

Public Accounts and Audit

Parliamentary inquiry – Defence Major Projects Report (Auditor-General's report Nos 19 and 22 (2019-20))

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: JCPAA Future Submarine Project – 20 May 2020 – Q1 - Outturn costs – Conroy

Question reference number: 1

Senator/Member: Pat Conroy

Type of question: Spoken

Date set by the committee for the return of answer: 3 June 2020

Question:

Mr CONROY: Mr Sammut, I'll come back to this later—because other people have questions in this area, quite naturally—but can you take on notice to provide a breakdown, or reconciliation, showing each specific factor or reason that has caused the outturned dollar estimate to rise from the \$50 billion, from Mr Richardson, to what it is now? I know you've said some of this verbally but I'd like a response in writing, if that's practical, providing that breakdown. Some will be forex and some will be the competitive evaluation process, but I'd like a breakdown if that's doable.

Mr Sammut: I shall do that. I take that on notice.

Answer:

Out-turned provisions cater for inflation and variations in foreign exchange rates over the life of a project and are routinely updated based on projections by the Departments of Finance and Treasury. In the case of the Future Submarine Program, the provision has been out-turned into the 2050s.

The \$50 billion estimate noted by Mr Richardson at the Senate Foreign Affairs, Defence and Trade Legislation Committee Supplementary Budget Estimates hearing on 21 October 2015 was an apportionment of a 'greater than' figure rather than an absolute, as clarified by Defence in answers to Questions on Notice 24 and 79 from that hearing:

The Government announced that over the next two decades Australia will invest over \$89 billion to acquire new submarines, frigates, and offshore patrol vessels.

and

The Integrated Investment Programme to be delivered as part of the White Paper package will provide the range of costs with the number of vessels and timings to be included in the Defence White Paper.

and

Defence does not publish the details of estimated funding provision for major projects; rather we provide an acquisition cost band. This helps to preserve the Commonwealth's negotiating position with potential tenderers.

In testimony at the time, Defence officials also explained that details with respect to the Future Submarine Program, including refined costs, also remained subject to outcomes of the then-ongoing competitive evaluation process and the White Paper process.

The acquisition cost band published for the Future Submarine Program in the 2016 Defence Integrated Investment Program delivered as part of the White Paper, was '>\$50 billion' out-turned.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: JCPAA Future Submarine Project – 20 May 2020 – Q2 - Regional Superiority – Kitching

Question reference number: 2

Senator/Member: Kimberley Kitching

Type of question: Spoken

Date set by the committee for the return of answer: 3 June 2020

Question:

Senator KITCHING: You might need to take this on notice. I want to ask about regional superiority and what that means in terms of cost, because I did have a look for a definition of that, but obviously that might be a bit of a movable feast. I'm happy for you to take that on notice. The other thing I'd like to know is: if other countries are looking at designs for alternative launching means, other than the torpedo tubes we're getting, are we going to need that kind of capability, and what does that add to the cost? My understanding is that we're limited to the torpedo tubes. Is that correct?

Mr Sammut: Our current design is based on weapon launch through torpedo tubes; you are correct. We believe that we can, in fact, launch the range of payloads considered by Navy as a requirement into the future using torpedo launch—noting that payloads through other launch mechanisms have to be, in some cases, tailored to the limitations of those launch mechanisms. What I mean by that is that for a particular length of tube, whether that's oriented vertically or horizontally, you still have to fit a weapon within that. And that could drive significantly the dimensions of the submarine and its displacement, and, therefore, costs. We, as I said, do believe that we have the capacity to launch projected payloads from torpedo tubes, which means that we aren't necessarily driven towards a change in launching arrangements in the boat to maintain regional superiority. If I may just touch on that quickly, respectful of the committee's time, as we've said before, regional superiority is reflected in Navy's requirements for the submarine, which are documented in the functional and performance specification for the boat. They continue to be assessed, of course, in relation to emerging capabilities within the region, but our very rigorous and thorough design process now is about ensuring that we have traceability from Navy's functional and performance specifications down to the specifications of the systems in the submarines so that we can have the highest degree of confidence that that level of performance can be met. The other point I should make is that within the budget that we have set for the Future Submarine program we have allowed for a technology refresh that would allow us to upgrade technology in the submarine to meet more demanding requirements, should they emerge in the face of any changes within regional capabilities.

Senator KITCHING: Would you include UUVs in this as well—if we had to upgrade to UUVs? I respect it if you can't feel comfortable answering these—

Mr Sammut: We fully envisage that the first future submarine will have the capacity to employ UUVs.

Senator KITCHING: I want to ask you about payloads, but I understand that you might not be able to answer on that.

Unidentified speaker: We can try. You can ask your question, and we'll see if we're able to answer.

Senator KITCHING: I want to know what the payloads that we've just been talking about are.

Mr Sammut: At this stage, I can't go into the full range of payloads. But as you would anticipate, and as is stated in the white paper, we will continue to employ torpedoes—the primary weapon for submarines, which continue to evolve in our joint development program with the US. I have mentioned that there will be UUVs. We are also including in our view of payloads countermeasures as well, and missiles in the future.

Senator KITCHING: Thank you.

Answer:

The regional superiority of the Future Submarine fleet is reflected in the classified Function Performance Specification for the submarine. This defines the performance required of the submarine across all functions, and has been developed from analysis of intended missions and prospective threats. The Function Performance Specification drives the design of the submarine, and constitutes the criteria against which the performance of the submarines will be assessed during acceptance and operational testing. Design and delivery of the Future Submarine to meet the agreed Function Performance Specification is factored into the estimated acquisition cost, which remains \$50 billion constant in 2016 dollars and includes contingency.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: JCPAA Future Submarine Project – 20 May 2020 – Q3 - 2016-17 Outturn Costs – Conroy

Question reference number: 3

Senator/Member: Pat Conroy

Type of question: Spoken

Date set by the committee for the return of answer: 3 June 2020

Question:

Mr Conroy: Okay. You've already agreed to take on notice a reconciliation, so I'll look forward to seeing it broken down there. I just want to go back. You said that when the selection of the Naval Group occurred in April 2016, the cost of the Future Submarine was put at \$50 billion in constant dollars, in 2016-17 dollars. What was the outturned cost at that point?

Mr Sammut: I don't have that answer. I would have to come back to you on that.

Answer:

Out-turned provisions cater for inflation and variations in foreign exchange rates over the life of a project and are routinely updated based on projections by the Departments of Finance and Treasury. In the case of the Future Submarine Program, the provision has been out-turned into the 2050s.

The out-turned provision at the point in time when Naval Group (then DCNS) was selected as the future submarine international design partner was \$78.9 billion.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: JCPAA Future Submarine Project – 20 May 2020 – Q4 - IIP – Conroy

Question reference number: 4

Senator/Member: Pat Conroy

Type of question: Spoken

Date set by the committee for the return of answer: 3 June 2020

Question:

Mr CONROY: [.....] I just want to confirm these timings in my head. I've just gone back and looked at Hansard for Senate estimates in 2017, which was the basis of my question earlier about Mr Richardson's claims. We have a media release from Mr Abbott and Mr Andrews on 4 August 2015 talking about their \$89.7 billion shipbuilding program, which consisted of the Future Submarine, the Offshore Patrol Vessel and the Future Frigate. We then had questioning on that during estimates in October that year, where Mr Richardson confirmed that of that \$89 billion, \$50 billion is for the Future Submarine in outturned dollars. We then have the CEP process where Naval Group is selected, and the acquisition group of the Future Submarine is put at \$50 billion in constant dollars, which presumably means that in outturned dollars it's somewhere between \$60 billion and \$80 billion. Is that a fair summation of the time frame?

Mr Sammut: Yes. That's a fair summation.

Mr CONROY: Mr Richardson was saying the outturned costs were \$50 billion, presumably or substantially less in constant dollars, so the increase in the budget of this project occurred between effectively October 2015 and April 2016, between that Senate estimates and the selection of Naval Group.

Mr Sammut: The projections of cost changed over that time. They moved from \$250 billion outturned to something tens of billions above that. The projections changed over that time.

Mr CONROY: When the government refers to the integrated investment program as a \$200 billion program, can I confirm: is that in outturned or constant dollars?

Mr Fraser: That is a \$200 billion constant program, typically. Some elements of it, though, as we go to approve them—when we gain government approval—as you would understand, will be outturned. So the ones that will be in the current year will be constant. Then, as we index it out in the outer years it would be in outturned dollars.

Mr CONROY: So the \$200 billion is a mix?

Mr Fraser: Let me take it on notice, because it's not specifically in mine—obviously, we manage the approved projects within the delivery organisation, which are in outturned. I will find out for you precisely. Under the Defence Capability Program, the one you're referring to, the new one is the Integrated Investment Program, which will be outturned, but I'll take that

on notice for you.

Mr CONROY: Mr Fraser, I was referring to the IIP, where the government quotes that figure. Could you take on notice what that \$200 billion is? And I will ask two more questions on notice. Can you provide that same figure in constant dollars and outturned dollars? I acknowledge outturned dollars may be difficult if you're not in the contract phase, but I presume that the constant dollars should be deliverable, since that's decided before you actually select the acquisitions.

Mr Fraser: I will take that question on notice.

Answer:

Paragraph 10 on page 9 of the Government's Integrated Investment Program published in 2016 refers to \$195 billion of funding (pre-ERC 2016-17 out-turned price basis) allocated for capability investments over the decade to FY 2025-26.

Paragraph 10 also notes that delivery of many investments made in the decade to FY 2025–26 will extend well beyond the decade; for instance future submarines and frigates.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: RFI - JCPAA Future Submarine Project – 20 May 2020 – Q5 - Initial operational dates– Conroy

Question reference number: 5

Senator/Member: Pat Conroy

Type of question: Spoken

Date set by the committee for the return of answer: 3 June 2020

Question:

Mr CONROY: Thank you. I want to return to the schedule very quickly, then I'll let other people have a go. I have other questions, but this is my last one on the schedule. I know that a few people have been talking about the timing of the submarines. Mr Sammut, prior to the 2016 Defence white paper, between 2013 and 2016, what was the initial operational capability dates for the future submarine? I know, for example, in the 2012 DCP it was 2025-26. What was the operational document and guidance from Defence about the IOC for the future submarine between 2013 and 2016?

Mr Sammut: Between 2013 and 2016 the government of the day was, in fact, directing a review of all options for the future submarine. Indeed, there were four options being considered at the time. There was a military off-the-shelf option; a military off-the-shelf option modified to take the combat system that we employ in the Collins class, reflecting our cooperation with the US; an option to look at an evolved design; and an option to look at a new design. That work was underway with the approval of the government of the day. You would imagine quite sensibly from that that depending on the option there would be different FOC dates and IMR dates and IOC dates. A military off-the-shelf option could be acquired more quickly than an evolved option, a modified option or a new design option. There would be varying FOC dates. Given that we were working under government direction to explore those options, there was no formal IOC or FOC date.

Mr CONROY: But presumably there was a classified DPC that was in operation for that period between 2013 and 2016 that had projects with nominal IOC and nominal budgeted figures over a fairly significant horizon, unless things radically changed from the previous government?

Mr Sammut: I'll need to take that on notice, because when we were looking at those various options, given the variability in them in terms of when each could be reasonably expected to be delivered and noting that that was taking place under approval of government, the options were to be considered under the direction of government, and that was happening in 2013, as I came into the role of then head of the Future Submarine program. I will just need to check, because there would be obvious disconnects with any firm dates for IOC and FOC if all of

those options were being considered.

Answer:

Guidance was contained in a classified Defence Capability Plan, which was in operation for the period 2013-16.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: JCPAA Future Submarine Project – 20 May 2020 – Q6 - Delivery Dates – Conroy

Question reference number: 6

Senator/Member: Pat Conroy

Type of question: Spoken

Date set by the committee for the return of answer: 3 June 2020

Question:

Mr CONROY: I would like you to take this on notice. I've got a statement from 2016 from former Prime Minister Tony Abbott that, when he was Prime Minister, the delivery dates for the future submarine were set for the mid-2020s. So we've got a DCP in operation that had initial operating capabilities—that is, a delivery date effectively of the first submarine—of 2025-26 and we've got the Prime Minister at the time saying that the delivery date was the mid-2020s, so I am struggling to understand how it can't be characterised as a 10-year shift in the schedule for delivery the first submarine in that period. Sometime between 2013 and 2016 the delivery date for the first submarine shifted from the mid-twenties to the mid-thirties.

Mr Sammut: I'll take that on notice.

Answer:

Initial planning for the Future Submarine to replace the Collins Class dates back to the late 2000s. Nominal delivery projections for the Future Submarine at that time and in following Defence Capability Plans and announcements remained subject to a range of assumptions that have matured over time, including finalisation of capability requirements and a corresponding acquisition strategy. They were also dependent on decisions being made by the Government of the day to allow progression of the program with appropriate approvals.

The policy set out in the *2016 Defence White Paper* called for a regionally superior submarine with range and endurance similar to the Collins Class submarine, sensor performance and stealth characteristics which are superior to the Collins Class, and upgraded versions of the AN/BYG-1 combat system and Mark 48 Mod 7 heavyweight torpedo jointly developed with the United States as the preferred combat system and main armament. As no military off-the-shelf submarine existed to meet these requirements, the *2016 Defence White Paper* stated that the Future Submarines would likely begin to enter service in the early 2030s, reflecting an appropriate and achievable delivery schedule.

Defence has been consistent in its advice that there will be no gap in the transition from the Collins Class, which is only half way through its life, to the Attack Class submarine.

The outcome of the Competitive Evaluation Process, which was announced in 2015 and completed in 2016, allowed the Government to make a fully informed decision to construct 12 new regionally superior submarines in Australia. Government subsequently approved plans and funding to commence design and delivery of the Future Submarine in accordance with the policy set out in the *2016 Defence White Paper*.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: JCPAA Future Submarine Project – 20 May 2020 – Q7 - Master schedule – Patrick

Question reference number: Q7

Senator/Member: Rex Patrick

Type of question: Spoken

Date set by the committee for the return of answer: 3 June 2020

Question:

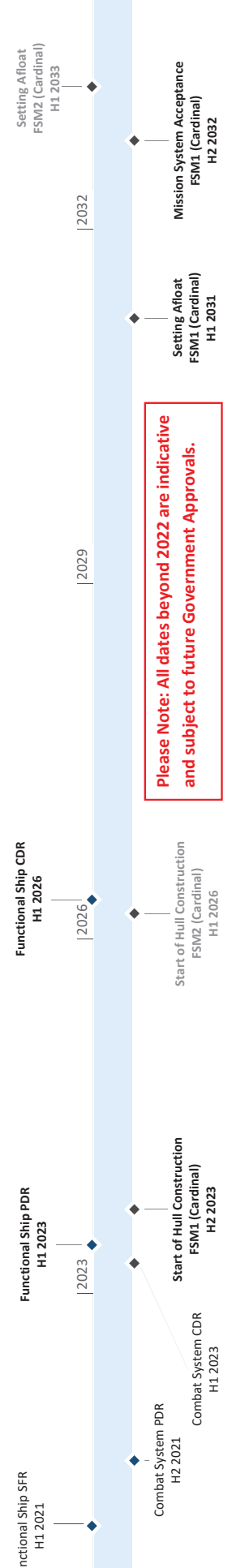
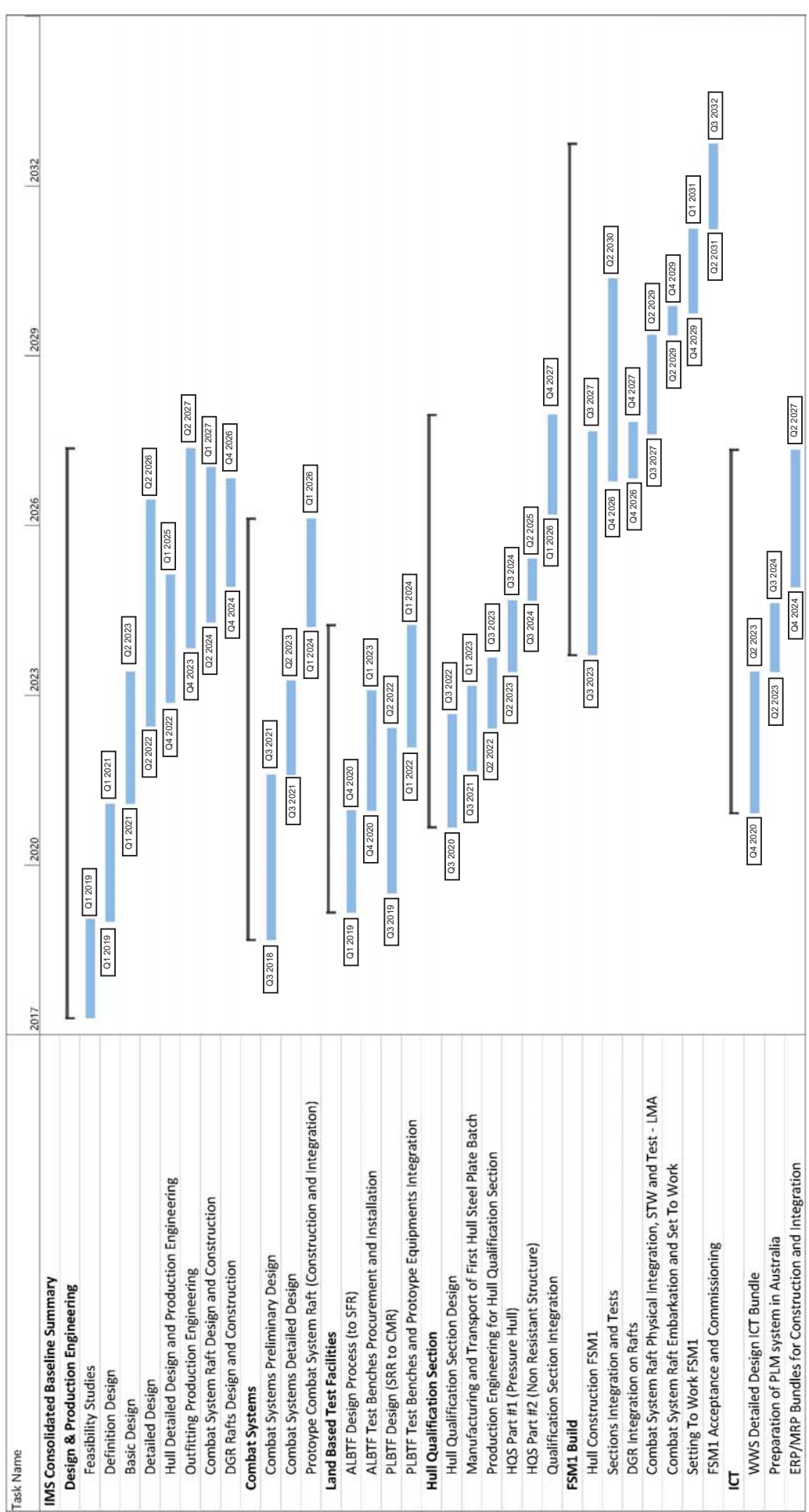
Senator PATRICK: Okay. In your answer to one of my questions, question No. 21, you mentioned that you have an integrated master schedule as a contractual deliverable, obviously subject to upgrade and updating, that was formally approved on 21 October 2017. The committee heard this morning from the Project Management Institute that actually it is pretty hard to conduct oversight without visibility as to schedule or proposed schedule. I am wondering—and I note there might be some sensitivity to this, and I am sure you can request confidentiality—if you can provide to the committee that integrated masters schedule, that baseline schedule.

Mr Sammut: We will take that on notice and endeavour to see what we can provide.

Answer:

An unclassified high-level Integrated Master Schedule summary is attached.

Australian Future Submarine Program – IMS Consolidated Baseline Summary



Please Note: All dates beyond 2022 are indicative and subject to future Government Approvals.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: JCPAA Future Submarine Project – 20 May 2020 – Q8 - LOTE – Conroy

Question reference number: 8

Senator/Member: Pat Conroy

Type of question: Spoken

Date set by the committee for the return of answer: 3 June 2020

Question:

Mr CONROY: Just one question on the Collins LOTE. I appreciate your answer to Senator Patrick about the issue of specifying a cost, given undermining negotiating positions and so forth. I note that the public IIP provides approximate investment values for projects so as to preserve the Commonwealth's bargaining position. So I am just asking: what is the approximate investment value for the Collins LOTE?

Mr Sammut: Mr Conroy, I'd like to take that on notice and see whether we can get back to you on providing an approximate figure.

Mr CONROY: Okay; I appreciate that.

Answer:

Work has progressed with industry to prepare business cases and concept designs related to the core LOTE work package, which are schedule for consideration by Government in 2020/2021. The provision for Collins LOTE within the IIP is greater than \$3.5 billion out-turned.