

**Submission to the Senate Foreign Affairs,
Defence and Trade References Committee
Inquiry into Defence Procurement**

April 2011

from the

Northern Territory Government

Inquiry into Defence Procurement

Introduction

The Northern Territory Defence support industry has a long and proud history in supporting Defence in the Northern Territory. Local Small and Medium Enterprises (SMEs) supported Defence during the operations in East Timor with many companies providing offshore assistance for Defence sustainment activities. This support has continued with growth and development of local industry an important element supporting Defence since the location of the 1st Brigade in Darwin under the Army Presence in the North Program in the 1990's and the basing of the Armidale Patrol Boats at HMAS Coonawarra. The continued expansion of the 1st Brigade has further highlighted the need for a strong and focused Defence support industry providing support for Defence operations locally.

Development of Capability

The Northern Territory Government has worked with the Australian Industry and Defence Network Northern Territory (AIDN-NT) to grow and promote the Northern Territory Defence support industry. The Northern Territory Defence Support Industry Development Strategy 2007-2017 was developed as a joint undertaking between the Northern Territory Government and AIDN-NT. The strategy has been critical for local industry to grow and align its capability to meet the needs of Defence and to be able to participate in valuable Defence support contracts.

The Defence White Paper and the Defence Capability Plan have provided the strategic direction to SMEs in capability development. Large investment has been made by SMEs establishing facilities, resources and capability to increase possible participation in Through Life Support (TLS) and sustainment activities for new equipment and platforms. Local SMEs have worked hard to form alliances and partnerships with prime contractors and other SMEs involved in major Defence procurement projects to increase opportunity in securing work flowing from successful bids and tenders.

In recognition of the opportunity that exists to develop industry support for Defence in the Northern Territory, the Northern Territory Government is developing a Defence Support Hub industry park almost adjacent to Robertson Barracks and Army's 1st Brigade. The Defence Support Hub will enable Defence prime contractors and SMEs to form strategic clusters and align capability to provide valuable support to Defence. Although there has been significant interest shown by both prime contractors and SMEs to locate into the Defence Support Hub, delays in capital procurement outcomes mean that further financial commitment by bidders for projects cannot be made in the short term. This is delaying a significant capability development which is essential for supporting Defence within the Northern Territory.

Efficiencies of Local Industry

The 2009 Defence White Paper recognises the strategic importance of the Port of Darwin and the Northern Territory as a forward staging base for operational deployment. This has been emphasised by the location of significant Defence capability in the Northern Territory. Despite the large amount of Defence equipment and platforms located in the Northern Territory, major Defence contractors and the delivery of Defence contracts have

remained southern focussed. Defence procurement policy has not seen the same strategic direction to that of capability.

Current procedures encourage prime contractors to provide bids based around the prime's current facility location without regard for the location of the Defence equipment. Defence procurement policy, tendering and contracting should drive tenderers (primarily prime contractors) to provide solutions which meet more stringent Defence requirements for cost, availability, industry capability development and benefits to regional economies.

The Northern Territory Government believes that there are substantial benefits for Defence in maintaining Defence equipment where it is based. This view is consistent with the Defence Strategic Reform Program – Delivering Force 2030, which aims to reduce waste from maintenance waiting times, transportation, over-processing, and inefficient movement of items for maintenance.

Building and retaining Defence industry expertise and infrastructure in the Northern Territory to support the large volume of Defence equipment based here is a contributor to strategic reform. Maintaining equipment where it is based will reduce freight costs for platforms and components, administrative costs through a reduction in double handling and increase Defence capability through reduced equipment downtime. Importantly it will enhance the surge capability in one of Australia's two mounting base locations.

In 2006, the Northern Territory Government commissioned a consultant to conduct a study on the merits of undertaking through-life-support (TLS) of the Australian Defence Force's armoured vehicles close to where they are based, mainly in Robertson Barracks in Darwin. The study made particular reference to TLS of:

- 59 Abrams tanks (of which 41 will be based in Darwin)
- 257 Australian Light Armoured Vehicles (ASLAV) – (of which 93 are based in Darwin)
- 350 upgraded M113 armoured personnel carriers (of which perhaps 100 will be based in Darwin).

The cost benefit study showed that a Darwin based TLS option for armoured vehicles could yield estimated savings in transport and loss of capability of:

- Abrams Tanks – 68% saving over an Adelaide based TLS option and 87% saving over a Bandiana based TLS option
- ASLAV – 92% saving over an Adelaide based TLS option
- M113 – 93% saving over an Bandiana based TLS option.

The consultant estimated that the operational availability of each platform should increase by 3-5 days for each Abrams Tank and 3-9 days for M113/ASLAV for each maintenance arising due to reduced transport requirements required for the Darwin based TLS solution.

Similar savings in transport cost and increase in operational readiness should equally apply to other Defence equipment that is currently being transported to southern states for TLS activities. The Northern Territory Government believes Defence TLS contracts

should preference equipment being maintained where it is based providing cost benefits, capability increases, industry development and economic returns to regions.

Delays in Capital Project Outcomes

The Northern Territory Government commenced working with industry late in 2005 on TLS for the Abrams Tanks and ASLAV with the request for tender to be released in 2006. In May 2010, General Dynamics Land Systems Australia was announced as the preferred tenderer by Defence and to date there has still been no contract signed. Equipment has been in service for several years without a support contract in place. SME's which positioned themselves to partner with prime contractors or other SMEs in possible support activities are still waiting for an outcome now six years after commencing the process.

Similar impacts have been experienced by SME's engaged with prime contractors bidding for the various phases of LAND 121 (Project Overlander). LAND121 has been plagued by numerous delays, resulting in the Australian Government identifying it on the project of concern list. Such delays have significant impact on both prime contractors and SMEs that await the preferred tenderer announcement and contract signature to enable them to get some return for the resources that have been spent bidding and partnering for these contracts.

Reduced Workflow to Industry

Delay in capital procurement normally results in an increase in sustainment activities for older systems. This has certainly not been reflected over the past two years. Feedback from both prime contractors and SMEs during industry forums indicates that both are experiencing reduced workflow from Defence for these systems. Prime contractors are being forced to keep sufficient activities in house to sustain their workforce and capability, further reducing the flow on of work to SMEs. SMEs are experiencing a loss in confidence due to a pipeline of Defence work that has almost completely stalled, resulting in industry layoffs and question marks about continued investment in the defence support sector in Australia.

National industry bodies such as the Australian Industry Group and the Australian Defence and Industry Network all highlight similar concerns in relation to delay in the capital procurement process and the reduced flow of work from Defence for sustainment activities. This theme is reflected locally within the Northern Territory, with local SMEs reporting substantial reductions in work flow from Defence and a change in their business direction as they seek work to sustain their operations in other industry sectors such as mining and oil and gas.

The dramatic reduction in workflow may be the result of:

- Insufficient funding to complete works
- Reduced spending to meet SRP savings targets
- Inability to progress projects through the second pass approval process
- Inadequate resources within the DMO to progress sustainment activities to industry.

With the impact the lack of workflow is having in SMEs, remedial action to remove any impediments within the DMO needs to occur quickly before those businesses within the Defence sector change their focus to other sectors or cease to exist.

Conclusion

A strong and capable Defence support industry is critical to Defence operations within the Northern Territory. The strategic importance of Darwin has been emphasised by the location of Defence capability in the Northern Territory. There is an opportunity for Defence to review its procurement policy to take advantage of the benefits of maintaining equipment where it is based, engaging prime contractors and local SMEs to provide that support.

Delay in capital procurement is impacting heavily on both prime contractors and SMEs, resulting in a significant threat to the ongoing development and sustainment of the Defence support industry. The reported reduction in workflow for sustainment activities is making it difficult for SME's to continue to survive in the sector and action to remedy the causes of these impediments need to occur quickly if the Defence support industry is to survive in its current form. A loss of Defence support industry capability equates to a loss in Defence capability.