

Multi-Role Helicopter Program

Audit Report No.52 2013–14

Opening Statement by Auditor-General

JCPAA Review 24 October 2014

1. Chair, members of the Committee, ANAO Report No.52 2013–14, *Multi-Role Helicopter Program*, examined the Department of Defence's (Defence's) progress in delivering 47 multi-role helicopters to the ADF through AIR 9000 Phases 2, 4 and 6, at a budgeted cost of some \$4.013 billion. A single helicopter type was selected to meet multiple defence capability requirements, including Army Airmobile Operations, battlefield support and support to Special Operations, and Navy's requirement for Maritime Support Helicopters. These helicopters are to be a central element of the planned expansion of the ADF's amphibious deployment and sustainment capability.
2. In 2004 and 2006, the then Australian Government selected an Australian variant of the NATO Helicopter Industries NH90 (known as the MRH90) to meet the ADF's multi-role helicopter requirements. Australian Aerospace, a Eurocopter subsidiary, is the Prime Contractor for the MRH90 Program, for both the acquisition and sustainment of the ADF's MRH90 fleet. The MRH90 aircraft are assembled by Australian Aerospace in Brisbane from complete assemblies supplied by Eurocopter.
3. By March 2014, over \$2.4 billion had been spent acquiring and sustaining the MRH90 aircraft, with 27 delivered. However, the MRH90 Program was running some four years behind schedule, and the first Operational Capability milestones for both the

Army and the Navy were yet to be achieved. Considerable work remained to implement and verify some design changes, and to adjust operational tactics, techniques and procedures, in order to develop an adequate multi role helicopter capability for Army and Navy operations.

4. The difficulties experienced by the MRH90 Program are primarily a consequence of program development deficiencies and acquisition decisions during the period 2002 to 2006. That period included requirements definition, the source selection process and the establishment of acquisition and sustainment contracts. The history of the MRH90 Program shows that when these crucial stages of program development are not appropriately performed, then there are likely to be serious and potentially long term consequences for capability delivery and Commonwealth expenditure.
5. The decision by the then Australian Government in 2004 to approve the acquisition of the MRH90 aircraft, instead of the initial Defence recommendation that the S-70M Black Hawk aircraft be acquired for Phases 2 and 4, has had significant implications as a consequence of: unforeseen immaturity in the MRH90 system design and the support system; the continuing need to modify some design elements to meet multi-role capability requirements; and the high cost of sustaining the aircraft. While it was a government decision to acquire the MRH90 aircraft and not the option initially proposed by Defence, the department did conclude that the MRH90 aircraft was a valid option.
6. The key audit findings included:
 - The MRH90 Program's capability requirements definition was inadequate, did not properly inform the source selection process, and led to gaps in contract

requirements. Defence also did not effectively assess the maturity of the MRH90 and the Sikorsky S-70M Black Hawk aircraft designs examined by the source selection process. Further, the acquisition and sustainment contracts established by Defence did not contain adequate protections for the Commonwealth.

- Successive Defence reviews have highlighted that risk can be decreased through Military Off-the-Shelf (MOTS) solutions. The MRH90 Program risk mitigation strategy was based on the acquisition of a MOTS solution. However, this strategy was not applied at the time the then Government pursued an accelerated AIR 9000 Phase 2 acquisition decision. The two options under consideration remained in the development phase of the production lifecycle, and were not yet MOTS aircraft. This led to the MOTS strategy being written out of the AIR 9000 Phases 2, 4 and 6 specifications, but with no compensating or more appropriate risk mitigation strategies.
- The MRH90 aircraft design has proven to be more developmental than expected during the source selection in 2004 and 2006. A large number of aircraft design issues have impacted the achievement of capability milestones, including the self defence gun mount, the cargo hook release mechanism and the fast rope rappelling device. At the time of the audit, the MRH90 self defence gun system, cabin seating and cargo hook were being redesigned to overcome significant operational deficiencies. Further, low MRH90 aircraft reliability, maintainability and flying rate of effort have impacted aircrew training and the achievement of capability milestones. A capability gap has developed for Navy, as the RAN Sea King helicopters were retired in December 2011.

- Defence has applied a range of strategies directed toward addressing aircraft deficiencies and achieving better contractual outcomes for the acquisition and sustainment of the aircraft. These strategies commenced in 2007 after Australian Aerospace delivered the initial aircraft, and were ongoing in 2014. They have included the Defence Materiel Organisation (DMO) suspending acceptance of aircraft, the listing of the MRH90 Program as a Project of Concern, and negotiation of revisions to the acquisition and sustainment contracts. Ongoing management attention across the areas of Defence with acquisition, sustainment and capability management responsibilities remains necessary for the MRH90 Program to provide an acceptable and affordable MRH90 aircraft capability for Army and Navy operations in a reasonable timeframe.
- Assuming that MRH90 aircraft support (sustainment) costs may increase by three per cent per year due to price inflation, then the potential contracted services cost of sustaining the 47 MRH90 helicopters, in their current configuration, until their Planned Withdrawal Date of 2040, may be in the order of \$8.730 billion (in out turned price terms). On that basis, the total contracted cost of acquiring and sustaining the 47 MRH90 aircraft until 2040 will be some \$11.7 billion.
- Defence advised its Minister when negotiating the acquisition contract in May 2006 that an overarching Australian Industry Commitment target of 37 per cent translated to a \$1.1 billion investment in Australian industry for the combined Phases 2, 4 and 6. The approved MRH90 acquisition and sustainment contracts for Phases 2, 4 and 6 contained an Australian industry activity program, which was developed around themes and objectives. However, Defence had not

measured or assessed the value of the Australian industry activities actually delivered. At the time of the audit, Defence and Australian Aerospace were negotiating a new Local Industry Plan, which was to include activity milestones and performance measures.

7. The audit concludes that there is a need for Defence to better manage the inherent risks in complex acquisition programs. Effective project management requires a deep understanding of the project status and environmental factors that have the potential to influence outcomes. For the acquisition of the MRH90 aircraft, Defence was on the back foot from the start in its ability to confidently offer advice to government, as it did not have a sound understanding of the MRH90 Program's function and performance requirements or its estimated costs. Consequently, Defence has been endeavouring to deliver the required ADF capability, with mixed results.
8. The ANAO did not make recommendations in this report as Defence already has relevant management processes suitable for defining capability requirements, formulating cost-effective major capital equipment acquisition strategies, and delivering program outputs. The key issue for Defence is to consistently apply these processes to the required standard.

* * *