

Chapter 1

Referral

1.1 On 8 February 2017 the Senate referred the following matter to the Senate Foreign Affairs, Defence and Trade References Committee (the committee) for inquiry and report by 30 November 2017:

The impact of Defence training activities and facilities on rural and regional communities, with particular reference to:

- a. economic, social and environmental impacts;
- b. consultation and communication with local government and community organisations;
- c. investments in new facilities, infrastructure and operations;
- d. utilisation of local suppliers and service providers to achieve value for money;
- e. encouraging awareness of tendering opportunities for rural and regional businesses; and
- f. any other related matters.¹

1.2 On 13 November 2017 the Senate agreed to extend the reporting date of the inquiry to 29 March 2018.²

Conduct of the inquiry

1.3 Details of the inquiry were placed on the committee's website at: <http://www.aph.gov.au/senate/fadt>. The committee also contacted a number of relevant individuals and organisations to notify them of the inquiry and invite submissions by 28 April 2017. Submissions received are listed at Appendix 1.

1.4 To date, the committee has held seven public hearings: Port Augusta, Rockhampton, Townsville, Darwin, Katherine, Bendigo and Wodonga, and undertaken two site visits: RAAF Base Tindal and Puckapunyal Military Area.

Interim report

1.5 On 20 November 2017 the committee held a public hearing in Bendigo and on 21 November 2017 the committee held a public hearing in Wodonga. A list of witnesses who gave evidence is available at Appendix 2. As it has done following other public hearings throughout this inquiry, the committee has decided to table an interim report which focuses on the evidence received in Bendigo and Wodonga. In addition to the public hearings, the committee also undertook a site visit to the Puckapunyal Military Area in Victoria.

1 *Journals of the Senate*, No 25—8 February 2017, pp. 852–853.

2 *Journals of the Senate*, No 68—13 November 2017, p. 2191.

1.6 Submissions and the Hansard transcripts of evidence may be accessed through the committee website.

Focus of the committee

1.7 This is the committee's fourth interim report for this inquiry. The previous interim reports provide detail about the background to and policy framework for the committee's inquiry. In summary, the committee is investigating how the increased investment in defence through the *2016 Defence White Paper* will deliver benefits and opportunities for regional economies and communities.

1.8 In particular, the committee is looking at the existing relationship between Defence and the communities surrounding Defence bases and whether there are mechanisms in place to facilitate consultation and communication between Defence, local government and local businesses. Another area of focus for the committee relates to the experience of local businesses when seeking work with Defence and whether there are factors inhibiting local small and medium enterprises from tendering for Defence contracts.

1.9 While the focus of this report is on the issues raised at the public hearings in Bendigo and Wodonga, this first chapter of the report provides information about the defence presence and investment in Victoria.

1.10 Chapter 2 covers the evidence received in Bendigo and Chapter 3 details the evidence received in Wodonga. Chapter 4 presents the committee's conclusions and recommendations.

Acknowledgement

1.11 The committee thanks the organisations and individuals who participated in the public hearings in Bendigo and Wodonga as well as those who made written submissions. The committee also thanks the Department of Defence (Defence) for facilitating the site visit to the Puckapunyal Military Area.

Defence presence, expenditure and new investment in the region

Defence investment in Victoria

1.12 In its submission, Defence provided detail about expenditure at selected Defence establishments for 2014-15 and 2015-16. Table 1 and 2 below provide a summary of expenditure at the Defence establishments in Puckapunyal and Albury Wodonga as these were the two regions visited by the committee.

Table 1: Expenditure at Puckapunyal and Monegeetta—2014-15 and 2015-16³

Fin. Year	Military employee expenses \$'000	Civilian employee expenses \$'000	Sub total employee expenses \$'000	Facilities Capital \$'000	Facilities Operating \$'000	Grants \$'000	Major Capital Equipment \$'000	Supplier Expenses \$'000	Total \$'000
2014-15	70,524	12,437	82,961	780	66	111	141	1,673	85,732
2015-16	72,892	10,705	83,597	4,369	96	84	134	1,830	90,110

Table 2: Expenditure at Albury Wodonga Military Area—2014-15 and 2015-16⁴

Fin. Year	Military employee expenses \$'000	Civilian employee expenses \$'000	Sub total employee expenses \$'000	Facilities Capital \$'000	Facilities Operating \$'000	Grants \$'000	Major Capital Equipment \$'000	Supplier Expenses \$'000	Total \$'000
2014-15	98,673	12,870	111,543	50,211	15,695	63	440	50,907	228,859
2015-16	102,195	10,830	113,025	1,861	17,585	76	800	24,200	157,547

1.13 Defence's submission also provided estimated cumulative expenditure to 30 June 2016 for a number of approved capital facilities projects by state. The estimated expenditure in Victoria is provided below.

Table 3: 2016-17 Approved Capital Facilities Projects—Victoria⁵

	Estimated cumulative expenditure to 30 June 2016
Enhanced Land Force Stage 2 Works	
Puckapunyal Training Area	\$1.9 million
Simpson Barracks, Watsonia	\$20.2 million
Defence Logistics Transformation Program	
Wadsworth Barracks, Bandiana	\$63.5 million

3 *Submission 9*, p. 39. Note: Table 1 includes expenditure at Monegeetta, a base in Victoria utilised as a test and proving ground for defence equipment. See: Department of Defence, *Trials Proving Establishment – Monegeetta, Victoria*, reviewed May 2016, <http://www.defence.gov.au/id/master/docs/ncrp/vic/0571ateatrialstrialsprovingestablishmentmonegeettavic.pdf> (accessed 10 January 2017).

4 *Submission 9*, p. 39.

5 *Submission 9*, pp. 42–46.

Air Traffic Control Complex Infrastructure Project, AIR 5431 Phases 2 and 3 and Fixed Base Defence Air Traffic Management and Control System	
RAAF Base East Sale	\$0.5 million
LAND 121 Phases 3 and 4 Overlander Facilities Stage 2	
Puckapunyal Training Area	\$0.9 million

Explosive Ordnance Logistics Reform Program project

1.14 The Explosive Ordnance Logistics Reform Program (EOLRP) is a Defence infrastructure project to address capacity and efficiency issues with Defence's explosive ordnance (EO) network across 12 sites nationally. At a public hearing for the Standing Committee on Public Works (Public Works Committee) on 29 September 2017, Defence provided evidence about the EOLRP project:

Defence's EO supply chain network is a critical enabler to Australian Defence Force, or ADF, operations and training. This network provides direct support to our troops, combat vehicles, aircraft and naval vessels, amongst others, through the acquisition, transportation, storage, distribution, handling, maintenance, return and disposal of explosive ordnance products.⁶

1.15 Under the EOLRP project, three facilities will be constructed in Victoria, at Seymour, Hastings and Avalon.⁷

1.16 In its submission to the Public Works Committee, Defence outlined the range of facilities it proposes to build at the various locations including: administration building, ammunition process building, EO storage facilities, non-EO storage building, hardstands, quarantine inspection facility, materials handling equipment and civil infrastructure (such as vehicle and pedestrian pavements to enable access to new facilities).⁸

1.17 As noted in the committee's third interim report, the EOLRP project is one of three pilot projects in which a Local Industry Capacity Plan will be trialled. At the Public Works Committee public hearing in September 2017, Brigadier Noel Beutel, Director General, Capital Facilities and Infrastructure, Capital Facilities and Infrastructure Branch, Department of Defence, provided additional details:

In late August in Darwin the Minister for Defence announced that the EOLRP project would be one of three pilot projects under which we'll be trialling what's referred to as a local industry capacity plan, or LICP, which

6 Brigadier Noel Beutel, Director General, Capital Facilities and Infrastructure, Capital Facilities and Infrastructure Branch, Department of Defence, *Parliamentary Standing Committee on Public Works, Committee Hansard*, 29 September 2017, p. 1.

7 Parliamentary Standing Committee on Public Works, *Report 7/2017: Referrals made in June 2017*, pp. 26–27.

8 Parliamentary Standing Committee on Public Works, *Report 7/2017: Referrals made in June 2017*, p. 24–25.

under these contracts we're looking at, which are head contracts, will require that potential tenderers have to provide a standalone tender schedule response to show how they have engaged with local industry, how they have identified capacity and capability for local industry to become involved as either subcontractors or in the supply chain, as I said, but it is one of three. The main reason we chose this project is that were across 12 sites and we get a good spread on that.⁹

1.18 At the hearing in Bendigo, Mr Craig Patterson, Acting Director General Capital Facilities and Infrastructure, Department of Defence, provided evidence to the committee about how the local community will be engaged in the EOLRP project:

So as part of our consultation for the parliamentary works committee processes we are expanding that to the industry capability networks, local chambers of commerce and so on. If there is an established market sector that would be keen on accessing, we would extend the consultation to those areas, too.

The reliance on the local industry capability plan is for the contractors to actively seek out the capacity and capability of the local markets, and how they have sought to maximise those opportunities, which they will provide back to Defence as part of their tender submission. It forms part of the overall value-for-money assessment of their tender.¹⁰

2016 Defence White Paper

1.19 Defence provided evidence about investment in Bendigo outlined in the *2016 Defence White Paper*:

The 2016 Defence White Paper provides for substantial investment in Defence geospatial-related capability, including additional workforce and enabling information systems. As part of the Australian Geospatial-Intelligence Organisation, the Bendigo site will benefit directly from this investment, including through the recruitment of additional personnel over the next several years and additional expenditure on geospatial information and production systems.

The 2016 Defence White Paper provides for workforce growth in Bendigo from 95 to 126 positions by 2020. To help achieve this growth, AGO has established a technical Traineeship in Bendigo which will commence in 2018. AGO has attracted 20 trainees, who are currently undergoing the security clearance process, and are scheduled to commence in two cohorts in January and April 2018. This investment in additional personnel will strengthen AGO's presence in Bendigo for the longer term.¹¹

9 *Committee Hansard*, 29 September 2017, p. 6.

10 *Committee Hansard*, 20 November 2017, p. 33.

11 Department of Defence, answer to question on notice, 20 November 2017, (received 14 December 2017).

Value of the Defence sector in Victoria

1.20 Regional Development Australia (RDA) Hume highlighted the economic value of the Defence sector for the Hume region, regional Victoria and across the state of Victoria:

In 2016 [the] Hume Region accounted for 21% of total Victorian economic value and 69% of regional Victoria's economic value which highlights the significant contribution this region makes to the defence sector...

The Defence Sector is a significant employment contributor within the Hume Region with 3,036 employed in the sector in 2016 which represented 24% of Victoria's total number of jobs for Defence in Victoria and 74% of total Defence jobs for regional Victoria. For the same period Defence made up 2.5% of the 120,610 total jobs in the Hume Region.¹²

1.21 RDA Hume provided information over several years about the number of Defence jobs in Victoria as well as the value added to the state from Defence as shown in Table 3 and Table 4 below.

Table 4: Gross value added (\$million) for Defence in Victoria¹³

Period	Hume	Regional Victoria	Victoria
2012	\$388.14	\$569.47	\$1,811.54
2013	\$387.99	\$572.38	\$1,859.47
2014	\$401.18	\$587.14	\$1,922.99
2015	\$404.53	\$584.68	\$1,906.10
2016	\$436.55	\$633.04	\$2,094.37

Table 5: Number of jobs for Defence in Victoria¹⁴

Period	Hume	Regional Victoria	Victoria
2012	2,889	4,068	12,173
2013	2,832	3,964	12,208
2014	2,859	3,940	12,315
2015	2,968	4,032	12,478
2016	3,036	4,092	12,681

12 *Submission 35*, p. 3.

13 *Submission 35*, p. 3.

14 *Submission 35*, p. 3.