

Future developments

Introduction

- 4.1 The MPR process has reached a level of maturity which the Committee is generally satisfied with. Although the MPR will continue to be scrutinised as a document, and changes recommended when and where necessary to its content and the development process, the Committee is now seeking to develop further avenues of expenditure reporting to complement the MPR, namely the reporting of funds expended during the sustainment phase of the project's life-cycle.
- 4.2 This chapter will outline initiatives the Committee is pursuing to develop a process for sustainment reporting which allows transparency and yet maintains national security.
- 4.3 This chapter will also provide comment on the continued MPR process, given that DMO will now be folded back into the Department of Defence.

Sustainment spending and reporting

- 4.4 Once a project has been deemed complete, it moves to the sustainment phase of its life-cycle. Sustainment relates to the provision of ongoing parts, supplies, services and (sometimes) upgrades to Defence systems and assets. While sustainment activities are outside the scope of the MPR, which is focused on acquisition projects, the amount of expenditure on sustainment is too large for the JCPAA to ignore.¹

1 The *Defence Annual Report 2013-14* Table W6.17 provides a list of the top 30 sustainment products by expenditure as forecast in the Portfolio Budget Statements 2013-14. There, the 'Actual Expenditure for 2013-14' of 'Total Sustainment Product Funds Available' is listed as slightly over \$5 billion. <<http://www.defence.gov.au/annualreports/13-14/part->

- 4.5 The Committee has sought, in conjunction with DMO/Defence and ANAO, to establish a mechanism through which sustainment reporting can be scrutinised. Objections by DMO/Defence have centred on security issues – i.e. that more detailed reporting of sustainment in the public arena would compromise national security. The Committee is in complete agreement with DMO and the Defence about the need to protect classified information, but still has sought a process through which sustainment acquisition could be reviewed.
- 4.6 In September 2014, the Committee resolved to request a sustainment options paper from ANAO to explore the best procedure for exploring sustainment funding while still protecting classified information and maintaining national security. This paper was provided to the Committee which then resolved to make it a public document in February 2015.²
- 4.7 The ANAO developed the following four options for further sustainment reporting for the Committee’s consideration:
- **Option 1:** Provision of an annual *in-camera* briefing. Defence, through the Vice Chief of the Defence Force, has offered to provide an annual in camera briefing to the JCPAA, to expand on the unclassified sustainment reporting included in publicly available reports, for example, the Portfolio Budget Statements and Defence Annual Report;
 - **Option 2:** Continued expansion of sustainment reporting for the Top 30 sustainment products in the Defence Annual Report. Following recent Parliamentary and JCPAA interest, Defence has agreed to improve consistency and seek opportunities to improve the current analysis regarding performance targets and achievements within publicly available reporting. The new sustainment Key Performance Indicators being developed for Defence for Materiel Sustainment Agreements also offer opportunities for increased reporting and in addition, the information could be made more structured and comprehensive, subject to any security considerations;
 - **Option 3:** Expansion of the MPR to include further sustainment reporting. Ongoing developments to the MPR have provided for the inclusion of a range of diverse projects. This includes unique arrangements, for example, the Collins Reliability and Sustainability project, which consists of two new capabilities and 20 engineering enhancements, and two projects that are transitioning to sustainment (Collins Replacement Combat System and ARH Tiger Helicopters). Consideration of the criteria for the 2015–16 MPR Guidelines could

two/chapter-six/program-1-02.asp> accessed 30 April 2015.

2 ANAO, *Submission 1*.

further expand the scope of sustainment products included within the MPR; and

- **Option 4:** Development of a new sustainment report and limited assurance review. The experiences of the DMO and the ANAO in producing the MPR could be utilised to develop a complementary and separate sustainment focussed report. However, security concerns surrounding the public reporting of sustainment matters are elevated under this option and would need to be addressed.³

4.8 In March 2015, the Committee met with the Vice Chief of the Defence Force, VADM Griggs, and associates from the DMO to discuss ways forward on sustainment reporting to Parliament and the JCPAA. It was decided an *in-camera* briefing would be conducted in October 2015 consistent with Option 1 of the ANAO Sustainment Reporting Options Paper.

Committee Comment

4.9 The Committee appreciates the work done by ANAO, in consultation with DMO and Defence, on the Sustainment Options Paper and acknowledges and appreciates the openness with which Defence and DMO are willing to approach the question of sustainment reporting. Their position – that all information is up for discussion as long as national security is not undermined – is constructive and the Committee looks forward to working with both Defence and ANAO on developing a process which satisfies the Committee’s requirements for transparency while still maintaining security requirements.

4.10 Sustainment expenditure is currently at approximately \$5 billion⁴ per annum and predicted to increase significantly over time. The Committee considers sustainment expenditure to be an area requiring further parliamentary scrutiny on the adequacy and performance of Defence involving billions of dollars in the future.

4.11 One aspect of sustainment reporting that needs more attention is the definition of what is ‘sustainment’. Which aspects of project management for weapons, platforms and equipment are ‘acquisition’ and which are ‘sustainment’? For different projects, ‘sustainment’ may mean different

3 ANAO Sustainment Reporting Options Paper, *Submission 1*, pp. 1-2. A copy can be found at: <http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/2013-14_DMO/Submissions> accessed 14 April 2014.

4 The *Defence Annual Report 2013-14* Table W6.17 <<http://www.defence.gov.au/annualreports/13-14/part-two/chapter-six/program-1-02.asp>> accessed 30 April 2015.

- things and while drawing a line between 'acquisition' and 'sustainment' might be clear for one project, that line might be quite blurry for another.
- 4.12 Resolution, or at least discussion of, such questions will be crucial to define what actual information is required by the Committee from Defence. Clarity of purpose and information will greatly assist all those involved in this process to produce an accurate assessment of sustainment expenditure, and how best to examine and report on that expenditure without compromising national security.
- 4.13 The final structure for sustainment reporting – i.e. whether it will remain as just Option 1 or whether the JCPAA pursues other options as well – is as yet undecided. At this stage it appears likely that sustainment reporting be an evolutionary process until both the Committee and Defence are comfortable with a final structure, not unlike the development of the MPR itself. We will continue to consult with ANAO and Defence as the process evolves.

Structural changes to Defence

- 4.14 In April 2015, the Minister for Defence, the Hon Kevin Andrews, announced a series of reforms for the Department of Defence. One of the reforms announced through the *First Principles Review: Creating One Defence* policy paper⁵ was the abolition of the DMO and the return of its functions to the broader Department of Defence through a new capability and sustainment group which will have a life-of-project orientation.⁶
- 4.15 Since the 2003 Kinnaird Review, DMO has significantly improved the Defence acquisition process. In 2008, the Mortimer Review concluded that:
- The implementation of the Kinnaird Review recommendations has resulted in wide-ranging reform and improvement in the capability development process in Defence, and the acquisition process in DMO.⁷
- 4.16 This is also acknowledged in the 2013-14 MPR:

5 *First Principles Review: Creating One Defence*, <<http://www.defence.gov.au/publications/reviews/firstprinciples/Docs/FirstPrinciplesReview.pdf>> accessed 1 May 2015.

6 Minister for Defence – Transcript – The First Principles Review announcement – 1 April 2014, <<http://www.minister.defence.gov.au/2015/04/01/minister-for-defence-transcript-the-first-principles-review-announcement-1-april-2014/>> accessed 13 April 2015.

7 <<http://www.defence.gov.au/publications/mortimerreview.pdf>> accessed 1 May 2015.

MPR projects which were initiated post the 2003 Kinnaird review continue to demonstrate improvement in schedule performance, confirming the value of the reforms implemented in the DMO since that time, and in particular following the DMO becoming a prescribed agency on 1 July 2005. It is interesting to observe that the pre-Kinnaird projects within the MPR sample continue to have a disproportionate influence on the reported schedule performance.⁸

4.17 The Auditor-General was asked about this potential reform at the public hearing of 27 February 2015. He responded:

I think we need to be careful not to dismiss the contribution DMO has made here. I know that internally, within the defence organisations, there are movements about how to get greater efficiencies from the way they combine back offices and other arrangements. DMO has provided a critical mass of skills, but it has meant that the capability managers have had to adjust their approaches as well. So there is not an easy answer and, to be fair, we have not seriously looked at the pluses and minuses. In the past, it has been integrated, and it has been separated, and the debate now is just: where is the balance? And I think that is a question we see asked all across the public sector, in terms of where the balance is... It is a never-ending journey, this one.⁹

Committee comment

4.18 The Committee, along with ANAO, DMO and the Department of Defence, have worked diligently and constructively over the past eight years to progress the MPR to where it is today.

4.19 DMO's achievements during this period were substantive and it is imperative that the progress achieved over the past eight years should not be lost as a result of the *Creating One Defence* reforms.

4.20 The reforms to the Department are designed to bolster efficiency and they must not result in a diminution in the intensity with which Defence approaches its work. The Committee looks forward to working with the new reformed Department of Defence to produce the same high-quality MPR in the future so as to ensure that the improvement gains made in terms of project acquisition management over the past eight years are maintained and improved upon. This also applies to the new sustainment

8 'CEO DMO Foreword', *Major Projects Report 2013-14*, p. 101.

9 *Committee Hansard*, 27 February 2015, p. 14.

reporting that the Committee, ANAO and Defence are now embarking upon.

Recommendation 1

The Committee recommends that the reformed Department of Defence continues to provide the same priority and appropriate resources to the Major Projects Report in the future as DMO have done in the past so that the achievements of the past eight years are not lost. The same level of effort should also apply to the future development of sustainment reporting.

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