

**Submission to the JCPAA Inquiry into the 2016-17 Defence Major Projects Report**

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The Australian National Audit Office's Major Projects Report (MPR) is an extremely valuable tool for providing transparency into one of the Commonwealth government's largest capital investment programs. Because the MPR draws largely on the Department of Defence's own project reporting, it provides unparalleled insight into the 'coal face' of Defence's projects. This includes not only financial and schedule data, but project managers' unvarnished assessments of project risks. This data cannot be found anywhere else. We commend both the ANAO and Defence for their commitment to producing the MPR.

We would note several recommendations of the First Principles Review of Defence (FPR) that were accepted by the Government and are of relevance to the MPR and offer an opportunity to strengthen transparency over Defence expenditure.

First, the FPR called for a stronger internal contestability function. In our view internal contestability is further strengthened by well-informed external contestability, whether by government agencies such as ANAO or the Department of Finance or by independent bodies such as ASPI or academia. However, contestability is only possible where there is robust information. Unfortunately there is minimal or no public information on much of Defence's expenditure.

Secondly, the FPR called for a single end-to-end capability development function. This includes: eliminating multiple and unnecessary handover point; focusing on risk rather than process; and developing a single, integrated investment program. Defence has now developed a new, risk-based (rather than process-based) Capability Life Cycle that seeks to meet the FPRs intent. Also Defence now manages a single Integrated Investment Program (IIP). We would suggest that the MPR could be enhanced in order to take these developments into account.

We would make the following recommendations that strengthen Parliament's oversight, enhance internal and external contestability, and meet the intent of the FPR. We believe these recommendations are also consistent with the Committee's recent recommendations in its inquiry on Defence Sustainment Expenditure, which aim at providing greater transparency of Defence performance and expenditure.

**Recommendation 1.**

The criteria for project selection in the MPR Guidelines should be based on risk, regardless of whether a project has reached second pass. The two largest projects in the IIP—SEA 1000 and SEA 5000—have not reached second pass, nor is it clear when they will. Nevertheless SEA 1000 already has approved funding of \$2,228 million, which would put it in the top ten projects in the 2016-17 MPR, and SEA 5000 has \$393 million, which again would put it in the MPR. Moreover, the sheer size of these projects (at over \$50 billion and \$35 billion respectively), and their centrality to both the Government's Naval Shipbuilding Plan and the Australian Defence Force's future capability, warrant the scrutiny that the MPR provides.

*Recommendation 1: The criteria for project selection in the MPR guidelines should be based on risk and size of approved budget, rather than whether a project has achieved second pass.*

## **Recommendation 2.**

The MPR currently only reviews projects being run by Defence's Capability Acquisition and Sustainment Group (CASG). However these are only one part of the IIP. The MPR does not include infrastructure projects run by Defence's Estate and Infrastructure Group (E&IG) or information and communications technology projects run by Defence's Chief Information Office Group (CIOG).

While there is some data on infrastructure projects in the PBS, Defence produces no public reporting on its ICT projects. This lack of transparency is particularly troubling in light of the size and risk of ICT projects and Defence' patchy record in delivering them. The public IIP contains several ICT projects in the \$1-2 billion range such as Defence Simulation and Enterprise Resource Planning System, which would put them in the MPR if they were run by CASG.

Defence's corporate reporting systems are not yet consistent, so CIOG's project data is not developed and presented in the same way as CASG. This however should not be a reason to avoid subjecting CIOG projects to the same scrutiny

*Recommendation 2. The MPR should include the highest value and risk projects across Defence, regardless of the Defence group responsible for delivering them.*

## **Recommendation 3**

Currently Defence projects avoid any external scrutiny whatsoever if they fall beneath the scope of the MPR or the Top 30 projects in the PBS. Consequently the vast bulk of Defence projects are invisible. It is entirely possible for a project with a budget of hundreds of millions of dollars to be approved, enter contract, be delivered and be closed with no reporting on it ever reaching the public realm. Currently Defence does not even provide a complete accounting of which projects have been approved. There is no data on approved budget and schedule, or how Defence is tracking against them. This also means that there is no public awareness if there are significant delays or budget overruns requiring a real cost increase.

We recognise that there would be a significant overhead for both the ANAO and Defence to expand the MPR to cover all Defence projects regardless of value. However we believe that it would be possible for the ANAO in cooperation with Defence to produce an annual MPR 'lite' that would include all projects to a certain value (e.g. \$100 million). This report would include only core data on those projects, such as approved and expended budget, forecast cash flow, planned schedule milestones and achievement against them, and a high level project description. Defence already develops this information so it would be a relatively straightforward exercise to collate and publish it. Exception could of course be made for highly classified projects.

This data could be used to elevate projects to the MPR if they warranted further scrutiny, for example if they were at risk of exceeding their budget or were substantially behind schedule.

*Recommendation 3. The ANAO in cooperation with Defence should produce an annual MPR 'lite' for all Defence projects with an approved budget of over \$100 million that provided core data on budget, schedule and scope.*

We would be very happy to discuss these recommendations further with the Committee.