Its business is principally driven by the defence policies and objectives set by the Australian Government and the operational requirements of the Australian Defence Force (ADF).
- 1.2 The DMO's purpose is to equip and sustain the ADF.
- 1.3 The DMO has a single outcome and three outputs, as described in Table 1. As an organisation providing critical services to Defence, the DMO contributes to a number of Defence outcomes and outputs. However, the focus of this manual is on DMO's Outputs 1 and 2.

**Table 1: DMO Outcome and Outputs**

Outcome	Outputs	Description
<p><b>Outcome:</b> Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel.</p> <p>This outcome encapsulates the entire business of the DMO: the activities it undertakes for Defence in acquisition and sustainment of materiel, the advice it provides on contracting policy and industry policy, as well as the work it performs to meet the government's reporting and governance requirements.</p>	<p><b>Output 1:</b> Management of Capability Acquisition</p>	<p>This output delivers specialist military and associated equipment to Defence. It encompasses all of the DMO's activities in support of the acquisition process, including all pre-approval activities as well as the acquisition process for major and minor capital investments.</p>
	<p><b>Output 2:</b> Capability Sustainment</p>	<p>This output delivers the sustainment of specialist military and associated equipment to Defence. It includes the maintenance of equipment and purchasing of inventory, such as explosive ordnance, fuel, stores and spare parts.</p>
	<p><b>Output 3:</b> Policy Advice and Management Services</p>	<p>This output delivers procurement and industry policy and advice to both the Defence portfolio and the government, and those corporate functions in support of the organisation's business.</p>

- 1.4 The DMO optimises the capability it provides to the military and the nation by delivering its acquisition and sustainment outputs on time, on budget and to the required capability, safety and quality.



- 1.5 Its vision is *'to be the premier project management and engineering services organisation in Australia'*. The DMO's most significant asset is the 7,000 people it employs across more than 50 Australian and overseas locations. Supporting its operations are approximately 28,000 private sector people who provide equipment, supplies and services.
- 1.6 The DMO's 2007–08 budget of \$9.6 billion<sup>1</sup> represents 48 percent of total Defence funding. A budget of this magnitude must be managed in an effective and efficient manner to ensure the nation receives maximum value for money. The DMO therefore aims to:
- continue to improve the delivery of acquisition and sustainment requirements to meet the ADF's operational demands
  - substantially lift outputs with minimal increases in resources
  - continue to implement a major change program designed to make the DMO more outcome focused and business like
  - 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
  - enhance the depth and breadth of skills and expertise in its workforce.

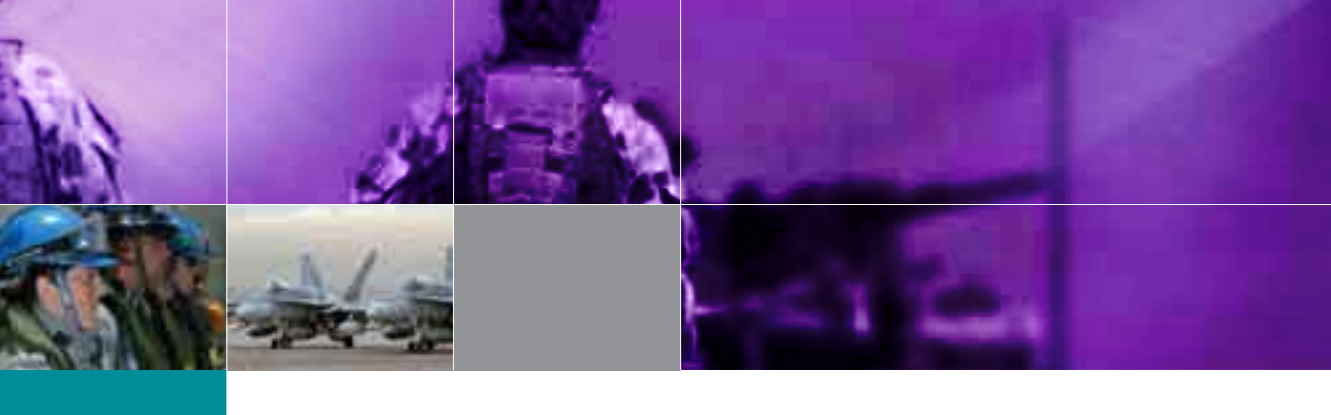
### **Purchaser-provider arrangements**

- 1.7 Upon its prescription as an FMA agency on 1 July 2005, the DMO became a financially autonomous organisation within the Defence portfolio. As such, it now operates under purchaser-provider arrangements established with Defence groups.
- 1.8 These arrangements consist of tiered agreements. The top tier is the government's expectations of the DMO, and the lowest tier is the outputs DMO delivers in its acquisition and sustainment services and products.
- 1.9 The framework consists of three tiers:
- Ministerial Directive to the Chief Executive Officer of the DMO, similar to that issued to the Secretary. Flowing from this is a charter, from the Secretary to the CEO DMO, covering delegations, relationships, accountability, governance and principal services.
  - Memorandum of Arrangements between the DMO and Defence, covering responsibilities, military staffing, reporting for the exchange of services in Defence and general rules for the conduct of business.
  - At the tactical level, a suite of agreements (described below) between Defence and the DMO that address the scope, price and timeframe for specific services.

---

<sup>1</sup> 2007–08 Annual Budget

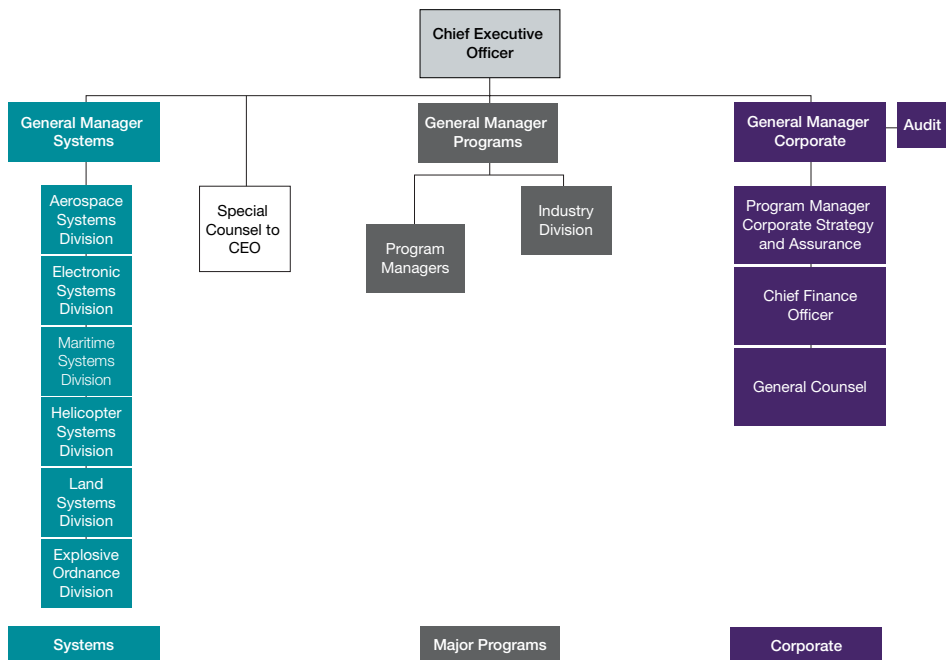
- 1.10 Two of the categories of purchaser-provider arrangements established with Defence are Materiel Acquisition Agreements and Materiel Sustainment Agreements.
- 1.11 **Materiel Acquisition Agreements** cover the DMO's acquisition services to Defence for both major and minor capital equipment. For major capital equipment the agreements are between the Chief of the Capability Development Executive (on Defence's behalf) and the CEO DMO. For minor capital projects the agreements are between the relevant Capability Managers (on Defence's behalf) and the CEO DMO.
- 1.12 A separate Materiel Acquisition Agreement between the Defence 'customer' and the CEO DMO covers each capability project. For each project, the agreement specifies the scope of what is to be delivered, the schedule for delivery and the budget that is available. Materiel Acquisition Agreements are discussed in more detail in Chapter 3.
- 1.13 **Materiel Sustainment Agreements** are made between the Capability Managers and the CEO DMO. These agreements cover the sustainment of current capability, including services such as repair and maintenance, and the provision of fuel and explosive ordnance.
- 1.14 Sustainment agreements are based around sustainment products defined by each of the DMO's systems divisions and Capability Managers, and they are reviewed and agreed on an annual basis. Materiel Sustainment Agreements are discussed in more detail in Chapter 4.
- 1.15 **Defence Services Agreements** cover the (non-acquisition) services that the DMO purchases from Defence on an ongoing basis—for example, maintenance and repair and the priority freight services that DMO purchases from Joint Logistics Group in Defence. These enabling services support the delivery of DMO sustainment services to Capability Managers.
- 1.16 Defence and the DMO also exchange other services to support work associated with acquisition and sustainment activities, and these are supplied under **Shared Services Agreements**. Shared Services Agreements cover the delivery of non-priced services by Defence to the DMO and vice versa. This arrangement reflects a practical agreement to avoid duplicating the functional services that Defence and DMO shared at the time of prescription.
- 1.17 **Military Workforce Agreements** are established between the CEO DMO and the Chiefs of Service for Navy, Army and Air Force and cover the allocation of military personnel to support the DMO's delivery of acquisition and sustainment services to Defence. These agreements encompass the DMO's responsibilities and obligations, service personnel and associated funding arrangements. The agreements cover both members of the ADF permanent force and Reserves.



## Chief Executive Officer

- 1.18 The DMO is headed by a Chief Executive Officer (CEO), who is accountable for the DMO's performance under a Ministerial Directive issued to him by the Minister for Defence. The CEO is also jointly accountable to the Secretary of the Department of Defence under the *Public Service Act 1999*, and to the Chief of the Defence Force (CDF) under the *Defence Act 1903*.
- 1.19 The DMO has three organisational streams: Systems, Major Programs and Corporate, as shown in Figure 1. The CEO is supported by three Senior Executive Service Band 3 officers: The General Manager Systems, the General Manager Corporate and the General Manager Programs, and a Senior Executive Service Band 2 officer: the Special Counsel to CEO.
- 1.20 The General Manager Systems is responsible for the delivery of acquisition and sustainment services through DMO's six divisions: Aerospace Systems, Electronic Systems, Maritime Systems, Helicopter Systems, Land Systems and Explosive Ordnance Divisions. Each division is headed by a Senior Executive Service Band 2/military two-star officer.

Figure 1: Current Executive structure



- 1.21 The General Manager Corporate is responsible for the delivery of the DMO's corporate operations and support through three Senior Executive Service Band 2 officers: the General Counsel, the Chief Finance Officer and the head of Corporate Strategy and Assurance. This arrangement covers the corporate areas of finance, legal, information technology, policy, people, and learning and development.
- 1.22 Major DMO acquisition programs report to the General Manager Programs who oversees the most complex and high-value major acquisition programs. The Head of Industry Division has responsibility for Defence industry policy, and for monitoring Defence industry performance through the division's Canberra-based headquarters, its regional onshore offices, and at overseas posts through a counsellor in Washington and London.

### **DMO's relationship with Defence**

- 1.23 Four fundamental principles underscore the DMO's relationship with Defence:
  1. the primacy of Defence as the customer, with responsibility for setting requirements and determining priorities
  2. the DMO's aim to be business-like in the way it delivers the primary outputs funded by Defence—i.e. acquisition and sustainment
  3. the fact that the DMO is a core part of Defence and that close collaboration between Defence and DMO is critical to achieve effective business outcomes
  4. the fact that transparency, information exchange and full disclosure (of any risk that may affect the capacity of either party to achieve its business outcomes) underpin all arrangements between the DMO and Defence.
- 1.24 Four tiers of agreements support and give structure to the relationship between Defence and the DMO and reinforce the focus on delivering DMO outputs. This relationship is articulated in a Memorandum of Arrangements (MOA) between the DMO CEO, the Secretary and the Chief of the Defence Force. The MOA documents the framework and mechanisms within which products and services provided by Defence and the DMO are specified, priced and performance-managed to facilitate the desired outcomes of each organisation. It is the head agreement under which all subordinate agreements between Defence and the DMO are given effect and reflects the Defence-DMO Business Model agreed by the Minister for Defence in September 2004.
- 1.25 As shown in Figure 2, the agreement structure encompasses:
  - a) a Ministerial Directive to CEO DMO
  - b) a Memorandum of Arrangements between the Secretary, CDF and CEO DMO
  - c) Military Workforce Agreements between CEO DMO and Capability Managers
  - d) agency agreements to cover the DMO's acquisition and sustainment outputs and Shared Services Agreements between Defence and the DMO.

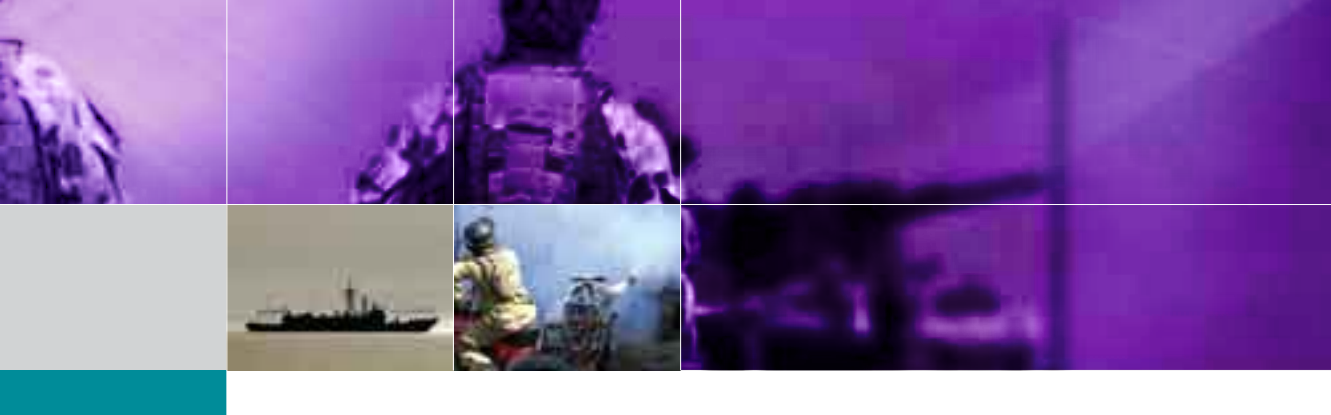
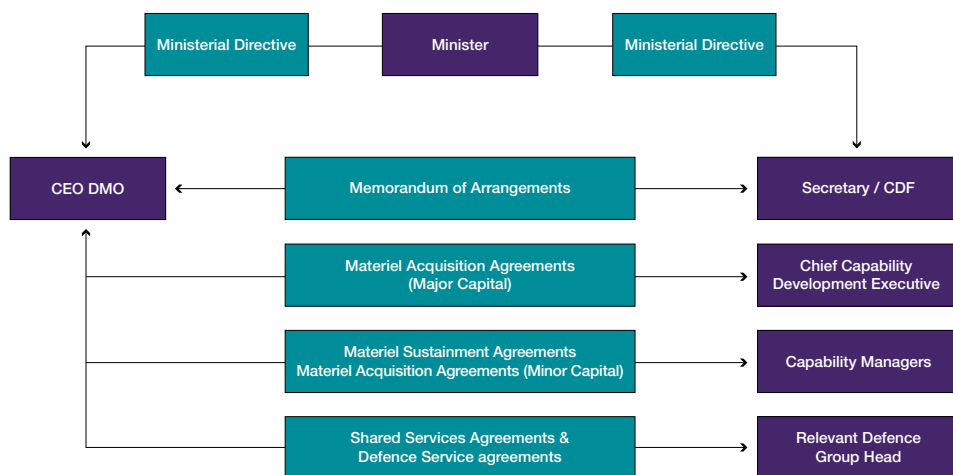


Figure 2: DMO agreement structure



1.26 The DMO maintains formal links with Defence via a variety of mechanisms, most notably through its presence on senior Defence committees. The CEO and the General Managers Corporate and Systems are members of these committees.

### Defence and parliamentary committees

1.27 The DMO is an active participant in most of Defence's senior committees, including:

- Defence Committee
- Defence Capability and Investment Committee
- Defence Capability Committee
- Financial Management Controls Committee
- Defence Information Environment Committee
- Defence Infrastructure Sub-Committee
- Defence Occupational Health and Safety Committee
- Defence People Committee.

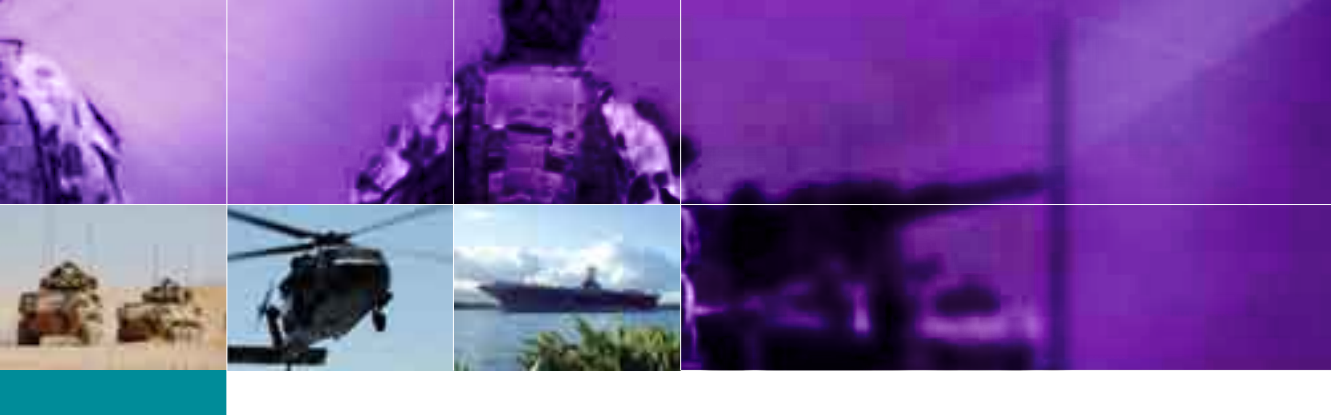
- 1.28 Senior DMO officials can also be called on to appear before a number of parliamentary committees and the special inquiries of those committees, including:
- Senate Standing Committee on Foreign Affairs, Defence and Trade
  - Senate Standing Committee on Economics
  - Joint Standing Committee on Foreign Affairs, Defence and Trade
  - Joint Committee of Public Accounts and Audit
  - Joint Standing Committee on Public Works.

### **Audit, review and scrutiny**

- 1.29 The DMO is subject to significant and ongoing scrutiny from government, parliament, the media and the public as well as external financial and performance audits conducted by the Australian National Audit Office (ANAO). The DMO has relegated internal management and performance audits to the Management Audit Branch of the Defence Inspector General. The DMO also uses its own resources to review important business operations and undertakings.

### **Materiel Assurance Boards**

- 1.30 Five Materiel Assurance Boards review acquisition and sustainment business in the Aerospace, Maritime, Land, Electronic, Explosive Ordnance Systems and Information Technology domains. Their membership is drawn from the private and public sectors, including Defence. Materiel Assurance Boards are independent from the DMO and the line management of the acquisition projects and sustainment business they review.
- 1.31 Through the General Managers Corporate and Systems, Materiel Assurance Boards provide independent assurance to the CEO on the adequacy of the governance framework for project and sustainment activity and on the risks to schedule, cost, capability and sustainability. All DMO staff are required to be open and transparent in disclosing matters of interest to internal and external auditors and to members of review teams.
- 1.32 While the Materiel Assurance Boards are not decision-making bodies and do not replace the authority and responsibility of line management, they are accountable for the advice they provide as an integral part of DMO corporate governance.
- 1.33 Four fundamental principles underpin governance in the DMO and shape how the Materiel Assurance Boards function:
1. accountability
  2. transparency
  3. independence
  4. disclosure.



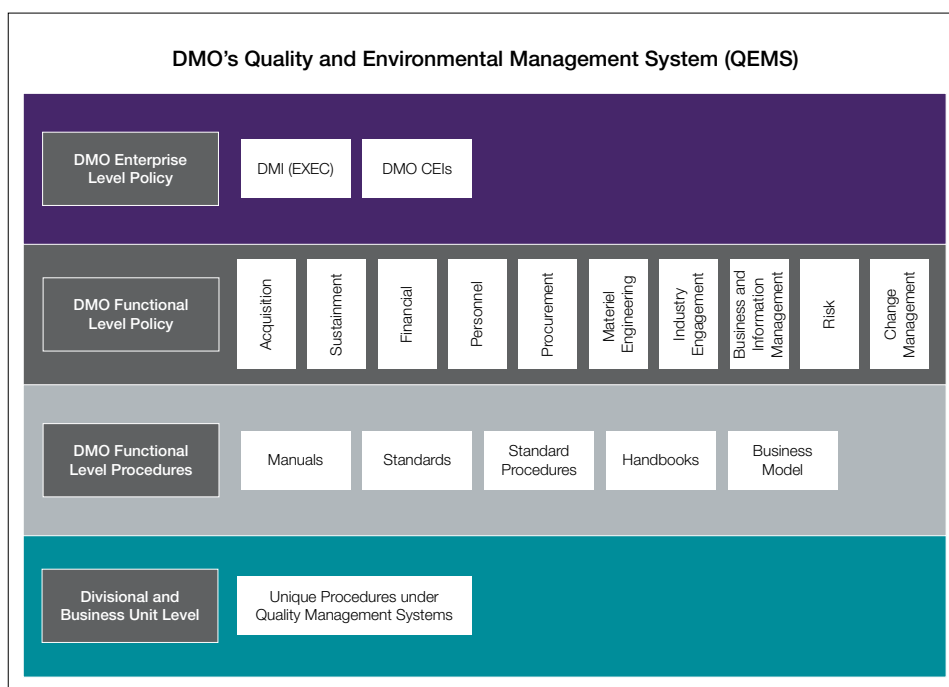
### Materiel Audit Committee

- 1.34 As a prescribed FMA agency, the DMO has established a Materiel Audit Committee (MAC) with the functions and responsibilities required by the Finance Minister's Orders. It also operates an active Fraud Control Plan to ensure public money and assets are protected.
- 1.35 The primary role of the MAC is to advise the CEO on the governance framework, including:
- a) financial reporting
  - b) enterprise risk management
  - c) fraud control
  - d) the efficiency and effectiveness of the existing control framework
  - e) external accountability
  - f) legislative compliance
  - g) internal audit
  - h) external audit.
- 1.36 The MAC comprises five permanent members under an external chair and meets regularly during the year. Its business program is detailed in the DMO Audit Committee Rolling Annual Program. The DMO's Chief Finance Officer (CFO), the Defence Inspector General and ANAO representatives are advisers to the committee.

### DMO policy and instructions

- 1.37 The DMO's suite of policy documents and instructions constitute a compliance framework for staff and provide an enabling administrative governance arrangement. The DMO has its own Chief Executive Instructions (CEIs), issued by the CEO under the authority of section 52 of the FMA Act and FMA Regulation (FMAR) 6.
- 1.38 The DMO has a hierarchical system of Defence Materiel Instructions (DMIs), illustrated in Figure 3, under which it promulgates instructions at enterprise and functional levels. The CEO issues enterprise level DMIs and the Chief Executive Instructions (CEIs). The CEO has delegated to certain DMO executives the authority to issue DMIs that articulate functional policy. The DMO also adheres to policy issued by Defence under the Defence system of instructions.
- 1.39 At a procedural level, the DMO issues its own manuals, standards (including adoption of Defence and industry standards), standard procedures and handbooks. The DMO's divisions and business units also issue procedures unique to their business under their quality management systems. The DMO's Quality and Environmental Management System (QEMS) is the central repository for the storage, access and dissemination of the DMO's policy, processes and procedures and the point of access to business unit quality management systems.

Figure 3: System of Defence Materiel Instructions



### DMO councils

1.40 The DMO operates five internal executive councils that consider, monitor, advise and provide leadership on key elements of its business. These councils are chaired by members of the DMO's senior leadership group and include members with expertise in the subject matter that is dealt with. The councils are:

- a) Project Management Council
- b) Materiel Logistics Council
- c) Engineering Council
- d) Procurement Council
- e) Safety Council.

1.41 The DMO also chairs a Defence and Industry Project Management Council, which includes members from leading companies and the Australian Institute of Project Management.