



The Hon. Richard Marles MP
Deputy Leader of the Opposition

Mr Grant Hehir
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Dear Mr Hehir,

I am writing in light of recent revelations that significant increases in the costs of the Future Submarines and Future Frigates programs were withheld from the public and the Parliament for years. Parliament's oversight of the Executive, including with respect to Budget appropriations, is a fundamental element of our democratic system. This can only occur effectively when appropriate and transparent disclosure of government expenditure occurs. I am deeply concerned by recent evidence that this has not occurred in the case of these programs, with known cost increases hidden from public scrutiny for years. I thus ask that you investigate and report on these matters.

It has been the Government's consistent position that the acquisition cost of the Future Submarines is \$50 billion – a figure it has used for years in documents, press releases and public utterances. The Parliament's attempts to scrutinise this have been complicated by changes to the basis on which the purported cost has been calculated. In October 2015, for example, officials told Senate Estimates that the acquisition and some of the sustainment for the Future Submarines was \$50 billion on an out-turned price basis. Subsequently, the Defence Integrated Investment Program (IIP) released in February 2016 listed the cost of design and construction (only) of the Future Submarine as ">\$50bn", with an accompanying footnote confirming costs were on an out-turned price basis. Yet in May 2018, an official told Senate Estimates that *"the acquisition cost as quoted in the IIP for the Future Submarine Program is \$50 billion on a constant price basis"*. Then in November 2019, the same official said that the out-turned cost for the acquisition at that point in time was \$80 billion.

This confusion could have been avoided, and the capacity for parliamentary scrutiny significantly improved, had the Government provided updated out-turned costs as is normal practice. That they did not suggests a concerning lack of transparency. As you know, it is standard budgeting practice to quote forward estimates in nominal dollars. It is also notable that all costs contained in the Government's 2016 IIP are quoted in out-turned dollars and this is also the case for the 2020 Force Structure Plan.

As a result of the decision to eschew standard practice, between October 2015 and November 2019 the Parliament and the public were not aware of any substantive change to the out-turned acquisition cost for the Future Submarine acquisition, beyond the IIP's reference to ">\$50bn". Moreover, while the IIP contained a commitment that an online version would be periodically updated – which presumably would have necessitated disclosure of updated costs – no such update was ever made available.

It has since come to light that not only were significantly higher out-turned costs known to the Government in 2016, but that those costs could have been publicly released as early as late 2016. In response to a written Question on Notice as part of the Senate Economics References Committee's inquiry into Australia's sovereign naval shipbuilding capability, the Department of Finance confirmed the then-classified funding provision for the acquisition of the Future Submarines in 2016 was \$78.9 billion on an out-turned price basis. Finance noted this cost was not made public due to commercial sensitivities. During the recent Budget Estimates, Department of Defence officials confirmed that these commercial considerations subsided in October 2016.

It is thus now a matter of public record that nothing precluded the Government releasing updated out-turned costs for the Future Submarines as early as late 2016, but that it failed to do so for over three years until an official revealed the cost increase in Senate Estimates in November 2019. Moreover, it was not until the release of the Force Structure Plan on 1 July 2020 that the Government elected to issue a formal public update to the out-turned acquisition cost. When asked during Budget Estimates on 26 October 2020 to explain this failure to disclose updated costs for over three years, a Defence official said they did not believe there had been a conscious decision not to disclose a \$30 billion cost increase.

This is not, however, the only instance of a substantive failure to disclose. The Government has consistently referred to the Future Frigates acquisition as a \$35 billion program for years. That changed with the release of the Force Structure Plan in July this year, which contained a revised costing of \$45.6 billion. Just as occurred with the Future Submarines, a response to a Question on Notice by Finance as part of the inquiry into Australia's sovereign naval shipbuilding capability revealed that the out-turned total acquisition cost estimate in 2018 was \$44.3 billion. Finance said that this was not publicly released at the time to protect the Commonwealth's negotiating position. At the recent Budget Estimates, Defence officials revealed that since December 2018 commercial considerations had subsided. Yet despite this, the Government continued to knowingly and incorrectly refer to this as a \$35 billion project – up to and including this year.

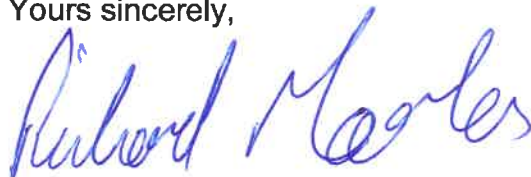
That \$40 billion in cost increases across these two highly significant acquisition projects were known to the Government for years but not disclosed to the public and the Parliament is deeply troubling. That the Government appears to have knowingly used incorrect figures in public utterances is of utmost concern.

It is absolutely essential that the Parliament has an accurate understanding of the status of such acquisitions if it is to exercise appropriate oversight and due diligence on behalf of the Australian public.

I therefore ask that you investigate and report on these failures to disclose, including any acts or omissions, whether deliberate or unwitting, that gave rise to these circumstances. I also ask that you give consideration to whether there may be omissions or failures to disclose with respect to other major Defence acquisition and sustainment projects and that, in the context of the annual Major Projects Report series, additional scrutiny be applied as to whether reported costs accurately reflect known costs.

I would appreciate your consideration of the matters I have outlined and my request that they be investigated.

Yours sincerely,



**The Hon. Richard Marles MP
Deputy Leader of the Opposition
Shadow Minister for Defence
Federal Member for Corio**

16 / 11 / 2020