

The Committee's Review

- 3.1 The MPR is an exceptionally detailed publication and in the 2012-13 review the Committee concentrated on overall performance and governance rather than scrutinise individual projects. This year, the Committee's review focussed more on specific governance concerns raised in the document and on specific projects.

Recurring governance concerns

- 3.2 ANAO's analysis has identified four areas of project management which continue to be of concern. The Committee sought further detail on how DMO was responding to these concerns.

Price indexation and budget allocations

- 3.3 With regard to the continued concerns of project offices in relation to price indexation and budget allocations, and inconsistency in the recording and application of contingency funds, DMO responded:

I think in this report we have highlighted that we are now exposing more and putting more information in regard to the application of contingency, and that, I think, has met the requirement of the committee. In terms of price indexation, I think that issue comes back to the old issue about out-turning. There will always be projects looking ahead and making a judgement call on where indexation might go or where inflation might go, and it is part of their remit, if you like, to look at those risks. Those risks will always be there, but at this point in time we do not

foresee any projects not meeting their current budget. It will still remain an issue, but I think it is still manageable at this stage.¹

3.4 ANAO commented:

I think the CFO is correct. I think we were always thinking that eventually we would see projects focusing on the forward estimates that are made, in terms of change of indices over time, and this report and the committee's requirement for reporting in that space is highlighting that. It is a case now of seeing it being managed through.²

Project maturity scores

3.5 With regard to the inconsistency in the application of the Project Maturity Framework reducing its level of reliability as a maturity assessment, the MPR shows a number of projects, some of them quite large – like Air Warfare Destroyers, Wedgetail, the MRH90 helicopters and the FFG upgrade – where the project maturity score has either stalled or actually regressed over the past 12 months.³ In contrast, the Next Generation Satellite project shows a large increase in the maturity score in the same time period from system testing to project completion in one year.⁴

3.6 DMO advised that they are tending not to use the project maturity score as a project management tool and are moving towards a system known as the Materiel Implementation Risk Assessment (MIRA) which gives a broader narrative of the projects status, and is tending to manage projects through mechanisms other than the project maturity score. DMO explained:

MIRA is used as part of the original cabinet approval. When we initially established the project maturity scores, the intention was to provide decision-makers with an understanding of comparative risk across all of the projects. Over time – because it was a score – it became a number that people really did not understand the context of, so we then went about establishing a materiel implementation risk assessment that looked at the same issues but provided a narrative of our understanding of what the risks were, and how we intended to mitigate those risks. Within the PDSS there is the current set of risks that are reported. Those risks are

1 Mr Steven Wearn, Chief Finance Officer, Defence Materiel Organisation, *Committee Hansard*, 27 February 2015, p. 10.

2 Mr Michael White, Executive Director, Assurance Audit Service Group, Australian National Audit Office, *Committee Hansard*, 27 February 2015, p. 10.

3 *Major Projects Report 2013-14*, p. 203; p. 214; p. 228; and p. 328.

4 *Major Projects Report 2013-14*, p. 327.

the risks that we are managing each year, and they have been reported in the PDSS for each project. The MIRA is what we start out with when we initially get the project approved and then, over time, the project risks are managed by the project.⁵

- 3.7 ANAO advised that project maturity scores are a composite indicator and are very complex to manage, both through guidance and through the on-the-job work. ANAO acknowledged that there are great difficulties in that type of reporting but that the maturity scores demonstrate a fair presentation of the results over the last 12 months.⁶ The Next Generation Satellite project's score is a good example of this. DMO explained that although the score had experienced a large shift, this reflected the project's status:

...the project [was] actually meeting its objectives. It is to be expected that if a project begins the financial year, say, at a point where we are ahead of testing, and during the financial year the testing is complete, it was successful and we are able to accept the equipment and then introduce it into service—in a year, then the maturity score can move quite quickly to be fully mature.⁷

Inconsistency in the recording and reporting of major risks

- 3.8 In terms of the inconsistency in the recording and reporting of major risks and issues by project offices, and in the terminology and reporting within the mandated Predict! and Excel risk management systems, DMO responded:

I think here—and I think we say it in the report—we have done a lot of work to standardise our risk management systems. We have done a lot of work to standardise our risk management manuals and our risk management guidance. We are trying to get a consolidated approach to risk management across the organisation. I think that will improve now that we have standardised our tools and our risk management methodology and our risk management terminology. I would hope that you would see improvement in that in future reports.⁸

5 Ms Shireane McKinnie, General Manager, Joint Systems and Air, Defence Materiel Organisation, *Committee Hansard*, 27 February 2015, p. 3.

6 Mr Michael White, Executive Director, Assurance Audit Service Group, Australian National Audit Office, *Committee Hansard*, 27 February 2015, p. 3

7 Ms Shireane McKinnie, General Manager, Joint Systems and Air, Defence Materiel Organisation, *Committee Hansard*, 27 February 2015, p. 3.

8 Mr Harry Dunstall, Deputy Chief Executive Officer, Defence Materiel Organisation, *Committee Hansard*, 27 February 2015, p. 10.

Inconsistency in the application of the Capability Assessment Framework

3.9 Finally, with regard to inconsistency in the application of the Capability Assessment Framework DMO responded:

We have struggled to provide, at an unclassified level, capability assessments. Each project has a set of requirements which are defined by the ADF at the outset, and when we do the capability assessment we do look back at how those requirements were set. Each set of requirements does differ and, because of the very wide nature of the projects that we are managing, it is difficult to come up with one methodology.⁹

I think that it is difficult to get a true quantitative approach to this. Inherently, there needs to be some subjectivity to it simply because you might have 100 requirements and you meet 99, but the one requirement that is not met might have a fundamental impact on the delivery of the total capability. So I think, inherently in this, it is going to have to be a qualitative assessment based on judgement.¹⁰

Specific Projects

Collins submarines

3.10 The Collins-class submarine sustainment has been on the list of projects of concern since November 2008. In December 2012, the Coles Report into the Collins-class was published. Key recommendations to deliver long-term improvements for the sustainment and availability of Collins Class submarines include:

- accepting that sustainment of the Collins Class had fallen far short of what was required due to systemic failures attributable to logistic support arrangements not being put in place initially;
- setting realistic performance targets that will progressively improve performance over the next three years;
- clearly defining roles, responsibilities and authority in submarine sustainment; and

⁹ Ms Shireane McKinnie, General Manager, Joint Systems and Air, Defence Materiel Organisation, *Committee Hansard*, 27 February 2015, p. 10

¹⁰ Mr Harry Dunstall, Deputy Chief Executive Officer, Defence Materiel Organisation, *Committee Hansard*, 27 February 2015, p. 10.

- moving quickly to bed-down the new In Service Support Contract between DMO Organisation and ASC to deliver more efficient and effective sustainment.¹¹

3.11 DMO reported on the Collins-class status and what criteria would determine when the project could be expected to be removed from the Projects of Concern list:

I think the implementation of all the Coles reforms really will be the point at which we would be recommending to the minister for removal from the projects-of-concern list. Under each of the projects of concern, the way that process works is that we agree a remediation plan with the relevant contractor, and really it is when the matters that have been agreed in the remediation plan have been given effect to, to our satisfaction, that we would then make the recommendation to remove from projects of concern. So, the remediation plan for Collins is really implementation of the Coles reforms.¹²

MRH90

3.12 In May 2013, the then Minister for Defence and the then Minister for Defence Materiel announced that the MRH90 Helicopters project would be considered for removal from the Projects of Concern list by the end of 2013, following the signing of a Deed of Variation (termed Deed 2) to the original contract, to address commercial, technical and schedule issues. As at June 2014, MRH90 Helicopters is still listed as a Project of Concern as remediation actions are yet to be completed.¹³

3.13 DMO reported on the MHR90 status and what criteria would determine when the project could be expected to be removed from the Projects of Concern list:

The major criterion for that project being removed from the projects of concern is, No. 1, that we establish a commercial settlement with the company on outstanding issues that we had. That has been achieved. The other criterion is to achieve Navy IOC, which has not yet been achieved. There were some delays with that when we had a rotor brake issue on one of the aircraft

11 'Coles Review: The Study Into the Business of Sustaining Australia's Strategic Collins Class Submarine Capability', <<http://www.defence.gov.au/dmo/aboutdmo/currentreviews/colesreview/#sthash.VQS0kG2R.dpuf>> accessed 10 April 2014.

12 Mr Harry Dunstall, Deputy Chief Executive Officer, Defence Materiel Organisation, *Committee Hansard*, 27 February 2015, p. 5.

13 *Major Projects Report 2013-14*, p 89.

while it was on-board *HMAS Stuart* and it took quite some time to bring the ship home to take the helicopter off to diagnose the problem. We have now diagnosed that problem and we understand what the root causes are. Also, we have had issues where the cargo hook on the aircraft does not meet Navy's requirements. We are working on a new design with the company in order to address that issue. It is in use at the moment, but with operational limitations. As part of our final testing, there have also been some issues identified with the electronic warfare self-protection suite. We are going through looking at how we might resolve those issues as well.¹⁴

- 3.14 The Initial Operational Capability (IOC) for the Army variant of the MRH90 has been achieved but the Navy IOC – originally scheduled for July 2010 – had still not been achieved by September 2014.¹⁵ Subsequent information from DMO confirmed that on 25 February 2015, the Chief of Navy declared that the MRH90 had achieved its initial operational capability. The current forecast for achievement of the MRH90s final operational capability is the third quarter of 2019 – some five years behind the original schedule.¹⁶

Air Warfare Destroyers

- 3.15 In June 2014, the Air-Warfare Destroyer (AWD) project was added to the Project of Concern list. As a result, the project was reviewed through a separate government process.
- 3.16 The review, led by former US Secretary of the Navy Professor Don Winter, has provided the government with an independent assessment of the program's costs, schedule and quality of performance as well as identified a range of solutions.
- 3.17 The review – known as the 'White-Winter Report' – identified several causes for the cost and schedule issues, including problems with:
- the initial program plan;
 - inadequate government oversight;
 - the Alliance structure's capacity to manage the project and deal effectively with issues if and when they arose; and

14 Ms Shireane McKinnie, General Manager, Joint Systems and Air, Defence Materiel Organisation, *Committee Hansard*, 27 February 2015, pp. 5-6.

15 *Committee Hansard*, 27 February 2015, pp. 10-11.

16 Department of Defence, *Submission 2*, Question on Notice 3.

■ the performance and capabilities of ASC and major subcontractors.¹⁷

3.18 A joint Department of Finance and DMO remediation strategy is currently underway. Interim arrangements have been put in place and a steering group has been established to give effect to the recommendations in the Winter-White Report. DMO is currently in the process of negotiating the final arrangements to reset the AWD program and this program is expected to identify the triggers for removal from the PoC.¹⁸

3.19 Although the review has not been published in its entirety, DMO explained that:

In effect the recommendations are fourfold. There is:

- the injection of shipbuilding expertise into ASC, and that is happening
- the comprehensive cost and schedule review to be undertaken using external advice, and that is underway
- consideration of the reallocation of blocks between block builders to make better use of the capacity and capabilities, and that has happened – three blocks have been reallocated from ASC across to Williamstown
- is a structural separation within ASC between ASC AWD Shipbuilder Pty Ltd and the submarine business, and that is underway at the moment.¹⁹

3.20 Finally, the MPR notes that the procurement of the electronic warfare radar, electronic attack sub-system been deferred as current technology does not meet the contract and the RAN requirements.²⁰ DMO advised that:

The AWD Alliance is contractually required to deliver the Air Warfare Destroyers with a Radar Electronic Attack (R-EA) capability.

At the time of the R-EA selection process in 2009-10, only 'first generation' systems were available while more powerful 'second generation' systems were expected to be available in 2017-18.

17 Minister for Finance and Minister for Defence – Joint Media Release – 'Putting the Air Warfare Destroyer program back on track', 4 June 2014, <<http://www.minister.defence.gov.au/2014/06/04/minister-for-finance-and-minister-for-defence-joint-media-release-putting-the-air-warfare-destroyer-program-back-on-track/>> accessed 13 April 2015.

18 Mr Harry Dunstall, Deputy Chief Executive Officer, Defence Materiel Organisation, *Committee Hansard*, 27 February 2015, p. 6.

19 Mr Col Thorne, General Manager, Land and Maritime, Defence Materiel Organisation, *Committee Hansard*, 27 February 2015, p. 8.

20 *Major Projects Report 2013-14*, p 192.

Rather than install a system that would require an expensive upgrade early in the ships' life, the Alliance sought to defer procurement of the R-EA until the second generation technology was available. Funding was set aside, and provisions were made to the Air Warfare Destroyer platform design, for the accommodation of the newer R-EA systems.²¹

Committee comments

- 3.21 Projects of high costs and complexity that are not achieving designated milestones remain the key areas of interest for the the Committee and, indeed, DMO and the ANAO.
- 3.22 The review of these projects through the MPR, alongside the separate but complementary ANAO reporting, has now established a practical system of review for Defence acquisition projects. The Committee is generally satisfied with the MPR process and expects to continue to scrutinise these and further projects through this mechanism.
- 3.23 One area not fully encompassed in the MPR is reporting on sustainment after the acquisition phase of the project has been completed. Previous efforts by the Committee to examine further the funds expended through this phase of the equipment's life-cycle have been hampered by the need to not compromise classified information. The Committee is in complete agreement with DMO and the Defence about the need to protect classified information and is now seeking to establish a sustainment reporting process that complements the MPR without compromising national security. Defence sustainment reporting is discussed further in Chapter 4.

21 Department of Defence, *Submission 2*, Question on Notice 2.