

Chapter 2

Issues raised with the committee in Darwin

2.1 This chapter summarises the main issues raised during the committee's hearing in Darwin. It considers: communication and engagement mechanisms; opportunities to improve the capacity of local businesses; the importance of understanding the capacity of local industry; challenges for small and medium-sized enterprises (SMEs) including procurement issues; lessons from other sectors; communication about exercises and engagement with Indigenous businesses.

Communication and engagement mechanisms

2.2 The committee spoke to witnesses about what communication mechanisms are in place to ensure that local businesses are aware of business opportunities with Defence.

Forums

2.3 Mr Ricki Bruhn, CEO, City of Palmerston, said that he was 'not aware of any direct network available where local businesses can become informed of what opportunities are out there in relation to Defence'. However, he spoke about the Palmerston Regional Business Association which is a large network of businesses which meets on a regular basis and provides networking opportunities. Mr Bruhn also reported that he attended a 'Building the Territory' conference which included a presentation from a Defence representative who outlined major Defence projects coming up in the NT. However, he indicated that the session was quite high level and while it provided insight as to future projects 'it probably does not provide the lower down businesses the opportunity to enquire further'.¹

2.4 Mr Bruhn felt that communication at a level useful for local business would be helpful:

There are opportunities—whether it's a business day where Defence can come to Palmerston or Darwin and speak to local businesses about the opportunities that are available. They tend to...speak at that higher level at major conferences on major Defence—you know, a billion dollars here or half a billion there. But let's talk about a supply of food or other services. The wider community is probably not aware of what's available there. So I just think better communication with the two cities would certainly help.²

2.5 Mr Brendan Dowd, CEO, City of Darwin, recognised the chamber of commerce as an important organisation for local business to become aware of business opportunities and also highlighted the Vibrant CBD committee which 'will be advising the City Deal work which is currently on foot'. It has representation from a wide variety of organisations 'such as the Property Council, the chamber of

1 *Proof Committee Hansard*, 22 August 2017, p. 3.

2 *Proof Committee Hansard*, 22 August 2017, p. 4.

commerce, Darwin City Waterfront Retailers Association, UDIA [Urban Development Institute of Australia] and a similar range of organisations'. Mr Dowd stated that this group would be a 'great potential mechanism for Defence to gain access to a very broad range of stakeholders within the Darwin community to share information on what opportunities are available'.³

2.6 Mr Dowd recommended continuous and close engagement with Defence:

My comments would be that a continuous engagement would be highly beneficial. As Mr Bruhn has referred to, speaking at large engagements is highly beneficial. But Darwin is a really connected community. We all know each other here at a variety of levels within the community. Unlike some of the bigger jurisdictions that I'm sure you're likely to visit, most of us have got everyone's mobile telephone numbers within our own directories. We talk regularly; we're highly connected. So having Defence closer in that conversation in this setting, in this context, would be highly beneficial.⁴

2.7 The committee asked whether a group or process within the local government association that has Defence links would be beneficial. Mr Dowd supported the concept.⁵ Mr Bruhn mentioned that Darwin and Palmerston are both representatives of The Top End Regional Organisation of Councils (TOPROC) which comprises six local government councils.⁶ Mr Bruhn indicated that this grouping meets every two to three months to speak about common issues and potentially Defence business opportunities could be included but he noted it has limited resources.⁷ Mr Dowd added that the chief executives meet at least twice a year in a forum which ties in with meetings of the Local Government Association of the Northern Territory and he will look at taking the issue to the meeting in November.⁸

2.8 Mr Luke Bowen, General Manager, Defence Northern Territory, spoke about forums for formal engagement:

A number of forums are in place, which allow for very formal engagement. There's a biannual strategic forum, which sees government in the Northern Territory and Defence people work closely together, and there's an operational group as well that works at the officer level. So there are some very formal arrangements in place that see that we get that high-level engagement.⁹

3 *Proof Committee Hansard*, 22 August 2017, p. 4.

4 *Proof Committee Hansard*, 22 August 2017, p. 4.

5 *Proof Committee Hansard*, 22 August 2017, p. 7.

6 Darwin City Council, Palmerston City Council, Coomalie Community Government Council, Cox Peninsula Community Government Council, Litchfield Shire Council, and Belyuen Community Government Council.

7 *Proof Committee Hansard*, 22 August 2017, pp 7-8.

8 *Proof Committee Hansard*, 22 August 2017, p. 8.

9 *Proof Committee Hansard*, 22 August 2017, p. 10.

2.9 Mr Greg Bicknell, CEO, NT Chamber of Commerce and Industry, spoke about the arrangements in place with Defence described as 'Team NT':

...there's a formal arrangement in place. 'Team NT' is the descriptor. It's the same group, virtually, that was in place for the lead-up to the Inpex [Liquefied Natural Gas] project, and other major projects. So it's being treated in similar fashion. The membership of that changes as need be. But there is a formal arrangement, and we work very closely with them.¹⁰

2.10 Brigadier Noel Beutel, Director-General, Capital Facilities and Infrastructure, Department of Defence, told the committee that in relation to consultation mechanisms at the strategic level:

I note that we do undertake a strategic approach on engagement of estate planning, logistics, community and encroachment issues that Defence has with state and territory consultative fora which were established back in 1999. These fora provided a mechanism for state and territory interests to be included in Defence's strategic planning processes and enable a proactive approach to identifying any major private sector infrastructure developments with indications and/or opportunities for Defence. Nine of these fora are held each year. There is one for each of the eight states and territories. I think the Northern Territory consultative forum is happening next Thursday. And there is one for the Department of Infrastructure and Regional Development, which administers Ashmore and Cartier islands, Christmas Island and Cocos (Keeling) islands, the Coral Sea islands and the Jervis Bay territory. That is at the strategic level.¹¹

2.11 At the operational level, Brigadier Beutel told the committee:

...for every single base in the Australian Defence Force the Chief of the Defence Force appoints a senior Australian Defence Force officer as the key point of contact. Again, that is predominantly with the state and all local areas. The SADFO—the senior ADF officer—is supported by our base services manager. Each of our bases within a state and infrastructure group has a base services manager—usually an Australian Public Service person. So the SADFO and the base services manager are the key points of contact. Even though there are terms of reference and a directive for SADFOs and base services managers for engagement, one size does not fit all and each SADFO and BSM undertakes it somewhat differently. And a lot of those engagements are predicated on relationships as well. But there is that point of contact there.¹²

Defence engagement strategy

2.12 Mr Bicknell spoke about work underway to develop a defence engagement strategy:

10 *Proof Committee Hansard*, 22 August 2017, p. 25.

11 *Proof Committee Hansard*, 22 August 2017, p. 43.

12 *Proof Committee Hansard*, 22 August 2017, p. 43.

Our members are particularly interested in the sustainment for the defence forces over the coming years. We're working jointly with the Northern Territory government and Team NT, which is made up of many of the people who are appearing before you this morning: the Northern Territory government, AIDN NT, Master Builders Association and the ICN. We're working together on a defence engagement strategy for local business. We're in the process of developing a scope of works for that.¹³

2.13 Mr Bicknell provided the context for the development of a defence engagement strategy:

For the last five or six years, the focus has been very much around LNG [Liquefied Natural Gas] and the construction of that. And while Defence has remained very important, it hasn't had the sharp focus that we've had on LNG. That has started to move, and that's why we're now looking at formalising a Defence engagement strategy around what's happening in the future, which will involve the training facilities.

We've had individual members that have been very successful in terms of their engagement with business opportunities out of Defence, and out of the training fields. We don't necessarily look at the training opportunities or the training infrastructure opportunities so much as Defence generally.¹⁴

Defence and National Security Advocate

2.14 Mr Bowen added that Defence NT has appointed a Defence and National Security Advocate, Air Vice Marshal Margaret Staib (Retd), who will be based in Canberra. Ms Staib's role will be:

...to position the Territory to benefit from \$20 billion of Defence construction projects which are planned for the NT over the next 20 years and to maximise opportunities from other Defence investments.¹⁵

2.15 Mr Schoolmeester provided further detail on the position:

[Ms Staib] is based in Canberra. At the moment the job is part time and will grow as demand requires. A physical office will be established as soon as that need is met. At the moment she is able to work and meet with people as required. It is part of a familiar relationship with the Territory. She has been here quite a number of times over the last four months to get to know the Territory.¹⁶

2.16 He indicated they have established a program of work with Ms Staib and that the role is now in a majority of jurisdictions:

13 *Proof Committee Hansard*, 22 August 2017, p. 20.

14 *Proof Committee Hansard*, 22 August 2017, p. 21.

15 Chief Minister of the Northern Territory, Mr Michael Gunner MLA, 'Defence Advocate to Fight for Territory Jobs', *Media release*, 27 June 2017. See also Mr Bowen, *Proof Committee Hansard*, 22 August 2017, p. 10.

16 *Proof Committee Hansard*, 22 August 2017, p. 13.

We have established a program of work for the Defence advocate. We have a rolling three-month service plan that identifies the actions we are prioritising and the engagements we are encouraging her to help us facilitate and be part of. We have advised the Defence and Defence Industries ministers around the appointment of the advocate and they are very supportive of having an advocate. I believe the role is now in a majority of jurisdictions, the most recent appointment being in WA. So it is something that people all are now starting to use to help what in some ways we discuss as a bit of a translation service—helping Defence to understand where we are coming from and helping us understand where Defence is coming from.¹⁷

Engagement with Tier 1 contractors

2.17 Mr Schoolmeester spoke about their dealings with the Tier 1 contractors:

...our dealings so far have been quite responsive. I know for example that in relation to the offshore patrol vessel our CEO and our advisory board member, Rear Admiral Mark Purcell (Retd) went to their home bases in Europe. Since then they have had Lurssen come to Darwin to provide an in-depth briefing around their process and what their requirements are with their partners. That was very positive. I know that Lendlease has done some positive work in [Tindal] in relation to briefing local groups. Is it enough? I think everyone will say they want more information. We support that and we are happy to work with groups like that, in terms of the primes, to help them communicate with local SMEs.¹⁸

2.18 Mr Dick Guit, President, Master Builders Northern Territory, confirmed that having visibility of business oportunities comes mostly from interaction with a contractor rather than Defence.¹⁹ He provided his views on the models of delivery:

In the past, under a different model of delivery, there have been very successful projects, certainly from an industry perspective. Robertson Barracks, from its inception, was delivered through various models of head contract. As an industry, we believe that was quite successful. The earlier works at Tindal we delivered in the same way. The last two major projects in Tindal have been delivered under an MC, which, to a large extent, allows some subcontractors access to the project. It certainly precludes any of the general contractors from participating. They actually deliver it via trade packages rather than general scope packages for general builders.²⁰

2.19 Mr Bicknell provided an example of the steps taken by a business which has been successful in obtaining work through a managing contractor:

It's the example of a chamber member who has been successful in winning a contract for the work at Tindal. That contract was awarded a couple of

17 *Proof Committee Hansard*, 22 August 2017, p. 14.

18 *Proof Committee Hansard*, 22 August 2017, pp 12-13.

19 *Proof Committee Hansard*, 22 August 2017, p. 29.

20 *Proof Committee Hansard*, 22 August 2017, p. 29.

months ago. His first meeting with Lend Lease was four years ago, to actually get his foot in the door and really understand what the project was about, the sorts of things that they were looking for, and to make sure that he had all his ducks in a row. Now, that's one of our larger members, but it's still classified as a medium sized business. That is just not something that small businesses can do. They don't have the access to that sort of intelligence and those sorts of resources—to be able to jump on planes at the drop of a hat and get down to talk to the right people. So it's a very competitive area.²¹

Additional measures

2.20 Mr Bowen highlighted the need for government to assist in building capacity with contractors and also with policy development. Other measures being implemented to support the NT bid for more Defence work includes:

- delivering training workshops to assist local NT Defence Support businesses get ready to compete for US Defense tendered construction work;
- boosting the Department of Trade, Business and Innovation's Defence NT team to deliver additional strategic policy, planning and engagement functions;
- funding to support the Australian Industry Defence Network NT (AIDN NT), including \$30,000 to support the recruitment of a new CEO;
- funding the Industry Capability Network NT (ICN NT) to undertake a US Navy supply chain analysis to determine service and supply opportunities (\$80,000);
- developing a Defence Engagement Plan in partnership with the Chamber of Commerce, ICN NT, AID NT and the Master Builder Association; and
- funding AIDN NT to run specific Defence contractor training in Katherine and regional areas.²²

Building capacity

2.21 Mr Schoolmeester spoke about the need to ensure business is well prepared and understands the Defence context and the need to focus on assisting smaller businesses:

They do not have all the systems that large businesses have, like the primes or the tier 2s and 3s. One of our jobs is to try to help them. We have various programs in business that can support business growth in terms of providing support for engaging consultants and business advisers to help them on their growth journey.

21 *Proof Committee Hansard*, 22 August 2017, p. 25.

22 Chief Minister of the Northern Territory, Mr Michael Gunner MLA, 'Defence Advocate to Fight for Territory Jobs', *Media release*, 27 June 2017.

But it is a challenge for our local businesses in terms of Defence not being their sole source of work either. So they are small and it is not their sole source of work, so it is important to help them to understand that Defence context, which can be quite different to other business environments.²³

2.22 Mr Schoolmeester advised the committee on the training programs they run on Defence tendering as well as specialised training:

We conduct a series of programs around Defence tendering. Recently, in recognition of the US force posture initiatives and the potential for construction activity here in the Territory, we conducted specialised training for local contractors around US procurement, and we've also hosted the Naval Facilities Engineering Command Pacific to come here for a day to explain to our contractors what their requirements are and how to work with them. We also partner with groups like AIDN, the chamber and Master Builders to provide industry briefings. In fact we gave a grant to AIDN recently to support some regional training, particularly in the Katherine region.²⁴

2.23 Mr Andrew Jones, President of the Australian Industry Defence Network explained the background to the formation of his organisation:

It's a national organisation that has state chapters. Just so you know a little bit about it, it was established in the nineties in response to a view from Defence and the Commonwealth government that there was a need for a national entity to represent the SME community on matters of concern in defence industry. They were seeking a single authoritative and credible voice and sought to avoid inefficiencies from dealing with multiple state based entities, and that need remains valid today...²⁵

2.24 Mr Jones added that it is a volunteer organisation with about 80 members. They aim to hold an information session around every second month, meeting once a month with sessions afterwards where people can interact.²⁶

2.25 In relation to training, Mr Jones indicated:

...we do hold information sessions on different Defence projects and infrastructure projects and also platforms. A recent one was a recently awarded maintenance contract on the patrol boats. While they were tendering, we tried to introduce SMEs to the primes who were tendering it. Since that project has been awarded, we have been working on a paper that identifies where SMEs might have opportunities...²⁷

2.26 Mr Jones spoke about the patrol boat contract recently awarded to Thales. He added that the current commanding officer with the patrol boats is eager to engage

23 *Proof Committee Hansard*, 22 August 2017, p. 12.

24 *Proof Committee Hansard*, 22 August 2017, p. 11.

25 *Proof Committee Hansard*, 22 August 2017, p. 11.

26 *Proof Committee Hansard*, 22 August 2017, p. 11.

27 *Proof Committee Hansard*, 22 August 2017, p. 11.

with SMEs. Mr Jones added that his challenge is for AIDN to assist Defence and the prime contractors meet the KPIs set by government.²⁸

2.27 Mr Greg Bicknell, CEO, Northern Territory Chamber of Commerce, reported on the support available for business:

There's a range of support that can be delivered in terms of tender writing and contract awareness, contract training. There was a wide range of training opportunities provided to small business in the top end right across the territory in the lead up to the LNG project. I don't think it necessarily made the task that much easier but it certainly heightened people's awareness of the areas they really needed to concentrate on in terms of writing tenders and contracts—so what to look out for. We saw in the early parts of the LNG project that people entered into contracts being not fully aware of some of the complexities. It ended up being quite costly for them. So that level of support needs to be maintained for small business. Whether that is provided through Commonwealth government, state/territory government or the actual department is a moot point, but, certainly, there's a need for it. The difficulty is, with small business being so diverse and quite difficult to get them to put the time aside for these sorts of things, how you can package it in such a way that it can be done short and sharp, and make people aware of the important parts without taking up too much of their time on exercises that they have found in the past they will spend a lot of time preparing a tender and miss out. That's just very hard to account for that time. It's out of your business. Often, it can't be spared.²⁹

2.28 Mr Schoolmeester stated that Defence NT is happy to work with Defence to identify opportunities for further briefings:

I think like any business the more you communicate with your target market the better that market can respond to your requirements. Certainly, we are happy to work with Defence to identify opportunities for increased briefings and a more detailed understanding of their requirements. Obviously, they work through prime contractors, so, again, with primes we are very keen to work with them to help them explain how you get into their supply chains, what their requirements are for people to work with their supply chains...³⁰

Understanding the capabilities of local industry

2.29 The ICN NT database was put forward as a very useful tool to understand local business capabilities and capacity.³¹ Mr Kevin Peters, CEO, Industry Capability Network NT, provided background on his organisation:

It's fundamentally a business matching organisation. It is a national organisation, so there's a presence in each state and territory of Australia.

28 *Proof Committee Hansard*, 22 August 2017, p. 12.

29 *Proof Committee Hansard*, 22 August 2017, p. 23.

30 *Proof Committee Hansard*, 22 August 2017, p. 12.

31 Mr Schoolmeester, *Proof Committee Hansard*, 22 August 2017, p. 13.

There is a central coordinating body in Canberra. Each of these organisations, in varying degrees, has a relationship with their respective governments. We've got a very strong relationship with the Northern Territory government here across a range of fields, and most definitely in the Defence field. We do have a central database that is coordinated out of Canberra, and that is supported by the federal government. They paid up the money to establish that in the first place, and they've been supporting that financially, and through other means, for quite some years.³²

2.30 Mr Peters detailed how the database is used:

In the Northern Territory, we're involved with a whole range of projects in the LNG field, the mining field, the construction field and hopefully we'll be involved with a prawn farm project shortly. So it's not a matter of the size of a project in particular, although we've been involved with some fairly large projects, including the \$34 billion Inpex LNG project. They use our database to post their opportunities. They have been doing so for quite some years, and with a great deal of success, which has been kind to Australian industry and Northern Territory industry. That is the sort of interaction that we prefer with projects. There is a level of interaction using our portal with some of the Defence projects in the Northern Territory.³³

2.31 The need for supply chains to test the capability on the ground was emphasised by Mr Peters:

They are not necessarily testing the market, and certainly our role is to promote the capability that does exist. So we will try and get inside projects so that we can expose that capability....it's not a matter of favours; it's a matter of consideration in the process. The difficulty with a lot of these supply chains for interstate or national companies is that they don't look at what capability does exist on the ground. In support of Master Builders, we've done a supply chain mapping exercise in the construction industry to indicate in their lobbying exercise that there is a level of capability in the Northern Territory that has delivered a range of varied and substantial projects. The battle is making sure that they are considered in the first instance, and the way that supply chain is established is hindering that.³⁴

2.32 Mr David Malone, Executive Director, Master Builders Northern Territory, highlighted the capacity and capability of the NT construction sector:

We strongly believe that the territory construction sector is well-placed to assist Defence to meet the objectives that it has. The work Master Builders has done over the last few years in partnership with Defence has shown that the capacity and capability in our industry is here and able to deliver the program that Defence requires.³⁵

32 *Proof Committee Hansard*, 22 August 2017, pp 20–21.

33 *Proof Committee Hansard*, 22 August 2017, p. 21.

34 *Proof Committee Hansard*, 22 August 2017, p. 24.

35 *Proof Committee Hansard*, 22 August 2017, p. 28.

2.33 Mr Neil Sunners, Managing Director, Sunbuild, an NT construction company spoke about his experience working with Defence where they actively sought information on local capacity:

...the Defence people came to us as well to see how they could actively interact with us in getting the local people to procure and how much capacity we had. We worked together, hand in hand, with Defence, and we were quite pleased and honoured to allow them to do some models. That's worked very well to date. Unfortunately, Defence moves on all the time with personnel, so we've changed personnel now, but the intent was always there, from the start, to seek out what the capacity was and what the local input could do. It's been exciting for myself and for the group that we can try and go forward. It's a matter of getting the correct size of projects available for the people in remote areas, the size that they can handle.³⁶

2.34 Mr Bowen mentioned that they hold statistics on local content:

...we do have statistics provided by the ICN, the Industry Capability Network, for example, which works very closely with Defence and Defence contractors to try and maximise local content. We also have statistics, for example, for some of the work going on in Katherine, which is delivered in this case by Lendlease. It shows quite high local content. We like to be able to see through some of these contracts to ensure that we are seeing it as it really is, not just looking at some of the higher level contracts that have been awarded. Some of these contracts will take some time to go through because they are quite complex and have various subcontracts associated with them.³⁷

Challenges for SMEs

2.35 Witnesses raised particular areas of concern for SMEs such as the risks associated with liquidated damages:

For example, I think there is a \$30,000 provision per day for late delivery. When you have larger companies interstate tendering for these things, they tend to be able to absorb the risk. When you are a small business, you cannot.³⁸

2.36 However, Mr Peters acknowledged this is not specific to Defence but:

...You do hear these stories from time to time, over a range of different things. The trouble with small business is that they're at the end of the food chain. There are a lot of battles occurring above them, in terms of payments and what have you, and if you're the last person in and out, you're the last person in that food chain. That's always going to be a problem. That scenario does crop up every now and again.³⁹

36 *Proof Committee Hansard*, 22 August 2017, p. 29.

37 *Proof Committee Hansard*, 22 August 2017, p. 10.

38 Mr Peters, *Proof Committee Hansard*, 22 August 2017, p. 23.

39 *Proof Committee Hansard*, 22 August 2017, p. 23.

2.37 Mr Guit also spoke about the high rate of liquidated damages and other risks:

A very high rate of liquidated damages, time constraints that are put onto subcontractors where they're not in control of time yet they're responsible for time. A lot of that falls out of the fact that the MC delivers the project for a fee—a relatively, in my view, tight fee, but he buys a lot of risk when he takes on that project, so he has to sell all of that risk down, and he sells it down to the lowest subcontractor and protects himself against all of the things that he would be exposed to with Defence. They work on a skinny margin, and they sell down the risk.⁴⁰

2.38 Mr Malone stated that the issue of passing risk down and large subcontract documents are two key areas which deter smaller business from engagement.⁴¹ He highlighted that construction in particular is a complex space and if processes are not designed in a way that is encouraging for small contractors to be involved then they are unlikely to do so.⁴²

2.39 Mr Tony Burns, CEO, Helping People Achieve (HPA), a company providing employment opportunities for people with disabilities, spoke to the committee about the longstanding relationship his company had with Defence and how this has changed:

HPA has had a longstanding relationship, for over 10 years, with the Department of Defence based in the Northern Territory. Average annual revenue, target sales, over the last five years before Broadspectrum was contracted to manage aspects of Defence spending, was \$120,622. In 2014-15, Broadspectrum requested our pricing on all target models we have made in the past, and HPA obtained no order for the targets. Representations to government officials and a support letter to the defence minister in April still resulted in only \$30,000 in target sales. With this was \$15,000 of target orders. It is significantly less than the previously stated yearly average. The reduction in work is a significant impact on HPA's profitability and, importantly, its ability to employ people with a disability. The Commonwealth government, as a matter of principle, should act in such a way as to maximise opportunities for local businesses and providers. In addition, HPA performs important work within the Northern Territory in providing employment opportunities and valuable work experience to a number of Territorians with physical or mental disabilities.⁴³

2.40 Brigadier Beutel responded to the issue raised by Mr Burns and undertook to look into it.

I'm not overly aware of the issue with Broadspectrum. I do note, though, that, in about 2014, Defence undertook a major retendering of our base services, and Broadspectrum was one of those major contractors under that

40 *Proof Committee Hansard*, 22 August 2017, p. 29.

41 *Proof Committee Hansard*, 22 August 2017, p. 31.

42 *Proof Committee Hansard*, 22 August 2017, p. 31.

43 *Proof Committee Hansard*, 22 August 2017, p. 37.

retendering that were successful. I will take it on board, and we'll get back to Mr Grzeskowiak tonight to understand what that particular issue is. But, again, I would support any comments about a written letter to Mr Grzeskowiak. We'll get a response on that, but I'll look to follow-up on that one.⁴⁴

2.41 Brigadier Beutel added:

I do note, though, that Defence has a Defence Administration Assistance Program, which is a Defence People Group funded initiative that partners with community organisations, that are similar to HPA, I think, to provide people with disabilities the opportunity to engage in meaningful work. When I say, 'Engage in meaningful work,' we're embedding people with those disabilities into units to support those administrative services. That came into effect in the Northern Territory on 7 May 2017, and I'm advised that there was a formal launch of that earlier this year with the 1st Brigade.⁴⁵

Procurement issues

2.42 Mr Dick Guit, President, Master Builders Northern Territory spoke about the need to ensure procurement policy and processes are aligned with the intention to provide opportunities to local business:

The final step needed to turn the intent into reality is to examine the design of the procurement systems. Simply put, do they point in the same direction or not?

Before we go too far, I also want to place on record our deep respect for the officials involved in delivering the procurement system for Defence. We know that they have an enormous challenge in delivering the infrastructure program, with limited resources and a compressed time frame. When we comment about decisions today, we know that it is a system issue and definitely not a personnel issue.⁴⁶

Dedicated resources

2.43 Mr Bowen reported on what he perceives to be a reduction in resources by Defence to project manage contracts:

Our perception of things, from where we're sitting, is that Defence has reduced resources to project-manage contracts. I think in the old days, 20 or 30 years ago, they had a lot more people in Defence delivering contracts, full stop. Our understanding is that those resources have contracted so it's pushed down to a managing contractor or a prime contractor. They are then given the responsibility of trying to do some of this local delivery.⁴⁷

44 *Proof Committee Hansard*, 22 August 2017, pp 45–46.

45 *Proof Committee Hansard*, 22 August 2017, p. 45.

46 *Proof Committee Hansard*, 22 August 2017, pp 28–29.

47 *Proof Committee Hansard*, 22 August 2017, p. 18.

2.44 He mentioned the proposal to establish a Defence force contracting office in northern Australia:

The nuances of northern Australia and the realities of businesses in northern Australia—it takes time and it takes understanding. Understanding that context is critical. I know there's been some discussion most recently about the establishment of effectively a Defence Force contracting office in northern Australia which would dedicate resources try and maximise that local context and content and understanding so you can tailor things much better to the local environment. There was an example when the Robertson Barracks were built, a number of years ago, where this exactly happened. So there are examples of this happening in the past, but of course Defence will obviously have a much more direct view about that. That is our perception. The push is to try and make things as simple as possible, and that doesn't always fit with trying to do things locally and doing things which take a few resources and some smarts to handle the nuances of the local business environment.⁴⁸

Better engagement with SMEs

2.45 Mr Jones suggested that current procurement processes should engage better with SMEs:

...I think more can be done. It is about communication. I have a small business and I just cannot afford to do the tendering process, so I step out. That really affects growth in the Territory—simple things like that where it can be a direct change in the way that process is done, to engage local SMEs.⁴⁹

2.46 Mr Bicknell spoke about how difficult the process can be for smaller businesses:

...at the end of the chain, you're in a very weak negotiating position. There are examples where some of the larger companies are able to negotiate those terms directly with the major or head contractor, but the small businesses don't have the skills to do that and are often in a situation where they actually need the work to keep the doors open. That puts you in a position where it's very, very difficult to do anything but accept the terms. You're talking about businesses that have their houses underwriting their businesses, and it's really tough for them.⁵⁰

Addressing complexity

2.47 Mr Peters also supported ways of better engaging with SMEs and addressing complexity:

I think the reality is the engagement of SMEs is not going to involve the complexities at the high end of the scale. There is no great need to jump

48 *Proof Committee Hansard*, 22 August 2017, p. 18.

49 *Proof Committee Hansard*, 22 August 2017, p. 13.

50 *Proof Committee Hansard*, 22 August 2017, p. 23.

through the same hoops. They are coming under contracts as subcontractors in the first instance anyway. So there may be provisions to accommodate them better there. But it just seems to be that there is no great need for the complexity of the process at the moment.⁵¹

2.48 Mr Jones provided the following example to illustrate current processes:

With the [Tindal] work a tender was put out for the whole of the window supply for that job. First of all, we are not big enough to take on the whole job. To cut a long story short, I think it was just checking prices for what they had budgeted for. Then, of course, there are tenders. If you look at a large prime, they will go out to tender and there might be six medium contractors who pick it up. Then they put it out to tender again and there might be 10 SMEs who apply for that job. So you could really be getting quotes from 60 people or entities. I don't know if any study has been done to see if all those 60 are actually capable of doing the work. You first need to identify who is capable of doing the work, and then you direct your resources towards that company to support you. It is all an attempt to get the best price for the best possible quality, but sometimes I do not think it achieves that goal. I think it needs to be better managed, in connection with SMEs, in that middle tier of the prime, and more responsibility taken.⁵²

2.49 Mr Jones spoke about other tendering challenges for businesses looking to engage with Defence:

...Tendering is a big, time-consuming process. You are very exposed when you tender. For us as a company, if we win a job then we don't want variations; we want to get in there and get out, and the customer to be happy. That's what you aim for. So you really need to know exactly what the customer wants, and you need to be able to provide it. I think everyone should have that aim.

...

I am the AIDN president and I have worked for a prime beforehand. Everyone says that you have to tick the boxes with Defence. Well, what is that? It depends on where you are. Defence has a lot of security, so if you're moving in that area there are a whole lot more boxes that you have to tick. It is even just knowing what you need to do to comply with Defence. It's not clear.⁵³

Transparency

2.50 Ms Jodie Cassidy, Coach Charters Australia, spoke about the need for more oversight by Defence of projects, a more open and transparent decision making process so businesses can understand why they have been successful or unsuccessful and an external mechanism to resolve issues:

51 *Proof Committee Hansard*, 22 August 2017, pp 22-23.

52 *Proof Committee Hansard*, 22 August 2017, p. 13.

53 *Proof Committee Hansard*, 22 August 2017, pp 17-18.

I think Defence needs to pay a greater part in the oversight of those projects, so they can see down to tier 2 or tier 3 companies exactly who is being engaged. Also, there needs to be a demonstration of genuine engagement by prime contractors and tier 2 contractors who are getting major packages, and this would be based on the current program which Defence uses for their major platform procurements at this point in time. There needs to be a demonstration that successful companies have met all the regulatory and selection criteria. We can often discern when a company hasn't done so. We know when a company is operating illegally, and there is really no recourse we can get to actually find a solution to that. I think there needs to be an external mechanism that small companies can access so that if issues do come up they can be resolved through an intermediary or non-interested party. At the moment, we currently have to go through either prime contractors or through the other business. And you really don't get much in the way of response that is really suitable, at this point in time, to actually answer your question as to why. So if we could have that external process, I think that would probably provide a lot of opportunity for businesses to raise issues and to resolve issues external to the supply chain.⁵⁴

Size of contracts

2.51 Mr Bicknell suggested that the size of the contracts needs to be addressed.

I think the size of the contracts is really daunting to SMEs—even to unpackage, to see what parts of the contract they could really be competitive in.⁵⁵

2.52 Mr Peters agreed:

That really does seem to be our big problem—the size of the packages. If they were at a level to which our larger companies could reasonably expect to tender successfully, they know the local market, and they absorb a lot of the risk for the smaller businesses, but if they fall under the larger companies, they can't play in the space. If our larger companies—by definition, smaller than the largest nationally—are able to engage in the game, then the ability for local companies to come in under there is greatly enhanced, and that's a significant thing which would overcome a lot of the problems that we're experiencing.⁵⁶

Bundling projects

2.53 Mr Malone spoke at length about the current procurement model which he saw as narrowed by design, reducing the opportunity for businesses to bid for Defence work and made the following suggestions:

We have advanced four possible changes to the current procurement model, which we believe would open up opportunities and bring new supply chains

54 *Proof Committee Hansard*, 22 August 2017, p. 55.

55 *Proof Committee Hansard*, 22 August 2017, p. 23.

56 *Proof Committee Hansard*, 22 August 2017, p. 24.

into the Defence arena. These include changes such as the establishment of a program delivery office in the Top End, as well as high-level oversight of the decisions to bundle projects into megaprojects. We think that the government should look at incentivising the use of head contracts under the managing contractor model. We are strongly of the view that punitive subcontract clauses need to be removed for firms. In addition we have strongly argued in our submission that Defence should enter into a partnership with ICN NT—a direct partnership... as you know, they have a database of territory business, their accreditations and capability.

It's very easy to pigeonhole the recommendations that we are making as just suggestions for the Northern Territory, but we have spoken to or sister organisations right around the country and too many representatives of regions throughout Australia and they talk to us about the same issues that we raise here. It is really an issue across many parts of Australia.⁵⁷

2.54 Mr Malone gave the following example:

I will use a simple example for that. On a complex project like Larrakeyah-Coonawarra, with fuel farms, marine structures and so forth, there is also a headquarters building. I will pick that as an example. We would say the headquarters building isn't particularly complex. If that were packaged up as a works package to go out to the market, local firms would bid to deliver that, and they would bring a brand-new supply chain, which normally follows them into work, into the Defence space. So those local principal contractors would bring the subcontractors and the suppliers in the Northern Territory into that opportunity. We're definitely not saying you need to package up the most complex activities, give them out to a market and take on unfair risk, but there are still plenty of ways of unpacking these megaprojects—and, by any terms, a \$550 million project is a megaproject—and getting the outcomes that everybody wants.⁵⁸

2.55 Mr Malone described how this plays out:

The decisions around taking a group of construction projects and placing them into a megaproject is a reasonably early decision that's made. We wrote to the Prime Minister recently, and we have a response from government about Air 7000, which was the Triton project, and the construction works planned for Edinburgh and Tindal, for example. We've heard various numbers, from \$240 million to \$400 million worth of work. We look at it and say, 'Those works are 3,000 kilometres apart, and there is an opportunity to restructure how that is put together to create opportunities for South Australian firms and Northern Territory firms to bid.' When it's aggregated at \$400 million, there are only a small number of firms right across Australia capable of doing that work. So that very early decision to put all that work together has a lot of consequential effects, and it basically designs the result that you might get.

57 *Proof Committee Hansard*, 22 August 2017, p. 28.

58 *Proof Committee Hansard*, 22 August 2017, p. 31.

We just believe that the full effect of those sorts of decisions needs to be recognised. We put a lot of focus on the tender process and making sure there is probity around those activities, but we don't think there is the same focus on those early procurement decisions.⁵⁹

2.56 Mr Sunners agreed and spoke about an earlier example:

If I could step back a little and globalise and a few things, based on a couple of comments before? Most of us who are sitting in the room are involved in contracting with the APIN project and the Tindal project as well. In the model that Defence used there, they actually engaged a Connell Wagner Savant joint venture to manage it with the Defence personnel, and then it was all issued out to the local type size—I just say 'size' because size is what it's really relevant to. In those projects particularly, that filtered right down. It touched every subcontractor. It touched every head general contractor in those two projects, and that was basically a good influx into the town. It grew the town over that period of time—in the 1990s, effectively. It actually made the packages more the size to fit the remote areas.

We are remote. We're still a big country town. We only have turnovers up here that might range sometimes from \$50 million to \$200 million a year. You've got to go up and down as the market goes up and down, so you've got to have the skills sometimes with the big stuff but also sometimes with the little stuff. It's really just packaging up the work that can be tailored for the size of the businesses within the remote community areas. I use 'remote' carefully because, yes, we are Darwin, but I'm just saying that anything above the Tropic of Capricorn is generally remote. We found—well, I found, and I think everybody else did—that that actually influenced right through the town. All that work got booted right down. Everybody had input into it.⁶⁰

2.57 Mr Sunners then contrasted that with the current approach:

I think what's happened is that Defence now say to us that they're limited in their limitations in their personnel in what they can do to deliver that type of model, so they then go to package it all up to a higher level to a bigger group to hand it over to somebody else to take that role. That's when it gets dictated under a managing contractor, then it gets put into trades, and that then becomes the problem we were talking about before. It's very big for the trades, where normally the general contractors up here handle and manage and have the knowledge of how to handle the risks, the LD size, the paperwork size, the presentation of the tenders—all that sort of stuff. The general contractors in the Territory have been able to do that. That's what we take on as a role within our community, and the subcontractors that work for us all the time are comfortable with that process. That's what they've learnt and they've built their businesses around. To step outside that, that's when they get a really big document...two inches thick, and they're

59 *Proof Committee Hansard*, 22 August 2017, p. 31.

60 *Proof Committee Hansard*, 22 August 2017, pp 32–33.

not very sure of themselves, because they're not that sophisticated in that area, whereas we as the general contractors normally within our area take that role and responsibility on, because we've got more sophistication and more knowledge of the process.

I think that's what I've seen. I see the big shift of Defence saying they're limited in their resources, so they're outsourcing it to managing contractors, and then it goes straight to trades. It's too big for the trades in the remote areas, and then they get scared of it. Then the MCs [managing contractors] have to bring the other contractors that are used to it from down south up to actually do the work. And that, I think, is the disappointing part, where it doesn't get to an opportunity for the local people to bid for the work. They're more than capable of doing it. When we first sat around as a group, before we started this process, 2½ years ago, there were five companies up here that were handling in excess of \$1½ billion worth of work that we had on our books. So we had the capability of doing it. It wasn't a matter of capabilities, and that's what was recognised by Defence at that particular stage. The capability is there. It's getting the package to fit the local size of companies, not the big fellows.⁶¹

2.58 Mr Sunners further explained;

If we can break that down [sizing of projects]—which does mean more management from Defence's point of view—into smaller packages, then the smaller people within the remote areas can actually handle and do the work. They're skilled in the area. They've got their resources in the area. Their kids go to school in the area. They keep the money in the area. It just promotes the whole community.⁶²

2.59 Mr Malone summed up:

...early decisions have a really big impact on the results. I think that, because of that, it's obviously got to be designed in at the start. We talk to a lot of people, and there's a universal view that, yes, government is absolutely committed to a northern Australia agenda; so are the other parties in the federal parliament; and, yes, all political parties are committed to using small and medium enterprises. And then we see the procurement model come out, and it's targeted at a small group of organisations for other reasons.

I keep coming back to the point that, if the key policy drivers were actually driven into the procurement design, you should be getting the result that you want. The problem with exemptions, in my view, is that people go, 'Well, that's the rule; I just follow the rule,' when what we should be talking about is: what is the result we want to get out of this particular process? We don't believe in giving any sort of special treatment to firms. We actually think you've got to compete. What happens is that, if you give exemptions away, people get used to that exemption, and they're not necessarily competitive in the wider market. You've got to be competitive. But we just

61 *Proof Committee Hansard*, 22 August 2017, p. 33.

62 *Proof Committee Hansard*, 22 August 2017, p. 33.

need the system to internalise the objectives that we hear from all sides of government and parliament.⁶³

Defence response

2.60 Brigadier Beutel responded to some of the suggestions made at the hearing regarding procurement processes, highlighting that Defence, particularly in the capital facilities and infrastructure areas, uses an outsource model which was a decision taken by government some years ago.⁶⁴ He provided more detail on how the outsourcing model works:

With engagement, our business model is to outsource. Our engagement with industry is that I will engage a project manager/contract administrator to undertake that detailed project management and contract administration. They support us and my team going through the procurement of designers and/or contractors in accordance with the Commonwealth Procurement Rules, but my project teams are through that completely.⁶⁵

2.61 He added that therefore Defence does not support the establishment of a program office in Darwin because of the outsource model and spoke about the current structure of his team and how many projects they are responsible for:

I do have a core team. There are a lot of comments about resources. I am at my full establishment. If asked whether I need more people, I would probably say yes, I do. But I am at my full establishment, and I would like to make that point very clear. It is two-thirds APS staff and one-third military staff. My branch is responsible for about 160 projects at the moment, with a book value of about \$16 billion. Of those projects, 50 are in planning and 50 are in delivery that I am managing.

I manage those through a number of projects or directorates, broken down into project teams. A project team will be responsible, basically, for about six to seven projects. They aren't just in one state—they can be across different areas. The project team is made up of about three people on average. I try to have a flexible approach to how I structure my teams, to put the resources I have where they are actually required.⁶⁶

2.62 Brigadier Beutel stressed that they do not manage project by project as they work on a program of works across Australia. He spoke about the upcoming HMAS Coonawarra redevelopment and Larrakeyah Barracks redevelopment projects where Laing O'Rourke is the managing contractor for the planning phase. He described the approach being used by Laing O'Rourke where they have developed a collaboration centre at Winnellie:

It's a facility that they were using as part of Inpex when they were doing work out there. It's no longer required, but they have utilised that as part of

63 *Proof Committee Hansard*, 22 August 2017, p. 33.

64 *Proof Committee Hansard*, 22 August 2017, p. 44.

65 *Proof Committee Hansard*, 22 August 2017, p. 44.

66 *Proof Committee Hansard*, 22 August 2017, p. 44.

their bid for the planning phase to support Defence in this project. It set up this collaboration centre where designers, military and anyone who has an interest in that project can actually come and seek information for it. That particular collaboration centre, post government's second-pass approval and parliamentary approval from the PWC—government approval is towards the end of this year and we are looking at PWC consideration early next year—will be the focus, the nexus, for engaging local industry.⁶⁷

2.63 Brigadier Beutel went on to detail the work undertaken by Laing O'Rourke to understand the capacity and capability of the local industry and achieve flexibility with trade or work packages.⁶⁸ In relation to bundling projects Brigadier Beutel confirmed there is not a one-size-fits-all contract for projects with the approach to each being based on the risks and how best to mitigate them:

There have been accusations made that we look to bundle projects to get them over a dollar threshold and that therefore that justifies the approach to a managing contract. That is not the case. What we look to do in putting projects together, apart from having to comply with the Commonwealth Procurement Rules, is that we are efficient, effective and economical in our procurement processes. It's usually because a project is sharing some sort of time and space or constraint with it.⁶⁹

2.64 Brigadier Beutel worked through some projects to show the committee how the best approach is determined:

Larrakeyah Barracks is a good example. It's under two separate projects but under one contract. If you're not aware of Larrakeyah Barracks in Coonawarra, it has only one entry to the base through a built up area with schools on it. There is a tight constraint between the naval operations and the land operations that are undertaken there. The way we looked to structure that project was to mitigate a lot of those measures, but we don't bundle for the sake of trying to push it up above a threshold. I can give another example. We have a managing contract form of contract for works that we're undertaking out at Exmouth in Western Australia—Naval Communication Station Harold E. Holt. That is a \$71 million project. We've gone for a managing contract form of contract based on the risks there. I'd also like to point out Sitzler, which is a Darwin company that was actually a successful managing contractor for those works in Western Australia...⁷⁰

2.65 Brigadier Beutel then spoke about oversight of the subcontracting arrangements by the managing contractor:

To use the example of the managing contractor Lendlease here in the Northern Territory, the managing contractor, under the managing contract

67 *Proof Committee Hansard*, 22 August 2017, p. 44.

68 *Proof Committee Hansard*, 22 August 2017, pp 44–45.

69 *Proof Committee Hansard*, 22 August 2017, p. 45.

70 *Proof Committee Hansard*, 22 August 2017, p. 45.

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

...Yes, they do [report back to Defence]. Contractually they are required to provide me with statistics of subcontracts—so total number of trade packages, trade packages let to date, the value of those trade packages, how many have gone to local industry or those subcontractors, and then a percentage value for that.⁷¹

Lessons from other sectors

2.66 Witnesses told the committee about possible lessons from the LNG sector regarding engaging local businesses. Mr Peters spoke about the initial approach:

The LNG—and there's been mixed reactions to the project, but I can speak about what the Inpex project did initially. They were very proactive with their public briefings. We coordinated a lot of those. As each package was released, it was part of the contractual arrangement that the contractors were obliged to provide a public briefing on how they were going to go about their procurement, what sorts of opportunities would apply and they were realistic from a local level. As I said, they put all of this through our system, so they promoted, and they still do, the ICN as their portal, to which they were going to promote these things. There's been a heck of a lot of interaction between Inpex at the top, JKC, who are their onshore contractors, and the specific package winners. They are contractually obliged, as I mentioned. There's a strong Australian industry participation requirement behind it, and we've always felt that the Inpex company has been fairly committed to that. In contrast, I couldn't honestly say that that is an experience that's been shared in the defence area. I think you'll find a fairly consistent deferment to Master Builders with specifics about the issues that businesses have had engaging on a local level. So, to a degree, I would defer to them to put more meat on the bone.⁷²

2.67 Mr Peters praised the visibility of the LNG work:

Obviously, you'll have different views on it, but it's been pretty effective, and it's very traceable. There's disappointed people; there's very happy people. Companies have grown out of the experience, and some have been damaged. That's the nature of very big projects, but it's been very visible.

71 *Proof Committee Hansard*, 22 August 2017, p. 47.

72 *Proof Committee Hansard*, 22 August 2017, pp 21–22.

From an ICN perspective, if you compare the two visibilities, it's been very good, but I can't say the visibility has been the equal with the defence projects.⁷³

2.68 Mr Peters indicated that he would support such an approach for Defence projects:

...we're talking to the managing contractors, in this case, for Tindal, Lendlease. There's a structure involved there. Again, I'll defer to Master Builders to put more structure around that, but there is a system which creates the opportunities for the larger companies. And that is the issue when you get down to regional centres such as ours—there are supply chains in place which are occupied along the way and don't leave an awful lot of opportunity at local level. We've also found a lack of confidence from local businesses that the opportunities are real. So, whilst, for the Tindal project, the opportunities are listed through ICN, it's just a portal for collection of that data for Lendlease. The Inpex project was different: we had a greater engagement in terms of putting the companies through with the correct capabilities, accreditations et cetera. But we're just a portal in this case. We do talk to Lendlease a lot behind the scenes, but we have been surprised in some cases that local companies—who are quite capable; there's no question about capability—have not actually put themselves forward, and our thinking on that is that they just really don't have much confidence in the outcome and that there are provisions within the contracts which are quite concerning for the predominantly small to medium companies that exist in the Northern Territory.⁷⁴

2.69 In relation to the packaging of work Mr Guit also spoke about the LNG sector:

In the LNG, if I take INPEX as an advantage, most of those packages have worked. They'll award a contract for their operations-building in its entirety, their warehousing facilities. They generally don't drive down to subcontractor level. They have the equivalent of an MC, as an EPC contractor, JKC, out on the site, but they deliver all of the scope in head contract packages.

...

I think that the established relationships between head contractors and local subcontractors are very strong. They have good access to those subcontractors. Both know how they interact with each other. One of the issues you have when you have a large tier 1 coming in from interstate, they have relationships the same as local people do. The want is to bring the people that they have the relationship with them, wherever possible. It lowers their risk, it reduces their exposure. It also gives them a greater amount of clout when there are issues in regard to time, cost or whatever,

73 *Proof Committee Hansard*, 22 August 2017, p. 22.

74 *Proof Committee Hansard*, 22 August 2017, p. 22.

because there's a string of subcontracts that the subcontractor will be working on elsewhere, so they have a larger amount of contracts.⁷⁵

US Procurement

2.70 Mr Bicknell spoke about lessons learned from the US approach to procurement:

We're also very conscious or we're very aware of the valuable lessons that can be learnt out of the US regarding policies to support small business. They have a small business set aside for their federal procurement. That is something where they have got five per cent set aside for particular types of businesses, whether they be veteran-owned businesses, women-owned businesses, small businesses or disadvantaged businesses. It's certainly something that Australia can look at going forward as a way of procuring that would ensure that regional businesses got a very good opportunity.⁷⁶

Communication about exercises

2.71 Mr Brendan Dowd, CEO, City of Darwin, told the committee that there is no formal mechanism to communicate with Defence in relation to exercises but there are a range of informal relationships.⁷⁷ Mr Dowd indicated that there has been somewhat infrequent contact with the ADF and a more formal mechanism would be welcomed.⁷⁸

2.72 Mr Dowd reported that following exercises such as Exercise Pitch Black,⁷⁹ there is no debrief but information is provided to council in advance of such exercises so that they may assist members of the community with any concerns such as aircraft noise to contact the right service.⁸⁰

2.73 Mr Ricki Bruhn, CEO, City of Palmerston, said that he understood the Mayor has met with Defence personnel on a regular basis which provides the opportunity to brief them on upcoming activities such as exercises.⁸¹ Mr Bruhn indicated that one way they find out about activities is through the media.⁸²

2.74 Mr Bowen emphasised that facilitating relationships on the ground are very important:

That does come down to people and the capacity to engage—for example, a Defence person engaging with a pastoralist who may be wishing to muster a particular time, but if there's an exclusion exercise it means they can't

75 *Proof Committee Hansard*, 22 August 2017, p. 30.

76 *Proof Committee Hansard*, 22 August 2017, p. 20.

77 *Proof Committee Hansard*, 22 August 2017, p. 2.

78 *Proof Committee Hansard*, 22 August 2017, p. 2.

79 Exercise Pitch Black is a biennial, three week, multinational large force employment exercise conducted in the NT.

80 *Proof Committee Hansard*, 22 August 2017, p. 3.

81 *Proof Committee Hansard*, 22 August 2017, p. 2.

82 *Proof Committee Hansard*, 22 August 2017, p. 2.

muster. Some of those things can have quite significant impacts if the coordination is not done right or if there are accidental mishaps which happen. So it's very important that those local relationships are strong. Certainly, I know they work quite well in certain areas.

...I think the reality is that we do have very good relations. Ahead of exercises there's a lot of high-level discussion about requirements before exercises and also during analysis after at the government-to-government level through some of these formal engagements we have from the Northern Territory government's perspective. We do have very positive engagement through Northern Command and through various forces which we have to say is very engaged, very open and very cooperative.⁸³

2.75 Mr Bowen responded to a question about how local communities find out about Defence activities:

There are various things you can immediately think of—for example, road access. In that particular place it can go out during certain times of the year. So there are access issues and a whole range of logistical issues. Through the consultative forum of the operational group that meets twice a year, some of those issues will be flushed out in these formal meetings and also if there are issues that arise. So there are mechanisms to deal with those things through various other departments, which might be infrastructure-specific departments. We play that role to assist with that coordination across government as well.

2.76 Mr Schoolmeester added:

...there are formal structures that are in place there but there are also the informal structures. We have a very strong relationship with Northern Command. We talk to them regularly about issues and things—information awareness. And we also maintain informal networks...⁸⁴

Engaging with Indigenous businesses

2.77 Mr Guit said that businesses in the NT are very familiar with reporting on Indigenous business activity including apprenticeships.⁸⁵ In relation to apprenticeships, Mr Malone spoke about the Construction Apprenticeship Mentoring Program run by Master Builders. There are currently 250 men and women on the program and 80 are Indigenous.⁸⁶

2.78 Mr Roy Jansan, Vice-Chair, Northern Territory Indigenous Business Network (NTIBN) spoke about the challenges for Indigenous businesses dealing with Tier 1 contractors:

I'm very wary to enter into any contracts with any of these tier 1 contractors, because it's not their purpose for us to have a successful

83 *Proof Committee Hansard*, 22 August 2017, p. 16.

84 *Proof Committee Hansard*, 22 August 2017, p. 17.

85 *Proof Committee Hansard*, 22 August 2017, p. 35.

86 *Proof Committee Hansard*, 22 August 2017, p. 35.

outcome. They manage their projects to suit their own self-purpose. That is for me personally.

Most of our Indigenous businesses are microbusinesses and they are too small for these management contractors to engage. Nor in the past did they really try to engage them. There are not many construction contractors or civil contractors that would be the size that would suit the purpose of the Tindal project. I believe my company would be in the top three in the Northern Territory in the last 20 years, in size and capacity. So they really only engage one or two of the major ones. Out of that, watching from the back lines, I believe they haven't really managed them for success, which is probably not really their prime objective—to have Indigenous businesses have a great outcome. Their prime objective is to get the most cost-effective job done for themselves so they can make money...⁸⁷

2.79 Mr Rodney Illingworth, Rusca Bros Services, providing civil construction, mining and waste management services, also spoke about his organisation's experience dealing with Tier 1 contractors, highlighting the improvements over time:

From Rusca's perspective, they have \$30-plus million contract with Lendlease and ultimately Defence down at Tindal. The relationship has strengthened somewhat now, but there were some severe growing pains, as Roy has indicated with the tier 1—engaging with an Indigenous business. Historically, most tier 1s beat each other to death with their balance sheet. Part of what they have to adapt to now is not do that, particularly if they are trying to get the right outcomes. Fundamentally, it's moving forward. There are other companies around that we are still struggling with in trying to engage Indigenous businesses—they are suppliers rather than operating on behalf of Defence. We had issues in respect of the wet season and Indigenous companies signing up to a 200-page contract. Managing that contract word for word was a growing pain. Not knowing what they got themselves into with extended wet seasons and still incurring all these costs. As I said, we are moving forward, and Lendlease has been constructive in developing the relationship and it's somewhat stronger now than it used to be.⁸⁸

2.80 Mr Illingworth stressed that mentoring is important for small businesses and something Defence could take on as 'they need someone to talk to'.⁸⁹

2.81 Mr Colin Rogan, Managing Director and owner, Irranda Holdings, a Darwin based Indigenous owned and run business which supplies air conditioning ducting, spoke about the size of contracts for Indigenous businesses:

As I mentioned, I did get work on the Inpex project with that workwear related stuff. There were consultations with Defence—I was still backed by a larger business as well, so prices were not an issue. It was more in the way of Defence not knowing exactly what that business could do and how

87 *Proof Committee Hansard*, 22 August 2017, p. 49.

88 *Proof Committee Hansard*, 22 August 2017, p. 50.

89 *Proof Committee Hansard*, 22 August 2017, p. 53.

they were value-adding at a local ground level. Maybe they couldn't take the entire project but, unless Defence is prepared to break up some of the packages or allow part of those packages to go to certain Indigenous businesses or others—maybe to an electrician who only has the capability to do part of that project.

...

I believe it's more head contractor, knowing about my business and looking at ways to create those opportunities like Defence is also doing; but, without us working all together and consulting a lot more closely, we're dragging on this time to hit those three targets of building the north Indigenous employment and closing the gap.⁹⁰

2.82 Mr Jansan also indicated that as many Indigenous businesses are microbusinesses, getting engaged with Defence takes resources and time.

...We're really only just very new to all of this. There aren't generational business people. There are only very small numbers of them. Rusca is one of them, I am one of them and there are probably a few others. They're all the people that are running the Indigenous business networks and all of those sorts of things. For the rest of these businesses, I spend a fair bit of time with as many as I can, but I still have to make money as well. Understanding they have to have ISO accreditation and all of these things—which is all fine. We have to have all of those things to comply to be able to supply Defence. But the learning curve of what it costs to get that is really, really quite expensive. It's a big process. I guess, at the end of that, it comes down to management and education. So, how do we do that? We start small and work bigger. We take one step after the next. We all try to support each other and we pass knowledge around between each other.⁹¹

2.83 Mr Jansan reported that the NTIBN has recently been approached by someone from 'defence industry advisory':

So small businesses can approach her and she will figure out how they might fit into Defence or become Defence ready.⁹²

2.84 Mr Jansan advised that the NTIBN currently has 106 Indigenous businesses with about 150 members and spoke about their Memorandum of Understanding with the Indigenous Chamber of Commerce.⁹³

2.85 Mr Colin Rogan, Managing Director and owner Irranda Holdings, emphasised the need for better consultation and suggested Defence developing their own database as it is important to know what is happening on the ground.⁹⁴

90 *Proof Committee Hansard*, 22 August 2017, p. 38.

91 *Proof Committee Hansard*, 22 August 2017, p. 50.

92 *Proof Committee Hansard*, 22 August 2017, p. 49.

93 *Proof Committee Hansard*, 22 August 2017, p. 51.

94 *Proof Committee Hansard*, 22 August 2017, p. 40.

2.86 Brigadier Beutel reported on Defence engagement with Indigenous businesses:⁹⁵

I can give you an example around the new air combat capability facilities component of works that we're undertaking at RAAF Base Tindal. The target there is actually six per cent. It's a high level because it's considered as a remote area under the Indigenous Procurement Policy. The figures that I was just given this morning show that we've achieved nine per cent, so we're three per cent above that point.

...

We've just undertaken a select tender for engagement of a head contractor to do the Woomera Range Complex project. That was undertaken for Indigenous business underneath the Indigenous business exemption, so they are competing against each other, which they wanted to do. There's learning in that as well. That will soon be announced, but it will go to an Indigenous business.⁹⁶

95 Note: Under the Indigenous Procurement Policy, for all construction contracts over \$7.5 million, contractors are required to either meet a three per cent organisational/workforce target or a four per cent contractual target.

96 *Proof Committee Hansard*, 22 August 2017, p. 45.

