



Australian Government

Department of Defence

**Joint Committee of Public Accounts and Audit
Inquiry into the Defence Major Projects Report
2019-20**

**Department of Defence
Written Submission**

September 2021

Terms of Reference relating to this submission:

This submission addresses any comment, on any items or matters or any circumstances connected with the items or matters contained within the Auditor General's Report No. 19 (2020-21) 2019-20 Major Projects Report.

Recommendations

It is recommended the Committee:

1. **note** the 2019-20 Major Projects Report spanned the difficult period of bushfires and the COVID-19 pandemic with many projects able to continue with little to no impact on project performance to 30 June 2020.
2. **note** the update to the increase COVID-19 impact since the period of the 2019-20 Major Projects Report and the increased complexity and scale of Defence projects.
3. **note** that by their nature the projects pursue an aggressive schedule in order to provide the Australian Defence Force (ADF) with technologically advanced equipment and support, and improving schedule achievement remains a focus for Defence and industry.

Defence is grateful for the opportunity to provide this submission to the Joint Committee on Public Accounts and Audit in consideration of the 2019-2020 Defence Major Projects Report. This submission is intended to provide the Committee with information to complement the Defence element contained in the report.

Defence also appreciates the extensive work of ANAO and Defence staff in preparing the Major Projects Report each year. Work is well advanced on the next iteration, the 2020-21 report.

The 2019-20 Major Projects Report spanned the period of the devastating bushfires and the onset of COVID-19 impacts.

The Defence support to the bushfires included deployment of three amphibious ships, which was not possible ten years earlier, and the new heavy Army vehicles. Industry played an important role in supporting the rapid sailing of the Landing Helicopter Docks, including having a team on board one of the vessels in order to complete maintenance that was underway over the Christmas period.

The Defence Section in the 2019-2020 Major Projects Report lists some of the actions taken to retain the business health of Australian Defence Industry. Defence worked with industry to rapidly process invoice payments for work undertaken, and for the period of the 2019-20 Major Projects Report, this was 100,000 invoices to a value of \$8.0 billion.

Despite the difficulties of COVID-19, Defence and industry have continued to equip and sustain the Australian Defence Force through the pandemic, although the current variant outbreak is having an increasing local effect on workforce.

It is a commendable achievement that many projects have been able to continue without detriment during the COVID-19 pandemic. For those affected, Defence has worked proactively with Industry to minimise and impacts to schedule and workforce.

The 2020 Defence Strategic Update and Force Structure Plan released on 1 July 2020, just outside the period of this report, have set the requirement for significantly increased Defence capability requirements with urgency.

A range of reviews and initiatives have been implemented or are underway, leveraging the work of the First Principles Review under a One Defence delivery in partnership with the increasing Australian Industry Capability.

The Committee might note the increased complexity and scale of Defence projects being reflected in the Major Projects Report. As demonstrated through the National Shipbuilding Program, many of these new Defence programs are whole-of-nation endeavours. Defence and industry are working together to realise the required breadth and depth of the skilled workforce to deliver these projects, cognisant of the parallel demand in other sectors.

Over the last 10 years the number of highest complexity Defence acquisition Category One projects have increased from 11 to 21. The second most complex projects, Category Two, have also increased from 45 to 63. The Committee may have also noted the commensurate increase in value of Defence Acquisition and Sustainment from \$10 billion to \$17 billion for the same period.

As shown in the 2021-22 Portfolio Budget Estimates, 80 per cent of the \$9.8 billion Defence budget growth in the forward estimates to 2024-25 is in Acquisition and Sustainment as planned in the 2020 Force Structure Plan. Importantly the ratio of sustainment remains relatively constant at about 30% for Forward Estimates and 10 year period of the Force Structure Plan.

The 2019-20 Major Projects Report reflects an improvement in the average schedule slippage of the projects and Defence will continue to work with Industry to improve schedule certainty and achievement. By their nature the projects pursue an aggressive schedule in order to provide the ADF with technologically advanced equipment and support. Additionally the nature of the projects have shifted from Foreign Military Sales, mostly aircraft acquisitions to those requiring extensive engineering and integration.

Commensurate with the increasing number of complex Defence projects, the value of the projects in the 2019-20 Major Projects Report has increased from \$64.1 billion to \$78.7 billion.

Table 3 on Page 13, details the budget variation post Government Approval. As discussed at previous Committee hearings, some media reporting has not distinguished the differing elements of the \$24.2 billion total figure. The Real Cost Increase and project supplementation is \$1.2 billion. The remainder is for additional phases of three large projects to acquire aircraft in accordance with Government approval, Price Indexation on projects approved prior to 2010, and Exchange Rate Variation.

The Committee may also note that the newer projects also reflect the Government's priority on Australian Industry Capability and the surety of Australian Sovereign capability, which was initiated 2016. In other hearings the Committee has discussed the additional focus Australia and its allies have on this strategy as a result of COVID.

For Committee awareness, the Air Warfare Destroyer project achieved Final Operational Capability in August 2021, with the five remaining Defence projects above \$5 billion being:

- AIR 6000 Phase 2A/2B, New Air Combat Capability, \$15.6 billion (+\$1.7 billion other project inputs).
- SEA 5000 Ph 1 Hunter Class Future Frigates, \$6 billion (+\$1 billion other project inputs).
- SEA 1000 Ph 1B Attack Class Future Submarine, \$5.8 billion (+\$537 million other project inputs).
- AIR 7000 Ph 2 Maritime Patrol and Response - \$5.6 billion (+\$901 million other project inputs).
- LAND 400 Ph 2 Mounted Combat Reconnaissance Capability - \$5.6 billion (+\$113 million other project inputs).

Defence looks forward to assisting the Committee further.