



## **Response to Questions on Notice**

### **JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT**

#### *Defence Sustainment Expenditure*

**Australian National Audit Office**

#### **GENERAL COMMENTS**

Nil

#### **SPECIFIC QUESTIONS ON NOTICE**

##### **Question 1**

*CHAIR: Mr Hehir, how are these sensitivities dealt with internationally by like nations? Of course, national security considerations are not unique to Australia. (p.4)*

**Answer:** The ANAO has briefly addressed overseas public reporting of sustainment expenditure in the performance audit *Materiel Sustainment Agreements* (ANAO Report No.30, 2014–15, pp. 117–120) and in the Sustainment Reporting Briefing Paper provided to the Committee in October 2015. Two points that emerge from these analyses are: (i) generally, there is less of a distinction made in other jurisdictions between sustainment and acquisition, with a greater focus on the platform lifecycle as a whole; and (ii) the practices adopted by individual jurisdictions are influenced by their circumstances. For example, as the above performance audit points out (p. 120):

the United States reports sustainment expenditure down to detailed line-items such as Ship Maintenance costs, as well as maintenance schedules for individual vessels. Australia has only a small number of platforms, and specific details on maintenance of any platform could potentially reveal details of capability.

The ANAO has not reviewed overseas practices since 2015.

##### **Question 2**

##### **Governance and Operational Framework**

*Can the ANAO advise of the risks Defence is exposed to regarding contracted service arrangements in Systems Program Offices? (pp. 28–29)*

**Answer:** ANAO Report No.2 2017–18, *Defence's Management of Materiel Sustainment*, found that Defence makes extensive use of external service providers and contractors to deliver acquisition and sustainment services. Defence's Capability Acquisition and Sustainment Group is implementing reforms that will potentially increase reliance on industry to deliver these services. Defence therefore requires a robust framework to manage the risks associated with the widespread use of outsourced and contracted services. (p. 27)

In the implementation of Defence's First Principles Review, Defence has developed its 'smart buyer' concept. In doing so, it has not clearly articulated the competencies required to specify outsourcing requirements. These competencies include: specifying requirements independent of suppliers, working out where best to obtain those requirements; and knowing how to assess what they have received on behalf of the Commonwealth. These are all fundamental skills in an

organisation seeking to engage more with industry and contract out sustainment work wherever that represents value for money. This is a risk in light of the systemic issue identified by Defence in its work towards reforming its Systems Program Offices. (p. 73-74)

### Question 3

#### Defence's Performance Framework for Materiel Sustainment

*The audit found 'CASG-related Product Cost per materiel-ready day' were both inadequate to determining the total cost of capability. Can the ANAO suggest or recommend a better way of determining these costs? (p. 33)*

**Answer:** During the course of the performance audit of Defence's management of sustainment, Defence advised the ANAO that both 'cost per materiel-ready day achieved' and 'CASG-related Product Cost per materiel ready day' do not include sustainment costs incurred by other parts of Defence. The ANAO has not developed an alternative methodology to calculate the total cost of capability.

### Question 4 & 5

#### Performance Reporting

*4) Can the ANAO comment on Defence's internal reporting systems, particularly in providing the assurance that it is managing sustainment well? (p. 33)*

**Answer:**

Defence's primary internal reporting mechanism for senior management regarding sustainment is its Quarterly Performance Report, which is informed in part by its IT system, Sustainment Performance Management System (SPMS).

With the introduction of the SPMS, Defence continues to develop a basis for an effective monitoring system for sustainment. Once fully implemented this system should be capable of systematically reporting against a suite of performance indicators settled in agreement with Capability Managers. (p. 31)

The audit found that management reporting is hindered by the time taken to compile the Quarterly Performance Report and the acronyms and language used. Moreover, in the case study highlighted in the audit—the Tiger helicopter—the relevant 2016 Quarterly Performance Report did not include information essential to a proper understanding of the program's status (further illustrated in Appendix 3 to the performance audit report). This led the ANAO to recommend that a quality assurance process be applied to the Quarterly Performance Report.

*5) Can the ANAO please advise why it is important to have time series data? Is Defence producing time series data? If not, should Defence produce time series data and why? (p.48)*

**Answer:** The [Australian Bureau of Statistics](#) defines a time series as a collection of observations of well-defined data items obtained through repeated measurements over time. It is a means of identifying trends over time, and an aid to analysis, transparency and accountability.

The ANAO acknowledges that publication of time series data at the project level would need to take into consideration national security concerns. Nevertheless, one area for improvement of the quality and transparency of Defence's publicly reported information regarding material

sustainment is the use of consistent time series data and analysis of sustainment expenditure. Defence has not published program level expenditure on a consistent basis over time, or time series analysis, to assist with external scrutiny of its sustainment expenditure.

## **Question 6**

### **Public Reporting of Sustainment Activity**

*Can the ANAO comment on whether there is a clear read across Corporate Plans, Portfolio Budget Statements and Annual Performance Statements, to clearly map performance results on sustainment and promote transparency and accountability? (pp. 46–50)*

**Answer:** Defence's corporate planning and annual performance statement cycle is not yet complete for 2016–17, the first year in which sustainment is separately identified in the Defence Corporate Plan. Defence advised the ANAO that it is expecting to report in its Annual Report for 2016–17 against the performance measure 'Military capability is sustained consistent with Government requirements'. It has not advised what form this will take.

The ANAO found that Defence's 2015–16 public reporting of sustainment activity was not: complete; consolidated in one easy to locate area; prepared in a manner which permitted the comparison of actual expenditure against estimates; or consistent in its presentation of clear reasons for full year variances. Further, performance summaries were highly variable and inconsistent between public planning documents. (p.45)

These issues potentially inhibit transparency and accountability. The challenges of obtaining a clear read are set out in more detail in the performance audit report (pp. 45–8 and Appendix 4).

## **Question 7**

### **Supporting the Implementation of Sustainment Reforms**

*Can the ANAO elaborate on the finding that Defence's adopted definition of the term 'smart buyer' did not clearly capture the intent of the First Principles Review recommendation? (pp. 72–74)*

**Answer:** The conventional meaning of 'smart buyer' relates to the skills required for effective outsourcing: primarily the capacity and technical knowledge to set out the purchaser's requirements independently of vendors, and to be able to recognise whether the vendor is meeting those requirements. The First Principles Review envisages greater outsourcing by Defence and recommends that it move to a smart buyer approach, citing the US Government Accountability Office in explaining the concept. This is consistent with past Australian usage of the term (as set out in more detail in Appendix 7 to the performance audit report). As explained in the performance audit report (paragraphs 5.51–5.52) having these capacities within Defence is also a need that Defence itself has identified both as part of its implementation of the First Principles Review and through other internal review activity.

Defence has developed its 'smart buyer' approach which comprises a risk analysis and tailored execution strategy, to be prepared at the earliest practicable stage of a project.