

Chapter 3

Issues raised with the committee in Wodonga

Introduction

3.1 This chapter summarises the main issues raised during the committee's hearing in Wodonga and includes an overview of the economic, social and environmental impact of Defence activities in the region. Key areas discussed with the committee were: communication and engagement mechanisms, challenges experienced by small and medium businesses as well as opportunities to increase the capacity of local businesses to tender for Defence contracts.

Albury Wodonga Military Area

3.2 The Albury Wodonga Military Area (AWMA) consists of the Gaza Ridge Barracks and the Wadsworth Barracks East Bandiana sites, Latchford Barracks Bonegilla, and Wirlinga. The Bandiana site is situated five kilometres east of Wodonga.¹

3.3 Defence provides the following information about activities on the site:

The AWMA's largest resident unit is the Army Logistics Training Centre (ALTC) which consists of a formation headquarters, four trade training schools and a training development group. The Army School of Ordnance is responsible for all supply, administration and finance training and also delivers specialist training in petroleum operations. Training is conducted at a purpose built facility at South Bandiana which includes a simulated fire fighting facility.²

3.4 In their submission, the City of Wodonga and AlburyCity Council noted the Defence presence in the region:

Defence have a strong presence in the region with the Latchford Barracks located in Bonegilla and Gaza Ridge Barracks located at Bandiana in Wodonga. The Army Logistic Training Centre is headquartered at Bandiana, providing effective logistic training to a large proportion of the national army. Retaining existing operations as well as considering opportunities to expand operational and training activity is greatly encouraged. Defence also own a large site of some 370ha in the primary residential growth corridor for Albury at Wirlinga, with a further 109Ha held at Ettamogah.³

1 Australian Government, Department of Defence, *Albury Wodonga Military Area October 2016*, <http://www.defence.gov.au/Environment/PFAS/Docs/General/PSPFactSheets/PSPFactSheetAlburyWodongaFinal.pdf> (accessed 23 October 2017).

2 Australian Government, Department of Defence, *Albury Wodonga Military Area October 2016*, <http://www.defence.gov.au/Environment/PFAS/Docs/General/PSPFactSheets/PSPFactSheetAlburyWodongaFinal.pdf> (accessed 23 October 2017).

3 *Submission 37*, p. 2.

Economic impacts of Defence activities and facilities in the region

3.5 Evidence to the committee detailed the economic contribution of Defence activities and facilities in the region. The joint submission from Albury and Wodonga councils detailed these impacts:

On an annual basis, Defence injects an estimated \$536 million into the Albury Wodonga economy derived from approximately 1,426 direct jobs. Combined with indirect effects, the sector outputs \$945 million and sustains a total of 2,750 local jobs. In terms of annual value add activity, it contributes \$386 million directly, and \$593 million in direct and indirect value-added activity. Defence personnel and their families rent a number of local properties, send their children to local schools, and make use of entertainment, healthcare and other facilities.⁴

3.6 In addition, Councillor Anna Speedie, Mayor of the City of Wodonga, advised the committee that there are 400 independent contractors contracted to the Army locally.⁵ It was noted that the Defence presence in the region 'also plays a pivotal role in providing opportunity for other contractors et cetera to provide services to both the logistics and the training facilities'.⁶

3.7 Ms Alice Jones, First Assistant Secretary, Service Delivery, Department of Defence advised that, at the time of the hearing, Spotless, the prime contractor operating at the Bandiana base, currently employs 131 local staff. Subsequently, Defence provided additional information about the number of people employed locally:

Based on the payroll date of 17 November 2017, Spotless has advised that they have the full time equivalent of 111.75 permanent employees in the Albury Wodonga Military Area, which includes Bandiana.

Spotless has also advised that there are 252 individual sub-contractors in the Albury Wodonga Military Area. It is not possible to accurately ascertain the volume of work undertaken solely in Bandiana (Wodonga), as these sub-contractors may also undertake work at Wagga Wagga, where there are other Defence facilities covered under the contract.⁷

3.8 Furthermore, Defence advised that Broadspectrum employs 186 staff in the AWMA performing the following functions: firefighters (24), logistic personnel (stores trades) (21), and tradesman, clerical and stores (141) and Wilson Security sub-contract to Consec, who employ a total of 55 staff who all live locally within the Albury Wodonga area.⁸

4 *Submission 37*, p. 3. See also, *Business Wodonga*, *Submission 36*, p. 2.

5 *Committee Hansard*, 21 November 2017, p. 4.

6 *Committee Hansard*, 21 November 2017, p. 1.

7 Department of Defence, answer to question on notice, 21 November 2017, (received on 13 December 2017).

8 Department of Defence, answer to question on notice, 21 November 2017, (received on 13 December 2017).

Social and community impacts of Defence activities and facilities in the region

3.9 Councillor Speedie described the 'ripple' or 'multiplier effect' experienced in the community from the Defence presence in the region:

In terms of understanding the ripple effect into the community, the transplanting of families into the community means that there are schools involved, so there are teachers hired, and then there's everything that goes with the school, and then there's the shopping. So understanding and unpicking that is actually pretty complicated, because the multiplier effect is so significant.⁹

3.10 Councillor Kevin Mack, Mayor, AlburyCity Council, highlighted the positive impact that Defence activities have on the education sector in Wodonga as a result of Wodonga TAFE securing a number of Defence contracts. Councillor Mack also emphasised the strong tertiary education sector in the region, noting that Albury Wodonga has two universities and two TAFEs which is 'a great opportunity for [the Defence Force] to access that level of education without having to go online or go off-site'.¹⁰

3.11 Similarly, Mr Mark Dixon, Chief Executive Officer, Wodonga TAFE outlined the positive social impact that the Defence presence has in the region with particular reference to the education sector:

The obvious benefit to the TAFE is a significant amount of fee-for-service revenue and the TAFE, particularly a regional TAFE, relies on that revenue in many ways to do some of the things that we don't make money out of in terms of the community value courses that we run. The criticality and the partnership that the TAFE has with defence certainly works both ways, and it's certainly critical to the long-term viability and sustainability of regional TAFEs not just in Victoria but everywhere.¹¹

Current social connections

3.12 Similar to the evidence provided in Bendigo, the committee heard about existing opportunities for social connections between Defence and the broader community. Councillor Speedie advised that, at the invitation of the local commandant, she has attended welcome events at the Defence base:

In terms of things that are set engagements, we have a welcome afternoon and we're looking to move it off base and into town so that it's about really integrating that thinking about actually living in this community.¹²

3.13 Councillor Speedie noted that members of the Defence force establish a connection to Wodonga and surrounds over a period of time:

9 *Committee Hansard*, 21 November 2017, p. 4.

10 *Committee Hansard*, 21 November 2017, p. 6.

11 *Committee Hansard*, 21 November 2017, p. 30.

12 *Committee Hansard*, 21 November 2017, p. 4.

The other thing that we seem to experience back here—and I think part of that is because their training starts here and then they're usually returned here at least once during their term of engagement—is that we have a lot of people move back here and settle. A lot of people from Wodonga and Albury and around the region have moved back once they're retired from [the] Army. That's anecdotal, from speaking to people.¹³

Fostering further social connections

3.14 The committee heard evidence about the importance of building on existing relationships to foster further social connections between Defence and the broader community.

Community use of Defence facilities

3.15 As highlighted at the Bendigo hearing, witnesses in Wodonga noted difficulties accessing facilities located at Defence bases. It was suggested that facilitating public access to such facilities would benefit the community. Councillor Speedie explained:

Two fantastic things that they have on the base are museums—a light horse museum and an Army museum. Having just recently visited Canberra, I'd say this is pretty close to that. It is one of the best collections that the Army has; that's how they recognise it as well, but it's actually behind the gate. Given the changes after some terrible incidents in the last few years, people can't just drop by and visit that facility. It's a real shame because it could actually add further to our economy but also facilitate the sharing of history and a mutual understanding and support for our Army and our Army personnel, when you go and see some of the equipment, some of the history and some of those stories. It is a very significant opportunity for our community but also for the wider nation. Singleton [Australian Army Infantry Museum in New South Wales] has just, for want of a better description, liberated its museum, and it's, again, proving a huge success.¹⁴

3.16 Councillor Mack explained that community access to facilities on the base has become more challenging with the advent of increased security at Defence bases.¹⁵ While it was accepted that ensuring the security of Defence bases was paramount, it was suggested that there are actions that could be taken to 'integrate a little bit better':

I think the more we insulate these opportunities the less opportunity the community has to access the true story of war, and not everyone has access to Canberra and has the available income to visit the Australian War Memorial—which, I might add, is quite a highlight. But the stuff that we

13 *Committee Hansard*, 21 November 2017, p. 4.

14 *Committee Hansard*, 21 November 2017, p. 1. The Australian Army Infantry Museum reopened in August 2012 at a new site following the 2009 closure of the old museum at the army barracks, see: The Singleton Argus, *Military interest amazing*, 21 December 2012, <https://www.singletonargus.com.au/story/1200270/military-interest-amazing/> (accessed 15 January 2017).

15 *Committee Hansard*, 21 November 2017, p. 2.

have locally is quite significant, and I have had a number of discussions with Army personnel both here and in Canberra about the opportunity to liberate that facility here, because I see a wonderful tourism asset there and a wonderful opportunity for Albury-Wodonga. Accompanied with the Bonegilla Migrant Museum are two treasures that this community has and certainly could add value further into the future.¹⁶

3.17 When discussing opportunities to facilitate access to facilities located within Defence bases, Councillor Speedie suggested that when new facilities are being built, consideration should be given to locating services outside the perimeter of the base:

We had child care and basic kinder services on the barracks and it used to be that the community could access those. If you lived out that way you could actually access them. But because of the security change they've been removed. So where, as you said, a new facility is being built I think the thing you'd learn the quickest is to put any of those types of assets outside a perimeter, where they could be accessed and you could actually share those resources. You wouldn't put a fantastic oval that could potentially be used by a whole community behind your major fences et cetera; you'd be thinking about how you might integrate that into your community, even though it's an Army asset.¹⁷

Defence use of land and planning issues in the region

3.18 AlburyCity and Wodonga councils highlighted some planning issues with respect to current use of Defence land, with particular reference to land directly beside council land. It was noted that although the Commonwealth Government is exempt from complying with the Wodonga Planning Scheme, the current use and future development of Defence land in the council area 'may impact the safety of residents'.¹⁸

3.19 The submission also noted that Defence own a significant section of land on the NSW side of the border which 'lies within the primary residential growth corridor for Albury':

AlburyCity encourages the Department of Defence to study potential long term de-commissioning and disposal of this site given the location in the heart of the city's major residential growth corridor.

If medium to long term infrastructure, land asset, development or training plans were voluntarily communicated to both councils, there may be opportunities to collaborate, and/or ensure our planners can appropriately respond to developments that impact decisions on density sizes, noise, investment attraction efforts, safety and a range of other variables in nearby locations.¹⁹

16 *Committee Hansard*, 21 November 2017, p. 2.

17 *Committee Hansard*, 21 November 2017, p. 5.

18 *Submission 37*, p. 4.

19 *Submission 37*, p. 5.

Communication and engagement mechanisms

3.20 The committee received evidence about the level of communication between Defence, local councils, regional organisations and the community.

Communication between Defence, local councils and regional organisations

3.21 Councillor Speedie explained that when a base logistics facility was upgraded in 2016, it resulted in a positive economic contribution due to the local jobs it created. It was noted that Wodonga council became aware of the redevelopment at the same time as the broader community.²⁰

3.22 Councillor Speedie noted the importance of councils being informed about current and planned activities at Defence facilities to enable planning for the provision of adequate community services and facilities. It was noted that Wodonga is a fast growing region with very few vacancies in the school system and less than two per cent rental vacancy rate.²¹ In light of this, Councillor Speedie explained that it can be challenging to provide adequate services at short notice:

If we don't work more collaboratively and more collectively then how can we appropriately support our Army personnel but also that growth so that we make sure they are located in great areas where they can access schools and services?...If we need to make spaces available then it puts pressure on all of those other services. It doesn't mean that we can't or that we don't try our very best to facilitate that, but it certainly makes it challenging.²²

3.23 The pivotal role that the local base commandant has in fostering positive relationships with communities located around Defence facilities was also raised with the committee:

[W]e certainly highly value the Army as part of our community. They are part of our community. I have noticed...that the relationship that is formed is pretty dependent on the commandant of the day and the local government as well, absolutely. But I think there's more that could be done for both sides to win, based on that relationship. I would like to clarify that the current commandant, Andy Maclean, is absolutely excellent. We have a terrific relationship and he's very engaged, but it would be terrific if we could do more.²³

3.24 Representatives from Regional Development Australia (RDA) Hume advised that currently there are no established communication mechanisms between their RDA and Defence but that this is an area where the RDA could play a greater role:

It's a field where I think we can play a role in that there are people on base who are tasked with liaising with the community. There is a community

20 *Committee Hansard*, 21 November 2017, p. 3.

21 *Committee Hansard*, 21 November 2017, p. 3.

22 *Committee Hansard*, 21 November 2017, p. 3.

23 Councillor Anna Speedie, Mayor, City of Wodonga, *Committee Hansard*, 21 November 2017, p. 2.

that wants to be liaised with but something is breaking down in the communication...

Going from a clean start, I think we would have to start in a different place. We've got to form the connections with the Department of Defence in Canberra, for a start, as well as on the base; it is the full chain. I imagine communications within Defence are quite rigid—and that's because they would have to be. It is the degree of flexibility around that with particular campuses that needs to be understood.²⁴

Role of council to facilitate communication with local business

3.25 AlburyCity and Wodonga councils explained the role they could play in assisting local businesses if they were informed in advance about Defence's capital works and training activities:

If councils were informed in advance of Defence's capital works and training activities they could assist in circulating subcontractor opportunities to local businesses to provide fair access to all stakeholders. To enhance the outcomes of Defence activities in the region, strong pathways of communication need to be established between Defence, local councils, businesses and other stakeholders.²⁵

Informal networks and communication with Defence

3.26 The committee received evidence about communication with local bases that occurs on a more informal basis. Ms Debbie Lane, Business Development Manager, Office of Regional Development, Department of Premier and Cabinet, New South Wales, explained that she recently met with the base commandant at the AWMA who has extended an invitation for the Defence Murray Riverina Alliance members to attend an open day at the base in 2018. The Alliance has also participated in meetings at the Wagga Wagga base with BAE, the prime contractor on the base.²⁶

3.27 Mr Dixon noted that communicating with Defence is challenging largely due to 'the complexity and size of the Defence training establishments and some of their operational bases'.²⁷ Mr Dixon noted that with respect to training establishments, the local senior Australian Defence Force officer may be available to comment on training activities, but the broader operational activity of Defence in the region is reported back through central units in Sydney or Melbourne.²⁸

24 Mr Peter Gray, Deputy Chair, Regional Development Australia (Hume), *Committee Hansard*, 21 November 2017, pp. 31, 32–33.

25 *Submission 37*, p. 6.

26 *Committee Hansard*, 21 November 2017, pp. 12–13.

27 *Committee Hansard*, 21 November 2017, p. 31.

28 *Committee Hansard*, 21 November 2017, p. 31.

Emergency management consultative forums

3.28 With particular reference to emergency management, the committee heard examples of consultative forums comprising representatives from Defence, local government and other agencies, that are operating effectively:

...[T]here appears to be strong, existing communication between Defence and council in a fire prevention and emergency management capacity through established local committees. For example, The Municipal Fire Management Committee meet quarterly to discuss fire prevention mechanisms and the Municipal Emergency Management Planning Committee meet at the same frequency to discuss emergency management issues. These groups are key to ensuring the ongoing safety of the community and allowing stakeholders to forward plan for any natural or preventable issues, and Defence's ongoing participation is valued.²⁹

3.29 This issue was also discussed in more detail with Councillor Mack:

In terms of emergency services in both Albury and Wodonga, they do have regular briefings in relation to a whole host of issues, whether it be fire seasons, whether it be security alerts or whether it be responses to incidents on Army base and how that looks in terms of the protocols. So they work pretty closely with the police, fire, ambulance and emergency services, but in terms of the offering to councils, councils are feeling much the outer rim in relation to that type of information and that sort of behaviour.³⁰

Communication between small and medium enterprises and Defence

3.30 The committee received evidence that there are limited opportunities for SMEs to communicate directly with Defence. Witnesses noted that much of the information they find out about Defence opportunities occurs through informal networks, individual professional contacts, and utilising contacts that current staff may have with Defence as a result of previous employment.

3.31 Mr Michael Pope, Chief Financial Officer at Australian Target Systems (ATS), a live-fire target system business located in Albury, explained that ATS has an existing relationship with Defence which facilitates discussion about what services Defence are seeking and what ATS may be able to offer. ATS then communicates directly with other businesses about potential subcontracting opportunities:

What works for us at the moment is direct engagement with Defence as to what they are seeking and what we can offer in our area of expertise. I did speak about the PSI [prime systems integration] function, which is a concept that has been looked at within Defence and is still being looked at. I really see companies like ATS, who already have a firm relationship with Defence, as being a conduit through the PSI function to be able to bring SMEs into the game.³¹

29 AlburyCity Council and City of Wodonga, *Submission 37*, p. 5.

30 *Committee Hansard*, 21 November 2017, p. 5.

31 *Committee Hansard*, 21 November 2017, pp. 26–27.

Consultation to develop tender documents

3.32 Another issue raised with the committee was the level of engagement Defence has with industry when developing its tender documents. Business representatives provided examples of Defence tender documents that are developed seeking goods and services that may not present the best value for money as the requests are based on old practices or equipment that has been superseded.

3.33 It was suggested that Defence would benefit from engaging early with industry when developing tender documents to ensure the project requirements specified in the tender documents are consistent with industry standards. Mr Raymond Bertazzo, Managing Director, Bertazzo Engineered, provided an example of a tender document being issued by Defence requesting a large number of aluminium targets which appeared to be largely based on previous requirements, not taking account of the latest industry developments.³²

3.34 Mr Pope provided an example of a large Defence tender which included items that, in his view, were not relevant in the current environment and suggested that more engagement with industry may have secured a better result:

We had a good example last year...where a large tender came out for targetry...There were literally tens of thousands of items that really weren't relevant in the current range environment that were being tendered for. Some of it was actually old technology. We tendered for this and we lost to a supplier that went direct to Asia, because a lot of this stuff was basically pieces of cardboard or plastic that can be cheaply produced. Really, it's disappointing because it's not only, in our opinion, not effective use of taxpayer money but certainly not the right equipment that Defence were looking for on their ranges. So there is that gap of communication.³³

3.35 Mr Pope also advised the committee that Defence does engage with ATS but 'not so much when it comes to the tender process'.³⁴

3.36 The committee asked Defence on notice to provide information about whether there is engagement with industry to develop tender documents. At the time of reporting, the answer had not been received.

Communication with prime contractors

3.37 Mr Dixon suggested that an area for improvement in communication relates to how prime contractors communicate with smaller businesses.³⁵

32 *Committee Hansard*, 21 November 2017, p. 24.

33 *Committee Hansard*, 21 November 2017, p. 27.

34 *Committee Hansard*, 21 November 2017, p. 27.

35 *Committee Hansard*, 21 November 2017, p. 33.

3.38 When discussing what level of communication base managers may have with local businesses, Ms Alice Jones, First Assistant Secretary, Service Delivery, Department of Defence advised:

It is the prime's [prime contractor's] responsibility to deliver the service and sub out the work as they see fit or desire. I would want my base manager concentrating on administering the base and supporting the senior ADF officer because there are a lot of things that go on a base so I wouldn't want them, to be honest, to be distracted from doing that. Their role is to make sure the base is safe, that the maintenance and the state works are up kept, and that the functioning of the base meets the capability needs of the services and the groups that are functioning at that base.³⁶

Barriers faced by local businesses

3.39 The committee received evidence about the challenges experienced by small and medium enterprises (SMEs) that seek work with Defence and prime contractors.

Documentation

3.40 Ms Debbie Lane explained that the length of time and volume of paperwork required to secure a Defence contract is often prohibitive for SMEs. As a result, many local businesses will not deal directly with Defence but may be operating somewhere else in the supply chain:

We tend to find that many of our local businesses will be somewhere in the supply chain but not dealing directly with Defence. There are a lot of issues dealing directly with Defence around security and even documentation and time lines with contracts. A lot of small businesses simply don't have the cashflow that will allow them to do that. They are at some point in the supply chain...There's an awful lot of work that must be done up-front. The documentation is very expensive and it could take over a year and a half or maybe longer. A lot of small businesses don't play in that space.³⁷

3.41 Mr Klaus Baumgartel, Regional Manager Murray Riverina, Industry Capability Network noted the complexity of the tendering process:

In my opinion, one of the problems is the complexity of the process. It's always been an issue. I remember when they [Defence] first tendered the bases out some years ago, probably about 12 years ago now. Every prime that came in had a form you had to fill in just to enter the process, and some of those were 20 or 30 pages long. Doesn't it make sense that somebody generates at least a standard form of maybe the first 10 pages—all the information's the same—and allows that to be put together with the specific stuff you want at the back? Things like that can simplify a process, rather than people having to do all this paperwork. It really puts people off. It's one of the reasons that SMEs don't get involved. It's just too hard.³⁸

36 *Committee Hansard*, 21 November 2017, p. 37.

37 *Committee Hansard*, 21 November 2017, pp. 13–14.

38 *Committee Hansard*, 21 November 2017, p. 16.

Security clearances

3.42 Another challenge for SMEs raised with the committee related to the security clearances required to work with Defence:

Security's an issue because individuals need security clearance. A company may have one or two people who have that. If they happen to be on holidays they can't go in and do the job, which makes them liable to contractual issues. As far as the people working on site is concerned, most of them would be working for significant contractors.³⁹

Complexity of the system

3.43 Mr Michael Pope explained that it can be challenging to understand where funding allocations sit within Defence:

As far as the procurement side goes, we struggle to find where those buckets of money sit. Defence is so complex in the way it structures its procurement at various levels—basing what's in Canberra, versus what's been allocated to the primes versus what's sitting inside in the EMOS [Estate Maintenance and Operation Services] contracts. In this current financial year, our understanding is that, with the EMOS contracts with the primes, there is a \$60 million underspend at the moment between now and the balance of the financial year. A lot of that money within EMOS is not just for operations and maintenance; it's money that is actually earmarked for procurement of equipment and also the things that we've been talking about. But to actually get access to those funds is a real process. We're in the process of [at] the moment of putting proposals through to the primes so that they can submit our concept and proof of concept so that those funds can be accessed and those ranges can be updated to give Army the sort of training that they're looking for.⁴⁰

3.44 Mr Peter Gray, Deputy Chair, RDA Hume also highlighted challenges experienced by SMEs:

And it's not all plain sailing for business either, especially for small to medium sized businesses. Some can adapt to the Defence environment quite well—which is very demanding, I would think—but others just wouldn't be interested or couldn't do it. They think they might like to, but I imagine they would find it too difficult.⁴¹

Training opportunities and support for SMEs

3.45 The committee received evidence of existing training opportunities to assist SMEs to seek work with Defence.

39 Mr Klaus Baumgartel, Regional Manager Murray Riverina, Industry Capability Network, *Committee Hansard*, 21 November 2017, p. 14.

40 *Committee Hansard*, 21 November 2017, p. 24.

41 *Committee Hansard*, 21 November 2017, p. 31.

3.46 Ms Lane explained that the Defence Murray Riverina Alliance runs training workshops to support SMEs:

We've run some training workshops. One of them is '101 doing business with Defence' that looks at all of the introductory information and gives an overview of Defence and how to engage with Defence. We have a follow-up one 'Tendering for Defence'. We had duMonde [training and consulting firm] deliver that workshop to the members and that was around how to identify opportunities within Defence and AusTender was a large part of that. I have encouraged all of our small and medium businesses to make sure that they are on AusTender and getting the alerts. Anything that I see I'll send through was well.⁴²

3.47 As noted in previous interim reports, the committee is aware of advisory services and industry organisations that provide assistance to SMEs to increase their ability to engage with the defence industry. In response to a question on notice, RDA Hume advised:

In the past twelve months Regional Development Victoria [Victorian Government agency] has assisted one business in the Hume region.

Regional Development Victoria facilitated a grant application with one business to improve their capability in support of Defence related product produced for a third party.

In addition Regional Development Victoria has engaged with two organisations to support their efforts to build capability/capacity in order to assist the region's defence sector.⁴³

3.48 Mr Chris Deighton, Director of Pentarch, an organisation specialising in the disposal of munitions and other hazardous goods and the supply of ammunition packaging, told the committee that, in his view, information about Defence requirements and the procurement guidelines needs to be emphasised better by advisory services providing support to SMEs, as well as building relationships:

In terms of contracting with Defence and how to generate business with Defence, what seems to be lost with a lot of the advisory services around the place and the interlinking of these advisory services with SMEs is: what's required by Defence; what are their procurement guidelines? We spend a lot of time with relationships...we are in the door talking to people—financial investigation services, ANAO, the Directorate of Ordnance Safety—to find out what sails their boat. These people have very, very big charters as far as their roles are concerned, so you have to find out where your business sits relevant to where the opportunities are likely to come from.⁴⁴

42 *Committee Hansard*, 21 November 2017, p. 14.

43 Regional Development Australia (Hume), answer to question on notice, 21 November 2017 (received on 5 December 2017).

44 *Committee Hansard*, 21 November 2017, p. 27.

Information about local sourcing and understanding the benefits

3.49 The committee inquired about the availability of information about what goods and services Defence sources locally and whether there is an understanding of the regional impacts of Defence activities undertaken at bases.

Availability of information about what is sourced locally

3.50 Evidence provided to the committee indicated there is not a good understanding of the volume of goods and services that Defence sources locally. Mr Baumgartel advised:

As far as local supply is concerned, there are a lot of people who supply into the bases indirectly...probably via Spotless or ESS [part of Compass Group], who do the catering contract. There is very little visibility to that purchasing process. They have their own procurement people. They have national contracts with people that they have to abide by, so there are some things they will not buy locally, because they're obliged to buy them on a national contract. While they're allowed to do that there will not be an opportunity for local industry. I think there are policy directions that might make it easier for local companies to get in. There's always a price penalty.⁴⁵

3.51 Mr Baumgartel suggested that it would be useful for an audit of what is sourced locally to be conducted:

I think it would be very useful to try to audit what is sourced locally—to try to find out what actually is sourced locally. Something like a dry-cleaning contract for a military base is a lot of money. There are little things like that which you would hope would be done locally, but we don't know. Do they buy their meat supplies locally? I believe they do in Wagga; I don't know about here. But again it would be something worth knowing. Even if you just look at the 20 top expenditures or something like that, we have no idea. That's the problem. We have no information.⁴⁶

Requirements on Tier 1 contractors

3.52 On the question of whether prime contractors should be required to source capability locally in the region, Mr Baumgartel suggested that the requirement needs to be 'not necessarily to source it but to seek it. If the local capability is very much more expensive, I couldn't honestly say I would recommend they use that'.⁴⁷

Departmental information about the broader regional impact of Defence activities

3.53 The committee sought information from Defence about whether there are any details available about the regional impact from activities at Defence bases. Ms Alice Jones, First Assistant Secretary, Service Delivery, Department of Defence advised:

45 *Committee Hansard*, 21 November 2017, p. 15.

46 *Committee Hansard*, 21 November 2017, p. 17.

47 Mr Klaus Baumgartel, Regional Manager Murray Riverina, Industry Capability Network, *Committee Hansard*, 21 November 2017, p. 16.

Our previous responses to questions on notice had been that we're not able to easily break down our subregions. As we mentioned yesterday, [at public hearing in Bendigo] if things are paid on credit card, the company on the invoice may be based somewhere different to where a service is delivered. The chief financial officer has said that our systems aren't designed to collect that kind of detailed information. We also think that it's going to be difficult for us to do that, and the onus is on business to give us more information as well.⁴⁸

3.54 On notice, Defence provided the following information about the information they have about the regional impact of Defence activities:

Notwithstanding Defence's commitment to develop metrics regarding regional expenditure on estate construction projects, Defence does not track expenditure within the corporate financial system on the vendor activity by location of the production, or the delivery of goods and services. To capture such information would require a significant impost on industry to identify where all goods and/or services under the contract are being produced or delivered. In addition Defence's existing financial information systems would require significant investment to be able to capture and report this information...

Defence does not undertake economic impact studies on the impact of the projects on the local community. State or local government agencies may undertake these assessments. Defence is willing to contribute, through the provision of publically available data, to the conduct of a thesis by another agency, on the economic impact of Defence expenditure on the local community.⁴⁹

3.55 When responding to a question about whether Defence is able to measure regional impact based on information currently available in the system, Defence advised that their priorities have been in other areas:

[W]e focus on defence business, procurement, doing our services, improving them, supporting the warfighter and our mission statement. At this point in time, it would be fair to say that that probably hasn't been one of our biggest focuses. We do focus though, as you have heard, on engaging with the community. You have heard we do that well in some places and not so well in others so we are trying to improve that. But, yes, I would say we do not spend a lot of time focusing on that at the moment.⁵⁰

Benefits of utilising local suppliers and businesses

3.56 As an example, the committee received evidence from Mr Deighton about Pentarch's operations to the committee:

48 *Committee Hansard*, 21 November 2017, p. 36.

49 Department of Defence, answer to question on notice, 21 November 2017, (received on 13 December 2017).

50 Ms Alice Jones, First Assistant Secretary, Service Delivery, Department of Defence, *Committee Hansard*, 21 November 2017, p. 37.

Pentarch's business is based in two locations primarily—one in Oaklands in southern New South Wales and the other in Wangaratta in Victoria. Our head office is actually in Melbourne. We have approximately 36 people employed across all three areas. At the business in Oaklands, which is approximately 100 kilometres to the west of Albury, we deal with the disposal of hazardous materials for the Department of Defence—that's the Army, Navy and Air Force. In Wangaratta we manage the inventory of ammunition packaging for the Department of Defence. We have about 980,000 boxes currently in cycle around Australia. We collect them, bring them back, refurbish them and recycle them.⁵¹

3.57 Mr Deighton advised that Pentarch 'is very much involved with local industry' and that each year, his organisation provides a 'family tree' to Defence detailing the businesses they engage with to conduct their business. Mr Deighton explained:

In Wangaratta we have 91 suppliers, 55 of whom are local. In Oaklands we have 98 suppliers, 58 of whom are within 100 kilometres. We are absolutely involved in the local economies, and our social impact is known in both locations, as I think we're considerable contributors to both environments. Wages and salaries for the two locations are between \$2 million and \$2.5 million per annum. In Oaklands, a town of 300 people, their wages are between \$600,000 and \$1.4 million depending on the workload. In Wangaratta, the packaging contract we have completes in 2020, and we are expecting that, if Thales maintain their position with regard to Benalla, we are likely to get an extension to that contract through to either 2026 or 2031.

Basically, we are a true SME within this location and are utterly involved in everything that goes on.⁵²

3.58 Further to this, Mr Deighton also emphasised the benefits gained from using local businesses:

They [local businesses] live in our backyard—absolutely. Any local supplier of a product or service is living with you. It is so different to having stuff made out of Melbourne. In fact, we have encouraged two primes around Wangaratta to use us—to use local suppliers. We have encouraged them to give us work that they formerly put in Melbourne, and we have educated the local suppliers. We have the advantage that we have some very strong management. I have a couple of engineers, one who is the former head of engineering at Thales, who is in his semi-retirement. He has overseen the standards that we can actually produce to. We are able to go into engineering firms and restructure their businesses.⁵³

51 *Committee Hansard*, 21 November 2017, p. 20.

52 *Committee Hansard*, 21 November 2017, p. 20.

53 *Committee Hansard*, 21 November 2017, p. 22.

3.59 Mr Deighton noted that a number of the companies they work with are 'too small to get ISO accreditation' and many 'have cash flow issues'.⁵⁴ In many cases, Pentarch assists the smaller companies by covering their start up costs, equipment needs and act as a liaison point with Tier 1 contractors.⁵⁵

54 *Committee Hansard*, 21 November 2017, p. 22.

55 *Committee Hansard*, 21 November 2017, p. 22.