

Senate Standing Committee on Foreign Affairs, Defence and Trade

Impact of Defence Training Activities and Facilities on Rural and Regional Communities – 22 August 2017

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: Reporting of Local Industry Engagement

Question reference number: 3

Senator: Kitching

Type of question: asked on Tuesday, 22 August 2017, Hansard page 47

Date set by the committee for the return of answer: 22 September 2017

Question:

Senator KITCHING: I want to go to the Commonwealth government procurement guidelines. The 10 per cent local content is obviously there. There are WTO implications around exemptions et cetera. But what we've heard continually is that there is a lack of proactive engagement by Defence and, indeed, the primes, not to meet targets—whoever sets them—but to actually seek local content. We've heard from local contractors that they want to compete on price, but nobody's even giving them the opportunity, and I want to know what systems you have in place and what oversight you have so that you can tell me what level of content your primes or lead contractors have engaged. In other committees, that's where I hear the gap is, but I'd be interested in your perspective.

Brig. Beutel: To use the example of the managing contractor Lendlease here in the Northern Territory, the managing contractor, under the managing contract form of contract, is responsible for delivering what we refer to as a reimbursable package. That's all the trade works to undertake. The requirement to deliver those trade works is in accordance with CPRs, because we ask them to produce value for money. I'm not aware of anywhere else where an MC, particularly Lendlease, has not gone out to open markets and put the opportunities out to a local market to achieve that value-for-money outcome for Defence. As part of that—and I know Lendlease has done this—there's been a lot of interaction with Master Builders Northern Territory and with ICN, as was provided in evidence, and also with the Katherine Chamber of Commerce and the Katherine council. Again, I can provide—

Senator KITCHING: But do they report back to you?

Brig. Beutel: Yes, they do. Contractually they are required to provide me with statistics of subcontracts—so total number of trade packages, trade packages let to date, the value of those trade packages, how many have gone to local industry or those subcontractors, and then a percentage value for that.

Senator KITCHING: So Defence can report that across all programs?

Brig. Beutel: I track that within all my projects in the capital facilities.

Senator KITCHING: I'm assuming Defence does it. It's pretty 'one size fits all' with Defence.

Brig. Beutel: No, it's not.

Senator KITCHING: No? So only you do this?

Brig. Beutel: I am not aware of other organisations, like the Service Delivery Division or the Capability Acquisition and Sustainment Group. But within—

Senator KITCHING: Could you take that on notice. I would be really interested to know. With the amount of money the public is spending and the commitment by both sides of politics to maximise local content, I'd be really interested in which areas of Defence do have that report-back and oversight of their primes or their major contractors and which areas don't.

Brig. Beutel: I can guarantee you I do it for the program of works.

Senator KITCHING: I appreciate that. I'd be interested in who doesn't.

Brig. Beutel: Yes, and I think to the question that Senator Gallacher asked at the last hearing, about understanding where all those other programs and the other dollars Defence is spending are actually going to. So I will take that on notice.

Answer:

Capital facilities and infrastructure

As indicated at the hearing, Defence's contracts with managing contractors for capital facilities and infrastructure include the requirement to report on local industry engagement.

Defence is also currently piloting a new Local Industry Capability requirement in three major capital facilities projects. Tenderers bidding for the three major capital facilities projects will be required to state clearly how they have engaged with local industry in providing their tendered solution, and how local industry will be involved in delivering the project. This information will be captured in a specific schedule as part of the request for tender.

Material projects

In relation to materiel projects, Defence seeks to maximise Australian industry involvement in the acquisition, operation, and sustainment of Defence materiel capability. The Australian Industry Capability Program applies to materiel projects of \$20 million and above. Under the Australian Industry Capability Program tenderers are required to provide Australian Industry Capability Plans that must address how Australian industry has been engaged in forming the tenderer's proposed capability solution; the value-add work proposed to be undertaken in Australia by Australian industry; and which companies, where, and the nature and value of the work proposed that they undertake.

The Australian Industry Capability Program has recently been strengthened to place greater requirements on tenderers to address how they will build enduring Australian industry capability through the project, transfer technology and facilitate innovation, and provide global supply chain opportunities. The additional requirements will further drive tenderers to make greater use of Australian small to medium businesses, including indigenous business enterprises.

The successful tenderer's Australian Industry Capability Plan is a contracted deliverable, and achievement against the contracted Australian Industry Capability requirement is subject to regular reporting (at least annually).

Base Support

The Service Delivery Division of Estate and Infrastructure Group manages a number of contractors who provide support to various base support and management activities across Australia. Many of these contractors regularly sub-contract to local suppliers, such as building maintenance providers and food suppliers, to meet the Commonwealth's requirements. Service Delivery Division is looking at ways to capture information from these contractors to identify the local engagement of SMEs, including local contractors and their expenditure. Consideration is being given to amending the Base Services Contracts to include the additional reporting requirements to allow for this level of detail to be captured.