

Public Accounts and Audit

Parliamentary Inquiry – into the 2018-19 Defence Major Projects Report and Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: JCPAA - 20 Apr 2020 - Q1 - Disparity in OPV and Future Frigate Funding - Patrick

Question reference number: 1

Senator/Member: Rex Patrick

Type of question: Written

Date set by the committee for the return of answer: 8 May 2020

Question:

On Page 20 under para 1.20 (of Auditor-General's Report 22 Future Submarine Project – Transition to Design):

It states “The Department of Defence's estimates for its \$89 billion Naval Construction Programs [including the Offshore Patrol Vessel, Future Frigate and Future Submarine programs] remain unchanged as at the most recent Integrated Investment Program Bi-Annual review informing the Defence Portfolio Budget Statements 2019-20”, then at para 1.22 it states “At a reported cost in the order of \$80 billion, the design and construction of the Future Submarine represents the largest Defence procurement in Australia's history”.

1. Based on these numbers there would be \$9B for the OPV and Frigate programs, in circumstances where the 2016 Defence Integrated Investment Plan (see Table 6) suggests the OPV program is projected to cost \$3 - \$4 billion out-turned and the Future Frigate Program is projected to cost >\$30B out-turned. What is the basis of the disparity?

Answer:

At the time of the release of the 2016 *Defence White Paper* and Integrated Investment Program, the actual shipbuilding budget provisions were commercially sensitive as the key programs were still in, or about to commence, their competitive evaluation processes.

As such, generalised values for the acquisition projects were published either in a ‘greater than’ context or in bands, for example Future Submarine (>**\$50 billion**), Future Frigate (>**\$30 billion**) and Offshore Patrol Vessel (**\$3–\$4 billion**). The commitment made at the time by the Government was for a \$90 billion dollar shipbuilding program.

Over time budget estimates will be updated to reflect final contractual arrangements and will continue to be subject to fluctuations due to movements in inflation and foreign exchange rates,

noting two of the major shipbuilding programs will run over several decades with dollars being out-turned into the 2040s for the frigate program and the 2050s for the submarine program.

The COVID-19 pandemic has caused significant uncertainty in relation to budget variables, including inflation and foreign exchange rates and it is difficult for the Government to reliably forecast the variables necessary to provide an accurate out-turned update on the shipbuilding programs. The acquisition budget provision of \$89.7 billion for the Attack Class Submarine program refers to out-turned estimates updated pre-COVID-19 [refer to Department of Defence's response to Question on Notice 3 from the 2019-20 Additional Estimates hearing on 4 March 2020]. The acquisition provision for the Attack Class program outlined in the 2017 Naval Shipbuilding remains \$50 billion in constant-dollar terms.

The Government has deferred the 2020-21 Budget until October 2020 in light of the current economic uncertainty. All shipbuilding program acquisition budget provisions will be updated on an out-turned basis through this deferred Budget 2020-21 process and will be released in the second half of 2020.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: JCPAA - 20 Apr 2020 - Q6 - Funding allocations - Patrick

Question reference number: 6

Senator/Member: Rex Patrick

Type of question: Written

Date set by the committee for the return of answer: 8 May 2020

Question:

On Para 2.15 (of Auditor-General's Report 22 Future Submarine Project – Transition to Design):

In December 2018 the Head of the Future Submarine Program provided a report to the Negotiation Reference Committee that included the statement “As challenging as construction will be (where 90% of the funding will be spent) success will be driven by preparations during the design of the Future Submarine, when much of the engineering effort will be required, supported by enabling disciplines including program management and procurement”.

1. The 90% is referring to 90% of what particular funding?
2. What is the allocated funding?

Answer:

1. The 90 per cent referred to program budget allocated for the work conducted by both Naval Group and Lockheed Martin Australia to complete the design, build and delivery of the Attack Class Submarines.
2. As there are further program contracts and work scopes to be agreed (including costs) with Naval Group and Lockheed Martin Australia for subsequent phases of the Program, it would be inappropriate to disclose the figure for this allocated funding.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: JCPAA - 20 Apr 2020 - Q29 – Transfer of Detailed Design to Australia - Patrick

Question reference number: 29

Senator/Member: Rex Patrick

Type of question: Written

Date set by the committee for the return of answer: 8 May 2020

Question:

On Para 3.52 (of Auditor-General's Report 22 Future Submarine Project – Transition to Design):

1. When are the Detailed Design activities to transfer to Australia?

Answer:

Detailed design will commence in Australia from the end of preliminary design. Preparations to commence detailed design will be taking place in Australia through 2021 and 2022.