

Senate Standing Committee on Foreign Affairs, Defence and Trade

Parliamentary inquiry – Inquiry into the Impact of Defence Activities and Training Areas on Rural and Regional Communities

ANSWER TO QUESTION SENT THROUGH IN ADVANCE OF PUBLIC HEARING

Department of Defence

Topic: SSCFADT – Questions in advance of public hearing on Impact of Defence training activities and facilities on rural and regional communities – 1.8 - The Committee

Question reference number: 1.8

Date set by the committee for the return of answer: 19 March 2018

Question: In Bendigo, Mr Patterson provided evidence about how the local community will be engaged in the EOLRP project and noted that contractors will be required to actively seek out the capacity and capability of local markets and that this information will be considered as part of the overall value-for-money assessment of their tender.

- Please provide an update about the status of these projects.
- What guidance information was or is being made available for prospective tenderers about how they should meet the local engagement requirements?
- Please explain how local engagement will be considered as part of the Value for Money assessment. What weighting, criteria or indicators will be used to assess the local engagement undertaken by the tenderer? How has Defence defined 'local' for the purposes of this process?
- How will the commitments made by the contractor about local engagement and involvement during the tender process be assessed and reported on during the project implementation?

Question:

Please provide an update about the status of these projects.

Answer:

There are now six pilot projects under the Local Industry Capability Plan. These are the Explosive Ordnance Logistics Reform Program; the Shoalwater Bay Training Area Redevelopment; the Townsville Field Training Area Mid Term Refresh, RAAF Base Townsville Mid Term Refresh and HMAS Cairns Mid Term Refresh (grouped as a program of projects); and the HMAS Cerberus Redevelopment. Updates on the status of these projects are provided below.

Explosive Ordnance Logistics Reform Program (EOLRP)

Parliamentary Approval was achieved on 19 October 2017. The Request for Tender, which includes the Local Industry Capability Plan (LICP), was released to the shortlisted tenderers in early November 2017. Tender evaluation activities are currently underway.

Subject to the outcomes of the tender evaluation process Defence will engage with local tenderers as per the LICP. Construction is expected to commence in early 2018 and be complete by late 2020 for all sites.

Shoalwater Bay Training Area Redevelopment

Defence will use its Managing Contractor contract for this project, and an Invitation to Register Interest was released in June 2017. Tender documents were released in September 2017 and included the LICP tender schedule. Tender evaluation is underway.

Once engaged, the Managing Contractor will progress the design to provide the required cost certainty prior to seeking Government and Parliamentary approvals.

Subject to Government and Parliamentary approvals, construction is expected to commence in mid-2019 and be complete by mid-2021.

Townsville Field Training Area Mid-Term Refresh, RAAF Base Townsville Mid Term Refresh and HMAS Cairns Mid Term Refresh (Program of Projects)

The procurement strategy is to use the Managing Contractor contract, and incorporate the RAAF Base Townsville Mid Term Refresh and HMAS Cairns Mid Term Refresh to create a program of works with an estimated value of \$115 million. The LICP tender schedule will be included the Request for Tender documentation for the construction contractor. Invitations to Register Interest will be released in early 2018.

Once engaged, the Managing Contractor will progress the design to provide the required cost certainty prior to seeking Government and Parliamentary approvals.

Subject to Government and Parliamentary approvals, construction is expected to commence in mid-2019 and be complete by mid-2021.

HMAS Cerberus Redevelopment

This project is being delivered under the Managing Contractor contract. Lendlease was awarded the planning phase contract in June 2015.

Parliamentary approval was achieved on 19 October 2017. Tender negotiations for the delivery phase have concluded and Lendlease has been retained for the delivery phase. The LICP is currently being prepared by Lendlease. Construction is planned to commence in early 2018 and be complete by late 2025.

Question:

What guidance information was or is being made available for prospective tenderers about how they should meet the local engagement requirements?

Answer:

Guidance to prospective tenderers on local industry participation requirements is provided at multiple points throughout the procurement process. Both the 'Invitation to Register' and 'Request for Tender' documentation contain detailed descriptions of the intent and requirements of the local industry capability plan. During the 'Industry Briefing', which is conducted to the short list of prospective tenderers following the 'Invitation to Register' procurement stage, a detailed description of the local industry capability plan is also provided.

As part of the response to the 'Request for Tender', each Tenderer is required to prepare, complete and lodge a draft Local Industry Participation Plan in Tender Schedule J - Local Industry Capability Plan, based on the following details:

- a) Local Industry Participation Plan
 - i. The expected economic impact of the Works;
 - ii. The proposed local industry participation in the delivery of the Works;
 - iii. Project contestability; and
 - iv. The Tenderer's proposed approach for implementing and reporting on the Local Industry Capability Plan.
- b) The successful Tenderer will be required to prepare a Local Industry Capability Plan and submit it to the Contract Administrator after the Award Date of the Contract.
The Local Industry Capability Plan must:
 - i. Be based on the draft Local Industry Capability Plan provided by the successful Tenderer in its response to the Tender Schedule; and
 - ii. Be finalised in accordance with the Conditions of Contract.
 - iii. Detail the Contractor's approach to the market and intended Australian engagement locally, regionally and nationally for the project.
- c) For projects valued at \$7.5 million and above, the Local Industry Capability Plan will be used by the Commonwealth in considering the economic benefits to the Australian economy to be derived from the project during the term of the Contract in accordance with paragraph 10.31 of the Commonwealth Procurement Rules.
- d) During the term of the Contract:
 - i. The Contractor will use the Local Industry Capability Plan to:
 - Demonstrate how local Australian industry is, or will be, engaged and provided opportunity to contribute to the delivery of Defence capability requirements;
 - Provide evidence of the local and broader Australian industry commitment, in dollar value, benefits and work package terms;
 - Deliver data on the economic benefits for the Australian industry locally, regionally and nationally; and
 - Indicate how these obligations will be monitored and managed during the term of the Contract;

- ii. The Commonwealth will use the Local Industry Capability Plan to:
 - Determine the extent of the economic benefit to the Australian economy;
 - Validate engagement and commitment to opportunities for local industry participation in the procurement or the supply chain; and
 - Identify further opportunities to support and develop Australian industry.

Question:

Please explain how local engagement will be considered as part of the Value for Money assessment. What weighting, criteria or indicators will be used to assess the local engagement undertaken by the tenderer? How has Defence defined 'local' for the purposes of this process?

Answer:

Defence is focused on maximising the opportunities for all tiers of Australian industry to compete and win Defence work. This also aligns with Australian international trade arrangements.

The tender evaluation criterion includes assessment of the Local Industry Capability plan submitted by tenderers. Whilst a specific weighting is not applied, the plan is examined as part of the value for money assessment conducted by the tender board. The Tender is evaluated with reference to whether value for money has been demonstrated by its commitment to local industry participation and will implement appropriate solutions and management strategies to ensure that local industry is given full, fair and reasonable opportunity to participate in the delivery of the Works if it is the successful Tenderer.

The information assessed is:

- a) *The Expected Economic Impact of the Works.* The Tenderer is requested to provide the following information:
 - i. An estimation of the employment numbers, work package or trade types and industry sectors that will apply during the term of the Contract:
 - ii. A description of the initiatives to be employed to reflect the Commonwealth's policies on Indigenous procurement, including:
 - Maximising Participation of Indigenous Business.
 - (i) The initiatives to be used for the employment of Indigenous Australians in the delivery of the Works.
 - Details of other qualitative and quantitative benefits expected to be generated in Australia through the Works or more broadly through the Tenderer's business.
 - (i) For Example, research and development related activities and investments, the transfer of technology to local business, strategic alliances developed through the project with local industry that may create links to global supply chains, regional development activities, community support initiatives, and environmental programs.

- b) *Proposed Local Industry Participation in the Delivery of the Works.* The Tenderer is requested to provide the following information:
- i. A description of the mechanisms that will be used to ensure that local industry will be given full, fair and reasonable opportunity to participate in the delivery of the Works.
 - ii. A description of how local Small to Medium Enterprises will be encouraged to participate in the procurement activities in relation to the Works, for example the communication strategies that will be used to alert local industry of project opportunities.
- c) *Proposed approach to a local supply chain.* The Tenderer is requested to provide the following information:
- i. The process for refreshing and updating preferred supplier lists.
 - ii. The opportunities for local industry, not currently within the supply chain or a preferred supplier list, to submit subcontract tenders for the Works.
 - iii. The process for assessing potential local businesses.
 - iv. The mechanisms to ensure that the obligation to provide full, fair and reasonable opportunity is passed on to relevant subcontractors, including subcontractors that are involved in awarding contracts to lower tiered businesses.
 - v. Is feedback to be offered to unsuccessful subcontract tenderers for the Works? If yes, a description of the process for offering feedback to unsuccessful subcontract tenderers for the Works.
- d) *Standards.* The Tenderer is requested to provide the following information:
- i. Which standards will be used in the Project;
 - ii. Can the standards be met by Australian suppliers;
 - iii. If Australian standards are not proposed to be used, explanation as to why not and an explanation of the impact this will have on compliance with the equivalent Australian standard:
- e) *Project Contestability.* The Tenderer is requested to provide the following information:
- i. An estimation in Australian dollars of the overall industry participation outcomes expected during the Works of Design and Construction by:
 - Local to Site/s;
 - Regional within State or Territory; and
 - Other State or Territory.
 - ii. A list of any goods or services required for the Works which are anticipated to be sourced overseas, or goods or services to be sourced locally with imported content.

Defence is taking a pragmatic approach to defining 'local', rather than developing a rigid, geographical definition of what local means. Using a rigid definition could result in certain suppliers being arbitrarily excluded. Additionally, there is no common State and Territory Government model for defining 'local' industry in a geographical construct.

Question:

How will the commitments made by the contractor about local engagement and involvement during the tender process be assessed and reported on during the project implementation?

Answer:

The Local Industry Capability Plan is a Project Plan that forms part of the contract. Defence will require the contractor to provide a monthly update on the achievement of its Local Industry Capability Plan.