

EXECUTIVE MINUTE

on

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT REPORT No. 458

Defence Major Projects Report (2014-15) Review of Auditor-General Reports No 16 (2015-16)

Response to the recommendation(s)

Recommendation No. 1 page 62

Noting the importance of clear roles, responsibilities, accountabilities and lifecycle management processes, the Committee recommends that the Department of Defence publish the outcomes from Recommendation 2:11 of the First Principles Review as soon as practicable and that a summary of this information be included in the next Major Projects Report.

Response: Agree

Defence will publish the outcome for the First Principle Review recommendation 2.11 once it is completed, which is scheduled for March 2017.

Recommendation No. 2 page 63

To ensure consistency with project level risk information and to improve reliability, the Committee recommends that the Department of Defence review the procedure for development of expected capability estimates for future Major Projects Reports.

Response: Agree

Expected capability estimates are currently presented in graph form in Section 4.1 of the Project Data Summary Sheets of the Major Projects Report. Defence acknowledges the limitations of this section of the Project Data Summary Sheets and the process associated with developing these estimates.

Both the Capability Estimates and Maturity Score Graphs will be reviewed to align with the new Capability Life Cycle and Smart Buyer processes. These reforms are currently being refined and progressively implemented. Defence has met with the Australian National Audit Office (ANAO) and advised them it was unlikely any changes would be made in time for the 2016-17 Major Project Review. Defence has engaged, Mr Roger Howick, a contractor from Assuritas Pty Ltd, to develop a more appropriate methodology to support the presentation of the Maturity Score Graphs.

Recommendation No. 3 page 64

The Committee recommends that the Department of Defence work with the Australian National Audit Office to review and revise their policy regarding Project Maturity Scores in time for the new approach to be implemented in the next Major Projects Report.

Response: Agree

Please refer to the response to Recommendation 2.

Recommendation No. 4 page 65

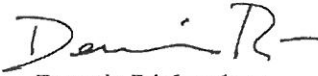
The Committee recommends that Defence conduct a review of the Air Warfare Destroyer (AWD) contractual arrangements, examining the distribution of liabilities for project problems. The report should examine:

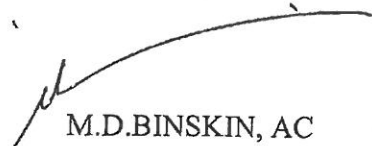
- *how much each alliance partner lost or was liable for when the project ran over budget; and*
- *what lessons have been learned from the AWD experience in terms of future contractual arrangements and how these lessons have been incorporated into the standard practices of Defence to help mitigate such issues arising in the future.*

Response: Agree

The total amount the alliance partners were liable to lose or gain (pain share/gain share arrangements) based on program performance was \$291.7 million [split between the ASC Pty Ltd – 'ASC' (\$171.6 million) and Raytheon Australia – 'Raytheon' (\$120.1 million)]. The total amount paid to both partners by the Commonwealth was \$151.5 million (ASC \$82.7 million and Raytheon \$68.8 million). Of this total, Raytheon has paid back the full amount it was paid, and the ASC has committed to pay back its share in full by 2019. The total performance based amount the alliance partners are now subject to lose or gain (post the AWD Reform) is \$0.

The key contractual lessons from the AWD Program have been incorporated into relevant guidance documentation, notably the *Defence Better Practice Guide on Procurement Delivery Models*, which is in draft form. A final lesson learned activity will be completed following the end of the build phase of the AWD program as the capability shifts from production to sustainment.


Dennis Richardson
Secretary
26 Oct 2016


M.D. BINSKIN, AC
Air Chief Marshal
Chief of Defence Force
21 Oct 2016