



Australian Government

Department of Defence

**JOINT COMMITTEE OF PUBLIC ACCOUNTS AND
AUDIT INQUIRY INTO THE
2016-17 DEFENCE MAJOR PROJECTS REPORT**

**Department of Defence
Written Submission**

March 2018

Introduction and Overview

On 15 February 2017, Defence was informed by the Joint Committee of Public Accounts and Audit that a new inquiry has commenced into the 2016-17 Defence Major Projects Report. Subsequently, Defence was required to provide a written submission detailing the progress made on the Recommendations in Report 468: *Defence Major Projects Report (2015-16): Inquiry based on Auditor-General's report 40 (2016-17)*.

This submission follows a previous progress report, as requested in Report 468, received by the Committee on 1 February 2018 where Defence agreed to all four recommendations.

Defence is continuing to work through all four recommendations; with the final Departmental response due to the Committee by 26 April 2018.

Further to the update on the recommendations, this submission also provides an update on the status of AIR 87 Phase 2 (ARH Tiger Helicopters) and the Capability Acquisition and Sustainment Group (CASG) risk reform program, whilst also providing clarity on the financial reporting for the 2017-18 Major Projects Report (MPR).

Report 468 Recommendations

Further to the progress report provided by Defence in December 2017, detailed below is an update on all four recommendations.

Recommendation 1: *To ensure consistency with project level risk information and to improve reliability, the Committee recommends that the Department of Defence review the procedure for the development of expected capability estimates for future Major Projects Reports. The outcome of this review should be provided to the Committee within six months of the tabling of this report. Further, the Committee requests that Defence provide a progress report within three months of the tabling of this report.*

Defence will conduct a schedule baseline validation activity for the Major Projects Report projects to drive greater consistency in schedule reporting.

Once this activity is complete, Defence should be in a better position to investigate a more robust approach to measuring Capability estimates. Utilising the validated baseline data could inform:

- A simple percentage of schedule milestones *achieved* to measure progress to date. This is a quantitative assessment that relies on the maintenance of a robust project baseline, which is not dissimilar to the approach proposed by ANAO previously;
- CASG working with Force Design to identify how to measure capability, that considers all elements of Fundamental Inputs to Capability, and that is suitable for unclassified publication; and
- Defence is working towards a new whole of organisational reporting system (the Enterprise Resource Planning (ERP) System) which is expected to roll-out in Financial

Year 2020-21. CASG will endeavour to incorporate the work conducted with Force Design on measuring capability.

Recommendation 2: *The Committee recommends that the Department of Defence: commence discussions with the Australian National Audit Office on updating Project Maturity Scores, with a view to advising the Committee on a way forward prior to the first sitting week of 2018 provide the Committee with an update on the progress of this dialogue within six months of the tabling of this report.*

Defence has done an initial review of the Project Maturity Score procedure (DMSP (PROJ) 11-0-007) to update it to more contemporary language. Defence will continue to work with the Australian National Audit Office (ANAO) to critically review the Project Maturity Score concept and recalibrate the scoring methodology, to better align with the Capability Lifecycle.

Defence has also undertaken to reinvigorate the discipline within projects to meet the requirements of the revised guidance through promotion via various publications, strengthening practice guidance and through our Project Management Centre of Expertise Domain Functional Leads.

The Defence Independent Assurance Review (IAR) procedures have been amended to include testing the veracity of the Project Maturity Scores for individual projects as each project goes through their performance IARs.

Further, Project Maturity Scores have been included in the “Project Dashboard” in the CASG Quarterly Performance Report with effect from the December 2017 report to lift their profile and improve their validity within the organisation.

Recommendation 3: *The Committee recommends that the Department of Defence examine the guidelines and methodology used by the United Kingdom’s Ministry of Defence to report on major projects, and report back to the Committee within six months of the tabling of this report. Defence’s report back to the Committee should consider whether any features of the United Kingdom’s guidelines and methodology would enhance major projects reporting in Australia. If Defence finds the United Kingdom’s guidelines and methodology unsuitable, the Committee requests that Defence provide reasons why they reached this conclusion.*

Defence has conducted extensive research on what is publicly available on the United Kingdom (UK) Government websites and the research to date indicates the following (in chronological order):

2015 – The UK National Audit Office (NAO) published the combined 2015 MPR and 2015-2025 Equipment Plan (largely equivalent to the Integrated Investment Plan for the Department of Defence). This combines an assessment of the affordability of the Equipment Plan and an MPR type review of 11 Projects.

2016 – The UK NAO published the 2016-26 Equipment Plan only.

2016 – UK Defence Equipment & Support Organisation Annual Report & Accounts 2015-16 (page 6) advises that the MPR has been replaced by a “Project Performance Delivery Summary” as part of the department’s Annual Equipment Plan statement from 2016 onwards.

2016 – The UK Defence Equipment Plan section D “Project Performance Summary Table” (which is 5 pages) includes “Key User Requirements” achieved to date and forecasts on scope. There is also high level information on cost and schedule. There is specific mention made of the fact that Ministry of Defence (MoD) has taken the responsibility for MPR like reporting from the NAO, with the NAO reviewing MoD processes and controls.

There is also supplementary reporting done through the Infrastructure and Projects Authority (I&PA) Annual Report on Major Projects 2016-17. This report is across the Government Major Projects Portfolio which includes 33 UK MoD projects. There is a common Delivery Confidence Assessment (DCA) methodology (Attachment A) that is applied to each project and captured in the report. The application of the methodology by projects is tested periodically through Assurance Reviews that are conducted by the I&PA.

Research establishes the fact that the UK have moved on from the detailed MPR process that Australia based its approach to the MPR, some ten years ago. Defence has reached out to our MoD counterparts to seek further advice on why and how the UK NAO has shifted its focus away from Project Management reviews to assessing the affordability of Capital Investment Plans.

Recommendation 4: *The Committee recommends that the Department of Defence devise a single methodology to calculate the cost per flying hour for fixed wing aircraft and helicopters, and use this single methodology in all internal and public reporting and in responses to queries from the Australian National Audit Office. Defence should provide this information to the Committee prior to the first sitting week of 2018.*

Defence considers that the appropriate methodology to calculate the cost per flying hour is the cost of sustainment, crew, and fuel that are directly linked to the platform, divided by the flying hours of the aircraft over the relevant period.

Defence will develop definitions for each of sustainment, crew, fuel and flying hours, which will allow comparisons of the same platform over time.

The definitions will also be consistent between aviation platforms as far as possible. However, it may not always be possible to measure each component of the cost per flying hour equation in exactly the same way between different aircraft. This may reflect, for example, engineering factors or contractual arrangements with suppliers. Using the cost per flying hour data to compare different platforms should be done in consultation with Defence.

These definitions will be included in an updated version of the internal manual *Resource Costing Manual: Usage Costs for Defence Resources and Assets (FINMAN 4)*. FINMAN 4 is available to all Defence staff. Once the update is complete, the requirement to use FINMAN 4 definitions in providing advice on cost per flying hour will be widely communicated within Defence.

The revised FINMAN4 will include explanatory information concerning each platform, including the elements that are unique to the particular platform’s cost structure. This will assist Defence to present information in like-for-like assessments.

Financial Reporting 2017-18 MPR

The financial information for projects to be reported in the MPR will be disclosed and reported on the same basis as project approvals and expenditure represented in the Portfolio Budget Statements, Portfolio Additional Estimates Statements and the Defence Annual Report. Project financial data will be extracted from Defence's financial information management system which is subject to a financial statement audit annually.

The presentation of project financial information on this basis provides for consistency of disclosure throughout the appropriate budget papers, audit documents and compliance of performance disclosure in the Defence Annual Report.

CASG Risk Management Reform

CASG commenced a two-year program in July 2017 to remodel risk management in Defence acquisition and sustainment to implement a CASG Risk Management Model that integrates with the Defence Enterprise Risk Management Framework. The model is designed to provide a greater degree of assurance in the management of risk and will position Defence for acquisition and sustainment activity across the next decade.

In November 2017, Deputy Secretary CASG released the initial version of CASG's Risk Management Model at Initial Operating Capability, including the CASG Application Map that sets out the group-level internal risk structure.

Professionalisation to underpin the Group model implementation has commenced with risk leadership coaching during the development of CASG's set of Risk Profiles. CASG's initial baseline of Divisional Risk Profiles is in final preparation and the initial CASG-level Risk Profile is in development.

Lower level detail for CASG's Risk Management Model is being developed in stages. Work to align three risk management practice areas is currently prioritised: project management, safety, and commercial management.

AIR 87 Phase 2 (Tiger Armed Reconnaissance Helicopters (ARH))

Since the 2016-17 MPR reporting period ended at 30 June 2017, Defence can provide the following update on the Tiger ARH Final Operational Capability caveats.

The Electronic Warfare Self-protection System and the Identification Friend or Foe system have been remediated and closed. The status of the caveats against missiles, ammunition, spare parts and consumables, Class IX fly away kits, and support are currently being reviewed by Army for consideration for closure.

The remaining caveats against communications and mission planning, and availability and rate of effort remain issues for the Tiger ARH capability. Defence and Industry continue efforts to remediate these issues to maximise the capability that the Tiger ARH system delivers to Army.



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PROJECT ASSURANCE REVIEWS DELIVERY CONFIDENCE GUIDE FOR REVIEW TEAMS

How to use this guide

This guide is intended for Review Team Leaders and Members who are about to conduct an assurance review, which includes an assessment of Delivery Confidence. It will also be of interest to Senior Responsible Owners (SROs) and Programme/Project teams preparing to be reviewed.

What is Delivery Confidence?

Delivery Confidence is the confidence in the project or programme's ability to deliver its aims and objectives:

- within the timescales
- within the cost envelope
- and to the quality requirements including the delivery of benefits, both financial and non-financial
- all as laid down in the most recent formally approved mandating document (e.g. PID or Business Case)

Delivery Confidence reflects:

- specific issues or risks that threaten delivery to time, cost and quality and jeopardise the delivery of benefits
- the Review Team's professional judgement of the likelihood of the project or programme succeeding even though there may be no definitively clear evidence either way
- the resilience of the project or programme to overcome identified shortcomings or threats

Delivery Confidence is influenced by:






- a project or programme's use of established best practice
- generic indicators of project/programme health which are outlined in this guidance.



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Definition of Delivery Confidence

The assessment of Delivery Confidence will be based on the following definitions:

Colour	Criteria Description
	Successful delivery of the project/programme to time, cost and quality appears highly likely and there are no major outstanding issues that at this stage appear to threaten delivery.
	Successful delivery appears probable. However, constant attention will be needed to ensure risks do not materialise into major issues threatening delivery.
	Successful delivery appears feasible but significant issues already exist requiring management attention. These appear resolvable at this stage and, if addressed promptly, should not present a cost/schedule overrun.
	Successful delivery of the project/programme is in doubt with major risks or issues apparent in a number of key areas. Urgent action is needed to ensure these are addressed, and establish whether resolution is feasible.
	Successful delivery of the project/programme appears to be unachievable. There are major issues which at this stage do not appear to be manageable or resolvable. The project/ programme may need re-baselining and/or overall viability re-assessed.

Deriving a Delivery Confidence Assessment

The Review Team should base their assessment of Delivery Confidence on the evidence they have gathered as part of the review. To assist Review Teams this guide includes descriptions of a number of indicators of project and programme health that should be considered in addition to the time, cost and benefits realisation dimensions. **These indicators are not intended to be exhaustive.** All projects and programmes are different and the Review Team should also take account of any major concerns, challenges, examples of best practice or other attributes that are unique to the project or programme when reaching their assessment.

This guidance includes the RAG definitions for each of the elements or indicators that inform the Delivery Confidence rating. Definitions have only been given for Red, Amber and Green; Amber-Red and Amber-Green can be used to reflect a status that lies in between. Review Teams may find it helpful to informally “score” the different elements as part of their deliberations but they are not expected to record an individual RAG score for each of the elements. Review Teams should remember that **the Delivery Confidence assessment is not a calculation** and these elements are not the only factors that should be considered when making an assessment of Delivery Confidence.



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Delivery Confidence and a Project's Life cycle

Assurance reviews take place at different points in a project's life and the Review Team will need to consider the relative importance of the individual aspects of Delivery Confidence given the stage the project has reached. When a project is being set up and has yet to complete its business case then the clarity of any scope, the viability of the governance structure and the buy in from 'the top of the office' may dominate the Delivery Confidence assessment. While those factors are likely to be some of the key determinants of success for any project, later in its life cycle the appropriateness of processes being used and the skills and capabilities available to the project will also acquire more weight. In the early life cycle stages, management processes such as planning, risk management, etc. are often being developed, and a full complement of skilled resources has yet to be recruited.

Delivery Confidence is not an assessment of theoretical deliverability in isolation

The Review Team may consider that the project's aims are quite capable of being achieved and may even have seen examples of similar projects that have succeeded. The Delivery Confidence assessment is about whether the project, as constituted and on its current trajectory, is likely to achieve a successful outcome. When making their Delivery Confidence assessment Review Teams are not expected to consider every scenario that might affect a project's progress but to reasonably extrapolate from the project's past progress, current status and declared plans whether a successful outcome will be achieved. For example, if the review team considers that a project is likely to fail but that superhuman (and currently unplanned) efforts might salvage it, then their Delivery Confidence rating will be Red and the report should include appropriate recommendations designed to increase the likelihood of success. When forming their view of Delivery Confidence, Review Teams should **consider the project as they found it and prior to the implementation of any recommendations** included in their report.

Delivery Confidence is a holistic view

The Guidance in this document contains considerable detail about the many dimensions that could be used to assess a project. It is important that these are not used in isolation and that Review Teams consider the overall coherence of the project and the way in which the various components or levels fit together. It is possible for Delivery Confidence to be quite low for a project that has many areas of excellence that are nonetheless sadly out of step with each other. When a project is part of a wider programme, lack of coherence between the project's aims and progress and the higher-level programme's vision can jeopardise the likelihood of either achieving success.

Delivery Confidence and assurance review recommendations

The aim of any assurance review is to help ensure the project/programme achieves a successful outcome and many recommendations will naturally focus on immediate priorities. The Review Team should ensure that they **also** include appropriate recommendations to address key issues they have identified to help the project/programme achieve a successful outcome in the longer term. Each recommendation must be assigned a priority rating based on the following definitions:



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Critical (Do Now) – To increase the likelihood of a successful outcome the programme/project should take action immediately

Essential (Do By) – To increase the likelihood of a successful outcome the programme/project should take action in the near future

Recommended – The programme/project should benefit from the uptake of this recommendation

Wherever possible Essential and Recommended recommendations should be linked to project milestones or a specific date.




The Delivery Confidence assessment is not directly linked to the level of priority given to all or any of the individual recommendations. It is therefore possible for a Review Team to have a very high level of confidence in the project's ability to deliver and assign it an overall Delivery Confidence rating of Green, while at the same time identifying one or more recommendations that are very important and need to be actioned immediately.

Elements of Delivery Confidence

The following sections contain guidance on the key aspects of Delivery Confidence:

Time

This reflects the confidence that the project or programme will achieve its declared End Date:




Colour	Criteria Description
	The project/programme is on or ahead of schedule.
	The project/programme is behind schedule but has realistic plans to recover.
	The project/programme is behind schedule and is likely to be delivered late. The project or programme plan is likely to require re-baselining.



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Total Project/Programme Costs

This assessment should be based on the figures quoted in the Outline/Final Business Case as drawn up in line with Treasury Guidance:

Colour	Criteria Description
	The project/programme costs are on or below budget.
	The project/programme costs are over budget but with realistic plans to recover.
	The project/programme costs are likely to be over budget to a degree that re-baselining will be necessary.

Benefits (Financial and Non-Financial)

This reflects the confidence that the project or programme will realise, or deliver, its intended benefits. For the (rare) projects whose scope is to only deliver capability and where the delivery of benefits is covered in a different part of the programme, or is deemed to be the responsibility of BAU, this element may focus on the quality of the outcome:

Colour	Criteria Description
	The Project/Programme is confident of delivering benefits.
	The Project/Programme is experiencing some issues in ability to deliver benefits but the situation is recoverable.
	Benefits delivery is at serious risk.

Aims and Scope

The Aims and Scope indicator considers:




- The boundaries of the project/programme in terms of processes, functional areas and organisations
- What is included in the scope of the project/programme and what is not
- The definition of outcomes and benefits, with tangible measures and an understanding of the evidence required by which success will be judged – this will normally include timescales



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- The degree of clarity, stability and understanding by stakeholders of the above as a solid foundation for the project/programme




This aspect should include an assessment of how well defined the Vision is and the stage of development of the overall design, e.g. target operating model and technical architecture. The fit between the project or programme's aims and any wider departmental aims should be considered, as should the translation of policy into a delivery project:

Colour	Criteria Description
	The project/programme scope is well defined and stable. Project/programme Aims are well defined with clear Critical Success Factors (CSF).
	The project/programme scope is unstable and attention should be given to this area. Project/programme aims are also varying/suffering from a lack of clarity and definition.
	The project/programme scope is unclear and not supported by a change control process. Project/programme aims and CSFs are not defined.

Governance

The Governance indicator considers:

- Whether the project/programme has appropriate decision making processes and structures in place with defined responsibilities
- Whether mandates at all levels exist so there is clarity over who is responsible for what, and who accounts to whom for what
- Whether decisions are being made at the appropriate level in accordance with mandates
- Whether project/programme Governance arrangements are evolving as the programme matures to reflect varying stakeholder requirements and emerging needs
- Whether project/programme Governance is linked with the Governance arrangements within the parent or target business

Colour	Criteria Description
	An effective and clear governance structure has been implemented, which is setting direction and actively managing major project/programme issues on a regular basis. All appropriate stakeholder groups are represented within the process.
	A governance structure has been implemented, setting direction and actively managing major project/programme issues on a regular basis. Not all stakeholder groups are represented within the structure, and or the structure is not entirely clear.
	No governance structure is in place, or the existing governance structure is ineffective, e.g. too few stakeholders are represented/poor attendance/the governance structure is unable to resolve project/programme issues.



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Skills and Capabilities

The Skills and Capabilities indicator considers the overall level of skills and capabilities in place within the project/programme now, as well as their projected availability in the future. Specifics include:

- The skills, capabilities and experience required at the various stages of the project/programme,
- The numbers of people already on the team compared with those required,
- The capability of suppliers to deliver what is required to time and quality,
- The availability of appropriate capabilities, either by direct employment or through third parties, such as consultants.

The focus of this indicator is whether the skills and capabilities are in place or not – there may be a linkage with financial resources available to provide those skills, or if there are shortages, it may be due to a lack of available skills in the overall market.

This aspect will include the skills, capacity and capability of the SRO, Programme Director, Project Manager etc. as well as the capacity and commitment of resources that are not part of the formal project team, for example, Board members and specialist resources that might be external to the project:

Colour	Criteria Description
	The project/programme is fully resourced, and there are no major skill gaps on any of the work streams.
	There are shortages of skills and resources that may cause issues for the project in terms of schedule or quality.
	There are significant skills shortages, or lack of resources that are impacting very significantly on project schedule or delivery quality.

Key Processes

The Processes indicator considers how well key project/programme processes are established including:




- Programme and project planning, progress monitoring and reporting
- Risks and Issues management
- Benefits management
- Communications
- Dependency management
- Procurement



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Reviews should consider where the project or programme complies with established best practice in programme and project management, while respecting the fact that the unique needs and environment of each project may require individual approaches and additional custom made processes. Furthermore, the review should take into account the life-cycle stage when assessing the processes: at an earlier stage, processes may not necessarily be fully developed and implemented. The effectiveness, appropriateness and maturity of the processes should be considered, as should the existence of other project assurance mechanisms.

Risk and issue management, as a process, is included in this indicator. However, the actual risks facing the project/programme can potentially fall across all and any of the indicators:

Colour	Criteria Description
	Processes fully established in line with best practice and being carried out with a high degree of confidence and effectiveness.
	Processes only partially established and needs attention and resources to bring up to the required standard.
	Processes not established – major work is needed to set these up.

Dependencies




The Dependencies indicator considers:

- The major external factors upon which the project/programme depends, and over which it may have little or no ability to manage directly, for example legislation, third party activities (e.g. Trade Unions) or other major initiatives in other Government Departments
- The overall complexity of the project/programme in involving other agencies

The relative priority given to the project/programme in the Department, the fit with the Department's objectives and the support at Board and Ministerial level should be considered along with the project/programme's approach to the management of the wider stakeholder community. This Indicator is a reflection of major risk factors impacting on the project/programme from external sources. It is fully recognised that some such external dependencies may well be not manageable by the programme:



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Colour	Criteria Description
	All project/programme dependencies have been identified. Communication channels have been put in place to deal with any changes to plans that affect any of the dependent parties. There are no dependencies that will impact successful delivery of either this programme or a dependent programme.
	There are issues, which may delay, or cause material changes due to a dependency on an external party. These issues are identified and can be resolved through procedures already in place. Although the programme dependencies are identified, plans are not integrated with external parties or other dependent projects.
	External dependencies threaten successful delivery of the project and there is no plan to resolve them. Project/programme dependencies have not been identified.

Business Readiness to Change




The Business Readiness indicator considers the readiness and capability of the parent or target business to manage and support the change, ensuring any required new processes are defined, the affected parts are ready, willing and able to utilise the new processes and systems. This is essentially the ability to work the business change through the organisation(s)/system(s) to deliver the long term benefits and includes activities such as:

- The impact of changes and the risks involved have been analysed and are actively being managed,
- Any required new or changed processes have been defined or plans exist to do this,
- Stakeholders and staff are actively preparing for the transition. Business Change Plans have been built and are being executed,
- The appropriate communications and training are being provided,
- Incentives are being provided to business staff to realise the change.

The project's approach to all aspects of benefits management should be considered including any plans for transition management and the extent to which they include responsibility for benefits realisation and monitoring after the project has closed and for embedding the project outcomes in business as usual:



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Colour	Criteria Description
	The framework of activities detailed are underway and on track.
	Issues exist in this area but these issues are manageable. If the issues are addressed, this area should not cause difficulties for the project.
	There is little or no evidence of significant progress to establishing the required framework. Immediate attention to this is required if long term benefits are to be achieved through business change

For further information and guidance:

Email: Gateway.Helpdesk@ipa.gov.uk

Web: <https://www.gov.uk/government/organisations/infrastructure-and-projects-authority>