

Senate Standing Committee on Foreign Affairs, Defence and Trade

Parliamentary inquiry – Impact of Defence Training Activities and Facilities on Rural and Regional Communities – 21 March 2018

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SSCFADT – Impact of Defence training activities and facilities on rural and regional communities – 21 March – Q1 - Gallacher

Question reference number: 1

Senator: Alex Gallacher

Type of question: Spoken, Hansard page 2

Date set by the committee for the return of answer: 13 April 2018

Question:

CHAIR: Okay. So, if get rid of that one, the next one I would have is a very specific example which will warm up all combatants at your end of the table. This is a submission we received from the Eyre Peninsula—Regional Development Australia Whyalla and Eyre Peninsula—specifically in relation to Cultana. It goes to a specific issue. It said:

RDAWEP is aware that several medium sized businesses with local facilities and operations in the region bid for work on substantial components of the project (up to \$6 million value). It was reported by 1 local Tier 2 SME that they invested up to \$40,000 in preparing quotes and tender documents for work at Cultana. The company was informed that their quote was used by the EPC to bid for the project. When the EPC bidder was successful, the local company was subsequently advised that they must reduce their final quote by more than 10% in order to secure a contract for the work. Although the local company reduced its price, it was unable to fully meet this demand. The EPC then engaged an interstate contractor for the work who operated on a fly in fly out basis. It is beyond belief that a company incurring substantial travel and accommodation costs for its staff could undertake the same work at a lower cost than a local company with no travel or accommodation costs. This was not an isolated incident as several local businesses reported similar experiences.

In that paragraph is basically the genesis of what the entire inquiry was all about—that local business would compete but be unable to get the work. Do you refute that as not factual? Do you know anything about that? Is that just hands-off for Defence because, now you've got a tier 1 contractor, they can go out and do what they like in the marketplace?

Mr Grzeskowiak: I don't think I can answer that specific case, because I'm not sure which contract it is. It may well be the current contract for the Cultana redevelopment, for which St Hilliers is the prime, or it may well be something from some years ago. You're aware that, with the local industry capability pilot that we're running on six projects at the moment, our stated intention is that local industry be engaged by whichever is the managing contractor or head contract during the development and early stages of a project so that local industry has the best opportunity to bid and be part of that process. Generally, particularly with head

contracts, Defence does not get involved in the supplier relationships below our contract with either a head or a managing contractor. But, clearly, the reason we're piloting this local industry capability plan is so that we can facilitate local industries getting a better chance of competing for our work. I'd be happy to take that on notice and take it away and have a look at it and see if we can understand the detail, but I don't think we'd have the detail about that specific case here today.

Answer:

In late 2017, Defence became aware through the office of Mr Rowan Ramsey MP, Member for Grey, that ICE Engineering, an Adelaide company with a satellite office at Whyalla, had been unsuccessful in securing the electrical works package for the Cultana Training Area Redevelopment (CTAR) Stage 1 project. The electrical and communications works package was awarded to EDSS a Queensland-based company.

Under the Head Contractor contract, Defence's contract is with the prime contractor, who is responsible for the packaging, contracting and management of its subcontractors. As such, the tender assessment for the electrical works package was conducted by the prime contractor, St Hilliers. Although procurement activities for this project pre-date the introduction of the Local Industry Capability Plan, St Hilliers did incorporate a series of key performance indicators (KPI) in the electrical subcontract that required a significant portion of labour and supplies to be sourced from Whyalla and/or Port Augusta.

These KPIs include:

- Engagement of 70 per cent of local contractors and suppliers.
- One hundred per cent of the site labour force will be generated through Whyalla and/or Port Augusta.
- Twenty per cent of materials relating to high voltage cable and substations will be procured via Adelaide (St Hilliers is currently reviewing whether these items can be ordered through local suppliers).

Additionally, St Hilliers has advised that ICE Engineering, although capable, was not competitive on price against companies from Queensland and Western Australia and did not provide a value for money solution to St Hilliers and Defence. Cowell Electric from Whyalla also tendered for works however it was also not competitive on price. EDSS is using a local company, Whyalla Earthworks, for all trenching and backfilling works and is purchasing all cabling, conduits, cables trays, light fitting and other fit-off items through Whyalla businesses. EDSS has also engaged additional labour from the local electrical contractors such as Aquest.

Where local businesses were not awarded contracts, in most circumstances they were either not commercially competitive, did not have the specialist skills, or were unable to provide the quantum of services required. St Hilliers offers briefs to all unsuccessful tenderers. However, not all unsuccessful tenderers take up the offer. St Hilliers has and continues to include a series of key performance indicators in the subcontractors tendering for the sourcing of a significant portion of labour and supplies from local industry.

In response to questions received from the committee on 17 April 2018, Defence offers the following responses:

Was there a preference to use local contractors?

Although procurement activities for this project pre-date the introduction of the Local Industry Capability Plan, St Hilliers has advised that KPIs favouring geographically local contractors have been applied in sourcing all trades and vendors for this project. In some cases where the required services could not be provided locally or commercial competitiveness was not achieved, non-local businesses were engaged by St Hilliers.

Did St Hilliers nominate ICE in its tender?

St Hilliers' tender proposal nominated ICE Engineering as their electrical subcontractor.

If so was the inclusion of ICE's work quote a mistake or a deliberate decision?

Did St Hilliers seek prices from other potential electrical contractors after the work had been awarded to St Hilliers?

It is routine practice for Head Contractors to nominate their proposed subcontractors in their tender bids to Defence. The successful prime contractor will however then use a competitive tendering process to engage subcontractors. If the subcontractors nominated in the prime's bid do not subsequently submit their own competitive bids for the subcontract packages, they may not be engaged. This was the case for ICE Engineering. Defence is however not party to the details of the negotiations or the commercial arrangements of the prime's subcontractor engagements and is therefore unaware of the specific details of ICE Engineering's tender proposal.

St Hilliers advised the best value for money offer received for the electrical communications works subcontract was submitted by EDSS.

Did St Hilliers advise Defence about any of these matters?

St Hilliers did advise Defence of the KPIs being used to maximise local industry content. They did not, however, advise Defence at the time of subcontract deliberations that their proposed electrical communications subcontractor had not submitted the best value for money offer. This advice should have been provided at the time. Since this occurrence, and with the implementation of the Local Industry Capability Plan, Defence places increased focus on the tendering of subcontract packages with the intent of maximising local industry participation.