

Senate Economics References Committee

Parliamentary inquiry – Australian Sovereign Shipbuilding Capability

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Australian Sovereign Shipbuilding Capability - 20 DEC 2019 - Q4 –
SEA 5000 – Hunter Class - Patrick

Question reference number: 4

Senator/Member: Rex Patrick

Type of question: Written

Date set by the committee for the return of answer: 31 January 2020

Question:

1. Which version of the ASDEFCON suite of contracting templates was utilised:
 - a. For the projects RFT,
 - b. For the Contract with the prime (if different).
2. Please provide the Committee with copies of the:
 - a. The draft AIC Plan (including AIC Schedules) submitted as part of the response (as per the applicable ASDEFCON Conditions of Tender)
 - b. The public Australian Industry Capability (AIC) Plans as prepared for the project
 - c. The AIC Plan (including AIC Schedules) that formed part of the contract baseline at the Effective Date (as per the applicable ASDEFCON Conditions of Contract) – if there is anything that is confidential in this document Defence can make an appropriate request for confidentiality for consideration by the committee
3. If a AIC plan was not struck as part of the contract baseline, please indicate this and provide an explanation as to why not
4. What obligations reside with the contractor as per the contracted Statement Of Work (SOW) and relevant Contract Data Requirement List (CDRL) in relation to the:
 - a. Development, Delivery and updating of the AIC Plan
 - b. Development, delivery and frequency of AIC Progress reports.
 - c. How many AIC progress reports have been delivered to the Project Office/Department of Defence
 - d. Copies of all AIC Progress Reports.
5. Please provide the Committee with a summary report that shows:
 - a. Total contracted value (with the Prime Contractor),
 - b. The Effective Date and current percentage of completion of that contract,
 - c. The number and values of the sub-contracts to foreign companies,
 - i. Of the sub-contracts to foreign companies, how many were to related entities and what are the values
 - d. The Effective Date and current percentage of completion of the foreign sub-contracts,
 - e. The number and values of the sub-contracts to Australian companies,
 - f. The Effective Date and percentage of completion of the Australian sub-contracts,
 - g. Contracts the Commonwealth has entered into directly with Foreign companies, for deliverables that will be supplied to the Prime Contractor as a form of Government Furnished

Material,

h. Contracts the Commonwealth has entered into directly with Australian companies, for deliverables that will be supplied to the Prime Contractor as a form of Government Furnished Material,

i. The Effective Date and current percentage of completion for the Commonwealth direct contracts.

6. How many Contract Change Proposals (CCP's), relating to AIC, have been:

a. submitted (by the Contractor),

b. approved (by the Commonwealth),

c. how many of these resulted in a reduction of the contracted AIC, and

d. how many of these resulted in an increase in the contracted AIC.

7. In relation to the conduct of Commonwealth performance reviews to verify AIC plan achievement, please advise:

a. If the contract includes provision for the conduct of Commonwealth [Defence] performance reviews?

b. If yes:

i. If yes, at what frequency can the reviews be undertaken?

ii. If yes, how many reviews have been conducted to date?

iii. Has there been any negative findings? If so how many?

iv. What action has the Commonwealth taken in relation to a negative finding?

c. If not, why not?

8. In relation to proposed AIC Plans please explain specifically how they assess and rate prospective tenderers in relation to the draft Australian Industry Capability (AIC) Plans submitted as part of tender responses?

9. In relation to proposed AIC Plans what does the Department of Defence provide to the Government for consideration of business cases for 1st and 2nd Pass approvals?

10. For the current Naval shipbuilding contracts, have the AIC plans proposed by the contractors/suppliers as part of their tender response been used as the contracted baseline AIC plan. If not, why not?

Answers:

1.

a. ASDEFCON Strategic Material tailored between version 2.4 and version 3.0.

b. The Head Contract is the outcome of negotiations between the Commonwealth and ASC Shipbuilding, which was based on the RFT. The Head Contract contains the terms and conditions covering the acquisition phase of the Hunter Class Frigate Program and an ability to add scopes of work as the Program progresses. The Design and Productionisation Scope was initially contracted and future scopes, including the build of nine ships in three separately contracted batches and any future design changes, will be contracted over time. The AIC arrangements were tailored in the Head Contract to include an AIC Strategy that covers the commitment of ASC Shipbuilding during the Hunter Class Frigate Program, and a subordinate AIC Plan for each contracted scope of work as they are added.

2.

a. AIC Plans contain commercially sensitive information which could impact competitive advantage if released.

b. The public AIC Plan for the Design and Productionisation Phase will be released in Quarter 1, 2020. Once released a copy will be provided to the Committee.

c. Refer to response to 2a.

3.

The overarching AIC Strategy and draft AIC Plan for the Design and Productionisation scope were part of the Head Contract at contract signature.

4.

a. ASC Shipbuilding is required to deliver a yearly maintenance update to the AIC Strategy and AIC Plans for the relevant phases that are under contract. ASC Shipbuilding has provided these updates with the latest approved versions being AIC Strategy v3.0 and Design and Productionisation AIC Plan v2.0, both approved in October 2019.

b. ASC Shipbuilding is contractually required to provide AIC Progress Reports as part of its routine Contract Status Reporting (CSR).

c. ASC Shipbuilding has delivered nine CSRs.

d. Refer to response to 2a.

5.

a. The current contract value with the ASC Shipbuilding is \$2.243 billion (out-turned). This includes the value of the Design and Productionisation Scope.

b. The Effective Date is 4 February 2019. Expenditure at end of December 2019 is \$163.699 million (out turned) or 7.3% of the current contract value.

c. As at December 2019, ASC Shipbuilding has two subcontracts with non-Australian companies with a total value of \$109.9 million (AUD equivalent).

i. The two subcontracts are to related entities of ASC Shipbuilding (BAE Systems Surface Ships Limited and BAE Systems PLC).

d. Defence does not have, nor require, visibility of the Effective Date or percentage completion of the contracts that ASC Shipbuilding has in place with non-Australian companies. The current non-Australian subcontractors are:

- BAE Systems Surface Ships Limited – design, supply chain, mobilisation (including data transfer and knowledge transfer), production, finance and cost estimation, business management systems, and general corporate support.
- BAE Systems PLC – corporate charges.

e. ASC Shipbuilding presently has contracts with active purchase orders with 13 Australian companies (each over a reporting value threshold of \$0.2 million) with a total value of \$37.1 million.

f. Defence does not have nor require visibility of the Effective Date or percentage completion of the contracts that ASC Shipbuilding has in place with Australian companies. The current Australian subcontractors above the threshold are:

- Saab Australia Pty Ltd – labour for combat systems development
- Lockheed Martin Australia Pty Ltd – labour for combat systems development
- Aveva Pty Ltd – software and other services

- DWS Advanced Business Solutions – project software and support services
- Indigenous Defence Consortium Pty Ltd – undertaking feasibility study for including Indigenous in the program
- BAE Systems Applied Intelligence Pty Ltd - undertaking feasibility study for including Indigenous in the program
- Rohde & Schwarz (Australia) Pty Ltd – undertaking trade study (design services)
- Altair Engineering Software Pty Ltd – information technology services
- ASG Group Limited - information technology services
- Data#3 Limited – information technology services
- Kinexus People – recruitment services
- Paxus Australia Pty Ltd – information technology recruitment services
- Rolls-Royce Australia Services Pty Ltd – undertaking feasibility study for including Australian industry in its supply chain

- g. The Commonwealth has active Foreign Military Sales cases with the United States Government for the provision of the Aegis Combat Management System equipment and services.
- h. The Commonwealth has contracts in place with CEA Technologies to support CEAFAR implementation in the Hunter Class Frigate. An Enterprise Partnering Agreement with Saab Australia forms the basis for developing the Australian Interface for both the Hunter class and the Hobart class combat system upgrade.
- i. N/A – there are no existing direct contracts for the provision of GFM at this time.

6.

a&b. Two.

c. None.

d. One.

7.

a. Yes.

b.

i. At any time.

ii. Nine

iii. No

iv. N/A

8.

The proposed AIC Strategies and Plans submitted by each tenderer for SEA 5000 were assessed in accordance with an approved Tender Evaluation Plan against evaluation criteria detailed in the Competitive Evaluation Process. There were ten assessment criteria with two concerning AIC and Continuous Naval Shipbuilding, reflecting the importance of developing an Australian naval shipbuilding capability. The criteria used were:

The extent to which the tendered proposal contributes to the establishment of a Continuous Naval Shipbuilding industry, including the Tenderer's proposal to contribute to developing and sustaining shipbuilding capability in Australia, and the associated level of risk.

The extent to which the tendered proposal maximises Australian Industry Capability during the term of the Head Contract, and facilitates utilisation of Australian Industry Capability during sustainment, and the associated level of risk.

9.

At First Pass, Defence typically provides an estimation of AIC and job creation. At Second Pass, Defence's evaluation of the level of AIC as tendered by each bidder (in competition) is typically summarised with detailed analysis of each AIC bid attached.

10.

Yes, the negotiated contracted position built on and improved the tendered position.