

## **PROGRAM 9: ACQUISITION**

### **OBJECTIVE**

To realise the Government's priorities for the development of Australian defence capabilities through:

- a. timely acquisition and delivery of major capital equipment and systems that meet endorsed operational requirements, achieve value for money and are supportable; and
- b. development of policies to enhance the capability of Australian industry in support of defence self-reliance.

### **DESCRIPTION**

The Acquisition Program acquires equipment and promotes industry support to underpin Australia's defence capability.

The Program Manager is the Deputy Secretary Acquisition. The Program comprises two Sub-Programs: Capital Equipment; and Industry and Procurement Infrastructure.

### **PROGRAM SUMMARY**

The Government released a major defence and industry policy statement in June 1998 which provided a new framework for the relationship between Defence and industry in Australia, and introduced six strategies and almost 50 initiatives to ensure that Defence and the private sector advance in partnership into the next century. The statement has been well received throughout Defence and industry.

Development activity continued on some 230 approved major capital equipment projects, including a number approved in previous years but not yet to contract. In the three years ending in June 1998, approximately \$14 billion of new projects have been approved by government. Managing the impact of new projects, while implementing the major changes arising from the Defence Reform Program, has been a significant challenge for the Defence Acquisition Organisation.

Highlights for the year included the launching of Submarine 04 (Dechaineux) and Anzac Ship Warramunga, commencement of sea trials for the first Mine Hunter Coastal (Huon), the conducting of successful trials of the Active Missile Decoy (Nulka) and the successful negotiation of a contract to supply four tactical air defence radars.

Problems continued with some of the major projects, mostly due to delays from contractor/sub-contractor performance, including the C-130J aircraft, hydrographic ships, the Jindalee Operational Radar Network and the Collins class submarines. A Joint Committee of Public Accounts and Audit Report on the Jindalee radar network and an Australian National Audit Office Report on the new submarine project were tabled in Parliament. While Defence disagreed with some of the findings and recommendations, and noted that initiatives were in place addressing others, the reports provided valuable insights and proposals that are being addressed.

The initial meetings of the Defence Acquisition Review Board were held. Detailed review of project performance and lessons learned enabled Defence senior management, including Defence Acquisition customers and stakeholders, to be better informed on, and guide progress of, major projects under contract.

## PERFORMANCE MEASURES FOR 1997-98

The Defence Acquisition Organisation's performance is measured by the extent to which:

- a. new major capital equipment met operational and support requirements and acquisitions occurred within approved cost estimates, on schedule and in accordance with Government industry and procurement policies; and
- b. defence industry policies, programs and procurement contributed to developing and sustaining cost effective capabilities relevant to the nation's defence.

## 1997-98 PERFORMANCE AGAINST FORECASTS

### Major Capital Equipment

The internal reporting of the Defence Acquisition Organisation focuses on the top twenty major capital projects. The following table and descriptions provide details of estimated expenditure for the twenty projects with the most significant expenditure in 1997-98. Collectively, these twenty projects accounted for in excess of 74% of the total major capital equipment expenditure in 1997-98.

**Table 9.1: Major Capital Equipment Expenditure for Top 20 Projects by 1997-98 Expenditure**

	<i>Approved Project Cost \$m</i>	<i>Expenditure until 30/6/98 \$m</i>	<i>Expenditure in 1997-98 \$m</i>
<b>MARITIME &amp; GROUND</b>			
Anzac Ship	6,037.6	3,941.7	449.4
Collins Class Submarine	5,003.0	4,605.4	119.7
Minehunter Coastal	1,193.3	707.3	195.9
Light Armoured Vehicle – Surveillance	343.2	262.4	19.2
Hydrographic Ship	214.2	130.3	62.9
Landing Platform Amphibious	98.3	42.2	22.1
Evolved Seasparrow Missile	118.6	91.9	90.8
<b>AEROSPACE</b>			
Strategic Airlift Capability (C-130J)	953.9	531.8	39.3
Lead-In Fighter Capability	836.3	218.4	147.9
F/A-18 Upgrade	200.1	30.1	19.9
Chinook Helicopters	73.5	37.0	37.0
Anzac Ship Helicopter Capability	787.3	245.2	160.8
Airlift Simulators	59.1	36.8	23.7
P-3C Electronic Support Measures	207.3	187.1	25.7
P-3C Update Implementation	756.0	453.1	124.5

	Approved Project Cost \$m	Expenditure until 30/6/98 \$m	Expenditure in 1997-98 \$m
<b>ELECTRONIC SYSTEMS</b>			
High Frequency Modernisation	515.2	32.2	32.2
Active Missile Decoy	169.6	61.1	39.4
Jindalee Operational Radar Network	1120.0	752.0	36.2
Wagtail Tactical Radios	85.5	35.0	23.2
Australian Defence Air Traffic System	190.3	114.7	30.2
<b>TOTAL TOP 20 MAJOR CAPITAL EQUIPMENT PROJECTS</b>	<b>18,962.3</b>	<b>12,515.7</b>	<b>1,700.0</b>

### Anzac Ship

HMAS *Anzac* completed its intermediate maintenance availability in Western Australia in April 1998, while HMNZS *Te Kaha* was commissioned in July 1997 and completed its post-shakedown availability in June 1998. Arunta finished its final contractor sea trials in April 1998 and is expected to be delivered in late 1998. The delay in its delivery is mainly attributable to a reworking of diesel generators and an industrial dispute at Tenix, the major contractor. Warramunga was launched in May 1998.

### Collins Class Submarine

The first two submarines, HMAS *Collins* and HMAS *Farncomb*, have been delivered and provisionally accepted by the Navy. HMAS *Collins* commenced its post-delivery availability in June 1998, which is scheduled to be completed in early 1999. Work commenced on the contractor sea trials for Submarine 03 (Waller), which is expected to be delivered and provisionally accepted towards the end of 1998. The two month delay of this delivery is due to the need to rectify class defects discovered during the trials of earlier submarines. Submarine 04 (Dechaineux) was launched in March 1998 and is due to commence sea trials in late 1998. The fifth submarine (Sheean) is scheduled for launch in mid-1999 and the sixth submarine (Rankin) remains scheduled for delivery in mid-2001.

### Minehunter Coastal

The project is now over 70% complete. The sea trials for MHC 01 (Huon) commenced in June 1998, and work on the outfitting of MHC 02 (Hawkesbury) and MHC 03 (Norman) is well under way. A three-month delay will affect the delivery of Huon and there will be minor delays to the remaining five vessels due to the re-engineering of on-board stowage and handling of the mine destruction charge, as well as the unavailability of fibreglass resin due to the waterfront dispute. Both the Huon and the Hawkesbury were launched during the year and delivery of the Huon is now expected in mid-1999 with the Hawkesbury to follow in late 1999.

### Hydrographic Ship Project

Contractual delivery dates were August 1997 for Hydrographic Ship 01 and January 1999 for Ship 02, but a revised program for delivery is currently being negotiated due to delays experienced by the prime contractor and major subcontractors. These delays have resulted primarily from underestimates in the software development tasks, optimistic programs for design and delivery of major systems and failure by the prime contractor to address the

integrated support requirements at an early stage. Anticipated delivery dates are now early 1999 for 01 and mid-1999 for 02.

#### **Australian Light Armoured Vehicles – Surveillance**

The 111 vehicles procured during Phase 2 have been delivered and 87 have been issued to the 2nd Cavalry Regiment in Darwin. Final deliveries of Phase 2 repair parts and logistic support will be achieved during 1998-99. The surveillance vehicles were delivered on time in basic form pending procurement of Army-wide surveillance equipment under project Ninox. The Phase 3 contract signature for 150 vehicles is scheduled for the end of 1998-99. Initial deliveries of Phase 3 ammunition will commence during 1998-99 and the first vehicle deliveries are scheduled for 2000-01.

#### **Strategic Airlift Capability**

Certification of the C-130J by the United States Federal Aviation Administration is expected to occur in September 1998, and delivery of twelve aircraft is expected to begin in mid-1999 and be completed by mid-2000.

#### **Lead-In Fighter Capability**

A contract for 33 British Aerospace Hawk 127 series jet trainers was signed in July 1997, with delivery of the first aircraft expected in April 2000.

#### **Anzac Ship Helicopter Capability**

A contract was signed in June 1997 with Kaman Aerospace International Corporation for the supply of eleven aircraft, with provision for an option to acquire additional aircraft. The first aircraft delivery is expected in late 2000 or early 2001.

#### **P-3C Update Implementation**

The first of eighteen aircraft was inducted for modification at Greenvale, Texas in October 1997. The first and second of three P-3B training aircraft being acquired from the United States Navy were delivered in July 1997 and August 1998 respectively, with the third aircraft expected to be delivered in late 1998.

#### **High Frequency Modernisation**

Following the awarding of the contract on 31 December 1997, the emphasis has been on the establishment of the necessary infrastructure for the implementation period of the contract. A system requirements review was completed in May 1998.

#### **Jindalee Operational Radar Network**

In June 1998, substantial changes to the prime contract were agreed between Telstra, RLM Management Company and the Commonwealth, which gave formal effect to a revised price basis, revised payment arrangements and a new schedule to deliver the over-the-horizon radar network by December 2001. Work continued on the installation of the network's transmit-and-receive sub-systems and it is expected that they will be ready for integration activities at the Longreach Queensland site by late 1998. Installation of computing and related hardware at the Longreach site is substantially complete with the first major transmission using the total complement of 28 installed high-power transmitters at Longreach to take place in late 1998.

## Industry and Procurement Infrastructure

The Government's new *Defence and Industry – Strategic Policy Statement* was finalised and promulgated, and provides for a new framework for the relationship between Defence and industry in Australia. The Defence and industry relationship continued to be strengthened by the annual Defence Procurement Conference and the Defence Export Outlook Seminar. Overall attendance exceeded 750 at these events which greatly enhance mutual understanding of defence industry policy and programs. The Export Outlook Seminar also coincided with the launch of the Defence Exporters' Council that will establish another important link in the Defence and industry network.

Work continued on reform of purchasing and contracting policies, with industry playing a key role through participation in the contracting consultative forum. Industry has presented recommendations to Defence for changes to contracting pro forma based on industry experience and commercial practice. The recommendations are designed to complement the procurement reform aspects of the Government's new Defence and industry strategy.

Extensive work continued on the review of business processes across the Defence Acquisition Organisation and the possible extension of a quality management system to achieve international leading practice in the capital acquisition process. A standard project management method is being developed by pilot projects for wider application in major capital equipment acquisition projects in 1999. This project management method will be documented in an ISO9000 compliant business management system suitable for certification in 2000.

The sale of Australian Defence Industries progressed. The first formal stage has been completed with expressions of interest closing in early July 1998. The Ministers for Defence and Finance and Administration announced that five consortia have been shortlisted to move forward to a binding-offer stage.

## RESOURCES

**Table 9.2: Defence Function Outlays Summary**

<i>Sub-Program</i>		<i>1997-98</i>	<i>1997-98</i>	<i>1997-98</i>	<i>Variation</i>	
		<i>Budget Estimate</i>	<i>Revised Estimate</i>	<i>Actual Outcome</i>	<i>(97-98 Actual less Revised Estimate)</i>	
		<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>%</i>
9.1	Capital Equipment	2,363.8	2,429.6	2,377.5	-52.1	-2.1
9.2	Industry & Procurement Infrastructure	64.7	48.3	47.2	-1.1	-2.3
<b>Program Total</b>		<b>2,428.5</b>	<b>2,477.9</b>	<b>2,424.7</b>	<b>-53.2</b>	<b>-2.1</b>

**Table 9.3: Staffing Summary**

<i>Sub-Program</i>		<i>1997-98 Budget Estimate</i>	<i>1997-98 Revised Estimate</i>	<i>1997-98 Actual Outcome</i>	<i>Variation (97-98 Actual less Revised Estimate)</i>	
		<i>Personnel Numbers</i>			<i>%</i>	
9.1	Capital Equipment	1,790	1,792	1,690	-102	-5.7
9.2	Industry & Procurement Infrastructure	508	512	443	-69	-13.5
<b>Program Total</b>		<b>2,298</b>	<b>2,304</b>	<b>2,133</b>	<b>-171</b>	<b>-7.4</b>

**Table 9.4: Staffing Profile**

<i>Personnel</i>		<i>Sub-Program</i>		<i>Total</i>
		<i>9.1</i>	<i>9.2</i>	
Permanent Force	97-98 Budget	725	5	730
	97-98 Revised	761	6	767
	97-98 Actual	761	6	767
Civilian	97-98 Budget	1,065	503	1,568
	97-98 Revised	1,031	506	1,537
	97-98 Actual	929	437	1,366
<b>Total</b>	<b>97-98 Budget</b>	<b>1,790</b>	<b>508</b>	<b>2,298</b>
<b>Personnel</b>	<b>97-98 Revised</b>	<b>1,792</b>	<b>512</b>	<b>2,304</b>
	<b>97-98 Actual</b>	<b>1,690</b>	<b>443</b>	<b>2,133</b>

**1997-98 Defence Reform Program Progress**

The Defence Reform Program mandated that a significant proportion of military staff in the Defence Acquisition Organisation be reduced and replaced by civilians. As a consequence, the Defence Acquisition Organisation began a civilianisation program during 1997-98. A total of 61 administrative positions have been civilianised to date.

The Defence Reform Program mandated savings of some 15 to 20 per cent on collocation into new accommodation at Russell. As the Defence Acquisition Organisation is not due to be collocated until early 1999, minimal personnel savings were achieved during 1997-98. However, some administrative savings were made in anticipation of collocation.

The Industry Involvement & Contracting Division was disbanded on 1 July 1997. Creation of the Industry and Procurement Infrastructure Division was achieved by the amalgamation of two industry branches to form Industry Policy and Programs Branch, abolition of the Defence Quality Assurance Branch, transfer in of the Acquisition Management Branch, and transfer out of the Commercial Support Program Branch to the Inspector General.

Acquisition shopfronts in the regions replaced industry elements of the former Defence Acquisition regional offices in the mainland state capital cities, providing a Defence focal point for industry, particularly small to medium enterprises and state governments. Their role is to provide advice on Defence policies for industry and how to do business with Defence. By 30

June 1998, the functions and activities of the former regional offices had been substantially discontinued, outsourced, or adapted and undertaken elsewhere in Defence.

The Defence Industry Development Program was wound up by 31 December 1997 following completion of a small number of projects and the devolution of 13 unfinished projects to relevant areas within the Acquisition Program.

Creation of the Industry and Procurement Infrastructure Division and associated organisational reforms resulted in significant personnel savings mainly in the regions. The Division integrated specialist staff engaged, in particular, in contracting policy and industry activities. The centralised responsibilities involved are discharged through policy and support centres whose clients reside primarily in the Major Capital Equipment Program.

**Table 9.5: 1997-98 Defence Reform Program Savings**

Category	Personnel Savings		Savings
	ADF	APS	\$m
Acquisition and Industry		107	23.1
<b>Total Savings</b>		<b>107</b>	<b>23.1</b>

**Table 9.6: 1997-98 Defence Reform Program Reinvestment**

Category	\$m
Transition costs related principally to redundancies	5.6

**Table 9.7: Reconciliation of Appropriations for the Defence Acquisition Organisation**

Division/Appropriation Item	1997-98	1997-98	1997-98	Variation	
	Budget Estimate	Revised Estimate	Actual Outcome	(97-98 Actual less Revised Estimate)	
	\$m	\$m	\$m	\$m	%
180-01 RUNNING COSTS					
Service Personnel	45.4	48.0	49.3	1.2	2.5
Civilian Personnel	88.0	80.8	82.2	1.5	1.8
Administrative Expenses	34.2	30.7	26.1	-4.5	-14.8
Facilities Operations	0.4	0	0	0	0.0
180-02 OTHER SERVICES	4.4	4.4	2.6	-1.8	-40.0
181 EQUIPMENT & STORES	2,331.6	2,386.8	2,313.8	-72.9	-3.1
DEFENCE PRODUCTION	17.6	17.8	17.6	-0.3	-1.5
PAYMENTS TO AUSTRALIAN DEFENCE INDUSTRIES	1.2	1.2	0	-1.2	-100.0
<b>Total Defence Function Appropriations (A)</b>	<b>2,522.6</b>	<b>2,569.6</b>	<b>2,491.6</b>	<b>-78.0</b>	<b>-3.0</b>

Division/Appropriation Item	1997-98	1997-98	1997-98	Variation	
	Budget Estimate	Revised Estimate	Actual Outcome	(97-98 Actual less Revised Estimate)	
	\$m	\$m	\$m	\$m	%
Total Defence Function Receipts (Offset Within Outlays) (B)	-94.1	-91.8	-66.9	24.8	-27.0
<b>Total Defence Function Outlays (C)= (A+B)</b>	<b>2,428.5</b>	<b>2,477.9</b>	<b>2,424.7</b>	<b>-53.2</b>	<b>-2.1</b>
NON-DEFENCE FUNCTION OUTLAYS (D)	0	0.1	0.1	0	0.0
<b>TOTAL DEFENCE PORTFOLIO OUTLAYS (E) = (C+D)</b>	<b>2,428.5</b>	<b>2,478.0</b>	<b>2,424.8</b>	<b>-53.2</b>	<b>-2.1</b>

**Note:**

Figures may not add due to rounding.

**Table 9.8 Major Variations between 1997-98 Revised Estimate and 1997-98 Actual Outcome**

Appropriation	\$m
<b>180-01 RUNNING COSTS</b>	
<b>Service Personnel (\$1.2m)</b>	
Part year effect of ADF Workplace Bargaining Agreement	1.3
<b>Civilian Personnel (\$1.5m)</b>	
Provision for Defence Reform Program related redundancies	5.6
Part year effect of Civilian Workplace Bargaining Agreement	3.0
Decreased civilian salaries and superannuation payments mainly due to delays in recruitment resulting from reorganisation of Defence Acquisition Organisation	-1.1
Net transfers primarily associated with Quality Assurance staff and Navy Minor Capital function to Program 6	-3.2
Minor miscellaneous variation	0.2
<b>Defence Reform Program Savings</b>	
Related to Acquisition and Industry	-3
<b>Administrative Expenses (-\$4.5m)</b>	
Net transfers primarily associated with Quality Assurance staff and Navy Minor Capital function to Program 6	-0.5
Reduced expenditure in computer services in anticipation of collocation into new Russell buildings	-0.6
Minor miscellaneous variation	0.1
<b>Defence Reform Program savings</b>	
Related to Acquisition and Industry	-3.5

<i>Appropriation</i>	<i>\$m</i>
<b>180-02 OTHER SERVICES (-\$1.8m)</b>	
Lower than forecast expenditure under the Sale and Purchase of shares in ASTA Ltd agreement	-1.8
<b>181 EQUIPMENT &amp; STORES (-\$72.9m)</b>	
Net variations for revised project deliveries, exchange rate variations and cash flow requirements:	
Anzac Ship	26.4
Minehunter Coastal	9.3
ANZAC Helicopter	-2.1
High Frequency Modernisation	-2.1
Jindalee Operational Radar Network	-3.0
P3C Update Implementation	-3.6
Australian Light Armoured Vehicles (ASLAV)	-4.2
Hydrographic Ship Project	-5.1
Lead-In-Fighter Capability	-10.7
New Submarine	-30.9
Strategic Airlift Capability	-140.6
Net variations for revised project deliveries, exchange rate variations and cash flow requirements for other projects	126.6
Lower than forecast expenditure mainly related to the Minimum Essential Emergency Maintenance Contract	-3.1
Lower than forecast expenditure related to slippage of Minor Capital communication projects	-3.5
Net transfers primarily associated with Minor Capital for Programs 2, 6 and 13	-24.8
Minor miscellaneous variations	-0.2
<b>Defence Reform Program savings</b>	
Related to Acquisition and Industry	-1.3
<b>183 DEFENCE PRODUCTION (-\$0.3m)</b>	
Minor miscellaneous variation	-0.3
<b>184 PAYMENTS TO AUSTRALIAN DEFENCE INDUSTRIES (-\$1.2m)</b>	
Reduced expenditure due to non-completion of environmental works conducted by NSW Government and Corowa Shire, associated with zero discharge to Murray River from the Mulwala facility.	-1.2
<b>DEFENCE PORTFOLIO RECEIPTS (\$24.8m)</b>	
Reprogramming of Anzac receipts due to revised Prime Contract cash flows	24.9
Minor miscellaneous variation	-0.1

**Note:**

Figures may not add due to rounding.