



**Australian Government**

**Department of Defence**

## **Joint Committee of Public Accounts and Audit**

### **Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor- General's Reports 19 and 22 (2019-20))**

**Department of Defence**

**Written Submission**

**March 2020**

## **Terms of Reference relating to this submission:**

This submission addresses “any matters contained and associated with Auditor-General's Report No. 19 (2019-20) 2018–19 Major Projects Report”. This submission presents a case for change to the focus and format of the Major Projects Report, aimed at increasing transparency and accountability within the Department of Defence.

This submission does not address the Future Submarine Project – Transition to Design component of the Inquiry.

## **Recommendations**

Defence recommends that:

1. A review is conducted to ensure that the Major Projects Report remains fit for purpose and aligned to the current and future complex operating environments within the Department of Defence;
2. Australian Industry Capability is included in the scope of review, with information provided on the future submarine and future frigates programs (as a minimum) in the 2019-20 Major Projects Report; and
3. Defence and the Australian National Audit Office collaborate in a Smart Buyer type review of the processes, focus and content of the report and present findings to the Committee.

## **Attachments**

- A. Smart Buyer Approach

## Strategic Context

As noted in the First Principles Review, Defence has a long history of effectively delivering militarily for Australia, but faces great challenges over the next ten to twenty years: It must deliver a significant capability modernisation program against a backdrop of strategic uncertainty.<sup>1</sup> The response to the recent summer season natural disasters demonstrates Defence's resilience and reliability to respond when needed.

Against this challenging backdrop, Defence has been delivering capability to meet the 2016 White Paper requirements. Whilst Defence has always retained operational capability as the key driver in defence procurements, the level of Australian Industry Capability has varied. Australian Industry Capability was highly valued in Defence 20 years ago, however, the previous decades saw a growth in the mining sectors and workforce priorities naturally shifted to this sector. This coincided with the nature of many Defence projects being Military Off-the-Shelf with minimal modifications. Returning Australian Industry Capability as a real priority to the Defence sector is now required.

Defence is embarking on a generational capability modernisation period, with significant investment made into the future frigate program, the future submarine program, land vehicle modernisation and bringing the fifth generation Joint Strike Fighter into service. For these projects to be successful, they need to be delivered in partnership with Australian Industry and incorporate elements of Australian industry capabilities wherever possible.

Defence is currently investigating ways to actively enhance Australian Industry Capability and provide greater transparency into the current status and level of Australian Industry Capability. As outlined in the 2016 Defence Industry Policy Statement, Australian Industry is a fundamental input to capability – indicating a real shift in priority. Defence seeks to increase transparency over the Australian Industry Capability program to ensure Government has visibility of the level of industry capabilities being developed and has the ability to make policy adjustments to drive industry capability growth and development. The Major Projects Report is well placed to support this transparency.

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<sup>1</sup> First Principles Review: Creating One Defence, p. 13, available:  
<https://www.defence.gov.au/Publications/Reviews/Firstprinciples/Docs/FirstPrinciplesReviewB.pdf>

# Review of the Major Projects Report

The MPR was first published for Financial Year 2007-08 to enhance transparency and accountability of the (then) Defence Materiel Organisation's major projects. It was based on the United Kingdom's Ministry of Defence report on major projects, and was established in a context of the Kinnaird and Mortimer Review reforms. During this time there was a focus on extensive capability development processes and documentation, and provided improvements to the pre-2003 processes.

The MPR was expected to evolve over time to be best meet the information needs of key stakeholders on the status of the then Defence Materiel Organisation capital acquisition projects.<sup>2</sup>

Originally, the Major Projects Report processes were based on the model used by the United Kingdom (the UK). As previously advised to the Committee in the Defence response to JCPAA Report no.468, the UK Government has moved away from the detailed MPR processes first established, as these were considered to be unsustainable.<sup>3</sup> The UK directed focus was redirected towards the broader Defence Equipment Plan,<sup>4</sup> with the Audit Office assessing how their Ministry of Defence sets its budget; forecasts the cost and risk to the Plan; and assesses the overall risk to affordability.<sup>5</sup> The latest Annual Report on Major Projects 2018-19 focussed on Whole of UK Government Projects, rather than only assessing Defence projects.<sup>6</sup>

The MPR provides transparency and accountability over Defence's significant acquisition program. With the implementation of the First Principles Review it would be prudent to review the report to ensure it continues to deliver the information needs of MPR Stakeholders.

## Need for change

To enhance the transparency and timeliness of the report, it is the view of the Department of Defence that the report could be updated to focus on information of interest to our stakeholders. Improving oversight is a vital component in successfully delivering the challenging capability modernisation program.

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<sup>2</sup> ANAO Report No.9 2008-09 Defence Materiel Organisation Major Projects Report 2007-08, p.11

<sup>3</sup> Executive Minute on Joint Committee of Public Accounts and Audit Report no.468, Defence Major Projects Report (2015-16), Inquiry based on Auditor-General's report 40 (2016-17), signed April 2018. See Recommendation 3 response.

<sup>4</sup> Full report available at: <https://www.nao.org.uk/wp-content/uploads/2018/11/The-Equipment-Plan-2018-2028-.pdf> accessed 13 February 2020

<sup>5</sup> Content and scope information can be found at: <https://www.nao.org.uk/report/the-equipment-plan-2018-to-2028/> accessed 13 February 2020.

<sup>6</sup> Full report available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/817654/PA\\_AR\\_MajorProjects2018-19\\_web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/817654/PA_AR_MajorProjects2018-19_web.pdf) accessed 13 February 2020.

A significant amount of effort is applied across Defence to produce the Major Projects Report, which attracts a cost of \$2.2 million for the ANAO<sup>7</sup> and an estimated cost of \$2.4 million for Defence.<sup>8</sup> The current processes require substantial information to support the MPR, sourced from multiple systems. Often bespoke spreadsheets are developed to present information in accordance with template requirements, and the amount of data can be substantial, particularly for new projects.<sup>9</sup> Once this data is provided, both Defence and the ANAO need to work together to extract and assure the statements contained in the report, which adds to the cost and time taken to publish the data. It is Defence's view that this level of documentation is not commensurate to the intent of a limited assurance activity, and streamlining the processes may both reduce the cost to taxpayers, and increase the quality of analysis provided on specific issues considered to be of high importance.

There is also concern that the report is not producing information in a way that is easily understood by the general public. The templates have not changed significantly in the last decade, and contain heavy Defence jargon and technical detail. It is the view of Defence that improving the language and reducing the density of the PDSS could allow more people to engage with the content and subject matter, thereby increasing the transparency offered to all interested parties. In particular, the report continues to focus on Kinnaird era lexicon and comparisons that are generally not helpful in delivering against the 2016 Defence White Paper.

The MPR analysis could also be better used to provide project management insights that could be applied across the Whole of Government. Defence has a history of delivering complex projects, with lessons learned that could apply across other Government agencies delivering similarly complex undertakings. In addition, Defence could learn from these agencies, and improve cooperation across sectors. While this would take time to implement, planning could start now to deliver a whole of Government view, aligned to the UK practice.

As Defence is the agency undergoing the assurance activity, it might not be appropriate for the Department to propose what areas are subject to review. However, the public generally want assurance that public money is being spent efficiently and with due regard, that risks are both understood and managed, and in the case of Defence and that we are working with our Industry Partners to deliver the best possible outcome to the Australian Defence Force. The relationship with industry is integral to delivering the program ahead, and the Department should also be held to account in relation to providing opportunities to Australian Industry. It would also be useful to better understand project management issues and have experts help us formulate ways to fix any problems, as part of the analysis of the report. As outlined in the First Principles Review, Defence should also be focussed on

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<sup>7</sup> 2018-19 Major Projects Report, Part 1. ANAO Review and Analysis, paragraph 1.6, p.19

<sup>8</sup> 2018-19 Major Projects Report, Part 2. Defence Major Projects Report, p.74.

<sup>9</sup> New projects entered in 2018-19 averaged over 400 pieces of evidence that needed to be transferred to support their 10 page Project Document Summary Sheet (Section 3 of the MPR). For each returning project, between 100 and 150 documents are usually transferred to support the updates and changes

outcomes, rather than strict bureaucratic process compliance, and looking for ways of streamlining the information reported.

To provide a strategic analysis of the considerations above, Defence recommends that the Department works with the ANAO and conduct a Smart Buyer type review of the Major Projects Report. These workshops would consider the key needs of stakeholders and ways of delivering improved transparency in a more efficient manner.

## **Proposal for short term change**

### **Australian Industry Capability**

Australian industry participation in Government programs is key to delivering successful outcomes. For Defence, there are both short term benefits, and in the longer term there are opportunities to create a sustainable Australian industry base. This will not only provide certainty in the continuous build programs, but is expected to reduce costs and drive schedule efficiencies in the future. To ensure Defence remains on track to deliver these outcomes, oversight of the Australian Industry Capability Program is needed.

The Major Projects Report (MPR) provides substantial detail on a number of project management performance areas, including scope, schedule and cost. In the 2019-20 MPR this will include a total of 25 of Defence's largest acquisition programs, including projects such as Future Submarines, Future Frigates, Joint Strike Fighter, and the Land Combat Reconnaissance Vehicles. Details of Australian Industry are not currently provided within the Project Data section of the report; however, with some minor adjustments the MPR could provide increased transparency and communicate the opportunities envisaged at Government approval and track their delivery through the acquisition phase.

Opportunities and the realisation of the Australian Industry Capability benefits has been a focus of Parliament for some time, and the information is increasingly sought by broader members of the community. The MPR is well placed to offer this information and provide a transparent way to review Australian Industry Capability performance. Defence considers there would be benefit to including preliminary information in the 2019-20 report, and Defence would work closely with the ANAO to evolve the way the information is presented and reported in future years.

Three projects that would be suitably placed to trial the inclusion of Australian Industry information are the future frigate, future submarine, and combat reconnaissance vehicle projects (SEA 1000, SEA 5000 and LAND 400 Phase 2). These three programs are both early in the capability life cycle, and have a strong focus on promoting Australian Industry Capability. This provides an opportunity to test the data available on Australian Industry involvement in the programs and how this could be translated into the Project Data

Summary Sheet. Defence would also look to incorporate information for other projects, noting not all will have mature Australian Industry Capability reporting mechanisms in place.

Subject to Committee approval, Defence would work with the ANAO to develop additional information into the template to report on Australian Industry for the future submarine and future frigate program. This could include details against the public AIC plan, and how these plans are translated into contracting opportunities. Depending on the complexity of this task and the information available for all projects reporting in the MPR, Defence and the ANAO could roll out the Australian Industry reporting over a number of years, and evolve the reporting based on stakeholder feedback.

## **Summary and Conclusion**

As outlined above, the Department of Defence continues to see an important role for the MPR, and is keen to see it evolve to best meet the information needs of our stakeholders.

Defence considers that changes to include Australian Industry Capability are of sufficient importance to warrant inclusion in the 2020-21 Major Projects Report. Defence proposes to work with the ANAO to include Australian Industry information for the future submarines, future frigate and combat reconnaissance vehicle programs this year, and understands that time may be needed to refine the type of information and assurance process with the ANAO to apply across all projects. However, this inclusion would provide the JCPAA, the Parliament, and the public with information not otherwise available in the public domain.

For changes to be properly considered, it is the Department's recommendation that Defence and the ANAO conduct a tailored Smart Buyer review of the processes, focus, and content of the report. If agreed, the independent external board members would undertake a review using the proven structured workshop approach. These findings would be presented to the Committee, and would welcome suggestions and feedback from other stakeholders, potentially including them as part of the Smart Buyer process. A brief explanation of the attributes and application of Smart Buyer is provided at Attachment A.

## Attachment A

# Smart Buyer Approach

The Smart Buyer Framework developed within Defence has been used on a number of occasions to support activities that would be considered as non-traditional. Smart Buyer can successfully assist most endeavours due to the core design principles embedded in the process.

### The three fundamental attributes of Smart Buyer are:

1. A large and diverse range of people in a workshop each with a stake in the successful execution of what is being considered. The stakeholders offer the perspective of the organisation they represent, are part of the consensus agreeing to the recommended path ahead, and then represent that path back into the organisations they represent to successfully implement a change across a large organisation such as Defence.
2. Workshops facilitated and led by a group of very experienced, pragmatic and strategic thinking External Board Members (EBMs). EBMs are shared between the Defence Independent Assurance Reviews and Smart Buyer functions and are ex Defence 1\* / SES Band 1 and 2\* / SES Band 2 or equivalent, CEOs of industry and academia equivalents and offer any workshop 'lessons learned' personified.
3. A 'profiling tool' that provides structure and defined questions to consider to support the setting of the environment for the undertaking being considered. This tool enables a comprehensive consideration of any likely drivers that the strategy needs to be cognisant of to maximise success.

### A traditional Smart Buyer process consists of:

- Pre-workshop engagement to identify need, stakeholders, readiness and to tailor the workshops.
- A Kick Off Meeting chaired by the Senior Leader sponsoring the activity to set the scene, timelines and expectations of the workshop, confirming logistics and stakeholders.
- A full day Environmental Scan Workshop is conducted where factors within the profiling tool are loosely followed and all actionable drivers are identified.
- A Strategy Development Workshop which considers the drivers and then works through strategies, next steps, timelines and resources available to maximise success. An Outcomes Paper is then released to formalise Smart Buyer outcomes.

Consideration of core attributes and approach leads to an obvious conclusion that the framework can and has been successfully applied to a range of undertakings from traditional acquisition and sustainment strategy, to proposed operational and organisational change, reform programs and culture change activities.