

Foreign Affairs, Defence and Trade References Committee

Impact of Defence Training Activities and Facilities on Rural and Regional Communities – 14 July 2017

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: Breakdown of Local Spending in Townsville

Question reference number: 2

Senator: Moore

Type of question: asked on Friday, 14 July 2017, Hansard page 23

Date set by the committee for the return of answer: 31 August 2017

Question:

Senator MOORE: Can we get a breakdown of that expenditure? We asked the same question in Rockhampton. We have that large sum, but it would be useful to have that broken down into what it constitutes, whether it is infrastructure or whatever, just to see where it comes down. You can take that on notice. Large figures sometimes become almost meaningless.

Mr Grzeskowiak: In the Defence of submission in appendix B there is a table that breaks it into salaries, facilities, capital, operating and what we call supplier expenses. So there is a bit of a breakdown.

Senator MOORE: I have that, but I would like to have it even clearer to see what facilities mean and what operating means and things like that. It would be useful to get an idea of where the money goes.

Mr Grzeskowiak: We can take that on notice. It can be a lot of work to break it down. It depends on how far you want to go in terms of detail.

Senator MOORE: So it is intelligible; that is what I am trying to find out. So we can find out whether it is going to businesses, to education, to families or to the maintenance of the airport et cetera. You cannot get that from the figures that are in the submission.

Mr Grzeskowiak: I will see what we can do.

Answer:

Defence does not track expenditure within the financial system on vendor activity by location of the production, or delivery of goods and services.

To capture such information would require a significant impost on industry and on Defence's existing information systems.

Defence's systems identify vendor activity by the billing address of the vendor, which only identifies where invoices are raised rather than where work is carried out or produced.

Senate Standing Committee on Foreign Affairs, Defence and Trade

Inquiry into the Impact of Defence Training Activities and Facilities on Rural and Regional Communities – 14 July 2017

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: Interaction with Local Small to Medium Enterprises

Question reference number: 3

Senator: Gallacher

Type of question: asked on Friday, 14 July 2017, Hansard page 25

Date set by the committee for the return of answer: 31 August 2017

Question:

CHAIR: That is what we expect this inquiry to reveal, that you have a 50-year base at Shoalhaven Bay and that you have a long-standing commercial efficient practice of buying locally. That is what we expect to find. In South Australia, it is a relatively new operation. We thought, as we moved around, we would find more established, clearly identified interaction with small and medium enterprises. And if it exists, please describe it to it to us either on notice or now.

Mr Grzeskowiak: We will do it on notice. But I keep coming back to you that, for things like food, we do have national contracts but we also buy locally as well, depending on particularly training exercises.

Answer:

Engagement with Small – Medium Enterprises and Base Services Contracts

In 2015-16 Defence gazetted contracts in excess of \$30 billion, representing 53.7 per cent of the total value of all Commonwealth contracts gazetted. Of these, Defence awarded 18 per cent by value and 58 per cent by volume to small and medium enterprises (contracts and amendments as published on AusTender) and 8 per cent by value and 30 per cent by volume to small businesses. While this significantly exceeds the Commonwealth's small and medium enterprise target of 10 per cent, Defence is continuing efforts to grow small and medium business opportunities in both materiel and non-materiel procurements.

Defence has in place ten base service contracts that support the management of the Defence estate and the daily activities of Defence bases across Australia.

These contracts deliver a broad range of services including: estate management, cleaning, housekeeping, training area and range management, sport and recreation management, transport, laundry and dry cleaning, airfield operations support, land

management, pest and vermin management, waste management, access control, aircraft refuelling, aircraft rescue and firefighting, hospitality and catering, stores and petrol.

Where services are delivered to bases and training areas in regional and remote areas, base services contractors generally draw their workforce from local employment areas as well as accessing local business suppliers. Examples of support to training activities include:

- Labour and equipment to support Australian Defence Force (ADF) operated catering services at Rockhampton (QLD) for TALISMAN SABRE 15;
- Full hospitality and catering services to support the Republic of Singapore Air Force at Delamere Range (NT) with equipment, accommodation, and generators sourced from NT suppliers, and
- Full hospitality and catering service for ADF and foreign forces at Bindoon, Learmonth and Karratha (WA), where foodstuffs are sourced locally.

Base services contractors are encouraged to engage with a range of small to medium enterprises 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. By way of example, one base service contractor reported that 50 per cent of their expenditure was via small to medium enterprises (currently defined as businesses employing less than 200 people).

Other Procurement and Engagement with Local Suppliers and Service Providers

Defence uses a mix of Base Services Contracts, standing offers and local arrangements by region in support of training exercises. The tenders for the recently awarded Fresh Foodstuffs Standing Offer were published on AusTender and advertised in the press under an exemption to Resource Management Guide 407. Contract Primes, such as the Base Services Contractors, regularly sub-contract to local suppliers. Defence Procurement Policy encourages Defence purchasing officers to use available Standing Offers, but this is not mandated. Defence purchasing officers routinely use local suppliers, particularly in remote locations. Hospitality & Catering Base Services Contractors (Broadspectrum and Compass) use their National Supply chains to procure foodstuffs. Notably, Compass engages local suppliers typically in regional areas, including Wagga Wagga, for meat, fruit and vegetables and Illawarra region for Seafood – value is approximately \$50,000 per annum.

Examples of Engagement with Local Suppliers for Exercises

While Hospitality & Catering Base Services Contractors use National Supplier Arrangements, local suppliers may be engaged to provide catering in support of Staging Areas in remote locations.

Defence expenditure outside Fresh Rations Standing Offer for provision of fresh foodstuffs in financial year 2016-17, totalled \$1.1 million and consisted of 166 local suppliers. Some examples include:

- Tully IGA - \$372,000;

- Cooktown Food & Ice - \$263,000;
- Goondiwindi Co-Op - \$168,000;
- BM&RP Enterprises Bindoon QA - \$23,000;
- Twelve Oakes Poultry Townsville - \$18,000;
- Atherton IGA -\$11,000; and
- Mid-City Meats Horsham - \$6,000.

Defence had contracts in place with both national and local providers during TALISMAN SABRE 2017. Exercise contracting for TALISMAN SABRE 2017, including National suppliers, equates to \$17.187 million, with this figure likely to rise as accounts are finalised for the exercise.

Foreign Affairs, Defence and Trade References Committee

Inquiry into the Impact of Defence Training Activities and Facilities on Rural and Regional Communities – 14 July 2017

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: Supplier Expenses

Question reference number: 6

Senator: Gallacher

Type of question: asked on Friday, 14 July 2017, Hansard page 26 (Spoken)

Date set by the committee for the return of answer: 31 August 2017

Question:

Brig. Beutel: The real constraint that we have is that we must follow CPR, the Commonwealth Procurement Rules. Again, under the Commonwealth Procurement Rules, all potential suppliers to Defence must be treated equitably and not be discriminated against due to their size, ownership or location—that goes for large and small. I'd like to point out though that—this is particularly from the capital facilities and infrastructure space, so those major construction projects which we've been doing a lot of in Townsville since 2003 with the Lavarack Barracks redevelopment—where there's capacity and capability available in the local market, engaging local contractors to do local work is synonymous with the principle of value for money. Despite some evidence to the contrary, Defence does have a good history in the capital facilities and infrastructure space of drawing upon local contractors and suppliers on construction projects, where there is capability, capacity and that offer of a value-for-money solution. To give a couple of examples of projects here in Townsville, one is the Defence Logistics Transformation Program. This is a national program of works. One component of that was undertaken here at Lavarack Barracks and, from 2013, we started construction. It was completed mid-2016. The total value of that project was about \$130 million here in Lavarack Barracks. Sixty-three per cent of the trade packages for that construction went to local contractors. That equated to about 86 per cent of the total trade cost—or about \$112 million—again, to local contractors. The Air 9000 5C project, out at RAAF Base Townsville, is for new facilities to support the introduction of the new Chinook helicopters into Army. It is a smaller project of about \$50 million in total project value. Where we sit at the moment, noting that project is still in construction, is that 85 per cent of the trade packages have gone to local subcontractors and suppliers, which equates to about 88 per cent of the trade cost, or about \$36 million. Finally, Land 121 is about a \$130 million investment here at Lavarack Barracks as part of a national program of works. This is being undertaken under a managing form of contract. But 85 per cent of the trade packages so far have been awarded to local contractors and 60 per cent of the trade costs, or about \$76 million so far, have gone to local contractors.

CHAIR: We are in furious agreement on this point. You bring that to the Public Works Committee and you actually itemised the actual number of jobs you're creating, the local spend you're doing and whatever. If I look at appendix B, which you've supplied to us, major capital equipment expenditure from 2014 to 2016 is about \$150 million. But I go to the next line and supplier expenses are \$55 million in 2014-15 and \$26 million in 2015-16. That is the area we're asking you about. Where does that \$90-odd million actually go? That's the one you could probably take on notice and drill down to: supplier expenses. What are they? Is that Cubic? Fair enough, they might be a part of that. Is it Simon George & Sons food? Are they in that space? We want supplier expenses. I accept, Brigadier Beutel, you do good work with the infrastructure spend because we see that and it is scrutinised through the Public Works Committee. All of the members of parliament want to know how many jobs you are leaving behind when you spend this money, or creating when this money is being spent. It is in this other space that we don't have visibility.

Answer:

Defence does not track expenditure within the corporate financial system on vendor activity by location of production, or delivery of goods and services.

To capture such information would require a significant impost on industry and on Defence's existing information systems.

Defence's systems do identify vendor activity by the billing address of the vendor, which only identifies where invoices are raised rather than where work is carried out or produced.

Examples of Supplier's Expenses included in the data reviewed by the Committee would include:

- Travel;
- Stationary and Office Requisites;
- Training;
- Advertising;
- Repair and Overhaul;
- Rations and Fresh Food;
- Freight and Storage; and
- Garrison Support, which provides base services such as cleaning, waste, and grounds maintenance.