

Chapter 4

Workforce planning strategy

4.1 Workforce planning is critical for the successful implementation of the naval shipbuilding plan and the government's continuous build of naval ships in Australia. Chapter four of the government's naval shipbuilding plan provided broad ideas of how the government intends to build and support the naval shipbuilding workforce.

4.2 This chapter examines the government's workforce plan, industry demographics and key skills required for the industry, and training opportunities available for new employees. The chapter concludes with an examination of the future of the Australian Submarine Corporation (ASC) and its workforce.

National workforce plan

Naval shipbuilding plan

4.3 In the naval shipbuilding plan, the government iterated its commitment to supporting Australian naval shipbuilding jobs, stating that the government will play an active role in managing workforce issues.¹ The naval shipbuilding plan observed that without government intervention, severe workforce shortages would occur, effecting delays to shipbuilding schedules and delivery of planned naval capability:

Leaving workforce development solely to industry could result in multiple approaches to workforce skilling with little or no coordination at the national level, and little consideration to meeting the skilled workforce needs of the broader naval shipbuilding enterprise (including the supplier and sustainment base and the Commonwealth).²

4.4 The naval shipbuilding plan indicated that construction of the Future Submarine Program (FSP) is expected to sustain around 1,100 Australian jobs in direct build and around 1,700 Australian jobs through the supply chain.³ The Future Frigate program will create over 2,000 jobs, and the Pacific Patrol Boats project will create around 200 jobs.⁴ Projected growth of naval acquisition, sustainment and supply chain workforces is expected to reach approximately 15 000.⁵

Strategic workforce plan

4.5 The government is finalising a strategic workforce plan in collaboration with key national and international stakeholders.⁶ The naval shipbuilding plan explained a strategic workforce plan would assist Defence and industry to work closely on

1 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2016, p. 63.

2 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2016, p. 63.

3 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2016, p. 26.

4 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2016, p. 33 & 37.

5 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2016, p. 68.

6 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2016, p. 63.

meeting projected demands in a collaborative way. It would do this by identifying growth targets and developing strategies to achieve required growth and skills development at the national level. The plan would still allow the selected companies to retain responsibility for their own commercial recruitment and workforce development decisions.⁷

4.6 At the 30 May 2017 Senate Foreign Affairs, Defence and Trade Legislation Committee estimates hearing, Mr Marc Ablong, then First Assistant Secretary, Naval Shipbuilding Taskforce, explained that the availability of inducements to fill any skill shortages associated with the naval shipbuilding plan will depend on the content of the completed strategic workforce plan.⁸ Mr Ablong stated that there will likely be some labour mobility from other parts of Australia to where the activities will be located—to South Australia and Western Australia as the major sources of naval construction activities, and New South Wales and Queensland where there are sustainment activities. Once supply and demand is determined, consideration will be given to whether there is a long-term need for people to relocate to another state and whether inducements are required.⁹

Workforce plan delay

4.7 The ANAO's performance audit reported that the workforce plan to determine industry workforce requirements was due to be finalised in December 2017, but was still not completed as at 15 February 2018.¹⁰

4.8 Defence informed the committee it was leading a whole-of-government approach to develop an integrated strategic workforce plan. The department is undertaking the work in coordination with Department of Jobs and Small Business, the Department of Industry, Innovation and Science and the Department of Education and Training.¹¹

4.9 In response to the committee's concerns about the plan's delay, Defence explained that the strategic workforce plan remained an ongoing piece of work. In particular, information for specific workforce requirements from the shipbuilding projects (submarine sustainment, OPVs, and future frigates) was not yet available. Mr Peter Chesworth, First Assistant Secretary Naval Shipbuilding Taskforce,

7 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2016, p. 64.

8 Mr Marc Ablong, then First Assistant Secretary, Naval Shipbuilding Taskforce, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget Estimates), 30 May 2017, p. 42.

9 Mr Marc Ablong, then First Assistant Secretary, Naval Shipbuilding Taskforce, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget Estimates), 30 May 2017, p. 42.

10 Australian National Audit Office, Audit Report No. 39 2017–18, *Naval Construction Programs—Mobilisation*, p. 10.

11 Mr Stephen Johnson, General Manager Submarines, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 44.

explained that it takes time for the department to work across government on such a large scale nation-building project to ensure an appropriate workforce is 'provided at the right time and at the right sequence of events'.¹²

4.10 Defence officials queried the ANAO's statement that the Plan was due at the end of 2017. Mr Stephen Johnson, General Manager Submarines, informed the committee he did not know the original estimate of a plan to be finalised in December. He noted that such a date did not take into consideration the timing of the contract release for the offshore patrol vessel and the future frigate programs, with the contract for the frigates yet to be finalised. Mr Johnson expected that a workforce plan is more likely to be finalised in 2019.¹³

4.11 The December 2017 timeframe may have arisen from evidence provided by Defence officials at the Foreign Affairs, Defence and Trade Legislation Committee's estimates hearing on 30 May 2017. For example, Mr Marc Ablong, then First Assistant Secretary Naval Shipbuilding Taskforce, stated:

'we expect [the strategic workforce plan] to be completed by the end of this year'.¹⁴

4.12 It was against this backdrop that Defence advised the committee it had not yet determined industry workforce requirements for the naval construction program. According to Defence, it was 'quite clear' why the ANAO reported in its performance audit report *Naval Construction Programs—Mobilisation* that Defence was 'currently developing a workforce plan to address labour and productivity requirements across the naval construction programs'. As Mr Johnson explained:

We are doing that with industry and we are doing it with Navy for the uniformed ADF side. We're doing it within the Australian Public Service, with Defence People Group. ...The reality is we are making steady progress in [the] implementation of the national shipbuilding program.¹⁵

Internal Defence workforce plan

4.13 The committee heard evidence from Defence that it was shaping the capability to support the shipbuilding enterprise through its internal integrated

12 Mr Peter Chesworth, First Assistant Secretary, Naval Shipbuilding Taskforce, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 38. Mr Peter Chesworth took over from Mr Marc Ablong following the Senate Foreign Affairs, Defence and Trade Legislation Committee's Additional Estimates hearings in February 2018.

13 Mr Stephen Johnson, General Manager Submarines, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 40.

14 Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget Estimates), 30 May 2017, pp. 36–37.

15 Mr Stephen Johnson, General Manager Submarines, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 44.

workforce plan for the ADF and APS workforce. The department has more broadly extended their focus and engagement with universities to recruit high performing STEM students. It will also provide for the first time a graduate pathway that is dedicated to naval construction.¹⁶

4.14 Ms Justine Grieg, Acting Deputy Secretary, Defence People, highlighted that of the current 312 graduates recruited in 2017 and still with Defence, approximately 60 per cent had a qualification in a STEM discipline and 40 per cent of them were women. To support these new recruits in a new shipbuilding program, Defence informed it has put 'equal effort into the scaffolding' by assigning and giving training to mentors. It was also necessary to provide career progression to retain graduates over the next five to ten years.¹⁷

4.15 Other recruitment efforts undertaken by Defence included fast-tracking recruitment of people for the APS workforce to create a pool of suitable candidates for managers and delegates to draw upon. The department has piloted a recruitment program within the shipbuilding space by offering candidates the opportunity to provide a resume and sit a cognitive and behavioural test. If candidates meet the benchmark they become part of a merit pool. The committee heard that the process was promising and the department had widened its pool of interested applicants.¹⁸

4.16 The ANAO's performance audit report stated that the assumptions of Defence's current workforce planning activities were not based on a cost-benefit analysis. In particular, the choice to maintain the shipbuilding workforce between the Hobart Class Destroyer and follow-on surface ship builds was not undertaken on the basis that it was the most cost-effective way of establishing the naval shipbuilding enterprise.¹⁹

Foreign workers

4.17 The use of foreign workers instead of Australian workers for Australian naval projects was of concern to the committee. With regards to foreign workers, the naval shipbuilding plan stated that it was expected that selected foreign shipbuilders would bring their own workers from abroad who would have the necessary experience with the companies' production techniques and processes. These roles, mostly at the middle

16 Ms Justine Grieg, Acting Deputy Secretary, Defence People, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 45.

17 Ms Justine Grieg, Acting Deputy Secretary, Defence People, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 45.

18 Ms Justine Grieg, Acting Deputy Secretary, Defence People, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 45.

19 Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, p. 10. See also, Mr Stephen Johnson, General Manager Submarines, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 41.

management and supervisory level, would be essential to the process of knowledge transfer to the Australian naval shipbuilding industry. As the Australian workforce develops its own specialised shipbuilding skills for vessel construction, this would be reflected in the expected decline in the number of foreign workers. The plan noted that this would be an important area of discussion with selected shipbuilders as projects develop.²⁰

4.18 This was confirmed by Defence at its estimates hearing in 2017, when Mr Kim Gillis, Deputy Secretary, Capability Acquisition and Sustainment Group (CASG), explained that foreign workers will be brought in for a short period by the successful tenderer to 'transfer knowledge to Australian supervisors and managers and then return home'.²¹

4.19 The Hon Christopher Pyne MP, Minister for Defence Industry, made a similar point about the central role of the local workforce at the launch of the naval shipbuilding plan. He stated that foreign workers will not be brought over to build these ships or submarines and then clarified that some French staff from Naval Group (formerly DCNS) will travel to Australia to assist in training the Australian workforce.²²

4.20 Mr Brent Clark, then interim Chief Executive Officer, Naval Group Australia (formerly DCNS Australia), explained that in parallel to this, Australian workers will travel to France to learn from Naval Group (formerly DCNS) designers. He added that they were also looking at people with program management, engineering, technical and administrative expertise in the setup of a company.²³ He advised the committee on 7 June 2018 that six engineers were currently in France with another 31 being recruited to France this year. The number will grow to about 100 Australian engineers in France over the next few years. Naval Group's workforce was expected to increase by the end of 2018 to about 155. By the end of 2019, Naval Group would be laying the foundations for the new submarine construction yard at Osborne in Adelaide's northern precinct.²⁴

4.21 Mr Clark stated that up to 60 people will be required to sustain the Australian Design Authority located within Naval Group for the submarines going forward.

20 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, p. 70.

21 Mr Kim Gillis, Deputy Secretary, Capability Acquisition and Sustainment Group (CASG), Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget Estimates), 30 May 2017, p. 28.

22 The Hon Malcolm Turnbull MP, Prime Minister, Senator the Hon Marise Payne, Minister for Defence, and The Hon Christopher Pyne MP, Minister for Defence Industry, *Doorstop transcript*, 16 May 2017, Adelaide.

23 Mr Brent Clark, then interim Chief Executive Officer, Naval Group Australia, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 5.

24 Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 9.

These workers would be transferred to France for up to three years to work with the French naval architects to learn the processes and skills that will then be brought back to Australia Design Authority and Naval Group Australia.²⁵

4.22 Mr Clark outlined the work Naval Group will be undertaking in the next several years ahead:

Over the next three years, the construction sheds, which will house the equipment to build the submarines, and the construction halls for the submarines will go up. The establishment of the infrastructure in this time frame will be required to ensure that construction of the submarines can begin from 2022–23. We envisage building up the Naval Group Australia workforce to around 1,500 employees by around 2028–29. Overall, the program is expected to generate an annual average of around 2,800 jobs in Australia.²⁶

4.23 The Department of Defence noted that the number of personnel engaged for the FSP will continue to grow as the design phase progresses and preparations for the build continue, while the number of jobs in France should not exceed 50 personnel. In contrast to the expected 50 jobs in France, the number of direct jobs in Australia will increase to approximately 1,100, with an increase of around 1700 jobs in the supply chain for the construction phase.²⁷

4.24 However, in its submission to the inquiry, Naval Group stated that as at June 2017, there were currently 130 Naval Group (France) employees working on the Australian FSP, up from 86 in January 2017.²⁸

Contractors

4.25 The committee heard that contractors are assisting in the start-up work associated with the FSP. As of 17 March 2017, 38 Australian personnel had been engaged by the Commonwealth, and 11 by Naval Group since signing the Design and Mobilisation Contract on 30 September 2016 with Naval Group.

4.26 On 14 June 2017, the ABC reported that six naval architects were being paid almost \$1 million each as private contractors by the Department of Defence to work on Australia's submarine program for the period 2017–19.²⁹

25 Mr Brent Clark, then interim Chief Executive Officer, Naval Group Australia, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 6.

26 Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 9.

27 Senate Foreign Affairs, Defence and Trade Legislation Committee (Additional Estimates 2016-17), *Answer to question on notice*, Question reference no. 22.

28 Naval Group Australia, *Answers to questions on notice*, 20 June 2017 hearing (received 13 July 2017).

4.27 On 15 June 2017, it was also reported that the Department of Defence will pay \$5.5 million for the services of eight contractors from the International Centre for Complex Project Management (ICCPM), hired as part of the FSP.³⁰

4.28 At the 20 June 2017 Canberra public hearing, Rear Adm. Sammut confirmed that personnel from ICCPM had been engaged 'to provide a number of services, including strategic advice, program management services, strategic industry advice, industry and supply chain management, and project services'.³¹ He noted that there were four contracts for six personnel engaged with the FSP for contracts totalling \$4.9 million.³²

4.29 The committee also pursued issues reported in the media relating to conflicts of interest and misconduct by contractors without Defence oversight.³³ Defence advised the committee that there is currently an inquiry underway in the Defence Science and Technology Group. The committee was informed such practice of allowing a contractor to contract out is very unusual and does not occur in the area of Defence that has primary oversight of the FSP, the Capability Acquisition and Sustainment Group.³⁴ Ms Rebecca Skinner, Acting Associate Secretary, reassured the committee that:

[I]n the meantime, in the research services area of Defence science, where that work was being led, we have ensured that the practice of having anybody other than an Australian public servant sign the contracting is the only way in which a contract would be approved.³⁵

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- 29 Andrew Greene, 'Million-dollar naval architects helping build Australia's future submarines', *Canberra Times*, 14 June 2017, <http://www.abc.net.au/news/2017-06-14/million-dollar-architects-helping-build-australias-submarines/8615440> (accessed 20 June 2018).
- 30 Noel Towell, 'A few good men: Defence pays \$5.5 million for 8 contractors', *Canberra Times*, 15 June 2017, <http://www.canberratimes.com.au/national/public-service/a-few-good-men-defence-pays-55-million-for-8-contractors-20170614-gwqqbr.html> (accessed 20 June 2018).
- 31 Rear Admiral Gregory Sammut, Head Future Submarine Program, Department of Defence, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 27.
- 32 Rear Admiral Gregory Sammut, Head Future Submarine Program, Department of Defence, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 27.
- 33 Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget Estimates), 29 May 2018, pp. 68–71. See also Doug Dingwall and Sally Whyte, 'Submarine build hit with conflict of interest, hidden labour hire claims', *Sydney Morning Herald*, 3 May 2018, <https://www.smh.com.au/politics/federal/submarines-build-hit-with-conflict-of-interest-hidden-labour-hire-claims-20180424-p4zbeu.html> (accessed 3 May 2018).
- 34 Rear Admiral Gregory Sammut, Head Future Submarine Program, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget Estimates), 29 May 2018, p. 70.
- 35 Ms Rebecca Skinner, Acting Associate Secretary, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget Estimates), 29 May 2018, p. 71.

Industry demographics and skills

Current demographics

4.30 At the 30 May 2017 Senate Foreign Affairs, Defence and Trade Legislation Committee Estimates hearing, Mr Marc Ablong explained that the age profile of industry workers had changed over the last decade as a result of redundancies and retirement, and the average age profile of a worker in the naval shipbuilding industry is now mid-30s.³⁶ He noted that there were many more opportunities for people at the start of their careers, rather than later.³⁷

4.31 Defence's new graduate recruitment program to support the naval shipbuilding programs will also have an effect on the demographic profile of the naval shipbuilding industry's future workforce.³⁸

Industry skills

4.32 The Austrade Industry Capability report for the shipbuilding industry provides an overview of the existing skill sets in the industry. The report described the industry's 'rich base of naval and marine architects with skills and proven track records in designing and overseeing construction of high-performance vessels'. Other occupations include in-house designers and engineering personnel, and freelance naval architects who service the domestic and international markets.³⁹

4.33 At the Adelaide public hearing, Ms Forster explained that the industry currently has difficulties recruiting for existing jobs both in prime companies and SMEs. Even before the commencement of the three major naval shipbuilding projects (future submarines, future frigates and offshore patrol vessels), stakeholders within the Defence Teaming Centre⁴⁰ and defence industry had 'consistently' reported difficulties in filling existing positions with adequately skilled and experienced people.⁴¹

36 Mr Marc Ablong, then First Assistant Secretary, Naval Shipbuilding Taskforce, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget Estimates), 30 May 2017, pp. 42–43.

37 Mr Marc Ablong, then First Assistant Secretary, Naval Shipbuilding Taskforce, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget Estimates), 30 May 2017, pp. 42–43.

38 Ms Justine Grieg, Acting Deputy Secretary, Defence People, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, pp. 44–45.

39 Austrade, *Commercial Shipbuilding and Services – Industry Capability Report*, December 2016, p. 22.

40 The Defence Teaming Centre is a member based organisation that represents some 250 member companies across the country, including Prime Defence Contracts, SMEs and Professional Service providers who are involved in supplying Defence capability and/or Defence support services. Document tabled by Defence Teaming Centre at the Economics References Committee's hearing into naval shipbuilding on 4 April 2017.

41 Air Commodore Margot-Lee Forster (Retired), CSM, Chief Executive Officer, Defence Teaming Centre Inc., Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 4 April 2017, p. 39.

4.34 The committee heard that future planning for the industry must consider future workforce requirements. Ms Forster warned that without strategic intervention, a skills shortage within the naval shipbuilding workforce represents the greatest risk to successfully delivering the required capability to the Australian Defence Force. Ms Forster observed that the core competencies, knowledge and skills from the Air Warfare Destroyer (AWD, Hobart Class Destroyer) and other naval projects are not found within the primes and shipyards alone. Although SMEs are a critical component of the steady supply chain needed to improve a continuous build program, they are unlikely to have the capacity to compete with the major players (the primes, the Australian Defence Force, overseas programs and other sectors) to recruit sufficient numbers of skilled workers to deliver the key components of these major programs.⁴²

4.35 Ms Forster advised that to successfully deliver a skilled workforce to support the naval shipbuilding enterprise:

...any future workforce strategy must take into account consideration of the workforce requirements of the Australian small- and medium-sized businesses that we wish to become part of our supply chain.⁴³

4.36 The lack of experienced shipbuilding skills was also an issue raised by the Naval Group's CEO, Mr Herve Guillou. According to some media reports, Mr Guillou stated that the company was facing challenges in building a suitably experienced local workforce to assist with the submarine build. He noted that while it was not difficult to find people with the right qualifications, it was more difficult to recruit people with the required shipbuilding experience at the management level.⁴⁴

4.37 This was supported by evidence presented at the recent estimates hearing on 29 May 2018. Mr Johnson, General Manager Submarines, reported that while the shipbuilding firms that Defence worked with were confident the supply of blue-collar workers across Australia would be sufficient, they were more concerned about the ability to attract, train and retain a pool of very experienced professionals, particularly those with experience in shipbuilding, such as engineers, naval architects, program managers and schedulers.⁴⁵

42 Air Commodore Margot-Lee Forster (Retired), CSM, Chief Executive Officer, Defence Teaming Centre Inc., Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 4 April 2017, p. 39.

43 Air Commodore Margot-Lee Forster (Retired), CSM, Chief Executive Officer, Defence Teaming Centre Inc., Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 4 April 2017, p. 39.

44 David Wroe, '\$50 submarine project struggling to find qualified Australians: French shipbuilder', *Sydney Morning Herald*, 6 October 2017, <https://www.smh.com.au/politics/federal/50b-submarine-project-struggling-to-find-qualified-australians-french-shipbuilder-20171006-gyvxut.html> (accessed 30 April 2018).

45 Mr Stephen Johnson, General Manager Submarines, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 43.

4.38 Defence advised that its defence industry forum, which was set up two years ago, allows it to engage with a broad range of defence businesses 'to forecast the industry side of the workforce demand'.⁴⁶ A key initiative arising from that forum was the pilot of a job placement to retain experienced people within naval construction. The pilot involved eight organisations, including people from various parts of Defence and TAFE South Australia.⁴⁷

4.39 The Department of Defence's current ongoing work on an integrated strategic workforce plan from a whole-of-government approach is directed to addressing these concerns about skills shortages.

Training and support for staff

4.40 The committee heard that it takes significant financial investment and often a number of years to train someone to work in the industry.

4.41 At the Perth public hearing, Mr Tanner explained some of the challenges for employees coming across from other industries. As shipbuilding is a standalone industry, even people with standard trade skills such as boilermaking or welding in a fabrication capacity have to learn new skills when moving across to naval shipbuilding work. This means there will be initial difficulties upskilling these people to a level where full productivity can be achieved and the workforce is effective.⁴⁸

4.42 At the 30 May 2017 Senate Foreign Affairs, Defence and Trade Legislation Committee Estimates hearing, Mr Ablong was positive about the opportunities for people in the oil and gas, mining and automotive sectors transitioning to naval shipbuilding industry. He stated that with 'an appropriate level of retraining', they would be able to undertake specialised work in naval shipbuilding.⁴⁹

4.43 At the 28 February 2017 Senate Finance and Public Administration Legislation Committee Estimates hearing, Mr Lamarre, then Chief Executive Officer, ASC Shipbuilding, stated that since ASC commenced operation in 2010, the company has trained both employees new to the profession, and employees from existing workforces with transferable skills. Mr Lamarre remarked:

46 Mr Stephen Johnson, General Manager Submarines, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 44.

47 Mr Stephen Johnson, General Manager Submarines, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 44. For example, Defence has supported 800 scholarships in an effort to maintain the skilled workforce leading up to the build of the first two patrol vessels in South Australia.

48 Mr Ian Tanner, Private Capacity, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 3 April 2017, p. 16.

49 Mr Marc Ablong, then First Assistant Secretary, Naval Shipbuilding Taskforce, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget Estimates), 30 May 2017, p. 40.

... we have trained lots and lots of employees. Some of them came with experience. In the case of electricians, for example, all of the electricians we hired were licenced, so then we brought them on a journey of understanding the specific technical requirements of building a surface combatant. In other cases, we have folks who were boilermakers and welders and came from other trades. As is well known, in South Australia we have had other reductions in workforces, so we brought folks over. If we are starting from scratch, of course that takes years...⁵⁰

4.44 Mr Lamarre added that it was perfectly reasonable for training for one person to cost tens of thousands of dollars.⁵¹

4.45 At the Perth public hearing, Mr Ian Tanner, an advanced rigger with BAE Australia who appeared in a private capacity, explained that an experienced boilermaker will generally pick up the extra requirements associated with naval shipbuilding within the first six to 12 months, and an experienced plumber would take a similar amount of time. However, a person who had just finished his or her apprenticeship would take longer.⁵²

Training available

Maritime Technical College, Adelaide (Naval Shipbuilding College)

4.46 The government intends to deliver training to new employees through the Naval Shipbuilding College based in Adelaide, South Australia. At the 30 May 2017 Senate Foreign Affairs, Defence and Trade Legislation Committee Estimates hearing, Ms Rebecca Skinner, Deputy Secretary, Strategic Policy and Intelligence, advised that over a series of phases the college will be provided with 'the infrastructure, the framework and the coordination across all facets of ship skilling, from very early trades through to high level qualifications'. The college will engage nationally with stakeholders (particularly with the current centre in Tasmania) to develop a workforce that can support the naval shipbuilding program.⁵³

4.47 The Naval Shipbuilding College is located in the former maritime skills centre in the Osborne precinct and is currently undergoing refurbishment. The building was

50 Mr Jim Cuthill took over from Mr Mark Lamarre in December 2017. Mr Mark Lamarre, then Chief Executive Officer, ASC Shipbuilding, Senate Finance and Public Administration Legislation Committee, *Committee Hansard* (Additional Estimates), 28 February 2017, p. 12 & 13.

51 Mr Mark Lamarre, then Chief Executive Officer, ASC Shipbuilding, Senate Finance and Public Administration Legislation Committee, *Committee Hansard* (Additional Estimates), 28 February 2017, p. 13.

52 Mr Ian Tenner, Private capacity, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 3 April 2017, pp. 18–19.

53 Ms Rebecca Skinner, Deputy Secretary, Strategic Policy and Intelligence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Additional Estimates), 30 March 2017, pp. 37–38.

entered into under lease from the Australian Naval Infrastructure.⁵⁴ It will be the headquarters for the Shipbuilding College and will work with education and training providers across the Australia. The majority of the training will delivered by existing educational providers.⁵⁵

4.48 Prime contractors will play an important role in the functioning of the college. Mr Ablong stated that the role of the prime contractors (future submarine, future frigate and offshore patrol vessel programs) will be critical as they will be responsible for hire of their workforce. Defence will assist by working closely with them to identify the relevant skills needed for their companies, ensuring that there will be a sufficiently large pool of capability from which to recruit.⁵⁶

4.49 The announcement of the college was broadly well received. At the 24 May 2017 Senate Finance and Public Administration Legislation Committee Estimates hearing, Mr Lamarre, ASC, welcomed the announcement and noted that the college was located in 'a very advantageous place as it relates to shipbuilding and tech work'.⁵⁷ Similarly, at the 20 June 2017 Canberra public hearing, Mr Clark noted that the college's establishment in Adelaide will also assist Naval Group to recruit 'talented workers to take on the program'.⁵⁸

4.50 The cost of the Naval Shipbuilding College has increased significantly since it was first announced, from \$25 million to \$62 million. Mr Peter Chesworth, First Assistant Secretary, Naval Shipbuilding Taskforce, explained that the original figure was an initial estimate based on information available at the time following the tender process. Further information from the tenderers allowed Defence to 'enhance and further detail the scope of the Naval Shipbuilding College' and the expected cost increased to \$62 million. The increased cost will be sourced from within the total spread for the shipbuilding enterprise.⁵⁹

54 Mr Dan Fankhauser, Assistant Secretary, Naval Shipbuilding Taskforce, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 40.

55 Mr Dan Fankhauser, Assistant Secretary, Naval Shipbuilding Taskforce, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 40.

56 Mr Marc Ablong, then First Assistant Secretary, Naval Shipbuilding Taskforce, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 30 May 2017, p. 39.

57 Mr Mark Lamarre, then Chief Executive Officer, Australian Submarine Corporation Shipbuilding, Senate Finance and Public Administration Legislation Committee, *Committee Hansard* (Budget Estimates), 24 May 2017, p. 15.

58 Mr Brent Clark, then interim Chief Executive Officer, Naval Group Australia, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 1.

59 Mr Greg Moriarty, Secretary, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 38.

4.51 The government advised that the Naval Shipbuilding College would commence operations on 1 January 2018.⁶⁰ However, there have been significant delays in getting the college operational, in part because of delays associated with awarding the contract to establish and manage the college. The college is in its first phase of establishment and will not deliver outcomes until August 2018 when enrolment starts. A contract was signed in late March 2018 with Huntington Ingalls Industries and Kellogg Brown & Root (in a joint venture) to establish and manage the college.⁶¹

4.52 Under the first phase of the college, Defence advised that 'the plan is to engage with industry, develop a communications strategy and a career awareness program, develop the register of interest and focus on key entry qualifications, particularly trade'.⁶²

4.53 Further, as part of the department's de-risking strategy, the college would be assuming work traditionally undertaken by each of the tenderers—working with all prime contractors across the shipbuilding enterprise to understand their workforce needs and working with educational and vocational providers to understand what courses are being offered to meet those needs.⁶³

4.54 The enrolment profile was not available to the committee as at 29 May 2018, with the department offering to provide the information on notice. At the 30 May 2017 Senate Foreign Affairs, Defence and Trade Legislation Committee Estimates hearing, Mr Ablong stated that the initial focus of the college will be on vocational trades such as welding, structural work, carpentry and electro-technical work. The second phase of the college will focus on higher education—naval

60 The Hon Christopher Pyne MP, Minister for Defence Industry, 'Naval Shipbuilding College request for proposal', *Media release*, 26 May 2017, <https://www.minister.defence.gov.au/minister/christopher-pyne/media-releases/naval-shipbuilding-college-request-proposal> (accessed 4 June 2018).

61 Mr Peter Chesworth, First Assistant Secretary, Naval Shipbuilding Taskforce, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 39. See also the Hon Christopher Pyne MP, Minister for Defence Industry, 'Joint media release – Minister for Defence Industry, Minister for Education and Training, Assistant Minister for Vocational Education and Skills – Naval shipbuilding college to meet naval shipbuilding needs', *Media release*, 3 April 2018, <https://www.minister.defence.gov.au/minister/christopher-pyne/media-releases/joint-media-release-minister-defence-industry-minister> (accessed 9 April 2018).

62 Mr Dan Fankhauser, Assistant Secretary, Naval Shipbuilding Taskforce, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 40.

63 Mr Dan Fankhauser, Assistant Secretary, Naval Shipbuilding Taskforce, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 40.

architecture, naval engineering and professional skills in project planning and logistics and supply arrangements.⁶⁴

4.55 Mr Moriarty advised at the Foreign Affairs Defence and Trade Legislation Committee's estimates hearing in May 2018 that the college will be rolled out progressively. Defence will work closely with industry and education institutions to identify the skills gaps and to develop the skills that industry will be seeking at particular times. He added the department is hoping that industry's projected requirement for workers over the next decade will be shaped by the Naval Shipbuilding College.⁶⁵

Australian Maritime College, Launceston, Tasmania

4.56 The Australian Maritime College (AMC) was created by the Commonwealth *Maritime College Act 1978*. In January 2008, the AMC was formally established as an institute of the University of Tasmania in accordance with the Commonwealth's Maritime Legislation Amendment Act 2007, following the repeal of the *Maritime College Act 1978*.⁶⁶

4.57 The college offers vocational certificates, bachelor degrees and diplomas, and postgraduate certificates and degrees.⁶⁷ Course subjects include Maritime Engineering and Hydrodynamics, Maritime Business and International Logistics, Ocean Seafaring and Coastal Seafaring.⁶⁸

4.58 Following the announcement of the naval shipbuilding college in Adelaide, the ABC reported that the head of the Australian Maritime College in Tasmania, Professor Neil Bose, had expressed concerns at the announcement that the Maritime Technical College was to be based in Adelaide:

We are caught in the crossfire...clearly this is political, it's about jobs in South Australia where there's a lot of people out of work and industries have collapsed so it's about retraining those people for this promised new defence industry.

...

64 Mr Marc Ablong, then First Assistant Secretary, Naval Shipbuilding Taskforce, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget Estimates), 30 May 2017, p. 39.

65 Mr Greg Moriarty, Secretary, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 39.

66 University of Tasmania, Australian Maritime College, 'Governance', *AMC.edu.au*, <http://www.amc.edu.au/about-amc/governance> (accessed 20 June 2018).

67 University of Tasmania, Australian Maritime College, 'About the Australian Maritime College', *AMC.edu.au*, <http://www.amc.edu.au/about-amc> (accessed 20 June 2018).

68 University of Tasmania, Australian Maritime College, 'Study', *AMC.edu.au*, <http://www.amc.edu.au/study> (accessed 20 June 2018).

We'd like to play a lead role in it even to the point of, in effect offering to, or putting in a tender to do the operations in this and tying the AMC and this new maritime technical college as closely as possible.⁶⁹

4.59 Both the Minister for Defence and representatives from the Department of Defence sought to ameliorate any potential concerns about the naval shipbuilding college competing with the existing Maritime College in Tasmania. In a 2017 media release, Minister Pyne stated that the Naval Shipbuilding College will work, rather than compete, with existing education institutions across Australia.⁷⁰

4.60 At the 30 May 2017 estimates hearing, Ms Rebecca Skinner, Deputy Secretary, Strategic Policy and Intelligence, noted that the naval shipbuilding college would be engaging with the existing Australian Maritime Centre in Tasmania during the implementation of the government's workforce plans to support the naval shipbuilding plan.⁷¹

ARC Research Training Centre for Naval Design and Manufacturing (RTCNDM)

4.61 The Research Training Centre for Naval Design and Manufacturing (RTCNDM) is a collaboration between the University of Tasmania, the University of Wollongong and Flinders University, alongside industry partners ASC Pty Ltd, Babcock Pty Ltd, Defence Science and Technology Group, Defence Materials Technology Centre, Thales Australia Ltd, PMB Defence Engineering Pty Ltd, Serco Defence and Austal.⁷²

4.62 The centre provides support to postdoctoral and postgraduate candidates to undertake a combination of research and professional training in an industrial environment. The centre currently supports 13 researchers who are focused on developing advanced techniques to efficiently design, construct and sustain naval platforms.⁷³

4.63 Upon the release of the naval shipbuilding plan, Associate Professor Jonathan Binns, Director, RTCNDM, stated that 'more than half of the man hours that go into the production of a ship are needed to design the ship and facilitate the

69 Carla Howarth, 'Australian Maritime College boss shocked by plan for Adelaide facility', *ABC News*, 28 March 2017, <http://www.abc.net.au/news/2017-03-28/australian-maritime-college-boss-shocked-plan-adelaide-facility/8393642>, (accessed 20 June 2018).

70 The Hon Christopher Pyne MP, Minister for Defence Industry, 'Naval Shipbuilding College Request for Proposal', *Media release*, 26 May 2017.

71 Ms Rebecca Skinner, Deputy Secretary, Strategic Policy and Intelligence, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget Estimates), 30 May 2017, p. 38.

72 University of Tasmania, Australian Maritime College, 'Research and education vital for the naval shipbuilding plan', http://www.amc.edu.au/about-amc/news-and-events/news-items/research-and-education-vital-for-the-naval-shipbuilding-plan/_nocache (accessed 20 June 2018).

73 University of Tasmania, Australian Maritime College, 'Research training centre for naval design and manufacturing', <http://www.amc.edu.au/research/rtcndm> (accessed 20 June 2018).

production'. He emphasised the importance of more professional naval architects to the Naval Shipbuilding Plan and noted the benefits of a life-long career for graduate naval architects.⁷⁴

Naval Shipbuilding Industry Reference Committee

4.64 On 19 April 2018 the Australian Industry and Skills Committee (AISC) established a Naval Shipbuilding Industry Reference Committee (IRC).⁷⁵ As discussed in Chapter 2, the establishment of this new committee adds unnecessary complexity and appears to duplicate the work of separate IRCs already working on occupational standards for shipbuilding in the vocational education and training sector. The committee heard no evidence to suggest that existing IRCs are failing to meet the specific needs of naval shipbuilding.

Future of the ASC workforce

Number of ASC employees

4.65 ASC workforce numbers were the subject of discussion at a number of Senate Estimates hearings in 2017 and 2018. At the 20 June 2017 hearing for the inquiry, Rear Adm. Sammut provided ASC staffing numbers involved in the sustainment of the Collins Class submarines:

There are 900 in ASC in Adelaide and we have about 350 in Western Australia, all engaged in the sustainment of the Collins class submarine. We do what is called full-cycle dockings in Adelaide on the Collins class and we do all of our other dockings and maintenance in Western Australia, where the submarines are based.⁷⁶

4.66 Mr Lamarre also confirmed that redundancies will be sorted from across the ASC including the front-end of the business, procurement, engineering, planning, management, trades and subcontractors.⁷⁷ Redundancies were necessary, Mr Lamarre explained, because

...the only work that we have under contract is the AWD program for shipbuilding, and so we will be on a steady decline certainly through 2017

74 University of Tasmania, Australian Maritime College, 'Research and education vital for the naval shipbuilding plan', <http://www.amc.edu.au/about-amc/news-and-events/news-items/research-and-education-vital-for-the-naval-shipbuilding-plan/> nocache (accessed 20 June 2018).

75 Australian Industry and Skills Committee, Naval Shipbuilding Industry Reference Committee, <https://www.aisc.net.au/irc/shipbuilding-industry-reference-committee> (accessed 22 June 2018).

76 Rear Admiral Gregory Sammut, Head, Future Submarine Program, Department of Defence, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 19.

77 Mr Mark Lamarre, then Chief Executive Officer, Australian Submarine Corporation Shipbuilding, Senate Finance and Public Administration Legislation Committee, *Committee Hansard* (Budget Estimates), 24 May 2017, p. 18.

and then until we can secure more work with the offshore patrol vessel contract.⁷⁸

4.67 At the estimates hearing in February 2017, Mr Lamarre explained the ASC's redundancy process and the skills that are sought for retention, noting the retention of apprentices and people with particular technical skills would be among their top priorities.⁷⁹

4.68 At the Finance and Public Administration Legislation Committee's estimates hearing on 23 May 2018, Mr Jim Cuthill, Acting Executive Officer, ASC Shipbuilding, reported that on 5 May 2018, there were a total of 1,279 employees, of whom 1,008 were permanent and 271 were contractors. During the same reporting period, there were also 11 apprentices.⁸⁰

4.69 On 11 December 2017 the Minister for Defence Industry, the Hon Christopher Pyne and the Minister for Finance, Senator the Hon Mathias Cormann issued a joint press release on the employment at the Osbourne Shipyards. The Ministers noted the need to develop the size and skill of the naval shipbuilding workforce:

[The] government has agreed to a targeted retention strategy to create up to 200 positions within ASC Submarines for current shipbuilders working on the Air Warfare Destroyer program.

...

We are stabilising the shipbuilding workforce.

4.70 However, the evidence indicates that the shipbuilding workforce is far from stabilised. The ASC identified 223 positions as 'at risk' following the AWD program's completion in May 2018, Mr Cuthill explained that ASC were currently investigating redeployment opportunities before pursuing voluntary and compulsory redundancies. At the 7 June 2018 hearing, Mr Cuthill reported that they were able to reduce the number of at risk employees by redeploying 137 people, including 63 temporary transfers, to the submarines business to work on the HMAS Waller full-cycle

78 Mr Mark Lamarre, then Chief Executive Officer, ASC Shipbuilding, Senate Finance and Public Administration Legislation Committee, *Committee Hansard* (Additional Estimates), 28 February 2017, p. 6.

79 Mr Mark Lamarre, then Chief Executive Officer, ASC Shipbuilding, Finance and Public Administration Legislation Committee, *Committee Hansard* (Additional Estimates), 28 February 2017, pp. 6 & 7.

80 Mr Jim Cuthill, Acting Chief Executive Officer, ASC Shipbuilding, Senate Finance and Public Administration Legislation Committee, *Committee Hansard* (Budget Estimates), 23 May 2018, p. 4. See also Mr Stuart Whiley, CEO and Managing Director, ASC, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry, 7 June 2018, p. 36. For earlier estimates of staff, see Senate Finance and Public Administration Legislation Committee, *Committee Hansard* (Budget Estimates), 24 May 2017, p. 11.

docking.⁸¹ These temporary transfers, made up of salaried and non-salaried staff, will be for a period of nine to 12 months.⁸² The remaining 44 people from the 223 initially identified will therefore be required to leave the business through compulsory redundancies if redeployment opportunities cannot be found. Thirty-two people have already left through voluntary and involuntary redundancies, including 21 non-salaried (blue-collar) staff and 11 salaried (white-collar) staff.⁸³

4.71 The committee notes that this departure of specialist shipbuilders from the ASC is a significant loss to the industry, and a sad and unnecessary outcome for South Australian workers.

Announcement of \$29.4 million in the 2017-18 MYEFO

4.72 In December 2017, the Government announced in MYEFO expenditure of \$29.4 million over three years from 2017–18 to support the retention and development of critical shipbuilding skills in the ASC workforce in support of the shipbuilding programs.⁸⁴ The funds will help support the transition of 200 jobs from shipbuilding to submarines and include 100 scholarships.⁸⁵ The transition program is based on the needs requirements of submarines versus the roll-off in the AWD program, which will occur in the next 18 or 19 months.⁸⁶

4.73 On 7 June 2018, Mr Stuart Whiley, Chief Executive Office and Managing Director, ASC, provided the committee with an update of the initiative's progress:

This financial year, 21 people have been transferred from our shipbuilding business to the submarines business, ASC North. In addition, more than 60 have temporarily transferred to full-cycle docking, thereby reducing the number of people required to leave the shipbuilding business as part of the

81 Mr Jim Cuthill, Acting Chief Executive Officer, ASC Shipbuilding, ASC Pty Ltd, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 37.

82 At the Finance and Public Administration Legislation Committee's budget estimates hearing the ASC identified 60 shipbuilding workers (five salaried staff and 55 non-salaried) for secondment to the submarines business. Mr Jim Cuthill, Acting Chief Executive Officer, ASC Shipbuilding, Senate Finance and Public Administration Legislation Committee, *Committee Hansard* (Budget Estimates), 23 May 2018, p. 4.

83 Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, pp. 37–39.

84 Senator Cormann, Minister for Finance, Special Minister of State, Senate Finance and Public Administration Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 23 May 2018, p. 6.

85 Mr Stuart Whiley, Chief Executive Officer and Managing Director, ASC Pty Ltd, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, pp. 36–37. See also Senate Finance and Public Administration Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 23 May 2018, p. 7.

86 Mr Stuart Whiley, Chief Executive Officer and Managing Director, ASC Pty Ltd, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 39.

latest round of redundancies. The remaining transfers will be implemented in a phased and controlled manner that takes into account the skills requirement of ASC submarine business versus the roll-off of the AWD program. ASC and the department are in the final stage of working out logistics and contractual requirements of the scholarship program, and we anticipate that commencement of applications for scholarships will be sought in the coming weeks, with the intention of starting in early 2019.⁸⁷

4.74 The committee also heard from ASC that it has not yet been able to access the funds, despite the announcement regarding the additional money in December 2017. ASC indicated that it anticipated that access to the money would be made available shortly. Once the funds were released, recruitment could commence.⁸⁸

4.75 The committee finds it difficult to understand why the additional appropriation for scholarships, valued up to \$29.4 million dollars, was not made available to prevent the recent loss of ASC jobs. The first build of the offshore patrol vessel is imminent and the future frigate and submarine programs will soon follow. In this environment, retaining the shipbuilding workforce in readiness for a rapid shipbuilding workforce expansion should be a priority.

ASC separation into three separate entities

4.76 The committee was surprised to learn at the 7 June 2018 hearing that the ASC's structural separation into three separate companies had not been finalised.⁸⁹ The committee was advised that phase 2 of the separation, which splits the shipbuilding and submarine business into separate entities, is on hold until the outcome of the Future Frigate decision.⁹⁰ This advice from the ASC contradicted the information published on the Department of Finance's webpage, which reported the ASC would separate into its three component elements by 2017.⁹¹

4.77 Officials from the Department of Finance explained that the first stage of the separation which established the Australian Naval Infrastructure was completed in March 2017. The managerial separation has also taken place and the final stage of the separation will be the formal split of the shipbuilding and the submarine sustainment

87 Mr Stuart Whiley, Chief Executive Officer and Managing Director, ASC Pty Ltd, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, pp. 36–37.

88 Mr Stuart Whiley, Chief Executive Officer and Managing Director, ASC Pty Ltd, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, pp. 38–39.

89 Mr Stuart Whiley, Chief Executive Officer and Managing Director, ASC Pty Ltd, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, pp. 42–43.

90 Mr Stuart Whiley, Chief Executive Officer and Managing Director, ASC Pty Ltd, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 43.

91 Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, pp. 42 and 70.

businesses. Mr Andrew Jagers, Acting Deputy Secretary, Commercial and Government Service, informed the committee that the final stage will depend on the outcome of currently pending procurement processes. Mr Jagers advised the committee that ASC understood the government's 'timing considerations' and was 'fully abreast of the issue'.⁹²

4.78 The committee is concerned that the government's approach risks devaluing the ASC. The committee is especially concerned that the ASC does not have any further projects lined up after the OPVs. The ASC is a significant Commonwealth asset and the government should be taking action to ensure that shareholders – the Australian tax payers – benefit.

ASC involvement in the future submarine program

4.79 On 7 June 2018, Naval Group informed the committee it has a formal agreement in place with the ASC to work collaboratively for 'the betterment of the sovereign submarine capability within Australia'.⁹³ Mr Whiley acknowledged that the ASC has a framework agreement to collaborate with Naval Group, however this was not a formal partnership of the kind referred to by Mr Clark.⁹⁴

4.80 ASC advised that its core business is supporting the Collins submarines. Although the ASC can add benefit to the Naval Group's build environment, ASC resources are 'fully tied up' supporting the Collins' capability.⁹⁵ Regarding the ASC's submarine workforce, Mr Whiley stated that:

We need Collins available for the nation, in the 2030s and the 2040s. The expertise to support that platform is unique in my company—absolutely unique. It doesn't exist anywhere else in the world. And I can't afford to let that go. So, I need those people focusing on that job. They understand that job, and they understand the importance to the nation in doing that job.⁹⁶

4.81 Mr Whiley informed the committee that while he was 'really keen' to get a role in the FSP, in order to pursue these future opportunities the ASC needed to focus

92 Mr Andrew Jagers, Acting Deputy Secretary, Commercial and Government Services, Department of Finance, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 70.

93 Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 16.

94 Mr Whiley noted this framework agreement was not a partnership arrangement. Mr Stuart Whiley, Chief Executive Officer and Managing Director, ASC Pty Ltd, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 40.

95 Mr Stuart Whiley, Chief Executive Officer and Managing Director, ASC Pty Ltd, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, pp. 45–46.

96 Mr Stuart Whiley, Chief Executive Officer and Managing Director, ASC Pty Ltd, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 45.

on the Collins sustainment work and staff retention. It had not been determined whether the ASC's involvement in the FSP would be in a joint venture or in a subcontract.⁹⁷

4.82 Prior to the committee's Canberra hearing on 7 June 2018, the evidence presented to the committee regarding ASC's role was conflicting. There was some confusion as to whether the ASC would have any substantive involvement in the submarine program, with some confirming involvement and ASC advising it was not aware of any involvement. Some examples follow.

4.83 The committee heard at its 20 June 2017 Canberra public hearing that the ASC would not be subcontracted or involved in the FSP, as Naval Group would be both the designer and builder of the submarines.⁹⁸ In response to a question about the role of the ASC in the project, Mr Clark, Naval Group, told the committee:

Very little at this stage. As you would be aware, the government split ASC into three companies: ASC shipbuilding, ASC Collins sustainment, and the Australian national infrastructure company. We are working with ASC, and they are assisting us with looking at facilities requirements and upgrades. We are working with ASC with respect to a controlled measure of transfer of personnel from one entity to the next. ASC has obviously done a fair amount of work in terms of the ramp-down process for their workforce. We are obviously doing a lot of work with the ramp-up process, and we are working together with the two companies.⁹⁹

4.84 Rear Adm. Sammut from the Department of Defence explained that from the beginning of the Competitive Evaluation Process, there was always an expectation that the successful design tenderer would also lead the build of the submarines.¹⁰⁰

4.85 The results of this process, however, did not preclude the ASC from being involved in the submarine program. Rear Adm. Sammut explained that the ASC workforce will be integral to enabling the success of the FSP:

We always understood that there would be involvement from ASC in making sure that the submarine workforce in Australia continued to be

97 Mr Stuart Whiley, Chief Executive Officer and Managing Director, ASC Pty Ltd, Senate Economics References Committee, Proof *Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 45.

98 Mr Brent Clark, then interim Chief Executive Officer, Naval Group Australia, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 4.

99 Mr Brent Clark, then interim Chief Executive Officer, Naval Group Australia, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 4.

100 Rear Admiral Gregory Sammut, Head Future Submarine Program, Department of Defence, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 17.

nurtured and would be available to support the build of the Future Submarine and ongoing sustainment of the Collins class.¹⁰¹

4.86 As part of the October 2016 announcement regarding the restructure of the ASC, the government confirmed that the ASC would be responsible for finalising the air warfare destroyer project and sustainment of the existing Collins Class submarines. The announcement on 11 October 2016 about the structural separation of the ASC into three different companies did not mention what role the ASC may or may not play in the FSP.¹⁰²

4.87 In response to a suggestion by the committee that the decision that ASC would not be involved in the FSP was not publically known, Mr Ablong suggested that it may have been a statement by omission in the 11 October 2016 announcement.¹⁰³ Despite this, Rear Adm. Sammut stressed the important role the ASC will perform in supporting the FSP:

...making sure that the workforce [is] managed, including the transition of work, that would manage both Collins sustainment and the Future Submarine. There is a need to make sure that we look at supply chains that ASC currently use. We need ASC's input into infrastructure requirements to make sure that the build of the Future Submarine yard can be managed alongside the sustainment of the Collins and so forth...¹⁰⁴

4.88 Mr Gillis assured the committee that the ASC will perform a vital role in supporting the submarine capability over the next few decades, with the ASC sustainment activities of the existing Collins Class submarines expected to extend into the 2030s.¹⁰⁵ Mr Gillis further stated that:

...ASC will have an enduring, long-term support of our Australian submarine capability. And one of the things that is most important to our

101 Rear Admiral Gregory Sammut, Head Future Submarine Program, Department of Defence, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 16.

102 Mr Marc Ablong, then First Assistant Secretary, Naval Shipbuilding Taskforce, Department of Defence, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 20.

103 Mr Marc Ablong, then First Assistant Secretary, Naval Shipbuilding Taskforce, Department of Defence, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 21.

104 Rear Admiral Gregory Sammut, Head Future Submarine Program, Department of Defence, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 27.

105 Mr Kim Gillis, Deputy Secretary, CASG, Department of Defence; and Rear Admiral Gregory Sammut, Head Future Submarine Program, Department of Defence, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 19.

Australian submarine capability is the sustainment and the life extension of the Collins-class submarine.¹⁰⁶

4.89 This was in contrast to the ASC's response to questions on notice, on 4 August 2017, where it stated:

ASC is not aware that it will not have any substantive involvement in the future submarine program. ASC continues to have a role in the Future Submarine Program and currently has 24 ASC expert staff seconded to the Commonwealth's SEA1000 Project Office and one employee seconded to Naval Group Australia. Further secondments and/or other contractual arrangements are anticipated.¹⁰⁷

4.90 The committee is concerned that the ASC does not have any ships on the books after the OPV. Further, it is not clear what involvement, if any, the ASC will have in the future submarines and it is clear from the RFT documents that the government intended to exclude the company from any involvement in the frigates project. The committee notes that the AWD project is winding down and the government is considering moving Collins heavy sustainment to Western Australia.

ASC involvement in the offshore patrol vessel program

4.91 On 31 January 2018, the Minister for Defence reported the prime contractor Luerssen, which will be responsible for the offshore patrol vessels' build, will subcontract the ASC to build the first two ships at the Osborne Naval Shipyard in South Australia. The remaining ten vessels will be built by Luerssen in partnership with Cimtec, following Luerssen and Austal's failure to reach a commercially viable agreement to work together. The circumstances relating to Austal's involvement, including the weak negotiating position Austal was placed in by the government, is discussed in Chapter 2.

4.92 Mr Gillis clarified that after the decision to award Luerssen the contract, Defence asked the company to explore options of working with Austal and a number of other companies in Western Australia, which Luerssen is currently doing. Mr Gillis explained that it was not unusual for primes or selected tenderers to change their subcontractors post selection.¹⁰⁸

4.93 On 23 May 2018, Mr Cuthill confirmed negotiations between ASC and Luerssen are close to finalisation. Mr Cuthill reported that the contract for the lead in the second ship was 'very close' to signing and is expected to be completed in the next four weeks. He also reported that fabrication work will commence at the end of the year, although the number of workers required for the project is still being worked

106 Mr Kim Gillis, Deputy Secretary, CASG, Department of Defence, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 28

107 ASC Pty Ltd, *Answers to questions on notice*, 20 June 2017 hearing (received 4 August 2017).

108 Mr Kim Gillis, Deputy Secretary, CASG, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, pp. 36 and 38.

through with Luerrsens. There were several options and the final workforce numbers will depend on which of the options will be included in the contract.¹⁰⁹ Mr Cuthill anticipates that the contribution of ASC shipbuilding's workforce to the program will be approximately 200. He also confirmed that they remained on track to commence the fabrication on the first ship in the last quarter of 2018.¹¹⁰

ASC involvement in the future frigate program

4.94 On 8 June 2017 *The Australian* reported that Austal and ASC will form a "teaming agreement" to bid for the Future Frigates program. The three shortlisted designers for the project are BAE, Fincantieri and Navantia.¹¹¹

4.95 ASC told the Finance and Public Administration Legislation Committee on 23 May 2018 that it was not aware of what employment opportunities would arise for the ASC from the future frigate program as it is not one of the tenderers. ASC's partnership arrangement with Austal remains, and ASC described its engagement with all three designers as 'positive' but limited.¹¹²

4.96 As discussed in Chapter 2, the government's decision not to require participation from Australian shipbuilders in the future frigates' construction undermines the government's publicly stated commitment to the local shipbuilding industry and its workforce. This decision by the government runs counter to the development of domestic and sovereign capability.

4.97 The committee hopes that the Future Frigate primes will ensure that Australian shipbuilders are involved in the build.

Potential decline of ASC employees

4.98 The committee is concerned that if the ASC is not involved in the build of the future submarine then its staff numbers will continue to decline. On 20 June 2017, Rear Adm. Sammut stated that he expected that the ASC workforce would increase:

[Defence] certainly need that [ASC] workforce going forward to be involved in the build of the Future Submarine. In fact, we need to grow that workforce to build the Future Submarine and also continue to sustain the Collins class. That is the nucleus and kernel of the submarine workforce in Australia. It is scarce. It contains very scarce skills. It is important that we

109 Mr Jim Cuthill, Acting Chief Executive Officer, ASC Shipbuilding, Senate Finance and Public Administration Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 23 May 2018, p. 20.

110 Mr Jim Cuthill, Acting Chief Executive Officer, ASC Shipbuilding, ASC Pty Ltd, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 37.

111 Joe Kelly, 'Shipbuilders combine for a homegrown defence industry', *The Australian*, 8 June 2017.

112 Mr Jim Cuthill, Acting Chief Executive Officer, ASC Shipbuilding, Senate Finance and Public Administration Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 23 May 2018, pp. 20–21.

actually use that entire workforce to deliver the submarine capability that we have...¹¹³

4.99 Mr Gillis stated that there was 'no contemplation that the ASC submarine workforce will actually reduce at all for the foreseeable future' due to the 'considerable' sustainment workload that the ASC will continue to have.¹¹⁴

4.100 The committee heard that alongside ASC, a new workforce is required for the next generation of submarines. Mr Gillis explained that:

We also need to grow a separate but new workforce. ASC has a role in that transition because we need to work very closely with the growth of the new submarine built to make sure we are not having an adverse effect on the sustainment of the Collins class submarines. That is the balance between the relationship between the ASC and DCNS. But we need a new workforce to grow the next generation submarine.¹¹⁵

4.101 In relation to managing staffing for these two parallel streams of work, Mr Clark stated that Naval Group is working with ASC to manage staffing:

We are working with ASC with respect to a controlled measure of transfer of personnel from one entity to the next. ASC has obviously done a fair amount of work in terms of the ramp-down process for their workforce [regarding the AWD build]. We are obviously doing a lot of work with the ramp-up process, and we are working together with the two companies.¹¹⁶

4.102 The committee heard that Naval Group is in the process of growing its workforce for the build of the future submarines. Mr Clark explained that in the short term, there is a 'gentlemen's agreement' with the ASC to not impact upon staffing for the sustainment of the Collins Class. Mr Clark had advised Mr Stuart (then acting CEO of ASC) that they would seek the ASC's endorsement to proceed with any jobs that are advertised or if any applicants come in with a Collins background.¹¹⁷

113 Rear Admiral Gregory Sammut, Head Future Submarine Program, Department of Defence, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, pp. 18–19.

114 Mr Kim Gillis, Deputy Secretary, CASG, Department of Defence, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 19.

115 Mr Kim Gillis, Deputy Secretary, CASG, Department of Defence, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 21.

116 Mr Brent Clark, then interim Chief Executive Officer, Naval Group Australia, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 4

117 Mr Brent Clark, then interim Chief Executive Officer, Naval Group Australia, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 5. See also Senate Economics References Legislation Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 17.

4.103 Mr Clark explained that while there was no formal agreement, there was a written agreement in principle covering a variety of topics including manpower aspects and facilities and infrastructure.¹¹⁸

4.104 Previously, the committee heard that the ASC workforce would eventually transition to become part of Naval Group, with Mr Clark confirming that Naval Group would be assuming that they would be absorbing the ASC.¹¹⁹ In response, the ASC stated on 4 August 2017 that 'ASC is not aware nor has it been advised that it will be "absorbed", or "consumed", by Naval Group or Naval Group Australia'.¹²⁰

4.105 This issue was also raised at several recent hearings, including the May 2018 estimates hearings of the Finance and Public Administration Legislation Committee and the Foreign Affairs, Defence and Trade Legislation Committee, as well as the Economics References Committee's June 2018 hearing.¹²¹

4.106 Mr Clark sought to clarify his statements at the committee's hearing on 7 June 2018. He described the earlier use of the word 'consumed' as a 'poor choice of adjective' and explained that what he meant was ASC's workforce would:

[O]bviously have a role [in the FSP] from a Naval Group Australia perspective, as...submarine experts, depending on what the government decides the future of ASC is in terms of the sustainment of Collins.¹²²

Committee comment

4.107 On 11 October 2016, the government announced that the ASC would be separated into three individual government owned companies: shipbuilding, submarine sustainment and infrastructure. This announcement was not widely publicised until much later and the practical implications remain unclear. The committee has now learned that the separation has not, in fact occurred, and is on hold

118 Mr Brent Clark, then interim Chief Executive Officer, Naval Group Australia, Senate Economics Reference Legislation Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 7. See also Mr Brent Clark, then interim Chief Executive Officer, Naval Group Australia, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, pp. 16–17.

119 Mr Brent Clark, then interim Chief Executive Officer, Naval Group Australia, Senate Economics Reference Legislation Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 8.

120 ASC Pty Ltd, *Answers to questions on notice*, 20 June 2017 hearing (received 4 August 2017).

121 See Senate Finance and Public Administration Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 23 May 2018, p. 18; Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 15; Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 46.

122 Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, Senate Economics Reference Legislation Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 15.

despite conflicting information published on the Department of Finance website that suggested the process had been completed.

4.108 The committee was concerned to learn that the government was considering the movement of ASC Collins Class submarine sustainment activities from Adelaide to Perth, leaving hundreds of workers in limbo about their future. The naval shipbuilding plan released in May 2017 failed to make mention of such a proposal, with no information provided about the long term plan for the location and usage of Australian shipyards. While the committee understands that the government is still considering the future location of Collins Class sustainment activities, the committee fails to understand how a naval shipbuilding plan could be published without holistic consideration of all Australian shipyards and their employees. This has led to uncertainty for Australian industry and Australian workers. Australian industry and ASC workers in particular need long term certainty about where this work will occur and what the government's long term plans for Australian naval yards are.

4.109 The committee is concerned about the government's lack of planning and failure to communicate regarding the future role of the ASC and its staff. The lack of information and public consultation about these possible changes is a major concern for affected workers, SMEs, Australian taxpayers and this committee. Such a lack of transparency about these decision making processes is a significant failure on the part of the government.

4.110 Further, the number of ASC staff continues to fall. The committee finds it difficult to understand why the additional appropriation for scholarships, valued up to \$29.4 million, was not made available to prevent the recent loss of ASC jobs. The first build of the offshore patrol vessel is imminent and the future frigate and submarine programs will soon follow. In this environment, retaining the shipbuilding workforce in readiness for a rapid shipbuilding workforce expansion should be a priority.

4.111 The complexity of the continuous shipbuilding task requires seamless transferability and mobility of skills between the various projects. The task will not be assisted by incoherence between training structures and the development and validation of training products. For these reasons, the formation of the Naval Shipbuilding Industry Reference Committee (IRC) is puzzling.

4.112 The Naval Shipbuilding IRC appears to duplicate the work of existing IRCs, yet adequate measures have not been implemented to prevent significant overlap with the work of the current IRCs. The committee has heard no evidence that would support the conclusion that the existing structures are not well-positioned and actively engaged in the development of training products designed to meet the specific needs of naval shipbuilding.

4.113 The committee is also concerned that the Naval Shipbuilding Advisory Board was not consulted about the establishment of the Naval Shipbuilding IRC, particularly given the high costs associated with the NSAB.

4.114 Further, the committee is concerned that creating a specific Naval Shipbuilding IRC may support a view that the skills required for naval shipbuilding

occupations are somehow unique to that industry and therefore are not transferable to other related industries.

Recommendation 3

4.115 The Committee recommends that the government prioritise finalising the future location of Collins Class sustainment activities and confirm plans for the future of the ASC and its employees.

Recommendation 4

4.116 The committee recommends that the funding announced in MYEFO expenditure of \$29.4 million over three years from 2017-18 for ASC job retention scholarships be immediately released to the ASC to prevent further job losses from the strategically vital naval shipbuilding industry.

Recommendation 5

4.117 The committee recommends that the Naval Shipbuilding College establish structured consultations mechanism with Industry Reference Committees associated with Naval Shipbuilding Occupations.

Recommendation 6

4.118 The committee recommends that the Australian Industry Skills Committee task the existing Industry Reference Committees, responsible for the development of training products associated with naval shipbuilding occupations, with establishing Technical Advisory Groups to ensure that skills gaps identified through their own industry consultations or by Naval Shipbuilding Colleges are integrated into existing training package development and maintenance work.