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Subject: ESTIMATES PACK 2/2 [SEC=OFFICIAL]
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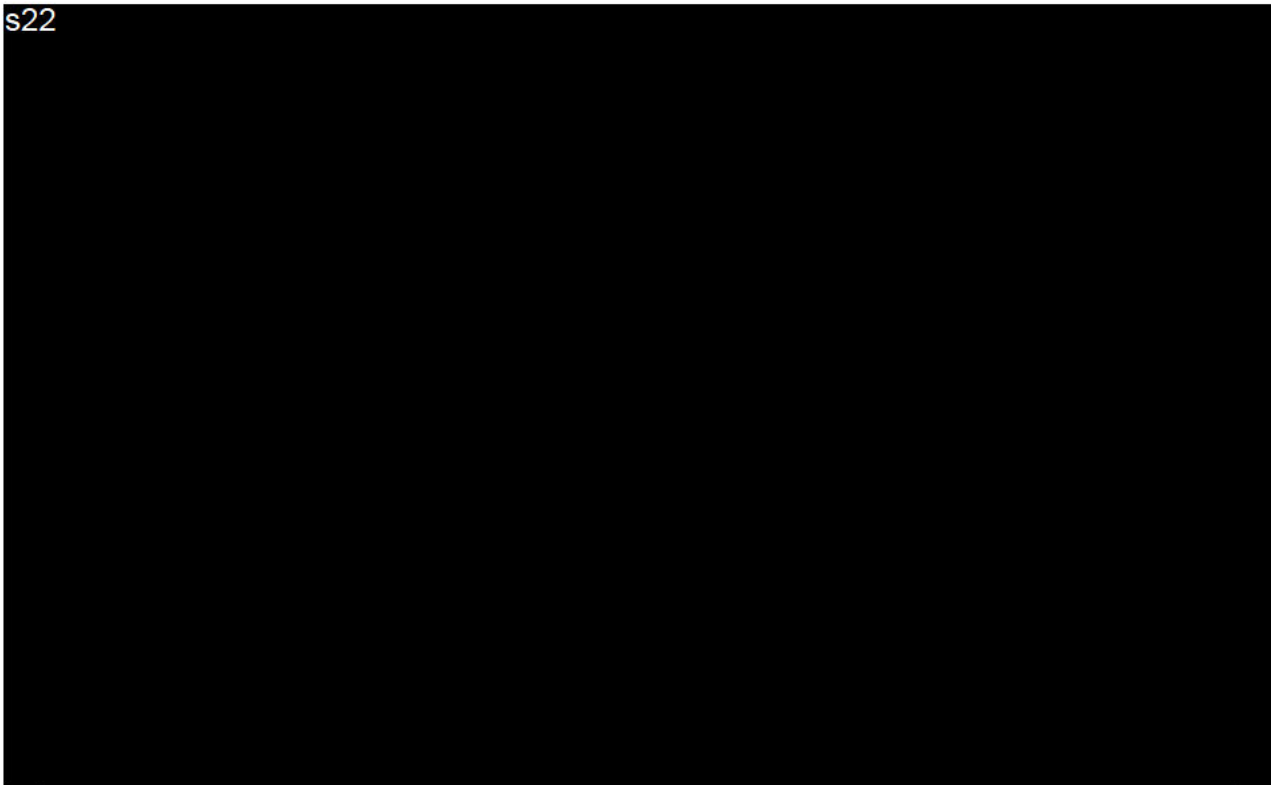
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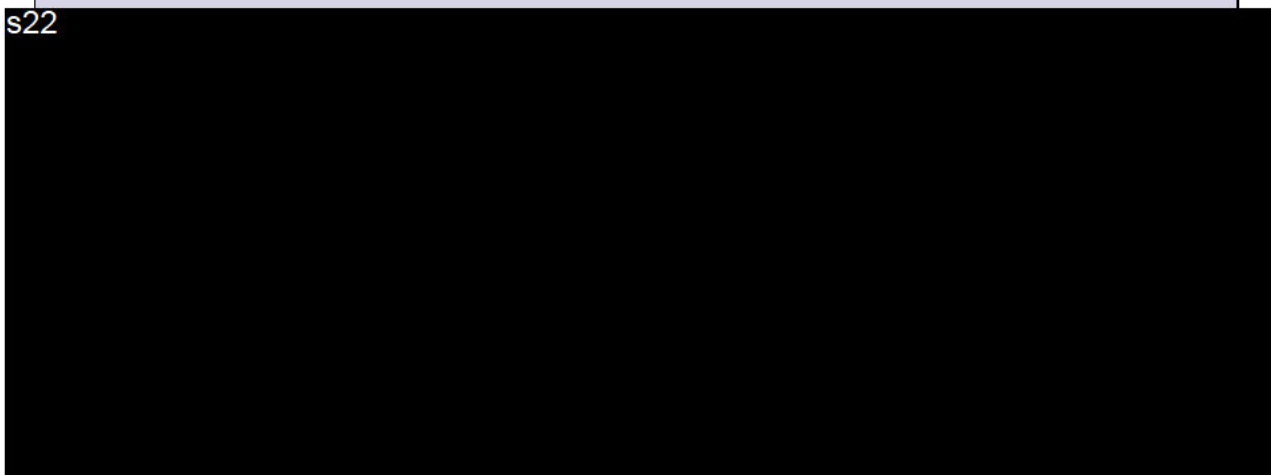
COMMERCIAL INVESTMENTS DIVISION: BUDGET ESTIMATES OCT 2022

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Defence

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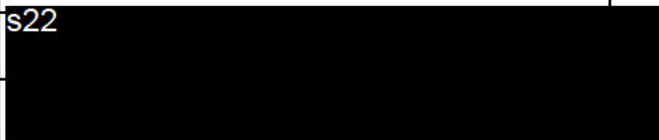
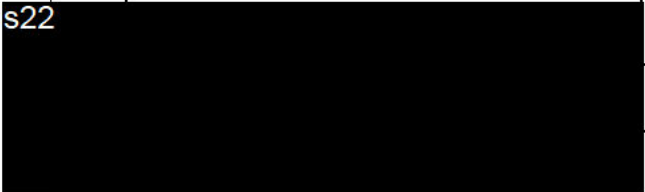
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Collins LOTE QTB

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ASC Pty Ltd
Statement of Expectations
30 November 2021

This Statement of Expectations ('this statement') is issued by the sole Shareholder Minister for ASC Pty Ltd ('ASC' or 'the Company'). It replaces previous statements issued in respect of ASC. This statement may be updated by the Shareholder Minister from time to time.

Objectives

The Government is committed to fostering a sovereign, sustainable and globally competitive naval design, construction and sustainment enterprise that supports the strategic objectives to shape, deter, and respond. This enables Australia to safeguard our maritime approaches and resources and support our partners in the Indo-Pacific to protect their security and sovereignty.

In support of this, the Government's objectives for ASC are to enhance and maintain the Australian Defence Force's maritime capabilities and to support Australian Government policies in relation to the Australian naval shipbuilding and repair industry.

Specifically, ASC will continue to be Australia's source of sovereign submarine industrial expertise and a key contributor to the broader naval shipbuilding enterprise.

Role and Responsibilities of ASC

ASC is a wholly-owned Commonwealth company, bound by the *Corporations Act 2001* (Cth). The Company operates at arm's length from the Government. ASC has flexibility and discretion in the management of its business as a Commonwealth company and Government Business Enterprise (GBE), within the parameters of the *Public Governance, Performance and Accountability Act 2013* (Cth) (PGPA Act) and related legislation and guidance materials (PGPA Requirements), other legislation applying to the Company and the Government's objectives.

The Board of ASC has ultimate responsibility for the performance of the Company and is accountable to the Government as its sole shareholder. ASC is expected to act both in the interests of the Company and in the interests of the Commonwealth. ASC should observe the principles and obligations as set out in the Commonwealth Government Business Enterprises – Governance and Oversight Guidelines.

Submarine sustainment and related activities

As Australia's only sovereign submarine sustainment organisation, ASC has and will continue to be the Commonwealth's primary partner to deliver the Royal Australian Navy's requirements for Collins class submarine availability, reliability and supportability. The Government expects that ASC delivers world class sustainment and capability support to the Commonwealth in a way that: leverages the organisation's expertise to support program performance; ensures safety and technical integrity are achieved and maintained; fosters industry participation and workforce development; and ensures that submarine availability is achieved through value for money and improved cost of ownership.

The Government has committed to extend the life of all six Collins class submarines. The planned life-of-type extension, through the replacement of key systems, will enable continued capability and deliver on the Government's strategic objectives. The Government expects ASC to cooperate and collaborate with the Department of Defence and industry partners in the delivery of this program and to focus its efforts on the design, planning and execution of this vital program for Government. ASC should continue to maximise Australian Industry Capability wherever it is feasible to do so.

Australia's acquisition of conventionally-armed nuclear-powered submarines

On 16 September 2021, the Government announced a new enhanced trilateral security partnership between Australia, the United Kingdom and the United States—called AUKUS.

The first major initiative under AUKUS is to support Australia's acquisition of conventionally-armed nuclear-powered submarines for operation by the Royal Australian Navy.

This capability will significantly enhance Australia's ability to deter threats, maintain our capability edge and to uphold stability and support security in the Indo-Pacific.

The Government's intention is that the nuclear-powered submarines will be built in Osborne, South Australia with the backing of a strong, sovereign defence industry.

Over the next 18 months, Australia, the UK, and the US, through the AUKUS trilateral effort on conventionally-armed nuclear-powered submarines, will intensively examine the full suite of requirements that underpin nuclear stewardship, with a specific focus on: safety, design, construction, operation, maintenance, disposal, regulation, training, environmental protection, installations and infrastructure, industrial base capacity, workforce, and force structure.

During the transition to the nuclear-powered submarine program, the Government is committed to ensuring that the critical skills and experience acquired through the Attack class submarine program are retained in the shipbuilding sector in Australia.

The Government expects that ASC will develop, manage and implement the new Sovereign Shipbuilding Talent Pool to achieve this aim. The Sovereign Shipbuilding Talent Pool will re-deploy the existing affected Attack class submarine program workforce throughout current and new shipbuilding programs, while building the nuclear-powered submarine skills that will be crucial for the success of the nuclear-powered submarine program.

ASC will continue as Australia's source of sovereign submarine industrial expertise, training and will play an important role in growing the workforce who will build our nuclear-powered submarines in South Australia. ASC will engage in other work to support the plan to build nuclear-powered submarines at Osborne as requested by the Commonwealth.

Working with Stakeholders

ASC will engage productively and collaboratively with its stakeholders. The Company is expected to foster and maintain cooperative relationships with its stakeholders who may have a genuine interest in ASC's activities including the Department of Defence, Australian Naval Infrastructure, key suppliers, industry participants and relevant Commonwealth, State and Local Government agencies.

Transparency, Governance and Accountability

The Government expects ASC's Board to meet the highest standards of transparency, governance and accountability for corporate and government-owned entities. ASC should adopt, as far as practicable, the prevailing version of the '*ASX Corporate Governance Principles and Recommendations*'.

- ASC's Board is fully accountable to the Shareholder Minister for:
 - **the performance of** ASC, including (but not limited to) promoting: (1) the proper use and management of the economic resources for which the Board is responsible; (2) the achievement of the objects and/or purposes of the GBE; and (3) financial sustainability;
 - **internal governance of** ASC, including (but not limited to) establishing and maintaining: (1) an appropriate system of risk oversight and management including in respect of cyber security risks; and (2) an appropriate system of internal controls;
 - **setting strategic direction, organisational leadership and establishing and maintaining a culture** that meets the high standards expected by the public in

relation to (but not limited to): (1) efficient, effective, economical and ethical expenditure of money; (2) proactive and open disclosure of information that is reasonably in the public interest; (3) following best practice principles and guidelines that go beyond strict legal obligations (e.g. probity and value for money); (4) creates an engaged results-orientated staff culture that minimises unplanned turnover; and (5) setting a remuneration structure consistent with the Australian Public Service Commission's *'Performance Bonus Guidance – principles governing bonus use in Commonwealth entities and companies'*, that balances reasonable reward for meeting clearly defined objectives where achievement of any at risk component is genuinely 'at risk', with public expectations for compensation;

- **ongoing compliance with external governance frameworks**, including (but not limited to): (1) any governance documents that operate between the Government, as shareholder, and ASC; (2) the *Commonwealth GBE – Governance and Oversight Guidelines* (GBE Guidelines); and (3) the PGPA Requirements, including Corporate Planning and associated Key Performance Indicators; and
- **timely, accurate and transparent provision of information**, including (but not limited to): (1) the obligation to keep Shareholder Ministers informed; and (2) advance notice of, and the opportunity to review, public statements and media releases.
- The Government expects that ASC representatives appearing before the Parliament have a detailed understanding of their duties per the *Government Guidelines for Official Witnesses before Parliamentary Committees and Related Matters* (Parliamentary Witness Guide).
- Where ASC engages a third-party (e.g. a contractor), it must take into account the risks associated with that approach and impose on them obligations in relation to the efficient, effective, economical and ethical expenditure of money.
- Where ASC's Board delegates its power (or authorises an employee or third-party to exercise its power) it must be clearly documented and recorded.
- The Board should have **access to a company secretary**, who ultimately reports to the Board (through the Chair) and is independent of company management and with whom Board members can raise matters confidentially and seek advice from as a governance expert.

Senator the Hon Simon Birmingham
Minister for Finance

Attachment D

Australian submarine stranded in Hawaii

By Andrew Tillett, Political correspondent, The Australian Financial Review

Wednesday 31st August 2022 at 5:00am

One of Australia's Collins class submarines was last week stranded in Hawaii, raising fresh questions over the reliability of the ageing submarine fleet.

The Australian Financial Review has been told the submarine was inoperable, with Australian technicians scrambling to be flown out to conduct repairs.

Two other submarines, HMAS Rankin and HMAS Dechaineux, also recently spent longer than planned tied up at the dock because of delays caused by COVID-19.

Despite the setbacks, the Defence Department insists it is still meeting its targets for submarine availability.

Defence does not comment on current operations other than to say that the submarine force is meeting its preparedness requirements," the department said in a statement.

"The Collins-class submarines continue to be Australia's most potent and agile deterrent and offensive capability and remains one of the most capable conventionally powered submarines in the world."

The operations of Australia's six Collins-class submarines are shrouded in secrecy, with Australian Strategic Policy Institute senior analyst Marcus Hellyer saying the navy did not provide a breakdown on the number of days submarines spent at sea.

Two of the six submarines are always unavailable because they are out of the water undergoing deep maintenance. Dr Hellyer said the navy managed the fleet on the basis that two submarines were available for deploying on operations, while the other two were undertaking training or short-term or unscheduled maintenance.

Dr Hellyer said this approach was world's best practice, but "there is no way of knowing if Defence is hitting that".

He said the navy had probably reached the sweet spot with the Collins class' availability after the submarines were blighted with issues in their early years, but this would be harder to achieve in the future.

"It's a well-known fact that as platforms age, they have reliability issues, they tend to have more unknown defects," Dr Hellyer said.

“Keeping the Collins going as both a viable capability and with an acceptable rate of availability will be increasingly challenging.”

Maintenance and sustainment for the six submarines is budgeted to cost \$691million this financial year.

Australia’s submarines have suffered from major and potentially dangerous incidents in recent years.

In March 2021, HMAS Waller flooded twice at sea. A month later, an electrical fire broke out onboard the submarine while it was docked at its Perth base.

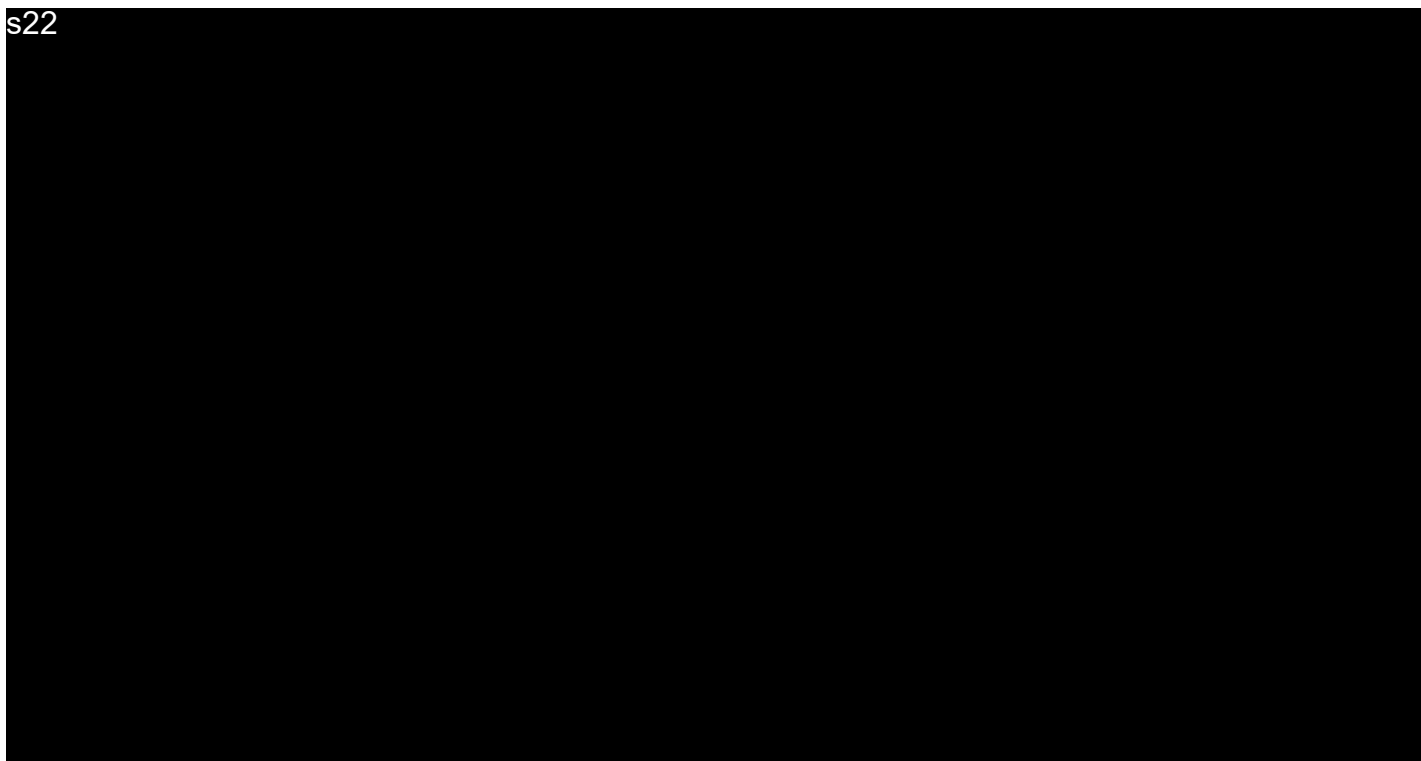
And in October, HMAS Sheean had to conduct an emergency surfacing after water entered the submarine’s motor room during safety checks off the West Australian coast.

The first Collins-class submarine was launched in 1993 and the final one in 2001. The boats were expected to have 25 to 30 years of life.

But Defence is planning to extend the lives of each of the six boats by another decade to reduce the risk of a capability gap until the delivery of nuclear-powered submarines, at a cost of at least \$6 billion. That will start in 2026 and take two years for each boat to be upgraded before it returns to service.

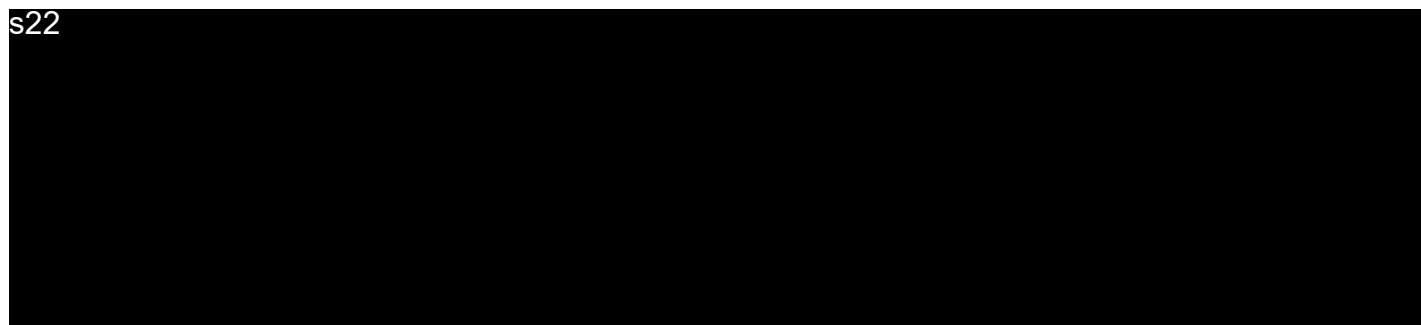
However, given doubts over how much more life can be squeezed out of the ageing hulls, as well as uncertainty over when the first nuclear submarine will arrive, the government is considering “a son of Collins” or new conventional design as an interim replacement.

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Defence will extend the life of all six Collins class submarines through a life-of-type extension (LOTE) project commencing in 2026. The LOTE will ensure the Collins class remains a potent and agile fleet, able to shape, deter and respond to the strategic environment well into the 2040s.

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Budget Estimates: November 2022
Last updated: 11 October 2022
Key witnesses: Tony Dalton and John Chandler

PDR No: SB22-000544
Collins Class Submarines

Collins Class Submarines

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Key Messages

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- The planned withdrawal date for the Collins class will be extended through a life-of-type extension (LOTE) program (allowing a further ten year operating cycle for each boat) for all six submarines, commencing with HMAS *Farncomb* in 2026 and extending the Collins capability well into the 2040s.

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Last updated: 11 October 2022

Collins Class Submarines

Key witnesses: Tony Dalton and John Chandler

When will life-of-type extension commence and what is the budget?

- Long-term assurance of the Collins class capability is dependent on the successful implementation of the life of type extension involving the Collins LOTE project, integrated with effective ongoing sustainment, and selected capability enhancements.
 - The LOTE project will remediate the highest technical risks to extending the service life of each submarine by one 12-year cycle (two year full cycle docking plus 10 year operating cycle).
 - Effective ongoing sustainment underpins the availability of the Collins class submarines.
 - Selected capability enhancements are designed to assure the Collins fleet retains a capability advantage.
- HMAS *Farncomb* will be the first of our six Collins class submarines to enter LOTE, with work due to commence in 2026 at Osborne North in South Australia.

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 Collins Class Submarines

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Division:	Submarines	
PDR No:	SB22-000544	
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Consultation:	N/A	
Cleared by CFO / DPG:	N/A	
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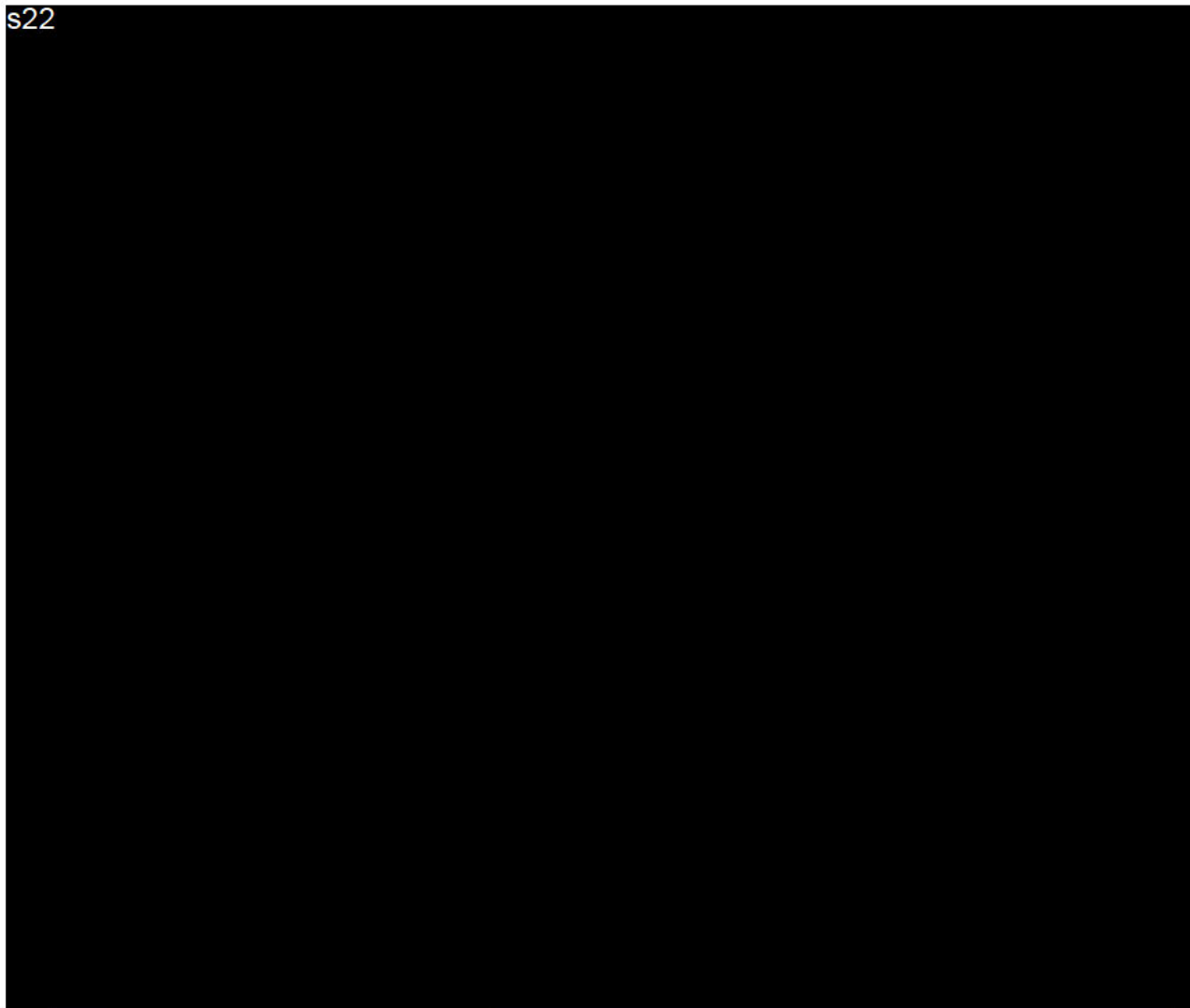
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Budget Estimates: November 2022
Last updated: 25 October 2022
Key witnesses: Tony Dalton; Stacie Hall

PDR No: SB22-000543
NSS Workforce and Infrastructure

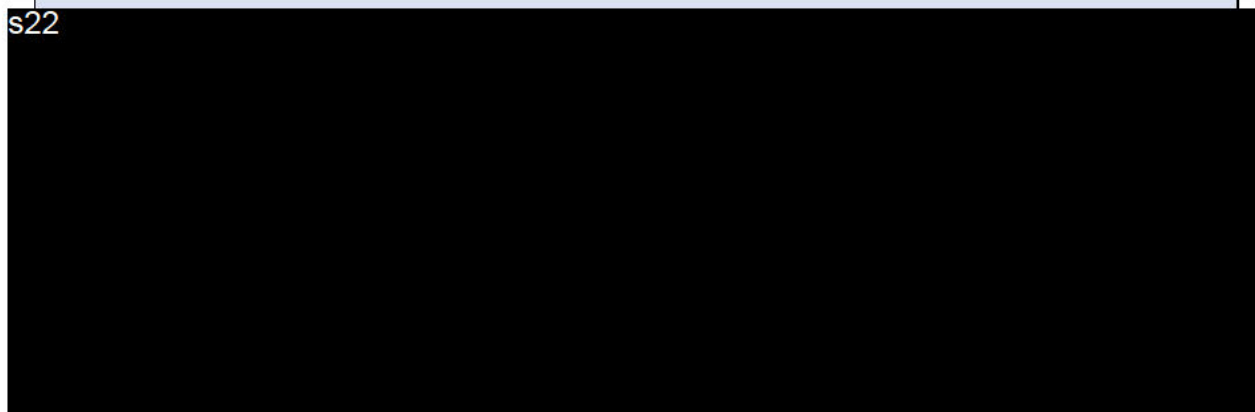
Naval Shipbuilding and Sustainment Workforce and Infrastructure

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s22 . The Osborne North shipyard continues to support the full-cycle docking of our six Collins class submarines with life-of-type extension upgrades to be implemented during full-cycle dockings from 2026 to 2038.

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6. Life of Type Extension (LOTE)

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- dd) When will the last LOTE boat be retired under the new regime, and do you believe this will leave a capability gap between Collins and the new nuclear submarines?

[This is a question for CASG.](#)

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