

The Senate

Foreign Affairs, Defence and Trade
References Committee

Impact of Defence training activities and
facilities on rural and regional communities

Fourth interim report

February 2018

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Recommendations

Recommendation 1

4.7 The committee recommends that Defence review the accessibility of military museums located within Defence bases and investigate options to improve access and increase visitor numbers.

Recommendation 2

4.9 The committee recommends that Defence investigate the feasibility of introducing tailored security arrangements to facilitate streamlined access to the Puckapunyal Military Area in limited circumstances.

Recommendation 3

4.16 The committee recommends that Defence, in consultation with local councils, reviews its existing regional communication mechanisms with a view to establish a regular forum to facilitate discussion about Defence activities and potential business opportunities in the region.

Recommendation 4

4.19 The committee recommends that Defence consider requiring, through an additional provision in Base Services contracts, Tier 1 contractors to use a payment system similar to the system currently used by Defence.

Recommendation 5

4.23 The committee recommends that Defence make information available to local communities about Defence expenditure in the respective area.

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.

Chapter 2

Issues raised with the committee in Bendigo

Introduction

2.1 This chapter summarises the main issues raised during the committee's hearing in Bendigo and includes an overview of the economic, social and environmental impact of Defence activities and facilities in the region. Key areas discussed with the committee were: communication and engagement mechanisms; barriers faced by local businesses; and Defence and Tier 1 contractor engagement with local businesses.

Puckapunyal Military Area

2.2 The Puckapunyal Military Area (PMA) is a major Defence training base located in central Victoria, close to Seymour within the Mitchell Shire. It was initially used as a mobilisation and training facility in World War 1, and was formally established as a base in 1939.¹

2.3 The PMA is an example of a Category 3 training area. The primary function of such areas is to:

...support the conduct of single Service collective training with limited potential for combined training, and sufficient manoeuvre space for up to sub-unit land, air and sea forces.²

2.4 The PMA includes:

...the Headquarters Combined Arms Training Centre (CATC), the School of Armour (SoARMD) and School of Artillery (SoARTY) as units of the CATC, and, Joint Logistics Unit Victoria (JLU-V) and the Army School of Transport (AST) from the Army Logistics Training Centre (ALTC). The PMA also supports training by other Australian Defence Force (ADF) Units, Defence Cadets and civilian organisations such as Police and Emergency Services. There is also an on-base community comprising of military members and their families who reside in married quarters, with supporting infrastructure including a commercial precinct and primary school. The PMA has an area of approximately 50,000 hectares.³

2.5 Activities carried out at the PMA also include vehicle maintenance, refuelling, printing, and the use of firing ranges and fire training areas. The base contains two sewage treatment plants, a fire station, several electrical transformers, and numerous

1 Department of Defence, *Puckapunyal Military Area, Victoria*, October 2013, <http://www.defence.gov.au/id/Master/docs/NCRP/VIC/0596PuckapunyalMilitaryAreaVic.pdf> (accessed 24 October 2017).

2 Department of Defence, *Submission 9*, p. 4.

3 Department of Defence, *Puckapunyal Military Area High Voltage Upgrade, Statement of evidence to the Parliamentary Standing Committee on Public Works*, February 2016, p. 1.

landfill areas that have been used to dispose of waste materials from historical site operations.⁴

Economic impact of Defence activities and facilities in the region

2.6 Councillor Rhonda Sanderson, Mayor of Mitchell Shire Council, summarised the impact of Defence in the region, stating:

...Mitchell shire is very proud to host the Puckapunyal Military Area in our shire. There's a very long and enduring association between Puckapunyal and our community and between Defence and our community—going back to 1887, in fact—in particular the township of Seymour. Many Seymour residents are ex-military...The PMA supports many positive economic, social and environmental benefits for Mitchell shire.⁵

2.7 Councillor Sanderson described the economic impact of the PMA in the region:

...Puckapunyal is a significant economic generator for our shire and for the region. It's the largest single employer for our shire, with over 1,000 jobs located on base according to the 2016 census, which is about 10 per cent of our workforce. It includes approximately 640 jobs for non-military personnel....It's estimated to generate over \$230 million of local economic activity in Mitchell shire.⁶

2.8 Mr Stuart Locke, President of Seymour Business and Tourism (the local Chamber of Commerce), said expenditure relating to PMA:

...permeates throughout the whole community. Every resident or anyone working on the base—well, there's no-one on the base who doesn't have a job. We're very lucky; we've got a demographic that's fully employed. For them to use Seymour as their first port of call, whether it be for food, drink, health care or education means we are quite fortunate in that respect.⁷

2.9 Mr Chris Cheal, Economic Development Coordinator from Mitchell Shire Council, outlined the current 'utilisation of local suppliers and service providers to provide value for money in procurement at PMA'.⁸ He stated:

Several local businesses benefit by supplying the PMA with goods and services. Some of these examples include passenger transport services, automotive repairs, locksmith services, cleaning, construction, building maintenance, earthworks and land management services...

4 Department of Defence, *Puckapunyal Military Area, Victoria*, October 2013, <http://www.defence.gov.au/id/Master/docs/NCRP/VIC/0596PuckapunyalMilitaryAreaVic.pdf> (accessed 24 October 2017).

5 *Committee Hansard*, 20 November 2017, p. 1.

6 *Committee Hansard*, 20 November 2017, p. 1.

7 *Committee Hansard*, 20 November 2017, p. 14.

8 *Committee Hansard*, 20 November 2017, p. 1.

We're confident that our local companies provide excellent value for money. They're located very close to the PMA, so they're able to have low transport costs because of this and they can guarantee quick response times. So that value proposition is very clear in respect of those things.⁹

2.10 Mr Locke similarly noted some businesses have 'found a niche in the PMA economy', nominating motels, dry cleaners and carpet cleaners as examples of local businesses benefiting from activities at the PMA.¹⁰

2.11 Mr Cheal also told the committee many 'people on the base will do their shopping at one of Seymour's four supermarkets, and that is good for Seymour'.¹¹

2.12 Ms Linda Beilharz OAM, Chair of Regional Development Australia (RDA) Loddon Mallee, added:

I know that family members who are not part of the Defence organisation at Puckapunyal but live there do work in Bendigo. In terms of economic value for our region, that facility is quite important to us here.¹²

2.13 Ms Beilharz indicated that there were 213 direct jobs across the Monegetta site at Macedon Ranges and the Australian Geospatial-Intelligence Organisation (AGO) in Bendigo.¹³ She suggested that this equated to:

...something like \$38 million in salaries and wages going to those people within our [region] and a contribution of \$75 million to our region from all the different inputs and outputs from those sites being there.¹⁴

2.14 She also noted local manufacturing businesses undertaking work for Defence were important to the region's economy.¹⁵

Social impact of Defence activities and facilities in the region

2.15 Councillor Sanderson mentioned some of the ways in which the local and base communities already interact, such as commemorative events, Anzac Day parades and the annual Base Command and Defence Community Organisation Welcome Day for new residents at the PMA.¹⁶

9 *Committee Hansard*, 20 November 2017, pp. 1–2.

10 *Committee Hansard*, 20 November 2017, p. 12.

11 *Committee Hansard*, 20 November 2017, p. 4.

12 *Committee Hansard*, 20 November 2017, p. 18.

13 *Committee Hansard*, 20 November 2017, p. 18.

14 *Committee Hansard*, 20 November 2017, p. 18.

15 *Committee Hansard*, 20 November 2017, p. 18.

16 *Committee Hansard*, 20 November 2017, p. 5; Mitchell Shire Council, *Submission 38*, [p. 3].

2.16 Mr Locke outlined how demographic changes at the PMA have altered its social impact on nearby communities:

The base was once full of families. Now it's more trainees on specialised training. We see the trainees on the base for a series of weeks or months and then they depart.

...

Demographic changes also led to the demise of the Puckarook Football & Netball Club... It was in existence for a number of years, but I think it has run out of puff and that's pretty much because there are fewer family units on the base than there were.¹⁷

2.17 He also highlighted the impact of demographic changes on local schools:

The loss of the youth population that went with the units moving away affected the local schools. They're still affected today as lost student numbers equal lost funding, which equals reduce[d] curriculum choice, which equals less attractive scores and so the downward spiral continues. The units that left were very much family-orientated units; they were mother, father, children. Now they're more trainees coming in on specialised courses.¹⁸

2.18 The committee heard that community interaction is further constrained by difficulties accessing facilities at the PMA for non-Defence community members, and limited options for people living at PMA to travel to Seymour. For example, Councillor Sanderson said:

The high level of security combined with the distance between the base and Seymour means the interaction between the base and Seymour can be challenging at times. Recent security changes have meant that getting to the base can be difficult. Access to Seymour and neighbouring towns is also difficult for Puckapunyal residents and especially the trainees, many of whom don't have a vehicle with them when they come to train at Pucka[punyal]. As a result, both the communities suffer despite the opportunities that exist.¹⁹

17 *Committee Hansard*, 20 November 2017, p. 13.

18 *Committee Hansard*, 20 November 2017, p. 12.

19 *Committee Hansard*, 20 November 2017, p. 2.

2.19 She added:

I know from experience that some trainees can be quite isolated. If someone can manage to get a car they might all car pool but sometimes they're just stuck on the base for the duration of their training, pretty much. That's unfortunate, because they could be visiting the different townships in Seymour, socialising and learning a bit more about the local community. But they're not, so that can provide some challenges.²⁰

2.20 Mr Locke indicated some trainees might not engage with the local community because they leave the region altogether on weekends:

On weekends there is a massive exodus of trainees to Melbourne or wherever else to get off the base. We noted that change and that we have a very low uptake of public transport users during the week but an incredibly high one on weekends. It's just a fact. We train the new enrollees in courses on the art of myki, our state government transport system.²¹

Fostering further connections

2.21 The committee heard about opportunities to enhance community interactions by improving access, establishing new community events, and sharing facilities such as the military museum located in the grounds of the PMA.

Improving access

2.22 Mr Cheal spoke about the consequences of the PMA security arrangements. He told the committee 'Mitchell Council fully understands the need to operate under safe base Charlie', but noted:

...we do recognise that it's made interaction more difficult even between local sporting clubs. I've consulted with schoolchildren for the Seymour structure plan and they told me that it's difficult to visit a friend after school if they're on Pucka[punya]. They can't just have friends come over. It's easier for kids under a certain age—I think it's 14 or 15. I'm not 100 per cent certain about that age cut-off to get onto base. But even for parents to try and get on to pick them up afterwards can be difficult.²²

2.23 Mr Cheal suggested the creation of tailored security arrangements to address this barrier, such as a pass allowing local residents to register to pick up their children more easily.²³

2.24 Mr Locke suggested:

...the possibility of a bike path between the two communities. Whilst it's of no real advantage to us, being unable to get into the base, for the PMA community, which is a young community, that would be a bonus to the residents of the base via their health and interactions. My experience with

20 *Committee Hansard*, 20 November 2017, p. 4.

21 *Committee Hansard*, 20 November 2017, p. 13.

22 *Committee Hansard*, 20 November 2017, p. 5.

23 *Committee Hansard*, 20 November 2017, p. 5.

many of the young fellas who come on a course is that they bring their bikes and ride into Seymour to catch the train or to go shopping.²⁴

2.25 Mr Locke also discussed the issue of updating public transport infrastructure such as timetables on the PMA to make it consistent with what is provided outside the base.²⁵ He indicated there was a longstanding 'impasse' between Public Transport Victoria and Defence regarding responsibility for the installation of the new signage and equipment on the PMA.²⁶

2.26 On notice, Defence advised the committee that bus stops and shelters at the PMA have been maintained by Defence on the understanding that they belonged to Defence. Defence also provided further information:

In March 2010, Metlink (working for then Victorian Department of Transport—now Public Transport Victoria) requested access to Puckapunyal to maintain and upgrade the bus stops. Defence advised that a licence agreement would need to be put in place to allow this to occur in line with public liability requirements and to meet Defence conditions for access.

Subsequent correspondence between the Victorian Department of Transport and Defence included Defence offering to consider a proposal by the Victorian Department of Transport that would negate the need for a licence agreement. Ultimately, the Victorian Department of Transport advised that they did not own the bus stop infrastructure, and therefore no licence agreement was necessary as Defence had responsibility for maintaining or upgrading the bus stops.

Defence continues to maintain the bus stops at Puckapunyal on a break/fix basis using Defence's Base Services Contract contractors.²⁷

2.27 Furthermore, Defence advised that they will contact Public Transport Victoria to recommence discussions to ensure that bus stop standards are applied at the PMA.²⁸

Additional community events

2.28 Mr Cheal told the committee about a community market in Seymour:

One of our local businesses held a market in Seymour last year, trying a new initiative. Historically, Seymour has had a monthly Saturday market. Another business started up a Sunday market, and that was really popular because it was promoted well on the base. So there is definitely a desire for

24 *Committee Hansard*, 20 November 2017, p. 13.

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

26 *Committee Hansard*, 20 November 2017, p. 11.

27 Department of Defence, answers to questions on notice, 20 November 2017 (received 13 December 2017), p. 6.

28 Department of Defence, answers to questions on notice, 20 November 2017 (received 13 December 2017), p. 6.

things to do on the weekends—particularly on Sundays, which can otherwise be a very quiet and isolating day.²⁹

2.29 Mr Locke provided an example of an event planned to foster connection between PMA residents and the broader community:

It's a little difficult for us now as a community to welcome new arrivals. We're not really notified of when the turnover occurs. Obviously, it's quite hard now for businesses to get on the base for an open day. So, rather than having an open day on the base, we're looking at trying to hold an open day in the form of a film night to get the residents of Puckapunyal to come out to Seymour and have a good time.³⁰

Possible Defence use of community facilities

2.30 Mr Locke identified 'a general decline in the facilities for the base', including the closure and lack of maintenance of some recreational facilities.³¹ He raised the possibility of 'better utilising the facilities outside the base, rather than trying to revalue and upgrade the facilities there'.³²

2.31 Mr Locke suggested Defence could subsidise the use of the amenities in Seymour, such as the golf course, leisure centre, and shire pools, arguing this 'would be at less cost to the ADF and a big benefit to the local communities'.³³ He also raised the possibility of the hospital in Seymour delivering more health services to the PMA residents.³⁴

Community use of Defence facilities

2.32 Councillor Sanderson 'strongly supported' Defence's intention to upgrade the Royal Australian Armoured Corps Memorial and Army Tank and Artillery Museum (the tank museum).³⁵ She also supported the proposal to move the tank museum to the edge of the PMA to make it more accessible, stating:

We believe there is a rough time line for that of 2022. If that could be stuck to or perhaps even brought forward, that would be wonderful for the local community as well as for the trainees and the museum staff to have the exhibits displayed as they should be with honour and respect, and to proper standards as well. The new museum would greatly enhance and strengthen the combined tourism economy of Seymour.³⁶

29 *Committee Hansard*, 20 November 2017, p. 4.

30 *Committee Hansard*, 20 November 2017, p. 13.

31 *Committee Hansard*, 20 November 2017, p. 12.

32 *Committee Hansard*, 20 November 2017, p. 12.

33 *Committee Hansard*, 20 November 2017, p. 12.

34 *Committee Hansard*, 20 November 2017, p. 12.

35 *Committee Hansard*, 20 November 2017, p. 2.

36 *Committee Hansard*, 20 November 2017, p. 2.

2.33 The Mitchell Shire Council argued such a move would:

- Provide Seymour and the surrounding area with an engaging military heritage visitor attraction to strongly complement the Vietnam Veterans Walk and the Australian Light Horse Memorial Park.
- Greatly enhance and strengthen the combined offer of Seymour, and the *Heart of Victoria* tourism region, around military heritage attractions.
- Boost tourism, visitor numbers, jobs and other tourism businesses in Seymour, Mitchell Shire and the wider *Heart of Victoria* region.³⁷

2.34 Mr Cheal said:

You could imagine a fantastic facility and new museum at the fence line that is more accessible to people at the outside but still able to be secured if necessary from on base because it does have some operational tanks within its collection. I also see opportunities, perhaps for a cafe with coffee available on weekends.

...

The grey nomads are a significant part of our tourism market. Seymour is obviously on the highway for most people heading north from Melbourne, a source market for grey nomads. If we could have a tank museum, I cannot stress how much I think it would help boost the military tourism.³⁸

2.35 On notice, Defence provided the number of visitors to the tank museum between October 2016 and October 2017:³⁹

| Visitor Numbers | |
|------------------------|--------------|
| ADF/APS/Cadets | 6,052 |
| Civilian | 2,564 |
| School students | 506 |
| ADF/ADO trainees | 546 |
| Total | 9,668 |

Management of environmental impacts

2.36 Mitchell Shire Council judged that the 'PMA is generally well managed in terms of environmental impacts'.⁴⁰ Its submission stated 'the large area of the site

37 *Submission 38*, [p. 3].

38 *Committee Hansard*, 20 November 2017, pp. 6–7.

39 Department of Defence, answers to questions on notice, 20 November 2017 (received 12 December 2017).

including newly forested land, accommodates a variety of flora and fauna and is likely to be a significant reservoir and bio-link for a wide range of species in central Victoria'.⁴¹

2.37 Mr Cheal noted:

...the PMA actively manages environmental issues such as weeds, pest animals and biosecurity threats. There have been issues in the past with Johne's disease, but that has been managed very well. Apparently, there is a wild goat population that lives on the base and we have sheep farmers just nearby to the base. Issues like that are very important to be managed carefully and we believe that PMA does that very effectively.⁴²

2.38 Mr Locke briefly raised the 'massive amount of kangaroos on the base' as a possible issue relating to the environmental management of the PMA.⁴³

Communication and engagement mechanisms

2.39 Witnesses made a number of suggestions for how to ensure local businesses are aware of business opportunities with Defence and Tier 1 contractors, and how to publicise the capacity of local businesses to tender for Defence work.

Use emergency services as a model of positive engagement

2.40 The PMA is represented on the local Municipal Emergency Management Planning Committee (MEMPC). The MEMPC is part of Mitchell Shire Council's governance structure supporting the development and implementation of the local Municipal Emergency Management Plan.⁴⁴

2.41 Mitchell Shire Council described Defence collaboration on emergency services as 'a positive example' of consultation and communication with local government and the community.⁴⁵ Mr Cheal stated:

Recently, the communications have been very good between PMA, in particular the Country Fire Authority and council. Joint emergency management exercises with PMA have been conducted and they have improved the lines of communication and understanding about capacity and

40 *Submission 38*, [p. 4].

41 *Submission 38*, [p. 4].

42 *Committee Hansard*, 20 November 2017, p. 2. Bovine Johne's disease is 'a fatal wasting disease of cattle, goats, alpaca and deer caused by a chronic bacterial infection', Agriculture Victoria, *What is Bovine Johne's disease*, page updated 12 July 2017, <http://agriculture.vic.gov.au/agriculture/pests-diseases-and-weeds/animal-diseases/beef-and-dairy-cows/bovine-johnes-disease/what-is-bovine-johnes-disease> (accessed 13 December 2017).

43 *Committee Hansard*, 20 November 2017, p. 13.

44 *Submission 38*, [p. 4]; Mitchell Shire Council, *Emergency Management*, <https://www.mitchellshire.vic.gov.au/services/emergency-management> (accessed 10 January 2017).

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

capability. We would point this out as an example of when everyone is willing and comes to the table communication can really assist and aid in improving operational outcomes in an area, and there could be some examples there coming back to something like procurement.⁴⁶

2.42 Mitchell Shire Council outlined the following plans to further develop these cooperative arrangements:

Relief and recovery arrangements are being reviewed to reflect PMA's management of civilian staff and residents living on the base during and after an emergency event. PMA are developing arrangements to look after civilian staff and residents without the need to send them to Seymour where they may overwhelm existing facilities and services.

...An emergency services multi-agency welcome is being considered for the new base commander early 2018; it is planned to bring together agency representation from emergency services, Council and support agencies to meet the new base commander.⁴⁷

Establish a regular roundtable meeting

2.43 In addition, Mitchell Shire Council suggested the creation of quarterly roundtable meetings to discuss commercial opportunities with representatives from Defence, local government and chambers of commerce, and development agencies such as Regional Development Australia and Regional Development Victoria.⁴⁸ Mr Cheal explained:

I believe that just having the opportunity to have that round table, to understand perhaps what opportunities are coming up over the coming six- or 12-month period, would really just help to get the message out there.

We could then communicate better with local companies through the chamber of commerce perhaps, let them know that opportunities are coming up and to start thinking about how to do it, and maybe demystify some of the processes around procurement and help them realise that there might be smaller parts of a contract that can be bid for.⁴⁹

Engage regional development organisations

2.44 Ms Beilharz noted there are not currently strong connections between RDA Loddon Mallee and Defence, stating:

We've done regional planning, and the regional planning has identified opportunity and need. I don't think that the Defence Force participated in that process. That means it hasn't been alerted to us in the early stage of what the opportunities might be.⁵⁰

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

47 *Submission 38*, [p. 4].

48 *Submission 38*, [p. 2].

49 *Committee Hansard*, 20 November 2017, p. 5.

50 *Committee Hansard*, 20 November 2017, p. 20.

2.45 She indicated RDA Loddon Mallee would be seeking opportunities to engage further with Defence.⁵¹

Create contact points

2.46 Witnesses suggested the level of Defence consultation and engagement with the local community depends on the particular individual holding the role of base commandant.⁵² Councillor Sanderson acknowledged the 'exceptional' work of the Puckapunyal Army base commander, Colonel Marcus Constable, to engage with the local community.⁵³

2.47 However, the committee heard that much of the commercial work potentially available to local businesses is managed by the Base Services Contractor, rather than base commandant. Ms Alice Jones First Assistant Secretary, Service Delivery, Defence, stated it is the role of the Estate Maintenance and Operation Services (EMOS) manager 'to liaise with the SMEs around possible opportunities, within their [remit], to do with base service contracts'.⁵⁴

2.48 On notice, Defence advised:

The [Base Services] Contract specifically requires each EMOS Contractor to engage with a range of small-medium enterprises (SMEs), and provide additional ongoing support to these SMEs to enable them to improve their service delivery, develop their capabilities and to continue to meet Defence's changing requirements.⁵⁵

2.49 The Department also noted that the Base Services Contractor must report annually on the number and percentage of SMEs engaged annually. These reports are provided to Defence and are commercial in confidence.⁵⁶

2.50 Mr Locke illustrated how Defence and EMOS personnel can inform local businesses and support them to seek commercial opportunities. He described how his own bus company had been supported to become a preferred operator, explaining to the committee:

...it was more about, again, this procurement panel and knowing who to speak to and what to do and how to find out about it. The local base manager insisted then on us meeting the contractor, Broadspectrum, and starting a process of applying to be on that preferred operators panel, which we've done. We now provide quotes for tasks, and at times we are hired;

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

52 See, for example, Councillor Sanderson, *Committee Hansard*, 20 November 2017, pp. 2–3.

53 *Committee Hansard*, 20 November 2017, p. 5.

53 *Committee Hansard*, 20 November 2017, p. 5.

54 *Committee Hansard*, 20 November 2017, p. 28.

55 Department of Defence, answers to questions on notice, 20 November 2017, (received 13 December 2017), p. 2.

56 Department of Defence, answers to questions on notice, 20 November 2017, (received 13 December 2017), p. 2.

our vehicles, our drivers and their local knowledge are utilised. We're thankful for that, and thankful to the base manager who helped open some doors for us.⁵⁷

2.51 Witnesses discussed the possibility of creating clearer structures for disseminating information about business opportunities. For example, Mitchell Shire Council called for the '[i]dentification of clear 'contact points' within ADF for local government and local businesses in relation to forthcoming opportunities'.⁵⁸

2.52 Mr Locke supported the idea of Defence contacting Seymour Business and Tourism or the Mitchell Shire Council to communicate opportunities for small businesses to engage with Defence work.⁵⁹

Utilise local channels of communication

2.53 The committee heard that different types of businesses become informed of commercial opportunities through different channels. For example, Mr Sam White, General Manager of Hofmann Engineering, said that Hofmann Engineering monitors digital platforms and employs product managers to keep track of Defence procurement processes.⁶⁰

2.54 However, Mr Locke suggested Defence should be:

...a little more aware that small business doesn't really function in the cyber world as much as people think it does. Even I still view the local paper when we know that there are things going on out on the base. The world deals with big business, and small business seems to be left wondering how big business does find these tenders. It's not that small business has really any desire to win large tenders—we don't have the ability to do so—but we don't even seem to be able to contact the winners of those large tenders to find out if we can help to value-add their operation.⁶¹

2.55 Mitchell Shire Council similarly supported the provision of information through regular local advertising channels, such as regional newspapers.⁶²

Opportunities for collaboration

2.56 Mitchell Shire Council suggested local businesses should be supported to engage with Defence work by '[r]aising awareness amongst local businesses of, as subcontractors, what they could provide, rather than assuming that they have to fulfil a whole contract'.⁶³

57 *Committee Hansard*, 20 November 2017, p. 11.

58 *Submission 38*, [p. 2].

59 *Committee Hansard*, 20 November 2017, p. 15.

60 *Committee Hansard*, 20 November 2017, p. 25.

61 *Committee Hansard*, 20 November 2017, pp. 14–15.

62 *Submission 38*, [p. 2].

63 *Submission 38*, [p. 2].

2.57 Mr Cheal expanded:

In terms of encouraging local businesses, again I've seen in the recommendations [from previous interim reports of the inquiry] and have also heard through our chamber of commerce of being aware of the opportunities at that smaller level. A great example out of South Australia was that any businesses would balk at the idea of going for a contract to build a submarine, but there may be a certain type of widget that is required. There is that small opportunity if those opportunities were identified and then communicated locally.⁶⁴

Barriers faced by local businesses

2.58 The committee heard about challenges for local businesses that seek work with Defence and Tier 1 contractors, and discussed some suggestions for addressing these challenges.

Access to the PMA

2.59 Mr Locke told the committee that security arrangements limiting access to the base act as a barrier for small businesses:

Some of the small businesses I spoke to, who I assumed had contracts and ongoing work out on the base, now have dropped off because of the obligation to fill in all the paperwork and to hold passes at the gate. If you're supplying parcels or you're supplying gravel, it's not worth your time to sit and be processed when you could be doing other work. One operator in particular said, 'I just don't do it any more'.⁶⁵

Documentation

2.60 Witnesses provided different perspectives on the extent to which dealing with documentation was problematic for businesses.

2.61 Mr White, General Manager of Hofmann Engineering, suggested that the requirements of Defence contracts were not too excessive in his experience, stating:

They make good business sense. They're not extremely onerous. At the end of the day, it's about the people on the front line. If you don't get the paint right, for example, the last thing we want is a vehicle being seen... inappropriately.⁶⁶

2.62 He implied that, regarding paperwork, the military were no worse than other industries, stating the 'documentation is significant and necessary, but, if you wanted to do the work today and get paid tomorrow, that is just in no way realistic'.⁶⁷

2.63 In contrast, Mr Cheal told the committee about some small businesses within the local community 'that feel that the procurement process is overly onerous and can

64 *Committee Hansard*, 20 November 2017, p. 8.

65 *Committee Hansard*, 20 November 2017, p. 11.

66 *Committee Hansard*, 20 November 2017, p. 24.

67 *Committee Hansard*, 20 November 2017, p. 25.

work to exclude some companies from providing services even though, as we've heard, it's such a large part of our economy'.⁶⁸

2.64 Mitchell Shire Council suggested procurement arrangements should be simplified for local businesses wherever possible.⁶⁹

Payment processes

2.65 Mr Locke underlined the challenges faced by small business in receiving payment from Defence contractors, drawing on the experiences of his own business. He described:

...the time lapse and the compliance to adhere to a system of invoicing with Broadspectrum that, frankly, borders on the comical. Despite the employees in the company, and their best endeavours to get our claims processed, no-one really seems to understand why some invoices are paid and some invoices aren't. There seems to be a host of different reasons for not being paid. In my invoice folder, that I have here from my accounts lady, it shows the oldest invoice is from July; it's now November. That's a bit of an issue for small businesses.⁷⁰

2.66 Mr Locke also related the experiences of a local locksmith who has undertaken specialised training and accreditation to work in high security areas within the PMA.⁷¹ While the locksmith had not experienced payment delays when working with Defence directly, Mr Locke told the committee:

The current contractor, Broadspectrum, held up all of his live invoices for a very long period of time—six months or so. He eventually found out that he had not filled in an equipment supply form, which is quite odd, because he does not supply equipment but instead supplies a service. It took several months to get to the bottom of the cause. For him, the frustration is that his bills are only hundreds of dollars, and to go hunting to find the answers is really negating any profit he would have made for those particular jobs.⁷²

2.67 When asked what would assist small businesses to bid for Defence work, Mr Locke recommended 'less onerous compliance and less of the whole red tape of filling in forms'.⁷³ He added '[m]ost of what you fill in is not even relevant to your operation'.⁷⁴

68 *Committee Hansard*, 20 November 2017, p. 2.

69 *Submission 38*, [p. 2].

70 *Committee Hansard*, 20 November 2017, p. 11.

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

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

73 *Committee Hansard*, 20 November 2017, p. 15.

74 *Committee Hansard*, 20 November 2017, p. 15.

Opportunities to mitigate reimbursement challenges

2.68 Ms Jones responded to Mr Locke's locksmith case study:

Some of our payments are delayed because they don't attach the certification which actually proves that the equipment is safe—so our fire extinguishers work and we can maintain our airfield. Some of that does require the subcontractor to be a little more responsible and organised in how they put their paperwork in as well. I think there is a bit of mutual obligation there, but I do agree with you that we perhaps need to look at how we can encourage our contractors to improve the process.⁷⁵

2.69 She agreed to:

...have a chat with our providers—my specialty is in service delivery—around using some co-design and working out how we can get their forms to be a little more intuitive or easy to use, maybe. Most of the time it is due to a lack of the right information, but I think we need to improve the process.⁷⁶

2.70 Mr Locke provided an example of the type of training that businesses find useful in this context. He told the committee that the staff of a heavy-diesel repair, manufacturing and parts supplier company based in Seymour:

...would like to make it known that the webinar training session they do in order to handle the payments process by the ADF is fantastic. We would really like to think that perhaps the contractor on the base could deliver some sort of similar package, because in the case of this particular business, and with others in the case study, they have trouble with the invoicing and payment schedule they work with under the contractor system.⁷⁷

Building capacity

2.71 Mitchell Shire Council suggested local businesses should be supported to tender for Defence work. It raised the possibility of 'events or workshops targeted at helping to train and boost capacity in local businesses'.⁷⁸

Possible business opportunities

2.72 Mr Cheal told the committee that coffee is not available on the PMA on Sundays, and suggested this was because a single entity has 'the sole contract for providing food services on the base', and therefore 'it's not possible for someone [else]

75 *Committee Hansard*, 20 November 2017, p. 31.

76 *Committee Hansard*, 20 November 2017, p. 30.

77 *Committee Hansard*, 20 November 2017, p. 9.

78 *Submission 38*, [p. 2]. The submission referred to a recommendation made in a previous interim report of this inquiry: 'Recommendation 1 3.13 The committee recommends that Defence engage with the Office of the Industry Advocate to investigate opportunities for events or workshops which also include regional areas and local businesses.' Senate Foreign Affairs, Defence and Trade References Committee, *Impact of Defence training activities and facilities on rural and regional communities: First interim report*, August 2017, p. 33.

to come onto base and provide that service on a Sunday, even though they're not trading'.⁷⁹

2.73 Ms Jones told the committee:

AAFCANS [the Army & Air Force Canteen Service] did trial coffee being available on Saturdays and Sundays, but it ran at a loss. There wasn't a demand for it. As one of the previous speakers said, most of their trainees head out for the weekend. It was actually trialed.⁸⁰

2.74 When asked by the committee about the potential for a local business to provide additional food or beverage services on or close to the PMA, Brigadier Cameron Purdey, Director General, Logistics, Department of Defence, stated:

The arrangements for licensing of local businesses on the Puckapunyal Military Area are controlled either through Defence Estate and Infrastructure Group or through AAFCANS. There would need to be agreement about what sort of footprint was being placed on the base.⁸¹

2.75 Ms Jones also noted there may be security considerations regarding the provision of food and beverage services to residents of the PMA close to the front of the base.⁸²

Defence and Tier 1 contractors and their engagement with local businesses

Encourage and quantify local business engagement

2.76 Ms Jane Wood, Acting Assistant Secretary, Non-Materiel Procurement, Department of Defence, noted Defence encourages 'big contractors to engage as much as they can with the local community'.⁸³ She stated:

There are reporting requirements in each of the base services contracts that Alice [Jones] mentioned for them to tell us how they're engaging with local communities, which SMEs they're engaging with and how they're trying to encourage local businesses to participate in what they're doing.⁸⁴

2.77 Mitchell Shire Council nominated a range of measures which Defence could adopt to further 'maximise the opportunities for local suppliers to provide goods and services to PMA'.⁸⁵

2.78 These measures included requiring Defence contractors and subcontractors to comply with local content minimum quotas.⁸⁶ Mr Locke also indicated he was

79 *Committee Hansard*, 20 November 2017, pp. 4, 6.

80 *Committee Hansard*, 20 November 2017, p. 32.

81 *Committee Hansard*, 20 November 2017, p. 32.

82 *Committee Hansard*, 20 November 2017, p. 32.

83 *Committee Hansard*, 20 November 2017, p. 29.

84 *Committee Hansard*, 20 November 2017, p. 29.

85 *Submission 38*, [p. 2].

86 *Submission 38*, [p. 2].

supportive of the suggestion that Tier 1 contractors should be required in their contracts with Defence to engage with local businesses.⁸⁷

2.79 On the general topic of local content provisions, Mr White stated:

It's been wonderful. From our perspective, particularly here in Bendigo, we've noted it from the state government with the trains et cetera. It's great to see an initiative like that starting to drive through into the military side of things; it's a moving space—is that the nice way to put it?—and if we don't embrace it, the likes of Hofmann that is, we probably won't be able to take the opportunity to areas where we see it can really improve for us in Australia.⁸⁸

2.80 Mr Cheal discussed the possibility of adding rural and regional SMEs to the list of exemptions under the Commonwealth Procurement Rules. He argued 'I think that would be of great assistance because many do struggle with the processes you need to go through and the certifications that you might need to hold'.⁸⁹ Mr Cheal noted:

A common comment that I've heard from businesses over the last two years since I've been at council is that many of the contracts are nationally procured. So, if we were to take food services, for example, there's a national procurement system in place and there's one provider of food on the base, effectively—food, coffee shops and the like—so there are difficulties then in getting services in there.⁹⁰

2.81 The committee heard that a local small business franchise, Cartridge World, had previously supplied some PMA sites and received payment via credit card.⁹¹ However, Mr Locke explained that this 'sound relationship' ended once the particular person procuring Cartridge World's services went on leave and 'it was revealed that the preferred supplier was not being used'.⁹² Mr Locke told the committee the Cartridge World franchisee sought to become a preferred supplier for Defence, but 'he was told that there was not any way that could be achieved'.⁹³

2.82 Mr Locke emphasised:

Local businesses just want the chance to tender for services and at least have some access to the panel for procurement, if they meet the criteria. They don't know why they aren't allowed to.⁹⁴

87 *Committee Hansard*, 20 November 2017, p. 15.

88 *Committee Hansard*, 20 November 2017, p. 26.

89 *Committee Hansard*, 20 November 2017, p. 8.

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

91 Mr Chris Cheal, Coordinator, Economic Development Unit, Mitchell Shire Council, *Committee Hansard*, 20 November 2017, p. 3.

92 *Committee Hansard*, 20 November 2017, p. 9.

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

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

2.83 Responding to this case study, Ms Wood said:

I understand that printer cartridges are part of the whole-of-government arrangements and, as you might be aware, Defence is mandated to use those arrangements; we don't have any options. In respect of printer cartridges, I understand that it's a Defence policy rather than a government policy that we use our stationery providers for those and whole-of-government office machines providers. It is Defence policy...In saying that, the Defence policy is that you use those arrangements unless there is a good reason not to, and I suspect that value for money would be a good reason if it's cheaper to get it from the local community.⁹⁵

2.84 On notice, Defence provided further evidence and advised that purchasing from Cartridge World ceased in 2011 upon the Department of Finance's establishment of a mandatory whole-of-government arrangement for the supply of products for printers. Under the new arrangements, printers and multi-function devices are either purchased under a maintenance agreement where toner supplies are provided by the supplier with the associated cost charged to Defence, or entities purchase a printer outright and subsequent toner supplies are purchased via another mandatory whole-of-government standing offer for stationery and office supplies.⁹⁶

2.85 Furthermore:

Defence, over the past two years, has also implemented a print device rationalisation project where the network printers are being removed and replaced with MFDs [multi-function devices]. Therefore, the requirement for Defence to purchase toner supplies directly has greatly reduced and, other than specialist type printers, will gradually be phased out.⁹⁷

2.86 While the committee accepts that Defence is required to adhere to the mandatory whole-of-government arrangements, the evidence provided to the committee suggested that the information to explain the cessation of the purchasing arrangement was not comprehensive and resulted in a sense of frustration and confusion from the local business owner.

2.87 Mitchell Shire Council further expressed support for a recommendation from the first interim report of the committee, specifically:

Recommendation 4 3.21 The committee recommends that Defence review Defgram 218/2017 to clarify or issue supplementary guidance to staff that local purchases outside the Standing Offer Panel is also encouraged as required.⁹⁸

95 *Committee Hansard*, 20 November 2017, pp. 34–35.

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

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

98 Senate Foreign Affairs, Defence and Trade References Committee, *Impact of Defence training activities and facilities on rural and regional communities: First interim report*, August 2017, p. 34.

2.88 Mr Craig Patterson, Acting Director General Capital Facilities and Infrastructure, told the committee about pilot projects that are currently being undertaken by Defence. As highlighted in chapter 1, the Explosive Ordnance Logistics Reform Program is one of the pilot projects requiring potential contractors to develop a local industry capability plan to encourage contractors to actively seek out the capability of local markets. This information will be provided to Defence as part of their tender submission.⁹⁹

Reporting local expenditure

2.89 Mitchell Shire Council also recommended:

...regularly reporting on the value of Defence expenditure on locally sourced goods and services – both directly and through contractor/sub-contractor arrangements, to provide a transparent and trackable account of the benefits accruing to local businesses.¹⁰⁰

2.90 Mr Cheal asserted this:

...would give everybody a clear metric to look at and see how well the base is doing at procuring locally. It would give the local businesses a target to look at each year and try to exceed, because it is also up to local businesses to put in bids.¹⁰¹

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

100 *Submission 38*, [p. 2]. The submission referred to a recommendation made in a previous interim report of this inquiry: 'Recommendation 5 3.29 The committee recommends that Defence make information available to local communities about Defence expenditure in the area. In consultation, with the local community, Defence should consider how best to present and disseminate this information.' Senate Foreign Affairs, Defence and Trade References Committee, *Impact of Defence training activities and facilities on rural and regional communities: First interim report*, August 2017, p. 35.

101 *Committee Hansard*, 20 November 2017, p. 8.

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.

Chapter 4

Conclusion and recommendations

4.1 This chapter outlines the conclusions and recommendations of the committee arising from the hearings in Bendigo and Wodonga.

4.2 As has been highlighted in previous interim reports, communities are extremely supportive of Defence facilities in their region. This support was again emphasised in Victoria.

4.3 The committee was pleased to hear there is genuine goodwill from local councils, business and community representatives towards the Defence presence in their region, as well as recognition that there are benefits to both Defence and the broader community as a result of collaborative relationships. To ensure this level of goodwill continues, it is important for Defence to ensure that existing relationships are maintained and new opportunities for communication and cooperation are pursued.

Access to Defence facilities

4.4 A key issue raised at both hearings in Victoria related to the ability of community members to access facilities located on Defence bases. Of particular concern to witnesses was facilitating easier access to military museums located within the perimeter of Defence bases. It was emphasised that increasing visitor numbers to these facilities is important both in the context of the local regional tourism industry as well as promoting greater community awareness of Australia's military history.

4.5 Although the military museums located on Defence bases in Puckapunyal and Wodonga are open to the public, access can be difficult due to security requirements. The committee notes the evidence from Mitchell Shire Council that there has been some discussion about relocating the Army Tank and Artillery Museum to the edge of the Puckapunyal Military Area by 2022 in order to facilitate easier community access.

4.6 The committee notes evidence from witnesses suggesting that the Australian Army Infantry Museum (AAIM) in Singleton, New South Wales is now more easily accessible to the community and that this may be a model that could be considered for the relocation or upgrade of other military museums. The committee understands that following the reopening of the AAIM on a new site in August 2012, visitor numbers increased.

Recommendation 1

4.7 The committee recommends that Defence review the accessibility of military museums located within Defence bases and investigate options to improve access and increase visitor numbers.

4.8 With respect to the Puckapunyal Military Area, the committee received evidence that civilian members of the community have reported difficulties accessing the base for routine matters, such as family visits and children's social events. The committee notes that Defence could consider tailored security arrangements for local

residents to facilitate access and community interaction as well as establishing a register of local contractors to streamline the process for delivery of goods to the base.

Recommendation 2

4.9 The committee recommends that Defence investigate the feasibility of introducing tailored security arrangements to facilitate streamlined access to the Puckapunyal Military Area in limited circumstances.

Communication and engagement

4.10 Similar to previous public hearings, the committee received evidence about communication and engagement channels that are working effectively and others that require improvement.

4.11 Witnesses in Bendigo and Wodonga emphasised that the effectiveness of a collaborative relationship between Defence and the local community is heavily reliant on the individual base commandant stationed at the time. The committee heard examples of positive engagement with the commandant which has resulted in benefits for both Defence and the local community. Concerns were raised with the committee should a base commandant be less engaged with the local council and the broader community more generally.

4.12 The committee feels it would be advantageous to further consider the engagement between the base commandant and the local community and whether it may be appropriate for a standard set of requirements of community engagement to be established. The committee will consider this matter in more detail for its final report.

4.13 Given the long standing presence of Defence facilities in the Bendigo and Wodonga regions, the committee was surprised that there is not an existing, established communication mechanism between Defence and the local Regional Development Australia (RDA) offices. The committee notes that representatives from the two RDAs that appeared at hearings in Victoria recognised that their organisation could establish a liaison or broker role to facilitate better communication between Defence and local business and community representatives.

4.14 It is the view of the committee that RDAs could seek to build closer partnerships with Defence and Tier 1 contractors, and consider how to support local businesses to tender for Defence work.

4.15 With respect to emergency management, the committee notes the existing consultative forums comprising representatives from Defence, local councils and emergency services. Evidence provided to the inquiry suggests that these forums are working effectively and may offer a model of collaboration that could be used for other issues such as exploring business opportunities and engaging small and medium enterprises.

Recommendation 3

4.16 The committee recommends that Defence, in consultation with local councils, reviews its existing regional communication mechanisms with a view to establish a regular forum to facilitate discussion about Defence activities and potential business opportunities in the region.

Payment System

4.17 Evidence to the committee highlighted the challenges experienced by some businesses to be paid for work undertaken for Defence contracts, particularly with respect to work undertaken for Tier 1 contractors. Businesses had positive experiences with the payment system used by Defence but reported challenges with payment systems used by prime contractors which often led to payment delays.

4.18 In order to improve the experience of businesses undertaking Defence work, consistency in the method of payment would be beneficial.

Recommendation 4

4.19 The committee recommends that Defence consider requiring, through an additional provision in Base Services contracts, Tier 1 contractors to use a payment system similar to the system currently used by Defence.

Defence expenditure in the local area and visibility of local procurement

4.20 As with previous interim reports, the committee sought information from Defence about quantifying the goods and services that Defence source locally and whether Defence measures the regional impact from activities undertaken at Defence bases.

4.21 In follow up to questions raised at the Victorian hearings, Defence was able to provide some information about what products and services are provided to Defence bases using local suppliers.

4.22 The committee notes that detailed information about the regional impact of Defence activities is not readily available. It is the view of the committee that the provision of detailed information about what goods and services are sourced locally and the broader regional impact of Defence presence in the community would be of great benefit. The committee has made a recommendation on this matter in each interim report and will give this issue further consideration in its final report.

Recommendation 5

4.23 The committee recommends that Defence make information available to local communities about Defence expenditure in the respective area.

Conclusion

4.24 In conducting its inquiry, the committee has held public hearings in South Australia, Queensland, Northern Territory and Victoria. The evidence received at these hearings, combined with the written submissions, has demonstrated some similarities and equally, shown a variation in experiences both within and between jurisdictions.

4.25 Of interest to the committee is that the length of time of Defence presence in a particular region was not necessarily a determining factor for the presence of established and well-functioning communication mechanisms in the local community.

4.26 In order to examine the systemic issues highlighted throughout the inquiry, the committee will hold a final public hearing with Defence early in 2018. This will

enable a closer examination of the evidence presented to the committee and inform the committee's final report.

Senator Alex Gallacher

Chair

Appendix 1

Submissions

1. Great Barrier Reef Marine Parl Authority
2. Spencer Gulf Cities (SGC)
3. Defence SA
4. Regional Development Australia Far North
5. Livingstone Shire Council
6. Regional Australia Institute
7. National Farmers' Federation (NFF)
8. Townsville Enterprise
9. Department of Defence
10. Queensland Government
11. Dianne Priddle and David Jefferis
12. Townsville City Council
13. Williamtown and Surrounds Residents Action Group
14. Confidential
15. Northern Territory Government
16. Charters Towers Regional Council
17. City of Whyalla and Whyalla Chamber of Commerce
18. Gladstone Regional Council
19. Mr Ben Hughes
20. Mr Peter Bahr
21. Burdekin River Pastures and Revegetation Contractors
22. Cubic Defence Australia
23. Rockhampton Regional Council

24. Capricornia Chamber of Commerce
25. Industry Capability Network Queensland
26. CQG Consulting
27. Shamrock Civil Engineering
28. Townsville Chamber of Commerce
29. Mr Roger Toole
30. Capricorn Conservation Council
31. Helping People Achieve
32. Master Builders NT
33. Northern Land Council
34. Mr Rankin Kundle
35. Regional Development Australia Hume
36. Business Wodonga
37. AlburyCity and City of Wodonga
38. Mitchell Shire Council
39. Regional Development Australia Whyalla and Eyre Peninsula

Appendix 2

Public Hearings and witnesses

Monday 20 November 2017 Bendigo

Mitchell Shire Council

Councillor Rhonda Sanderson, Mayor

Mr Christopher Cheal, Coordinator Economic Development Unit

Seymour Business and Tourism

Mr Stuart Locke, President

Regional Development Australia (Loddon Mallee)

Ms Linda Beilharz OAM, Chair

Ms Kathyryne Charnas, Coordinator

Hofmann Engineering Pty. Ltd.

Mr Sam White, General Manager

Department of Defence

Ms Alice Jones, First Assistant Secretary Service Delivery

Mr Craig Patterson, Acting Director General Capital Facilities and Infrastructure

Ms Jane Wood, Acting Assistant Secretary Non-Materiel Procurement

Brigadier Cameron Purdey, Director General Logistics - Army

Tuesday 21 November 2017 Wodonga

Wodonga City Council

Councillor Anna Speedie, Mayor

AlburyCity Council

Councillor Kevin Mack, Mayor

Business Wodonga

Mr Neil Aird, Business Manager

Office of Regional Development, Department of Premier and Cabinet, NSW

Ms Debbie Lane, Business Development Manager

Industry Capability Network

Mr Klaus Baumgartel, Regional Manager Murray Riverina

Pentarch Pty. Ltd.

Mr Chris Deighton, Director

Silvertone Electronics

Mr Gerry Gerlach, Chief Executive Officer

Bertazzo Engineered

Mr Raymond Bertazzo, Proprietor

Australian Target Systems

Mr Michael Pope, Chief Financial Officer

Regional Development Australia (Hume)

Mr Peter Gray, Deputy Chair

Ms Anita Smith, Acting Executive Officer

Mr Mark Dixon, Chief Executive Officer, Wodonga TAFE and member Ovens Murray Regional Partnership

Department of Defence

Ms Alice Jones, First Assistant Secretary Service Delivery

Mr Craig Patterson, Acting Director General Capital Facilities and Infrastructure

Ms Jane Wood, Acting Assistant Secretary Non-Materiel Procurement

Brigadier Cameron Purdey, Director General Logistics - Army

Colonel Benjamin Slaughter, Commander Joint Logistics Unit – Victoria