

Project Data Summary Sheet¹³⁷

Project Number	SEA 3036 Phase 1
Project Name	Pacific Patrol Boat Replacement (PPB-R)
First Year Reported in the MPR	2017-18
Capability Type	Replacement
Acquisition Type	COTS
Capability Manager	Chief of Navy
Government 1st Pass Approval	Apr 16
Government 2nd Pass Approval	Apr 16
Budget at 2 nd Pass Approval	\$504.5m
Total Approved Budget (Current)	\$501.2m
2017-18 Budget	\$27.7m
Project Stage	Detailed Design Review
Complexity	ACAT II



Section 1 – Project Summary

1.1 Project Description

SEA 3036 Phase 1 – Pacific Patrol Boat Replacement will acquire 21 vessels to replace the existing 22 Pacific Patrol Boats (PPBs) gifted to 12 Pacific Island Countries between 1987 and 1997 and two boats for Timor-Leste; as part of Australia's Pacific Maritime Security Program. The project also includes disposal of the current PPB fleet and minor upgrades to Pacific Island infrastructure to enable safe berthing of the new Guardian Class Patrol Boats (GCPBs).

1.2 Current Status

<p>Cost Performance</p> <p><u>In-year</u></p> <p>As at 30 June 2018, the project has an overspend of \$1.0m against the year to date budget. This is due primarily to early achievement of the first vessel launch milestone, due to be achieved June 18 and paid in July but achieved in May and paid in June 2018.</p> <p><u>Project Financial Assurance Statement</u></p> <p>As at 30 June 2018 the project has reviewed the approved scope and budget for those elements required to be delivered by the project. Having reviewed the current financial and contractual obligations of the project, current known risks and estimated future expenditure, Defence considers, as at the reporting date, there is sufficient budget remaining for the project to complete against the agreed scope.</p> <p><u>Contingency Statement</u></p> <p>The project has not applied contingency in the financial year.</p> <p>Schedule Performance</p> <p>The project has progressed through the Design phases, and construction of the first four vessels is underway. The first vessel was launched on 28 May 2018.</p> <p>To date the prime contractor key milestones have been met in alignment with the contract schedule. All expected delivery windows specified within the Project Materiel Acquisition Agreement (MAA) and Government project approval have also been met. Aspects of the project involving Pacific Island Country Infrastructure upgrades and disposal of the existing Pacific Patrol Boats are also progressing in alignment with project needs.</p> <p>Notwithstanding the risks identified within section 1.3 the project is well placed to deliver the first vessel in October 2018 as originally planned.</p> <p>To date, the project has achieved the following Key Milestones on time:</p>
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137 Notice to reader

Forecast dates and Sections: 1.2 (Materiel Capability Delivery Performance), 1.3 (Major Risks and Issues), 4.1 (Measures of Materiel Capability Delivery Performance), and 5 (Major Risks and Issues) are excluded from the scope of the ANAO's review of this Project Data Summary Sheet. Information on the scope of the review is provided in the *Independent Assurance Report* by the Auditor-General in **Part 3** of this report.

- Detailed Design Review (DDR) conducted in February 2017.
- Support System Detailed Design Review (SSDDR) conducted in November 2017.
- Vessel 2 construction, cut steel, commenced slightly ahead of schedule in November 2017 with Keel Laying achieved in January 2018.
- Vessel 3 construction, cut steel, commenced ahead of schedule in March 2018 with Keel Laying achieved in May 2018
- Vessel 1 Launched in May 2018.
- Vessel 4 construction, cut steel, commenced in June 2018 with Keel Laying planned in August 2018.

As a result of equipment supply chain delays and first of class issues with set-to-work activities, the commencement of Harbour Acceptance Trials (HATs) for the first vessel, planned for June 2018, has been delayed to July 2018 and is expected to conclude in August 2018.

Initial Material Release (IMR) and Initial Operational Capability (IOC) are expected to be achieved in October 2018.

Material Capability Delivery Performance

The Project has not delivered any materiel capability to date. The first vessel is expected to be delivered in October 2018. The project is on track to deliver all vessels and meet Final Materiel Release in 2023.

Note

Forecast dates and capability assessments are excluded from the scope of the review.

1.3 Project Context

Background

SEA 3036 Phase 1, Pacific Patrol Boat Replacement Project was initiated in 2014 to replace the 22 Pacific Patrol Boats (PPB) that were gifted to 12 Pacific Island Countries (PIC) between 1987 and 1997 under the auspices of the Pacific Maritime Security Program (PMSP). The project was mandated to deliver a new single class of vessel, built to contemporary regulatory standards of steel hulled construction, able to operate year round and enable basic local maintenance and repair in each nation.

The participating nations are Palau, Federated States of Micronesia (FSM), Republic of Marshall Islands (RMI), Papua New Guinea (PNG), Solomon Islands, Kiribati, Tuvalu, Vanuatu, Fiji, Tonga, Samoa and Cook Islands. The Project will build and deliver 21 PPB Replacement (PPB-R) vessels for 13 nations. The 13th nation is Timor-Leste that was not part of the original PPB Program but was offered two (2) PPB-R vessels by the Australian Government.

The PMSP aims to enhance practical cooperation across the South Pacific and build on the success of the PPB Program by broadening and strengthening the regions' capability to respond to issues such as maritime security, fisheries protection and transnational crime. Along with the PPB-R the PMSP will enhance cooperation through support to regional coordination centres and the provision of integrated aerial surveillance.

A Request for Tender was released in March 2015 for up to 21 PPB-R vessels no longer than 40 metres, built to a Commercial Standard with a steel hull. Similar to the current PPBs, the new vessels were to be easy to operate and maintain. The tender also included a support contract for an initial period of 7 years. The tender closed in June 2015, evaluations were completed in September 2015 with an Offer Definition and Improvement Activity concluded in January 2016. Austal Ships Pty Ltd was the preferred tenderer.

Combined Pass Project Approval was achieved in April 2016. Both the Acquisition and Support Contracts were signed with Austal Ships Pty Ltd in May 2016. The initial Acquisition Contract was for 19 vessels with a costed option for an additional two (2) PPB-R vessels, as Timor-Leste had not accepted the offer of two (2) vessels at contract signature. In December 2017, Timor-Leste accepted the offer and the Project Office exercised the costed option, through the execution of a contract change in April 2018.

Construction of the first vessel commenced in April 2017 with launch conducted ahead of schedule in May 2018 and Acceptance by the Commonwealth (combined Initial Materiel Release and Initial Operational Capability) in October 2018. Final Materiel Release/Final Operational Capability will be achieved when the last vessel is accepted by the Commonwealth currently planned for October 2023.

In addition, infrastructure upgrades necessary to enable safe and secure berthing of the new vessels are required for all nations receiving the PPB-R vessels. The project is scoped and funded to complete minor infrastructure upgrades to existing infrastructure and major upgrades (inclusive of Timor-Leste upgrades) are to be funded as part of Defence's international engagement through the Defence Cooperation Program.

Uniqueness

The PPB-R is a vessel being built to commercial standards that will be gifted to 13 nations. The vessel is being built to International Maritime Orders (IMO) requirements, under the Australian Maritime Safety Authority (AMSA) flag. Lloyds Register is the classification society and the vessel will meet class requirements. However, ultimately the PPB-R will not be put into class. The Project's Capability Manager is Navy with International Policy as the Sponsor of the PPB-R Project and the Pacific Maritime Surveillance Program. Once gifted, each vessel will become a sovereign asset of the recipient nations.

Major Risks and Issues

The Project has identified a small number of high risks that relate to infrastructure schedule requirements, disposal requirements, the Prime Contractor's ability to deliver against configuration management requirements and project resourcing. There is currently only one Pacific Maritime Surveillance Program (PMSP) Program-level issue, which relates to the scope of program infrastructure

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upgrade work exceeding the allocated Project funding. This is a PMSP issue not a Project-level issue because; from a Project perspective this aspect of scope is approved for execution on a cost-capped basis.

Other Current Sub-Projects

N/A

Note

Major risks and issues are excluded from the scope of the review.

Section 2 – Financial Performance

2.1 Project Budget (out-turned) and Expenditure History

Date	Description	\$m	Notes
Project Budget			
Aug 14	Original Approved	5.7	1
Jan 15	Real Variation – Transfer	1.2	2
May 16	Government Combined Pass Approval	497.6	
	Total at Second Pass Approval	504.5	
Jun 18	Jun 18 Exchange Variation	(3.3)	
Jun 18	Total Budget	501.2	
Project Expenditure			
Prior to Jul 17	Contract Expenditure – Austal	(16.4)	
	Other Contract Payments/Internal Expenses	(5.2)	3
		(21.6)	
FY to Jun 18	Contract Expenditure – Austal	(25.7)	
	Other Contract Payments/Internal Expenses	(3.0)	4
		(28.7)	
Jun 18	Total Expenditure	(50.3)	
Jun 18	Remaining Budget	450.9	
Notes			
1	This amount was for Initial Pass Project Approval.		
2	Transfer of funding to Defence Materiel Organisation, now known as Capability Acquisition and Sustainment Group, to support Offer Definition Improvement Activity and Anthropometric Study.		
3	Other contract payments and expenditure comprises of Pre Combined Pass expenditure (\$3.5m) and other project office costs not associated with the prime contract.		
4	Other contract payments and expenditure includes infrastructure costs of (\$0.5m), project support contracted staff costs of (\$2.2m) and other direct project costs of (\$0.3m).		

2.2A In-year Budget Estimate Variance

Estimate PBS \$m	Estimate PAES \$m	Estimate Final Plan \$m	Explanation of Material Movements
28.9	31.4	27.7	PBS – PAES: The increase from \$28.9m to \$31.4m was primarily associated with application of unallocated funds for project procurement activities in the areas of infrastructure and training. PAES – Final Plan: The revised cash forecast of \$27.7m has decreased from \$31.4m as a result of reprogramming project activities to current expected timeframes.
Variance \$m	2.5	(3.7)	Total Variance (\$m): (1.2)
Variance %	8.7	(11.8)	Total Variance (%): (4.2)

2.2B In-year Budget/Expenditure Variance

Estimate Final Plan \$m	Actual \$m	Variance \$m	Variance Factor	Explanation
		1.0	Australian Industry	The variance is primarily due to early achievement of the first vessel launch milestone, due to be achieved June 2018 and paid in July 2018 but achieved in May and paid in June 2018.
			Foreign Industry	
			Early Processes	
			Defence Processes	
			Foreign Government Negotiations/Payments	
			Cost Saving	
			Effort in Support of Operations	
			Additional Government Approvals	
27.7	28.7	1.0	Total Variance	
		3.6	% Variance	

2.3 Details of Project Major Contracts

Contractor	Signature Date	Price at		Type (Price Basis)	Form of Contract	Notes
		Signature \$m	30 Jun 18 \$m			
Austal Ships Pty Ltd	May 16	321.1	356.4	Fixed	ASDEFCON (Complex)	1
Notes						
1	Contract Value as at 30 June 2018 is based on actual expenditure to 30 June 2018 and remaining commitment at current exchange rates, and includes adjustments for indexation (where applicable).					
Contractor	Quantities as at		Scope	Notes		
	Signature	30 Jun 18				
Austal Ships Pty Ltd	19	21	PPB-R vessels, conversion training and associated support system products.	1		
Major equipment received and quantities to 30 Jun 18						
Nil						
Notes						
1	Two additional PPB-R vessels have been included into the scope of supply in April 2018 following acceptance by the Timor-Leste Government of the offer from the Australian Government to receive two boats as a new member of the PMSP in December 2017.					

Section 3 – Schedule Performance

3.1 Design Review Progress

Review	Major System/Platform Variant	Original Planned	Current Planned	Achieved/Forecast	Variance (Months)	Notes
System Requirement Conduct	Mission System	Aug 16	N/A	Aug 16	0	
	Support System	N/A	Nov 16	Nov 16	0	1
Preliminary Designs Conduct	Mission System	Oct 16	N/A	Oct16	0	
	Support System	N/A	May 17	May17	0	1
Detailed Design Conduct	Mission System	Feb 17	N/A	Feb17	0	
	Support System	N/A	Nov 17	Nov17	0	1
Notes						
1	A contract change was executed in November 2016 to introduce the conduct of Support System System Requirement Review, Support System Preliminary Design Review and Support System Detailed Design Review.					

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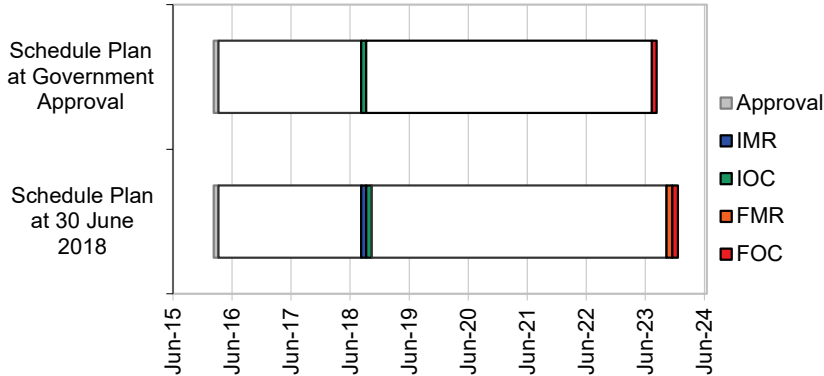
3.2 Contractor Test and Evaluation Progress

Test and Evaluation	Major System/Platform Variant	Original Planned	Current Planned	Achieved/Forecast	Variance (Months)	Notes
Harbour Acceptance Trials (HATs) Complete	PPBR Boat 1	Jul 18	N/A	Aug 18	1	1
	PPBR Boat 2-5	Aug 19	N/A	Aug 19	0	
	PPBR Boat 6-9	Aug 20	N/A	Aug 20	0	
	PPBR Boat 10-13	Aug 21	N/A	Aug 21	0	
	PPBR Boat 14-18	Oct 22	N/A	Oct 22	0	
	PPBR Boat 19-21	Jul 23	N/A	Jul 23	0	
Acceptance	PPBR Boat 1	Oct18	N/A	Oct18	0	2,3
	PPBR Boat 2-5	Nov 19	N/A	Nov 19	0	3
	PPBR Boat –6-9	Nov 20	N/A	Nov 20	0	3
	PPBR Boat 10-13	Oct 21	N/A	Oct 21	0	3
	PPBR Boat 14-18	Dec 22	N/A	Dec 22	0	3
	PPBR Boat 19-21	Oct 23	N/A	Oct 23	N/A	2
Notes						
1	The variance of one month is primarily due to equipment supply chain delays and first of class issues with set-to-work activities.					
2	Testing of Boat 1 includes operation-like test activities in advance of Acceptance of Boat 1.					
3	Acceptance marks the successful completion of all tests and crew conversion training. The Commonwealth will accept the vessel from the contractor and then gift the vessel to the receiving nation.					

3.3 Progress towards Materiel Release and Operational Capability Milestones

Item	Original Planned	Achieved/Forecast	Variance (Months)	Notes
Initial Materiel Release (IMR)	N/A	Oct 18	N/A	1,2
Initial Operational Capability (IOC)	Oct18	Oct 18	0	3
Final Materiel Release (FMR)	N/A	Nov 23	N/A	1,2
Final Operational Capability (FOC)	Sep 23	Nov 23	2	3,4
Notes				
1	IMR and FMR dates were not scheduled at Combined Pass Government Approval.			
2	IMR and FMR will be achieved at acceptance of boats by the Commonwealth.			
3	IOC and FOC will be achieved at acceptance of the boats into PIC operational service. This is expected to occur simultaneously with IMR and FMR.			
4	The variance of two months is a result of the now contracted delivery dates for the two additional vessels for Timor-Leste.			

Schedule Status at 30 June 2018

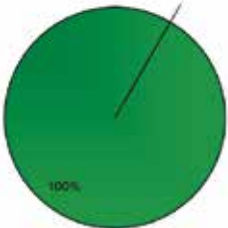


Note

Forecast dates in Section 3 are excluded from the scope of the review.

Section 4 – Materiel Capability Delivery Performance

4.1 Measures of Materiel Capability Delivery Performance

Pie Chart: Percentage Breakdown of Materiel Capability Delivery Performance	
	<p>Green: The project expects to meet capability requirements as expressed in the Joint Project Directive and Materiel Acquisition Agreement.</p>
	<p>Amber: N/A</p>
	<p>Red: N/A</p>
<p>Note This Pie Chart represents Defence's expected capability delivery. Capability assessments and forecast dates are excluded from the scope of the review.</p>	

4.2 Constitution of Initial Materiel Release and Final Materiel Release

Item	Explanation	Achievement
Initial Materiel Release (IMR)	First vessel and associated support system technical documentation, initial spares and logistics documentation delivered and accepted by the Commonwealth. IMR is forecast to be achieved in October 2018.	Not yet achieved
Final Materiel Release (FMR)	Last Vessel (21) delivered, completed delivery of all remaining Acquisition Project Support deliverables and accepted by the Commonwealth including completion of transition tasks in accordance with the PPB-R Transition Plan. FMR is forecast to be achieved in November 2023.	Not yet achieved

Section 5 – Major Risks and Issues

5.1 Major Project Risks

Identified Risks (risk identified by standard project risk management processes)	
Description	Remedial Action
There is a chance the infrastructure work required in each PIC will not be completed prior to the arrival of the replacement vessels leading to an impact on reputation.	Tender documentation being developed for the delivery of the upgrades includes infrastructure delivery dates which are prior to the GCPB arrival. The project and GHD Pty Ltd (engaged as the Project Manager/Contract Administrator for infrastructure upgrades) are working to ensure that delays to tendering and engaging contractors are not as a result of Commonwealth processes. There are options for decoupling less critical aspects of upgrades to ensure critical upgrades (to ensure safe and secure berthing of the new GCPBs) are completed in time. Tender documentation for construction works will detail the dates by which construction is required and responses assessed and evaluated against these. PICs currently have infrastructure in place for PPB.
There is a risk that the current PPBs will be either unable to transit to Australia or moved to Australia out of alignment with current planning leading to an impact to the phasing of Disposals costs incurred as part of the overall Project Budget.	Engage with Pacific Island Countries (PICs) & Maritime Surveillance Adviser and Technical Adviser via International Policy Division and Pacific Patrol Boat Systems Program Office to gain earliest advice on risk realisation. Flexibility has been incorporated into the PPB Disposal contract signed 6 July 2018, however this is limited in scope. Funds have been made available to Materiel Logistics Disposal and Sales Branch (MLDS) for undertaking movement of vessels unable to transit to the disposal site under own power. These funds are to enable MLDS to promptly arrange movement of boats so as to avoid the risk of Disposals Contract costs being incurred.
There is a risk that vessel configuration control will be affected by Austal failing to implement and manage an effective Configuration Management (CM) system during Acquisition leading to an impact on Cost, Performance and Sustainability.	Project to include this as a standing agenda item for contract Quarterly Progress Review Meetings. Austal to provide updates via Monthly Contract Status Report (CSR). Leverage the Resident Project Team at Austal site for participation in Physical Configuration Audits. Project Office is

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	maintaining oversight of Austal implementation of configuration management system and processes.
There is a chance that key Project Milestones will be impacted by a lack of availability of suitably qualified, experienced and authorised Project and stakeholder personnel.	Use of Australian Public Service / Contractor workforce mix within Project Office. Engagement of stakeholders (including Fundamental Inputs to Capability (FICs)s) through Integrated Project Team and PSG
Emergent Risks (risk not previously identified but has emerged during 2017-18)	
Description	Remedial Action
N/A	N/A

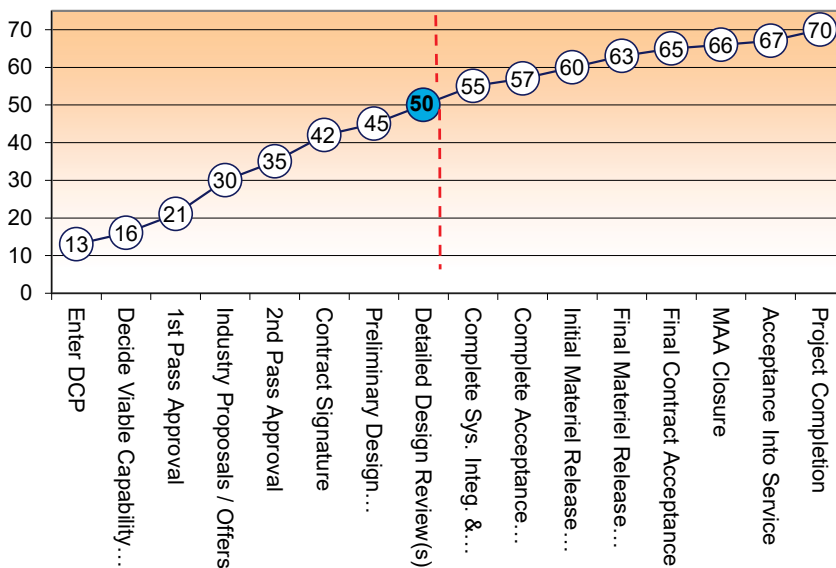
5.2 Major Project Issues

Description	Remedial Action
The scope of Pacific Maritime Security Program infrastructure works required exceeds those to be implemented by the SEA3036-1 Project (using allocated funding) resulting in the inability for GCPB vessels to dock and remain docked in a safe and secure manner without significant inefficiency at all designated PIC home berths. This issue is relevant to the Pacific Maritime Security Program.	Utilise the contracting vehicle established by SEA3036-1 to execute upgrades in addition to those funded by the project, with funds from other sources such as International Policy Division.
Note	
Major risks and issues in Section 5 are excluded from the scope of the review.	

Section 6 – Project Maturity

6.1 Project Maturity Score and Benchmark

Maturity Score		Attributes							Total
		Schedule	Cost	Requirement	Technical Understanding	Technical Difficulty	Commercial	Operations and Support	
Project Stage	Benchmark	7	7	7	8	7	7	7	50
Detailed Design Review	Project Status	7	7	7	8	8	7	7	51
	Explanation	<ul style="list-style-type: none"> Technical Difficulty: The design has now matured into a build which is undergoing set-to-work and preparation for testing. 							



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Section 7 – Lessons Learned

7.1 Key Lessons Learned

Project Lesson	Categories of Systemic Lessons
Allocate schedule allowance to enable ramp-up and learning of Defence requirements for Contractors inexperienced with Defence contracting templates	Schedule Management
Develop, maintain and leverage positive Contractor relationships	Contract Management
Use of review teams for assurance on Contract Development when tailoring Defence contracting templates.	Requirements Management

Section 8 – Project Line Management

8.1 Project Line Management in 2017–18

Position	Name
Division Head	Mr. Patrick Fitzpatrick (Acting Feb 2017-Aug 2017) RADM Anthony Dalton (Aug 2017 – Current)
Branch Head	CDRE John Chandler (to Jun 2018) Mr. Peter Croser (Jun 2018 – Current)
Project Director/Manager	Mr. David Kingston