



Australian Government

Australian Government response to the
Joint Committee of Public Accounts and Audit final report:

Inquiry into the Defence Major Projects Report 2020-21 and 2021-22 and
Procurement of Hunter Class Frigates

DECEMBER 2024

EXECUTIVE MINUTE

on

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT
REPORT 503

INQUIRY INTO THE DEFENCE MAJOR PROJECTS REPORT 2020-21 AND 2021-22 AND PROCUREMENT
OF HUNTER CLASS FRIGATES

Recommendation No: 1 2

Recommendation No: 2 3

Recommendation No: 3 4

Recommendation No: 4 4

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Recommendation No: 6 9

General Comments

Defence acknowledges the observations of the Joint Committee of Public Accounts and Audit (‘the Committee’) in Report 503 that specifically addresses the 2020-21 and 2021-22 Major Projects Reports (MPR) and Procurement of Hunter Class Frigates. Defence agrees with/supports five recommendations the Committee has made, and has made improvements in policies and practice since the development of the last MPR. The Government advises that it notes but does not support the entirety of the sixth recommendation.

Recommendation No: 1

The Committee recommends that for future inquiries into Defence Major Project Reports the Australian National Audit Office provide a confidential submission regarding information required to be withheld from publication in Project Data Summary Sheets due to national security with appropriate handling procedures, and the Department of Defence organise confidential or classified briefings as required.

Summary of response: Agreed

Supporting rationale:

Defence acknowledges the Committee’s request that the Australian National Audit Office (ANAO) is to provide confidential or classified briefings on the information withheld by Defence on security grounds from Project Data Summary Sheets contained in the Major Projects Report. Defence will support ANAO in confidential briefings to the JCPAA when requested by the ANAO.

Defence, in the preparation of the Major Projects Report, will continue to provide the ANAO all information deemed ‘Not for Publication’ (NFP) during the preparation of the Major Projects Report. Information that is considered NFP is distinctively marked within individual draft Project Data Summary Sheets during ANAO’s assurance activity, to be extracted prior to publication.

Recommendation No: 2

The Committee recommends that the Department of Defence provides it with an update at both 6 and 12 months on the progress of the changes arising from its internal review findings.

Summary of response: Supported

Supporting rationale:

Defence welcomes the opportunity to provide an update to the Joint Committee of Public Accounts and Audit (JCPAA) with respect to the progress of changes arising from its internal review findings into the Procurement of Hunter Class Frigates.

Defence is progressively implementing a number of changes to its existing governance and assurance policies, processes and structures to strengthen the manner in which Defence develops value for money capability proposals.

Key changes implemented to date include:

- The launch of a new Procurement & Contracting Assurance Framework in July 2024. This new framework provides centralised assurance monitoring and reporting on procurement practices and compliance with Commonwealth Procurement Rules, Defence Procurement and Contracting Policy, and the Defence Commercial Framework across Defence. The program of work under this assurance framework will be updated annually to ensure assurance activities appropriately target key areas of risk with the outcomes of these activities.
- Updates to the Defence Records Management Policy and associated resources to provide better instruction on how to comply with obligations under the Archives Act 1983. The updated policy aligns with a principles-based approach and balances accountability with more prescriptive guidance to strengthen the integrity of Commonwealth records during the entire lifecycle, including procurement and contract management. To support the updated policy, a series of e-learning courses were released throughout 2023. Defence continues to strengthen governance and assurance under the newly appointed Chief Information Governance Officer. This role will drive enterprise-wide accountability across information assets (records, information and data).
- A reorganisation of Contestability Division in Quarter 3 2024 to enhance the contestability function throughout all stages of the development of capability proposals.

Recommendation No: 3

The Committee recommends that the Department of Defence provides it with an update in 12 months on the progress of the Hunter Class Frigate project, including the industry capability uplift and a value for money assessment.

Summary of response: Supported

Supporting rationale:

PROJECT STATUS

On 20 June 2024, the head contract was amended ahead of schedule to introduce construction of the first three ships.

INDUSTRY CAPABILITY UPLIFT

BAE Systems Australia workforce. Commencing with a workforce of 1624 on 1 July 2023, a number of successful recruitment campaigns resulted in a 34 percent increase to the workforce (2184 as at 30 June 2024). Over the last six months, BAE Systems Australia consistently achieved workforce capacity above 95% against their workforce plan.

VALUE FOR MONEY ASSESSMENT

Defence assessed that the acquisition of the first three Hunter Class frigates represents value for money when considered in the context of establishing a Sovereign Naval Shipbuilding Capability and providing the Tier 1 Surface Combatant Fleet with high-end undersea warfare capability.

The value for money assessment took into consideration the following project objectives, which were updated to reflect the Government's decisions on the Independent Analysis:

- a. Deliver six frigates optimised for undersea warfare and their support system;
- b. Commence construction in Adelaide, South Australia in 2024;
- c. Maximise Australian industry capability;
- d. Contribute to continuous naval shipbuilding in Australia; and
- e. Remain within agreed budget, in-year and over life of project.

Cost Cannot be Considered in Isolation

The Hunter Class frigates will be equipped with an Australian radar, a United States combat management system, an Australian interface to the combat management system, an Australian communication suite, the MH-60R Seahawk Romeo helicopter, and a suite of weapons common to other Australian surface combatants. The project must also ensure that the overall ship and combat system design meets Australian legislative and Defence seaworthiness requirements. All of this integration effort is unique to the Hunter Class Frigate project.

The Australian radar and US combat system interface will be at the US Navy's Combat Systems Engineering Development Site at Moorestown, New Jersey, USA. The integrated combat system will undergo additional testing and certification utilising the newly built Maritime Combat Systems Integration Centre located at St Kilda, South Australia, prior to being installed in the ships.

Application of the Commonwealth Procurement Rules

Value for money has been assessed in compliance with the Commonwealth Procurement Rules, and both financial and non-financial costs, and benefits have been considered. The acquisition of the Hunter Class frigates will achieve the efficient, effective, economical and ethical use of public resources, and deliver the project's objectives.

The project will deliver the required military capability in an appropriate timeframe, and when considering the non-recurring costs associated with establishing continuous naval shipbuilding, the cost is commensurate with the project's scale, scope and complexity.

Independent Financial Investigation

Defence carried out an Independent Financial Investigation of the cost estimates provided by BAE Systems Maritime Australia, Saab Australia, and Thales Australia. The recommendations from each of these investigations either validated the value for money assessment or are being used to inform the procurement activities post Government approval for the construction of the first three Hunter Class frigates.

The final negotiated BAE Systems Maritime Australia offer for the first three Hunter Class frigates was assessed as representing value for money. The evaluation was conducted in accordance with an evaluation plan approved by an appropriately authorised departmental official. The evaluation plan used compliant Commonwealth Procurement Rules and Defence Procurement Manual criteria.

BAE Systems Maritime Australia's offer for the construction of the first three Hunter Class frigates was assessed as representing efficient utilisation of labour and facilities. The basis of estimates have considered lessons learnt from prototyping with regard to refining processes, workforce and shipyard utilisation in support of production. The quality of construction will be monitored through existing controls in the contract including regular stakeholder engagement, mandated system reviews, defined contract deliverable and plans, and the presence of Defence personnel in the shipyard for build assurance.

Recommendation No: 4

The Committee recommends that the Department of Defence report back in six months from the tabling of this report as to how it will assess design maturity in future procurements.

Summary of response: Agreed

Supporting rationale:

Defence welcomes the opportunity to provide an update to the Joint Committee of Public Accounts and Audit (JCPAA) with respect to the how it will assess design maturity in future procurements.

As part of the One Defence Capability System (ODCS) reform directed by the National Defence Strategy (NDS), Defence is progressively implementing improvements to existing governance and assurance frameworks, policies, and processes that strengthen and integrate the assessment and assurance of the fitness-for-purpose of capability solutions.

Design maturity is assessed and assured at various points throughout the ODCS cycle, including, but not limited to, being relative to procurement.

Requirement definition at project inception ensures a shared understanding of design requirements that underpins subsequent artefacts required to support a procurement.

Early design maturity assessment (prior to procurement)

The Vice Chief of the Defence Force (VCDF) is accountable for the design, integration, and assurance of the future force in accordance with strategic and resource guidance. The VCDF ensures that capability requirements are developed in accordance with strategic guidance, functional and domain concepts, joint mission designs, force design priorities and doctrine.

The biennial Force Design and Assurance Cycle (FDAC) will review the current, planned and future force structure against applicable strategic guidance to evolve integrated capability concepts and identify capability needs. This process specifies the Minimum Viable Capability (MVC) required, which, in turn, determines the detailed design requirements.

The outcomes from this process inform Government's capability investment prioritisation decisions as directed through the Defence Integrated Investment Program (IIP).

This programmatic approach to the design, establishment and assurance of the warfighting environment, its architecture and integration, interoperability and compatibility requirements, all test the early design maturity and the fit-for-purpose.

Capability Managers and Delivery Managers then pursue projects and products to meet the requirements agreed by Government. Assurance activities continue throughout the biennial cycle to ensure projects and programs are meeting Government's strategic priorities:

- Smart Buyer reviews test approaches to delivery, including assessments of industry capability and capacity maturity.
- A range of readiness assessments are undertaken by the Defence Science and Technology Group and the Advanced Strategic Capabilities Accelerator (ASCA) including Technology Risk Assessments, Technology Readiness Levels, System Readiness Levels, Integration Readiness Levels, and Manufacturing Readiness Levels.

- Independent reviews of capability proposals by subject matter experts across Defence to ensure they are aligned with strategy and resources and can be delivered in accordance with Government direction.

Design maturity assessment through procurement

The senior delegate responsible for the Endorsement to Proceed (ETP) for procurement is accountable for ensuring procurement documentation is fit-for-purpose (including detailed specifications), with the assurance at evaluation and authorisation to proceed.

During tender evaluation, design maturity will be assessed in accordance the commercial control process, (including ASDEFCON Conditions of Tender) under the Defence Commercial Framework.

In many cases, design maturity continues to mature during contract delivery, particularly for technical system designs such as mission systems, support systems, and manufacturing/producing system.

Recommendation No: 5

The Committee recommends that the Department of Defence provides it with an update in six months on the implementation of its new recordkeeping framework and the impact of the new Chief Information Governance Officer role.

Summary of response: Agreed

Supporting rationale:

Defence acknowledges the observations in the report related to information governance and record keeping practices.

Defence is taking steps to uplift its information governance maturity and address the issues underlying the committee's observations. Actions being undertaken by Defence include:

- In February 2024, the Enterprise Business Committee established the Chief Information Governance Officer (CIGO) function within the existing Chief Data Integration Officer (CDIO) role.
- Defence is undertaking a review of fourteen major projects to assess their records management practices and compliance. The findings from this review will be used to develop practical information governance tools and guidance that will be scalable and shared across all Defence projects.
- To improve record keeping of committee decisions, the Parliamentary Document Management System (PDMS) is being rolled out as the primary management platform for Defence's Enterprise Committee workflow. The use of PDMS streamlines processes across Defence and will enhance Defence governance and recording of internal decision-making.

Defence will update the Committee every six months on the progress the CIGO has made in implementing unified information governance, and the effect on Defence's uplift on information and records practices.

Recommendation No: 6

The Committee recommends that Commonwealth Procurement Rules be amended to explicitly require:

- *that a value for money assessment must be included in a tender evaluation plan unless the accountable authority approves an exemption from this requirement, and*
- *that the Department of Finance must determine and then advise the procuring entity whether these value for money assessments have been completed appropriately.*

Summary of response:

The Government notes the first bullet point in Recommendation 6.

The Government does not support the second bullet point in Recommendation 6.

Supporting rationale:

In 2023-24, there were over 83,000 contracts published on AusTender. Requiring the Department of Finance (Finance) to determine and advise entities on every value for money assessment undertaken will introduce a lack of clarity regarding responsibility for assessing value for money and have significant resourcing implications.

Achieving value for money is the core rule of Commonwealth Procurement Rules (CPRs). Officials from non-corporate Commonwealth entities and prescribed corporate Commonwealth entities listed in section 30 of the Public Governance, Performance and Accountability Rule 2014 must comply with the CPRs when performing duties related to procurement.

The Public Governance, Performance and Accountability Act 2013 (PGPA Act) is the primary Commonwealth resource management legislation, setting out the governance, performance and accountability requirements of Commonwealth entities and companies. It establishes a principles-based, devolved framework for the management of public resources and for the operation of Commonwealth entities and companies. Accountable Authorities are responsible under the PGPA Act for their procurement decisions, including ensuring that they comply with the CPRs.

Entities are required to consider value for money throughout the procurement process, including in the evaluation of tenders. CPRs paragraphs 7.2 and 7.3 require officials to maintain appropriate documentation, including information on the process for determining how value for money was considered and achieved.

Finance is assisting entities in meeting their obligations under the CPRs through the provision of procurement training and capability uplift. From September 2023 to October 2024, Finance has delivered over 107 training sessions to over 5,000 APS officials. Finance intends to roll out further procurement training courses to APS officials to increase the upskilling of procurement capability.

The Procurement and Contract Management Profession has been established as an Australian Public Service (APS) Profession (Profession). The Profession will increase the capability of the APS in procurement and contract management through workforce strategies, accelerated training and reskilling programs and increased engagement with professional associations. The Profession will also assist in bringing procurement and contract management officials across the Commonwealth together to share best practice and learn from one another.