



EXECUTIVE MINUTE

on

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

REPORT 489

Defence Major Projects Report 2019-20

Recommendation No: 1	1
Recommendation No: 2	5
Recommendation No: 3	6
Recommendation No: 4	6
Recommendation No: 5	7

General Comments

Whilst the recommendations in this report were initially paired with the *Defence Major Projects Report (MPR) 2019-20* at the beginning of the pandemic, the updates below relate to the major projects listed in the *Defence Major Projects Report 2020-21* only. Major projects included in the *Defence Major Projects Report 2021-22*, due for release in November this year, will include updated impacts from the 2021-22 reporting period.

Recommendation No: 1

The Committee recommends that the Department of Defence provide a short update to the Committee within the first two months of the 47th Parliament on the latest impacts of the COVID-19 pandemic on major projects.

Summary of Response: Agreed

Supporting Rationale:

Table 1 below provides a short update on COVID-19 impacts to the current Major Projects included in the 2020-21 report. Of the 21 projects, 17 projects have been notably impacted by COVID-19.

Projects that have been assessed as not being directly impacted by COVID-19 are:

- AIR 7000 Phase 1B - MQ-4C Triton Remotely Piloted Aircraft System;
- AIR 8000 Phase 2 – Light Tactical Fixed Wing;
- AIR 9000 Phase 2/4/6 – Multi-Role Helicopter (MRH); and
- LAND 200 Phase 2 Tranche 2 - Battlefield Command System.

Table 1 – COVID-19 Impact Summary

#	PROJECT	COVID-19 IMPACT SUMMARY
1	AIR 6000 Phase 2A/2B New Air Combat Capability	<p>COVID-19 did not cause any delay to the declaration of Initial Operational Capability for the Australian F-35A capability, which occurred as scheduled in December 2020. Due to COVID-19 travel restrictions in calendar years 2020 and 2021, some verification and validation activities required on Australian F-35A capabilities were rescheduled; however, there was no significant impact to the overall schedule for achievement of Final Operational Capability.</p> <p>In 2021, the Joint Strike Fighter (F-35A) Executive Steering Board agreed to the Lockheed Martin proposed schedule for recovery of delays to F-35A production due to COVID-19. This revised schedule was acceptable to Air Force, which delayed the delivery of remaining Australian F-35A aircraft by 1-4 months from the original delivery date, yet the capability continues to track towards Final Operational Capability in December 2023, albeit with increased schedule risk. The measured approach to production schedule recovery by the F-35 enterprise avoided any Lockheed Martin cost increases due to COVID-19 impacts.</p>
2	SEA 5000 Phase 1 Future Frigates	The project has experienced schedule variance due to delays in the design maturity of the UK's Type 26 Program, which is the Reference Ship Design for the Hunter class frigate. COVID-19 has been a contributing factor.
3	SEA 1000 Phase 1B Future Submarines Design Acquisition	As at the date of cancellation, unrelated to COVID-19, only minor COVID-19 related variations to cost and schedule had been experienced.
4	LAND 400 Phase 2 Combat Reconnaissance Vehicles	The Commonwealth and Rheinmetall Defence Australia signed a Contract Change Proposal that agreed to a six month delay to reflect the impacts of COVID-19 up to 31 December 2020. The delays predominantly impacted production capacity, supply chain delivery and the design processes of the Block II Boxer variants. The Commonwealth is working closely with Rheinmetall Defence Australia to mitigate the impacts of COVID-19, including Rheinmetall Defence Australia is examining options to transition more production related work to Australia earlier than planned, and increasing production capacity in Australia.
5	AIR 9000 Phase 2/4/6 Multi-Role Helicopter (MRH)	Acquisition activities have not been directly affected by COVID-19. Delays to FMR for AIR 9000 Phase 2/4/6 are a result of numerous factors.

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6	SEA 1180 Phase 1 Offshore Patrol Vessel	The project has formally recognised a claim for COVID-19 related delay of 6 months. A cost increase of \$61.5 million has been agreed to. Production has been affected by COVID-19 related restrictions on social distancing in the shipyard. Indirect effects include delays in delivery of supplies and materials, workforce availability, border restrictions, international freight disruptions and supply chain partners. It is anticipated that further delay attributable to COVID-19 will impact the delivery of the program.
7	LAND 121 Phase 3B Medium Heavy Capability, Field Vehicles, Modules and Trailers	The primary COVID-19 impact on this project has been a delay to training and equipment rollout activities, resulting in a compressed schedule to achieve these deliverables in order to meet Final Operational Capability.
8	AIR 7000 Phase 1B MQ-4C Triton Remotely Piloted Aircraft System	The project is not directly affected by COVID-19. The project is indirectly affected through a Real Cost Increase, attributable to increased construction sector costs.
9	LAND 121 Phase 4 Protected Mobility Vehicle – Light (PMV-L)	COVID-19 impacts have contributed to delays in the form of global supply chain interruptions and the inability to conduct training at purpose built facilities, due to travel restrictions on personnel movement across state borders. A delay to the achievement of Final Operational Capability is likely, although not solely due to COVID-19 impacts, with advice to Government being prepared.
10	AIR 8000 Phase 2 Battlefield Airlift – Caribou Replacement	Government acceptance of the Defence recommended change from Battlefield Airlift to Light Tactical Fixed Wing in December 2020 resulted in an updated Material Acquisition Agreement (MAA) in June 2021. COVID-19 travel restrictions did not impact the project’s ability to deliver against the updated MAA, with Final Operational Capability being declared on schedule in June 2022.
11	LAND 19 Phase 7B Short Range Ground Based Air Defence	International and domestic travel restrictions, industry quarantine measures and delayed export approvals have resulted in an approved 6 month delay to Initial Operational Capability.
12	AIR 2025 Phase 6 Jindalee Operational Radar Network	The project is experiencing schedule delays due to work inefficiencies and international supply chain issues attributable to COVID-19. The contractor has submitted a claim for cost impacts and an excusable delay to the schedule of 20 days to Initial Operational Capability. The Commonwealth is assessing and developing a response to the contractor’s claim.
13	SEA 1654 Phase 3 Maritime Operational Support Capability	The schedule was delayed as a result of COVID-19 restrictions, due to the ships being built in Spain where the shipyard was closed for 12 weeks and then slowly ramped up over many months to full production combined with the need to bring the ships to Australia much earlier than planned to complete the outfitting as there were restrictions on who could travel to Spain. To date, cost and capability has not been impacted.

#	PROJECT	COVID-19 IMPACT SUMMARY
14	AIR 5431 Phase 3 Civil Military Air Management System	Airservices Australia (Airservices), as the lead agency for the OneSKY program, has agreed with the Civil-Military Air Traffic System (CMATS) prime contractor that four months of project delay is attributable to COVID-19. Defence has endorsed the four month COVID-19 delay. Airservices has also agreed with the prime contractor a claim for costs associated with COVID-19. Defence and Airservices are in discussions as to whether any of those costs should be passed to Defence under the terms of the On-Supply Agreement between Defence and Airservices.
15	LAND 200 Tranche 2 Battlefield Command System	The project has experienced no COVID-19 impacts to capability, cost and schedule.
16	JP 2072 Phase 2B Battlespace Communications System Phase 2B	COVID-19, in conjunction with the Brisbane floods, has resulted in a delay to Final Operational Capability from September 2022 to September 2023. Some activities are continuing to experience delays due to COVID-19, however at this stage Final Operational Capability is unlikely to be further affected.
17	SEA 1439 Phase 5B2 Collins Class Communications and Electronic Warfare Improvement Program	There have been nil impact to capability, and cost to date. However, COVID-19 travel restrictions through 2020 and 2021 have contributed to schedule impact for implementation and testing activities in HMA Ships <i>Waller</i> , <i>Farncomb Collins</i> and <i>Dechaineux</i> . Physical installation work for these platforms has been completed but consequential delays in completion of acceptance testing and documentation has delayed Materiel Release dates. Recovery of Materiel Release date achievement for these platforms is forecast to be completed by December 2022.
18	SEA 3036 Phase 1 Pacific Patrol Boat Replacement	The project currently does not have any schedule slippage due to COVID-19, as the realised one month delay of Pacific Island Nations crews travelling for training during the COVID-19 international and interstate border closures has now been recovered. In the next six months, schedule is likely to be impacted by global supply chain issues delaying delivery of major equipment and skilled resource shortages in production. These delays will likely overlap with now confirmed delays to vessels 16 and onward, attributable to design remediation work to address an exhaust silencer cracking issue identified through use of in service boats. The extent of delay attributable to the exhaust cracking issue, which is a confirmed latent defect, is yet to be defined and is pending completion of design solution testing.

#	PROJECT	COVID-19 IMPACT SUMMARY
19	SEA 1442 Phase 4 Maritime Communications Modernisation	<p>The project facilitated a number of international travel exemptions for the Prime Contractor's specialists to travel to WA to conduct crucial test and trials activities. Where possible, local WA suppliers were engaged to provide materials that were unable to be delivered from Victoria due to COVID-19 related lockdowns, border closures and other supply issues.</p> <p>COVID-19 delays have resulted in a schedule slippage of 6 – 12 months. The contract was amended to reprogram Milestones for the impact of COVID-19 on the project schedule. Additional costs have been incurred due to the price variations over time. The reprogramming of the Milestone dates provided time to complete the acceptance testing, remediation of defects and mission system acceptance on two platforms.</p>
20	SEA 1448 Phase 4B ANZAC Air Search Radar Replacement	<p>To date, there have been no COVID-19 impacts to cost, schedule and capability. However, the schedule is likely to be affected by COVID-19 due to travel requirements for training.</p>
21	JP 2008 Phase 5A Indian Ocean Region UHF SATCOM	<p>COVID-19 contributed to a four month delay to achieving Final Operational Capability. Final Operational Capability was declared on 31 March 2022.</p>

Recommendation No: 2

The Committee recommends that the Department of Defence revisit its effort to provide criteria for projects to enter and exit the Projects of Concern and Projects of Interest categories and create processes for their consistent application, enabling these to be reviewed as part of the next MPR, and that the ANAO gives further consideration to these issues in the next MPR.

Summary of Response: Agreed

Supporting Rationale:

Capability Acquisition and Sustainment Group (CASG) is contemporising its acquisition and sustainment performance reporting and monitoring to reflect the complexity and agility of modern Defence military equipment. This will drive improved oversight, and escalation if required, of projects and products based on performance.

Planned improvements include: regular reporting to senior Defence committees and Ministers to increase visibility of performance; enhanced monitoring of early milestones to promptly identify underperformance; and strengthening of Projects of Concern policy to better link the identification and escalation of underperformance with the additional governance benefits provided by the current regime.

The reporting of Projects/Products of Concern/Interest has been refreshed in line with refreshed internal performance reporting. Detailed reports on the status of the Projects/Products of Concern/Interest now include assessments by Capability Managers, Vice Chief of the Defence Force and Chief Finance Officer. This report is now also presented at the Defence Investment Committee to further increase oversight of performance issues.

As part of this improvement program, CASG will contemporise the Project of Interest/Concern entry and exit process, including formalising the existing Standard Operating Procedure into a policy by June 2023 with support processes. This policy will need to be agile enough to provide a framework that is useable across the wide variety of complex programs delivered by Defence.

Recommendation No: 3

The Committee recommends that the Department of Defence provide an update within the first two months of the 47th Parliament on the implementation of the new risk management system and advise which, if any, projects have not fully transitioned.

Summary of Response: Agreed

Supporting Rationale:

CASG Risk Reform Program was completed on 11 March 2022.

The program modernised the management and information record keeping of risk management within CASG by delivering a Risk Management System that:

- standardised application of the ISO31000:2018 risk management process;
- clearly defined the level and depth of risk planning for specific project applications;
- introduced a common risk language;
- standardised the format for risk planning;
- provided a selection of appropriate methods, techniques and approaches; and
- mandated an information management system (Predict!) for risk documenting.

Collectively this has enabled enhanced risk-based decision-making. Projects in the MPR are utilising the latest version of the risk management system (Predict! 6), with three exceptions due to where they are in their life cycle (SEA 1000 Phase 1 B Future Submarine Program; AIR 9000 Phase 2/4/6; and JP 2008 Phase 5A Indian Ocean Region UHF SATCOM).

Recommendation No: 4

The Committee recommends that the Department of Defence provide a clear definition of any term used in Project Data Summary Sheets or elsewhere in the Major Projects Report that is associated with a delta or deviation from a project milestone being achieved, to ensure that the use of such a term does not undermine the validity of the milestone having been achieved.

Summary of Response: Agreed

Supporting Rationale:

Defence, in consultation with the Department of Finance, has developed definitions for the term caveat and deficiency when used in relation to project milestones. These definitions, along with additional guidance on responsibilities for declaring the achievement of key milestones, are due to be published later in 2022 as part of the normal cycle for updating capability guidance.

Recommendation No: 5

The Committee recommends that the Department of Defence and the ANAO provide the Committee with a joint briefing on the outcome of the Smart Buyer review in the next Parliament so that the Committee can consider changes to MPR processes and scope if warranted.

Summary of Response: Defence Agrees.

Supporting Rationale:

Defence conducted a Smart Buyer Review in 2020 to explore options for contemporising the MPR to ensure it remains fit for purpose in delivering the information needs of stakeholders and aligned with the current and future complex operating environments.

Outcomes from the Smart Buyer Review were generally consistent with current and previous JCPAA recommendations. The Review recommended some incremental changes which Defence and ANAO have either completed (such as the inclusion of a Glossary) or continue to work through (such as automation of data collection). However, the Review also suggested that Defence should work with ANAO and the Committee over the next two years to explore the core issues of efficiency and effectiveness of the MPR, and consider leveraging overseas exemplars.

The safeguarding of capability information remains a priority, particularly in the current security environment. All external reporting, as individual or a group of reports, must take into account the risk to national security should information disclose an Australian Defence Force capability or identify a gap that could be used by foreign agents or adversaries.

Defence considers that security considerations, balanced with the need for transparency, should be a key driver for a review of the classification of the MPR. Defence continues to work with ANAO on this aspect.

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Matt Yannopoulos PSM
Acting Secretary of Defence
9 September 2022

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Angus Campbell, AO, DSC
General
Chief of the Defence Force
9 September 2022