



Australian Government

Department of Finance

Jane Halton PSM
Secretary

Our Ref: SEC 0010552

Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Dr Dermody

I refer to your letter of 14 July 2014, in which you sought written submissions to the Inquiry into the future of Australia's naval shipbuilding industry and my response of 17 July 2014 in which I indicated that the Department of Finance would consider the scope of the Senate Economics References Committee inquiry and provide a response in the future.

Following your letter the Department received a request for Mr John Sheridan, to attend a Committee hearing of 21 July 2014. As you would be aware, Mr Sheridan and Mr John Edge, Acting Deputy Secretary attended at that time and provided evidence. Responses to questions on notice taken at that hearing form part of this Submission.

In regard to matters raised in the Committee's terms of reference, this Submission provides further information and context in the areas of Commonwealth procurement, the processes associated with Defence procurement that relate to the Department of Finance and the role of the Department in advising government on defence matters.

Commonwealth Procurement

As noted in the evidence of Mr Sheridan, the Department of Finance is responsible for the whole of government procurement framework including the Commonwealth Procurement Rules (CPRs). The CPRs were most recently updated in 2014 and set out the basis on which procurements are conducted by the Commonwealth. Relevant international obligations have been incorporated into the CPRs.

Officials must comply with the rules in Division 1 of the CPRs for all procurements regardless of value, and apply the additional rules in Division 2 where the value of the procurement is above \$80,000 (general goods and services) and \$7.5 million (construction services).

Paragraph 2.6 of the CPRs provides an overarching exemption removing the need to apply the CPRs where an Accountable Authority has determined it necessary for the maintenance or restoration of international peace, to protect human health or for the protection of essential security interests. In practice, this allows an entity to undertake an alternative form of procurement, such as a limited tender, should they choose, including for procurements above the relevant procurement thresholds.

The Defence Procurement Policy Manual, a publicly available document which can be sourced at <http://www.defence.gov.au/dmo/Multimedia/DPPM-9-5247.pdf>, includes the list of the goods and services that Defence have categorised as Exempt Procurements under paragraph 2.6 of the CPRs. 'Ships, Small Craft, Pontoons and Floating Docks' is one such category.

Assessing Defence Capability Proposals

Department of Defence capability proposals are developed by Defence and brought forward to the National Security Committee (NSC) of Cabinet by the Minister for Defence in keeping with the requirements of the Kinnaird Two-Pass process.

- The Kinnaird Process entails seeking initial direction from the NSC on the direction of fulfilling a capability requirement, followed by a second pass which provides specific direction to Defence on fulfilling that capability.
- It is usual for individual phases of a defence capability project to be subject to the two pass process because the projects are complex and of a prolonged nature.

In regard to the specific case of the supply ships that are being considered in this inquiry, First Pass consideration of the capability was considered by the NSC on 4 April 2014, with an announcement made on 6 June 2014 by the Minister for Defence of the government's decision to conduct a restricted competition between Navantia of Spain and Daewoo Shipbuilding and Marine Engineering for the replacement of the two replenishment ships, *HMAS Success* and *HMAS Sirius*, which are coming to the end of their useful lives. Finance provided advice on the Submission and to the Minister for Finance in the usual way.

Finance Role in Advising on Defence Capability Issues

The Department of Finance has developed specific expertise in providing advice to government on defence capability matters. In addition to the Department's role in advising on whole of government procurement matters, and in advising the Finance Minister on the cost and quality of new policy proposals put forward by agencies, Finance has developed a specialised defence capability assessment role.

Expertise at the Senior Executive Service Band 1 level is dedicated to this role with support provided by the Defence, Capability and Intelligence Branch. The work undertaken by Finance in this regard includes advising the Finance Minister on: priority cost and risk issues; cost contingency, cost models and supporting documentation; and other policy matters raised in Submissions.

To conclude, I have attached responses to questions on notice taken by Finance officials at the hearing of 21 July 2014 (Attachment A refers).

I trust this information further assists the Inquiry into the Future of Australia's Naval Ship Building Industry.

Yours sincerely

Jane Halton
Secretary

8 August 2014