

Guidelines for the 2013-14 Major Projects Report

Introduction

- 4.1 As mentioned earlier in this report, the JCPAA endorses Guidelines prior to each year's Major Projects Report (MPR) being prepared and published. The Guidelines, amongst other things, include templates of Project Data Summary Sheets (PDSSs), which determines the content and format of reporting applicable to all included projects. The MPR Guidelines include:
- criteria for project selection and removal (or 'entry' and 'exit');
 - a list of projects proposed for inclusion or removal from the MPR;
 - the roles and responsibilities of the DMO in the production and review of the MPR;
 - guidelines for the preparation of the PDSSs;
 - a PDSS template; and
 - an indicative audit program.
- 4.2 The Guidelines for 2012-13 are contained in Appendix 1 of the MPR on page 515. In *Report 429*, the JCPAA stated:

The Committee considers that the Guidelines are now a stable document, reflecting the requirements of the MPR. The Committee believes that the Guidelines should continue to be developed jointly by the DMO and ANAO. However, as the Guidelines provide the basis for the ANAO audit, the Committee recommends that, in the interests of administrative efficiency, the

ANAO should take administrative responsibility for updating the Guidelines and their submission to the JCPAA for endorsement.¹

- 4.3 The Committee endorsed the Guidelines for the 2013-14 MPR on 27 March 2014, with two changes.

Changes to the Guidelines

- 4.4 Before endorsing the Guidelines, the Committee had to seek clarification of some matters arising from the Executive Minute response to *Report 436*, which led to some delay. This has been an issue in the past, with the Committee expressing strong concerns about the quality of responses, and seeking an improvement in the quality of those responses in *Report 429*.²
- 4.5 The two changes made to the Guidelines in 2013-14 were as follows:
- A photo of each project must be inserted for illustrative purposes in each PDSS. Photos have been used in previous years though were not mandated in the Guidelines.
 - A statement must be included against each project to note whether a project has or has not applied contingency funds during the year. Exact dollar amounts applied, or whether the applied contingency funds have actually been expended, will not have to be disclosed.

New projects and exiting projects

- 4.6 The following projects will exit the MPR in 2013-14:
- Bridging Air Combat Capability (AIR 5349 Phase 1/2), also known as the Super Hornet project;
 - Armidale Class Patrol Boat (SEA 1444 Phase 1); and
 - Counter - Rocket Artillery and Mortar (CRAM) (LAND 19 Phase 7A).
- 4.7 The following projects will enter the MPR in 2013-14, increasing coverage from 29 projects to 30 projects:
- Field Vehicles Modules and Trailers (Medium/Heavy Capability) (LAND 121 Phase 3B). In 2011, the Overlander Vehicles project was re-structured into two projects: Lightweight/Light Capability (Phase 3A) and Medium/Heavy Capability (Phase 3B). Both Phases 3A and 3B were resubmitted for Second Pass Approval. Phase 3B's approval did

1 JCPAA, *Report 429*, p.29.

2 JCPAA, *Report 429*, p.32.

not occur until July 2013, too late for the 2012-13 MPR; hence Phase 3B was excluded and will re-appear in 2013-14;³

- EA-18G Growler Airborne Electronic Attack Capability (AIR 5349 Phase 3);
- Battlefield Airlift (Caribou Replacement) (AIR 8000 Phase 2); and
- Amphibious Watercraft Replacement (JNT 2048 Phase 3).

4.8 These inclusions and removals follow from assessments by the DMO of these projects against the criteria in the guidelines.

4.9 The Committee has carefully considered the merits of allowing the Armidales project to exit the MPR. As Mr King noted, “we do have problems at the moment with the maintenance of the Armidales” due to “structural matters” and “cracking”.⁴ This has also been the subject of recent media coverage.⁵

4.10 Although the Committee endorsed the exit of this project, DMO has been requested to separately provide information to the Committee on developments over the 2013-14 financial year. The Committee may publish this information when received.

Project selection

4.11 To be selected for entry into the MPR, a project must meet the eligibility criteria in the MPR Guidelines.

The inclusion of projects in the MPR is based on the projects included in the Defence Capability Plan and subject to the following criteria:

- projects only admitted one year after Year of Decision;
- a total approved project budget of > \$150m;
- a project should have at least three years of asset delivery remaining;
- a project must have at least \$50m or 10% (whichever is greater) of their budget remaining over the next two years; and
- a maximum of eight new projects in any one year.⁶

4.12 Having at least met these criteria, entry is then dependent upon JCPAA endorsement:

All projects for inclusion in the MPR will be proposed by the DMO, based on the above criteria, and provided to the JCPAA by

3 *Major Projects Report 2012-13*, p.24.

4 Mr King, *Committee Hansard*, 20 March 2014, p.8.

5 *The Australian*, ‘Time’s Up For Navy Asylum Fleet’, 24 March 2014, p.1.

6 *Major Projects Report 2012-13*, p.518.

the ANAO by 31 August in the year to which the MPR relates, for endorsement.⁷

Project exit criteria

4.13 A project should meet the following criteria to exit the MPR, as stated in the MPR Guidelines:

1.9 The removal of projects from the MPR is based on a post Final Materiel Release (FMR) risk assessment of the timely achievement of Final Operational Capability (FOC) and is subject to the following criteria:

- the outstanding deliverables post FMR, against the relevant Materiel Acquisition Agreement (MAA) and/or Joint Project Directive (JPD);
- the remaining schedule post FMR, against the relevant MAA and/or JPD;
- the remaining budget post FMR, against the relevant Materiel Acquisition Agreement MAA and/or JPD;
- the remaining project risks and issues; and
- the Capability Manager's assessment including overall risk rating and the extent to which this risk rating relates to DMO's responsibilities.

1.10 All projects selected for removal from the MPR will be proposed by the DMO, based on the above criteria, and provided to the JCPAA by the ANAO by 31 August in the year to which the MPR relates, for endorsement.

1.11 Projects which are anticipated to achieve both FMR and FOC within a twelve month period are to be automatically proposed for removal to the Committee.

1.12 Once projects have met the exit criteria, they should be removed from the PDSSs in subsequent years. For each project which has been removed, the lessons learned at both the project level and the whole-of-organisation level should be included as a separate section in the following MPR.

4.14 The three projects listed for exit have qualified according to the above criteria. DMO has encouraged the Committee to exit other projects. In his opening statement to the Committee at the public hearing on the MPR in March 2013, Mr Warren King (CEO, DMO) said:

I also want to raise the issue of the value of continuing to report on some of the older projects from the MPR for the next reporting

7 Major Projects Report 2012-13, p.518.

year and beyond. In particular, I am referring to projects such as the high frequency modernisation project, the FFG upgrade [Guided Missile Frigate Upgrade Implementation] and the Armidale patrol boats, which are substantially in service. These projects, while still open, are now in operational service and my observation is that both the value in reporting on them and the window of opportunity to learn from these three projects and apply lessons to the way that we manage projects has now largely passed by.⁸

- 4.15 This year, Mr King named several Major Projects he said “have materially delivered all the things they are going to deliver” with “very minor elements” preventing final acceptance.⁹ Specifically, DMO named the FFG Upgrade, Bushmaster Vehicles, F/A18 Hornet Upgrade and HF Modernisation as being “legacy” projects.¹⁰ In his 2014 opening statement, Mr King added:

If these projects, which are already delivering capability, are removed, then it would enable the Committee to introduce new projects into the report. I am, therefore, asking the Committee to consider whether there is value in including these older, legacy, projects in the MPR.¹¹

- 4.16 However, there is a risk that once removed from the MPR, Defence and DMO may not report a Major Project’s final cost, schedule and capability statistics in other publications.

Reporting on projects post-MPR

- 4.17 The Defence Annual Report¹² and Portfolio Budget Statements¹³ report information on Major Projects (MPR projects and others), including budgets, some schedule information and limited detail of capability issues. Once a project is deemed complete, having achieved final operational capability (FOC), it moves into the sustainment phase. The C-17 Globemaster 3 (AIR 8000 Phase 3) has been reported in budget papers and the annual report since exiting the MPR in 2011-12.

8 JCPAA *Committee Hansard*, 13 March 2013, p.1

9 Mr King, *Committee Hansard*, 20 March 2014, p.9.

10 DMO, Submission No.3, p.2.

11 DMO, Submission No.3, p.2.

12 Department of Defence, ‘Annual Report 2012-13’, p.184

13 Defence Portfolio Budget Statements 2013-14, p.151

- 4.18 Whether information about a Major Project is included in these publications is a matter for Defence and DMO. The final results for this project may (or may not) be visible in the future.
- 4.19 There is currently a short “lessons learnt” summary in the appendices of the MPR, but this item focuses on management processes and acquisition concepts, not financial outcomes or timelines in final capacity achieved.¹⁴
- 4.20 Last year, the Committee noted its intention to monitor the process used to exit projects from the MPR:
- The Committee suggests that if the agreed process for the removal of projects from the MPR is not producing an appropriately balanced outcome, then it will consider any proposal put forward to improve those criteria during its next annual review and endorsement of the MPR Guidelines.¹⁵
- 4.21 In 2012, the Committee also stated its intention to modify the Guidelines to incorporate post-MPR reporting:
- ...any future ‘post-FMR’ [final materiel release] reporting format should also be included in the MPR Guidelines endorsed by the Committee, even if separate to the PDSSs, in order to maintain an appropriate level of transparency and accountability.¹⁶
- 4.22 In response, the exit criteria noted above were developed taking a risk-based approach. The rationale of this approach was to ensure riskier projects were retained in the MPR. By allowing older projects to exit, this would create space for newer projects to enter the MPR.

Committee comment

- 4.23 Reporting of Major Projects after they have exited the MPR is less detailed, though basic information is usually made available. As this information is published according to the preferences of Defence or DMO, there is no certainty that particular projects will remain visible after exit. A Major Project’s final outcomes for cost, schedule and capability may (or may not) be revealed. However, the Committee is also conscious of ensuring that the MPR does not balloon into an unwieldy publication from retained Major Projects.
- 4.24 The Committee is prepared to consider changes to the exit criteria in conjunction with options for reporting on projects post-MPR. The Committee’s preference is to use transparent exit criteria to assist

14 *Major Projects Report 2012-13*, p.553-555.

15 *JCPAA, Report 436*, p.37.

16 *JCPAA, Report 429*, pp.28-29.

decisions as to which projects should exit from official PDSS reporting in the MPR. Although only recently established, the Committee would be prepared to consider changes to the criteria. If formal criteria inhibit more strategic changes to MPR reporting, the Committee is prepared to consider a detailed proposal from DMO and the ANAO.

- 4.25 For completeness, the Committee believes there should be certainty that Major Projects can be tracked once exited from the MPR. The Committee is open to suggestions from DMO and ANAO, though one option would be to include a special section in the MPR for post-exit projects. Information could be in an abridged format, similar to Tables 2.1 to 2.3 on pages 114 to 116 of the MPR. The Guidelines could be amended to require inclusion of this information. In the interim, for 2013-14 MPR, the Committee has recommended DMO voluntarily include additional information on recently exited Major Projects.

Recommendation 9

- 4.26 **That all future Major Projects Reports, including the 2013-14 Major Project Report, include information on recently exited Major Projects, at a level similar to Tables 2.1 to 2.3 on pages 114 to 116 of the 2012-13 Major Project Report.**

Recommendation 10

- 4.27 **The Australian National Audit Office and Defence Materiel Organisation consult as necessary to propose amendments to the 2014-15 MPR Guidelines to make provision for information on exited Major Projects.**

