

Senate Standing Committees on Economics - References

Australia's sovereign naval shipbuilding capability - 05 February 2021

COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC – Q1- Australia's sovereign naval shipbuilding capability – 5 Feb 2021 - Financial Information for PBOs. Patrick

Question reference number: 1

Senator / Member: Rex Patrick

Type of question: Spoken

Date set by the committee for the return of answer: 19 February 2021

Question:

Senator Patrick: I'm in the situation where I've requested the PBO to conduct that task for me, by going to each of the major projects, getting their raw data, and summing up as a function of time how much each project wishes to spend. I'm not seeking access to any individual project information; I'm simply seeking access to the total sum as calculated by the PBO, using project managers' data to establish what the cash flow is. The defence department has refused to provide the PBO with this information, even though there's a legal pathway for that to occur and that any documentation provided to the PBO is strictly confidential. On what basis would you refuse to provide the PBO with financial information on projects so that a senator can get a graph that simply says, 'For this year, this is the expenditure, and, for the next year, this is the expenditure'? That's all that will pop out of the PBO. On what basis have you denied access to financial information to the PBO?

Mr Moriarty: I'll take that on notice and consult the relevant officers.

Answer:

Defence takes very seriously its roles and responsibilities as outlined in both the Parliamentary Budget Office (PBO) Protocols and the Memorandum of Understanding including adopting a pro-disclosure approach to all requests.

In all responses to both the PBO, the media and other avenues of questioning, Defence has consistently advised that it does not provide detailed information at the individual project level for Defence's unapproved acquisition plans. This is due to a range of reasons including:

- That the individual Unapproved projects have not been considered by Government and therefore remain as estimates only. For some projects, the capability options and market tested costs may be some years away. Additionally the level of technological change in that period may be significant and impact original estimates and scheduling;
- There are no major contracts let until after the projects are considered and agreed by Government;
- Defence carefully manages the publication of data on future projects against the need to maintain security and commercial leverage;

- While pieces of information may be considered harmless in isolation, when taken in conjunction with other documented information a mosaic is created that may reveal damaging information about the Commonwealth's defence capability.

Defence does however provide a range of detailed information regarding overall program funding levels and details of approved project acquisition and sustainment expenditure through well established processes as part of the Commonwealth budget cycle, including Annual Report requirements. Additionally, the published Force Structure Plan 2020 and the accompanying fact sheets provided a forecast acquisition cost and timeframe for Defence capabilities. The level of transparency and information provided by Defence compares favourably to other Commonwealth agencies.

The provision of information regarding Defence's planned expenditure by key cost category was established in the *2016 Defence White Paper* and updated in the *2020 Defence Strategic Update*, including the supporting Budget Fact Sheet. This information is also provided as year by year profiles across the Budget and Forward Estimates period at each Budget update and as outlined in Table 4b (page 21) of the 2020-21 Defence Portfolio Budget Statements and shown below.

Table 4b: Defence Planned Expenditure by Key Cost Categories [1]

Serial No.		2019-20	2020-21	2021-22	2022-23	2023-24	Total
		Estimated	Budget	Forward	Forward	Forward	
		Actual	Estimate	Estimate	Estimate	Estimate	
		\$m	\$m	\$m	\$m	\$m	\$m
1	Workforce	12,877.9	13,410.5	13,766.9	14,108.3	14,481.3	55,767.0
2	Operations	821.7	741.4	113.7	102.6	3.7	961.4
3	Capability Acquisition Program	11,212.1	14,281.2	16,806.8	18,765.5	20,598.1	70,451.6
4	Capability Sustainment Program	12,095.9	12,580.0	13,217.3	14,876.0	15,637.7	56,311.0
5	Operating	2,150.1	1,599.4	1,685.8	1,656.0	1,736.8	6,678.0
6	Total Defence Planned Expenditure	39,157.7	42,612.4	45,590.6	49,508.4	52,457.6	190,169.0

Note

1. These categories are funded by appropriations and own source revenue.

https://www.defence.gov.au/Budget/20-21/2020-21_Defence_PBS_00_Complete.pdf

The detail for both the Capability Acquisition Program and the Capability Sustainment Program are then further broken down to its individual investment program components as demonstrated by Table 5 and Table 6 of the 2020-21 Defence Portfolio Budget Statements (page 22).

Using the Capability Acquisition Program as an example, details of the planned expenditure across the Budget and Forward Estimates period for the last three budget updates are provided to demonstrate the level of information provided.

Defence Portfolio Budget Statements (PBS) 2019-20 (page 20)

Table 4: Capital Investment Program ^[1]

Serial No.		2019-20	2020-21	2021-22	2022-23	Total
		Budget	Forward	Forward	Forward	
		Estimate	Estimate	Estimate	Estimate	
		\$m	\$m	\$m	\$m	\$m
1	Major Capital Investment Program	8,687.9	10,966.0	12,823.6	14,580.4	47,057.9
2	Capital Facilities Program	2,093.0	2,316.2	2,976.9	3,154.8	10,541.0
3	ICT Investment Plan	864.1	839.3	880.0	1,004.6	3,588.1
4	Minors Program	123.4	215.8	289.6	295.6	924.4
5	Total Capital Investment Program	11,768.4	14,337.3	16,970.2	19,035.5	62,111.3

Note

1. The Capital Investment Program includes unapproved and approved projects.

[https://www.defence.gov.au/Budget/19-20/2019-20 Defence PBS 00 Complete.pdf](https://www.defence.gov.au/Budget/19-20/2019-20%20Defence%20PBS%2000%20Complete.pdf)

Defence Portfolio Additional Estimates Statements (PAES) 2019-20 (page 21)

Table 8: Capital Investment Program ^[1]

Serial No.		2018-19	2019-20	2019-20	Variation
		Actual	Budget	Revised	
		Result	Estimate	Estimate	
		\$m	\$m	\$m	\$m
1	Major Capital Investment Program	8,478.5	8,687.9	8,891.2	203.3
2	Capital Facilities Program	1,974.0	2,093.0	2,099.9	6.9
3	ICT Investment Plan	449.1	864.1	728.2	-135.9
4	Minors Program	42.8	123.4	86.7	-36.7
5	Total Capital Investment Program	10,944.4	11,768.4	11,806.1	37.7

Note

1. Total Capital Investment Program includes unapproved and approved projects.

[https://www.defence.gov.au/Budget/19-20/2019-20 Defence PAES 00 Complete.pdf](https://www.defence.gov.au/Budget/19-20/2019-20%20Defence%20PAES%2000%20Complete.pdf)

Defence Portfolio Budget Statements (PBS) 2020-21 (page 22)

Table 5: Capability Acquisition Program ^[1]

Serial No.		2019-20	2020-21	2021-22	2022-23	2023-24	Total
		Estimated	Budget	Forward	Forward	Forward	
		Actual	Estimate	Estimate	Estimate	Estimate	
		\$m	\$m	\$m	\$m	\$m	\$m
1	Military Equipment Acquisition Program	8,620.0	10,742.4	12,359.7	13,794.6	15,539.4	52,436.1
2	Enterprise Estate and Infrastructure Program ^[2]	1,976.2	2,609.6	3,390.2	3,905.9	4,004.3	13,909.9
3	ICT Acquisition Program	572.4	772.5	862.4	895.4	857.5	3,387.8
4	Minors Program	43.5	156.7	194.6	169.7	196.9	717.8
5	Total Capability Acquisition Program ^[3]	11,212.1	14,281.2	16,806.8	18,765.5	20,598.1	70,451.6

Notes

1. These categories are funded by appropriations and own source revenue.

2. Formerly 'Facilities and Infrastructure Program'.

3. The Capability Acquisition Program includes unapproved and approved projects.

[https://www.defence.gov.au/Budget/20-21/2020-21 Defence PBS 00 Complete.pdf](https://www.defence.gov.au/Budget/20-21/2020-21%20Defence%20PBS%2000%20Complete.pdf)

These tables provide detail of the year on year planned expenditure for each of the individual investment programs. These estimates are updated regularly as part of Defence ongoing program and budget reviews and foreign exchange updates based on rates provided by the Department of Finance. The process of managing these programs, and the Defence budget more generally, were provided in the Budget Fact Sheet which accompanied the *2020 Defence Strategic Update*.

At the 2020-21 Portfolio Additional Estimates update to be tabled in February 2021, revised tables will be provided which outline updated planned expenditure profiles for these programs as well as estimated actuals for 2020-21.

Further to these high level program views of planned expenditure, Defence also provides more detailed project information at each Commonwealth Budget update and in the Defence Annual Report.

Using the 2020-21 Defence Portfolio Budget Statements as an example, Defence provides detailed information on:

- the Top 30 Approved Acquisition Projects commencing from page 113;
- the Top 30 Current Sustainment Products which support existing capability commencing from page 123; and
- details of the Defence Approved Capital Facilities Projects by State and Federal Electorate commencing from page 130.

From the 2021-22 Portfolio Budget Statements Defence will include information regarding the Top 5 Approved ICT Projects to further enhance Defence's transparency and accountability.

Using SEA 1000 Phase 1b as an example of the level of detail provide by Defence, extracts of information regarding this project from the last three Commonwealth Budget updates are provided below.

SEA 1000 FORECAST EXPENDITURE (GROSS PLAN) AS REPORTED IN:

PBS 2019-20 – Table 55 (Page 118)

https://www.defence.gov.au/Budget/19-20/2019-20_Defence_PBS_00_Complete.pdf

Project Name	Project Number/ Phase	Approved Project Expenditure \$m	Estimated Cumulative Expenditure to 30 June 2019 \$m	Budget Estimate 2019-20 \$m	Top 30 Major Project Descriptions
Future Submarine Design and Construction	SEA 1000 Phase 1B	2,240	779	289	This project will deliver Australia's regionally superior Attack Class Future Submarine with sovereignty over its operation and sustainment. During 2019-20 the Future Submarine Program will continue working with Naval Group and Lockheed Martin Australia on the design of the Future Submarine. Work will also continue on the infrastructure requirements needed to support the build of the 12 submarines in Adelaide.

PAES 2019-20 – Table 65 (Page 85)

https://www.defence.gov.au/Budget/19-20/2019-20_Defence_PAES_00_Complete.pdf

Domain/ Project Name	Project Number/ Phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2019 \$m	Budget Estimate 2019-20 \$m	Revised Estimate 2019-20 \$m	Variation 2019-20 \$m	Project Performance Update and Explanation of Variation
Future Submarine Design and Construction	SEA 1000 Phase 1B	6,018	723	289	581	292	Government approval of \$3.8 billion to enter into the Strategic Partnering Agreement and Submarine Design Contract with Naval Group was received in February 2019. This is reflected in the increased budget estimate for 2019-20. The variation is primarily due to this approval along with the alignment of the Submarine Design Contract with Naval Group (signed in March 2019) and the Design, Build and Integration Contract with Lockheed Martin Australia (signed in January 2018), which required reprogramming of certain activities to 2020-21. The Attack Class Submarine Program remains on cost and schedule for delivery of the fleet from the early 2030s.

Project Name	Project Number/Phase	Approved Project Expenditure \$m	Estimated Cumulative Expenditure to 30 June 2020 \$m	Budget Estimate 2020-21 \$m	Top 30 Major Project Descriptions
Future Submarine Design and Construction	SEA 1000 Phase 1B	5,945	1,322	782	<p>This project will deliver Australia's regionally superior Attack Class Submarine with sovereignty over its operation and sustainment.</p> <p>During 2020-21, the Attack Class Submarine Program Office will continue working with Naval Group and Lockheed Martin Australia on the design of the submarine. Delivery of the infrastructure needed for the build of the 12 submarines in Adelaide will also continue.</p>

These data points, along with other relevant project data, are then summarised in web tables provided with each Defence Annual Report for a complete overview of the progress of each project. An extract from the 2019-20 Defence Annual Report for SEA 1000 Phase 1b is provided as an example.

Defence Annual Report 2019-20

(Web Table D.2 - <https://www.defence.gov.au/annualreports/19-20/WebTableD.2.xlsx>)

Project name	Project number and phase	Approved project expenditure ¹ \$m	Cumulative expenditure to 30 June 2019 \$m	Cumulative Cash expenditure ² to 30 June 2020 \$m	Cumulative Accrual expenditure ³ to 30 June 2020 \$m	Budget estimate 2019-20 ⁴ \$m	Revised estimate 2019-20 ⁵ \$m	Final plan ⁶ 2019-20 \$m	Actual expenditure ⁷ 2019-20 \$m	Variation ⁸ \$m	Project update and explanation of variation 2019-20
Future Submarine Design and Construction	SEA 1000 Phase 1B	5,926	723	1,276	1,322	289	581	579	553	-26	<p>The project will deliver Australia's regionally superior Future Submarine with sovereignty over its operation and sustainment.</p> <p>During 2019-20, the Future Submarine Program continued to work with Naval Group and Lockheed Martin Australia on the design of the Future Submarine. Work also continued on the infrastructure requirements needed to support the build of the 12 submarines in Adelaide.</p> <p>The variation is primarily due to a reduction in project-related activities, reflecting lower than anticipated costs for labour, major equipment procurements, travel, and other contracts.</p>

Notes

1. Differences between the approved project expenditure for the same project in Portfolio Budget Statements, Portfolio Additional Estimates Statements and the Defence annual report are primarily due to foreign exchange movements.
2. Life to Date cash expenditure for projects as at the end of Jun 20.
3. Life to Date accrual expenditure for the projects as at the end of Jun20.
4. The budget estimate 2019-20 was published in the Portfolio Budget Statements 2019-20.
5. The revised estimate 2019-20 was published in the Portfolio Additional Estimates Statements 2019-20.
6. The final plan 2019-20 is the final approved annual budget for the project, inclusive of variations for foreign exchange movements and changes to materiel acquisition agreements.
7. Actual expenditure will include transactions in foreign currency applicable at the exchange rate at the time of the transaction. The budget estimate, revised estimate and final plan will include foreign currency exposures converted using the budgeted exchange rates applicable to the respective budget update.
8. Variation is difference between final plan 2019-20 and actual expenditure 2019-20.

The level of information outlined above is all provided in the public domain and represents a level of transparency not provided by other agencies.