

Question on notice no. 7

Portfolio question number: 7

2020-21 Budget estimates

Foreign Affairs, Defence and Trade Committee, Defence Portfolio

Senator the Hon. Penny Wong: asked the Department of Defence on 26 October 2020—

Senator WONG: Let's ask the same question absent the cost blowout. You've told me that, as at mid-2018- I'll give you the actual-\$44.3 billion in the budget 2018-19 could not be disclosed for commercial reasons. You've subsequently agreed with me that the signing of the head contract in December 2018 alleviated the confidentiality concerns, which meant that you could then make it public. I'm asking: why was it not made public until the 2020 Defence Force structure plan? Does anybody want to help?

Ms Lutz: We were also negotiating. We were also going through the batch 1 scope, so I believe that we obviously wouldn't want to disclose while we were negotiating that scope, which is ongoing now.

Senator WONG: Come on! Secretary Moriarty, it's not a decision on policy; it's not an announcement on acquisition. It is what an already announced project will cost. Whose decision was it to sit for two years on the increased cost of the project?

Mr Moriarty: I'll take that on notice.

Senator WONG: You don't think that transparency with people is important?

Minister, can you explain why the government delayed announcing or disclosing that the cost had increased so dramatically?

Senator Reynolds: To start off with, all I can comment on is what I've done in my time as minister. As the secretary said, we have been very transparent on this and all other projects in the Force Structure Plan. As to what may have happened before my time with other ministers, I will take that on notice.

Senator WONG: That was 2019, wasn't it? Were you aware at that time that the publicly disclosed cost of the frigates project was substantially less than the actual cost that the government had determined it would be?

Senator Reynolds: I will definitely have to take that on notice and go back and review my recollections on that. Again I could not have been any more transparent in this-

Senator WONG: Who prepared the budget release that you put out in February 2019? This was when you had responsibility for defence industry and Mr Pyne was Minister for Defence. This was in relation to 2019-20, so this was after the confidentiality issues had been dealt with. You referred to the Hunter class as valued at \$35 billion. That's in a release of 2 April 2019. On 31 March this year, you and Minister Price also issued a media release referring to the \$35 billion Hunter class frigate program. That is patently misleading. You knew at the time you put that out that it was not a \$35 billion program.

Senator Reynolds: As I said, I'll take all of that on notice, because I don't want to mislead you here, and I do need to go back and check.

Senator WONG: Did Defence have any involvement in preparing both of those press releases-the budget press release of April 2019 and a subsequent press release in 2020 for Senator Reynolds and Ms Price?

Mr Moriarty: I'd have to check that.

Senator WONG: Why did you put out a release last year saying that it was a \$35 billion program?

Senator Reynolds: I've taken that on notice, and I'll get back to you on that.

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Senator WONG: Why did you put out a release last year saying that it was a \$35 billion program?

Senator Reynolds: I've taken that on notice, and I'll get back to you on that.

Answer —

Answer attached

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 - Q7 - \$44.3 billion in the budget 2018-19 -
Senator WONG

Question reference number: 7

Senator: Penny Wong

Type of question: Spoken

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

Hearing Day: 1

Hansard Page: 44-46

Question:

Why did it take almost 2 years to release the contract value noting in the 2018/19 budget it was stated \$35 billion, at end of 2018 the contract was signed removing the commercially in confidence and only publically stated in the 2020 FSP in July 2020. What changed? Also MINDEF and MINDI made media releases stating \$35 billion in March 2020 is that not misleading? Whose decision was it to sit for two years on the increased cost of the project? (extra question added from Hansard). Minister can you explain why the government delayed announcing or disclosing that the cost had increased so dramatically? Were you aware (Minister) at that time that the publicly disclosed cost of the frigates project was substantially less than the actual cost that the government had determined it would be? In December of that year (ref. 2018-19 budget), the commercial-in-confidence issues were resolved, and you did not make it public until the force Structure Plan in 2020. Which of that is disputed? (MINDEF advised will take on notice).

Answer:

In the 2016 Defence Integrated Investment Program, the Government advised the plan to build nine future frigates would involve an investment of greater than \$30 billion (out turned) and the 2017 Naval Shipbuilding Plan estimated the project to be worth more than \$35 billion (out turned). The actual provision in the Integrated Investment Plan at the time was \$36.3 billion (out turned), which was not released in the public domain for sound commercial reasons.

All three bids considered in the future frigate competitive evaluation process were over the provision, although all three were within five per cent of each other providing a level of confidence in the projected cost. In June 2018, the Government Second Pass approved the Hunter class frigate program with a projected total acquisition cost of \$44.3 billion (out turned). The Hunter class frigate program, running into three decades, would support a

continuous naval shipbuilding program to enable level loading of the shipbuilding workforce and end the boom/bust shipbuilding cycle in Australia.

The approved budget at second pass for the initial design and productionisation work was \$6.7 billion (out turned), which was within the original provision and spend spread to 2025. Government agreed that the projected total acquisition cost was affordable in the context of a continuous shipbuilding program that would run longer than the planned spend spread of the original \$36.3 billion and would then carry on seamlessly into the Hobart class replacement program in the 2040s.

The commercial sensitivity surrounding the projected total acquisition cost lessened in December 2018 when the head contract with ASC Shipbuilding was entered into. Given that the budget approved at second pass was within the original Integrated Investment Program provision and spend spread, the incorporation of the projected total acquisition cost and extended spend spread out to the 2040s was included in the global force structure update process that commenced in 2019 and was publicly released in the 2020 Force Structure Plan. For the relatively brief intervening period, public commentary around the projected total acquisition cost continued to reflect the original Integrated Investment Program provision that the project was operating within.