

Defence Portfolio

COMMITTEE INQUIRY QUESTION

(Question No.5)

Ms Lucy Wicks MP asked the Department of Defence, upon notice, on 25 October 2021:

In response to the recommendations of a 2018-19 ANAO performance audit, Defence advised the ANAO that it has adjusted the processes around entry to and exit from the Projects of Concern and Projects of Interest lists and that it now 'has effective assurance mechanisms in place' underpinned by Independent Assurance Reviews.

1. Please update the Committee on the entry and exit processes for the Projects of Interest and Projects of Concern lists. How has Defence improved these processes?
2. What changes has the department made to its assurance mechanisms for Projects of Concern in response to the ANAO's recommendations?

Ms Lucy Wicks MP – The Department of Defence has provided the following answer to the Member's question:

Entry and exit processes have been formalised through policy, in line with Recommendation 1 of the ANAO's performance audit of Projects of Concern. This was provided in response to Question on Notice #292 from 2021-22 Budget Estimates.

Independent Assurance Reviews continue to routinely consider whether performance issues warrant heightened attention as either a Project/Product of Interest/Concern and will make a recommendation.

From 2022, major projects will report status of actions as recommended by the Independent Assurance Review Boards through internal systems for improved monitoring.

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COMMITTEE INQUIRY QUESTION

(Question No. 6)

Ms Lucy Wicks MP asked the Department of Defence, upon notice, on 25 October 2021:

Risk management has been a focus of MPRs since its inception. Defence's risk management processes have been the subject of JCPAA and ANAO recommendations in recent years.

1. Please update the committee on the progress of the Risk Reform Program begun in response to past MPR recommendations, especially progress made by Defence in 2019-20 in transitioning away from spreadsheet-based risk management.

Ms Lucy Wicks MP – The Department of Defence has provided the following answer to the Member's question:

During 2019-20, the design of the new Capability Acquisition and Sustainment Risk Management System was finalised. The rollout commenced in June 2020 with the release of the Group Policy Package, including the Directive, Risk Management Strategy, Framework and a series of handbooks. Predict! was mandated as the common risk management tool. Transition of projects and products to the latest version of Predict! commenced in October 2020.

As at 28 October 2021, 90 projects and 47 products have transitioned. Some projects and products that are soon to close will not be transitioned. However, the remaining projects and products will be transitioned by end of February 2022.

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COMMITTEE INQUIRY QUESTION

(Question No.7)

Ms Lucy Wicks MP asked the Department of Defence, upon notice, on 25 October 2021:

The 2019-20 MPR identified several issues with Defence's risk management practices, including variable compliance with corporate guidance, variable quality of risk management logs, frequency of risk and issue log reviews, and lack of quality control in using the Predict risk management software, among others (for reference see the MPR at pp. 31-32).

1. How has Defence addressed these findings?

Ms Lucy Wicks MP – The Department of Defence has provided the following answer to the Member's question:

On 22 June 2020 the CASG Risk Management Directive and Reform Strategy were released. Based on ISO31000:2018 the system is an array of standardised policy, tools and supporting resources, including:

- a. CASG Risk Management Strategy
- b. CASG Risk Management Framework
- c. CAS Risk Management Manual
- d. Project and Product Risk Management Practical Guide
- e. Standardised project, product and business risk matrices
- f. Risk Terminology Common Language
- g. Consistent risk management templates
- h. Training and ongoing support

The improved Risk Management for Acquisition and Sustainment is on track for full implementation by February 2022. Post implementation, a continuous improvement process will ensure the system evolves with business needs and risks. Please refer to Question No. 6 for the specific information on the implementation of Predict! as the standard risk management tool for acquisition and sustainment.

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COMMITTEE INQUIRY QUESTION

(Question No.8)

Ms Lucy Wicks MP asked the Department of Defence, upon notice, on 25 October 2021:

Following a June 2020 update to the Capability Lifecycle Manual, Defence no longer uses Project Directives as key project governance documents. Instead, Government approvals and decisions are recorded in the Capability Lifecycle Management Tool. However, the ANAO found that of the five new projects in this year's MPR, three - Future Subs, the Combat Reconnaissance Vehicles, and Battlefield Comms - did not have access to Government approvals through the Tool.

1. The ANAO has previously stressed the importance of Project Directives aligning with government decisions, and with Materiel Acquisition Agreements. What impact will the move away from Project Directives have on MPR projects?
2. Why do three of the five new projects not have access to Government approvals? What impact on these projects, if any, does this have?

Ms Lucy Wicks MP – The Department of Defence has provided the following answer to the Member's question:

The removal of the requirement for Project Directive occurred to strengthen the focus on the primary artefacts related to project approvals, being the Ministerial/Cabinet submission and associated approval. Therefore, it is not anticipated there will be an impact on MPR projects as a result of removing the requirement for Project Directives.

All Defence staff have access to their Government approval of the project, as appropriate. Therefore, no impact is expected.

Annual Agreement Reviews and Independent Assurance Reviews assure dates with Government approvals.

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COMMITTEE INQUIRY QUESTION

(Question No. 9)

Ms Lucy Wicks MP asked the Department of Defence, upon notice, on 25 October 2021:

The ANAO also found that some dates in the Combat Recon Vehicle's Materiel Acquisition Agreement do not align with Government approvals, that project risk is reduced if Defence has access to Government records (like that previously provided by Project Directives) and that ANAO validation of project requirements is impaired when it does not have access to Government approval documents.

1. How is Defence treating the increased risk of 'misalignment or error' arising from lack of access to Government records? How severe is this risk, in Defence's opinion?

Ms Lucy Wicks MP – The Department of Defence has provided the following answer to the Member's question:

The primary artefacts related to project approvals are the Ministerial/Cabinet submission and associated approval. All Defence staff have access to their Government approval information for the project, as appropriate. Therefore, there is no increased risk of misalignment or error.

Annual Agreement Reviews and Independent Assurance Reviews assure dates with Government approvals.

The identified issue by ANAO was unrelated to appropriate access to records.

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COMMITTEE INQUIRY QUESTION

(Question No.10)

Ms Lucy Wicks MP asked the Department of Defence, upon notice, on 25 October 2021:

Project maturity scores have been the subject of ANAO and JCPAA recommendations in past MPRs. Defence reviewed the scores and found 'intractable problems' with them, noting that they are not a reliable indicator and that they are difficult to apply to mega projects. Following the review process, Defence has said it no longer intends to use the scores. Project progress will instead be monitored via an ongoing review progress using the Project Performance Review Information Platform (PPRIP), supported by the Monthly Reporting Module (p. 97).

1. What advantages does the PPRIP and Monthly Reporting Module approach provide compared to the use of Project Maturity Scores?

Ms Lucy Wicks MP – The Department of Defence has provided the following answer to the Member's question:

Project Performance Review Information Platform (PPRIP) and the Monthly Reporting Module, in contrast to the lagging and less dynamic Project Maturity Scores, provides project performance and associated risks on a monthly basis for cost, schedule and scope and facilitate senior management risk based decision-making and, where necessary, enables appropriate and proportionate interventions to maintain approved project delivery requirements.

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COMMITTEE INQUIRY QUESTION

(Question No.11)

Senator Lucy Wicks asked the Department of Defence, upon notice, on 25 October 2021:

The MPR notes that Defence has a longstanding tendency toward ‘optimistic’ capability forecasts. The ANAO noted that ‘[O]ver time, the JCPAA has sought the use of a more robust measure of capability performance’ (p. 68).

- What progress, if any, has been made by the ANAO and Defence in reviewing and updating Defence's capability forecasting, towards a more robust and empirical capability reporting model?

Senator Lucy Wicks – The Department of Defence has provided the following answer to the Senator’s question:

Defence sets ambitious schedule targets to ensure it can provide the ADF with leading edge capability. The term ‘capability’ can be considered as the capability effect available to the warfighter and, in reporting terms, the project scope being delivered when combined with the required fundamental inputs to capability.

Defence and the ANAO are yet to update the way in which capability forecasting is being reported in the Major Projects Report.

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COMMITTEE INQUIRY QUESTION

(Question No.12)

Ms Lucy Wicks MP asked the Department of Defence, upon notice, on 25 October 2021:

Defence noted in the MPR report that "With the increasing complexity of the Integrated Investment Program, there is a higher probability of Projects of Concern or management 'as if a Project of Concern' for discrete elements of highly integrated and developmental activities." (p. 95).

- What impact, if any, does highly integrated developmental activity have on MPR reporting, especially in relation to whether integrated project investments will be captured adequately by existing MPR reporting standards?
- What is meant by managing discrete elements of a project 'as if a Project of Concern'? How will this be reflected in the MPR?

Ms Lucy Wicks MP – The Department of Defence has provided the following answer to the Member's question:

Defence projects are large and complex, often with many sub elements. The Major Projects Report remains an important mechanism for providing Government with detailed information on the progress of Defence needing to deliver capability with urgency. The intention of the statement was to reflect the shift from a period of predominantly off-the-shelf aircraft acquisitions to the more complex projects and programs requiring extensive and dynamic management.

Existing Major Projects Report reporting standards have demonstrated that they are adaptable. As projects move through the various capability lifecycle stages, the Product Data Summary Sheet can be adjusted to support reporting requirements. The annual review of the JCPAA's Major Project Report Guidelines provides a further opportunity to make adjustments to the reporting standards to better reflect the changing nature of Defence capability projects as they present.

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COMMITTEE INQUIRY QUESTION

(Question No.13)

Ms Lucy Wicks MP asked the Department of Defence, upon notice, on 25 October 2021:

The report notes at p. 17 that "During 2019-20, Combat Recon. Vehicles, Hawkei and UHF SATCOM had negotiated contractual remedies involving stop payments or liquidated damages. Prior settlements for projects within this report related to MRH90 Helicopters, Hawkei, Pacific Patrol Boat Repl, Maritime Comms, and UHF SATCOM"

- How much in total liquidated damages revenue was obtained in 2019-20 from MPR projects?
- How does this compare with revenue obtained from liquidated damages over the last five years?

Ms Lucy Wicks MP – The Department of Defence has provided the following answer to the Member's question:

Defence did not receive any liquidated damages revenue in 2019-20 from MPR projects. Recognition of the revenue occurred in 2020-21, with payments to be received in later years. For liquidated damages, recognition can often occur before the receipt of payment. Liquidated damages can also be negotiated in the compensators form of equipment or services such as engineering, if it achieves better value for money to the Commonwealth.

From 2015-16 to 2019-20, \$19.1 million was received in payments for MPR projects, \$18.8 million was received in 2017-18 for JP2008 Phase 5A – Indian Ocean Region UHF SATCOM, and \$0.3 million in 2016-17 for AIR 9000 Phase 2 – Multi-role Helicopter.

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COMMITTEE INQUIRY QUESTION

(Question No.14)

Ms Lucy Wicks MP asked the Department of Defence, upon notice, on 25 October 2021:

The 2017-18 MPR noted a declining trend of projects declaring major milestones with caveats, with only one project doing so in that year. However, four projects have declared major milestones with caveats or deficiencies in each of the two subsequent years. The 2019-20 MPR also notes that Defence has not defined the terms 'caveat' or 'deficiency' in its internal policies and procedures (p. 34).

- what prevents Defence from providing robust definitions of what constitutes a caveat or deficiency?
- to what extent does the practice of declaring milestones with caveats or deficiencies undermine the usefulness of those milestones as measurements of project progress?

Ms Lucy Wicks MP – The Department of Defence has provided the following answer to the Member's question:

Caveats or deficiencies are used where a milestone (Initial Operational Capability, Final Operational Capability, Initial Materiel Release, Final Materiel Release) has been achieved in principle, with outstanding actions to be rectified or mitigated.

Defence is delivering capability with urgency to meet the rapidly changing strategic environment, as detailed in the 2020 Force Structure Plan.

Declaring milestones with caveats is a useful method to assess the project's performance in terms of ability to meet capability requirements while transparently acknowledging there may be an element of scope or performance that is outstanding.

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COMMITTEE INQUIRY QUESTION

(Question No.15)

Ms Lucy Wicks MP asked the Department of Defence, upon notice, on 25 October 2021:

In 2018 the committee requested information on the costs of retaining project staff over time. Defence advised that it is unable 'to provide the staff cost component of projects and its systems are not capable of calculating the cost of retaining project staff over time' (see p. 10, p. 30)

- What proportion of project expenditure, if any, is not being reported on because of the inability of Defence's information systems to capture the staff cost component of projects?
- What changes to Defence information systems would be required to ensure that the costs of project staff can be included in future MPRs?

Ms Lucy Wicks MP – The Department of Defence has provided the following answer to the Member's question:

Defence's staffing costs are included in the Defence budget, separate to acquisition and sustainment provisions. Defence will continue to identify how best to measure the impact of delayed projects, in a standardised manner. For 2020-21, Defence in partnership with industry achieved a 15 per cent (\$2.1 billion) increase in acquisition and sustainment over 2019-20.