

## Major Projects Report

### Introduction

- 5.1 One of the major frustrations the Committee experienced during this inquiry was an absence of clear, consistent and precise information on which to make an assessment about the status and history of troubled acquisition projects.
- 5.2 A lack of transparency around Defence acquisition projects is not a recent phenomenon. In its 2003 inquiry into materiel acquisition and management in Defence, the Senate Foreign Affairs, Defence and Trade References Committee reported:
- While the Committee acknowledges that there have been noticeable improvements in the ways in which progress on major projects is being reported to government, there is still relatively poor visibility of projects as far as the parliament and the public are concerned.<sup>1</sup>
- 5.3 That Committee recommended that the Senate request the Auditor-General to produce an annual report on progress in major defence

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<sup>1</sup> Senate Foreign Affairs, Defence and Trade References Committee, *Material acquisition and management in Defence* (2003), p xv.

projects, detailing cost, time and technical performance data for each project.<sup>2</sup>

- 5.4 On 6 December 2006, this Committee unanimously agreed to recommend that the ANAO receive additional funding to produce such a report, published its recommendation and wrote to the relevant Ministers accordingly.
- 5.5 Drawing on the experience of other international organisations, in particular the National Audit Office of the United Kingdom, a model of the Defence Major Projects Report proposed by the ANAO in consultation with the DMO is set out below. This chapter also outlines a number of issues raised during the inquiry that are pertinent to the implementation of such a report.

## International models of reporting

- 5.6 Both the United Kingdom National Audit Office (UK NAO) and the United States Government Accountability Office (US GAO) have instituted assessment programs which seek to improve the level of transparency around Defence spending on procurement. In the UK, this program is the *Ministry of Defence Major Projects Report* and in the US, the program is titled *Defense Acquisitions Assessments of Selected Major Weapon Programs*.

## The US GAO Defense Acquisitions Assessments of Selected Weapon Programs

- 5.7 In its sixth and most recent report, the US GAO *Defense Acquisitions Assessments of Selected Major Weapon Programs* outlined its reasons for conducting the report as follows:

Since 2000, the Department of Defense (DOD) has roughly doubled its planned investment in new systems from \$790 billion to \$1.6 trillion in 2007, but acquisition outcomes in terms of cost and schedule have not improved...DOD's acquisition outcomes appear increasingly suboptimal, a condition that needs to be corrected...

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2 Senate Foreign Affairs, Defence and Trade References Committee, *Material acquisition and management in Defence* (2003), p 79.

This report provides congressional and DOD decision makers with an independent, knowledge-based assessment of defense programs, identifying potential risks when a program's projected attainment of knowledge diverges from best practices.<sup>3</sup>

- 5.8 In the report, the US GAO evaluates performance and risk data from a number of programs (72 weapon systems were assessed in the 2008 report). The programs chosen for inclusion are selected as a result of several factors including high dollar value, acquisition stage, and congressional interest. The report is updated annually under the authority of the Comptroller General to conduct evaluations at his own initiative.<sup>4</sup>
- 5.9 Each individual assessment is provided to the responsible DOD program office and its comments are included in the final report. Additionally, the entire report is sent to the Office of the Secretary of Defense for comment. These comments are also included in the final report.<sup>5</sup>

## The UK NAO Ministry of Defence Major Projects Report

- 5.10 The Ministry of Defence (MOD) has reported annually to the UK Parliament on its progress in procuring major pieces of Defence equipment since 1984.
- 5.11 At present, projects qualify for inclusion if their forecast of future expenditure is among the twenty highest, for those that have achieved approval at the main investment decision and the ten highest for those projects still in the Assessment Phase. They are replaced as they progress through the procurement process and their estimated forecast costs reduce below the level of the top projects although their total costs may nonetheless be very high.
- 5.12 It is worth noting that the Major Projects Report is not a statutory account and the UK NAO does not offer a formal audit opinion on the accuracy of the data contained within it.

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3 United States Government Accountability Office, *Highlights of GAO-08-467SP, a report to congressional committees*, March 2008, viewed 6 August 2008, <<http://www.gao.gov/new.items/d08467sp.pdf>>

4 United States Government Accountability Office, *Highlights of GAO-08-467SP, a report to congressional committees*, March 2008, viewed 6 August 2008, <<http://www.gao.gov/new.items/d08467sp.pdf>>

5 Mr Paul Francis, United States Government Accountability Office, e-mail, 6 February 2008.

- 5.13 The MOD compiles Project Summary Sheets according to agreed guidelines and the figures are calculated on a different basis to the Department's Resource Account. The summary sheets are made available to industry prime contractors for comment and amendment where appropriate. The UK NAO confirms that the Project Summary Sheets conform to the guidance and are accurately and consistently applied.
- 5.14 For the last 20 years the annual Major Projects Report has highlighted the variable performance of the Ministry of Defence's highest value defence equipment procurement projects, many of which have suffered cost overruns and delays.
- 5.15 This performance has been a matter of concern for both the Department and UK Parliament, and the Department has introduced a large number of reforms designed to improve project performance. Additionally, the National Audit Office has established a Defence Value for Money Team.
- 5.16 At the hearing on 20 June 2007, Mr Tim Banfield of the UK NAO informed the Committee that the NAO and the MOD had been working together to develop the report with a view to introducing some incremental changes from 2009 onward to provide a more complete account of the MOD's acquisition performance.<sup>6</sup>
- 5.17 These developments in the report were designed to reflect not only the changes to the MOD's acquisition philosophy that have taken place since the 1980s and 1990s but also to incorporate a greater appreciation of the context in which acquisitions now occur including but not limited to: the Defence Industrial Strategy; the increasing complexity of projects and long timescales between generations; and the importance of through life support costs.
- 5.18 The proposed changes to the Major Projects Report have now been submitted to the UK Public Accounts Committee and the principles for future work are foreshadowed as follows:
- Clear accountability to Parliament on the Department's acquisition performance on Major Projects through the validation of the Department's Project Summary Sheets along with an independent assessment of the summary sheet data provides an accurate, compliant, consistent audit trail and this should continue.

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6 See transcript, 20 June 2007, p 12.

- Traditionally the Major Projects Report has examined the top 20 by value of the Department's post-Main Gate equipment procurement projects. It is proposed that this continues, but with three principal changes. Firstly, that the scope of the project population is widened to examine the full delivery of equipment into service i.e. delivery of Full Operating Capability. Secondly, that the examination is broadened to include not only the procurement of major equipment projects but also their associated long-term support arrangements and enhancements to capability. Thirdly, providing an overview of overall acquisition delivery to place performance of the Major Projects within the context of the overall portfolio of projects being managed by the Department.
- The future Major Projects Report would ultimately seek to ensure that the Public Accounts Committee is presented with a broader picture of equipment capability acquisition within the Department than currently achieved without decreasing the level and fidelity of the information currently presented to it. This needs however, to be proportionate, and against tight constraints on administration costs, the Department would be reluctant to invest effort in new forms of data collection which did not support the Department's business processes, and would expect the Committee to take the same view.
- The Department also needs to ensure that the changes to the [Major Projects Report] keep in step with the Defence Industrial Strategy and the associated Defence Acquisition Change Programme, while maintaining full transparency for Parliament.<sup>7</sup>

## Department of Defence, Major Projects Report

5.19 As referred to above, on 6 December 2006, the Committee announced that it had unanimously agreed to recommend that the ANAO receive additional funding to produce an annual report, based on data supplied by the Department of Defence and the DMO on progress of the top thirty capital equipment projects in Defence.

5.20 In correspondence dated 23 January 2007, the Committee was informed that the then Prime Minister, the Hon John Howard MP, and the then Minister for Finance and Administration,

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<sup>7</sup> United Kingdom National Audit Office, correspondence, 19 March 2008, pp 2-3.

Senator the Hon Nick Minchin, supported the proposal. The Prime Minister requested the Department of Defence and the ANAO to bring forward a fully-costed and agreed model for consideration by ministers in the 2008-09 Budget.

- 5.21 In a written opening statement provided to the Committee at the hearing on 13 June 2007, the Auditor-General articulated the likely benefits of such a report:

Implementation of the Committee's recommendation in relation to the Top 30 projects will...provide evidence of Defence project management performance, and allow Defence to demonstrate the return on its very significant investment in improved management approaches, project management methodologies, systems and people.<sup>8</sup>

- 5.22 At that same hearing, the Committee was also provided with an update on the plans for monitoring the Defence's top projects. Representatives from the ANAO outlined the form the report would take and how the report could improve transparency around major Defence acquisition projects.

- 5.23 It is anticipated that the model adopted by the ANAO will be based on that of the UK Defence Major Projects Report. The DMO would prepare the base material on the status of each project and the ANAO would conduct an overview of that. Each summary sheet is expected to contain information on the following:

- **Project Description** which provides an overview of the project in the form of narratives covering the project's basic description, background, unique features, major risks and issues and current status.
- **Capital Investment and Prime Contractor Payments** which focuses on the project's budget approval history, its funds expenditure performance, contract price and equipment quantities to be delivered as well as progress payment history;
- **Technical Progress and Capability Delivery** covers the project's technical progress in terms of the scheduled and actual completion of the equipment design reviews, test and evaluations, and progress toward Initial and Full Operational Capability;

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8 Mr Ian McPhee, Opening statement tabled at the hearing on 13 June 2007, p 2.

- **Risks, Issues and Linked Projects** lists the project's major risks and steps taken by DMO to prevent the risks from occurring. It also covers the risks that have actually occurred and so have evolved into actual issues that need management by DMO. Some projects depend on the success of other projects and this section addresses those projects in terms of what is the nature of the links (the dependency) and if the linked projects are at risk in terms of capability and schedule delivery; and
  - **Lessons Learnt** asks for any lessons learnt by the project that may be of benefit to other projects.<sup>9</sup>
- 5.24 Committee members experienced some difficulty in eliciting information about actions that had been taken and decisions that had been made at various points in ARH Project Air 87 and the FFG Upgrade Project. The intention of the Committee in gathering this information was not to apportion blame but rather to further elucidate where difficulties had arisen and how knowledge about those difficulties might contribute to future learning. The Committee understands and appreciates that the Major Projects Report will include details of responsible project staff such as the project director, branch head and other points of contact.
- 5.25 The Committee also understands that the date of project approvals (including both first and second pass) will be made available in the Major Projects Report. This would enable ready identification of projects where first and second pass approval has occurred concurrently.
- 5.26 On 13 June 2007, the Committee was informed by the Auditor-General, Mr McPhee that the ANAO was working with the DMO to develop a cabinet submission for consideration in the 2008-09 Budget.
- 5.27 The Committee is pleased to note that the Government has agreed to provide \$1.5 million annually to the Audit Office, from 2009-10 onwards, to conduct the Defence Major Projects Report with initial funding of \$750,000 in 2008-09.
- 5.28 The Committee stresses that maintaining adequate resources to this project is critical to ensure accountability and transparency of Defence procurement.

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9 JCPAA Secretariat correspondence with the ANAO, 26 May 2008.

## Improving transparency

- 5.29 The Committee is very pleased at the prospect of having access to clear and consistent information on the progress of Defence acquisitions as anticipated by the Major Projects Report. It was apparent during the hearing that the lack of transparency around Defence projects reported by the Senate Foreign Affairs, Defence and Trade References Committee in March 2003 has improved little.
- 5.30 This Committee took evidence about a number of issues that impacted significantly on Defence's capacity to be transparent. These included the frequent use of ambiguous language and/or ill-defined terms, the need for a more holistic approach to reporting including a greater appreciation of the context in which these acquisitions are occurring, as well as the need to monitor projects over the whole of their acquisition life.
- 5.31 The Committee also reflected on the significance of the relationship between the ANAO, Defence and in particular the DMO with regard to the implementation of the Major Projects Report.

## Minimising ambiguity

- 5.32 As discussed in Chapter 4, concern about the use of ambiguous and inconsistent language was a common theme during this inquiry. While particularly notable in the case of ARH Project Air 87 with regard to the meaning of 'military-off-the-shelf', this type of ambiguity did feature over the inquiry as a whole. The use of a number of terms that clouded rather than clarified issues, raised concerns from witnesses both within and external to Defence.
- 5.33 For example, the term 'legacy project' was one that was frequently heard during the inquiry. At the hearing on 15 August 2007, Mr Malcolm Kinnaird equated the term 'legacy' with pre-Kinnaird projects<sup>10</sup> and in recent media reports it was claimed that 'legacy' was a term used by the DMO to describe projects with poor contracts or political baggage.<sup>11</sup> While it is clear that 'legacy' is a term attached to problematic projects, the Committee is concerned that this term may continue to be used *ad infinitum* to describe problematic projects. The

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10 Mr Malcolm Kinnaird, transcript, 15 August 2007, p 4.

11 Ian McPhedran, *Defence deals on Rudd's hit list*, Herald Sun, 3 January 2008, p 2.



term lends an air of legitimacy to problems which might otherwise be deemed unacceptable.

- 5.34 A desire for clarity in language was not restricted to those outside Defence. For example, Dr Stephen Gumley also made the following point in relation to maintaining consistency in the language around 'pricing':

You talked earlier about nomenclature and jargon. For example, just in how you price a project you can have real prices, historical prices and outturn prices. If you look at something like the air warfare destroyer they can be billions of dollars apart depending on which definition you use. So it does lead to a lot of confusion in comparing two numbers. But that is a whole-of-government issue; you have to use different price definitions for different purposes.<sup>12</sup>

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Quite often people say, 'You said it was going to be A, it looks like it is going to be B and now you are telling the me it is C.' In fact all three answers are correct. That is the definitional issue that you have.<sup>13</sup>

- 5.35 Similarly, 'cost blow out' is a well-known phrase. However, there appeared to be some disagreement about what that term actually depicts, possibly because of a lack of consensus around the meaning of terms such as 'cost', 'price' and the like. Mr Lewincamp, a representative of Defence, highlights this problem in his response to major Defence projects being characterised by major cost blow-outs:

I disagree with your characterisation about the scale of the problem that we face. In your opening comments about cost blow-outs and all the rest of it, a lot of that is a misrepresentation by the media. If you look at the analysis that has been done on schedule and on costs, you will see that a significant proportion of cost increases are related to price and exchange and a small percentage is due to real cost increases. Part of it is also due to changes in scope, where, if you change what you want to buy, clearly you have to pay a little bit more. The percentage of cost increases due to a cost blow-out is very small.<sup>14</sup>

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12 Dr Stephen Gumley, transcript, 15 August 2007, p 8.

13 Dr Stephen Gumley, transcript, 15 August 2007, p 8.

14 Mr Frank Lewincamp, transcript, 29 March 2007, p 6.

- 5.36 Since 1982, Defence procurements in the United States have been subject to what is known as the *Nunn-McCurdy Amendment*. This amendment, designed to limit cost growth in major weapons programs, called for the termination of programs whose total costs exceeded original estimates by more than 25 per cent. Only systems certified as critical by the Secretary of Defense or cost growths attributable to specified program changes were exempt.<sup>15</sup>
- 5.37 The Committee is of the view that consideration should be given to developing a threshold as part of the definition of 'cost blow-out' in this country. This would serve to alert those with parliamentary oversight of Defence procurement to when a cost blow-out is a flag for concern rather than an explicable and justifiable relative increase in costs. This would also assist Defence to demonstrate when problems in Defence procurements have come about as a result of poor scheduling rather than cost issues.<sup>16</sup>
- 5.38 The Committee welcomes the evidence from Mr Meert of the ANAO at the hearing on 13 June 2007 that a glossary of terms is to be included in the Major Projects Report:

We also provided [the DMO] with an a normative glossary of terms because understanding things like even payments, we just have to be very clear that we and the committee know what these terms mean because if we then go and audit them the key for us is we do not want to generate any evidence, we just say within your own procurement guidelines, we will just get the paperwork to substantiate the data in here.<sup>17</sup>

## A holistic approach

- 5.39 Increasing transparency around major Defence acquisitions raised the need for additional information to enhance reporting. One issue centred on fostering a holistic approach to reporting. This would incorporate, for example, an acknowledgement of the distinction between the delivery of equipment and the delivery of

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15 Center for Defense Information, viewed 25 March 2008, <<http://www.cdi.org/missile-defense/nunn-mccurdy.cfm>>

16 The Hon Greg Combet MP, *Speech by the Parliamentary Secretary for Defence Procurement on the 'DMO Business Plan Review'*, 20 June 2008.

17 Mr John Meert, transcript, 13 June 2007, p 11.

capability. This distinction is important and one that was also raised in the *Defence Procurement Review 2003*:

A central element of [Defence's definition of capability] is the need to consider capability as a connected whole and not as a collection of discrete parts...the acquisition of equipment is only one step in the process...<sup>18</sup>

- 5.40 Mr Tim Banfield of the National Audit Office of the United Kingdom also emphasised this distinction when he stated:

Actually having a piece of equipment delivered from industry does not mean that you can use it. So there is something about how you get to an operational capability level. I can give you an example of that which we looked at a couple of years ago – that is, our Apache attack helicopters. [They] were a very complicated procurement that was very successful. But they did not have trained pilots so they sat in sheds for two years until the pilots were trained. From the traditional MPR perspective that was success; but clearly in practice it was not.<sup>19</sup>

- 5.41 Mr Banfield makes the point that when capability is being purchased incrementally it is important to measure each increment and what has been delivered against those increments. The Committee was informed that the UK NAO was aiming to develop a system of monitoring that would provide:

...a better understanding...of not just how you deliver equipment capability but how you deliver capability in the round at the end of that.<sup>20</sup>

- 5.42 This evidence is reminiscent of the situation with ARH Project Air 87. As outlined previously, the primary contributor to the 24-month delay in schedule is related to training rather than the building of the aircraft. The Committee believes future monitoring of major Defence acquisition projects should clearly delineate between the delivery of capability as a whole and short-term contract performance (i.e., equipment received).

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18 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p 22.

19 Mr Tim Banfield, transcript, 20 June 2007, p 3.

20 Mr Tim Banfield, transcript, 20 June 2007, p 3.

## Whole of life

- 5.43 On a related point, the importance of monitoring projects over the whole of their life was another issue raised during the inquiry. The Committee believes this is particularly important in circumstances where difficulties with projects tend to appear toward the latter end of their acquisition life. As Mr Colin Cronin from the ANAO states:

Projects generally, for the first half of their lives, seem to track well. It is in the second phase of life that all the problems seem to come out. The slippages tend to be towards the end.<sup>21</sup>

- 5.44 The Committee is aware that it is anticipated that projects included in the Major Projects Report, based on the current UK model, may include projects chosen on the basis of forward expenditure. However, the Committee is concerned that should such a model be adopted, projects may disappear and re-appear making tracking of these projects difficult. This difficulty was also highlighted by the Auditor-General in the following evidence:

One of the problems with that model is that in the UK their approach is taking an expenditure going forward and one of the problems with that is of course that some of the big projects drop out. As they come to the end of their development there is little expenditure and they drop out. Is that what the committee or the government really want?<sup>22</sup>

- 5.45 The Committee is keen to ensure that once projects are included in the Major Projects Report these projects are monitored in their entirety. To that end, the Committee notes the changes foreshadowed by the UK NAO to their Major Projects Report to widen the scope of the project population, take account of long-term support arrangements, and provide more information about the context in which acquisitions take place. The Committee also notes the following views of Mr Meert of the ANAO:

We are proposing more of a whole-of-life look at the projects. So when a project is on the top 30 it will stay in there. From the time a Defence service says to DMO, 'I want you to get me a platform that does x, y and z,' we will track it from there till the Navy accepts it.<sup>23</sup>

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21 Mr Colin Cronin, transcript, 17 August 2006, p 7.

22 Mr Ian McPhee, transcript, 13 June 2007, p 4.

23 Mr John Meert, transcript, 13 June 2007, p 11.

## Context

- 5.46 It is apparent to the Committee that there is an increasing need for reporting on Defence acquisition to explicitly acknowledge the context in which these procurements are occurring. For example, as outlined previously (see Chapter 4) industry is an important player in the delivery of equipment and capability. All reporting and in particular that related to monitoring of the Major Projects Report should acknowledge the impact the capacity of industry has had on the progress of projects.
- 5.47 Representatives of the Department of Defence also made a call for the inclusion of more context into audit reports. As Mr Frank Lewincamp of the Department of Defence stated:
- In the audit reports, we would like to see a better contextual setting for the audit – an understanding of the strategic environment and the need for the capability – rather than just the far more detailed reporting. That is a work in progress. Over the next couple of years, I hope you will see more of that contextual setting in the reports.<sup>24</sup>
- 5.48 The committee is pleased to note that the proposed Major Projects Report will indeed incorporate information on the project context within the *Project Description* section.

## Relationship between the ANAO and the DMO

- 5.49 The quality of the relationship between the ANAO and the DMO was an issue of significance to the Committee particularly in light of the proposed Major Projects Report. It is clear that for this report to be conducted effectively, a healthy working relationship must exist between the ANAO and the DMO.
- 5.50 The Committee notes that the relationship between the ANAO and Defence with regard to financial statements audits is a generally positive one (see Chapter 2). However, the Committee also notes that with regard to performance audits the relationship appears to be somewhat more complicated.

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24 Mr Frank Lewincamp, transcript, 29 March 2007, p 15.

5.51 Dr Gumley stated that while he believed the relationship with the Audit Office on financial audits was excellent, he was less positive about the performance audits:

...On the performance audits...it is my view that they could be done a lot more efficiently and effectively, and a greater level of transparency could be given to the government and to the public if we went about them a different way.<sup>25</sup>

5.52 The Committee was pleased to note the more recent comments of Dr Gumley, in response to questioning about the state of negotiations between the ANAO and the DMO on the guidelines for the Major Projects Report as follows:

There is a little bit of detail still to work out, but it is not in any way confrontational; it is very much cooperative. The Auditor will be the auditor and will determine what he wants to find, but we are doing our best to work with the needs and wants expressed by the Auditor.<sup>26</sup>

5.53 The Committee was interested to hear evidence from Mr Tim Banfield of the UK NAO on the quality of the relationship between that office and the UK Ministry of Defence. According to Mr Banfield, the quality of the relationship between the two organisations has “improved hugely”<sup>27</sup> over the 20 years since the inception of the major projects report. Mr Banfield attributes that improvement as follows:

I think that part of the reason is that we have grown some trust between one another. The major projects report is an MOD report to parliament, so it is for them to produce and us to validate. How we do that has really changed a lot. My team will be sat with the MOD in their offices for about nine weeks while we do the validation.<sup>28</sup>

5.54 Mr Banfield makes further comment on the positive impact the improved relationship between the agencies can have on efficiency:

[My team] will be sat with the central team in the ministry that is responsible for coordinating the report. That means

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25 Dr Stephen Gumley, transcript, 9 May 2007, p 22.

26 Dr Stephen Gumley, Senate Standing Committee on Foreign Affairs, Defence and Trade, Estimates, transcript, 20 February 2008, p 72.

27 Mr Tim Banfield, transcript, 20 June 2007, p 5.

28 Mr Tim Banfield, transcript, 20 June 2007, p 5.

that when you have difficulties coming through in validation, when there are difficulties trying to get numbers, we can resolve those quickly and we can do it together. So the relationship now is very, very close. One of the examples of the effect that has had is that it used to take us 14 or 15 months from the date the report was meant to be covering before we published. We have now got that down to seven, and we have done that because we work closely. All of the analysis we do we do with them; we will sit down around a table and look at what the numbers say. It is our report; we are independent. But they have a perspective and they usually have some pretty good views on things. They have realised that they cannot pull the wool over our eyes, so there is some respect both ways round. But that has taken a while to get to.<sup>29</sup>

- 5.55 The Committee also heard evidence from Dr Gumley that the relationship between the MOD and the UK NAO had benefited a great deal as a result of reaching pre-agreement on the facts related to projects:

...the audit office and defence pre-agree all facts before anything was committed to writing, either draft reports or otherwise. You might get different interpretations, but facts are facts and they were all pre-agreed before things were committed to...that stopped about 80 per cent of the relationship problems between [the UK NAO] and the British MOD.<sup>30</sup>

- 5.56 The Committee is satisfied that the relationship between the ANAO and the DMO with regard to performance audits and development of the Major Projects Report is a functional one. However, the Committee will monitor the progress of that relationship in the context of reviewing the Major Projects Report.

## Current status of the Major Projects Report

- 5.57 The Committee understands that a model for the Major Projects Report is currently being trialled on several acquisition projects. Ms Jane Wolfe, General Manager, Corporate at Defence, provided an update on the pilot before the Senate Committee on Foreign

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29 Mr Tim Banfield, transcript, 20 June 2007, p 5.

30 Dr Stephen Gumley, transcript, 15 August 2007, p 4.

Affairs, Defence and Trade Estimates hearing on 4 June 2008 as follows:

The first report will cover nine projects. The report for the first full year, which is next financial year, will cover at this stage an agreed 15 projects. That will include the nine that will be part of that first report to government.<sup>31</sup>

- 5.58 The Committee also notes that while the initial plans for the project identified that thirty projects would be included in this report (hence the original title of the *Top 30 Projects Report*), the evidence from Ms Wolfe indicates that this figure is in the process of being revised:

We started a discussion with the Audit Office about whether ultimately there will be 30 projects or whether that is too ambitious, given the feedback from the UK Audit Office, which was that, if you look at 20 to 25 two or three years down and you have built that first couple of years off the back of the nine and then the 15, you can start to do some deeper analysis of some of the issues that are starting to emerge. If you have a bigger number of projects, you have to do that analysis at a slightly shallower level.<sup>32</sup>

- 5.59 The DMO and the ANAO are currently in discussion about the utility of conducting a deeper analysis across a smaller number of projects.<sup>33</sup>

#### Committee comment

- 5.60 The Committee keenly awaits the pilot report which is anticipated to reach Parliament in November 2008. At that time, and in accordance with its statutory obligations, the Committee will review that report so that it may contribute to discussion on the direction of the Major Projects Report in subsequent years. Of particular interest to the Committee is determining the number of acquisition projects to be included in the Major Projects Report. It is the view of the Committee that reducing the number of projects to be included in the report could undermine the capacity for

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31 Ms Jane Wolfe, Senate Standing Committee on Defence Foreign Affairs and Trade, Estimates, transcript, 4 June 2008, p 96.

32 Ms Jane Wolfe, Senate Standing Committee on Defence Foreign Affairs and Trade, Estimates, transcript, 4 June 2008, p 96.

33 Ms Jane Wolfe, Senate Standing Committee on Defence Foreign Affairs and Trade, Estimates, transcript, 4 June 2008, p 96.



Parliamentary scrutiny and therefore would warrant extensive justification.

## Conclusions

- 5.61 The appropriate model for the Major Projects Report may take some time to fully mature. The Committee is delighted that plans are moving apace to develop a strong foundation for this report so that difficulties with major Defence acquisition projects will be identified early in their development.
- 5.62 The Committee understands that it may also take some time for the relationship between the ANAO and the DMO to develop into the kind of positive relationship that now exists between the NAO and the Ministry of Defence in the United Kingdom. However, the Committee is hopeful that improvements in this relationship will not only enhance the visibility of Defence major acquisition projects but will lead to greater efficiencies such as reducing the time taken to produce the report.
- 5.63 The Department of Defence and in particular the DMO have been subject to intense scrutiny over recent years. The Committee hopes that increasing transparency around Defence major acquisition projects, through the Major Projects Report, may lessen the likelihood of inquiries being referred to Parliamentary Committees.
- 5.64 The Committee also believes that demarcation between the activities of various parliamentary committees and reporting arrangements may aid overall transparency. It may therefore be beneficial if committees discuss their interests in the Defence portfolio in a bid to avoid overlap and duplication. For example, the JCPAA could assume a formal role in reviewing the Major Projects Report. The Senate could continue its Estimates role and other major inquiries could be conducted as appropriate by the Joint Standing Committee on Foreign Affairs Defence and Trade and the Senate Foreign Affairs, Defence and Trade References Committee.
- 5.65 The implementation of the Major Projects Report does not eclipse the Auditor-General's right to audit any project he so chooses and the Committee is firmly of the view that while individual full performance audits on all the projects contained in the Major

Projects Report will not be possible or desirable, performance audits of any project the Auditor-General deems appropriate should continue to be undertaken without hesitation. In particular, the Committee would encourage performance audits which examine acceptance into service and full operational capability.

- 5.66 A question that has exercised the Committee is the extent to which the Major Projects Report will indeed improve performance. To that end, the Committee notes the experience of Mr Tim Banfield of the UK NAO as follows:

One of the other important aspects that I would emphasise is that the major projects report is just part of the way that parliament scrutinises the Ministry of Defence. It gives it a really good overview of trends over time and a snapshot of what is happening now. We also produce reports looking at individual projects in much more detail and at some of the systemic issues. We recognise that, for the 24 years now that we have had major projects reports, there has been no appreciable change in performance despite lots of sensible initiatives.<sup>34</sup>

- 5.67 Mr Banfield further explained:

If you take the trends that the major projects report shows year on year then you get fluctuations – you get a few bad years and a few good years – but overall there is no appreciable improvement in cost performance or time performance. That actually is a really unfair measure because from all of the other work that we do our Ministry of Defence is getting better. The challenge of those projects is increasing as well so it is an example of why the major projects report, as it is now, is not a particularly fair way of gauging performance with some of those things.<sup>35</sup>

- 5.68 The Committee is acutely aware that while the Major Projects Report constitutes a significant and timely step toward improving transparency around major acquisition projects within Defence and the DMO, it is not, in and of itself, a panacea for reducing schedule slippages, cost overruns and the like. For example, it is only through an intensive and sustained effort in professionalising

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34 Mr Tim Banfield, transcript, 20 June 2007, p 2.

35 Mr Tim Banfield, transcript, 20 June 2007, p 4.

DMO personnel that project management practices will be characterised by rigour and discipline.

- 5.69 However, the Committee is optimistic that the Major Projects Report will put the ANAO and the Parliament in a much stronger position. Project management practices can be reviewed while major projects are still in train rather than looking retrospectively via an audit and/or parliamentary review some time after failures have occurred.
- 5.70 The Committee also believes that the continuous monitoring provided by the Major Projects Report will assist in promoting cultural and attitudinal change in the management of Defence projects.