



Australian Government

Defence

Joint Committee of Public Accounts and Audit

Inquiry into the 2022-23 Major Projects Report

Department of Defence
Submission

April 2024

Introduction and Overview

Defence welcomes the opportunity to provide a submission to the Joint Committee of Public Accounts and Audit (Committee) in support of the inquiry into the 2022-23 Defence Major Projects Report (MPR).

2022-23 Major Projects Report

The 2022-23 MPR reported on 20 of Defence's major projects – 16 were largely domestic acquisitions, with the remaining four being Foreign Military Sales or Cooperative programs. Many key project and capability delivery milestones were achieved during this reporting period and all projects operated within their approved budget. Defence is conscious of the need to improve schedule forecasting, especially in our current strategic environment, where speed to capability is imperative. Defence procurements are some of the most complex projects and programs undertaken by our nation. With the evolution of technology and integration requirements, Defence's major projects continue to increase in complexity. In 2022-23, the Capability Acquisition and Sustainment and Naval Shipbuilding and Sustainment Groups were managing 28 projects of the highest complexity, up from 11 projects a decade ago.

Defence acknowledges the two qualifications made by the Australian National Audit Office (ANAO) – one relating to the expected delivery of scope for the Battlefield Command System (LAND 200 Tranche 2), the other on the adequacy of the lessons learned information. Defence considers the forecasted scope for LAND 200 Tranche 2 as at 30 June 2023 to be essentially the same as the previous year's report and any subsequent changes will be appropriately reported in the next report.

With regard to lessons learned, in an effort to improve the quality, relevance and readability of the report and to ensure consistency with Defence's updated 2022 Lessons Policy, Defence refined the way it captures lessons learned to clearly identify systemic lessons. Defence maintains this improvement complies with the requirements and enhances the quality and readability of information.

During the 2022-23 MPR cycle, Defence closed all five recommendations relating to the *Joint Committee of Public Accounts and Audit Report – 489 Defence Major Projects Report 2019-20*. Defence is on track to respond to all three recommendations raised through *Report 496 Inquiry into the Defence Major Projects Report 2020-21 and 2021-22 and Procurement of Hunter Class Frigates*.

The development of the 2022-23 MPR continues to be underpinned by positive and constructive engagement between teams from Defence and the ANAO. Both contributed to improving the quality of the 2022-23 MPR by strengthening evidence requirements and contemporising information to reflect updated Defence policies. Defence appreciates the ongoing need to focus on removing jargon and improving readability for public consumption.

Opportunities to improve future Major Projects Reports

The current report format covers around 20 Defence projects each year in significant detail, with up to ten pages per project. Defence acknowledges the unique nature of the MPR in scope and size, compared to other nations. By comparison, the United States Congressional Budget Office's *June 2023 Weapon Systems Annual Assessment* considered 64 projects, with each performance review summarised in one or two pages.

The United Kingdom's (UK) *2022-23 Infrastructure and Project Authority* includes 244 of the UK's largest and most complex projects, covering 21 Government departments, with 45 of these projects from the Ministry of Defence. The UK's report provides a high-level paragraph or two and an overall traffic light rating per project.

Over time, the MPR could evolve to present a similarly holistic view of the Defence major project portfolio by considering projects of strategic importance with an emphasis on performance categories of capability, schedule, cost and delivery, to better capture thematic and systemic findings.

Defence looks forward to working with the ANAO to refine the longitudinal analysis of the aggregate project data, with the intention of a meaningful and insightful understanding of the risks relating to financial and schedule performance associated with project complexity. The focus will be to ensure strategic lessons learnt are gleaned and applied across all projects, providing useful insights for Defence, the Committee and the public.

Additionally, the presentation of financial data should more clearly delineate increases to a project's scope and where a project has real cost increases to approved scope. Very few of Defence's acquisition projects require real cost increases. As noted by Australian Strategic Policy Institute analysis in May 2022 and October 2022, most cost variations in Defence projects come from two factors: scope increases and fluctuations in exchange rates, but these are not real cost increases.

With this in mind, Defence considers reporting of project performance could be enhanced by basing the analysis on key indicators including, for example:

- cost pressures, particularly those resulting in an infrequent real cost increase;
- internal and external schedule delays that impact on the achievement of operational capability milestones; and
- strategic or systemic risks to the achievement of project scope or scope changes as a result of performance issues.

Another suggestion the Committee may consider worthwhile is to review options for when projects exit the report. For example, if a project is included in the report for five consecutive years, and is neither a Project of Concern nor a Project of Interest during the reporting cycle, then the project could be removed. Transparency to the Committee on project performance could be maintained under existing guidelines, whereby any project exiting the report has to continue to report its status until its final delivery is accepted by the Capability Manager. This change would naturally result in more difficult projects experiencing performance issues to be captured within the reports.

In addition to long-term options to evolve the report, there is also the potential for some improvements in the shorter term. These include removing any areas of duplication, consolidating sections of similarity and increasing the use of graphical and pictorial representations; all of which may reduce the size of the report and make it easier to consume.

As a final suggestion, each year, the tabling of the MPR is scheduled for November however, this has only occurred on four occasions since reporting started in financial year 2007-08. In recent years, tabling has occurred in February of the following year. This is due to a number of factors, the most significant being the number of projects under review and the availability of the required final financial data. The Committee might consider updating the guidelines to align with the likely schedule, notwithstanding there is still an option to table the report earlier if the ANAO and Defence deliver ahead of schedule.

An important consideration in the preparation of the MPR is the need to balance the requirement for transparency against national security implications. The MPR is the most detailed aggregation of information about the performance of Defence projects in the public domain. The *Defence Strategic Review* highlighted that Australia's strategic circumstances have markedly changed since the ANAO first published the MPR. As such, Defence must continually reassess national security implications and minimise the opportunity for foreign interests to gain classified insights into Defence capabilities. The upcoming establishment of a new Joint Statutory Committee on Defence provides an opportunity to review the balance of transparency and security across all of Defence's public and parliamentary reporting, with work underway to determine the precise scope, powers and functions of the new Committee.

Defence acknowledges the MPR should, as a matter of principle, focus on providing the Committee with a meaningful and insightful view of financial performance, schedule delays and risks associated with project complexity and capability delivery. By doing so, such reporting will contribute to more accurate trend analysis, both across the portfolio and over time, to generate continuous improvement across Defence's current and future projects.

Defence welcomes the Committee's consideration of its submission.