

## Project Data Summary Sheet<sup>151</sup>

Project Number	SEA 4000 Phase 3
Project Name	AIR WARFARE DESTROYER
First Year Reported in the MPR	2008-09
Capability Type	New
Acquisition Type	Australianised MOTS
Capability Manager	Chief of Navy
Government 1st Pass Approval	May 05
Government 2nd Pass Approval (or key Government pre-Second Pass Approval)	Jun 07
Budget at 2 <sup>nd</sup> Pass Approval (or key Government pre-Second Pass Approval)	\$7,207.4m
Total Approved Budget (Current)	<b>\$9,108.9m</b>
2019-20 Budget	<b>\$315.1m</b>
Project Stage	Final Materiel Release
Complexity	ACAT I



### Section 1 – Project Summary

#### 1.1 Project Description

This project **has acquired** three Hobart Class Air Warfare Destroyers (AWD) and their support system for the Australian Defence Force (ADF). The capability provided by the AWDs **forms** a critical element of the ADF's joint air warfare defence capability and will contribute to a number of other joint warfare outcomes.

#### 1.2 Current Status

**Cost Performance**  
In-year  
 The AWD SEA04000PH3 Project was underspent by \$19.8m against the approved budget in FY 2019-20.  
 The underspend variation is due to lower payments against the AEGIS FMS case due to disbursements being lower than anticipated, resulting in a reduced March payment and a forecasted fourth quarter payment not required. There was also underspends against spares and engineering costs not charged to the Program by the DDG SPO, along with a lower than anticipated spend against various program management contracts.  
 The underspend has been offset by the deferral of the remaining Advance Account payments owed by ASC to the Program, and these are expected to be recovered in FY 2020-21.

**Project Financial Assurance Statement**  
 Notwithstanding the issues disclosed at Section 5.2, as at **30 June 2020**, SEA 4000 Phase 3 has reviewed the approved scope and budget for those elements required to be delivered by the program. Having reviewed the current financial and contractual obligations of the program, current known risks and estimated future expenditure, Defence considers, as at the reporting date, and following the completion of the AWD Reform strategy in December 2015, which included a Real Cost Increase of \$1.2 billion to the AWD budget, being approved in July 2015 and provided in September 2015, there is sufficient budget remaining for the Project to complete against the agreed scope.

**Contingency Statement**  
 The project has not applied contingency in the financial year.

**Schedule Performance**  
 On 6 September 2012, following a stakeholder review of resource considerations and support for a schedule extension, the then Minister for Defence announced that the AWD schedule had been re-baselined. The revised AWD delivery dates were:

- HMAS *Hobart* (Ship 1) - March 2016
- HMAS *Brisbane* (Ship 2) - September 2017
- HMAS *Sydney* (Ship 3) - March 2019

These delivery dates represented delays of 15, 18 and 21 months respectively against the dates contracted in October 2007.

#### 151 Notice to reader

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

Following further concerns with AWD delivery, the delivery schedule has been further re-baselined as part of the AWD Reform. The post-Reform contracted delivery dates were:

- HMAS *Hobart* (Ship 1) – June 2017
- HMAS *Brisbane* (Ship 2) – July 2018
- HMAS *Sydney* (Ship 3) – December 2019

These delivery dates represent delays of 30, 28 and 30 months respectively against the dates contracted in October 2007.

The AWD Alliance was contracted to undertake the AIR 9000 Aviation Upgrade Program for Ship 3 NUSHIP *Sydney* while in Adelaide. The increase in scope has moved the date for Provisional Acceptance to February 2020. This represents a **difference** of 32 months against the contracted dates in October 2007.

Since July 2019 the following major events have occurred:

- **October 2019** – Ship 3 commences CAT 5 Sea Trials
- **October 2019** – HMAS *Brisbane* completes Combat System Ship Qualification Trials in the US
- **December 2019** – Chief of Navy declares Operational Capability 2 for HMAS *Brisbane*
- **February 2020** - Ship 3 achieves Provisional Acceptance
- **April 2020** – Chief of Navy approves Operational Release 3 for NUSHIP *Sydney*
- **May 2020** – HMAS *Sydney* was commissioned into service with the Royal Australian Navy
- **June 2020** – Chief of Navy awarded Final Materiel Release (FMR)

#### Materiel Capability Delivery Performance

All significant government specified capability, with the exception of Radar-Electronic Attack, (R-EA) is currently planned to be achieved and in some warfare areas, the capability will be exceeded. Procurement of the R-EA sub-system has been deferred as currently available technology does not represent a cost-capability benefit. The R-EA budget has been preserved to support a more capable system being installed in the AWD when available.

The Capability Manager has agreed to use part of the quarantined funds to accelerate technical feasibility and early development of an indigenous Electronic Attack system by another Program for potential use in the Hobart Class and other Navy vessels.

#### Note

Forecast dates and capability assessments are excluded from the scope of the Auditor-General's Independent Assurance Report.

### 1.3 Project Context

#### Background

In May 2005 the Government granted first pass approval to the Program, allowing commencement of Phase 2, the Design phase.

Phase 2 oversaw the development of two platform designs:

- The 'Existing' design of the Platform System for the F104 warship as in service with the Spanish Armada, with certain modifications and significant enhancements identified by the Armada or Navantia and included in the design of the Platform System of the F105 warship, as chosen by the Commonwealth, as the Australianised military off-the-shelf option; and
- The 'Evolved' design produced by Gibbs & Cox developed from an in-house design utilising design features of the US Navy class of Aegis Guided Missile Destroyers.

In May 2005, the Government selected ASC AWD Shipbuilder Pty Ltd as the shipbuilder for the AWD Program and determined that the ships should be built in Adelaide. Raytheon Australia Pty Ltd was chosen as the Combat System Systems Engineer.

In October 2005, Defence sought and received Government approval to acquire three Aegis Weapon Systems to provide the core air warfare capability of the AWD. The Commonwealth subsequently entered into a United States (US) Foreign Military Sales (FMS) agreement for the acquisition of the Aegis weapons system and associated engineering services and integrated logistic support.

In June 2007, at Second Pass, the Government granted approval to commence construction of the Hobart Class AWD utilising the existing design. This decision initiated the current phase of Project SEA 4000 Phase 3, the construction phase.

Phase 3 includes detailed design, procurement, ship construction, and set to work of the Aegis Combat System and the F-100 based Platform Systems. This culminates in the delivery of three Hobart Class AWDs together with the ships support systems including initial spares and ammunition outfits, and initial crew training.

Phase 3 concludes with the delivery to the Royal Australian Navy (RAN) of the third AWD, HMAS *Sydney*.

At Second Pass, the Government approved Defence's proposal to close SEA 4000 Program Phase 2, Design, and Phase 3.1, Aegis acquisition activities, and combine the remaining Phase 2 and Phase 3.1 scope and funding with SEA 4000 Program Phase 3.

The Government announced the implementation of an AWD Reform Strategy on 4 June 2014 following an Independent Review of the AWD Program and heightened concern regarding program schedule and forecast cost increases. These concerns resulted in the Program being designated a Project of Concern in June 2014.

As part of the Reform strategy, the Commonwealth entered into agreements with both BAE Systems and Navantia to participate in the Reform Interim Phase from December 2014 until 31 July 2015.

On 22 May 2015, the Minister for Finance and the then Minister for Defence jointly released a media statement suggesting that the project will require an additional \$1.2 billion. This funding was approved in July 2015 at the expense of other Defence acquisitions.

A limited tender process was initiated on 29 May 2015 seeking proposals to either insert a managing contractor into ASC AWD Shipbuilder Pty Ltd for the remainder of the AWD build, or to further enhance ASC capability through a partnering agreement.

After completion of the Reform Interim Phase the Departments of Finance and Defence conducted a Limited Tender for Shipbuilding Management Services (SMS) and jointly agreed that Navantia was the preferred company to provide an experienced shipbuilding management team for insertion into ASC AWD Shipbuilder Pty Ltd.

The Departments of Finance and Defence worked together to implement Long-Term Arrangements (LTAs) (in the form of Shipbuilding Management Services) aimed at ensuring the successful completion of the AWD Program with greater efficiency and effectiveness and consistent with international productivity levels.

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<p>The SMS contract was signed on 5 December 2015 and is a subcontract under ASC AWD Shipbuilder Pty Ltd.</p> <p>Concurrently with the AWD build program, the AWD Transition Support Period (TSP) arrangements strategy is underway. Contract signature was achieved in December 2016 and the TSP Managing Contractor is working onsite with the Commonwealth sustainment office.</p> <p>Minister for Defence and Minister for Defence Industry announced the removal of SEA 4000 Phase 3 from the Projects of Concern list on 1 February 2018.</p>
<p><b>Uniqueness</b></p> <p>The SEA 4000 Air Warfare Destroyer Program is currently one of Australia's largest and most technically complex Defence projects.</p> <p>The AWDs have been designated by the RAN as Hobart Class Guided Missile Destroyers (DDGs) and will be the RAN's first Aegis capable ships.</p> <p>The AWDs are being delivered through an Alliance based contract arrangement involving ASC AWD Shipbuilder, Raytheon Australia, and the Commonwealth, represented by Defence.</p>
<p><b>Contractual Framework</b></p> <p>The Alliance based contract arrangement was signed in October 2007. Key features of the AWD Alliance and the operations of the Alliance based contract arrangement include:</p> <ul style="list-style-type: none"> <li>The Alliance Industry Participants (Raytheon Australia and ASC AWD Shipbuilder) are jointly and severally responsible for the delivery of the three ships and their support system. Each party remains individually responsible for compliance with all statutory requirements.</li> <li>The Alliance is neither a legal body, nor a joint venture.</li> <li>The legal and commercial basis for the Alliance is established through the Alliance Based Target Incentive Agreement (ABTIA) contract signed by all three participants. This establishes a virtual organisation under the governance of the AWD Alliance Board.</li> </ul> <p>The Commonwealth entered into a Platform System Design contract with Navantia, the ship designer, in October 2007. This contract is managed by the AWD Alliance under the Alliance based contract arrangement.</p> <p>The Aegis combat system is being procured by the Commonwealth under the FMS agreement with the US Navy. This agreement is also managed within the AWD Alliance project team.</p> <p>While Navantia and the US Navy (and its equipment supplier, Lockheed Martin) are not part of the Alliance, they work closely with the Alliance and are treated in an alliance like manner.</p>
<p><b>Major Risks and Issues</b></p> <p>The major <b>challenge</b> the project faces is:</p> <ul style="list-style-type: none"> <li><b>Providing support to DDG SPO and Maritime Systems Division in maintaining the Hobart Class;</b></li> </ul> <p><b>A number of risks and issues have been retired or downgraded during the last financial year:</b></p> <ul style="list-style-type: none"> <li><b>Completing the integration of the sonar system into the Hobart Class Combat System</b></li> <li><b>Certification requirements potentially delaying acceptance of Hobart Class ships</b></li> <li>Potential costs of remediating issues discovered during Combat System Ship Qualification Trials for Ships 2 and 3</li> <li>Supporting the shipbuilding workforce as it transitions to ASC Shipbuilding</li> <li>Ensuring knowledge and skills are retained as AWD Program Management Office transitions to Naval Construction Branch.</li> </ul>
<p><b>Other Current Related Projects/Phases</b></p> <p>SEA 4000 Phase 3.2 – Standard Missile SM-2 Missile conversion and upgrade. The conversion of the missiles will allow them to be used in the AWDs and provide an enhanced anti-aircraft and anti-ship missile defence capability. This project is managed by Joint Systems Division within Defence.</p> <p>SEA 4000 Phase 3.3 – This project is to deliver a tailored 20 week United States Navy (USN) Combat System Sea Qualification Trials (CSSQT) activity for each of the three AWDs. The project is to deliver the services component of the Hobart Class CSSQT which requires use of USN range facilities, analysis and assets. The USN CSSQT is a component of the SEA 4000 Operational Test and Evaluation program being executed by the Royal Australian Navy.</p> <p>AIR 9000 Phase 8 – This project <b>funds</b> modifications of the Hobart Class for interoperability with the MH-60R Seahawk 'Romeo' helicopter. Modifications to HMA Ships <i>Hobart</i> and <i>Brisbane</i> will be completed in-service, while modifications to Ship 3 <i>Sydney</i> <b>were undertaken</b> during the build program and before delivery to Navy.</p>
<p><b>Notes</b></p> <p>Major risks and issues are excluded from the scope of the Auditor-General's Independent Assurance Report.</p>

## Section 2 – Financial Performance

### 2.1 Project Budget (out-turned) and Expenditure History

Date	Description	\$m	Notes
	<b>Project Budget</b>		
Jun 07	<b>Original Approved (Second Pass Approval)</b>	7,207.4	
Jan 14	Real Variation – Transfer	(109.9)	1
Sep 15	Real Variation – Real Cost Increase	1,199.5	2
		1,089.6	
Jul 10	Price Indexation	1,173.2	3
Jun 20	Exchange Variation	(361.3)	
Jun 20	<b>Total Budget</b>	<b>9,108.9</b>	

Project Expenditure			
Prior to Jul 19	Contract Expenditure – AWD Alliance	(5,730.5)	4
	Contract Expenditure – US Government	(1,200.1)	
	Contract Expenditure – Navantia	(444.0)	
	Contract Expenditure – NATO Consortium	(72.4)	
	Other Contract Payments / Internal Expenses	(338.3)	
		(7,785.3)	
FY to Jun 20	Contract Expenditure – AWD Alliance	(211.3)	4, 5
	Contract Expenditure – US Government	(27.2)	
	Contract Expenditure – Navantia	(16.8)	
	Other Contract Payments / Internal Expenses	(40.0)	
		(295.3)	
Jun 20	<b>Total Expenditure</b>	<b>(8,080.6)</b>	
<b>Jun 20</b>	<b>Remaining Budget</b>	<b>1,028.3</b>	

## Notes

1	In January 2014, a real cost decrease was approved to transfer project funds to Defence Estate and Infrastructure Group which has responsibility for AWD facilities related deliverables.
2	In September 2015, following advice and approval from Government in July 2015, a revised Budget Approval Notice was provided authorising the Real Cost Increase to the AWD Budget. Included in the RCI was an estimated \$167.0m to cover indexation costs.
3	Up until July 2010, indexation was applied to project budgets on a periodic basis. The cumulative impact of this approach was \$854.8m. In addition to this amount, the impact on the project budget as a result of out-turning was a further \$318.4m having been applied to the remaining life of the project.
4	Other Contract Payments/Internal Expenses budget comprises: Operating, minor contract and other capital items not attributable to the listed contracts.
5	Other Contract Payments/Internal Expenses expenditure comprises: Contractors (\$25.4m), Navy Staff costs (\$2.6m), Spares (\$5.9m) and other minor expenditure not attributable to the listed contracts (\$6.1m).

## 2.2A In-year Budget Estimate Variance

Estimate PBS \$m	Estimate PAES \$m	Estimate Final Plan \$m	Explanation of Material Movements
355.9	315.4	315.1	PBS-PAES: The variation is primarily due to the reprogramming of direct project costs, associated project management office expenditure and spares procurement into 2020-21. PAES-Final Plan: The variation is due to an update of budget exchange rates.
Variance \$m	(40.5)	(0.3)	Total Variance (\$m): (40.8)
Variance %	(11.4)	(0.1)	Total Variance (%): (11.5)

## 2.2B In-year Budget/Expenditure Variance

Estimate Final Plan \$m	Actual \$m	Variance \$m	Variance Factor	Explanation
		31.9	Australian Industry	The AWD SEA04000 PH3 Project was underspent by \$19.8m against the approved budget in FY 2019-20.
			Foreign Industry	
			Early Processes	The underspend variation is due to lower payments against the Aegis FMS case, with lower than anticipated disbursements resulting in a reduced March payment and a forecast fourth quarter payment not required. There were also underspends against spares and engineering costs not charged to the Program by DDGSP0, along with lower than anticipated spend against various program management contracts.
		(34.2)	Defence Processes	
		(17.5)	Foreign Government Negotiations/Payments	
			Cost Saving	
			Effort in Support of Operations	
			Additional Government Approvals	The underspend was offset by the deferral of the remaining Advance Account payments owed by ASC to the Program and these are expected to be recovered in FY 2020-21.
315.1	295.3	(19.8)	Total Variance	
		(6.3)	% Variance	

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## 2.3 Details of Project Major Contracts

Contractor	Signature Date	Price at		Type (Price Basis)	Form of Contract	Notes
		Signature \$m	30 Jun 20 \$m			
US Government	Oct 05	842.7	1,105.8	FMS	FMS	1
AWD Alliance (ABTIA)	Oct 07	4,323.1	7,412.2	Variable with Pain/Gain Share	Alliance	3,4
Navantia (PSD)	Oct 07	373.6	626.1	Fixed with indices escalation	Alliance based	3
NATO Consortium	Dec 09	78.5	72.4	FMS (NATO)	FMS (NATO)	2

## Notes

- 1 The FMS Case established pre-Second Pass involved three contractual steps (initial version and two amendments); October 2005 for initial engineering services, April 2006 for long lead items and July 2006 for three ship sets of core Aegis Combat System Equipment. The resulting scope was in accordance with Government approval of SEA 4000 Phase 3.1. Post-Second Pass, there have been five further amendments to the FMS Case for additional equipment and services for both the AWD Program and the AWD Alliance. These amendments are in accordance with Government approval at Second Pass for the full scope of SEA 4000 Phase 3. The Price at Signature excludes \$167.5m spent in previous phases of the project.  
The Price at **30 June 2020** includes an increase of USD \$20m as per Amendment 10 of the LOA and excludes a current Alliance cost of \$208.2m for the purchase of FMS equipment to be supplied under the ABTIA contract.  
**Contract value as at 30 June 2020 for the FMS contract is based on actual expenditure to 30 June 2020 and remaining commitment at current exchange rates, and includes adjustments for indexation (where applicable).**
- 2 Contract value **for NATO Consortium is at 30 June 2020 with no further changes to occur for the life of the contract.**
- 3 As a result of the AWD Reform Strategy, the AWD Alliance (ABTIA) and Navantia (Platform System Design) contracts were renegotiated and **the ABTIA Deed of Settlement and Amendment and the Platform System Design Deed of Amendment were** signed in December 2015. The price is the value as per the new contract in out turned dollars (as at **30 June 2020**) using the Commonwealth cumulative escalation indices and includes ABTIA Direct Project Costs, Target Fee, Procurement Fee and the Shipbuilding Management Services costs.
- 4 **The AWD Alliance (ABTIA) contract contains several cost categories which are managed separately in the AWD budget. These relate to the ABTIA 'reserve budgets', such as management reserve, the interpretative change and warranty reserve which are not expected to be fully spent (as reported by the AWD Alliance industry participants). Any expenditure against these ABTIA 'reserve' budgets is shown against the AWD Alliance (ABTIA) contract expenditure line in section 2.1; whereas the remaining value of those reserves is being held in the overall AWD Program Management budget.**

Contractor	Quantities as at		Scope	Notes
	Signature	30 Jun 20		
US Government	3	3	Aegis Combat System	
AWD Alliance	3	3	Air Warfare Destroyer	
Navantia	N/A	N/A	Platform System Design and Services	
NATO Consortium	Classified	Classified	Evolved Sea Sparrow Missiles (ESSM)	1

## Major equipment accepted and quantities to 30 Jun 20

Ship 1, HMAS *Hobart*, was provisionally accepted by Defence in June 2017. Ship 2, HMAS *Brisbane*, was provisionally accepted in July 2018, **and HMAS Sydney was provisionally accepted in February 2020.** The Aegis Combat System for all three ships has been delivered. All ESSM procurement have been received and finalised by Maritime Explosive Ordnance Branch within Joint System Division (CASG).

## Notes

- 1 Quantity being acquired is classified.

## Section 3 – Schedule Performance

## 3.1 Design Review Progress

Review	Major System /Platform Variant	Original Planned	Current Contracted	Achieved /Forecast	Variance (Months)	Notes
System Requirements	AWD Program	Mar 08	N/A	Apr 08	1	
Preliminary Design	AWD Program	Dec 08	N/A	Feb 09	0	1
Critical Design	AWD Program	Dec 09	N/A	Feb 10	0	2
Support System Detailed Design Review	AWD Program	Jun 10	N/A	Aug 10	0	3

## Notes

- 1 The Preliminary Design Review (PDR) was conducted as scheduled in December 2008 and resulting actions completed as scheduled by February 2009.
- 2 The Critical Design Review (CDR) was conducted as scheduled in December 2009 and resulting actions completed as scheduled by February 2010.

3	The Support System Detailed Design Review (SSDDR) was conducted as scheduled in June 2010 and resulting actions completed August 2010.
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### 3.2 Contractor Test and Evaluation Progress

Test and Evaluation	Major System / Platform Variant	Original Planned	Current Contracted	Achieved / Forecast	Variance (Months)	Notes
System Integration	Ship 1 – Complete Hull Integration	Dec 12	Mar 14	Mar 14	15	1,3
	Ship 1 – Start Combat System Light Off	Dec 13	Nov 15	Nov 15	23	2,3,4
	Ship 2 – Complete Hull Integration	Mar 14	Dec 15	Dec 15	21	3,4
	Ship 2 – Start Combat System Light Off	Mar 15	Apr 17	Apr 17	25	3,4
	Ship 3 – Complete Hull Integration	Jun 15	Aug 17	Jul 17	25	3,4
	Ship 3 – Start Combat System Light Off	Jun 16	Sep 18	Sep 18	27	3,4
Acceptance	Ship 1 – Commencement of Category 5 Trials	Aug 14	Sep 16	Jan 17	29	3,4
	Ship 1 – Provisional Acceptance	Dec 14	Jun 17	Jun 17	30	3,4,5
	Ship 2 – Commencement of Category 5 Trials	Nov 15	Dec 17	Mar 18	28	3,4
	Ship 2 – Provisional Acceptance (Materiel Release 2)	Mar 16	Jul 18	Jul 18	28	3,4,6
	Ship 3 – Commencement of Category 5 Trials	Feb 17	Oct 19	Oct 19	32	3,4,7
	Ship 3 – Provisional Acceptance	Jun 17	Feb 20	Feb 20	32	3,4,8

#### Notes

1	Complete Hull Integration was achieved when the last erection joint was completed and has been structurally inspected and accepted.
2	Start Combat System Light Off verified the readiness of the first set of installed combat system equipment for CAT 4 testing.
3	In 2010 difficulties were encountered in relation to the engineering and construction of some of the first AWD hull blocks. This resulted in the reallocation of block work between BAE, Forgacs and Navantia and a revision to the delivery schedule. On 6 September 2012, the then Minister for Defence announced, that the AWD schedule would be re-baselined and that the revised AWD delivery dates would be March 2016, September 2017, and March 2019.
4	In May 2015, following a Comprehensive Cost Review conducted by the AWD Alliance held in February, the then Minister for Defence announced that the delivery schedule had been changed to June 2017, September 2018 and March 2020 respectively. With the introduction by Navantia of an expert shipbuilding management team into the shipyard as part of the AWD Reform Long Term Arrangements for the AWD Reform, the delivery schedule for Ships 2 and 3 was brought forward by up to three months from prior schedule extension.
5	Ship 1 Provisional Acceptance was achieved on 16 June 2017, followed by Initial Materiel Release (IMR) in September 2017.
6	Ship 2 Provisional Acceptance was achieved on 5 July 2018, followed by Initial Operational Release 2 (IOR2) in October 2018.
7	Docking required to investigate and repair shaft vibration had delayed Ship 3 Category 5 sea trials by three months.
8	Chief of Navy approved the AWD Alliance to conduct the AIR 9000 upgrade program on Ship 3, <b>which moved</b> Provisional Acceptance from December 2019 to February 2020.

### 3.3 Progress Toward Materiel Release and Operational Capability Milestones

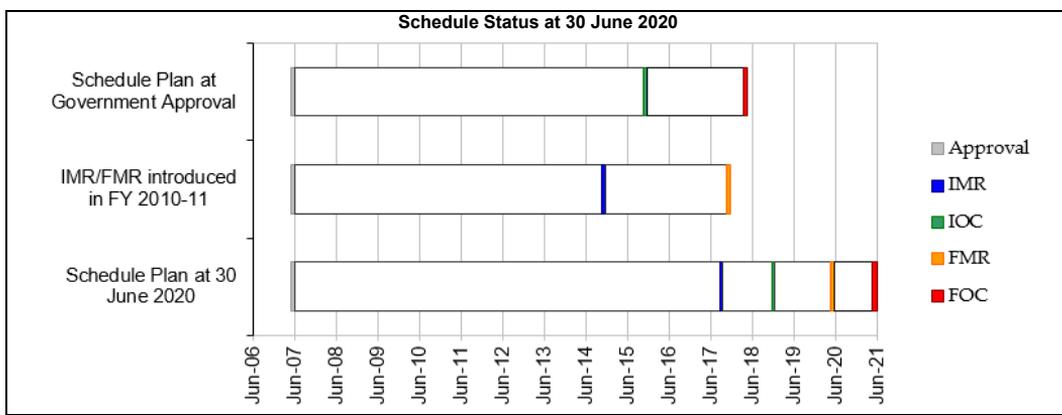
Item	Original Planned	Achieved / Forecast	Variance (Months)	Notes
Initial Materiel Release (IMR)	Dec 14	Sept 17	33	1, and see also Note 3 and 4 above
Initial Operational Capability (IOC)	Dec 15	Dec 18	36	1, and see also Note 3 and 4 above
Final Materiel Release (FMR)	Dec 17	Jun 20	30	2
Final Operational Capability (FOC)	May 18	Jun 21	37	2, 3

#### Notes

1	The IMR, FMR and FOC dates have been reviewed and have been approved with the release of a revised Materiel Acquisition Agreement 2.0 in March 2018. Variances are directly attributable to the revised AWD delivery dates that were agreed as a result of the AWD reform strategy.
2	Incorporation of AIR 9000 Aviation Upgrade Program scope in Ship 3 causes Provisional Acceptance to move from December 2019 to February 2020, and FMR from January 2020 to March 2020. <b>Chief of Navy awarded FMR on 29 June 2020.</b>
3	Declaration of FOC by Chief of Navy will occur after Combat System Ship Qualification Trials <b>for Ship 3. FOC was initially scheduled for first quarter 2021 and later changed to June 2021 as the incorporation of the AIR 9000 Aviation Upgrade moved Provisional Acceptance of Ship 3 by two months to February 2020, which in turn impacted the follow-on CSSQs events in the United States, planned from March 2021.</b>

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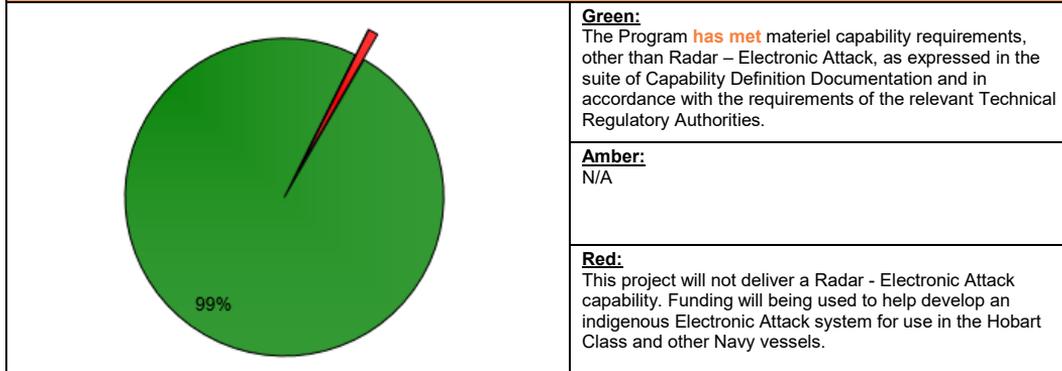


**Note**  
Forecast dates in Section 3 are excluded from the scope of the Auditor-General's Independent Assurance Report.

### Section 4 – Materiel Capability Delivery Performance

#### 4.1 Measures of Materiel Capability Delivery Performance

**Pie Chart: Percentage Breakdown of Materiel Capability Delivery Performance**



**Note**  
This Pie Chart represents Defence's expected capability delivery. Capability assessments and forecast dates are excluded from the scope of the Auditor-General's Independent Assurance Report.

#### 4.2 Constitution of Materiel Release and Operational Capability Milestones

Item	Explanation	Achievement
Initial Materiel Release (IMR)	One Hobart Class Ship System with up to Category 5 (sea acceptance) trials, testing and certification completed. Initial sustainment arrangements in place to support IOC. Training of the Hobart Class Systems for the commissioning crew to support IOC. IMR was achieved in September 2017.	Achieved.
Initial Operational Capability (IOC)	Ship 1 <i>Hobart</i> can be employed operationally, realised on attainment of all capability release milestones. Completion of Navy Operational Test and Evaluation. Compliance with the Operational Concept Document. Completion of Combat System Ship Qualification Trials, and the declaration that all Fundamental Inputs to Capability have been delivered. IOC was achieved in December 2018.	Achieved.
Final Materiel Release (FMR)	All three Hobart Class Ship Systems with up to Category 5 (sea acceptance) trials, testing and certification completed. Combat System Through Life Support Facility delivered and ready for support. Training on the Hobart Class systems for the commissioning of crew 3. All sustainment arrangements in place to provide materiel support to the Hobart Class. FMR was achieved in June 2020.	Achieved.

Final Operational Capability (FOC)	Ships 01, 02 and 03 are assessed as capable of sustainably performing all the requirements detailed in the Operational Concept Document. FOC is expected to be achieved in June 2021.	Not yet achieved.
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## Section 5 – Major Risks and Issues

### 5.1 Major Project Risks

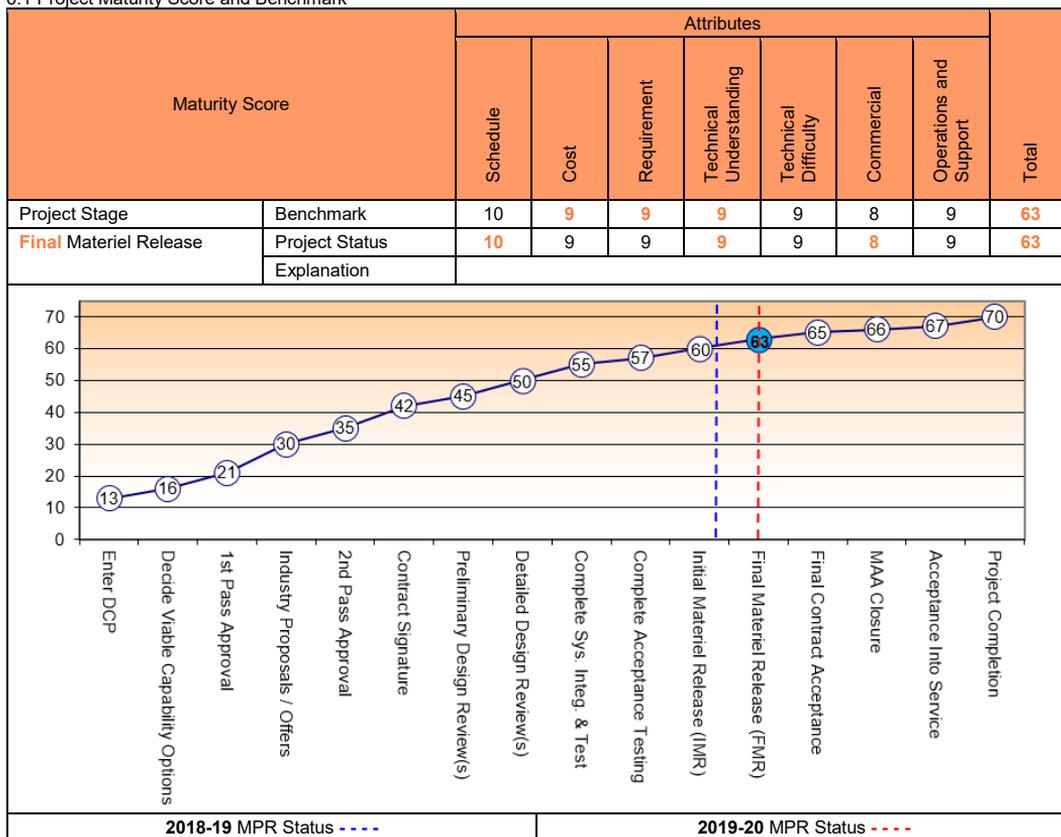
Identified Risks (risk identified by standard project risk management processes)	
Description	Remedial Action
1. There is a chance that the Integrated Sonar System Sonar will be affected by design issues leading to an impact on capability.	Actions to remediate the power supply design issue have been successful. Testing during NUSHIP Sydney CAT 5 sea trials has proven that the issue has been successfully treated. This has allowed the assessment of this risk to be downgraded to Medium.
2. Capability Acceptance: Certification requirements are unclear for some equipment, and treatment of non-conformances could delay ship acceptance.	This risk has been retired. Ship 3 Sydney has been provisionally accepted.
3. Requirement to remediate non-conformances on Ships 2 and 3 post Combat System Ship Qualification Trials.	This risk has been downgraded to a Medium risk. Ships 1 and 2 have completed the Combat System Ship Qualification Trials without issue and without the need for support from the PMO. Ship 3 Qualification Trials will be held in the second quarter 2021.
4. Increased costs of worker redundancies as period of obligation increased, with Government mandated sale of ASC Shipbuilding to BAE Systems.	This risk has been realised as a Medium issue. By offsetting redundancy provisions, the project is funding the professional development of some ASC Shipbuilding staff prior to commencement of future shipbuilding works.
Emergent Risks (risk not previously identified but has emerged during 2019-20)	
Description	Remedial Action
N/A	N/A

### 5.2 Major Project Issues

Description	Remedial Action
1. Maintenance of the Hobart Class ships is expected to be disrupted with the upcoming closure of the AWD program, with issues relating to sparring, data transfer, and the incorporation of engineering change post Acceptance.	The AWD project is providing support to mitigate issues not resolved during the set-up and management of the DDG SPO, to maintain operational readiness days.
2. Loss of skills and expertise as the AWD program closes.	This issue has been retired. The AWD Program office staff have transitioned to their new positions in Naval Construction Branch, and recruitment is underway to expand the Branch resources, which is effectively managing the issue.
Note	
Major risks and issues in Section 5 are excluded from the scope of the Auditor-General's Independent Assurance Report.	

## Section 6 – Project Maturity

### 6.1 Project Maturity Score and Benchmark



## Section 7 – Lessons Learned

### 7.1 Key Lessons Learned

Description	Categories of Systemic Lessons
The AWD Reform has been successful and the key reason is due to implementing an experienced Management Team into the Shipbuilding Program who have previously built and designed the ship. First of Class ship build programs should have this support when building the first ship, allowing the local Australian workforce to be better prepared and trained to build the remaining ships.	Governance
The Hobart Class Combat System operation and performance has been proven on HMAS <i>Hobart</i> and NUSHIP <i>Brisbane</i> through acceptance tests at sea. The first-time success of this complex integration is due to thorough design and architecture early in project, along with the extensive use of on-shore test facilities closely replicating the ship environment. Close cooperation and regular dialogue with United States Navy colleagues were also important to ensure integration with the AEGIS weapon system.	Contract Management
The interpretation of the requirements of fitness for purpose of drawings is different between contracting parties. A review of all product types prior to contract and interrogation of the delivery schedule to confirm sufficient time for reviews and incorporation of comments is necessary.	Contract Management
The shipbuilding capacity of shipyards involved in a project like AWD needs to be assessed in detail in terms of precise capacity to undertake production engineering as well as the workload constraints of facilities, production supervision and overall workforce numbers taking into consideration the total contracts conducted at the shipyard in parallel.	Resourcing First of Type Equipment
The schedule that plans the transition from design to production needs detailed evaluation by the designer(s) and the production shipyard(s) to ensure the balance between commencing production and completing very detailed design is appropriately balanced and agreed.	Schedule Management
<b>The need to develop appropriate and sector wide tools and infrastructure, namely the Maritime Information Environment IT network, to facilitate Government policies in continuous naval shipbuilding.</b>	<b>Resourcing</b>

## Section 8 – Project Line Management

### 8.1 Project Line Management as at 30 June 2020

Position	Name
Division Head	Ms Sheryl Lutz
Program Manager	CDRE Steven Tiffen, RAN
Deputy Program Manager	Mr Greg McPherson