



## Australian Government

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### Department of Finance

**Rosemary Huxtable PSM**  
Secretary

EC 19-000883

Mr Mark Fitt  
Committee Secretary  
Senate Standing Committees on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Mr Fitt

In response to your email of 26 September 2019, please find attached a submission by the Department of Finance (Finance) to the Inquiry into *Australia's sovereign naval shipbuilding capability*.

This submission provides an overview of Finance's role in the Naval Shipbuilding Enterprise and an update on the separation of ASC Pty Ltd (ASC) and its role in relation to delivering Australia's sovereign naval shipbuilding capability.

I would also like to draw your attention to the submission provided by Finance to the previous Economics Reference Committee (the Committee), a copy of which is at Attachment B. This provides further information and context in relation to Finance's ongoing role with respect to Commonwealth procurement and Defence capability issues.

Thank you for the opportunity to provide information to the Committee. I trust this information assists the Inquiry into Australia's sovereign shipbuilding capability.

Yours sincerely

Rosemary Huxtable  
Secretary

27 November 2019

## **Finance's role in Naval Shipbuilding**

Finance contributes to the Naval Shipbuilding Enterprise by working with the Department of Defence (Defence) and other agencies to assist in the delivery of the Naval Shipbuilding Enterprise. Finance is an active participant in the established governance framework that supports naval shipbuilding, including as a member of the Secretaries Committee on Shipbuilding.

Finance has an ongoing role:

- Providing assistance with assessing and agreeing costs associated with the Naval Shipbuilding Enterprise, including support to develop new policy proposals and providing advice on the Budget process.
- As part of its participation in the Defence Investment Committee, supporting Defence deliberations on investment projects and priorities including twice-yearly advice to Government on the overarching Defence Integrated Investment Program.
- Supporting a strategic approach to engagement in the continuous naval shipbuilding program, including on infrastructure, workforce, industry and security issues, and delivery methods.
- Providing oversight of two Government Business Enterprises, ASC and Australian Naval Infrastructure Pty Ltd (ANI) that are active participants in the Naval Shipbuilding Enterprise.

The Government announced its decision to separate ASC into three Government-owned companies in October 2016. This separation process is now complete, with all three companies actively engaged in the Naval Shipbuilding Enterprise. The three companies support the key capabilities of infrastructure, shipbuilding and submarines.

### *Infrastructure - ANI*

On 26 March 2017 ANI was formed, as a standalone company, to acquire, hold, manage, and develop shipbuilding and related infrastructure assets. ASC had owned critical shipbuilding infrastructure, including the existing Osborne North and South Shipyards in South Australia. These were transferred to ANI upon its establishment.

ANI was established to facilitate the development and construction of new infrastructure to support the continuous shipbuilding program. Maintaining Commonwealth control and ownership over this enabling asset, regardless of program or Prime contractor is critical and allows the Commonwealth to leverage its investment and take advantage of ANI's commercial experience and expertise to deliver world-class infrastructure.

As at October 2019, the Osborne South Development Project is approximately 75 per cent complete and remains on target for the completion of the main works by the end of Q1 2020 in readiness for handover to ASC Shipbuilding Pty Ltd for the *Hunter* Class program.

ANI is also leading the development and construction of the Future Submarine Yard. ANI has been working with its Managing Contractor Laing O'Rourke to progress design activities on the Phase 1 buildings for the Future Submarine Yard, being the two test facilities known as the Combat System Physical Integration Facility (known as the CS-PIF), and the Platform Land Based Test Facility (known as the PLBTF). Preliminary construction works for the

CS-PIF will start this year, with construction for the PLBTF anticipated to commence in the first half of 2020.

The design and layout of the remainder of the yard, or Main Works, is continuing in development with Naval Group and the Commonwealth. ANI will progress detailed planning on that phase of the works in due course.

#### *Shipbuilding - ASC Shipbuilding Pty Ltd*

On 29 June 2018, the Government announced that the *Hunter* Class Frigate, will be designed by BAE Systems and built by ASC Shipbuilding Pty Ltd (ASC Shipbuilding), as a subsidiary of BAE Systems Australia Limited (BAE Systems Australia).

On 14 December 2018, ASC Shipbuilding was separated from ASC and transferred to BAE Systems Australia, delivering on the Government's announcement of 29 June 2018. ASC Shipbuilding was transferred to BAE Systems with its existing shipbuilding workforce. As a subsidiary of BAE Systems Australia, ASC Shipbuilding entered into the Head Contract with the Commonwealth (Defence) for the delivery of nine *Hunter* Class Frigates.

The separation and transfer of ASC Shipbuilding to BAE Systems Australia is central to the Government's plan to secure Australia's naval shipbuilding sovereignty. As part of the transfer, the Commonwealth retained a sovereign share that gives certain rights during the build period in relation to any decisions or actions that have national security or other relevant strategic implications.

The Commonwealth has also retained the option to re-acquire ASC Shipbuilding, which allows the company to be transferred back to Commonwealth ownership at the end of the build period, along with the intellectual property, a highly skilled workforce and all of the associated equipment built up over the *Hunter* Class program. This arrangement will develop and retain sovereign capability to design and construct major surface combatants in ASC Shipbuilding, which will strengthen Australian shipbuilding capability.

#### *Shipbuilding – ASC*

The experienced shipbuilding workforce, resident within ASC Shipbuilding, will be utilised on the *Hunter* Class program, while also being contracted back to ASC to support the delivery of the final *Hobart* Class Air Warfare Destroyer (AWD) and the first two *Arafura* Class Offshore Patrol Vessels (OPV) in Adelaide.

In 2005, ASC was named as the shipbuilder for the *Hobart* Class AWD Alliance. Since 2010, ASC and its AWD Alliance partners have been building and integrating the three AWDs and have successfully delivered the first two AWDs, HMAS *Hobart* and HMAS *Brisbane* to the Royal Australian Navy. The third destroyer, *Sydney*, is due for its Provisional Acceptance in early 2020.

In 2017, ASC was named as the shipbuilder for the first two *Arafura* Class OPVs. ASC entered a contract with prime contractor and designer, Luerksen Australia, for the construction of the two vessels and achieved Keel Laying of the lead *Arafura* Class OPV, in May 2019. The remaining ten OPVs will be constructed in Henderson, WA, by CIVMEC in partnership with Luerksen Australia.

### *Submarines – ASC*

ASC continues to deliver the sustainment of the *Collins* Class submarines, which undergo a two-year full cycle docking at Osborne in South Australia, and shorter maintenance activities including mid cycle docking at Henderson in Western Australia.

ASC successfully delivers Australia's only established sovereign submarine capability. The *Collins* Class submarine program has been operating above benchmark since 2016, reflecting the substantial and sustained improvement achieved by ASC and the submarine enterprise more broadly.

ASC continues to pursue other commercial opportunities including with the *Attack* Class submarine program and with Naval Group. ASC and Naval Group Australia signed a Framework Agreement on 25 February 2019. The agreement outlines how Naval Group Australia and ASC will collaborate in providing supplies and services to each other.

On 10 October 2019, ASC and Naval Group announced the first training initiative under the Framework Agreement, which will see the first intake of three apprentices commencing training with ASC in January 2020 for a four-year program. ASC also has 34 personnel seconded to the Future Submarine Program.

On 9 October 2019, ASC signed a Heads of Agreement with Jeumont Electric aimed at identifying joint business opportunities across the *Collins* and the *Attack* Class submarine programs. ASC is also pursuing other submarine opportunities with Naval Group suppliers Endel Engie and Group FIVA. By developing these relationships, ASC seeks to retain and strengthen its role in the submarine enterprise.

## Submission 53 - Department of Finance

The Department of Finance made submission 14 to the inquiry into the Future of Australia's naval shipbuilding industry in the 44th Parliament.

This document is intended as a supplementary submission to the original submission 14.

All submissions received in the 44th Parliament can be accessed via the following link:

[http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Economics/Naval\\_shipbuilding/Submissions](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Naval_shipbuilding/Submissions)



## Australian Government

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### Department of Finance

Rosemary Huxtable PSM  
Secretary

Our Ref: SEC0014088

Ms Ann Palmer  
Acting Committee Secretary  
Senate Economics References Committee  
PO Box 6100  
Parliament House  
CANBERRA ACT 2601

Dear Ms Palmer

I refer to your letter of 18 October 2016, in which you sought written submissions to the Inquiry into the future of Australia's naval shipbuilding industry. In this regard, I draw your attention to a submission provided to the Economics References Committee (the Committee) by the Department of Finance (Finance) dated 8 August 2014, a copy of which is attached. This letter provides an update to, or in some places reaffirms, the information provided at that time.

The specific elements of relevance to the Inquiry's terms of reference, which are addressed below are: the Commonwealth's procurement framework, Finance's role in assessing and providing independent advice to Government on defence policy and capability, and the separation of ASC Pty Ltd (ASC).

#### **Commonwealth Procurement Rules**

The advice provided in our previous submission in respect of the Commonwealth Procurement Rules (CPRs) remains current. As previously advised, officials must comply with the rules in Division 1 of the CPRs for all procurements. The additional rules in Division 2 apply where the value of the procurement is at or above the relevant threshold.

Paragraph 2.6 of the CPRs removes the need to comply with the CPRs where an Accountable Authority determines it to be necessary for the maintenance or restoration of international peace and security, to protect human health or for the protection of essential security interests.

The Defence Procurement Policy Manual, a publicly available document that can be sourced at [http://www.defence.gov.au/casg/Multimedia/DPPM\\_March\\_2016\\_Entire-9-5247.pdf](http://www.defence.gov.au/casg/Multimedia/DPPM_March_2016_Entire-9-5247.pdf), includes a list of goods and services that Defence has determined as Defence Exempt Procurements.



## **Assessing Defence Capability Proposals**

The Department of Defence (Defence) develops capability proposals, sponsored by the Minister for Defence and/or the Minister for Defence Industry, for the consideration of the National Security Committee (NSC) of Cabinet. Finance participates in monthly Defence Investment Committee meetings to support the development of these proposals and a stronger partnership with Defence. This approach is consistent with Defence's First Principles Review, which included recommendations and findings to support the establishment of a single end-to-end capability development function.

The NSC process may involve multiple approaches to Government for individual projects to facilitate Government consideration as required to ensure appropriate Governance is exercised. Typically, for medium to higher risk projects, the first engagement with Government is used to seek consideration of the broad options and acquisition approach to fulfil a capability requirement, followed by further engagements, as required, which seek agreement to procure goods and services to deliver a specific capability outcome.

The Government has made a number of decisions on naval shipbuilding capability projects in 2016, including:

- first pass approval for SEA 1000 (Future Submarines), with Direction des Constructions Navales Services of France selected as Australia's preferred international design partner;
- first pass approval for SEA 5000 (Future Frigates), with three ship designs shortlisted for further refinement prior to second pass;
- first pass approval for SEA 1180 (Offshore Patrol Vessels), with three ship designs shortlisted for further refinement prior to second pass; and
- combined first and second pass approval for replacement of Pacific Patrol Boats, with Austal Ships Pty Ltd selected as the preferred tenderer.

These capabilities will be built in Australia under a Naval Shipbuilding Plan that is to be released in early 2017. The plan is to be based on a continuous build program to establish a sustainable long-term pathway for industry.

## **Finance's Role in Advising on Defence Capability Issues**

As noted in our previous submission to the Committee, Finance has developed specific expertise in providing advice to Government on Defence capability matters.

Expertise at the Senior Executive Service Level, supported by the Defence Capability Branch and other Finance branches as required, is dedicated to providing analysis and briefing material on Defence's capability proposals. The focus of our analysis includes advising the Minister for Finance and Finance senior executives on: cost and risk issues; cost contingency, cost models and supporting documentation; and other policy matters raised in submissions to Government.

Finance is also supporting Defence's development of the Naval Shipbuilding Plan. In this role, Finance provides analysis of the costs, risks and implications of the proposed arrangements, taking into account the RAND Corporation's report 'Australia's Naval Shipbuilding Enterprise: Preparing for the 21st Century'. This report identifies principles that aim to support the development of an economically sustainable domestic naval shipbuilding industry.

Finance also attends, at the Deputy Secretary-level, the Defence Investment Committee, which is responsible for bringing the future force and supporting enablers into being, and the Defence-chaired Interdepartmental Committee on Naval Shipbuilding.

### **Separation of ASC Pty Ltd**

On 11 October 2016, the Government announced its decision to separate ASC Pty Ltd (ASC) into three Government-owned companies, independently focussed on shipbuilding, submarine sustainment and infrastructure. This decision followed a strategic review of ASC that sought to identify its optimal corporate, capital and governance arrangements to support implementation of the Government's naval shipbuilding plans.

Finance is working with Defence and ASC to implement the ASC separation and restructure. The immediate focus is to establish an infrastructure entity to support the development of shipbuilding infrastructure required for the future capability projects.

The changes to the structure of ASC are being made to provide an appropriate structure, including to support the necessary infrastructure development, protection of critical assets and, in turn, a sustainable continuous shipbuilding industry.

Thank you for the opportunity to provide information to the Committee. I trust this information further assists with the Inquiry into the Future of Australia's naval shipbuilding industry.

Yours sincerely

Rosemary Huxtable  
Secretary

3 March 2017





## Australian Government

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### Department of Finance

**Jane Halton PSM**  
**Secretary**

Our Ref: SEC 0010552

Committee Secretary  
Senate Economics Legislation Committee  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Dr Dermody

I refer to your letter of 14 July 2014, in which you sought written submissions to the Inquiry into the future of Australia's naval shipbuilding industry and my response of 17 July 2014 in which I indicated that the Department of Finance would consider the scope of the Senate Economics References Committee inquiry and provide a response in the future.

Following your letter the Department received a request for Mr John Sheridan, to attend a Committee hearing of 21 July 2014. As you would be aware, Mr Sheridan and Mr John Edge, Acting Deputy Secretary attended at that time and provided evidence. Responses to questions on notice taken at that hearing form part of this Submission.

In regard to matters raised in the Committee's terms of reference, this Submission provides further information and context in the areas of Commonwealth procurement, the processes associated with Defence procurement that relate to the Department of Finance and the role of the Department in advising government on defence matters.

#### **Commonwealth Procurement**

As noted in the evidence of Mr Sheridan, the Department of Finance is responsible for the whole of government procurement framework including the Commonwealth Procurement Rules (CPRs). The CPRs were most recently updated in 2014 and set out the basis on which procurements are conducted by the Commonwealth. Relevant international obligations have been incorporated into the CPRs.

Officials must comply with the rules in Division 1 of the CPRs for all procurements regardless of value, and apply the additional rules in Division 2 where the value of the procurement is above \$80,000 (general goods and services) and \$7.5 million (construction services).

Paragraph 2.6 of the CPRs provides an overarching exemption removing the need to apply the CPRs where an Accountable Authority has determined it necessary for the maintenance or restoration of international peace, to protect human health or for the protection of essential security interests. In practice, this allows an entity to undertake an alternative form of procurement, such as a limited tender, should they choose, including for procurements above the relevant procurement thresholds.

The Defence Procurement Policy Manual, a publicly available document which can be sourced at <http://www.defence.gov.au/dmo/Multimedia/DPPM-9-5247.pdf>, includes the list of the goods and services that Defence have categorised as Exempt Procurements under paragraph 2.6 of the CPRs. 'Ships, Small Craft, Pontoons and Floating Docks' is one such category.

### **Assessing Defence Capability Proposals**

Department of Defence capability proposals are developed by Defence and brought forward to the National Security Committee (NSC) of Cabinet by the Minister for Defence in keeping with the requirements of the Kinnaird Two-Pass process.

- The Kinnaird Process entails seeking initial direction from the NSC on the direction of fulfilling a capability requirement, followed by a second pass which provides specific direction to Defence on fulfilling that capability.
- It is usual for individual phases of a defence capability project to be subject to the two pass process because the projects are complex and of a prolonged nature.

In regard to the specific case of the supply ships that are being considered in this inquiry, First Pass consideration of the capability was considered by the NSC on 4 April 2014, with an announcement made on 6 June 2014 by the Minister for Defence of the government's decision to conduct a restricted competition between Navantia of Spain and Daewoo Shipbuilding and Marine Engineering for the replacement of the two replenishment ships, *HMAS Success* and *HMAS Sirius*, which are coming to the end of their useful lives. Finance provided advice on the Submission and to the Minister for Finance in the usual way.

### **Finance Role in Advising on Defence Capability Issues**

The Department of Finance has developed specific expertise in providing advice to government on defence capability matters. In addition to the Department's role in advising on whole of government procurement matters, and in advising the Finance Minister on the cost and quality of new policy proposals put forward by agencies, Finance has developed a specialised defence capability assessment role.

Expertise at the Senior Executive Service Band 1 level is dedicated to this role with support provided by the Defence, Capability and Intelligence Branch. The work undertaken by Finance in this regard includes advising the Finance Minister on: priority cost and risk issues; cost contingency, cost models and supporting documentation; and other policy matters raised in Submissions.

To conclude, I have attached responses to questions on notice taken by Finance officials at the hearing of 21 July 2014 (Attachment A refers).

I trust this information further assists the Inquiry into the Future of Australia's Naval Ship Building Industry.

Yours sincerely

Jane Halton  
Secretary

7 August 2014