

Conclusion

10. The department's administration of the support arrangements designed to ensure that the Cape Class patrol boats are achieving contracted availability and performance requirements is not yet effective, and the Cape Class patrol boats have not yet fully met the contracted performance and availability requirements. However, the full Cape Class patrol boat fleet is operational and has been conducting strategic patrols, providing tactical surveillance, and undertaking enforcement activities to address maritime security threats since 2015.

11. The governance arrangements for the in-service support phase of the Cape Class patrol boat project have not provided effective oversight, have not aligned with Department of Home Affairs' policy and have not included the identification and reporting of in-service support risks. Consequently, there has not been an effective transition to the in-service support phase of the Cape Class patrol boat project, and risks to the achievement of the performance and availability targets have not been effectively managed. However, as at September 2018 the department has developed revised governance arrangements and is in the early stages of implementation.

12. The department has not established effective arrangements to manage the in-service support phase of the contract for the Cape Class patrol boats. Prior to 2018, the department had a high volume of final acceptance issues in the engineering, maintenance, and supply categories. However, in early 2018, the department established a remediation program to improve contract management arrangements, and has made progress in each of these categories. Notwithstanding this, the department has further work to do before contract management could be considered to be effective. Performance management processes have been designed to broadly align with those set out in the contract, however the performance management framework has not been implemented as set out in the contract. As at October 2018, the application and calculation methodology of the abatement regime is being reviewed as part of an ongoing dispute resolution process.

13. The department's arrangements to provide support to operations are partially effective. The department is developing but has not yet implemented appropriate workforce arrangements, contract management requires improvement, and the effectiveness of budget management has been constrained as the department is not yet well placed to accurately estimate, forecast, and control costs to operate and provide in-service support to the Cape Class patrol boats. Nevertheless, the Cape Class patrol boats are able to access appropriate infrastructure in the form of interim dedicated berthing facilities and the department has taken steps to procure permanent berthing facilities.

Supporting Findings

Governance arrangements

14. The department has not established effective governance arrangements for the in-service support phase of the Cape Class patrol boat project. The governance arrangements implemented in July 2015 were focused on commercial and contract management issues, were not effective in managing risks or resolving issues and did not reflect the risk profile of the Cape Class patrol boat project. However, as at October 2018, the department has taken steps to implement governance

arrangements, which reflect the risk profile of the in-service support phase of the Cape Class patrol boat project and comply with departmental policies for high risk, high value projects.

15. The department has not integrated the identification and reporting of in-service support risks into appropriate governance arrangements for the in-service support phase of the Cape Class patrol boat project. As such, risk management processes, practices and reporting for the in-service support phase are not yet mature. However, as at September 2018, the department is in the early stages of developing and implementing appropriate risk management arrangements.

Contract and performance management

16. The department's management of all elements of the in-service support contract is not yet effective. However, the department has commenced a substantial remediation program to implement improved contract management and administration practices. Notwithstanding this, further work is required before the management of the in-service support contract could be considered to be effective.

17. The department has designed a performance management framework for the Cape Class patrol boats comprised of critical success factors and key performance indicators that are broadly aligned with the government's availability and performance requirements. The framework also includes an abatement regime where a significant portion of the in-service support payments can be withheld or a debt incurred if the contractor fails to achieve the critical success factors or key performance indicators. However, the department has not implemented the performance management framework as set out in the contract.

18. Performance arrangements are continually monitored via performance workbooks, performance exception reports, and the quarterly and annual performance reviews. The department has also engaged a contractor to review the performance arrangements. However, as at October 2018 findings from the review have not been implemented as the structure and application of the performance management framework is subject to an ongoing dispute resolution process.

Support to operations

19. The Department has partially established appropriate support and infrastructure for the Cape Class patrol boats. Logistics support arrangements are mature, however depend on largely manual processes. The management of the contracts that provide port services, fuel and provisions to the Cape Class patrol boats has been largely passive, and as a result is not effective. Nonetheless, the Cape Class patrol boats are able to access appropriate infrastructure in the form of interim dedicated berthing facilities in Darwin with full capability to conduct crew changeovers, and undertake maintenance, refuel and re-supply.

20. The workforce arrangements for the Cape Class patrol boats are not yet effective. In December 2014, Auditor-General's report No.13 2014–15, *Management of the Cape Class patrol boat program* recommended that the Australian Customs and Border Protection Service, now the department, develop and implement a workforce strategy. As at October 2018, a strategic workforce plan has not been implemented. Consequently, critical gaps in the workforce arrangements for the Cape Class patrol boats have emerged which the department is attempting to address.

21. The management of the budget required to operate and provide in-service support to the Cape Class patrol boats has been constrained as the department is not yet well placed to effectively estimate, forecast and control costs to operate and provide in-service support to the Cape Class patrol boats over their complete lifespan.

Recommendations

Recommendation no.1
Paragraph 2.10 The department should develop and implement a fleet management plan which outlines how the marine fleet, including the Cape Class patrol boats, will be operated, managed and supported throughout their lifecycle to meet performance and availability targets and achieve the policy objectives of government.

Department of Home Affairs response: *Agreed.*

Recommendation no.2
Paragraph 2.23 The department should integrate the identification, monitoring, evaluation and reporting of risks including contract, workforce, logistics and budget risks into governance arrangements that align with the risk profile of the Cape Class patrol boat project to provide assurance that risks to the achievement of the performance and availability targets are being effectively managed.

Department of Home Affairs response: *Agreed.*

Recommendation no.3
Paragraph 4.8 The department should ensure that contractually required performance reporting meets the needs of the department, are analysed, and the results used to support departmental planning and budgeting activities.

Department of Home Affairs: *Partially Agreed.*

Recommendation no.4
Paragraph 4.21 As part of implementing recommendation no.2 from the previous ANAO audit, the department should prioritise the development and implementation of:

- (a) a strategic workforce plan and recruitment strategy;
- (b) a training needs analysis; and
- (c) a learning and development framework for the marine unit.

This framework should ensure that workforce arrangements for the marine unit are effective and that sufficient numbers of appropriately qualified and trained crew are available to meet regulatory requirements and to support the ability of the department to meet the performance and availability targets of Government over the longer-term.

Department of Home Affairs: *Agreed.*

Summary of entity responses

22. The proposed report was provided to the Department of Home Affairs, and extracts from the proposed report were provided to Austal Ships Pty Ltd (Austal). Formal responses were received from the Department of Home Affairs and Austal and the summary responses are provided below. The full responses from the Department of Home Affairs and Austal are provided at Appendix 1.

Department of Home Affairs

The Department of Home Affairs (the Department) and the Australian Border Force (ABF) thanks the Australian National Audit Office for the opportunity to respond to the matters raised in this performance audit report.

The Department and the ABF agree with recommendations one, two and four and partially agrees with recommendation three. In our view, recommendation three does not recognise the current consideration given to performance reporting through existing contract management processes.

As recognised in the report, the full Cape Class Patrol Boat fleet is operational and has been conducting strategic patrols, providing tactical surveillance and undertaking enforcement activities to address maritime security threats since 2015. The effective management of the Australian Border Force marine fleet is a high priority to the Department and the ABF. We are continuing to address concerns around the Cape Class Patrol Boat in service support arrangements as identified in this performance audit, including the improvement of governance and oversight arrangements going forward.

The Department and the ABF acknowledge that there is still work to do in relation to the Cape Class Patrol Boat In Service Support Arrangements and is committed to improving the management of the Australian Border Force marine fleet.

Austal Ships Pty Ltd

ANAO have requested that Austal review selected excerpts from a draft version of this report. In summary of Austal's formal response, the In-Service Support (ISS) component of the Contract has been in operation for some time, and since taking over delivery of the ISS from DMS Maritime, the working relationship between the Department and Austal has greatly improved. Austal is delivering the CCPB availability required under the Contract and is decreasing maintenance debt on the CCPBs. However, that outcome is coming at significant and unreasonable cost to Austal which it is not prepared to support in the future. The costs arise because the ISS Contract is under resourced in critical areas, in part because there are significant gaps in the ISS Scope of Work. These gaps arise from erroneous assumptions which were made by the parties regarding the effort required to maintain the CCPBs. In addition, the PMF regime under the Contract is deficient in a number of respects and it requires a common understanding as to the basis upon which it is to be applied to be workable in the long term. The primary reason for any failure of the Department to achieve the Government's required levels of availability is not, therefore, Austal's delivery of the ISS under the Contract. Rather, the Department is under resourced to utilise CCPB availability, provide Organisational Level Maintenance, and provide proper engineering governance. Finally, Austal notes that any additional maintenance on the CCPBs required to remediate stern tube issues is now being ceased because Austal has satisfactorily demonstrated that the stern tube issues have been resolved.

Key messages from this audit for all Australian Government entities

23. Below is a summary of key messages, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

Risk management

- Where risks have materialised that have a significant impact on the ability of the entity to deliver the expected benefits of a project, program or policy, entities should review risk controls, and adjust the associated mitigation strategies.

Contract and performance management

- Where entities acquire new capabilities to achieve strategic priorities and objectives of government, entities should take a proactive role in contract management to ensure that the expected benefits are realised throughout the life of the project.
- Where service delivery outcomes or capability requirements cannot be fully met, entities should consider the impact of the limitations on the ability to deliver the service and/or achieve the expected benefit. Where the limitations cannot be rectified, or resolved, entities should examine the contract and performance arrangements to ensure that they continue to be appropriate.

Performance monitoring and reporting

- Entities should ensure that performance monitoring and reporting arrangements meet the needs of stakeholders, results are used to inform planning and budgeting activities, support accurate assessments of risk, and provide assurance that service delivery is effective.

Audit findings

1. Background

Introduction

1.1 In the May 2010 Budget, the government provided \$573.6 million over 10 years for the acquisition and operating costs (including crew, maintenance and fuel) for a fleet of eight larger and more capable patrol boats to replace the ageing Bay Class vessels. The funding provided was to meet the estimated cost to design, construct and deliver the Cape Class patrol boats (CCPBs) together with a portion of the increased personnel and operating costs, as illustrated in Table 1.1:

Table 1.1: Government funding per cost element

Cost elements	Ten year costing 2010–11 to 2019–20 (\$million)
Design and build of the CCPBs.	316.5
Departmental expenses and funding for additional staff (Marine Crew), fuel and other costs required to operate the CCPBs.	257.1
Total funding	573.6

Source: ANAO analysis of departmental documents.

1.2 As part of its approval, the government required that a level of effort of 2400 patrol days (300 patrol days per CCPB) per annum was to be maintained across the patrol boat fleet. The CCPBs form part of Australia's broader marine capability and are responsible for performing strategic patrols, providing tactical surveillance, and undertaking enforcement activities to address maritime security threats within and beyond Australia's 200 nautical mile Exclusive Economic Zone. The capability requirements for the replacement patrol boats are detailed below at Table 1.2.

Table 1.2: Cape Class Patrol Boat capability requirements

Capability	Description
Range	4000 nautical miles before requiring to refuel.
Speed	Sustainable 25 knots.
Endurance	28 day patrols.
Boarding	Ability to launch two Ship's Boats ^a of six boarding party members.
Crewing	Crew complement sufficient to deploy two boarding parties.
Sea-keeping	Ability to operate effectively in moderate sea states and survive high sea states.
Communications	Ability to receive and share information with other supporting vessels and aircraft via interoperable systems.
Accommodation	18 crew + 50 transportees.
Towing capacity	Ability to tow a similar size vessel or a number of smaller sized vessels.
Growth Margins	Sufficient to cater for changes to regulatory regimes and future capability needs.
Surveillance	Ability to detect and track suspect vessels at sufficient range for overt and covert operations.

Capability	Description
Protection and offensive capabilities	Ability to deploy lethal and non-lethal self-protection measures.

Note a: Each CCPB carries two Ship's Boats which are 7.3m long and can be launched simultaneously from the CCPB to conduct interception and boarding activities.

Source: Auditor-General's Report No.13 2014–15, *Management of the Cape Class patrol boat program*, p.37.

Acquisition phase

1.3 On 12 August 2011, the Commonwealth, represented by the Australian Customs and Border Protection Service (ACBPS) entered into a combined acquisition and support contract (the contract) with Austal Ships Pty Ltd (Austal). The contract with Austal was to design, build and provide in-service support (ISS) for a fleet of eight aluminium hulled patrol boats — the CCPB fleet. Austal designed and constructed the fleet, and entered into a sub-contract arrangement with DMS Maritime, a subsidiary of Serco, to provide the ISS.⁵ The ISS activities specified in the contract include management and delivery of all engineering, maintenance and supply support services required to achieve the contracted rate of effort (2400 patrol days across the fleet — 300 patrol days per CCPB per annum).

1.4 The first CCPB (*Cape St George*) was delivered in April 2013. Delivery of the remainder of the fleet took place from May 2014 through to 31 August 2015. The delivery date and acceptance status of each CCPB is detailed below at Table 1.3.

Table 1.3: Delivery and acceptance status of the Cape Class patrol boats

CCPB name	Delivery date	Acceptance status
<i>Cape St George</i>	17 April 2013	Conditionally accepted
<i>Cape Byron</i>	19 May 2014	Conditionally accepted
<i>Cape Nelson</i>	15 September 2014	Conditionally accepted
<i>Cape Sorell</i>	15 December 2014	Conditionally accepted
<i>Cape Jervis</i>	10 March 2015	Conditionally accepted
<i>Cape Leveque</i>	1 May 2015	Conditionally accepted
<i>Cape Wessel</i>	1 July 2015	Conditionally accepted
<i>Cape York</i>	31 August 2015	Conditionally accepted

Source: ANAO analysis of departmental documentation.

⁵ In January 2017, DMS Maritime (Serco) ceased providing in-service support to the Cape Class patrol boats, and responsibility for the provision of in-service support arrangements transferred to Austal Ltd.

1.5 All of the CCPBs were conditionally accepted into service⁶ due to a range of deficiencies and defects.⁷

1.6 After the acceptance of the last CCPB (*Cape York*), and the deficiencies and defects which had arisen had been remedied to the satisfaction of the department, the full fleet of eight CCPBs was to be accepted. Achievement of this milestone⁸ was to mark the completion of the acquisition phase and the successful transition to the ISS phase of the contract.⁹ To illustrate the significance of achieving final acceptance, a payment of \$44.6 million was associated with the achievement of this milestone.

Final acceptance issues

1.7 In August 2015, as part of planning for final acceptance, the department provided Austal with a list of 62 items identified throughout the delivery of the CCPB fleet, which had not yet been satisfactorily resolved. These items (the Final Acceptance Issues List) included all of the exceptions specified in the supplies acceptance certificates submitted for department acceptance upon delivery of each CCPB, as well as some additional items raised by the department and agreed with Austal.¹⁰

1.8 The Final Acceptance Issues List spanned a range of issues in relation to the deliverables of the acquisition phase of the CCPB project, including capability (vessel performance) and support system deficiencies that had emerged. Between August and December 2015 Austal and the department¹¹ attempted to resolve the issues, and on 17 December 2015, Austal submitted the supplies acceptance certificate and associated claim for payment for the final acceptance milestone for approval.

1.9 On 22 December 2015 the supplies acceptance certificate submitted by Austal was rejected. Austal was advised that the request for final acceptance had been referred to the department's senior executive and that the \$44.6 million final acceptance milestone payment would be withheld. The department then wrote to Austal on the same day and advised that a partial payment of \$31 million (69 per cent) of the total milestone amount would be made subject to the following conditions:

6 Clause 8.7.9 of the contract allows the Commonwealth to issue a Supplies Acceptance Certificate subject to stated conditions (which, without limitation, may include complying with stated conditions of acceptance, or remedying defects, within a stated time period, varying payment or withholding part payment).

7 Defects and deficiencies are categorised by criticality as either Type 1, Type 2, or Type 3 deficiencies. Vessels should not be offered with any Type 1 deficiencies. Type 2 deficiencies must be rectified prior to the nominated date, and operational restrictions may apply. Type 3 deficiencies are the responsibility of the department to correct.

8 This milestone is specified in the contract as the final acceptance milestone.

9 This period was known as the transition period.

10 Austal have advised that while they agreed to include the additional items on the final acceptance issues list, Austal disputes that the additional items added were deficiencies that required rectification to achieve final acceptance.

11 The governance body tasked with resolving these issues was known as the CCPB Executive Steering Committee. This body was established in July 2015 at Austal's request and was comprised of two senior departmental representatives and two senior representatives from Austal.

- the provision of financial security in the form of a performance security deed for \$31 million;
- that the parties execute a Contract Change Proposal which would provide for a dispute resolution process¹² that is binding when referred to an independent third person¹³;
- that a series of performance and capability trials be conducted before 30 May 2016; and
- acknowledgement from Austal (in writing) that the partial payment did not constitute a waiver of the Commonwealth's rights under the contract, or at law.

1.10 However, a further letter was sent to Austal on 22 December 2015 agreeing that the conditions relating to the provision of a financial security and the conduct of performance trials to address disputed capability shortfalls would be removed subject to Austal and the department agreeing a way forward in January 2016. Austal wrote to the department to acknowledge the conditions, and on 23 December 2015, the \$31 million was paid. Between January and June 2016, the department and Austal continued to attempt to resolve the issues, and a further payment of \$8 million was made on 29 June 2016. Despite these efforts, the final acceptance issues have not been successfully resolved, and as at October 2018, the CCPB fleet has not been finally accepted, capability and support system deficiencies remain, and the project has not successfully transitioned to the ISS phase.

In-service support phase

1.11 Under the combined acquisition and support contract, the ISS phase was to commence upon acceptance of the first CCPB (*Cape St George*), and transition from the acquisition to the ISS phase using a staged approach. The transition period was to close after the last CCPB (*Cape York*) had been delivered and the fleet had been unconditionally accepted into service.

1.12 In 2014, a previous audit undertaken by the ANAO¹⁴ identified that the initial application of the ISS arrangements had resulted in the identification of a number of areas of contention between the department and Austal that would require resolution. Particularly, the calculation and application of payment abatements¹⁵ in accordance with the performance management framework of the contract, and the operation of the survey and quote mechanism.

1.13 These issues first emerged in November 2013, when the department applied abatements as set out in the performance management framework of the contract for the first time.¹⁶ Austal disputed the abatement amount and in January 2014, wrote to the then ACBPS, (now the

12 The contract specifies that if a dispute between the Commonwealth and the Contractor cannot be settled by negotiation (including negotiation between senior management of the parties) within 30 days, the parties may agree to use an alternative dispute resolution process to attempt to resolve the dispute. This dispute resolution process has not been effective in managing issues that have arisen throughout the acquisition and into the in-service support phase.

13 Contract Change Proposal 158 was developed and submitted in August 2015, however it was not approved.

14 Auditor-General Report No.13 2014–15, *Management of the Cape Class patrol boat program*, p.14.

15 A payment abatement is where funds are withheld (payment reduced) if the contractor fails to deliver supplies within the timeframes specified, fails to complete a milestone or has failed to meet the performance standards set out in the contract.

16 The abatements were applied due to the failure of the port stern tube on *Cape St George*, and the subsequent loss of vessel operational days.

Department of Home Affairs) requesting that the ISS arrangements in the contract be revised. Austal's position was that:

adjustments to the monthly service fee in accordance with the performance management framework are commercially disproportionate to the company's projected revenue stream and could result in a financial loss. The contract must be good business for Austal and this approach is not consistent with Performance Based Contracts, where the costs are recovered and only the profit element is at risk.

1.14 Since late 2013, and through the establishment of the Australian Border Force (previously the ACBPS) in July 2015 as the operational arm of the Department of Immigration and Border Protection, the operation of the contracted ISS arrangements for the CCPBs continued to be contentious. In December 2017, the Department of Immigration and Border Protection was transferred into the newly established Department of Home Affairs and as at October 2018, the contracted ISS arrangements, as well as other issues which have emerged are being addressed through an ongoing dispute resolution process.

The ANAO's previous audit

1.15 In December 2014, Auditor-General's Report No.13 2014–15, *Management of the Cape Class Patrol Boat Program*, was tabled in Parliament. This report concluded that the then ACBPS had established sound arrangements to underpin the acquisition of the CCPB fleet, but that risks remained in relation to the provision of ongoing support for vessel operations, particularly in relation to budget and workforce arrangements. The audit made two recommendations, which the then ACBPS, now the department, accepted.

Box 1 Recommendations of the previous ANAO audit

ANAO Recommendation No.1

That, given the CCPB program's estimate that CCPB operational costs are likely to exceed its available operational budget, the Australian Customs and Border Protection Service develops a clear strategy to address the estimated operational funding shortfalls, including contingency arrangements.

ANAO Recommendation No.2

That, to improve marine unit workforce planning, the Australian Customs and Border Protection Service develops an appropriate strategic workforce plan to address future workforce requirements.

1.16 As at October 2018, the status of the recommendations is outlined at Table 1.4 on the following page.

Related departmental and external reviews

1.17 There have been a number of departmental and external reviews into the management of the CCPB program since the ANAO presented its initial audit report to Parliament in December 2014.¹⁷ The objectives, findings, number of recommendations and status of implementation is detailed on the following page at Table 1.4:

¹⁷ Auditor-General's Report No.13 2014–15, *Management of the Cape Class Patrol Boat Program*, p.3.

Table 1.4: Related departmental and external reviews and status of implementation of recommendations

Year	Review conducted by	Description	No. of Recommendations ^b	Implemented	Not yet implemented
December 2014	Australian National Audit Office Management of the Cape Class patrol boat program	The objective of the audit was to assess the effectiveness of the then ACBPS management of the CCPB program. The audit found that overall ACBPS had established sound arrangements to underpin the acquisition of the CCPB fleet. However, risks relating to the ongoing support of operations that require active management remain. The report made two recommendations in relation to budget and workforce management.	2	0	2
November 2016	Department of Finance — Gateway Review 5 ^a	The review issued a delivery confidence assessment of 'Amber' meaning that successful delivery of the project appears feasible but significant issues exist requiring management attention.	5	3	2
November 2017	Department of Finance — Gateway Review 5 ^a	The review also issued a delivery confidence assessment of 'Amber' for the project and observed that significant issues exist (and have done so for some time).	7	5	2
November 2017	Department of Immigration and Border Protection — Management Initiated Review	The objective of this Management Initiated Review, was to evaluate the effectiveness of the department's contract management of the CCPBs and the ongoing in-service support provided by Austal. The review found that: that record keeping is inadequate and non-compliant with the department's policy; that contract management required significant improvement to meet departmental and best practice standards; significant issues and lack of remediation in relation to contractor performance had been noted; financial management is improving, however processes require improvement.	25	22	3

Year	Review conducted by	Description	No. of Recommendations ^b	Implemented	Not yet implemented
November 2017	Callida Consulting	<p>The review was conducted internally within the business area of the department responsible for managing the contracts that provide surveillance and enforcement functions within the maritime and aviation environment, including the contract with Austal to acquire and provide ISS for the CCPBs.</p> <p>The objective of this review, commissioned by the department, was to examine the status of the contracts managed, assess the depth and breadth of contract management practices and propose next steps to implement the contract management framework.</p> <p>The report found:</p> <p>an absence of structured proactive contract management practices and supporting procedural guidance; and</p> <p>capacity, capability and funding constraints.</p>	32	19	13
January 2018	Resolution Consulting	<p>The objective of this review was to determine the baseline cost for business as usual activities in the Border Force Capability Division during 2017–18, forecast the level of expenditure in the outer years, and determine the affordable service level, including inputs, to the CCPB program.</p> <p>This review rated the capacity and capability of the people, processes and systems as a 'red light' issue, and that significant business transformation is required to ensure that shore based support functions can perform at the appropriate level to support the deployment of the operational assets.</p>	18	4	14
Total			89	53	36

Note a: Gateway reviews are a project assurance methodology that involves short, intensive reviews at up to six critical stages in the lifecycle of a project. Reviews are conducted by a team of reviewers not associated with the project, and usually contain a mix of experts sourced from the public and private sectors. Reviews are designed to: assess the project against its specified objectives at a particular stage in the project's lifecycle; provide early identification of any areas that may require corrective action; and increase confidence that a project is ready to progress successfully to the next stage.

Note b: Of the 32 recommendations included in the Callida Consulting report, 20 are specific to the CCPB project and of the 18 recommendations made in the Resolution Consulting report, 10 are specifically directed towards the CCPB project.

Source: ANAO analysis of departmental documentation.

Audit approach

1.18 The objective of this audit was to examine the effectiveness of the department's administration of the support arrangements designed to ensure that the CCPBs are achieving contracted availability and performance requirements.

1.19 To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria.

- Has the department established effective governance arrangements for the in-service support program?
- Has the department established effective arrangements to manage the in-service support contract?
- Has the department implemented effective arrangements to support the operation of the Cape Class patrol boats?

1.20 The audit team has:

- reviewed, examined and analysed documentation held by the department;
- interviewed staff and external stakeholders, including Austal;
- examined maintenance records for CCPBs and training records for the Cape Class crew; and
- extracted and analysed data from the Computerised Maintenance Management System (CMMS).

1.21 Additionally, site visits have been conducted at the Austal Shipyards in Henderson Perth, the primary crew changeover point at East Arm Wharf in Darwin and the Austal Service Centre in Cairns.

1.22 The scope of the audit has not included an examination of the communications and surveillance capabilities, tasking, or strategic and tactical operations of the CCPBs.

1.23 The audit was conducted in accordance with the ANAO Auditing Standards at a cost to the ANAO of about \$375,600. The team members for this audit were Joyce Knight, Hannah Climas, Haydn Thurlow, Jessica Kanikula and Paul Bryant.

2. Governance arrangements

Areas examined

This chapter examines the effectiveness of the governance arrangements adopted by the department to provide appropriate oversight of the in-service support phase of the Cape Class patrol boat program, including the identification, reporting and management of in-service support risks.

Conclusion

The governance arrangements for the in-service support phase of the Cape Class patrol boat project have not provided effective oversight, have not aligned with Department of Home Affairs' policy and have not included the identification and reporting of in-service support risks. Consequently, there has not been an effective transition to the in-service support phase of the Cape Class patrol boat project, and risks to the achievement of the performance and availability targets have not been not effectively managed. However, as at September 2018, the department has developed revised governance arrangements and is the early stages of implementation.

Recommendations

The ANAO has made two recommendations to improve the governance arrangements. The recommendations include development and implementation of a fleet management plan, and incorporation of risk reporting into the recently established governance arrangements that have been developed to reflect the risk profile of the Cape Class patrol boat program and comply with departmental policies.

Has the department established effective governance arrangements for the in-service support project?

The department has not established effective governance arrangements for the in-service support phase of the Cape Class patrol boat project. The governance arrangements implemented in July 2015 were focused on commercial and contract management issues, were not effective in managing risks or resolving issues and did not reflect the risk profile of the Cape Class patrol boat project. However, as at October 2018, the department has taken steps to implement governance arrangements which reflect the risk profile of the in-service support phase of the Cape Class patrol boat project and comply with departmental policies for high risk, high value projects.

Governance for the Cape Class patrol boat project

2.1 Under the Department of Home Affairs' Project Management Framework, the CCPB project is categorised as a 'Tier 1' project.¹⁸ This categorisation reflects the fact that the CCPBs:

- represent a significant level of capital investment;
- have a planned capability life cycle of twenty years;

¹⁸ The department's project management framework provides instruction on how to determine the tier of a project based on the following criteria: financial investment, duration, delivery risk, complexity, business/change impact, strategic importance, and stakeholder engagement.

- require a large team of dedicated specialist resources;
- is a moderately complex project due to demanding requirements and limited funding;
- is high risk;
- will require significant business change to fully exploit the benefits of the enhanced capability; and
- is prominent in terms of public concern and media interest.

2.2 The framework in place, prior to the transition of the ACBPS into the ABF as part of the establishment of the Department of Immigration and Border Protection, specified that a Tier 1 project requires governance arrangements that provide departmental scrutiny and oversight which properly reflect the project's heightened risk profile. This policy framework was retained throughout the transition of the Department of Immigration and Border Protection into the Department of Home Affairs.

2.3 Initial governance arrangements for the acquisition phase of the CCPB project conformed to the project management policy framework, and continued through the commencement of the in-service support phase in April 2013 through to October 2015. Since October 2015, the department has not been able to demonstrate that effective coordination between the business units responsible for managing the CCPB contract and providing support to the CCPB fleet was maintained. In July 2015, specific arrangements were established to address the contract management and commercial issues that had emerged and achieve final acceptance of the CCPB fleet.¹⁹ Under these arrangements some progress was made, however the arrangements were ultimately not effective in resolving the issues, and lapsed in September 2016.

2.4 Successive Department of Finance Gateway reviews conducted between 2016 and 2017 found that governance arrangements for the Cape Class patrol boat project were not to the standard expected for a Tier 1 project.²⁰ The review in November 2016 found that a number of gaps had emerged between the generally sound governance and management arrangements in place for the acquisition phase and the arrangements in place for the introduction into service (transition phase) and in-service support phases of the CCPB project. Therefore, the review recommended that the department develop and implement governance arrangements commensurate with the complexity of the project at this stage of its lifecycle.

2.5 In November 2017, a subsequent review found that despite some progress, appropriate project governance and corporate management structures were absent. The report recommended that the department expedite the reviews which had been commissioned to ensure that appropriate project governance and corporate management arrangements were in place for the ISS phase of the CCPB project.

2.6 In August 2018, the department advised the ANAO that improved governance arrangements were being implemented. Specifically, the department advised that the governance requirements specified in the contract had been re-instated; an engineering and configuration governance process was being developed, and a senior governance board would be convened to:

19 These arrangements were comprised of four representatives. Two from Austal and two from the ABF. Representation from the ABF was limited to the

20 The reviews were the Gateway Assurance Reviews, commissioned by the Department of Finance under the Gateway Assurance Review process.

- provide high-level oversight and advice on operations and activities;
- monitor associated risks and issues;
- support operation and activity delivery within the allocated budget; and
- make recommendations in relation to matters requiring consideration and determination by the senior responsible officer.

Governance arrangements

2.7 On 1 July 2015, the government established the Australian Border Force (ABF) as a group within the integrated Department of Immigration and Border Protection. The ABF is headed by a statutory officer, the Australian Border Force Commissioner, and for administrative purposes reports to the Secretary of the department.²¹ On 20 December 2017, the Department of Home Affairs was established which transferred the administrative and reporting functions for the ABF into the newly established department. Consequently, the ABF is part of the Department of Home Affairs for the purposes of the *Public Governance, Performance and Accountability Act (PGPA Act)*.

2.8 The blueprint for Home Affairs identifies that maritime border protection is a strategic priority for the department, which will be delivered by conducting patrols within the Australian Maritime Domain and engaging in surveillance, reconnaissance and enforcement activities to mitigate and eliminate border-related threats. As such, the Cape Class patrol boats (CCPBs) and other marine assets operated and maintained by the department play a significant role in achieving the strategic objectives of the department, and overall policy objectives of government. The performance target for the Department of Immigration and Border Protection in 2017–18, and for the Department of Home Affairs from 2018–19 through to 2019–20 and beyond, is the delivery of 3320 patrol days across the entire marine fleet, with the CCPBs responsible for delivering 2400 (73 per cent) of the total patrol days required.

2.9 Noting this, the department does not have a fleet management plan, which details how marine assets will be operated and supported throughout their planned lifecycles. As such, the department should develop an overarching fleet management plan to outline how it intends to operate, manage and maintain the marine fleet, including the CCPBs, to support the achievement of policy objectives and deliver the performance targets of government.

21 As at October 2018, the Secretary of the department is the Secretary of the Department of Home Affairs.

Recommendation no.1

2.10 The department should develop and implement a fleet management plan which outlines how the marine fleet, including the Cape Class patrol boats, will be operated, managed and supported throughout their lifecycle to meet performance and availability targets and achieve the policy objectives of government.

Department of Home Affairs response: *Agreed.*

2.11 *The Department will develop a fleet management plan for the Australian Border Force (ABF) marine fleet, including the Cape Class Patrol Boats.*

Governance arrangements for the Cape Class patrol boat contract

2.12 The Department of Home Affairs' contract governance policy states that governance arrangements should consist of:

- the contract;
- the contract governance charter; and
- the contract management plan.

2.13 As at June 2018, a separate contract governance charter had not been developed for the CCPBs. However, the department advised that elements of the governance charter, specifically, the contract governance structure and roles and responsibilities, have been incorporated into the recently approved contract management plan for the in-service support phase of the CCPBs.

2.14 The contract management plan outlining the governance arrangements for the ISS phase of the CCPB contract did not come into effect until 5 July 2018. As such, the effectiveness of these arrangements cannot be accurately assessed at this time.

Has the department integrated the identification and reporting of in-service support risks into the governance arrangements, and are they being effectively managed?

The department has not integrated the identification and reporting of in-service support risks into appropriate governance arrangements for the in-service support phase of the Cape Class patrol boat project. As such, risk management processes, practices and reporting for the in-service support phase are not yet mature. However, as at September 2018, the department is in the early stages of developing and implementing appropriate risk management arrangements.

2.15 Prior to the delivery of the final CCPB (*Cape York*) the department had developed a consolidated risk register. This risk register identified, recorded and was used to monitor contract, sustainment, support, workforce and logistic risks associated with the CCPB project. However, the consolidated risk register was not maintained. Consequently, risk management for the ISS phase between 2015 and 2017 has not been effective. In early 2018, the department commenced developing and updating a consolidated risk register for the ISS phase of the CCPB project and has provided evidence that as at September 2018, improved risk management arrangements for the ISS phase of the CCPB project are in the process of being implemented.

2.16 As discussed previously, the CCPB project has been categorised as a Tier 1 project. The Tier 1 rating was assigned as the acquisition of an enhanced patrol boat fleet was deemed by the ACBPS, now the Department of Home Affairs, to be 'mission critical'.²² Consequently, the total indicative risk rating for the CCPB project is high. Further, achievement of the performance and availability targets by the CCPBs is required to support the strategic priorities of the department²³, and address three of the department's 14 enterprise level risks. However, until September 2018, the department had not updated the risk management plan and had not developed an integrated risk register for the ISS phase of the CCPB project.

Risk management

2.17 The department has mature arrangements in place to ensure that the CCPB vessels are operated safely²⁴, and technical directives are issued which detail how hazards are to be managed. Where issues have been identified, monitoring and evaluation is conducted via a risk assessment which details how the risk is to be treated.

2.18 The arrangements in place to identify and report in-service support risks, however, are less mature. An approved risk management plan outlining how the department intends to manage, monitor and report risks in relation to the ISS phase of the project did not come into effect until September 2018. As at August 2018, risk plans for the contracts providing goods and services to support operations of the CCPBs, including fuel and port services, are being developed but have not yet been implemented. Multiple risk registers exist²⁵ and there is evidence that the department is in the early stages of developing a consolidated risk register to capture workforce, budget, contract management and logistics risks. Nevertheless, the consolidated risk register does not yet include an assessment of the effectiveness of the controls, identify treatment options, or detail how risks will be monitored and evaluated.

Risk reporting

2.19 Risks in relation to the delivery of services under the ISS phase of the CCPB contract are monitored and managed through contractually required reporting arrangements, which include:

- Annual Performance Review Reports;
- Quarterly Performance Review Reports; and
- Monthly Performance Review Meetings and Reports.

22 The Department of Finance Gateway Assessment Tool (the GAT) consists of a standard set of high level criteria against which Senior Responsible Officials and Project Managers can assess the characteristics and degree of complexity of a proposed project. This tool is used to assess the inherent risk of projects and determine if a project meets the thresholds which determine if a gateway assurance process is required. The department's completion of the GAT concluded that 'given the nature of the capability required, the Project can be described as mission critical'.

23 One of the specific performance measures outlined in the portfolio budget statements is the achievement of 3320 patrol days per annum, 2400 of which are to be provided by the CCPBs.

24 The Safety Management System serves as a framework to ensure that the CCPBs are operated safely and provides guidance in relation to the management of workplace health and safety risks. Risk management is conducted via the maintenance of CCPB-specific hazard logs.

25 Both Austal and the department have developed contract management risk registers but these were limited to service delivery risks and issues.

2.20 The Annual and Quarterly reports are intended to provide an overview of Austal's progress and performance over the assessment period against the agreed critical success factors and key performance indicators. These reports are also used to monitor the delivery of engineering, maintenance and supply services. The Quarterly Performance Review Reports are the primary mechanism used by the department to monitor contract service delivery risks. The reports and associated meetings are intended to be used for both Austal and the department to discuss their respective performance, review the risk register, and determine corrective action for issues which have emerged.

2.21 The ANAO reviewed the performance reports and minutes of the meetings associated with these reports and found indications that these meetings have not been held regularly.²⁶ Nine of the 20 Quarterly Performance Review Reports have been located, and six of the 20 Quarterly Performance Review Meeting minutes have been located. Of the records which have been located and reviewed, the ANAO has observed that the records for 2015 are absent, suggesting that these meetings were not held.²⁷

2.22 The department has since advised that risk and issue meetings are now held on a monthly basis with updates made to the risk register. This processes is currently limited to contract management risks, and documentation reviewed by the ANAO indicates that a consolidated risk register for the ISS phase of the CCPB program is still being developed. As such, regular reporting of contract, workforce, budget, and logistics risks, management strategies, and assessments of the effectiveness of the controls have not yet been incorporated into the governance arrangements.

Recommendation no.2

2.23 The department should integrate the identification, monitoring, evaluation and reporting of risks including contract, workforce, logistics and budget risks into governance arrangements that align with the risk profile of the Cape Class patrol boat project and provide assurance that the risks to the achievement of the performance and availability targets are being effectively managed.

Department of Home Affairs response: Agreed

2.24 *The ABF has commenced developing an integrated risk management plan covering all aspects of the fundamental inputs to capability. The ABF will work closely with the Department to ensure integration of this plan into the broader departmental governance and risk management framework.*

26 The audit team conducted its own document searches and, where necessary, sought the department's assistance in locating key documents. Issues relating to this part of the audit process have been exacerbated by inconsistent filing — the department has an Electronic Document and Records Management System, however many staff prefer to store documents in 'network drives' or local area networks which are not designed or approved for electronic document storage, retention or retrieval. As discussed in Audit Report No. 45 2017–18 *The Integration of the Department of Immigration and Border Protection and the Australian Customs and Border Protection Service*, inadequate recordkeeping has been a persistent theme in the ANAO's previous audits of the department.

27 Under the in-service support contract, the Contractor (Austal) is to prepare and deliver the minutes for each Quarterly Performance Review Meeting (QPRM). QPRMs are to be held in February, May, August, and November each year.

3. Contract and performance management

Areas examined

This chapter examines whether the department has established effective arrangements to manage the in-service support phase of the contract, including the engineering, maintenance and supply requirements. It also examines the performance management framework, including the design, implementation and monitoring arrangements.

Conclusion

The department has not established effective arrangements to manage the in-service support phase of the contract for the Cape Class patrol boats. Prior to 2018, the department had a high volume of final acceptance issues in the engineering, maintenance, and supply categories. However, in early 2018, the department established a remediation program to improve contract management arrangements, and has made progress in each of these categories. Notwithstanding this, the department has further work to do before contract management could be considered to be effective. Performance management processes have been designed to broadly align with those set out in the contract, however the performance management framework has not been implemented as set out in the contract. As at October 2018, the application and calculation methodology of the abatement regime is being reviewed as part of an ongoing dispute resolution process.

Areas for improvement

The ANAO has not made any recommendations, as the department is taking steps to improve contract management and implement the recommendations from previous external reviews. Additionally, the performance management framework is being reviewed as part of a dispute resolution process.

Is the department managing all elements of the in-service support contract (including the engineering, maintenance and supply requirements) effectively?

The department's management of all elements of the in-service support contract is not yet effective. However, the department has commenced a substantial remediation program to implement improved contract management and administration practices. Notwithstanding this, further work is required before the management of the in-service support contract could be considered to be effective.

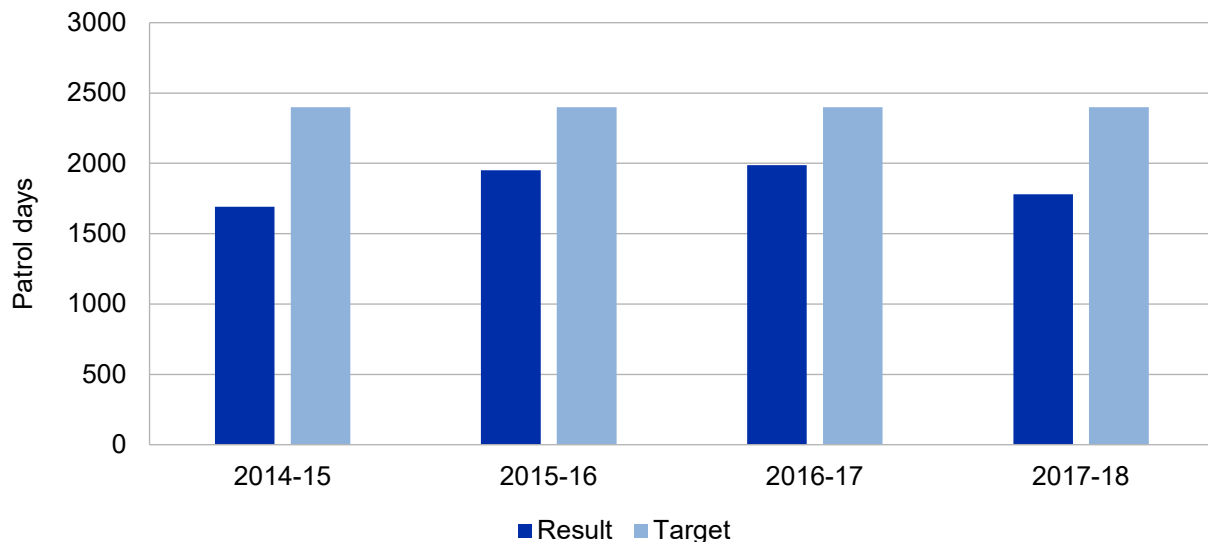
3.1 The combined acquisition and in-service support (ISS) contract between the department and Austal Ships Pty Ltd (Austal) is a high value (\$425.1 million), high-risk contract. Under this contract, Austal is responsible for designing, constructing, and delivering the Cape Class patrol boats (CCPBs), the associated support system, and providing in-service support to the CCPB fleet until August 2019.²⁸ For the ISS phase, Austal is to deliver all ISS, including the engineering, maintenance

²⁸ The CCPBs are to be designed and constructed to meet the performance (capability) requirements as required by government.

and supply services required to achieve a rate of effort of 2400 patrol days across the fleet (300 patrol days per CCPB).

3.2 As discussed above, the CCPBs are responsible for delivering 2400 (73 per cent) of the total patrol days required by government. The performance of the CCPBs in relation to the availability targets for the period 2014–15 to 2017–18 is detailed below at Figure 3.1.

Figure 3.1: Cape Class patrol days achieved from 2014–15 to 2017–18



Source: Department of Immigration and Border Protection *Annual Reports 2015–16* and *2016–17*, Department of Home Affairs *Annual Report 2017–18*.

3.3 In 2016–17, the department reported that the shortfall was primarily the result of ongoing work to rectify defects with the CCPBs.²⁹ While the CCPBs have met the majority of the performance (capability) requirements³⁰, departmental documentation reviewed by the ANAO indicates that three of the twelve capability requirements (see Table 1.2) have not yet been fully met. However, it should be noted that this assessment is disputed by Austal. As at August 2018, the capability and support system deficiencies that emerged during the acquisition phase, and continue to impact on the delivery of ISS to the CCPBs are still being addressed, and those that are disputed are being reviewed as part of a dispute resolution process.

Contract management and administration

3.4 Despite delivery of ISS services commencing in 2013, an approved contract management plan for the ISS phase was not in place until July 2018, and communication and stakeholder engagement guidance, including escalation processes, were not documented until May 2018. As a result, inconsistent contract administration practices have been applied, which have been compounded by high staff turnover rates, the subsequent loss of corporate knowledge and poor record keeping practices.

²⁹ Department of Immigration and Border Protection *Annual Report 2016–17* p. 256.

³⁰ The performance (capability) requirements are set out in the Acquisition Statement of Work, the Operational Concept Document and the Functional Performance Specifications.

3.5 Two previous decisions by the department to release funds to Austal in December 2015 and June 2016 (as discussed at paragraph 1.10) have eroded the financial leverage of the department. These decisions have also impaired the ability of the department to ensure that the deliverables of the acquisition phase, including the support system, will enable effective delivery of ISS, including the engineering, maintenance and supply services.

3.6 In November 2017, a report commissioned by the department identified that the contract management framework had not been implemented for the ISS phase and recommended that high value, high risk contracts (such as the CCPB combined acquisition and support contract) should be supported by contract management tools, governance documentation and procedural guidance. High-level contract management guidance material is available. However, documented procedures and processes specific to the management and administration of the ISS phase of the CCPB contract are currently limited to the processing of survey and quote invoices and the storage of documentation in the approved electronic records management system.

3.7 Additionally, as at October 2018, final acceptance of the CCPB fleet has not yet been achieved. These issues are being managed through the Final Acceptance Issues Resolution process, and the department has made progress (see Table 3.1). However, work remains to close out the final acceptance issues and ensure that the department is well positioned to effectively manage the contract.

Table 3.1: Final acceptance issues progress

Category	Percentage closed	Percentage open
Engineering	44	56
Maintenance	44	56
Supply	50	50
Contract Management	50	50
Total	47	53

Source: ANAO analysis of departmental documentation.

3.8 Prior to 2018, the department was not actively managing the ISS phase of the contract. In 2018, the department has taken steps to implement improved contract management and administration practices, including:

- the provision of regular contract management reports to generate improved visibility of emerging issues, provide performance and status updates, and record and monitor the implementation of approved actions;
- improved oversight and assurance arrangements to manage the configuration of the CCPBs and ensure that engineering change proposals and requests for deviation are reviewed and processed in a timely fashion, and implemented in a controlled manner; and
- improved financial management processes including forecasting and budgeting arrangements for the contract are being developed, but have not yet been implemented.

Additionally, the department has now engaged a contractor to provide project management and contract administration support and develop contract management and administration processes

and procedures. Notwithstanding this, further work is required before management of the CCPB contract could be considered to be effective.

Engineering, maintenance and supply support

3.9 In 2011 when the contract was signed, Austal sub-contracted the in-service support to an experienced in-service support provider — DMS Maritime (Serco). In January 2017, Serco ceased providing in-service support to the CCPB fleet, and responsibility for providing the in-service support was transferred to Austal.

Engineering support

3.10 The engineering support that Austal is to provide for the CCPBs under the ISS phase of the contract includes:

- engineering management;
- certification requirements³¹;
- condition monitoring;
- engineering investigations³² and engineering change proposals (ECPs);
- technical instructions;
- configuration management; and
- technical data support.

3.11 The department is responsible for providing oversight and assurance that the engineering services delivered by the ISS contractor comply with the Marine Technical Regulatory System (MTRS). This includes ensuring that the technical integrity of the CCPB is maintained and any changes to the configuration of the CCPBs are implemented in a controlled manner through effective configuration and change management systems and processes. The department's approach to providing oversight, assurance and specialist engineering support is largely reactive and is not triggered until an Engineering Change Proposal (ECP)³³ or Request for Deviation (RFD)³⁴ is submitted or a capability deficiency is raised by the Chief Engineer of a CCPB.

3.12 The department supports effective configuration and change management processes through the review and timely actioning of RFD's and ECP's. According to the contract, the department is to review and either approve or reject ECP's within 20 working days. However, documentation reviewed by the ANAO indicates that ECP's have taken on average 48 calendar days to be processed. In July 2018, the department identified that of 359 open ECP's, up to 264 have been physically implemented, but have not been closed.

31 Certification requirements are those outlined in the National Standard for Commercial Vessels, which applies to the operation of the CCPBs. Certification requirements include construction, equipment, design, operation and crew competencies. Compliance with the applicable certification requirements is provided through regular surveys (reviews) of vessels which are conducted by a class society recognised by the regulator, the Australian Maritime Safety Authority. For the CCPBs the class society is DNV-GL.

32 Clause 5.4.1.1 of the ISS Statement of Work states that 'when requested by the Commonwealth, the Contractor shall undertake, or cause to be undertaken engineering investigations and related technical research it deems necessary to ensure that the performance and other criteria of the contract are met'.

33 Engineering Change Proposals are raised when permanent changes to the configuration of the CCPBs are required.

34 Requests for Deviation are raised when temporary changes to the configuration of the CCPBs are required.

3.13 Where an ECP changes the maintenance or support requirements of a CCPB, it should be accompanied by technical data which details the new maintenance, testing, equipment and support implications. The ANAO reviewed the ECP register as at July 2018 and found that of 302 ECP's which are identified as being approved, the configuration management or integrated logistic support requirements have not been updated for 84 (28 per cent).

3.14 A physical configuration audit conducted by the department on two CCPBs, one in 2017 and the other in 2018, identified that configuration management processes and practices require improvement to ensure that temporary and permanent changes to the design of the CCPBs are appropriately managed and controlled. The department has subsequently advised that processes to improve configuration and engineering governance arrangements are in progress (see paragraph 2.6). However, the department it is not yet well placed to provide assurance that the processes and practices employed to approve, manage and control changes to the configuration of the CCPBs support the efficient and effective delivery of preventative and corrective maintenance.

Maintenance support

3.15 For the ISS phase of the CCPB project the department is responsible for raising corrective maintenance requests and for coordinating the planning, scheduling, and delivery of preventative and corrective maintenance in consultation with Austal. The department is also responsible for monitoring the completion of preventative and corrective maintenance tasks, and ensuring that requests for payment include the required supporting documentation.

3.16 The department plans and schedules preventative maintenance in consultation with Austal, with arrangements in place to manage, schedule and monitor the delivery of preventative and corrective maintenance services. However, the arrangements are not fully effective as manual based processes and 'workarounds' have had to be implemented to address functionality shortfalls in the Computerised Maintenance Management System (CMMS). The CMMS was intended to support maintenance, inventory, and configuration management. However, the system is primarily used as a maintenance management tool. Corrective maintenance requests are raised and actioned in the CMMS, and Microsoft excel spreadsheets are used to monitor the resolution of corrective maintenance, track the associated survey and quote task, and validate associated invoices.

3.17 The systems and processes used by the department to provide assurance that the delivery of maintenance is effective is limited as documentation reviewed by the ANAO indicates that an accurate baseline for maintenance requirements has not been maintained. Interviews held with internal and external stakeholders have also identified that the unavailability of up-to-date technical documentation and maintenance work instructions has impaired the effective delivery and management of maintenance. Additionally, the maintenance requirements for the CCPBs have already increased (see case study no.1) and will continue to increase over time as the CCPBs age.

Case study 1. Stern Tube Corrosion — additional maintenance requirements

In January 2014, Austal reviewed its design of the stern tube system, and implemented a targeted inspection regime throughout the fleet to monitor the extent of corrosion around the stern tubes (which had first been discovered in November 2013) The stern tube on a separate CCPB seized in early 2016.

The inspection regime has added to the maintenance requirements for the CCPB fleet. For instance, between December 2016 and February 2017, Austal reported that the 28 day depot

level maintenance periods for three CCPBs had been exceeded due to the requirement to replace bearings and realign the stern tubes.

In June 2017, a monitoring program was proposed to undertake additional inspections, assessments, testing, and sampling activities as additional maintenance tasks to be conducted 'at sea' and during crew change over periods at regular intervals. However, where increased maintenance requirements have been implemented there is an increased risk that the CCPBs will not be able to meet the availability and performance requirements.

3.18 To address the additional maintenance requirements, including those outlined above, the department has implemented an extended readiness model for the annual depot level maintenance activities for 2018 through to 2020. The extended readiness model allows for an additional period of up to 28 days where planned and corrective maintenance tasks can be undertaken. An additional benefit was that the model could be utilised to address crew availability issues (see paragraphs 4.17—4.19). However, the application of this model to the CCPB fleet increases the risk that the contracted availability and performance targets will not be met for 2018–19 and 2019–20. Additionally, as at October 2018 the maintenance management plan, associated maintenance matrix and usage profile for the CCPB fleet has not been updated to reflect new, adjusted, and/or additional maintenance requirements.

Supply support

3.19 Responsibility for the provision of supplies for the CCPBs is split between Austal and the department. Austal is responsible for providing supply support services including: supply management; asset and inventory management, obsolescence management³⁵ and disposals; warehousing; stocktaking; and distribution. The department is responsible for monitoring the supply support system managed by Austal and providing assurance that the supply support system for the CCPBs is effective. The department is also responsible for procuring and delivering domestic and administrative consumables (such as cleaning products, and stationary) and fuel required by the CCPBs, as these are specifically excluded from the contract. These arrangements are examined in more detail in Chapter 4.

3.20 Interviews held with Austal and the department throughout the course of the audit indicate that supply support has not been a priority. As a result, purchasing practices and distribution methods are not efficient and obsolescence management and disposal processes are immature. Additionally, the effectiveness of the inventory management system is limited due to the inaccuracy of the inventory listing in the CMMS. The inventory listing in the CMMS has been generated from the Recommended Provisioning and First Outfit List (RPFOL), which identifies the test and equipment, spare parts, and other items required to maintain and operate a CCPB while at sea. However, documentation reviewed by the ANAO indicates that the inventory holding requirements in the CMMS are no longer accurate as changes to the configuration of the CCPBs and the integrated logistic support requirements (including supply requirements) have not been updated (see paragraph 3.13). Additionally, the spare parts, equipage, and test and evaluation equipment requirements vary for each CCPB.

35 Obsolescence management is the process used to identify systems, equipment and/or parts which are no longer produced, supported or maintained by the original equipment manufacturer. It includes the identification of suitable replacements and analysis to ensure that the replacement item is compatible with and can be successfully integrated into the system, equipment and/or components installed on the CCPBs.

3.21 The department is not actively managing the supply support aspects of the ISS contract. Assurance and oversight arrangements are currently limited to reviewing the Quarterly Performance Review Reports provided by Austal. However, the department and Austal are taking steps to improve the effectiveness of the supply support system.

Has the department designed and implemented an appropriate performance management framework?

The department has designed a performance management framework for the Cape Class patrol boats comprised of critical success factors and key performance indicators that are broadly aligned with the government's availability and performance requirements. The framework also includes an abatement regime where a significant portion of the in-service support payments can be withheld or a debt incurred if the contractor fails to achieve the critical success factors or key performance indicators. However, the department has not implemented the performance management framework as set out in the contract.

3.22 The performance management framework is set out in the contract³⁶ and allows the department to withhold or reduce (abate) payments, exercise step-in rights, and claim liquidated damages. It also required Austal to issue nine financial performance securities to the department which were to be released, and new securities issued, as each CCPB was accepted. The value of the initial performance security held by the department was \$20 million. This figure progressively reduced as each CCPB was delivered, and as at August 2018, the value of the financial performance security held by the department is \$6 million.

3.23 Under the performance management framework, Austal's performance is measured against four critical success factors (CSFs) and six key performance indicators (KPIs). The CSFs, KPIs and performance thresholds used to determine a performance rating against each of the measures is detailed at Table 3.2 and Table 3.3 respectively:

Table 3.2: Critical success factors and performance thresholds

Critical success factor	Acceptable (green)	Unsatisfactory (amber)	Material breach (red)
Vessel operational days	Greater than or equal to 300 days per annum	Less than 300, greater than or equal to 290 days per annum	Less than 290 days per annum
Fleet operational days	Greater than or equal to 2400 days per annum	Less than 2400, greater than or equal to 2320 days per annum	Less than 2320 days per annum
Depot level maintenance periods completed on time	As scheduled in the fleet maintenance plan	One less than scheduled in the fleet maintenance plan	More than one less than scheduled in the fleet maintenance plan
Conditions of class not cleared on time	Nil	Not applied	Greater than or equal to one per annum

Source: ANAO analysis of departmental documentation.

³⁶ The performance framework is outlined in the Conditions of Contract, Attachment B-1, Annex F, and in Attachment S — Performance Management.

3.24 The critical success factors align with the availability requirements of government. The key performance indicators are assessed on a quarterly basis and include a range of quality, timeliness, availability, and performance outcomes in relation to the services that the contractor is to provide. One of the key performance indicators — system status per vessel — directly aligns with the capability requirements for the CCPB fleet that the government originally set out in its allocation of funding. The other indicators address the level of support necessary to achieve the critical success factors.

Table 3.3: Key performance indicators and performance thresholds

Key performance indicator	Acceptable (green)	Unsatisfactory (amber)	Material breach (red)
Patrols interrupted by Contractor	Less than three	Greater than three, no more than eight	More than eight
Conditions of class raised (per vessel)	Nil	Less than two per annum	Greater than two per annum
Preventative maintenance timeliness	100 per cent	Less than 100 per cent, greater than 95 per cent	Amber condition for three consecutive patrol periods or less than 95 per cent
Response time (per fleet)	98 per cent of agreed response times achieved	Less than 98 per cent, greater than 95 per cent of agreed response times	Less than 95 per cent
Percentage of on-board spares held at start of patrol	95 per cent	Less than 95 per cent, greater than or equal to 90 per cent	Less than 90 per cent
System status (per vessel)	All systems green	One system amber	One system red

Source: ANAO analysis of departmental documentation.

Performance abatements

3.25 The performance framework as outlined in the contract requires Austal to adjust the Monthly Service Fee³⁷ where Austal's performance, as measured against each CSF or KPI, is rated as 'red'. The set abatement amount for CSFs is \$14 775 per day. The methodology used and the abatement amount which is to be applied against each of the KPIs is detailed in Table 3.4.

Table 3.4: Abatement amounts per key performance indicator rated as 'red'

Key performance indicator	Monthly service fee (\$)	Methodology	Abatement amount (\$ per day)
Patrols interrupted by Contractor	225,422	Monthly service fee divided by the number of vessels in service and then divided by 30	939

³⁷ Abatements reduce a milestone or support payment specified in the price and payment schedule of the contract.

Key performance indicator	Monthly service fee (\$)	Methodology	Abatement amount (\$ per day)
Conditions of class raised (per vessel)	225,422	Monthly service fee divided by the number of vessels in service and then divided by 30	939
Preventative maintenance timeliness	225,422	Seven per cent of the monthly service fee divided by 30	526
Response time (per fleet)	225,422	Monthly service fee divided by the number of vessels in service and then divided by 30	939
Percentage of on-board spares held at start of patrol	225,422	Three per cent of the monthly service fee.	6,763
System status (per vessel)	225,422	Monthly service fee divided by the number of vessels in service and then divided by 30	939

Source: ANAO analysis of departmental documentation.

3.26 The contracted rate of effort allows 65 days per CCPB, and 520 days across the fleet to conduct corrective and preventative maintenance between patrol cycles which includes a 28 day annual maintenance period for each CCPB. In addition, the performance framework allows a further 10 days per CCPB and 80 days across the fleet, where operational days can be lost prior to abatements applying. The performance management framework, as set out in the contract, also includes a provision to ensure that adjustments are not compounded where a single event impacts multiple CSF's. Austal has contested the department's interpretation and application of the performance management framework since late 2013, when it was first applied (see paragraph 1.12 and 1.13).

3.27 Subsequently, a joint work instruction was drafted to clarify the operation of the performance management framework. However, the joint work instruction provided by the department is unsigned and undated, and documentation reviewed by the ANAO suggests that it was not successfully implemented. Review of the abatements levied between July 2016 and August 2017 found that abatements were applied to the critical success factor on vessel operational days, and abatements were not applied against any other CSF. The ANAO also reviewed the abatement calculations for the 2016–17 financial year, and found that total abatements of \$5.0 million had been calculated but not applied.

3.28 Documentation reviewed indicates that the department has previously granted temporary concessions to allow for a proof of service delivery period. Specifically, the department waived the application of abatements against the KPIs from 22 December 2015 to 1 December 2016.

Are the performance arrangements continually monitored, evaluated and adapted where necessary?

Performance arrangements are continually monitored via performance workbooks, performance exception reports, and the quarterly and annual performance reviews. The

department has also engaged a contractor to review the performance arrangements. However, as at October 2018 findings from the review have not been implemented as the structure and application of the performance management framework is subject to a formal dispute resolution process.

3.29 Quarterly and annual performance reviews are used to monitor the delivery of ISS services including engineering, maintenance and supply support. The performance workbook and performance exception reports are used to monitor the contract and assess Austal's performance against the measures³⁸ outlined in the performance management framework.³⁹

3.30 The ANAO examined the available quarterly performance reviews, performance exception reports and performance workbooks which indicate that Austal's performance is being continually monitored by the department. However, it was noted that the performance workbooks are to be agreed by the department and Austal, and where agreement cannot be reached, the issue is escalated to the Quarterly and Annual Performance Review Meetings. The effectiveness of the escalation process has been constrained as the department and Austal have regularly disagreed on the number of days lost, and the abatement amounts which are to be applied to the monthly service fee.

3.31 In February 2018, the department engaged a contractor to review the performance management framework. The findings and recommendations from this review have yet to be implemented as the structure and application of the performance management framework is subject to a formal dispute resolution process.

38 The performance measures include critical success factors and key performance indicators and are detailed in Table 3.3 and 3.4.

39 The performance measures are detailed in Attachment S to the contract.

4. Support to operations

Areas examined

This chapter examines the department's arrangements to support the operation of the Cape Class patrol boats. These arrangements include ensuring that the Cape Class patrol boats have access to suitable infrastructure and support facilities, and that workforce and budget management is effective.

Conclusion

The department's arrangements to provide support to operations are partially effective. The department is developing but has not yet implemented appropriate workforce arrangements, contract management requires improvement and the effectiveness of budget management has been constrained as the department is not yet well placed to accurately estimate, forecast, and control costs to operate and provide in-service support to the Cape Class patrol boats. Nevertheless, the Cape Class patrol boats are able to access appropriate infrastructure in the form of interim dedicated berthing facilities and the department has taken steps to procure permanent berthing facilities.

Recommendations

The ANAO has made two recommendations aimed at improving the ability of the department to effectively support operations, provide assurance that contracted services to support the operations of the Cape Class patrol boats are well managed, and effective workforce management arrangements are implemented.

Has the department established and maintained appropriate support and infrastructure for the Cape Class patrol boats?

The department has partially established appropriate support and infrastructure for the Cape Class patrol boats. Logistics support arrangements are mature, however depend on largely manual processes. The management of the contracts that provide port services, fuel and provisions to the Cape Class patrol boats has been largely passive, and as a result is not effective. Nonetheless, the Cape Class patrol boats are able to access appropriate infrastructure in the form of interim dedicated berthing facilities in Darwin with full capability to conduct crew changeovers and undertake maintenance, refuel and re-supply.

Logistics support

4.1 The department maintains warehouses in Fremantle, Cairns and Darwin to store operational supplies and equipment and to provide logistical support to all of the marine assets operated by the department, including the Cape Class patrol boat (CCPB) fleet. The support provided by these facilities includes logistics planning; procurement of operational supplies and equipment; transfer and secure storage of cryptographic and personal defensive equipment; and the replenishment and disposal of ammunition.

4.2 From these facilities, the department coordinates and manages the delivery of supplies and services provided by commercial entities to the CCPBs during the handover period between crew changeovers and as part of planning for annual depot level maintenance activities.

4.3 The logistics planning and request processes used to coordinate the delivery of services and supplies to support the operations of the CCPBs are well documented and include a full suite of work instructions and guidance material to assist CCPB crew, logistics and sustainment officers to coordinate and manage the provision and delivery of fuel, victuals⁴⁰, stores, and medical supplies. The logistics support also includes the scheduling of planned and corrective maintenance conducted during a handover period⁴¹ in consultation with the contracted service providers and other internal departmental stakeholders.

4.4 The logistics service requests and planning commences prior to the arrival of the CCPB in port and continues until the handover period is completed. The schedule for the logistics services is finalised and any amendments are agreed during the logistics planning meetings (handover meetings) held on the CCPB after it has arrived in port.

Contract management

4.5 The department has outsourced the provision of port services, fuel, victuals, and medical services and supplies required by the entire marine fleet, including the CCPBs, to commercial providers. As such, the department is responsible for effectively managing the contracts detailed at Table 4.1.

Table 4.1: Contracts that provide support to the Cape Class patrol boats

Services	Description	Executed	Expires	Current Value (\$million)
Port Services Management	The provision of pilotage, berthing, gangway hire, potable water, power, security, waste removal and laundry services. ^a	2015	2020	35.2
Fuel Management	Provision of fuel management and fuel supplies to the fleet of marine assets operated by the department. ^b	2015	2019	80.0
Medical Services	Provision of medical support to the fleet of marine assets when deployed. ^b	2014	2018	51.9
Victualling	Provision of fresh fruit, vegetables, dry and cold food supplies and beverages. ^b	2017	2020	4.0
Total				171.1

Note a: The port services management contract includes the design, installation and lease of the interim dedicated berthing facilities at East Arm Wharf in Darwin.

Note b: The fuel management, medical and victualling contracts cover the full fleet of marine assets operated by the department including the CCPBs, ABFC Thaiyak, ABFC Ocean Shield, ABFC Ocean Protector, and the Fast Response Boats.

Source: ANAO analysis of departmental documentation.

40 Victuals includes all dry, cold and cool food and beverage items for crew, passengers and transportees.

41 A handover is a generic term describing the period of time between one patrol ending and another beginning.

4.6 The ANAO has reviewed departmental documentation and has observed that the contract management, stakeholder engagement and risk management plans for these contracts were not documented until May 2018. The ANAO has also observed that performance management and reporting obligations are not being utilised as required under the contracts, and the reporting which is provided has not been reviewed to ensure that it meets departmental needs and enables the department to accurately forecast budget requirements or control costs. For instance, the monthly contract reporting provided under the victualling contract does not include monthly, quarterly, or annual spending data, trends or analysis of quantities ordered and delivered. Further, there is no evidence that the contractually required reports for the port services management, victuals and fuel management contracts are analysed by the department to provide assurance:

- that contracted services delivered meet requirements;
- that costs are being controlled; and
- that the data provided supports departmental planning and budgeting activities.

4.7 The department's management of the support to operations element of the contract can best be described as passive, as such the department is unable to provide assurance that contract management is effective. Accordingly, the ANAO recommends that the department ensure that contractually required performance reports meet the needs of the department, are analysed and the results used to support planning and budgeting activities.

Recommendation no.3

4.8 The department should ensure that contractually required performance reporting meets the needs of the department, are analysed, and the results used to support departmental planning and budgeting activities.

Department of Home Affairs: *Partially Agreed.*

4.9 *Existing contract management processes ensure that performance reporting is considered and this is used to provide assurance that value for money continues to be achieved. This in turn feeds into the business area's planning and budgeting processes. The Department agrees that this consideration should be better documented and formalised and is working to establish this process.*

Infrastructure (berthing)

4.10 When the project to procure the Cape Class patrol boats (CCPBs) was approved, the original intention was for the CCPBs to berth at commercial wharves. The CCPBs are 58.1m long, 10.8m wide and require access to berthing facilities that are approximately 65m long and where the depth of the water alongside⁴² exceeds 4.0m.

4.11 Each CCPB is scheduled to spend approximately 48 days alongside in Darwin per year to conduct crew changeovers, undertake maintenance, re-supply and refuel. As such, access to suitable infrastructure is required. The issue of this access was first raised in 2012, when the then Australian Customs and Border Patrol Service (ACBPS) identified that there were no ports in Northern Australia that could provide permanent or priority berthing for the CCPBs on a reliable basis. While all CCPBs are capable of docking at all primary and secondary ports in Australia, the

42 The term 'alongside' is used when a CCPB is docked at a wharf or berth.

majority of crew changeovers, where CCPBs are re-fuelled, re-provisioned and corrective maintenance is undertaken, are conducted in Darwin.

4.12 The introduction of the CCPBs between 2013 and 2015 highlighted the lack of available berthing options in Darwin, noting that in October 2014, crew transfers, logistics and maintenance had been conducted at anchor. ACBPS attempted to access facilities suitable to berth the CCPBs which were operated by the Department of Defence (Defence). In December 2014, a memorandum of understanding came into effect allowing the CCPBs access to suitable berthing facilities at HMAS Coonawarra in Darwin.

4.13 However, due to the maintenance needs for Defence's Armidale fleet, these facilities were unable to be reliably accessed by the CCPBs.⁴³ Subsequently, the ACBPS agreed that an interim berthing facility in Darwin for a five year period (2015 to 2020) was necessary to enable efficient crew transfers, and provide efficient and cost effective maintenance and logistics support.

4.14 The development of requirements for interim dedicated berthing facilities commenced in March 2015. Between April and December 2015, the department approved a total of \$25.1 million in funding to design, construct and lease suitable infrastructure. The ANAO has analysed the contract variations awarded and determined that the funding utilised to design and install the temporary berthing facilities at Darwin's East Arm Wharf cost the department \$12.1 million.

4.15 Interim use of the berthing facility began in February 2016, with full capability established in September 2016 to conduct crew changeovers, undertake maintenance, refuelling and re-supply activities. However, a formal sub-lease was not established. A sub-lease for the use of the facilities has now been established which expires 31 December 2020. In February 2017, the department was advised that there was a risk that the lease for the land adjacent to the berthing facility may not be renewed. In October 2017, the department commenced preliminary planning to secure permanent facilities. This work is in its early stages. Available options have been assessed however a procurement approach, timeframe for implementation and initial funding estimate have not yet been approved.

Does the department have effective workforce arrangements, including recruitment, training and support strategies to operate the Cape Class patrol boats?

The workforce arrangements for the Cape Class patrol boats are not yet effective. In December 2014, Auditor-General's report No.13 2014–15, *Management of the Cape Class patrol boat program* recommended that the Australian Customs and Border Protection Service, now the department, develop and implement a workforce strategy. As at October 2018, a strategic workforce plan has not been implemented. Consequently, critical gaps in the workforce arrangements for the Cape Class patrol boats have emerged which the department is attempting to address.

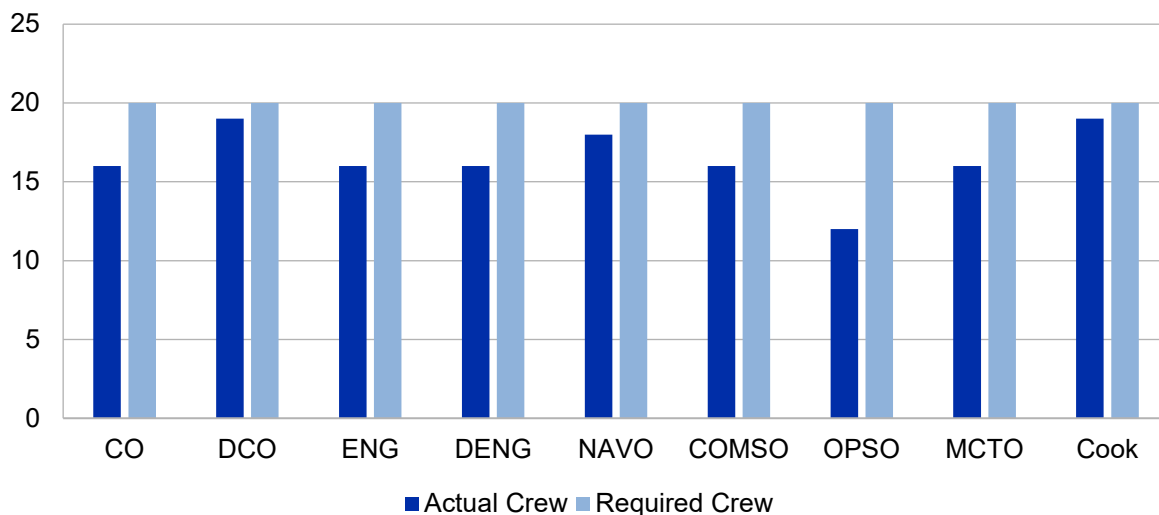
4.16 In December 2014, Auditor-General's Report No.13 2014–15, *Management of the Cape Class Patrol Boat Program* observed that a fully operational CCPB comprises 18 crew members on

⁴³ Access to these facilities has improved and there are procedures in place to request a berth at HMAS Coonawarra in Darwin and HMAS Sterling in Fremantle, however access is still not sufficient to ensure that CCPBs can access them reliably.

a 28 day patrol cycle. A crew of 18 allows two boarding parties to be launched for concurrent operations against multiple targets, or to undertake more complex boarding operations. On this basis the ACBPS estimated that a pool of approximately 360 crew members would be required. A pool of 360 crew allows for sufficient reserves to cover crew sickness, leave, training and upskilling requirements.⁴⁴

4.17 Initial operational and budget planning was undertaken by the ACBPS on this basis.⁴⁵ However, the department advised the ANAO during the course of the previous audit that the minimum number of crew had been reduced to 342, later identifying that budget arrangements and available operational funding would only support 332 crew members by 2015–16. As at August 2018, the records reviewed by the ANAO indicate that crew numbers are below 332, and as such, critical gaps in the workforce have emerged. To illustrate these gaps, a comparison of the actual and required crew numbers⁴⁶ is detailed at Figure 4.1.

Figure 4.1: Comparison of actual and required crew numbers for the CCPB fleet



Note: The crew positions in the above Figure are the: Commanding Officer, Deputy Commanding Officer, Engineering Officer, Deputy Engineering Officer, Navigation Officer, Communications Officer, Operations Officer, Marine Communications and Technical Officer, and Marine Cook. The required crew numbers are those identified in the workforce model, excluding Marine Tactical Officers.

Source: ANAO analysis of departmental documentation.

4.18 Cape Class crew are required to hold and maintain a high level of qualifications (particularly in critical roles) in order to maintain technical expertise and meet regulatory requirements. Noting this, the department should have a plan in place to address identified gaps, and maintain a recruitment ‘pipeline’ as a key strategy to mitigate the risk that CCPBs will not be available for tasking due to insufficient numbers of trained and qualified officers.

44 Training and upskilling requirements are those required under the legislative and regulatory framework, administered by the Australian Maritime Safety Authority.

45 The costings involved in Customs’ New Policy Proposal for the CCPB project were calculated on the basis that 360 crew were required to provide 2400 patrol days per annum.

46 The required crew numbers have been obtained from the workforce model. This model includes a pool of 10 per cent of the minimum crew numbers in each role to ensure there is sufficient capacity to release crew for training, certification and revalidation requirements and reduce the leave liability.

4.19 Where the CCPBs cannot access sufficient numbers of appropriately trained and qualified officers, the patrol may be restricted⁴⁷ or cancelled⁴⁸ to ensure that the CCPBs comply with regulatory requirements. Documentation reviewed by the ANAO has indicated that there have been instances where CCPBs haven't been dispatched with a full complement of crew, and instances where patrols have been cancelled and days lost due to insufficient crew numbers.

4.20 According to the departmental level workforce strategy (People Strategy 2020) one of the priorities is to build a departmental wide workforce planning capability. As at October 2018, the department has advised that the development of a workforce plan for the marine unit is not yet complete.⁴⁹ However, the department has commenced recruitment to fill over 100 sea going positions to address the shortage of appropriately qualified and trained officers to fill critical roles and close the gaps which have emerged.

Recommendation no.4

4.21 As part of implementing recommendation no.2 from the previous ANAO audit, the department should prioritise the development and implementation of:

- (a) a strategic workforce plan and recruitment strategy;
- (b) a training needs analysis; and
- (c) a learning and development framework for the marine unit.

This framework should ensure that workforce arrangements for the marine unit are effective and that sufficient numbers of appropriately qualified and trained crew are available to meet regulatory requirements to support the department to meet the performance and availability targets of government over the longer-term.

Department of Home Affairs: Agreed.

4.22 *A workforce plan is at the final stages of validation and identifies workforce risks and associated mitigation strategies prioritised according to operational requirements.*

4.23 *A training needs analysis is also being undertaken in support of the broader Border Force Officer implementation strategy and will be formalised through the ABF learning and development framework.*

Training and certification requirements

4.24 The training and certification requirements for the CCPB crew are outlined in two of the three components of the legislative framework which applies to each sea going position. Where the operations of the CCPB fleet cannot meet regulatory requirements, the requirements outlined in

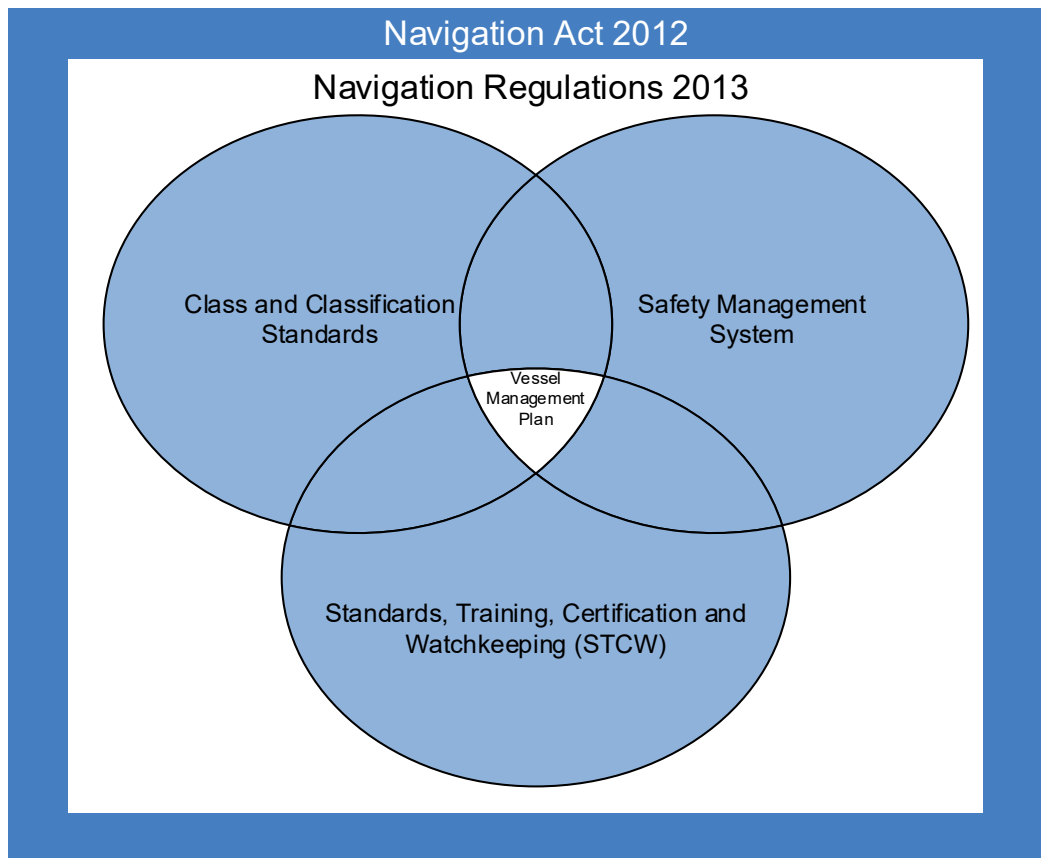
47 The vessel management plan accepted by the Australian Maritime Safety Authority and the operational capability criteria developed by the department specifies the operational restrictions where less than eighteen crew members are embarked.

48 Where a critical role cannot be filled the patrol is to be cancelled. Critical roles include the Commanding, Deputy Commanding Officer, Navigation Officer, Communications Officer, Engineering and Deputy Engineering Officer, Marine Cook, and three Marine Tactical Officers, 10 positions.

49 As at May 2018, the department had commenced the development of a workforce plan for the Marine Unit, however this plan has not yet been implemented.

the Vessel Management Plan (VMP) are to apply.⁵⁰ The regulatory framework as it applies to the operations of the CCPBs is detailed at Figure 4.2.

Figure 4.2: Regulatory framework for the operations of the Cape Class patrol boats



Source: ANAO analysis of departmental documentation.

4.25 The training and certification requirements vary for each CCPB position. An exemption granted by the Australian Maritime Safety Authority (AMSA) is in effect which allows a CCPB crew to operate within the coastal waters of Australia with a lower level of qualifications than would otherwise be required. Noting this, CCPB crew are still required to have:

- accrued sufficient levels of qualifying sea service⁵¹;
- completed an approved program of study that meets the Standards of the Training Certification and Watch-keeping (STCW) Code as outlined in the VMP;
- passed medical, psychometric and functional fitness assessments; and
- comply with any certification requirements specific to the role.

4.26 The below case study examines the qualification and sea service requirements of the Deck and Engineering Officers.

50 The vessel management plan and operational capability criteria specify the operational limitations and critical skills which must be embarked for the CCPB to be able to conduct operations.

51 Qualifying sea service varies for each sea-going role and is outlined in the vessel management plan.

Case study 2. Qualification requirements for the Cape Class patrol boat crew (Deck and Engineering Officers)

All officers, except for Marine Tactical Officers (MTOs) must hold relevant marine specific qualifications or be eligible to attain the relevant qualification. MTOs must hold a current Use of Force (UoF) certification, have completed a Certificate of Safety Training (CoST) and a short course in Advanced Resuscitation. Excluding MTOs, there are two career paths (Engineering or Deck Operations).

To be able to act in or progress to Deck or Engineering roles, the officer must attain the relevant qualifications and hold the necessary certifications. To do so officers must complete an approved course of study and a practical component through the completion of task books, short courses and accrue sufficient qualifying sea service.

To undertake Officer of the Watch (OOW) duties, twelve months of qualifying sea services is required. Sea Service accrues slowly, and twelve months of qualifying sea service, where an individual completes six or seven patrols a year, will take two years to complete. For a Commanding Officer the sea service requirement is 36 months, which therefore takes six years to accrue based on an officer undertaking a minimum of six patrols of 28 days in duration per annum.

4.27 It is the responsibility of the individual crew member to maintain records of service, certification requirements and obtain validation of sea service completed. The Deputy Commanding Officers for the CCPBs are responsible for ensuring that all crew embarked hold the qualifications and certifications required to undertake the role. The department provides oversight by monitoring the training and recertification requirements using Microsoft Excel spreadsheets for each CCPB.

4.28 The number of training positions available is dependent on funding and crew availability with selection undertaken on a case-by-case basis. There is no evidence that the process used to select participants is supported by a formal learning and development framework that appropriately prioritises and aligns training positions with organisational needs over the longer term.

Does the department effectively manage the budget to operate and provide in-service support to the Cape Class patrol boats?

The management of the budget required to operate and provide in-service support to the Cape Class patrol boats has been constrained as the department is not yet well placed to effectively estimate, forecast and control costs to operate and provide in-service support to the Cape Class patrol boats over their complete lifespan.

Budget Management

4.29 The government approval of the overall CCPB project was subject to the then Australian Customs and Border Protection Service (ACBPS) offsetting the increased CCPB operating costs over those provided for the existing Bay Class patrol boats. Accordingly, the department was advised that the expected budget shortfall would have to be met internally. In December 2014, a previous

ANAO audit⁵² identified that the ACBPS did not have a strategy in place to manage the expected budget shortfall over the life of the CCPBs. As such, the ANAO recommended that a strategy to address the expected shortfall should be developed and implemented. The ACBPS, now the Department of Home Affairs, agreed to implement the recommendation. As at October 2018, the department has commenced work to, but not yet implemented a budget strategy to address the anticipated funding shortfall to maintain, support and operate the CCPBs across its expected lifespan.

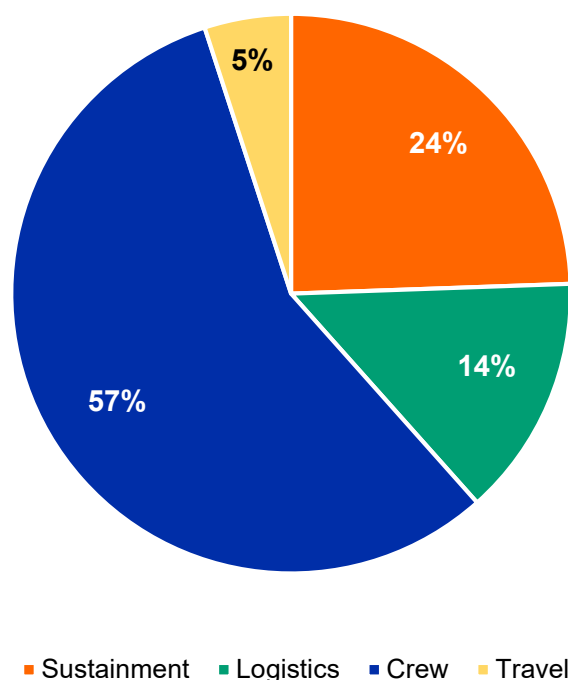
4.30 In 2015–16, when the Department of Immigration and Border Protection was established, and the ABF stood up, the funding for the acquisition and in-service support contract for the CCPBs transitioned from a project based model to the standard internal departmental budget model used to manage and monitor operational expenditure. This model does not allocate operational funding to meet the estimated costs to provide in-service support to, and operate the CCPBs over their 20 year lifespan. However, the department's budget allocation process does cover the forward estimates period (four years) and includes regular reviews where operational funding can be reallocated between divisions within the relevant financial year.

Budget estimate accuracy

4.31 The costs to provide in-service support to, and operate the CCPBs per cost element (sustainment, logistics, crew and crew travel) is detailed at Figure 4.3 on the following page. As illustrated, sustainment and crew costs comprise 81 per cent of the total.⁵³

52 Auditor-General's Report No.13 2014–15 *Management of the Cape Class Patrol Boat Program*, p. 73.

53 In accordance with the scope of the audit, the communications and surveillance equipment costs have not been examined, and have been excluded from Figure 4.3.

Figure 4.3: Cape Class patrol boat cost breakdown per element

Source: Independent Financial Review — Resolution Consulting — January 2018.

4.32 Since 2014–15, the costs to sustain, operate and provide in-service support to the CCPBs have not been accurately estimated. A review of the financial reports for 2014–15 through to 2017–18 demonstrates that CCPB expenses regularly exceeded the allocated budget, and additional funds of \$38 million, \$34 million and \$18 million were requested and allocated to the responsible business area for each of the relevant financial years. For the 2018–19 budget, the department engaged a contractor to determine the baseline costs to support, maintain and operate the CCPBs. As a result, a significant funding gap was identified, and an additional \$60 million in funding was provided.

4.33 The contractor also developed cost models to inform baseline funding requirements based on historical spending patterns. However, the costs models that have been developed require further refinement to ensure that they are supported by accurate data, and support effective forecasting in later years. For example, after the 2018–19 budget allocation was provided the responsible business area identified that the maintenance costs for the CCPBs had been underestimated by approximately \$2.5 million.

4.34 As a result, budget management is not fully effective as:

- the department is not yet well placed to accurately estimate or control costs, particularly where the contracts with commercial service providers (as discussed at paragraph 4.6) do not provide meaningful performance or financial reports; and
- the data underpinning the cost models to identify the cost drivers to provide in-service support to, and operate the CCPBs requires further refinement to generate accurate budget estimates and forecasts.

4.35 These budget management issues have been recognised by the department and documentation reviewed by the ANAO indicates that the business area responsible for providing in-service support, crewing and logistics for the CCPBs has taken steps to strengthen existing financial management arrangements, and identify where potential savings can be found or funds redirected. However, further work is required to establish effective budget and financial management arrangements to accurately estimate the funding required to operate and provide in-service support to the CCPBs over their expected lifespan.



Grant Hehir
Auditor-General

Canberra ACT
18 December 2018

Appendices

Appendix 1 Entity responses



Australian Government

Department of Home Affairs

Grant Hehir
Auditor-General
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Dear Mr Hehir

Thank you for the opportunity to comment on the Australian National Audit Office's (ANAO) report on the *Cape Class Patrol Boat In Service Support Arrangements* performance audit.

The Department of Home Affairs (the Department) and Australian Border Force (ABF) acknowledge the value of the ANAO providing independent analysis of and insights into the Cape Class Patrol Boat Program. As recognised in the report, the full Cape Class Patrol Boat fleet is operational and has been conducting strategic patrols, providing tactical surveillance and undertaking enforcement activities to address maritime security threats since 2015. The Department and the ABF also appreciate the recognition of the ongoing efforts being made to deal with concerns around the Cape Class Patrol Boat Program as identified in previous reviews, and the measures being put in place to enhance governance and oversight arrangements going forward.

We note, for context, that the contract with Austal Pty Ltd (Austal) was initially entered into by the Australian Customs and Border Protection Service (ACBPS) in August 2011. In July 2015 the ABF, upon standing up as an operational arm of the Department, assumed responsibility for the management and operation of the Cape Class Patrol Boat Program. The contract with Austal, which forms the basis of the ANAO's performance audit, spans the entirety of these changes.

Whilst we are cognisant of the areas of concern raised by the audit and the need to improve the strategic management of the Cape Class Patrol Boat Program, we are also cognisant of the steps already taken to rectify identified concerns and enhance governance, systems and processes identified by this audit and previous reviews. In early 2018, a significant contract management program was initiated to improve contract governance, strengthen contract management and address risks by comprehensively collating, registering and developing treatments for risks. More specifically, an Integrated Risk Register was developed jointly with Austal in August 2018 and a Cape Class Patrol Boat Risk Management Plan was approved in September 2018. Further, a workforce plan identifying workforce risks and associated mitigation strategies prioritised according to operational requirements, is at the final stages of validation. A training needs analysis is also being undertaken in support of the broader Border Force Officer implementation strategy and will be formalised through the ABF learning and development framework.

The Department and the ABF acknowledge that there is still work to do in relation to the Cape Class Patrol Boat Program and are committed to improving the management of the Australian Border Force marine fleet.

I would like to thank you for the collaborative approach taken by you and your officers in conducting this audit and the appreciation shown for the environment and potential complexities in auditing and reporting upon an ongoing program directed at maintaining Australian maritime security.

Yours sincerely

Mark Brown
Chief Audit Executive

12 December 2018

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In reply quote: 361-22210-190C

30 November 2018

Australian National Audit Office
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Barton ACT 2600
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FAO: Ms Lisa Rauter
Lisa.Router@anao.gov.au

References:

A. Email from Ms Lisa Rauter to Mr Dave Shiner dated [5] November 2018 with subject *“Extract from Auditor-General Proposed Audit Report on Cape Class Patrol Boat in-service support”* and attachment *“Cape Class – In Service Support Arrangements – Extract for Austal”*

Dear Ms Rauter

RE: EXTRACT FROM AUDITOR GENERAL PROPOSED AUDIT REPORT ON CAPE CLASS PATROL BOAT IN-SERVICE SUPPORT

1. Reference A requested that Austal review selected excerpts from the proposed ANAO report entitled *“Cape Class Patrol Boat In Service Support Arrangements” (Draft Report)* and provide a formal response. Austal’s formal response is set out below; however, Austal notes that the Draft Report did not contain any recommendations so Austal is unable to comment in that regard.

Austal is performing at or above contracted levels of performance in ISS

2. The In-Service Support (ISS) component of the Contract has been in operation since the delivery of the first Cape Class Patrol Boat (CCPB) in 2013. Since this time, there has been significant learning by both Austal and the Department in relation to vessel capabilities, and operational and maintenance requirements.
3. In January 2017, Austal took over responsibility for delivery of the ISS Contract from its subcontractor DMS Maritime. The subcontractor model was a failure and did not produce outcomes which met the Department’s expectations, or achieved Austal’s objectives. Austal addressed those deficiencies by removing the subcontractor and moving to a direct support model. Since doing so, the working relationship between the Department and Austal has greatly improved and CCPB availability has moved towards contractually required levels of fleet operational days after considerable works to clear accumulated maintenance debt.
4. Austal is delivering the CCPB availability required under the Contract. Fleet Operating Days, as defined in the ISS Contract, now exceed 2,400 days per annum and the open work failures for the fleet are decreasing as Austal clears any maintenance debt. However, that outcome is coming at significant and unreasonable cost to Austal. The cost is significant because the additional resources Austal has engaged to deliver the ISS Contract exceeds Austal’s Monthly Service Fee such that the Contract is uneconomic for Austal. The cost is unreasonable because both the

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Department and ABF assumed a level of engineering support to be delivered under the Contract which turned out to be materially incorrect.

As a commercial entity, Austal cannot continue to financially support the Department. This is discussed further below.

The Department is under resourced to utilise CCPB availability, provide Organisational Level Maintenance, and provide engineering governance

5. Given that Austal is delivering the CCPB availability required under the Contract, any inability to meet the Government's required level of effort (being 2,400 Fleet Operating Days) is not attributable to any failure in the delivery of services under the ISS Contract.
6. In ANAO Report No. 13 2014-15, Recommendation 1 was that the Department develop a clear strategy to address the estimated operational funding shortfalls over the out years of the CCPB programme, including contingency arrangements. Further, Recommendation 2 was that, to improve marine unit workforce planning, the Department develop an appropriate strategic workforce plan to address future workforce requirements.
7. These recommendations were made in circumstances where ANAO had identified a funding shortfall for the number of crew members required to deliver the mandated level of effort (at 5.26).
8. ANAO Report No. 13 2014-15 did not explicitly engage with skill set issues. One feature of the Bay Class vessels upon which planning for CCPB ISS was based, was that Bay Class crews had sufficient technical skills to undertake a significant amount of routine maintenance underway. This has not been the experience with the CCPBs' crews, and those crews are highly dependent upon Austal to provide "alongside" ISS.
9. These crewing issues have not been addressed. On a number of occasions, the CCPBs have been laid-up waiting for sufficient crew members to commence operations and Austal understands that this situation has only worsened.
10. This ISS Contract was not drafted to cater for the situation where CCPBs were in prolonged states of layup and important maintenance deferred. Rather than decrease, this situation will add to Austal's ISS responsibilities given Austal will now be responsible for Organisational Level Maintenance previously the responsibility of the CCPB's crew.

Three key issues of note

11. In the context of ANAO's investigations into the ISS Contract, in addition to the crewing issues discussed above, there are three matters which must be noted. The first matter relates to the resourcing and scope of the ISS contract. The second matter relates to the performance management framework (PMF) under the ISS contract. The third matter relates to the perceived issues with the CCPBs' stern tubes.

ISS resourcing is not sustainable

12. Austal has proven its ability to deliver reliable ISS to the Department since assuming full control of ISS arrangements. However, the ISS contract is under resourced in critical areas, in part because there are significant gaps in the ISS Scope of Work (SOW) delivered by ABF at the contract negotiation stage.
13. The (now) identified deficiencies in the SOW have required Austal to deploy, as a permanent establishment, engineering management resources greatly in excess of those required for the previous administration of the ISS for the Bay Class vessels to meet the requirements of the Department in relation to engineering, planning, and support. The Department's engineering, planning, and support resources form the foundation of the current ISS Contract.



14. The consequence is that Austal cannot deliver support in the manner required by the Department in a manner which makes economic sense to Austal. Austal, at its cost, is presently maintaining a large engineering organisation to deliver the contractually required availability.

Performance management framework

15. As noted in the Draft Report, Austal and the Department are currently discussing the operation and application of the PMF within the informal dispute process. The PMF regime under the Contract is deficient in a number of respects and it requires a common understanding as to the basis upon which it is to be applied, and the consistent and principled application of that common understanding, to be workable in the long term.
16. Key amongst these deficiencies is that there is no satisfactory method for resolving disputes as to the responsibility for performance shortfalls. The Draft Report makes a positive conclusion that the PMF includes an abatement regime where a significant portion of the in-service support payments can be withheld or a debt incurred if the contractor fails to achieve the critical success factors or key performance indicators.
17. That is not a positive. It does not in fact provide the correct incentives to encourage the availability outcomes which are the objective of the PMF.
18. The fact that Austal's entire monthly service fee (i.e. the fee to cover its direct costs), and more, is at risk remains a concern for Austal, particularly in circumstances where it has in the past been abated for performance shortfalls for which it was not (in its view) responsible. Both parties agree that a joint interpretation of the PMF which strikes a balance between encouraging positive behaviour and discouraging performance shortfalls, needs to be agreed.
19. One of the metrics considered in the Draft Report is whether performance arrangements under the Contract are continually monitored, evaluated, and importantly, adapted where necessary.
20. Both the under resourcing of the ISS Contract and the deficiencies in the PMF regime require resolution prior to any renewal of the Contract, which will otherwise expire on 1 August 2019. As noted above, Austal cannot agree to continue an uneconomic Contract. Given the parties' positive working relationship, Austal is confident of reaching a mutually beneficial outcome with the Department.

Perceived stern tube issues

21. The final matter relates to the perceived issues with the CCPBs' stern tube. The stern tube issues attracted significant attention in ANAO Report No. 13 2014-15 and are mentioned again in the Draft Report in the context of maintenance requirements which are projected to negatively impact on vessel availability.
22. It is correct that Austal adopted additional maintenance requirements to remediate the stern tube issues (and as a consequence of that remediation), including periodic inspections of the stern tube, annual replacement of bearings, and the cleaning of bio-foul from various systems arising from the fact the marine growth protection system was turned off.
23. The stern tube issues were resolved with the embodiment of ECP 347 in on around February 2017. As a result that the additional maintenance is now being halted. ANAO's projection that additional maintenance will negatively impact on vessel availability is therefore erroneous.
24. Further, measures that Austal was required to take in the course of initially addressing stern tube issues manifest the deficiencies in the Department's engineering governance capabilities. CCPB availability was adversely affected by the direction of the Department to straighten propeller shafts, during stern tube remediation works, contrary to external engineering advice. The direction was costly, unnecessary, and materially affected vessel availability.



25. If it would be of assistance, Austal would be pleased to discuss these issues with ANAO.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "D Shiner", with a horizontal line drawn underneath.

Dave Shiner
Head of In Service Support