

## **Senate Standing Committee on Foreign Affairs, Defence and Trade**

Parliamentary inquiry – Impact of Defence training activities and facilities 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 – 1.5 - The Committee

**Question reference number:** 1.5

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

#### **Question:**

Following the release of the White Paper, a number of other ministers have highlighted the potential of jobs for regional Australia and the job creation that will apply across the supply chain.

- Apart from the three pilot projects (discussed further below), what has changed in Defence policies and procedures to reflect this intent?
- How is this intent being communicated to staff at all levels?
- In Wodonga, Ms Wood said that the 'defence industry participation policy...will create these sorts of provisions (defence interactions with the local community/economy) in those contracts as an outcome of that policy'. Would you please provide more detail, including how this will occur and the timeline for it to occur?

#### **Answer:**

Defence is developing a Defence Industry Participation Policy (DIPP) 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 six major capital facilities projects.

The DIPP will balance providing opportunities for competitive national and local business with consideration of the cost of tendering. It will also be in line with the Commonwealth Procurement Rules. Defence is working with peak industry bodies, that states and territories and other Government departments and agencies on the development of the DIPP.

The Centre for Defence Industry Capability (CDIC) has been established to provide a focal point and an entry point to Australian industry, particularly Small to Medium Enterprises (SMEs), into Defence. The CDIC is a \$23 million per year initiative that businesses across Australia, including regional areas, can access. CDIC advisors travel across Australia to where their services are in demand, including to regional and rural areas. As of 3 April 2018, the CDIC has:

- received 365 applications for services of which 342 applications have been approved and progressed to engagement planning with CDIC advisers;
- received 36 applications for a Capability Improvement Grant, of which 13 have been received and approved; and
- commenced delivery of a series of 'Introduction to the Defence Market' seminars across regional centres and state and territory capitals.

The Australian Industry Capability (AIC) Program which applies to major capital equipment procurements of \$20 million and above has been strengthened with tenderers now required to more explicitly demonstrate how they have maximised consideration of Australian industry as part of their proposed capability solution and what value add work is proposed to be undertaken in Australia. The AIC Program is the most significant lever for promoting Australian industry capability development, employment, innovation, and upskilling. Competitive businesses across Australia benefit from the opportunities the AIC Program delivers, including those in rural and regional communities.

The Integrated Investment Program (IIP), which maps a significant investment pipeline in Defence capability and enablers over the coming decade and beyond established to build the future force and Defence capability goals of the Defence White Paper, will guide the implementation of the bulk of investment over the decade. The IIP provides the clarity industry needs to invest in their capabilities and grow the skills and size of their workforce. Doing so ensures that Australian businesses are positioned to compete for, and win, work with Defence. A significant portion of this investment will occur in regional Australia.

The Government released the Defence Export Strategy on 29 January. The Strategy is focused on providing strong support to increase defence exports and maintain and grow employment in the defence industry sector. The Strategy includes \$4.1 million in additional funding specifically to support Australian businesses to increase their export competitiveness and a number of other initiatives aimed at delivering better defence export outcomes particularly for SMEs. Many SMEs in regional Australia have already achieved significant export success, and the Defence Export Strategy will support more rural and regional businesses to grow internationally and succeed. Defence procurement will continue to be undertaken in line with the Commonwealth Procurement Rules.

In line with Government's expectation that local industry involvement in Defence projects be maximised, the Estate and Infrastructure Group is applying the Local Industry Capability Plan pilots across six major capital facilities projects. This plan has also been extended to two additional projects. 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.

As outlined in the 2016 Defence Industry Policy Statement (DIPS), Defence has recognised Australian industry as a Fundamental Input to Capability (FIC). This is recognition by Defence of the contribution made by the defence industry and the need to consider it across all areas, ranging from force design to procurement, including the Defence capability life cycle.

The DIPS has been distributed to all staff, both on-line, as well as in hard copy, delivered across the organisation. Other key policy statements, such as the Defence Export Strategy, have been similarly distributed to ensure awareness amongst all Defence staff. The strengthened Australian Industry Capability requirements apply across all Defence major capital equipment procurements of \$20 million and above and are conveyed to Defence staff undertaking those procurements on that basis.

All Defence Groups are contributing to the development of the defence industry policy initiatives and will have a key role in their effective implementation. Senior personnel across Defence are also regularly briefed on industry policy issues and priorities, including major policy initiatives and ongoing industry engagement. This includes regular updates on implementation of the DIPS and implementation of industry as a FIC, working with Capability Managers as managers of FIC to ensure their consideration of industry, including in advice to Government on new investments at the Investment Committee. This ensures awareness and support throughout Defence for the Government's defence industry policy agenda.

The Defence Industry Participation Policy is currently under development and will be released in 2018 and will be applied to Defence procurement above \$4 million. Implementation in Defence will commence following release of the policy. The details are yet to be finalised and considered by Government but as with the Australian Industry Capability Program for major capital equipment procurements of \$20 million and above, a more structured and consistent approach to requirements on tenderers to consider competitive Australian and local industry involvement where relevant to the nature of the procurement will be considered.



## **Senate Standing Committee on Foreign Affairs, Defence and Trade**

Impact of Defence training activities and facilities on rural and regional communities – 21 November 2017

### **ANSWER TO QUESTION ON NOTICE**

Department of Defence

**Topic:** SSCFADT - Impact of Defence training activities and facilities on rural and regional communities - 21 Nov 17 - Wodonga – Q7 – Communication with Industry and Tendering Process - McKenzie

**Question reference number:** 7

**Senator:** Bridget McKenzie

**Type of question:** Spoken, Hansard page 39

**Date set by the committee for the return of answer:** 15 December 2017

#### **Question:**

**Senator McKENZIE:** Could you review the Hansard—it's from this morning. There was some reference during the evidence from business, and I guess this comes to you, Ms Wood, about a list of requirements in a tender document for X service, which weren't even essential to this and involved out-of-date equipment [page 27]. I asked the businessmen what level of engagement the industry more broadly had with defence in making sure what you're asking for is what you need, and there wasn't any sort of space. When you're developing what you need in those documents, how engaged are you with industry?

**Ms Wood:** That's quite a complex question, Senator. Depending on the procurement and the type of activity, we might be very engaged with industries. Certainly at the high end of our procurements, we have a lot of engagement with industry about what they can actually deliver.

#### **Answer:**

Senator McKenzie has referred to procurement of “40,000 target job lots” (page 27). This relates to an open tender issued in 2016 by Land Systems Division, within the Capability Acquisition and Sustainment Group. This procurement was for 37 separate target related items, totalling approximately 40,000 items to meet Defence’s requirements. Defence has sufficient stock to satisfy requirements until the next tender is released, which is expected to occur in Quarter 4, 2018.

There were eleven tender responses received and this resulted in five contracts being placed. The tender submitted by Australian Target Systems was not as competitive as other tenders and was therefore unsuccessful against all 37 lines of the Request for Tender. Land Systems

has not been able to locate any records regarding disputes or clarifications sought by Australian Target Systems.

Engagement with industry was through the release of a Request for Tender on AusTender. The procurement was conducted in accordance with the Commonwealth Procurement Rules.

Land Systems Division conducts bi-annual Industry Forums, primarily related to integrated soldier systems capabilities, to engage industry to share ideas and inform them about emerging work. Industry Briefings are also conducted to support some specific tender activities and are designed to provide industry with more information about those particular requirements and provide the opportunity for them to ask questions about the capability sought and the tender process. An Industry Briefing was not deemed necessary for this particular procurement activity as it represents a simple procurement of commercially available items.

Industry is encouraged to engage with the Land Systems Division's Diggerworks team, which investigates emerging technologies across the Soldier Combat System. There are also avenues for industry to engage Defence through the Centre for Defence Industry Capability.

## **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 – 1.11 - The Committee

**Question reference number:** 1.11

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

#### **Question:**

The committee notes that much of the work undertaken for Defence is through the engagement of Tier 1 contractors. In Port Augusta, the committee heard evidence that most discussion around procurement is not usually with Defence but with Tier 1 contractors.

- How is Defence working with Tier 1 contractors to ensure the policy intent of the White Paper around local jobs is implemented?
- In Wodonga the committee discussed what requirements are included in contracts with prime contractors such as engagement with the local communities and/or businesses. Defence seemed to indicate that there are no standard provisions in contracts for local engagement. Is that correct? Do contracts have any standard provisions? If so, please provide examples.

#### **Answer:**

Defence promotes and maximises local industry engagement and participation through the procurement process of the prime construction contractor. This is achieved through the contractor's tender submission, which is required to include a Local Industry Capability Plan (LICP). The LICP forms part of the value for money assessment that Defence undertakes when assessing tenders. Once the contract is awarded, the successful tenderer is contractually required to meet the commitments made in the LICP they submitted. The LICP will detail how the prime contractor will engage with the local market to ensure that maximum opportunity is provided for local industry to participate in the project. Under the LICP the prime contractor will be committed to gaining a detailed understanding of the capabilities and capacities of the local industry throughout the project lifecycle. This method is also supported and strengthened by Defence providing industry briefing sessions to prime procurement activities, which provides an opportunity for tenderers to understand the requirement in greater context.

Specific project examples to Defence and prime contractors maximising local industry engagement are:

**Cultana Redevelopment Stage 1:** St Hillier's has taken steps to promote and maximise local industry engagement. Industry forums were conducted in July 2017 to promote, encourage and maximise local industry participation. In addition St Hillier's included Key Performance Indicators (KPIs) on sub-contractor trade package tenders, these being:

- Engagement of 70% local contractors and suppliers; and
- 100% of the site labour force to be generated through Whyalla and/or Port Augusta.

The project also has a strong focus on construction items being ordered through local suppliers across all sub contract packages.

**Explosive Ordnance Logistic Reform Program (EOLRP):** Six Requests for Tenders were issued in late 2017, with one contract been signed to date. Negotiations with Preferred Tenderers are either underway or have been completed and are awaiting delegate approvals. Tenders included draft LICPs, which were evaluated as part of the value for money assessment for each contract. Tenderers were required to state how they intend to engage with local industry, including how to support local industry participation, how they will educate local industry in competing for sub-contract packages and how they intend to provide feedback to both successful and unsuccessful sub-contractors.

Tenderers were also required to stipulate a minimum target of local participation for each contract. The level of participation offered by the tenderers ranged from 52% to 95%, depending on the location and scope of works for each site.

**Larrakeyah Barracks Redevelopment and Facilities to Support Navy Operations in the North:** The Commonwealth has engaged Laing O'Rourke as the Managing Contractor for Projects J0109 (Larrakeyah Barracks Redevelopment) and N2238 (Facilities to Support Navy Operations in the North). As part of establishing stronger local industry engagement, Laing O'Rourke has established a "collaborative centre" at their Winnellie office in Darwin. This "collaborative centre" has become an enabler of strong local relationships and shared project understanding. The "collaboration centre" has also enabled Laing O'Rourke to have a local presence close to Larrakeyah Barracks throughout the Planning Phase, facilitating communication between the contract administrator, Defence user groups, local industry, stakeholders and the design consultants.

A Local Industry Capability Plan (LICP) will be a standard Schedule in the tender documents for both the Managing Contractor Contracts and the Head Contracts for major capital facilities and infrastructure projects. The LICP requires the prime contractors to detail the measures they will take to maximise the opportunity for local industry participation in the projects. As the LICP forms part of the contract, the prime contractors are contractually obliged to meet the commitments given in the LICP.



The Minister for Defence has announced that the LICP pilot is being applied to six projects, being:

- the Explosive Ordnance Logistics Reform Program (EOLRP);
- Shoalwater Bay Training Area Redevelopment;
- Townsville Field Training Area Mid Term Refresh;
- RAAF Base Townsville Mid Term Refresh;
- HMAS Cairns Mid Term Refresh; and
- HMAS Cerberus Redevelopment (announced by the Minister for Defence in October 2017);

A LICP will also be applied to the following two projects:

- LAND 400 related infrastructure; and
- Australia-Singapore Military Training Initiative.



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### **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 – 1.12 - The Committee

**Question reference number:** 1.12

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

##### **Question:**

The committee heard evidence in Port Augusta of prime contractors holding information forums for local businesses to discuss the potential opportunities for subcontracting packages. In Rockhampton, witnesses provided examples of industry associations and others who are providing assistance to SMEs by either offering training to increase their capability to compete for Defence contracts or providing information about upcoming business opportunities.

- Does Defence have any role in planning or promoting these sorts of events? Is Defence aware of other examples of this sort of engagement? Are the prime contractors doing this of their own volition? If so, could this be included as a standard requirement in the prime contractor's contract with Defence?

##### **Answer:**

Defence has a role in planning and promoting information forums for local businesses on upcoming opportunities to participate in Defence projects.

During the development of major capital facilities and infrastructure projects, it is standard practice for the Defence project team to conduct industry briefings in the location where the project will be delivered. For national projects that have multiple works locations, industry briefings are routinely held in the locations where the majority of the work is planned to be conducted. An example of this is the Explosive Ordnance Logistic Reform Program (EOLRP) project which has works planned to be conducted in 12 separate locations. Industry briefings for the prime contractors were conducted at six of the sites. For the Joint Health Command Garrison Health Facilities Upgrade project, industry briefings will be conducted in 12 separate locations. For the RAAF Base Tindal Redevelopment project, where all the works will be conducted at the base, the industry briefing for the prospective prime contractors was conducted at the base.

Subsequent to the industry briefings targeted at the prime contractors, the successful prime will then routinely conduct their own industry briefings targeted at the sub-contractors. These information sessions will cover the details of the multiple works packages for which the prime contractors will be engaging subcontractors. The Local Industry Capability Plan (LICP) for the EOLRP prime contractors contractually commits them to conducting these briefings. It is anticipated that the successful prime contractor for the RAAF Base Tindal Redevelopment project will conduct industry briefings for the sub-contractors in Katherine.

The intention to include the LICP as a standard tender schedule is to see all future prime contractors on major construction projects conducting comprehensive industry engagement, including information sessions, in order to best prepare local industry for involvement in Defence projects.

The Centre for Defence Industry Capability (CDIC) also plays a vital role in making businesses across Australia aware of the opportunities on offer and assisting them to become defence ready. The CDIC is also supporting major defence projects. Notably, in 2017, the CDIC presented to an estimated 3,000 participants at industry briefings in support of the continuous naval shipbuilding program.

The CDIC is holding a seminar series – Introduction to the Defence Market – for Small to Medium Enterprises in key regional centres and state capitals from 6 March 2018 to 15 May 2018.

## **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 – 1.23 - The Committee

**Question reference number:** 1.23

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

##### **Question:**

The committee has found that the Base commandant is key in ensuring good relationships with the local community.

- Are there any policies about engagement with local communities?
- How can defence ensure that the local commandants are appropriately engaged with the local community? How does the base commandant work with the Estate Maintenance and Operations Services (EMOS) to engage with the community?
- In Wodonga, a question was asked about whether there are KPIs that base commandments are required to meet with respect to community engagement. Does Defence have a standard definition of community engagement or any defined activities that base commandants should undertake to facilitate engagement with the community?

##### **Answer:**

- The role of the Senior Australian Defence Force Officer (SADFO) is established by a Secretary and Chief of Defence Force Directive. The Directive outlines the responsibilities of the SADFO, one of which is community engagement. A Senior Australian Defence Force Officer (SADFO) is appointed by their respective service group on behalf of the Chief of the Defence Force. The SADFOs represent ADF interests via a 'whole of Defence' approach. This includes managing and executing any Defence Assistance to the Civil Community, such as support following natural disasters, as well as broader community engagement activities.
- SADFOs work in conjunction with the Base Support Manager (BSM) and EMOS. The BSM oversees the operations of the base and other service delivery matters. This involves routine engagement with the local community.

- There are no organisational KPIs that define the expected activity or level of community engagement as formal and informal community engagement is driven by the specific geographic and situational environment in which the base operates. Community engagement is a significant focus and is continually assessed by the SADFO, as well as the local BSM and team.