

Senate Standing Committees on Foreign Affairs Defence and Trade - Legislation

Budget Estimates – 26 and 27 October 2020

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SSFADT – BE – 26/27 October 2020 – Q162 – 2020 Force Structure Plan and relating to the 2016 Integrated Investment Program (IIP) – Senator KITCHING

Question reference number: 162

Senator: Kimberley Kitching

Type of question: Written

Date set by the committee for the return of answer: 11 December 2020

Question:

In relation to the 2020 Defence Force Structure Plan:

- How does the Force Structure Plan relate to the 2016 Integrated Investment Program (IIP)?
- Does the Force Structure Plan replace the IIP or are the two documents to be read together?
- How is defence industry meant to understand which elements of the IIP have been superseded by the Force Structure Plan and which elements of the IIP remain in place?
- Does the Government still intend to release regular public updates of the Integrated Investment Program. If no, why not?
- Will there be regular public updates of the Force Structure Plan? If no, why not?
- Are any of the projects in the IIP no longer expected to proceed in light of the Force Structure Plan? If yes, provide details of IIP projects that are no longer planned to go ahead.
- Have any of the projects in the IIP had their expected timelines brought forward to earlier dates or pushed back to later dates in light of the Force Structure Plan? If yes, provide details of IIP projects that have had their expected timelines changed.
- The Force Structure Plan says at page 19 that the Government will provide \$270 billion for capability investment over the decade to 2029-30, compared to \$195 billion for the decade to 2025-26 – is this \$270 billion figure in out-turned dollars?
- How much of the Force Structure Plan’s \$270 billion is for capability acquisition and how much is for sustainment?
- With reference to the IIP’s capability investment figure of \$195 billion over the decade to 2025-26 and the Force Structure Plan’s capability investment figure of \$270 billion over the decade to 2029-30, how much of the increase from the IIP’s \$195 billion to the Force Structure Plan’s \$270 billion is due to:
 - o Extending the timeline for projects that were included in the IIP’s \$195 billion figure forward to 2029-30?
 - o Updating the estimates of the out-turned cost of projects that were included in the IIP’s \$195 billion figure?
 - o The increase in the out-turned dollar cost estimate for the Future Submarine project since the IIP’s estimate of “>\$50 bn”

- o The increase in the out-turned dollar cost estimate for the Future Frigates project since the IIP's estimate of ">\$30 bn"
- How much of the Force Structure Plan's \$270 billion in capability investment to 2029-30 represents funding for new projects that were not included in the IIP's \$195 billion capability investment figure?
- How much of the Force Structure Plan's \$270 billion in capability investment to 2029-30 has been approved to be spent?
- Provide a breakdown of the Force Structure Plan's \$270 billion in capability investment to 2029-30 showing the amounts expected to be spent on each individual project included in this figure, including any amounts which are not yet allocated to individual projects.
- Given that the "Key Investments" charts in the Force Structure Plan show costing ranges for capability investments to 2040 and the total amounts in those seven charts comes to between \$443 billion and \$594 billion, does this mean Defence is identifying an additional \$170 billion to \$320 billion for the period from 2030 to 2040 on top of the figure of \$270 billion in capability investment to 2029-30?

Answer:

- *How does the Force Structure Plan relate to the 2016 Integrated Investment Program (IIP)?*

What is the 2020 Force Structure Plan?

The 2020 Force Structure Plan details the Australian Defence Force capability investments to implement the Government's new defence strategy announced in the Defence Strategic Update.

The 2020 Force Structure Plan articulates Defence Capability planning over a twenty year period: 2020-2040, with funding assured for the decade 2020-2030.

Defence is on its way to regenerating and expanding Australia's maritime platforms, delivering a fifth-generation air force, and enhancing the mobility and security of our deployed land forces.

The 2020 Force Structure Plan is the product of Defence's continuous Force Design Cycle: The Defence Capability Assessment Program (DCAP). The DCAP enables a strategy-led prioritisation of proposals and greater agility in investment decisions.

The DCAP is a cycle of integrated functions conducted over a two year period. As a business-as-usual approach, every second DCAP cycle will deliver a Force Structure Plan Update to Government.

What is the Integrated Investment Program?

In developing the 2016 Defence White Paper, Defence adopted an integrated approach to bring together the key elements of investment needed to deliver and sustain Australia's defence capabilities.

The key elements include equipment, infrastructure, information, domestic industry, science and technology, and workforce.

Establishing the Integrated Investment Program has allowed Defence to adopt the whole-of-capability and whole-of-life approach to investment recommended in the First Principles Review.

The Integrated Investment Program is predicated on the Government's commitment to long-term funding certainty by continuing its policy of providing an ongoing 10-year funding model for Defence, including \$270 billion in investment in Defence capability over 2020-2030.

The Integrated Investment Program is reviewed by Government biannually as part of standing budget processes.

Relationship between the Force Structure Plan and the Integrated Investment Program

The Force Structure Plan articulates Defence's capability plans to meet Defence strategy. It is underpinned by the Integrated Investment Program which is the comprehensive investment strategy to deliver / realise Defence capabilities.

The 2020 Force Structure Plan provides the 'why' for the Integrated Investment Program and the recent changes made to it. Both documents are interdependent.

The Public documents on the FSP outline Government plans to achieve the Defence Strategy and aspects of the IIP that underpin it. However, the full details of the Integrated Investment Program remain classified.

- *Does the Force Structure Plan replace the IIP or are the two documents to be read together?*

As above.

- *How is defence industry meant to understand which elements of the IIP have been superseded by the Force Structure Plan and which elements of the IIP remain in place?*
- *Does the Government still intend to release regular public updates of the Integrated Investment Program. If no, why not?*

The Government and Defence are committed to providing the appropriate level of information and transparency to provide useful and meaningful information to the public and industry whilst preserving Defence's commercial position and safeguarding national security.

Defence communicates and engages with industry via industry briefings, working groups and Defence conferences.

Defence provides a range of publicly available sources to deliver information regarding Defence investments to industry. This includes:

- 2016 Defence Industry Policy Statement;
- 2017 Naval Shipbuilding Plan;

- 2017 Defence Industry and Innovation Program Update;
- 2018 Defence Export Strategy;
- 2018 Defence Industrial Capability Plan;
- 2020 Force Structure Plan ;
- Defence Portfolio Budget Statements;
- Sovereign Industrial Capability Priorities
- Ministerial announcements; and
- Additional project information is available on
 - AusTender: Provides annual procurement plans, gazetted business opportunities and contracts awarded
 - The CASG website (Equipping Defence): Provides descriptions of projects that are currently being undertaken, key activities, contracted services, projected timelines and opportunities for industry.

- *Will there be regular public updates of the Force Structure Plan? If no, why not?*

Defence undertakes constant review of its force structure to ensure continuous alignment of strategy, capability and resources in ways that are responsive to the strategic environment.

It is anticipated that Defence will propose an updated public Force Structure Plan for Government consideration in 2024.

- *Are any of the projects in the IIP no longer expected to proceed in light of the Force Structure Plan? If yes, provide details of IIP projects that are no longer planned to go ahead.*

Defence has sought in the first instance to increase the effectiveness or efficiency of an existing delivery measure or remove a potential duplication of capability scope elements, particularly in the context of achieving a joint and integrated future force.

Key offsets are summarised as:

- **Land Domain offsets.** A significant reduction of the planned modernisation of the LAND 8700-1 G-Wagon fleet. The reduction in the G-Wagon fleet is accommodated for by the significant fleet sizes of other vehicles within Army.
- **Air Domain offsets.** Offsets include the following divestments:
 - Attrition aircraft for MQ-4C Triton wherein the risk is assessed as acceptable given recent guidance of revised / reduced aircraft loss rates of both the United States Navy and the Royal Air Force.
 - AIR 7403-4 – KC-30 aircraft 8 and 9. This will be mitigating with additional investment in sustainment funding to increase the availability of the existing aircraft, and new investment in the replacement of the KC-30s with manned and/or unmanned capabilities.
 - AIR 8000-5B – additional C17 heavy air mobility capability. This will be mitigated with additional investment in the Medium Air Lift C-130J Replacement project for additional aircraft acquisition in 2030.

- AIR 8500-1 – Long Range Enhanced Search and Rescue Capability. This will be mitigated through the inclusion of enhanced search and rescue capability requirements within other air-mobility projects and a future rotorcraft project
- **Estate and infrastructure offsets.** Offsets include the following divestments:
 - **FSR2** – Darwin Roll-on / Roll-off Wharf and **FSR5** – New Northern Advanced Joint Training Area. Planned capability investments, and commensurate workforce increases, combined with the US Force Posture Initiative commitments will match the \$8 billion Northern Australian investment in this decade.
- *Have any of the projects in the IIP had their expected timelines brought forward to earlier dates or pushed back to later dates in light of the Force Structure Plan? If yes, provide details of IIP projects that have had their expected timelines changed.*

While all capabilities in this Plan contribute to delivering Defence priorities, the following are key examples of changes to meet the revised Defence Strategy:

- New investments include a new vessel to support the Pacific Step-Up, an expanded replacement for the C-130J fleet and new amphibious landing craft.
- New investments include advanced maritime, air and land based strike systems, remotely piloted and aerial teaming unmanned combat aircraft, sea-mining and offensive cyber capabilities.
- New investments to increase weapons inventories, options for expanded domestic munitions manufacturing, additional fuel storage and increased domestic industry participation.
- New investments in enhanced Special Forces capabilities, strengthened operation cyber capabilities, integrated intelligence surveillance and reconnaissance, and increased space tracking and sovereign satellite systems.
- Increased investment to expand deployable health care and combat engineering capabilities and new investments in future multi-role sealift and replenishment vessels.

Further details of key investments for each domains are outlined in the public version of the 2020 Force Structure Plan.

- *The Force Structure Plan says at page 19 that the Government will provide \$270 billion for capability investment over the decade to 2029-30, compared to \$195 billion for the decade to 2025-26 – is this \$270 billion figure in out-turned dollars?*

The \$270 billion capability investment over the decade 2020-2030 is in out-turned dollars. The out-turned values in the 2020 Force Structure Plan are projections of expenditure over time based on estimates of when the expenditure is anticipated to occur into the future, adjusted for inflation and foreign exchange. The expenditure projections are calculated using economic parameters that are periodically updated by the Departments of Finance and Treasury.

Further information is available at Page 21 of the *2020 Force Structure Plan* which clarifies that the Force Structure plan is in 2019-20 Mid-year Economic and Fiscal Outlook Out-turned price and exchange unless otherwise stated.

- *How much of the Force Structure Plan's \$270 billion is for capability acquisition and how much is for sustainment?*

To maintain Defence's security, strategic and commercial leverage, Defence does not provide a detailed breakdown of investment values.

Page 21 of the *2020 Force Structure Plan* identifies that the figures in the Key Investment Chart Forecasts are comprised of acquisition only estimates unless otherwise stated.

- *With reference to the IIP's capability investment figure of \$195 billion over the decade to 2025-26 and the Force Structure Plan's capability investment figure of \$270 billion over the decade to 2029-30, how much of the increase from the IIP's \$195 billion to the Force Structure Plan's \$270 billion is due to:*
 - *Extending the timeline for projects that were included in the IIP's \$195 billion figure forward to 2029-30?*
 - *Updating the estimates of the out-turned cost of projects that were included in the IIP's \$195 billion figure?*
 - *The increase in the out-turned dollar cost estimate for the Future Submarine project since the IIP's estimate of ">\$50 bn"*

The increase from the IIP's \$195 billion to the Force Structure Plan's \$270 billion is mainly due extending the timeline for projects that were included in the IIP's \$195 billion to the decade 2029-30. There were however changes to some individual project values through this timeframe as result of foreign exchange updates, capability prioritisation or Government decisions.

- *The increase in the out-turned dollar cost estimate for the Future Frigates project since the IIP's estimate of ">\$30 bn"*

This has been answered under QoN SQ20-000599.

- *How much of the Force Structure Plan's \$270 billion in capability investment to 2029-30 represents funding for new projects that were not included in the IIP's \$195 billion capability investment figure?*

Defence does not provide details on changes to the IIP or project level investment. The Force Structure Plan activity optimised and divested existing projects and also established new projects. The resultant breakdown is not publicly released in order to maintain Defence's security, strategic and commercial leverage.

- *How much of the Force Structure Plan's \$270 billion in capability investment to 2029-30 has been approved to be spent?*

As at 20 November 2020, 445 capability proposals valued at \$126.1 billion in capital and sustainment have been approved by Government since release of the 2016 Defence White Paper.

- *Provide a breakdown of the Force Structure Plan's \$270 billion in capability investment to 2029-30 showing the amounts expected to be spent on each individual project included in this figure, including any amounts which are not yet allocated to individual projects.*

To maintain Defence's security, strategic and commercial leverage, Defence does not publish a comprehensive list of all projects in the IIP, changes to the IIP or provide forecast or actual Government approvals, delivery milestones or investment values.

- *Given that the "Key Investments" charts in the Force Structure Plan show costing ranges for capability investments to 2040 and the total amounts in those seven charts comes to between \$443 billion and \$594 billion, does this mean Defence is identifying an additional \$170 billion to \$320 billion for the period from 2030 to 2040 on top of the figure of \$270 billion in capability investment to 2029-30?*

To provide Defence (inclusive of the Australian Signals Directorate) with a stable and sustainable long-term funding for capability planning, Government agrees to a four year funding profile and endorses the subsequent six financial years for the IIP.

The second decade funding profile for the IIP reflect Defence planning assumptions, that are subject to reprioritisation and adjustments in alignment with Defence's evolving strategic assessments. Defence will return to Government through future Force Structure Plan updates, which will be reflected in a commensurately updated IIP, to seek agreement to the funding profile for the revised planning period.