

## Defence Portfolio

# INQUIRY QUESTION

(Question No. 1)

Senator the Hon Linda Reynolds asked the Department of Defence the following question, upon notice, on 19 May 2023:

Senator REYNOLDS: Just on this particular line, while we have a capability life cycle—Defence have many diagrams for how things all fit into each other—maybe one of the things that we can look at as a parliament, Chair, is: what is the capability life cycle and what is a really sensible way for auditing? Also, for parliamentary committees, at what point do we need to dip in and inquire? For example, on the MPR, maybe we could have the defence committee also represented in briefings, and PWC as well. Being on PWC at the moment, it—

CHAIR: Public works committee, not PricewaterhouseCoopers!

Senator REYNOLDS: That's topical! How can we actually better help Defence as well with the cycle of public works committee hearings to help the delivery of the approvals that you need for capability assets? We'll explore that further.

CHAIR: We'll take that as a rhetorical and we can think about it. Going to the Auditor-General's point as well, just to move on—I'll give the call to Mr Violi in a second—I raised with you six months ago your giving thought to the broader issue of how you audit the national intelligence community, because traditionally you've not done a lot there because you can't publish a lot, yet it's an enormously important part of the public sector—\$3 billion or \$4 billion—and that's almost a gap otherwise. It's a broader issue, in that you're having a think about how else you can support us by auditing those parts of the public sector that shouldn't be talked about in the public domain. It may require some legislative change for those reasons.

Senator REYNOLDS: Just on that—as I say, I do appreciate some of the suggestions here, and we will go through some of those shortly, I think, with Mr Violi—what we're saying is that there is a conversation to be had here. Again, I'd ask Defence, in light of the discussion that we've just had, whether you could go away and think about that further, and come back with some more suggestions to the committee on how we could not only take a fresh approach with the report itself, but, if we did start having a look at a different cycle of reporting, some public and some not, we could then look at how we deal with that from this side, and how, Auditor-General, what you can and can't say publicly fits into what's perhaps reported to us and to Defence, and how we might report that publicly later.

CHAIR: Yes.

Senator REYNOLDS: Thank you.

The Department of Defence has provided the following answer to the Senator's question:

Defence acknowledges the Committee's intent to explore further how to better help Defence with the capability approvals process, including the Public Works Committee. Defence is holistically reviewing its capability acquisition process in light of the Government's response to the Defence Strategic Review to meet the need to move quickly and innovatively given the evolving needs of Australia's strategic environment.

Defence is working with ANAO on preparing the 2023-24 Major Projects Report Guidelines for the Committee's consideration. This will include reviewing the security considerations and proposed updates to the format and content of the report to ensure that it is contemporary and insightful. This will also consider how the MPR complements other public reporting to achieve transparency and accountability, while ensuring that reporting is efficient and timely. Consideration could also be given to the use of classified briefings for the Committee to facilitate a balance between public transparency and the need to keep certain information classified.

## Defence Portfolio

# INQUIRY QUESTION

(Question No. 2)

Senator the Hon Linda Reynolds asked the Department of Defence the following question, upon notice, on 19 May 2023:

CHAIR: Are the Projects of Concern and Projects of Interest lists—or system, as it is now reconceived—in public? Is it a public-facing list?

Mr Deeble: There are elements that are public—

CHAIR: So the fact that a project is on the list is a public fact?

Mr Deeble: Yes. We have been working closely with those companies, and clearly there is a lot of sensitivity around that. One of the advantages—especially with respect to Projects of Concern—is working closely with those who are industry-based to improve performance. Recommendation 2, which came from the 2019-20 MPR, specifically talked to the Projects of Concern. We look forward to working with ANAO, in particular, reviewing it in this MPR. That action, hopefully, will be closed based on the work we have done to date.

Senator REYNOLDS: I want to run down a couple of rabbit holes in this area before I move on to risk—

CHAIR: You're selling it well.

Senator REYNOLDS: just to get into the more granular detail of some of the issues that we've discussed. Can you confirm how many projects are of interest and of concern on the list now, and has that changed? Have any been added? How many are on the list, first, and how many have been added since the DSR's release?

Mr Deeble: As at 31 March, there were two projects on the Projects of Concern list, but there has since been another project that's been raised from Projects of Interest to Projects of Concern. The multi-role helicopter is a longstanding Project of Concern. The Civil-Military Air Traffic Management System, as we noted earlier, is back on the list now—having gone off the list in the 2018 time frame—because of its performance, as we are thinking about that. A SATCOM program at the ground station in the east, in Wagga, and the network management system underneath that, was raised on 31 March to a Project of Concern, which means that it's been raised from Projects of Interest. There are currently 13 projects of interest that we are tracking.

Senator REYNOLDS: Which ones are they?

Mr Deeble: The Jindalee Operational Radar Network; that performance is improving and we will be reviewing it.

Senator REYNOLDS: That was with BAE; is that correct?

Mr Deeble: It's a combination with BAE. I can get Dave Scheul to comment. It's BAE predominantly, but there are other subcontractors underneath it. There is the airborne early warning and control, a phase 5A interoperability compliance upgrade; the fixed defence air traffic control surveillance sensors; and new air combat capability.

Senator REYNOLDS: What aspect of that?

Mr Deeble: I think that, having run the Joint Strike Fighter program, it is its strategic significance. There have been a range of issues over the years, but it is a strategically significant program.

Senator REYNOLDS: How long has that been on the list of Projects of Interest?

Mr Deeble: I'd need to take that on notice and come back.

The Department of Defence has provided the following answer to the Honourable Senator's question:

There are three Projects of Concern:

1. Multi-Role Helicopters (MRH-90) (AIR 9000 Phases 2, 4 and 6).
2. Civil-Military Air Traffic Management System (CMATS) (AIR 5431 Phase 3).
3. Satellite Ground Station East and Wideband SATCOM Network Management System (JOINT 2008 Phase 5B2). This project was elevated in April 2023, and is the only change to the list since the release of the Defence Strategic Review.

There are 11 Projects of Interest now that Satellite Ground Station East and Wideband SATCOM Network Management System (Joint Project 2008 Phase 5B) has been elevated from a Project of Interest to a Project of Concern, and Larrakeyah Defence Precinct Redevelopment Program achieved its exit criteria and exited the list in May 2023. The 11 Projects of Interest are:

1. Jindalee Operational Radar Network (AIR 2025 Phase 6)
2. Airborne Early Warning and Control Interoperability Compliance Upgrade (AIR 5077 Phase 5A)
3. Fixed Defence Air Traffic Control Surveillance Sensors (AIR 5431 Phase 2)
4. New Air Combat Capability (AIR 6000 Phase 2A/B)
5. Battlefield Command System (LAND 200 Phase 2)
6. Future Frigate – Design and Construction Hunter-Class Frigate (SEA 5000 Phase 1)
7. USFPI Northern Territory Training Areas and Ranges Upgrades (EST 1990)
8. General John Baker Complex - Capability Assurance Project (EST J0024 Phase 0 Tranche 1)
9. Cyber Security Capability Program (ICT 2271)
10. Enterprise Resource Planning Program (ICT 2283)
11. One project's title is withheld from publication for reasons of national security.

The Jindalee Operational Radar Network project (Joint Project 2025 Phase 6) was first listed as a Project of Interest in September 2019.

## Defence Portfolio

# INQUIRY QUESTION

(Question No. 3)

Senator the Hon Linda Reynolds CSC asked the Department of Defence the following question, upon notice, on 19 May 2023:

Senator REYNOLDS: Thank you very much; that's very helpful. I will turn back to CMATS. There is a comment about the minister in the report. It says:

*In September 2021, the Minister for Defence made a written direction that CMATS return to the Projects of Concern list. Defence did not update internal reporting, such as the Acquisition and Sustainment Update and its Projects of Concern list, in response to the Minister's direction.*

You've gone through the circumstances that led to that. First of all, the question is: why didn't Defence update its internal reporting? Also, can you explain the role of the minister? If the minister puts something in writing, does that carry weight, in terms of adding, or not? Can you unpack that, because it's a bit puzzling on the face of it.

Air Vice-Marshal Scheul: The Minister for Defence, in September 2021, did indicate that the project was to be raised to a project of concern. As I said previously, in order to go through the processes and procedures to announce that as a project of concern, we were required to do extensive consultation across other government departments and with Airservices Australia. That was the reason for the delay at the time.

Senator REYNOLDS: On the face of it, that makes sense. But the minister has directed this and it's clear that it is going to go back up, but the delay is the department. Was that consultation going to change the decision that it would go on the list or was that more about the process once it's gone on the list?

CHAIR: ... There was a 13-month delay in making public that direction. Was it put on the Projects of Concern list when the minister directed it? I'm trying to understand: was the 13-month delay a delay in making it a project of concern or was it a delay in announcing the fact that it had been made a project of concern 13 months before? They are two quite materially different things.

Air Vice-Marshal Scheul: I think the department would consider that the delay was in the announcement.

Mr Ioannou: Chair, could I just comment?

CHAIR: Yes, Mr Ioannou.

Mr Ioannou: We reported on this in paragraph 1.23 of the MPR. I'll just read it out; it's the simplest thing to do: In September 2021, the Minister for Defence made a written direction that CMATS return to the Projects of Concern list. Defence did not update internal reporting, such as the Acquisition and Sustainment Update and its Projects of Concern list, in response to the Minister's direction.

Senator REYNOLDS: That's not even the public-facing list; that's the internal-facing list. That's the list itself.

CHAIR: That kind of contradicts what you just said.

Air Vice-Marshal Scheul: What I would say—

CHAIR: We're not trying to be difficult.

Air Vice-Marshal Scheul: I understand. I guess what I'm saying is that, when the department places those project of interest/project of concern indicators in its reporting system, that ultimately becomes publicly available in various forms, so we would not do that until the minister has had an opportunity to publicly announce the project being raised.

Senator REYNOLDS: But he did it. Perhaps we could ask for a time line for this, on notice; otherwise we could sit here and go round and round. Could you be very clear, on notice, then? Presumably, it was consultation with Airservices Australia and the Department of Infrastructure, Transport, Regional Development, Communications and the Arts in relation to that. Can you unpack that for us? It seems somewhat extraordinary. It's hardly going to surprise anybody who has had anything to do with Defence and projects, publicly as well, that CMATS has been a long-term project of lack of delivery.

CHAIR: I think taking it on notice is a good idea.

Senator REYNOLDS: Yes, so that we can see what these 12 months of discussions were.

CHAIR: ...If you want to provide, on notice for Senator Reynolds, the timeline—

Senator REYNOLDS: I think that would be helpful.

CHAIR: It may be that you are effectively saying that this is an aberration because it's a different agency. Airservices have not covered themselves in glory in their own audit report on this topic.

The Department of Defence has provided the following answer to the Honourable Senator's question:

- In September 2021, Defence was advised that the Minister for Defence had provided written advice that the Civil-Military Air Traffic Management System (CMATS) project (AIR5431 Phase 3) should be elevated to a Project of Concern.
- From October 2021, Defence undertook extensive consultation with Airservices Australia and the Department of Infrastructure, Transport, Regional Development and Communications regarding the imminent elevation of the project, noting Airservices Australia is the contract authority and lead agency for CMATS.
- In March 2022, Defence provided a Ministerial update on the removal of the Deployable Defence Air Traffic Management and Control System project (AIR5431 Phase 1) from the Project of Concern list and the elevation of the Civil-Military Air Traffic Management System (CMATS) project.
- In April 2022, the Government of the day entered the caretaker period before the upcoming election.
- In August 2022, Defence provided advice to the Minister for Defence Industry on the status of the Defence Projects of Concern list, including the removal of the Deployable Defence Air Traffic Management and Control System project and elevation of the Civil-Military Air Traffic Management System (CMATS) project.
- In October 2022, the current Minister for Defence Industry considered the performance of the Civil-Military Air Traffic Management System (CMATS) project and announced the project would be elevated to the Project of Concern list.

- Between September 2021 and October 2022, to assist in remediation planning activities, Defence with Airservices Australia increased the frequency of the Program's quarterly senior governance committees to monthly. These committees included both the Joint Executive Committee, between Defence and Airservices Australia, and the CMATS Executive Committee, which includes Defence, Airservices Australia and Thales Australia. The project continued to receive additional executive oversight and management in accordance with Defence's Projects of Concern and Interest processes, which includes additional Ministerial reporting.

## Defence Portfolio

# INQUIRY QUESTION

(Question No. 4)

Senator Karen Grogan asked the Department of Defence the following question, upon notice, on 19 May 2023:

Senator GROGAN: I want to touch on the COVID impact on projects. The 2020-21 report mentions that 16 projects out of 21 have been impacted. Have any of them been impacted in a significant, ongoing way?

Mr Deeble: The COVID impact is still with us, on supply chains. COVID has exacerbated a number of other factors, inflationary factors and otherwise, in regard to supply chains. The effect is still being felt in many projects. I am happy to provide you—I will take that offline—with an indication of those programs where the impact I would assess as being significant to you. I would prefer to take that offline rather than talk about a definitive list at this point.

Senator GROGAN: Certainly.

Mr Deeble: We continue to work with some companies because it does have commercial impact in terms of schedule or other things that we are continuing to work through.

Senator GROGAN: I'm happy to take this offline as well, but the longitudinal analysis that you have in there indicates that slippage has a variety of reasons but that it primarily reflects the underestimation of scope and complexity of work. I'm keen to understand, across that impact of delays and slippages in the projects, what you would quantify as being COVID related and what may be related to that challenge around scope and complexity of work. That would be really helpful.

The Department of Defence has provided the following answer to the Senator's question:

No 2020-21 Major Projects Report projects reported adjustments to scope or requirements due to the impact of the COVID-19 pandemic. COVID-19 impacts were related to project schedules.

Of the 2020-21 Major Projects Report projects, 16 of these reported an impact on their schedules as a result of COVID-19. The common COVID-19 schedule impacts resulted from supplier disruption (supplier production and/or shipping delays); workforce limitations relating to travel (specialists and crew were due to travel both interstate and from other countries to work with/on the projects or to deliver/undertake training) and social distancing restrictions; and/or contractor delays (scope, delivery and certification delays).

Four projects experienced unrecoverable schedule delay from six to 12 months, some with carry over effects the following year on either Initial Operational Capability or Final Operational Capability including:



**1. Maritime Communication Modernisation (SEA 1442 Phase 4)**

The COVID-19 impacts were related to travel restrictions impacting workforce and delivery of materials that impacted Initial Operational Capability and Final Operational Capability by 12 months respectively.

**2. ANZAC Air Search Radar Replacement (SEA 1448 Phase 4B)**

The COVID-19 impacts were related to travel restrictions and training impacts that impacted Initial Operational Capability by 13 months.

**3. Short Range Ground Based Air Defence (LAND 19 Phase 7B)**

The COVID-19 impacts were related to export approvals, travel restrictions and industry supply chain that delayed Initial Operational Capability by six months.

**4. Battlespace Communications System (JOINT Project 2072 Phase 2B)**

The COVID-19 impacts were related to travel restrictions, social distancing and supply chain issues that delayed Final Operating Capability by 12 months.

## Defence Portfolio

# INQUIRY QUESTION

(Additional Questions 1 – 11)

The Committee asked the Department of Defence the following additional questions, upon notice, on 30 May 2023:

1. Do you expect COVID-19 to continue to impact the projects across the MPR? Are these impacts likely to be new, or continuations of known impacts?
2. Can the Department provide more details on the specific reasons cited by the six projects that reported an underspend on their budget due to the COVID-19 pandemic?
3. What measures did the Department undertake to ensure the continuity and resilience of major projects during the COVID-19 pandemic, as highlighted in the ANAO's report?
4. Can the Department provide an overall assessment of the impact of the COVID-19 pandemic on the timelines and delivery schedules of major projects outlined in the ANAO report?
5. How did the Department address the challenges posed by the pandemic in terms of supply chain disruptions and availability of skilled personnel for major projects?
6. Can the Department provide an overview of any adjustments made to the scope or requirements of major projects due to the impact of the COVID-19 pandemic, and how were these changes managed?
7. How did the closure of shipyards and international travel restrictions affect the budget and scheduling of major projects?
8. How did the Department ensure that health and safety protocols were effectively implemented to protect workers involved in major projects during the COVID-19 pandemic?
9. How did the Department coordinate with relevant stakeholders, such as industry partners and contractors, to mitigate the impact of the COVID-19 pandemic on major projects?
10. Can the government outline any specific initiatives or contingency plans developed to address potential future disruptions or uncertainties arising from similar crisis situations, based on the experiences of the COVID-19 pandemic and the ANAO's report?
11. What lessons were learned from the Department's response to the COVID-19 pandemic in terms of managing major projects, and how will these lessons be applied to enhance resilience in future crises?

The Department of Defence has provided the following answer to the Committee's questions:

1. The impacts of COVID-19 to project delivery related supplier disruption (supplier production and/or shipping delays); workforce limitations relating to travel (specialists and crew were due to travel both interstate and from other countries to work with/on the projects or to deliver/undertake training) and social distancing restrictions; and/or contractor delays (scope, delivery and certification delays). There were only four projects that experienced unrecoverable schedule delay as outlined in Defence's response to Question No. 4 from Senator Grogan.
2. The six 2020-21 MPR projects that reported an underspend on their budget due to the COVID-19 pandemic related to delay to training and support, overseas suppliers, shipyard closures and international travel restrictions. One of these projects has highlighted an impact to the budget as an emerging issue.

- Offshore Patrol Vessel (SEA 1180 Phase 1)

The project reported an in-year underspend reflecting schedule delays as a result of COVID-19 in achieving contractual milestones and underspend on Project Office costs and government furnished equipment.

- Collins Class Communications and Electronic Warfare Program (SEA 1439 Phase 5B2)

The project reported an in-year underspend due to milestone delays as a result of COVID-19 travel restrictions and lower than forecast Foreign Military Sales and ASC Pty Ltd (major contractor) payments.

- Maritime Operational Support Capability (Replacement Replenishment Ships) (SEA 1654)

The project reported an in-year underspend, reflecting the transfer of additional works from Spain to Australia and contract change proposal delays for final deliveries. Production of the AOR Ships continued in Spain until the shipyard was shut down for 12 weeks from 14 March 2020 to 8 June 2020 in response to the COVID-19 pandemic and the nationwide lockdown. On return to work, productivity was reduced by the need to meet strict post-COVID work procedures limiting workforce numbers, additional cleaning and social distancing. The overall forecast delay to Ship 1 was six months.

- Combat Reconnaissance Vehicles (LAND 400 Phase 2)

The project reported an in-year underspend reflecting later than expected achievement of milestones due to technical difficulties and delays in the global Boxer program, some of which are a result of COVID-19 impacts on the supply chain and travel restrictions.

- Joint Strike Fighter (AIR 6000).

The project noted that the COVID-19 schedule impacts related to delays in supply chains and production efforts of the F35 prime contractors Lockheed Martin and Pratt & Whitney may have a potential cost impact. The 2021-22 MPR did not reflect the realisation of this potential cost impact.

- Battlespace Communications Systems (JOINT 2072 Phase 2B)

The project reported an in-year underspend due to COVID-19 impacts related to inability to travel, supply chain issues, and human resource inefficiencies due to lockdowns.

3. Defence industry remained strong and responsive during the pandemic, minimising impacts to projects. Ongoing genuine partnership and cooperation between Defence and industry occurred to safely continue to equip and sustain the ADF. Initiatives included:

- Increased rate of Defence and industry engagement, building on the Ministerial calls with industry leaders and industry groups.
- Defence establishing a COVID-19 Industry Support Cell (CISC) on 25 March 2020 to respond quickly to urgent issues affecting defence industry. As the pandemic evolved, CISC worked closely with a range of stakeholders, including defence companies and international airlines, to facilitate continued trade of Defence goods and services and remain connected to the Whole-of-Government COVID-19 response. The Impacted SME Support Cell (ISSC) was established in October 2021 to support SMEs impacted by the cancellation of the Attack Class Submarine Program.
- Defence accelerated the payment of supplier invoices and ensured prime contractors flowed this down to Australian small business. Between March 2020 and June 2021, more than \$31.7 billion was paid early to industry, providing a significant boost to the economy and our Defence industry partners. This resulted in suppliers receiving payments up to two weeks earlier; maintaining cash flow in the economy, and protecting jobs.
- Defence also instituted a recovery deed, which allowed defence industry to continue to safely meet contractual obligations while dealing with the uncertainty caused by disruptions to domestic and international travel, supply chains and local restrictions. The recovery deed was in effect from March 2020 to December 2020 and focused contractors on performance rather than having to consider whether they needed to invoke contractual mechanisms to seek relief.

4. Four MPR projects experienced unrecoverable schedule delay as outlined in Defence's response to Question No. 4 from Senator Grogan.

5. Defence remained connected to the Whole-of-Government COVID-19 response and worked with Prime Contractors, Federal and State Governments and airlines to facilitate continued movement of trade of defence goods and services and availability of skilled personnel (including from overseas) for major projects.

6. No 2020-21 MPR projects reported adjustments to scope or requirements due to the impact of the COVID-19 pandemic. COVID-19 impacts were related to project schedules.

7. The 2020-21 MPR projects that had COVID-19 schedule impacts related to manufacturing facilities such as the closure of shipyards or by international travel restrictions include:

- Offshore Patrol Vessel (SEA 1180 Phase 1)

The COVID-19 pandemic affected multiple aspects relating to construction and in particular, activities at Osborne Shipyard in South Australia from March to October 2020. COVID has continued to have an adverse and significant effect on production and ship

building operations supply chain disruptions, resource limitations and hard border closures between Western Australia and South Australia. A recovery Contract Change Proposal re-baselined the delivery dates of OPV 1 (Arafura) and OPV 2 (Eyre) by six months.

- Maritime Operational Support Capability (SEA 1654 Phase 3)

The Spanish ship yards were closed for 12 weeks and slowly ramped up over many months to full production. In addition to international travel restrictions ships were brought to Australia much earlier than planned to complete outfitting.

- Pacific Patrol Boat Replacement (SEA 3036 Phase 1)

The project does not have any ongoing schedule impacts due to COVID-19 related international travel restrictions. There was a one-month delay in Pacific Island Nations crews travelling for training to Australia during the COVID-19 international travel restrictions but this delay was recovered.

- Maritime Communications Modernisation (SEA 1442 Phase 4)

The COVID-19 impacts related to travel restrictions affected workforce availability and delivery of materials with a delay on Initial Operational Capability and Final Operational Capability by 12 months respectively. The project did facilitate a number of international travel exemptions for Prime Contractor's specialists to travel to WA to conduct crucial test and trial activities.

- Combat Reconnaissance Vehicles (LAND 400 Phase 2)

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 that was related in part to the supplier's Germany manufacturing restrictions and the transitioning of production related work to Australia earlier than planned to mitigate this impact.

- Short Range Ground Based Air Defence (LAND 19 Phase 7B)

International and domestic travel restrictions, industry quarantine measures and delayed export approval resulted in an agreed six-month delay to Initial Operating capability.

- New Air Combat Capability (AIR 6000 Phase 2A/2B)

COVID-19 international travel restrictions in calendar years 2020 and 2021 impacted some verification and validation activities; however, there was no significant impact to the overall schedule for achievement of Final Operational Capability.

8. As required by State mandates, Defence suppliers provided health and safety equipment, complied with vaccination requirements, implemented social distancing including shift work where possible, implemented work from home, and the industry workforce complied with quarantine requirements for interstate or international travel. Where compliance with pandemic requirements impacted the workplace, industry was able to engage with Defence to institute a recovery deed, which allowed defence industry to continue to safely meet contractual obligations while dealing with the uncertainty caused by disruptions to domestic and international travel, supply chains and local restrictions.

9. During the pandemic, Defence and industry maintained an ongoing genuine partnership to safely continue to equip and sustain the ADF. There was an increased rate of Defence and industry engagement, building on the Ministerial calls with industry leaders and industry groups. Defence also established a COVID-19 Industry Support Cell (CISC) on 25 March 2020. The goal of CISC was to assist and support defence industry through the COVID-19 pandemic by:
- providing a coordination mechanism across the Australian Government for proposals from defence industry to support response efforts to COVID-19;
  - proactively providing information to defence industry and industry bodies on Defence and Whole-of-Government response efforts and opportunities;
  - engaging with the States and Territories to allow for defence industry activity to continue across Australia; and
  - engaging with international partners to facilitate freight of defence equipment, as well as provide advice to project management offices and contractors where necessary on travel regulations and COVID restrictions.
- 10 and 11. Defence continues to review its industry policy and contractual mechanisms consistent with its and industry's pandemic experiences. Lessons learned during the pandemic – such as the early engagement of Defence Primes; Defence's accelerated payment of supplier invoices; the introduction of industry recovery deeds; and the facilitation of ongoing advice and guidance on safe business practices, including assistance in negotiating travel restrictions – demonstrated Defence's commitment to proactively responding to and managing future crises.

## Defence Portfolio

# INQUIRY QUESTION

(Additional Questions 12 - 22)

The Committee asked the Department of Defence the following additional questions, upon notice, on 30 May 2023:

12. How will the new policy for the management of Projects of Interest and Concern Policy improve consistency in Defence's processes? Are there more improvements to come for the Projects of Interest and Concern regime?
13. How has the Department addressed the recommendations made by the Auditor- General regarding the management of Projects of Concern?
14. What steps does the Department take to communicate that a particular project has been included in the Projects of Concern list, to stakeholders, governments, and defence personnel?
15. What is the level of oversight and scrutiny that is applied to Projects of Concern, including the involvement of senior managers and ministers of monitoring the issues?
16. Can the Department provide an update on the implementation status of the recommendations made by the Auditor-General in relation to the management of Projects of Concern, as reported in both reports?
17. Can the Department provide an update on the progress made in remediating the MRH90 Helicopters project, which has been listed as a continuing Project of Concern since November 2011?
18. What specific issues and technical challenges have contributed to the MRH90 Helicopters project being designated as a Project of Concern, and how have these issues impacted the achievement of milestones on schedule?
19. Can the Department provide details on the progress made in delivering the materiel capability/scope components of the MRH90 Helicopters project?
20. What are the implications of the government's decision to replace the MRH90 helicopter fleets with MH-60R Seahawk helicopters for project SEA 9100 Phase 1 Improved Embarked Logistics Support Helicopter Capability?
21. Can the Department provide an assessment of the timeline slippage and total months of delay experienced by the MRH90 Helicopters project since its placement on the Projects of Concern list in 2011?
22. Can the Department provide an update on the status of the CMATS project and what actions are being taken to mitigate further delays?

The Department of Defence has provided the following answer to the Committee's questions:

12. The purpose of the policy is to strengthen the arrangements for performance management and reporting. The policy introduces a consistent Defence approach for the management and coordination of performance monitoring and reporting for acquisition, sustainment and support activities. It provides specific guidance on the identification of, and response to, underperformance, through a tiered system of elevation, enabling timely advice to the relevant decision makers, and the prompt remediation planning for projects and products. There has been noticeable impact on the level and vigilance of senior management's attention to projects and sustainment products that are experiencing performance issues and challenges.
13. Auditor-General Report No. 31 Defence's Management of its Projects of Concern of 2018–19 was published on 26 March 2019 and made two recommendations, closing in November 2021 and May 2023 respectively. Defence is implementing the six reform measures, announced in October 2022 by the Deputy Prime Minister and the Minister for Defence Industry, to strengthen and revitalise the Projects of Concern regime, including the development and implementation of a new policy and approach applied across Defence. The policy includes the requirement for remediation plans and evaluating the achievement of those plans, and convening regular Ministerial summits to discuss remediation plans.
14. Defence takes steps to identify the communication requirements for each project listed as a Project of Concern. Depending on the commercial arrangements, stakeholder identification and engagement is adjusted to the particular delivery model for the project. As highlighted in the new policy, projects are elevated in consultation with delivery, capability and senior Commonwealth and industry partners. Occasionally, Government to Government engagement is also required. A media release follows a decision by the Minister for Defence Industry to list a project as a Project of Concern. The Projects of Concern are reported publicly in the Defence Annual Report.
15. The level of oversight and scrutiny that is applied to Projects of Concern, including the involvement of senior managers and ministers monitoring the issues, is intensive and tailored to the project delivery model and commercial arrangements. Usually, Defence and industry will monitor remediation through frequent senior level governance boards. External experts through the Capability Acquisition and Sustainment Group's Independent Assurance Review panel will apply knowledge to remediation planning. Through the Ministerial Summit process, remediation goals and exit criteria are endorsed by the Minister for Defence Industry. Monthly performance reporting to the Minister for Defence Industry focuses on achievement of remediation activities and progress toward exit criteria.
16. Both recommendations from ANAO's audit of Defence's Management of its Projects of Concern are closed following the Defence Chief Audit Executive approved closure of recommendation two on 2 May 2023. Recommendation one was closed in November 2021.
17. The outstanding technical issues associated with the MRH90 system were unable to be fully remediated. Consequently, the capability requirement will now be achieved through the replacement of the MRH90 fleet with 40 UH-60M Black Hawk helicopters under the MRH Rapid Replacement project (LAND 4507 Phase 1). This was formally announced by Defence on 18 January 2023.



18. It will remain a Project of Concern until project closure due to ongoing and unacceptable issues which have significantly constrained the MRH90 system's capacity. These issues include a high cost of ownership, poor supply chain performance, and inadequate fleet serviceability and availability. It is Defence's assessment that these support system issues will persist, and continue to constrain the response options available to Government.
19. The MRH90 will not deliver the full scope of capabilities within the special operations role, and is not providing sufficient availability to support Army's conventional land combat and amphibious capabilities. As a result, the MRH90 Final Operational Capability milestone will not be achieved. Following the announcement of MRH Rapid Replacement project, the MRH90 Project was directed to reduce or cancel the outstanding acquisition scope.
20. On 9 May 2022, the former Government announced the acquisition of an additional 12 MH-60R Seahawk helicopters to replace Navy's MRH90 fleet in the Maritime Support Role. Navy has since ceased MRH90 flying operations.
21. Following an Independent Assurance Review of the project conducted in April 2022, the project Senior Executive directed that the project was to remain a Project of Concern until project closure. Final Materiel Release milestone has been delayed more than eight years from the date originally planned, and Final Operational Capability will not be achieved.
22. In October 2022, the Minister for Defence Industry elevated CMATS to the Projects of Concern list, due to ongoing contractor underperformance and schedule delays. Defence is working closely with Airservices Australia and Thales Australia to address the issues that have resulted in the inability to meet milestones to date. Defence and Airservices have increased senior executive management, and Ministerial oversight of the project has increased through the Project of Concern Summit process. The Project of Concern remediation approach includes revising system development and deployment to achieve efficiencies; improving schedule and resource management; and improving governance framework and execution.

## Defence Portfolio

# INQUIRY QUESTION

(Additional Questions 23 - 26)

The Committee asked the Department of Defence the following additional questions, upon notice, on 30 May 2023:

23. Eleven projects in the 2021-22 report indicated they will deliver all key capability requirements without elevated risk. According to the Department, what factors have contributed to their successful management and delivery?
24. For the projects where capability delivery is under threat but is assessed as manageable, what measures is the Department taking to mitigate any risks?
25. The 2021-22 report highlights 10 projects experiencing challenges in capability/scope delivery including the Joint Strike Fighter, Hunter Class Frigate and Future Subs. What specific steps is the Department taking to address the challenges they are facing?
26. Are there any systematic issues/reoccurring challenges within Defence procurement and project management processes that have contributed to some projects facing difficulties in capability/scope delivery?

The Department of Defence has provided the following answer to the Committee's questions:

23. The projects' confidence to be able to deliver the full materiel scope demonstrates effective risk management, ensuring that progress towards capability delivery remains on track, even when managing significant technical, schedule or cost pressures.
24. Projects where capability delivery is at risk are considered for elevation under senior oversight, in line with the Delivery Group performance reporting and management policy. Through Independent Assurance Review processes all of these projects have been reviewed and considered for elevation. With the exception of the Pacific Patrol Boats and Future Submarine projects, some projects were formerly elevated, are currently elevated or under active consideration, with exit criteria and remediation plans either in place or under development.
25. For the 10 projects highlighted in the 2021-22 report, the following steps are or have being taken:
  - The **Future Submarine** program was cancelled as a consequence of the AUKUS decision on 16 September 2021.
  - The full capability scope of the **Multi Role Helicopter (MRH90)** project will not be realised, and Government directed any capability shortfalls be addressed through the MRH Rapid Replacement (LAND 4507 Phase 1) project. With the final deliverables and closure pathway agreed, it will remain a Project of Concern until closed.

- For **Hawkei**, a former Project of Interest, in October 2021, Government approved the reduction to project scope of two Hawkei vehicles to support an export opportunity. This represents a reduction of 0.2% of the number of vehicles to be delivered by the Project.
  - Significant program changes have been made to the **Battlefield Command System** project. The Commonwealth entered into a contract with Boeing Defence Australia for an activity to risk reduce the aerial component of Terrestrial Range Extension System.
  - For **Joint Strike Fighter**, a Project of Interest, Government agreed to deliver Maritime Strike capabilities in a timeframe closely following that of the United States Navy.
  - **Hunter Class Frigates**, a Project of Interest, is managing design risk through a zonal design program. The detailed design zone schedule remains on track. Schedule and cost remain high risk.
  - For **Pacific Patrol Boats**, six boats are facing delays due to the imperative to rectify defects and enhance safety. None of this is considered to be a serious threat to the realisation of full capability.
  - For **Offshore Patrol Vessel**, an Independent Assurance Review Board has made a number of recommendations regarding design issues and contractor performance that will inform the next steps, and remediation of issues.
  - For **Overlander Medium/Heavy**, Initial Operational Capability was achieved with caveats due to delays in achievement of air certification. Achieving air certification by Initial Operational Capability remains a medium risk after mitigation.
26. More complex developmental projects come with increased risk and increased levels of complex structural and technical integration required. Defence is holistically reviewing its capability acquisition process in light of the Government's response to the Defence Strategic Review to meet the need to move quickly and innovatively given the evolving needs of Australia's strategic environment.

## Defence Portfolio

# INQUIRY QUESTION

(Additional Questions 27 - 31)

The Committee asked the Department of Defence the following additional questions, upon notice, on 30 May 2023:

27. How is Defence addressing ANAO's findings relating to its risk management practices for major projects?
28. Has ANAO seen a change in how Defence approaches risk management since the 2019-20 MPR?
29. How is Defence addressing the lack of clarity in the relationship between contingencies and identified risks?
30. Please provide an update on Defence's implementation of a lessons learned framework for major projects.
31. Does Defence undertake any compliance on lessons learned activities?

The Department of Defence has provided the following answer to the Committee's questions:

27. Defence continues to mature and uplift its risk management practices, following the completion of the Capability Acquisition and Sustainment Group (CASG) Risk Reform Program, by focusing on improvements in policy as well as training and support for risk managers and practitioners. These include planned updates to the CASG Risk Management Policy and the associated Practical Guide, which applies to Major Projects Report (MPR) projects.
28. This question is best addressed to ANAO.
29. The CASG Risk Management Policy requires projects to align their risks with their contingency logs. ANAO assessed that three of the 21 projects in the 2021-22 MPR did not explicitly link their risk logs to their contingency logs. This is being addressed by these projects as part of their risk management processes, and Defence is assessing this for projects outside of the MPR as part of its project assurance activities.
30. CASG has implemented the CASG Lessons Program; a program supported by governance, policy and a framework that ensures observations, insights and lessons can be captured within Defence's Enterprise Lessons database, the Defence Lessons Repository. Systemic themes arising from CASG observations, insights and/or lessons are analysed and fed back where appropriate into policy, training or directly into similar projects as part of CASG's commitment to Defence's continuous improvement culture.
31. The CASG Independent Assurance Review (IAR) process facilitates the capture of best practice and lessons learned from across the organisation and transfer of knowledge. As a part of the IAR process, observations on good practice or where improvements could be made for projects are shared with the Independent Program and Portfolio Management Office, the CASG Board and the CASG Lessons Program.

## Defence Portfolio

# INQUIRY QUESTION

(Additional Questions 32 - 34)

Mr Julian Hill MP asked the Department of Defence the following additional questions, upon notice, on 30 May 2023:

32. Is it likely that this non-publication of key information will be repeated in the 2022-23 MPR? If so, does the ANAO have any recommendations about how to manage any increase in classified information being excluded from the MPR in the longer-term?
33. Is there a way to strike a balance between the need for transparency and the need to keep certain information classified? Do the current guidelines support this balance?
34. Defence has indicated that the Smart Buyer review recommended leveraging overseas exemplars. Are there any other MPR-like products in particular which the JCPAA should be considering during this inquiry?

The Department of Defence has provided the following answer to the Committee's questions:

32. Defence utilises security principles when assessing what information should not be published. These principles will guide Defence's approach to the 2022-23 Major Projects Report (MPR). Defence continues to work with ANAO on the impact of this on its analysis.
33. Defence provides full transparency to the ANAO of project information during its review and analysis. The current Joint Committee of Public Accounts and Audit MPR Guidelines require Defence to include detailed public information on projects via the format of the Project Data Summary Sheets. Defence is working with ANAO on preparing the 2023-24 Guidelines and will be reviewing the security aspects, and will make recommendations on proposed changes to the Guidelines as part of that process. Consideration could also be given to the use of classified briefings for the Committee to facilitate a balance between public transparency and the need to keep certain information classified.
34. The two principle MPR-like products are:
  - a. US Government Accountability Office (GAO) annual report to Congress titled Defense Acquisitions Annual Assessment: Drive to Deliver Capabilities Faster. The 2020 report covers 121 acquisition programs in circa 250 pages by limiting each project summary to 1-2 pages. The most recent report is the Weapons Systems Annual Assessment June 2022, which continues to include project information in 1-2 pages.
  - b. UK Government National Audit Office (NAO) undertakes audits into the UK Ministry of Defence programs. A recent report is The Equipment Plan 2021 to 2031, and is an examination of risks and issues associated with the Plan (in 52 pages).

These examples include less detailed and technical information on each specific project, compared to the MPR.