

Joint Committee of Public Accounts and Audit

Defence Sustainment Expenditure

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: Smart Sustainment Seed Funding

Question reference number: 4

Senator: Bridget McKenzie

Type of question: asked on Wednesday, 16 August 2017, Hansard page 13

Date set by the committee for the return of answer: 15 September 2017

Question:

Senator McKENZIE: On page 56 of your report—we were just talking about assuring ourselves around spends. I'm interested, in particular, in the \$360 million that was allocated as seed funding to be invested in projects intended to yield savings under Smart Sustainment. It seems that there were no records from Defence to support how these funds were spent or what benefits were realised. I find that absolutely incredible for \$360 million of public funds. Can somebody at the table tell me why—

Vice Adm. Griggs: There were \$20.2 billion worth of benefits.

Senator McKENZIE: I'm just wondering why consultants engaged by Defence identified that there were no records to support how these funds were spent or what benefits were realised.

Vice Adm. Griggs: I'm not convinced there were no records. There were about a thousand initiatives as part of the Strategic Reform Program. The important thing about the Strategic Reform Program is that the \$20.2 billion was taken from the budget over the 10-year period, so the savings were harvested immediately from a government perspective.

Senator McKENZIE: Sorry, the \$360 million allocated as seeding funding—what records do we have on how that was spent? **Vice Adm. Griggs:** I'll have to take that on notice...

Senator McKENZIE: ... I'm really interested in the \$360 million seed funding. Mr Hehir, can you clarify this? Back in March, Defence told you it was looking into what became of the unquantified residual seed fund. What've you heard from Defence? They're taking it on notice—what've you heard? **Mr Hehir:** That's the evidence we have.

Senator McKENZIE: So you've heard nothing further from Defence? **Mr Hehir:** No. **Dr Ioannou:** No.

Senator McKENZIE: When is Defence getting back to ANAO about what they're looking into?

Vice Adm. Griggs: I'll go away and investigate the issue.

Answer:

- Strategic Reform Program Seed Funding was budgeted across each year of the ten year program. Access to these funds was controlled through the former Defence Workforce and Finance Management Committee. Within Smart Sustainment, bids for investment were sought from the three Services and the former Defence Materiel Organisation and presented to the Workforce and Financial Management Committee for decision. When approval was granted, funds were issued to the bidding organisation to undertake the projects for which funds had been awarded. The Strategic Reform Program was transitioned into the Strategic Reform Operating Model in 2013 and reporting on the program ultimately ceased.
- A Budget of \$369.5m was allocated to seed funding for the Smart Sustainment Stream of the Strategic Reform Program over the 10 years from 2009-10 to 2018-19. Of this funding, \$241.7m was allocated to initiatives to deliver the savings under the program, \$126.2m was returned to the Defence budget for reallocation and \$1.6m was returned to the Federal budget at Mid-Year Economic and Fiscal Outlook 2011-12 as part of a one-off efficiency dividend.
- The \$241.7m was allocated to initiatives including:
 - The Air Force Improvement Program (approx. \$69m)
 - The Navy Mine Hunter Coastal and ANZAC Capability Improvement Programs (approx. \$95m)
 - Army initiatives such as the Repair Pool Feasibility Project (approx. \$36m)
 - Defence Materiel Organisation's Lean Continuous Improvement Program, Advanced Inventory Management System upgrade, the Efficient Order Quantity Review, Sustainment Performance Management System implementation and the Sustainment Complexity Review (approx. \$35m).
- Overall, Smart Sustainment initiatives resulted in savings of around \$5.5b within total savings from all Strategic Reform Program's initiatives of \$20.2b over the period 2009-10 to 2018-19.

Joint Committee of Public Accounts and Audit

Defence Sustainment Expenditure – 16 August 2017

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: Cost of Ownership

Question reference number: 11

Senator: The Committee

Type of question: provided in writing

Date set by the committee for the return of answer: 15 September 2017

Question:

1. The Audit found the 'Through Life Support Manual Volume 6 - Life Cycle Costing Analysis' has not been updated since its introduction in 2001. This was found to be 'considerably out of date' by 2011's Rizzo Review (pp. 40-1). Can Defence advise when this document will be revised?
2. Defence does not take staff costs into account in assessing total costs in Materiel Sustainment Agreements (pp. 42-43) Why are staffing costs treated as a 'free good' and not included in Materiel Sustainment Agreements? How will Defence determine these costs and include them in future reporting?

Answer:

1. The requirements for undertaking cost estimation across the entire Capability Life Cycle have now been updated through the total cost of ownership model:
 - a. The Chief Finance Officer has released the Defence Costing Methodology, the Defence Costing Implementation Plan and, effective 1 Jan 2017, the Defence Costing Instruction 2017/01 which outlined the high level requirements for costing in Defence; and
 - b. The Capability Acquisition and Sustainment Group released, in July 2017, the "Cost and Schedule Estimation – 12 Step Process" as an integrated business process model, with detailed Work Instructions to be developed and in place by June 2018.
2. Materiel Sustainment Agreements have been developed in accordance with the "Memorandum of Arrangements between the Department of Defence and the Defence Material Organisation for Customer – Supplier Agreements", agreed June 2006 when Defence Material Organisation (DMO) was a separate, prescribed agency. This memorandum outlines that the DMO would be responsible for "controlling all resources, staffing and other inputs allocated to the Defence Material Organisation to achieve the agreed outputs", and that employee provisions would be made through direct appropriations and managed through "the Defence Material Organisation's balance sheet".

Through First Principles Review implementation, the Capability Acquisition and Sustainment Group has been further developing how to track workforce to both capture demand profiles and allocate resources in accordance with those profiles. To enable this, the Manpower Analysis Planning Software project has been initiated to capture the Demand and Supply position profiles. Manpower Analysis Planning Software will facilitate the allocation of the Capability Acquisition and Sustainment Group workforce resources to projects and products across the Capability Life Cycle. It is expected that this information will be used to provide internal transparency of the staff costs associated with each project and product delivered by the Capability Acquisition and Sustainment Group.

Senate Standing Committee on Foreign Affairs, Defence and Trade

Joint Committee of Public Accounts and Audit – 16 August 2017

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: JCPAA - Defence Sustainment Expenditure - ANAO findings - Q14 - Flint

Question reference number: Number 14

Senator/Member: Nicolle Flint

Type of question: 16 August 2017, Hansard Page

Date set by the committee for the return of answer: 12 December 2017

Question: Ms FLINT: We've spoken a lot about the acquisition and sustainment. I'm just wondering if you could take on notice to respond to the ANAO's findings that Defence are still unable to adequately measure the total cost of the asset ownership, and what's being done to properly measure and report on these costs, because we're talking, as we know, billions upon billions of dollars.

Answer:

In accordance with the Defence First Principles Review, the Net Personnel and Operating Cost (NPOC) process has ceased and the relevant Capability Manager or Group Head is now accountable for ensuring that the full acquisition, personnel and sustainment cost of any new capability is now understood and managed within future budgets.

This means that projects being submitted for Government approval now provide transparency of the total cost of ownership of the asset, rather than just the net additional costs.

Defence has had the ability to track and report on each of these costs throughout the life of an asset. However, it has sometimes been difficult to capture this information in a holistic manner as acquisition, sustainment, and disposal budgets and costs are separately captured on the financial system, and the acquisition budget has often been split across multiple delivery agencies within Defence (including when Defence and the Defence Material Organisation were separate agencies).

In order to improve future data capture and reporting on the total cost of ownership throughout the life of an asset or system, Defence has implemented a standardised Work Breakdown Structure (WBS) on its financial systems. The agreed WBS structure has been established for all new projects approved by Government since October 2016. This includes approximately 165 projects that have at least one component created with the new WBS framework.

The agreed WBS framework requires that each stage of an asset's lifecycle is distinctly identified, including the Gate 0 to 2 project approval process, acquisition, sustainment and disposal.

The purpose of implementing such a model is to better inform Defence and Government decision making, particularly in relation to capability acquisition and sustainment.