

Progress on Approved and Unapproved Projects

The table of the top ten unapproved projects has been amended to reflect changes in the Public Defence Capability Plan (DCP), released on 18 August 2011. Specifically, the cost band for AIR 7000 Phase 2B changed from 'low end of band' to 'middle of band', and the cost band for AIR 7000 Phase 1B changed from 'middle of band' to 'top end of band'.

The Committee may wish to note that a review of the DCP is currently underway. The DCP Review will be conducted in four stages: Audit; Review; Application of alternate frameworks and methodologies to the DCP; and Implementation. The Review's concept includes the development of improved frameworks and methodologies for the DCP's management to ensure it is closely aligned with strategic priorities, focusing on the linkage with the current Defence Planning Guidance.

A copy of the Defence Capability Development Handbook (DCDH) was provided to the Committee on 23 August 2011. The DCDH will provide the Committee with an understanding of the core capability development processes across the Capability Development Group, and other Defence groups and industry supporting the delivery of projects within the DCP. A diagram that provides an overview of the capability development process can be found on page 31 of the DCDH.

Implementation of Defence Reviews

The Strategic Reform Program (SRP) and a number of recent reviews provide clear strategic direction to Defence, including the DMO, for the need to reform and improve its governance and accountability structures, and business processes. These reforms seek to improve the way in which Defence achieves its outcomes in support of Government's strategic objectives.

In his speech to the Australian Strategic Policy Institute (ASPI) on 19 July 2011, the Minister for Defence mapped out the gamut of Government measures and initiatives for Defence Reform, which are either linked or in addition to the ongoing SRP effort. The breadth of current and future Defence reforms are outlined below:

Current reforms (being implemented):

- Procurement and Sustainment;
- The Defence Budget;
- Minor Projects;
- Early Warnings and Indicators;
- Enhanced Gate Review Process;
- Projects of Concern;
- Defence Capability Plan;
- Linking the Defence Capability Plan to Defence Planning Guidance;
- Accountability issues as revealed in the Black Review; and
- The Rizzo Report.

Future reforms (to be implemented):

- Coles Review;
- Shared Services Review; and
- Force Posture Review.

The Government's and the Defence senior leadership's determination to reform Defence is clear and resolute.

Strategic Reform Program (Pappas)

The Defence Budget Audit or Pappas Review was an independent Audit of the Defence Budget, in keeping with the Government's pre-election commitment. The final report of the Audit was delivered to the Government in April 2009.

The Audit examined the state of the Defence Budget and its major cost drivers, with a view to finding potential for efficiency gains and reinvestment opportunities. The Audit also identified fundamental reforms that Defence should undertake in order to become a more accountable, transparent and efficient organisation. It made over 120 recommendations, the vast majority of which were accepted by the Government.

Mr Pappas' report was a frank assessment of the challenges faced by Defence and makes a strong case for deep and sustained reform. The Government's vehicle for that deep and sustained reform is the Strategic Reform Program (SRP), one of the most comprehensive programs of reform ever undertaken by Defence.

As the SRP evolves, so does its environment. The SRP is operating within a broader context of an expanding reform agenda, numerous Government and Defence initiated reviews, and a tight fiscal environment across Government. Effecting sustainable change, in particular culture change, in this context is a major challenge.

There are 15 SRP reform streams that will deliver savings of some \$20bn over 10 years, as well as re-setting core business functions to deliver increased effectiveness and enhanced return on future effort. Cost reductions to date have been \$797m in FY 2009-10, \$1,016m in FY2010-11 and forecast savings of \$1,283m in FY 11-12 and \$1,992m in FY 12-13. These results have been achieved without any negative impacts to capability or safety and have been delivered through a mixture of innovative reforms, cost reductions, and reduced discretionary expenditure.

Black Review

The Minister for Defence announced the findings of the Black Review on 9 August 2011. The Department has commenced implementation of the Black Review recommendations. To date, this has resulted in:

- initial communication strategy and internal communications regarding the release and content of the Black Review;
- as an extension of SRP an overall implementation strategy for the Black Review has been prepared for consideration by the Defence Committee;
- the completion of the initial design draft of the five year horizon Defence Corporate Plan for consideration by the Defence Committee;
- the development and dissemination of the Defence Annual Plan;
- the advertising of the Associate Secretary (Capability) and the Associate Secretary (Chief Operating Officer) positions; and
- the Secretary's direction to undertake a review of Defence's capability business process as recommended in the Black Review.

Capability Review

In light of the Black Review's findings of challenges and weaknesses in Defence's end-to-end management of capability, a comprehensive end-to-end business process review of Defence's capability management will be undertaken. This review will address issues across the current capability management cycle including planning and development, acquisition, transition into service, sustainment and upgrade, and disposal.

The review will focus on both efficiency and effectiveness of the capability business process and will recommend required changes. Importantly the review will build on previous reports, such as Mortimer, and take a practical approach to further possible improvements. Significant improvements have already been made to many areas of capability acquisition and this is about further building on these improvements across the whole system of capability acquisition. Accordingly the review will encompass governance, resourcing, strategic control and decision making, the role and participation of various Defence entities, contestability, risk management, reporting and organisational structure. The review will also address relevant issues raised through other related reform initiatives, particularly the Strategic Reform Program; the Rizzo Review, together with other Chief Capability Development Group initiated process reviews, and in time the outcomes of the Coles Review. The review will also take account of the reforms announced by the Minister in May and August.

Mortimer Reforms

The implementation of the Mortimer Review recommendations is one of the Strategic Reform Program streams. An SES Band 3 / 3 Star committee provides oversight on implementation of the recommendations. The committee last met on 18 May 2011. As of that date, 32 process recommendations had been fully implemented and a further two had been transferred to another Strategic Reform Program Stream. Eleven recommendations remain on track for implementation by 2012. The below table is the list of Mortimer recommendations that are closed by process¹:

Mortimer recommendations closed by process

	Current Process Status	Commentary
1.1 Linking Strategy to Capability	Completed	The 'strategy-led' measures of Strengthening the Capability Development Process are in place. These measures include the establishment of Five Yearly <i>White Paper</i> cycle (supported by annual <i>Defence Planning Guidance</i>), the establishment of the Force Structure Development Directorate, institutionalisation of the Force Structure Review process and the publication of <i>The Strategic Framework</i> that outlines the post White Paper approach to implementing a 'strategy-led' approach within Defence. This is now part of business as usual.
1.3 Assure Government of affordability of Defence Capability Plan (DCP)	Completed	A statement on DCP affordability was included in the Defence Capability Plan 2009.
1.4 Replace explicit cost bands in public DCP	Completed	An independent review was undertaken by the Australian Strategic Policy Institute (ASPI) on the availability of Defence capability planning information to industry. The public DCP content was amended to reflect the Government's response to the ASPI review.
2.1 Tailor two-pass process according to the specific project	Completed	The internal processes on tailoring of the two-pass process are described in the Interim Defence Capability Development handbook (DCDH).
2.2 Establish subordinate subcommittee to NSC	Completed	In its response to Mortimer, the Government proposed an alternative approach to reducing the NSC workload by increasing approval thresholds. New thresholds for project approvals have been implemented.
2.3 Support Off the Shelf (OTS) consideration with cost-benefit	Completed	The requirement to include OTS options for all procurements and associated enabling processes are described in the Interim DCDH.

¹ The report refers to the Interim Defence Capability Development Handbook (DCDH). The DCDH was published in Aug 2011 after the May meeting. No changes have occurred which impact this report.

analysis for each project		The Interim DCDH states that where an OTS option exists for Defence's capability requirements, it will be presented for Government consideration and will be the benchmark against which a rigorous cost-benefit analysis of the military effects and schedule aspects of the other options will be undertaken; and when an off-the-shelf option is judged not to exist, this will be explained in the submission to Government.
2.4 More rigorous project submission to support entry into DCP	Completed	The Interim DCDH requires relevant experts to provide cost, schedule and risk information.
2.5 Develop draft Materiel Acquisition Agreement (MAA) at project entry to DCP	Completed	The Interim DCDH states that a draft MAA is to be developed for DCP entry, detailing the responsibilities and expectations of the stakeholders. This draft MAA forms part of the Initial Capability Definition Statement.
2.6 Endorsement of capability submission by Capability Managers	Completed	Capability Manager endorsement is currently achieved through representation on capability committees. Requirement for Capability Manager sign-off of submissions is to be considered by the Capability Manager Working Group.
2.7 DMO to be responsible for the equipment acquisition strategy	Completed	The Interim DCDH states that DMO is responsible for the equipment acquisition strategy throughout the capability development process. The Cabinet Submission template has been reviewed to allow CEO DMO's agreement and sign-off of the acquisition strategy.
2.8 Devoting sufficient resources and skills in Capability Development Group (CDG)	Completed	Increases in CDG's workforce were approved as part of the development of the 2009 White Paper. CDG training aspects of this recommendation are to be addressed primarily via the Desk Officer Skilling Program.
2.10 CEO DMO to provide independent expert commercial advice to Government	Completed	The CEO DMO provides independent advice to Government on cost, schedule, risk and commercial aspects of all major capital equipment acquisitions.
3.1 Capability Managers to sign Materiel Acquisition Agreements (MAAs)	Completed	Capability managers formally agree to the scope and schedule of the acquisition activity and confirm the baseline for the delivery of equipment by signing MAAs. All new MAAs are signed by CMs. All existing MAAs are being migrated to new format and signed by Capability Managers.
3.5 Project Charters	Completed	Complex and demanding projects have been defined as ACAT I and ACAT II projects. Project Manager Charters have been instituted for all current ACAT I and ACAT II projects. In total, over 70 project charters have been signed.
3.6 Independent Project Performance Office	Completed	An Independent Project Performance Office has been established in the DMO under General Manager Programs. It manages the Projects of Concern and Project Gate Reviews.
3.7 Align contracting with commercial practice	Completed	General Manager Commercial has worked with industry to identify key procurement and contracting issues that do not align with commercial practice, and made agreed changes to templates and policy.
3.8 Public-Private Partnerships (PPP)	Completed	On a project by project basis DMO is applying the Defence PPP checklist to evaluate capabilities suitable for acquisition under PPP arrangements. DMO liaises with the PPP centre of excellence in Defence Support Group in relation to PPP opportunities.
3.9 Public-Private Partnership Assessment	Completed	As per 3.8
3.10 Skills Shortage	Completed	On 15 Nov 08, the Minister for Defence announced the Industry Skilling Program Enhancement (ISPE) package. The ISPE contains 14 initiatives designed to address skill shortages in defence industry. Implementation of the package has progressed well. Major achievements included: <ul style="list-style-type: none"> • establishing the Defence Industry Innovation Centre (launched in Sep 09); • establishing three Defence Industry School Pathways Programs;

		<ul style="list-style-type: none"> • funding an industry component to the Defence Technical Scholarships Program; • funding an Engineering Scholarship Program; • expanding the DMO Institute; • expanding the Masters of Military Systems Integration; • introducing a Masters of Systems Support Engineering; • instituting an Industry Downturn Response Strategy; and • funding a Defence Industry Sector Branding Strategy. <p>The package also assists potential defence industry workers by increasing their knowledge of the career pathways available in defence industry and works hand-in-hand with the Skilling Australia's Defence Industry (SADI) program. Under the SADI program, 7,500 training opportunities are expected to be created over the period 2009-2015. In 2009/10, almost 1,400 training opportunities were funded under SADI with approximately 1,500 expected per annum over the next four years.</p> <p>The majority of ISPE initiatives have been implemented or are in the final stages of negotiation. The three school pathways programs have been established in SA, WA and the Hunter Region of NSW. The Advanced Manufacturing Industry Schools Pathways Program in the Hunter saw approximately 350 students participate in the ME Pilot Program in 2010.</p> <p>The framework to facilitate industry access to DMO Institute courses has been developed with selected courses offered to industry from late 2010.</p> <p>A media release was issued by the Minister for Defence Materiel on 30 August 2011 announcing 109 companies would share in almost \$14m for more than 4,000 training places to boost the skills of the Defence industry workforce. This includes up to \$1.4 million to support approx 250 apprentices in trades like aerospace skills, engineering fabrication and electro technology.</p>
3.11 Joint Industry Training Task Force	Completed	<p>Many of the recommendations contained in the report of the Joint Training Task Force (JTTF) were incorporated into the ISPE proposal (see above), these included:</p> <ul style="list-style-type: none"> • the establishment of a standing team to identify and leverage downturns in other industries; • the development of a strategic brand for defence industry; and • the replication of the Queensland Aerospace project (school pathway Programs) in WA, SA and Hunter Region. <p>It is intended that the Defence and Industry Skills Taskforce will now replace the JTTF and provide advice, analysis, ideas, and strategies with particular reference to:</p> <ul style="list-style-type: none"> • ensuring a critical mass of skills relevant to the Defence sector and the future sustainment of these skills; • identifying and growing the skills to deliver and sustain the capabilities and equipment of the ADF as detailed in the 2009 White Paper, Defence Capability Plan and Priority Industry Capabilities; and • building the skills required in Defence and defence industry to deliver the Defence Strategic Reform Program, and specifically the SMART Sustainment and Logistics streams. <p>Given the success of the ISPE initiatives in achieving the JTTF recommendations and its subsequent replacement with the D&I Skills Taskforce with attendant change in focus, the status of this item was changed to completed.</p>
3.13 Disciplined Process for Scope Change	Completed	<p>The Interim DCDH states proposed changes to the capability baseline must be cleared by CCDG, in consultation with Strategic Policy Division and the Capability Manager, before the acquisition agency approves any</p>

		<p>engineering change proposal, contract change proposal, waiver or deviation that affects the approved baseline. When applicable the Project Directive and Materiel Acquisition Agreement must be amended accordingly.</p> <p>CCDG is responsible for recommending and obtaining Defence or Government approval for any changes to the project's scope, cost or schedule that are outside the tolerances approved for the project.</p> <p>Changes that affect the acquisition baseline require the approval of Government before they can be implemented</p>
4.1 Net Personnel Operating Costs (NPOC) to be updated annually	Completed	The supporting guidance to the Interim DCDH states that the NPOC program, supported by updated Workforce Estimates, is to be updated annually by FASCIR. The updates are prepared by CS Div Desk Officers (endorsed by the CM, DMO and stakeholders) and reviewed by CAB in time for Budget Estimates.
4.3 Independent Sustainment Efficiency Office	Completed	The Sustainment Reinvestment Office was established to integrate, coordinate and oversee delivery of the Smart Sustainment Program. It supported delivery of the program by DMO Divisions and Defence through the development of tools, training and guidance material and through facilitation and information sharing. The Smart Sustainment Program is intended to deliver significant improvements in the delivery of sustainment services.
4.4 Establish correct basis for capability decisions	Completed	The Key Defence Asset Review process is used to progress this action.
4.6 Product Charters	Completed	Product Manager Charters (equivalent to Project Manager Charters) are now in place.
4.7 Retain majority of current Functional Split	Transfer management to Logistics stream	Responsibility for delivering this recommendation was transferred to the Logistics Stream within the Strategic Reform Program (SRP). This Stream is responsible for delivering SRP savings targets in relation to inventory management. The decision on the responsibility for vehicle maintenance is being held in abeyance until resolution of existing contractual obligations. A decision on vehicle maintenance is unlikely before mid 2012.
4.8 Freight and warehousing cost visibility	Transfer management to Logistics stream	Responsibility for providing visibility of costs associated with freight, warehousing and disposal was transferred to the Logistics Stream within the SRP. Visibility of costs will be an important tool in this activity.
5.3 CEO DMO experience	Completed	<p>Advertisement Aug 2011 for the new CEO states:</p> <p>Potential applicants should have substantial management experience at the senior executive level gained in a large and complex operating environment. Direct exposure to the successful management of complex projects including – but not exclusively – in the Defence context, is a core requirement as is a proven track record in managing risks and delivering reform outcomes. Thorough knowledge of the Defence industry, the complexity of government operations and the importance of working within teams will be advantages.</p>
5.4 Appropriate directly to DMO funds for equipment acquisition	Completed	The Government agreed not to directly appropriate acquisition funding to DMO.
5.5 Direct Appropriation of Service Fee to DMO	Completed	Changes to the direct appropriation model were implemented as part of the 2009-10 Budget.
5.6 Real Cost Increases	Completed	<p>Government has not set an RCI target. However, Government has capped the Defence budget which requires RCI's to be internally funded.</p> <p>The Early Indicators and Warnings process is also being developed to support early identification of project cost issues should these occur.</p>
5.7 Defence Procurement Advisory Board	Completed	<p>The Defence Strategic Reform Advisory Board (DSRAB) was established in Oct 09.</p> <p>The Board is chaired by a person from the private sector. The Board membership includes a balance of internal and external members including the Secretaries of the Department of Prime Minister and Cabinet, the Treasury, the Department of Finance and Deregulation, the Secretary of Defence, the Chief of the Defence Force and the CEO DMO.</p> <p>Meetings of the board are held periodically.</p>

5.9 Remuneration and performance of DMO Workforce	Completed	<p>The powers and functions devolved to CEO DMO and the autonomy CEO DMO has in exercising the powers over his organisation have been codified.</p> <p>The Government agreed that CEO DMO can manage DMO's workforce under a total labour cost model on 25 Jun 09.</p>
5.10 Commercial orientation and performance of DMO	Completed	The General Manager Commercial position was filled on 25 Feb 10.

Request for CAF Directive 16/10

I have attached a copy of the Chief of Air Force Directive 16/10 dated 24 November 2010 titled 'Review of ADF Flight Test Capabilities'. I can confirm that the report from the Directive has been completed and the Chief of Air Force is currently considering the report recommendations. However, the report cannot be released until endorsed by the Chiefs of Services Committee. Defence will be pleased to offer the Committee a briefing on the recommendations following its release.

Sect: DMO MPR Srt Filer: DMO MAA Report Selection AEW&C Jt View F R Name: DMO MAA Cardinal 002		DMO MAA Cardinal Milestones Summary View 002												 Australian Government Department of Defence																
Project		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2
AIR5077PH3 - Wedgetail Summary Milestone: Original Baseline Milestone: Current MAA Baseline Milestone: Forecast Milestone: Completed		1997 Approval 1998 Approval 1999 Approval 2000 Approval 2001 Approval 2002 Approval 2003 Approval 2004 Approval 2005 Approval 2006 Approval 2007 Approval 2008 Approval 2009 Approval 2010 Approval 2011 Approval 2012 Approval 2013 Approval 2014 Approval 2015 Approval 2016 Approval 2017 Approval 2018 Approval 2019 Approval 2020 Approval 2021 Approval 2022 Approval 2023 Approval																												Printed: 02 Sept 11 Page: 1 of 1

Project Description
 This project will provide the Australian Defence Force (ADF) with an airborne early warning and control (AEW&C) capability, with the provision of six aircraft and associated supplies and support. As an integral part of a layered ADF Air Defence System, the airborne early warning and control capability will enhance surveillance, air defence, fleet support and force coordination operations in defence of Australian sovereignty and national interests.

Schedule
 Initial Operating Capability (IOC): The point in time at which the first subset of a capability system that can be operationally employed is realised.
 Final Operating Capability (FOC): The point in time at which the final subset of a capability system that can be operationally employed is realised.

IOC: Original planned - December 2007.
 IOC: Revised Forecast - June 2012.
 Variance: 54 months
 FOC: Original planned - December 2008.
 FOC: Revised Forecast - December 2012.
 Variance: 48 months
Original baseline schedule
 Government gave the equivalent of first pass approval for Phase 3 of this project in December 1997. Following a competitive Initial Design and tendering activity, the Government gave the equivalent of second pass approval in December 2000 and a contract was signed with the Boeing Company (Boeing) for supply of four aircraft and associated supplies and support. In April 2004, Government gave approval to amending the contract for supply of an additional two aircraft.
Revised baseline schedule
 In February 2007, Boeing announced a two-year slip in the program. This slippage results from problems associated with sub-system integration, supplier hardware availability, mission computing, radar and electronic support measures maturity and stability, and aircraft modification.
 In May 2008, Boeing advised a further delay to the program resulting from ongoing problems with radar and electronic support measures development and system integration.
 In December 2008, Boeing and the Commonwealth agreed, under a Deed, to enter into a modified test and operational evaluation program aimed at determining the extent to which the aircraft system meets the specification and how well it will perform operationally. The DMO Program Office, Boeing and Northrop Grumman, supported by DSTO and US Government agencies, also cooperated in the conduct of an independent assessment of radar performance by Massachusetts Institute of Technology (MIT) Lincoln Laboratories to determine the extent of the performance shortfall based on flight test data. An operational mity demonstration was successfully conducted in Australia in April 2009 and provided insight into the operational potential of the AEW&C capability.
 Based on the outcomes of these activities, the Commonwealth entered into formal negotiations with Boeing in August 2009 seeking a commercial settlement addressing, among other things, the key issues of project delays; incremental delivery; and compensation for projected performance shortfalls. The parties reached agreement on the way ahead for the program in November 2009.
 In April 2010, the Commonwealth accepted two aircraft in an initial operating capacity in order to commence training and initial operations. A third aircraft was accepted in this initial operating capacity in June 2010 and a fourth in December 2010.
 Boeing failed to deliver the first aircraft in a final operational configuration in December 2010, as agreed in the settlement reached in November 2009, due to ongoing issues with Communications and ESM Subsystems technical maturity and integrated system stability. The Commonwealth entered into contract negotiations with Boeing in November 2010 to refine the path to final acceptance and reached agreement in April 2011.
 The current FOC date of December 2012 represents a schedule slip of 4 years.

Cost
 Base date \$m \$2841.4 m.
 Current \$m \$3859.5 m.
 Variance between base date \$ and current \$ m \$671 m due to transfers, budgetary adjustments, and scope increases. Scope increase is for the acquisition of 5th and 6th aircraft which was approved by Government in April 2004.
 \$111.1 m due to price indexation. \$388.1m of this amount relates to a real cost increase, approved by Government in February 2008, for contract price indexation variations beyond the supplementation provided by Government.
 \$-92.919 m due to exchange variation.

SEAFOR PROJECTS - AWD/INTEGRATE PERFORMANCES	
DMO MAA Cardinal Milestones	
DMO	
DMO MAA Cardinal Milestone Summary View 002	
Project	1994 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024
SEA4000PH3 - AWD Ships	
Summary Milestones Original Baseline Milestones Current Baseline Milestones Forecasted Milestones Cancelled Milestones Completed	Printed 30-Aug-11 P.26/28, 1 of 1

Project Description
 This project will acquire three Hobart Class Air Warfare Destroyers (AWD) and their support system for the ADF. The capability provided by the AWDs will form a critical element of the ADFs joint air warfare defence capability and will contribute to a number of other joint warfare outcomes.

Schedule
 Initial Operating Capability (IOC): The point in time at which the first subset of a capability system that can be operationally employed is realised.
 Final Operating Capability (FOC): The point in time at which the final subset of a capability system that can be operationally employed is realised.

IOC: Original planned - June 2016. **Background:** IOC is not defined in the context of the AWD Alliance Based Target Incentive Agreement (ABTIA) as the latter, signed in Oct 07, predated the introduction of this capability designator.

The term IOC was introduced in 2008 (DIIG OPS 45-2) and this milestone was subsequently identified in the Alliance MRS as June 16.
 GMS/OUT/2009/007 dated 23 Mar 09 directed that IMR and FMR would be the DMO reporting cardinal milestones.

Notes
 1. IOC: This milestone was first included in the MRS in 2008/9 as Jun 16. The MAA of 2008 did not identify the IOC or other capability milestones. The 2011 MAA includes IOC and this was defined as IMF + 12 months (Dec 15)
 2. A revised MAA will be developed only if an updated AWD schedule has been agreed and incorporated into the AWD ABTIA, or any other substantive change to the ABTIA or conditions related to the current MAA. The AOR will be updated in conjunction with the contract amendment.

IOC: Revised/Forecast - June 2017.
Variance: 12 months
FOC: Original planned - December 2018.
FOC: Revised/Forecast - December 2019.

Variance: 12 months
 Original baseline schedule
 First pass approval. In May 2005 the Government granted first pass approval to the Program, allowing commencement of Phase 2, the Design phase
 Phase 2 oversaw the development of two platform designs:

- The 'Existing' design based upon a modified version of the Navantia designed and built F-100 warship as the Australianised military off-the-shelf option; and
- The 'Evolved' design produced by Gibbs and Cox developed from an in-house design utilising design features of the US Navy class of Aegis Guided Missile Destroyers

Second pass approval. In June 2007, at Second Pass, the Government granted approval to commence construction of the Hobart Class Air Warfare Destroyer utilising the existing design. This decision initiated the current phase of Project SEA 4000 Phase 3, the construction phase.

Phase 3 includes detailed design, procurement, ship construction, and set to work of the Aegis Combat System and the F-100 based Platform Systems. This culminates in the delivery of three Hobart class AWDs together with the ships support systems including initial spares and ammunition outfits, and initial crew training.

AWDs together with the ships support systems including initial spares and ammunition outfits, and initial crew training.
 A: Second Pass, the Government approved Defence's proposal to close SEA 4000 Program Phase 2, Design, and Phase 3 1, Aegis acquisition activities, and combine the remaining Phase 2 and Phase 3.1 scope and funding with SEA 4000 Program Phase 3.

Revised baseline schedule
 In response to delays in hull block fabrication, the AWD alliance acted to limit a potential two year slippage in the completion of HMAS Hobart by up to 12 months. Two key actions were an initial reallocation of hull blocks among Australian shipyards in December 2010, followed by a further reallocation of blocks between the Australian shipyards and Navantia in May 2011. The AWD Alliance also took action in 2010 to place more shipbuilding experts from Navantia. Both Iron Works and Lloyds Register into the three shipyards. Government agreed the schedule change as reported in Media Release 140/11 issued 26 May 2011.

The current forecast IOC date of June 2017 and FOC date of December 2019 represents a schedule slip of 12 months respectively from the original planned dates.

Cost
 Base date \$m \$7,207.4 m
 Current \$m \$7,931.8 m. Due to price indexation and the out turning of the AWD Budget there has been no real cost increase to the project
 Variances between base date \$ and current \$
 \$1173.2 m Due to price supplementation and out turning of budget. (DMO Indexation)
 \$-448.8 m due to exchange variation.

FURTHER INFORMATION RELATED TO DMO ADDRESSING THE AMENDED TERMS OF REFERENCE FOR SENATE STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE INQUIRY INTO PROCUREMENT PROCEDURES FOR DEFENCE CAPITAL PROJECTS

Background

The Senate Standing Committee on Foreign Affairs, Defence and Trade Inquiry into procurement procedures for Defence capital projects (the Inquiry) issued the following new Terms of Reference on 5 July 2011:

- Assess the effectiveness of the Defence Materiel Organisation (DMO) including:
 - its role and functions;
 - its processes, management structure and staffing, in particular as compared to similar organisations in the United Kingdom, the United States of America, Canada and other comparable jurisdictions and large Australian commercial enterprises;
 - its full costs, assessed against the timeliness and quality of its output and the service it provides to the Australian Defence Force; and
 - the extent to which it value-adds to national defence and to the long-term viability of Australian defence industries.

Role and Functions of the DMO

The role of the DMO is to equip and sustain the Australian Defence Force (ADF).

In relation to its functions, the DMO is responsible for the acquisition and sustainment of the materiel elements of operating capability for the ADF. As a Prescribed Agency, the DMO utilises a purchaser - provider model, underpinned by agency service agreements, to deliver commercial, engineering and project management services in an accountable, outcome-focused and business-like manner to Defence Capability Managers. These agency agreements contain key performance indicators which are used to measure the DMO performance.

Similar Organisations

Based on our interaction with other defence acquisition and sustainment organisations, and information available in the public domain, it is clear that there is some similarity between the DMO's processes and management structures and those of other countries. However, there are sufficient differences in terms of some key processes, eg budget management and the breadth and scope of functions which make direct comparisons difficult.

Organisational diagrams for the Australian Department of Defence, the DMO and similar elements of the US, UK and Canadian Defence Departments are attached.

Table 1 provides a summary of budget and staffing for the Defence acquisition and sustainment organisations of Australia, UK, USA and Canada obtained from open sources. The table shows that the DMO delivers its services with a level of workforce consistent with the UK and Canada. No information on the US (AT&L) spend was available.

	DMO	DES (UKMOD)	AT&L (US)	CANADA
Budget (\$AUDmillion)²	11,100	21,500		4,500
Staffing	7,200	21,000	152,000	4,100
Budget/Staffing Ratio(\$AUDm/head)	1.54	1.02	-	1.10

Table 1 – Budget and Staffing – Defence Organisations

The single most significant difference between the DMO and large commercial organisations is that the DMO is not profit driven. As a result, organisational structures, staffing levels and management processes can be different and meaningful comparisons are difficult. Table 2 shows the staffing levels and revenues obtained from open sources for a selection of Australian companies. The ratios in the table shows that the DMO's level of workforce is higher than that of commercial organisations. The structures of BHP, Rio Tinto and Woodside are attached.

	DMO	BHP BILLITON	RIO TINTO	WOODSIDE PETROLEUM
Revenue (\$AUDmillion)¹	11,100	62,500	47,000	6,100
Staffing	7,200	39,600	19,900	3,700
Revenue/Staffing Ratio (\$AUDm/head)	1.54	1.58	2.36	1.65

Table 2 – Budget and Staffing – DMO and Australian Companies

Cost of the DMO

The DMO's outcome is contributing to the preparedness of Australian Defence Organisation through acquisition and through-life support of military equipment and supplies and is made up of three (3) programs:

- Program 1.1 – Management of Capability Acquisition;
- Program 1.2 – Management of Capability Sustainment; and
- Program 1.3 – Provision of Policy Advice and Management Services.

The actual expenditure attributed to the DMO against each of its programs since financial year 2005-06 through to 2010-11 and the budgets for 2011-12 through to 2014-15 are in Table 3.

	ACTUAL						FORECAST			
	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
	\$b ¹	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b

¹ Values are in 2011-12 PBS prices and at Constant Exchange Rates

Acquisition	3.72	3.60	3.64	3.99	5.29	5.12	5.09	4.05	4.83	5.55
Sustainment	3.44	3.85	4.18	4.10	4.19	4.27	5.07	4.67	4.71	4.98
Advice	0.06	0.05	0.06	0.07	0.09	0.09	0.11	0.10	0.10	0.09
Operating	0.67	0.72	0.76	0.76	0.78	0.77	0.82	0.85	0.86	0.87
Total	7.9	8.2	8.6	8.9	10.4	10.3	11.1	9.7	10.6	11.5

Table 3 – DMO Actual and Forecast Expenditure

The DMO’s operating costs are provided to the DMO by Government as a direct appropriation and relate specifically to the cost of providing acquisition and sustainment services to the ADF. This was a recommendation of the Mortimer Review and provides a measure of transparency between Defence and the DMO operating costs.

A simple indicator of productivity in the provision of acquisition and sustainment services is obtained through the ratio of the acquisition and sustainment funding divided by the cost of providing these services. This ratio is achieved by dividing the sum of the acquisition and sustainment funding shown in Table 3 by the operating costs (also in Table 3). Figure 1 plots this ratio.

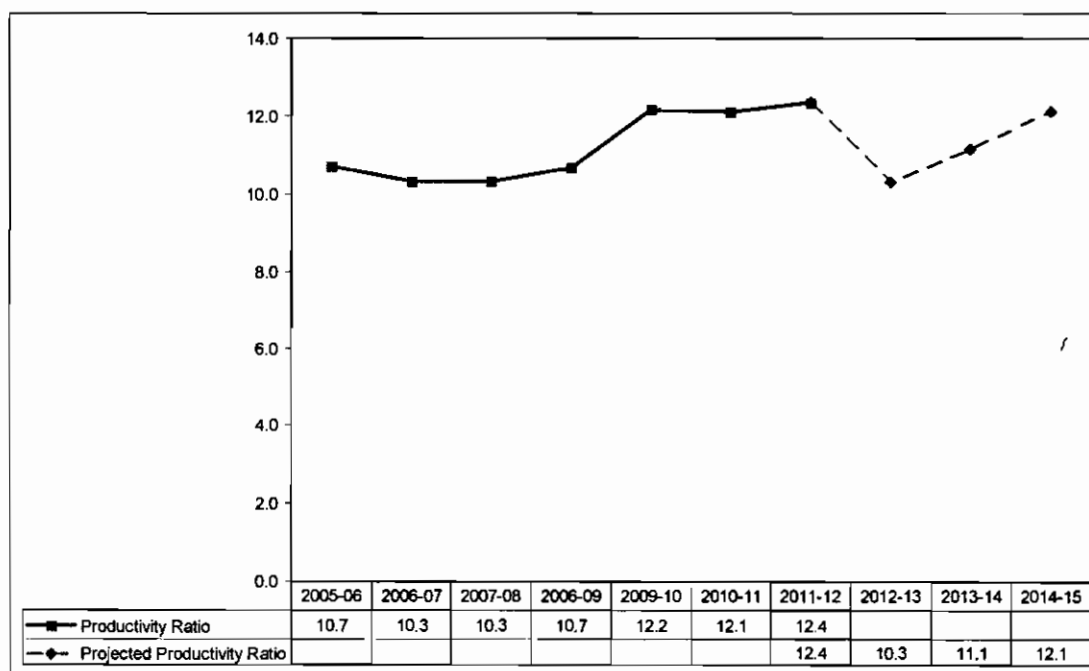


Figure 1 – Productivity in acquisition and sustainment services

The plot demonstrates that there was a significant improvement in the DMO productivity from 2009-10. This improvement equates to about \$120m.

Approximately one third to one half of this improvement relates to large expenditure by some of the bigger projects. However, specific Strategic Reform Program and other initiatives constitute about half of the total improvement or about \$60m.

Next financial year (2012-13) there will be a 10% decrease in overall funding provided to the DMO followed by a steady increase in funding over the next four years. The DMO is not planning to reduce its staffing levels for the one year so productivity will decrease before gradually recovering.

Some of the productivity gains achieved by the DMO have been masked to some extent by an increasing workload and the need to hire more staff to meet this additional work.

Performance of the DMO

For acquisition projects, the DMO's performance is measured in terms of cost, capability and schedule. Over recent months, analysis of project performance has been undertaken to determine the impact of procurement and sustainment reforms, particularly the Kinnaird reforms. The analysis has indicated that:

- projects are, on average, delivered under budget (about 98% of available funding);
- there has been an improvement in the delivery of capability for post Kinnaird projects (November 2005 onwards) although ongoing monitoring will be required to confirm this assessment; and
- there has been a significant reduction in schedule delay.

Budget

To determine the achievement of projects against budget, the expenditure outcomes of 239 closed projects was examined (a summary is provided at Table 4). The projects were closed over the period 1997-98 to 2007-08 and the data indicates that, on average, the DMO delivers projects at about 98% of the available funding.

Year of Closure	Number of Projects	Original Baseline Budget (\$m)	Indexation (\$m)	Exchange (\$m)	Changes for Scope (\$m)	Equivalent Baseline Budget (\$m)	Total Project Expenditure (\$m)	Total Project Expenditure as % of Baseline Budget
1997/98	6	307	13	1	-1	320	312	98%
1998/99	19	368	617	103	-11	1077	1269	118%
1999/00	18	943	134	104	-382	799	755	94%
2000/01	22	578	97	-42	568	1202	1103	92%
2001/02	4	2474	1323	1482	-12	5267	4478	85%
2002/03	25	1401	518	229	-970	1178	1088	92%
2003/04	26	685	176	55	259	1175	1090	93%
2004/05	43	870	388	45	-18	1286	1337	104%
2005/06	30	1312	193	95	71	1671	1843	110%
2006/07	27	690	56	149	-40	855	850	99%
2007/08	19	10205	3281	53	-857	12681	12725	100%
Total	239	19833	6796	2275	-1394	27511	26850	98%

Table 4 - Summary of total project expenditure as a % of baseline budget

Capability

Analysis of reporting on current projects indicates that Project Managers have identified post-Kinnaird projects to be more likely to deliver their full capability (see Figures 2 & 3). These projects will need to be monitored through to completion to confirm the analysis.

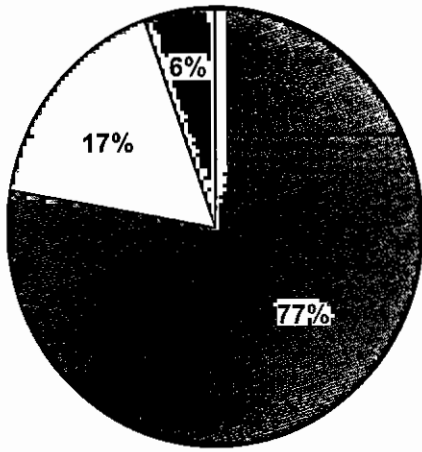


Figure 2 – Capability Indicators (Pre Kinnaird Projects)

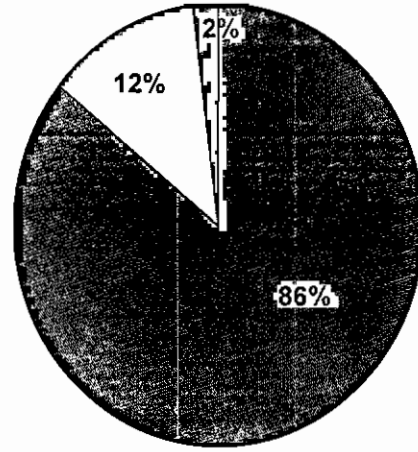


Figure 3 – Capability Indicators (Post Kinnaird Projects)

Schedule

Approximately 150 current and closed projects with commencement dates ranging from 1992 to the present were assessed against their original or forecast completion timeframes. The average delay for projects commencing in the same year was plotted against the year of commencement (see Figure 4). No correlation was discernible across the entire population but improvement in schedule delay started to become evident from around the year 2000. This is illustrated in Figure 5.

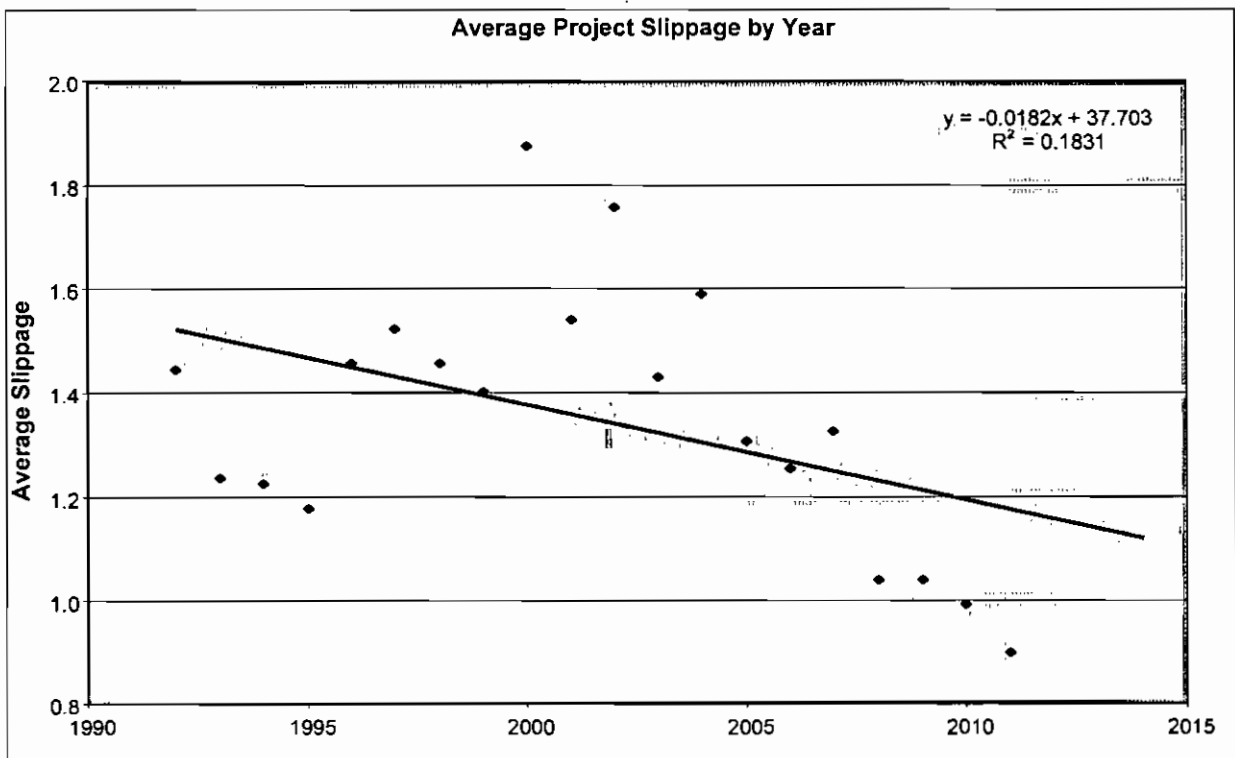


Figure 4 – Average Project Slippage by Year

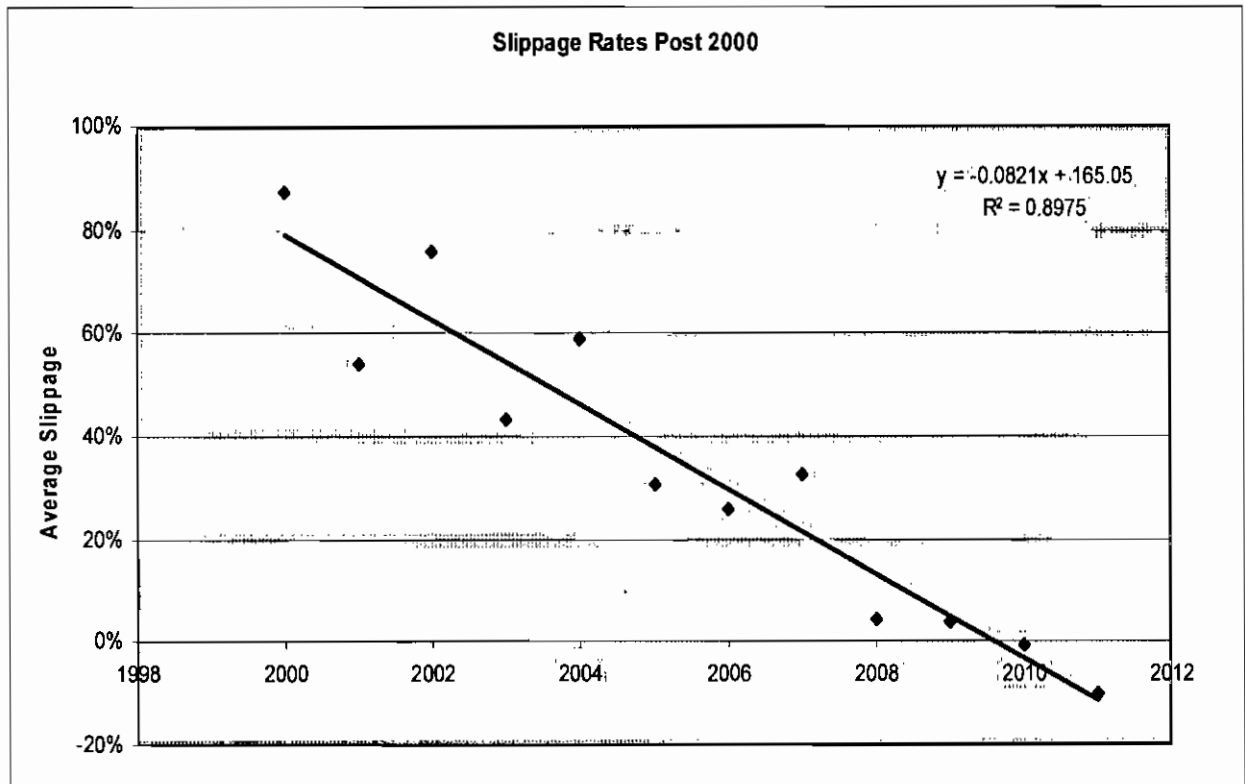


Figure 5 – Slippage Rates Post 2000

The extent to which the DMO value-adds to national defence and to the long-term viability of Australian defence industries

The Government recognises that it needs a strong, successful and skilled defence industry if it is to deliver an ADF that Australia needs for the future.

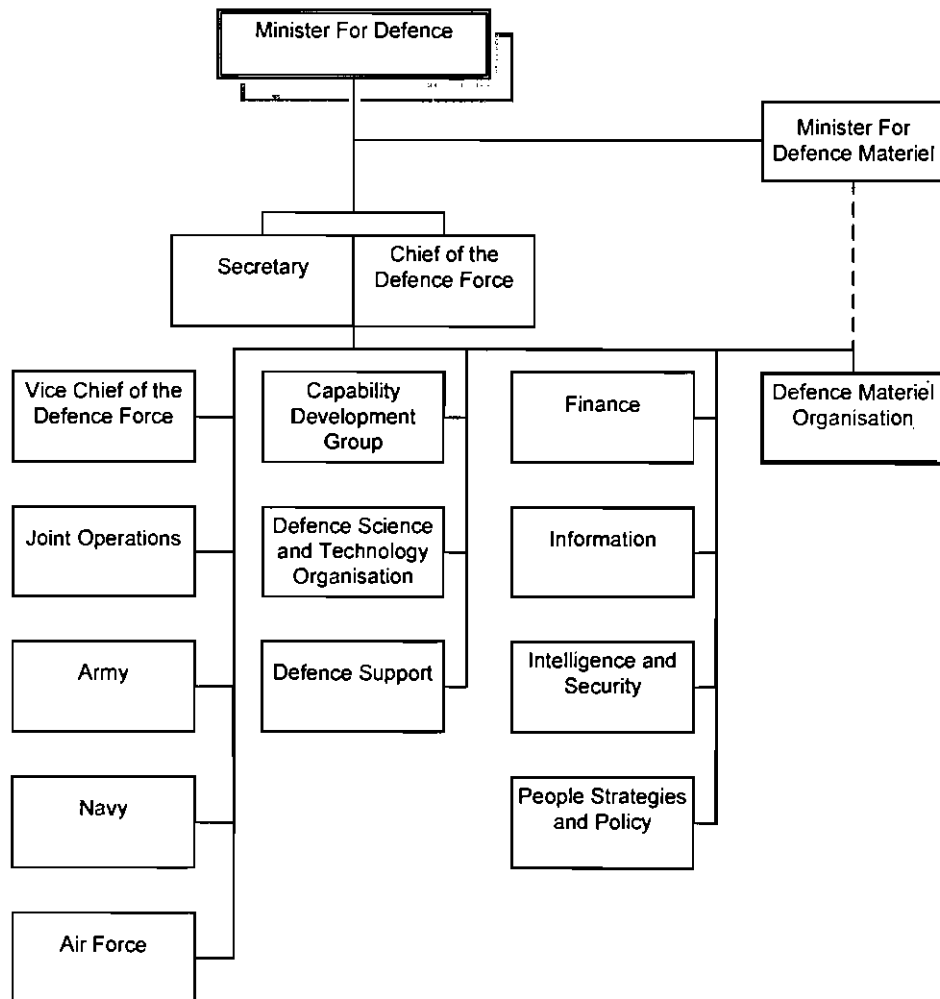
Accordingly, the Government is committed to assisting Australian defence industry to identify and make the most of business opportunities within Australia and overseas. Measures that have been put in place include the establishment of the Defence Export Unit within the DMO and the Australian Industry Capability and Global Supply Chain programs that offer opportunities for Australian companies to become part of the supply chains of global primes.

In addition, the Government has implemented a range of programs to improve Australian industry competitiveness by developing the skills of their workforce, encouraging innovation and boosting productivity. These programs are managed out of the DMO and form a major plank in the Government’s policy to ensure the long-term viability of Australian defence industries.

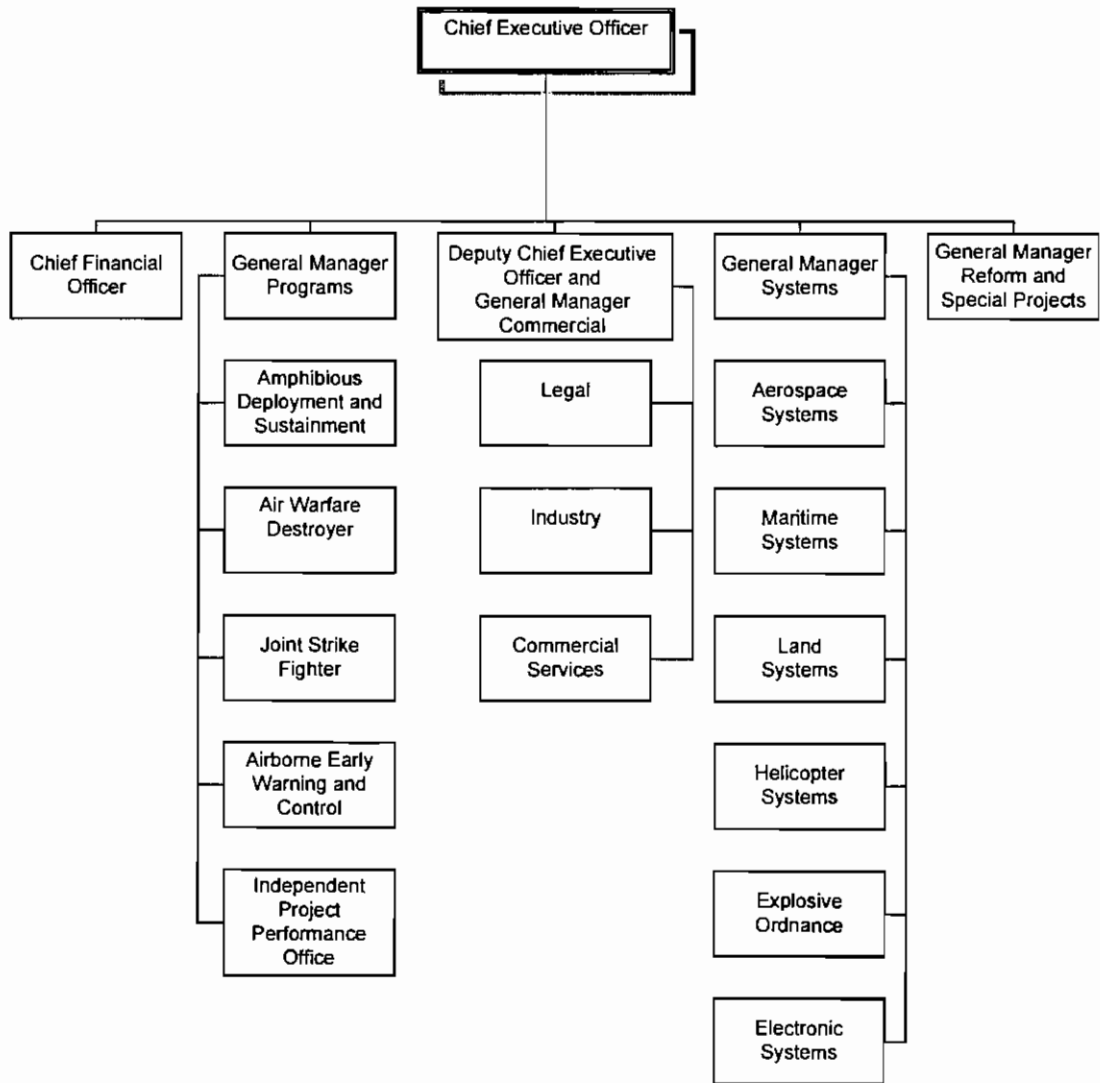
Attachments:

- A. Australian Department of Defence
- B. Australian Defence Materiel Organisation
- C. UK Ministry of Defence
- D. UK Defence Equipment and Support
- E. USA Department of Defense
- F. USA Acquisition, Technology and Logistics
- G. Canadian Department of National Defence
- H. BHP Billiton
- I. Rio Tinto
- J. Woodside Petroleum

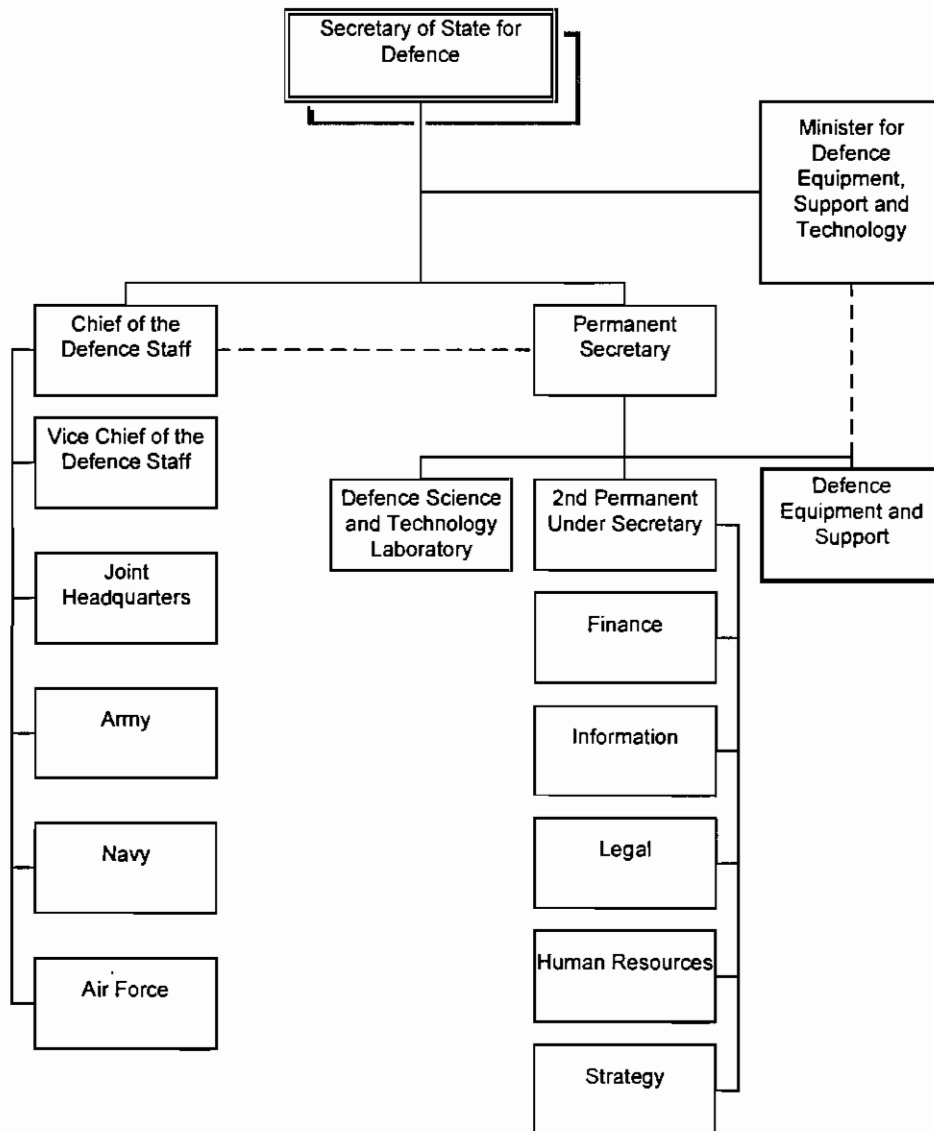
AUSTRALIAN DEPARTMENT OF DEFENCE



AUSTRALIAN DEFENCE MATERIEL ORGANISATION

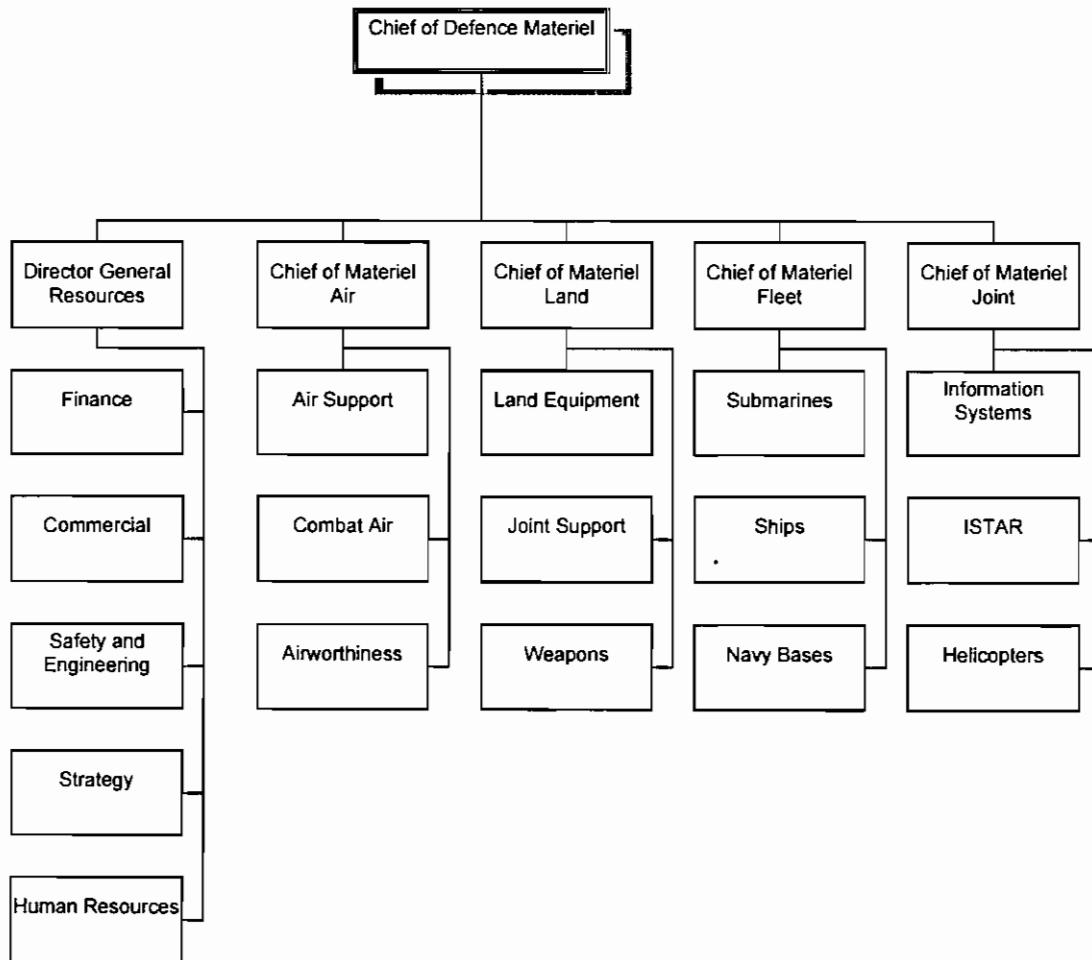


UK MINISTRY OF DEFENCE

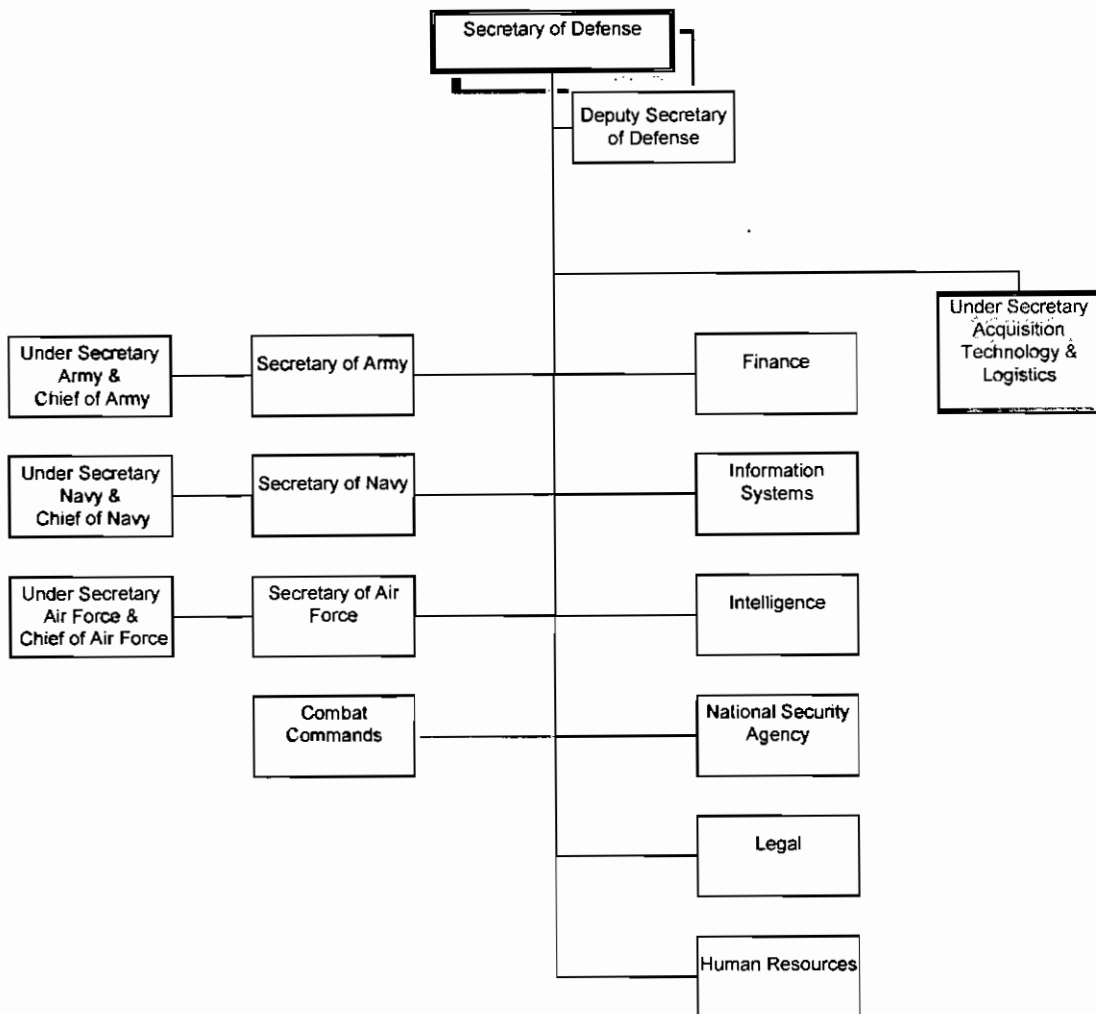


- Defence Equipment and Support (DE&S) equips and supports the UK's armed forces for current and future operations.
- DE&S acquires and supports equipment and services, including ships, aircraft, vehicles and weapons, information systems and satellite communications. As well as continuing to supply general requirements, food, clothing, medical and temporary accommodation, DE&S is also responsible for HM Naval Bases, the joint support chain and British Forces Post Office.
- Employing around 21,000 people, with a budget of some £14 billion, its headquarters is in Bristol with other sites across the UK and overseas.

UK DEFENCE EQUIPMENT AND SUPPORT

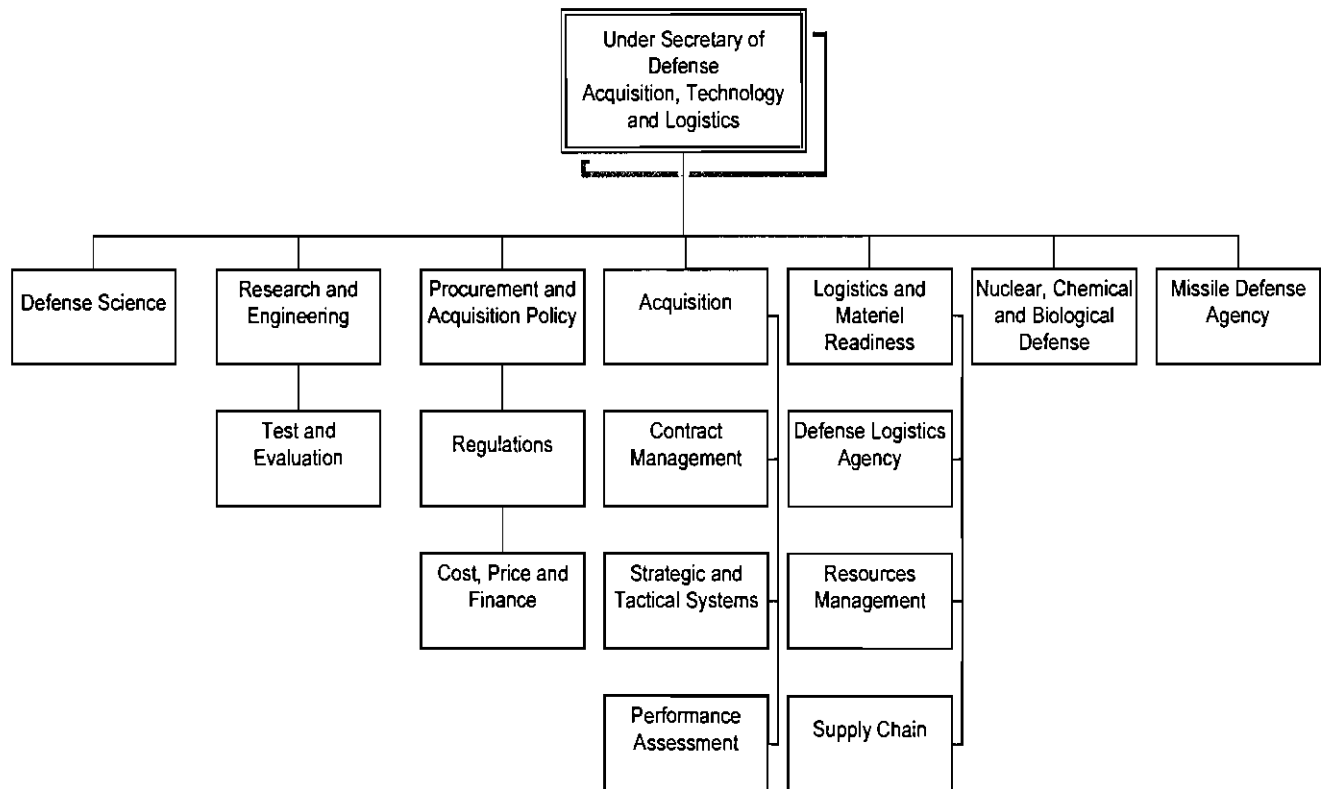


USA DEPARTMENT OF DEFENSE

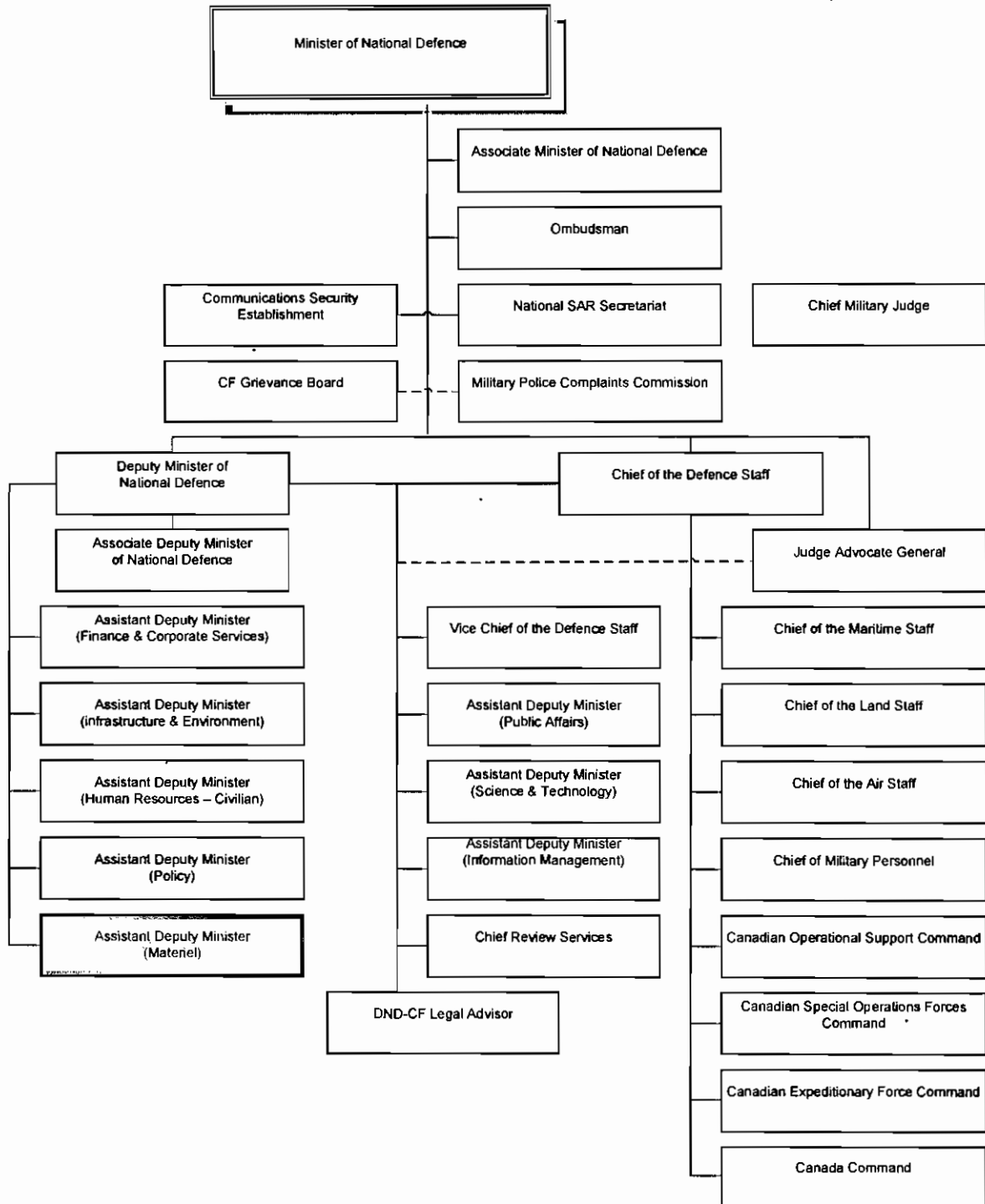


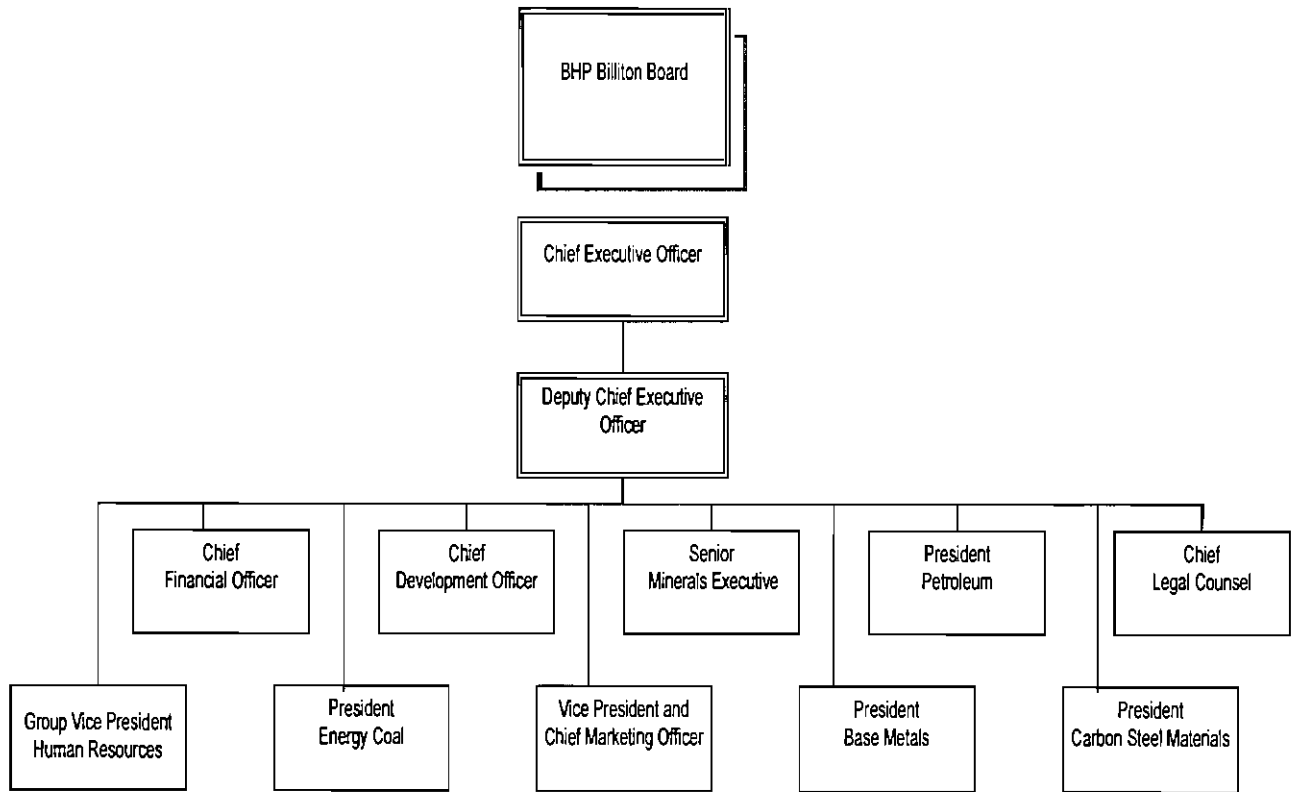
- The Under Secretary of Defense for Acquisition, Technology and Logistics (AT&L) is the PSA and advisor to the Secretary and Deputy Secretary of Defense for all matters relating to the DoD Acquisition System; research and development; modelling and simulation; systems engineering; advanced technology; developmental test and evaluation; production; systems integration; logistics; installation management; military construction; procurement; environment, safety and occupational health management; utilities and energy management; document services; and nuclear, chemical and biological defense programs.
- AT&L has a staff level of about 152,000.

USA ACQUISITION, TECHNOLOGY AND LOGISTICS

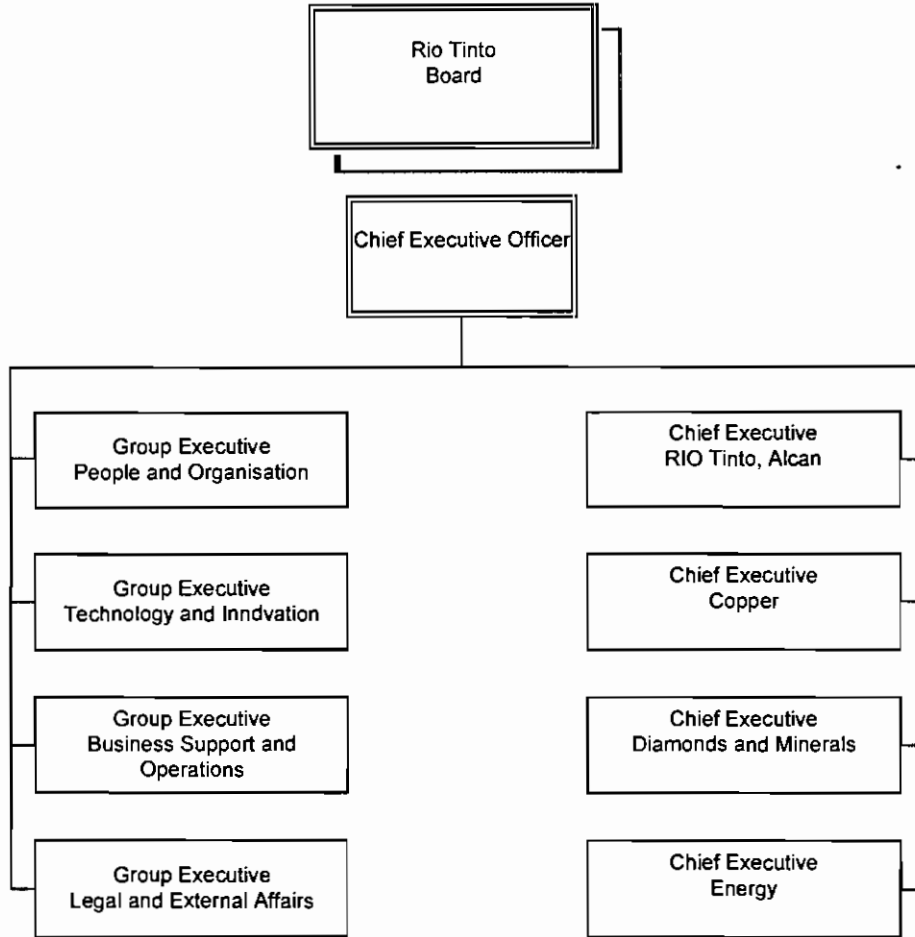


CANADIAN DEPARTMENT OF NATIONAL DEFENCE

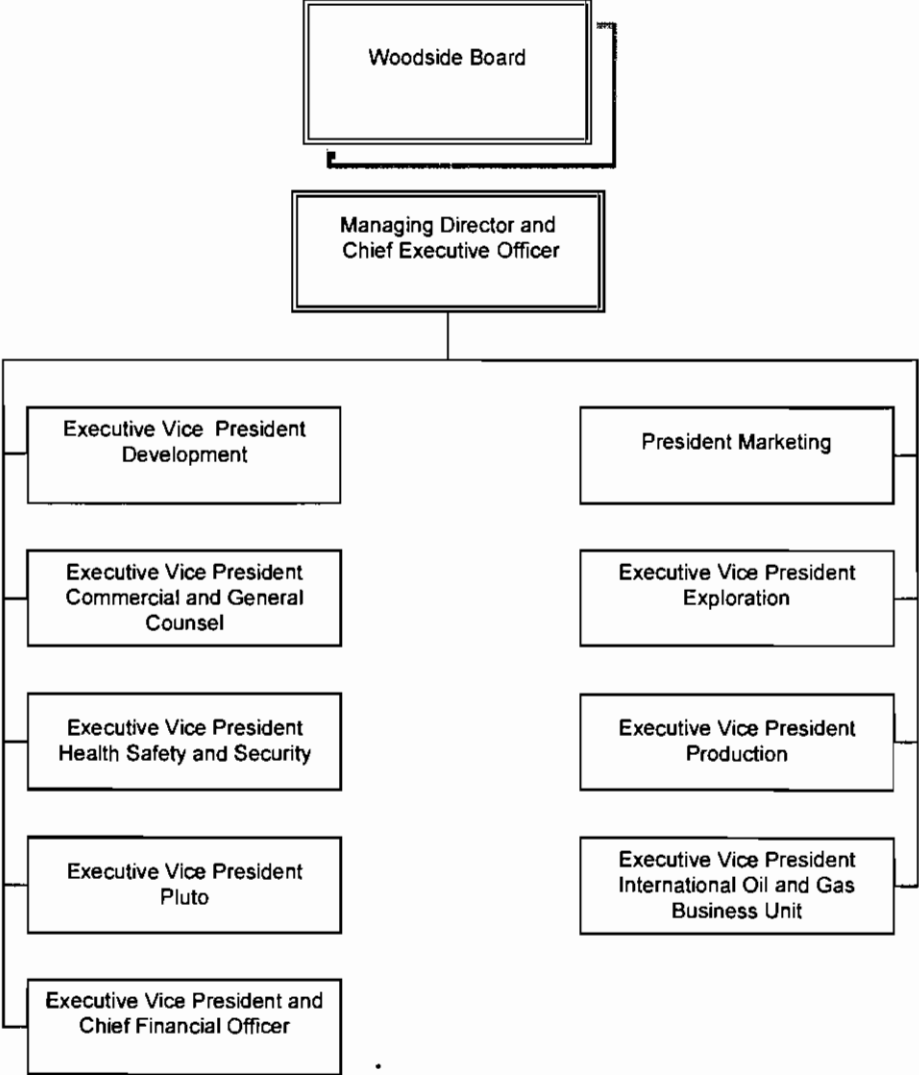




RIO TINTO



WOODSIDE PETROLEUM



Wednesday 5 October 2011

Attachment C

Defence Science and Technology Organisation (9.30 – 10.30am)

Acting Chief Defence Scientist
Chief Projects and Requirements

Dr Ian Sare
Mr Jim Smith

Strategy Executive (2.00 – 2.30pm)

Acting Deputy Secretary Strategy

Mr Neil Orme

Capability Managers (2.30 – 5.00pm)

Acting Chief of the Defence Force
Head Joint Capability Coordination
Deputy Chief of Navy (representing CN)
Head Modernisation and Strategic Planning (representing CA)
Chief of Air Force
Commander Aerospace Operational Support Group
Acting Deputy Secretary Intelligence and Security

Air Marshal Mark Binskin
Major General Steve Day
Rear Admiral Trevor Jones
Major General John Caligari
Air Marshal Geoff Brown
Air Commodore Noel Dewort
Mr Ian McKenzie

Friday 7 October 2011

Capability Development Group (8.30am – 1.30pm)

Chief Capability Development Group
Head Capability Systems
First Assistant Secretary Capability Investment & Resources
Assistant Secretary Investment Analysis
Director General Capability and Plans
Program Manager Land400 (and DGCAFS)
Director General Integrated Capability Development

Air Marshal John Harvey
Rear Admiral Peter Jones
Ms Maria Fernandez
Ms Kate Louis
Air Commodore Andrew Dowse
Brigadier Nagy Sorial
Commodore Martin Brooker

Defence Materiel Organisation (1.30 – 5.00pm)

Acting CEO DMO
Acting Deputy CEO DMO
General Manager Systems
Head Future Submarines
Program Manager Collins and Wedgetail
Director General Collins Acquisition Program
Head Aerospace Systems
Head Electronic Systems
Head Maritime Systems
Head Helicopter Systems
Head Acquisition and Sustainment Reform
General Manager Programs
Program Manager – Air Warfare Destroyer
Program Manager – New Air Combat Capability

Mr Warren King
Mr Harry Dunstall
Ms Shireane McKinnie
Rear Admiral Rowan Moffitt
Mr Warren King to cover
David Cochrane
Air Vice Marshal Colin Thorne
Mr Michael Aylward
Rear Admiral Mark Campbell
Major General Grant Cavenagh
Mr Tony Hindmarsh
Mr Andrew Cawley
Mr Peter Croser
Air Vice Marshal Kym Osley