



**Australian Government**  
**Department of Finance**



**Department of Finance**

**Submission to the  
Joint Committee of Public Accounts and Audit  
Inquiry into the Defence Major Projects Report 2020-21 and  
2021-22 and the Procurement of Hunter Class Frigates**

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## Contents

<b>Finance's role in procurement and key procurement rules</b>	<b>3</b>
<b>Finance's role in assessing Defence capability proposals</b>	<b>4</b>
<b>Finance's role in the Hunter Class Frigate Program</b>	<b>4</b>

## Finance's role in procurement and key procurement rules

The Department of Finance has policy responsibility for the Commonwealth Procurement Rules (CPRs) as they are made under the *Public Governance, Performance and Accountability Act 2013*. Finance provides a range of guidance and tools to support assurance under the CPRs.

The CPRs set out requirements to be followed by relevant entities when undertaking procurements for goods and services, including the need to achieve value for money, encourage competition, ensure proper use and management of public resources, and ensure accountability and transparency in procurement activities.

The CPRs apply to all non-corporate Commonwealth entities and certain prescribed corporate Commonwealth entities.

The CPRs are supported by a range of tools, guidance material and templates developed and maintained by Finance to provide assurance, accountability and transparency over Government procurement activities, and make it easier for businesses to participate in the economy and grow their business through contracting to the Australian Government.

The central objective of the CPRs is achieving value for money, to ensure that public resources are used in the most efficient, effective, ethical and economic manner. Rule 4 states that price is not the sole factor when assessing value for money. When conducting a procurement, an official must consider the relevant financial and non-financial costs and benefits of each submission including, but not limited to, the:

- quality of the goods and services;
- fitness for purpose of the proposal;
- potential supplier's relevant experience and performance history;
- flexibility of the proposal (including innovation and adaptability over the lifecycle of the procurement);
- environmental sustainability of the proposed goods and services (such as energy efficiency, environmental and climate change impact and the use of recycled products);
  - recognising the Australian Government's commitment to sustainable procurement practices, entities are required to consider the Australian Government's Sustainable Procurement Guide where there is opportunity for sustainability or use of recycled content
  - the Sustainable Procurement Guide is available from the Department of Climate Change, Energy, the Environment and Water's website; and
- whole-of-life costs.

In addition to the value for money considerations at paragraphs 4.4 – 4.6 of the CPRs, for procurements above \$4 million, or \$7.5 million for construction services, (with limited exceptions) officials are required to consider the economic benefit of the procurement to the Australian economy.

It is the responsibility of an individual entity to ensure value for money in accordance with the CPRs. Accountable authorities are not required to seek advice from Finance in relation to compliance with the CPRs.

Finance supports entities by providing a CPR advisory function that entities can consult when undertaking procurements.

The CPRs reflect Australia's free trade obligations and require non-discrimination and the use of competitive procurement processes to ensure that all suppliers compete on a level playing field when selling to the Government. Potential suppliers must be treated equitably based on their commercial, legal, technical and financial abilities and not be discriminated against due to factors such as their size, ownership or location.

## Finance's role in assessing Defence capability proposals

Finance engages with Defence throughout the capability development process to assess the cost quality, affordability and risks associated with projects within the Defence Integrated Investment Program (IIP).

Finance reviews information provided by Defence in order to provide a view on whether the costs are reasonable, realistic, comprehensive and consistent with the proposal being presented to Government (similar to the process for assessing a New Policy Proposal, but without formally agreeing to costs).

Finance also provides a Cost and Risk statement that is included in the relevant cabinet submission, which provides advice on cost quality, affordability and key risks of the project, as well as any mitigation strategies proposed by Defence to address those risks.

The Cost and Risk statement is based on a review of cost models, cabinet submissions and supporting documentation provided by Defence. In reviewing Defence's cost model, Finance assesses: whether costs sought and whole of life acquisition and sustainment cost estimates are affordable, overall and in-year, from within the relevant funding provision; the methodology and information used to validate cost drivers; the maturity of the cost estimates; how cost risks have been determined; and risk reduction strategies and other project risks including technical, workforce and schedule risks.

Finance also supports the Minister for Finance in their consideration of decisions sought from Government. Such advice typically outlines Finance's assessment of the relative merits of the options under consideration; the affordability of the funding being sought and whole-of-life costs; and advice on key project risks including technical, cost, schedule and workforce risks.

## Finance's role in the Hunter Class Frigate Program

Finance had regular engagement with Defence throughout the capability development process in the lead up to the 2018 decision to select BAE as the successful tenderer for the Future Frigate program.

Finance received information and advice from Defence to support Finance's review of costs, affordability and key risks.

As part of the 2018 decision to select BAE as the preferred tenderer, Finance provided a Cost and Risk statement which advised Government on key factors relevant to the consideration of value for money, consistent with Finance's general role in advising Government on Defence capability proposals.

- The Cost and Risk statement noted the approach taken to whole-of-life costs (all tenderers used the future sustainment provision in lieu of a cost estimate), a reduction applied to tendered production costs, as well as an assessment of the key risks to the successful delivery of the Hunter Class Frigate Program.
- Finance also advised, as part of the Cost and Risk statement, that the decision to select BAE was based solely on capability. While not specifically referenced in the Cost and Risk statement, this referred to the greater Anti-Submarine Warfare capability of the BAE offer.

Consistent with the Finance's normal role in Defence capability acquisitions, Finance had no direct role in relation to the procurement process conducted by Defence and did not directly reflect on Defence's assessment processes in its advice to Government.