

## Chapter 3

### Issues raised with the committee in Townsville

3.1 This chapter summarises the issues raised during the committee's hearing in Townsville, including the current level of local engagement with Defence and future opportunities; challenges facing local government and local businesses; and mechanisms for communication with Defence, particularly in relation to enhanced local business engagement and the proposed expansion of training areas.

#### Facilitating opportunities for regional and local business

##### *Utilising the skills in the region*

3.2 The committee heard from a range of businesses across different sectors undertaking significant business with Defence in Townsville and the region and which were all generally positive on their experiences in engaging with Defence.

3.3 Simon George & Sons, a fruit and vegetable wholesale business operating in Australia since 1927 and in Townsville since 2006, has had a longstanding relationship with the ADF for the provision of fresh fruit and vegetables. Mr Larry Griffin, General Manager Townsville, told the committee that Simon George & Sons 'has a proven history of being loyal purchasers of local produce from Townsville and surrounding growing districts.'<sup>1</sup> Mr Griffin informed the committee that the company had just been through a national tendering process and was awarded a contract for the supply of produce for the Army (excluding Townsville) and to provision naval vessels along the eastern seaboard, and did not have any problems with the tendering process. In relation to the company's interactions with Defence, Mr Griffin was very complimentary:

I think they do an excellent job. In our direct dealings with Defence they have given us plenty of lead time to allow us to source the right product at the right price from the right regions, and they take feedback on board with regard to substitutions, whether it is a quality issue or an out of season. They have always given us strong feedback on anything we have provided when we have asked and they pay in a very timely manner.<sup>2</sup>

3.4 The committee also heard from the Port of Townsville Ltd, a Queensland government-owned corporation, which is a multicargo port, utilising eight berths that handles a diverse range of cargo and facilitates access for cruise ships. Additionally, it provides accessibility for Defence vessels into northern Australia. Mr Jacob Kalma, General Manager Operations and Logistics, provided the committee with details of Defence's important role within the Port of Townsville:

The proximity of Lavarack Barracks has meant the Port of Townsville is convenient, strategically placed and cost-effective for interservice activities

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1 *Proof Committee Hansard*, 14 July 2017, p. 31.

2 *Proof Committee Hansard*, 14 July 2017, p. 37.

such as disaster relief. To enhance loading operations, Defence developed a small staging area at the port, approximately a hectare, as well as permanent office space for Navy personnel to utilise. The Port of Townsville Ltd worked in collaboration with Defence to upgrade berth 10 in 2013. The berth was purpose-built to host Navy's two newest and largest landing helicopter dock, LHD, vessels, HMAS *Canberra* and HMAS *Adelaide*. This approximately \$85 million facility, which was co-funded by Defence, includes fuelling and tank-staging areas and a terminal building, and is supported by a DAWR AQIS quarantine wash-down facility. Defence has priority berthing arrangements in place to utilise the berth 10 facility as required.<sup>3</sup>

3.5 Mr Kalma also informed the committee of future opportunities through Defence engagement:

With the recently announced joint military arrangements with the Singaporean government, the port is well positioned to support increased navy ship visits from the Singaporean navy. We have hosted several of their naval visits in the past and are expecting four port calls in September 2017. The priority arrangements for foreign defence vessels at berth 10 are an important component in this military partnership.

The Townsville White and Grey Ship Attraction Committee, for which the Port of Townsville provides a chair, works to ensure defence vessels visiting Townsville are made aware of all the wonderful tourism opportunities that are available in our region. The committee is also working on establishing regular annual events with Navy, such as exhibition rugby games, to increase the Navy's participation in the social aspects of Townsville.

The \$1.64 billion Townsville port expansion project, which will widen the sea channels in stage 1—the channel capacity upgrade—is now in the final stages of environmental approval processes. Widening of the sea channel will provide safer access for larger defence vessels. This project will include the development of a new reclamation area, which will provide extra berths as well as additional backing land areas, which will be available to be utilised by port users. These additional berths and available land, as well as the existing facilities within the port, provide Defence with several options to cater for any potential future needs in terms of operational requirements.<sup>4</sup>

3.6 In regard to the opportunities for local businesses, Mr Kalma advised:

A lot of the transport is done by Defence transport themselves. However, in terms of supplying and provisioning the ships, there is a large opportunity for local businesses to be involved. Also, from a tourism perspective, people come ashore and have a weekend here in Townsville. With the crew

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3 *Proof Committee Hansard*, 14 July 2017, p. 31.

4 *Proof Committee Hansard*, 14 July 2017, pp 31-32.

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at the local restaurants, bars et cetera, we see a lot of that input and value from that side.<sup>5</sup>

3.7 Mr Kalma advised the committee that the Port of Townsville values the relationship with Defence and it wants to:

...build and further develop the relationship between the community, the port and Defence, and we see that it can only get better and improve. We also see opportunity within the port to expand Defence's presence by having more land available as well as more berthing opportunities.<sup>6</sup>

3.8 The committee also heard from Shamrock Civil Engineering (Shamrock), a privately owned civil construction contractor, with over 120 employees, which has been operating for 22 years with base locations in Townsville and Ipswich. Mr Clinton Huff, Business Development Manager North Queensland, advised that over the past 10 years Shamrock has undertaken various projects with Defence, either through direct contract with Defence or as a subcontractor to tier 1s in larger contracts.<sup>7</sup>

3.9 In regard to the utilisation of local suppliers, Shamrock advised that it has a policy to purchase everything locally if possible:

We purchase everything we can based out of Townsville. The only time we will move outside Townsville is if we cannot actually find it here, and then it is based on going to the next most regional location until you can get it. That is our internal policy. We have found that by doing that it reduces the costs in the delivery of the projects, because you're not paying for travel costs to bring people in or other equipment in.<sup>8</sup>

3.10 Mr Huff also noted that in the tender documentation there is encouragement to use local businesses in the delivery of the works.<sup>9</sup>

3.11 The committee heard evidence from Cubic Defence Australia Pty Ltd (Cubic) on its experience in engaging with Defence on work with its training activities and facilities in the region. Cubic is an Australian arm of a global corporation and is based in Townsville providing support for ADF training activities by supplying specialist technical simulations of systems and services. Cubic's submission outlined the scale of its operations:

Cubic commenced operations in Townsville in 2007, and has since experienced year-on-year growth to exceed annual revenue of \$29 million in 2016 with more than 110 full-time employees. In support of ADF training activities across the country, Cubic also employs more than 150 casual staff. Whilst our programs have expanded across a broad geographical footprint, we have maintained our head office in Townsville,

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5 *Proof Committee Hansard*, 14 July 2017, p. 35.

6 *Proof Committee Hansard*, 14 July 2017, p. 38.

7 *Proof Committee Hansard*, 14 July 2017, p. 32.

8 *Proof Committee Hansard*, 14 July 2017, pp 32-33.

9 *Proof Committee Hansard*, 14 July 2017, p. 33.

which is also the home for the largest concentration of our workforce (48 staff). In 2016, Cubic Defence Australia's operations resulted in over \$9 million being injected into the local Townsville economy.<sup>10</sup>

3.12 The General Manager of Cubic, Mr Miles Macdonald, advised the committee that Cubic is a medium sized company that has successfully contracted with a large number of locally-based SMEs which supply a range of goods and service to their operations:

We have a huge spectrum. We have some small one- and two-person consulting professional service providers who provide us specialist training expertise. We have manufacturing here in Townsville. Townsville Sheetmetal, for example, has done some excellent manufacturing work for us over the years, including design and delivery of complex, environmentally protected communication shelters. Yes, so we have a very broad range. We have telecommunication companies that provide maintenance subcontracts for us across the country.<sup>11</sup>

3.13 Beyond the direct revenues for the work conducted, Mr Macdonald particularly talked about the potential flow on benefits and capability building potential of engaging local businesses. In the case of the example of Townsville Sheetmetal mentioned above, Mr Macdonald advised:

...Townsville Sheetmetal, are an excellent company, very flexible. They have been able to use the work that we have flowed to them to improve their own design processes and procedures, so that now when we go back to them for more work it is much more efficient, and their quality and speed in putting something together is better every time.<sup>12</sup>

### ***Opportunities for growth with increased Singapore investment***

3.14 The Mayor of Townsville City Council, Councillor Jenny Hill, advised the committee about the flow on opportunities from an enhanced Singapore presence, including the potential for increased exports to Singapore, particularly in agriculture and aquaculture.<sup>13</sup> She also informed the committee of recent opportunities in the area of telecommunications:

We have recently given our telecommunications contract to Optus, and Optus has helped us open up those doors into Singapore and Singtel. We are now moving towards building a tier 3 data centre—the only one of its type outside of a capital city. That brings us a number of opportunities, particularly in developing cyber security as part of that tech centre. I see that as being fundamental to the new industries and the new technologies as we move into the digital age. Singaporeans are in that space as well and are willing to partner with us in the creation of training opportunities and job

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10 Cubic Defence Australia, *Submission 22*, p. 1.

11 *Proof Committee Hansard*, 14 July 2017, p. 18.

12 *Proof Committee Hansard*, 14 July 2017, p. 20.

13 *Proof Committee Hansard*, 14 July 2017, p. 4.

opportunities in that field. This deal with Singapore can bring a lot of benefits to Townsville, and not just in the defence space.<sup>14</sup>

### ***Challenges for local government***

#### *Loss of rates income*

#### Townsville City Council

3.15 Councillor Hill stated her support for the location of military training facilities in the region. The submission observed that the city was proud of its historical and current military role and there was strong support to sustain and expand Townsville's capability as a base for ADF operations and personnel.<sup>15</sup>

3.16 However, Councillor Hill raised the issue of the loss of rateable land due to the presence of Defence establishments and the impact on the Council's income base, noting the Defence does not pay rates. She advised that the rate base for Townsville generated close to 91 per cent of its income for the 2015-16 financial year and that the further uptake of land by Defence may impose an unfair burden on residents, with the Council forced to either reduce services or increase rates to compensate. She particularly noted the burden placed on smaller councils.<sup>16</sup>

3.17 It was acknowledged that Defence do make a contribution, but as to whether that contribution makes up for the loss of rates income was questioned, and Councillor Hill advised that no real work has been done on this subject:<sup>17</sup>

Townsville has benefited significantly from Defence; there's no question of that. But we also have a very large population living and working in our community. So, we have the capacity to capture some of that value through property rentals and property rates. It doesn't quite make up for the capital works we have to contribute to ensure that Defence still has connectivity to water and sewerage and for some of the roads in the area, but it does go some of the way to making up for that.<sup>18</sup>

3.18 Councillor Hill proposed a solution:

I would like the committee to think about a special payment for all local councils for land occupied by Defence to compensate them for the loss of rateable income, as the Federal Assistance Grants do not cover this sort of loss in a community.<sup>19</sup>

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There have been ups and down[s]...when the Financial Assistance Grants have been paid, as you know. The Financial Assistance Grants were set.

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14 *Proof Committee Hansard*, 14 July 2017, p. 4.

15 Townsville City Council, *Submission 12*, p.3.

16 *Proof Committee Hansard*, 14 July 2017, p. 1.

17 *Proof Committee Hansard*, 14 July 2017, p. 1.

18 *Proof Committee Hansard*, 14 July 2017, p. 2.

19 *Proof Committee Hansard*, 14 July 2017, p. 1.

There was no inflationary increase for a number of years. I think that cost us well over a million dollars during that time.

...If you were to speak to anyone in the Local Government Association of Queensland, the reality is there's been a decline in recent years in grant funding and a greater push to own source revenue.<sup>20</sup>

### Charters Towers Regional Council

3.19 Councillor Elizabeth Schmidt, Mayor of Charters Towers Regional Council, also raised concerns about the loss of rateable income, particularly in relation to the proposed expansion of the Defence training areas in the Shire and that a potential loss of rates would impact on the Council's ability to take care of the community's needs. She noted that the current loss of rates income from the TFTA was approximately \$260,000 per annum; and with the proposed expansion, the potential rates losses would double that amount, resulting in a shortfall of approximately five per cent of the Council's rate base revenue stream.<sup>21</sup>

3.20 Councillor Schmidt acknowledged that Defence contributes financially to assist with road repairs and maintenance around the current training areas, and emphasised that the Council would like to see this done in a timely manner when issues are identified. The Council further proposed that the training areas be subject to an annual contribution to council to adequately compensate for the loss of rates revenue every year.<sup>22</sup>

3.21 Ms Glenys Schuntner, of the Regional Development Australia Townsville and North West Queensland (RDATNWQ) also noted the burden placed on local governments managing large road networks, such as Charters Towers, which are impacted by the size and volume of equipment operated by Defence, and which will only increase by an enhanced presence:

On limited budgets, that is a real challenge for them. Certainly we would like to flag that, in any expansion of Defence, we welcome the infrastructure and, in particular, roads. We already touched on ports earlier today. That really needs to be considered and how that can be effective for both Defence and the local community without sending the local councils broke.<sup>23</sup>

### ***Challenges for local business***

#### *Businesses investing time and resources*

3.22 The committee heard about the experiences of CQG Consulting, a Queensland owned consultancy providing planning, environmental and engineering services throughout Australia for 13 years, with the head office in Rockhampton. The owner, Ms Patrice Brown, talked to the committee about the difficulties she had encountered

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20 *Proof Committee Hansard*, 14 July 2017, p. 2.

21 *Proof Committee Hansard*, 14 July 2017, p. 6.

22 *Proof Committee Hansard*, 14 July 2017, p. 7.

23 *Proof Committee Hansard*, 14 July 2017, p. 41.

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in engaging with Defence for the provision of services. She advised that the Defence Environmental and Heritage Panel was established in 2014 and CQG Consulting reviewed the process and documentation to tender and with the estimated cost of \$20,000, they instead decided to seek to team up with one of the large consultancies as local providers:

I flew down to Canberra and attended the pre-tender briefing. The room was full of consultants from large firms. Over 100 people spilled out of the room. I approached many of the representatives there, offering our services as sub-consultants with qualified and experienced staff based in regional Queensland, with prior experience working on Defence environmental projects, including in a number of the training areas. We had expected there to be some interest in this offer given our proximity to the Shoalwater Bay training area, our involvement in projects over many years in the Townsville and Rockhampton regions, and especially our skill sets. However, after some follow-up, this did not eventuate, and we missed the opportunity to be part of the 2013 to 2017 panel.<sup>24</sup>

3.23 Ms Brown advised that with the announcement of the Australia-Singapore Training Initiative and the expansion of training areas in the region, CQG Consulting decided to invest time and resources to tender for the next Environmental Panel, but was disappointed to learn that the existing panel was to be extended for two years, to 2019. She noted that this was a particularly important time to potentially take advantage of the opportunities arising from the proposed expansion plans, but the panel extension was:

essentially locking us out of potential work packages with Defence during a critical stage of the setting up of environmental studies and ongoing monitoring that could help inform land planning and impact assessments associated with the preparation and expansion of the training areas at Shoalwater Bay and the TFTA. This was particularly disappointing given our proximity to these training areas and our knowledge of these environments.<sup>25</sup>

#### *Procurement processes and suggestions for improvement*

3.24 Ms Brown commented on the proposal put to her of the formation of a consortium model where local companies link up and agreed on the this model should be able to work in Townsville, but provided the following caveat:

The model in itself, in an ideal world, sounds perfect, and that's what we should be doing. And if we were smart Queenslanders, smart Australians, we would be doing that. But that's not what happens in reality. I draw back to Gladstone as a typical example. There was a huge amount of investment and a huge amount of effort made by local businesses and local professionals to be ready for the influx of the gas companies when they came to town. There were a number of networks set up, there was the ICN—there were various things, all those sorts of tools—and we had the

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24 *Proof Committee Hansard*, 14 July 2017, p. 17.

25 *Proof Committee Hansard*, 14 July 2017, p. 17.

nodding and we had the impact assessments where there were commitments made by those proponents to engage local businesses. Local in that sense was determined to be 'Australia and New Zealand'. We were blindsided by that. There are now some opportunities coming up with follow-on work, after the big boys have left town in some respects. It could work, but it needs to have the right sorts of people leading it, and there needs to be genuine commitment from Defence that they will take that seriously and that they will direct the tier 1s to that panel—and not just give lip service to it, as we've seen too many other times before, otherwise we'll lose people's enthusiasm.<sup>26</sup>

3.25 Mr Miles McDonald, of Cubic Defence Australia, described their experience with the consortium model and how this approach may be viewed by Defence as carrying greater risk:

If we take the case of the consortium that you spoke about before, we certainly have a couple of contracts with Defence in the training space, where we have done exactly that—brought together a large number of very small companies and bid as a consortium. One of the things that we have found in that situation, though, is that very often that is seen as a high-risk solution by the Defence procurement organisation, who have the luxury of either bidding with a single, solid prime or going with a company that has got 10 companies they have to hold together. When risk analysis is done of that, sometimes it means those consortiums are overlooked. I haven't put the thought into the wording and I don't believe it would be our place to tell Defence how to do that, but I guess the intent we would be looking for is to extend the principles behind Australian industry involvement regionally and look at what is the benefit to the local region of that procurement of something that is happening in the military.<sup>27</sup>

3.26 Councillor Schmidt proposed amending the procurement framework and processes to allow smaller rural based businesses to compete for the delivery of services which support the training area. Some suggestions included:

This support may be through the provision of targeted training for local businesses on procurement and tendering processes, preparing responses and opportunities to network with larger providers who may be able to secure local contractors as part of their submissions. The inclusion of a higher local content that specifies the use of businesses within the locality through the tendering process may also assist.<sup>28</sup>

3.27 While noting its success in engaging with Defence, Shamrock advised that the tendering process through AusTender 'can be cumbersome'.<sup>29</sup> In its submission Shamrock outlined some issues it had experienced in the Defence tender process in recent years and offered potential solutions. These included:

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26 *Proof Committee Hansard*, 14 July 2017, p. 19.

27 *Proof Committee Hansard*, 14 July 2017, pp 19-20.

28 *Proof Committee Hansard*, 14 July 2017, p. 7.

29 *Proof Committee Hansard*, 14 July 2017, p. 33.

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- The cost and administration required to maintain an Office of Federal Safety Certification, which is required for applications for higher value tenders, but not required for lower value ones. An improvement may be to place a weighting on whether or not a company has this certification in tender assessments.
  - Some recent tenders have lacked a quantified Bill of Quantities to allow the tenderers to base their tender price on. An improvement may be to let these tenders on a Schedule of Rates basis to then pay actual costs for works completed, or to ensure a Bill of Quantities is provided with the tender documentation.
  - In a recent tender the tender delivery period was to be postponed six months, but the successful tenderer would be required to hold a tender price over which they would have no control of their input costs including high volume/value variable items such as fuel. An improvement may be improved forward programming of maintenance and construction works to be locked into the Training Area operations program at suitable timeframes without due interference, and not in the traditional wet seasons.
  - Tenderers are asked to provide their proposed Key Project Team members at the time of tendering which are aligned to their known Works Program and the capability sets for each person. It is not helpful to the tenderer when the tender decision is delayed as this changes the proposed constructions dates and impedes the tenderer's ability to retain employees in a holding pattern awaiting notification of the tender outcome. An improvement may be to have timely advice provided to tenderers if they have been successful or not.
  - Contractors are being requested to provide Commissioning Hand Over Take Over Plans and Operations and Maintenance Manuals as a contractual requirement for most tenders lodged. These can cost in the vicinity of \$10,000 to \$15,000 to produce and are cost aligned to the project delivery. For items that are of low risk or repetitive an improvement may be to adopt a previously developed plan and have that utilised across all like projects.
  - The standard of tender documentation has decreased significantly over the past two years, through not including a Scope of Works, Design Survey levels, Geotechnical Reports or Bills of Quantities in some cases. This lack of information increases the risk profile for the tendering contractors and as such increases the price for delivery accordingly due to the unknown variables aligned with the project delivery. An improvement may be for the Project Delivery Service contractors to include all relevant information within the tender packages released, providing a more fair and equitable tender process with the same inputs from each tenderer, rather than each tenderers own assumptions.<sup>30</sup>

3.28 Mr Macdonald of Cubic, suggested that capacity building could be enhanced for local businesses if the procurement processes included an evaluation criteria which gives credit for the regional management and delivery of programs within formal procurements, that is 'for the nature as well as the amount of local business that occurs'.<sup>31</sup>

3.29 In response to the above suggestion, Defence noted the changes to the Commonwealth Procurement Rules which came into effect on 1 March 2017. One of the new requirements is for Commonwealth officials to consider the broader benefit to the Australian economy for procurements of \$4 million and over in value:

With respect to that new CPR requirement—and, again, this is in our construction services tendering and contracting templates—updates have included this requirement and will also now be considered as part of the value for money assessment. So it is not an actual criteria, because we cannot put a bias or a balance or a weighting against that, but it is actually going to be taken into account in that value for money assessment, which is part of the technical assessment.<sup>32</sup>

3.30 Cubic also contended that there would be value in Defence increasing government program management and procurement presence in the region to facilitate easier engagement.<sup>33</sup> Mr Macdonald further suggested value in breaking down tendering projects for specialist capabilities where appropriate to provide specialist SMEs more opportunity.<sup>34</sup> The Cubic submission set out further detail on this initiative:

Where appropriate, particularly for niche capabilities, priority should be given to SME suppliers rather than large consolidated prime contracts. This would enable those SMEs to form teams of local small businesses to bid for direct contracts, rather than being relegated to sub-contractor status.<sup>35</sup>

3.31 Acknowledging the reasons why Defence establishes national procurement panels, Ms Brown called for more flexibility in Defence's procurement processes to:

...genuinely give businesses a fair go in the regions in which it operates and trains, to open up its procurement panels for these businesses and to make it easier for its own personnel to procure local services and products without having to only source through the national panels.<sup>36</sup>

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But there needs to be more flexibility for individuals within Defence to also go and procure outside the panel where it is identified that there is value for

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31 Cubic, *Submission 22*, p. 2; *Proof Committee Hansard*, 14 July 2017, 16.

32 *Proof Committee Hansard*, 14 July 2017, p. 27.

33 *Proof Committee Hansard*, 14 July 2017, p. 16.

34 *Proof Committee Hansard*, 14 July 2017, p. 16.

35 Cubic, *Submission 22*, p. 2.

36 *Proof Committee Hansard*, 14 July 2017, p. 17.

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money, they need it in a timely way and they see some benefits either because of specialist or skills in a certain area of expertise in the regions. I think that is more what it is about—it is opening that up for more flexibility for Defence personnel to go outside the panel when they see fit.<sup>37</sup>

3.32 Defence advised the committee that they do use panels extensively and noted that they are encouraged under the Commonwealth Procurement Rules. However, they can procure off panels even where a panel exists. Mr Grzeskowiak noted that 'if a panel exists we do tend to use them, but there are mechanisms for procurements outside the panels for specialists or whatever might be needed.'<sup>38</sup>

3.33 Defence noted in its submission the introduction of Dynamic Sourcing for Panels (DS4P), a new system based on AusTender, which it is currently working to implement for selected Defence panels and for access to other government agency panels. Defence advised that the new system 'may provide greater visibility of local and regionally based suppliers who may meet Defence procurement requirements'.<sup>39</sup> DS4P's features were set out in Defence's submission:

Buyers – identification of the right panels, search for and shortlist suppliers, access panel docs and templates, and run RFQ [request for quotation] processes, cloning of regularly used searches and processes; Impact of Defence training activities and facilities on rural and regional communities

Suppliers – greater visibility to buyers of supplier's approved goods/services, and more consistency across agency RFQ processes, use of standard templates.<sup>40</sup>

3.34 When asked about the potential of this new process, Mr Grzeskowiak advised:

It's very early days for us in this. This is a very new idea, so I couldn't say that we've fully understood this and how it might work, but it's something we're working on with the Department of Finance. It's really enabling panels that exist to be used more broadly than perhaps they have been in the past, but it seems to be a potential opportunity for broadening those panels.<sup>41</sup>

3.35 Ms Schuntner of RDATNWQ, acknowledged that large companies are doing 'great business' in the Townsville region; however, she believed the current Defence procurement practices were not highly conducive to developing new regional and rural supply chains. She voiced her support to a recommendation in the submission of the Regional Australia Institute which recommended the establishment of a Rural and

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37 *Proof Committee Hansard*, 14 July 2017, p. 21.

38 *Proof Committee Hansard*, 14 July 2017, p. 23.

39 Department of Defence, *Submission No. 9*, pp 35-36.

40 Department of Defence, *Submission No. 9*, pp 35-36.

41 *Proof Committee Hansard*, 14 July 2017, p. 26.

Regional Procurement Policy, similar to the Indigenous Procurement Policy, which would be designed to target rural and regional business engagement and growth.<sup>42</sup>

### *Definition of 'local'*

3.36 A number of witnesses raised the issue of the need for a standard definition of 'local' in the context of Defence procurement activities. This would ensure that various stakeholders apply a consistent approach when assessing the impact of Defence training activities and facilities on rural and regional communities and the ability to engage local businesses.

3.37 Brigadier Noel Beutel, Director General Capital Facilities and Infrastructure, Department of Defence, noted that each state has a different definition of 'local' and added that:

...in one example a company which has been in place for 20 years, which is 50 kilometres down the road from a certain area, is not considered as local for a company that sits just outside a Defence establishment.<sup>43</sup>

3.38 Mr Griffin, of Simon George & Sons, noted that as a supplier of fruit and vegetables, their definition is going to be a bit different than others. 'We do buy as much as we can in the regional area, and we classify that as from Bowen up to the tablelands.'<sup>44</sup>

3.39 Mr Huff of Shamrock also called for a tightening up of the definition of 'local' in relation to procurement processes.<sup>45</sup>

### **Communication mechanisms**

3.40 The committee heard about some communication mechanisms in place which are working well to facilitate local business engagement with Defence, planned arrangements designed to enhance engagement, and suggested arrangements for consideration.

3.41 Mrs Marie-Claude Brown, Chief Executive Officer, Townsville Chamber of Commerce, advised the committee that the current AusTender portal is working well to enable businesses to find out about potential opportunities, advising that the 'portal provides equitable and fair access to everyone across the country.'<sup>46</sup>

3.42 While Mrs Brown noted that there was always room for improvement, she was very positive about Defence's connection and interaction to the local community:

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42 *Proof Committee Hansard*, 14 July 2017, p. 39; see also Regional Australia Institute, *Submission No. 6*, p. 3.

43 *Proof Committee Hansard*, 14 July 2017, p. 27.

44 *Proof Committee Hansard*, 14 July 2017, p. 34.

45 *Proof Committee Hansard*, 14 July 2017, p. 38.

46 *Proof Committee Hansard*, 14 July 2017, p. 40.

Defence is also very good at relationships. It has developed relationships with local suppliers over a long time and it has been able to maintain that relationship; so it has that reputation.

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I think Defence's direct contract with local suppliers is on the right track. The mood of small businesses is appreciative of the opportunity. As has been mentioned before, it is nice to have predictable money. Those relationships tend to last for a long time.<sup>47</sup>

3.43 Townsville Enterprise and RDATNWQ both saw a need to ensure that the smaller communities are not left out of the training opportunities from an enhanced Defence presence. Ms Schuntner advised:

...I would say that some of the program delivery which is already occurring could be beefed up. We are about educating processes for Defence procurement—how to get ready to be servicing Defence. While historically workshops have been held in big centres like Townsville, I would like to encourage them to be taken to communities like Charters Towers, where businesses, which are so busy in day-to-day survival, do not have time to travel even a couple of hours for a workshop and cannot desert their business for a day. On the ground activity can certainly really help.<sup>48</sup>

#### ***Mechanisms for communication between Townsville City Council and Defence***

3.44 The Townsville City Council's submission outlined how the Townsville City deal will improve visibility for local businesses about defence industry investment in Townsville and encourage local business involvement. The deal proposes a 'Defence Hub' initiative which will provide a mechanism for consultation and is designed to:

- Strengthen engagement between the Australian Defence Forces, Department of Defence, Defence Industries Queensland, and Townsville City Council; and
- Improve visibility for local businesses about defence industry investment in Townsville and encourage local business involvement.<sup>49</sup>

3.45 Also part of the Defence industry consultation set out under the City Deal is the creation of a Townsville Defence Liaison Officer to 'leverage existing support delivered by locally-based AusIndustry...and Queensland Government programs to build a diversified and sustainable local industry.'<sup>50</sup> Councillor Hill updated the committee that the Council is currently in the process of appointing someone to that position.<sup>51</sup>

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47 *Proof Committee Hansard*, 14 July 2017, p. 40.

48 *Proof Committee Hansard*, 14 July 2017, p. 41.

49 *Submission 12*, Townsville City Council, Attachment A, p. 6.

50 *Submission 12*, Townsville City Council, Attachment A, p. 6.

51 *Proof Committee Hansard*, 14 July 2017, p. 4.

3.46 Councillor Hill also informed the committee about the Council's initiative of an accord with Defence and explained briefly what it would encompass:

We want to sign off an accord with Defence, similar to what we've done for families and for refugees, because we are a garrison city. We want to acknowledge what Defence means to us—All the good and all the bad. It's not just about income. It's about lifestyle and it's about understanding that there is a high suicide rate in Defence. It's about understanding that many of the servicemen who come out are suffering with PTSD.<sup>52</sup>

3.47 Councillor Hill further advised that Defence has not signed off on the proposed accord but had not provided feedback to the Council on the reasons why.<sup>53</sup>

#### *A regional consultative forum*

3.48 The committee canvassed the idea of forming of a standing regional consultative forum to engage with Defence, composed of representatives from Defence, local governments, business groups, etc.

3.49 Mrs Brown of the Townsville Chamber of Commerce, informed the committee that Defence already has in place a community stakeholder group. However, she noted that the:

..agenda is much softer than what you are proposing. So I think that the structure is already there. Defence for several years has engaged with the community, but it has always been at a community level, a relationship-building exercise, rather than actually getting to the nitty-gritty of what conversations could be. Perhaps there is an opportunity to strengthen that agenda.<sup>54</sup>

3.50 Ms Schuntner of RDATAWQ noted that they are a member of the cross-departmental group that involves all levels of government to discuss preparation for capturing opportunities out of the Australia-Singapore Military Training Initiative.<sup>55</sup> She elaborated:

I would call it a semiformal group, if I can use those words. It is not a formal committee with a formal incorporation or structure to it but it is convened by AusIndustry in partnership with Defence representatives. It is attended by, for example, Townsville Enterprise, Townsville Chamber of Commerce, Charters Towers Regional Council, Townsville City Council, Regional Development Australia, and we usually have representatives from the Queensland government's Department of State Development and other departments. So it is a really excellent example of how we in North Queensland do collaborate across all three levels of government to be able to have those meetings. We have been able to have those over the last six to nine months. It is really a background piece to providing and sharing

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52 *Proof Committee Hansard*, 14 July 2017, p. 4.

53 *Proof Committee Hansard*, 14 July 2017, p. 5.

54 *Proof Committee Hansard*, 14 July 2017, p. 42.

55 *Proof Committee Hansard*, 14 July 2017, p. 39.

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information on the way forward, raising some of the issues that I raised earlier and others have raised about how do we get our companies Defence-ready, how do we capture the opportunities and also, in the process, how do we face challenges with managing expectations as well? That is a group that is at operational level, if I may call it that but, certainly, it would probably complement the work of the other proposed high-level committee perhaps.<sup>56</sup>

3.51 Ms Brown of CQG Consulting talked about the importance of the various stakeholders working together to promote local business engagement with Defence. She noted the important roles of enterprise organisations and local councils, but noted that there was room for improvement with business driving it, rather than local government or the enterprises.<sup>57</sup>

### ***A Council network***

3.52 The committee put forward the suggestion of some form of network of city and regional councils which have relationships with Defence and face similar issues, as a way of assisting them to deal with similar challenges. Both Councillor Hill and Councillor Schmidt, saw benefits in forming links and sharing knowledge and noted that this was already happening to some degree.<sup>58</sup>

## **Expansion of training areas and land acquisition**

### ***Consultation***

3.53 At the committee hearing in Townsville the committee heard from a number of graziers from Charters Towers who have been affected by proposed expansion of the Defence training areas in the region. The committee heard that the proposed expansion area was comprised of 23 properties. All graziers giving evidence were highly critical of the failure of Defence to adequately consult with the local community on the proposal which resulted in a high level of stress and anxiety. Mr Blair Knuth, a grazier in Charters Towers, spoke about his dissatisfaction with the process:

Come to the people first and work out what we want to do. We are not against this initiative. We are against how it was handled. It was handled extremely poorly. It was given to us a few days before Christmas. The amount of angst that that put on these families is unbelievable. There is a family north of us who don't own a computer. They are an older couple. They were beside themselves for all of that time. They have worked hard for that property for all of our lives. They don't have children. That was their child. They just wanted to retire there forever. This is not taken into account. As citizens of this country, we not just numbers; we're not just an area on a map that can be dealt with willy-nilly. Come and talk to us. We may actually have some solutions that are going to work.

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56 *Proof Committee Hansard*, 14 July 2017, p. 42.

57 *Proof Committee Hansard*, 14 July 2017, pp 21-22.

58 *Proof Committee Hansard*, 14 July 2017, pp 4 and 12.

That did not happen. What has Defence done by doing this? Every single neighbour of Defence land in this country now is wondering who is next. They have taken away the confidence and that relationship.<sup>59</sup>

3.54 Mr Paul Burke, Regional Manager North-East, Agforce Queensland, described the impact on those families:

The fact that producers were ringing us as an organisation in a complete state of shock, having seen a map in a newspaper without having any knowledge. In a lot of cases they had no network to be able to ring someone within Defence to be able to understand what was going on. The Defence Force then dragged out the process in a lot of cases by giving differing information to different people in different circumstances. When they were contacting landholders, they were telling one landholder one thing and telling another landholder another thing. There was a mentality of divide and conquer, which certainly, prior to us becoming involved, was becoming very evident.<sup>60</sup>

3.55 The witnesses expressed their relief that there was now confirmation that forced land acquisition would not proceed, but sought assurances that this would continue to be the case.

3.56 The issue of the future valuation of the properties in question following this acquisition proposal was also raised. Owners were concerned that the property value has been negatively impacted with the speculation around acquisition. Mr Glenn Spurdle, a grazier in Charters Towers, expressed his concern about this issue:

Probably one of the most asked questions among the properties is about getting the value back into the properties. At the moment if one of those properties had to be sold, it would only be sold to Defence. It could not be sold to anybody else because no-one would be interested after everything that's gone on. It's one question that gets asked all the time among ourselves and at any meeting—we've got to get the value back into it. The country is the best country in the Dalrymple Shire—there is no doubt about that—and at the moment, with what's gone on, the value has dropped right out of it. You wouldn't get anyone to even look to go there, because you wouldn't know how long he'd be there. It's a pretty important issue.<sup>61</sup>

3.57 Mr John Brownson, a grazier in Charters Towers, advised the committee about lesser quality land west of Charters Towers as an alternative to the land under Defence's proposal, which people are willing to sell. He further advised that he had arranged for Defence to look at this alternative land.<sup>62</sup>

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59 *Proof Committee Hansard*, 14 July 2017, p. 8.

60 *Proof Committee Hansard*, 14 July 2017, p. 10.

61 *Proof Committee Hansard*, 14 July 2017, p. 14.

62 *Proof Committee Hansard*, 14 July 2017, p. 9.

3.58 On a positive note, Councillor Schmidt commented that she believed the relationship between Defence and the Charters Towers Regional Council had improved since the land acquisition proposal began:

The council have a really good relationship with those and, with the new liaison officer being appointed, I think that will improve. But there have been some significant lessons learnt, and my relationship as mayor with the ADF is way better than it was this time a year ago. I think we can build on that as a community, and I am very keen to do that. I am happy to work with Mayor Hill, given that we are the only two local governments affected in this area, to make sure that this never happens again, particularly from the position of our community.<sup>63</sup>

#### *Defence perspective*

3.59 Mr Grzeskowiak acknowledged the 'powerful evidence' from the graziers about the land acquisition consultation processes and confirmed to the committee that there would be no acquisition of land unless the seller is willing.<sup>64</sup> Mr Grzeskowiak also recognised that Defence did not handle the process as well as it should have:

Our intent was driven by a desire to get things out quickly. That was informed by an experience we had with Cultana in South Australia, where it was not done that well. If we had our time again, we would engage first with just talking to people about ideas—taking ideas from the local graziers.<sup>65</sup>

3.60 Brigadier Timothy Bayliss, Director General US Force Posture Initiative, Department of Defence, apologised for the hurt that occurred to the local community as a result of Defence's processes. He advised that he signed the letter that went to graziers:

The letter that I sent out initially was actually an invitation for the start of dialogue; it was not an initiation of a compulsory acquisition. It was a start to invite people to come and talk to us about potential land acquisitions and planned purchases. That was the initial part of the conversation. Compulsory acquisition was introduced by a third party—I'm not sure where. As we went through the discussion, it became necessary for us to advise government that our preference was strongly to only approach willing sellers. However, based on department advice the government decided to remove forcible acquisitions off the table in about February.<sup>66</sup>

3.61 Defence was asked on notice to provide more detail on the steps required to be undertaken prior to notification of proposed land acquisition by the Commonwealth occurring, but at the time of tabling a response had not been received.

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63 *Proof Committee Hansard*, 14 July 2017, p. 12.

64 *Proof Committee Hansard*, 14 July 2017, p. 23.

65 *Proof Committee Hansard*, 14 July 2017, p. 23.

66 *Proof Committee Hansard*, 14 July 2017, p. 23.

### ***Economic impact***

3.62 The committee heard about the impact of the land acquisition on the level of business at the Townsville abattoir which was described as a major employer in Townsville. It was estimated that the proposed land acquisition would have taken a significant number of cattle out of the supply chain, impacting on the abattoir's business. Mr Burke, of AgForce Queensland, suggested the abattoir had not been consulted during the earlier period of negotiation.<sup>67</sup>

3.63 Mr Burke described some of the broader economic and social impacts on the region from the proposed acquisition:

More broadly, there are the impacts on small business and schools in the region. Every one of those 23 grazing families purchase their tyres in Charters Towers, purchase their fuel in Charters Towers and purchase their groceries in Charters Towers. Most of them sit on the parents and friends association, the local rugby club, the local car club. Every single one of those families would not be able to stay in that region if they want to continue farming. The land physically is not there to purchase so they would have had to have left the region. That will have a massive impact on the social fabric of that town from now to the end of time and that cannot be understated.<sup>68</sup>

3.64 Defence responded to questions on the issue of compensation for businesses adversely impacted by land acquisition. Some witnesses before the committee at the Rockhampton hearing specifically raised the issue of compensation. Mr Grzeskowiak advised that there was no automatic process but that it would be open to anyone to make a claim.<sup>69</sup>

### **The need for more transparency regarding regional engagement**

3.65 Defence presented some impressive details on expenditure in Townsville using local contractors and suppliers for on capital facilities and infrastructure:

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

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67 *Proof Committee Hansard*, 14 July 2017, p. 10.

68 *Proof Committee Hansard*, 14 July 2017, p. 10.

69 *Proof Committee Hansard*, 14 July 2017, p. 29.

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.<sup>70</sup>

3.66 Defence also raised the issue of getting more visibility on these types of local procurement details that tell a positive story, by producing the metrics and making them available.<sup>71</sup> Brigadier Beutel explained:

In some recent discussions with Minister Payne we discussed the requirement for us to be able to tell a better story and to get those types of details. We are starting to work with the minister's office going forward to produce those metrics and to provide them. I use these metrics quite a lot. I get invited to a lot of industry based conferences. I'm about to go to Darwin in August to talk with the Northern Territory construction forum. I will be using that forum to talk about not only the Defence procurement process and what opportunities coming up but also what we are achieving to produce that story. I would point out that those metrics for Townsville are very good. We won't get that everywhere, though.<sup>72</sup>

### **Environmental impact of Defence activities**

3.67 Mr John Brownson, a grazier in Charters Towers, talked to the committee about the problems of Siam weed infestation that he suggested was brought in by Defence:

It grows at an extremely invasive rate. I think we are going to have a massive problem with that now as well. Defence was told of this two and a half or more years ago. They said they had it under control, but now they say they have lost control completely. We're going to have to suffer the consequences of this as well now, on top of everything else.<sup>73</sup>

3.68 Mr Grzeskowiak advised that he was not personally aware of this issue and undertook to follow-up on the matter. Mr Anthony Luke, Director Enabling Support – Army, Department of Defence, advised the committee of the control processes in place for vehicles exiting and entering the range which includes a wash point.<sup>74</sup>

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70 Brigadier Noel Beutel, Department of Defence, *Proof Committee Hansard*, 14 July 2017, p. 26.

71 Brigadier Noel Beutel, Department of Defence, *Proof Committee Hansard*, 14 July 2017, p. 27.

72 *Proof Committee Hansard*, 14 July 2017, p. 27.

73 *Proof Committee Hansard*, 14 July 2017, p. 9.

74 *Proof Committee Hansard*, 14 July 2017, p. 29.

