Defence Portfolio

INQUIRY QUESTION

(Question No. 1)

Chair of the Joint Committee of Public Accounts and Audit, Mr Josh Burns MP asked the Department of Defence the following question, upon notice, on 7 November 2025:

Mr Hanley: That was a government decision, off the back of a report that looked at our future fleet configuration. A decision was made by the government to reduce from 12 ships to six.
CHAIR: What was the basis of that decision?
Mr Hanley: Help me out here, Commodore Jacobson, when you can. The decision was based on an effective use of the future budget and the future lethality and capability of the Navy. It was deemed that those ships and the quantity of six was appropriate for the task that they had at hand.
CDRE Jacobson: An independent analysis of Navy's surface combatant fleet was conducted, and it concluded that the Offshore Patrol Vessel (OPV) platform represented an inefficient use of resources for the civil maritime security task for which it had been originally designed and procured and that it lacked the survivability and self-defence systems for the surface combatant missions that we thought it might also be required for. Based on the independent review, we went from a fleet of 12 hulls down to six.
CHAIR: Given the decision was made that it was surplus to requirement, or that we only needed six, why did the cost go up from $3.639 billion to $3.7 billion?
Mr Hanley: I'd have to take that on notice. Could you ask that question again?
CHAIR: I absolutely understand the justification of taking the number of vessels down from 12 to six: they’re surplus to requirement: we have other needs et cetera and we only need six boats. But the total amount of the budget of this whole project didn't decrease. It didn't halve; it actually increased. The question is: how come?
Mr Hanley: Some of those costs are amortised over 12 ships. When you are only delivering six ships, some of those costs are going to increase on a per ship basis. They cover the cost of things like infrastructure, workforce upskilling, cross-skilling and other aspects that we were putting into the program. I can't be definitive. I can take that on notice, if you like, to describe it in detail, but that's the fundamental reason.
CHAIR: I appreciate that answer. I’m happy for you to provide the committee with more information, but I guess that upskilling the workforce and having the infrastructure would be costs that would be built in no matter how many ships are required. The question is: if there's fewer ships that will be built overall, why did the cost still go up?
Mr Hanley: I'll have to take it on notice to give you the detail.

Defence provides the following answer:

Due to the reduction of vessels from 12 to six, Defence is processing through scope reduction claims. Defence will reduce the Military Equipment Acquisition budget for the Arafura class Offshore Patrol Vessel project once all scope reduction claims are resolved.

The change from $3.639 billion to $3.707 billion for Military Equipment Acquisition is due to the updated price basis in the current Portfolio Budget Statement 2025-26. Specifically, the $68 million difference reflects variations in budget exchange rates (values stated in Australian Dollar equivalent), application of the 'no win, no loss' principle on foreign exchange, remixing of foreign currency, and reprogramming of budget between years with different exchange rates.

Consistent with statements made at the hearing, the total Military Equipment Acquisition budget is not limited to the prime contract cost for constructing the vessels. It also includes provisions for:

- non-recurring engineering activities;
- development and delivery of the support system (including training);
- government-furnished equipment such as sea boats and navigation systems;
- costs associated with transitioning from the Armidale-class patrol boats; and
- Defence's project management costs.

Defence Portfolio

INQUIRY QUESTION

(Question No. 2)

Chair of the Joint Committee of Public Accounts and Audit, Mr Josh Burns MP asked the Department of Defence the following question, upon notice, on 7 November 2025:

CHAIR: Would you mind talking about why there was a stop-payment?
Mr Rawlins: Some context on the project might help as the prequel for that. The Battlefield Command System had two components, two major things: a battle management system delivered by Elbit and then a Tactical Communications Network (TCN) by L3Harris. Both of these things suffered through delays of schedule, of design development and so forth. For the TCN that was being delivered through L3Harris, there were concerns of schedule and then of acceptance taken place. In order to alleviate that, there was a decision to stop-payment to the company until we resolved the manner in which to rectify that. That was a quite professional process between Defence and the company. We rectified that as quickly as we could. We then went into a deed of reduction and release. We then modified with a Contract Change Proposal (CCP). and then we then continued with the delivery of those components.
CHAIR: What did the reduction-and-release deed involve?
Mr Rawlins: It was in May 2024. That was an examination of where we needed to modify that particular line of effort and schedule to then determine what was best for the delivery, followed with a CCP.
CHAIR: Was there any reduction in what actually was being delivered?
Mr Rawlins: Along that line of effort, technically there was the development of a waveform, so a radio waveform was a portion of that, and then a delivery of radio to actually join together and deliver the capability. It was determined that it wasn't viable to continue with the R&D effort of the waveform, so there was a reduction not to deliver that anymore. It was a sensible decision as the world had moved on in terms of that. It was the right decision to cease and modify the trajectory of that.
CHAIR: So the original budget of almost $311 million included the waveform, but then there was a stop-payment put on and the waveform was taken out. Did the total cost go down at all?
Mr Rawlins: Yes. As that component wasn't required to be worked on and delivered anymore, yes, there was a reduction. I don't know that exact figure here to tell you what that is. I can take that on notice if you would like.

Defence provides the following answer:

The delivery of the waveform was removed as part of Contract Change Proposal. This Contract Change Proposal reduced the contract value by $26.4 million.

Defence Portfolio

INQUIRY QUESTION

(Question No. 3)

Chair of the Joint Committee of Public Accounts and Audit, Mr Josh Burns MP asked the Department of Defence the following question, upon notice, on 7 November 2025:

CHAIR: The original budget was, for Elbit $370 million, but, as technology evolved, there was a decision made to end that system? And then for L3Harris, there was a stop-work, a reduction in what you were getting delivered by L3Harris and a reduction in what they were actually delivering. And yet the total expenditure of what the whole project was included went from $930 million to $972 million. What happened where we were getting an evolution of technology from Elbit that wasn't applicable and a reduction in capability from L3 Harris that cost us an extra $42 million on top of what we originally budgeted?

Mr Deeble: I refer you to page 219. The move from $930 million to $972.5 million was due to exchange rate variation as part of that. We will take it on notice to come back to you and describe, but this was at a point in time when we were undergoing these settlements. I also refer you to the assessment of capability, which was an assessment at time. That's on page 224, where we've described the extent of capability that we were confident about. That is subject to review and consideration. I'd note that this was subject to a qualification by the Australian National Audit Office (ANAO) because, at the time, we were in the middle of settlements and working that through with both Elbit and L3Harris in particular.
The measures of things, just to highlight to you - that use of stop payment is a standard contractual mechanism that we would use if we're not seeing the performance, we're concerned about technical outcomes being achieved and we're watching these things play out. In both cases, as you'd normally see, we're reliant on industry performance, and both of these had aspects of industry performance, technology evolution and the requirement changing. We will take that on notice and provide you with an indication of how much we've actually expended and saved as a consequence of those two deeds of settlement.

Defence provides the following answer:

The original approved budget for LAND 200 Phase 2 was $930 million. The total approved budget for the LAND 200 Phase 2 project as at 30 June 2024 was $972.5 million. This includes an increase by $42.5 million due to foreign exchange rate variations.

Project expenditure as at June 2024 totalled $789.4 million from the approved budget of $972.5 million including consideration of the settlement deeds with Elbit and L3Harris.

The total project savings (incorporating the outcomes of the agreed scope reductions) for LAND 200 Phase 2 will not be fully known until final project closure is completed in Quarter 1 2026.

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INQUIRY QUESTION

(Question No. 4)

Chair of the Joint Committee of Public Accounts and Audit, Mr Josh Burns MP asked the Department of Defence the following question, upon notice, on 7 November 2025:

CHAIR: How come the Australian Industry Capability Plan for the Hunter Frigate was only published in April, not November, as was originally suggested to the Australian National Audit Office (ANAO)?
Mr Hanley: Can you please repeat the question?
CHAIR: Sure. It says:
Defence advised ANAO in September 2024 that the contractor for the Hunter Class Frigate had submitted a plan that is undergoing review and would be published in November 2024. I'm just reading from page 43 of the report, down the bottom, in the footnote. It says, 'Defence advised the ANAO in 2024.' I will come back to that. Defence said it was going to be published in November and it was published in April. I'm wondering why it was six months over. It is down the bottom page 43, footnote 116—the very, very last little sentence. I'm looking at the Defence website, and it has got that on 28 April the Hunter Class Frigate program was published.
Mr Hanley: I would have to take that on notice why there was a delay for that particular report.

Defence provides the following answer:
Defence's publication aligned with internal resource prioritisation.

Defence Portfolio

INQUIRY QUESTION

(Question No. 5)

Ms Mary Aldred asked the Department of Defence the following question, upon notice, on 7 November 2025:

Mr Weber: Mr Groves outlined that there is a number of projects in the Major Project Report that existed prior to 2010. In those earlier years, we would be indexing those projects respectively. Since then, we fully out turned the complete Integrated Investment Program, so there was no need to do annual indexation updates.

Ms Aldred: Can you tell us what the average price indexation was across major projects?

Mr Groves: I think we would have to take that on notice, but, as Mr Weber said, the reference in that table, the price indexation, is for some very old projects not subject to the current arrangements. But on what we use generally, it would be dependent upon what we're acquiring, what market we're acquiring, and we then have access to a range of wage price indices and such that we use in out turning the estimates for each of the approved projects through that second pass process that I mentioned before that we take for government approval.

Defence provides the following answer:

Prior to 2010, individual projects were indexed on an annual basis using a range of indices. In 2010, the Specialist Military Equipment Weighted Average index was used, which was based on a composite of the Wage Price Index, the United States Department of Defense Procurement Index and the Producer Price Index. At the time, this composite index had percentage values of around 2.5 to 3 per cent per annum. Following this, projects were fully out turned with indexation accounted for over the life of the project.

Defence Portfolio

INQUIRY QUESTION

(Question No. 6)

Ms Mary Aldred MP asked the Department of Defence the following question, upon notice, on 7 November 2025:

Ms Aldred: I am interested in how Defence approaches inflation risks and currency risks in its contracts. Has that changed across the time that the 21 major projects in this review have been commissioned?

Mr Groves: No, I don't believe it has. We, as a public sector organisation in the Commonwealth, are not able to hedge against foreign exchange risk, hence why we have the arrangements whereby, as I mentioned, foreign exchange changes are constantly adjusted in our overall funding for Defence and flowed down to individual projects. In some ways, that alleviates the need for us to be hedging against that foreign exchange risk.

Mr Deeble: And from a contracting perspective, when we sign with industry, we agree those rates. They are the rates that the acting Associate Secretary described and are considered in our estimates of what those projects would cost. Industry would hedge against some of those variations in their bids into us in that regard. They bear the risk of those indexation changes as a consequence of the contract indices agreed at that time.

Ms Aldred: I understand. Do you think you'd be able to take on notice what contractual approaches are taken to manage those risks across each of those projects?

Mr Deeble: I'm happy to take that on notice.

Defence provides the following answer:

Defence has for many years employed structured financial strategies to mitigate the risks associated with inflation and foreign exchange fluctuations, ensuring the integrity of capability delivery and fiscal responsibility. The Defence Capability Costing Policy requires a consistent and robust approach to capability costings, which includes independent assurance to ensure the cost estimates agreed by government are evidence based, incorporating anticipated cost drivers.

Inflation risk management

- Budgeting in out-turned dollars: Since 2010, approved acquisition projects, which include Major Projects Report projects, are costed on an out-turned dollar basis, which incorporates projected inflation rates across the expected duration of the project. This approach ensures that funding allocations reflect expected cost growth over time and supports long-term planning.

- Project-level cost adjustments: Individual projects are designed to accommodate expected movements in labour and material costs within their approved budgets. This enables Defence to manage routine inflationary pressures.
- Contingency for exceptional events: In rare circumstances, such as the global inflationary impacts experienced during the COVID-19 pandemic, projects may seek to access contingency provisions to address unforeseen cost escalations. There is a robust governance process within Defence and government to consider contingency calls. This ensures continuity of delivery while maintaining financial discipline.

Foreign exchange risk management

- Contracting and budgeting in source currency: Defence seeks to contract in the supplier's source currency, with project budgets similarly denominated. This practice reduces exposure to foreign exchange volatility at the project level and enhances financial transparency.
- Government supplementation on a 'no win-no loss' basis: At the portfolio level, Defence receives periodic supplementation from Government to offset foreign exchange fluctuations. This arrangement ensures Defence is neither advantaged nor disadvantaged by currency movements, maintaining stable funding for capability delivery.

These financial management practices are consistently applied across the 21 projects in question, supporting Defence's ability to manage inflation and foreign exchange risks, while delivering complex capability programs within approved funding parameters.