

Capability Life Cycle Detailed Design

Executive Summary

The Capability Life Cycle Detailed Design was endorsed by the First Principles Implementation Committee in March 2016. It is a core business process in Defence which is critical in enabling Defence to perform its primary role of defending Australia and its national interests.

The Capability Life Cycle is the process of introduction, sustainment, upgrade and replacement of Defence capability, of which Products are the enduring elements. The Defence Capability Portfolio is a collection of Programs that aggregate component Products at varying stages of their individual life cycles. A project is a discrete activity to introduce, upgrade or replace a Product. Defence incorporates a Portfolio and Program approach to facilitate investment prioritisation.

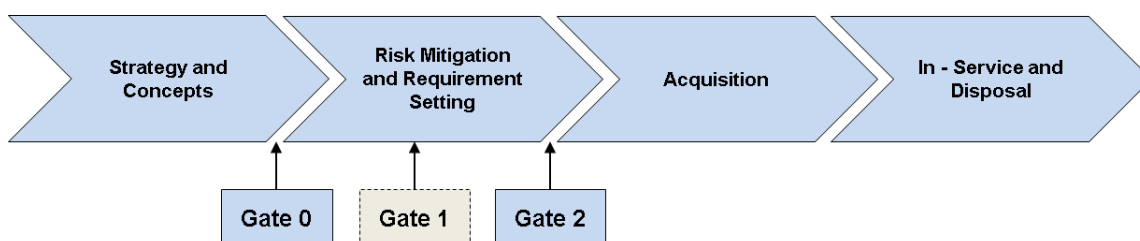
Principles Underpinning the Design of the Capability Life Cycle:

- The focus is on a joint and integrated approach to the development of future Defence capability and ensuring that capability options are aligned with strategic and resource guidance;
- Integrated planning across all the fundamental inputs to capability is undertaken for all proposals to ensure that critical enablers such as infrastructure and information and communications technology are accorded appropriate priority in investment decisions;
- It is a highly flexible risk-based process which is tailored for each proposal, primarily using the Smart Buyer Decision Making Framework;
- Effective arms-length contestability is an integral and vital part, which supports accountability;
- It depends on a culture which understands the importance of taking appropriate risks, demands risk to be managed and discourages risk aversion;
- In keeping with First Principles Review conclusions, Defence will focus on planning and governance activities and only do for itself what no one else can do more effectively or efficiently;
- Throughout the Capability Life Cycle, the default is the fastest and simplest decision making processes, with additional complexity only added if and when absolutely necessary – the document set presented at each gate is streamlined to the maximum extent and fit for purpose;

- It must be transparent, with frequent honest and clear engagement with key stakeholders in Defence and the wider government community;
- Responsibilities and accountabilities throughout the Capability Life Cycle are formalised and clear, and in particular the respective roles of the Capability Manager, their subordinate Program Sponsor, and the Delivery Group based Integrated Project Manager so that Products are delivered with the optimum balance between capability, risk, cost and schedule; and
- Industry is involved earlier and is a key partner in the delivery of Defence capability. Engagement with industry is taken forward in a way that is transparent to Defence and wider government stakeholders.

The four phases of the Capability Life Cycle are:

1. **Strategy and Concepts.** The purpose of the Strategy and Concepts Phase is to identify capability needs that are informed by assessments of our ability to meet the Defence missions set out in strategic guidance, within the broad funding guidance provided for Defence. This process is strategy led and orchestrated from the Strategic Centre through the force design process. The outcome of this phase is prioritisation within the Integrated Investment Program. The two key outputs of the Strategy and Concepts Phase are an agreed Joint Capability Needs Statement and a Project Execution Strategy;
2. **Risk Mitigation and Requirement Setting.** The Risk Mitigation and Requirement Setting Phase involves the development and progression of capability options through the investment approval process. The outcome of this phase leads to a government approval to acquisition. The primary output of this phase is a firm contractible proposition to acquire and sustain the Product, which forms the core of the Gate 2 Business Case;
3. **Acquisition.** The Acquisition Phase involves placing a contract with industry to acquire the Product, executing that contract and introducing the capability into service; and
4. **In Service and Disposal.** The In Service phase involves sustaining the Product through its life. Disposal involves withdrawing the Product from service, managing the transition to a replacement (if required) and final disposal of the Product.

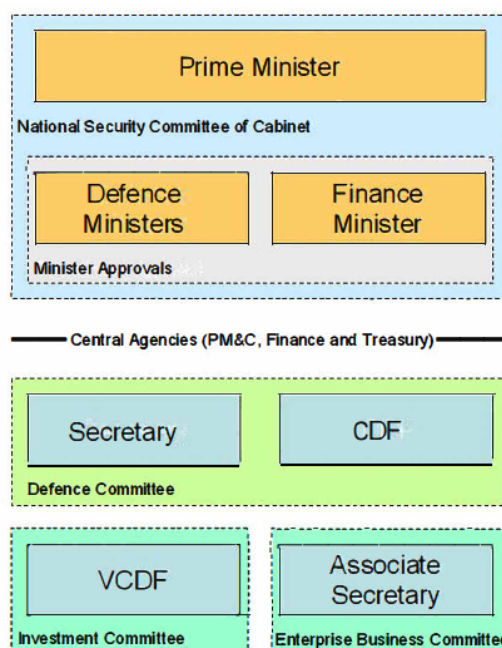


The Capability Life Cycle has three management layers which are:

- **Portfolio.** The Portfolio approach maintains the integrity of the Integrated Investment Program by managing the multiple Programs of initiatives to achieve Defence’s strategic goals, while optimising the use of resources, and managing Portfolio risks and the inevitable changes that arise over time.
- **Program.** Refers to the management of a group of related existing Products, projects and activities in a coordinated way to optimise the capability outcome within allocated resources
- **Product.** Refers to managing the whole of life of an asset that contributes to capability such as a facility, major platform, major information and communications technology application or fleet of equipment. Product management includes sustainment, through life upgrades, and technology refreshes. Project refers to the management of a unique, finite, multidisciplinary and organised endeavour to realise discrete changes to the capability managed by a Program. The role of a project is to deliver a Product or Products.

The Relationship with Government

The Capability Life Cycle operates within the government’s decision making framework and process. A key component of the Capability Life Cycle is the building and maintaining of relationships with key stakeholders: the Ministers, the National Security Committee of Cabinet, the central agencies (Prime Minister and Cabinet, Treasury and Finance) and industry.



The National Security Committee of Cabinet sets the higher level strategic guidance and the resource envelope that informs Defence capability planning. The Defence White Paper is the public expression of the government's Defence policy, including strategic and resource guidance.

It is essential that the Capability Life Cycle maintains the integrity of the plans set out in the Defence White Paper and the Integrated Investment Program to deliver the agreed program of future investment in Defence capability. A key responsibility of Defence's Strategic Centre ¹ (as constituted by the Defence Committee) is to balance Defence resources and activities and to make necessary investments to ensure that Defence can continue to perform the tasks expected by government in line with this strategic guidance.

The Defence Planning Guidance, derived from the Defence White Paper, presents a classified summary of Defence strategic guidance, including Defence missions and essential force attributes. The force design process translates this policy guidance into a vision of the future force structure that can be articulated to government. If agreed by government, the output of the force design process is expressed in the Integrated Investment Program.

The Integrated Investment Program that has been approved by the National Security Committee of Cabinet brings together the consolidated program of investment in major equipment, information and communications technology, facilities and workforce that form the basis for the future force structure.

The Integrated Investment Program is managed on a standardised and cyclical basis with regular updates to government, but is also responsive to trigger events such as budgetary or threat-based changes. In both cases, Investment Portfolio Management within Vice Chief of the Defence Force Group works closely with Force Design Division and Contestability Division to recommend to the Secretary and CDF changes in the Integrated Investment Program resources and strategic priorities.

The Capability Life Cycle is applicable to all investment decisions taken by Defence, including equipment, information and communications technology, facilities, workforce and other service delivery functions. Defence relies on the full and ongoing support of all groups in generating and sustaining capability over time.

The Capability Life Cycle process seeks to align strategy, capability and resources to provide options for government on the design of future Defence capability, in particular the future force structure.

Capability outcomes are enhanced through early and active engagement with key stakeholders. It includes biannual updates to government (which are copied to central agencies), and is aligned with the budget cycle. At biannual updates Defence will:

- report on the progress of implementing the Defence White Paper, and the Integrated Investment Program;

¹ *The Strategic Centre is about strengthening accountability and top level decision making to set direction, provide contestability and ensure organisational control to underpin One Defence. It comprises the Secretary, Chief of the Defence Force, Associate Secretary, Vice Chief of the Defence Force, Deputy Secretary Policy and Intelligence, and the Chief Finance Officer. This group forms the Defence Committee. First Principles Review p.20.*

- provide advice on the submissions that are coming forward over the next six months, and
- provide advice on Defence's budget position.

Government engagement includes discussing options and risks, and articulates the value of proposed investments. Defence will ensure that the best advice is provided to government, enabling it to make sound investment decisions.

Industry is engaged early in the Capability Life Cycle as a key partner in the delivery of Defence capability and that engagement is transparent. Defence will identify risks and be commercially aware through relationships with industry. Project management, acquisition and sustainment strategies are developed to deliver value for money and to realise the maximum benefit through industry engagement.

Contestability

Contestability is an integral part of the Capability Life Cycle and aims to improve the quality of advice by ensuring the right questions are asked at the right time. It is essential to achieve increased confidence in Defence's management of force and capability design.

Contestability Division therefore provides a source of independent assurance to the VCDF, as chair of the Investment Committee, the Secretary and CDF, the central agencies; the Ministers and government that Defence's capability needs and requirements are aligned with strategy and resources and can be delivered in accordance with government direction.

Contestability activity is proportionate to the risk presented. Contestability Division provides:

- **Strategic contestability** – ensuring the force structure, portfolio of capability investments and individual proposals and projects deliver government policy objectives and the strategic needs as directed by government in the Defence White Paper and the Integrated Investment Program. This occurs in conjunction with Force Design Division;
- **Scope, technical and cost contestability** – convening Defence expertise to contest key deliverables such as scope, schedule, budget, risks and technical aspects throughout the proposal process.
- **Standards and models** – ensuring that Contestability Division continues to refine its models and frameworks, through the identification of systemic recurring issues for resolution, and in developing standards, tools and models to support the contestability function.

The Importance of Effective Management of Defence Capability

Managing the breadth of Defence capability is a complex undertaking. In order to manage this complexity, a long term, integrated approach is required for the planning of future capability, within the constraints of available budget, time and resources. This complexity is managed through ongoing force design; the Integrated Investment Program; and the Capability Governance Framework.

Behaviours Supporting Capability Management in Defence

The Capability Life Cycle must build and maintain relationships with key stakeholders: the Ministers, the National Security Committee of Cabinet, the central agencies and industry, which demonstrate Defence's commitment to quality decisions.

The development of Defence capability is a collaborative process based on trust and transparency. It is critically important that personnel within the Capability Life Cycle exhibit partnership behaviours, cooperation, and intellectual honesty focused on government decisions. The behavioural characteristics that underpin the Capability Life Cycle are:

- Building and sustaining government confidence in Defence as a policy advisor;
- Providing the best possible advice to government to support good policy decision making;
- Empowering the Secretary and CDF as the key advisors to government;
- Ensuring the best possible decision making by considering the full range of factors and influences on those decisions;
- Ensuring that decisions are agile and adaptable to the environment in which they are made;
- Ensuring that all stakeholders are engaged in a way that reflects their accountability;
- Engagement with the Ministers and central agencies before and at Gate 0, so that they are aware of upcoming proposals;
- Business cases are developed in a manner that ensures they are understandable and scrutinised, minimises the use of jargon and provide the most accurate and timely advice Defence can prepare at the time;
- Timely decisions are made at the appropriate delegated level when sufficient supporting information is available; and
- Enabler and Delivery Groups focused on working closely with, and responsively to the Capability Manager to execute Programs with the optimum balance between capability, risk, cost and schedule.

Committees

There is a clear linkage between direction from the Strategic Centre and the Capability Life Cycle outputs. There are three levels at which capability analysis, planning and management are conducted; in the Portfolio, Program, and Products/Projects. The three Defence Committees which provide approvals and strategic direction in the Capability Life Cycle are:

- **The Defence Committee.** The Defence Committee, chaired by the Secretary, is the primary decision making committee of Defence and is central to the Capability Life Cycle process. The Defence Committee may delegate authority to its subsidiary committees, the Investment Committee and the Enterprise Business Committee.

- **The Investment Committee.** The Investment Committee, chaired by the VCDF, is responsible for supporting the Defence Committee by overseeing the implementation and integrity of the Integrated Investment Program, and monitoring Defence's performance in delivering it.
- **The Enterprise Business Committee.** The Enterprise Business Committee, chaired by the Associate Secretary, is responsible for ensuring the effective running of the Defence organisation, including monitoring and reporting on in-year budget performance.

Performance monitoring and reporting on Defence's delivery of government requirements takes place within the wider enterprise level performance reporting framework. The purpose of this monitoring and reporting is to provide assurance to the Defence Committee and the Ministers that Defence is delivering on government requirements and making the most effective and efficient use of resources.

Work Health and Safety

Defence integrates Work Health and Safety requirements into the Capability Life Cycle through the allocation of primary duty holders for each phase of the Capability Life Cycle. The identified duty holders are accountable for the guidance, supporting processes and evidence to ensure that Defence's Work Health and Safety obligations are met.

Fundamental Inputs to Capability

The fundamental inputs to capability are those inputs that are necessarily combined to achieve capability.

The fundamental inputs to capability construct provides a framework to allow comprehensive analysis and planning of capability and the ability to focus attention on the combination and integration of the inputs rather than on the individual inputs separately. The construct facilitates consideration of all of the inputs that enable the effective and ongoing generation of Defence capabilities.

Fundamental inputs to capability comprise nine inputs that can be further reduced into individual elements. This ensures that all non-financial resources and activities required to develop, manage, sustain, or otherwise support a capability are acknowledged and the relevant costs attributed. The descriptions below provide an understanding of the fundamental inputs to capability from a capability management perspective:

- **Organisation** means that the capability is employed within flexible functional groupings with an appropriate balance of competency, structure, and command and control to meet the endorsed capability requirements stemming from the original need;
- **Command and Management** includes effective command and management arrangements at all levels to safely and effectively employ the capability, including its integration across Defence;

- **Personnel** means the role of a competent workforce component, including ADF (permanent and Reserves), APS and contractors, in the delivery, operation, sustainment and disposal of the capability;
- **Collective Training** means that the capability is supported by a defined collective training regime to a validated performance level against the Defence planning requirements and based on the original need;
- **Major Systems** includes significant platforms, fleets of equipment and operating systems that enable the effective generation of Defence capabilities;
- **Facilities and Training areas** means the infrastructure requirements necessary to support the delivery, sustainment and operation of a capability system, including training areas which may mean any area of land, sea, undersea or airspace that may be designated for military manoeuvres or simulated wartime operations;
- **Supplies** include managing all classes of supply to maintain a capability at the designated readiness state, including sustainment funding and fleet management;
- **Support** includes engineering support; maintenance support; supply support; training support; packaging handling, storage and transportation; facilities; support and test equipment; personnel; technical data and computer support; and
- **Industry** includes the consideration of the resilience and capacity of industry, such as the reliability and health of supply chains.

Consideration of the fundamental inputs to capability is applied at the Product level, but also at the Program and Portfolio level, to inform the development of long term strategies for development of the Defence estate, workforce, logistics and organisation.