



ASC Pty Ltd
Statement of Expectations
July 2024



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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.

The Government is committed to strengthening a sovereign, secure, sustainable and globally competitive naval design, construction, and sustainment eco-system that is fit-for-purpose to support Australia's strategic and national security objectives for both surface fleet and submarine capabilities. In the face of an uncertain global security environment this is key to Australia's ability to safeguard our maritime approaches and resources, and to support a free and open, connected, prosperous, secure, and resilient Indo-Pacific and its security and sovereignty.

The Government has identified the acquisition of conventionally armed, nuclear-powered submarines through the AUKUS partnership as a priority area for immediate action. This represents the single biggest investment in the history of Australia's defence capability. Separately, in response to the Defence Strategic Review, the Government has affirmed its commitment to continuous naval shipbuilding in Australia.

Objectives

As Australia's sovereign submarine industrial partner, ASC's primary function is to construct and sustain available and capable submarines. The Government expects ASC to play a central role in building and sustaining Australia's submarine capability through partnering in the build of the SSN-AUKUS fleet and sustaining all classes of Australia's future nuclear-powered submarine fleet. Meeting the highest standards of nuclear safety and complying with emerging nuclear safety duties and future naval nuclear power safety licence requirements is, and will be, non-negotiable.

ASC is also expected to continue effectively and efficiently sustaining Australia's Collins class submarine fleet, enhancing availability, and supporting and optimising opportunities for the broader Australian naval shipbuilding and repair industry. ASC will leverage its long history and expertise in Australia and will develop and grow Australia's sovereign workforce and domestic supply chain to achieve critical path activities.

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. The ASC Board and Executive team has flexibility and discretion in managing 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.

ASC should plan for the Australian Parliament passing the Australian Naval Nuclear Power Safety Bill, and also plan for the activities it will likely need to undertake to apply for a naval nuclear power safety licence and support a future licence holder.

The ASC Board has ultimate responsibility for the performance of the Company and is accountable to the Commonwealth 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 (GBE Guidelines).

Collins class submarine sustainment and related activities

ASC has, and will continue to be, the Commonwealth's core partner to deliver sustainment and capability to Australia's Collins class submarine fleet. ASC also remains a key enabling partner in submarine-related aspects of the Government's continuous naval shipbuilding and sustainment enterprise.

ASC will continue to deliver the approved and resourced Royal Australian Navy requirements for Collins class submarine safety, availability, reliability and supportability. The Government expects ASC to continue to deliver 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 efficiently and effectively.

The Government is committed to implementing a Life of Type Extension for the Collins class submarine fleet and has approved the life extension for HMAS *Farncomb* commencing in 2026. The planned operational service life extension of each submarine, through replacing key systems complemented by effective ongoing sustainment, will enable continued capability and deliver on the Government's strategic objectives.

The Life of Type Extension Program will maintain and enhance Australia's current submarine capability during the transition to a nuclear-powered submarine capability. The Government expects ASC to cooperate and collaborate with the Department of Defence (Defence) and industry partners on this program and to focus on designing, planning and executing this vital program. ASC should continue to maximise, grow and promote Australian Industry Capability wherever it is feasible and effective to do so. Excellence in the performance and delivery on these programs are foundational to the success of the broader submarine enterprise.

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

On 16 September 2021, the Governments of Australia, the United Kingdom and the United States (Trilateral Partners) announced a trilateral partnership (AUKUS). The first major initiative under AUKUS is the Royal Australian Navy acquiring conventionally armed, nuclear-powered submarines.

On 14 March 2023, the Trilateral Partners announced an optimal pathway by which Australia would acquire a nuclear-powered submarine capability. This pathway includes:

- increased port visits and the establishment of a rotational presence of visiting US and UK nuclear-powered submarines in Western Australia (SRF-West);
- Australia acquiring three Virginia class submarines from the United States, with the potential for two more if needed; and
- construction of SSN-AUKUS submarines, a new conventionally armed nuclear-powered submarine, based on a UK design, incorporating Australian, UK, and US technologies.

On 22 March 2024, the Government selected ASC Pty Ltd and BAE Systems as its Sovereign Submarine Partners to build Australia's SSN-AUKUS submarines. ASC Pty Ltd and BAE Systems are expected to establish an incorporated joint venture which will become the substantive, enduring and sovereign Australian entity to build Australia's SSN-AUKUS submarines.

In addition, the Australian Government also selected ASC Pty Ltd as the sovereign partner to sustain Australia's nuclear-powered submarines commencing with the Virginia class, followed by the SSN-AUKUS.

SSN AUKUS build

The Government expects ASC to partner with BAE Systems and its affiliates (BAE) to build Australia's fleet of SSN-AUKUS submarines. The Government expects ASC to engage collegiately and effectively with BAE, the UK Ministry of Defence, the Australian Submarine Agency (ASA), the future Australian Naval Nuclear Power Safety Regulator, Australian industry and other stakeholders where appropriate and as required, to ensure the timely, safe and efficient build of the SSN-AUKUS fleet.

The Government expects ASC to leverage its past experience with the Collins program, its extensive network within the submarine industry and its ability to recruit and develop a skilled workforce to effectively negotiate with the ASA and BAE to deliver timely and value for money outcomes for the nation. The Government expects ASC along with its Build Partner, BAE, to develop, upskill and expand an Australian industrial base and supply chain for long-term submarine construction in Osborne, South Australia.

In all engagements for the SSN-AUKUS build, the Government expects ASC to be fully transparent, collegiate, a model corporate citizen and actively engaged in all elements of the process.

Virginia Class sustainment

ASC will deliver the approved and funded sustainment requirements for the future fleet of Virginia class submarines from the early 2030s. In selecting ASC as the Commonwealth's sovereign sustainment partner for Virginia class submarines, the Government expects that in time ASC will deliver world class sustainment and capability support, leverage ASC's expertise to support program performance, ensure safety and technical integrity are achieved and maintained, foster industry participation using key international stakeholders, foster workforce development, and ensure that submarine availability is achieved through efficient and improved cost of ownership. Acknowledging that Virginia class sustainment is new to ASC, ASC should prioritise safety and technical integrity in the first instance, moving to optimise efficiency and effectiveness over time as its knowledge of Virginia class sustainment requirements matures.

To achieve this, the Government expects ASC to engage collegiately with the ASA, the US Navy, Naval Reactors and other industrial partners as required and where amenable to our AUKUS partners, to achieve the most effective and efficient outcome for Australia. The Government also expects ASC, working closely with ASA and Defence, to support, grow and promote Australian industry participation in the US submarine industrial base.

In the first instance, the primary channel of communication between ASC, the US Government and US industry partners will be through the Commonwealth and this will evolve as additional arrangements are agreed between the parties.

In preparing for this role, where required ASC will assist in supporting the current ongoing visits by US and UK nuclear-powered submarines in Western Australia, followed by the formal rotational force of US and UK nuclear-powered submarines in Western Australia from 2027 onwards. In supporting SRF-West activities, the Government expects that ASC will recruit, train and prepare its workforce and work with the supply chain to ensure that Australia can meet the requirements of the AUKUS program, building to become the sovereign sustainment prime in time to achieve the sovereign ready milestone for the Australian-owned Virginia class submarines to be delivered in the early 2030s.

Nuclear Safety, Security and Stewardship

Government requires ASC to work closely with the ASA and the future Australian Naval Nuclear Power Safety Regulator to actively contribute to Australia's objective of becoming an exemplary nuclear steward through maintaining the highest possible levels of nuclear safety, security and safeguards, in line with the duties outlined in Australia's nuclear legislation and by the relevant regulator. ASC must establish a culture of nuclear safety across its organisation and conduct its operations and deliver its projects in a manner that is consistent with, and embodies, Australia's Naval Nuclear Propulsion Principles and applicable future license requirements, nuclear safety and radiological protection regulations as applicable to ASC's operations.

As submarine safety is intrinsic to nuclear safety, ASC will also need to continue to work closely with Defence, Navy, ASA, and the Seaworthiness regulator on general submarine safety ("SUBSAFE") delivery, including with the relevant US and UK equivalents when working on other nation's rotating submarines.

Operating commercially with a nuclear mindset

ASC is a commercial entity which must operate with a nuclear mindset and is expected to operate on a commercial basis, with flexibility and discretion in its operational and commercial decisions within the bounds of the legislative, regulatory and governance framework. This includes policy parameters set through emerging regulation, the PGPA Act, the GBE Guidelines and this Statement of Expectations.

ASC will promptly respond to and engage with capability requests from Defence, the Royal Australian Navy and the ASA from time to time. ASC is expected to openly and transparently respond, leveraging its experience and expertise and should engage in contracting in a commercial manner that aligns with ASC's Objects and is cognisant of the Government's national security agenda and strategic objectives.

ASC will target an appropriate commercial rate of return and level of risk that is acceptable to the Shareholder Minister and reflects ASC's long term role in the Submarine Enterprise and its nuclear mindset.

Workforce

ASC will continue as Australia's primary source of sovereign submarine industrial expertise and will play an important role in attracting, recruiting, developing, qualifying and retaining the workforce and supply chain that will build and sustain both conventional and nuclear-powered submarines.

ASC will continue to engage and partner with stakeholders, including the Commonwealth government, State governments and broader industry partners, to support workforce growth, development, and retention initiatives.

The Government expects ASC to develop a total workforce with the capacity and capability to support the needs of all classes of submarine in Australia, be it Collins class or nuclear-powered submarines. This includes placing ASC employees at defence primes, government-owned naval locations and education facilities domestically and overseas in the US and the UK to gain skills, experience and know-how to support the required growth of new skills and experience required for building and sustaining nuclear-powered submarines.

Growth in capability and capacity must preserve, and build on, the existing (Collins class-centric) Submarine Enterprise, providing the opportunity to strengthen our sovereign capability while learning new skills for the future.

ASC is to ensure that any use of Collins Class workforce for the benefit of nuclear-powered submarine workforce growth occurs in a manner that appropriately and effectively manages risk to Collins and that this risk is understood and mitigated by both ASC and the part of Defence/ASA accountable for Collins.

Working with Stakeholders

ASC will engage productively and collaboratively with its broadening stakeholder group as it establishes new interfaces and lines of business relevant to its future remit. ASC is expected to foster and maintain collegial relationships with all stakeholders and partners in the submarine and shipbuilding enterprise including, but not limited to, the ASA, Defence, Australian Naval Infrastructure Pty Ltd, key suppliers, industry participants and partners, the future Australian Naval Nuclear Power Safety Regulator, other relevant Commonwealth, State and Local Government agencies and international AUKUS partner governments. ASC should continue to promote Australian Industry Capability wherever it is feasible to do so.

Government Policy Expectations

ASC will comply with and implement Government policies in relation to greenhouse gas emission reductions consistent with meeting the Government's commitment to Net Zero emissions by 2050.

ASC is expected to set, maintain and deliver an ambitious Reconciliation Action Plan, including that encourages increased First Nation participation in employment and supply chains.

ASC is expected to comply with and implement broader Government policies in relation to equity and diversity in a manner that is consistent with preservation of ASC's Defence security status.

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 taking into account the nature of ASC, 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:
 - complying with any future naval nuclear power safety licence;
 - the proper use and management of the economic resources for which the Board is responsible;
 - achieving the objects and/or purposes of the GBE including maintaining a nuclear mindset; and
 - financial sustainability;
- **internal governance of ASC**, including (but not limited to) establishing and maintaining: (1) an appropriate system of risk oversight commensurate with ASC's activities and likely to be appropriate for a future holder of a naval nuclear power safety licence; (2) appropriate security processes, controls and information management protocols commensurate with holding a naval nuclear power safety licence and ASC's contractual obligations and expectations required when handling sensitive information; (3) appropriate Defence Industry Security Program (DISP) accreditation, including management including in respect of cyber security risks; and (4) an appropriate system of internal controls to support the above;
- **setting strategic direction, organisational leadership and establishing and maintaining a culture** that meets the high standards expected by the public and consistent with a nuclear mindset, including by:
 - not compromising on nuclear safety;
 - promoting efficient, effective, economical and ethical expenditure of money including in relation to arrangements with third parties;
 - following best practice principles and guidelines that go beyond strict legal obligations (e.g. probity and value for money);
 - ensuring a culture which encourages the highest standards of respect, diversity, inclusion and gender equity; and
 - setting a remuneration structure consistent with the Australian Public Service Commission's '*Performance Bonus Guidance – principles governing performance bonus use in Commonwealth entities and companies*', that balances reasonable reward for meeting clearly defined strategic company and national security 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):
 - any governance documents that operate between the Government, as shareholder, and ASC;
 - the GBE Guidelines;
 - the PGPA Requirements, including Corporate Planning and associated Key Performance Indicators; and
 - relevant best industry practices;
- **timely, accurate and transparent provision of material information**, including by:

- engaging transparently, accurately, comprehensively and on a timely basis as required by a future Australian Naval Nuclear Power Safety Regulator;
 - providing early notification to the Shareholder Minister of any potential risks or issues arising with ASC's operations;
 - otherwise keeping the Shareholder Minister informed in accordance with the Commercial Freedoms Framework;
 - ensuring the timely preparation and submission of accurate and comprehensive annual and other company reporting, in particular reporting customarily tabled in Parliament to promote public transparency and accountability; and
 - seeking to ensure that Defence/ASA customers are informed of appropriate matters relevant to the customer's program in a similar timeframe to the Shareholder Minister to facilitate alignment of customer and shareholder understanding and expectations.
- 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's Board delegates its power (or authorises an employee or third-party to exercise its power) it must be clearly documented and recorded and with periodic reviews and an expiry date.
 - The Board should have **access to a company secretary**, who ultimately reports to the Board (through the Chair). Board members should be able to raise confidential matters with the company secretary and seek advice from the company secretary as a governance expert. The company secretary, when acting in that capacity, should provide or procure advice independently from ASC management, except to the extent the Board permits or directs the company secretary to engage with ASC management.

Senator the Hon Katy Gallagher
Minister for Finance