

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 – 1.6 - The Committee

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

Question:

The White Paper also signalled a new approach to Australian defence industry policy with a focus on small to medium enterprises (SMEs). This focus was reiterated in the 2016 Defence Industry Policy Statement which emphasised the importance of SMEs and local businesses to support Defence across the country.

- What new Defence policies and procedures have been required to ensure this new approach to focus on SMEs is implemented?
- How is the new approach to focus on SMEs being communicated across the Department to staff at all levels?
- In Wodonga there was discussion over how Defence can ensure participation by SMEs. The example of the requirement for an Australian Industry Capability plan was mentioned. This focusses on industry involvement but not necessarily local industry involvement. How are local SMEs currently encouraged to participate?

Answer:

Defence has a good track record of awarding SMEs procurement contracts, with 21 per cent by value and 59 per cent by volume awarded to SMEs. Of this, nine per cent by value and 30 per cent by volume were awarded to Small Businesses in Financial Year 16/17¹. This significantly exceeds the Commonwealth Procurement Rules mandated target of at least 10 per cent of procurement by value from SMEs. These figures do not include SMEs engaged in the Defence supply chain.

¹ **Source:** Statistics on Australian Government Procurement Contracts: <https://www.finance.gov.au/procurement/statistics-on-commonwealth-purchasing-contracts/>

SMEs represent a very large proportion of Australian defence industry and Defence recognises the innovative capabilities developed by SMEs and the need to reduce barriers for SMEs to contribute to defence capability.

The CDIC is providing a range of industry development, skilling and export services for SMEs. This includes advisory and facilitation services and Capability Development Grants.

The Defence Innovation Hub provides a mechanism for SMEs to propose ideas and collaborate in the development of innovative technology relevant to Defence capability. The Next Generation Technologies Fund also includes a range of opportunities for SMEs, including the Small Business Innovation Research for Defence initiative.

The strengthening of the AIC Program ensures that opportunities for competitive SMEs to work on major capital equipment procurements led by Defence prime contractors are maximised.

The Government has also launched the first ever Defence Industry Information Campaign aimed at raising awareness within the Australian defence industry and the opportunities, particularly for SMEs, as a result of the Government's investment in defence capability. The first phase of the Campaign launched in November 2017 and included a television commercial and information across a range of media platforms. The second phase will specifically target SMEs and launched in the first quarter of 2018. The Campaign landing page is at www.defenceindustry.gov.au. The landing page provides a range of information to SMEs about opportunities to support Defence.

The Defence Industry Participation Policy will provide clarity and consistency in how Defence gives effect to our Defence Industry Policy across the strands of our Defence procurement and will provide a more consistent approach to maximising Australian and local industry involvement in Defence procurement of \$4 million and above.

Defence has a range of communication channels to inform staff of updates to Defence policies and each of these are considered as part of policy implementation.

Effective implementation of the above initiatives ensures that there are structures and procedures in place across Defence to recognise the importance of Australia's defence industry, including competitive SMEs, to delivering and supporting Defence capability. Notably, as part of the implementation of industry as a Fundamental Input to Capability, the Smart Buyer, Capability Life Cycle and Force Design Cycle have already integrated earlier and more regular consideration of industry into Defence's processes.

The DIPS and major policy initiatives, such as the Defence Export Strategy, Defence manuals and procedures, such as the Defence Procurement Policy Manual, are distributed to all Defence staff to ensure awareness. Senior Defence personnel are also regularly briefed on industry policy issues and priorities. This ensures ongoing awareness throughout Defence of the Government's industry policy agenda, including key components such as a focus on SMEs.

The AIC Program, which applies to major capital equipment projects, does not mandate percentages of Australian industry involvement or generally mandate geographical requirements. The focus of the AIC Program is on delivering the best capability for the Australian Defence Force, while maximising Australian industry involvement at a national level where competitive companies across Australia can be involved. Mandated percentages or requirements do not contribute to this focus, as they do not ensure the competitiveness and sustainability of Australian industry.

There are instances, particularly in sustainment projects where the location of the project supporting Defence capability is clear and where a higher proportion of local industry support delivers value for money when that industrial base has the requisite skills. Major capital equipment projects generally require high levels of technical skills in the delivery of military capability from SMEs to participate in the supply chain.

Initiatives such as the CDIC, the Defence Innovation Hub and the Next Generation Technologies Fund are also enabling industry across Australia to more easily engage with Defence, providing an avenue to propose innovative ideas and access to potential support, funding and advice.

Defence is committed to ensuring equitable access to government contracts for Australian businesses, in particular SMEs. This is evidenced by the award of 21 per cent of contracts by value and 59 per cent of contracts by volume to SMEs in Financial Year 16/17. The Commonwealth Procurement Rules reaffirm the Government's requirement for non-corporate entities, of which Defence is one, to source at least 10 per cent of procurement by value from SMEs. Defence has consistently exceeded this target.

Defence recognises that there are clear benefits of drawing support from local contractors and suppliers, where there is the capacity and capability available in the local market, and they are able to demonstrate their ability to deliver value for money.

Base services contractors are encouraged to engage with a range of SMEs and provide additional ongoing support to these businesses to enable them to improve their service delivery, develop their capabilities and continue to meet Defence's changing requirements. Where services are delivered to bases in regional and remote areas, base services contractors generally draw their workforce from local employment areas as well as accessing local business suppliers. The services provided include estate maintenance, hospitality and catering, range and training area support, living accommodation, transport, cleaning and access control.

The Estate and Infrastructure Group is applying the Local Industry Capital Plan pilots across six major capital facilities projects and considering application in other major capital facilities projects as they arise. Under this pilot, tenderers are required to develop a Local Industry Capability Plan as part of their tender response. This Plan will outline how local industry has been engaged in the development of the proposed solution and the work proposed to be undertaken by local industry.

Further to the pilot Local Industry Capability Plans for six major capital facilities projects, Defence is developing a Defence Industry Participation Policy to provide a more consistent approach to maximising Australian and local industry involvement in Defence procurement of \$4 million and above. The Policy will be released in 2018 and be informed by the pilots being conducted in the six major capital facilities projects.