MINISTER FOR DEFENCE
THE HON DR BRENDAN NELSON MP

19 MAY 2006

Senator Steve Hutchins
Chair
Senate Foreign Affairs, Defence and Trade Legislation Committee
Parliament House
CANBERRA ACT 2600

Dear Senator Hutchins Steve

I refer to the *Senate Foreign Affairs, Defence and Trade References Committee report from the Inquiry into Materiel Acquisition and Management in Defence* of March 2003.

In that report, the Committee recommended (Recommendation 4) that during Budget Estimates, the Defence Materiel Organisation should table an audited summary of the feedback provided by industry to the Defence Materiel Organisation through the 360° Degree ScoreCard process, before the Senate Foreign Affairs, Defence and Trade Legislation Committee. The Government agreed to respond to that recommendation.

Accordingly, I enclose an audited summary of the outcomes of the third and fourth formal rounds of 360° View ScoreCard reporting. The audited summary is accompanied by a statement from the independent auditor who undertook the audit task. The statement confirms that there were no irregularities found, and that the data taken from industry responses support the outcomes of the 360° View ScoreCard report.

I trust this information will be of assistance to you.

Yours sincerely

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Encl

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BACKGROUND INFORMATION - 360° View ScoreCard Program

1. The 360° View ScoreCard Program is industry's opportunity to assess the DMO's performance as a project and contract manager. Prime contractor's participating in the reciprocal Company ScoreCard Program (DMO's assessment of contractors) are invited to participate in the 360°View ScoreCard Program.

2. Reporting is conducted continually over two 6 month reporting cycles of April to September and October to March.

3. The program helps the DMO Executive assess the performance of its System Program Offices (SPOs) as part of a continuing process designed to improve the management of contracts and projects by the Organisation. Analysis of the results from the ScoreCard Program is provided to the DMO Executive on an ongoing basis.

4. Industry provides feedback on the understanding that its ratings and comments remain Commercial-in-Confidence.

5. To date, four formal rounds of the program having been conducted, each covering a six month reporting period. The latest round for which results are available - Round 4 - covers the period April to September 2005.

6. The categories against which industry rates the performance of DMO are as follows:

a. **Schedule Performance** – DMO's ability to meet agreed milestones and monitor and review contract schedule.

b. **Contract Management** – DMO's management of the contract under the agreed Terms and Conditions.

c. **Cost Drivers** – DMO's understanding of the significant cost drivers impacting on the success of the contract.

d. **Requirements Management** – the extent to which the DMO Project Office understands, applies and manages the requirements.

e. **Intellectual Property (IP) Management** – DMO's effectiveness in managing Intellectual Property.

f. **Relationships** – the way in which Project Offices exhibit reasonable and cooperative behaviour and foster constructive business relationships.

g. **Australian Industry Involvement (AII) Requirements** – DMO's effectiveness in articulating and implementing its Industry Requirements.

360° SCORED REPORT

A Summary of Outcomes of the Third and Fourth Round

Report to Senate Foreign Affairs, Defence and Trade Legislation Committee

May 2006

Prepared by:
Contractor Performance Section
Industry Assessment Branch

Introduction

1. The 360° ScoreCard program administered by the Defence Materiel Organisation (DMO) provides defence industry with the opportunity to comment on DMO's performance in managing important acquisition and in-service support contracts.

2. The program helps the DMO Executive assess the performance of its System Program Offices (SPOs) as part of a continuing process designed to improve the management of contracts and projects by the Organisation.

3. Industry provides feedback on the understanding that its ratings and comments remain Commercial-in-Confidence.

4. To date, four rounds of the program having been conducted, each covering a six month reporting period. The latest round for which results are available - Round 4 - covers the period April to September 2005.

5. For Round 3, invitations to participate in the program were sent to 70 contractors covering 138 contracts valued at $28.7bn. Responses were received from 48 contractors covering 103 contracts valued at $22.3bn.

6. For Round 4, invitations to participate in the program were sent to 77 contractors covering 162 contracts valued at $31.0bn. Responses were received from 42 contractors covering 101 contracts valued at $23.8bn.

7. The categories against which industry rates the performance of DMO are as follows:

a. **Schedule Performance** – DMO's ability to meet agreed milestones and monitor and review contract schedule.

b. **Contract Management** - DMO's management of the contract under the agreed Terms and Conditions.

c. **Cost Drivers** – DMO's understanding of the significant cost drivers impacting on the success of the contract.

d. **Requirements Management** – the extent to which the DMO Project Office understands, applies and manages the requirements.

e. **Intellectual Property (IP) Management** – DMO's effectiveness in managing Intellectual Property.

f. **Relationships** – the way in which Project Offices exhibit reasonable and cooperative behaviour and foster constructive business relationships.

g. **Australian Industry Involvement (AII) Requirements** – DMO's effectiveness in articulating and implementing its Industry Requirements.

Summary of Company Ratings

8. A summary of aggregate performance scores for Rounds 1-4 of the program is shown below in Table 1, based on a scoring system summarised in the Attachment.

Table 1. Aggregate Performance Scores - By Round

Performance Round	Performance Score	Performance Summary	Number of ScoreCards Assessed
Round 1	663	Needs Improvement	83
Round 2	698	Needs Improvement	90
Round 3	699	Needs Improvement	103
Round 4	706	Acceptable	101

9. Table 2 below sets out aggregate scores for each of the program's performance categories, including the key categories of Schedule Performance, Contract Management and Cost Drivers.

.Table 2. Performance Level by Category - By Round

Performance Round	Schedule Performance	Contract Management	Cost Drivers	Requirements Management	IP Management	Relationships	Australian Industry Involvement
Round 1	MA	AC	MA	AC	AC	AC	AC
Round 2	AC	MA	AC	AC	MA	AC	AC
Round 3	MA	AC	AC	AC	AC	AC	AC
Round 4	AC	AC	AC	AC	AC	AC	AC

VG = Very Good, AC = As Contracted, MA = Marginal, UI = Unsatisfactory but Improving
UN = Unsatisfactory

10. The results from Rounds 1 - 4 of the program have been independently audited to ensure that they properly reflect industry's assessment of DMO's performance.

Attachment

ScoreCard Weighting and Scoring System

Companies provide five performance ratings. These are converted into Performance Scores for each performance category. These scores can be aggregated across scorecards and weighted for contract value to arrive at a numeric score for each performance category. The following table sets out the score for each Performance Rating.

Performance Rating	Score
Very Good	1.00
As Contracted	0.75
Marginal	0.40
Unsatisfactory but Improving	0.20
Unsatisfactory	0.00

Each performance category has itself been weighted and reflects the view that some performance areas are more critical to good project outcomes than others. The following table sets out the weightings applied to each performance category.

Performance Category	Weight
Schedule Performance	300
Contract Management	200
Cost Drivers	200
Requirements Management	80
Intellectual Property Management	80
Relationships	80
AII Requirements	60
Total	1000

This results in a performance Score being produced for each ScoreCard. To assist analysis, aggregations of ScoreCards have been weighted further by contract value. Performance Score groupings that result are as follows:

Performance Grouping	Performance Score Range
Very High (VH)	900 up to 1000
High (H)	800 up to 900
Acceptable (A)	700 up to 800
Needs Improvement (NI)	600 up to 700
Marginal (M)	500 up to 600
Low (L)	350 up to 500
Very Low (VL)	Below 350