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project delivery experts

# A New Era: Building a Whole-of-Defence Sector Productivity System

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# About TBH

TBH is a leading project delivery and advisory firm with more than 60 years of experience supporting Defence, infrastructure and major capital programs. TBH specialises in integrated portfolio, program and project controls and governance, helping clients to deliver complex initiatives with confidence.

Across Defence, government, prime contractors and SMEs in the defence industrial base, TBH supports stronger delivery performance with expertise in earned value management, schedule management, risk analysis and capability delivery. This white paper represents independent policy analysis and does not represent the position of any government agency or industry body.

# 1. Introduction

A new era for whole-of-defence sector productivity has arrived in Australia. The conditions that have long challenged Government, Defence and defence industry – comprising fragmented institutional architectures, the absence of shared performance measurement, an unresolved tension between the national productivity debate and the Defence reform agenda – have shifted materially in a very short period. It is now time to name what is now possible and to bring into being a dedicated productivity framework through which it can be realised.

The evidence that something has fundamentally changed accumulates from multiple directions in short months. The 2026 National Defence Strategy (NDS), released 16 April, states as a first principle that industry policy is security policy – and that defence industrial resilience underpins national productivity, innovation and economic security. The Defence Portfolio Budget Statements (PBS) for 2026–27, released on 12 May 2026, reveal seven distinct, concurrent signals of a background productivity agenda operating across the Defence enterprise – from the establishment of the Defence Delivery Agency (DDA) and the insourcing of core project management and procurement functions, to the ongoing \$12 billion-plus digital infrastructure investment program, a new independent cost assurance to be run by the Department of Finance, and a new structured approach to alternative financing. The Productivity Commission’s final reports from its five parallel investigations of national productivity priorities, released in December 2025, each provide analytical frameworks that are directly applicable to the entirety of the defence sector through the lens of a dynamic and resilient economy, a skilled and adaptable workforce, data and digital technology, and the net zero transformation.

Lastly, on 18 May 2026, Ms Meghan Quinn – the Secretary of the Department of Industry, Science and Resources (DISR), and previously a Deputy Secretary at Treasury with direct involvement in the economy stabilising realm of macroeconomic policy – commences as Secretary of the Department of Defence. This step is a clear statement that the analytical frameworks and considered accountability Treasury applies to the broader economy, coupled with the national industrial policy focus of DISR, are now consolidated within the Defence leadership team. The national economic agenda, the whole of nation perspective of industry policy and the Defence reform agenda now share a common institutional leadership trajectory. That is a threshold moment.

Given these signals, it is clear that Defence is already running a productivity agenda. It has not yet called it one however, and the consequences of that absence are significant. Without an explicit productivity framing that reaches out and encompasses defence industry, there is a very real risk of Defence reform efforts being disconnected, rather than operating as a coherent improvement agenda. Without a shared taxonomy and measurement architecture, progress cannot be tracked or verified by either side. Without an industry dimension that is co-designed and jointly owned, the agenda will stall at the boundary of the Defence enterprise, leaving unrealised the most important productivity gains, those that require reformed behaviours on both sides of the Government-industry interface.

The response which needs to be advanced by Government, Defence and defence industry is a Whole-of-Sector Productivity Agenda: a jointly owned, explicitly named and institutionally anchored program that integrates the existing reform measures, appropriately engages and applies the Productivity Commission's frameworks across the full defence sector, and leverages project controls as the enabling technical foundation without which productivity improvement in Defence and defence industry cannot be measured, verified, or sustained.



## 1.1 What the System Needs

Turning the current building blocks into a functioning productivity system that operates across the totality of the Australian defence sector – Defence and defence industry – requires levers. Three primary mechanisms exist:

### **First, a shared measurement architecture:**

Without consistent, rigorous, portfolio-wide project controls disciplines – earned value management (EVM) applied as a genuine management tool rather than a compliance exercise, integrated with the new digital infrastructure and the DDA’s governance framework – the reform agenda has no reliable way to measure whether it is working. Project controls are the connective tissue that makes every other productivity initiative accountable. This discipline must extend across the Defence-industry interface, not stop at the boundary of the Defence enterprise.

### **Second, a relational approach to capability**

**delivery:** The commercial frameworks that govern Defence-industry relationships need to align the interests of Government and industry toward shared delivery performance rather than adversarial risk transfer, with collaborative and relational contracting now a mature construct in the Australian commercial sector. Defence has already developed foundational guidance on collaborative contracting, emphasising shared objectives, transparent performance information, joint governance and risk allocation matched to actual risk management capability. In practice however, the understanding of collaborative

contracting at the whole of defence sector level is under-developed despite important exemplars such as the ANZAC Frigate Warship Asset Management Alliance (WAMA) which ran successfully from 2016 to 2026. Bringing collaborative contracting into the core options category for Defence and defence industry is a readily accessible commercial reform with high productivity potential.

### **Third, a systematic approach to learning:**

The same categories of findings recur in Australian National Audit Office (ANAO) major projects reports year after year, project after project. Requirements instability, schedule underestimation and contractor performance management gaps need to be understood as systemic knowledge issues, not individual project challenges. A jointly designed, jointly operated lessons learned system would, over time, break the cycle of programs and projects relearning at cost what their predecessors already discovered.

Crucially, these three levers must be applied equally and explicitly to Defence and to all tiers of the defence industrial base, and this must be supported by the Federal as well as State and Territory governments. A productivity agenda that applies just within the Federal enterprise will only deliver a fraction of the available improvement opportunities. The performance of the whole system is determined by the performance of all its parts, and the Government-Defence-defence industry interface is where the most significant productivity losses in complex capability programs and projects occur.

## 1.2 The Window Is Now

The updated Defence Industry Development Strategy, due in June–July 2026, is the immediate policy vehicle for explicitly embedding the industry dimension of a productivity agenda. The DDA's foundational design decisions are being made right now and will be matured over the period to go live on 1 July 2027. Likewise, the Productivity Commission's December 2025 final reports, addressing a resilient economy, adaptable workforce, data and digital and net zero, provide ready to adapt analytical frameworks that will allow accelerated and coherent application across the full Australian defence sector in step with a wider national roll-out.

Australia has, at this moment, better conditions for establishing a genuine, durable, whole-of-sector defence productivity agenda than at any point in the past thirty years. The building blocks on the Defence side are funded. The institutional architecture is being redesigned. The new Defence leadership team is preparing to take position.

What is needed now is the act of naming – and the shared commitment of Government, Defence and defence industry – to build the system that delivers it.

## 2. A New Alignment: The Moment Has Arrived

### 2.1 Three Decades of Absence

Australia's difficulty in sustaining a coherent defence sector productivity agenda is not a recent phenomenon. The 1994 Industry Commission Report Defence Procurement – the most searching analytical examination of the defence sector's productivity performance prior to this decade – identified with considerable precision the systemic sources of inefficiency operating across Australian Defence acquisition: adversarial contracting norms, insufficient competition policy, inadequate performance measurement and the absence of whole-of-sector governance for productivity improvement.<sup>5</sup> Thirty-two years later, ANAO performance audit findings on the Defence Capability and Sustainment Group's (CASG) major projects portfolio continue to identify comparable patterns of schedule slippage, cost growth and governance gaps.<sup>6</sup>

This persistence reflects the genuine difficulty of sustaining reform in a sector characterised by long program and project lifecycles, complex institutional structures, security constraints on public transparency and the perennial competition between strategic urgency and administrative improvement. Each of the reforms that have been pursued since 2000 – the establishment of Defence Materiel Organisation (DMO) from the Defence

Acquisition Organisation (DAO), its transition to CASG, successive iterations of the One Defence Capability System (ODCS), the shift to minimum viable capability models – has addressed real structural problems. What has been consistently missing is the integrating framework: the explicit productivity agenda that names what all these reforms are trying to achieve, provides the measurement architecture to track progress, and maintains institutional continuity across the inevitable cycles of organisational change.



## 2.2 What Has Changed

Against this history, the convergence of developments in 2026 is striking. Four streams of change have arrived simultaneously, each significant in isolation and potentially transformative in combination.

### **The Institutional Stream**

The establishment of the DDA – initially consolidating CASG, the Guided Weapons and Explosive Ordnance (GWEO) Group, and the Naval Shipbuilding and Sustainment Group (NSSG) into a single agency with budget sovereignty and a National Armaments Director (NAD) reporting directly to Ministers – creates an institutional architecture better suited to enterprise-wide productivity governance than anything that has existed previously.<sup>7</sup> Equally important is the establishment of an independent cost assurance function for Defence that is located in the Department of Finance, this addressing a fundamental productivity headwind: optimism bias in major investment costing that has historically allowed underperforming programs to persist beyond the point at which their trajectories should have triggered intervention.<sup>8</sup>

### **The Political-Economic Stream**

The Productivity Commission's five-pillar inquiry program, the final reports of which were delivered in December 2025, has elevated the national productivity debate to a level of policy priority and analytical sophistication not seen since the microeconomic reform era of the 1990s.<sup>9</sup> This creates both the analytical vocabulary and the political legitimacy for applying comparable frameworks to the defence

sector – something that previous iterations of the national productivity conversation have not attempted.

### **The Fiscal Stream**

The Department of Defence Portfolio Budget Statement (PBS) for 2026–27, released on 12 May 2026, reveals Defence expenditure is now on a trajectory that makes productivity improvement not merely desirable but fiscally essential. With total Defence spending – across acquisition, sustainment, workforce, and operations – approaching \$110 billion annually by the mid-2030s, the efficiency with which these resources are deployed will have direct consequences for Australia's fiscal position, its capacity to fund other national priorities, and the credibility of the Defence investment program with the public and the Parliament.<sup>10</sup>

### **The Leadership Stream**

The appointment of Meghan Quinn as Secretary of Defence, effective 18 May 2026, is the signal that most directly connects the national productivity agenda to the Defence reform program. Quinn brings to the role deep institutional familiarity with the triad of economic, industry policy and productivity policy levers available to Government, and the challenge of improving performance in complex, large-scale government programs.<sup>11</sup> The appointment sends a key market signal – to Defence and to industry – that the application of rigorous economic and industry policy discipline to the Defence enterprise is now a first-order priority.

### 3. Reading the Budget: Seven Signals of a Background Productivity Agenda

The 2026–27 Defence PBS, read as an analytical document rather than a financial statement, reveals a coherent but unframed productivity reform program operating simultaneously to address institutional governance, human capital, digital infrastructure and market and regulatory reform. Because it is a financial statement, however, the PBS provides a fully integrated picture of Government and Defence intentions in practical application terms, meaning it presents these in ways that other policy documents do not.

The absence of explicit productivity framing in the PBS is, paradoxically, both a limitation and an opportunity. It is a limitation because an unnamed agenda cannot be governed as a whole, raising the risk of each area being addressed as independent reform streams rather than as components of an integrated system, each chasing its own objectives without the benefit of common performance metrics, shared governance, and cross-boundary coordination. But it is an opportunity because the building blocks are already funded and in motion. What is now required is the integration of those existing commitments under an explicit productivity framework – and the extension of that framework across the Government-Defence-defence industry boundary and deep into the national industrial base that the Australian Defence Force must be able to depend upon.

A reading of the 2026–2027 Defence PBS with a microeconomic policy lens identifies seven primary signals where reform activities are best understood as an implicit productivity agenda.



### 3.1 Signal One: The Defence Delivery Agency

The establishment of the DDA is taking place on a phased basis, with CASG, NSSG and GWEO to be consolidated into the Defence Delivery Group (DDG) by 1 July 2026. Full evolution of this core into the DDA itself will occur across the course of FY26–27, with the new organisation to become operational from 1 July 2027.<sup>12</sup> This is the most structurally significant reform to Australian Defence acquisition architectures since the creation of the Defence Materiel Organisation in 2000. The productivity logic of creating the DDA is clear: the consolidation of diffuse acquisition functions under a single agency with budget sovereignty, clear decision rights and direct ministerial accountability is designed to eliminate the coordination costs and accountability gaps that have permitted program and project performance challenges to persist. NDS26 itself uses productivity language to make explicit that these reforms are intended to reduce scope creep, cost increases, and schedule delays between project initiation and final approval.<sup>13</sup> The DDA's establishment creates both the institutional architecture and the accountability pressure for the delivery of that commitment - but it will require project controls disciplines at its operational core to make good on the promise.

For industry, the DDA creates a clearer counterpart organisation: a single agency with consolidated authority over acquisition and sustainment decisions, governed by a National Armaments Director who can provide more consistent strategic direction to the industrial base than the existing fragmented structure has been able to deliver.

### 3.2 Signal Two: The Strategic Commissioning Framework and APS Insourcing

The PBS records approximately \$1.46 billion over three years in savings from the reduction of external labour and non-wage expenditure – the fiscal expression of the Department of Finance's Strategic Commissioning Framework (SCF), which directs the deliberate insourcing of core project and program management, procurement, contracting and now AI capability functions into the APS. An additional \$1.44 billion in savings in 2029–30 from an earlier measure extension takes the total target savings over the four year forward estimate to \$2.9 billion, confirming that this is a sustained structural commitment rather than a transitional efficiency.<sup>14</sup>

The SCF's productivity rationale is compelling: where core delivery functions are provided by external contractors, the government enterprise lacks the internal capability to direct, assess, and manage its own programs effectively. The result is a principal-agent problem: the client relies on the contractor to report on the contractor's own performance, creating a structural source of information asymmetry and, ultimately, productivity loss. Rebuilding that internal capability is a prerequisite for effective program governance.

This signal has direct implications for industry. The reduction in external contractor expenditure within Defence will redistribute workforce capacity across the market. For industry participants that have provided personnel services to Defence functions now being insourced, the implications are significant.

For the broader delivery market, the insourcing of core program management capability within Defence could, if implemented well, create a more capable and more demanding client. Over time, this should lift delivery performance across the portfolio. The likely effect on the contracting industry is significant: providers will need to sharpen their service offerings, with greater emphasis on high-level expertise and genuine capacity to contribute meaningfully to Defence requirements.

### **3.3 Signal Three: APS Professionalisation**

The 2026 Defence Workforce Plan, reflected in the PBS's workforce programs, explicitly identifies project and program management, procurement and contracting, and, for the first time, AI literacy as priority capability development targets for Australian Public Servants (APS) employed by Defence.<sup>15</sup> This is to be delivered through the APS Academy, organisational capability reviews and job family reform across the Defence workforce.

This signal is the human capital foundation of every other productivity reform. The DDA's institutional architecture will only function as designed if the APS workforce operating within it has the project management, commercial and analytical skills to manage complex programs effectively. Digital infrastructure investments will only yield their productivity dividend if the workforce that operates them has the capability to extract and act on the data they generate. The SCF's insourcing agenda will only produce

better outcomes if the insourced functions are genuinely more capable than the contractor arrangements they replace.

The professionalisation agenda has a direct analogue for the industrial base, as discussed in Section 7 of this paper. The project controls capability of defence industry – particularly at the Tier 2 and Tier 3 levels – is as important to program delivery performance as the project management capability of the program offices that direct that work.

### **3.4 Signal Four: Independent Cost Assurance**

The establishment of an independent cost assurance function, located in Finance and offset from Defence's own budget, addresses one of the most persistent and analytically well-documented productivity headwinds in large government programs: optimism bias in cost and schedule estimation.<sup>16</sup> When organisations responsible for developing investment proposals are also responsible for estimating their costs, structural incentives favour optimistic assumptions, producing initial cost estimates that are subsequently overtaken by reality in ways that are both predictable and routinely predicted.

The institutional independence of the new function – its separation from the program management structure and its budget offset from Defence – is the design feature that matters. It creates an analytical check on the investment pipeline developed by the Vice Chief of the Defence Force Group that has not previously existed in the Australian Defence context, and will operate alongside the revised structure of the One Defence Capability System (ODCS).<sup>17</sup>

The independent cost assurance function amplifies the need for standardised, comparable and reliable project controls data architectures across the whole of the defence sector. Without consistent EVM baselines, schedule performance data and risk-adjusted cost forecasts drawn from actual program performance, independent cost assurance becomes an exercise in independent cost estimation rather than independent performance accountability.

### **3.5 Signal Five: The Ongoing Defence Digital Program**

Defence embarked on a deliberative digital transformation program in the early 2020s with this impacting on both operational and administrative capabilities for the organisation and representing planned investment that grows from \$1.7 billion in 2025–26 to \$3.0 billion in 2029–30 – over \$12 billion across the forward estimates.<sup>18</sup> From an administrative perspective, the Defence Enterprise Resource Planning (ERP) roll-out sits at the centre of this program. The FY26–27 tranche is explicitly focused on procurement management, sourcing, contracting, cloud migration, productivity suite deployment and robotic process automation across administrative functions.

The Defence ERP program is one of the few areas where the Department’s published guidance is deliberate in its identification of productivity as a formal strategic driver and delivery focus, even if the broader productivity agenda framing has not yet been made explicit. The Defence Digital Strategy and Roadmap 2025, released 28 November 2025, identifies productivity as an explicit priority for FY26–27 ERP development.<sup>19</sup>

As the technological infrastructure of administrative productivity transformation, the relationship between Defence ERP program and project controls capabilities is integral. As an enterprise-wide system, ERP systems capture procurement, contracting, financial and program management data in a standardised, integrated format – precisely the data architecture approaches that portfolio-level productivity analysis requires.

The digital infrastructure program also has industry dimensions. As Defence builds out a more integrated enterprise data environment, the interfaces between that environment and the project management and financial systems used by industry prime contractors become increasingly important. Standardising those interfaces – ensuring that EVM data, schedule data, and financial performance data can flow between government and industry systems reliably – is a productivity investment in its own right.

### 3.6 Signal Six: Market and Regulatory Reform

The FY26–27 PBS records several measures that constitute a market-facing productivity reform program. These measures comprise:

- the AUKUS licence-free environment, which reduces regulatory transaction costs on defence industrial collaboration at scale;
- the forthcoming 2026 Defence Industry Development Strategy, expected in June 2026, which will update the industrial policy framework to reflect the lessons of DIDS24 and the priorities of the 2026 NDS; and
- approximately \$5 billion over the forward estimates and \$15 billion over the decade identified for alternative financing delivery options across estate, Henderson Defence Precinct, and GWEO investments.<sup>20</sup>

The alternative financing signal is particularly significant for the industrial base. By engaging private sector capital, expertise, and delivery models for major infrastructure investments, the Government is – in effect – applying market discipline to a class of assets that has historically been managed within the public sector balance sheet. This creates opportunities for new forms of government-industry partnership and new models of risk and reward allocation that, if structured well, could demonstrate the collaborative delivery approaches that should be the norm for high-complexity procurement more broadly.

### 3.7 Signal Seven: The Biennial NDS Cycle

The biennial NDS cycle – the next iteration due in 2028 – creates a structured planning discipline with direct productivity implications.<sup>21</sup> Regular, scheduled occasions for portfolio-level review and prioritisation create the governance conditions in which productivity performance data can be evaluated at strategic level and improvement trajectories adjusted. The biennial cycle also provides a predictable planning horizon for industry, reducing the uncertainty costs that have historically impeded long-term investment in defence industrial capability.

### 3.8 Four Building Blocks and Their Interconnections

These seven signals combine to create four building blocks that together constitute Defence's emerging productivity architecture:

#### Institutional governance:

Comprising the DDA, independent cost assurance, and biennial NDS cycle. These are the preconditions for durable, system-wide productivity improvement – without clear decision rights, independent scrutiny and regular strategic review, program-level improvements will remain fragile and non-systemic.

#### Human capital:

Comprising APS professionalisation, SCF insourcing and AI literacy expansion. These address the fundamental constraint that Defence's ability to deliver value from its investment portfolio depends on the skills and professional judgment of the people managing programs, contracts and procurement.

#### Digital infrastructure:

Comprising the Defence Digital Program incorporating ERP, cloud, and automation. These form the technological platform upon which data-driven productivity improvement depends. Without integrated, standardised data systems, portfolio-level performance analysis is impossible.

#### Market and regulatory reform:

Comprising the AUKUS licence-free environment, alternative financing and the forthcoming DIDS26. These address the external environment in which the industrial base operates, reducing transaction costs and creating new models of government-industry partnership.

What is missing across these four building blocks is their alignment under an explicit productivity framing that names the agenda, sets the cross-cutting performance measurement architecture that connects them, and articulates governance mechanisms that manages the full combination as a system which applies not just to Defence, but at the whole of sector level.

## 4. The National Productivity Framework and Its Defence Dimensions

### 4.1 Australia's Productivity Agenda

In December 2024, the Federal Treasurer tasked the Productivity Commission with five inquiries to identify priority reform options aligned with the Government's productivity growth agenda, emphasising five core pillars:

- Creating a dynamic and resilient economy
- Building a skilled and adaptable workforce
- Harnessing data and digital technology
- Delivery quality care more efficiently
- Investing in cheaper, cleaner energy and the net zero transformation.<sup>22</sup>

The final reports of these inquiries were delivered to the Government on 10 December 2025.<sup>23</sup> Together they represent the most comprehensive mapping of Australia's productivity improvement opportunities since the Commission's 2023 Advancing Prosperity review.

Despite the scale of Defence spending as a proportion of Government spending, the defence sector represents a general absence across all facets of the inquiries research and final reports. In part, this absence reflects the genuine measurement challenges that characterise a sector where output is partly classified, partly non-market, and partly defined in terms of deterrence and preparedness that resist conventional productivity metrics when assessed solely in strategic terms. But it also reflects a challenge in analytical ambition. The Productivity Commission's frameworks are, with appropriate adaptation, directly applicable to the defence domain because the sector is an economic activity in the first instance. The whole-of-defence sector relies on complex administrative, regulatory and governance systems which can be measured using approaches readily accepted for other parts of the economy. Despite this, neither the Department nor defence industry appears to have engaged with any of the five inquiries at any stage during their conduct and finalisation, meaning the analytical ambition challenge here is not that of the Productivity Commission alone.

## 4.2 A Dynamic and Resilient Economy: Defence as Industrial Policy

The Productivity Commission's final report, *Creating a More Dynamic and Resilient Economy*, examines the conditions under which markets systematically underinvest in resilience, and the role of well-targeted industrial policy in correcting that underinvestment.<sup>24</sup> The analysis is directly applicable to the defence industrial base, but with strategic amplification: the case for sovereign industrial capability in naval shipbuilding, guided weapons and critical electronics is not only a matter of economic resilience, but also of operational readiness. The inability to sustain and replenish military capability during conflict represents a fundamentally different order of risk from civilian supply chain disruption.

The Commission's findings on regulatory efficiency, transaction costs and the design of government-industry commercial frameworks as drivers of productive efficiency are likewise directly relevant. High transaction costs in defence procurement – the administrative, legal, and governance costs borne by both government and industry in running complex acquisition processes – reduce the share of program expenditure that reaches productive capability delivery. Every dollar spent managing procurement process is a dollar unavailable for

capability investment.

The Commission's emphasis on industrial dynamism – the entry of new firms, the scaling of innovative SMEs and the diffusion of technology across the industrial base – maps directly with the articulated objectives of NDS26 and the 2024 Defence Industry Development Strategy (DIDS) as well as its soon to be released 2026 update: how to grow the Tier 2 and Tier 3 layers of the defence industrial base, how to create effective pathways for innovative SMEs to enter and scale within the defence market, and how to ensure that the industrial development benefits of major programs flow beyond the prime contractor tier.<sup>25</sup>

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**DYNAMIC & RESILIENT ECONOMY: STRATEGIC ALIGNMENT**

2026 National Defence Strategy x Productivity Commission: Creating a More Dynamic and Resilient Economy (December 2025)

| 2026 NATIONAL DEFENCE STRATEGY   | ALIGNMENT                        | PRODUCTIVITY COMMISSION  |
|--|----------------------------------|--|
| Industrial & Economic Resilience Agenda   16 April 2026  | Shared priorities                | Dynamic & Resilient Economy   Inquiry No. 109, Dec 2025  |
| <b>#1 Economic security nexus</b><br>Defence investment supports national productivity, innovation & economic security                         | Economic security nexus          | <b>Hybrid corporate tax reform</b><br>20% rate for SMEs; 28% large firms; 5% net cashflow tax; \$13B GDP gain; +0.5% MFP                 |
| <b>#2 Sovereign defence industrial base</b><br>Commercially viable SDIB; adjacent revenue streams; \$53B additional investment over 10yrs      | Industrial investment incentives | <b>Investment expensing &amp; allowance</b><br>Allowance for new corporate equity; partial expensing of investment; stimulate capex      |
| <b>#3 Supply chain resilience</b><br>Diversify global sources; domestic production; critical minerals and strategic materials                  | Supply chain & market resilience | <b>Business dynamism</b><br>Declining firm entry rates; rising market concentration; wide productivity dispersion                        |
| <b>#4 Minimum viable capability model</b><br>Speed to acquisition; embrace risk; iterative development with industry                           | Speed & agility in delivery      | <b>Regulatory overhaul</b><br>\$10B target reduction in net regulatory costs by 2030; whole-of-government reform                         |
| <b>#5 Acquisition reform &amp; Defence Delivery Agency</b><br>Defence Delivery Agency July 2027; flexible contracting; reduce scope creep      | Regulatory & procurement reform  | <b>Regulatory stewardship</b><br>Systematic review of regulatory thickets; independent scrutiny; monitor compliance                      |
| <b>#6 Naval shipbuilding enterprise</b><br>8,500+ jobs by 2030; 20,000 submarine jobs over 30 years; advanced manufacturing uplift             | Advanced manufacturing           | <b>Housing &amp; construction reform</b><br>Regulation adds 135K – 320K per new house; restrictive zoning costs \$28.6B per year         |
| <b>#7 International industrial collaboration</b><br>Co-develop, co-produce, co-sustain; Ghost Bat/Ghost Shark exports; AUKUS trade             | Trade & investment openness      | <b>Innovation &amp; R&amp;D incentives</b><br>Tax incentives for R&D; technology diffusion; reduce productivity dispersion between firms |
| <b>#8 National resilience &amp; infrastructure</b><br>Roads, railways, ports, telecoms; logistics networks; whole-of-nation civil preparedness | Infrastructure & resilience      | <b>Dynamic efficiency framework</b><br>Adapt and respond; allocate to most productive uses; speed over static optimisation               |

**CONVERGENCE: SHARED DYNAMIC ECONOMY & DEFENCE PRODUCTIVITY PRIORITIES**

| Investment In Sovereignty  | Regulatory Reform  | Industrial Dynamism  | Advanced Manufacturing  | Supply Chain Resilience   |
|--|--|--|---|---|
| Defence investment is also national productivity investment; both require a long-term pipeline | Both agendas demand lighter, smarter regulation to unlock capability and business dynamism | A commercially viable SDIB requires the same conditions that drive broader business dynamism | Defence-led manufacturing uplifts national industrial capacity and productivity | Security and economic interests converge in building resilient domestic supply chains |

**TBH ANALYSIS: STRATEGIC IMPLICATIONS FOR DEFENCE PRODUCTIVITY**

| Industrial Policy Tension  | Tax Reform Dividend  | Regulatory Cost Burden  |
|--|--|---|
| The PC's preferred model of competition and market-based entry conflicts with Defence's need for sovereign industrial prioritisation and monopsony procurement. A Defence-specific competition framework that preserves capability depth while stimulating innovation is needed to resolve this tension. | The PC's hybrid corporate tax reform (\$13B GDP; +0.5% MFP) would directly benefit the ~5,000 businesses in Australia's defence industrial base. Defence acquisition policy should explicitly align investment signals with tax reform incentives to magnify the productivity gains for both sectors simultaneously. | The PC estimates \$10B in annual net regulatory cost savings from overhaul. Defence acquisition regulations are among the most complex in government. Incorporating defence procurement into the whole-of-government regulatory reform agenda - instead of treating it as exempt - would yield substantial gains. |

Sources: Department of Defence, 2026 National Defence Strategy (Canberra: Commonwealth of Australia, 16 April 2026); Productivity Commission, Creating a More Dynamic and Resilient Economy, Inquiry Report No. 109 (Canberra: Commonwealth of Australia, 10 December 2025). Copyright Tracey Brunstrom & Hammond Pty Ltd (TBH) 2026 -- Defence Productivity Agenda White Paper. [tbhconsultancy.com](https://www.tbhconsultancy.com)

### 4.3 A Skilled and Adaptable Workforce: The Shared Challenge

The Commission's final report on Building a Skilled and Adaptable Workforce identified skills mismatches, workforce immobility and institutional barriers to training and credential recognition as significant national productivity constraints.<sup>26</sup> These findings have particular resonance in the defence sector, where the competition for technical talent – engineers, project managers, cyber specialists, trades workers and naval architects – is acute and operates symmetrically across Defence and its industrial partners.

The Commission's finding that workforce adaptability – the capacity to reskill, redeploy and continuously develop in response to changing demands – is a more reliable productivity driver than static skills endowment is especially pertinent to a defence sector confronting simultaneous technological transformation, accelerating acquisition programs and workforce growth targets that are unlikely to be met through conventional recruitment alone.<sup>27</sup>

NDS 26 updates the 2024 Defence Workforce Plan to identify eight strategic workforce tasks which closely reflect the Productivity Commission findings, as well as identifying that partnerships across the whole-of-government and with defence industry are essential to meeting them.<sup>28</sup>

This represents a whole-of-nation workforce challenge and a productivity challenge cannot be resolved by Defence or industry alone. There is a valid case for a whole-of-defence sector approach through joint workforce planning, shared training investment and credential portability frameworks, and it will have maximum impact where it is aligned with corresponding rest-of-economy approaches.

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## WORKFORCE PRODUCTIVITY: STRATEGIC ALIGNMENT

2026 National Defence Strategy × Productivity Commission: Building a Skilled and Adaptable Workforce (December 2025)

| 2026 NATIONAL DEFENCE STRATEGY  | ALIGNMENT                        | PRODUCTIVITY COMMISSION   |
|---|----------------------------------|---|
| Workforce Agenda — Chapter 5   Released 16 April 2026   | Shared themes                    | Skilled & Adaptable Workforce   Inquiry No. 110, Dec 2025   |
| <b>#1 Integrated workforce design</b><br>Optimise ADF/APS structure; align workforce to capability priorities                   | Aligned workforce planning       | <b>Foundation skills &amp; school education</b><br>National quality curriculum platform; GenAI to personalise learning outcomes |
| <b>#2 Enhanced ADF inflow</b><br>Grow skilled ADF ranks; expand eligibility to Five Eyes & PNG non-citizens                     | Tertiary harmonisation           | <b>Tertiary harmonisation</b><br>Integrate VET and higher education; \$240B economic gain by 2050 target                        |
| <b>#3 Industry &amp; government partnerships</b><br>Whole-of-nation collaboration to create, train and retain specialist talent | Industry-education partnership   | <b>Credit transfer &amp; RPL reform</b><br>90%+ employment growth needs tertiary qualifications — remove pathway barriers       |
| <b>#4 Workforce development &amp; transformation</b><br>Uplift education, training & experience for ADF and APS personnel       | Lifelong learning & adaptability | <b>Work-related training in SMEs</b><br>Financial incentives and advisory support to build enterprise training culture          |
| <b>#5 APS professionalisation</b><br>STEM & project management recruitment; reduce contracted staff reliance                    | STEM pipeline & intelligence     | <b>Occupational entry regulation reform</b><br>Replace excessive licensing with fit-for-purpose regulatory alternatives         |
| <b>#6 Culture, wellbeing &amp; retention</b><br>Psychologically safe environment; retention of experienced personnel            | Credential portability           | <b>Credential portability &amp; recognition</b><br>Streamline overseas qualification recognition; reduce skill underutilisation |
| <b>#7 ADF Reserve strengthening</b><br>Integrated focused force; Reserve as core workforce flexibility mechanism                | Regulatory alignment             | <b>Lifelong learning architecture</b><br>Flexible re-entry to study; recognise work-based skills throughout career              |
| <b>#8 Workforce targets</b><br>69,000 ADF by early 2030s; ~100,000 ADF+APS by 2040  | Credit transfer & RPL            | <b>National Skills Intelligence System</b><br>Align education pipeline to labour market demand and emerging skill needs         |

### CONVERGENCE: SHARED WORKFORCE PRODUCTIVITY PRIORITIES

| STEM Pipeline   | Whole-of-Nation Approach  | Workforce Adaptability  | Industry-Education Partnerships                                       | Credential Portability   |
|---|---|---|---|--|
| Defence and the broader economy compete for the same talent pool; coordination is essential | Defence needs must be explicitly embedded in the national skills strategy | Flexible credential pathways support national security and productivity goals | Tri-sector collaboration: Defence, industry and tertiary institutions | RPL and credit transfer reduce barriers for specialist talent entering Defence |

### TBH ANALYSIS: STRATEGIC IMPLICATIONS FOR DEFENCE PRODUCTIVITY

| Policy Integration Gap  | STEM Demand Tension   | Measurement & Accountability   |
|---|---|--|
| The 2026 NDS Workforce Agenda and the PC's national workforce reform framework operate in parallel without formal integration. A Defence Sector Workforce Productivity Strategy is required to align these frameworks, eliminate duplication and establish clear accountability for shared workforce productivity outcomes. | Defence's requirement for ~20,000 direct jobs for AUKUS/nuclear submarines over 30 years competes with broad-economy STEM demand. The PC's national skills architecture must explicitly account for defence prioritisation and sovereign industrial base requirements to prevent zero-sum competition for the same talent pool. | Neither the NDS nor the PC Report provides a common productivity metric linking workforce investment to capability outcomes. Joint measurement frameworks - developed across Defence, Treasury and the Productivity Commission - are a critical and unmet system design need for the next iteration of both documents. |

Sources: Department of Defence, 2026 National Defence Strategy (Canberra: Commonwealth of Australia, 16 April 2026); Productivity Commission, Building a Skilled and Adaptable Workforce, Inquiry Report No. 110 (Canberra: Commonwealth of Australia, 10 December 2025). © Tracey Brunstrom & Hammond Pty Ltd (TBH) 2026 — Defence Productivity Agenda White Paper. [tbhconsultancy.com](https://www.tbhconsultancy.com)

## 4.4 Data and Digital Technology: The Performance Architecture

The Commission’s final report on Harnessing Data and Digital Technology found that better use of data and digital tools represents one of the highest-opportunity productivity levers available to Australian organisations. The report emphasises that the barriers to realising that opportunity are less technological than institutional: fragmented data infrastructure, inconsistent standards, insufficient workforce capability and cultural resistance to data-driven decision-making.<sup>29</sup>

These barriers are present in the Australian defence sector in pronounced form. Defence investment in enabling digital systems, particularly its ERP modernisation effort, addresses this technological barrier directly and at scale. But technology investment without the institutional and human capital complements identified by the Productivity Commission will yield below-potential returns. Project controls data that flows into an integrated enterprise system is only productive if program managers have the capability and the incentive to act on what it reveals. A cloud productivity platform only improves delivery performance if the processes it automates are themselves well-designed. The Productivity Commission’s integrated framework – technology, institutions, and people, addressed simultaneously – is an important analytical lens for evaluating whether Defence’s multi-billion dollar investments in enterprise digital systems will deliver its intended productivity return.

For industry, the growing sophistication of Defence’s data and digital framework highlights a specific challenge: the interface between Defence’s selected enterprise systems and the program management and financial systems used by prime contractors and their supply chains. Without standardised data protocols and interoperability between government and industry systems, the productivity benefits of Defence’s digital infrastructure investment will be confined to the government side of the program management boundary – leaving the most significant performance improvement opportunities untapped.

### THE 3-PART FRAMEWORK

**Technology**

**Institutions**

**People**

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**DATA, DIGITAL TECHNOLOGY & PRODUCTIVITY: STRATEGIC ALIGNMENT**

2026 National Defence Strategy x Productivity Commission: Harnessing Data and Digital Technology (December 2025)

| 2026 NATIONAL DEFENCE STRATEGY  | ALIGNMENT                         | PRODUCTIVITY COMMISSION  |
|---|-----------------------------------|--|
| Data, Digital & ICT Reform Agenda   Released 16 April 2026  | Shared priorities                 | Harnessing Data & Digital Technology   Inquiry Report, Dec 2025  |
| <b>1 #1 Digitisation as foundational principle</b><br>Enterprise transformation: simplification, workforce optimisation and digitisation              | Enterprise digital transformation | <b>1 Enable AI productivity potential</b><br>AI could deliver ~4.3% labour productivity growth; outcomes-based approach required         |
| <b>2 #2 Artificial intelligence &amp; decision advantage</b><br>AI, autonomous systems & quantum as top IST priorities; certify AI capability rapidly | AI for competitive advantage      | <b>2 Blueprint for AI regulation</b><br>Proportionate, risk-based, technology-neutral; complete gap analyses; avoid premature law        |
| <b>3 #3 Defence Digital Strategy &amp; Roadmap 2025</b><br>Three priorities: best-in-class APS/ADF workforce, cloud platforms, sovereign ICT          | Digital strategy alignment        | <b>3 Copyright in the age of AI</b><br>Balance AI training rights with creator protections; monitor licensing market evolution           |
| <b>4 #4 ICT reform &amp; Defence Delivery Agency</b><br>Defence Digital Group; Defence Delivery Agency from July 2027; rebuild APS skills             | ICT governance & delivery         | <b>4 Rightsize the Consumer Data Right</b><br>Simplify CDR in banking and energy; lighter-touch model; mature regime adds \$10B to GDP   |
| <b>5 #5 Digital Engineering Strategy</b><br>Model-based engineering; digital twin; minimum viable capability at speed                                 | Data-driven design & delivery     | <b>5 Outcomes-based privacy regulation</b><br>Amend Privacy Act: fair and reasonable duty; phase out Australian Privacy Principles       |
| <b>6 #6 Advanced Strategic Capabilities Accelerator</b><br>Rapid innovation cycles; connect innovators with operational users; asymmetric advantage   | Innovation velocity & IP settings | <b>6 Facilitate data access</b><br>Government removes barriers where markets fail; industry-led data sharing preferred                   |
| <b>7 #7 AUKUS Pillar II advanced capabilities</b><br>Trilateral AI/quantum technology transfer; licence-free environment; interoperability            | Technology sovereignty            | <b>7 Digital financial reporting</b><br>Make digital reporting default for listed entities; remove PDF/hard copy requirements            |
| <b>8 #8 Data as strategic infrastructure</b><br>Defence industry intelligence near real-time; Defence Data Strategy 2.0; data backbone                | Data sharing & privacy            | <b>8 Data &amp; digital as productivity multiplier</b><br>0.5% labour productivity gain (~\$13B pa) from data and digital reform package |

**CONVERGENCE: SHARED DATA, DIGITAL TECHNOLOGY & PRODUCTIVITY PRIORITIES**

| AI as Strategic Multiplier   | Sovereign Digital Capability  | Data-Driven Decision-Making  | Outcomes-Based Regulation  | Digital Workforce Capability  |
|--|---|--|--|---|
| AI is simultaneously a defence capability imperative and the principal national productivity lever | Both agendas require Australian ICT sovereignty; secure cloud, data and AI infrastructure | Data infrastructure underpins both defence capability delivery and economy-wide productivity | Risk-based, technology-neutral regulation enables innovation in both defence and civil sectors | STEM and digital skills are necessary for both APS/ADF capability and national productivity |

**TBH ANALYSIS: STRATEGIC IMPLICATIONS FOR DEFENCE PRODUCTIVITY**

| AI Governance Gap   | Data Sovereignty Tension   | ICT Productivity Dividend  |
|---|--|--|
| Defence is deploying AI across capability, command and logistics faster than national governance frameworks can accommodate. The PC's call for risk-based, technology-neutral regulation aligns directly with Defence's requirement to demonstrate, develop and certify AI capability safely and at pace. | Defence requires sovereign, secure data infrastructure that may conflict with the PC's preference for open, market-based data sharing. A defence-specific data access framework within the CDR architecture is needed to resolve this tension without sacrificing capability security. | The PC estimates \$13B annual productivity gain from data and digital reform. Defence's \$887B 10-year funding envelope entitles it to a proportionate share of this dividend. Joint ICT procurement frameworks linking Defence, ATO, ABS and Treasury would reduce costs and accelerate digital reform. |

Sources: Department of Defence, 2026 National Defence Strategy (Canberra: Commonwealth of Australia, 16 April 2026); Productivity Commission, Harnessing Data and Digital Technology Inquiry Report (Canberra: Commonwealth of Australia, 10 December 2025). Copyright Tracey Brunstrom & Hammond Pty Ltd (TBH) 2026 -- Defence Productivity Agenda White Paper. [tbhconsultancy.com](https://www.tbhconsultancy.com)

## 4.5 Net Zero and Energy Transition: The Infrastructure Productivity Dimension

The Commission's final report on Investing in Cheaper, Cleaner Energy and the Net Zero Transformation examined both the economic opportunities and adjustment costs associated with Australia's decarbonisation trajectory.<sup>30</sup>

Across the defence sector, the net zero transition creates a specific set of productivity dimensions that are increasingly prominent in planning frameworks.

Defence's infrastructure estate – one of Australia's largest, encompassing bases, facilities, maintenance workshops and training ranges – is a significant energy consumer and a domain where energy productivity improvement directly reduces operating costs, strengthens supply chain resilience and enables productive reinvestment of savings in capability. The Defence Net Zero Strategy and Defence Future Energy Strategy provide the policy framework within which these investments are pursued.<sup>31</sup>

From a whole-of-defence sector perspective, however, significant opportunities remain underdeveloped. The national energy transition creates workforce and industrial demands that overlap substantially with defence sector requirements. Engineering, project management and systems integration capabilities are common to clean energy infrastructure, advanced

manufacturing and Defence capability delivery.

The potential for coordinated workforce planning across these domains – identifying where the same skills pipeline can serve multiple national priorities – remains an underexplored productivity opportunity. It is also one that the Productivity Commission's adaptable workforce framework helps bring into focus.

# 5. The Performance Challenge: What the Evidence Tells Us

## 5.1 A Persistent Pattern

ANAO reporting on CASG's major projects portfolio, sustained over more than a decade, reveals a pattern of performance outcomes that is difficult to explain as a collection of individual program problems and issues. The 21-month average schedule slippage across the portfolio, combined with recurrent cost growth and persistent findings on governance gaps, requirements instability and contractor performance management shortcomings, constitutes a systemic productivity signal.<sup>32</sup> These are not random issues; they are patterns with identifiable structural origins.

The first cause is measurement inadequacy. Where program performance is not measured consistently, objectively, and in a format that enables cross-portfolio comparison and trending, productivity deterioration can persist undetected until it is too late for cost-effective intervention. EVM, where implemented with genuine management intent rather than as a compliance exercise, is designed precisely to provide early warning of trajectory problems. The question the ANAO evidence raises is whether the implementation of EVM across both Defence and defence industry has been sufficient in quality and consistency to serve this function.

The second cause is incentive misalignment. Where the commercial frameworks governing Defence-industry relationships create stronger incentives for contractors to manage the appearance of performance data than to improve underlying performance, measurement discipline alone is insufficient. Adversarial contracting environments carry the risk of distorted reporting of performance metrics, rather than shared focus on the story that factual data tells. This is why collaborative contracting reform is not merely a commercial preference but a productivity necessity.

The third cause is shortfalls in knowledge. Where insights from program performance are not captured, shared, and applied across program generations, each new program must discover anew the problems its predecessors encountered at cost. The recurrence of identical ANAO finding categories across successive years of the major projects report is direct evidence of this issue.



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*Collaborative contracting reform is not merely a commercial preference but a productivity necessity.*

## 5.2 The Measurement Architecture Gap

A fundamental observation about the current state of whole-of-defence sector productivity management is that the sector lacks the data architecture that would be required to manage productivity improvement systematically. The independent cost assurance function being established in the Department of Finance will require a baseline of reliable, comparable and time-series program performance data from which independent cost assessments can be constructed. Portfolio-level productivity analysis – the kind that would enable Productivity Commission assessment of the sector – requires EVM data, schedule data and cost data collected consistently across the portfolio and structured for aggregation.

The Defence ERP transformation program has potential to be a part of such an architecture, however this requires a clear design intent that is missing in current plans, as well as resourcing of interfaces to industry's own ERP systems. There are limits here however. Defence's ERP system and its enabling cloud infrastructure are enterprise resource tools: they capture financial and procurement data efficiently, but they are not, by themselves, project controls systems. The project controls data architecture – the EVM measurement framework, the schedule analysis capability and the risk management discipline – must be designed to operate as a coherent system alongside the digital infrastructure investment, not as an afterthought to it.

This is a design consideration that needs to be taken during the early stages of Defence Delivery Group mobilisation, as this in turn will

shape what approach might be possible for the Defence Delivery Agency. Retrofitting project controls capability into an enterprise system after the fact is substantially more expensive and less effective than embedding it in the design.

## 5.3 The Dual Performance Challenge

Defence sector productivity must be assessed against two dimensions simultaneously. The first is delivery performance: whether individual programs and the portfolio as a whole deliver capability to schedule, within cost and at specified technical performance. The FY26–27 Defence PBS addresses this directly by setting the performance metric of 80 per cent of IIP projects on track within approved scope, schedule and cost.<sup>33</sup>

The second is sectoral efficiency: whether the allocation of resources across the Defence investment portfolio, and the design of the acquisition and industrial policy frameworks that govern that portfolio, are producing the best possible capability outcomes for each dollar invested.

This is a more difficult question, and one that requires portfolio-level data aggregation, benchmarking against international comparators, and independent analytical capacity of the kind that focused Productivity Commission engagement with the sector would provide.

Both dimensions matter. A system that delivers individual programs on time and on cost but systematically invests in the wrong capabilities is not productive in the relevant strategic sense. A system that makes excellent strategic investment choices but delivers those investments with chronic schedule and cost overruns wastes the strategic insight.

A whole-of-defence sector productivity agenda must address both dimensions – the program-level disciplines that improve delivery performance, and the sectoral governance architecture that ensures the portfolio is managed for strategic value. The current Defence Reform Agenda focus on uplifting and centralising strategic capability investment planning in the VCDF Group and acquisition within the future DDA represents the first critical step on this trajectory. Design and adoption of a formalised whole-of-defence-sector productivity agenda is the logical next step, and project controls are fundamental to this.



# 6. The Three Pillars of a Defence Productivity System

## 6.1 Pillar One – Project Controls: The Technical Foundation and Connective Tissue

### What Project Controls Are

Project controls are the professional disciplines concerned with the systematic planning, measurement, analysis and management of portfolio, program and project performance. The core instruments of project controls include governance, scope definition and management, schedule development and maintenance, cost estimating and tracking, risk identification and management and earned value management (EVM). When these disciplines are consistently applied in an integrated manner, they provide decision-makers with reliable, timely and actionable information about performance. When they are applied inconsistently, decision-makers are operating with incomplete information at precisely the moments – most often early in a program or project’s lifecycle – when course corrections are most available and least costly.

As the most technically mature project controls instrument, EVM measures the relationship between planned cost, actual cost and physical progress in a way that generates objective,

time-series performance indicators: the Schedule Performance Index (SPI) and Cost Performance Index (CPI), together with at-completion forecasts that provide program managers with early warning of trajectory problems. Where EVM is implemented rigorously – with genuine management intent to take full advantage of its capabilities rather than just satisfying contractual reporting requirements – it provides the most reliable available signal of whether a program is headed toward its approved baseline or away from it.<sup>34</sup>

For a whole-of-defence-sector sector productivity agenda, project controls provide the connective tissue that make every other productivity initiative accountable.

### Australia’s Existing Framework: A Foundation to Build On

Australia’s defence sector does not lack the theoretical architecture for rigorous project controls. Defence itself possesses an EVM framework that is internationally comparable in its design. The CASG EVM policy framework, supported by the AS 4817 project performance measurement standard, has been progressively developed over more than a decade and represents a genuine capability foundation.<sup>35</sup> The IBR/EVMS Review Handbook, maintained by CASG, provides detailed guidance on the implementation and review of EVM systems in defence contracts – guidance that reflects substantial accumulated expertise.<sup>36</sup>

This is a significant foundation and a genuine advantage. The question is therefore not whether a project controls framework exists, but whether its implementation is sufficiently consistent, deep, and industry-spanning to serve as the productivity data architecture the sector needs.

### Three Implementation Gaps

Three project controls gaps currently limit the productivity contribution of project controls at the whole-of-defence-sector level, with the existing Defence EVM architecture particularly affected by this.

#### Gap One: Inconsistent Implementation Quality

Project controls knowledge and implementation across the full defence sector varies substantially. In some programs and projects it is genuinely embedded in the management culture of Defence and defence industry, driving regular performance review and early corrective action. In others, it is implemented as a compliance requirement, EVM in particular being used to produce reports rather than generating the foundation data essential for management insight. Broadly, the sector has the right project controls available to it, but the inconsistent quality of implementation means both levers and data is formally present but analytically unreliable as a basis for cross-program comparison or portfolio-level analysis.<sup>37</sup>

#### Gap Two: Insufficient Integration with Capability Governance

The ODCS gate review process provides the governance framework for major program decision points for both Defence and defence industry. The integration between project controls data, especially EVM performance data, and those gate reviews could be substantially strengthened: Schedule Performance Indices, Cost Performance Indices and risk-adjusted at-completion forecasts should be foundational inputs to gate reviews, with performance signal deterioration triggering enhanced scrutiny rather than being noted and filed.<sup>38</sup>

#### Gap Three: The Defence-Industry Data Boundary

The Defence EVM framework applies to departmental program management functions, but does not consistently extend across the government-industry interface in a way that enables integrated program performance assessment. Where industry EVM data is contractually required, both the quality of that data and the rigour of government review vary substantially. The result is two parallel, and not always compatible, performance measurement frameworks operating on the same program – creating precisely the information asymmetry that an adversarial contracting environment can exploit.

## **Project Controls as the Productivity Data Architecture**

The most significant contribution that mature project controls can make to the productivity agenda is not at program and project level but at sector level: the creation of a productivity data architecture that enables, for the first time, systematic analysis of where productivity losses are concentrated, by capability domain, program phase, contract type, or organisational unit. This architecture – built on consistent EVM implementation across both government and industry – would provide the evidentiary foundation for periodic Productivity Commission assessments, for benchmarking against international comparators, and for the annual defence sector productivity reporting that TBH proposes as a governance mechanism.

## **6.2 Pillar Two – Collaborative and Relational Contracting: The Commercial Vehicle**

### **The Productivity Cost of Adversarial Contracting**

The design of the contracts governing Defence-industry relationships is a primary determinant of program and individual project performance. No project controls framework, however well designed, can fully compensate for a commercial relationship that misaligns incentives between the Commonwealth and its industry partners. The dominant model in Australian Defence procurement has historically been one of arms-length, risk-transfer contracting: risk is identified, priced into contract mechanisms, and allocated as cleanly as possible to the party deemed best

placed to manage it. This model has merits in low-complexity procurement. In high-complexity, long-duration defence capability programs and projects, where the productivity stakes will be the highest, misaligned incentives generate structural productivity losses.

When contractors must price risk transfer premiums into bids, contract prices are inflated before a single unit of work has been performed. When risk is adversarially allocated rather than collaboratively managed, cost and schedule problems that emerge during execution are litigated rather than solved. When information about emerging problems is commercially sensitive rather than openly shared, the window for cost-effective corrective action closes before decision-makers are aware it exists. The 1994 Industry Commission labelled this adversarial dynamic as a core structural productivity inhibitor in Australian Defence procurement.<sup>39</sup> Three decades of subsequent ANAO findings confirm that this source of inefficiency has not been resolved.

### **The Available Framework**

Defence has not been unaware of this problem and has been actively exploring alternate approaches built around relational models for some time. Relational contracting represents a part of spectrum of potential approaches to the organising and implementation of commercial arrangements for delivery of goods and services where the objective is an enhanced level of collaboration and cooperation between buyer and seller. Relational contracting focuses on building long-term trust, flexibility, and shared goals to manage complex, evolving relationships, often without rigid legalistic terms. Collaborative contracting is a more formalised evolution of this

approach, using specific, project-based delivery models which leverage mechanisms such as joint governance, open-book financials, and shared risk/reward (e.g., painshare/gainshare) to align incentives. Collaborative contracting is widely used in the Australian infrastructure sector, particularly where development projects contain a high degree of uncertainty, require multiple parties to achieve the requisite delivery capacity, where flexibility is required into meeting each stage of development and where risk, and therefore its allocation, is not always stable.

The CASG Collaborative Contracting Better Practice Guide, published in September 2017, articulates a comprehensive approach to potential application by Defence and defence industry.<sup>40</sup> The Guide identifies a spectrum of collaborative contracting approaches – from traditional arms-length procurement through to full project alliance – and provides guidance on when each level of collaboration is appropriate based on the risk profile of the acquisition. It establishes ten collaborative contract attributes: joint decision making; partnering charters; target cost or gainshare/painshare remuneration; no blame/no-liability frameworks; jointly managed programme risk; transparency and open book financial reporting; fair and timely dispute resolution; shared systems; agility and flexibility in contract structures and senior executive participation.

The productivity evidence base for collaborative contracting is robust. The UK National Audit Office concluded that “virtually all of the collaborative projects out-performed most defence projects.”<sup>41</sup> Within the Australian context, the ANZAC Class Warship Asset Management Agreement (WAMA) represents the most

successful use of the contracting methodology to date. The Collaborative Contracting Better Practice Guide states that by 2017, the WAMA model had delivered cost savings in excess of 20% compared to traditional approaches within CASG.<sup>42</sup>

Defence’s own maturity in the use of collaborative contracting should be considered as evolutionary. The new Strategic Shipbuilding Agreement with Austal utilises an alliance model, representing the first time that Defence has elected to use this contracting approach to shape industry structural outcomes. The enhanced exploration of the full spectrum of relational approaches flagged by the Best Practice Guide will however require further focused work in terms of normalising this approach to acquisition relative to existing Defence practices as well as the future approaches to be taken by the DDA. That process of normalisation will require further modification of the default ASDEFCON template suite which currently is not oriented toward ready facilitation of any form of relational or collaborative arrangements.

Defence’s intermittent use of collaborative contracting to date means that the productivity benefits of collaborative contracting are captured episodically — in programs where enlightened project directors actively pursue them — rather than systematically across the portfolio level. From this intermittent approach also flows a lack of appropriate expertise across the Defence sector at large, meaning a need to look at the availability of cross-sectorial expertise, leveraging experience from infrastructure and the health sector, to help advance a whole of defence sector understanding.

Defence policy for industry likewise needs to incorporate specific measures to elevate the existing collaborative contracting framework from better practice guidance to structured policy expectation for high-complexity programs, with capability-building support for both government and industry staff who must implement it.



## The Synergy With Project Controls

The relationship between collaborative contracting and project controls is structurally fundamental. Project controls provide the architecture and framework, enabling collaborative contracting's most important dimensions – transparency and open book financial reporting between participating parties. The contracting model incentivises this transparency rather than punishing it. Where contractors are willing to share cost data, schedule assumptions and risk assessments openly with their Defence counterparts, the quality and timeliness of the EVM data on which project controls depends improves materially. Joint risk management is likewise elevated by the transparency inherent in well-structured collaborative contract arrangements, this enhancing all phases of development and delivery by combining the risk intelligence of both parties rather than adversarially guarding risk assumptions. Contractors are incentivised to surface cost and schedule issues early, rather than managing them internally, by the use of gainshare/painshare remuneration structures.

## 6.3 Pillar Three – Systematic Joint Learning: The Knowledge Flywheel

### Why the Cycle Persists

Australia's Defence capability delivery system does not lack for reviews. The ANAO conducts Major Projects Reports, performance audits and targeted investigations. The Defence Inspector-General's Office provides internal oversight.

Parliamentary committees scrutinise major program decisions. And yet the same challenge categories – requirements volatility, workforce capability gaps, risk management fragmentation, adversarial industry relationships and project controls deficiencies – recur across successive programs and successive reform cycles. This indicates a systemic issue not of diagnosis, but of organisational learning which is not solely a Defence issue, needing to be considered in the context of the whole of the Australian defence sector.

Defence has put considerable work into the elevation of its acquisition and sustainment lessons learned system over the past five years. This follows the ANAO's 2021–2022 Major Projects Report finding that approximately one third of projects assessed were either not recording lessons in the Defence Lessons Repository (DLR) or were not maintaining a lessons learned log at all.<sup>43</sup>

The most recent Major Projects Report for 2024–2025, released in December 2025, acknowledges Defence has made considerable progress in redeveloping its approach to lessons learned activities in the broad. This has included:

- Establishment of the Lessons Governance Board,
- Enhanced categorisation of lessons learned as strategic or as project lessons;
- Mandating projects develop and implement a Lessons Collection and Management Plan;
- Lessons case studies and facilitated lessons panels are being held within Defence to share knowledge at a broader level within the enterprise.

The ANAO's 2024–2025 Major Projects Report also notes the important moves taken by CASG to the centralisation and standardisation of software tools to enable an enterprise level perspective of acquisition and sustainment risk in the broad.

These are important steps forward and can be expected to give rise to valuable enhancements within Defence itself. However, there remain significant and interlocking challenges:

### **Dominance of Post-Project Capture Methodologies**

Lessons are predominantly captured at or near project closure, by which point key personnel may have rotated off the program, contractual settings may have changed, and opportunities to intervene in comparable live programs may have passed. Real-time, in-delivery learning mechanisms are largely absent, limiting the system's capacity to influence outcomes where and when it matters most.

### **Incomplete Lifecycle Coverage**

Delivery and early sustainment phases – where the consequences of design, requirements and contracting choices become visible – are underrepresented in formal lessons capture. These phases generate the richest learning, yet remain weakly integrated into enterprise feedback loops.

### **Cultural and Incentive Misalignment**

The existing system requires individuals to document failures in an environment characterised by active contractual issues and potentially disputes, audit and scrutiny exposure and Freedom of Information sensitivities. The

rational response is defensive compliance rather than candid insight. This produces generic, non-actionable lessons that protect participants but fail to inform and enable change.

### **Minimal Industry Integration**

Defence industry partners execute much of the delivery risk, yet have limited access to aggregated Defence lessons data and no systematic mechanisms exist which enable the joint analysis of patterns across programs and up into the portfolio level. Knowledge generated at significant cost within one organisation is rarely transferred to improve outcomes elsewhere.

### **Absence of a Shared Taxonomy**

Lessons are categorised using structures designed for reporting, not analysis. These taxonomies are not aligned with corresponding industry practices and industry practices themselves vary considerably. The result is a series of approaches which are too coarse to enable pattern recognition, predictive insight or targeted intervention.

Defence's current focus on the development of new approaches to accelerate capability development include the formalised adoption of a tailored version of Agile methodology, designated Continuous Capability Development and Delivery (C2D2). A key element of this approach requires continuous evaluation and review of development increments at speed, meaning a corresponding need for acceleration of lessons learned activities to ensure capture and application on a timely basis. The requirements for tightly integrated Defence and defence industry teams to assure the success of C2D2 will likewise require lessons-learned

data to be shared across the Defence-industry contractual divide, amplifying the need for new approaches to enable this.

### **The Aviation Model**

Engaging Defence and defence industry in a common lessons-learned system requires mechanisms and processes that allow for candid information exchange on a proactive basis without compromising contracted responsibilities. This is both a relational issue with bearing on the contractual frameworks used by the Commonwealth, and a cultural issue. The challenge however, is not unique, and a clear precedent already exists in the way in which the global aviation sector transformed its safety management practices from the 1950s onwards.

In the early decades of commercial aviation, the dominant response to accidents was blame and prosecution. When something went wrong, the focus was on identifying who was responsible and holding them accountable. Pilots were court-martialled, engineers were dismissed and airlines faced regulatory penalty.

The problem was that this approach, whatever its deterrent logic, actively destroyed the information environment needed to prevent future accidents. People did not report near-misses because reporting carried risk. Engineers did not flag emerging technical concerns because doing so created liability. The result was that the system had no way of seeing the patterns that preceded accidents until after the accident had occurred.

The shift – and it was a genuine paradigm shift – came through the development of what became known as “just culture.” The core insight was this: most aviation incidents are not caused by malicious actors or reckless individuals. They are caused by systemic failures – failures in design, in process, in communication, in organisational structure. Treating those systemic failures as individual moral failures does not fix the system. It just punishes the person who happened to be in the wrong place when the system failed.

Just culture does not eliminate accountability. Rather, it distinguishes between three categories of behaviour. Honest errors and system-induced mistakes are protected from punitive action and used as learning opportunities. At-risk behaviours – where someone has drifted from safe practice – are addressed through coaching and system improvement. Reckless conduct and wilful violations remain subject to appropriate disciplinary action. The distinction is important. Just culture is not a charter for impunity. It is a framework for proportionate response.

The International Civil Aviation Organisation (ICAO) has built this approach into the global Safety Management System framework. Likewise, NASA’s Aviation Safety Reporting System has operated since 1976, providing legal immunity for good-faith safety reports.<sup>44</sup>

The results speak for themselves. Commercial aviation is now among the safest forms of human activity on earth, despite operating at extraordinary complexity and scale.

The aviation industry’s safety management system provides a compelling demonstration of what is possible when learning is treated as a

system property rather than a program attribute. Mandatory reporting, just culture, common taxonomy, structured analysis, and mandatory dissemination have produced an industry that learns faster than its individual participants – one where the rate of safety improvement has significantly outpaced the growth in operational complexity over the past five decades.

The core innovation is not technological but cultural and institutional: the separation of learning from blame. A just culture – in which the reporting of incidents and performance challenges is protected from individual sanction – creates the conditions in which accurate information flows toward analysis rather than away from it. Without this cultural foundation, lessons learned systems generate sanitised retrospectives rather than candid analysis.

Defence’s application of a just culture approach to program performance learning would require a formal agreement between government and industry at senior level – acknowledging that program performance challenges are systemic as often as they are individual, and that accurate reporting of those challenges is in the collective interest of both parties. This is the cultural precondition without which the most sophisticated lessons management technology will underperform.

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*Without this cultural foundation, lessons learned systems generate sanitised retrospectives rather than candid analysis.*

## A Shared Defence Lessons Learned System

A new shared lessons system unifying Defence and defence industry approaches requires a framework, enabling policy steps, and must be aligned with the implementation schedule for the DDA.

The framework for such a system requires several core design elements:

- **Joint Governance:** A co-chaired governance model involving senior DDA and industry representatives, supported by domain and functional working groups with equal standing.
- **Common Taxonomy:** A collaboratively developed, analytically rigorous classification system aligned with the lifecycle model of the new Defence Capability Development Delivery System, the current and evolving ASDEFCON contracting model and industry practice.
- **Tiered Security Architecture:** Lessons data can be sensitive, therefore information sharing will need to align with appropriate classification levels, enabling both protected transparency and necessary restriction.
- **Independent Validation:** An assurance function to distinguish systemic patterns from isolated experience, but also to signal where edge data might provide early warning signals.
- **Governance Integration:** The mandatory consideration of relevant lessons and trends at Defence internal gate reviews, contract design stages and investment decision points.

The enabling policy and contractual changes required to facilitate the shared approach include:

- Using the planned amendment process for the existing One Defence Capability Manual to support the establishment of the new Defence Capability Development and Delivery System, including by mandating continuous lessons participation by Defence and industry as part of normal internal Defence processes;
- Establishing a Defence-industry Just Culture Charter with appropriate legal standing;
- Embedding lessons participation obligations in Defence contracting templates; and
- Creating a Defence Capability Lessons Learned Board, with public reporting obligations delivered through a declassifiable annex to the Defence Annual Report.

Implementation of such a system must be realistic in its objectives and sequencing. A phased approach is required, aligned with the establishment of the Defence Delivery Agency on 1 July 2027 and the creation of the interim Defence Delivery Group. A logical three phase roadmap would comprise:

- **2026–2027 Foundation Phase:**  
Progressing governance establishment, taxonomy development, charter agreement, pilot programs and leadership alignment within both Defence and defence industry.
- **2027–2028 Enterprise Rollout:**  
Progressing standardised participation, operational systems development to evolve the existing DLR to facilitate industry access, training, and the hosting of an inaugural, classified level, annual joint lessons learned conference.
- **2029–2030 Full Integration:**  
Delivering predictive analytics capabilities, measurable behavioural change across the Australian defence sector, and policy and contracting reforms driven by validated lessons.

The DDA transition presents a rare opportunity to correct a long-standing challenge in Defence acquisition: the limited capacity to learn systematically from experience.

A shared lessons-learned system linking Defence and defence industry would not be an administrative enhancement; it would represent a strategic capability with direct implications for whole-of-defence-sector productivity. Achieving such a system requires cultural change, joint ownership and structural commitment, not just better databases.

# 7. Bringing Defence Industry Into the Journey

## 7.1 Why Industry Must Be a Co-Owner, Not a Recipient

The most important design decision in the whole-of-sector productivity agenda is whether defence industry is included as a co-owner and co-beneficiary, or managed as a recipient of government-directed reform. The history of Defence procurement improvement programs in Australia – and in comparable countries – suggests that reforms designed and implemented primarily within the government enterprise, which then expect changed behaviour from industry, consistently underdeliver. The reason is structural: the most significant productivity losses in complex capability programs occur at the government-industry interface, and those losses cannot be addressed unilaterally by either party.

The productivity challenge is inherently joint. A program that is well managed on the government side but poorly managed by its prime contractor will fail. A program that is well managed by its prime contractor but subject to adversarial government oversight, requirements instability and procurement delays will also fail. Sustained productivity improvement requires both parties to invest in shared systems, shared governance and shared accountability. That investment will only occur if both parties understand themselves as co-investors in the outcome.

That NDS identifies industry policy as security policy provides the strategic mandate for this co-ownership. If industrial performance is a security matter, then the productivity improvement agenda is not just something Government and Defence do to industry in the interests of value for money; it is in actuality something that Government, Defence and industry do together in the interest of national security.

## 7.2 The Industrial Productivity Challenge Across the Three Tiers

The Australian defence industrial base is structured in three tiers with significantly different productivity challenges at each level.

### TIER 1

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Prime System Integrators. The major prime contractors operating in Australia – both international primes and domestic entities – typically possess sophisticated project controls capability, developed through decades of international program management experience. The productivity challenge at this tier is less about capability deficiency than about deployment: whether the project controls capability that exists within prime organisations is applied consistently and rigorously to Australian programs, and whether the data it generates is shared transparently with Defence program offices. Defence supports some 20,000 active contracts a year, with routing delivery through the primes being a practical necessity for managing this complexity. This in turn means the use of the prime contractor model is also a critical organisational intermediary whose performance directly shapes system-wide outcomes.

### TIER 2

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Major Equipment and Services Suppliers. The Tier 2 layer is where the most significant industrial development opportunity and the most significant project controls capability gaps coexist. The explicit Defence policy objective of growing the number of Australian businesses operating at this tier, as articulated by DIDS24, reflects the strategic importance of a more capable and more numerous Tier 2 industrial base.<sup>45</sup> But growth in the number of Tier 2 businesses without commensurate investment in their project controls and program management capability will produce a larger industrial base without a more productive one.

### TIER 3

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Small to Medium Enterprises (SMEs). The Tier 3 SME layer faces the most acute productivity challenges and the most significant structural barriers. SMEs that lack project controls capability are unable to provide the performance visibility that prime contractors and Defence program offices require for effective supply chain management. They are also more exposed to the cash flow and payment timing consequences of program delays – consequences that can be existential at the SME scale. Yet SMEs, as DIDS24 notes, are often more agile and innovative than larger businesses, and their effective integration into defence supply chains is a productivity opportunity and a sovereign resilience requirement.<sup>46</sup>

SMEs are acknowledged by Defence has experiencing particular difficulty in navigating Defence's procurement complexity, security requirements and long lead times. Whilst the primes absorb some of these challenges, ongoing reform of Defence procurement systems is also a fundamental need, this again clearly acknowledged in current Defence policy for industry.<sup>47</sup> This structural productivity impost remains one that a whole-of-sector productivity agenda will need to address directly and on an ongoing basis.

## 7.3 What Industry Needs From the Productivity Agenda

For the whole-of-sector productivity agenda to deliver its potential, it must address the barriers that currently prevent industry from fully investing in the project controls capability, collaborative relationships and knowledge sharing that the agenda requires. This can be understood to represent four specific asks of the agenda from industry's perspective.

### **Certainty of demand**

Investment in project controls capability, collaborative contracting capability, and the digital systems required for data interoperability requires confidence that the demand for these capabilities is sustained over the lifecycle of a program or project. Procurement uncertainty – the risk that acquisitions are deferred, restructured, or cancelled before investment in delivery capability can be recouped – is a direct disincentive to industrial investment in productivity disciplines. The biennial NDS cycle, and the clearer investment planning horizon it creates, partially addresses this concern. More explicit commitments by Defence to program and project continuity in its highest-priority domains would address it further.

### **Reduced compliance burden**

The transaction costs of Defence procurement compliance – security accreditation, AIC reporting, contract documentation, and the administrative overhead of managing 20,000 contracts a year – impose a productivity tax that falls most heavily on the firms least able to absorb it. The productivity agenda should be an explicit element of ongoing procurement

simplification by Defence, representing an integral mechanism for identifying and removing regulatory requirements that do not add proportionate value to program and project assurance as well as outcomes.

### **Fair commercial terms**

The risk allocation in Defence contracts must be aligned with the industry policy and relational contracting principles all parties aspire to. Risk that is contractually transferred to industry will be priced by industry into bids, absorbed into contingency, or translated into variation claims – all of which represent productivity losses. Fair commercial terms that match risk to those best placed to manage it are not a concession to industry; they are a prerequisite for efficient whole-of-sector delivery.

### **Access to the productivity data architecture**

If Defence's management systems are to induce and drive productivity improvement across the full supply chain, the data they generate must be accessible to industry partners in a form that enables them to manage their own performance against the same baseline. This requires deliberate design of the government-industry data interface as part of the DDA's systems architecture; not a subsequent add-on.

## 7.4 The Role of Prime Contractors as Productivity Multipliers

As noted earlier, prime contractors occupy a unique position in the productivity agenda: they are simultaneously recipients of Defence's program and project management expectations, and the primary delivery managers for the Tier 2 and Tier 3 supply chains that produce the majority of program value. This dual position makes them the most important productivity multipliers in the system.

When a prime contractor applies rigorous project controls to its own program management, communicates performance expectations clearly to its supply chain, adopts relational and collaborative governance approaches with its subcontractors, and shares performance insights with Defence program and project offices, the productivity benefits propagate through all three tiers of the industrial base. When it does not, no amount of Defence-side reform can compensate for this.

The productivity agenda therefore will need to incorporate a specific ask of prime contractors: to extend downward through their supply chains the project controls, relational and collaborative contracting, and systematic learning disciplines required as instruments of whole-of-sector productivity uplift. Defence's AIC program already provides a framework for this whilst the new Defence Policy for Industry Engagement and Participation (DPIEP), replacing the 2019 Defence Industry Participation Policy, should explicitly include project controls maturity as a dimension of industry capability assessment and development.<sup>48</sup>

## 7.5 DIDS26 as an Industry Productivity Vehicle

The forthcoming 2026 update of DIDS represents a critical policy window for embedding the productivity agenda in the industrial policy framework. DIDS24 made significant progress in aligning defence industrial development with the Sovereign Defence Industrial Priorities (SDIPs).

DIDS26 has the opportunity to go further by explicitly framing industrial productivity as a dimension of industrial capability alongside the existing SDIPs. This should include the capability of the industrial base to deliver efficiently, invest in project controls maturity, and participate effectively in the collaborative contracting and lessons-learned systems the agenda requires. Key elements should include:

- An explicit productivity chapter that frames industrial productivity as a strategic priority alongside capability and resilience;
- the extension of the Defence Industry Development Grant Program to support SME investment in project controls capability development; and
- the inclusion of project controls maturity assessments of selected subcontractors as a component AIC program reporting.

# 8. An Integrated Whole-of-Sector Defence Productivity Agenda

## 8.1 Naming the Agenda

The most important first step in transforming the entirety of Australian defence sector productivity is also the simplest: naming the agenda. Until the productivity program implicit in NDS, DIDS and the FY26–27 PBS is explicitly framed as a productivity agenda – with a common definition, agreed baseline measurements, shared governance, and transparent performance reporting – its components will continue to be managed as independent reform streams rather than as a coherent improvement system with strategic implications.

Such an agenda is not concerned with redefining national strategic objectives or reducing Defence ambition. Its purpose is narrower and more practical: to improve the efficiency, predictability, and learning performance of the defence capability delivery system, such that public resources are used more effectively and capability outcomes are delivered more reliably.

This agenda reframes productivity not as a cost-cutting exercise, but as a delivery-system capability — the capacity of the defence sector to turn intent into usable capability with less waste, delay and rework.



## 8.2 A Working Definition

Productivity in the defence sector must be approached differently from conventional market sectors. Strategic output – deterrence, readiness, and war-fighting capability – is difficult to measure directly and often realised only in extremis. However, the administrative productivity of the wider defence sector – how efficiently it plans, contracts, manages risk, and executes complex programs – is measurable, governable and improvable.

Accordingly, it is proposed that Defence Sector Productivity be defined as:



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*The effectiveness with which the entire defence sector converts public resources – funding, workforce effort, and industrial capacity – into delivered and sustained capability, within agreed cost, schedule, and risk parameters.*

This definition is explicitly sector-wide, explicitly lifecycle-oriented and explicitly dual-sided, encompassing both government and industry. It acknowledges that productivity in the defence context cannot be measured by market prices and that proxy measures are required – while insisting that the complexity of measurement does not excuse the absence of measurement.

## 8.3 Core Design Principles

Five principles should underpin the design of the integrated agenda:

- Whole-of-sector co-ownership. The agenda is jointly owned by Defence, the DDA, and industry – at all three tiers. It is not a government reform program to which industry adapts but a shared investment in shared outcomes.
- Measurement before management. Productivity improvement must be grounded in objective data. The project controls data architecture is therefore the enabling first investment, not a later priority.
- Incentive alignment. Commercial frameworks must be reformed to create incentives that reward efficient delivery, transparent performance reporting, and collaborative problem-solving across the full supply chain.
- Transparency with security. Performance data must be visible enough to create accountability, with access controls that respect security requirements without using security as a justification for opaqueness.
- Institutional continuity. The agenda must survive electoral cycles and organisational restructures. Its governance architecture must be durable.

## 8.4 A Three-Horizon Implementation

Given the building blocks which already exist for such an agenda, its implementation should logically occur in an evolutionary manner, following a three-horizon approach.

### Horizon 1 (Years 1–2):

Name it and measure it. Formally initiate the agenda; establish governance; establish baselines for a project controls maturity assessment framework operating at the whole of sector level; develop and embed a just culture charter as the foundation of a shared lessons-learned system; and, accelerate EVM quality improvement across the highest-priority programs. As part of this, the foundational design work for the DDA needs to incorporate an explicit focus on integrate project controls capabilities aligned with the declared productivity agenda.

### Horizon 2 (Years 3–5):

Build the system. Operationalise the shared lessons-learned system; complete the project controls maturity assessment framework; embed collaborative contracting as a default for high-complexity procurement and as a mechanism for structuring industry; and, extend the project controls improvement program across the Tier 1 and Tier 2 industrial base.

### Horizon 3 (Years 6–10):

Demonstrate the return. Operate the mature system; publish annual productivity performance statements as part of the Defence Annual Report; commission a Productivity Commission review of the sector to validate the approach and identify next steps; and, demonstrate against the baseline established in Horizon 1 that the investment has produced measurable improvement.

## 9. Priority Actions

The advancement of a coherent, whole-of-defence-sector productivity agenda is a readily achievable step for Government and Defence given the building blocks already in place. The framework to carry this forward can be articulated as 20 priority actions, structured across five themes.



## Theme A: Sectoral Alignment and Governance

The proposed framework would be organised around four interrelated strategic objectives that directly address the missing middle problem:

### Action 1

#### Formally Initiate the Whole-of-Sector Defence Productivity Agenda

The Treasurer, Minister for Defence and Minister for Defence Industry should formally initiate the Whole-of-Sector Defence Productivity Agenda encompassing Defence, the DDA, and the defence industrial base. This initiation should establish a common definition of defence sector productivity; agreed baseline measurements; a shared improvement trajectory to 2030 and 2035; and joint accountability mechanisms spanning government and industry. The existing Tri-Partite Defence Industry Council is the appropriate strategic-level body to provide oversight of functional terms.

### Action 2

#### Convene a National Defence Sector Productivity Forum

The Minister for Defence Industry and the Treasurer should jointly convene a National Defence Sector Productivity Forum, bringing together Defence, the DDG, industry primes, SMEs, industry associations and the Productivity Commission to discuss priorities, challenges, progress and emerging opportunities. The roadmap for DDA establishment and DIDS26 release point to a logical window in First Quarter FY26–27 as the window within which to hold the inaugural Forum.

### Action 3

#### Commission a Defence Sector Productivity Baseline Study

The Productivity Commission should be tasked to conduct a comprehensive productivity baseline study of the Australian defence sector, developing agreed metrics, a baseline measurement of current performance, an assessment of the three implementation gaps identified in this paper, and an international benchmarking analysis. The 1994 Industry Commission Report should serve as the historical reference point.

### Action 4

#### Include Defence in Whole-of-Government Productivity Assessments

The Productivity Commission's five-yearly whole-of-government productivity assessments should be expanded to include a dedicated chapter on defence sector productivity, specifying the Government's objectives and the framework for measuring progress.

## Theme B: Project Controls Maturity and Consistency

### Action 5

#### **Embed Project Controls as a Foundational Design Element of the DDA**

The DDA's information systems architecture, program governance framework, and performance reporting structure should be designed from the outset with project controls disciplines at their core – not added after. This is a narrow but critical design window.

### Action 6

#### **Action 6: Commission a Portfolio-Wide EVM Quality Review**

Defence should commission a systematic review of EVM implementation quality across the major projects portfolio, distinguishing compliance EVM from management EVM, and establishing a time-bound program to achieve consistent management-grade implementation.

### Action 7

#### **Develop a Defence Project Controls Maturity Assessment Framework**

A project controls maturity assessment framework, applicable to both Defence and industry prime contractors and their supply chains, should be developed jointly as an important enabler of the DDA and industry uplift, enabling baseline assessment and improvement tracking.

### Action 8

#### **Integrate EVM Data into ODCS Gate Reviews**

EVM Schedule Performance Indices, Cost Performance Indices, and risk-adjusted at-completion forecasts should be mandatory inputs to ODCS gate reviews, with deteriorating performance signals triggering enhanced scrutiny.

### Action 9

#### **Establish a Defence Sector Productivity Data Architecture**

A standardised productivity data architecture – drawing on EVM, schedule, and cost data collected consistently across the portfolio – should be established as the analytical foundation for sector-level productivity management and Productivity Commission engagement.

## Theme C: Collaborative and Relational Contracting

### Action 10

#### **Embed Relational and Collaborative Contracting as a Default**

The CASG Collaborative Contracting Better Practice Guide principles should be the default for all new high-complexity and long-duration procurement, with adversarial approaches requiring explicit justification. This is a fundamental policy inversion from the current default.

### Action 11

#### **Simplify Procurement Transaction Costs**

A systematic review of defence procurement transaction costs, borne by both government and industry, should be conducted with a view to implementing reductions that do not reduce program assurance. Special attention should be paid to the SME compliance burden.

### Action 12

#### **Build Joint Commercial Capability**

A joint government-industry professional development program, aligned to the Collaborative Contracting Better Practice Guide, should be established to build the commercial skills on both sides that relational and collaborative contracting requires.

## Theme D: Joint Knowledge Management

### Action 13

#### Establish a Shared Defence Lessons Learned System

A shared defence procurement lessons-learned system linking Defence and industry – with a common taxonomy, just culture protections, secure repository, mandatory contribution requirements and an annual cross-sector productivity review – should be established as a priority, with the DDA as the planned lead agency and a formal industry participation framework.

### Action 14

#### Mandate a Whole-of-Sector Just Culture Charter

A formal Just Culture Charter, agreed at ministerial level between Defence and industry, should establish the norms and protections under which program performance challenges can be reported candidly without attribution of individual blame. This is the cultural prerequisite for an effective shared lessons-learned system and can also directly contribute to the Projects of Concern process.



## Theme E: Cross-Sector Integration

### Action 15

#### Embed Productivity in DIDS26

DIDS26 should include an explicit productivity chapter which addresses project controls maturity as a dimension of industry capability assessments; Defence Industry Development Grant support for SME project controls investment; and relational and collaborative contracting performance as a dimension of industry engagement under the new DPIEP framework.

### Action 16

#### Establish a Joint Defence-Industry Workforce Productivity Strategy

A joint workforce productivity strategy should address shared workforce development, credential portability and career pathway challenges across Defence and the industrial base, aligned to the Productivity Commission's adaptable workforce framework and NDS26 workforce planning.

### Action 17

#### Extend Digital Engineering Productivity Disciplines Across the Supply Chain

The Defence Digital Engineering Strategy should be extended to the prime contractor and Tier 2 supply chain levels, with digital engineering adoption included as a dimension of industry capability assessment under the AIC program and DPIEP.

### Action 18

#### Apply Project Controls to the Innovation-to-Capability Pipeline

The pipeline from Defence innovation investment to fielded capability – including ASCA-managed programs – should be subject to project controls disciplines from the outset, with milestone management and performance measurement applied to innovation programs to improve transition performance.

### Action 19

#### Establish a Defence Sector Productivity Subcommittee of the Parliamentary Joint Committee on Defence

The new parliamentary architecture for Defence oversight should be expanded to include an explicit productivity mandate. TBH recommends establishing a subcommittee on defence sector productivity to conduct annual reviews of sector performance, examine ANAO audit findings for systemic productivity implications, receive and scrutinise the Annual Defence Sector Productivity Report, and maintain ongoing engagement with the Productivity Commission on the relationship between defence sector productivity and national economic performance.

## Action 20

### **Publish an Annual Defence Sector Productivity Report**

The Department of Defence, in consultation with the Productivity Commission and CASG's Directorate of Project Controls Services, should publish an Annual Defence Sector Productivity Report as an annex to the existing Defence Annual Report. The report should provide transparent and comprehensive information on the productivity performance of the Australian defence sector as a whole.

The report should cover aggregate cost and schedule performance across the major capability program portfolio, including portfolio-level EVM-derived indicators; progress against Whole-of-Sector Productivity Uplift Program milestones; EVM implementation quality; industry project controls maturity trends; collaborative contracting adoption rates; joint lessons-learned system performance; workforce productivity metrics and procurement efficiency indicators.



# 10. Conclusion

Australia faces a strategic productivity challenge that is inseparable from its strategic security challenge. With Defence expenditure approaching \$100 billion annually, the efficiency with which the Defence enterprise acquires, sustains, and develops capability will have material consequences for both Australia's military preparedness and its fiscal position. The 21-month average schedule slippage in CASG's major projects portfolio – an institution spending \$50 million per day – is not a performance data point to be filed and forgotten. It is a systemic productivity signal demanding a systemic response which includes direct participation by the wider defence industry base, meaning a whole of sector approach is essential.

The opportunity for a whole-of-sector agenda has emerged through an unprecedented series of alignments. NDS26 identifies productivity as a strategic imperative. The FY2026–27 PBS signals that the reform program already underway is functioning as a productivity agenda by default. The Productivity Commission's December 2025 final reports provide the analytical frameworks needed to extend that agenda in a way that aligns with wider national imperatives. The appointment of Meghan Quinn as Secretary of Defence further signals that the analytical rigour Treasury applies to the Australian economy is now being brought to bear on the Department of Defence.

What remains is the act of naming: making the implicit explicit, integrating existing initiatives into a coherent agenda, and extending that agenda across the government–industry boundary to the industrial base that is essential to national Defence strategy.

Naming matters for reasons that go beyond symbolism. An unnamed agenda cannot be governed as a whole. It cannot be held accountable against agreed metrics. It cannot engage the Productivity Commission as an independent analytical partner. Nor can it invite the participation of defence industry as a genuine co-owner, because there is nothing explicit to co-own.

Three things are true simultaneously about Australia's defence productivity challenge, and all three must be held in view as a formal agenda is designed. First, the foundations are already present: the EVM framework, the Collaborative Contracting Better Practice Guide, the DDA architecture and the Digital Program are all building blocks of a genuine improvement system. Second, those foundations are insufficient without integration under a common framework, a shared data architecture and the joint governance required for cross-boundary accountability. Third, productivity in this sector is irreducibly a joint challenge: no reform confined to the government enterprise will close the performance gap if the industrial base that delivers capability is not a co-investor in the same improvement journey.

The window to act is narrow. The DDA's foundational design decisions are being made now. DIDS26 is being readied for release. The first Productivity Commission engagement with the sector, if initiated promptly, could report within the next biennial NDS cycle. The policy windows are open, the building blocks are in place, and the leadership to act is now in position.

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*The time to name the agenda – and to build the system – is now.*

# Glossary of Key Terms

AIC – Australian Industry Capability (program)

ANAO – Australian National Audit Office

APS – Australian Public Service

ASCA – Advanced Strategic Capabilities Accelerator

AUKUS – Security partnership between Australia, the United Kingdom, and the United States

CASG – Capability Acquisition and Sustainment Group

CPI – Cost Performance Index (EVM metric: ratio of Earned Value to Actual Cost)

DDA – Defence Delivery Agency (to commence July 2027)

DIDS – Defence Industry Development Strategy

DPIEP – Defence Policy for Industry Engagement and Participation

ERP – Enterprise Resource Planning (system)

EVM / EVMS – Earned Value Management / Earned Value Management System

GWEO – Guided Weapons and Explosive Ordnance

IBR – Integrated Baseline Review

IIP – Integrated Investment Program

MVC – Minimum Viable Capability

NDS – National Defence Strategy

NSSS – Naval Shipbuilding and Sustainment Strategy

ODCS – One Defence Capability System

PBS – Portfolio Budget Statements

PC – Productivity Commission

PJCD – Parliamentary Joint Committee on Defence

SCF – Strategic Commissioning Framework

SDLLS – Shared Defence Lessons Learned System

SDIP – Sovereign Defence Industrial Priority

SPI – Schedule Performance Index (EVM metric: ratio of Earned Value to Planned Value)

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