

Opening Statement - Senate estimates

I'm taking this opportunity to correct the public record on what has been selective reporting and interpretation of the Australian National Audit Offices' recent performance audit in to 'Naval Ship Construction – Mobilisation'.

The audit itself was conducted across a number of months throughout 2017.

I would like to acknowledge the efforts of the Auditor General and his staff in working closely with Defence in going through the endless number of documents and briefings related to the early stages of this national endeavour, which will span many decades.

In their conclusion, the ANAO found:

- *"Defence continues to work towards effective planning and mobilisation to deliver the Australian Government's Naval Shipbuilding Plan";*
- *"Defence has identified the key elements for a successful continuous shipbuilding enterprise"; and*
- *"Defence is currently meeting scheduled milestones for the naval construction programs, noting that each program is in its early stages".*

I do note however that the commentary and media that has followed has conveniently ignored these findings.

Let me set the record straight on a few of the more outlandish claims following the release of the ANAO's report:

- There is no cost blow out related to the Offshore Patrol Vessel.
 - This is a fixed-price contract – Defence understands precisely how much the ships will cost to build in both South Australia and Western Australia.
- The Government "was" provided with sustainment data for the Offshore Patrol Vessel, based on historical usage and designer forecasts.
 - This is standard shipbuilding practice.
- Defence provided Government with an indicative life-cycle cost for the Offshore Patrol Vessel across a 20-year life.
 - This indicative cost was based on previous programs, historical usage and upkeep data provided by the tenderers.
 - This is typical for a shipbuilding project at this stage.
- Defence not the ANAO identified in early 2016 that some aspects of the Future Frigate program were of a high to extreme risk level. Since 2016 a number of mitigations have been put in place by Government that have reduced the level of risk (whilst not eliminating all risk) to a level which is manageable.

- The first risk mitigation strategy is to commence Future Frigate production prototyping in 2020, to demonstrate the ship design, ship-yard processes and workforce are production ready.
 - Prototyping is widely used around the world, including in the construction of the United Kingdom's Queen Elizabeth II aircraft carrier and the United States Navy's Littoral Combat Ship. Prototyping has been shown to be one of the most effective strategies to reduce overall program costs in ship and submarine construction.
- The second strategy was to decouple of shipyard infrastructure from the projects, including the creation of Australian Naval Infrastructure. This has allowed for the early commencement of shipyard design and construction ahead of the Future Frigate decision.
- An finally the Government's announcement in October 2017 to take an enterprise approach to Combat Management Systems and bring forward the Future Frigate Combat Management Decision has allowed for the commencement of studies prior to the Future Frigate decision.
- All of the changes associated with the domestic build of the Future Submarine and Future Frigate programs are reflected in Defence's Integrated Investment Program.
 - The shipbuilding provisions identified in the Integrated Investment Program are consolidated to enable Government to consider the affordability of the Naval Construction program as each project is presented to Government.
 - Offsets are recommended for any shortfalls between funding requirements and existing provisions.

The reality is that we are making steady progress in the implementation of the Government's national shipbuilding enterprise.

In the year since the release of the Government's Naval Shipbuilding Plan, Defence has progressed the key policy initiatives and critical milestones outlined in the Plan in a timely and coordinated national effort.

Implementation of the Plan is subject to unprecedented levels of oversight and accountability, including regular audits but the ANAO.

As identified in the Plan, most far-reaching Government policy initiatives will take time to develop and mature.

The ANAO's audit supports this premise – and at the early stage of this process they made only a single recommendation which Defence assert, and the Government agrees, is already in place.