

**STATEMENT BY ASC MANAGING DIRECTOR & CEO, STEVE LUDLAM
TO SENATE ESTIMATES' FINANCE & PUBLIC ADMINISTRATION COMMITTEE**

Parliament House – February 2014

Minister, Senators and other attendees:

Thank you for the opportunity to appear before you today. I'll provide a brief update on key activities since we last met in November.

On the Air Warfare Destroyer project...

...a significant amount of progress has occurred. The last of the 31 blocks of Ship 1 was erected at the end of last year.

ASC's shipyard has been operating 24 hours a day with a morning; afternoon; and 12 hour shift.

By last November, our workforce was erecting a block to the structure of Ship 1 every week.

Currently there is a great deal of work underway on the internal fit-out to get as much equipment as possible loaded to support the planned float-off later this year.

It was a great pleasure to host invited guests and media to ASC's shipyard several weeks ago for the Keel Laying ceremony for Ship 2.

Fabrication has also commenced on hull blocks for Ship 3 at BAE Systems, Forgacs and Navantia.

The AWD project is a very complex project that has not been without its challenges. The schedule for Ship 1 has been challenging due to a number of reasons including technical integrity and design issues; scope moving from earlier construction phases; and Block Subcontractor defects.

However, despite these significant challenges, ASC continues to effectively identify and manage these issues early, and manage the output of our subcontractors to progress work at pace.

Most importantly, lessons from Ship 1 are being learned and executed for ships 2 and 3.

The AWD Alliance has applied resources to address the external factors that influence ASC's shipyard productivity. We are working together with urgency and pace to gain further improvements in direct labour productivity and overall production process efficiency.

Initiatives include:

- maximising the number of, and access to, open work fronts by both key trades to facilitate the achievement of the highest productivity levels possible;
- accelerating the installation of electrical cabling, mechanical and electrical equipment to foster earliest discovery and subsequent remediation of design related issues; and
- keeping the work demand consistently high for the teams and highlight any deficiencies in production support such as material and technical data supply.

Further downstream benefits will emerge as these actions will minimise the impact of these issues on ships 02 and 03.

This will also ensure that blocks for the remaining ships are consolidated at the highest possible level of fit-out, thereby avoiding the 'typical' labour penalty of a three times multiplier for work completed on the ship rather than in the block construction phase where the highest labour productivity is realised in the most favourable work conditions.

The value streams within the AWD production group are aligned with and have implemented a suite of metrics based on the First Marine International (FMI) productivity benchmark. There is real evidence of improvement in these metrics with clear targets ahead.

On the Collins Class program...

... we continue to work with our Enterprise partners – the Navy and the Defence Materiel Organisation – to innovate and improve submarine maintenance operations and achieve set targets.

Our base in Western Australia, ASC West, recently completed HMAS *Waller's* intermediate maintenance availability (IMAV) ahead of schedule.

Demonstrating our increasingly strong performance as part of the submarine enterprise, this is the third consecutive maintenance activity that has been delivered ahead of schedule.

The decreasing number of defects on the submarines - reduced by more than 65 per cent in the past 18 months - is yet another indicator of our improvement in performance.

Our performance to date is exceeding the availability targets set by the Coles Review. In the financial year 2012/13 we exceeded the target by 20 per cent. As at the end of January 2014, we are also ahead of the year-to-date target for the current financial year.

The bar on performance is rising from year to year, and our current year's performance represents an improvement of approximately 20 per cent over the previous.

This has been underpinned by ASC completing our last three submarine maintenance activities within or ahead of the planned duration, and we are also well on track to deliver HMAS *Rankin* out of refit on time.

This improved performance has been generated within the existing submarine sustainment budget.

The 10+2 Usage Upkeep Cycle Transformation Program continues to transition the Collins Class Submarine from the current 3 year full cycle docking and 8 year operational period, to a 2 year full cycle docking and 10 year operational period.

Some truly transformational changes are underway including:

- the provision of a rotatable pool of spares;
- construction of a Maintenance Support Tower for full cycle dockings;
- the review of maintenance methodology and frequency; and
- the complete change of a product, such as the paint scheme for tanks.

These initiatives will not only allow us to execute maintenance in a shorter period of time, but will also provide more reliable and sustainable submarines during operation.

In simple terms this means more sea days and less time spent in maintenance. A further benefit includes the ability to insert capability enhancements, normally done during full cycle dockings, into other maintenance availabilities, such as mid cycle dockings. This will allow the Navy to upgrade boats to better levels of capability more often.

Over the past three months ASC has worked closely with the DMO to progress the scope of Engineering Authority delegated to ASC, with nine senior engineering personnel being awarded Level 2 Engineering Authority by the Director General Technical Seaworthiness. Three of these staff are based at ASC West which will greatly enhance support of in-service submarines in WA. The Engineering Authority delegated to ASC is also contributing to the successful delivery of the 10+2 usage upkeep cycle.

These milestones on both projects are an important step towards achieving world's best practice and they continue to position us strongly moving forward.

Thank you.