

CEO Opening Statement

DMO is a large organisation that is committed to reform, and we accept that change is an essential constant in our business. I welcome the role of this Committee and, more broadly, audit activities in identifying areas for DMO improvement.

I am committed to ongoing investment in the DMO MPR. I view the DMO MPR as an important report to Parliament as it gives an open account on the DMO's performance in the management of our largest acquisition projects; both as individual projects and from a portfolio perspective. This broad view is important in setting the context for our performance on individual projects.

I am proud to be the CEO of the DMO, and I am very proud of its people and the work they do in supporting the ADF. Certainly, as our Ministers have made clear, there are areas where we must continue to improve. On behalf of the DMO leadership I can assure you that we are absolutely committed to doing that. I know that is a commitment also shared by all of Defence's leaders.

The DMO role and that of Defence industry are high profile; our business is complex, often high risk and always challenging. At times our performance comes in for criticism. Some of that criticism is well-founded and we need to acknowledge that. But to take that criticism and simply apply it across the board to all aspects of the DMO's performance is both inaccurate and unfair.

Behind the newspaper headlines of "cost blowouts", "schedule delays" and the perceptions of an "unwieldy" bureaucracy there is a lot of good work going on. We have achieved many important milestones. I spoke about just some of those at the recent ADM Congress. Most importantly, we are on track to deliver more equipment critical to the ADF in 2011.

I would first like to address some public criticism resulting from the publication of last year's MPR:

1. **Firstly, Cost Blowout:** There is no cost 'blowout' – after allowing for the standard provisions in large scale contracts – for example, accounting for price indexation, foreign exchange variations, government approved changes to scope and budget transfers - the net variation for the 22 projects in the 2009-10 MPR was actually -0.7 percent (or -\$340.8 million) under their Second Pass Approved Budget.
2. **Secondly, Schedule Delay:** In relation to projects like HF Modernisation, for example, the concerns with schedule delay need to be put in the context that much of the equipment is already in use. The project may still be open – and as such the schedule clock is still ticking – because we are waiting for either final deliveries or final acceptance approvals.

Whilst on the subject of misleading media reporting, I would like to draw your attention to a recent article published by Air Power Australia (23 Feb 11), entitled '*An analysis of Defence Materiel Organisation Major Projects Management and what needs to be fixed*'. It goes to some length in outlining what it sees as problems within the DMO at both the enterprise and project level and heavily references previous MPRs, Mortimer and draws international comparisons (namely the UK and US). The article is largely historical, criticises the reforms approved by Government since 2004, heavily biased against the DMO, and lacks the context that you find in the MPR or other more balanced media reports. Articles such as this are not helpful and provide little constructive feedback that we can use in the interests of reform and making real business improvements.

Speaking of reform and business improvements, the Mortimer reforms are starting to bite now, as I said at the recent ADM Congress. We're working on those reforms with the Capability Development Group and with the Chiefs of each of the Services. For our own

part, the Government wants independent advice from the DMO on commercial risks and we have put in place the processes to deliver that advice.

Many of the *challenges* we face in delivering and sustaining equipment for the ADF require the best collective efforts of DMO and Industry. Analysis of data shows that schedule, and not cost, remains the biggest concern. Further we see that our performance is significantly affected by the nature of the projects we are undertaking

With over 300 programs and fleets under management at any one time and less than 15 on the projects of concern list, I think it is important to acknowledge that we are doing many things right. But the projects of concern do highlight that the DMO and Industry must continue to improve performance.

As you would no doubt be aware, the DMO provides input during each phase of the capability life cycle; however, it is only directly accountable for a part of this cycle – that is acquisition, support and disposal of materiel. This is commonly referred to as the ‘post second pass’ activity. This understanding is crucial to an accurate measurement of the DMO’s performance.

It is widely acknowledged that “getting it right early” is critical to a project’s success. The Mortimer Review addressed this issue in some depth and called for a far greater attention and emphasis on the early development phases of projects. The then Minister Combet is on the public record citing studies that show that 90 per cent of discretionary decisions are made in the first 10 per cent of a project’s life. This also rings true from a schedule perspective. Smart project management and engineering will make it easier to deal with schedule pressures that occur during the production phase of a project, but it is tremendously difficult to address schedule delays that occur because ‘we didn’t get it right’ in the pre-second pass phases.

Traditionally schedule has been measured against the milestones for delivering a capability into service. This is understandable and is the primary interest of the Capability Manager (in most cases, the Service Chiefs). However, these operational capability milestones are not the most appropriate measure of DMO performance.

The DMO’s materiel supplies are just one element of a number of inputs – known in Defence as fundamental inputs to capability – that a Capability Manager must bring together to operationally employ a capability. As a result, in 2009-10 the DMO began reporting against two new milestones: Initial Materiel Release and Final Materiel Release (or IMR and FMR). These are the points in a project’s life where the materiel element – or the DMO input - of the capability transfer to the Capability Manager to support achievement of Initial or Final Operating Capability (IOC or FOC). These IMR and FMR milestones provide greater clarity of the separate responsibilities for the DMO and Capability Managers.

As I said earlier, the DMO is committed to pursuing ongoing business improvement and learn lessons from the past. This is why the Major Projects Report initiative is important. I would now like to take the opportunity to discuss aspects specific to the MPR Program.

MPR Chronology Summary

I will start with a brief chronology of the MPR so that you can gain a sense of how we have got to this point. Since its initial recommendation by the Foreign Affairs, Defence and Trade References Committee in 2003, supported by the JCPAA in 2006, the intent of the MPR has been to enhance the transparency and accountability of the performance of DMO’s major projects through an ANAO independent assurance.

Since Tabling of the ‘Pilot’ report in November 2008, the content and format of the MPR has been considerably improved. For instance, all recommendations made by the JCPAA in its Report 416 (*Review of the Major Projects Report 2007-08*) (issued November 2009) have been implemented in close consultation with the ANAO. We started with nine projects and

have increased to 28 for 2010-11 report. Over this time we have also worked hard to enhance the overall flow and readability of the MPR.

I also seek to note that the robust working relationship we have with the ANAO has directly contributed to the increasing value of the MPR.

Lessons Learned Summary

Now to lessons learned. Our learning is growing with each MPR. Now in its fourth year, the MPR allows for enhanced longitudinal analysis across cost, schedule and materiel elements of capability for our top projects. This analysis is expected to provide greater insight into any root cause issues that can be addressed.

The ANAO has, in previous MPRs, noted the disparate systems and processes currently in use in the DMO. We are committed to continual improvement in the development and application of our business systems, supported by robust policy and controls. This reform will be driven to best align our business processes and tools to the wide range of projects we manage. Of course, this is not an overnight activity and nor will a single solution meet the diversity of project requirements.

MPR Schedule

The activity in establishing the annual MPR Program requires an enormous amount of work. The schedule draws together the requirements and expectations of numerous stakeholders, demanding careful consideration and planning. In summary, the 2010-11 MPR program schedule can be broadly split into three stages. The first stage has focused on developing the management documents to govern the DMO-ANAO work across the year and preparing the 28 DMO projects for the year ahead. The second stage, starting in March and ending in June, involves the ANAO on-site project review for each of the 28 projects. The third stage starts in July and will focus on finalising the PDSS with EOFY data and developing the analysis for the 2010-11 MPR. Tabling by the ANAO is planned for mid November.

I have every confidence that the 2010-11 MPR Program schedule will be achieved.

Entry Criteria

Now to address a number of issues on which we seek JCPAA direction. The JCPAA Report 416 (*Review of the Major Projects Report 2007-08*), set in place the principle MPR entry criteria for DMO projects. We continue to support these criteria and believe it provides the DMO, ANAO and JCPAA with a robust mechanism to select those projects that will be of most value to the MPR process.

POC Process

This brings me to the 'Projects of Concern' (or PoC) process. As you would be aware the PoC process is designed to assist projects in overcoming complex or seemingly intractable technical and commercial issues at a point in time. A project remains a POC until it is remediated or a longer term solution identified at which time it is removed from the list.

Any proposal to include projects identified as a PoC (outside of the formal MPR entry criteria that I have just discussed) needs to be carefully considered. The PoC list is subject to frequent reviews, adjustment and Ministerial oversight, and is quite separate in its intent to the MPR.

To include PoC projects would have adverse impacts; in particular it has the potential to compromise overall MPR trend analysis if PoC projects are frequently moved on and off the MPR. It would also mean the removal or deferment of other current/potential MPR projects (which represent significant spend and capability) in order to not exceed the agreed cap of 30 projects.

Whilst on the topic, I would note also the very recent comments from the UK defence establishment where they are looking to introduce a system that mirrors our 'Projects of Concern' regime – you could say that this is testament to the highly effective way that DMO, in partnership with the relevant industry suppliers, escalates issues and applies senior management intervention to deliver real change in troubled projects.

Exit Criteria

A further matter for JCPAA consideration is the exit criteria for projects. When the MPR was developed several years ago, Final Operating Capability was considered to be the logical end point at which projects would qualify for removal from the MPR. However, in February 2010 the Department's Defence Committee agreed to the concepts of Initial Materiel Release and Final Materiel Release to explicitly define the points at which the materiel element of capability is formally transferred from the DMO to the Capability Manager. This change acknowledges that achievement of Final Operating Capability is the responsibility of the Capability Manager and not the DMO. Hence Initial Materiel Release and Final Materiel Release, - not Final Operating Capability - provide the best measurement of the effectiveness of DMO.

I would recommend that any discussion regarding project exit criteria would need to be undertaken in the context of both Final Material Release and Final Operating Capability.

In conclusion, the DMO accepts that change is an essential part of our business. But there is one thing that never changes; it is our responsibility – collectively – to deliver the best equipment and support to our warfighters. Anything less than a single-minded commitment to this goal is not good enough.

Thank you.