


PART TWO
DEPARTMENT OF DEFENCE
ANNUAL REPORT
2011 – 2012
DEFENCE MATERIEL ORGANISATION



SECTION FIVE
DMO Overview



Chapter 10

DMO Overview

The Year in Review by the Chief Executive Officer

I am proud to report that the Defence Materiel Organisation (DMO) has had another successful year in delivering high quality equipment and support to the Australian Defence Force (ADF). As you will read in more detail in the remainder of this Report, this success has come in a range of areas including direct support to operations, increasing transparency and accountability in our work outputs, stronger relationships with our customers in Defence, and enhanced engagement with industry.

The DMO manages a broad portfolio of business that equates to expenditure of just under \$40 million each working day. But our performance cannot be measured relative to the size of our organisation or the amount of money that we spend; it is as much about how effectively, and how quickly, we respond to the materiel and sustainment requirements of the ADF and how we discharge our responsibilities as stewards of taxpayers' funds. In this latter context I am particularly proud to see that the DMO's financial accounts have again, this year, been audited and accepted without qualification.

The 2011-12 financial year covered by this Report has been peppered with change. Aside from my permanent appointment to the position of CEO DMO in February 2012, we have managed a range of reform activities and responded to adjustments made as a result of changes in customer requirements and Budget pressures. The DMO has worked tirelessly to ensure that we fulfil our duties to both the ADF and Government and respond appropriately to these changing circumstances.

A highlight for me in the last year – and something that demonstrates our ability to adapt – is how we worked to support Australia's land forces, particularly those deployed on operations. We have worked hard to develop a much better and more integrated system for trialling new equipment, which involves getting more direct feedback from the troops on the ground and getting new kit into theatre more quickly. This enhanced relationship with our Defence customer is extending from operations support across all of our business. I am determined to see the DMO delivering the materiel solutions required by the ADF, to the scope and specification approved by Government, and with an appropriate sense of measured urgency in our approach.

We have also seen improvements in the way we manage our projects. Over the last year we continued – on average – to deliver our projects according to budget – with latest figures showing that we use 98 per cent of available funding. While schedule remains our biggest concern, reforms are underway and we should see continued improvement on this front. 2011-12 also showed evidence that our review and remediation processes are working. In December 2011, another three projects were removed from the Projects of Concern list, leaving six projects on the watch-list. This is a credit to the teams (in DMO and industry) who have worked hard to remediate those projects. It is also, in a very real sense, a 'credit' to the national economy, representing billions of dollars of investment that might have been lost, through project cancellation, if those troubled projects had not been recovered.

We understand that industry is an essential element of our business, and so we continued to provide critical support to this sector. This support was and will continue to be tied to tangible outcomes and ways to better position both industry and Defence for future success. For example, \$14 million was provided to 109 companies for more than 4,000 training places in 2011-12 as part of the Skilling Australia's Defence Industry (SADI) program, to boost the skills of the Defence industry workforce.

Despite the success we have achieved, there are also many areas where we can and must continue to do better. Challenges, risks and complexity will always be part of our business because of the work that we do. Our projects are unrivalled in Australia for their complexity in terms of risk, technological change and keeping pace with changing threat assessments. We therefore need to make sure that our processes support our workforce to achieve the outcomes that we are seeking and that unnecessary procedures and room for error are reduced. We are committed to 'de-thatching' our business and streamlining our processes – in line with the rest of Defence – so that our staff are able to complete their jobs efficiently and effectively, ultimately enhancing our support to the men and women of the ADF.

The DMO has worked hard over the last year to incorporate the recommendations of various reforms into our business. This has involved contributions to Defence-wide initiatives like *Pathway to Change* and the Strategic Reform Program (SRP), and more targeted capability reviews like the Coles and Rizzo reports. Our priority – as well as our key challenge – has been to embed improvement deeply and permanently. We have now seen about \$1.1 billion in cost reductions achieved as a result of sensible and determined reform under the Smart Sustainment element of SRP to date. Significant steps have already been taken in the submarine programs in light of the Coles Review, including a new support contract and the creation of a new General Manager Submarines position to oversee all materiel related aspects of submarine support. Similarly, the implementation of Paul Rizzo's recommendations to remediate the support of the Navy's amphibious fleet has been a priority. Over the last year, the DMO and Navy focussed on reforming the policies and processes in critical areas like ageing vessels, industry partnerships, enabling Information Communication Technology and engineering functions. This has created a solid base for implementing the rest of Rizzo's recommendations. Looking ahead, reform success will be characterised by more than just activity-based results; there must be evidence that attitudes and behaviours are changing and are positively influencing decisions.

Another focus of 2011-12 was to strengthen our accountability processes so that our customers and the Government better understand the status of our projects and success can be more accurately measured. This has been achieved through an increased focus on our internal Gate Reviews, the Project of Concern process and how we communicate with our ministers. This has helped us to respond more rapidly to our soldiers' demands and has seen us deploy force insertion teams to key areas to improve equipment on the ground. These efforts have been recognised and I welcome the evidence tendered and comments made at parliamentary committee hearings on the 'significant, qualitative and identifiable improvements' that we have made.

Another benefit of this increased transparency is that it has made our successes more noticeable; the multi-million dollar projects that have been delivered on time and on budget. External stakeholders have been able to see when we have reached key materiel release milestones – for example with our radar, missile and protective equipment projects – and then follow equipment performance.

Current budget conditions are tight and the impacts cannot be avoided or ignored. The only way to survive is through expert management of our day to day business. For acquisition, this means extracting every bit of value from every dollar we spend. For sustainment, it means making every effort to align support concepts with customer demand, and ensuring that we do not allow capabilities to be hollowed out over time.

We must also continue to focus on engaging effectively with industry, not just to deliver today's requirements but also to plan effectively for what is ahead and ensure we have the capacity and capability to deliver future programs.

The people of the DMO have the skills and the commitment to meet these challenges, and I am confident that we will continue to enhance our performance in the coming year and in the years ahead.

Warren King

Chief Executive Officer, DMO

Organisational Framework

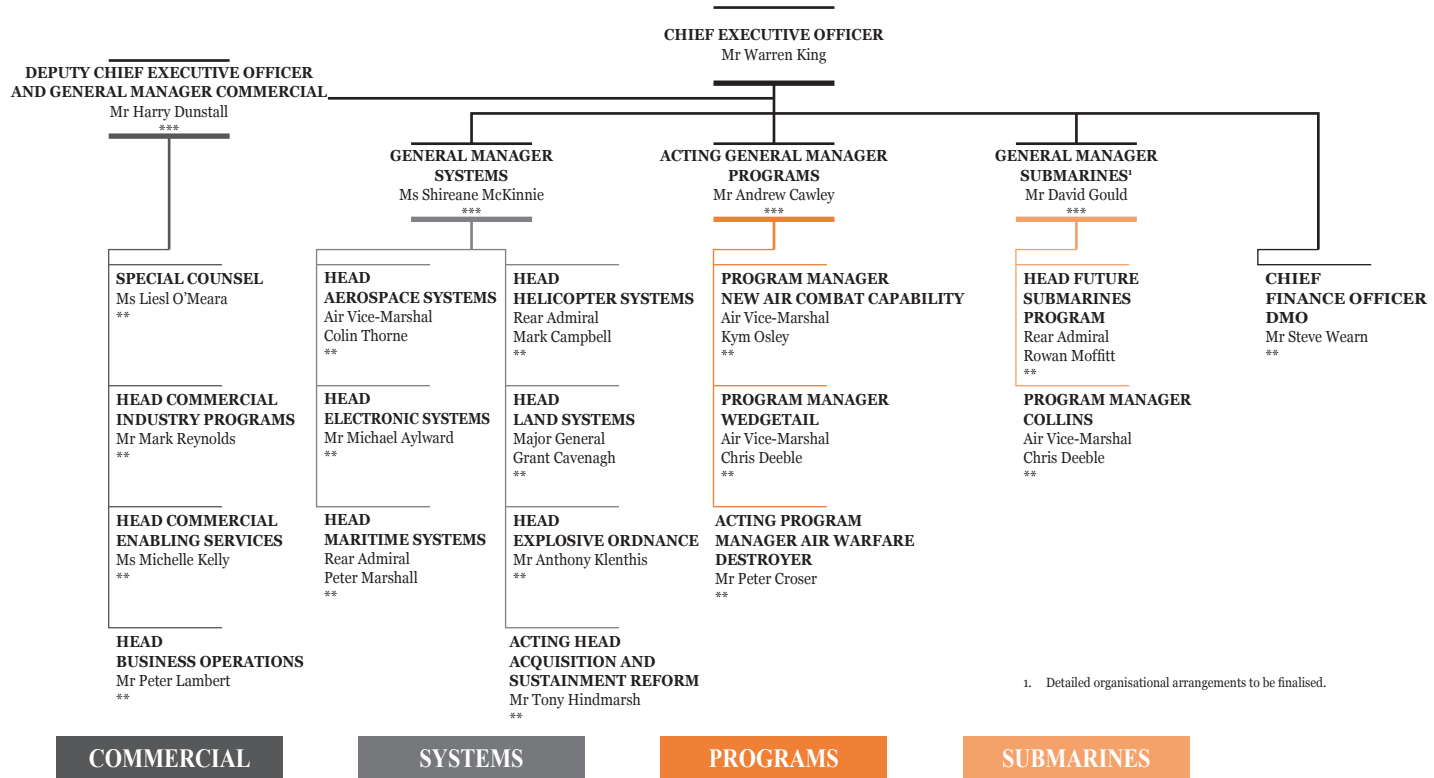
The DMO supports the ADF through provision of acquisition and sustainment services for Defence specialist military equipment. Many of these services are complex requiring specialist skills, management structures and business processes. As a prescribed agency, the DMO utilises a purchaser-provider model, 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 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 international relationships with the National Armaments Directors of other western democracies.

Organisational Structure

Figure 10.1: Organisational Chart as at 30 June 2012 (shows Band 2 and above)



COMMERCIAL

SYSTEMS

PROGRAMS

SUBMARINES

DMO Strategic Priorities

DMO Performance Against 2011-12 Strategic Priorities

The DMO's performance against its key priorities, as identified in the *Portfolio Budget Statements 2011-12*, is outlined below.

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 deployments 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 include: the introduction of the Expedient Route Opening Capability; provision of SPARK mine rollers; upgrades of the enhanced combat helmet; introduction of Dragon Runner Reconnaissance Robots; the in-theatre installation of systems providing increased protection systems for both the Bushmaster Protected Mobility Vehicle and Australian Light Armoured Vehicle platforms; the provision of additional electronic counter measure systems; and the delivery of improved body armour and personnel protective clothing.

Achieving the Strategic Reform Program targets for the DMO

In 2011-12, the Smart Sustainment stream achieved its savings target of \$370 million through the combined efforts of capability managers (the Vice Chief of the Defence Force, the Navy, the Army, the Air Force and Chief Information Officer Group), the DMO and industry in developing and implementing more cost effective sustainment arrangements and changes to capability demand.

Highlights for 2011-12 include: introduction of enhanced equipment pooling on Unimog and Mack vehicle fleets, radios and generators; rationalisation of in-service diving sets; and improved interaction between operation and sustainment planning in the air combat domain, resulting in increased fleet availability and supportability across several platforms. Inventory reform and the Sustainment Business Model projects have both focused on streamlining and improving internal processes to increase the ability to deliver core sustainment business in an efficient and effective manner. Use of the eBusiness portal has increased from 36 per cent of purchase transactions made in March 2011 to over 64 per cent in May 2012, reducing administrative overhead of undertaking simple purchasing tasks.

A number of the activities currently under development or in implementation will take several years to achieve full effect but will deliver ongoing reform benefit.

Improving performance on procurement and sustainment

The DMO continued to introduce and implement initiatives to improve procurement and sustainment performance in 2011-12.

In 2011-12, the DMO continued to analyse the impact of acquisition reforms. For acquisition projects, the DMO's performance is measured in terms of cost, schedule and scope. During 2011-12, the DMO undertook analysis on the schedule and cost elements of project performance.

In relation to cost management, 259 projects approved between 1970 and 2006 and completed by 2011 were assessed. The analysis indicates that:

- 95 per cent closed on or under budget
- on average, the DMO continues to deliver projects under budget (about 98 per cent of available funding).

When the performance of these projects was plotted against their year of commencement, a steady improvement in cost management was identified.

Analysis of schedule performance has been undertaken for 149 current and completed projects approved between 1992 and 2011: this analysis demonstrates that prior to the DMO's formation in 2000, acquisition projects regularly exhibited schedule delays of 50 per cent or more.

Further examination of analysis of the 93 projects with commencement dates post 1999 revealed:

- a steady decrease in average delay, achieving 30 per cent by 2007
- the majority of projects that have commenced since 2007 have not had sufficient time for all potential slippage to be realised, therefore their schedule performance is still to be fully quantified.

Rizzo Review

In July 2011, the Ministers for Defence and Defence Materiel released the *Plan to Reform Support Ships Repair and Management Practices*, authored by a review team led by Mr Paul Rizzo. This review made 24 recommendations to improve the sustainment of maritime capability.

Planning, preparation and securing resources to implement changes in support of these recommendations has been a focal area for sustainment improvement in 2011-12. This first year has positioned the planned three year program of work well and has already achieved closure of two recommendations.

Delivering the approved materiel elements of Defence Capability Plan projects on time and on budget

The DMO achieved good overall progress in delivery against the Defence Capability Plan in 2011-12. Milestones for the period include:

- The delivery of the final four F/A-18F Super Hornet aircraft (AIR 5349 Phase 1).
- The fifth C-17 Globemaster III arrived in September 2011 and is now in service with the Air Force. The sixth aircraft was ordered and is due to arrive in late 2012 (AIR 8000 Phase 4).
- Arrival in Australia of HMAS Choules, procured as an additional amphibious capability from the United Kingdom Ministry of Defence (JP 3030). Initial Operational Capability was achieved December 2011.
- Accelerated procurement in March 2012 of the Australian Defence Vessel (ADV) Ocean Shield as an interim Humanitarian Assistance and Disaster Response capability, with the intention to transition the capability to the Australian Customs and Border Protection Service after delivery of the second Landing Helicopter Dock (JP 3033).
- Successful modification and release to the Air Force of 16 aircraft under the Hornet Upgrade Project (AIR 5376 Phase 2).
- Achievement of Initial Materiel Release (IMR) and Initial Operational Capability (IOC) for the Tactical Unmanned Aerial Vehicle (JP 129 Phase 2).
- The delivery of 31 supported special operations vehicles to achieve Final Materiel Release (FMR) (JP 2097 Phase 1A).

- The delivery of 35 towed howitzers to achieve IMR (LAND 17 Phase 1A.)
- Providing better early warning to troops in Uruzgan through achievement of IOC of Counter Rocket, Artillery and Mortar systems (LAND 19 Phase 7A).
- Achieving IOC with upgraded equipment under Soldier Enhancement v1.0 (LAND 125 Phase 3A).
- Delivery of Battlespace Communication Systems (Land) to achieve IOC (JP 2072 Phase 1).

An additional highlight was the December 2011 announcement by the Ministers for Defence and Defence Materiel, that the number of Projects of Concern had been halved over the preceding 12 months, reflecting the results of considerable remediation efforts by DMO staff.

Continuing implementation of the reforms resulting from the Defence Procurement and Sustainment Review (the Mortimer Review) and measuring outcomes

In 2011-12, 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 (the Mortimer Review). These reforms build upon those identified and implemented as a result of the earlier Defence Procurement Review (the Kinnaird Review). They are a critical enabler of more effective delivery of major Defence capital equipment acquisitions and the through-life support of that equipment. Achievements against these reforms in 2011-12 include:

- Implementation of benchmarking against off-the-shelf baseline options (where available) in project approval submissions to the Government, to improve rigour in the cost-benefit analysis underpinning proposals for additional capability. The Cost Estimation and Analysis Community of Practice is now working to improve the standard of cost estimation practice between Defence and the DMO.
- Implementation of Project Directives for all projects approved since March 2010. A baseline review of scope approved by the Government has also been completed for Systems Division projects that were approved prior to March 2010. The Project Directives record Government approved cost, schedule and scope baselines for Defence capabilities and provide clear direction for the development and revision of Materiel Acquisition Agreements between the DMO and its Defence customers.
- Implementation of a more disciplined process for changing the scope of a project, including the requirement that Defence seek the Government's approval for significant scope changes.
- Establishment of an Independent Project Performance Office within the DMO to review projects and assist project teams solve problems.
- Implementation of a modified two-pass approval system for minor capital equipment projects valued between \$8 million and \$20 million.
- Implementation of an Early Indicators and Warning system, which is undergoing continuous improvement. The system is designed to give early warning of projects that are at risk of running late, over budget or not delivering the required capability.
- Continuing expansion of the existing Gate Review process with approximately 140 major projects scheduled to undertake a Gate Review by the end of 2012.

In addition, Defence made good progress in aligning contracting with commercial practice via contracting template updates and has a process of continuous improvement in conjunction with the defence industry.

Chapter 11

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 2011-12* and, where applicable, revised in the *Portfolio Additional Estimates Statements 2011-12* and also published as estimated actuals in the *Portfolio Budget Statements 2012-13*. For 2011-12, 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 99 per cent achievement in outcome financial performance resulting from an actual result of \$10,082.5 million against a revised budget of \$10,116.2 million as per the *Portfolio Additional Estimates Statements 2011-12*. Details of the DMO's outcome performance are outlined in this Chapter.

The following Program Deliverables, Key Performance Indicators (KPIs) and Project Performance tables are assessed using the below Key system:

Key		
-	Not Achieved	None or minimal progress was made against targets in 2011-12. 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 2011-12 were met or exceeded.

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 270 major and minor projects currently in progress that will deliver approximately \$74 billion worth of assets to Defence by the time they are completed.

The financial performance of the DMO Major Acquisition Program in 2011-12 was again successful. The outcome included the accelerated purchasing arrangements for AIR 8000 Phase 2 which will replace the Caribou aircraft with C-27J Spartans through an Foreign Military Sales (FMS) case with the United States Government.

In addition, the strong performance of the Program included the rapid ordering of a sixth C-17A Globemaster III heavy-lift aircraft and the purchase of Offshore Support Vessel MSV *Skandi Bergen* following the Government's announcement of these acquisitions in March 2012. The additional C-17A will provide the Government with increased options to support a wide range of contingencies that might require heavy-lift aircraft and will extend the life of the current C-17 fleet by reducing the use of each aircraft. The *Skandi Bergen* will add to the Royal Australian Navy's current amphibious ships, HMAS *Choules* and HMAS *Tobruk*.

Table 11.1 outlines the financial performance of Program 1.1 Management of Capability Acquisition against the planned outcome as at Additional Estimates 2011-12.

Top 30 Major Project Performance Summary

An assessment of the performance of the Top 30 major projects against the deliverables in the MAAs (described in the *Portfolio Budget Statements 2011-12*) is provided in table 11.1.

Table 11.1: Deliverables for the Top 30 Major Project in Program 1.1

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
General Manager Systems					
Aerospace Systems					
Air to Air Refuelling Capability	AIR 5402	EADS CASA (Trading as Airbus Military – Spain)	<p>This project will deliver five new generation 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 for the new fleet.</p> <p>During 2011-12, the third and fourth KC-30A MRTT aircraft were accepted, with the third handed over to the Air Force and the fourth retained by Airbus Military in Madrid for further testing of changes to the military avionics and boom refuelling systems.</p> <p>Conversion of the fifth and final aircraft at the Australian Conversion Centre was completed on schedule, with acceptance scheduled in late 2012.</p> <p>The Simulation Devices and Facility were also accepted in an initial configuration, and aircrew currency training has commenced at RAAF Base Amberley using these training devices.</p> <p>In-service issues with the refuelling pods have delayed the conduct of Operational Test and Evaluation by the Air Force.</p> <p>This project is being managed as a Project of Concern.</p>	✓	✓
Bridging Air Combat Capability	AIR 5349 Phase 1	Boeing, through a Foreign Military Sales case with the United States Navy	<p>Phase 1 of the project has acquired and delivered 24 F/A-18F Super Hornets Block II multi-role aircraft and associated support systems and services. The air combat capability will be maintained through to the transition to the F-35 Joint Strike Fighter.</p> <p>During 2011-12, the project delivered the remaining four F/A-18F Super Hornets aircraft to RAAF Base Amberley. Delivery of mission and support equipment will continue throughout 2012 with Final Operational Capability expected in late 2012.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
F/A-18 Hornet Upgrade	AIR 5376 Phase 2	<p>The DMO is the prime systems integrator of elements provided by:</p> <ul style="list-style-type: none"> • Boeing (United States) • Boeing Defence Australia • Raytheon • United States Navy • SAAB (Sweden) • Elta (Israel) • Elbit 	<p>The project will progressively deliver a comprehensive capability upgrade to the Air Force fleet of 71 Classic Hornets, including an electronic warfare modification program comprising a replacement radar warning receiver, a supplementary countermeasures dispenser and electronic countermeasures systems, and an enhanced data recording capability.</p> <p>During 2011-12, project activities included the Operational Test and Evaluation of electronic warfare components as well as the final stages of delivery and acceptance. Final deliveries and modifications are on schedule.</p>	✓✓✓	✓✓✓
Airborne Surveillance for Land Operations	JP 129 Phase 2	AAI Corporation through a Foreign Military Sales case with the United States Army	<p>This phase of the project delivers two RQ-7B Shadow 200 Tactical Unmanned Aerial System; each comprising five air vehicles, two ground control stations, a tactical launch and recovery element, associated tactical support systems, and logistics and training.</p> <p>Two Shadow 200 systems, based on a four air vehicle United States Army configuration, have been delivered under an accelerated arrangement with the United States Army.</p> <p>The first system was delivered to Australia in August 2011 and deployed to Afghanistan in December 2011. The second system arrived in country in April 2012 with the conduct of Brigade Integration Training/ New Equipment Training, and further system Test and Evaluation at the Woomera Test Facility commencing in July 2012.</p>	✓✓✓	✓✓✓
C-17 Globemaster III	AIR 8000 Phase 3	Boeing through a Foreign Military Sales case with the United States Air Force	<p>This project provides a global heavy airlift capability based around the Boeing C-17 Globemaster III aircraft and related provisions, including an enhanced US-common electronic warfare self-protection system.</p> <p>During 2011-12, the project continued maturing C-17 Globemaster III sustainment requirements including spares, and the procurement of ancillary items such as training devices, role expansion equipment, ground support equipment and materiel handling equipment.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Electronic Systems					
Next Generation Satellite Communications System	JP 2008 Phase 4	Boeing through a Foreign Military Sales case with the United States Government	<p>This project will deliver the next generation ADF wideband satellite communication system. The capability is being delivered under a Memorandum of Understanding (MOU) with the United States Government and has delivered Wideband Global SATCOM System (WGS) Service Initial Operational Capability and Interim Anchoring Capability.</p> <p>The fourth of six satellites under the MOU was launched from Cape Canaveral in January 2012 and is expected to become operational in August 2012. Progressive launches will end with the sixth satellite in 2013.</p> <p>WGS 6, which Australia is funding, is currently 86 per cent complete and the program is tracking to schedule and under budget.</p> <p>The Interim Anchoring terminal in Western Australia is operational and the WGS certification testing for Interim Anchoring terminal in Eastern Australia has been completed and expected to be fully operational by September 2012.</p>	✓✓✓	✓✓✓
Battlespace Communications Systems (LAND)	JP 2072 Phase 1	Harris Corporation and Raytheon Australia	<p>This phase of the project is delivering commercial off-the-shelf and military off-the-shelf communications systems that will provide capabilities to meet the high priority gaps identified in the current Battlespace Communications System (LAND). In particular the project will acquire the narrowband and wideband combat radio systems in support of the LAND 75/125 Battle Management System (BMS) and the Battlefield Command and Support System, through acquisition of the latest generation of digital radios.</p> <p>During 2011-12, this phase successfully demonstrated an Initial Operational Capability as a standalone radio system and as part of the BMS. The project has now completed delivery of all major equipment elements and continues to work on platform systems integration and introduction into service activities.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Battle Management System	LAND 75 Phase 3.4	Elbit Systems Limited	<p>This project will deliver Mounted Battle Management Systems including command post systems to the ADF in cooperation with LAND 125 Phase 3A (dismounted systems) and JP 2072 Phase 1 (Combat Radio Systems). The project is delivering into a Brigade group in support of a Network Enabled Army. Initial Materiel Release was achieved in June 2011. Chief of Army declared Initial Operational Capability in April 2012 following significant test and evaluation activities. Final Materiel Release is planned for 2013.</p> <p>In 2011-12, over 100 Bushmaster Protected Mobility Vehicles installed with the system were delivered to Army. Army has used the system on several major exercises. Coalition interoperability experiments have demonstrated a high degree of functionality across Coalition domains.</p>	✓✓✓	✓✓
Ultra High Frequency Satellite Communications	JP 2008 Phase 5A	Intelsat LLC	<p>This project is scoped to deliver UHF satellite communications to the ADF via a hosted payload on a commercial Intelsat satellite. The project will also deliver essential ground infrastructure to provide channel control. The launch of the Intelsat satellite occurred in March 2012.</p> <p>During 2011-12, this project delivered the UHF Satellite Payload, the Communications Systems Monitor, and the first phase of the infrastructure to provide channel control of the hosted payload on the IS-22 satellite.</p>	✓✓✓	✓✓✓
Dismounted Battlegroup and Below Command, Control Communication System	LAND 125 Phase 3A	Elbit Systems Limited	<p>This phase is tightly coupled and aligned with LAND 75 Phase 3.4 and JP 2072 Phase 1 and will deliver the dismounted components for the Battlegroup level BMS across a Brigade Group in support of a Network Enabled Army.</p> <p>Initial Materiel Release was achieved in June 2011. Initial Operational Capability was declared by the Chief of Army in April 2012 following detailed Operational Test and Evaluation activities. Final Materiel Release for the system is planned for 2013.</p> <p>During 2011-12, this project delivered over 100 Dismounted BMS to the Army. The Army has used the system on several major exercises. Coalition interoperability experiments have demonstrated a high degree of functionality across Coalition domains.</p>	✓✓✓	✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Joint Command Support Environment	JP 2030 Phase 8	System Integrator Contractor: CSC Australia; Capability Development & Support Contractor: Lockheed Martin Australia	<p>JP 2030 Phase 8 is an evolutionary acquisition project established to deliver a cohesive and integrated Joint Command Support Environment for the efficient and effective planning and conduct of ADF operations for Headquarters Joint Operations Command. Two of the three evolutions have been approved. Evolution 3 has been cancelled as part of the decisions taken in the context of the 2012-13 Budget.</p> <p>During 2011-12, this project delivered the final Release of Evolution 1 and commenced development of the Evolution 2 system deliverables.</p>	✓✓✓	✓✓
ADF Deployable Logistics Systems	JP 2077 Phase 2B.2	Mincom	A decision made in the context of the 2012-13 Budget has led to the cancellation of this phase of the Military Integrated Logistics Information System project pending a review and re-validation of the requirement for the Deployable Logistics System and the Integrated In-Transit Visibility system.	N/A	N/A
New Air Defence Command and Control Systems for Control Units 2 & 3	AIR 5333	Boeing Defence Australia Limited	<p>Referred to as Project Vigilare, this project has replaced the Air Defence Command and Control System with new systems at Northern Regional Operations Centre (NROC) (declared operational in September 2010) and Eastern Regional Operations Centre (EROC) (operational status achieved in April 2011) located at RAAF Bases Tindal and Williamtown respectively. Outside the main contract with Boeing the project has also designed and delivered an integrated ADF Air Defence System communications network and integrated over 45 different interfaces and sensors.</p> <p>During 2011-12, this project completed Final Acceptance in October 2011 marking the completion of all contract Prime Equipment deliverables. Final Materiel Release was completed in August 2012 with the Air Force planning to declare Final Operational Capability in December 2012.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Explosive Ordnance					
Follow-On Stand Off Weapon	AIR 5418 Phase 1	United States Government through Foreign Military Sales and Lockheed Martin through a direct commercial contract	<p>This project provides for the delivery of the AGM-158 Joint Air-to-Surface Standoff Missile (JASSM) and its integration with the F/A-18A/B Hornet. JASSM increases aircraft survivability and weapon terminal effectiveness against well defended targets.</p> <p>During 2011-12, this project achieved key project milestones namely completion of Operational Test and Evaluation, with two successful JASSM live warhead firings by an Air Force F/A-18A/B Hornet aircraft at the Woomera Test Range and declaration of Initial Operational Capability. These achievements signified the introduction into service of an initial Follow-On Stand Off Weapon capability. The project is working towards achieving Final Operational Capability in mid 2012.</p>	✓✓✓	✓✓✓
Lightweight Torpedo Replacement	JP 2070 Phase 3	Djimindi Alliance - EuroTorp, Thales and Commonwealth	<p>This phase of the project provides for the establishment of an Australian manufacturing and support capability for the EuroTorp MU90 lightweight torpedo and delivery of a sufficient quantity of these weapons to meet war reserve requirements.</p> <p>The MU90 lightweight torpedo is being assembled in Australia and additional quantities of the Mk1 torpedoes were delivered in 2011–12. Australian industry has also commenced production of prime items for MK II torpedoes. Quality assurance and reliability issues associated with European manufactured MU90 torpedoes and torpedo warheads delivered to Australia have been resolved and the delivery schedule for the remainder of the program has been re-baselined.</p> <p>JP 2070 (all phases) is being managed as a Project of Concern.</p>	✓✓✓	✓✓
Bridging Air Combat Capability	AIR 5349 Phase 2	United States Government through Foreign Military Sales	<p>This project provides for the delivery and introduction into service of weapons and countermeasures under the Australian Super Hornet Program.</p> <p>The AGM-154 Joint Stand Off Weapons variant C-1 (JSOW C-1) and Advanced Medium Range Air-to-Air Missiles variant C-7 (AMRAAM C-7) programs are being progressed within the United States Navy and United States Air Force. The updated schedules for delivery are 2014 and 2015 respectively.</p>	✓✓	✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Helicopter Systems					
Multi-Role Helicopter	AIR 9000 Phase 2	Australian Aerospace	<p>The Multi-Role Helicopter system consists of 46 MRH-90 helicopters and associated support and training systems for the Army and the Navy. The MRH-90 program continued to experience delays across 2011-12 and is now three years behind the original schedule. It was declared a Project of Concern in November 2011, with supportability and affordability remaining key risks to the program.</p> <p>Acceptance of MRH-90 recommenced in November 2011 after a 12 month hiatus while technical and contractual issues were defined and a plan to remedy them agreed with Australian Aerospace. A total of 16 aircraft have now been accepted. The annual MRH-90 flying rate of effort, while improved over previous years, did not achieve the required level and continued to impact on the program's progress towards certification and initial operational release.</p>	✓	✓
Armed Reconnaissance Helicopter	AIR 87 Phase 2	Australian Aerospace	<p>The Armed Reconnaissance Helicopter system consists of 22 Tiger helicopters, a software support facility, an electronic warfare mission support system, ground mission equipment, facilities, and a training system with a number of dedicated training devices including a full motion mission simulator. During 2011-12, the final three production aircraft were delivered, but the retro-fit program to bring early delivery aircraft up to the mature configuration experienced some delay due to global shortages of Tiger spares. The technical issues associated with the Tiger's helmet mounted sight and display were resolved and incremental improvement in the performance of the contractor's maintenance and supply support networks was achieved. However, while the Tiger flying rate of effort improved over previous years, the achieved annual flying rate remained below the planned level and impeded the development of the operational capability.</p>	✓✓	✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Land Systems					
Field Vehicles and Trailers	LAND 121 Phase 3	Light/Lightweight Vehicle Capability: Mercedes-Benz Australia-Pacific Light/Lightweight Trailer Capability: Haulmark Trailers Australia Medium/Heavy Vehicle Capability: Rheinmetall MAN Military Vehicles Australia (preferred tenderer as at December 2011) Medium/Heavy Trailer Capability: Haulmark Trailers Australia (preferred tenderer as at December 2011) Additional Bushmaster vehicles: Thales Australia	LAND 121 is delivering the ADF's future field vehicles, modules and trailers. Phase 3 will acquire: <ul style="list-style-type: none"> • unprotected light/lightweight Mercedes-Benz G-Wagon vehicles, specialist modules and associated trailers • protected and unprotected medium/heavy vehicles, specialist modules and associated trailers • Bushmaster protected mobility vehicles (reported under LAND 116). <i>Phase 3A Light/Lightweight Capability</i> Additional 959 G-Wagons and 826 trailers approved under LAND 121 Phase 5A. During 2011-12, receipt of production vehicles, refinement of through-life support and vehicle training continued. Preliminary roll-out occurred in November 2011 and the main roll-out will commence July 2012. Trailers will enter service from July 2012, aligning with G-Wagon roll-out. <i>Phase 3B Medium/Heavy Capability</i> Activities during 2011-12 included source selection that was approved in December 2011, after extensive consideration of options. Offer definition activities commenced with the preferred tenderer, Rheinmetall MAN Military Vehicles Australia in April 2012. Contract signature is now planned for mid 2013.	✓✓✓	✓✓
				✓✓	✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Artillery Replacement 155mm Howitzer	LAND 17 Phase 1A	Through several United States Government Foreign Military Sales cases	<p>This project will deliver 35 M777A2 lightweight towed howitzers, a command and control battle management system and course correcting fuzes.</p> <p>During 2011-12, this project completed deliveries of 35 M777 Lightweight Howitzers, and achieved the final delivery of the Advanced Field Artillery Tactical Data System version 6.7 software that enables the battle management system. LAND 17 Phase 1A Initial Materiel Release was achieved on 23 November 2011, on schedule and under budget. Ongoing acquisition and integration activities are required before finalising introduction into service of these systems.</p> <p>The Course Correcting Fuze has not yet achieved United States Government materiel release, and is undergoing a remediation program and further environmental testing prior to a production decision, which is currently scheduled for December 2012.</p>	✓✓	✓✓
Upgrade of M113 Armoured Vehicles	LAND 106	BAE Systems Australia Defence	<p>This project will deliver 431 M113 AS4 vehicles in seven variants; personnel, fitters, recovery, command, ambulance, logistics and mortar. The project is upgrading the Army's M113 A1 vehicles to improve protection, lethality, mobility and habitability. The final contracted delivery date for all 431 vehicles is December 2012, but the contractor is currently delivering ahead of this schedule.</p> <p>During 2011-12, 129 upgraded vehicles were delivered with 389 of 431 vehicles delivered. Production of appliqué armour packs was completed. The project also delivered the second tranche of repair parts to support the in-service fleet.</p>	✓✓✓	✓✓✓
Counter Rocket, Artillery and Mortar (C-RAM)	LAND 19 Phase 7A	Saab AB (Sweden), Northrop Grumman (United States), SRC Tech (United States) and Coopers Notifications (United States)	<p>This project will deliver a Counter Rocket Artillery and Mortar (C-RAM) sense and warn capability for Australian bases in Afghanistan to provide early warning against enemy indirect fire attacks.</p> <p>During 2011-12, this project completed delivery of C-RAM capability to all remaining operational bases in Afghanistan, achieving Initial Operational Capability - Uruzgan in July 2011.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Bushmaster Protected Mobility Vehicle	LAND 116 Phase 3	Thales Australia	<p>This project, referred to as Project Bushranger, will deliver 838 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 units and Air Force Airfield Defence Guards. All 300 vehicles under the original contract have been delivered. Delivery of 144 Enhanced Land Force vehicles was completed in April 2009 and delivery of 293 Production Period 3 (project LAND 121) vehicles was completed in February 2012. The delivery of the additional 101 Production Period 4 vehicles commenced in February 2012 and will be completed in mid 2013.</p> <p>During 2011-12, this project delivered 97 vehicles and finalised the design for the external composite armour capability. The Army has reassessed the requirement for the 184 trailers and a decision is pending.</p>	✓✓✓	✓✓✓
Australian Light Armoured Vehicle – Additional	LAND 112 Phase 3	General Dynamics Land Systems - Canada (GDLS-C)	<p>The LAND 112 Phase 3 project acquired 144 additional ASLAVs, 59 remote weapon stations capability, nine Crew Procedural Trainers and conducted an automotive standardisation program for the Phase 2 vehicle. The project is currently acquiring Multi Spectral Surveillance Suites for integration on the ASLAV through the ASLAV Surveillance Project. Minor facility upgrades in the three units that operate the ASLAV fleet are also occurring.</p> <p>During 2011-12, the project undertook testing and rework in preparation for the First Article Test Review of the Multi Spectral Surveillance Suite, developed and reviewed key support documentation, conducted training for project office instructors and issued a Request for Tender for the through-life support of the system.</p>	✓✓✓	✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Maritime Systems					
Standard Missile Replacement	SEA 1390 Phase 4B	Through United States Government Foreign Military Sales case and various commercial contracts - Lockheed Martin-US, AAI Corporation, BAE Systems-United States and Thales Australia	<p>This project upgrades 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>During 2011-12, as a result of a real cost decrease on Foreign Military Sales (FMS) contracts, a significant amount of funds were returned to the Defence Capability Plan (DCP) as cost savings. The completion of acceptance testing and evaluation of SM-2 Stage 2 Mid-Course Guidance system is now scheduled for late 2012.</p>	✓✓✓	✓✓
ANZAC Ship Anti-Ship Missile Defence	SEA 1448 Phase 2B	CEA Technologies Pty Ltd and the ANZAC Ship Integrated Material Support Program Alliance (comprising the DMO, Saab Technologies Australia and BAE Systems)	<p>This project will deliver a phased array radar system to the ANZAC class frigate for target indication/tracking, mid-course guidance and target illumination for the Evolved Sea Sparrow Missile in conjunction with other sensor and combat management system upgrades delivered under SEA 1448 Phase 2A.</p> <p>In November 2011, the Government approved the real cost increase for installation of the Anti Ship Missile Defence capability into the remaining seven ANZAC class ships. The project was removed from the Projects of Concern list.</p> <p>Development of the software upgrades for the Phased Array Radar and Combat Management System continues to progress to schedule, and installation in the second ship, HMAS <i>Arunta</i> is also on track.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
General Manager Programs					
Air Warfare Destroyer					
Air Warfare Destroyer Build	SEA 4000 Phase 3	The AWD Alliance	<p>The Air Warfare Destroyer program is being delivered under an alliance-based contracting arrangement between ASC AWD Shipbuilder Pty Ltd, Raytheon Australia Pty Ltd and the Government, represented by the DMO.</p> <p>This project will deliver three Hobart Class Air Warfare Destroyers and their support systems to the Navy providing a significant increase in defence capabilities, from area air-defence and escort duties, right through to peacetime national tasking and diplomatic missions.</p> <p>During 2011-12, the project allocated construction work for the third ship between shipyards in Australia and Spain. Seven keel blocks for Ship 01; were transported to Adelaide by barge from Melbourne. The Outfit Support Towers on the Common User Facility were completed in readiness for Ship 01 consolidation. Work is well advanced on all blocks for Ship 01, work commenced on half the blocks for Ship 02 and steel was cut for the first Ship 03 blocks. Combat system deliveries included the Vertical Launch System, SPQ 9B radar and two of four SPY 1D(V) radar arrays for Ship 01. The United States Navy has commenced test and evaluation of the Aegis software developed for the AWDs for delivery in early 2013.</p>	✓✓✓	✓✓
Amphibious Deployment and Sustainment					
Amphibious Deployment and Sustainment	JP 2048 Phase 4A/4B	BAE Systems Australia Defence	<p>This project will acquire two Canberra Class Amphibious Assault 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, designed to replace and enhance Navy's amphibious and afloat support capability.</p> <p>During 2011-12, this project completed construction of the first ship superstructure and mast blocks, commenced combat and communication system testing in a Land Based Test Site and undertook initial harbour acceptance trials on key propulsion in the first hull.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Wedgetail					
Airborne Early Warning and Control Aircraft	AIR 5077 Phase 3	Boeing (United States)	<p>This phase, referred to as Project Wedgetail, will provide the ADF with an Airborne Early Warning and Control Aircraft (AEW&C) capability comprising six aircraft and associated supplies and support.</p> <p>During 2011-12, this project delivered the fifth and sixth aircraft to the Air Force in an initial acceptance configuration and all support systems in initial acceptance configurations to enable the continued ramp up of operational capability. As Boeing failed to deliver all aircraft hardware by end 2011 and was unable to deliver the final software configuration by March 2012, Boeing and the Commonwealth negotiated a Remediation Plan in December 2011 to complete the remaining activities. System development was completed under this plan in April 2012 and acceptance of the first fully configured aircraft is now planned to occur in December 2012, which will represent a 73 month delay against the original contract baseline.</p> <p>This project is being managed as a Project of Concern.</p>	✓✓	✓✓
New Air Combat Capability					
Joint Strike Fighter Aircraft	AIR 6000 Phase 2A/B	Lockheed Martin is contracted to the United States Government for the development and production of the F-35 Joint Strike Fighter. Australia is procuring the aircraft through a government-to-government agreement.	<p>During 2011-12, this project signed the long lead acquisition contract for Australia's first two Joint Strike Fighter (JSF) Aircraft. Production of aircraft components has commenced to support delivery to the United States Pilot Training Centre in early 2014. Full contract signature (known as definitisation) has been delayed and is not expected to occur until mid 2013, however this is not expected to impact the 2014 delivery.</p> <p>In the 2012-13 Budget, the Australian Government confirmed its commitment to the first two JSF aircraft but deferred the acquisition of the subsequent 12 aircraft by two years. This decision was taken to maintain alignment with the United States Program which had recently deferred the acquisition of 179 Aircraft.</p>	✓✓✓	✓✓

Top 30 Major Projects by Expenditure

Table 11.2 provides details of the top 30 major projects (by forecast expenditure in the *Portfolio Budget Statements 2011-12*). Expenditure for the top 30 projects represented 69 per cent of total expenditure on major capital equipment projects in 2011-12.

Table 11.2: Top 30 major projects by expenditure as forecast in the *Portfolio Budget Statements 2011-12*

Project Name	Project Number/ Phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2011 \$m	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 ^[1] \$m	Final Plan 2011-12 ^[2] \$m (a)	Actual Expenditure 2011-12 ^[3] \$m (b)	Variation \$m (b-a)
General Manager Systems								
Aerospace Systems								
Air to Air Refuelling Capability	AIR 5402	1,796	1,328	235	151	150	138	-12
Bridging Air Combat Capability	AIR 5349 Phase 1	3,266	2,590	177	108	108	107	-2
F/A-18 Hornet Upgrade	AIR 5376 Phase 2	1,875	1,541	90	73	73	71	-2
C-17 Globemaster III	AIR 8000 Phase 3	1,844	1,318	49	16	16	18	2
Airborne Surveillance for Land Operations	JP 129 Phase 2	92	27	34	5	5	20	16
Electronic Systems								
Next Generation Satellite Communications System	JP 2008 Phase 4	861	387	135	98	98	81	-17
Battlespace Communications Systems (LAND)	JP 2072 Phase 1	254	103	109	94	94	84	-10
Battle Management System	LAND 75 Phase 3.4	306	83	101	61	61	49	-12
Ultra High Frequency Satellite Communications	JP 2008 Phase 5A	433	247	84	35	35	65	30
Dismounted Battlegroup and Below Command, Control Communication System	LAND 125 Phase 3A	105	28	53	46	46	26	-20

Project Name	Project Number/ Phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2011 \$m	Budget Estimate	Revised Estimate	Final Plan	Actual Expenditure	Variation
				2011-12 \$m	2011-12 ^[1] \$m	2011-12 ^[2] \$m (a)	2011-12 ^[3] \$m (b)	\$m (b-a)
Joint Command Support Environment	JP 2030 Phase 8	256	83	30	32	55	40	-16
New Air Defence Command and Control Systems for Control Units 2 & 3	AIR 5333	274	230	30	16	16	16	..
ADF Deployable Logistics System	JP 2077 Phase 2B.2	49	14	29	9	9	7	-2
Explosive Ordnance								
Follow-On Stand Off Weapon	AIR 5418 Phase 1	341	245	43	33	33	32	..
Lightweight Torpedo Replacement	JP 2070 Phase 3	300	243	29	19	18	16	-2
Bridging Air Combat Capability	AIR 5349 Phase 2	272	103	29	20	20	20	..
Helicopter Systems								
Multi-Role Helicopter	AIR 9000 Phase 2	3,628	1,838	393	265	260	210	-50
Armed Reconnaissance Helicopter	AIR 87 Phase 2	2,029	1,733	118	87	85	80	-5
Land Systems								
Field Vehicles and Trailers	LAND 121 Phase 3	985	105	136	113	109	128	19
Artillery Replacement 155mm Howitzer	LAND 17 Phase 1A	321	89	111	33	33	33	..
Upgrade of M-113 Armoured Vehicles	LAND 106	883	698	100	66	66	70	5
Counter Rocket, Artillery and Mortar (C-RAM)	LAND 19 Phase 7A	251	96	85	52	52	52	..
Bushmaster Protected Mobility Vehicle	LAND 116 Phase 3	1,032	684	67	87	87	87	..

Project Name	Project Number/ Phase	Approved Project Expenditure	Cumulative Expenditure to 30 June 2011	Budget Estimate	Revised Estimate	Final Plan	Actual Expenditure	Variation
		\$m	\$m	2011-12 \$m	2011-12 ^[1] \$m	2011-12 ^[2] \$m (a)	2011-12 ^[3] \$m (b)	\$m (b-a)
Australian Light Armoured Vehicle - Additional	LAND 112 Phase 3	690	601	34	9	9	8	-1
Maritime Systems								
Standard Missile Replacement	SEA 1390 Phase 4B	399	295	90	27	19	12	-7
ANZAC Ship Anti-Ship Missile Defence	SEA 1448 Phase 2B	676	283	59	65	69	58	-11
General Manager Programs								
Air Warfare Destroyer								
Air Warfare Destroyer Build	SEA 4000 Phase 3	7,853	3,038	841	701	695	802	106
Amphibious Deployment and Sustainment								
Amphibious Deployment and Sustainment	JP 2048 Phase 4A/4B	3,052	1,569	707	636	623	616	-6
Collins and Wedgetail								
Airborne Early Warning and Control Aircraft	AIR 5077 Phase 3	3,830	2,972	401	313	314	283	-31
New Air Combat Capability								
Joint Strike Fighter Aircraft	AIR 6000 Phase 2A/2B	2,538	71	65	58	58	59	..
Total -Top 30 Projects		40,490	22,640	4,465	3,328	3,317	3,287	-30

Notes

1. The revised budget for 2011-12 was published in the *Portfolio Additional Estimates Statements 2011-12*.
2. The Final Plan for 2011-12 is the final approved annual plan for the project inclusive of variations for foreign exchange movements and changes to Materiel Acquisition Agreements.
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 11.3: Variation to project approval for the 2011-12 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 2nd Pass Approval ^[2] \$m	Scope ^[3] \$m	Transfers ^[4] \$m	Others ^[5] \$m	Total Real \$m
General Manager Systems											
Aerospace Systems											
AIR 5402	17 Jul 03	2,077	484	-476	-289	1,796			-136	-154	-289
AIR 5349 Phase 1	31 Jul 07	3,546	367	-407	-240	3,266			-132	-107	-240
AIR 5376 Phase 2	21 Apr 98	1,300	323	-1	253	1,875		223 ^[6]	34	-3	253
JP 129 Phase 2	30 Sep 04	2	24	-31	97	92	97			..	97
AIR 8000 Phase 3	01 Mar 06	1,864	124	-144	-	1,844					
Electronic Systems											
JP 2008 Phase 4	28 Sep 07	885	132	-156	-	861					
JP 2072 Phase 1	04 Oct 02	98	40	-42	159	254	148		..	11	159
LAND 75 Phase 3.4	06 Dec 05	8	16	-36	318	306	325			-7 ^[7]	318
JP 2008 Phase 5A	16 Feb 09	4	18	-46	457	433	457				457
LAND 125 Phase 3A	07 Apr 10	120	4	-20	-	105					
JP 2030 Phase 8	22 Aug 06	42	8	..	207	256	98	109 ^[8]			207
AIR 5333	01 Nov 92	48	75	10	140	274		117 ^[9]	23	..	140
JP 2077 Phase 2B.2	09 Aug 05	83	19	..	-53	49		32 ^[10]		-85 ^[11]	-53

Project Number / Phase	Initial Project Approval Date	Original Approval	Price Indexation Variation	Exchange Variation	Real Variation ^[1]	Current Approval	Real Variations 2nd Pass Approval ^[2]	Scope ^[3]	Transfers ^[4]	Others ^[5]	Total Real
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Explosive Ordnance											
AIR 5418 Phase 1	30 Sep 04	15	63	-42	305	341	355	-50 ^[12]		..	305
JP 2070 Phase 3	21 Jan 04	246	69	-16	..	300				..	..
AIR 5349 Phase 2	31 Jul 07	182	24	-33	99	272			99		99
Helicopter Systems											
AIR 9000 Phase 2	22 Apr 04	3	680	-367	3,312	3,628	954	2,597 ^[13]	-239		3,312
AIR 87 Phase 2	16 Mar 99	1,584	418	118	-91	2,029			-84	-7	-91
Land Systems											
LAND 121 Phase 3	14 Aug 07	2,686	691	-196	-2,197	985	-2,187 ^[14]	-15 ^[15]	4		-2,197
LAND 17 Phase 1A	30 Nov 09	348	17	-45	-	321					
LAND 106	01 Nov 93	40	155	-1	689	883		441 ^[16]	250	-2	689
LAND 19 Phase 7A	28 Apr 10	266	5	-20	-	251					
LAND 116 Phase 3	30 Nov 98	295	125	-7	619	1,032	104	515 ^[17]			619
LAND 112 Phase 3	01 Dec 97	491	91	56	51	690			52	..	51
Maritime Systems											
SEA 1390 Phase 4B	30 Sep 04	553	128	-73	-209	399	-206 ^[18]			-2	-209
SEA 1448 Phase 2B	01 Nov 05	249	76	-12	363	676	215 ^[19]		149		363

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 2nd 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 Jun 07	7,207	1,173	-528	-	7,853					
Amphibious Deployment and Sustainment											
JP 2048 Phase 4A/4B	27 Jan 04	3	428	-344	2,965	3,052	2,950	5 ^[20]	9	..	2,965
Collins and Wedgetail											
AIR 5077 Phase 3	01 Dec 97	2,170	723	-123	1,059	3,830		226 ^[21]	619	215	1,059
New Air Combat Capability											
AIR 6000 Phase 2A/B	07 Apr 10	2,752	351	-564	-	2,538					

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 Hornet Electronic Warfare Self Protection – AIR 5376 Phase 2 and the Hornet Jammer – AIR 5376 Phase 3C projects in May 2007.
7. Government agreed at 2012-13 Budget to reduce scope by cancelling the installation in the M-113 fleet.
8. Increase in scope to further develop the Joint Planning Suite approved in September 2011.
9. Increase in scope associated with the incorporation of the Command and Control Capability to support Air Defence, August 2003.
10. Increase in scope to enable aquisition of Deployable Supply Chain Infrastructure Hardware.
11. Government agreed at 2012-13 Budget to cancel this project.
12. Real Cost Decrease reflects the removal of moving target capability and improved definition of supplies, approved June 2011.
13. Incorporation of Phase 4 Black Hawk upgrade/replacement and Phase 6 Maritime Support Helicopter and Full Flight and Mission Simulator facilities, April 2006.
14. Decrease in scope to recognise the transfer and management of Medium and Heavy Capability, Field Vehicles, Modules and Trailers to LAND 121 Phase 3B.
15. Reduction represents the return of Enhanced Land Force Funding.
16. Result of the Defence White paper deliberations, (\$227 million) inclusion of an additional 81 M-113 Armoured Personnel Carriers (\$214 million).
17. Increase in scope associated with the purchase of 250 additional vehicles for the Enhanced Land Force budget measure.
18. Real cost decrease to reflect Government decision made on 16 September 2011 for the transfer to SEA 4000 Phase 3.2 of \$86.480 million and savings of \$120 million.
19. The Acquisition Strategy approved by Government on 21 November 2011, to deliver the full Stage 2 Anti Ship Missile Defence capability to ships 2-8, installation through the Alliance and complete the Stage 2 capability in HMAS *Perth*.
20. 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.
21. Increase in scope associated with the decision to purchase two additional aircraft (to a total of six) in June 2004.

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/annual-reports>.

New Major Projects

During 2011-12, 27 major projects were transferred to the DMO following Government approval. These are shown in table 11.4. The DMO classifies a project as having been transferred on the signing of MAA between the DMO and Defence.

Table 11.4: New major projects transferred to the DMO in 2011-12^[1]

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[2]	Project Information
General Manager Systems					
Aerospace Systems					
Lead-In Fighter Capability Assurance Program	AIR 5438 Phase 1A	7	8	Level 3	Lead-In Fighter Capability Assurance Program (LIFCAP) has been raised to ensure the effectiveness and viability of the Lead-In Fighter Training System until its Planned Withdrawal Date of 2026.
Battlefield Airlift – Caribou Replacement	AIR 8000 Phase 2	19	113	Level 2	Caribou Replacement seeks to enhance the ADF's intra-theatre and regional airlift capability. AIR 8000 Phase 2 is scoped to acquire a fleet of ten new Light Tactical Fixed Wing aircraft.
Electronic Systems					
Battlespace Communications System (LAND)	JP 2072 Phase 2A	53	59	Level 3	Second Pass. This phase has commenced procurement and received first deliveries of a modern, secure, digital radio fleet to replace the legacy dismantled voice communication systems. Roll out of the radios to high readiness land formations and units of the ADF will commence late 2012.

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[2]	Project Information
Battlespace Communications System (LAND)	JP 2072 Phase 2B	2	..	Level 1	First Pass. This phase aims to provide enhanced Command and Control (C2) services including enhanced trunking and switching infrastructure in the land environment. Request for Tender responses were received in February 2012 and are currently under evaluation.
Fixed Base Air Traffic Management and Control Systems	AIR 5431 Phase 2/3	..	..	Level 2	First Pass. This phase will procure a new Defence Air Traffic Management and Control System (DATMCS) to replace the existing Australian Defence Air Traffic System (ADATS). This includes the replacement of fixed site sensors and air traffic management systems with some requirements being coordinated jointly with Air Services Australia.
ADF Identification Friend or Foe and Automatic Dependant Surveillance – Broadcast	JP 90 Phase 1	..	..	Level 2	First Pass. This project aims to update legacy ADF platforms to ensure compliance with new military and civil Identification and Air Traffic Management Surveillance Systems requirements.
Maritime Rapid Environmental Assessment (REA)	JP 1770 Phase 1	1	..	Level 3	First Pass. This project seeks to provide the fixed and deployable maritime Rapid Environmental Assessment capability in order to enhance the direction, collection, processing and dissemination of tactical maritime environmental information. A Request for Tender was issued in April 2012 to shortlist tenderers and identify market capability and capacity.
Wideband Transportable Land Terminals	JP 2008 Phase 5B1	1	..	Level 3	First Pass. This phase seeks to deliver a wideband satellite communications (SATCOM) capability to the ADF via the acquisition and in service support of a family of Wideband Global SATCOM (WGS) certified transportable land terminals. Selected existing terminals and communications infrastructure will be upgraded to support ADF network enabled operations. The project will utilise advanced waveform technology to support meshed communications between deployed elements.

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[2]	Project Information
Satellite Ground Station – East and Wideband SATCOM Network Management	JP 2008 Phase 5B2	1	..	Level 3	First Pass. This phase seeks to deliver a wideband satellite communications (SATCOM) capability to support future operational needs of the ADF. Phase 5B2 will expand the ADF wideband SATCOM strategic interface capability; implementation and In-service support a new Satellite Ground Station to be located in the east of Australia (Satellite Ground Station - East) and a Wideband SATCOM Network Management System.
JCTC – Mobile Electronic Warfare Threat Emitter System	JP 3021 Phase 1	..	..	Level 3	First Pass. This project will acquire a Mobile Electronic Warfare Threat Emitter System (MEWTES) that can be deployed to nominated Australian ranges. The MEWTES will support counter Ground Based Air Defence training and mission rehearsal for the ADF by simulating the Radio Frequency signals of emitters associated with threat systems.
Woomera Range Remediation	JP 3024 Phase 1	2	..	Level 3	First Pass. This project aims to replace aerospace test and research evaluation systems at the Woomera Test Range that are near the end of their useful life.
Handheld Component of ADF Navigation Warfare (NAVWAR) Capability	JP 5408 Phase 3	8	2	Level 3	First Pass. This phase seeks to provide GPS protection and enhancement to 12 ADF platform types. Government has approved splitting this project into two stages, with the first stage acquiring the handheld military GPS receivers for dismounted forces and the second stage acquiring military GPS receivers for various ADF platforms. The first stage has received Second Pass approval and the second stage will be the subject of a separate Second Pass approval.
Military Satellite Capability – (WTT)	JP 2008 Phase 3H	3	4	Level 3	First Pass. This phase seeks to support the delivery of a wideband satellite communications (SATCOM) capability to the ADF via the acquisition and in-service support of a single type of Wideband Global SATCOM (WGS) certified transportable land terminal to optimise the early use of Australia's WGS space segment.

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[2]	Project Information
Explosive Ordnance					
Evolved Sea Sparrow Missile Upgrade	SEA 1352 Phase 1	10	9	Level 4	Pre-First Pass approval was provided by Government on 29 August 2011. This pre-first pass project will fund Australia's contribution to the multi-national Evolved Seasparrow Missile (ESSM) Consortium-lead Risk Reduction Studies (RRS) in support of the development of the ESSM Block 2 short range surface-to-air missile. The outcomes of the RRS will support future First and Second Pass considerations by Government to approve the Engineering Manufacture and Development and Missile Production phases of the ESSM Block 2 Program.
Standard Missile-2 Conversion and Upgrade	SEA 4000 Phase 3.2	8	1	Level 4	Combined First and Second Pass approval was provided by Government on 29 August 2011. This project will acquire the materiel for and implement the conversion and upgrade of the ADF's inventory of medium range Standard Missile 2 surface-to-air missiles for use in the Hobart class Guided Missile Destroyers.
Joint Direct Attack Munition Enhancement	JP 3027 Phase 1	7	6	Level 4	Combined First and Second Pass approval was provided by Government on 10 October 2011. This project will enhance the RAAF's Joint Direct Attack Munition (JDAM) precision strike capability. The enhancements include: a precision laser guidance system, a low collateral damage war head, a range extension wing kit for the MK82 bomb and additional JDAM tail kit assemblies.

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[2]	Project Information
Helicopter Systems					
Additional CH-47D Chinook Helicopter Capability	AIR 9000 Phase 5D	26	19	Level 4	This project acquired two ex-United States Army CH-47D Chinooks to replace the loss of Chinook A15-102 in-theatre on 30 May 2011 and to improve the robustness of the Chinook fleet until it is replaced by seven CH-47F Chinooks under AIR 9000 Phase 5C. Initial Operational Capability in support of domestic raise train sustain operations is to be achieved in mid 2012 and Final Operational Capability in support of a deployable capability is to be achieved by mid 2013.
Land Systems					
Enhanced F88	LAND 125 Phase 3C	5	4	Level 3	This project will deliver an Improved Rifle Platform and Grenade Launcher Attachment. The variation was driven by postponement of a milestone payment due to a delay in obtaining import licences for some weapon components, and explosive ordnance certification costs being met by the ammunition procurement agency.
Australian Protected Route Clearance Capability	JP 154 Phase 3A	15	13	Level 4	This phase will procure the Australian Protected Route Clearance Capability comprising of four route clearance systems to counter the current and enduring improvised explosive threat through protected equipment designed to detect, mitigate and exploit Improvised Explosive Devices.
Integrated Soldier System (DIGGERWORKS)	LAND 125 Phase 4	2	1	Level 4	This project allocates specified funding from the LAND 125 Phase 4 Defence Capability Plan provision for use by the DMO to enable the Defence Material Technology Centre - Program 7, to provide supplies and services for the project. This project will coordinate and manage a program of work for industry and academia to deliver technology developments to enhance soldier survivability.

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[2]	Project Information
Land Force Mortar Replacement Project	LAND 136 Phase 1	..	..	Level 4	This phase will replace the current Army mortar capability with a lightweight, digitally networked mortar capability.
OVERLANDER – Medium and Heavy Capability, Field Vehicles, Modules and Trailers	LAND 121 Phase 3B	3	3	Level 1	This phase is replacing the current fleet of ADF medium and heavy field vehicles along with their associated modules and trailers. It includes the acquisition of around 2,700 medium and heavy trucks; around 290 Bushmaster Protected Mobility Vehicles (PMV); and associated modules and trailers. Field vehicles and trailers are an essential element of combat, combat support and combat service support capabilities of the ADF. Around one third of the fleet of vehicles is to be armoured to protect personnel.
Maritime Systems					
Interim Maritime Humanitarian Assistance and Disaster Relief Capability	JP 3033	130	128	Level 3	Government-directed purchase of an offshore support vessel to supplement maritime support for Humanitarian Assistance and Disaster Relief operations.
Deployable Mine Countermeasures (MCM)	SEA 1778 Phase 1	1	..	Level 3	The project will provide the Navy an initial capability by acquiring a system that can be deployed for the conduct of Mine Countermeasures by a single Maritime Task Group.

Notes

- Three new classified projects have been created during 2011-12 and are not included in this table due to their classified nature
- Acquisition Cost Categorisations are taken from the DCP (Defence Capability Plan) where applicable and are as follows:
 - Level 1 (Very High): >\$1,500 million
 - Level 2 (High): \$500 million - \$1,500 million
 - Level 3 (Moderate): \$100 million - \$500 million
 - Level 4 (Low): < \$100 million.

Closed Major Projects

In 2011-12, 32 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.

Table 11.5: Closed major projects in 2011-12^[1]

Project Name	Project Number/ Phase	Project Approval Value \$m	Total Expenditure \$m	Savings in Project Approval ^[2] \$m
General Manager Systems				
Aerospace Systems				
C-130J-30 Strategic Air lift Capability	AIR 5216 Phase 1/2	1,050	1,024	26
AP-3C Advanced Flight Simulator	AIR 5276 Phase 3	63	61	2
Electronic Warfare Self-Protection for the AP-3C	AIR 5276 Phase 4	45	42	3
F/A-18 Hornet Upgrade Phase 3.1 - Structural Refurbishment	AIR 5376 Phase 3.1	124	111	14 ^[3]
F/A-18 Hornet Upgrade Phase 3.2 - Structural Refurbishment	AIR 5376 Phase 3.2	952	319	633 ^[4]
Electronic Systems				
Narrowband Secure Voice Equipment	JP 2036 Phase 1	70	35	35 ^[5]
Air Command Support System	JP 2030 Phase 5B	57	55	2 ^[6]
Sidearm	AIR 5419 Phase 1	4	4	..
Joint Command Support Environment	JP 2030 Phase 3	56	55	1
Air Command Support System	JP 2030 Phase 7B	74	67	7 ^[7]
GPS for ADF Aircraft	JP 5195 Phase 3C	33	20	12 ^[8]
High Frequency Surface Wave Radar	JP 2084 Phase 1	24	21	4
Digital Radio Frequency Surveillance System	JP 2081 Phase 1	6	6	..
Mine Warfare Command Support System (MWCCS)	SEA 1297 Phase 3	29	26	3
Geospatial Information Infrastructure and Services	JP 2064 Phase 2	17	12	5
Explosive Ordnance				
Non Stand-Off Semi Hardened and Area Weapons	AIR 5398 Phase 3&4	27	20	7
Helicopter Systems				
Seahawk Capability Assurance Program Phase 1	AIR 9000 SCAP 1	5	3	2

Project Name	Project Number/ Phase	Project Approval Value \$m	Total Expenditure \$m	Savings in Project Approval ^[2] \$m
Land Systems				
Incident Response Regiment Equipment Capability Project	JP 2087 Phase 1	18	15	3
Aircraft Rescue and Fire Fighting Vehicles	JP 2095 Phase 1	32	25	7
Chemical, Biological, Radiological Response	JP 141 Phase 1	38	23	15 ^[9]
AN/TPG-36 Weapon Locating Radar Life of Type Extension	LAND 58 Phase 3	32	28	3 ^[10]
Project Overlander	LAND 121 Phase 2	94	71	23 ^[11]
Maritime Systems				
Australian Acoustic Generator	SEA 1424 Phase 1A	10	10	..
Airborne Laser Bathymetry Project	SEA 1102 Phase 3A	16	14	3
Hydrographic Ship Construction	SEA 1401 Phase 2	225	217	8
General Manager Programs				
Amphibious Deployment and Sustainment				
Maritime Operations Support Capability - HMAS SIRIUS	SEA 1654 Phase 2A	139	139	..
Collins and Wedgetail				
UHF MILSATCOM	SEA 1420 Phase 1	45	44	1
Total		3,290	2,471	819

Notes

- Five classified projects have been closed during 2011-12 and are not included in this table due to their classified nature.
- This is the reduction in Materiel Acquisition Agreement agreed price at project closure and includes transfers to other projects and sustainment products, to enable more efficient delivery of remaining scope.
- \$13.910 million transferred to Sustainment.
- \$632.752 million transferred to Sustainment.
- \$1.577 million transferred to Sustainment.
- \$1.372 million transferred to Sustainment.
- \$3.077 million transferred to Sustainment.
- \$3.400 million transferred to Sustainment.
- \$1.347 million transferred to Sustainment.
- \$0.220 million transferred to Sustainment.
- \$23.340 million transferred to project LAND 121 Phase 3B.

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 DCP and are usually of relatively low value. There are currently about 86 such projects, with an average value of approximately \$9 million. A total of \$76.9 million was expended on minor capital investment projects during 2011-12, compared to \$88.7 million in 2010-11.

Top 10 Minors Project Performance Summary

An assessment of the performance of the top 10 minor projects against the deliverables in the MAAs (described in the *Portfolio Budget Statements 2011-12*) is provided in table 11.6.

Table 11.6: Top 10 minor capital investment project deliverables in program 1.1 in 2011-12

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Navy					
Digital Voice Recording Equipment	NMP 1822	SonarTech Atlas Proprietary Limited	<p>The project scope is to design and install 30 digital voice recording systems for use in 27 ships and three training facilities. The system is to be capable of continuous recording of voice communications over ship internal communication circuits and external radio channels, and between ship bridge and operations room.</p> <p>During 2011-12, this project completed factory acceptance testing of the initial production units, and the first preliminary installation onboard HMAS <i>Leeuwin</i>. Completion of 'set to work' onboard HMAS <i>Leeuwin</i>, together with the first-of-class installations onboard a Survey Motor Launch and Landing Craft Heavy, have been rescheduled for late 2012.</p>	✓✓	✓✓
Army					
Field Refrigeration Storage & Distribution	AMP 081.03	Klinge Corporation (United States)	<p>The project is acquiring a foodstuff distribution and storage capability consisting of 60 twenty foot refrigerated distribution containers, 125 ten foot field kitchen refrigerated containers, 250 Insulated Perishable Food Load Units, 1,500 Non-insulated Perishable Food Load Units and associated ancillary systems.</p> <p>During 2011-12, the project delivered all principal equipment and completed a majority of introduction into service requirements. Procurement of spare parts and ancillary systems is yet to be finalised. Final Operational Capability and project closure is expected by December 2012.</p>	✓✓	✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Light Tracked Bulldozer	AMP 007.25	Hitachi Construction Machinery Australia	<p>This project will deliver 21 light tracked bulldozers to replace the existing in-service fleet of Caterpillar D3C bulldozers. These are predominantly used by Combat Engineer Regiments and Construction Squadrons within Army.</p> <p>During 2011-12, this project delivered 21 John Deere 450J bulldozers together with the Complete Equipment Schedule and conducted introduction into service operator and maintainer training.</p>	✓✓✓	✓✓✓
Replacement of Truck Fire Fighting Rural	AMP 85.06	SEM Fire and Rescue Pty Ltd	<p>This project is acquiring 16 Rural Fire Fighting vehicles to replace the Mercedes Benz 911 vehicle fleet operated by Force Engineer Branch units, Incident Response Regiment and RAAF Security and Fire School.</p> <p>During 2011-12, the project delivered all 16 rural fire trucks and completed 'train the trainer' training.</p>	✓✓✓	✓✓✓
Enhanced Land Force Weapons Training Simulator System	AMP 029.44	Meggitt Training Systems Australia	<p>This project will deliver five additional Weapons Training Simulation Systems at: Edinburgh, South Australia; Townsville and Enoggera, Queensland; Singleton and Kapooka, New South Wales. The initial capability comprises the supply and installation of simulated in-service weapons. The final capability will introduce new simulated weapon types and training scenarios.</p> <p>During 2011-12, initial delays with the solicitation process delayed the signing of a contract with Meggitt Training Systems Australia. The project has established an interim system at Edinburgh with the full capability to be completed in December 2012.</p>	✓✓	✓✓
Bullet Trap Blank Firing Attachment	AMP 048.42	Thales Australia Limited	<p>This project is delivering 44,620 Bullet Trap Blank Firing Attachment (BTBFA) for the F88 Austeyr Family of Weapons and 1,485 M4A1 Carbine Modular Weapon System. Currently all F88 variants have been delivered and a review of the requirement for the M4A1 Carbine variant will be completed by August 2012 aiming for completion of deliveries and project closure by December 2012.</p> <p>During 2011-12, this project delivered 17,186 F88 BTBFA and 6,134 F88 Carbine BTBFA.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Australian Light Armoured Vehicle Crew Procedural Trainers	AMP 002.12	Thales Australia Limited	<p>This project will deliver nine Australian Light Armoured Vehicle crew procedural trainers to supplement the existing nine crew procedural trainers that were introduced into service in 2006. The facilities for housing the crew procedural trainers are also being upgraded.</p> <p>Following contract signature in May 2011, this project finalised plans and design activities for the crew procedural trainer in February 2012; with production and testing of the prototype successfully completed in June 2012.</p>	✓✓✓	✓✓✓
Air Force					
Traffic Alert and Collision Avoidance System	AFM1001	BAE Systems	<p>During 2011-12, the project successfully completed modification of the prototype aircraft, culminating in delivery of the first aircraft with the Traffic Alert and Collision Avoidance System to Air Force in mid 2012. Incorporation of the Traffic Alert and Collision Avoidance System capability into the AP-3C Orion fleet has commenced.</p>	✓✓✓	✓✓
Tactical Communication Router	AFM 0935	Indra Australia	<p>The Tactical Communication Router (TCR) will enable airspace communications support to deployed airspace coordination elements and mobile air operations teams and be a fully deployable system compliant with International Civil Aviation Organisation and ADF requirements enabling secure communications.</p> <p>During 2011-12, delays occurred in finalisation of an agreed contract, however outstanding issues have now been resolved and contract signature occurred in July 2012. As a result of the delays, planned expenditure in 2011-12 has been re-phased to 2012-13.</p>	✓✓	✓
462SQN Electronic Combat and Monitoring System	AFM 00977	Contract signature is delayed to allow for adjustments in Minor project funding	<p>The Project will provide Air Force with new capability for electronic support, radio communications intercept, direction finding, and increased processing power to provide greater spectrum situational awareness.</p> <p>During 2011-12, a preferred vendor has been selected from a Request for Tender process, with contract negotiations to be held in the third quarter of 2012 and contract signature planned by the end of 2012.</p>	✓✓✓	✓✓✓

Table 11.7 Top 10 minor capital investment projects in 2011-12

Project Name	Project Number/ Phase	Expenditure \$m	Approved Project Expenditure \$m	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 \$m	Actual Expenditure 2011-12 \$m	Variation \$m	Explanation for Significant Variation on Expenditure
Navy								
Digital Voice Recording Equipment	NMP1822	20	3	3	3	2	-1	Minor Variation
Army								
Field Refrigeration Storage and Distribution	AMP081.03	22	8	6	3	3	..	Minor Variation
Light Tracked Bulldozer (RPT)	AMP007.25	8	..	5	4	4	..	Minor Variation
Replacement Fire Fighting Truck Rural	AMP085.06	12	4	5	5	5	..	Minor Variation
Enhanced Land Force (ELF) Weapons Training Simulator System (WTSS)	AMP029.44	34	..	4	..	..	..	Minor Variation
Bullet Trap Blank Firing Attachment	AMP048.42	11	3	4	3	4	1	Minor Variation
Australian Light Armoured Vehicle Crew Procedural Trainers	AMP002.12	44	3	3	6	8	2	The contractor successfully achieved contracted milestones ahead of schedule.
Air Force								
Traffic Alert and Collision Avoidance System (TCAS)	AFM01001	25	5	10	11	12	1	Minor Variation
Tactical Communications Router	AFM00935	3	..	3	..	..	..	Minor Variation
462SQN Electronic Combat and Monitoring System	AFM00977	3	..	3	..	..	..	Minor Variation
Total		182	26	46	35	38	3	

New Minor Projects

During 2011-12, 8 minor projects were transferred to the DMO following approval. These are shown in table 11.8. The DMO classifies a project as having been transferred on the signing of MAA between the DMO and Defence.

Table 11.8: New Minor Projects transferred to the DMO in 2011-12

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[1]	Project Information
Navy					
Self Locating DATUM Marker Buoy	NMP1862	..	..	Level 4	Procurement of Self Locating Datum Marker Buoys, storage containers and training materials to augment the existing Search and Rescue capability.
Army					
Rotary Wing Secure Crew Briefing System for Blackhawk and Chinook	AMP015.56	2	1	Level 4	This project will modify 12 S-70A-9 Black Hawk and 5 CH-47D Chinook helicopters by installing a wireless intercommunications system capability. Higher priorities for DMO engineering resources has resulted in delays to the project.
Kiowa Pilot Seating	AMP015.58	1	1	Level 4	The project will facilitate the installation of energy attenuating pilot seats to 24 Bell 206B-1 Kiowa helicopters.
Army Field Catering Equipment	AMP500.09	..	-	Level 4	This project is acquiring portable catering equipment for Army.
Enhanced Static Line Parachute Capability Project	AMP058.08	5	..	Level 4	Project acquisition is via a Foreign Military Sales Case with the United States Department of Defense. Variation is due to delays in letting the contract for delivery. However, it is still expected that the final delivery will meet the currently agreed project schedule.

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[1]	Project Information
Air Force					
Deployable Tactical Air Navigation (DTACAN)	AFM01006	..	-	Level 4	First Pass. This project will replace existing Deployable Tactical Air Navigation systems nearing the end of their useful life.
RAAF Intelligence Deployable LAN (RIDL)	AFM01003	2	2	Level 4	Second Pass. The RAAF Intelligence Deployable LAN (RIDL) will allow users to deploy a secure and networked intelligence analysis capability to remote locations without Information and Communications Technology support. The preliminary design of the deployed component is complete and the fixed component to Air Force Tactical Intelligence Flights has been delivered for installation on the Defence Secret Network.
Defence People Group					
Occupational Hygiene Monitoring Equipment	HMP00001	2	1	Level 4	This project is to provide occupational hygiene monitoring equipment for workplace and individual occupational hygiene related monitoring across Defence. Variation in expenditure was due to the transfer of funds not occurring until April 2012 and from savings achieved during the initial equipment acquisitions.

Notes

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

Closed Minor Projects

In 2011-12, 23 minor projects were successfully closed.

The total reduction of project approval at closure represented 26 per cent of the project approval value for these projects.

Table 11.9: Closed minor projects in 2011-12

Project Name	Project Number/ Phase	Project Approval Value	Total Expenditure	Savings in Project Approval ^[1]
		\$m	\$m	\$m
Navy				
Multi Media for Major Fleet Units (including INMARSAT B)	NMP1785	5	5	..
Digital Satellite TV for HMA Ships STUART and PARRAMATTA	NMP01905	1	1	..
Portable Fire and Salvage Pumps	NMP1737	4	4	..
Mine Countermeasures Underwater Computer System (MUCS)	NMP1740	9	9	..
Flight Deck Low Light TV System for Air Capable Ships	NMP1770	2	1	1
Ballistic Protection for Upperdeck Personnel	NMP1827	4	2	2
Portable Radio Communication System	NMP1843	11	6	5
Bridge Simulator Upgrade	NMP1867	13	8	5
Submarine Internet Protocol (SIP)	NMP1880	..	..	..
Digital Satellite TV for HMA Ships ANZAC and ARUNTA	NMP1888	1	1	..
Digital Satellite TV for HMAS WARRAMUNGA	NMP1891	..	..	..
Army				
Rapid Geospatial Support System (RGSS)	AMP021.23	3	2	1
Intercommunication Set Gun Control (ISGC)	AMP989.05	1	1	..
Black Hawk Maintenance Training Aid (BHMTA) Upgrade	AMP015.46	4	..	4
Portable Floodlighting Equipment	AMP012.01	5	5	..
Indirect Forward Observer Trainer Upgrade	AMP029.39	3	3	..
Portable Search and Target Acquisition Radar - Extended Range (PSTAR-ER)	AMP041.70	8	7	1
High Altitude Parachute Operations (HAPO)	AMP066.50	4	2	2 ^[2]

Project Name	Project Number/ Phase	Project Approval Value	Total Expenditure	Savings in Project Approval ^[1]
		\$m	\$m	\$m
Air Force				
AOSG Mass Properties Measurement Instrument	AFM00029	1	1	..
AOSG Real Time Monitoring Facility Upgrade	AFM00951	3	3	..
AOSG Fast Jet Digital Imagery Capability	AFM00954	4	4	..
Over The Horizon Radar to Vigilare Air Defence Systems Link Interface	AFM00967	4	4	..
MK93 Bombs - Introduction into Service	AFM00950	1	1	..
Total		91	70	21

Notes

1. This is the reduction in Materiel Acquisition Agreement agreed price at project closure and includes transfers to other projects and Sustainment products.
2. \$0.314 million transferred to Sustainment.

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 115 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 53 per cent of the DMO's expenses in 2011-12. Further details on the top 20 Products and their performance is detailed in this chapter with some of the key achievements for the 2011-12 financial year.

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 2011-12*) is provided in table 11.10.

Table 11.10: Deliverables for the top 20 DMO sustainment products under management in program 1.2

	Further Information	Status 2011-12
General Manager Systems		
Aerospace Systems		
Aerospace Systems Division sustains 13 fixed wing aircraft types including the F/A-18 Hornet and Super Hornet, AP-3C Orion, C-17 Globemaster III, C-130H and J and PC-9. The Division also sustains a number of advanced flight simulators	<p>Achievements:</p> <ul style="list-style-type: none"> • exceeded Smart Sustainment reform targets • commenced sustainment support for the AEW&C weapon system • supported operationally deployed weapon systems such as C-130, AP-3C and Heron Unmanned Aerial Systems • took final delivery of F/A-18F Super Hornet, KC-30A Multi-Role Tanker Transport, and fifth C-17A Globemaster III aircraft and continued the development of support arrangements. 	
F/A-18 Hornet Weapons System	<p>The fleet of 24 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 related to corrosion and aircraft ageing. 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; and balancing modifications and upgrades to maintain aircraft availability.</p> <p>An Ageing Aircraft Systems Audit report was delivered in May 2012. An implementation plan for endorsed recommendations is being developed.</p>	✓✓✓

Further Information		Status 2011-12
P-3C/AP-3C Orion Weapons System	<p>The fleet of 19 P-3 Orion aircraft and the associated ground-based training facilities continue to progress through a program of key systems upgrades to improve the supportability and capability of major systems. The weapon system requires significant management focus to address increased deeper maintenance, obsolescence and supportability costs associated with an ageing aircraft. The majority of the fleet has reached the original safe life design limit and has transitioned to a maintenance-intensive safety-by-inspection program, comprising targeted structural inspections and repairs.</p> <p>During 2011-12, Maritime Patrol System Program Office undertook a substantial maintenance program re-engineering activity. This cleared a backlog of three aircraft servicings at the major P-3 deeper maintenance venue, and optimised P-3 deeper maintenance scheduling to ensure that a maintenance backlog does not re-occur. A new aircraft painting contractor was engaged early 2012 and the first aircraft was inducted for repaint mid 2012.</p>	✓✓
F/A-18F Block II Super Hornet Weapons System	<p>Twenty-four aircraft have been received and are being operated at a mature rate of effort. This weapon system is common in the United States Navy and is therefore tied to the United States Navy for configuration and supply chain performance.</p> <p>Despite challenges with establishing the supply system and maturing the organisation, good progress continues to be made to transition from acquisition to sustainment operations. Work is now underway to determine future deeper maintenance requirements.</p>	✓✓
Lead-in Fighter Hawk 127 Weapons System	<p>The Hawk-127 aircraft is used to train pilots for the F/A-18 Classic and Super Hornet, and in the future, the Joint Strike Fighter. Comprising 33 Hawk-127 aircraft, training and support systems, the weapon system is maintained under a performance-based contract with BAE Systems Australia. An open Request for Tender for the In-Service Support contract was released in March 2012.</p> <p>Pilot training was impacted for three months when Rolls Royce imposed limitations on the aircraft engine following Low Pressure Turbine blade failures in other fleets. Remediation of the Low Pressure Turbine blades is expected to be completed by end 2013.</p>	✓✓
C-17 Heavy Air Lift	<p>The C-17 fleet comprises five aircraft, an aircrew training simulator and other training devices. Primary support is provided through a Foreign Military Sales with the United States Air Force as part of a global support arrangement.</p> <p>During 2011-12, a fifth aircraft was successfully added to the fleet with substantial preparations undertaken for delivery of a sixth aircraft in late 2012. Average aircraft availability and support performance exceeded agreed targets.</p>	✓✓✓

	Further Information	Status 2011-12
C-130J-30 Weapons System	<p>The C-130J fleet consists of 12 aircraft and a Level 5 aircrew training simulator. Australian Aerospace is responsible for engineering, logistics and deeper maintenance support, and Standard Aero provides propulsion system support.</p> <p>During 2011-12, C-130J aircraft provided critical support to ADF operations.</p> <p>Average aircraft availability exceeded agreed targets. Spares provision and related support performance remained below target due mainly to challenges in supporting extended supply chains, but these shortfalls were actively managed to prevent any adverse effect on support to operationally deployed aircraft.</p>	✓✓
C-130H Weapons System	<p>The C-130H fleet comprises 12 aircraft and a level 5 aircrew training simulator. Five aircraft have been placed in preservation as part of a progressive drawdown of the fleet.</p> <p>During 2011-12, detailed preparations for withdrawal and disposal of the fleet were commenced following the Government decision for early retirement of the fleet in late 2012.</p> <p>Average aircraft availability exceeded Air Force requirements, enabling the Air Force to achieve planned rate of effort and meet operational taskings. Ageing aircraft issues such as fatigue and corrosion remain the key support risk and are being actively managed through to withdrawal.</p>	✓✓✓
Airborne Early Warning and Control (AEW&C) System	<p>The AEW&C sustainment infrastructure continued to mature in 2011-12 in line with residual Project AIR 5077 Phase 3 deliveries (including the last two aircraft, the mission simulator and software laboratory). Key achievements included establishing the support arrangements for the electronic warfare sub-systems, the delivery of additional (but not all) spares and support equipment to prime repair pipelines, managing the retrofit of technical changes as part of an incremental acceptance strategy, and supporting the increasing flying rate of effort by No 2 Squadron.</p>	✓✓

Further Information		Status 2011-12
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 19 System Program 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, logistics information systems and tactical interoperability systems.</p>	<p>Achievements:</p> <ul style="list-style-type: none"> • Communications: <ul style="list-style-type: none"> » successfully introduced into service the latest generation communications harness, known as the SOTAS (Signal Onboard Two Wire Audio System), for the ADF's Protected Mobility Vehicle Fleet » successfully supporting High Grade Cryptographic Equipment across Defence and the wider Australian Government. • Satellites and Tactical Interoperability: <ul style="list-style-type: none"> » development and implementation of support concepts for project equipment provisioned under the Wideband Global Satellite Communications partnership with the United States. • Surveillance and Control: <ul style="list-style-type: none"> » transition of Vigilare system from acquisition to sustainment. • Logistics Information Systems: <ul style="list-style-type: none"> » annual recertification of the LOGIS sustainment organisation against ISO 20000 IT Service Management standards was achieved in October 2011. • Electronic Warfare (EW): <ul style="list-style-type: none"> » negotiated and awarded the Large Aircraft Infrared Countermeasures (LAIRCM) through-life support contract with Northrop Grumman » negotiation and awarded a new Nulka In-Service Support Contract (ISSC) was entered into with BAE Systems Australia. • Command and Support Systems: <ul style="list-style-type: none"> » continued to provide high levels of support to the numerous command, control and intelligence systems currently deployed with our troops on operations 	
<p>Wide Area Surveillance Capability</p>	<p>Wide Area Surveillance across the northern sea and air approaches to Australia is provided through a network of three Over the Horizon Radars. Capability availability targets were met and consistently exceeded. Strategic Reform Program (SRP) targets were achieved through multiple efficiency initiatives. Skills retention ensuring Priority Industry Capability is being progressed.</p>	<p>✓✓✓</p>

Further Information		Status 2011-12
Explosive Ordnance		
<p>The Explosive Ordnance Division provides a dedicated focus to the management of explosive ordnance acquisition and sustainment outcomes.</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"> • The Domestic Munitions Manufacturing Arrangements Project short listed global suppliers and progressed the development of tender documentation. • The SRP was further implemented in the Division, with sustainable savings derived from existing commercial arrangements. • The transition of inventory management from the Explosive Ordnance inventory system, to the Defence Military Integrated Logistics Information System (MILIS) continued. • The collaboration with Defence Support Group to manage risks to health, safety and environment at the Mulwala facility continued. • Improvement to sustainment management practices across the Division supported by end-to-end process reviews, continued. • Capability and competency of all staff continued to be progressed through a Division-wide professionalisation and competency development program. 	
Explosive Ordnance – Navy, Army, Air Force	<p>Performance against Explosive Ordnance sustainment outcomes for the Navy, the Army and the Air Force continued to improve during 2011-12. Guided Weapons 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>Continued easing of demand in the global munitions market during 2011-12, along with signs of increased manufacturing capability, relieved price and lead time pressures, which enabled the Division to keep on delivering significant improvements in sustainment outcomes.</p>	✓✓

Further Information		Status 2011-12
Helicopter Systems		
<p>Helicopter Systems Division provides through-life support to seven rotary-wing platforms and one unmanned aerial system through System Program Offices based at Nowra, Oakey and Brisbane. 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 activity supports the Army and the Navy raise, train and sustain requirements and the current operational deployments to Afghanistan (Chinook and Shadow), the Middle East (Seahawk), and Timor Leste and Papua New Guinea (Black Hawk).</p>	<p>Achievements:</p> <ul style="list-style-type: none"> • ongoing Black Hawk Modification Program with 19 of 22 aircraft now complete • continued incremental improvement in support for the Tiger and MRH-90 fleets • an extension to Chinook servicing intervals that reduced costs and increased the available flying hours without impacting reliability or safety • the provision of an enhanced electro-optical capability for Seahawks deployed on operations • the safe retirement of the Sea King in December 2011. 	
Multi-Role Helicopter	Acceptance of MRH-90 recommenced in November 2011 after a 12 month hiatus while technical and contractual issues were defined and a plan to remedy them agreed with Australian Aerospace, the prime contractor. A total of 16 out of the planned 46 MRH-90s have now been accepted. The MRH-90 flying rate of effort, while improving, is not yet at the required level and is continuing to impact on the program's progress towards certification and initial operational release.	✓
S70A-9 Black Hawk Weapons System	The fleet of 34 Black Hawk helicopters contributes to the airmobile and special operations helicopter capabilities for the Army. Carefully managed upgrades were used to address system obsolescence and ensure operational viability and will continue to be selectively applied until the Black Hawk is replaced by the MRH-90.	✓✓✓
Armed Reconnaissance Helicopter Weapons System	All 22 Tigers have been accepted with 20 now being operated in the mature configuration. The technical issues associated with the helmet mounted sight and display have been resolved and incremental improvement in the performance of contractor's maintenance and supply support networks has been achieved. The Tiger flying rate of effort improved over previous years, however the flying rate remains below the planned level and development of the operational capability has continued to be impacted as a result.	✓

Further Information		Status 2011-12
S70B-2 Seahawk Weapons System	The fleet of 16 Seahawk helicopters contributes to Navy's anti-surface and anti-submarine warfare capabilities. Careful management of the principal Seahawk sustainment risks, largely relating to airframe corrosion and mission system obsolescence issues, enabled a stable embarked presence at sea to be maintained and a healthy training regime ashore to continue. These key risks will continue to be closely managed to keep the Seahawk a viable capability until replaced by the new MH 60R Seahawk Romeo.	✓✓✓
Land Systems		
Land Systems Division manages materiel sustainment across 27 product schedules that provide a diverse range of equipment for the ADF and manages over 220,000 lines of supply. Specific fleets include armoured and non-armoured vehicles, engineer plant, artillery, weapons, soldier protection systems, uniforms, medical and dental stores, combat rations, surveillance and simulation systems.	<p>Achievements:</p> <ul style="list-style-type: none"> • provided clothing and personal equipment items for personnel deploying on operations • completed enhanced blast absorbing seating and flooring survivability upgrades to Protected Mobility Vehicles • delivered Force Protection Review equipment for deployed personnel, initiatives included Explosive Ordnance Disposal robots and enhanced body armour and ASLAV survivability upgrades • undertook a range of operational procurements including vehicle mine rollers, mine detectors and search tools • planned and tasked approximately 845,000 hours of maintenance work • conducted equipment pool trials in Townsville, Brisbane and Darwin, aimed at reducing the total cost of ownership. 	
General Service B Vehicle Fleet	<p>Full support for operations continues to be provided, with additional Up Armoured Cabins being delivered for Unimog and Mack vehicles.</p> <p>The age of the fleet continues to pose technical challenges, particularly with certification, tyres and spare parts obsolescence. Servicing optimisation was implemented and savings realised. One Logistic Support Contract was awarded and another is under consideration.</p> <p>Fleet reduction is a priority given impending roll-out of LAND 121 Phase 3A. During 2011-12, completed disposal of 783 assets and issued disposal directives for 975 assets. Another 98 assets are identified as potential disposal candidates.</p>	✓✓

Further Information		Status 2011-12
ADO Commercial Vehicle Fleet	<p>The Defence Commercial Vehicle Program has approximately 6,100 vehicles and trailers under management.</p> <p>During 2011-12, 1,084 vehicles were replaced. This included 894 passenger and light commercial vehicles, 35 vehicles for use by ADF personnel in Malaysia, 60 medium cargo trucks and 95 medium buses.</p> <p>The program has implemented a number of initiatives under the SRP and in 2011-12, generated savings of over \$17 million. Initiatives included extending operational life of some vehicle types, rationalising vehicle numbers and reducing the number of vehicle variants in the fleet.</p>	✓✓✓
Maritime Systems		
The Maritime Systems sustainment concept is to support the Navy and the 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 SPOs that are collocated regionally with the Navy force element by ship class, and under various forms of outsourced commercial contracts.	<p>Achievements</p> <ul style="list-style-type: none"> • The ANZAC Alliance is now focussed on the ANZAC Capability Improvement Program and reduction of through-life support costs. The first of the Major Fleet Unit Repair and Maintenance Reform Program contracts was signed in May 2012. • The Life-Of-Type Extension Study for most ships is with Navy to assist with capability life cycle considerations. • Under the Rizzo Reform Program, improvements to data integrity and functionality of the Navy maintenance management information system have improved maintenance baselines for major surface ships. • The Amphibious and Afloat Support System Program was restructured and new project and maintenance management procedures were implemented. • Smart Sustainment initiatives were implemented to improve the efficiency of the Mine Hunter and other capabilities; and support all Divisional project offices. • The final Armidale Class Patrol Boats achieved Operational Release. 	
Fuels and Lubricants – Navy, Army, Air Force	<p>During 2011-12, this product successfully concluded the implementation of revised contracting arrangements with industry for fuel, oils and lubricants. In addition, the replenishment of fuel stocks to meet the requirements of the ADF was achieved. Work continues with respect to the identification of optimal operational and reserve holding requirements for bulk facilities across the ADF.</p>	✓✓✓
ANZAC class frigate	<p>During 2011-12, this product substantially achieved the ANZAC class Smart Sustainment assessment, and awarded the ANZAC Group Maintenance Contract. Inventory management reform has delivered tools to determine inventory requirements and a program to reduce the repair backlog is currently being undertaken. Preparations are complete for the new Anti Ship Missile Defence capability and upgrade of the remaining seven ANZAC ships. Continual achievement of capability sustainment has met the ANZAC class operational requirements.</p>	✓✓

	Further Information	Status 2011-12
Adelaide class frigate	During 2011-12, this product provided ongoing sustainment of materiel capability to meet Navy's operational requirements, and undertake and complete scheduled ship maintenance activities for the frigates. Deployments to the Middle East Area of Operations were also completed successfully.	✓✓
General Manager Programs		
	<p>Achievements:</p> <ul style="list-style-type: none"> • The Future Submarine program continues to engage United States support through the Program Executive Officer Submarines via a FMS case. The major activity in the past year has been campaign modelling. • The In-Service Support Contract for the Collins class submarine was signed with ASC in late June 2012. • Phase 1 and 2 of the Coles study has commenced with the final phase to be undertaken early 2012-13. • Parts for the first two Australian JSF aircraft are being produced under contract. The Air Combat Transition Office was established in late 2011 to oversee the introduction of the JSF capability into Australian service. 	
Collins		
Collins Class Submarines	<p>The support objective is to maintain the Australian submarine materiel capability, optimise the logistic cost of ownership of the submarines and provide sustainable and cost effective design, engineering and logistics support for platform and combat systems through agreements with industry partners including ASC, Raytheon Australia, Thales and BAE Systems.</p> <p>The planned outcome for 2011-12 was increasingly reliable delivery of platform availability to the Navy. This has been achieved through a range of incremental reform initiatives aimed at safety and reliability, optimising the maintenance program, reforming supply support, establishing strategic performance based contracts and culture change. A key achievement in 2011-12 has been the realisation of a performance-based In-Service Support Contract (ISSC) for the Collins class submarines with ASC. This ISSC will establish the foundation for ongoing Collins sustainment efficiency and effectiveness improvements. Alignment of related Defence wide initiatives including the Navy Continuous Improvement Program and Rizzo initiatives has commenced and has been further informed by the Coles Study outcomes. The Collins Reform Program combined with these other initiatives aims to incrementally improve availability, reliability and sustainment efficiencies of the CCSM capability over the next few years.</p>	✓✓

Top 20 Sustainment product expenditure

Table 11.11 and the descriptions that follow provide details of the top 20 sustainment products by forecast expenditure in the *Portfolio Additional Estimates Statements 2011-12*. Expenditure for the top 20 products represented 55 per cent of total expenditure on Program 1.2 in 2011-12.

Table 11.11: Top 20 sustainment products by expenditure as forecast in the *Portfolio Budget Statements 2011-12*

	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 \$m	Actual Expenditure 2011-12 \$m	Variation \$m	Reason for Significant Variation in Product Expenditure 2011-12
General Manager Systems					
Aerospace Systems					
Airborne Early Warning & Control	171	153	159	6	The AEW&C capability is transitioning from the acquisition phase, and the maturity of operations and sustainment is maturing. Estimates were revised down based on performance early in the financial year, but progress recovered later in the financial year.
F/A-18 Hornet Weapons System	187	151	157	6	The variation was due to the age of the F/A-18 A/B and the increase in unscheduled emergent aircraft work, predominantly engine mount cracks and corrosion. This increase in emergent work has delayed scheduled maintenance and increased associated contract costs.
P-3C/AP-3C Orion Weapons System	111	136	149	13	Additional funding was allocated to build sonobuoy stocks, to provide a number of essential avionics systems, to address increases in the cost of hydraulic system repairable item maintenance, and to sustain additional capabilities delivered under AP-3C upgrade projects.
F/A-18F Block II Super Hornet Weapons System	110	86	93	7	The significant drivers for the variation were an increase in rate of effort (flying hours) above contracted engine hours bandwidth which incurred additional cost, and the need to procure additional critical spares through Foreign Military Sales procurement.

	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 \$m	Actual Expenditure 2011-12 \$m	Variation \$m	Reason for Significant Variation in Product Expenditure 2011-12
Lead-in Fighter Hawk 127 Weapons System	89	79	76	-3	Significant drivers for the variation include sub-contractor delayed delivery of Multi-Function Display deliverables, liability determination for one engine breakdown not resolved by end of financial year as anticipated, and the inability to recover schedule for Full Scale Fatigue Testing following discovery of longeron cracking.
C-130J-30 Weapons System	78	74	79	5	The variation was due to earlier than planned deliveries of critical logistics items and increased deeper maintenance activity.
C-17 Heavy Air Lift	57	38	40	2	The variation was due to foreign exchange losses for goods and services procured through the Foreign Military Sales system.
C-130H Weapons System	57	57	58	1	The variation was due to the remediation of corrosion and increased deeper maintenance activity, in management of the ageing C-130H fleet.
Electronic Systems					
Wide Area Surveillance Capability	88	87	87	0	Nil variation.
Explosive Ordnance					
Explosive Ordnance - Navy, Army, Air Force	308	291	285	-6	Brought forward procurement of Explosive Ordnance inventory from Financial Year 2012-13 offset by realignment of Strategic Reform Program saving targets.
Helicopter Systems					
Multi Role Helicopter	104	89	87	-2	Lower than expected rate of effort reduced planned expenditure.

	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 \$m	Actual Expenditure 2011-12 \$m	Variation \$m	Reason for Significant Variation in Product Expenditure 2011-12
S70A-9 Black Hawk Weapons System	96	95	91	-4	Strategic Reform Program savings associated with the introduction of the new performance based contract for deeper maintenance exceeded forecast resulting in an expenditure reduction of \$1.475 million. Favourable foreign exchange rates continued to reduce actual expenditure against original forecasts.
Armed Reconnaissance Helicopter Weapons System	96	96	103	7	Higher than forecast expenditure was due to a backlog of repairable items returned, and invoiced, from foreign vendors; and Prime Contractor clearing a backlog in invoicing for repairs carried out in previous financial years.
S70B-2 Seahawk Weapons System	63	64	78	14	The variation is due to transfer of funding from AIR 9000 SCAP to complete obsolescence works plus an operational upgrade to Seahawks deployed to the Middle East Area of Operations.
Land Systems					
General Service B Vehicle Fleet	79	84	96	12	The Capability Manager provided an additional \$12 million of allocated funding post Additional Estimates. This was to account for increasing costs required to support the ageing fleet, and the creation of the Enhanced Equipment pools.
ADO Commercial Vehicle Fleet	62	54	57	3	This variation was due to commercial vehicles originally programmed for delivery in July 2012 being delivered earlier than scheduled.
Maritime Systems					
Fuels and Lubricants - Navy, Army, Air Force	478	419	448	29	Variation is attributed to Navy platform availability, unscheduled tank maintenance and a higher than anticipated RAAF and Army fuel expenditure

	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 \$m	Actual Expenditure 2011-12 \$m	Variation \$m	Reason for Significant Variation in Product Expenditure 2011-12
ANZAC Class Frigate	211	189	204	15	The variation is due to a number of deliverables being brought forward from Financial Year 2012-13 and an advanced partial payment under the maintenance contract for HMAS <i>Parramatta</i> .
Adelaide Class Frigate	106	127	120	-7	The variation is attributed to delays in the Ship Repair In-Service Support contract and maintenance work for HMAS <i>Sydney</i> .
General Manager Programs					
Collins Class Submarines	443	479	476	-3	End of financial year result indicated expenditure represented a variance of less than one per cent. Slight underachievement against supplementary funding received mid financial year was primarily driven by delays associated with the diesel remediation project which were not recovered prior to end of financial year.
Total Top 20 Sustainment Products	2,995	2,848	2,943	95	
Other Sustainment Products	1,293	1,355	1,402	47	
Total Sustainment Products	4,288	4,203	4,345	142	
Support to Operations	599	591	453	-138	
Total Sustainment and Operations	4,887	4,794	4,798	4	

Program 1.3

Provision of Policy Advice and Management Services

Under this Program the DMO delivered procurement policy advice to 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 2011-12*, is for the DMO to meet Ministerial, Government, Defence and DMO's 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/ procurement and contracting policy, acquisition and sustainment advice and industry engagement.

Program 1.3 represented about one per cent of the DMO's expenditure in 2011-12 (similar to 2010-11 levels). Expenses under this Program include:

- procurement policy advice to Defence and the DMO and contracting services for the DMO and various Defence procurement activities
- the delivery of industry programs and engagement activities for Government and Defence
- corporate governance and reporting to meet the Government's requirements.

The planned resource use for Program 1.3 was revised from \$116.0 million in the *Portfolio Budget Statements 2011-12* to \$130.3 million in the *Portfolio Additional Estimates Statements 2011-12*.

The DMO's 2011-12 actual result against this Program was \$108.7 million. In 2011-12, the DMO achieved approximately 83 per cent of the revised budget published in the *Portfolio Additional Estimates Statements 2011-12* for Program 1.3. This resulted from lower than anticipated activity in the Industry initiatives, including Skilling Australian Defence Industry and Defence Industry Policy Strategies initiatives.

An assessment of the performance of Program 1.3 is provided in the following tables and the descriptions that follow.

Program 1.3 Deliverables

Deliverable	Further Information	Status 2011–12
Specialist legal and procurement contracting policy	Office of Special Counsel (OSC) in the DMO provided extensive specialist legal advice to support business areas, Systems Program Offices and projects (DMO Legal raised 400 new internal legal matters with a further 71 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	High quality and timely advice was provided through regular reports and Ministerial correspondence on acquisition and sustainment issues.	✓✓
Industry engagement	Delivery of Industry programs supporting Australian defence industry continued through 2011-12 despite the difficult global economic conditions facing the industry. Support was broadened in the area of skilling, and the Priority Industry Capability Innovation Program completed its first round.	✓✓

Program 1.3 Key Performance Indicator^[1]

Key Performance Indicator	Further information	Status 2011–12
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

1. 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.

Specialist Legal, Procurement and Contracting Policy

Working within the DMO Commercial Group, OSC makes an important contribution to the acquisition and support of ADF capability through its two key enabling business areas comprising DMO Legal and the Commercial Policy and Practice Branch (CPPB). DMO Legal's primary role includes the provision of strategic commercial law and policy advice (including intellectual property and commercial risk allocation) while CPPB assists Defence achieve more efficient and effective procurement outcomes through the development and dissemination of mandatory and best practice Defence procurement policy and process tools and templates.

OSC is also responsible (in conjunction with the DMO's Standardisation Office) for the maintenance and development of the Australian Standard for Defence Contracting (ASDEFCON) suite of tendering and contracting templates, with much of the development work done in consultation with defence industry. Major ASDEFCON achievements for 2011-12 include the release of an exposure draft productivity and performance based contracting template and significant 'work health safety' amendments to the ASDEFCON Support template in response to the Work Health Safety legislation that commenced operation on 1 January 2012.

2011-12 also saw the launch of the Approved Contractor Insurance Program and the establishment of the joint Defence and Industry Intellectual Property Working Group. These important initiatives, coupled with the 'cost of tendering' reforms, which were piloted in a number of DMO procurement processes during 2011-12, demonstrate the DMO's strong and ongoing commitment to working with industry to improve the efficiency and effectiveness of Defence's procurement processes and outcomes.

In recognition of the critical role that appropriately skilled and trained staff have on the achievement of efficient and effective procurement outcomes, OSC also continued its focus on professionalisation and training. During the year, DMO Legal delivered contract risk training to over 300 DMO officers across Australia and CPPB continued to develop the procurement and contracting job family with the aim of providing relevant staff a career path that develops and reinforces appropriate learning and expertise.

E-procurement was a further significant growth area for OSC, with business improvement initiatives focused on AusTender operations and reporting compliance, moving the DMO to AusTender level 3 functionality and more general application of digital certificates.

Ministerial Support

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 11.12 lists the correspondence by type of advice provided to the Ministers and the then Parliamentary Secretary's offices during 2011-12.

Table 11.12: Statistics on Advice provided to the Government by the DMO

Text styles	Number
Submissions	858
Speeches	6
Responses to Parliamentary Questions on Notice	23 ¹
Questions taken on notice in the course of Parliamentary inquiries	27
Questions taken on notice at Senate Estimates Hearings	155
Media releases	53
Ministerial correspondence	407
Question Time Briefs	127
Hot Issues Briefs	2

Note

1. The DMO also provided input for 42 portfolio Questions on Notice.

Industry Engagement – Enabling Our Business

Implementation of the *Defence Industry Policy Statement 2010* (DIPS 2010) has been further progressed in a difficult global economic environment for industry generally, and defence-related industry in particular. The DIPS 2010 initiatives aim to assist local companies to maintain a competitive local industry base to support ADF operations.

Australian Industry Capability

The Australian Industry Capability (AIC) program was created to systematically identify opportunities for local industry during the tendering process for Defence contracts and to encourage foreign prime contractors and Original Equipment Manufacturers to invest in transfer technology in Australia.

As announced by the Minister for Defence Materiel in June 2011, the AIC program was strengthened by: lowering the threshold from \$50 million to \$20 million; introducing Conditions of Tender allowing companies to be excluded from tenders where they have previously failed to meet their AIC Program obligations; introducing AIC Plan performance reporting in the DMO's Company ScoreCards system; and including the requirement to manage AIC Plans in DMO Product and Project Manager Charters. In line with changes to the Australian Industry Participation National Framework, Defence also introduced the requirement to publish publicly releasable versions of AIC Plans (Public AIC Plans).

A key focus for 2011-12 was facilitating both Defence and industry's understanding of changes to the AIC program, through the Defence Industry Assistance Program Update Seminars, and ensuring that eligible DCP projects and project phases maximised AIC Plan opportunities.

Global Supply Chain Programs

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

Under the GSC program, a company actively matches competitive Australian industry capabilities with opportunities in their own and their major suppliers' global supply chains. The value of contracts won by Australian companies under this program has grown by over 25 per cent. Most of these successful Australian companies are Small to Medium Enterprises (SMEs) that have each established an internationally competitive edge. The GSC program has provided greater business opportunities for Australian companies, although the present global economic environment and defence budget impacts are impacting on the program's rate of growth.

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.

The PICs will be reviewed during the development of the *Defence White Paper 2013* and as part of the updated Defence Industry Policy Statement. They will also be subject to continual reassessment and analysis to determine those elements that are critically important to the ADF.

The DMO is currently undertaking a review and health check of the current PICs to improve their definition, assess their health, establish implications for Government and, where necessary, determine appropriate intervention strategies. With the results of six PIC health checks publicly released as of 01 July 2012, the remaining health checks are scheduled for completion by the end of 2012.

More detailed information on the PICs can be found at: <www.defence.gov.au/dmo/id/pic/>.

Priority Industry Capability Innovation Program

The DIPS 2010 provided for the establishment of a PIC Innovation Program. This program was created to provide direct financial support to Australian defence industry, particularly SMEs, to pursue innovative projects that will enhance one or more of the PICs.

The first grants were awarded under the PIC Innovation Program in 2011-12. Following a competitive assessment process, funding agreements were entered into with nine Australian defence companies. The successful projects will support developments in nine of the 12 PICs outlined in the DIPS 2010.

Public Defence Capability Plan 2012

The Minister for Defence and Minister for Defence Materiel released the Public Defence Capability Plans (DCP) in July 2012.

The Public DCP contains 111 projects, or phases of projects, planned for either First or Second Pass approval over the four year Forward Estimates period. The release of a four year Public DCP was based on consultation with Australian defence industry and aligns the Public DCP with the four year Forward Estimates period in the Budget. This provides greater certainty for the industry.

A new document to complement the Public DCP, the Defence Capability Guide (DCG), will provide general guidance for defence industry on projects over the six year period following the four years of the DCP. The six year period DCG will be released during 2012-13.

Defence Materials Technology Centre

The Defence Materials Technology Centre (DMTC) has continued to work collaboratively on delivering advanced materials, technologies and manufacturing processes to Australia's defence industry. The DMTC now has 19 active projects within its core research programs of air, maritime, armour applications and propulsion systems. These projects are closely aligned with Defence's priorities. Additionally, the DMTC is providing scholarships to a number of PhD students working on DMTC projects. The DMTC has also commenced work on the new 'Personnel Survivability' program, a collaborative effort between Defence, defence industry and Australian research organisations.

A performance review of the DMTC was undertaken in February 2012. The overall findings of this review were very positive, with a number of recommendations made to maximise the benefits to Australia's future defence capabilities. Implementation of the recommendations has commenced.

Defence + Industry ePortal

The Defence + Industry (D+I) ePortal provides comprehensive and authoritative information on Australian industry capability supplied by 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, such as opportunities for companies, including SMEs, to participate in Defence acquisition and sustainment programs and access assistance 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 find partners to compete for Defence business. As approximately 80 per cent of the current registered businesses on the D+I ePortal are SMEs, the D+I ePortal becomes a valuable tool that assists Defence procurement officers increase competition in accordance with the new Commonwealth Procurement Rules, which came into effect on 1 July 2012.

Since its launch in July 2008, the home page has been accessed more than 616,000 times and more than 40,900 capability and 27,200 organisation searches have been conducted. There are 11,470 company capabilities and 231 organisations that have been added to the ePortal database during the year. In addition to work undertaken to improve the quality of the data in the system, the ePortal's internet graphical user interface received a significant upgrade to markedly improve its look and feel.

The D+I ePortal was also enhanced to enable companies to provide feedback to Defence on the commercial impacts of any DMO delays in issuing Request for Tender and Contract Change Proposal documentation.

Company ScoreCard Program

The Company ScoreCard Program has continued to monitor and report key aspects of DMO contracts. The program has again completed two assessment rounds, supporting measurement of the performance of the DMO and its most significant contractors.

Performance was assessed against a number of key categories over two six-monthly reporting periods. These included the critical areas of technical performance, cost and schedule. Companies were given the opportunity to review and comment on the DMO's assessments of their performance, and the results have been made available to inform future source selection processes.

An annual benchmarking report was also prepared. This report allows companies participating in the ScoreCard Program to compare their individual performance with that of their competitors. This report continues to encourage companies to maintain or improve their performance and productivity.

The Company ScoreCard Program has been fine-tuned to ensure that it tracks performance in categories of importance to the DMO. A greater managerial focus on achievement of AIC requirements was reflected in the two reporting rounds conducted this year, with the introduction of AIC as a distinct category.

The 360° ScoreCard reports, prepared by key companies to assess the DMO's performance as a contract manager, have also been adjusted to incorporate a greater focus on the achievement on Australian industry involvement. Contractors were again invited to provide their honest assessments of the DMO's performance for inclusion in 360° ScoreCard reports at six-monthly intervals. This feedback was provided to the DMO Executive for consideration and discussion with project staff, and it is used to drive contract and project management improvement.

Defence Industry Workforce Strategy

Following a request by the Minister for Defence Materiel in September 2011, the DMO worked with Skills Australia to deliver the Defence Industry Workforce Strategy. This Strategy will provide recommendations on developing the workforce skills and capacity that will enable Australia's defence materiel industries to meet Defence's future capability acquisition and sustainment plans.

A discussion paper was released by the Minister for Defence Materiel in February 2012. National consultations were conducted on the Strategy in March 2012, and public submissions were received in April 2012. Skills Australia (now the Australian Workforce and Productivity Agency) provided a draft Strategy in June 2012 and this is currently being considered.

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 best technologies, systems and capabilities. The most significant of these is our participation in the Australia - United States Ministers Defence Acquisition Committee. The Committee last met in April 2012 and focused on cooperative programs, science and technology, and strengthening the FMS process.

In addition, annual bilateral cooperative forums were held with the United Kingdom, Germany, Spain, France, Sweden, the Netherlands and South Korea. The DMO has also continued bilateral dialogue on materiel issues with other nations including Canada and Denmark. 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 and for sharing data on like capabilities, and encouraging industry cooperation where there is mutual benefit.

Defence Export Unit

The Defence Export Unit (DEU) continued to assist Australia's defence industry achieve export sales through the funding of an Australian pavilion at selected trade shows overseas and through the organisation of trade missions to the United States, United Kingdom, South America, Middle East and South East Asia.

There were 118 Australian companies that participated in 11 trade shows and four associated missions. A further 44 companies participated in the United States Foreign Comparative Testing Program facilitated by the DEU. This United States Department of Defense program seeks to acquire, from foreign countries, capability solutions that are more mature than developments in the United States. The program has proved increasingly popular and successful for innovative Australian companies.

Direct advocacy and support continued to be provided through specialist Two Star military personnel, letters of support for individual companies, and the facilitation of incoming visits by, and meetings with, foreign delegations and militaries.

Export readiness workshops, and tradeshow and presentation skills training were also introduced to support the increasing number of companies entering the competitive export market.

Industry Skilling Programs

The Minister for Defence Materiel directed the Skilling Australia's Defence Industry (SADI) Program to undergo a comprehensive program review process. Consultation with the industry, program managers and other internal and external stakeholders was undertaken through an online survey, interviews, and a series of industry round tables. A set of recommendations that focussed on enhancing program and financial controls was released in November 2011. Implementation of the recommendations began immediately, and the majority of changes to the program are now in place ready for the 2012-13 funding round.

In its biggest year to date, the SADI Program extended funding to 108 eligible grant recipient organisations, supporting a range of skilling activities across trade, technical and professional skill sets that contribute to Defence capability.

Defence Industry Innovation Centre

The DMO continues to fund the Defence Industry Innovation Centre. The initiative assists Australian defence SMEs to develop strategies to become more competitive and globally integrated. Australian defence SMEs are provided with better access to new ideas, knowledge and technologies to improve their productivity, capacity, efficiency and sustainability. Australian defence SMEs are assisted to reach into the research sector to attain the latest in technology and encourage innovation.

Defence Industry Innovation Centre expert business advisers provide an integrated and practical service focused on the Defence sector. Services include business reviews, benchmarking best practices and defence industry change plans. Australian defence SMEs are encouraged to access Government grant funding provided by the DMO and other agencies, to implement the findings of the business review or defence industry change plan to improve their defence business. Growing the capacity and competitiveness of Australia's defence industry is fundamental to the Enterprise Connect Defence Industry Innovation Centre.

Defence + Industry Conference

The Defence and Industry (D+I) Conference is a biennial event which was last held in 2011. The Conference is a key platform for Government and senior members of Defence and the DMO to deliver key messages to industry regarding policy, programs and projects. Following consultation with industry, the format and venue of the D+I Conference are currently under review.

Other

The DMO Business Access Offices are regional centres of expertise located in each mainland capital city that provide a local point of contact for Defence industry, particularly small to medium enterprises, to engage with Defence.

The offices have continued an extensive industry engagement program, regularly meeting and visiting defence industry sites, placing emphasis on engaging with small to medium enterprises that are in or looking to enter the Defence sector. This program provides companies with information about Defence's procurement and sustainment activities, changes in industry and contracting policies, assistance programs that are available to increase their competitiveness and productivity and potential opportunities for companies in the Defence sector.

The Business Access Office industry engagement program enables Defence to better understand the capabilities of its industry base to support not only current capabilities but also to deliver efficiencies and maximise value for money in future procurements with the identification of emerging company capabilities.

The Business Access Offices have 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.

A program of active engagement has continued with industry associations in each of the states and territories to build enhanced relationship and enable better two-way information exchange between Defence and the broad industry base. Engagement activities have also continued with state and territory governments through annual formal Defence consultative forums as well as regular informal meetings.

Australian Military Sales Office

Preliminary work to determine the efficacy of the concept of an Australian Military Sales Office was undertaken. This includes the scope of activities to be undertaken as well as the lead activities and processes for establishing a government-to-government sales framework. The Australian Military Sales Office will likely incorporate the activities of the Defence Export Unit, International Materiel Cooperation, the Global Supply Chain program and the Defence Disposal Agency.

Defence Disposal Agency

The Defence Disposal Agency continues to reform disposal processes to meet departmental priorities within the bounds of Commonwealth and international treaty obligations. The four key priorities remain: to reduce if not eliminate Defence major disposals cost; to return funding to the sustainment of current capability; to generate and then maximise revenue from the sale of Defence's military assets; and to ensure that Defence heritage, particularly war heritage, is appropriately recognised and preserved.

Key disposal items this year were the Boeing 707s, Iroquois, Caribou, and some associated heritage items.

Defence Disposal Agency has also sought to provide opportunities for industry to add value in the disposal of Defence's military assets by completing broadened tender processes for ships and vehicles.

Key relationships are being built and maintained with both industry and Australian military heritage and historical organisations.

Management Services

Management Services provided by the DMO are largely performed by Finance Division and the Business Operations 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
- providing asset and inventory accounting services to Defence
- assuring the DMO's financial data through appropriate systems, controls, user training, internal audit and risk management
- preparing the DMO's financial statements and liaising with the Australian National Audit Office throughout the audit process
- support to Ministerial and Parliamentary oversight through a range of routine and annual reports such as the Acquisition and Sustainment Performance Reports, the Major Projects Report, as well as contributing to the Portfolio Budget Statements and Defence 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 2011-12, the 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 of only two category B findings
- becoming a CPA Recognised Employer, the second Commonwealth Agency to obtain this partnership for providing a workplace with a strong commitment to the learning and development needs of staff supporting their professional careers
- maintaining an ISO 9001 Quality Management Certification for the provision of financial and human resource services.

Chapter 12

DMO Financial Performance

The DMO receives the majority of its funding from Defence under agency agreements; about nine 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 2011-12 against budget projections. The DMO's audited *2011-12 Financial Statements* are included at Appendix 11.

2011-12 Financial Summary

The total net resourcing available to the DMO in 2011-12, as published in the *Portfolio Budget Statement 2012-13*, was \$11,289.0 million. This comprised:

- payment from Defence: \$9,751.3 million
- special account opening balance: \$550.4 million
- appropriation receipts: \$931.3 million
- non-appropriation receipts: \$114.7 million.

During the course of 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 cash flow to meet contractual obligations.

Table 12.1 reflects the financial resource position taking all of these factors into consideration as at 30 June 2012. The table reflects an increase in appropriation receipts – adjustments for other agencies of \$469.8 million (Defence), increase in non appropriation receipts of \$58.7 million and a post *Portfolio Budget Statements 2012-13* adjustment (decrease reflects a change in accounting treatment for payment files) to the special account opening balance of \$113.5 million resulting in a total resourcing of \$11,704.1 million.

During 2011-12, the DMO made payments of \$11,304.9 million and returned to Government an amount of \$72.5 million in unspent appropriations from previous years, resulting in a special account closing balance of \$326.6 million as at 30 June 2012.

The variation between DMO's special account closing balance of \$326.6 million as at 30 June 2012 and the estimated 2011-12 special account balance of \$415.5 million as at *Portfolio Budget Statements 2012-13* was largely as a result of return of unspent appropriations of \$72.5 million to the Government.

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

Table 12.1: DMO Resource Statement 2011-12

		Actual Available Appropriations for 2011-12 \$'000	Payments Made 2011-12 \$'000	Balance Remaining 2011-12 \$'000
		(a)	(b)	(a-b)
Ordinary Annual Services^[1]				
Departmental appropriation				
Departmental appropriation		931,270	870,000	61,270
Total departmental appropriation	A	931,270	870,000	61,270
Special Account				
(Departmental and Administered)				
Opening balance		436,932		
Appropriation receipts ^[1]		931,270		
Appropriation receipts				
- other agencies ^[2]		9,751,316		
- adjustment for other agencies ^[2,3]		469,833		
Non-appropriation receipts to Special Accounts		56,012		
Adjustment for non-appropriation receipts to Special Accounts ^[3]		58,704		
GST credits				
Interest ^[4]		2		
Payments made ^[5]			11,304,928	326,647
Appropriation Reduction			72,494	
Total special account	B	11,704,069	11,377,422	326,647
Less appropriations drawn from annual or special appropriations above and credited to special accounts	C	931,270	870,000	61,270
Total Resourcing and Payments (A+B-C)		11,704,069	11,377,422	326,647

Notes

1. Appropriation Bill (No.1) 2011-12 and Appropriation Bill (No.3) 2011-12.
2. Appropriation receipts from Defence credited to DMO's special accounts.
3. Adjustment is variance between estimated actuals as at *Portfolio Budget Statements 2012-13* and actual available appropriations for 2011-12 as at 30 June 2012.
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 2011-12*, 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, DMO was able to save money resulting in an operating surplus of \$47.5 million in 2011-12, whereby expenses and income differed by 0.5 per cent. The main element of the surplus was unspent appropriation related to an underachievement against funded staffing levels, savings in operating expenses and lower than estimated outcomes for Industry programs.

Table 12.2: Statement of Comprehensive Income for the period ended 30 June 2012

	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ⁽¹⁾ 2011-12 \$'000
EXPENSES			
Employee benefits	591,329	592,265	936
Suppliers	9,493,762	9,466,221	-27,541
Grants	28,670	20,800	-7,870
Depreciation and amortisation	2,465	1,680	-785
Write-down and impairment of assets	-	1,237	1,237
Other expenses	-	353	353
Total expenses	10,116,226	10,082,556	-33,670
LESS:			
OWN-SOURCE INCOME			
Revenue			
Sale of goods and rendering of services	9,147,621	9,196,171	9,140
Interest	-	1,444	1,444
Other revenue	-	37,966	37,966
Total revenue	9,147,621	9,196,171	48,550
Gains			
Foreign Exchange Gains	-	932	932
Reversals of Previous Asset Write-Downs	-	59	59
Other gains ⁽²⁾	37,335	1,400	-35,935
Total gains	37,335	2,391	-34,944
Total own-source income	9,184,956	9,198,562	13,606
Net Cost of (contribution by) services	931,270	883,994	-47,276
Revenue from Government	931,270	931,270	-
Surplus (Deficit) attributable to the Australian Government	-	47,276	47,276
OTHER COMPREHENSIVE INCOME			
Changes in asset revaluation reserves	-	239	239
Total other comprehensive income	-	239	239
Total comprehensive income (loss) attributable to the Australian Government	-	47,515	47,515

Notes

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.
2. The Revised Budget for resources received free of charge from Defence that was disclosed under Other Gains, has been reclassified as Other Revenue as the related services are provided by Defence in the ordinary course of DMO's operations.

Financial Position

Table 12.3: Balance Sheet as at 30 June 2012

	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ⁽¹⁾ 2011-12 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents	43,027	24,722	-18,305
Trade and other receivables	495,215	684,228	189,013
Total financial assets	538,242	708,950	170,708
Non-financial assets			
Property, plant and equipment	6,989	6,871	-118
Intangibles	320	56	-264
Other non-financial assets	1,385,147	1,366,024	-19,123
Total non-financial assets	1,392,456	1,372,951	-19,505
Total assets	1,930,698	2,081,901	151,203
LIABILITIES			
Payables			
Suppliers	1,293,416	1,429,807	136,391
Unearned income	-	-	-
Grants	4,809	5,161	352
Other payables	54,475	76,923	22,448
Total payables	1,352,700	1,511,891	159,191
Provisions			
Employees	184,287	194,287	10,000
Other Provisions	3,189	5,698	2,509
Total provisions	187,476	199,985	12,509
Total liabilities	1,540,176	1,711,876	171,700
Net assets	390,522	370,025	-20,497
EQUITY			
Parent entity interest			
Retained surpluses or accumulated deficits	235,154	214,418	-20,736
Asset revaluation reserves		239	239
Contributed equity	155,368	155,368	-
Total parent entity interest	390,522	370,025	-20,497
Total equity	390,522	370,025	-20,497

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.

Explanation of Major Variations

The variances between the revised budget and the actual result for 2011-12 in the balance sheet mainly reflects:

- an increase in assets of \$151.2 million – mainly representing an increase in receivables offset by decreases in cash and other non-financial assets
- an increase in liabilities of \$171.7 million – representing an increase in supplier payables, other payables and employee provisions
- a decrease in equity of \$20.5 million – largely representing a return of previous years unspent appropriations to the Government offset by the operating surplus
- the variations primarily reflect accelerated performance outcomes achieved for Defence whereby work was brought forward from 2012-13 into 2011-12.

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 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. This flexibility is an essential enabler for effective program delivery to the Australian Defence Force (ADF) of specialised military equipment.

Use of Cash in 2011-12

At 30 June 2012, the DMO had cash at bank of \$24.7 million. The decrease in cash at bank reflects a change in accounting treatment for payment instruction files sent to the Reserve Bank of Australia for processing, offset by higher than estimated balances in overseas accounts.

Table 12.4: Cash Flow Statement for the period ended 30 June 2012

	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ^[1] 2011-12 \$'000
OPERATING ACTIVITIES			
Cash received			
Goods and services	10,030,221	10,517,058	486,837
Appropriations	920,969	870,000	-50,969
Net GST received	688,201	676,359	-11,842
Activities performed on behalf of foreign governments	-	27,677	27,677
Other cash received	56,012	944	-55,068
Total cash received	11,695,403	12,092,038	396,635
Cash used			
Employees	580,627	570,710	-9,917
Suppliers	10,395,039	10,545,553	150,514
GST paid	688,201	-	-688,201
Funds returned to Defence	-	858,219	858,219
Grants	28,670	20,448	-8,222
Other cash used	-	4	4
Total cash used	11,692,537	11,994,934	302,397
Net cash from or (used by) operating activities	2,866	97,104	94,238
INVESTING ACTIVITIES			
Cash used			
Purchase of property, plant and equipment and intangibles	2,866	1,890	-976
Total cash used	2,866	1,890	-976
Net cash from or (used by) investing activities	-2,866	-1,890	976
Net increase or (decrease) in cash held	-	95,214	95,214
Cash at the beginning of the reporting period	43,027	-70,492	-113,519
Cash at the end of the reporting period	43,027	24,722	-18,305

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.

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 budget movement.

The funds returned to Defence during 2011-12 of \$858.2 million reflects the flow of activity transacted through the DMO Special Account. In previous years these adjustments were processed by the Department of Finance and Deregulation through appropriation balance adjustments.

Administered Schedules

Table 12.5: Income administered on behalf of the Government for the period ended 30 June 2012

	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ⁽¹⁾ 2011-12 \$'000
Expenses administered on behalf of Government			
Foreign Exchange losses	-	705	705
Total Expenses	-	705	705
Income administered on behalf of Government			
Interest	1,000	542	-458
Other	-	42	42
Total Income	1,000	584	-416

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.

Table 12.6: Assets administered on behalf of Government as at 30 June 2012

	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ⁽¹⁾ 2011-12 \$'000
ASSETS			
Financial assets			
Receivables	4,217	4,342	125
Total financial assets	4,217	4,342	125
Total assets administered on behalf of Government	4,217	4,342	125

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.

Table 12.7: Administered Cash flows for the period ended 30 June 2012

	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ⁽¹⁾ 2011-12 \$'000
OPERATING ACTIVITIES			
Cash received			
Interest	9,400	3,673	-5,727
Total cash received	9,400	3,673	-5,727
Net increase or (decrease) in cash held	9,400	3,673	-5,727
Cash at the beginning of the reporting period	-	-	-
Cash to the Official Public Account for interest	9,400	3,673	-5,727
Cash at the end of the reporting period	-	-	-

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.

Special Accounts

At 30 June 2012, 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:

- a. supporting the ADF's capability through development, acquisition, sustainment, disposal, and provision of goods and/or services
- b. developing, acquiring, sustaining and providing goods and/or services for foreign governments and other bodies
- c. managing and marketing the Agency whose chief executive has been allocated responsibility for the Special Account
- d. 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
- e. to make a notional payment to the Department of Defence to return amounts received from, or on behalf of the Department of Defence
- f. activities that are incidental to a purpose mentioned in paragraphs (a), (b), (c), (d) and (e)
- g. to reduce the balance of the Special Account (and therefore, the available appropriation for the Special Account) without making a real or notional payment
- h. 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 Government departments
- future workforce and operating expenses of the DMO.

At 30 June 2012, the balance of the Defence Materiel Special Account totaled \$326.6 million. The balance of the Services for Other Entities and Trust Moneys Special Account at 30 June 2012 was nil. 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 12.8: Actual Special Accounts Cash Flows and Balances

	Outcome	Opening Balance 2011-12 \$'000	Receipts 2011-12 \$'000	Payments 2011-12 \$'000	Adjustments 2011-12 \$'000	Closing Balance 2011-12 \$'000
Defence Materiel Special Account ^[D&A]	1	436,932	11,267,137	11,304,928	-72,494	326,647
Services for Other Entities and Trust Monies - Defence Materiel Organisation ^[T]	1	-	-	-	-	-
Total special accounts		436,932	11,267,137	11,304,928	-72,494	326,647

Notes

- [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 11. 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 12.9: Budgeted Expenses and Resources for Outcome 1

Contributing to the preparedness of Australian Defence Organisation through acquisition and through-life support of military equipment and supplies	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ⁽¹⁾ 2011-12 \$'000
Program 1.1: Management of Capability Acquisition			
Departmental expenses			
Ordinary annual services (Appropriation Bill No.1 & 3)	251,755	214,978	-36,777
Special Accounts	4,311,512	4,359,127	47,615
Expenses not requiring Appropriation	8,582	10,297	1,715
Subtotal for Program 1.1	4,571,849	4,584,403	12,554
Program 1.2: Management of Capability Sustainment			
Departmental expenses			
Ordinary annual services (Appropriation Bill No.1 & 3)	558,915	567,566	8,651
Special Accounts	4,835,094	4,798,566	-36,528
Expenses not requiring Appropriation	20,026	23,283	3,257
Subtotal for Program 1.2	5,414,035	5,389,415	-24,620
Program 1.3: Provision of Policy Advice and Management Services			
Departmental expenses			
Ordinary annual services (Appropriation Bill No.1 & 3)	120,600	103,897	-16,703
Special Accounts	1,015	-	-1,015
Expenses not requiring Appropriation	8,727	4,841	-3,886
Subtotal for Program 1.3	130,342	108,738	-21,604
Total Departmental expenses for Outcome 1	10,116,226	10,082,556	-33,670

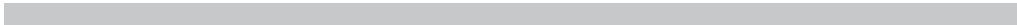
Note

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.



SECTION SIX

Management and Accountability



Chapter 13

Governance and Accountability

DMO Corporate Governance and Risk Management

DMO Ministerial Directive

The current Ministerial Directive was issued on 28 July 2008 to the then Chief Executive Officer Defence Materiel Organisation (CEO DMO). The DMO continues to operate within the principles established by the Directive. The Directive establishes the accountability of the CEO DMO to the Minister to achieve the following outcomes:

- a. timely, accurate and considered advice in the CEO DMO's role as principal adviser to the Minister on equipment acquisition and fleet sustainment
- b. efficient and effective acquisition and through-life support of materiel for Defence capabilities
- c. sound management of financial and other resources, operating within the budget and meeting statutory requirements for preparing financial statements
- d. appropriately skilled and experienced workforce whilst providing a working environment that attracts and retains people
- e. high quality governance and management, implementing agreed reform initiatives and embedding continuous improvement within business processes
- f. savings and efficiencies for re-investment in priority areas in Defence
- g. appropriate representation of Australia internationally in the CEO DMO's role of National Armaments Director.

Accountability and Financial Management

Under the *Financial Management and Accountability Act 1997*, the CEO DMO is directly responsible to the Portfolio Minister for managing the affairs of the DMO in a way that promotes proper use of the Commonwealth of Australia resources for which the DMO is responsible.

The 2011-12 Financial Statements are included at Appendix 11 of this Annual Report. The CEO DMO and the Chief Finance Officer (CFO) DMO have concluded that the financial statements are true and fairly stated.

Relationship with Defence

Defence and the DMO are working together to deliver the operational capability required by the Australian Defence Force (ADF). From a governance perspective this business relationship operates under a Memorandum of Arrangements (MoA) signed by the Secretary of Defence, the Chief of the Defence Force and the CEO DMO on 25 June 2006.

The MoA contains a framework of five types of agreements between Defence and the DMO that formalise the provision of products, services and resources between Defence and the DMO. The agreements have continued to evolve since the DMO's prescription to provide greater clarity of requirements and to delineate responsibilities and accountabilities. The current focus is to provide agreements with clear service standards and expectations as the basis for the DMO and Defence to understand the cost of doing business and to foster cost conscious, business-like behaviours.

Customer-Supplier Arrangements

The categories of customer-supplier agreements between Defence and the DMO are:

- Materiel Acquisition Agreements (MAA)
- Materiel Sustainment Agreements (MSA)
- Shared Services Agreements
- Defence Service Agreements
- Military Workforce Agreements.

These agreements cover major and minor materiel acquisition projects, sustainment of ADF fleets, services provided to facilitate these activities, and the military personnel posted to the DMO in support of these activities.

During 2011-12, a major activity was undertaken to ensure all major acquisition projects had transitioned to a tripartite agreement (MAA) between the designated Lead Capability Manager, Head Capability Development Group (CDG) and the CEO DMO for output delivery management. The scope, cost and schedule were confirmed during transition to align with Government stated approval.

The Rizzo review, released in July 2011, recommended improvements to Defence's accountability, procurement and sustainment practices. A review is being undertaken into the MSA process to reduce the time taken to develop and approve the agreement.

Governance

Early Indicators and Warnings

Early Indicators and Warnings (EI&W) aims to identify problems with projects 'early' in the acquisition life-cycle to increase the opportunity for remediation of issues before they impact on delivery. The EI&W system uses a set of defined triggers to allow project performance to be measured against schedule, cost, capability and commercial risk thresholds. The EI&W system continues to evolve to introduce more quantifiable and leading indicators that can reveal early drift from an approved project's baseline.

Each project's performance is compared against defined parameters from the Government-approved baselines at Second Pass. A project triggering a breach against these mandated thresholds will be identified and advised to the Government through quarterly reporting. Projects triggering on EI&W thresholds are considered through the Gate Review process to identify specific remediative actions to minimise future under-performance and potentially regain lost ground.

A number of EI&W scans were conducted by Defence during 2011-12. The EI&W scans measured the performance of DMO and CDG major capital acquisition projects against agreed performance thresholds in relation to cost, schedule and capability deliverables.

The system has been refined during the reporting period to increase the focus on identifying potential problems early in the lifecycle of project delivery and to improve accuracy and repeatability. Accordingly, the latest reporting from the DMO has focused on projects within the first 50 per cent of their acquisition lifecycle. The EI&W system has allowed project managers and line management to more effectively focus on identifying and remediating these early problems and, as a result, a number of projects that triggered against EI&W thresholds no longer trigger in the latest scans.

The EI&W system is still relatively immature, and will continue to evolve over the next 18 months. The key focus will be to more effectively integrate the EI&W system within existing reporting mechanisms.

Table 13.1 provides a list of nine early DMO projects that have triggered against EI&W criteria during 2011-12 and were reported to Government. The majority of projects triggered on the schedule criteria. Of the five projects that no longer triggered at the end of the reporting period one project was managed back to acceptable performance, two were rebaselined, one project was cancelled, and one was declared a Project of Concern. The four projects remaining on the EI&W list will be subject to increased monitoring and internal management processes.

Table 13.1: Early DMO projects triggering against EI&W thresholds during 2011-12

	Project	End of year status	Outcome
1	LAND 40 Phase 2 Direct Fire Support Weapons	On	Subject to further consideration by Government to determine project's future.
2	AIR 9000 Phase 5C Additional Medium Lift Helicopters	On	Gate Review undertaken and remediation actions identified.
3	AIR 5440 Phase 1 C130J Block Upgrade	On	Gate Review undertaken and remediation actions identified.
4	JP 5408 Phase 2B GPS Protection and Enhancement	On	Gate Review undertaken and remediation actions identified.
5	LAND 75 Phase 3.4 Battle Management System	Off	Declared Initial Operational Capability in April 2012, following successful testing.
6	AIR 9000 Phase 2, 4, 6 Multi Role Helicopter	Off	Declared a Project of Concern in November 2011 and no longer reported under the EI&W system.
7	JP 2089 Phase 2B Tactical Information Exchange Domain F/A-18	Off	Rebaselined in June 2012 and no longer triggers against EI&W thresholds.
8	JP 2077 Phase 2B.2 Deployable Logistics System	Off	Cancelled in May 2012.
9	AIR 8000 Phase 4 Additional Globemaster	Off	Rebaselined and no longer triggers against EI&W thresholds.

Table 13.2 provides a list of CDG post First Pass but pre Second Pass projects that have triggered against EI&W criteria during 2011-12. Projects in the First to Second Pass phase are highly dynamic by design, as risks are identified and mitigated through the process. The EI&W process has been successful in identifying projects not proceeding to the First Pass Government parameters so that action can be taken.

Of the 22 projects that triggered in the period 15 have been remediated.

Table 13.2: CDG projects triggering against EI&W thresholds during 2011-12

Project	End of year status	Outcome
1 AIR 5416 Phase 4B2 C-130J Large Aircraft Infrared Countermeasures	On	Project Managers are still engaging with the United States to finalise contracts.
2 AIR 9000 Phase 7 Helicopter Aircrew Training System	On	Project Managers are engaged with the Defence Support Group to resolve outstanding facilities issues.
3 JP 66 Phase 1 Replacement for Air Defence Targets	On	The engaged supplier is no longer able to provide the capability.
4 LAND 121 Phase 4 Overlander - Protected Mobility Vehicle – Light	On	Current cost estimates exceed program provision.
5 SEA 1439 Phase 5B.2 Collins Continuous Improvement Program	On	The challenge of managing Full Cycle Docking workloads with planned and remedial maintenance is ongoing.
6 JP 2090 Phase 1C Combined Information Environment	On	Now reported directly by the Chief Information Officer Group (CIOG). This project will be cancelled.
7 JP 2099 Phase 1 Identity Management	On	CIOG reports directly on the project.
8 AIR 5428 Phase 1 Pilot Training System	Off	Schedule has been revised.
9 AIR 5431 Phase 1 Deployable Defence Air Traffic Management and Control System	Off	Non Personnel Operating Cost issues have been addressed.
10 AIR 7000 Phase 2B Maritime Patrol Aircraft Replacement	Off	Cost issues have been addressed.
11 AIR 9000 Phase 5D Additional CH-47D Chinook	Off	The project was approved by Government in 2011.
12 DEF 501 Phase 1 Shapes Vector	Off	Outcomes were achieved by another project.
13 JP 154 Phase 3A Ningau	Off	The project was approved by Government in 2011.
14 JP 2057 Phase 3 Overhead Persistent Infrared Capability	Off	The project was approved by Government in 2011.

Project	End of year status	Outcome
15 JP 2069 Phase 2 High Grade Cryptographic Equipment	Off	The project was approved by Government in 2011.
16 JP 2077 Phase 2D Improved Logistics Information System	Off	Non Personnel Operating Costs have been addressed.
17 JP 2085 Phase 2/3 Explosive Ordnance War Stock	Off	This project was inadvertently reported in 2011 EI&W report. It is not reportable as it has not yet achieved First Pass.
18 JP 5408 Phase 3 ADF Navigation Warfare Capability	Off	The project was approved by Government in 2011.
19 LAND 125 Phase 3B Soldier Enhancement Version 2 – Survivability	Off	Scope has been confirmed.
20 LAND 125 Phase 3C Soldier Enhancement Version 2 – Lethality	Off	Contract has been agreed.
21 SEA 1397 Phase 5C Nulka Missile Decoy Enhancements	Off	Schedule has been revised.
22 SEA 1442 Phase 4 Maritime Communication Modernisation	Off	Schedule has been revised.

Gate Reviews

Gate Reviews are an important part of the DMO's assurance process. Gate Reviews are designed to improve overall project outcomes and ensure the DMO is able to provide high quality and reliable advice to Defence and the Government regarding the health and outlook of major capital acquisition projects at key stages (or gates) of a project's development. A combination of senior DMO executives and external Board members provide an assessment of project maturity, performance and plans against the Government-approved business case, normally in the lead up to key project decision points. Based on the findings of the Board, assistance and direction are provided to the project. The Chair of each Gate Review Board makes a recommendation to the DMO senior executive regarding the readiness of the project to progress to the next stage in the project life cycle.

In response to a June 2011 announcement by the Ministers for Defence and Defence Materiel, the Independent Project Performance Office further expanded the Gate Review program. In 2011-12, the program focused on: conducting reviews for 119 high-value and high-risk projects (up from 50 in the 2010-11); performance measurement; lessons learned; and increasing the number of external Board members. The number of Gate Reviews should reach the required ceiling of approximately 140 projects by the end of 2012.

Projects of Concern

The Projects of Concern (PoC) regime is closely linked to both the EI&W framework and the Gate Review process. Once troubled projects have been identified through triggering one or more of the EI&W thresholds, and have undergone a diagnostic Gate Review to identify specific and measurable remediation objectives, a recommendation may be made to the Government to add a project to the formal list of PoC. Once listed, the primary objective of the PoC regime is to remediate these projects through the implementation of an agreed remediation plan to resolve any significant commercial, technical, cost and/or schedule difficulties. PoCs receive targeted senior management attention and are required to report more regularly to the Government.

Since its introduction in early 2008, the DMO has been working closely with the industry, Defence and the Government to successfully remediate these projects with the goal of returning them to a standard management regime.

Significant outcomes during 2011-12 included:

- continuation of the PoC summits between the Minister for Defence Materiel, the DMO, Defence Capability Managers and CEOs from the industry with responsibility for projects on the list
- the successful remediation of the following projects and subsequent removal from the list of PoC:
 - » ANZAC class Anti-Ship Missile Defence (SEA 1448 Phase 2B)
 - » Medium and heavy vehicles, trailers and modules (LAND 121 Phase 3B)
 - » Tactical Unmanned Aerial Vehicles (JP 129 Phase 2)
 - » Joint Air-to-Surface Standoff Missile (AIR 5418 Phase 1)
- the addition of Multi-Role Helicopter (AIR 9000 Phase 2,4,6) to the PoC list due to schedule and contractor performance.

Table 13.3: Current Projects of Concern as at 30 June 2012

Project Name	Project Number/ Phase	Date Added
Collins Class Submarines	CN 10	November 2008
'Wedgetail' Airborne Early Warning and Control aircraft	AIR 5077 Phase 3	January 2008
Lightweight Torpedo Replacement	JP 2070 Phase 2/3	January 2008
Multi-Role Tanker Transport aircraft - Air to Air Refuelling Capability	AIR 5402	October 2010
Electronic Support Measures upgrade for AP-3C Orion aircraft	AIR 5276 Phase 8B	October 2010
Multi-Role Helicopter	AIR 9000 Phase 2,4,6	November 2011

Table 13.4: Former Projects of Concern as at 30 June 2012

Project	Description	Removed	Outcome
SEA 1411	Sea Sprite Helicopter	Mar 2008	Cancelled
AIR 87	Armed Reconnaissance Helicopter	Apr 2008	Remediated
LAND 106	M-113 Armoured Personnel Carrier Upgrade	May 2008	Remediated
JP 2088 Phase 1A	SF Air Drop Rigid Hull Inflatable Boat Trailers	Sep 2009	Remediated
SEA 1390 Phase 2.1	Guided Missile FFG Upgrade	Jan 2010	Remediated
AIR 5416 Phase 2	Project 'Echidna'	Jul 2010	Scope reduced
JP 2048 Phase 1A	LCM2000 Watercraft for Amphibious Ships	Feb 2011	Cancelled
JP 2043 Phase 3A	High Frequency Communications Modernisation	Jun 2011	Remediated
AIR 5333	Air Defence Command and Control System 'Vigilare'	Jun 2011	Remediated
SEA 1448 Phase 2B	ANZAC - class Anti-Ship Missile Defence (ASMD)	Nov 2011	Remediated
LAND 121 Phase 3B	Medium and heavy vehicles, trailers and modules	Dec 2011	Remediated
JP 129 Phase 2	Tactical Unmanned Aerial Vehicles	Dec 2011	Remediated
AIR 5418 Phase 1	Joint Air-to-Surface Standoff Missile (JASSM)	Dec 2011	Remediated

Managing Interdependent Risks

The need for the management of interdependent risks was identified by Mr Paul Rizzo in his review titled *Plan to Reform Support Ship Repair and Management Practices*, published in July 2011.

The DMO and the Navy have since developed an Interdependent Mission Management System (IMMS). In a mature form IMMS will enable the Chief of Navy (CN) to view how interdependent risks shared with the DMO, but not necessarily recognised, impact upon delivery of maritime capability. The CN will be able to view the five Navy enterprise risks as the DMO see them, and recognise any associated threats to delivery of maritime capability as part of the Navy Strategic Management System. Similarly, the DMO will be able to view its respective outputs within the respective strategic and performance measurement systems, against the five Navy enterprise risks.

IMMS is designed to focus attention and conversation leading to strategic decisions. Requirements of the Navy and DMO interdependent mission will be viewed through the lenses of risk controls and priorities.

IMMS is being developed in close consultation with the Rizzo Reform Program Project 5 (Seaworthiness and Integrated Risk Management Framework). Project 5 sees IMMS as achieving Mr Rizzo's recommendations for integrated enterprise risk management and closer cooperation between the DMO and the Navy.

IMMS is a contributor to the Navy Strategic Management System. However the DMO believe it also has scope for wider application across Defence. Initially linked to Maritime Systems Division, it is intended that all relevant DMO divisions supplying the CN are aligned within IMMS.