

Submission

To

Joint Committee of Public Accounts and Audit

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

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We welcome the opportunity to make a submission to the Committee. We would be very happy to attend the Committee's hearings to discuss our comments below.

2018-19 Defence Major Projects Report

The report flags that next year's report will include the future submarine program (SEA 1000) and future frigate program (SEA 5000). We commend the Committee and the ANAO for this decision as the additional scrutiny and transparency that come through inclusion in the MPR are warranted for these mega-projects. With approved funding of \$6,336 million (SEA 5000) and \$6,018 million (SEA 1000), these are now the third and fourth biggest projects in Defence's approved project portfolio. This is even before the government has approved acquisition of a single vessel in either program, that is, before a 'traditional' second pass acquisition decision.

The report also noted that in accordance with the recommendations of the First Principles Review of Defence (MPR) accepted by the government, Defence has developed a risk-based capability life-cycle. As a result of this approach, Defence now provides advice to the government and seeks funding approvals based on the current risks faced by a project, rather than just at defined, 'hard' milestones such as first and second pass. This means that many large, complex and inherently risky projects are following an incremental approval strategy. Consequently, large amounts of funding are agreed and committed well before a traditional second pass (as has been the case with SEA 1000 and SEA 5000). A further example is the Triton High Altitude Long-Endurance UAV (AIR 7000), which is following an incremental approval strategy. This is likely to be the case with future projects.

The Committee might consider whether the selection criteria for inclusion in the MPR should be amended to be risk-based rather than based on the second pass milestone or specific financial criteria, particularly since it is not clear what exactly constitutes second pass now. Moreover, since many key risks are identified and mitigation strategies developed before the commitment to acquire is made, it makes sense to apply greater scrutiny earlier in a project's life-cycle.

Future Submarine Project - Transition to Design

We note that this report made public several important issues such as the concerns raised by the Naval Shipbuilding Advisory Board and the delay to achievement of design milestones. While these are significant, we would like to raise a broader issue.

Currently the government receives independent advice and reporting on the future submarine program. This comes from the Naval Shipbuilding Advisory Board and the ANAO. However, this advice is limited to implementation of the program itself. The NSAB, for example, has informed the Senate that it focuses on the program's cost and schedule risk. The ANAO focuses on implementation SEA 1000 itself. This is certainly a legitimate task. However, there are broader, fundamental risks associated with the submarine transition – or better said, undersea warfare capability transition – that lie outside implementation of the submarine program itself. Put another way, SEA 1000 could deliver submarines on time and on budget and the program could still fail to deliver a relevant capability despite the massive investment.

Currently, while there is extensive public commentary in the media and strategic policy community, there is no agency or entity which has a mandate to provide independent advice to the government on the broader risks associated with the undersea warfare capability transition based on all available information.

These risks include:

Operational risk. For example, will the program deliver enough boats to sustain adequate presence in the areas we need to operate? Will this level of presence actually make a strategic difference? Just as importantly, can conventional submarines do what Defence expects of them? Put another way, are the requirements for the future submarine program reasonable in the first place? Or are they driving the development of the largest, most expensive submarine in the world that will fall short of meeting those requirements anyway?

Force structure risk. Does the massive investment in submarines distort the ADF force structure? Is it forcing Defence to delay or reduce investment in other key capabilities? We know already that Defence has delayed expenditure on many other projects in order to fund SEA 1000. We also know that Defence is fundamentally underinvesting in key emerging technologies such as autonomous systems. It is dangerous to regard submarines as a silver bullet that justifies any cost, no matter how high.

Technological risk. Will new technologies render the investment in submarines nugatory? While there may not be inventions in the short to medium term that will make the seas transparent, it is highly likely that with the proliferation of cheap, small drones carrying sensors (and potentially weapons) that can aggregate their signal data, even the undersea domain will become extremely dangerous for manned submarines.

We believe that at some point, well before completion of the program, the government will need to consider whether it makes sense to continue to invest in manned, conventional submarines. It is possible that that point may come even before delivery of the first submarine. It is vital that the government receive independent advice outside of the Department of Defence so that it can assess objectively when that point is reached. Due the scale of the sunk cost (likely \$15 billion by the time

the first submarine enters operational service), it will be difficult for stakeholders with vested interests to make this recommendation. Independent advice is critical.

It may be that case that a new, independent entity is required with the mandate to review these broader risks that lie outside the future submarine program per se. That mandate would include considering whether Defence has appropriate mitigations in place to hedge against the risks listed above. We do not believe that the NSAB is the appropriate entity for this purpose.

Potential inquiry into overall affordability and achievability of the investment program

Since the release of the 2016 Defence Integrated Investment Program as part of the 2016 Defence White Paper, there have been no updates to the IIP at all in any form, despite a commitment from the government and Defence to publish regular online updates. There is no comprehensive public information on changing project scopes or schedules, or indeed what projects, programs or capabilities have been added to or dropped from the IIP. Even basic information on project approvals is incomplete and scattered.

We know, however, from Defence responses to questions on notice from Senate estimates that there have been many changes to the IIP in the form of project delays to free up funding for new priorities.

Moreover, the Minister for Defence has acknowledged that Australia's strategic circumstances have rapidly changed and a strategic review of the assumptions underpinning the White Paper and its force structure is required. The Minister has flagged that the outcomes of this review would be considered by the government early this year.

At the moment it is impossible for the Australian parliament and public to develop a view on what the government's \$200 billion investment program actually is, let alone its coherence or achievability.

This means that ANAO reports in Defence projects are conducted in a contextual vacuum. They may be able to assess whether projects are being delivered on time and budget, but they do not and cannot assess whether they make sense in the first place.

We hope that the review flagged by the Minister for Defence will result in a new IIP. We also hope that the new IIP will be updated regularly to allow parliament to perform its review function.

However, once a new IIP has been released we would recommend that the ANAO conduct an audit to assess the viability of the program, including:

- The affordability of the Investment Program within Defence's approved acquisition funding envelope.
- The overall affordability of the force structure once the significantly greater future sustainment costs and additional personnel are considered.
- Risks to achievability, including Defence's ability to progress the required number of approvals and industry's ability to deliver and support the equipment.

- Whether the amount of information on the IIP provided to parliament, the public, and importantly industry (which ultimately has to deliver the IIP) is sufficient.

Canberra
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