

## Project Data Summary Sheet<sup>164</sup>

Project Number	SEA3036 Phase 1
Project Name	Pacific Patrol Boat Replacement (PPB-R)
First Year Reported in the MPR	2017-18
Capability Type	Replacement
Capability Manager	Chief of Navy
Government 1st Pass Approval	Apr 16
Government 2nd Pass Approval	Apr 16
Budget at 2nd Pass Approval	\$504.5m
Total Approved Budget (Current)	<b>\$501.4m</b>
2020-21 Budget	<b>\$82.2m</b>
Complexity	ACAT II



Pacific Patrol Boat Repl

Part 3. Project Data Summary Sheets

### Section 1 – Project Summary

#### 1.1 Project Description

SEA3036 Phase 1 – Pacific Patrol Boat Replacement is acquiring 21 vessels to replace the existing 22 Pacific Patrol Boats (PPBs) gifted to 12 Pacific Island Countries between 1987 and 1997 and two boats for Timor-Leste; as part of Australia's Pacific Maritime Security Program. The project also includes disposal of the current PPB fleet and minor upgrades to Pacific Island infrastructure to enable safe berthing of the new Guardian Class Patrol Boats (GCPBs).

#### 1.2 Current Status

##### Cost Performance

###### In-year

As at 30 June 2021, the project **had spent \$71.3m** against an in-year budget of **\$82.2m**. The variance of **\$10.9m** is mainly due to **escalation less than originally forecasted for the Prime contract**.

###### Project Financial Assurance Statement

As at 30 June 2021 the project has reviewed the approved scope and budget for those elements required to be delivered by the project. Having reviewed the current financial and contractual obligations of the project, current known risks and estimated future expenditure, Defence considers, as at the reporting date, there is sufficient budget remaining for the project to complete against the agreed scope.

###### Contingency Statement

The project has not applied contingency in the financial year.

##### Schedule Performance

The project is currently within the delivery phase. To date, the first **eleven** GCPB vessels have been delivered to their respective recipient nations as follows:

- Vessel 1 to Papua New Guinea in November 2018
- Vessel 2 to Tuvalu in April 2019
- Vessel 3 to Tonga in June 2019
- Vessel 4 to Samoa in August 2019
- Vessel 5 to Solomon Islands in November 2019
- Vessel 6 to Fiji in March 2020
- **Vessel 7 to Palau in September 2020**
- **Vessel 8 to Kiribati in June 2021**
- **Vessel 9 to Tonga in October 2020**
- **Vessel 10 to Papua New Guinea in March 2021**
- **Vessel 11 to Solomon Islands in May 2021**

In addition, from 01 July 2020 the project has achieved the following Key Milestones on time:

- **Vessel 9 (Tonga) Launch milestone achieved in July 2020**
- **Vessel 10 (PNG) Launch milestone achieved in October 2020**
- **Vessel 11 (Solomon Islands) Launch milestone achieved in January 2021**
- **Vessel 12 (Vanuatu) Launch milestone achieved in April 2021**
- **Vessel 12 (Vanuatu) Keel Laying milestone achieved in September 2020**

164 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 Review Report by the Auditor-General in Part 3* of this report.

- **Vessel 13 (PNG) Keel Laying achieved in November 2020**
- **Vessel 14 (Federation of Micronesia) Keel Laying achieved in March 2021**
- **Vessel 15 (Cook Islands) Keel Laying achieved in Jun 2021**

Subsequent vessels are to be delivered and gifted at a rate of one every three to four months through to the last vessel delivery scheduled for late 2023.

To date the prime contractor key milestones have been met in alignment with the contract schedule, with the exceptions to this being:

- Delivery of the first vessel which was approximately 5 weeks later than contracted as a result of delays in establishing a steel production facility, vessel production activities and the resolution of first of class issues. This delay incurred a corresponding delay to achievement of IMR/IOC which was achieved on 30 November 2018.
- Delivery of Vessel 7 **was** approximately 4 months later than contracted as a result of international travel restrictions due COVID-19.
- **Delivery of Vessel 8 which was approximately 10 months later than contracted as a result of international travel restrictions due COVID-19.**

Aspects of the project involving Pacific Island Country Infrastructure upgrades have been completed in PNG (October 2019), however COVID-19 global pandemic international travel restriction has delayed further upgrades in other Pacific Island Countries as Contractors cannot mobilise to site to conduct the work.

Disposal of the existing Pacific Patrol Boats is progressing in alignment with project needs.

#### **Material Capability Delivery Performance**

The first **eleven** vessels have been delivered to their recipient nations. COVID-19 caused delay to delivery of the vessels to Palau, **Kiribati and Papua New Guinea**. However, these delays **have been** accommodated within the overall project delivery schedule and are not expected to impact the project's achievement of Final Materiel Release.

#### **Note**

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

### 1.3 Project Context

#### **Background**

SEA3036 Phase 1, Pacific Patrol Boat Replacement Project was initiated in 2014 to replace the 22 Pacific Patrol Boats (PPB) that were gifted to 12 Pacific Island Countries (PIC) between 1987 and 1997 under the auspices of the Pacific Maritime Security Program (PMSP). The project was mandated to deliver a new single class of vessel, built to contemporary regulatory standards of steel hulled construction, able to operate year round and enable basic local maintenance and repair in each nation.

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

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

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

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

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

Due to a delay in the acceptance and handover of the first boat of approximately five weeks, caused by the establishment of a dedicated steel production facility and resolution of first of Class issues, Liquidated Damages have been accrued. Agreement has also been reached on provision of goods and services in kind to the Commonwealth in alignment with the value of Liquidated Damages accrued.

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

The first two infrastructure contracts jointly funded (joint scope) by the project and the DCP have been awarded and works are underway. The first contract for delivery of upgrades in PNG, established in September 2018, has now been completed and was opened by the Minister of Defence in October 2019. The second contract for delivery of upgrades in Tuvalu, Tonga, Samoa, Fiji, Kiribati, Cook Islands and Vanuatu was established in February 2019 and is currently underway.

The project is only funded and scoped to deliver minor infrastructure upgrades. To standardise infrastructure delivery across the Pacific, it was planned to transfer the responsibility for execution of the infrastructure upgrades from the project to Indo-Pacific

## **Project Data Summary Sheets**

Auditor-General Report No.13 2021–22  
2020–21 Major Projects Report

Enhanced Engagement (IPACE) Branch within Defence's International Policy Division. This was agreed and officially endorsed in September 2019.
<p><b>Uniqueness</b></p> <p>The PPB-R is a vessel being built to commercial standards that will be gifted to 13 nations. The vessel is being built to International Maritime Orders (IMO) requirements, under the Australian Maritime Safety Authority (AMSA) flag. Lloyds Register is the classification society and the vessel will meet class requirements. However, ultimately the PPB-R will not be put into class. The Project's Capability Manager is Navy with International Policy as the Sponsor of the PPB-R Project and the Pacific Maritime Surveillance Program. Once gifted, each vessel will become a sovereign asset of the recipient nations.</p>
<p><b>Major Risks and Issues</b></p> <p>The Project is currently managing an issue related to Pacific nation crews unable to travel to Australia for conversion training and receive the PPB-R vessel.</p> <p>The Project has identified one High risk relating to the COVID-19 pandemic impact with public health and supplier capabilities on project deliverables, and has retained another High risk, relating to current PPB movement to Australia.</p>
<p><b>Other Current Related Projects/Phases</b></p> <p>N/A</p>
<b>Note</b>
Major risks and issues are excluded from the scope of the Auditor-General's Independent Assurance Report.

**Section 2 – Financial Performance**

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

Date	Description	\$m	Notes
	<b>Project Budget</b>		
Aug 14	Original Approved	5.7	1
Jan 15	Real Variation – Transfer	1.2	2
May 16	Government Combined Pass Approval	497.6	
	<b>Total at Second Pass Approval</b> (or key Government pre-Second Pass Approval)	504.5	
Jun 21	Exchange Variation	(3.1)	
Jun 21	<b>Total Budget</b>	501.4	
	<b>Project Expenditure</b>		
Prior to Jul 20	Contract Expenditure - Austal	(155.5)	3
	Other Contract Payments/Internal Expenses	(24.0)	
		(179.5)	
FY to Jun 21	Contract Expenditure - Austal	(67.7)	4
	Other Contract Payments/Internal Expenses	(3.6)	
		(71.3)	
Jun 21	<b>Total Expenditure</b>	(250.8)	
Jun 21	<b>Remaining Budget</b>	250.6	
<b>Notes</b>			
1	This amount was for Initial Pass Project Approval.		
2	Transfer of funding to Defence Materiel Organisation, now known as Capability Acquisition and Sustainment Group, to support Offer Definition Improvement Activity and Anthropometric Study.		
3	Other contract payments and expenditure comprises of Pre Combined Pass expenditure (\$3.5m) and other project support contracted staff costs (\$11.9m), infrastructure costs (\$8.1m) and other direct project costs (\$0.5m).		
4	Other contract payments and expenditure includes, project support contracted staff costs of (\$3.1m) and other direct project costs of (\$0.5m).		

**2.2A In-year Budget Estimate Variance**

Estimate PBS \$m	Estimate PAES \$m	Estimate Final Plan \$m	Explanation of Material Movements
85.3	82.7	82.2	PBS – PAES: \$2.6m due to reprogramming of the prime contract escalation and CCPs. PAES – Final Plan: \$0.6m due to foreign exchange fluctuations.
Variance \$m	(2.6)	(0.5)	Total Variance (\$m): (3.1)
Variance %	(3.0)	(0.6)	Total Variance (%): (3.6)

**2.2B In-year Budget/Expenditure Variance**

Estimate Final Plan \$m	Actual \$m	Variance \$m	Variance Factor	Explanation
		(10.9)	Australian Industry	Primarily due to the Prime Contract (Austal) associated with escalation.
			Foreign Industry	
			Early Processes	
			Defence Processes	
			Foreign Government Negotiations/Payments	

			Cost Saving	
			Effort in Support of Operations	
			Additional Government Approvals	
82.2	71.3	(10.9)	Total Variance	
		(13.3)	% Variance	

## 2.3 Details of Project Major Contracts

Contractor	Signature Date	Price at		Type (Price Basis)	Form of Contract	Notes
		Signature \$m	30 Jun 21 \$m			
Austal Ships Pty Ltd	May 16	321.1	363.1	Fixed	Standard Defence Contract	1
<b>Notes</b>						
1	Contract Value as at 30 June 2021 is based on actual expenditure to 30 June 2021 and remaining commitment at current exchange rates, and includes adjustments for indexation (where applicable).					
Contractor	Quantities as at		Scope	Notes		
	Signature	30 Jun 21				
Austal Ships Pty Ltd	19	21	PPB-R vessels, conversion training and associated support system products.	1		
<b>Major equipment accepted and quantities to 30 Jun 21</b>						
<ul style="list-style-type: none"> <li>Two Guardian class Patrol Boat gifted to Papua New Guinea.</li> <li>One Guardian class Patrol Boat gifted to Tuvalu.</li> <li>Two Guardian class Patrol Boat gifted to Tonga.</li> <li>One Guardian class Patrol Boat gifted to Samoa.</li> <li>Two Guardian class Patrol Boat gifted to Solomon Islands.</li> <li>One Guardian class patrol Boat gifted to Fiji.</li> <li>One Guardian class Patrol Boat gifted to Palau</li> <li>One Guardian class Patrol Boat gifted to Kiribati.</li> </ul>						
<b>Notes</b>						
1	Two additional PPB-R vessels were included into the scope of supply in April 2018 following acceptance in December 2017 by the Timor-Leste Government of the offer from the Australian Government to receive two boats.					

## Section 3 – Schedule Performance

## 3.1 Design Review Progress

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

## 3.2 Contractor Test and Evaluation Progress

Test and Evaluation	Major System / Platform Variant	Original Planned	Current Contracted	Achieved / Forecast	Variance (Months)	Notes
Harbour Acceptance Trials (HATs) Complete	PPBR Boat 1	Jul 18	N/A	Oct 18	3	1
	PPBR Boat 2-5	Aug 19	N/A	Sep 19	1	
	PPBR Boat 6-9	Aug 20	N/A	Aug 20	0	
	PPBR Boat 10-13	Aug 21	N/A	Aug 21	0	
	PPBR Boat 14-18	Oct 22	N/A	Oct 22	0	
Acceptance	PPBR Boat 19-21	Jul 23	N/A	Jul 23	0	
	PPBR Boat 1	Oct 18	N/A	Nov 18	1	1,2,3
	PPBR Boat 2-5	Nov 19	N/A	Nov 19	0	3
	PPBR Boat 6-9	Nov 20	N/A	Jun 21	7	4
	PPBR Boat 10-13	Oct 21	N/A	Oct 21	0	3
PPBR Boat 14-18	Dec 22	N/A	Dec 22	0	3	
PPBR Boat 19-21	Oct 23	N/A	Sep 23	(1)	3	
<b>Notes</b>						
1	The variance of three months is primarily due to equipment supply chain delays and first of class issues with set-to-work activities.					
2	Testing of Boat 1 includes operation-like test activities in advance of Acceptance of Boat 1.					
3	Acceptance marks the successful completion of all tests and crew conversion training. The Commonwealth accepts the vessel from the contractor and then gifts the vessel to the receiving nation.					

## Project Data Summary Sheets

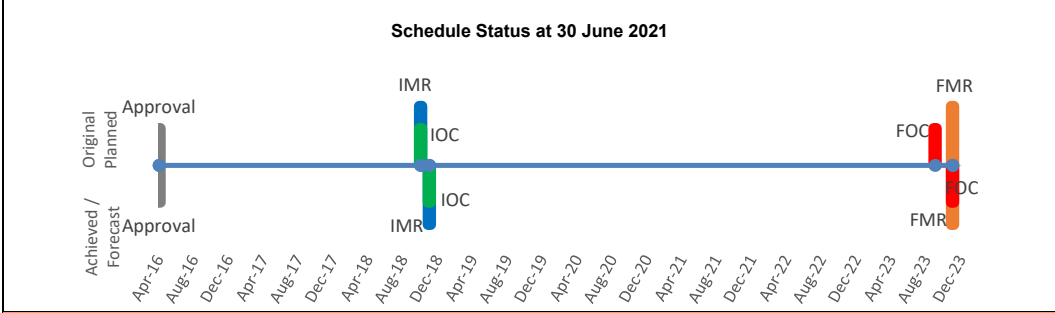
Auditor-General Report No.13 2021–22  
2020–21 Major Projects Report

4	The variance of seven months is due to COVID-19 pandemic travel restrictions restricting the crew for vessel 8 travelling to Australia to undertake conversion training and receive their vessel.
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3.3 Progress towards Materiel Release and Operational Capability Milestones

Item	Original Planned	Achieved/Forecast	Variance (Months)	Notes
Initial Materiel Release (IMR)	Oct 18	Nov 18	1	1,2
Initial Operational Capability (IOC)	Oct 18	Nov 18	1	3
Final Materiel Release (FMR)	Nov 23	Nov 23	0	1,2
Final Operational Capability (FOC)	Sep 23	Nov 23	2	3,4

Notes	
1	IMR and FMR dates were not scheduled at Combined Pass Government Approval.
2	IMR and FMR will be achieved at acceptance of boats by the Commonwealth.
3	IOC and FOC will be achieved at acceptance of the boats into PIC operational service. This is expected to occur simultaneously with IMR and FMR. The variance of one month is a result of delayed commencement of SATS and HATS for the first vessel, leading to a delay to delivery.
4	The variance of two months is a result of the now contracted delivery dates for the two additional vessels for Timor-Leste.



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	
<p>A pie chart showing a single green segment representing 100% and a black line pointing to a 0% label.</p>	<p><b>Green:</b> The project is meeting capability requirements as expressed in the Joint Project Directive and Materiel Acquisition Agreement.</p> <p><b>Amber:</b> N/A</p> <p><b>Red:</b> N/A</p>

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)	First vessel and associated support system technical documentation, initial spares and logistics documentation delivered and accepted by the Commonwealth. IMR was achieved 30 November 2018.	Achieved
Initial Operational Capability (IOC)	First vessel accepted into the Pacific Island Country operational service. IOC was achieved 30 November 2018.	Achieved
Final Materiel Release (FMR)	Last Vessel (21) delivered, completed delivery of all remaining Acquisition Project Support deliverables and accepted by the Commonwealth including completion of transition tasks in accordance with the PPB-R Transition Plan. FMR is forecast to be achieved in November 2023.	Not yet achieved
Final Operational Capability (FOC)	All vessels accepted into their Pacific Island Country operational service. FOC is forecast to be achieved in November 2023.	Not yet achieved

## Section 5 – Major Risks and Issues

## 5.1 Major Project Risks

Identified Risks (risk identified by standard project risk management processes)	
Description	Remedial Action
There is a risk that the current PPBs will be either unable to transit to Australia or moved to Australia out of alignment with current planning leading to an impact to the phasing of Disposals costs incurred as part of the overall Project Budget.	Engage with Pacific Island Countries (PICs) & Maritime Surveillance Adviser and Technical Adviser via International Policy Division and Pacific Patrol Boat Systems Program Office to gain earliest advice on risk realisation.  Flexibility has been incorporated into the PPB Disposal contract signed 6 July 2018, however this is limited in scope. Funds have been made available to Materiel Logistics Disposal and Sales Branch (MLDS) for undertaking movement of vessels unable to transit to the disposal site under own power. These funds are to enable MLDS to promptly arrange movement of boats so as to avoid the risk of Disposals Contract costs being incurred. PPBSPO to conduct material condition assessments and advise on seaworthiness to sail.
There is a chance that project deliverables will be affected by the COVID-19 pandemic leading to an impact on project scope, schedule and cost.	Risk Management plan Remain aware of Government Departments' advice and actions regarding: <ul style="list-style-type: none"> <li>Defence: WHS policy, flexible work arrangements, intelligence.</li> <li>Health: public health policy, restrictions and advice.</li> <li>Foreign Affairs and Trade: country and travel advice.</li> <li>Home Affairs: travel restrictions and border control.</li> <li>State/Local Governments' restrictions.</li> </ul>
Emergent Risks (risk not previously identified but has emerged during 2020-21)	
Description	Remedial Action
N/A	N/A

## 5.2 Major Project Issues

Description	Remedial Action
The acceptance of GCPBs has been affected by provision of crews to Austal for conversion training leading to an impact on project milestones.	PIC Government policies and restrictions Risk Management Plan Government Departments: <ul style="list-style-type: none"> <li>Defence: WHS policy, flexible work arrangements, intelligence.</li> <li>Health: public health policy, restrictions and advice.</li> <li>Foreign Affairs and Trade: country and travel advice.</li> <li>Home Affairs: travel restrictions and border control.</li> <li>State/Local Governments' restrictions.</li> </ul>
Note	
Major risks and issues in Section 5 are excluded from the scope of the Auditor-General's Independent Assurance Report.	

## Section 6 – Lessons Learned

## 6.1 Key Lessons Learned

Project Lesson	Categories of Systemic Lessons
Allocate schedule allowance to enable ramp-up and learning of Defence requirements for Contractors inexperienced with Defence contracting templates.	Schedule Management
Develop, maintain and leverage positive Contractor relationships.	Contract Management

## Project Data Summary Sheets

Auditor-General Report No.13 2021–22  
2020–21 Major Projects Report

Use of review teams for assurance on Contract Development when tailoring Defence contracting templates.	Requirements Management
Work with Contractor to ensure the broader implications of key milestone delay are understood and encourage early advice on delay.	Schedule Management

**Section 7 – Project Line Management**

7.1 Project Line Management as at 30 June 2021

Position	Name
Division Head	Ms Sheryl Lutz
Branch Head	Mr David Kingston

