

## Chapter 3

### Conclusion and Recommendations

3.1 Throughout this inquiry the committee heard a strong message that the presence of Defence bases and ADF personnel is welcomed by members of the local community. It was widely recognised that there are a number of benefits resulting from Defence presence in the regions, with particular reference to the business opportunities that may arise from Defence training activities and infrastructure upgrades taking place on Defence bases. The committee heard a number of examples of local councils, industry organisations and local businesses actively seeking increased engagement with Defence representatives in their community.

3.2 The implementation of the *2016 Defence White Paper* (White Paper) provides an opportunity to build on the existing goodwill in the community to ensure that Defence training and activities continue to reap positive benefits for rural and regional communities. The main concern of the committee has been to investigate whether appropriate policy frameworks, procedures and communication mechanisms are in place to ensure the local job creation aspects of the White Paper highlighted by the government can be realised.

3.3 In order for rural and regional communities to be able to participate in and see the anticipated benefits of the employment opportunities, as a first step, the committee recognises that it is important for an appropriate policy framework to be in place.

#### Policy settings

3.4 As highlighted throughout the inquiry, the White Paper sets out the Government's intent to strengthen and increase investment in defence capabilities to meet the challenges of the strategic environment. The White Paper is supported by a number of other policy documents and plans. These plans outline the Government's intent, strategic direction, current priorities and initiatives and provide some guidance for those engaged in the Defence sector and specifically SMEs.

3.5 The White Paper and associated policy documents have recognised the importance of developing sovereign capability and ensuring that Australian industry is well placed to assist and support the Australia Defence Force (ADF) into the future.

3.6 The focus on developing capability and capacity in defence industry is welcomed by the committee. It is recognised that supporting businesses in each part of the supply chain is important to ensure the current and future needs of the ADF are met. It is, however, disappointing that the White Paper was released well in advance of additional supporting policy documents and the LICP pilot that will facilitate the implementation of the aspects of the White Paper that the committee has been investigating. The committee is of the view that it would have been beneficial for the supporting policies, and particularly the LICP pilot, to have been available earlier when announcements were made about employment opportunities and the committee notes that some aspects of the policy framework are still under development.

3.7 The committee will now turn to the effectiveness of the translation of the government announcements about employment into policies and procedures to ensure the best outcomes for communities.

### *Implementation of strategic policy direction*

3.8 The committee has some concerns that there may be a disconnect between the high level strategic policy documents and the implementation and delivery of measurable outcomes for SMEs in rural and regional communities. Evidence from SMEs reported challenges communicating with Defence and being made aware of upcoming business opportunities and the difficulties experienced to win contracts with Defence, particularly businesses who have not traditionally had a relationship with Defence. The committee also received some evidence that the procurement process is cumbersome and the amount and complexity of the documentation required puts the process out of reach for a number of SMEs. These examples indicate that there may be additional action necessary to ensure strategic intent is matched by operational initiatives.

3.9 Defence provided evidence outlining how Defence officials are made aware of government policies and priorities, including the distribution of policies to all Defence staff to ensure awareness and briefing senior Defence personnel on industry policy issues and priorities. While this dissemination of information and increasing awareness is a positive step, it was not clear to the committee how this approach will result in the priorities filtering down to all levels and, importantly, being embedded in departmental procedures. The committee therefore remains concerned about the level of information available to Defence staff at all levels and locations about the implementation of strategic policy documents.

### **Recommendation 1**

**3.10 The committee recommends that Defence review its procurement and purchasing policies and procedures to ensure they are providing appropriate and up to date guidance to Defence staff that will assist them implement the Defence White Paper, associated industry policy documents and the Local Industry Capability Plan Pilot.**

### *Local Industry Capability Plan Pilot*

3.11 The Local Industry Capability Plan (LICP) pilot was announced during the period that the committee has been conducting its inquiry. Initially to include three projects, the LICP pilot has now been expanded to include six projects at varying stages of implementation. The committee welcomes the LICP pilot and its emphasis on facilitating increased engagement between prime contractors and local businesses. The committee is positive about the additional opportunities that local SMEs may have to participate in Defence work contracts as a result of the LICP pilot.

3.12 Encouraging prime contractors to actively engage with local business during the preparation of tender proposals is important as it provides a mechanism for prime contractors to develop a better awareness of the local industry and their capability and capacity to undertake Defence contracts. The committee notes that under the LICP pilot, tenderers will be required to include information about proposed local industry

participation as part of their response to the Request for Tender and successful tenderers will be required to prepare a Local Industry Capability Plan which will be considered and reviewed by Defence throughout the project to determine economic benefit and validate engagement and commitment to opportunities for local industry participation. The committee has made a recommendation later in this chapter on how this information could be utilised.

3.13 The committee notes evidence from Defence that the outcomes from the LICP pilot will inform Defence policies and in particular the Defence Industry Participation Policy, expected to be released later in 2018. It is appropriate that the valuable feedback and lessons learned from the LICP pilot should inform other Defence policies and procedures. Given the emphasis that has been placed on the potential for the LICP pilot to deliver sustained positive outcomes for local industry, it is the view of the committee that a comprehensive evaluation be undertaken of the LICP pilot.

3.14 A detailed evaluation will also provide an opportunity to assess the success of the LICP pilot over a longer period. As noted in supplementary submissions to the committee, the LICP pilot is in its infancy and it is difficult for local communities to accurately assess any impact on local industry and whether the processes in place for the current tenders have led to increased local consultation and engagement.

3.15 The committee recognises that the six projects included in the LICP pilot are at varying stages of implementation which will affect the timing of information being available on the progress of the pilot. With this in mind, the committee has not recommended a particular timeframe for the completion of the evaluation but notes it would be advantageous if it were completed as soon as practicable.

## **Recommendation 2**

**3.16 The committee recommends that Defence conduct a detailed evaluation of the Local Industry Capability Plan Pilot which should be made publicly available.**

### ***2018 Defence Industrial Capability Plan***

3.17 The committee welcomes the release of the *2018 Defence Industrial Capability Plan* in April 2018 which includes a list of ten initial Sovereign Industrial Capability Priorities. These priorities are focused on areas that are operationally critical, priorities within the Integrated Investment Program over the next three to five years or need more dedicated monitoring, management and support.

3.18 The establishment of Sovereign Industrial Capability Priority Grants will enable SMEs who are contributing to a Sovereign Industrial Capability Priority to apply for grants of up to \$1 million to fund capital equipment purchases and non-recurring engineering costs. Businesses will be required to match funding on a 50:50 basis and total funding for a business over a two to three year period will be capped at \$3 million. Total funding for these grants will be up to \$17 million in a financial year.

3.19 The committee notes that this new grants program is a positive step and will make available financial assistance to a number of SMEs who are contributing to a Sovereign Industrial Capability Priority. As there will be a number of SMEs who will

not be able to access these grants, the committee encourages Defence to explore other initiatives to assist SMEs in addition to this grants program.

### **The use of Tier 1 contractors**

3.20 The committee notes that much of the work undertaken for Defence is through the engagement of Tier 1 contractors. The committee is of the view that Defence should ensure that the policy intent of the White Paper and associated documents is also carried through in the work being undertaken on behalf of Defence.

#### ***Tier 1s and SMEs***

3.21 The committee emphasises that, although it welcomes the LICP pilot, it is of fundamental importance that processes are in place to ensure that the consultation and tender consideration process is robust and transparent. Evidence to the inquiry from businesses highlighted some of the challenges they had experienced when providing input to prime contractors for tender proposals. The committee heard examples of businesses not being awarded the work from the successful tenderer, despite having provided input during the tender development process.

3.22 The committee notes that although this evidence refers to projects operating outside the LICP pilot, it demonstrates the potential challenges for local SMEs when providing information to prime contractors to assist them to finalise tender documentation.

3.23 The committee sees the LICP pilot as an opportunity for Defence to ensure robust processes around the interaction between Tier 1 contractors and SMEs are in place. In particular the committee received evidence concerning the provision of feedback from prime contractors to unsuccessful tenderers.

#### ***Feedback from prime contractors to unsuccessful tenderers***

3.24 The committee received some evidence about businesses which have been unsuccessful when tendering for subcontracting work to prime contractors and have not received feedback to explain why they were unsuccessful. Defence advised that there are different contractual requirements in relation to the provision of feedback to unsuccessful tenderers. There are some contracts which do not require contractors to communicate with unsuccessful tenderers; it is up to the discretion of the contractor to provide this feedback.

3.25 The committee welcomes advice from Defence that a special condition of contract will be introduced immediately into Defence's traditional head contract to ensure that prime contractors follow guidance in the Commonwealth Procurement Rules on unsuccessful tender debriefs.

#### ***Challenges experienced by SMEs with respect to Tier 1 contractors***

3.26 The committee was concerned about the issues raised in the evidence about the subcontracting tender processes for the Cultana Training Area Redevelopment (CTAR) Stage 1 Project. Following the Canberra hearing, Defence provided broad information about the local engagement undertaken by the prime contractor for the project but at the time of finalising the report, a response in relation to the particular concerns raised by local businesses had not been received from Defence.

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## **Commonwealth Procurement Rules**

3.27 In its first interim report the committee recognised the limitation of the current Commonwealth procurement framework and looked more closely at the South Australian model. The committee discussed the SA model with Defence during Additional Estimates and asked whether that model could be applied in Defence. At that hearing Defence confirmed that they are aware of the SA model and have also talked to the Northern Territory Government about their approach to procurement. Defence reiterated that the Department of Finance (Finance) are the custodians of the Commonwealth Procurement Rules (CPRs).

3.28 The committee again explored the SA model further at its final hearing in Canberra with Defence and Finance. Finance responded that unlike the SA model, mandatory weightings are not used in the CPRs. Finance pointed out that from March 2017 the CPRs include a clause requiring agencies to incorporate consideration of economic benefits for contracts over \$4 million for general procurement and \$7.5 million for construction procurement. Finance stressed that it is up to individual agencies to determine what constitutes economic benefit and what weighting to give to that noting that it does not override the need to achieve value for money. Finance has provided some guidance for agencies to help them implement that policy.

3.29 Defence indicated that in its view these changes to the CPRs are relatively recent and Defence has not yet embedded a mature methodology for identifying the economic benefits. Defence reported that it has reviewed the SA model and that this is one of the inputs being used to develop their assessment models. The committee also notes that this identification of economic benefit is being worked on through the LICP pilot.

3.30 The committee recognises the importance and value of Defence further developing the assessment model to determine economic benefits. The committee intends to monitor progress on this matter.

### **Recommendation 3**

**3.31 The committee recommends that Defence provide an update to the committee about its progress to develop the assessment model by 31 August 2018.**

#### ***Documentation***

3.32 The amount and complexity of procurement documentation was another key message from witnesses which the committee took up with Defence. Finance indicated that they do not provide any instruction about the volume and size of procurement documentation and that it is up to agencies to determine. Defence responded that their contracts for large value items and services are understandably very thorough but they use the Commonwealth contracting suite for tenders under \$1 million which is a streamlined set of tools and templates which was developed by Finance in consultation with SMEs. It is designed to minimise the burden on SMEs.

3.33 The committee was pleased to hear from Defence that they remain open to incremental change to documentation based on feedback from industry.

## **Consultation mechanisms**

3.34 As it has noted in interim reports for this inquiry, the committee received evidence of positive and collaborative engagement and consultation between Defence and the respective communities, as well as evidence about aspects of communication that could be improved. The evidence received about consultation mechanisms focused on consultation between Defence and the local community broadly, as well as consultation between Defence and local businesses.

3.35 The committee understands that level of engagement varies from base-to-base and a single mechanism cannot address all aspects of defence engagement. However, some key communication mechanisms were highlighted during the inquiry.

### ***Importance of the relationship between the base commandant and the local community***

3.36 Throughout the inquiry the committee heard evidence noting the significance of the local base commandant in ensuring good relationships with the local community. The committee agrees with the importance of this relationship. While the committee heard positive examples, communities saw the relationship as a key one to build on and were concerned should a base commandant be less engaged with the community. The committee asked Defence how it ensures local commandants are appropriately engaged with the local communities and whether there are any policies in place but at the time of finalising the report the committee had not received a response.

3.37 In the absence of advice from Defence and in order to facilitate engagement with local communities, it is the view of the committee that it may be beneficial for some general guidance setting out a standard set of requirements for community engagement to be developed.

## **Recommendation 4**

**3.38 The committee recommends that Defence develop general guidance for base commandants to achieve an appropriate level of engagement with the local community which includes ensuring contact points are available to stakeholders in the local community.**

### ***Communication with business representatives, especially small and medium enterprises***

3.39 Another consistent message from witnesses was the importance of stakeholders such as local councils being informed about current and planned activities at defence facilities to enable planning for the provision of services as well as capital works and training activities so that business opportunities can be communicated to local businesses.

3.40 The committee was surprised to hear that in some areas the communication mechanisms with local government and other stakeholders were less developed than others regardless of how long Defence had been in the area.

3.41 The committee notes advice from Defence that it engages continually with local communities and it uses direct engagement as well as utilising the existing

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functions of local, state and territory governments, industry peak bodies and Tier 1 contractors to provide information.

3.42 The committee notes there are a number of stakeholders involved in communication mechanisms and it is important to create and maintain mechanisms to facilitate engagement with local businesses. The potential contribution of SMEs is an important consideration in order for the policy intent of the White Paper to be implemented. The committee stresses the importance of Defence working with local councils and other stakeholders to ensure the available consultation mechanisms are appropriate and working well.

3.43 The committee welcomes the establishment of the Centre for Defence Industry Capability (CDIC) to provide a source of information for businesses across Australia.

#### *Centre for Defence Industry Capability*

3.44 The committee notes that the CDIC website provides a wealth of information about the Defence industry to assist businesses. This is a valuable tool to assist SMEs increase their understanding and awareness about working with Defence and the Defence industry more broadly. A central point of advisors based in states and territories is also very valuable.

3.45 It will be very important for the CDIC to continue building capacity and developing networks at the regional level. This should also include a focus on businesses that have not previously participated in Defence work and may be looking for opportunities to contribute to the defence supply chain.

3.46 Evidence to the committee throughout the inquiry emphasised the importance of SMEs having access to information about working with Defence and being supported to increase their capacity and capability to be able to tender for Defence work. The committee welcomes the 'Introduction to the Defence Market' seminar series recently delivered by the CDIC in capital cities and regional areas to assist SMEs.

3.47 While the work of the CDIC is welcomed, on a practical level it may not be the most relevant mechanism for some SMEs in regional and remote areas to directly access information. For a number of SMEs, the availability of a local liaison contact, such as a chamber of commerce or a representative from local council, is an important part of the communication process.

#### **Recommendation 5**

**3.48 The committee recommends that the Centre for Defence Industry Capability ensure its processes and communication mechanisms specifically consider how best to provide information to SMEs in rural and regional areas.**

#### **Recommendation 6**

**3.49 The committee recommends that the Centre for Defence Industry Capability publicly report on its engagement with SMEs, particularly engagement with SMEs in rural and regional areas.**

### **Availability of regional/local information**

3.50 The availability of information measuring the regional impact of Defence activities is very important to rural and regional communities. The committee heard evidence at every public hearing throughout the inquiry about the need for this data to be readily available. In particular, communities want better measurement of the local and regional economic benefits derived from activities at Defence bases.

3.51 Following a number of requests from the committee, Defence was able to provide some regional information, such as the number of local people employed at particular bases or the value of goods and services purchased from local suppliers. It is positive that some regional information is currently available.

3.52 The committee notes that more localised information would be of great benefit to communities and to Defence more broadly. It contrasts the information made available to the committee for this inquiry with the detailed information made available to the Parliamentary Standing Committee on Public Works.

### ***Financial system change***

3.53 The committee heard that Defence's financial systems are largely designed around paying suppliers rather than providing such information and the committee is cognisant of the resource implications of increasing reporting requirements undertaken by Defence.

3.54 The committee was however pleased to hear that as part of the procurement reform framework in Defence, all contracts and purchase orders raised will be required to relate to the postcode where the goods and/or services are going to be provided.

### ***Pilot information***

3.55 It is expected that as the LICP pilot progresses, the information about the local and regional impact of Defence facilities and training will be more readily available. It is the view of the committee that this is a positive development which could be used to address this information deficit and provide a valuable feedback mechanism.

### **Recommendation 7**

**3.56 The committee recommends that Defence collate the information provided in Local Industry Capability Plans relating to local engagement and local economic benefits to produce a regular public update about Defence activities in the regions.**

### ***Tier 1 contractor reporting requirements***

3.57 In accordance with their terms of contract, Tier 1 contractors are required to report to Defence on a number of matters. The committee notes that information provided from Tier 1 contractors in accordance with Defence reporting requirements could be of benefit to a range of stakeholders.

3.58 Based on the evidence received to date, it appears to the committee that there is some variability on reporting requirements for managing contractors, including contractors implementing Base Services Contracts. The committee notes that Defence



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is seeking to amend reporting requirements, including possibly amending Base Services Contracts to include additional reporting requirement to capture the local engagement of SMEs. The committee supports this course of action. The detailed information required from Tier 1 contractors as part of the LICP pilot is also welcomed.

3.59 In order to meet the need from the community, particularly rural and regional communities, for more information about the regional impact of Defence activities, it is important that Defence consider the most appropriate way to make the information publically available, noting that some information may be viewed as commercial in confidence.

### **Recommendation 8**

**3.60 The committee recommends that Defence review the reporting requirements of Tier 1 contractors to ensure relevant regional/local information is provided and Defence consider how best to make this publicly available.**

#### *External analysis commissioned by Defence*

3.61 The committee also notes the evidence from Defence about the studies analysing the economic contribution of Defence activities that have been undertaken to date. These studies have reported a demonstrable economic benefit to the respective communities.

3.62 The committee is pleased that additional studies have been commissioned in 2018 to analyse a number of other bases. While this is positive, this may not address the ongoing need and importance of regional and local level information being available for local communities and other interested stakeholders.

3.63 It is important that there are mechanisms in place to facilitate the ongoing collection and reporting of this information into the future. The committee is of the view that Defence should work towards being able to provide detailed information about the number and types of goods and services, the use of local suppliers and the proportion of the total project spend flowing into the local economy. While the committee understands current processes and systems are not able to achieve this level of detail, the committee sees the information from the LICP pilots, the change in contract and purchase orders reporting and the ad hoc studies analysing the economic contribution of Defence activities providing a solid basis for working towards making that information available.

### **Recommendation 9**

**3.64 The committee recommends that building on recommendations 7 and 8, Defence work towards providing detailed information about the number and types of good and services, the use of local suppliers and the proportion of total project spend flowing into the local economy.**

3.65 The committee believes that the provision of this information will build on the tremendous goodwill and community support for Defence and allow Defence to clearly articulate the economic benefit being provided by Defence to communities around the country.

**Senator Alex Gallacher**  
**Chair**