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Joint Committee of Public Accounts and Audit – Answers to Questions on Notice

Inquiry into the Defence Major Projects Report 2020-21 and 2021-22 and Procurement of Hunter Class Frigates

Department/Agency: Australian National Audit Office

Topic: Defence Major Projects Report 2020-21 and 2021-22 and Procurement of Hunter Class Frigates

Date set by the committee for the return of answers: 6 October 2023

Question reference number: 1

Type of question: Written

Question:

How much, if any, funding from the Australian contract has been provided to the UK for Type 26 development reference design?

Answer:

In accordance with the Head Contract, Clause 6.21 of the Statement of Work, and Clause 2.9 of Attachment B, the Commonwealth is required to pay a Primary Licence Fee of GBP 21.12m for use of the Type 26 Intellectual Property. The full amount is required to be paid no later than Acceptance of Ship 1.

Question reference number: 2

Type of question: Written

Question:

One is for the design of Hunter are there bits of the design that have had to be done in the UK supply chain? As to the other dimension—it's been suggested to me very clearly by industry sources that some years ago the design had not been separated from the Type 26 UK design, which resulted in the Australian budget for Australian specific design changes effectively being utilised to finish the baseline design of the UK's global design. Is this right or wrong?

Answer:

The platform element of the design is currently undertaken in the UK by a dedicated Hunter team, reporting directly to the Australian program leads. Over time this capability will also transition to Australia.

No Australian funds have been used to complete any part of the UK Type 26 design.

Question reference number: 3

Type of question: Written

Question:

Whether any design work has been carried out for Hunter that's then been used to inform the Canadian and UK Type 26 design, which means Australia and the Australian taxpayers are effectively paying for these components of design work for other nations?

Answer:

No. Australian taxpayers' money has not been used to fund other countries' design.

Question reference number: 4

Type of question: Written

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Question:

Has BAE been hacked in recent weeks? Have there been any cybersecurity breaches?

Answer:

No. Answer provided to the Committee in Submission: 4.1 Supplementary to Submission 4. Dated 8 September 2023

Question reference number: 5

Type of question: Written

Question:

Have plans for Sea 5000 for the Hunter been compromised in any way due to cybersecurity hacks?

Answer:

No. Answer provided to the Committee in Submission: 4.1 Supplementary to Submission 4. Dated 8 September 2023

Question reference number: 6

Type of question: Written

Question:

I don't know whether we have the full displacement?

Answer:

[REDACTED]

Question reference number: 7

Type of question: Written

Question:

[Ship margins] Which is how much now?

Answer:

[REDACTED]

Question reference number: 8

Type of question: Written

Question:

In terms of margins, are you able to provide us perhaps on notice or just a general answer now, in terms of the five-plus-one and the evolution of those, and not just the impact on margins, but just the time and the project scheduling.

Answer:

Yes it has impacted In-Service Weight Growth Margin (ISWGM). Yes it has a schedule impact. These impacts have been contained within the Design & Productionisation program.

Question reference number: 9

Type of question: Written

Question:

What actually involved evolutionary thinking about the five-plus-one and what were other specification modifications and design modifications and extra requirements that actually came from Defence?

Answer:

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There have been emerging customer requirements since contract signature related to capability, security and sovereignty that have resulted in some additional design changes.

Question reference number: 10

Type of question: Written

Question:

Do you have a number of how many modifications and specification changes Defence has? I know there have been quite a few. How many have resulted and how many actually related to the five-plus-one and how many related to other things?

Answer:

[REDACTED]

Question reference number: 11

Type of question: Written

Question:

What the CEP weight requirement was then, when that answer was provided by Ms Lutz, and what it is now?

Answer:

The CEP did not place any constraints on the weight of the vessel. Refer to response to Question 6 with regards current weight estimate.

Question reference number: 12

Type of question: Written

Question:

In an unclassified way, would you be able to describe now the evolution of the differences between the Type 26 and Hunter and also, if you can, where you're up to with the Canadian design?

Answer:

Hunter is different from Type 26 from its 5&1 changes and its emergent changes covered in the response to Question 9. BAE Systems Australia is not in a position to comment on the Canadian Surface Combatant (CSC).

Question reference number: 13

Type of question: Written

Question:

My understanding was with Type 26, which I did see in the early construction, you were still using hardcopy designs. The benefit also with the Hunter is you started off doing digital designs. Have you been able to harmonise that approach?

Answer:

Both ships are digital designs.

Question reference number: 14

Type of question: Written

Question:

Batches AIC target: How have you come to that agreement? What is the agreement with Defence on AIC content? How does that change over time?

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Answer:

The current commitments include an Australian Contract Expenditure (ACE) Target at the end of Design and Productionisation (D&P) of 54% and a Target at the end of Total Acquisition Phase (based on a 9 Ship cost model) of 58%. The Hunter program does not break this down into targets for Batches.

To date our actuals equates to 68% ACE generated to date against current target of 54%.

Question reference number: 15

Type of question: Written

Question:

What your agreement on what AIC actually is? What are the targets and then how do you calculate the total Australian contract expenditure and the methodology behind meeting the targets? It's an issue of broad interest to us across many projects.

Answer:

Refer to answer to Question 14.

Australian Contract Expenditure (ACE) is calculated by including the value of work undertaken in Australia.

Question reference number: 16

Type of question: Written

Question:

Were you aware that no value-for-money assessment had been done?

Answer:

No.

Question reference number: 17

Type of question: Written

Question:

Given the significant challenges in the project cost, timeframes, capability delivery, many of which we've addressed today, how might you summarise the lessons BAE has learnt from this project, given we're always learning from projects we engage in?

Answer:

Lesson 1: Challenges across a global enterprise that have to be coped with during a Global pandemic.

Lesson 2: The potential for Australia to partner on foreign programs much earlier, which deliver better outcomes from a capability, Australian content and potentially value for money perspective.

Lesson 3: For any nation, significantly modifying an off the shelf design in parallel with building a new yard, a new workforce and a new supply chain would be a significant challenge.

Question reference number: 18

Type of question: Written

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Question:

At what point do you adopt an enterprise approach? At what time do you lock in those key decisions and on which ones do you actually have that enterprise approach and have enough margin upfront so that you can evolve the technologies in the final design?

Answer:

In our experience, any complex warship design is much more evolutionary as the design and build evolves over a significant period of time. It is better to have a partnership approach rather than considering it as an off the shelf design. Designs will continually evolve over time.

Question reference number: 19

Type of question: Written

Question:

[For AUKUS] What are the benefits, opportunities or challenges in terms of how do we get to a closer industrial base integration between the three nations and issues with the US?

Answer:

At this time BAE systems is not able to comment publically on AUKUS.

Additional Submitted Written Questions on Notice (Date: 28 September 2023):

Question reference number: 20

Type of question: Written

Question:

The price of the head contract has increased significantly from its original agreement. Can you explain why this has increased?

Answer:

The head contract was designed with further scope to be added by Contract Change Proposals (CCP). This has been conducted and coordinated with the Commonwealth project team. The only contracted element of the head contract is Design and Productionisation (D&P), and it is currently within budget.

Question reference number: 21

Type of question: Written

Question:

How does BAE ensure that Australian Industry Capability is a core consideration during all stages of the project, consistent with the targets set?

Answer:

We are currently significantly above contracted targets. There is an agreed AIC plan with the Commonwealth which we are currently exceeding – see response to Question 14.