

SECTION 1
Overview

CHAPTER 1

DMO OVERVIEW

THE YEAR IN REVIEW BY THE CHIEF EXECUTIVE OFFICER

In 2010-11 the Defence Materiel Organisation (DMO) continued to fulfil its mission of equipping and sustaining the Australian Defence Force (ADF).

The DMO is responsible for over 40 per cent of the Defence budget and is an integral part of the Defence organisation. Our status as a prescribed agency^[1] within the Defence Portfolio, clarifies and confirms the DMO's role of delivering and maintaining defence equipment using specialist commercial, engineering and project management expertise. This construct provides the basis for effective relationships with DMO's customers in Defence through clearer and more transparent roles and accountabilities for the delivery of the DMO outcomes.

For the DMO, the 2010-11 achievements are detailed in the body of this report, and the credit rightly belongs with the hard-working people, both military and civilian, at every level across DMO.

Continuing support to the ADF operations remained the first priority for the DMO. The men and women of the ADF – the DMO's customers – rely on the DMO to provide and sustain equipment to the highest levels of safety and quality. Our Ministers, Secretary and Chief of the Defence Force also demand that in delivering capability outcomes we meet our legislative requirements and provide best value for money for the Australian taxpayer.

The role of the DMO in directly supporting ADF operations includes contributions to whole-of-Defence efforts such as the Force Protection Review, rapid acquisition of equipment, meeting ongoing operational supply demands, and sustainment of materiel already procured and deployed. Through its Land Systems Division, the DMO also provides clothing and personal equipment to personnel before exercises, mission rehearsals and deployments. In 2010-11, the DMO kitted around 1,500 personnel in support of the deployment of the third rotation of Australian troops with the Mentoring Task Force in Afghanistan. This involved the provision of around 140,000 individual items of clothing and equipment – many of which had to be sized for each individual soldier.

In support of the ADF operations, the DMO works in taskforces and joint teams alongside a range of internal stakeholders – including the staff of the Vice Chief of the Defence Force, the Chief of Joint Operations and Capability Managers – and with industry. These relationships are of utmost importance to ensure that the DMO continues to perform strongly in this vital role. The DMO works closely with the three Services and other

1. The DMO is a prescribed agency under the *Financial Management and Accountability Act 1997*

Defence stakeholders to continually refresh and enhance equipment for deploying ADF units. Through a new team, known as Diggerworks, this concept is already proving highly successful.

The DMO also works with the Capability Development Group and all Capability Managers to deliver the materiel elements of new capabilities in line with the approved Defence Capability Plan (DCP). Defence industry also has a crucial role to deliver the equipment in accordance with the contracted arrangements. This is vital work that underpins the delivery of the future force outlined in the *Defence White Paper 2009*.

In 2010-11, the DMO's successes in delivering new or upgraded capabilities to the ADF included Bridging Air Combat Capability - AIR 5349 Phase 1 (airframes and weapons), Heavy Airlift Capability - AIR 8000 Phase 3 and 4, rigid hull inflatable boats and communications system upgrades for a range of land, naval and air platforms.

Notable successes have also been achieved through the formal Projects of Concern process. A combination of the DMO's intensive management efforts in conjunction with the Capability Managers and close collaboration with industry has led to effective remediation of many of these projects. In 2010-11 three projects were removed from the list, two because of marked improvements in performance and one through cancellation. Other projects that remain on the list that are now achieving good progress include the Follow-on Stand Off Weapon - AIR 5418 Phase 1, the new Anzac Ship Anti-Ship Missile Defence capability - SEA 1448 Phase 2 and Airborne Surveillance for Land Operations - JP 129 Phase 2.

Project schedule delays continue to be the greatest issue for the DMO and industry. The delays experienced on some of our major equipment acquisition programs often have many contributing elements. These delays can include overly-optimistic schedules at the outset of a project, the emergence of unidentified risks, the scale and rate of technical advancement, and industry capacity or quality issues. On the positive side there has been a tangible improvement in the schedule performance of projects commencing since the introduction of the two-pass approval process as noted on page 17. In addition, the DMO continues on average to deliver projects on or under budget.

It is vitally important that the DMO continues to set - and meet - high standards of performance, and to expect the same of industry suppliers. We have legal, ethical and moral obligations to strive for the best possible outcomes in every contract, every transaction, and in delivering and supporting every capability.

In some areas, notably in working with the Royal Australian Navy (RAN) and industry to provide and sustain amphibious supply capabilities, 2010-11 has been a particularly difficult year. The Ministers for Defence and Defence Materiel respectively have spoken publicly and plainly about their disappointment with the performance of both Defence and the DMO in this area. The DMO in conjunction with the RAN has committed to decisive action including both immediate remediation work and ensuring that the systems are in place to prevent recurrence of similar problems in naval fleets. The DMO and RAN is implementing the plan prepared by Paul Rizzo and endorsed by the Government. The maintenance of Collins Class Submarines has also been very difficult. Corrective actions are being pursued including the development of a more effective commercial framework for the Collins through-life support work. Through the Australian Submarine Corporation and Navy we are refining our approach to sustainment planning and delivery for this very important capability.

The DMO is implementing a range of other project and sustainment management reforms announced in 2010-11. For example, the DMO continues to pursue a range of commercial and contracting reforms. Many of these reforms are critical enablers of

long-term success for our Strategic Reform Program (SRP) targets. Close collaboration with our counterparts in each of the Service Headquarters and Industry have resulted in support concepts being reviewed, performance measures tested and refreshed, and contracts negotiated. The efforts in 2010-11 with C-130J aircraft support, Hawk Lead-in Fighter maintenance and the through-life support of the Over the Horizon radar network will provide significant cost of ownership reductions and examples for other areas in the DMO to follow.

Continuing attention to workforce productivity, including taking direct action to reduce the number of direct employed contractors or to convert professional service providers or military positions to Australian Public Service positions, has contributed to significant reductions in DMO overhead costs. As reported in 2009-10, the DMO has also continued to adjust workforce growth forecasts in accordance with changes to DCP schedules.

In relation to skilling initiatives, the DMO continues to achieve positive outcomes across its own workforce and in partnership with industry through a variety of initiatives. In 2010-11 more than 2,000 DMO participants were trained in core skill areas of project management, scheduling, logistics, procurement and contract management through the DMO Institute. The Executive Masters in Complex Project Management program continues to expand the knowledge base, further strengthened by the addition of a Specialist Procurement stream. Targeted recruitment and training programs also continued to directly tackle skill areas of concern to the DMO. One example was the recruitment of 19 trainee schedulers now undergoing a fast-track development program to add skilled staff to this critical job discipline for the DMO.

Programs to assist defence industry to develop the skilled workforce needed to meet current and future workloads also continued in 2010-11. For example, the Skilling Australia's Defence Industry program provided grants to 68 companies (including 15 new companies) to provide some 5,000 training opportunities for their workforce, including support for 400 apprentices. Global Supply Chain Deeds were negotiated and signed with a further two multinational primes, bringing the total number of deeds to five. Health checks of the Priority Industry Capabilities commenced to examine industry capacity in each area and to determine whether additional support measures are required.

In addition, initiatives under the Industry Skilling Program Enhancement package also continued, including the School Pathways programs in Western Australia, South Australia and the Hunter Region of New South Wales that attract and prepare school students for careers in defence industry.

The DMO had another solid year in discharging its statutory responsibilities as a prescribed agency. The achievements in terms of the unmodified financial statements and compliance with legislated financial management controls continue to demonstrate a highly professional approach. These results are particularly pleasing considering the high volume and value of purchasing and financial transactions undertaken throughout the DMO.

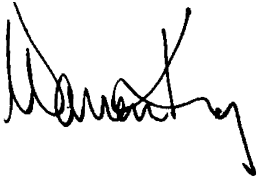
Throughout 2010-11, Dr Stephen Gumley, AO performed the role of Chief Executive Officer (CEO) of the DMO^[1] and made an outstanding contribution to the organisation. As the CEO of DMO and in his concurrent role as National Armaments Director

1. Dr Gumley retired from the role of CEO of the Defence Materiel Organisation with effect from 7 July 2011.

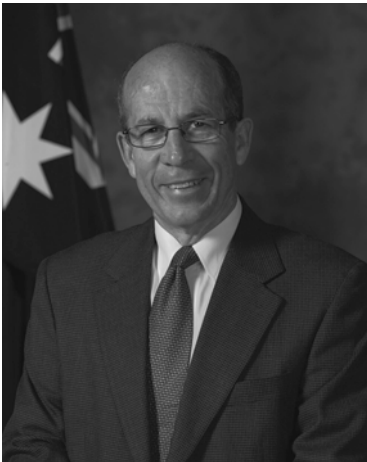
(Australia), Dr Gumley was globally recognised and respected for his tireless efforts to encourage the DMO to deliver the best outcomes for the ADF and Australia.

In this report there is much of which everyone in the DMO, can be proud and other areas in which we can all strive to improve.

I commend it to you.



Warren King
Acting Chief Executive Officer, DMO



2010-11 SNAPSHOT



Ex RFA *Largs Bay* - New Ship *Choules*

The ex Royal Fleet Auxilliary *Largs Bay*, is to be Commissioned into the Royal Australian Navy as HMAS *Choules*. The ship was purchased in April 2011 from the United Kingdom through a competitive tender process. New Ship *Choules* will significantly improve the amphibious capability the ADF needs for operations and humanitarian support missions in our regions until the arrival of the Landing Helicopter Dock ships. The ship is planned to arrive in Australia in late 2011.

F/A-18F Super Hornet
multi-role aircraft



The Bridging Air Combat Capability delivered to the Air Force on schedule and achieved initial operation capability on 08 December 2010. The support system has been further matured and the project is on track to deliver all remaining aircraft by the end of 2011, and to achieve final operational capability in December 2012.



Hull launch of New Landing Helicopter Dock Ship

The Landing Helicopter Dock (LHD) project will provide the ADF with increased amphibious deployment and sustainment capability to support an enhanced deployed force. This project will provide two 27,000 tonne ships. The first hull, LHD01 (to be commissioned HMAS *Canberra*) was launched in February 2011 and is undergoing internal fit-out.

Protected Mobility Fleet



Protected Mobility Fleet is designed to provide protected land mobility to Army combat units and RAAF airfield defence guards on operations. In May 2011, the Government announced the acquisition of an additional 101 protected mobility vehicles that will be supplied by Thales which will increase the fleet size to 838.



Jindalee Operational Radar Network

Jindalee Operation Radar Network is the ADF's network of sky-wave over-the-horizon radars and the Jindalee Coordination Centre. Working in partnership with industry, Defence aims to save \$100 million over the next decade under new arrangements for operating the radar network protecting northern Australia.

F-111 - retired in December



The F-111 is a supersonic long-range strike aircraft that was operated by No 82 Wing at RAAF Base Amberley between 1973 and 2010; retiring in December 2010 after 37 years of service. The F-111 was capable of striking at any time, taking off and landing at low speeds, flying at more than twice the speed of sound and flying close to the ground, following the terrain to avoid detection. The DMO is now responsible for the disposal activities associated with the retirement of the F-111 fleet.



C-RAM deployed in
Tarin Kowt

The Counter Rocket Artillery and Mortar (C-RAM) sense and warn force protection capability was delivered as an accelerated acquisition for urgent deployment to Afghanistan. C-RAM was delivered in-theatre with initial deployment capability achieved on 28 December 2010.

C-17 Globemaster III
heavy airlift



Heavy Air Lift Capability - AIR 8000 Phases 3 and 4, provides a highly capable long-range heavy airlift capability based around five C-17 Globemaster III aircraft. One C-17 can carry up to four C-130 Hercules payloads in a single lift and cover twice the distance in three-quarters of the time. The C-17 has completed fortnightly missions to support deployed Australian forces in Iraq and Afghanistan, and has delivered humanitarian assistance to survivors of natural disasters in Australia, and abroad (e.g. Indonesia, Papua New Guinea, Burma, New Zealand and Japan).

ORGANISATIONAL FRAMEWORK

The DMO provides acquisition and sustainment services for Defence specialist military equipment. Many of these services are complex and distinct within Defence, requiring specialist skills, management structures and business processes. As a prescribed agency, the DMO utilises a purchaser-provider model, underpinned by service agreements, to deliver commercial, engineering logistics and project management services in an accountable, outcome-focused and business-like manner.

As the head of a prescribed agency, the Chief Executive Officer (CEO) DMO has statutory responsibilities and authority under the *Financial Management and Accountability Act 1997*. The CEO DMO also has joint responsibilities to the Secretary of Defence and the Chief of the Defence Force, and is delegated powers from the Secretary to manage and allocate staff resources under the *Public Service Act 1999*.

As the National Armaments Director for Australia, the CEO DMO has cooperative links and enjoys high-level relationships with the National Armaments Directors of other western democracies.

Senior Executive Changes

There were a number of changes to the DMO senior leadership group during 2010-11, including;

- In July 2010, Major General Tony Fraser was appointed Head Program Control and Assurance, and Head Commercial Enabling Services. Major General Fraser left the DMO in May 2011.
- In July 2010, Rear Admiral Mark Campbell was appointed to the position of Head Helicopter Systems Division.
- In July 2010, the Head of Future Submarines Program, headed by Rear Admiral Rowan Moffitt, was confirmed to be a part of Capability Development Group, but remains embedded within the DMO.
- From July 2010 to December 2010, Air Commodore Roy McPhail was acting in the position of Program Manager New Air Combat Capability.
- In August 2010, Mr Ian Donoghue commenced acting in the position of Head Acquisition and Sustainment Reform.
- In December 2010, Air Vice-Marshal Kym Osley was appointed to the position of Program Manager New Air Combat Capability.
- From June 2010 to August 2010, Mr Peter Gosling was acting in the position of Special Counsel.
- In August 2010, Ms Liesl O'Meara commenced acting in the position of Special Counsel.
- In January 2011, Ms Michelle Kelly commenced acting in the position of Head Commercial Enabling Services
- In January 2011, Ms Shireane McKinnie was appointed to the position of General Manager Systems.

Senior Executive Responsibilities

As at 30 June 2011, under the leadership of the CEO DMO, the individuals of the DMO Executive had the following roles:

Deputy Chief Executive Officer to the CEO DMO, Mr Warren King

Programs managed by Deputy Chief Executive Officer (DCEO) are likely to be high value (normally in excess of \$1 billion) and have significant domestic or international strategic importance and require a thorough understanding of ADF requirements, contracting options, industry structure and capability, technological challenges, business drivers and innovations for program delivery. In addition the DCEO is responsible for the Major Program Control Branch (incorporated into the expanded Independent Project Performance Office announced in late June 2011) that provides DMO's coordination for unapproved projects in the Defence Capability Plan, the Gate Review process, Early Indicators and Warnings Management Group and the Projects of Concern process.

Major Programs

General Manager Programs, Mr Warren King

The General Manager Programs is responsible for the overall management of a number of major DMO Programs including Air Warfare Destroyer, Amphibious Deployment and Sustainment, Collins Class Submarines, Airborne Early Warning and Control, and Joint

Strike Fighter. These programs have been deemed by CEO DMO to require significant program management experience and business acumen for their successful development and implementation.

Program Manager Air Warfare Destroyer, Mr Andrew Cawley

Managing the Air Warfare Destroyer Program to deliver an affordable, effective, flexible and sustainable Air Warfare Destroyer capability for the security of Australia. The Air Warfare Destroyers will provide air defence for accompanying ships, in addition to land forces and infrastructure in coastal areas, and for self-protection against missiles and aircraft.

Program Manager New Air Combat Capability, Air Vice-Marshal Kim Osley

Delivering a new air combat capability to replace the capability currently provided by the F/A-18, and maximising the level and quality of Australian industry participation on the global Joint Strike Fighter Program.

Program Manager Collins and Wedgetail, Air Vice-Marshal Chris Deeble

Transforming the business for capability development and sustainment of Collins Class Submarines and delivering submarine materiel capability that supports a world-class, Australian submarine capability. Establishing, operating and sustaining an airborne early warning and control capability for Australia.

Program Manager Amphibious Deployment and Sustainment, Mr Phill Brown

Responsible for equipping and sustaining new materiel capability of world class Naval Amphibious systems to meet ADF operational requirements.

Systems Group

General Manager Systems, Ms Shireane McKinnie

Overall responsibility for all acquisition and sustainment business conducted through the DMO's Land, Aerospace, Helicopter, Maritime, Electronic Systems and Explosive Ordnance Divisions. General Manager Systems is also the Head of Engineering for the DMO.

Head Aerospace Systems, Air Vice-Marshal Colin Thorne

Responsible for the leadership and management of the acquisition, upgrade and sustainment of all fixed wing aerospace systems for the Air Force, and continuing effective and efficient business practices.

Head Electronic Systems, Mr Michael Aylward

Responsible for acquiring and supporting electronic systems in the areas of electronic warfare, communications and command support, satellites and tactical interoperability and surveillance and control systems for the ADF.

Head Maritime Systems, Rear Admiral Peter Marshall

Transforming the business of the repair, maintenance and sustainment of maritime capability, and delivering maritime materiel capability that supports the Navy. The acquisition and upgrade of maritime capability to support the ADF. Provision of fuels, oils and lubricants to the ADF.

Head Helicopter Systems, Rear Admiral Mark Campbell

Managing the life cycle materiel acquisition and sustainment of Defence's sophisticated and multifaceted helicopter fleets and tactical unmanned aerial vehicles, and their

associated training and support systems; as well as supporting their operations globally across both the Land and Maritime domains.

Head Land Systems, Major General Grant Cavenagh

Delivering the agreed support to the ADF in the land environment including acquisition and through life support for integrated soldier systems, manoeuvre systems, vehicles, weapons, and land support systems; providing force protection enhancements for the ADF on operations; delivering a more responsive and adaptive approach for the next generation of soldier combat systems to enhance the capability of the ADF close combatant.

Head Explosive Ordnance, Mr Anthony Klenthis

Responsible for providing a dedicated focus for the cost effective and efficient acquisition and through-life sustainment of guided weapon systems and explosive ordnance for the ADF.

Commercial Group

General Manager Commercial, Mr Harry Dunstall

Dealing with strategic commercial issues on a whole of organisation basis and increasing Defence industry effectiveness and efficiency in supporting the delivery of capability to the ADF. The Commercial Group aims to improve the development of acquisition strategies, with greater consideration of cost, commercial strategy and industry involvement, and supports the CEO DMO in achieving a more business-like focus and better commercial practices throughout the organisation.

Special Counsel, Ms Liesl O'Meara (acting)

Providing specialist independent strategic level legal counsel to the CEO DMO and to senior DMO officers.

Head Commercial and Industry Programs, Mr Mark Reynolds

Facilitating industry engagement to help build the necessary strategic capabilities for the acquisition and sustainment of ADF capability through the delivery of a range of industry programs, and the delivery of a commercial and economic analysis function to better inform the implementation of industry policy.

Head Commercial Enabling Services, Ms Michelle Kelly (acting)

Coordinating and managing an improved DMO contribution to the capability development and acquisition lifecycle, and delivering contracting and financial investigation services that meet the needs of major programs and systems divisions.

Reform and Special Projects

General Manager Reform and Special Projects, Ms Jane Wolfe

Accountable for the delivery of DMO's element of the Strategic Reform Program (SRP) implementation. Working with the System Project Offices to deliver enduring sustainment savings without affecting quality, safety or capability. Working with the Services and Logistics Command to reduce inventories without affecting quality, safety or capability. Liaising with Defence Groups and Services to ensure proper management of demand by DMO customers and communication, governance and reporting of SRP deliverables. Special projects as directed by the CEO.

Head Acquisition and Sustainment Reform, Mr Ian Donoghue (acting)

Leading the DMO contribution to reform outcomes outlined in the SRP. This includes work to maintain or enhance levels of service to Defence while achieving cost efficiencies in both the purchasing and through-life support of defence equipment. It also includes managing the DMO's contribution to the Mortimer Review reforms agreed by the Government.

Other DMO Executive Positions*Chief Finance Officer, Mr Steve Wearn*

Managing and reporting on the DMO's use of financial resources and Defence's asset and inventory management and accounting, including the National Codification Bureau.

Head Human Resources and Corporate Services, Mr Peter Lambert

Managing human resources, operations support, information management and requirements, business information systems, quality management systems, strategic communications, governance, security, reporting, assurance and parliamentary liaison functions. Managing acquisition, upgrade and sustainment of logistics information systems for Defence and the ADF.

The Chief Audit Executive Officer (Mr Tony Hindmarsh) reports direct to the CEO DMO.

BUSINESS ENVIRONMENT

2010-11 Developments

In 2010-11, Defence and the DMO continued implementation of the reforms agreed as a result of the Government's consideration of the 2008 Defence Procurement and Sustainment Review (known as the Mortimer Review). These reforms build upon those identified and implemented as a result of the earlier Defence Procurement Review (the Kinnaird Review). These reforms are a critical enabler of more effective delivery of major Defence capital equipment acquisitions and the through-life support of that equipment.

On the 6 May 2011, the Government announced that Defence would accelerate implementation of all outstanding agreed Mortimer reforms as a matter of priority. Five reforms were specifically mentioned. These were:

1. Analysing the costs and benefits of projects that are not off-the-shelf purchases to rigorously review the project to assess the cost and risk against off-the-shelf purchases.
2. Establishing Project Directives to provide clear direction to Defence on decisions made by the Government regarding Defence capabilities.
3. Establishing an Independent Project Performance Office within the DMO to review projects and assist project teams to solve problems.
4. Regular reporting to Government requiring Capability Managers to provide advice on the status of capability development projects for which they are accountable.
5. Creating a more disciplined process for changing the scope of a project including the requirement that Defence seek the Government's approval for significant changes to the scope of a project.

In addition, a further four procurement reforms that build on the Kinnaird and Mortimer Reviews were announced. These were:

1. the introduction of a two-pass approval system for minor capital projects valued between \$8 million and \$20 million
2. implementation of an Early Indicators and Warning system
3. the expansion of the existing Gate Review process
4. the introduction of Quarterly Accountability Reports.

Accelerating the implementation of the Mortimer recommendations and implementing the new procurement reforms will continue to be a high priority in 2011-12.

In 2010-11 Defence made considerable progress in a number of key areas:

- Project Directives have been issued for approximately 40 per cent of approved projects for which a directive will be issued, with the remainder expected to be issued early in 2011-12.
- Defence established a framework through which the respective lead Capability Manager coordinates and manages inputs to introducing new or upgraded military capability.
- As part of the risk reduction strategies in the early stage of capability development, the CEO DMO provided independent advice to the Defence Ministers and Cabinet on

the cost, schedule and other commercial aspects of military equipment procurements in each capability development Cabinet submission.

- A suite of measures have been developed for both the individual recommendations and the reforms, in aggregate, to ensure the Mortimer recommendations achieve their intended outcomes.

In the first half of 2011, the DMO undertook initial analysis on the impact of the Kinnaird reforms. The results of the analysis demonstrated that:

- on average, the DMO continues to deliver projects under budget
- there has been a significant improvement in managing schedule delay for post-Kinnaird projects. While some projects are experiencing schedule delays, the delays were forecast to be significantly less for post-Kinnaird projects (Figure 1.2 and Figure 1.3 below)
- the DMO project managers are forecasting a 10 per cent improvement in capability delivery, that is in delivering the capability acquired as agreed by Government (Figure 1.4 below).

Figure 1.2 Schedule Slippage (Pre-Kinnaird Projects) (includes closed project data)

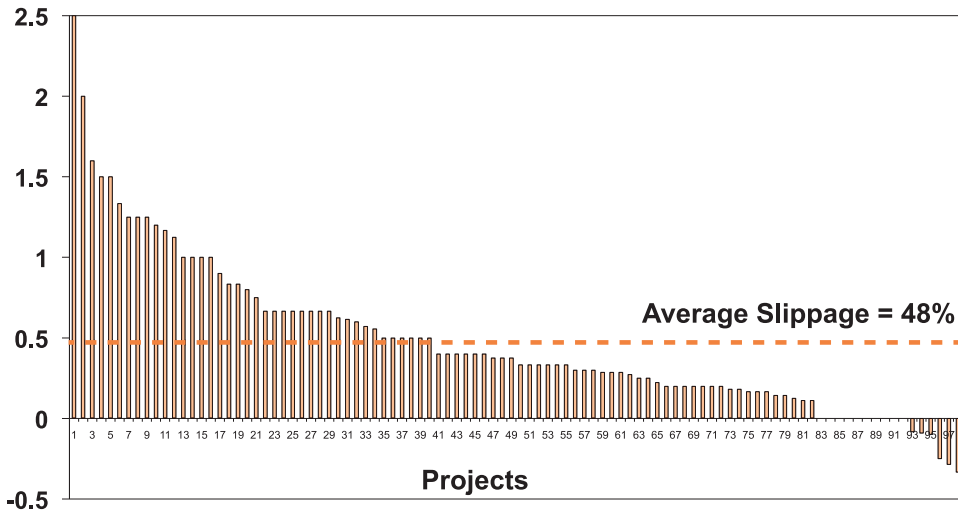


Figure 1.3 Schedule Slippage (Post-Kinnaird Projects)

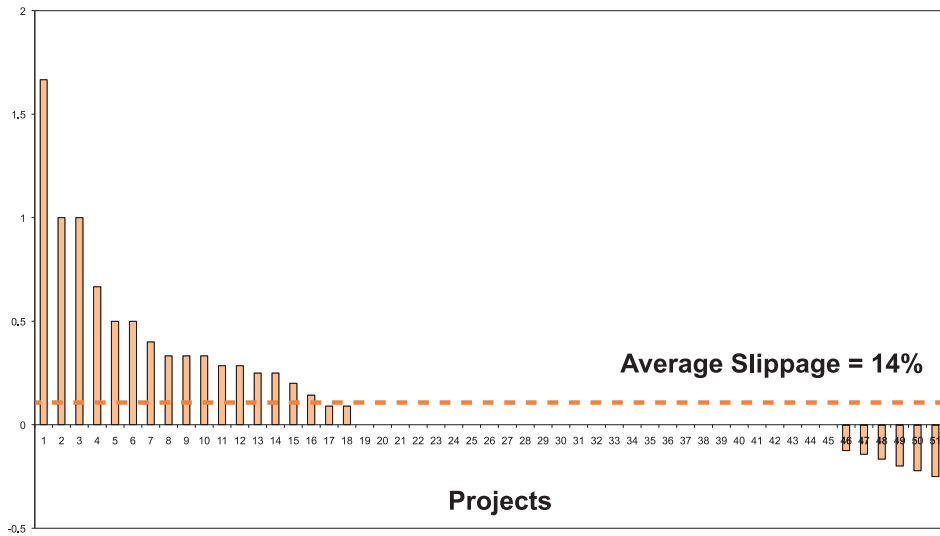
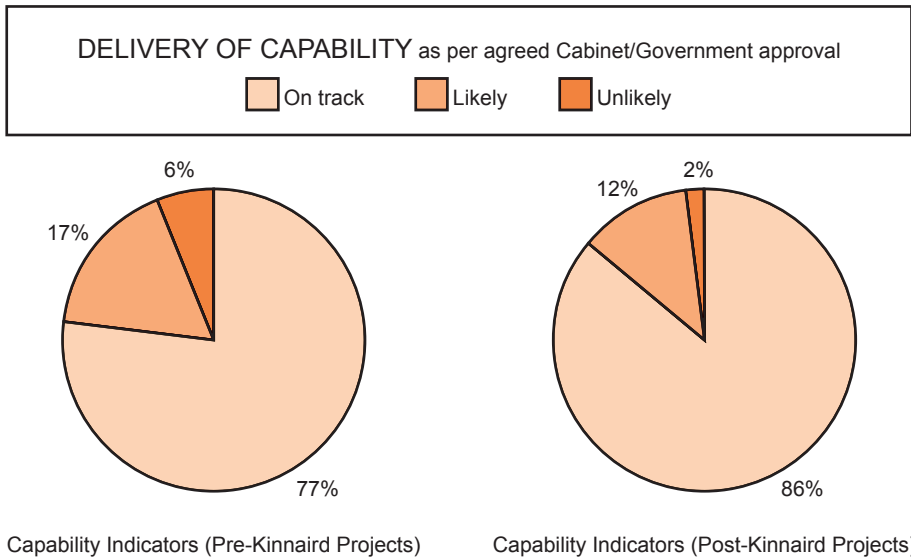


Figure 1.4 Delivery of capability



DMO STRATEGIC PRIORITIES

DMO Performance Against 2010-11 Strategic Priorities

The DMO's performance against its five key priorities for 2010-11, as identified in the *Portfolio Budget Statements 2010-11*, is outlined below.

1. Continuing support to ADF operations

Support to operations remains the highest priority for the DMO. The DMO provides support to ADF operations through the acquisition of equipment and supplies, sustainment of ADF capabilities and deployment of specialist staff.

The DMO has improved its operational procurement processes over the past years so the DMO can respond to an increasing number of short notice and limited timeframe operational materiel capability requests. Specific examples of force protection initiatives delivered at short notice or within limited timeframes include; Counter Rocket Artillery and Mortar (C-RAM) - LAND 19 Phase 7A a sense and warn force protection capability; the in-theatre fitment of increased protection systems for both the Bushmaster Protected Mobility Vehicle and Australian Light Armoured Vehicle platforms; the provision of additional electronic counter measure systems; the delivery of improved body armour and the trialling of a new combat uniform.

2. Achieving Defence Strategic Reform Program (SRP) targets for the DMO

In 2010-11, the DMO achieved its targets for all SRP streams to which it contributed.

The DMO is leading both the Smart Sustainment reform stream and the Procurement and Sustainment (Mortimer Review) stream which relate to priorities 3 and 4 respectively. It is also contributing to four other reform streams.

The DMO has:

- delivered all of the required Workforce and Shared Services savings of 224 average Full Time Equivalent staffing
- made the required contribution of \$26.3 million to the Non-Equipment Procurement stream
- contributed to ICT stream savings by purchasing enterprise licenses and rationalising the variety of software applications.

3. Working with key customers (Navy, Army and Air Force) to reduce the cost of ownership of major Defence fleets and systems

The DMO is leading the Smart Sustainment reform stream. In 2010-11, the Smart Sustainment stream achieved its savings target of \$288 million for 2010-11.

Savings were achieved through working cooperatively with capability managers (Navy, Army and Air Force) on more cost effective arrangements. Highlights for 2010-11 included whole-of-capability reviews for mine hunters, review of C-130H avionics support arrangements and co-location of maintenance and planning cells for tactical fighters. Further achievements are detailed in the case study on page 22.

Other savings were achieved through working with industry. Examples include cooperative work to revise the maintenance strategy and overhaul program for the

Hawk Lead-in Fighter, tendering for group maintenance and release of batching for ship repair and reform of the P-3 Orion mission system support contract.

Another significant contribution was made through inventory reform, where a standardised system for optimising inventory holdings is being progressively rolled out to Systems Programs Offices. Further information can be found in the case study on page 22.

4. Improving performance on procurement and sustainment

The DMO is also leading the Procurement and Sustainment reform stream. This stream relates to the outcomes of the Defence Procurement and Sustainment Review, which was chaired by David Mortimer.

The DMO established and matured arrangements that underpin these reforms in 2010-11. The Gate Review system was expanded to a larger number of projects. Similarly, the provision of independent assurance by the CEO DMO to Defence Ministers and the Cabinet on the cost, schedule and other commercial aspects of military equipment procurements in capability development submissions, has become a standard process.

The DMO analysis of almost one hundred pre-Kinnaird major projects against all currently underway post-Kinnaird major projects has demonstrated the benefits of these controls. Projects after second pass Government approval continue, on average, to be delivered under budget. There has been a significant improvement in the schedule performance of post-Kinnaird projects and there is an increase in the number of projects where project managers expect to deliver the required capability.

For sustainment improvement, a highlight has been the benefits received from the trial application of Performance and Productivity Based Contracting approach to the Naval Communication Station Harold E. Holt Base Operation, Maintenance and Support Services tender. The templates for this process were finalised, issued and applied for the first time during 2010-11.

5. Delivering approved Defence Capability Plan projects

The DMO saw extensive progress in delivery of the DCP in 2010-11. Some of the milestones for the period included:

- achievement of Initial Operational Capability for the Super Hornets through AIR 5349 Phase 1
- acceptance of two air-to-air refuelling aircraft under Air to Air Refuelling Capability - AIR 5402 Phase 1
- achievement of Initial Materiel Release for Battle Management System - LAND 75 Phase 3.4
- successful firing of the Joint Air-to-Surface Standoff Missile as part of Follow-On Stand Off Weapon - AIR 5418 Phase 1
- completion of facility construction for the Mulwala Redevelopment Project - JP 2086 Phase 1
- commencement of delivery of G-wagon vehicles under Overlander Acquisition of Field Vehicles and Trailers - LAND 121 Phase 3
- successful demonstration of phased array radar on HMAS *Perth* as part of Anzac Ship Anti-Ship Missile Defence - SEA 1448 Phase 2B

- launch of the first hull for the Landing Helicopter Dock (LHD) ships through Amphibious (LHD) Ship project - JP 2048 Phase 4A/4B
- placing the order for 101 additional Bushmaster Protected Mobility Vehicles.

The removal of the High Frequency Modernisation - JP 2043 Phase 3A and the Air Defence Command and Control Systems - AIR 5333 from the Projects of Concern List by the Minister for Defence and the Minister for Defence Materiel, was the result of considerable remediation work by the DMO and its industry partners. The High Frequency Modernisation - JP 2043 Phase 3A project completed all prime contract work whilst Air Defence Command and Control Systems - AIR 5333 achieved conditional acceptance of final capability. The year also saw the cancellation of Landing Platform Amphibious Watercraft - JP 2048 Phase 1A, which sought replacement amphibious watercraft, from the Projects of Concern list through the Government's decision to cancel the project.

Finally, 2010-11 was the year in which the iconic and long serving F-111 was withdrawn from service.

FEATURE ARTICLE

SMART SUSTAINMENT (INVENTORY AND MAINTENANCE) STREAM

The Smart Sustainment stream, incorporating inventory, maintenance and non-equipment procurement of explosive ordnance, clothing and fuel will increase effectiveness and efficiency in the maintenance of military equipment, inventory and supply chain management.

Over the decade of the Strategic Reform Program (SRP), the Smart Sustainment Stream will deliver savings of around \$5.5 billion. Smart Sustainment uses proven business improvement tools, including the Lean methodology, to develop a culture of efficiency to reduce the cost of doing business without compromising safety or capability.

The reforms are focused on:

- improved maintenance processes and reduced waste and over-servicing
- changed practices by capability users that reflect a cost-conscious approach to the use of capability
- optimising inventory stock holdings and adopting a risk-weighted approach to inventory management
- improved contractual arrangements with industry partners.

Achievements during 2010-11 have included:

- The Army has improved on maintenance planning and optimised servicing intervals across the B Class vehicle fleets.
- The Air Force and the Over the Horizon Radar Systems Program Office will achieve savings of \$100 million over 10 years by working in partnership with BAE Systems and Lockheed Martin to deliver more efficient support services to the Jindalee Operational Radar Network. The revised contracts include an extension to the original contract support periods.
- The Navy will use connectivity through Telstra's NextG network on several minor war vessels, which will allow ADF Satellite Operations to relinquish commercial satellite subscriptions worth approximately \$US2.3 million per annum with no associated loss of communications capability.
- The Air Force has embraced F/A-18 Classic Hornet improvement opportunities on multiple fronts, including co-location of maintenance and planning cells that will increase aircraft serviceability, reduce the cost of ownership and implement a continuous improvement culture.

Inventory Reform

Inventory reform focuses on optimising stock holdings through smarter purchasing decisions, improved availability planning and better management of existing inventory. This will be achieved through a range of policy and process reform, system enhancements, and education programs.

In 2010-11, the DMO completed the first phase of inventory management improvement activities through data quality and compliance improvement, standardisation of requirements determination processes, enhanced visibility of inventory holdings and increasing the quantity of purchasing transactions undertaken in an eBusiness environment. In addition, initial scoping of current procurement processes has been completed in support of the program's aim to reduce the complexity and variation of these processes across Defence in order to increase output while reducing costs.

The work undertaken in 2010-11 establishes the baseline from which future progress will be measured.

Industry Engagement

Engagement of Defence suppliers is essential for the successful implementation of the SRP as they have a unique perspective on Defence's business and have good ideas about how to implement reform. In addition, CEOs from industry have sought greater engagement on developing the Smart Sustainment reform agenda.

A series of Smart Sustainment pilot projects are being developed with a number of companies to seed new ideas as part of developing the reform agenda. All companies represented on the regular CEO Roundtables hosted by the CEO DMO have been invited to contribute ideas to further develop the reform agenda for sustainment. Good ideas received from industry are examined carefully and may then be developed further into pilot initiatives. Pilots have been grouped against a number of themes that include:

- **Overseas Lessons Learnt** - listening to overseas partners who have implemented reform; a pilot was conducted with Kelloggs Brown & Root (KBR) in May 2011 during which KBR United Kingdom (UK) and United States of America (USA) personnel shared the lessons they had learnt through exposure to reform challenges with the US and UK Defence departments, especially in the area of in-theatre support.
- **Internal Lessons Learnt** - listening to our people and sharing best practice; at a pilot conducted in June 2011, representatives from BAE Systems Australia, Navy and DMO met at the Hydrographic Systems Program Office in Cairns to trial an Integrated Project Team concept; a pilot project aimed at applying lessons learned and working seamlessly together to sustain the ADF's hydrographic capability.
- **Overheads** - removing duplication of services; a pilot will be conducted with Qantas Defence Services to examine ways to move towards a shared services model with existing Defence contracts.
- **Contracts** - reviewing existing arrangements; a pilot with Thales Australia will examine whether a contract for availability that focuses on output (availability and cost) could be successfully applied to the Australian situation.
- **Engaging with Small to Medium Enterprises** - engaging with innovative companies; a pilot with H.I. Fraser will examine the potential of setting-up of a pool of rotatable spares for specialist equipment to reduce lead times and keep business in Australia.

CHAPTER 2

DMO OUTCOME PERFORMANCE

The Defence Materiel Organisation (DMO) outcome statement is - 'Contributing to the preparedness of Australian Defence Organisation through acquisition and through-life support of military equipment and supplies.'

The DMO's outcome describes the results the Government seeks from the DMO. The outcome for the reporting year was achieved through the successful delivery of programs to the standards set in the *Portfolio Budget Statements 2010-11* and, where applicable, revised in the *Portfolio Additional Estimates Statements 2010-11* and also published as estimated actuals in the *Portfolio Budget Statements 2011-12*. For 2010-11, the DMO had a single outcome and three programs:

- Program 1.1 - Management of Capability Acquisition
- Program 1.2 - Management of Capability Sustainment
- Program 1.3 - Provision of Policy Advice and Management Services.

The DMO delivered a 102 per cent achievement in outcome financial performance resulting from an actual result of \$10,633.3 million against a revised budget of \$10,413.3 million as per the *Portfolio Additional Estimates Statements 2010-11*. Details of the DMO's outcome performance are outlined in this Chapter.

PROGRAM 1.1 MANAGEMENT OF CAPABILITY ACQUISITION

Through Program 1.1 Management of Capability Acquisition, DMO acquires and delivers to Defence, in a transparent and accountable manner, specialist military equipment to enable the delivery of military capability to Government. Equipment is purchased by DMO acquisition projects in accordance with Materiel Acquisition Agreements (MAAs) between Defence and DMO. The MAAs define what is to be delivered, how much it is to cost and when it is to be delivered. The DMO has approximately 300 major and minor projects currently in progress that will deliver approximately \$70 billion worth of assets to Defence by the time they are completed.

In 2010-11, the value of military assets generated for Defence was \$5.2 billion and non-capitalised project expenses were \$0.4 billion. This included progress on significant projects such as:

- Air Warfare Destroyer Build - SEA 4000 Phase 3
- Amphibious Deployment and Sustainment - JP 2048 Phase 4A/4B
- Bridging Air Combat Capability - AIR 5349 Phase 1.

It includes also the expedited acquisition of:

- an additional C-17 Heavy Lift Aircraft - AIR 8000 Phase 4
- the former Royal Fleet Auxiliary *Largs Bay* from the United Kingdom Government through the Interim Amphibious Capability - JP 3030.

Further detail is provided in Table 2.1.

The 2010-11 outcome is less than that forecast at the time of the *Portfolio Budget Statements 2010-11* but is greater than what was anticipated at the time of the *Portfolio Additional Statements 2010-11* and the *Portfolio Budget Statements 2011-12*. Despite lower than expected transfers of new projects, a number of key projects achieved ahead of expectations in 2010-11 and contributed to the better than expected outcome for the Acquisition Program. These projects included:

- Air to Air Refuelling Capability - AIR 5402
- Next Generation Satellite Communications System - JP 2008 Phase 4
- Future Naval Aviation Combat System - AIR 9000 Phase 8
- Amphibious Deployment and Sustainment - JP 2048 Phase 4A/4B
- Artillery Replacement 155mm Howitzer - LAND 17 Phase 1A
- Counter - Rocket, Artillery and Mortar - LAND 19 Phase 7A.

Top 30 Major Project Performance and Descriptions Summary

An assessment of the performance of the Top 30 major projects against the deliverables in the MAAs (described in the *Portfolio Budget Statements 2010-11*) is provided in Table 2.1.

Table 2.1 Top 30 major project deliverables in Program 1.1

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
General Manger Systems					
Aerospace Systems					
Bridging Air Combat Capability	AIR 5349 Phase 1	<ul style="list-style-type: none"> The Boeing Company, through a Foreign Military Sales (FMS) case with the United States Government 	<p>The project was raised to acquire 24 F/A-18F Super Hornet multi-role aircraft and associated support systems and services, in order to de-risk the transition to the F-35 Joint Strike Fighter during the coming decade.</p> <p>All 24 Super Hornets are on schedule for delivery, with 15 aircraft received to 30 June 2011, a further five aircraft ferried to RAAF Base Amberley in July and August 2011 and the final four to be delivered by the end of 2011.</p> <p>Initial Operational Capability was declared on schedule in December 2010. Final Operational Capability is scheduled for December 2012.</p>	✓✓✓	✓✓✓
Air to Air Refuelling Capability	AIR 5402	<ul style="list-style-type: none"> EADS CASA, Spain - operating as Airbus Military (acquisition) QANTAS Airways Ltd (through-life support) 	<p>The project will acquire five Airbus A330 Multi-Role Tanker Transport (MRTT) aircraft, to be known as the KC-30A in RAAF service, and the associated through-life support infrastructure.</p> <p>During 2010-11, certification testing of the new military avionics and refuelling systems was completed and Spanish military certification was provided in October 2010. Qualification testing to confirm contractual compliance of the first-of-type A330 MRTT was completed in December 2010.</p> <p>Conversion of the third aircraft was completed by Qantas on schedule and the aircraft returned to Europe for painting in October 2010. Conversion of the fourth aircraft by Qantas has also continued on schedule. The fifth and final commercial A330 was delivered to Qantas' Australian Conversion Centre in May 2011.</p> <p>The first two aircraft were contractually accepted during June 2011 in an initial configuration, conditional on remediation of a number of non-conformances of the military avionics and improvements to the Aerial Boom Refuelling System in particular boom handling qualities.</p>	✓✓	✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
F/A-18 Hornet Upgrade	AIR 5376 Phase 2	The DMO is the prime systems integrator of elements provided by: <ul style="list-style-type: none"> • The Boeing Company • United States Navy • SAAB (Sweden) • Elta (Israel) • Elbit Systems Limited (Israel) • Boeing Defence Australia 	Phase 2 of the project is upgrading the Air Force's F/A-18 fleet to provide improved mission situational awareness, radar and electronic warfare capabilities. The key risks are in the development of the aircraft's electronic warfare suite software for items not previously integrated in F/A-18s. During 2010-11 work continued on the mature aircraft electronic warfare modification program. This program is due for completion in 2012.	✓✓✓	✓✓
Airborne Surveillance for Land Operations	JP 129 Phase 2	AAI Corporation through a Foreign Military Sales case with the United States Government	<p>This project seeks to provide two Tactical Unmanned Aerial Vehicle systems capable of providing airborne surveillance, target acquisition and reconnaissance to support land operations. Each system will be made up of five air vehicles, two ground control stations, a tactical launch and recovery element, and associated tactical support systems.</p> <p>In July 2010, JP 129 was given second pass approval by the Government to acquire two RQ-7B Shadow 200 Unmanned Aerial Systems via a Foreign Military Sales agreement with the United States Government. The project will deliver the first Shadow 200 system (based on an initial four air vehicles) in August 2011. Army has commenced Australian based training on the system prior to the Middle East Area of Operations by the end of 2011.</p>	✓✓✓	✓✓✓
Electronic Systems					
Next Generation Satellite Communications System	JP 2008 Phase 4	The Boeing company via the United States Government	<p>This phase of the project seeks to deliver additional high-priority components of the next generation satellite communication system that has been effectively supporting the ADF since 2008. The project addresses the ADF's wideband satellite communications requirements by partnering on the United States Wideband Global Satellite (WGS) communication system program.</p> <p>Interim anchoring provides early access to the first block of WGS through a mix of offshore anchoring using United States facilities with backhaul to Australia and small capacity in-country anchoring. The Final Operational Capability of the in-country anchoring capability, which was planned for late 2010, will now occur in late 2011 due to ongoing issues with WGS Certification compliance. ADF capability is not being impacted by this delay due to the capability provided by offshore anchoring.</p>	✓✓	✓✓

Program 1.1 Management of Capability Acquisition

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Ultra High Frequency Satellite Communications	JP 2008 Phase 5A	Intelsat LLC	<p>This phase of the project seeks to deliver an enhanced Ultra High Frequency (UHF) satellite communications capability over the Indian Ocean region. Intelsat LLC has been contracted to include a hosted UHF payload, owned by Defence, on the IS-22 commercial satellite that Intelsat plans to launch to provide commercial pay-TV and data services. IS-22 is scheduled to commence in-orbit operations in mid-2012.</p> <p>The IS-22 Spacecraft was substantially completed during the year and has now commenced its final test program prior to launch planned for the first half of 2012.</p> <p>The highest risk for this project remains a satellite launch failure, however a good track record of the launch vehicles being used means the likelihood remains low.</p>	✓✓✓	✓✓✓
Battle Management System	LAND 75 Phase 3.4	Elbit Systems Limited	<p>This project phase will deliver a vehicle mounted Battlespace Management System (BMS) into a Brigade Group in support of Network Centric Warfare Roadmap milestones in cooperation with Battlespace Communications System Phase 1 - JP 2072 which is delivering the combat radio system, and LAND 125 Phase 3A that is delivering a dismantled BMS.</p> <p>Elbit Systems Limited is the prime contractor. Initial Operational Capability is based on a motorised Infantry Company in 7 Brigade planned for 3rd Quarter 2011. Final Operational Capability of 7 Brigade is due in 2013. Major achievements have been achieving Detailed Design status for the first tranche of vehicle platforms, completion of production and training facilities, production of initial platforms and training. Initial Materiel Release for Initial Operational Capability was achieved 14 June 2011.</p> <p>The major risk is the availability of vehicles for installation of the BMS, and vehicles for the development of further platform variants. This risk is being managed through liaison with Army Headquarters, vehicle fleet managers, and the Prime Contractor.</p>	✓✓✓	✓✓✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Dismounted Battle Group and Below Command, Control Communication System	LAND 125 Phase 3A	Elbit Systems Limited	<p>This project phase will deliver Dismounted BMS and Command Posts to the ADF in cooperation with Land 75 Phase 3.4 and JP 2072 Phase 1.</p> <p>The project is delivering a Dismounted BMS into a Brigade Group in support of Land Network Centric Warfare Roadmap milestones.</p> <p>Elbit Systems Limited is the prime contractor. Major achievements include Detailed Design status for the first tranche of vehicle platforms, completion of production and training facilities, production of initial platforms and training. Following successful testing and acceptance activities, the project remains on schedule to commence production in 2011. The highest risk for this project remains user acceptance due to additional weight and platform system integration with body armour. This is being managed through extensive trials.</p>	✓✓✓	✓✓✓
Battlespace Communications Systems (LAND)	JP 2072 Phase 1	Harris Corporation and Raytheon Australia	<p>Phase 1 of the project is delivering modern digital military off-the-shelf communications equipment in the current Battlespace Communications System-Land environment to replace legacy voice radio communications systems in addition to providing the digital radio backbone for the Battlefield Management System currently being procured under LAND 75 and LAND 125.</p> <p>Contracts are in place for Combat Net Radios and Tactical Data Radios and the deliveries are being achieved on schedule.</p> <p>The Initial Materiel Release has been achieved and preparations are well underway for Army to achieve the Initial Operational Capability milestone in the third quarter of 2011.</p> <p>The highest risks for this project are platform systems integration and introduction into service activities. Competition for space, weight and power in the vehicles is a challenge because of ever increasing requirements to improve effectiveness and safety. The relatively small size of the vehicles and increasing numbers of radio transmitters and receivers makes minimising interference a priority.</p>	✓✓✓	✓✓✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Tactical Information Exchange Domain	JP 2089 Phase 2A	BAE Systems and Saab Systems under the Anzac Ship Integrated Material Support Program Alliance	<p>The project is delivering a multi-tactical data link upgrade to the Navy's Anzac Frigate fleet, and an Initial Common Support Infrastructure (ICSI) to further develop the ADF's Joint Interface Control capability.</p> <p>The Anzac Multi-Link Upgrade (AMLU) involves installation of Link 16 and Variable Message Format equipment and software integration with the Mark 3E Combat Management System.</p> <p>Deliverables for 2010-11 include the AMLU Critical Design Review and completion of the majority of ICSI acquisition.</p> <p>The major risks are ship availability for the AMLU installation and delays in acquisition of remaining ICSI equipment due to dependence on FMS and reliance on external agencies to provide subject matter expertise.</p> <p>The risks are assessed as low and both risks have mitigation strategies in place.</p>	✓✓	✓✓
High Frequency Modernisation	JP 2043 Phase 3A	Boeing Defence Australia Ltd	<p>This phase of the project is to replace Naval High Frequency stations at six sites, replace Air Force High Frequency stations at four sites, upgrade design and performance of the replaced systems, and upgrade selected ADF mobile platforms.</p> <p>The first stage of the project, completed late 2004, replaced the capability provided by the former Navy and Air Force stations. The second stage, which is to provide increased levels of automation, improved capability, enhanced security and survivability, reduced reliance on staff, and which will incorporate the new equipment into selected mobile platforms is currently being implemented.</p> <p>Following acceptance of the final fixed network system in April 2010, all work remaining on this system under the prime contract was completed by end 2010. Designated mobile platforms will now be upgraded on a progressive basis through to 2016 using products and design material developed under the prime contract with Boeing Defence Australia. The mobile platform upgrades are not included in the prime contract with Boeing and most are yet to be contracted.</p> <p>Some manageable remaining risk relates to the schedule for installation of upgrades into mobile platforms. Delays in completion of the prime contract work have delayed the start of the mobiles program, but platform availability remains the major schedule risk for the mobiles program.</p>	✓✓✓	✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
New Air Defence Command and Control Systems for Control Units 2 & 3	AIR 5333	Boeing Defence Australia Ltd	<p>This project provides the ADF with capability to produce a comprehensive, recognised air picture to support national air defence command and control functions performed in operations centres at RAAF Bases Williamtown and Tindal. It correlates information from sensors and sources such as the Jindalee Operational Radar Network, Airborne Early Warning & Control aircraft, microwave radars (both civil and military), tactical platforms (e.g. fighter and maritime patrol aircraft and RAN ships) and intelligence products. In addition, AIR 5333 provides communications facilities to enable the ADF to effect command and control of widely dispersed tactical airborne assets.</p> <p>The project suffered schedule delays due to complex architecture and interface issues resulting in it being listed as a project of concern. In 2010-11 the project achieved significant milestones with delivery of the Initial Operating Capability at Tindal and Williamtown, resulting in its removal as a project of concern.</p>	✓✓✓	✓✓
Explosive Ordnance					
Follow-On Stand Off Weapon	AIR 5418 Phase 1	A FMS case was established with the United States Air Force in July 2006 to supply AGM-158 Joint Air-to-Surface Standoff Missiles (JASSM)	<p>Phase 1 has been established to acquire the Lockheed Martin AGM-158A JASSM and support systems, and integrate the JASSM onto the RAAF F/A-18 A/B Hornet aircraft. JASSM will increase aircraft survivability and weapon terminal effectiveness against defended targets from launch ranges in excess of those afforded using air delivered weapons currently in the ADF inventory. JASSM will provide the capability to successfully and effectively conduct stand-off strike operations against a range of fixed targets. Government acknowledged on 31 May 2011 that due to the lack of United States development of an anti-surface warfare variant of JASSM, the project is unable to deliver this capability which has now been removed from the project scope.</p>	✓✓	✓✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Lightweight Torpedo Replacement	JP 2070 Phase 2	Eurotorp, Thales	<p>JP 2070 has been established to replace the obsolete Mk 46 weapon with the more modern Eurotorp MU 90 Lightweight Torpedo (LWT). Phase 2 of the project, approved by the Government in May 2001, provides for the acquisition of an initial outfit of MU90 LWTs and integration of the torpedo onto maritime (Anzac and Adelaide class frigates) platforms and the establishment of an in-country assembly and torpedo maintenance capability at HMAS <i>Stirling</i> in Western Australia. In February 2009, Government agreed to the removal of air platform (P-3, Seahawk and Seasprite) integration from the project scope due to cost and schedule issues.</p> <p>Acceptance test and evaluation undertaken in November 2010 identified several issues with the interface between the shipboard torpedo system and the torpedo that required remediation before completing test and evaluation. Despite positive progress in the modification and incremental testing of the system to resolve these issues Initial Materiel Release has had to be delayed from June 2011 to December 2011 as a result.</p>	✓	-
Lightweight Torpedo Replacement	JP 2070 Phase 3	Eurotorp, Thales	<p>JP 2070 has been established to replace the obsolete Mk 46 weapon with the more modern Eurotorp MU 90 LWT. Phase 3 of the project, approved by Government in November 2003, provides for the acquisition of a larger quantity of MU90 LWTs referred to as war stock.</p> <p>Delivery of the first batches of Australian assembled torpedoes was ahead of contracted schedule with the first batch delivered in December 2010. There is a risk that recent torpedo quality assurance and reliability issues associated with European manufactured items delivered to Australia and the JP 2070 Phase 2 test and evaluation program will delay the production schedule though it is unlikely to be to the extent that it will affect scheduled project closure.</p>	✓✓	✓✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Mulwala Redevelopment Project	JP 2086 Phase 1	Bovis Lend Lease	<p>This project provides for the delivery of a modernised propellant manufacturing plant at Mulwala, New South Wales, to replace the existing but now obsolete plant that dates back to the 1940s. The modernised plant will meet more stringent and contemporary environmental and work, health and safety standards. The Commonwealth owned Mulwala Facility, which manufactures propellants and high explosives for incorporation into ADF munitions, is operated by Thales Australia Limited.</p> <p>The Practical Completion milestone (completion of facility construction) was achieved in February 2011, some 12 months behind the contract schedule. The final acceptance milestone (qualification of military propellants manufactured in the modernised facility) is now expected to be achieved in the first quarter of 2013, some 20 months behind contract schedule. The Commonwealth will undertake certification of ADF ammunition containing the new propellants following achievement of the Final Acceptance milestone.</p>	✓	✓✓
Helicopter Systems					
Multi Role Helicopter	AIR 9000 Phase 2	Australian Aerospace	<p>This project is acquiring 46 Multi Role Helicopter-90 (MRH-90) helicopters for the Army and Navy (with a nominal split of 40 for Army and 6 for Navy). Thirteen aircraft have been accepted so far. The support systems will include an electronic warfare self-protection support system, a ground mission management system, a software support centre, an instrumented system with telemetry capable of being installed into three instrument-capable aircraft, two full flight and mission simulators and facilities infrastructure at Townsville, Oakey, Brisbane and Nowra.</p> <p>In 2010-11, the MRH-90 flying rate of effort was less than planned, leading to significant delays in aircrew training and certification. Several key technical weaknesses, including low engine and windscreen Foreign Object Damage tolerance, further diminished the utility of the aircraft in the Australian environment. To address these issues, the DMO will work with industry in 2011-12 to improve the immature support system, aircraft systems reliability, and contractual arrangements prior to recommencing accepting aircraft.</p>	✓	✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Armed Reconnaissance Helicopter	AIR 87 Phase 2	Australian Aerospace	<p>This phase of the project will acquire an Armed Reconnaissance Helicopter (ARH) System for the Army. The system will consist of 22 helicopters, a software support capability, an electronic warfare mission support system, ground mission equipment, facilities, a training system and training devices including full flight and mission simulators.</p> <p>The ARH delivery schedule was under considerable pressure throughout 2010-11. Three aircraft were delivered and the flying rate of effort has been less than planned, leading to aircrew training delay, originally due to poor support arrangements and slow delivery of spares. All 22 ARHs are contracted for delivery by December 2011, with final operational capability expected to be achieved by the end of 2012.</p>	✓✓	✓
Land Systems					
Land Systems Bushmaster Protected Mobility Vehicle	LAND 116 Phase 3	Thales Australia	<p>This phase of the project was approved to deliver 737 vehicles in seven variants (troop, command, mortar, assault pioneer, direct fire weapon, ambulance and air defence). The vehicles will provide protected land mobility to Army combat units and Air Force Airfield Defence Guards. All 300 troop, command, assault pioneer, mortar, direct fire weapon and ambulance variants under the original acquisition contract have been delivered. Delivery of 144 Enhanced Land Forces vehicles was completed in April 2009. Delivery of the residual 293 Protected Mobility Vehicles for Project LAND 121 is expected to be completed on schedule by March 2012.</p> <p>On 12 May 2011, Government announced the acquisition of an additional 101 Protected Mobility Vehicles (PMV), with deliveries scheduled to be completed by May 2013. This will see this phase of the project extended and the delivery of a total 838 PMVs.</p>	✓✓✓	✓✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Field Vehicles and Trailers	LAND 121 Phase 3	<ul style="list-style-type: none"> Light/Lightweight Capability: Mercedes-Benz Australia-Pacific Pty Ltd. Trailer (light/lightweight) Capability: Haulmark Trailers Australia. Trailer (mediumweight/medium/heavy) Capability: Haulmark Trailers Australia. Mediumweight/medium/heavy Capability: Yet to be selected. Additional Bushmaster vehicles: Thales Australia. 	<p>This program seeks to replace the ADF's fleets of Field Vehicles, Modules and Trailers. Phase 3 of the project is replacing and enhancing the current fleet of ADF field vehicles, modules and trailers. Phase 3 is further broken down into a Light Lightweight Capability and a Medium Heavy Capability.</p> <p>The Lightweight/Light Capability segment will deliver and support through life approximately 1200 unprotected G-Wagon vehicles and 338 specialist modules and 973 trailers to ADF units throughout Australia between 2011 and 2013, to replace around one third of the current Land Rovers to enable tactical training. Variants include a two and four door station wagon, carryall, ambulance, Personnel and Cargo Restraint System, cargo, canine, command post and surveillance and reconnaissance. Vehicle deliveries have commenced and are on schedule with driver training also underway and on schedule. Prototype trailers have been received and are undergoing acceptance testing, with production scheduled to commence in late 2011 with introduction into service scheduled from June 2012.</p> <p>The Medium and Heavy Capability segment seeks to acquire a range of vehicle variants in both protected and unprotected variants, providing payloads between four and 70 tonne; together with integrated modules and associated trailers. The amended Request for Tender was released in May 2010. The down-selection decision has yet to be made. Defence is preparing options for Government. Negotiations with the selected company will commence following Government endorsement. Defence will return to Government for a revised Second Pass at the conclusion of negotiations.</p> <p>Haulmark Trailers has been identified as the preferred trailer provider for the entire Phase 3. A contract has been signed for 973 Lightweight Light trailers. Detailed negotiations for the Medium Heavy trailers will follow the revised second pass approval.</p>	✓✓	✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Upgrade of M-113 Armoured Vehicles	LAND 106	BAE Systems Australia Defence	<p>This project is upgrading the Army's M-113 A1 vehicles to improve protection, lethality, mobility and habitability. The upgrade replaces most of the vehicle, retaining only the hull, hatches, rear door and communications systems.</p> <p>As at 30 June 2011, 260 of have been delivered. The expected completion date for delivery of all 431 upgraded vehicles is December 2012. This schedule is achievable, but relies on maintaining the current capacities of the contractor's facilities.</p> <p>The designs for the first six variants (personnel, fitters, recovery, command, ambulance and logistics) are complete. The seventh and final variant, the armoured mortar vehicle, is in the final stages of design development. The key remaining technical risk is the restoration of the mortar-firing platform area in the seed hulls used for stretching the mortar variant. Production Readiness Review is scheduled for September 2011, with assembly expected to commence in April 2012.</p>	✓✓	✓
Artillery Replacement 155mm Howitzer	LAND 17 Phase 1A	The capabilities will be purchased from the United States Government through the FMS program	<p>This phase of the project is enhancing the indirect fire support capability of the ADF. The project will replace and enhance specified elements of Army's indirect fire system. The project is delivering 35 M777A2 Lightweight 155mm Towed Howitzers, a Battle Management System - Fires (BMS-F) Command and Control (C2) System known as the Advanced Field Artillery Tactical Data System (AFATDS) produced by Raytheon Network Centric Systems (United States), and course correcting fuzes. The project has Initial Operational Capability planned for December 2011, with Final Operational Capability scheduled for achievement in 2013.</p> <p>As at 30 June 2011, 13 M777s have been delivered, with a further two in transit to Australia. AFATDS remains the critical path for Initial Operational Capability, with the delivery of Battlespace Communications System - JP 2072 radios and their acceptance into service a critical enabler for the Fires network. Confidence testing of the interim release AFATDS software version 6.7 has been conducted.</p> <p>At this stage, the Course Correcting Fuze component of the project is suspended. The United States Government has put a remediation program in place to address reliability issues with the fuze, ahead of a decision on committing to production, not expected before December 2012.</p>	✓✓	✓✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Direct Fire Support Weapons	LAND 40 Phase 2	<p>Medium Direct Fire Support Weapons (MDFSW): SAAB Bofors Dynamics</p> <p>Heavy weapon thermal sight: BAE Systems Australia</p> <p>A contract is yet to be signed for Light Weight Automatic Grenade Launcher (LWAGL)</p>	<p>This phase of the project will deliver two new types of direct fire support weapons to Army's Infantry Battalions, Special Forces and RAAF Airfield Defence Guards.</p> <p>The first is the M3 Carl Gustaf MDFSW fitted with a thermal sight. A contract was signed in November 2009 with SAAB Bofors Dynamics for 437 M3 Carl Gustaf Weapons. A contract was signed in December 2009 with BAE Systems Australia for 437 heavy weapon thermal sights for fitment to the M3 Carl Gustaf. Both contracts were signed on schedule and all weapons and sights were delivered and accepted by the Project on schedule. The project will deliver this new weapons system to all entitled units by October 2011.</p> <p>The second system is a LWAGL fitted with a night sight and a fire control system. Defence has cancelled contract negotiations with the LWAGL preferred tenderer. A revised acquisition strategy has been developed for consideration by Government.</p>	✓	✓
Maritime Systems					
Anzac Ship Anti-Ship Missile Defence	SEA 1448 Phase 2B	CEA Technologies Pty Ltd and the Anzac Ship Integrated Materiel Support Program Alliance (comprising the DMO, Saab Technologies Australia and BAE Systems)	<p>This phase of the project is tasked to deliver a phased array radar system to the Anzac Class Frigate for target indication/tracking and mid-course guidance and target illumination for the Evolved Sea Sparrow Missile in conjunction with other sensor and combat management system upgrades delivered under Phase 2A.</p> <p>Following successful trials during May and June 2011, the Initial Materiel Certification was achieved for the Stage one Anti Ship Missile Defence (ASMD) capability installation in HMAS <i>Perth</i> in June 2011. All associated technical risk was effectively mediated during the initial capability installation. The project now proceeds to the Stage Two upgrade of operational software to provide a further expansion of the ASMD capability of the Combat Management and Phased Array Systems. The project will return for Government Approval in 2011-12 to roll out the ASMD upgrade across the remainder of the Anzac Fleet.</p>	✓✓✓	✓✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Standard Missile Replacement	SEA 1390 Phase 4B	United States Department of Defense under an FMS arrangement and various commercial contracts; <ul style="list-style-type: none"> • Lockheed • Martin-United States • AAI Corporation • BAE Systems-United States • Thales Australia 	<p>This phase of the project is to upgrade four Adelaide class frigates with the SM-2 surface-to-air mid course guidance mode missile capability, to acquire the weapons, and to provide missile technician training.</p> <p>Modification of the missile-related systems and software in the ships and the shore-based facility was completed with a baseline established for the Stage one Home-all-the-way capability. The Stage two Mid Course Guidance Development Test and Evaluation acceptance was achieved on HMAS <i>Sydney</i>.</p>	✓✓✓	✓✓
Guided Missile Frigate Upgrade Implementation	SEA 1390 Phase 2.1	Thales Australia	<p>This phase of the project is to upgrade four Adelaide class frigates to deliver integrated sensors, missile launchers, and combat management systems to improve aspects of the frigates' war fighting capability. All four ships have been accepted and delivered to Navy as part of Initial Operational Release. Changes to the ships' platform systems will deliver reliability and supportability improvements.</p> <p>Inventory spares procurement was achieved and operational test and evaluation conducted. A program of additional testing will continue until late 2011.</p>	✓✓✓	✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
General Manger Programs					
Air Warfare Destroyer					
Air Warfare Destroyer Build	SEA 4000 Phase 3	<p>The Air Warfare Destroyer (AWD) program is being delivered under an alliance-based contracting arrangement between ASC AWD Shipbuilder Pty Ltd (ASC), Raytheon Australia Pty Ltd and the Government</p> <p>The Government has entered into the Platform System Design contract with the ship designer, Navantia, SA. This contact is being managed by the Alliance</p> <p>The Aegis Combat System is supplied by the United States Navy via a Foreign Military Sales case</p>	<p>Fabrication is underway on all New Ship <i>Hobart</i> hull blocks with the exception of the mast block. In response to delays in hull block fabrication, the AWD Alliance acted to reduce by up to 12 months a potential two year slippage in the completion of New Ship <i>Hobart</i>. Two key actions were an initial reallocation of hull blocks among Australian shipyards in December 2010, followed by a further reallocation of blocks between the Australian shipyards and Navantia in May 2011. The AWD Alliance also took action in 2010 to make available more shipbuilding experts for the three shipyards from Navantia, Bath Iron Works and Lloyds Register.</p> <p>The AWD Support System Detailed Design Review was successfully completed on schedule in August 2010. Production, factory acceptance testing, and delivery of combat system equipment is progressing according to schedule. Adaptation of the core United States Navy Aegis program is progressing on schedule along with integration testing of the Australian Tactical Interface.</p> <p>The focus for 2011-2012 is stabilising shipbuilding production according to the new block reallocation plan and improving shipbuilding productivity.</p>	✓✓✓	✓✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Airborne Early Warning and Control System					
Airborne Early Warning and Control Aircraft	AIR 5077 Phase 3	The Boeing Company	<p>This phase of the project will provide Defence with an Airborne Early Warning and Control (AEW&C) capability, with the provision of six aircraft and associated supplies and support.</p> <p>Boeing delivered the fourth aircraft in December 2010, two months late against the plan agreed by Government in November 2009. Boeing then failed to deliver the first aircraft in a final operational configuration in December 2010 due to ongoing issues with software development, latency and loading, Electronic Support Measures subsystems and integrated system performance. Boeing and the Government entered into contract negotiations in November 2010 to redefine the path to Final Acceptance and the parties reached agreement in April 2011.</p> <p>Boeing now plans to deliver the first fully operational aircraft, capable of performing all tasking short of high-end war fighting, in March 2012, taking the total delay to this milestone against the original contract baseline to 65 months. However, the Government assesses that there is approximately three months risk to this date due to ongoing problems with completing the test and evaluation program.</p> <p>Delivery of associated ground support systems and supplies, planned for completion by November 2011, will now not be completed until October 2012. Construction of the main AEW&C facilities at RAAF Base Tindal is substantially complete. The radar collaborative study has progressed well and enhancements exist that have the potential to recover the radar performance to close to specification, with additional growth potential.</p>	✓✓	✓
Amphibious Deployment and Sustainment Program					
Amphibious Deployment and Sustainment	JP 2048 Phase 4A/B	BAE Systems Australia Defence	<p>This project is acquiring two Canberra Class 27,000-tonne Amphibious Ships referred to as Landing Helicopter Dock (LHD). This project is one of a number of projects grouped under the Amphibious Deployment and Sustainment (ADAS) Program and designed to replace and enhance Navy's amphibious and afloat support capability.</p> <p>The Government announced on 20 June 2007 that Tenix Defence (now BAE Systems Australia Defence), offering a design by the Spanish company Navantia, had been selected as the preferred tenderer for delivery of the LHD. L3 Communications is subcontracted to BAE Systems Australia Defence to supply the communications system and Saab Systems Australia to provide the combat system and integrate the combat management system.</p>	✓✓✓	✓✓✓

Deliverables for the Top 30 DMO Major Projects	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
New Air Combat Capability					
Joint Strike Fighter Aircraft	AIR 6000 Phase 2A/2B	Lockheed Martin is contracted to the United States Government for the development and production of the Joint Strike Fighter (JSF). Australia will procure the aircraft through a government to government co-operative agreement	<p>These phases will deliver a new air combat capability comprising around 100 Conventional Take Off & Landing (CTOL) F-35 JSF and all necessary support, infrastructure and integration to form four operational squadrons and a training squadron.</p> <p>The Government has adopted a phased approval approach to the acquisition of the JSF. Australia joined the System Development and Demonstration phase in October 2002 and through project AIR 6000 Phase 1B (approved), undertook a program of detailed definition and analysis activities leading up to Government second pass (Acquisition) approval for Phase 2A/2B Stage 1 in November 2009.</p> <p>AIR 6000 Phase 2A/2B Stage 1 (approved) will acquire 14 CTOL JSF and associated support and enabling elements necessary to establish the initial training capability in the United States and to allow conduct of Operational Test in the United States and Australia.</p> <p>AIR 6000 Phase 2A/2B Stage 2 (unapproved) will acquire the remaining (at least) 58 CTOL JSF and support and enabling elements and is currently planned for approval in late 2012.</p>	✓✓✓	✓✓

This key provides a description of the ranking system used to indicate each project's achievements against the project's capability delivery and its schedule status.

Key		
-	Not Achieved	None or minimal progress was made against targets in 2010-11. Explanations are provided in the 'performance summary' column.
✓	Partially Achieved	Some targets were met, and any issues are being managed.
✓✓	Substantially Achieved	Targets were mostly met and any issues are being managed.
✓✓✓	Achieved	All targets for 2010-11 were met or exceeded.

Top 30 Major Projects by Expenditure

Table 2.2 and the descriptions that follow provide details of the top 30 major projects (by forecast expenditure in the *Portfolio Budget Statements 2010-11*). Expenditure for the top 30 projects represented 78 per cent of total expenditure on major capital equipment projects in 2010-11.

Table 2.2 Top 30 major projects by expenditure as forecast in the *Portfolio Budget Statements 2010-11*^[1]

Project Name	Project Number/ Phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2010 \$m	Budget Estimate 2010-11 \$m	Revised Estimate 2010-11 ^[1] \$m	Final Plan 2010-11 ^[2] \$m (a)	Actual Expenditure 2010-11 ^[3] \$m (b)	Variation \$m (b-a)
General Manager Systems								
Aerospace Systems								
Bridging Air Combat Capability	AIR 5349 Phase 1	3,296	2,226	493	427	410	365	-45
Air to Air Refuelling Capability	AIR 5402	1,822	1,052	493	334	70	276	206
F/A-18 Hornet Upgrade	AIR 5376 Phase 2	1,917	1,471	107	75	73	70	-3
Airborne Surveillance for Land Operations	JP 129 Phase 2	95	2	77	29	27	25	-2
Electronic Systems								
Next Generation Satellite Communications System	JP 2008 Phase 4	875	213	193	197	119	174	55
Ultra High Frequency Satellite Communications	JP 2008 Phase 5A	405	124	145	116	111	122	12
Battle Management System	LAND 75 Phase 3.4	325	26	124	60	58	57	-1

Project Name	Project Number/ Phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2010 \$m	Budget Estimate 2010-11 \$m	Revised Estimate 2010-11 ^[1] \$m	Final Plan 2010-11 ^[2] \$m (a)	Actual Expenditure 2010-11 ^[3] \$m (b)	Variation \$m (b-a)
Dismounted Battlegroup and Below Command, Control Communication System	LAND 125 Phase 3A	110	3	65	21	20	25	5
Battlespace Communications Systems (LAND)	JP 2072 Phase 1	261	29	59	73	74	74	..
Tactical Information Exchange Domain	JP 2089 Phase 2A	104	20	35	29	28	24	-4
High Frequency Modernisation	JP 2043 Phase 3A	671	414	34	20	19	17	-2
New Air Defence Command and Control Systems for Control Units 2 & 3	AIR 5333	274	196	34	28	28	34	6
Explosive Ordnance								
Follow-On Stand Off Weapon	AIR 5418 Phase 1	343	201	70	50	48	44	-4
Lightweight Torpedo Replacement	JP 2070 Phase 2	342	220	46	16	16	8	-8
Lightweight Torpedo Replacement	JP 2070 Phase 3	303	192	40	47	47	50	3
Mulwala Redevelopment Project	JP 2086 Phase 1	370	243	39	42	42	34	-8
Helicopter Systems								
Multi Role Helicopter	AIR 9000 Phase 2	3,751	1,577	424	327	270	262	-9

Project Name	Project Number/ Phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2010 \$m	Budget Estimate 2010-11 \$m	Revised Estimate 2010-11 ^[1] \$m	Final Plan 2010-11 ^[2] \$m (a)	Actual Expenditure 2010-11 ^[3] \$m (b)	Variation \$m (b-a)
Armed Reconnaissance Helicopter	AIR 87 Phase 2	2,059	1,637	151	117	100	96	-4
Land Systems								
Bushmaster Protected Mobility Vehicle	LAND 116 Phase 3	930	568	144	109	109	116	7
Field Vehicles and Trailers	LAND 121 Phase 3	3,263	46	106	77	77	59	-19
Upgrade of M113 Armoured Vehicles	LAND 106	885	610	97	100	100	88	-13
Artillery Replacement 155mm Howitzer	LAND 17 Phase 1A	324	10	76	67	64	79	15
Direct Fire Support Weapons	LAND 40 Phase 2	143	5	67	29	28	29	1
Maritime Systems								
Anzac Ship Anti-Ship Missile Defence	SEA 1448 Phase 2B	462	225	76	74	74	58	-16
Standard Missile Replacement	SEA 1390 Phase 4B	612	273	49	29	28	22	-6
Guided Missile Frigate Upgrade Implementation	SEA 1390 Phase 2.1	1,529	1,342	36	21	21	5	-16
General Manager Programs								
Air Warfare Destroyer								
Air Warfare Destroyer Build	SEA 4000 Phase 3	7,926	2,094	1,146	1,000	982	944	-38

Project Name	Project Number/ Phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2010 \$m	Budget Estimate 2010-11 \$m	Revised Estimate 2010-11 ^[1] \$m	Final Plan 2010-11 ^[2] \$m (a)	Actual Expenditure 2010-11 ^[3] \$m (b)	Variation \$m (b-a)
Airborne Early Warning and Control System								
Airborne Early Warning and Control Aircraft	AIR 5077 Phase 3	3,857	2,796	385	223	217	176	-41
Amphibious Deployment and Sustainment								
Amphibious Deployment and Sustainment	JP 2048 Phase 4A/4B	3,117	1,011	553	501	498	558	60
New Air Combat Capability								
Joint Strike Fighter Aircraft	AIR 6000 Phase 2A/2B	2,664	..	43	68	65	71	6
Total Top 30		43,031	18,826	5,407	4,305	3,827	3,962	134

Notes

1. The revised budget for 2010-11 was published in the *Portfolio Additional Estimates Statements 2010-11*.
2. The Final Plan for 2010-11 represents the agreed funding level paid by Defence in 2010-11.
3. Actual expenditure will include transactions in foreign currency applicable at the exchange rate at the time of the transaction. The Budget Estimate, Revised Estimate and Final Plan will include foreign currency exposures converted using the budgeted exchange rates applicable to the respective budget update.

Table 2.3 Variation to project approval for the 2010-11 Top 30 major projects

Project Number/ Phase	Initial Project Approval Date	Original Approval \$m	Price Indexation Variation \$m	Exchange Variation \$m	Real Variation ^[1] \$m	Current Approval \$m	Real Variations 2 nd Pass Approval ^[2] \$m	Scope ^[3] \$m	Transfers ^[4] \$m	Others ^[5] \$m	Total Real \$m
General Manager Systems											
Aerospace Systems											
AIR 5349 Phase 1	31 July 2007	3,546	367	-377	-240	3,296			-132	-107	-240
AIR 5402	17 July 2003	2,077	484	-450	-289	1,822			-136	-154	-289
AIR 5376 Phase 2	21 April 1998	1,300	323	40	253	1,917		223 ^[6]	34	-3	253
JP 129 Phase 2	30 September 2004	2	24	-29	97	95	97			..	97
Electronic Systems											
JP 2008 Phase 4	28 September 2007	885	132	-143	-	875					
JP 2008 Phase 5A	16 February 2009	4	-3	-53	457	405	457				457
LAND 75 Phase 3.4	6 December 2005	8	16	-24	325	325	325				325
LAND 125 Phase 3A	7 April 2010	120	4	-15	-	110					
JP 2072 Phase 1	4 October 2002	98	40	-35	159	261	148			11	159

Project Number/ Phase	Initial Project Approval Date	Original Approval	Price Indexation Variation	Exchange Variation	Real Variation ^[1]	Current Approval	Real Variations 2 nd Pass Approval ^[2]	Scope ^[3]	Transfers ^[4]	Others ^[5]	Total Real
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
JP 2089 Phase 2A	20 January 2009	94	10	..	-	104					
JP 2043 Phase 3A	13 August 1996	505	148	12	5	671		11 ^[7]	-5	-1	5
AIR 5333	1 November 1992	48	75	10	140	274		117 ^[8]	23	..	140
Explosive Ordnance											
AIR 5418 Phase 1	30 September 2004	15	63	-40	305	343	355	-50 ^[9]		..	305
JP 2070 Phase 2	3 July 2001	288	63	-8	..	342				..	..
JP 2070 Phase 3	21 January 2004	246	69	-12	..	303				..	..
JP 2086 Phase 1	17 November 2006	338	46	-14	-	370					
Helicopter Systems											
AIR 9000 Phase 2	22 April 2004	3	680	-244	3,312	3,751	954	2,597 ^[10]	-239		3,312
AIR 87 Phase 2	16 March 1999	1,584	418	148	-91	2,059			-84	-7	-91

Project Number/ Phase	Initial Project Approval Date	Original Approval \$m	Price Indexation Variation \$m	Exchange Variation \$m	Real Variation ^[1] \$m	Current Approval \$m	Real Variations 2 nd Pass Approval ^[2] \$m	Scope ^[3] \$m	Transfers ^[4] \$m	Others ^[5] \$m	Total Real \$m
Land Systems											
LAND 116 Phase 3	30 November 1998	295	125	-5	515	930		515 ^[11]			515
LAND 121 Phase 3	14 August 2007	2,686	691	-104	-10	3,263		-15 ^[12]	4		-10
LAND 106	1 November 1993	40	155	1	689	885		441 ^[13]	250	-2	689
LAND 17 Phase 1A	30 November 2009	348	17	-42	-	324					
LAND 40 Phase 2	15 December 2006	4	6	-22	155	143	155				155
Maritime Systems											
SEA 1448 Phase 2B	1 November 2005	249	76	-12	149	462			149		149
SEA 1390 Phase 4B	30 September 2004	553	128	-67	-2	612				-2	-2
SEA 1390 Phase 2.1	1 December 1997	1,266	230	186	-153	1,529			-153	-1	-153

Project Number/ Phase	Initial Project Approval Date	Original Approval \$m	Price Indexation Variation \$m	Exchange Variation \$m	Real Variation ^[1] \$m	Current Approval \$m	Real Variations 2 nd Pass Approval ^[2] \$m	Scope ^[3] \$m	Transfers ^[4] \$m	Others ^[5] \$m	Total Real \$m
General Manager Programs											
Air Warfare Destroyer											
SEA 4000 Phase 3	19 June 2007	7,207	1,173	-455	-	7,926					
Airborne Early Warning and Control Program System											
AIR 5077 Phase 3	1 December 1997	2,170	723	-96	1,059	3,857		226 ^[14]	619	215	1,059
Amphibious Deployment and Sustainment											
JP 2048 Phase 4A/4B	27 January 2004	3	428	-279	2,965	3,117	2,950	5 ^[15]	9	..	2,965
New Air Combat Capability											
AIR 6000 Phase 2A/2B	7 April 2010	2,752	351	-439	-	2,664					

Notes

1. Real Variation is the total of all variations except Price Indexation and Exchange. Real Variations are divided into: Second Pass Approval, Scope, Transfers and Other.
2. Second Pass Approval - Under processes introduced as part of the Kinnaird reforms, Major Capital Equipment projects are now generally managed in two stages - a definition stage which is funded at first pass and an acquisition stage which is funded at second pass. On occasions, the second pass stage is funded as a separate project. Many of the projects detailed in the Table were approved before the two-pass process was implemented.
3. Scope - Any Real Cost Increase/Decrease provided to address a formal scope increase/decrease.
4. Transfers - Any Real Cost Increase/Decrease to a project as a result of a transfer in budget to another Project, Group or to Sustainment with no net change to the existing Project Approval.
5. Others - All other Real Variations e.g. Real Increases needed to fund underestimates/budget overruns.
6. Increase in scope associated with the approval of Homet Electronic Warfare Self Protection - AIR 5376 Phase 2 and the Hornet Jammer - AIR 5376 Phase 3C projects in May 2007.
7. Project cost increase (Feb 1999) to reflect actual approval of November 1998 investment submission as approved by Cabinet.
8. Increase in Scope associated with the incorporation of the Command and Control Capability to support Air Defence, August 2003.
9. Real Cost Decrease reflects the removal of moving target capability and improved definition of supplies, approved June 2011.
10. Incorporation of Phase 4 Black Hawk upgrade/replacement and Phase 6 Maritime Support Helicopter and Full Flight and Mission Simulator facilities, April 2006.
11. Increase in scope associated with the purchase of 250 additional vehicles for the Enhanced Land Force budget measure.
12. Reduction represents the return of Enhanced Land Force funding.
13. Increase in scope, \$227 million, as the result of the Defence White Paper deliberations and inclusion of an additional 81 M-113 Armoured Personnel Carriers, \$214 million.
14. Increase in scope associated with the decision to purchase two additional aircraft (to a total of six) in June 2004.
15. Increase in scope due to risk reduction activity for the project to obtain design data and develop designs to meet Australian essential requirement - between First and Second Pass.

Previously Reported Top 30 Major Projects

An update on the status of the Top 30 major projects reported in the previous five financial years that have fallen below the threshold is available on the internet version of this volume at <www.defence.gov.au/annualreports>.

New Major Projects

During 2010-11, seven major projects were transferred to the DMO following Government approval. These are shown in Table 2.4. The DMO classifies a project as having been transferred on the signing of MAA between the DMO and Defence.

Table 2.4 New major projects transferred to the DMO in 2010-11^[1]

Project Name	Project Number/ Phase	Budget Estimate 2010-11 \$m	Actual Expenditure 2010-11 \$m	Acquisition Cost Categorisation ^[2]	Project Information
General Manager Systems					
Aerospace Systems					
Heavy Airlift - Additional C17	AIR 8000 Phase 4	212	200	Level 3	First and Second Pass approval were provided by Government on 26 March 2011. This approval directed Defence to procure one additional Boeing C-17 Globemaster III aircraft through a Foreign Military Sales case, to increase the Heavy Air Lift and rapid global response capability for the ADF with this requirement to be Military Off-The-Shelf, with no Australian-unique modifications. Aircraft (AT-5) is on schedule for delivery in September 2011.
Electronic Systems					
High Grade Crypto Equipment Link Encryption	JP 2069 Phase 2	1	1	Level 4	Pre-First Pass. This project plans to replace legacy serial link encryptors used in Defence's strategic networks. Work underway will define platform integration and other costs.
Deployable Defence Air Traffic Management and Control System	AIR 5431 Phase 1	..	-	Level 3	First Pass. This phase seeks to provide up to four (4) Deployable Defence Air Traffic Management and Control Systems (Deployable DATMCS) comprising a mix of mobile and transportable surveillance sensors, and associated Air Traffic Management (ATM) systems, including data processing, vehicles, operator Human Machine Interfaces (HMI) and communications systems.

Project Name	Project Number/ Phase	Budget Estimate 2010-11 \$m	Actual Expenditure 2010-11 \$m	Acquisition Cost Categorisation ^[2]	Project Information
Maritime Communications Modernisation	SEA 1442 Phase 4	3	..	Level 3	First Pass. Modernisation of the Anzac class frigate (8 ships) communications capability. Upgrade includes voice and data communications, secure tactical intercom, automated communications management and planning, switching, VHF/UHF radio systems, and new High Data Rate Line of Sight system.
Improved Tactical Electronic Support Capability	SEA 1448 Phase 4A	1	..	Level 3	First Pass. This phase will address the forecast supportability issues of the current Electronic Support system in the Anzac Class. The Electronic Support system is critical to the provision of long range warning to the vessels. During First to Second Pass the project will undertake a number of Risk Reduction Studies to determine how to best deliver the new capability.
Land Systems					
Enhancements to Special Operations Capability	JP 2097 Phase 1B	..	..	Level 3	First Pass. This project will enhance the ADF Special Operations capability to maintain a capability edge over emerging threats to Australia's national interests. The project achieved First Pass Approval on 14 February 2011. A Request for Tender for the Special Operations Vehicle - Commando was released on 14 April 2011.
General Manager Programs					
Amphibious Deployment and Sustainment					
Interim Amphibious Capability	JP 3030	106	100	Level 3	Second Pass approval was provided by Government on 16 March 2011. This capability is to fill an interim capability gap caused by the decommissioning of HMAS <i>Manoora</i> and the increasing age related unreliability of the other major amphibious ships HMA ships <i>Tobruk</i> and <i>Kanimbla</i> .

Notes

- Three new classified projects have been created during 2010-11 and are not included in this table due to their classified nature
- Acquisition Cost Categorisations are taken from the DCP where applicable and are as follows:
 - Level 1 (Very High): >\$1,500 million
 - Level 2 (High): \$500m-\$1,500 million
 - Level 3 (Moderate): \$100m-\$500 million
 - Level 4 (Low): <\$100 million

Closed major projects

In 2010-11, 18 major projects were successfully closed. All MAA deliverables were delivered and accepted with no outstanding issues and consequently closed. The DMO continues to work closely with Capability Development Group and other stakeholders to ensure that all closures comply with and maintain the integrity of Government approvals.

The total reduction of project approval at closure represented five per cent of the project approval value for these projects.

Table 2.5 Closed major projects in 2010-11

Project Name	Project Number/ Phase	Project Approval Value \$m	Total Expenditure \$m	Savings in Project Approval ^[1] \$m
General Manager Systems				
Aerospace Systems				
Lead-In Fighter Capability	AIR 5367 Phase 1	1,028	1,023	-5
Electronic Systems				
Electronic Warfare Collaboration with the United States	AIR 5406 Phase 2	58	58	..
Military Satellite Communications	JP 2008 Phase 2	121	119	-3
Space Based Surveillance Capability	JP 2044 Phase 2B	154	139	-15
Overhead Non-Imaging Infra-Red Concept Technology Demonstrator	JP 2057 Phase 1	4	3	-1
High Grade Crypto Equipment Secure Telephony	JP 2069 Phase 1B	19	9	-.9 [1]
Tactical Information Exchange Domain - Project Definition Study	JP 2089 Phase 1	6	6	..
Major Deployable Joint Taskforce Headquarters	JP 8001 Phase 3A	13	12	-1
Major Deployable Joint Taskforce Headquarters	JP 8001 Phase 3B	13	11	-2
Explosive Ordnance				
Air-to-Surface Weapon System - Training Capability	AIR 5398 Phase 1	453	406	-47
Air-to-Air Weapons Capability	AIR 5400 Phase 1	320	296	-24
Harpoon Missile	JP 1 Phase N/Q	111	108	-3
Evolved Sea Sparrow Missile	SEA 1428 Phase 2A	362	348	-14

Project Name	Project Number/ Phase	Project Approval Value \$m	Total Expenditure \$m	Savings in Project Approval ⁽¹⁾ \$m
Land Systems				
Soldier Combat System Design Study	LAND 125 Phase 2B	48	36	-12
General Manager Programs				
Air Warfare Destroyer				
Air Warfare Destroyer - Non Design Related Studies	SEA 4000 Phase 1A	5	4	-1
Air Warfare Destroyer Study	SEA 4000 Phase 1B	10	8	-2
Air Warfare Destroyer - Platform Design Studies	SEA 4000 Phase 1C	15	13	-2
Amphibious Deployment and Sustainment				
Special Forces Air Drop Rigid Hull Inflatable Boat	JP 2088 Phase 1A	43	34	-9
Total		2,782	2,632	-150

Note

1. Significant Cost savings were achieved by the project as a result of a close relationship with industry leading to an innovative cost effective solution being offered to the Commonwealth and careful management of requirements.

Top 10 Minor projects

Minor projects are undertaken to address emerging requirements-often to enhance or replace existing capability. They are funded from outside the Defence Capability Plan and are usually of relatively low value. There are currently about 100 such projects, with an average value of approximately \$7.9 million. A total of \$88.7 million was expended on minor capital investment projects during 2010-11, compared to \$94.1 million in 2009-10.

Table 2.6 Top ten minor capital investment projects in 2010-11

Project Name	Project Number/ Phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2010 \$m	Budget Estimate 2010-11 \$m	Revised Estimate 2010-11 \$m	Actual Expenditure 2010-11 \$m	Variation	Explanation for Significant Variation on Expenditure \$m
Navy								
Bridge Simulator Upgrade	NMP1867	13	4	5	4	4	..	Minor Variation
Army								
ASLAV Crew Procedural Trainer	AMP002.12	44	-	1	4	3	-1	Minor Variation
EOD Upgrade	AMP050.14	31	9	12	4	5	1	Minor Variation
Field Refrigeration Storage & Distribution	AMP081.03	22	2	8	7	6	-1	Minor Variation
Light Wheeled Tractor	AMP007.26	11	3	5	5	4	-1	Minor Variation
Bullet Trap Blank Firing Attachment	AMP048.42	11	..	3	3	3	..	Minor Variation
Medium Self Propelled Roller Replacement	AMP007.27	8	..	6	5	4	-1	Minor Variation

Project Name	Project Number/ Phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2010 \$m	Budget Estimate 2010-11 \$m	Revised Estimate 2010-11 \$m	Actual Expenditure 2010-11 \$m	Variation \$m	Explanation for Significant Variation on Expenditure
Air Force								
Traffic Alert & Collision Avoidance System (TCAS)	AFM01001	26	..	7	7	4	-3	Variation was due to a protracted contract solicitation phase which delayed the forecast ramp-up of resources and associated labour and material expenditure. The project is now scheduled to achieve the Modification Readiness Review milestone by October 2011.
Transportable Air Operations Tower	AFM00936	23	11	10	10	9	-1	Minor Variation
Joint Project								
Joint Electronic Fuels Management (JEFM)	JMP06007	20	10	4	6	4	-1	Minor Variation
Total		209	39	60	55	46	-9	

New Minor projects

During 2010-11, eleven minor projects were transferred to the DMO following approval. These are shown in Table 2.7. The DMO classifies a project as having been transferred on the signing of MAA between the DMO and Defence.

Table 2.7 New Minor projects transferred to the DMO in 2010-11[1]

Project Name	Project Number/ Phase	Budget Estimate 2010-11 \$m	Actual Expenditure 2010-11 \$m	Acquisition Cost Categorisation ^[1]	Project Information
Navy					
Personal Locator Beacons	NMP1857	1	..	Level 4	This project is a safety initiative that will provide a Personal Locator Beacon capability to Navy personnel at high risk of a Man Overboard incident.
Interim Submarine Internet Protocol (SIP) Capability	NMP1880 Phase 2	-	-	Level 4	This project is to provide an Internet Protocol communications capability as a bridging measure for Collins Class Submarines until the next generation communication system is delivered.
S-70B-2 Heavy Machine Gun	NMP1920	..	..	Level 4	This project is to provide the S-70B-2 Seahawk helicopter with a 0.50" calibre Heavy Machine Gun specifically to extend the offensive and defensive capability against asymmetric threats in support of Government taskings.
Army					
Chinook Passenger and Crew Seating	AMP015.36	-	-	Level 4	Chinook Passenger and Crew Seat project is the installation of contemporary seats in order for CH-47D to comply with ADF Aircraft Crash Protection Policy - AD-003. It also includes the replacement of the floor and cargo systems.
HNA/ELF fit-out of Weapons Training Simulation System (WTSS) facilities.	AMP029.44	..	..	Level 4	This project will fit-out a WTSS facility to compliment live-fire small arms training at the Edinburgh Defence Precinct as part of Hardened and Networked Army/Enhanced Land Force (ELF). Edinburgh WTSS facility fit-out will be delivered in conjunction with four additional facilities which are part of ELF stages 1 and 2.
Machine Gun, 7.62mm, Minimi, Tri-Rail,	AMP500.06	2	1	Level 4	This project is procuring an additional 112 of the in-use Machine Gun, 7.62mm, Minimi, Tri-rail.

Project Name	Project Number/Phase	Budget Estimate 2010-11 \$m	Actual Expenditure 2010-11 \$m	Acquisition Cost Categorisation ¹⁾	Project Information
Procurements in support of Army Equipment Entitlement Variations FY 11/12	AMP500.07	-	-	Level 4	This project will procure in-service equipment for which an additional entitlement has been approved by Army Headquarters.
Marksman Rifles, 7.62mm	AMP500.08	5	2	Level 4	This project will acquire 99, HK417 7.62mm Assault Rifles to fulfil a CA Directive and Force Protection Review requirements in theatre.
Airforce					
Controlled Environment Soft Shelters	AFM00995	..	-	Level 4	This project will acquire additional Controlled Environmental Soft Shelters to equip further Expeditionary Health Squadrons and Detachments.
Airborne Navigation Trainer and Synthetic Navigation Trainer	AFM01002	2	2	Level 4	Upgrade the Hardware and Operating System of the Airborne Navigation Trainer and the Synthetic Navigation Trainer to allow the modern software application to be introduced.
Broadband SATCOM Capability Fitment	AFM01004	-	-	Level 4	This project was approved in April 2011 to provide an upgraded broadband SATCOM capability which will be installed on aircraft.

Note

- Acquisition Cost Categorisations are as follows:
 - Level 1 (Very High): >\$1,500 million
 - Level 2 (High): \$500m-\$1,500 million
 - Level 3 (Moderate): \$100m-\$500 million
 - Level 4 (Low): <\$100 million

Closed Minor projects

In 2010-11, 30 minor projects were successfully closed.

The total reduction of project approval at closure represented 28 per cent of the project approval value for these projects.

Table 2.8 Closed Minor capital investment projects

Project Name	Project Number/ Phase	Project Approval Value \$m	Total Expenditure \$m	Savings in Project Approval Value \$m
Navy				
Anzac Class Navy Minor Project Development Activities	NMP1002	1	..	-1
Mine Clearance Diving Group Navy Minor Project Development Activities	NMP1003	..	..	..
Disruptive Pattern Navy Uniforms	NMP1897	14	11	-3
Army				
Light Tracked Excavator	AMP0007.24	4	3	-1
Wheeled Tractor Scraper	AMP007.28	14	..	-14 ^[1]
Army Weapon Training Simulation (WTSS) Capability Enhancement	AMP029.27	15	12	-2
Black Hawk Simulator Visual System Upgrade	AMP029.42	6	5	-1
Indirect Fire Computer Software	AMP042.18	7	5	-2
Modular Weapon Systems	AMP048.35	5	5	..
81mm Long Range Mortar	AMP048.36	9	..	-9 ^[2]
Rapid Shelter System	AMP083.07	20	..	-20 ^[3]
Land Headquarters Equipment Entitlement Variations	AMP900.01	17	14	-3
Army Headquarters Equipment Entitlement Variations	AMP900.03	2	2	..
Training Command Army Equipment Entitlement Variations	AMP900.04	11	10	-1
Special Operations Equipment Entitlement Variations	AMP900.05	8	4	-4
Army Headquarters Block Scale Changes	AMP901.01	7	7	..
Land Headquarters Two Year Capability Enhancement Program	AMP902.05	26	23	-3
DMO Minor Low Value Items	AMP902.06	12	12	..
Army Headquarters SED Review	AMP918.01	11	11	..
Land Warfare Development Centre Concept Evaluation	AMP921.01	4	2	-2
	AMP921.02	5	1	-4
Air Force				
92Wing Spitfire Radios	AFM00020	..	..	..
Interim Elector-Optics for P-3C/AP-3C	AFM00885	14	14	..
JFAS Radar Operational Upgrades	AFM00899	19	16	-3

Project Name	Project Number/ Phase	Project Approval Value \$m	Total Expenditure \$m	Savings in Project Approval Value \$m
PC9/A Electronic Flight Instrument System	AFM00910	20	18	-2
C130J Reduced Vertical Separation Minima	AFM00916	4	2	-2
C130 Enhanced Aero Medical Evacuation Capability	AFM00925	4	3	-1
Improvised Explosive Device Disposal Capability Upgrade	AFM00927	8	7	-1
C130 Simulator Enhancements	AFM00943	14	13	-2
Flight Test Instrumentation Systems	AFM00961	2	1	-1
Total		285	202	-81

Notes

1. Project was cancelled by DGPA-A 23 July 2010 after a review of requirements.
2. Project cancelled due to change of requirement.
3. The project was terminated on the recommendation of Army Headquarters after no responses were received to two Requests For Tender despite constant industry liaison.

FEATURE ARTICLE

JP2072 – Digitising Army Communications

Battlespace Communications System (Land) [BCS(L)] - JP 2072 Phase 1, is a multi-phased program that will progressively provide an integrated, digitally networked communications capability to support Australian Land Forces operating in dynamic, high tempo environments. The program will connect users throughout the battlespace to exchange voice, data, and video and is a key enabler in achieving the Australian Defence Force's (ADF) Network Centric Warfare objectives.

In November 2009, the Government approved funding for JP 2072 Phase 1 to acquire equipment with the primary focus of providing the digital radio backbone for the Battlefield Command Support System already in service and the Battlefield Management System (BMS). The BMS and associated communications are being jointly procured with LAND 75 Phase 3.4 and LAND 125 Phase 3A, as a component of the Battle Group and below Command Control and Communications systems (BGC3).

Following Government approval, the Project established Direct Commercial Sales (DCS) and Standing Offer contracts with Harris Corporation (United States) and Raytheon Australia for delivery of Combat Net Radio and Tactical Data Radios respectively. The DCS arrangements provide flexibility and control over the delivery schedule, whilst the Standing Offers allow the project to be more responsive to other project needs and Urgent Operational Requirements. The project has taken delivery of over \$80 million in radio and ancillaries.

This digital communications fleet includes Harris AN/PRC 152 and 150 Combat Net Radios for a variety of handheld, manpack and vehicle communication system requirements across the VHF/UHF and HF spectrum. The Raytheon radios include both the Enhanced Position Locating Radio System and EPLRS Microlight® for tactical data communications.

The current challenge relates to Introduction Into Service activities. This is the first step in digitising and networking the Land Forces and therefore the IIS reflects significant changes to the Fundamental Inputs to Capability requiring significant adaptation by both project, sustainment agencies and warfighters, particularly given the current operational tempo. The project has adopted an incremental approach to meet this challenge, with user feedback on the delivered systems influencing the logistic support arrangements of this, and future, phases of the JP 2072 Program. Furthermore, given the density of new generation communications equipment, platform integration will continue to present major challenges now and into the future.

The project's success to date can be attributed to the Integrated Product Team approach to all aspects of acquisition. In particular, the alignment with LAND 75 and LAND 125 to deliver the BGC3 provides not only the digital communications backbone, but also an integrated BMS. The BGC3 will increase battlefield awareness, provide combat planning tools and reduce the risk of fratricide through enhanced shared situational awareness and improved co-ordination between tactical units.

The ongoing success of the project is also an outcome of the cooperation and teamwork between Defence and Industry, and across many other Defence agencies, including Army Headquarters, operational units, Defence Science and Technology Organisation, and some 60 other DMO projects that will use or integrate the capabilities introduced by JP 2072 Phase 1.

The project is on schedule and within budget. The Initial Materiel Release milestone was achieved in June 2011 and Army is currently conducting Initial Operational Capability exercises which will lead to Final Operational Capability in 2013.

PROGRAM 1.2 MANAGEMENT OF CAPABILITY SUSTAINMENT

The objective for Program 1.2 is to sustain the ADF and its capabilities. Each financial year, the DMO enters into an agency level bilateral agreement with each Defence Capability Manager known as a Material Sustainment Agreement (MSA). The MSA details the level of performance and support required, within an agreed price, as well as key performance indicators for which service delivery will be measured.

The Program supported around 110 products for Defence which ranged from high grade specialised military platforms such as the C-17 Globemaster III heavy airlift aircraft, the Hercules C-130H aircraft and the Super Hornet multi-role F/A-18 aircraft, to clearance diving systems and patrol boats as well as commodity type items such as rifles and ADF clothing.

Support to ADF operations is the highest priority for the DMO. Significant manpower is put towards ensuring our forces are effectively deployed and maintained. This task includes ensuring these forces are supported from the outset through training and exercise regimes, to well serviced and maintained platforms and are also equipped with both the supplies and support needed to do the job. This outcome can only be achieved through planning for, and implementing, efficient procurement activities and maintenance programs.

Program 1.2 represented around 45 per cent of the DMO's expenses in 2010-11. Further details on the Top 20 Products and their performance is detailed in this chapter with some of the key achievements for the 2010-11 financial year being:

Success in support of Air Force Capability:

- significantly reduced the operating costs of the in-county simulator training for the C-17 capability
- delivery of the first two Multi Role Tanker Transport aircraft and activated the through-life support contract
- fifteen of the F/A-18F Super Hornets have been introduced into service with a further nine to be introduced
- successful re-negotiation of the Over the Horizon Radar Support Services contract, realising over \$100m in saving without impacting capability
- formulated a revised noise map to be issued that minimises the Joint Strike Fighter (JSF) noise impact on the Port Stephens community.

Success in support of Army Capability:

- actioned over 8,600 operational staff demands and procurements from all operational theatres, provided 280,450 force preparation items for over 3,000 military personnel deploying on operations whilst planning and tasking over 1,000,000 hours of equipment maintenance
- the B Vehicle reduction program was initiated and is on schedule to remove 2,000 assets from service by the end of 2012
- the first four aircraft in the second phase of the Black Hawk Modification Program have completed prototype modifications.

Success in support of Navy Capability:

- Seahawk realised their SRP target and achieved 10 per cent above their predicted Rate of Effort after improving maintenance planning, ready-use parts velocity management and inventory rationalisation
- several SRP cost saving and process improvement initiatives have progressed for the Armidale class patrol boats enabling the reinvestment of funds to meet shortfalls in other areas of In-Service Support.

Management of ADF Capability has also been improved through explosive ordnance inventory management practices, resulting in a reduced holding of spares as well as the more effective procurement arrangements.

Top 20 Sustainment Products Performance Summary

An assessment of the performance of the Top 20 sustainment products against the deliverables in the MSAs (described in the *Portfolio Budget Statements 2010-11*) is provided in Table 2.9.

Table 2.9 Program 1.2 Deliverables

Deliverables for the Top 20 DMO Sustainment Products Under Management in Program 1.2	Further Information	Status 2010-11
General Manager Systems		
Aerospace Systems		
<p>The DMO's Aerospace Systems Division (ASD) provides through-life support to 14 weapon systems including the F/A-18 Hornet, C-17 Globemaster III, C-130 Hercules, aircraft training fleets and support systems.</p> <p>ASD exceeded Smart Sustainment reform targets by reducing ongoing support costs by working with industry to identify and exploit opportunities for efficiency, and continuous improvement.</p>	<p>Achievements</p> <ul style="list-style-type: none"> • Significantly enhanced the C-17 capability with the purchase of an additional aircraft and reduced operating costs for in-country simulator training. • Took delivery of the first two KC30-A Multi-Role Tanker Transport aircraft and activated the through-life support contract. • Achieved the initial operating capability for the F/A-18F Super Hornets and activated through-life support arrangements. • Successfully supported ongoing C-130J, P-3 aircraft and Heron Unmanned Aerial Vehicle operational deployments in the Middle East Area of Operations. • Retired the F-111 and commenced disposal activities. <p>Established the Aerospace Materiel Systems Program Office (AMSPO) to consolidate the sustainment of non-platform products and services into a single organisation.</p>	

Deliverables for the Top 20 DMO Sustainment Products Under Management in Program 1.2	Further Information	Status 2010-11
P-3 Orion Weapons System	<p>The P-3 Capability System consists of 18 P-3 aircraft, one development trials aircraft, and a range of ground based systems. The P-3 Accord (Defence, BAE Systems Australia and Australian Aerospace) provides in-service modification and deeper maintenance support. Other major contractors, including Raytheon, Thales, Qantas Defence Systems and CAE provide in-service support. Fleet availability generally met Air Force requirements during 2010-11 with minor delays to aircraft maintenance and modification occasionally compromising targets. The flying Rate of Effort target was achieved.</p> <p>The P-3 remained heavily tasked on operations including in the Middle East and northern Australia.</p> <p>To support operations, a range of capability upgrades and obsolescence treatments are being undertaken. The Capability Assurance Program 1, Acoustic Analysis and Replay System and Radar Processor-Advanced modifications entered prototyping, and contracts for design activities for the Electronic Surveillance Measures upgrade installation, and Traffic Alert and Collision Avoidance modifications were signed.</p> <p>Maritime Patrol Systems Program Office implemented substantial reforms during the year and exceeded targets for the platform. Reform of the Mission System Support Contract was the largest reform.</p>	✓✓
F/A-18 Weapons System	<p>Seventy-one aircraft and associated support systems continue to be sustained through a combination of in-house, Defence and commercial support arrangements. Materiel Sustainment Agreement requirements were substantially met or exceeded, despite emerging maintenance issues such as corrosion and component failures. Recovery plans were successfully developed and implemented to manage these issues.</p> <p>Challenges facing sustainment of the fleet are emerging structural work, obsolescence and ageing aircraft issues, balancing modifications and upgrades to maintain aircraft availability.</p> <p>There were a number of issues that affected the Hornet fleet such as a non-critical nose landing gear component failure which necessitated a fleet-wide inspection and maintenance program. However, on average since February 2011, DMO has met the Air Force's requirements for available and operational F/A-18 aircraft.</p>	✓✓
F/A-18F Super Hornet Weapons System	<p>Fifteen Super Hornet aircraft have been progressively delivered to service over the period March 2010 to June 2011, with a further five and four to be delivered in July and October 2011. Service Release and Initial Operating Capability were declared by Chief of Air Force in December 2010. Six Squadron commenced flying operations in March 2011. Although delayed delivery of some spares and support equipment presented a challenge, operational requirements were substantially met or exceeded. Plans were developed and implemented to limit the impact of these issues.</p> <p>While Air Force availability targets have been achieved, spares demand satisfaction rates have occasionally fallen below targets. This has largely resulted from the pressures of an accelerated acquisition and 'teething' issues related to the stand up of a new capability. Plans have been implemented in conjunction with Air Force and contractors to address these issues experienced.</p>	✓✓

Deliverables for the Top 20 DMO Sustainment Products Under Management in Program 1.2	Further Information	Status 2010-11
Lead-in Fighter Hawk 127 Weapons System	<p>The Hawk 127 Lead-in Fighter weapon system comprises: 33 Hawk 127 aircraft, one of which is instrumented; a full scale fatigue test article; mission planning systems; a computer based instruction system and a tactical weapon training system.</p> <p>The Hawk 127 aircraft and training devices are sustained through a prime contract with BAE Systems Australia. This is a performance-based contract providing for all in-service support other than operational maintenance, which is performed by the Air Force flying units. The in-service support contract has been extended to 30 June 2013.</p> <p>Performance against Air Force requirements were substantially met or exceeded. Where targets were not met, plans were developed and implemented to manage any issues.</p>	✓✓
C-130J-30 Weapons System	<p>The C-130J-30 fleet consists of 12 aircraft and an aircrew training simulator. It is supported by Australian Aerospace for deeper maintenance, logistics and engineering support, and Standard Aero for propulsion system support.</p> <p>C-130J aircraft provided critical support to ADF operations during 2010-11.</p> <p>Equipment obsolescence management is the key logistics support risk to the C-130J. Project AIR 5440 treats major obsolescence through a Block Upgrade program. Improved engine availability has been realised through investment in an engine health monitoring system, reducing the rate of annual inductions of engines for maintenance.</p> <p>Average aircraft availability marginally exceeded the agreed targets. Spares provision and related support performance was below target, but this did not adversely affect overall availability levels or support to aircraft deployed to the Middle East Area of Operations. Re-competition of C-130J Propulsion Systems sustainment is being progressed and aircraft through life support arrangements are maturing.</p>	✓✓
C-130H Weapons System	<p>The C-130H fleet consists of 12 aircraft and a flight simulator. Five aircraft have been removed from the active fleet and placed in preservation maintenance to cost effectively meet Air Force capability requirements while managing costs of an ageing system.</p> <p>The C-130H is supported through two prime contractors: Qantas Defence Services for deeper maintenance, logistics, engineering and propulsions systems support; and Raytheon Australia for avionics systems support. The implementation of ongoing mandatory structural inspection requirements has proven successful in managing ageing aircraft issues, particularly fatigue cracking and corrosion.</p> <p>Average aircraft availability and the provision of spares and related logistic support exceeded the Air Force requirements. The C-130H Avionics support arrangements were reviewed, delivering significant reductions to ownership costs. Sustainment contracts for C-130H and P-3 propulsion systems (engines, propellers are expiring, and work is underway to compete the replacement contracts. Ageing aircraft issues such as fatigue and corrosion remain the key support risk and are being actively managed.</p>	✓✓✓

Deliverables for the Top 20 DMO Sustainment Products Under Management in Program 1.2	Further Information	Status 2010-11
Electronic Systems		
<p>Electronic Systems Division (ESD) manages the sustainment of much of the ADF's Electronic Systems Materiel both domestically and operationally through its 20 System Program and System Support Offices (SPO/SSO). The sustained materiel includes command and control systems, communications, airspace surveillance and control systems, electronic warfare systems (including self-protection) satellite communications and tactical interoperability systems.</p>	<p>Achievements</p> <ul style="list-style-type: none"> • Successfully completed the re-tendering of a performance-based contract for the delivery of Base Operation, Maintenance and Support Services for the Naval Communications Station Harold E Holt located in Exmouth, Western Australia. • Successfully supported the development of a prototype system to support the command and control of coalition air operations on Exercise TALISMAN SABRE 2011. • Commenced the task of designing the future generation of deployable information technology system for the ADF. • Successful re-negotiation of the Over the Horizon Radar Support Services contract, realising over \$100 million in savings without impacting capability. • Successfully refurbished the ADF's Mobile Control and Reporting Centre after its return from operations. • Successfully supported multiple command support, communications, electronic warfare, satellite and self protection fleets deployed on operations. • Conducted on-going remediation of high-risk equipment obsolescence issues for Over the Horizon Radar. • Successfully completed several software upgrades for JORN to improve signal processing and interoperability. • Provided on-going Tactical Data Link support and assurance across multiple ADF projects, exercises and operations. • Successfully re-negotiated the Mobile Communications Network and Mine Warfare Satellite Earth Station contracts realising an overall cost saving for Defence and a more flexible approach to contracting without any adverse impact to capability and safety. <p>Continuing the consolidation of ADF Large Aircraft Infrared Countermeasures (LAIRCM) support into a flexible and scalable support arrangement has been negotiated which will enable existing and new users of LAIRCM as they enter operational service to utilise a single support contract arrangement reducing the management overheads and cost of ownership through economies of scale.</p>	

Deliverables for the Top 20 DMO Sustainment Products Under Management in Program 1.2	Further Information	Status 2010-11
Wide Area Surveillance Capability	<p>Wide Area Surveillance is provided through a network of three Over the Horizon Radars. The surveillance area is the northern sea and air approaches to Australia. Significant changes were made to the two primary support contracts resulting in significant SRP savings with no impact to operational capability.</p> <p>Substantial progress was made in the management of equipment obsolescence in response to a key sustainment risk to the capability.</p> <p>Some outages occurred during the year which reduced capability availability. These were caused by equipment obsolescence for which remediation action is well underway and primary communication links for which a strategy is currently being developed.</p>	✓✓
Explosive Ordnance		
<p>The Explosive Ordnance Division was established to provide dedicated focus to the management and reform of explosive ordnance acquisition and sustainment outcomes.</p> <p>The Division comprises a divisional executive team and two branches.</p> <p>Guided Weapons Branch manages the acquisition and in-service support of all guided weapons and Munitions Branch manages the acquisition and in-service support of all non-guided munitions, pyrotechnics and countermeasures for the ADF.</p>	<p>Achievements</p> <ul style="list-style-type: none"> • Reform of munitions requirements analysis and procurement planning processes. • The Domestic Munitions Manufacturing Arrangements Project was launched and an invitation to register was released to the global market. • Progressed development of an explosive ordnance performance measurement framework. • Continued simplification of inventory categorisation allowing for better management of inventory. • Improved inventory performance reporting capabilities within the Division. • Improved sustainment management practices across the Division supported by end-to-end process reviews of guided weapon maintenance arrangements. • The SRP was further implemented in the Division, with sustainable savings derived from existing commercial arrangements. • Reduced volume of stock awaiting disposal. A continued focus on disposals will remain. • Capability and competency of all staff was progressed through a Division-wide professionalisation program. 	

Deliverables for the Top 20 DMO Sustainment Products Under Management in Program 1.2	Further Information	Status 2010-11
Explosive Ordnance - Navy, Army, Air Force	<p>Explosive Ordnance sustainment outcomes for the Navy, Army and Air Force continued to improve over the year. Guided Weapon availability continued to improve, along with spares demand satisfaction rates and availability of repairable items. Improved inventory management practices resulted in reduced spares holdings and more effective spares procurement. Financial achievement was in line with budget and SRP savings were achieved through smarter contracting practices, increased focus on serviceability levels and process efficiencies.</p> <p>During 2010-11 there was an easing of demand in the global munitions market, along with signs of increased manufacturing capability. Together, these trends relieved price and lead time pressures, enabling the Division to deliver significant improvements in sustainment outcomes. The Division was able to fully accrue munitions sustainment and operations budgets and significantly reform munitions requirements analysis and procurement planning processes.</p>	✓✓
Helicopter Systems		
<p>Helicopter Systems Division (HSD) provides through-life support to ten aviation platforms through System Program Offices based at Nowra for Navy aviation, and at Oakey and Brisbane for Army aviation. They provide fleet-wide engineering, repair parts, contract management for deeper level maintenance and replacement of ageing and obsolescent aircraft equipment.</p> <p>The sustainment tasks are driven by operational unit requirements and deployments such as Chinook and Unmanned Aerial Vehicle operations in Afghanistan, Black Hawk operations in Timor, and Seahawks embarked in Navy frigates on operations in the Middle East Area of Operations.</p>	<p>Achievements</p> <ul style="list-style-type: none"> • The first four aircraft in the second phase Black Hawk Modification Program have completed prototype modifications. A total of up to 22 aircraft will be modified. • Some improvement of support arrangements for the Armed Reconnaissance Helicopter - AIR 87 and the Multi Role Helicopter - MRH 90. • Implementation of a five year performance based in-service support contract for the Squirrel helicopter system. • Creation of Seahawk and Squirrel Industry Partnering Team programs to drive Continuous Improvement efficiencies between Navy, DMO and Contractor agencies. 	

Deliverables for the Top 20 DMO Sustainment Products Under Management in Program 1.2	Further Information	Status 2010-11
Multi Role Helicopter	<p>As at 30 June 2011, 13 of the 46 aircraft have been accepted. The ADF ceased acceptance of MRH-90 aircraft on 22 November 2010 until known capability deficiencies are rectified.</p> <p>MRH-90 flying rate of effort has been significantly less than expected due to a number of technical and support issues and this has resulted in delays to aircrew training and certification. Some improvement was achieved towards the end of 2010-11 and the primary sustainment objectives for 2011-12 are to continue to increase the flying rate of effort and continue to improve the support arrangements. To address this, the DMO will work with industry to improve the immature support system, aircraft systems reliability, and contractual arrangements.</p>	✓
Armed Reconnaissance Helicopter Weapons System	<p>As at 30 June 2011, 20 of the 22 aircraft have been accepted and flown in excess of 8,800 hours. Eleven of the mature configuration aircraft have been fielded in Army's 1st Aviation Regiment, Darwin. Five of the mature configuration aircraft are being used for training at the Army Aviation Training Centre, Oakey, with the remainder of the aircraft accepted undergoing retrofit to the mature configuration in Australian Aerospace's production facilities in Brisbane.</p>	✓✓
S70B-2 Seahawk Weapons System	<p>The Seahawk Weapons System comprises 16 Seahawk helicopters and associated mission, training and support systems, including a simulator. The sustainment budget funds maintenance support for the Seahawk provided through a combination of contracted support, primarily by BAE Systems Australia, Asia Pacific Aerospace and Sikorsky Aircraft Australia Limited; and in-house support tasks undertaken by 816 Squadron.</p> <p>The sustainment risks for the Seahawk largely relate to airframe corrosion and system obsolescence issues. These are being actively managed by the DMO in consultation with Navy to ensure the Seahawk remains a viable capability until replaced by the MH-60R through Project AIR 9000 Phase 8.</p>	✓✓✓
S70A-9 Black Hawk Weapons System	<p>The fleet of 34 Black Hawk helicopters contributes to the airmobile and special operations helicopter capabilities for Army. Selected upgrades will continue to be introduced during 2011-12 to address system obsolescence and to ensure operational viability is maintained until the Black Hawk is replaced by the MRH-90. The fleet achieved a very high flying rate this year and exceeded agreed targets. Work will continue on sustaining a high rate of effort through obsolescence and other ageing issues until the Black Hawk is replaced by the MRH-90.</p>	✓✓✓

Deliverables for the Top 20 DMO Sustainment Products Under Management in Program 1.2	Further Information	Status 2010-11
Land Systems		
<p>Land Systems Division sustainment provides essential materiel needs across a diverse range of equipment for the Australian Defence Force and manages over 239,000 line items of supply. Specific fleets include armoured and non-armoured vehicle fleets, artillery and weapon systems, engineer plant, materiel handling equipment, soldier protection and uniforms, bulk liquid distribution, medical and dental stores, surveillance and simulation systems and consumable stores such as combat rations.</p>	<p>Achievements</p> <ul style="list-style-type: none"> • Actioned over 8,600 operational staff demands and procurements for materiel and materiel support from all operational theatres. • Provided 280,450 force preparation items for over 3,000 military personnel deploying on operations. Items issued included weapons, uniforms, boots, extreme cold and wet weather garments, load carriage equipment and body armour systems. • Planned and tasked loaded over 1,000,000 hours of equipment maintenance. • Disposed of over 6,400 line items consisting of 162,000 items. • LSD has analysed existing maintenance information and determined that the period between servicing can be extended for some vehicles. This commenced with Land Rovers and is now being implemented for other B Vehicles. • Achieved contract signature for the Tank, Australian Light Armoured Vehicle and Hercules Through-Life Support performance based contract. The contract will provide a range of inventory management, sustainment and maintenance services. • Support was provided to approximately 400 vehicles on operations. • 100 vehicles were fully refurbished under the operational remediation program. • The B Vehicle Fleet Reduction Program has commenced with tranche one identifying around 1,000 vehicles to be removed from service over the next year. A plan is being developed to remove a further 1,000 vehicles from service in the following year. This program is on schedule. 	

Deliverables for the Top 20 DMO Sustainment Products Under Management in Program 1.2	Further Information	Status 2010-11
General Service B Vehicle Fleet	<p>B Vehicles are generally unprotected Land Rovers, Mercedes Benz Unimog 4-tonne and Mack 8-tonne trucks, and associated trailers with a limited number of protected cabins for Unimog and Mack vehicles. There are approximately 12,000 vehicles and trailers, a small number of motorcycles, all terrain vehicles and ceremonial vehicles under management.</p> <p>Activities implemented to enhance the operation of the fleet include optimising the servicing schedules for the Unimog and Mack R Series truck fleet, extending the service interval to two years, and reducing maintenance time and cost. To ensure the continued sustainment of the fleet until replacement vehicles are delivered under Project LAND 121, Service Support contracts will be entered into with the primary equipment manufacturers.</p> <p>Full support for vehicles on operations continues to be delivered. Vehicle age, obsolescence, number of variants and retrospective certification requirements continue to add to difficulties in supporting the fleets until replaced by LAND 121. As current contracts end, new through-life support contracts for the primary fleet manufacturers are being established to maintain support until vehicles are replaced under Project LAND 121.</p> <p>The B Vehicle Reduction Program was initiated and is on schedule to remove 2,000 assets from service by end 2012. The identification and removal of vehicles is being completed in consultation with Army Headquarters to ensure that there is no adverse impact on capability. The physical disposal will be carried out under recently announced Strategic Disposal Program for B Vehicles which is scheduled to commence in mid 2012 with no detriment to Army's capability requirements.</p>	✓✓
ADF Clothing and Personal Equipment	<p>Both Clothing and Soldier Modernisation Systems Program Offices (SPO) continued to deliver clothing and personal equipment for operational and sustainment requirements. Significant achievements for the year include the delivery of Crye Combat Uniforms and the Tiered Body Armour System for operations in Afghanistan. New non-combat uniforms have been developed for all three Services, including a new Mess kit for the Army, and new maternity uniforms for the Army and Navy.</p> <p>Soldier Modernisation SPO is also working closely with the newly formed Diggerworks organisation for the development of combat ensembles and body armour that closely matches the needs of deployed soldiers. The recent fit out of Mentoring Task Force 3 for operations has provided an initial proof of concept for the new Tiered Body Armour System.</p> <p>Both SPOs continued to maintain industry engagement through newsletters, industry forums and Annual Procurement Plans which are published on AusTender.</p> <p>The reviews into the Policy Framework for Clothing Procurement and of the Reporting of Defects with ADF Personal Equipment and Combat Clothing were accepted in 2010-11. Defence is now implementing the Government-agreed recommendations from these reviews.</p>	✓✓

Deliverables for the Top 20 DMO Sustainment Products Under Management in Program 1.2	Further Information	Status 2010-11
Protected Mobility Fleet	<p>The Protected Mobility Vehicle fleet (PMV) is currently sustaining 610 vehicles in six variants (troop, command, mortar, assault pioneer, direct fire weapon, and ambulance). PMVs are designed to provide protected land mobility to Army combat units and RAAF airfield defence guards on operations.</p> <p>On 12 May 2011, Government announced the acquisition of an additional 101 PMVs that will be funded from two distinct funding streams. The PMV Fleet will fund 31 of these and the remaining 70 will be funded from the Defence Capability Plan. The additional 101 PMVs are programmed for delivery by May 2013, at which time the mature PMV fleet size will be 838.</p> <p>Operational Availability continues to meet Defence requirements in 2010-11. The prime support services contractor, Thales, continued to meet the contracted targets for fleet support. Issuing of PMVs to Army was impacted by availability of communications harnesses and headsets, but this issue has now been rectified.</p>	✓✓
Maritime Systems		
<p>The Maritime Systems sustainment concept is to support the Navy and Army maritime capability through cost effective materiel design, engineering maintenance and logistic support to platforms, equipment and systems. The provision of these sustainment services is under a structure of System Program Offices that are co-located regionally with the Navy force element by ship class, and supported by various forms of outsourced commercial contracts.</p>	<p>Achievements</p> <ul style="list-style-type: none"> • Under the Defence Strategic Reform Program, and as the outcome of a number of comprehensive initiatives, efficiency programs were implemented for the Minehunter Coastal Class, the Anzac Class Capability Improvement Program and the development of the Major Fleet Unit Repair and Maintenance Reform Program. Tenders under the Group Maintenance Contract have been sought from shortlisted tenderers for the Anzac Class Group. • An ongoing program of improvements to inventory management continues to implement system upgrades. An Inventory Investment Plan was established. • The Configuration Management Improvement Project was established to implement efficiency in configuration management and the maintenance baselining of major surface ships and has improved data quality and maintenance outcomes. • As a result of the Seaworthiness Board review of the amphibious and afloat support ships, significant recovery action was taken to survey the material state and ratify the maintenance requirements to assure value for money for Navy's amphibious ships. Subsequently, the Government decided to decommission HMAS <i>Manoora</i>. Significant organisational reform and business process re-engineering has been initiated and has made solid progress in the Amphibious and Afloat Support Systems Program Office. On 15 February 2011, the Minister for Defence appointed an independent team of experts to develop a plan to reform practices for management and repair of the amphibious and afloat support ships, and to oversee early stage implementation of those reforms. The Rizzo Review (5 July 2011) made 24 recommendations which cover a comprehensive number of practices and were accepted by Government. 	

Deliverables for the Top 20 DMO Sustainment Products Under Management in Program 1.2	Further Information	Status 2010-11
Fuels and Lubricants - Navy, Army, Air Force	<p>The support objective is to procure fuel, oil and lubricant products to Defence operational and support elements and visiting foreign forces.</p> <p>The ADF requirements for fuel, oil and lubricant products were met by the replenishment of stock under a revised fuel procurement strategy and the continual collegiate effort by Defence stakeholders to identify the optimal operational and reserve holdings. Significant reform has been undertaken in establishing longer term supply contracts.</p>	✓✓
Anzac class frigate	<p>The support objective is to maintain the materiel capability of the Anzac class frigate by the provision of materiel support and ongoing maintenance of eight ship platforms and associated equipment, systems and operator training facilities.</p> <p>The ongoing sustainment of materiel capability contributed to the achievement of Navy's operational requirements for the Anzac class of ships. An ongoing program of reforms in Smart Sustainment and Major Fleet Unit Repair and Maintenance and Inventory Management improvements were progressed for the Anzac class during 2010-11.</p>	✓✓
Adelaide class frigate	<p>The support objective is to maintain the materiel capability of the Adelaide class frigate by the provision of materiel support and ongoing maintenance of four ship platforms and associated equipment, systems and operator training facilities.</p> <p>The ongoing sustainment of materiel capability contributed to the achievement of Navy's operational requirements for the Adelaide class of ships.</p>	✓✓
General Manager Programs		
<p>General Manager Programs (GMP) is responsible for a number of sustainment activities across the major programs of Airborne Early Warning and Control (AEW&C), and the Collins Submarines.</p> <p>Each of these programs are valued in excess of \$1 billion and involve significant technological challenges that require superior project management performance to deliver and sustain the necessary capabilities sought by the ADF</p>	<p>Achievements</p> <ul style="list-style-type: none"> • Conducted JSF noise analysis that has allowed a revised noise map to be issued that minimises JSF noise impact on the Port Stephens community. • Independent Project Performance Office (IPPO) stood up on 1 July 2011 to provide independent advice to government and defence on major capital equipment projects. • The Air Warfare Destroyer Systems Centre opened in December 2010, establishing the AWD Program's facility at the South Australian naval industry precinct, Techport. • All Combat subsystem contracts are signed for the Air Warfare Destroyers, the last being the \$30 million telephony system contract with Navantia-FABA in May 2011. • All blocks (other than the mast) for HMAS <i>Hobart</i> have commenced manufacture and first blocks for HMAS <i>Brisbane</i> started. • The Wedgetail Project has delivered a fourth aircraft in an initial configuration to support training and progressed the radar collaborative study aimed at recovering radar performance shortfalls. Initial Operational Release for the MK48 Mod 7 CBASS heavyweight torpedo, incorporating an improved capability software baseline, was approved by Chief of Navy on 8 March 2011. 	

Deliverables for the Top 20 DMO Sustainment Products Under Management in Program 1.2	Further Information	Status 2010-11
Airborne Early Warning and Control System		
Airborne Early Warning and Control (AEW&C) System	The focus in 2010-11 was on maturing the AEW&C sustainment infrastructure, including spares provisioning and logistics support arrangements. The incremental delivery of both airframes and systems continued throughout 2010-11 as acquisition testing activity progressed and four aircraft were delivered. The innovative partnering arrangements between the Commonwealth, represented by both DMO and the RAAF, and Boeing; together with their sub-contractors Boeing Defence Australia and Northrop Grumman, have worked extremely well in providing a high level of aircraft availability to 42 Wing, noting the incremental acceptance strategy of such a highly complex, first of type aircraft.	✓✓✓
Collins and Wedgetail		
Collins Class Submarines	<p>The support objective is to maintain the Australian submarine materiel capability, which consists of six submarines and associated infrastructure, and contributes to Program 1.2 - Navy Capabilities as identified in the <i>Portfolio Budget Statements 2010-11</i>. Underpinning this objective is the requirement to ensure the logistic costs of ownership of the submarines is affordable and provides sustainable and cost effective design, engineering and logistics via contractual mechanisms with defence industry.</p> <p>Supply Support, emergent defects and maintenance schedule delays significantly affected submarine availability in 2010-11. The sustainment of the Collins Class fleet remains on the Projects of Concern list. The Collins Reform program has been targeted to address these issues but these initiatives will take some time to take effect.</p> <p>The Navy is currently operating three submarines with an additional submarine planned to complete maintenance in July 2011. Two submarines are in Full Cycle Docking.</p>	✓

This key provides a description of the ranking system used to indicate achievements against the product delivery and its schedule status.

Key		
-	Not Achieved	None or minimal progress was made against targets in 2010-11. Explanations are provided in the 'performance summary' column.
✓	Partially Achieved	Some targets were met, and any issues are being managed.
✓✓	Substantially Achieved	Targets were mostly met and any issues are being managed.
✓✓✓	Achieved	All targets for 2010-11 were met or exceeded.

Top 20 Sustainment Products Expenditure

Table 2.10 and the descriptions that follow provide details of the top 20 sustainment products by forecast expenditure in the *Portfolio Budget Statements 2010-11*. Baseline expenditure for the top 20 products represented 67 per cent of total expenditure on Program 1.2 in 2010-11.

Table 2.10 Top 20 sustainment products by expenditure as forecast in the Portfolio Budget Statements 2010-11^[1]

	Budget Estimate 2010-11 \$m	Revised Estimate 2010-11 \$m	Actual Expenditure 2010-11 \$m	Variation \$m	Reason for Significant Variation in Project Expenditure 2010-11 \$m
General Manager Systems					
Aerospace Systems					
P-3 Orion Weapons System	115	120	111	-9	The variation was caused by the autopilot replacement project being deferred to 2011-12.
F/A-18 Hornet Weapons System	105	124	129	5	The variation was due to the approval of the Hornet Structure Assurance Consolidation Program since the last budget. This variation has been partially offset by a reduction in Net Personnel and Operating Cost requirements related to the HUG Phase 2.3 project.
F/A-18 Super Hornet Weapons System	95	62	75	13	Delivery by the United States Navy exceeded plan.
Lead-in Fighter Hawk 127 Weapons System	88	89	86	-3	The variation is due to delay in obsolescence and reliability improvement initiatives related to aircraft Head Down Flight Displays and Multi-Functional Displays. Some contracted milestones pertaining to the Hawk Full Scale Fatigue Test were also not achieved due to an extended program shutdown to effect repairs to the aircraft fatigue test article.
C-130J-30 Weapons System	75	74	69	-5	The variation is the result of foreign exchange gains, and achievement of additional SRP savings resulting from strategic reform initiatives and slippage in provision of deliverables against minor contracts.

	Budget Estimate 2010-11 \$m	Revised Estimate 2010-11 \$m	Actual Expenditure 2010-11 \$m	Variation \$m	Reason for Significant Variation in Project Expenditure 2010-11
C-130H Weapons System	61	54	54	..	No variation
Electronic Systems					
Wide Area Surveillance Capability	72	82	88	6	Several large unplanned obsolete system redesigns and replacements were funded from the sustainment budget.
Explosive Ordnance					
Explosive Ordnance - Navy, Army, Air Force	249	261	251	-10	Variance due to transfer to Defence Services Group for Mulwala New Policy Proposal for infrastructure projects.
Helicopter Systems					
Multi Role Helicopter	124	78	80	2	The Multi Role Helicopter (MRH-90) flying rate has been less than planned, leading to significant delays in aircrew training and certification. Acceptance of MRH-90 aircraft ceased in November 2010 until capability deficiencies are rectified by the contractor. The DMO will continue to work with industry in 2011-12 to improve the immature support system, aircraft systems reliability, and contractual arrangements.
Armed Reconnaissance Helicopter Weapons System	97	86	91	5	Twenty of the 22 aircraft have been accepted and to date have flown a total of 8,800 hours. Further development of the Tiger ARH capability in Army has been adversely affected by a lower than required flying rate, poor support and technical issues with the helmet mounted sight and display for full night operations.
S70B-2 Seahawk Weapons System	59	73	66	-7	Unexpected long lead times preventing delivery of ordered parts within 2010-11.

	Budget Estimate 2010-11 \$m	Revised Estimate 2010-11 \$m	Actual Expenditure 2010-11 \$m	Variation \$m	Reason for Significant Variation in Project Expenditure 2010-11
S70A-9 Black Hawk Weapons System	64	99	84	-15	The Black Hawk helicopter fleet achieved a high flying rate and exceeded agreed targets. The availability of aircraft components is becoming an issue as the aircraft ages. Selected upgrades will continue to be introduced during 2011-12 to address system obsolescence and to ensure operational viability is maintained until the Black Hawk is replaced by the MRH-90.
Land Systems					
General Service B Vehicle Fleet	82	90	83	-7	The variation has been driven by higher than expected obsolescence issues and difficulties in sourcing spare parts to maintain three ageing fleets (Landrover, Unimog and S Liners), which are all in excess of 20 years in service.
ADF Clothing and Personal Equipment	60	52	70	18	The variation was due to the approved procurement of additional capability for licences and technical data to enable local manufacture of Crye uniforms.
Protected Mobility Fleet	60	17	22	5	The variation was due to expenditure incurred to support additional protection enhancements to improve survivability and an increase in Protected Mobility Vehicles introduced in 2010-11.
Maritime Systems					
Fuels and Lubricants - Navy, Army, Air Force	454	400	378	-22	Fuel price and Foreign Exchange variations favoured Defence. Due to operational factors, a large proportion of Navy fuel purchases were made in the last quarter of the year when fuel prices were declining and \$AUD was appreciating, such that the actual expenditure dropped below that forecast, with no impact to maritime capability or stockholdings. At the end of 2010-11, all ADF fuel requirements had been met and reserve stockholdings increased.

	Budget Estimate 2010-11 \$m	Revised Estimate 2010-11 \$m	Actual Expenditure 2010-11 \$m	Variation \$m	Reason for Significant Variation in Project Expenditure 2010-11
Anzac class frigate	222	177	151	-26	The variation was due to significant changes to the Force Generation Plan for the Anzac class initiated by Navy, impacting on planned ship repair and engineering change activities.
Adelaide class frigate	103	101	111	10	Following finalisation of the Additional Estimates allocation, further funding of AUD \$10 million was transferred to DMO for sustainment costs associated with Project SEA 1390 Phase 2.1. The supplementation met the Adelaide class frigate Fleet 2010-11 service support costs for the Combat Systems Software and Warfare Systems Support Centre.
General Manager Programs					
Airborne Early Warning and Control System					
Airborne Early Warning and Control Aircraft	142	141	116	-25	The variation was due to System Acquisition Contract delays and difficulties with establishing first-of-type supply pipelines for the capability. In addition, Boeing have undertaken an active reform program resulting in substantial one off savings.
Collins and Wedgtail					
Collins Class Submarines	352	399	416	17	The variation was due to purchase of critical spares to remediate supply support and the acceleration of activities under the Through Life Support Agreement with the ASC.
Total Top 20 Sustainment Products	2,679	2,579	2,530	-49	
Other Sustainment Products	1,344	1,351	1,236	-115	
Total Sustainment Products	4,023	3,930	3,766	-164	
Support to Operations	515	484	447	-37	
Total Sustainment and Operations	4,538	4,414	4,213	-201	

Note

1. Under the customer supplier model between Defence and the DMO, service delivery levels and requirements may change regularly to meet the emerging demands of Defence sustainment and operations requirements. As such the price for product delivery will fluctuate to meet these variations in demand from Defence. Under the MSA model, product prices will change as agreed with the customer requirements, resulting in amended budgets beyond the Additional Estimates reporting timeframe. This may result in cash being returned to the customer in-year or additional cash being provided to the DMO to meet the revised agreement.
2. Noting the footnote above, the final agreed funding level paid by Defence in 2010-11 post Additional Estimates was \$4,253.9 million resulting in a total variance of \$41 million.

FEATURE ARTICLE

CA45 - ARMY B-VEHICLE

Smart Sustainment (Inventory and Maintenance Stream)

In 2009, the Commercial & General Service Vehicle Systems Program Office successfully implemented a service optimisation program for the Land Rover fleet of vehicles, achieving annual savings of \$590,000. Following this success it was felt that a similar program might be extended to include the Unimog and Mack R series truck fleets with the view to achieving similar savings.

Before extending the Land Rover service optimisation concept to the other vehicle fleets, the Land Engineering Agency was approached to conduct a reliability, availability and maintainability study. This study found that the servicing extension was technically feasible and assessed that safety would not be adversely impacted. As a mitigation strategy, a regime of annual safety inspections was recommended.

The results of the study enabled Commercial & General Service Vehicle Systems Program Office to move to the new service optimisation program, and in May 2011 it was implemented for the Unimog and Mack R series truck fleets across Defence. The new program extended the servicing intervals for these vehicles from yearly to every two years, or 10,000 kilometres, whichever comes first. The anticipated savings that will be generated through the Unimog and Mack servicing optimisation initiative should be in excess of \$441,000 per year in repair parts. Defence will also save nearly 15,500 labour hours a year. This initiative will reduce maintenance time and cost over the remaining life of both fleets.



PROGRAM 1.3 PROVISION OF POLICY ADVICE AND MANAGEMENT SERVICES

Under this Program the DMO delivered procurement policy advice to both Defence, the Government and a range of industry programs and engagement activities under the *Defence and Industry Policy Statement 2010*. This Program also covers corporate functions that would exist regardless of the scale or nature of the DMO's business.

The objective for Program 1.3, as outlined in the *Portfolio Budget Statement 2010-11*, is for the DMO to meet Ministerial, Government, Defence and DMO expectations and timeframes for the provision of policy, advice and support, including delivery of programs to support Australian Defence Industry. The key performance indicator involves meeting these expectations and timeframes. The deliverables include specialist legal and procurement contracting policy, acquisition and sustainment advice and industry engagement.

Program 1.3 represented about one per cent of the DMO's expenditure in 2010-11 (similar to 2009-10 levels). Expenses under this Program include:

- procurement policy advice to Defence and the DMO and contracting services for DMO and various Defence procurement activities (for further information refer to Chapter 4 of this volume)
- the delivery of industry programs and engagement activities for Government and Defence (further information is provided on page 85 of this volume)
- corporate governance and reporting to meet the Government's requirements (for further information refer to Chapter 4 of this volume).

The planned resource use for Program 1.3 was revised from \$111.9 million in the *Portfolio Budget Statements 2010-11* to \$112.5 million in the *Portfolio Additional Estimates Statements 2010-11*.

The DMO's 2010-11 actual result against this Program was \$85.5 million. In 2010-11, the DMO achieved approximately 76 per cent of the revised budget published in the *Portfolio Additional Estimates Statements 2010-11* for Program 1.3. This resulted from lower than anticipated activity in all the Industry initiatives, including Skilling Australian Defence Industry and the Defence Industry Policy Strategies initiatives.

An assessment of the performance of Program 1.3 is provided in Table 2.11 and Table 2.12 and the descriptions that follow.

Table 2.11 Program 1.3 Deliverables

Deliverable	Further Information	Status 2010-11
Specialist legal and procurement contracting policy	Office of Special Counsel in the DMO provided extensive specialist legal advice to support business areas, Systems Program Offices and projects. (DMO Legal raised 151 new internal legal matters with a further 107 new external legal service engagements). Updates have been made to maintain currency in procurement policy through the Defence Procurement Policy Manual. In addition, new and updated contracting templates have been incorporated into the Australian Defence Contracting suite of tendering and contracting templates. There has also been significant development and promulgation of operational guidance in the form of Defence Materiel Instructions and Handbooks.	✓✓
Acquisition and sustainment advice to support the Government and Defence	Substantially Achieved. Advice was provided through regular reports and Ministerial correspondence. Timeliness and quality was generally good and is being continually improved.	✓✓
Industry engagement	The <i>Defence Industry Policy Statement 2010</i> is being implemented. The public DCP was updated online in December 2010, with the Minister for Defence releasing a Supplement to the public DCP, which contains all changes approved by Government since December 2010, at the 2011 Defence and Industry Conference held in late June 2011.	✓✓

Table 2.12 Program 1.3 Key Performance Indicator [1]

Key Performance Indicator	Further information	Status 2010-11
The DMO is meeting Ministerial, Government, Defence and DMO expectations and timeframes for provision of policy, advice and support.	Measures were taken during the year to improve on the timeliness of advice provided to Ministers and the Government.	✓✓

Note

- The level of advice provided to Government fluctuates as a result of a number of factors including the needs of Government for such advice and the length of caretaker periods that fall within the reporting timeframe.

This key provides a description of the ranking system used to indicate each deliverable's achievements against the deliverable's and key performance described in the *Portfolio Budget Statements 2010-11*.

Key		
-	Not Achieved	None or minimal progress was made against targets in 2010-11. Explanations are provided in the 'further information' column.
✓	Partially Achieved	Some targets were met, and any issues are being managed.
✓✓	Substantially Achieved	Targets were mostly met and any issues are being managed.
✓✓✓	Achieved	All targets for 2010-11 were met or exceeded.

Specialist Legal and Procurement Contracting Policy

Within the DMO Commercial Group, the Office of Special Counsel (OSC) assists DMO and Defence to manage legal and commercial risk in the capability and procurement lifecycle, consistent with the Commonwealth and Defence accountability framework. The Defence Procurement Policy Manual (DPPM) is the primary reference for all DMO and Defence procurement activities and provides comprehensive guidance consistent with the broader Commonwealth financial management and accountability framework. The DMO reviews and updates the procurement policy and operational guidance in the DPPM, and the Australian Defence Contracting suite of tendering and contracting templates and related process templates, and undertakes procurement professionalisation activities in order to ensure that they comply with higher level legislation and procurement policy and provide best practice guidance to officials undertaking procurement. The Directorate of e-Procurement Policy and Practice was established in May 2011 within the OSC to provide additional policy guidance and clarity regarding specific e-procurement business capability.

Ministerial Support¹

Providing policy advice and support to the Minister for Defence and the Minister for Defence Materiel is a key function of the DMO. The key to maintaining trust and credibility with our principal stakeholders is timely and accurate provision of responses to Ministerial representations and other parliamentary questions, and Ministerial submissions.

Table 2.13 lists the correspondence by type of advice provided to the Ministers and the then Parliamentary Secretary's offices during 2010-11.

Table 2.13 Statistics on Advice provided to the Government by the DMO

Type of Advice	Number
Submissions	444
Speeches	10
Responses to Parliamentary Questions on Notice	15 ^[1]
Questions taken on notice in the course of Parliamentary inquiries	10
Questions taken on notice at Senate Estimates Hearings	52
Media releases	92
Ministerial correspondence	177
Question Time Briefs	147
Hot Issues Briefs	9
Total	941

Note

1. DMO also provided input for 27 portfolio Questions on Notice

1. Cabinet submissions from the DMO are reported in the Defence Annual Report Volume 1.

Industry Engagement - Enabling Our Business

The *Defence Industry Policy Statement 2010 (DIPS 2010)* delivers funding of \$445.7 million over ten years for industry programs to increase the innovation, skill level, productivity and hence competitiveness of local defence companies. The DMO continues to implement the programs and activities provided for under *DIPS 2010*. The programs and activities are aimed at developing and maintaining a competitive local defence industry base able to offer value-for-money support for the operations of the Australian Defence Force.

Australian Industry Capability

The aim of the Australian Industry Capability (AIC) program is to maximise the opportunities for Australian industry in Australian Defence contracts. A focus for 2010-11 was on ensuring all relevant Defence Capability Plan (DCP) projects and project phases had identified the need for an AIC Plan and, for projects that transitioned into contract, had an endorsed AIC Plan implemented.

Also during 2010-11, the AIC program restructured to accommodate the *DIPS 2010* requirements, and worked to improve Defence and industry's understanding of AIC. This included the implementation of an Audit Plan to ensure that companies that have contracted to deliver an AIC Plan remain compliant.

In June 2011, the Minister for Defence Materiel announced the lowering of the threshold required for companies to submit an AIC Plan in tender responses from \$50 million to \$20 million, and other changes to the program. Lowering the threshold provides greater business opportunities for Australian industry, especially Small to Medium Enterprises (SMEs).

Global Supply Chain Programs

A further three Global Supply Chain (GSC) deeds between Defence and multi-national primes have been signed in 2010-11, bringing the total number of GSC deeds to six. Of these, three have been activated with funding provided by Defence and implementation activities undertaken by the respective companies.

Under the GSC program, the company actively matches competitive Australian industry capabilities with opportunities in their own, and their major suppliers', global supply chains. In 2010-11, the value of contracts won by Australian companies under this program has grown from more than \$70 million to over \$350 million. Most of these successful Australian companies are SMEs. This represents a return of over 30:1 in relation to the value of contracts won over the total investment in establishing the program to date. The GSC program has provided greater business opportunities for Australian industry companies.

Priority Industry Capabilities

The Defence White Paper outlined the Government's commitment to manage certain industry capabilities considered strategically advantageous and operationally essential to Australia. In July 2009, the Government announced a set of 12 Priority Industry Capabilities (PICs). That list was confirmed in the *DIPS 2010*, which also provided more information on the background to the PIC concept and the application of PIC considerations in acquisition decision-making.

Defence has established an ongoing process to review and refine the PICs. Several PICs have been reviewed to date, with further reviews to be undertaken in 2011-12. The review process for each PIC involves refining their definition, assessing their health,

establishing the implications for Government and determining appropriate market intervention strategies.

Public Defence Capability Plan

The current version of the public Defence Capability Plan (DCP) was released by the Minister for Defence at the 2009 Defence + Industry Conference. This DCP was updated online in both March and December 2010. On 29 June, at the 2011 Defence + Industry Conference, the Minister for Defence released a Supplement to this public DCP, which contained all of the changes to the document approved by Government since December 2010.

Defence Materials Technology Centre

During 2010-11 the Defence Materials Technology Centre (DMTC) continued to work collaboratively on delivering advanced materials, technologies and manufacturing processes to Australia's defence industry. The DMTC now has 17 projects across research programs in air, maritime, armour applications and propulsion systems. These projects are closely aligned with Defence's priorities. Additionally, the DMTC is providing full-time scholarships to five PhD students working on different DMTC projects. A new program covering 'Personnel Survivability' funded independently of the original agreement has been approved for the DMTC and provides additional opportunities for industry collaboration in support of the ADF.

Defence + Industry ePortal

The Defence + Industry ePortal provides comprehensive and authoritative information on Australian industry capability, supplied by the companies, for Defence and other potential customers. The ePortal is also designed to provide industry with a tool to access a wide and comprehensive range of Defence information including opportunities for companies, including SMEs, to participate in Defence acquisition and sustainment programs.

The ePortal enables businesses to register and showcase their capabilities and obtain access to information on business opportunities. This provides a vehicle for companies to share information on their respective capabilities, with the aim of helping them to find partners to compete for Defence business.

Since its launch in July 2008, there have been more than 456,000 hits on the home page and more than 38,145 capability searches conducted. In the 2010-11 financial year, there were 26,128 company capabilities and 285 organisations added to the Defence and Industry ePortal. The ePortal now also includes linkages to Minors programs within Defence, which allows industry to become more informed on the status of entry level projects, particularly those suitable for delivery by SMEs.

The intention is to progressively enhance the ePortal to support service delivery in other Defence programs, including monitoring of the Company ScoreCards and support for grants management for programs, such as the Skilling Australia's Defence Industry (SADI) program.

Company ScoreCard Programs

The focus of the Company ScoreCard Program has remained on monitoring and reporting key aspects of DMO contracts. During 2010-11 the program has continued to provide information, enabling improved performance and greater communication between the DMO and its most significant contractors.

Two ScoreCard performance reporting rounds were completed during the year. Performance was assessed against a number of categories including the critical areas of technical performance, cost and schedule. Companies were given the opportunity to review and comment on assessments of their performance. Results from these assessments have been made available to inform future source selection processes.

An annual benchmarking report was also prepared. This report was provided to companies participating in the ScoreCard Program to compare their individual performance achievements with those of their competitors. This benchmarking report signals the importance of maintaining high performance standards and encourages all companies to improve their performance and productivity.

The Company ScoreCard Program has continued to develop in line with the DMO's information requirements. The Company ScoreCard Program was also enhanced to enable ScoreCarded companies to report any financial and staffing effects that delays add to the Request For Tender or Contract Change Proposal processes may have caused. Successful implementation of this capacity led to the migration of the initiative to the Defence + Industry ePortal to enable all defence sector companies to participate. The ScoreCard Program was also adapted to capture Strategic Reform Program (SRP) Business Initiated Improvements. These are activities developed and implemented by Defence supplier firms that are intended to contribute to the achievement of SRP goals.

Feedback from companies on the DMO's performance as a project and contract manager was gathered through the 360° ScoreCard reports. Contractors were invited to provide their honest assessments of the DMO's performance for inclusion in 360° ScoreCard reports twice during the year. This feedback was provided to the DMO Executive for consideration and discussion with project staff, and is used to drive contract and project management improvement.

International Defence Materiel Relationships

The DMO continues to maintain a number of effective relationships with partner and allied nations to ensure that Australia has access to world's best technologies, systems and capabilities. The most significant of these is our participation in the Australia - United States Ministers Defence Acquisition Committee with the United States (US). The Committee last met in March 2011 and focused on synergies in respective acquisition reform agendas.

In addition, annual bilateral cooperative forums were held with the United Kingdom, Canada and France. The DMO has also continued bilateral dialogue on materiel issues with other nations during 2010-11 including Sweden, Spain, Germany, Italy and Norway. These relationships assist in promoting best practice in defence contracting and coordinating global responses to commercial behaviours in defence supply chains. In addition, our international engagement provides a framework for technology transfer in support of equipment, sharing data on like capabilities, and encourages industry cooperation where there is mutual benefit.

Defence Export Unit

Since its creation in late 2007, the Defence Export Unit (DEU) has provided assistance to over 150 Australian defence companies and supported them in winning over \$700 million in export contracts. In 2010-11, over 70 companies participated in nine international trade events and associated missions, with many more participating in DEU facilitated visits by foreign delegations and in the US Foreign Comparative Testing Program. This program, which is run by the US Department of Defense, seeks to acquire mature capability solutions and is increasingly popular and successful for Australia with over 80 companies participating in the 2011 program.

The DEU continues to provide direct support to individual Australian companies through high-level (Two Star military) advocacy, letters of support, and facilitation of meetings with foreign military and government procurement agencies. Overseas trade shows and missions are organised under the Team Australia banner and coordinated through the Australian Governments Defence Export Support Forum. The forum of state and federal agencies responsible for exports provides the ability to strengthen a whole-of-government approach to defence exports.

Industry Skilling Programs

In 2010-11 the SADI Program increased its public transparency through implementation of the revised Commonwealth Grants Guidelines, released by the Department of Finance and Deregulation. The revisions included new funding guidelines, and associated program documentation, and reporting of all SADI grants on the SADI website at <www.defence.gov.au/dmo/id/sadi/index.cfm>. To enhance program and financial controls, the SADI Program now solicits bids on a once or, at most, twice yearly basis rather than accepting applications throughout the year.

Seventy two agreements were signed in 2010-11 to provide funding for a range of activities across trade, technical and professional skills that directly contribute to Defence capability.

Implementation of the Industry Skilling Program Enhancement package is well advanced. The package of 14 initiatives seeks to increase the skills base of defence industry, create pathways for employment in the sector, and address capability skills gaps. Programs and initiatives established by, or continuing through, the end of June 2011 include:

- School Pathways Programs: three school pathway programs continued, in the Hunter Region of New South Wales, South Australia and Western Australia with a focus on promoting skills in advanced manufacturing, advanced technology and marine engineering.
- Defence Technical Scholarships: an industry component has been introduced to the ADF Defence Technical Scholarship program to provide recipients with exposure to defence industry in addition to the ADF. The introduction of defence industry visits and marketing material on the sector will also introduce students to careers in the defence industry sector.
- Overarching all other Industry Skilling Program Enhancement initiatives is the Defence Industry Branding Strategy that focuses on marketing initiatives to attract prospective employees to defence industry. In 2010-11 the program developed the defence industry logo and slogan 'Defence Industry we build it' to establish a strategic brand that increases awareness of, and highlights opportunities in, the defence sector, enabling the sector to promote itself as a potential career path. Also in 2010-11, the DMO produced a Commonwealth Intellectual Property Deed,

which the Australian Industry Group and the Australian Industry and Defence Network will use to administer the Defence Industry Branding Strategy on behalf of the DMO.

- **Masters of Military Systems Integration conversion:** Funding has been provided to convert an existing Masters of Military Systems Integration (MSI) program to flexible delivery mode. The MSI Program, offered by the University of South Australia will increase access by all stakeholders (Industry, DMO, DSTO and the ADF) and will be unrestricted by geographical location and time.
- **Re-Engineering Australia (REA):** The DMO has provided sponsorship to REA for the past three years to raise school students' awareness of engineering and defence industry careers through the F1inSchools Technology Challenge, engaging 350 schools and over 350,000 students. REA promotes engineering as a potential career path early in the education process and links schools, TAFEs, universities, companies and parents in a collaborative and experimental environment focused on developing engineering, project management, teaming, computer-aided design and presentation skills in students. In June 2011, the DMO extended their sponsorship of REA by a further twelve months and is currently negotiating with REA the development of a new contract to sponsor an expanded F1inSchools Program for a further three years.
- **DMO Institute (DMOI):** select courses of the DMOI including Defence Contracting (ASDEFCON), Materiel Logistics and DMO Foundations are now being offered to defence industry personnel across Australia. This, and a planned further expansion of the DMOI's programs, will address an immediate skills shortage and provide companies with access to programs that may not be readily commercially available.
- **Industry Downturn Response Strategy:** this strategy targets staff who may become surplus due to a downturn in another industry or changes in the defence industry. The strategy provides Defence with the opportunity to quickly grow the available labour pool and secure skilled and experienced workers. Career fairs or other events can be arranged to provide these surplus workers with access to programs that may not be available otherwise. The strategy runs in conjunction with state government activities.
- **Master of System Support Engineering:** a Masters program in Systems Support Engineering has been introduced to equip senior engineering and project managers with the knowledge and understanding to develop and deliver integrated support solutions. Course development is being led by BAE Systems, with input from SAAB and ASC and will be offered by RMIT and the University of South Australia.
- **Professional Doctorate in Systems Engineering:** an industry focused Professional Doctorate program, currently being developed, will increase the capacity and capability of defence industry in the area of systems engineering. The program will blend coursework with research and provide fee and work release sponsorships. The Professional Doctorate will be offered by the University of South Australia and the University of Adelaide. Funding for this initiative has now been transferred to SADI's budget and will be assessed under the SADI Funding Guidelines.

The development of an Engineering Sponsorship Program continued during 2010-11 and is expected to be launched by early 2012. The Engineering Sponsorship Program is designed to link engineering students with defence specialist military equipment by providing engineering students with sponsorship for the industry placement component of their studies. The sponsorship program will target those engineering streams deemed in short or critical supply by defence industry and will increase the number of student

engineers exposed to defence specialist military equipment, thereby increasing the likelihood they will pursue employment in defence industry.

Defence Industry Innovation Centre

The Enterprise Connect Defence Industry Innovation Centre contributes to advancing, strengthening and transforming Australian defence SMEs by assisting them to increase their capacity to develop strategies to become more competitive, innovative and sustainable in an increasingly integrated international marketplace. Defence companies are offered access to free business reviews conducted by experienced business advisors who are located in all major capital cities in existing Enterprise Connect Centres and are encouraged to implement the findings of the business review and to deliver on the recommended change projects through one of three types of supporting government grants. Enterprise Connect was established by the Australian Government to provide services to Australian SMEs with the objective of increasing their competitiveness and sustainability through the provision of business planning and development services and access to the latest technologies. The DMO provides direct grant funding to eligible recipients.

Defence + Industry Conference

The Defence and Industry (D+I) Conference and Trade Exhibition, held every two years, provides defence industry with an opportunity to showcase their commercial defence capabilities and build business partnerships with Defence. The event continues to be the premier Defence conference supported by defence industry and the Government. The 2011 event was held in Adelaide and attracted over 2,700 registered delegates - an increase of 31 per cent compared to 2009 delegate numbers. The 2011 Conference explored a wide range of key issues for Defence and the sector including reform; skilling; Defence strategic priorities; the DCP 2011; challenges for industry and critical issues facing SMEs; procurement and sustainment project updates; and science and technology opportunities. The accompanying trade show was fully subscribed with over 150 exhibitors. The next Defence and Industry Conference is scheduled for mid 2013.

Other Industry Engagement Activities

The DMO's regional Business Access Offices continued the series of Defence Awareness Briefings and Defence Updates around Australia in cooperation with other Defence Groups, relevant Commonwealth and state agencies and industry associations. These briefings inform companies, especially those who are new to the Defence environment, on how to do business with Defence; the local opportunities that are available; and where to find further information. The updates, in keeping with Defence undertakings to engage more regularly and proactively with industry, also provide companies with information about Defence's procurement and sustainment activities, changes in industry and contracting policies and the assistance programs that are available to increase their competitiveness and productivity.

Engagement with various industry associations continued along with regular consultative meetings with state and territory governments that lead to enhanced relationships between Defence and key stakeholders, as well as an increased knowledge of the defence industry sector.

Management Services

Management Services provided by DMO are largely performed by Finance Division and the Human Resources and Corporate Services Division. The role of these areas is to provide financial, human resource and corporate support services to meet the information needs of Ministers and the Parliament, fulfilling the CEO DMO's statutory duties and governance accountabilities, and working with other Defence stakeholders to effectively operationalise the Defence-DMO business model. Functions include:

- forecasting and managing the DMO's cash requirements
- provision of asset and inventory accounting services to Defence
- assuring DMO's financial data through appropriate systems, controls, user training, internal audit and risk management
- preparing DMO's financial statements and liaising with the ANAO throughout the audit process
- support to Ministerial and Parliamentary oversight through a range of routine and annual reports such as the Acquisition and Sustainment Overview Reports, the Major Projects Report, as well as contribution to the Portfolio Budget Statements and Annual Report
- support to internal governance including the Materiel Audit Risk Committee
- human resource management functions including recruiting, professionalisation and workforce planning
- information systems management
- implementation of the Defence-DMO business model through coordination of agency agreements.

In 2010-11, DMO has continued to strive for ongoing improvement in the delivery of Management Services. Key achievements include:

- the production of Financial Statements with an unmodified audit opinion and only one Category B finding which represents a significant reduction from three category B findings in 2009-10
- the enhancement of corporate information systems
- finalisation of the asbestos inventory tiger team project which inspected 1128 units and establishments and facilitated the removal of over 63,000 pieces of material containing asbestos from Defence Industry
- the maintaining of ISO 9001 Certification for the provision of financial and human resource services.

FEATURE ARTICLE

PROCUREMENT PROFESSIONALISATION

The Commonwealth currently procures goods and services worth over \$43 billion, of which Defence and the Defence Materiel Organisation (DMO) procurements account for 48 per cent. In order to increase the value for money return on this expenditure, the Defence procurement professionalisation initiative was created to deliver a more efficient and effective procurement capability through a more skilled workforce.

As these efficiencies could only be delivered through procurement and contracting officers with the right skill sets and knowledge, the strategy was to develop an integrated procurement policy system that established clear mandatory policy and operational guidance that was standardised through training and professionalisation.

A key achievement was establishing the Defence procurement and contracting job family. Critical elements included role clarity on core activities, a career path that developed and reinforced learning and expertise, and linking the job family to national standards of accreditation and professional membership.

The clarification of organisational responsibilities was essential to this initiative. Contracting officers provide expert advice to procurement project teams across the procurement lifecycle on managing and reducing critical commercial risks. A key requirement was ensuring contracting officers complied with mandatory procurement requirements. Standardising these requirements through policy and operational guidance has, in turn, reduced variance, and improved compliance monitoring, error rectification and organisational systems. The constantly changing procurement policy environment also reinforced the need to continually develop a contracting officer's knowledge and professional judgement.

Key Defence procurement professionalisation activities include:

- establishment of the Defence Procurement Professionalisation Forum
- ongoing development of the procurement and contracting job family
- mapping skill set requirements and filling training course gaps, with a focus on refresher and e-Learning courses
- updating the national vocational procurement courses
- working with the Australasian Procurement and Construction Council to develop or realign postgraduate Strategic Procurement courses across Australia against a single national blueprint. Participating universities include the University of Canberra and the Australian Technology Network of Universities, comprising: Curtin University of Technology, University of South Australia, Royal Melbourne Institute of Technology, University of Technology Sydney and the Queensland University of Technology
- development of the DMO sponsored Executive Masters of Strategic Procurement
- Memoranda of Understanding between DMO and two procurement professional bodies: the Chartered Institute of Purchasing and Supply Australasia and the Australian Association of Procurement and Contract Management
- in conjunction with the Department of Finance and Deregulation, establishing the Commonwealth Procurement and Professionalisation Forum, which is working towards a single whole-of-Commonwealth procurement and contracting job family.

The benefits to Defence and increasingly the Commonwealth will be the development of a stronger capability to deliver more effective and efficient procurement outcomes.



Pictured above: Mr Jonathon Dutton, Managing Director, CIPSA and Mr Harry Dunstall, General Manager Commercial, DMO signing the MOU in support of Defence procurement professionalisation.

CHAPTER 3

DMO FINANCIAL PERFORMANCE

The Defence Materiel Organisation (DMO) receives the majority of its funding from Defence under agency agreements; about eight per cent of its funding is provided via a direct appropriation and own-source revenue. This section provides an assessment of the DMO's financial performance in 2010-11 against budget projections. The DMO's audited *2010-11 Financial Statements* are included at Appendix 1 to this volume.

2010-11 FINANCIAL SUMMARY

The total net resourcing available to the DMO in 2010-11, as published in the *Portfolio Budget Statements 2011-12*, was \$10,781.1 million. This comprised:

- payment from Defence: \$9,263.4 million
- special account opening balance: \$501.6 million
- appropriation receipts: \$847.3 million
- non-appropriation receipts: \$173.8 million.

During the course of a financial year, the DMO budget may vary for a number of reasons such as changes in demand by Defence, foreign exchange fluctuations or reprogramming of cashflow to meet contractual obligations.

Table 3.1 reflects the financial resource position taking all of these factors into consideration as at 30 June 2011. The table reflects a decrease in appropriation receipts - adjustments for other agencies of \$93.4 million, increase in non appropriation receipts of \$664.7 million and a post *Portfolio Budget Statements 2010-11* adjustment (increase) to the special account opening balance of \$155.2 million resulting in a total resourcing of \$11,512.6 million.

The DMO made payments of \$10,865.8 million in 2010-11 resulting in a special account closing balance of \$646.8 million as at 30 June 2011.

The DMO broadly achieved its cash position for 2010-11 and its special account balance of \$646.8 million as at 30 June 2011 is not materially different to the estimated 2010-11 special account balance of \$660.9 million as at *Portfolio Budget Statements 2011-12*.

The Special Account balance remains within the overall Official Public Account, providing the flexibility to meet cashflow requirements across financial years to align with capability delivery across DMO Programs.

Table 3.1 DMO resource statement 2010-11

		Actual Available Appropriations for 2010-11 \$'000	Payments Made 2010-11 \$'000	Balance Remaining 2010-11 \$'000
		(a)	(b)	(a-b)
Ordinary Annual Services[1]				
Departmental appropriation				
Departmental appropriation		847,282	748,978	98,304
Total departmental appropriation	A	847,282	748,978	98,304
Special Account (Departmental and Administered)				
Opening balance		656,773		
Appropriation receipts ^[1]		847,282		
Appropriation receipts				
- other agencies ^[2]		9,263,418		
- adjustment for other agencies ^[2,3]		-93,396		
Non-appropriation receipts to Special Accounts		173,842		
Adjustment for non-appropriation receipts to Special Accounts ^[3]		664,702		
GST credits				
Interest ^[4]		-3		
Payments made ^[5]			10,865,797	646,821
Closing balance				
Total special account	B	11,512,618	10,865,797	646,821
Less appropriations drawn from annual or special appropriations above and credited to special accounts	C	847,282	748,978	98,304
Total Resourcing and Payments (A+B-C)		11,512,618	10,865,797	646,821

Notes

1. *Appropriation Bill (No.1) 2010-11 and Appropriation Bill (No.3) 2010-11.*
2. Appropriation receipts from Defence credited to DMO's special accounts.
3. Adjustment is variance between 2010-11 estimated actuals as at *Portfolio Budget Statements 2011-12* and actual available appropriations for 2010-11 as at 30 June 2011.
4. Administered interest received from overseas bank accounts which is remitted to the Official Public Account.
5. Includes GST.

OPERATING PERFORMANCE

At the time of the *Portfolio Additional Estimates Statements 2010-11*, the DMO budgeted for a break-even operating result, that is income and expenses were to equal each other. This reflects that the DMO is funded for the activity it performs. However, as a result of several factors including the need to drive further efficiencies in the DMO workforce, the DMO was able to save money resulting in an operating surplus of \$56.5 million in 2010-11, whereby expenses and income differed by approximately 0.5 per cent.

Table 3.2 Statement of comprehensive income for the period ended 30 June 2011

	Revised Budget 2010-11 \$'000	Actual Result 2010-11 \$'000	Variation ^[1] 2010-11 \$'000
EXPENSES			
Employee benefits	534,246	531,619	-2,627
Suppliers	9,866,495	10,089,825	223,330
Grants ^[2]	11,068	9,126	-1,942
Depreciation and amortisation	1,482	1,706	224
Write-down and impairment of assets	-	1,020	1,020
Other expenses	-	25	25
Total expenses	10,413,291	10,633,321	220,030
LESS:			
OWN-SOURCE INCOME			
Revenue			
Sale of goods and rendering of services	9,470,301	9,736,088	265,787
Other revenue	53,656	2,557	-51,099
Total revenue	9,523,957	9,738,645	214,688
Gains			
Foreign Exchange Gains	-	67,398	67,398
Other gains	42,052	36,473	-5,579
Total gains	42,052	103,871	61,819
Total own-source income	9,566,009	9,842,516	276,507
Net Cost of (contribution by) services	847,282	790,805	-56,477
Revenue from Government	847,282	847,282	-
Surplus (Deficit)	-	56,477	56,477

Notes

1. The variation is between the actual result as disclosed in the DMO's audited *2010-11 Financial Statements* and the revised budget published in the *Portfolio Additional Estimates Statements 2010-11*.
2. The budget for grants is included in the revised budget for suppliers.

Explanation of Major Variations

The main variance in the DMO's overall operating performance of \$56.5 million which primarily includes increased sales of goods and rendering of services of \$265.8 million and a foreign exchange gain of \$67.4 million, offset by increased supplier expenses of \$223.3 million and reduced other revenue of \$51.1 million. This variance is less than one per cent of total expenses.

The increased sales of goods and rendering of services and the increased supplier expenses are as a result of a number of key projects achieving milestones ahead of expectations in 2010-11, resulting in a better than expected outcome for Program 1.1. An overview of these variances is provided in Chapter 2. The foreign exchange gains are as a result of the appreciation in the Australian dollar. A reduction in other revenue is as a result of a change to accounting treatment relating to the activities performed on behalf of foreign governments.

The DMO has delivered acquisition and sustainment outcomes to Defence with a resulting workforce lower than the planned estimate. Further details on the management of the DMO's human resources can be found in Appendix 5 of Volume 1.

FINANCIAL POSITION

Table 3.3 Balance sheet as at 30 June 2011

	Revised Budget 2010-11 \$'000	Actual Result 2010-11 \$'000	Variation ¹⁾ 2010-11 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents	92,440	43,027	-49,413
Trade and other receivables	667,172	1,368,529	701,357
Total financial assets	759,612	1,411,556	651,944
Non-financial assets			
Property, plant and equipment	7,588	6,669	-919
Intangibles	318	239	-79
Other non-financial assets	1,404,821	985,147	-419,674
Total non-financial assets	1,412,727	992,055	-420,672
Total assets	2,172,339	2,403,611	231,272
LIABILITIES			
Payables			
Suppliers	1,270,366	1,679,384	409,018
Unearned income	-	83,484	83,484
Grants	4,548	4,809	261
Other payables	306,137	65,882	-240,255
Total payables	1,581,051	1,833,559	252,508
Provisions			
Employees	173,760	176,341	2,581
Other Provisions	-	3,189	3,189
Total provisions	173,760	179,530	5,770
Total liabilities	1,754,811	2,013,089	258,278
Net assets	417,528	390,522	-27,006
EQUITY			
Parent entity interest			
Retained surpluses or accumulated deficits	262,160	235,154	-27,006
Contributed equity	155,368	155,368	-
Total parent entity interest	417,528	390,522	-27,006
Total equity	417,528	390,522	-27,006

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2010-11 *Financial Statements* and the revised budget published in the *Portfolio Additional Estimates Statements 2010-11*.

Explanation of Major Variations

The variances between the revised budget and the actual result for 2010-11 in the balance sheet mainly reflects:

- an increase in assets of \$231.3 million – mainly representing an increase in appropriation receivables offset by lower than expected planned payments
- an increase in liabilities of \$258.3 million – representing a higher level of creditors reflecting an increase in goods and services provided to Defence
- a decrease in equity of \$27.0 million – representing a prior year adjustment to retained surpluses offset by the operating surplus for 2010-11.

Cash Position

The DMO receives the majority of its cash from Defence in payments for goods and services provided by the DMO. All sources of revenue, such as those are paid by Defence, received from other sources or appropriated by the Government, remain in the DMO's special accounts, even if not fully used in the budget year. They are held as an appropriation receivable in the Official Public Account and are available to meet future expenditure requirements and liabilities as they fall due, including employee liabilities, subject to Government approval. This flexibility is an essential enabler for effective program delivery to the Australian Defence Force (ADF) of specialised military equipment.

Use of Cash in 2010-11

At 30 June 2011, the DMO had cash at bank of \$43.0 million. The increase in cash at bank results from a reclassification of some accounts as cash rather than previously reported prepayments. During the year, the DMO used \$10.9 billion of cash.

Table 3.4 Cash flow statement for the period ended 30 June 2011

	Revised Budget 2010-11 \$'000	Actual Result 2010-11 \$'000	Variation[1] 2010-11 \$'000
OPERATING ACTIVITIES			
Cash received			
Goods and services	9,642,699	9,312,982	-329,716
Appropriations	847,282	778,293	-68,989
Net GST received	735,899	690,356	-45,543
Activities performed on behalf of foreign governments	-	27,285	27,285
Other cash received	53,656	5,451	-48,205
Total cash received	11,279,536	10,814,367	-465,168
Cash used			
Employees	525,272	521,142	-4,130
Suppliers	10,037,443	10,270,888	233,445
GST paid	664,360	-	-664,360
Funds returned to Defence	-	61,987	61,987
Grants	11,068	8,865	-2,203
Other cash used	39,911	59	-39,852
Total cash used	11,278,054	10,862,941	-415,113
Net cash from or (used by) operating activities	1,482	-48,574	-50,055
INVESTING ACTIVITIES			
Cash used			
Purchase of property, plant and equipment and intangibles	1,482	839	-643
Total cash used	1,482	839	-643
Net cash from or (used by) investing activities	-1,482	-839	643
Net increase or (decrease) in cash held	-	-49,413	-49,412
Cash at the beginning of the reporting period	92,440	92,440	-
Cash at the end of the reporting period	92,440	43,027	-49,412

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2010-11 *Financial Statements* and the revised budget published in the *Portfolio Additional Estimates Statements 2010-11*.

Explanation of Major Variations

The variances of the cash flow are consistent with the variances provided for the income statement and balance sheet. In accordance with the Defence and the DMO business model, the cash prepayment from Defence will be adjusted during the year to reflect the agreed level of activity (largely relating to sustainment), and cash adjustments relating to foreign exchange budgeted movements.

ADMINISTERED SCHEDULES

Administered items represent the interest received from overseas bank accounts. These funds are returned to the Official Public Account and are not held for use by the DMO.

Table 3.5 Income administered on behalf of the Government for the period ended 30 June 2011

	Revised Budget 2010-11 \$'000	Actual Result 2010-11 \$'000	Variation[1] 2010-11 \$'000
Revenue			
Interest	1,500	2,285	785
Gains			
Other	-	97	97
Total revenue administered on behalf of Government	1,500	2,382	882

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2010-11 *Financial Statements* and the revised budget published in the *Portfolio Additional Estimates Statements 2010-11*.

Table 3.6 Assets administered on behalf of Government as at 30 June 2011

	Revised Budget 2010-11 \$'000	Actual Result 2010-11 \$'000	Variation[1] 2010-11 \$'000
ASSETS			
Financial assets			
Receivables	162	12,618	12,456
Total financial assets	162	12,618	12,456
Total assets administered on behalf of Government	162	12,618	12,456

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2010-11 *Financial Statements* and the revised budget published in the *Portfolio Additional Estimates Statements 2010-11*.

Explanation of Major Variations

The increase in receivables is due to a change in accounting treatment and resulting first time recognition of interest as revenue on overseas bank accounts and industry participation accounts relating to 2010-11 and previous years.

Table 3.7 Administered cash flows for the period ended 30 June 2011

	Revised Budget 2010-11 \$'000	Actual Result 2010-11 \$'000	Variation ¹ 2010-11 \$'000
OPERATING ACTIVITIES			
Cash received			
Interest	1,500	1,058	-442
Total cash received	1,500	1,058	-442
Net increase or (decrease) in cash held	1,500	1,058	-442
Cash at the beginning of the reporting period	-	-	-
Cash to the Official Public Account for interest	-1,500	-1,058	442
Cash at the end of the reporting period	-	-	-

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2010-11 *Financial Statements* and the revised budget published in the *Portfolio Additional Estimates Statements 2010-11*.

SPECIAL ACCOUNTS

At 30 June 2011, the DMO had two special accounts: the Defence Materiel Special Account and the Services for Other Entities and Trust Moneys Special Account.

The Defence Materiel Special Account is the main operating account from which most business activities are conducted. The purposes for which the funds in the Defence Materiel Special Account can be used are:

- e. supporting the ADF's capability through development, acquisition, sustainment, disposal, and provision of goods and/or services
- f. developing, acquiring, sustaining and providing goods and/or services for foreign governments and other bodies
- g. managing and marketing the Agency whose chief executive has been allocated responsibility for the Special Account
- h. developing and implementing policies for, and providing advice to, the Australian Government on defence, defence industry and other matters related to the provision of goods and/or services
- i. to make a notional payment to the Department of Defence to return amounts received from, or on behalf of, the Department of Defence
- j. activities that are incidental to a purpose mentioned in paragraphs (a), (b), (c), (d) and (e)
- k. to reduce the balance of the Special Account (and, therefore, the available appropriation for the Special Account) without making a real or notional payment
- l. to repay amounts where an Act or other law requires or permits the repayment of an amount received.

The balance of funds in the Defence Materiel Special Account are held to fund:

- future acquisition and sustainment activities for the Department of Defence
- trade creditors
- employee liabilities
- activities to be undertaken for other governments and other Australian government departments
- future workforce and operating expenses of the DMO.

At 30 June 2011, the balance of the Defence Materiel Special Account totalled \$646.8 million.

- The Other Trust Money Special Account that was in existence at 1 July 2010 was closed with the balance of funds transferred to the new Services for Other Entities and Trust Moneys Special Account.
- At 30 June 2011, the balance of the Services for Other Entities and Trust Moneys Special Account was nil.
- All special accounts are reported in the annual financial statements.

Cash flow through and contained within the resulting balance of the Special Account provides the flexibility to meet the evolving service delivery requirements of the ADF in a timely and effective manner.

Table 3.8 Actual special accounts cash flows and balances

	Outcome	Opening Balance 2010-11 \$'000	Receipts 2010-11 \$'000	Payments 2010-11 \$'000	Adjustments 2010-11 \$'000	Closing Balance 2010-11 \$'000
Defence Materiel						
Special Account [D&A]	1	656,773	10,855,845	10,865,797	-	646,821
Other Trust Monies						
Special Account - Defence Materiel Organisation [T]	1	-	-	-	-	-
Services for Other						
Entities and Trust Monies - Defence Materiel Organisation [T]	1	-	-	-	-	-
Total special accounts		656,773	10,855,845	10,865,797	-	646,821

Note

[D&A] = Departmental and Administered.

[T] = Trust Money for Comcare Receipts.

APPROPRIATIONS AND OTHER RESOURCES

The DMO delivers three Programs contributing to the single Outcome described in Chapter 2. The DMO workforce and operating expenses (along with Industry programs) are directly appropriated by Government through *Appropriation Bill (No.1)* and *Appropriation Bill (No.3)*. The DMO has flexibility over the allocation of its workforce across the various Programs it delivers. Variations for Programs from the revised budget to the actual result may reflect ongoing changes to activity levels prescribed by Defence, budgeted cash flow adjustments for movements in foreign exchange rates or delivery of programs with fewer resources.

Program 1.1 and 1.2 were largely funded by payments from Defence for goods and services provided, as set out in the Materiel Acquisition Agreements and Materiel Sustainment Agreements for Program 1.1 and 1.2 respectively. Agency agreements were first established between Defence and the DMO in 2005-06, and new agreements were signed in subsequent years. Program 1.3 was funded largely through a direct appropriation.

Table 3.9 Budgeted expenses and resources for Outcome 1

Outcome 1: Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel	Revised Budget 2010-11 \$'000	Actual Result 2010-11 \$'000	Variation ¹ 2010-11 \$'000
Program 1.1: Management of Capability Acquisition			
Departmental expenses			
Ordinary annual services (Appropriation Bill No. 1)	201,343	195,169	-6,174
Special Accounts	5,010,898	5,590,282	579,384
Expenses not requiring Appropriation	9,458	8,373	-1,085
Subtotal for Program 1.1	5,221,699	5,793,824	572,125
Program 1.2: Management of Capability Sustainment			
Departmental expenses			
Ordinary annual services (Appropriation Bill No. 1)	544,999	521,230	-23,769
Special Accounts	4,512,034	4,213,204	-298,830
Expenses not requiring Appropriation	22,098	19,538	-2,560
Subtotal for Program 1.2	5,079,131	4,753,972	-325,159
Program 1.3: Provision of Policy Advice and Management Services			
Departmental expenses			
Ordinary annual services (Appropriation Bill No. 1)	100,940	76,962	-23,978
Special Accounts	1,025	-	-1,025
Expenses not requiring Appropriation	10,496	8,562	-1,934
Subtotal for Program 1.3	112,461	85,524	-26,937
Total Departmental expenses for Outcome 1	10,413,291	10,633,321	220,030

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2010-11 *Financial Statements* and the revised budget published in the *Portfolio Additional Estimates Statements 2010-11*.

