



Australian Government
Department of Defence
Defence Materiel Organisation

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CEO DMO/OUT/2012/78

Mr Rob Oakeshott MP
Chair
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Mr Oakeshott,

**PRESENTATION OF FINANCIAL DATA FOR THE DEFENCE MATERIEL
ORGANISATION MAJOR PROJECTS REPORT**

1. At the private briefing to the Joint Committee of Public Accounts and Audit on Wednesday 8 February 2012, the Auditor-General and I undertook to provide you with an agreed position on the financial disclosures section of the Major Projects Report (MPR).
2. The Auditor-General and I have reviewed the proposed formats as presented in our separate papers to the Committee and, having also noted the guidance of the Committee provided on 8 February 2012, are pleased to advise that we have arrived at an agreed format for the financial performance presentation. This format does not differ greatly from that previously presented to the Committee, but establishes the construct of 'out-turned' budgets and recognises the availability of the financial data from the current DMO financial management systems.
3. The agreed format is contained at Attachments A and B. Attachment A covers those projects who received Government Approval prior to July 2010 (when projects were approved in constant dollars). Attachment B addresses the post June 2010 approved projects (when projects were approved in out-turned dollars). I recommend these templates to the Committee and suggest that they be implemented for the 2011-12 MPR (i.e. as at 30 June 2012). I understand that the Auditor-General will also be recommending these templates to the Committee.
4. I therefore respectfully request the Committee's consideration and approval of the templates at Attachment A and B.
5. On a related issue, the Auditor-General and I have agreed that the DMO should provide an assurance statement for each project as to whether there is sufficient budget remaining to deliver the materiel element of capability at the agreed Final Materiel Release (FMR) milestone. In this regard, we have provided a 'Project Assurance Statement' which is intended to provide an overall assessment of the project's budgetary position, obviating the need for the reader of the

PDSS to make their own assessment of a project's budgetary performance (as applies with present arrangements).

6. It is suggested that the 'Project Assurance Statement' will be disclosed within the construct of the MPR Project Data Summary Sheet (PDSS) under Section 1.2 'Current Status – Project Cost'. The agreed format, and 'Project Assurance Statement' contained therein, is provided at Attachment C for the Committees consideration and, if appropriate, approval.

7. I look forward to discussing this proposal with you at the 21 March 2012 Public Hearing.

Yours sincerely,

Warren King
CEO DMO

14 March 2012

Attachment:

- A. Agreed Financial Performance Presentation for pre July 2010 projects.
- B. Agreed Financial Performance Presentation for post June 2010 projects.
- C. Agreed 'Project Assurance Statement' for PDSS Section 1.2 – Project Cost.

DMO-ANAO AGREED FINANCIAL PERFORMANCE PRESENTATION FOR PRE JULY 2010 PROJECTS

Section 2 – Financial Performance

2.1 Project Budget (out-turned) and Expenditure History

Date	Description	\$m	Notes
Project Budget			
Nov 03	Original Approved	3.1	1
Aug 04	Real Variation – Budgetary Adjustments	(0.1)	2
Sep 04	Real Variation – Scope	4.8	3
Nov 05	Real Variation – Scope	29.6	4
Jun 07	Government Second Pass Approval	2,920.8	
Oct 08	Real Variation – Transfer	9.4	5
		2,967.6	
Jun 12	Price Indexation	428.4	6
Jun 12	Exchange Variation	(264.9)	
Jun 12	Total Budget	3,131.1	
Project Expenditure			
Prior to Jul 11	Contract Expenditure - BAE Systems	(952.1)	7
	Other Contract Payments / Internal Expenses	(59.2)	
		(1,011.3)	
FY to Jun 12	Contract Expenditure - BAE Systems	(344.3)	7
	Other Contract Payments / Internal Expenses	(10.3)	
		(354.6)	
Jun 12	Total Expenditure	(1,365.9)	
Jun 12	Remaining Budget	1,765.2	
Notes			
1	This project's original budget amount is that prior to achieving Second Pass Government approval.		
2	Administration savings harvest.		
3	To fund a risk reduction activity for the Project to obtain design data and develop designs to meet Australian essential requirements.		
4	First Pass approval.		
5	Transfer of funding for technical studies from DSTO.		
6	Up to July 2010, indexation was applied to project budgets on a periodic basis, with the objective of maintaining the real purchasing power of the original budget value approved by Government. The cumulative impact of this approach was \$350m. Post July 2010, all DMO projects have been managed in 'out-turned' dollars which takes into consideration the future value of the dollar. The impact on the project budget as a result of out-turning was a further \$78.4m having been applied to the project until the forecast delivery in accordance with the dates agreed in the Materiel Acquisition Agreement and noted in Section 3.3 of the PDSS.		
7	Other payments and expenses comprises: Operating Expenditure, Offer Definition, Consultants, Foreign Military Sales, Contractor Support and Minor Capital expenditure not attributable to the Prime contract.		

2.2 In-year Budget Expenditure Variance

Estimate \$m	Actual \$m	Variance \$m	Variance Factor	Explanation
			FMS	
			Overseas Industry	
		0.6	Local Industry	
			Brought Forward	
			Cost Savings	
			FOREX Variation	
			Commonwealth Delays	
354.0	354.6	0.6	Total Variance	

2.3 Details of Project Major Contracts

Contractor	Signature Date	Price at		Type (Price Basis)	Form of Contract	Notes
		Signature	30 Jun 11			
BAE Systems	Oct 07	2,268.1	2,287.7	Firm	ASDEFCON	1
Notes						
1	Contract Price at Revision 35					
Contractor	Quantities at at		Scope	Notes		
	Signature	30 Jun 11				
BAE Systems	2	2	LHD ships and integrated support systems			
Major equipment received and quantities to 30 Jun 11						
Detailed Design Review achieved. Construction of main hull sections underway.						

DMO-ANAO AGREED FINANCIAL PERFORMANCE PRESENTATION FOR POST JUNE 2010 PROJECTS

Section 2 – Financial Performance

2.1 Project Budget (out-turned) and Expenditure History

Date	Description	\$m	Notes
	Project Budget		
Nov 03	Original Approved	3.1	1
Aug 04	Real Variation – Budgetary Adjustments	(0.1)	2
Sep 04	Real Variation – Scope	4.8	3
Nov 05	Real Variation – Scope	29.6	4
Jun 07	Government Second Pass Approval	3,349.2	5
Oct 08	Real Variation – Transfer	9.4	6
		3,396.0	
Jun 12	Exchange Variation	(264.9)	
Jun 12	Total Budget	3,131.1	
	Project Expenditure		
Prior to Jul 11	Contract Expenditure - BAE Systems	(952.1)	7
	Other Contract Payments / Internal Expenses	(59.2)	
		(1,011.3)	
FY to Jun 12	Contract Expenditure - BAE Systems	(344.3)	7
	Other Contract Payments / Internal Expenses	(10.3)	
		(354.6)	
Jun 12	Total Expenditure	(1,365.9)	
Jun 12	Remaining Budget	1,765.2	

Notes

1	This project's original budget amount is that prior to achieving Second Pass Government approval.
2	Administration savings harvest.
3	To fund a risk reduction activity for the Project to obtain design data and develop designs to meet Australian essential requirements.
4	First Pass approval.
5	Government has approved an 'out-turned' budget that recognises the estimated future value of the dollar from the approval date until the forecast delivery date in accordance with the dates agreed in the Materiel Acquisition Agreement and noted in Section 3.3 of the PDSS.
6	Transfer of funding for technical studies from DSTO.
7	Other payments and expenses comprises: Operating Expenditure, Offer Definition, Consultants, Foreign Military Sales, Contractor Support and Minor Capital expenditure not attributable to the Prime contract.

2.2 In-year Budget Expenditure Variance

Estimate \$m	Actual \$m	Variance \$m	Variance Factor	Explanation
			FMS	
		0.6	Overseas Industry	
			Local Industry	
			Brought Forward	
			Cost Savings	
			FOREX Variation	
			Commonwealth Delays	
354.0	354.6	0.6	Total Variance	

2.3 Details of Project Major Contracts

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		Signature	30 Jun 11			
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1	Contract Price at Revision 35					
Contractor	Quantities as at		Scope			
	Signature	30 Jun 11				
BAE Systems	2	2	LHD ships and integrated support systems			
Major equipment received and quantities to 30 Jun 11						
Detailed Design Review achieved. Construction of main hull sections underway.						

DMO-ANAO AGREED 'PROJECT ASSURANCE STATEMENT' FOR PROJECT DATA SUMMARY SHEET SECTION 1.2 – PROJECT COST

1.2 Current Status

Cost Performance

Noting the budget remaining for completion of the project, together with the estimated future expenditure and current known risks, the DMO considers that there is sufficient budget remaining for this project.

Schedule Performance

Thirteen aircraft have been accepted with six aircraft based with the Army's 5th Aviation Regiment in Townsville, three aircraft based with Navy's 808 Squadron in Nowra and four aircraft with the Army Aviation Training Centre in Oakey. These first thirteen aircraft will require an in-service retrofit (at Contractor expense) to bring them up to the full Phase 2/4/6 capability baseline. The first fully compliant Phase 2/4/6 aircraft are due for delivery in the second half of 2011.

Materiel Capability Performance

Following achievement of In-Service Date (ISD) with agreed partial achievement of the contracted MRH capabilities, there has been significant work by both Industry and the project to define and implement a series of capability block enhancements to bring the MRH90 to contracted standards. This includes a retrofit program, at no additional cost to the Commonwealth, to progressively bring all aircraft up to the contracted standard.