

The Senate

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Foreign Affairs, Defence and Trade  
References Committee

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Impact of Defence training activities and  
facilities on rural and regional communities

Third interim report

October 2017

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# **Recommendations**

## **Recommendation 1**

**4.7 The committee recommends that Defence make information available to local communities about Defence expenditure in the area.**

## **Recommendation 2**

**4.16 The committee recommends that Defence review the evidence from the Ngaigu-Mulu Aboriginal Corporation at the Katherine public hearing and investigate the issues raised.**





# Chapter 1

## Referral

1.1 On 8 February 2017 the Senate referred the following matter to the Senate Foreign Affairs, Defence and Trade References Committee (the committee) for inquiry and report by 30 November 2017:

The impact of Defence training activities and facilities on rural and regional communities, with particular reference to:

- a. economic, social and environmental impacts;
- b. consultation and communication with local government and community organisations;
- c. investments in new facilities, infrastructure and operations;
- d. utilisation of local suppliers and service providers to achieve value for money;
- e. encouraging awareness of tendering opportunities for rural and regional businesses; and
- f. any other related matters.<sup>1</sup>

## Conduct of the inquiry

1.2 Details of the inquiry were placed on the committee's website at: [http://www.aph.gov.au/senate\\_fadt](http://www.aph.gov.au/senate_fadt). The committee also contacted a number of relevant individuals and organisations to notify them of the inquiry and invite submissions by 28 April 2017. Submissions received are listed at Appendix 1.

## Interim report

1.3 On 22 August 2017, the committee held a public hearing in Darwin and on 23 August the committee held a public hearing in Katherine, Northern Territory. A list of witnesses who gave evidence is available at Appendix 2. The committee has decided to table an interim report which focuses the evidence received in Darwin and Katherine. In addition to the public hearing in Katherine, the committee also undertook a site visit to RAAF Base Tindal.

1.4 Submissions and the Hansard transcripts of evidence may be accessed through the committee website.

## Focus of the committee

1.5 The first and second interim reports provide the background to and policy framework for the committee's inquiry. The committee is investigating how the increased investment in defence will deliver benefits and opportunities for regional economies and communities. It is looking at what mechanisms are in place to ensure local business is aware of and ready to be considered for opportunities, businesses

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1 *Journals of the Senate*, No 25—8 February 2017, pp 852–853.

which have been successful and any barriers encountered by others. In summary, the committee wants to test whether the increased spend outlined in the *2016 Defence White Paper* is benefitting regional economies as well as investigate the interaction by Defence with the local economy and communities.

### **Acknowledgement**

1.6 The committee thanks the organisations and individuals who participated in the public hearings in Darwin and Katherine as well as those who made written submissions. The committee also thanks the Department of Defence for facilitating the site visit to RAAF Base Tindal.

### **Defence presence, expenditure and new investment in the region**

1.7 The Northern Territory Government summarised the benefits of Defence as well as the background to the four training areas in the NT:

Defence has a significant positive impact on businesses and local residents, including regional and remote communities in the Northern Territory. Due to the small and dispersed nature of the Northern Territory population and industry, the socio-economic impacts and benefits arising from Defence training operations will not only be felt in the outlying remote and rural communities where these sites are located, but also in the main centres of Greater Darwin and Katherine that act as supply and service hubs.

The four dedicated Defence training areas in the Northern Territory are located on pastoral land acquired by Defence between the 1970s to the 1990s. The Kangaroo Flats Training Area, used as a small arms firing range, is located approximately 30km from Darwin, and the larger training areas in Bradshaw, Delamere and Mount Bundy are between 120km to 270km from Katherine or Darwin.<sup>2</sup>

1.8 The significant contribution of Defence to the NT economy was also highlighted 'with expenditure comprising 7.3% of gross state product (GSP) in 2015-16 or \$1.67 billion in current terms'.<sup>3</sup> The contribution of the US presence was also mentioned:

A 2013 study concluded that a [United States Marine Corps] rotation of 1,100 personnel and associated equipment was expected to result in a total \$7.7 million in direct expenditure into the Australian economy in 2014. The study estimated that the rotation would contribute \$5.6 million to gross state product for the Northern Territory with the impact strongly concentrated in services and government, retail, transport and recreational services.<sup>4</sup>

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2 *Submission 15*, p. 3.

3 *Submission 15*, p. 5.

4 *Submission 9*, p. 7. See also *Submission 15*, p. 5; Mr Jason Schoolmeester, Executive Director, Defence NT, *Proof Committee Hansard*, 22 August 2017, p. 10.

1.9 Mr Jason Schoolmeester, Executive Director, Defence NT,<sup>5</sup> also spoke about the economic impact of the US marines and added:

I think the important thing to understand is that the marines are here for training, so they do come here and they are actually on training for the majority of the time they're here. When they are in town, they are very active in the community. They have done very well in maintaining a social licence here in terms of outreach programs at schools. They have even been helping out a local group in trying to salvage a World War II vessel, the HDML 1321. They are very active in the community here when they are not training.<sup>6</sup>

1.10 The Northern Territory Government has highlighted the significant expenditure in the NT as outlined in the Defence White Paper:

1. \$8 billion spend upgrading Defence facilities in the NT over the next 10 years, with a further \$12.2 billion to be spent in the NT in the decade post 2025.
2. Infrastructure works at RAAF Base Tindal to support a squadron of the F-35A Joint Strike Fighters, seven P8-A Poseidon aircraft and seven MQ-4C unmanned aircraft.
3. 12 new Offshore Patrol Vessels begin service from 2020, replacing the current Armidale Class Patrol Boats, with a number of these home ported in Darwin.
4. Upgrades to Bradshaw Field Training Area, Robertson Barracks and Larrakeyah Barracks as well as consideration of a new Northern Advanced Joint Training Area with a potential rail link to RAAF Base Tindal.
5. Purpose built facilities at Delamere Air Weapons Range to support personnel training on the EA-18G Growler aircraft.
6. Consideration of the construction of a new roll-on/roll-off wharf in Darwin to support amphibious operations of the new Canberra Class Landing Helicopter Dock vessels.
7. An increase in the number of multinational exercises the ADF participates in across our immediate region and the broader indo-Pacific.
8. Reiteration to work towards the full United States Marine Air-Ground Task Force of around 2500 personnel rotating through Darwin by 2020, with more rotations of United States aircraft expected through northern Australia.<sup>7</sup>

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5 Defence NT is part of the NT Government and works to coordinate the NT Government's strategic engagement with Defence to provide opportunities and increase industry engagement, business development and employment in the NT.

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

7 <https://nt.gov.au/industry/defence-support/defence-presence-in-nt>, accessed 27 September 2017.

### ***Exercises***

1.11 Mr Luke Bowen, General Manager, Defence NT, spoke about the opportunities provided to the NT by Defence exercises:

International exercises held in the NT have the potential to boost the local economy directly through the provision of ancillary services to military forces and the flow-on benefits to other sectors, such as hospitality and retail. The scope of economic impact will depend on the amount of goods and services sourced locally. Foreign military forces training in the NT, and the proximity of Darwin to regional overseas markets, provide real opportunity for local industry to export sustainment services. This can consist of the provision of ship-husbandry services, maintenance of equipment, supply of consumables to international customers, and other exportable services. The capacity to realise export opportunities will, however, require a stable local sustainment industry to underpin export ventures in the future.<sup>8</sup>

1.12 In relation to training exercises, Mr Brendan Dowd, CEO, City of Darwin, indicated:

Whilst the regional Defence training exercises have minimal direct impact on the City of Darwin's services, it is known that the increased presence of Australian and international defence personnel during significant land-, sea- and air-training exercises has a positive effect on our economy. During training exercises, some small to medium business enterprises provide supply in service functions. This in turn has the opportunity to create economic growth, employment and training opportunities. Having said that, we would submit that this is an opportunity that needs to be further leveraged. Being innovative and agile in the current economic climate is essential, and new opportunities through partnerships are critical to success.<sup>9</sup>

1.13 Mr Bowen added that the NT provides opportunities for increasing the scope and scale of Defence training operations:

The NT's climate and extensive open tracts of land, water and airspace present new training opportunities for Defence—for example, in adverse weather training, equipment testing, vital asset protection training and so on. The NT has the capacity and local advantage for increased scope and scale of training operations among not just Australian defence forces but also visiting international forces, for regional training exercises.<sup>10</sup>

### ***City of Darwin***

1.14 Mr Dowd highlighted the strong Defence presence in Darwin:

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

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

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

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...the City of Darwin acknowledges the strong Defence presence within its locality, and this is essential to the security and stability of Australia. The contribution by Defence to the Northern Territory's economy has been recognised both in the federal government's 2016 Defence white paper and in the 2015 white paper on developing Northern Australia, and is indeed welcomed by the Territory government and by the City of Darwin.<sup>11</sup>

1.15 Mr Dowd told the committee about the Darwin City Deal<sup>12</sup> and indicated that it will include engagement with Defence:

The City of Darwin, in conjunction with the Territory and federal governments, is seeking to leverage off the willingness to invest in the capital city of northern Australia through initiatives like the Smart Cities and Suburbs Program and the development of the Darwin City Deal. Central to the development of the Darwin City Deal are liveability, productivity and place-making, and the development of the City Deal will be consistent with the federal government's framework and is intended to be measured in accordance with the National Cities Performance Framework. It is about working together to create jobs within the city centre, developing cultural and recreational opportunities, building on tropical design and heritage and creating learning and innovation stimuli. There is extensive work to be done in developing the City Deal for the City of Darwin and our project partners. This will include engagement with Defence on investment strategies and a presence within the city centre...<sup>13</sup>

1.16 The municipal services provided to Defence as well as areas of collaboration were outlined to the committee:

At one or two of the bases, there are waste collection services that are provided by the council. There is a large amount of collaboration in regard to significant ceremonial events. As Mr Bruhn referred to, we have a number of freedom-of-entry parades that we grant over the year. Some years there are two or three of these. We have returning home parades for people that have undertaken service in international theatres of conflict. We work with [Defence Housing Australia], or certainly have worked in the past with DHA, on residential developments such as the Muirhead development in the northern suburbs. Indeed, this morning, Darwin's first dog park is being opened, and that's been a really positive, constructive and collaborative arrangement between DHA and the City of Darwin—funded by DHA but worked up in conjunction with us. So these are community facilities as a result of the Defence presence here in Darwin that are highly valued.<sup>14</sup>

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

12 The Darwin City Deal initiative is a joint project between the Northern Territory Government, the City of Darwin and Charles Darwin University to design a 10-year plan for the Darwin city centre that sets a long term and sustainable vision for the future. See <https://darwincitydeal.nt.gov.au/>, accessed 11 October 2017.

13 *Proof Committee Hansard*, 22 August 2017, pp 1-2.

14 Mr Dowd, *Proof Committee Hansard*, 22 August 2017, p. 5.

1.17 Mr Dowd highlighted the key areas where the City of Darwin is looking to work with Defence:

In conclusion, the City of Darwin would like to collaborate with Defence in the following key areas. Firstly: early genuine engagement on proposed developments within the City of Darwin municipality, particularly in the initial stages of planning. We believe that this would be beneficial to all parties. Secondly, collaboration on major exercises, particularly when these involve the use of any city infrastructure. Thirdly, ensuring that procurement policy and other regulatory settings do not pose unreasonable barriers to local businesses seeking to supply service to Defence training opportunities. Lastly, ensuring that social and cultural exchange opportunities are maximised, particularly when international training opportunities are present...<sup>15</sup>

1.18 The need to achieve good Defence and community outcomes was emphasised:

...where we would seek to get greater degrees of communication opening up is in terms of the really significant work, the strategic work, that impacts on the City of Darwin. We, unashamedly, are looking to develop and grow the economy. The city deal environment is underpinned by a theme—in my opinion, at least—of the long-term transitioning of economies and communities. Defence, being such an important element of the economy of Darwin and such an important element strategically for the defence of Australia, should be a significant player in that. We need to collectively, not just one side or the other, improve the quality of the relationship and the quality of the communication to get better defence outcomes but also better community outcomes.<sup>16</sup>

1.19 The NT Government indicated that the Department of Trade, Business and Innovation is currently researching the impact of Defence training activities and facilities on communities within the Northern Territory and a supplementary submission will be provided to the inquiry.<sup>17</sup>

### ***City of Palmerston***

1.20 Mr Ricki Bruhn, CEO, City of Palmerston, told the committee that Palmerston is the closest regional centre to Robertson Barracks and it has many Defence residences:

The City of Palmerston has always enjoyed a close association with Darwin's Defence forces—in particular, the Robertson Barracks. Our city of almost 36,000 people is home to a large contingent of Defence personnel and their families, who are welcome members of the Palmerston community.<sup>18</sup>

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15 *Proof Committee Hansard*, 22 August 2017, pp 1-2.

16 Mr Dowd, *Proof Committee Hansard*, 22 August 2017, p. 5.

17 NT Government, *Submission 15*, p. 1.

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

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1.21 Mr Bruhn also spoke of the positive relationship with Defence:

The City of Palmerston believes the presence of Defence facilities, training activities and Defence personnel in our region has been a positive experience which has also contributed to the growth of community development in Palmerston. I believe the suburb of Durack was created predominantly to service Defence personnel, and that continues to happen in other Palmerston suburbs. Palmerston is predominantly a community of young families and we will continue to welcome and support our Defence families.<sup>19</sup>

***Defence business opportunities***

1.22 Mr Schoolmeester provided statistics on small businesses in the NT:

In terms of the Territory context, in 2016 our business count was 14,310 active trading businesses. The ABS defines small business by level of employment as follows: small business, zero to 19 employees; medium, 20 to 199 employees; large, over 200 employees. The Territory being a small jurisdiction, 95.2 per cent of our businesses are small businesses, 4.6 per cent are medium and 0.2 per cent are large. Nationally, 97.5 per cent of the businesses were small.<sup>20</sup>

1.23 Mr Bowen spoke about the relationship between the NT Government and Defence and the benefits of local businesses having the opportunity to bid for Defence contracts:

The NT government is committed to continue supporting defence operations in the NT and to ensure that the benefits from the Defence presence are returned to the community through increased employment and business development opportunities, especially the opportunity to contract for ongoing defence contracts. These opportunities will not only enable the NT economy to diversify, grow and become increasingly self-sufficient; they will also promote a more competitive and sustainable industrial base to support defence operations from the north.<sup>21</sup>

1.24 Mr David Malone, Executive Director, Master Builders Northern Territory, acknowledged the opportunities that the Defence spending over the next decade will provide in the NT:

Based on what we know today, the Defence infrastructure program will be one of the largest capital flows into the territory over the next decade. It almost matches the capital program of the Northern Territory government and is larger than any known private sector flow at this particular stage. How this program is delivered will therefore not only shape our industry but the territory as well. We acknowledge it is the major program for Defence and it must be delivered in a cost-effective and timely manner. We also acknowledge that the key priority is, without a doubt, to have those

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

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

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

facilities available when they are needed. We have been a Defence town for a long time, and we understand the requirement for that.<sup>22</sup>

1.25 Mr Dick Guit, President, Master Builders Northern Territory, echoed these sentiments, stressing that they would like to maximise the opportunities for businesses to bid for the work:

The 2016 Defence white paper flagged the intent to spend up to \$20 billion over the next two decades on the construction of new facilities in the Top End. Master Builders NT commissioned research to put a number around part of that opportunity. Reasonable levels of local involvement can lift our economy by almost five per cent. We're not asking for special treatment. I can assure the committee that, as far as Master Builders is concerned, that couldn't be further from the truth. We believe in competition. It provides the client with the best market test for value for money. But we also believe that government should take steps to maximise the opportunities for all Australian businesses to bid for Australian government work.

In recent times, there has also been bipartisan support for the northern Australian agenda, and, similarly, all sides of politics have reaffirmed their view that Defence spending can be leveraged to drive economic growth, especially through SME engagement. So the opportunity clearly exists. Likewise, there appears to be almost universal support for using the capability and capacity of our industry.<sup>23</sup>

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

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



## 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'.<sup>1</sup>

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.<sup>2</sup>

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

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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'.<sup>3</sup>

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.<sup>4</sup>

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.<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup> 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.<sup>8</sup>

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.<sup>9</sup>

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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.<sup>10</sup>

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.<sup>11</sup>

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.<sup>12</sup>

### ***Defence engagement strategy***

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

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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.<sup>13</sup>

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.<sup>14</sup>

#### ***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.<sup>15</sup>

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.<sup>16</sup>

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:

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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.<sup>17</sup>

### ***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.<sup>18</sup>

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.<sup>19</sup> 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.<sup>20</sup>

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

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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.<sup>21</sup>

### ***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.<sup>22</sup>

### **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.

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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.

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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.<sup>23</sup>

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.<sup>24</sup>

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...<sup>25</sup>

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.<sup>26</sup>

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...<sup>27</sup>

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

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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.<sup>28</sup>

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.<sup>29</sup>

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...<sup>30</sup>

### **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.<sup>31</sup> 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.

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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.



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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.<sup>32</sup>

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.<sup>33</sup>

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.<sup>34</sup>

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.<sup>35</sup>

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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.<sup>36</sup>

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.<sup>37</sup>

### **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.<sup>38</sup>

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.<sup>39</sup>

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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.<sup>40</sup>

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.<sup>41</sup> 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.<sup>42</sup>

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.<sup>43</sup>

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

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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.<sup>44</sup>

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.<sup>45</sup>

***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.<sup>46</sup>

***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.<sup>47</sup>

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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.<sup>48</sup>

#### *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.<sup>49</sup>

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.<sup>50</sup>

#### *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

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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.<sup>51</sup>

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.<sup>52</sup>

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.<sup>53</sup>

### *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:

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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.<sup>54</sup>

#### *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.<sup>55</sup>

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.<sup>56</sup>

#### *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

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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.<sup>57</sup>

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.<sup>58</sup>

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.

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

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



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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.<sup>59</sup>

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.<sup>60</sup>

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

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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.<sup>61</sup>

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.<sup>62</sup>

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

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

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

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

*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.<sup>64</sup> 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.<sup>65</sup>

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.<sup>66</sup>

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

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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.<sup>67</sup>

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.<sup>68</sup> 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.<sup>69</sup>

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...<sup>70</sup>

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

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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.<sup>71</sup>

### **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.<sup>72</sup>

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.

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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.<sup>73</sup>

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.<sup>74</sup>

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,

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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.<sup>75</sup>

### ***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.<sup>76</sup>

### **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.<sup>77</sup> Mr Dowd indicated that there has been somewhat infrequent contact with the ADF and a more formal mechanism would be welcomed.<sup>78</sup>

2.72 Mr Dowd reported that following exercises such as Exercise Pitch Black,<sup>79</sup> 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.<sup>80</sup>

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.<sup>81</sup> Mr Bruhn indicated that one way they find out about activities is through the media.<sup>82</sup>

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

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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.<sup>83</sup>

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...<sup>84</sup>

### **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.<sup>85</sup> 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.<sup>86</sup>

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

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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.



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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...<sup>87</sup>

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.<sup>88</sup>

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'.<sup>89</sup>

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

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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.<sup>90</sup>

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.<sup>91</sup>

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.<sup>92</sup>

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.<sup>93</sup>

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.<sup>94</sup>

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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.

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2.86 Brigadier Beutel reported on Defence engagement with Indigenous businesses:<sup>95</sup>

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.<sup>96</sup>

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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.



## Chapter 3

### Issues raised with the committee in Katherine

3.1 This chapter summarises the main issues raised during the committee's hearing in Katherine. It considers: communication mechanisms; local issues including capacity, workforce, per-and poly-fluoroalkyl substances (PFAS) and engagement with Indigenous businesses and land owners.

3.2 The committee heard that the presence of Defence in Katherine is welcome, including the business opportunities and flow on benefits to the community. Mr Kevin Grey, Chairperson, Katherine Chamber of Commerce Northern Territory, indicated:

Individual projects aside, Katherine is very fortunate to have Defence here as a base industry, and we're very lucky to have a broad base of industry in the region. Although dealings may not be direct, we want as many direct relationships as possible to secure as much local expertise—and, being very parochial, local to us means the Katherine region, not Australia—as we can and sustain that expertise. The sustenance of that is important, not just a one-off coming and going. The contribution to flow-on business from individuals, schools and everything is very important.<sup>1</sup>

3.3 Mr Grey emphasised the contribution by Defence to local employment:

We've had the larger companies like Spotless and so forth come through, but they also engage local subcontractors to do the work. Colleagues and friends all work for those organisations as well. So it's not just the business; it's the contribution that business makes to local employment....From my perspective, just taking a holistic look at it, it's a third of our population, essentially, and it's a big deal.<sup>2</sup>

3.4 Councillor Fay Miller, Mayor Katherine Town Council, reported on some local work from RAAF Base Tindal to date:

I think that there are some contractors in Katherine who would be pretty happy with all the development, especially a lot of the maintenance and work been happening over at RAAF Base Tindal, especially in the residential area, in the last two or three years. They have done major upgrades. Our local contractors were pretty happy about the work that they had out there. As a matter of fact it was hard to get a contractor in town because they were so busy. So that was great. That was a nice thing, actually.<sup>3</sup>

3.5 While Defence did not speak with the committee in Katherine, Brigadier Beutel told the committee at the hearing in Darwin about business opportunities at RAAF Base Tindal:

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1 *Proof Committee Hansard*, 23 August 2017, p. 16.

2 *Proof Committee Hansard*, 23 August 2017, p. 16.

3 *Proof Committee Hansard*, 23 August 2017, p. 2.

Just quickly, to give you an example with the New Air Combat Capability Facilities at RAAF Base Tindal, we're still working our way through the procurement package. There's still a couple of years yet to go on the construction of that. But, when you look at our stats at the moment, out of the 33 trade packages that have been let to date, 76 per cent have gone to local Northern Territory enterprises as defined by the Northern Territory government's Buy Local definition—and here's another issue, about consistent definitions of what is local and what is not local.<sup>4</sup>

3.6 Brigadier Beutel indicated that they are using the NT Government's definition of local content with the value currently at \$196 million and 68 per cent of the spend of trade packages in Katherine.<sup>5</sup>

### **Communication mechanisms**

3.7 Councillor Miller spoke about the working relationship with Defence at RAAF Base Tindal:

Katherine Town Council has and always has had a very good working relationship with RAAF Base Tindal. We have regular meetings with the SADFO [Senior Australian Defence Force Officer] of RAAF Base Tindal, and we certainly have reasonably regular meetings with Lendlease as well, considering the development that's happening at Tindal and Delamere. I don't have any complaints at all about the relationship that we have with RAAF Base Tindal. They work cooperatively with our town, and, of course, their children go to school here and their partners work in town. I'm very happy.<sup>6</sup>

3.8 Councillor Miller added that the good ongoing relationship with the local SADFO has remained even when personnel change:

We fairly quickly have a meeting with the SADFO. Usually the CEO and I invite them. In the time that I've been mayor, which is about 5½ years, I think we've had two. Before that—I'm friends with them all. When you live in a small town, it's very difficult not to get to know your local personnel. I have not had the issue at all. We have a regular meeting.<sup>7</sup>

3.9 Councillor Miller highlighted the strength of the relationship between the council and Defence:

The Katherine Town Council has regular meetings with them, especially considering at the moment that we have PFAS issue in Katherine as well. We have very regular meetings and have a very good and open relationship with them.<sup>8</sup>

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

5 *Proof Committee Hansard*, 22 August 2017, pp 47–48.

6 *Proof Committee Hansard*, 23 August 2017, p. 1.

7 *Proof Committee Hansard*, 23 August 2017, p. 4.

8 *Proof Committee Hansard*, 23 August 2017, p. 1.

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## Engaging with local businesses

### *Tier 1 contractors*

3.10 Councillor Miller told the committee that the relationships with Tier 1 contractors are also positive:

We have regular meetings with them as well. Lendlease has, honest to goodness, tried their best to have open and accountable meetings within Katherine for the community to attend, listen and ask questions. The first one or two meetings were well intended and then they waned off a bit. But the opportunity is there for them to be able to approach Lendlease...<sup>9</sup>

3.11 Mr Grey spoke about sessions run by Lendlease:

...Lendlease have run a few sessions locally to advise people how they need to organise themselves to be able to bid. Lendlease put themselves out there as being able to bring people under their wing so that their requirements were met without having to individually do that. Overall, I think just dealing as a small business, as minnows dealing with that network, it is just viewed as too hard, with the exception of a few businesses in town that can bat in that league...<sup>10</sup>

3.12 Mr Geoff Crowhurst, Managing Director, Crowhurst Goodline, spoke about his engagement with a Tier 1 contractor which has resulted in a small metalworks package of work:

We look for opportunities all the time. Over the last few years, we've had connection via Lendlease in regard to Tindal and Delamere. We've been connected for about a three-year period and worked very hard at trying to win some of that work. As Crowhurst Goodline, we tendered eight packages at Delamere and 12 at Tindal, and we've managed to secure one small package out of that. So a lot of work for a small—it's a package, and we're grateful for what we got, but we took the initiative.<sup>11</sup>

3.13 Mr Crowhurst outlined the steps his company takes to facilitate business opportunities:

Our company uses a monthly meeting that brings together the Indigenous players in town, the subcontractors and Lendlease. We meet once a month to discuss opportunities for positions in any of the subcontractors.<sup>12</sup>

3.14 He also described the joint venture they put together to bid for the work:

We put a joint venture together to tender for all the packages at Delamere, Tindal, the gas pipeline—all sorts of projects. We knew we couldn't handle it on our own to even submit some of these tenders. There is a lot behind it, and you've got to have a lot of bank guarantees and stuff like that to

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9 *Proof Committee Hansard*, 23 August 2017, p. 2.

10 *Proof Committee Hansard*, 23 August 2017, p. 17.

11 *Proof Committee Hansard*, 23 August 2017, p. 17.

12 *Proof Committee Hansard*, 23 August 2017, p. 24.

actually secure the work even, and the checks and balances—I just can't think of the name of it at present—on your finances and stuff like that for the packages that we were looking at. We started to realise it was going to be above us, so we joint-ventured with the company that has now bought into us, because they have up to 1,600 people at times.<sup>13</sup>

3.15 Mr Allan Glass, Director, ACDC Electrical and Communication Services, also spoke about his experience dealing with Tier 1 contractors:

We've done a fair bit of work for Defence over the last nine years. We've seen and got involved at the tail end of the last upgrade. That was with Spotless. We had up to eight people working with Spotless doing their maintenance. Spotless los[t] the contract; Transfield won the contract. They did everything in-house, so we sort of lost all that work. Now Transfield are starting to subcontract out, so we're building up our work base again within. We haven't got a lot of information, except that at the very start they gave the whole community a lot of information on what was going out there. But now the work's hitting the ground, we haven't had any information, and haven't had a lot of access to any opportunities to get on the bandwagon...<sup>14</sup>

3.16 Mrs Katherine Glass, Director, ACDC Electrical and Communication Services, also reported on how they worked with a Tier 1 contractor:

We actually went in with a tier 1 contractor, because we don't have the capacity. So we were trying to build our capacity up with another tier 1 to go actually go for some of the contracts out at Tindal. We got to the last stages of it. There were three people in it. We didn't win, but you have to venture out and actually go in with another tier 1, because they're the ones that have got the capacity, have got everything in line—like the Lendleases. They've got everything in the structure, so we want to be able to have our people join them.<sup>15</sup>

3.17 The committee heard that the council's economic development committee is investigating a model to facilitate contractors making contact with businesses and Defence has presented to the committee.<sup>16</sup>

### ***Bundling projects***

3.18 There was follow-on discussion from the Darwin hearing regarding the bundling of projects and the suggestion to use smaller packages of work. Mr Schoolmeester offered the following view:

Defence are best placed to talk about their risks. But, certainly, you can understand that they have a very large program, and that, the more contracts they have, the more resources it takes to manage those contracts. We understand that. Having said that, there are opportunities, I guess, for

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

14 *Proof Committee Hansard*, 23 August 2017, pp 17–18.

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

16 Councillor Fay Miller, *Proof Committee Hansard*, 23 August 2017, pp 1–2.



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competition and increased competition through putting the packages in a way which gives the maximum opportunity for local competition.<sup>17</sup>

## **Local issues**

### ***Capacity and preparing the workforce***

3.19 Councillor Miller discussed capacity issues with the committee and the steps being taken to address this through the economic development committee to channel businesses to suitable training programs.<sup>18</sup> She also spoke about training available for local businesses:

We do have some training providers in Katherine, but it's about getting the people into the right train, I guess, or the right channel to be able to fulfil these contracts. That's one of the reasons why the economic development committee is looking at a model where we can cooperate with the training providers to get people into certificates I, II, III or IV, whatever it is that's needed, and make it easier to identify what it is that those workers need to have before they can actually get a job.<sup>19</sup>

3.20 Councillor Miller also reported that the economic development committee is developing pathways to employment through training in areas relevant to Defence projects.<sup>20</sup>

3.21 Mr Crowhurst also spoke about the need to prepare the local workforce and issues with apprentices:

A lot of the subcontractors are wanting to put people on, Indigenous and non-Indigenous. They're struggling a little bit to find the right people, I think. But the problem is that their part of it is about two years. So then what happens with the apprentice after then? Some of the strategies around are that, to finish their apprenticeship with that company, they would have to move back to where they are based, which isn't a bad thing, maybe, depending on the person, especially a young person. Where I think that we as businesses in town could keep those apprentices for a longer term through the early start of the project through to the end is, maybe, have them finished. Or, if not finished, we would finish them in our normal day-to-day business. There are problems getting people in a fit state for work on the base, getting them past some of the police checks and those sorts of things. I've sat in those meetings and made suggestions such as: 'Why don't we set up sheds at Kalano and have work opportunities where some of the work comes off the base?'. They'd still be interacting but not actually on base, for which they would have to have a police clearance and all that sort of thing. They could do some of this work back in a space where they're able to. There could still be drug testing, alcohol testing—all those requirements.

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17 *Proof Committee Hansard*, 23 August 2017, p. 13.

18 *Proof Committee Hansard*, 23 August 2017, p. 1.

19 *Proof Committee Hansard*, 23 August 2017, p. 2.

20 *Proof Committee Hansard*, 23 August 2017, p. 3.

You've got to think about all those people who've never worked on a construction site, and have been taken from a life in Kalano on to drug and alcohol tests and all these checks and balances that happen through a day. Some of this could start off-site so they could be prepared and ready when the day comes that they do get an opportunity to go to site. That's effectively what our pilot program did. We had all these things happening that were all new to them, but they became normal and then we were able to take them out into the public space and do works out in the public space. They felt comfortable. They were confident in what they were doing...<sup>21</sup>

3.22 Ms Alice Beilby, Public Officer-Katherine Representative, NT Indigenous Business Network also raised the issue of police checks:

There is an issue with police checks. The issue is more around if you've got a repeat offender. Some of them have drink-driving offences, or in a lot of cases it's domestic violence—it just depends. It may be break-and-enters and those sorts of things. Obviously, there is a selection process by Defence about who is allowed to have one of those passes. Some of those people, if they haven't reoffended for a long time, I think that they are starting to be viewed with a bit more leeway. But it certainly is a big issue. It just depends. If they're working outside the base area—say, in a hospitality camp or something—then it'll be easier for them to get into that area of work.<sup>22</sup>

3.23 Mr Schoolmeester spoke about the work being undertaken to be ready for business opportunities:

...Certainly, the interest for any business is that it comes in a short period of time. You've got to scale up to deliver that work, participate in that work, and then you've got to work out how to scale down if the work doesn't continue in other sectors. That's an important part of any business strategy in terms of how you go for that work. Certainly our department has, as an example, worked extensively with companies wanting to work for the Ichthys project to understand how they can scale up, get the right credentials, the right capability and skill sets, and also then manage.<sup>23</sup>

### ***NT procurement policies***

3.24 Mr Schoolmeester reported that the NT government is familiar with the SA procurement model<sup>24</sup> and are about to engage a 'buy local' advocate to be an advocate for local procurement. The NT government has also updated a 'buy-local procurement policy which looks at moving from value for money to value for territory'.<sup>25</sup>

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21 *Proof Committee Hansard*, 23 August 2017, p. 24.

22 *Proof Committee Hansard*, 23 August 2017, p. 11.

23 *Proof Committee Hansard*, 23 August 2017, p. 8.

24 See the committee's first interim report, pp 27–29.

25 *Proof Committee Hansard*, 23 August 2017, p. 11.

3.25 Councillor Miller spoke about the council procurement policy which supports businesses in the local community where possible:

Council is committed to buying from local businesses where such purchases may be justified on Value for Money grounds, whilst remaining compliant with the Competition and Consumer Act 2010 and other fair trading legislation requirements. Wherever practicable, Council will give effective and substantial preference to contracts for the purchases of goods, machinery or materials/contractors within the Municipality. Council will also seek from prospective suppliers/contractors, where applicable, what economic contribution they will make to the Municipality. In line with new Northern Territory Government stipulations, a weighting percentage up to a maximum value of 20% will be assigned to this criteria element. The percentage applied to any procurement will be determined by the quotation or tender evaluation panel.<sup>26</sup>

### ***PFAS issues***

3.26 Councillor Miller indicated that in relation to the PFAS issues in Katherine, the good relationship with the SADFO has meant that they are happy with the level of information and assistance:

When we first became aware of it, Defence came and spoke to council immediately, before we even knew what PFAS was, quite frankly. So we we're very happy to have the conversation but not happy to hear what they had to say. We've been very balanced in our views. There's nothing that's been hidden from us at all. I have a very good relationship with the SADFO. I have a direct contact with health department in Darwin and also with the ministers in the Northern Territory government. I don't believe that they could do any more. I think we're very fortunate in Katherine that we have the communication that we do and the level of understanding that we do. As of this week we're on water restrictions as far as town water is concerned. Seriously, I have not had one phone call. I think we've accepted it. There have been very open meetings. There's been very open dialogue with Defence in relation to PFAS.

...

Of course I'm concerned, but I'm not alarmed. We're keeping a close watch on what's happening. I'm very well aware of all the communications that the SADFO at RAAF Base Tindal is receiving from Defence, and I'm certainly very happy with their level of communication with the public.<sup>27</sup>

### **Engagement with Indigenous businesses**

3.27 Ms Alice Beilby, Public Officer-Katherine Representative, NT Indigenous Business Network, spoke about barriers for small Indigenous businesses interacting

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26 Katherine Town Council Procurement Policy, May 2016, p. 17. See also *Proof Committee Hansard*, 23 August 2017, p. 3.

27 *Proof Committee Hansard*, 23 August 2017, pp 3–4.

with larger contractors. As an example she raised the issue with non-payment of invoices affecting the cash flow of small businesses:

Most small businesses need to have invoices paid in at least 30 days but preferably 14. Sometimes we're waiting up to 90 days. I've had fairly small-scale electrical companies in Darwin that are carrying over \$1 million of debt, waiting for invoices to be processed. Obviously, you can't just keep doing that. So they have tended to pull back. We've had a number of businesses pull back from the large-scale tier 1 contractors, and they're not interested.<sup>28</sup>

3.28 Ms Beilby also noted that some small businesses may need to choose between providing services to regular clients and pursuing opportunities with Defence.<sup>29</sup> She also spoke about the need for sustainable work:

What happens with a regional business—say one based in Katherine, not so much a Darwin based business, or in Tennant Creek or Alice Springs—is that we rely on a lot of government contracts and local government contracts, so over the dry season we're spread out across the region. But during the wet season we retract back into town. There is not enough sustainable business over that wet season period to keep staff employed, so businesses tend to put a percentage on top so that they can carry their trades and experienced personnel through there; otherwise, a larger tier 1 has the luxury of just employing them for a particular project. They're not sacked but, basically, at the end of their contract, they're let go. We don't have that luxury. If we want to retain skilled staff like trades—plumbers, electricians and so on—that family-run business has to maintain a status quo of those personnel.<sup>30</sup>

3.29 Ms Beilby spoke about the assistance available

The Northern Territory government provide grants so that if there is an Indigenous business needing to meet a minimum standard to engage with Defence they can go in there and get assistance, especially around their OH&S policies and procedures—a very important one—and they can also get assistance with consultants to provide advice to them.<sup>31</sup>

3.30 Ms Beilby noted that with the introduction of the Indigenous Procurement Policy and the efforts of Tier 1s it is getting easier to engage.<sup>32</sup> She emphasised the need for efforts to be made to benefit local Indigenous people:

What underpins that whole thing is, from a cultural point of view, you don't go and work on someone else's country. That, really, is the thing that probably most people object to—that those businesses are from Victoria or Sydney, they're up here getting work and then that profit sharing is going

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28 *Proof Committee Hansard*, 23 August 2017, p. 6.

29 *Proof Committee Hansard*, 23 August 2017, p. 7.

30 *Proof Committee Hansard*, 23 August 2017, p. 7.

31 *Proof Committee Hansard*, 23 August 2017, p. 9.

32 *Proof Committee Hansard*, 23 August 2017, p. 9.

back to a company from down there as well as and an Aboriginal company down there. If they're not employing Aboriginal people up here, then what is the benefit to Aboriginal people in the Northern Territory? It's nothing. They're not getting the work, they're not getting any of the shares or anything like that and they're not building any capacity because they're not even getting subbid the work. There's absolutely no benefit, so why would they then be given access into that IPP? [Indigenous Procurement Policy] I know Defence have this 'local is Australia wide' idea, but, at some point, I think it would be a sad legacy if, at the end of the day, they came up, did all this work, did this development on the bases up here and then there wasn't anything to show for the local communities.<sup>33</sup>

### ***Other Indigenous engagement***

3.31 The committee spoke to witnesses who detailed interaction with Defence over the Bradshaw Field Training Area and the Delamere Air Weapons Range. Speaking about the Bradshaw Field Training Area, Ms Patricia Rigby-Christophersen, Research and Policy Officer, Northern Land Council, noted:

The economic effects to the small, remote town of Timber Creek and its residents are now evident, and the opportunities have improved, because of the Bradshaw Field Training Area. The success has been achieved through multiple reviews of current practices, responsibilities and attitudes over the last 10-year period. Prior to the establishment of the Bradshaw Field Training Area in 2003 and the subsequent Bradshaw ILUA [Indigenous Land Use Agreement] partnership agreement, there was virtually no employment opportunities in the area, outside government programs that were really welfare dressed up as employment.<sup>34</sup>

3.32 Ms Rigby-Christophersen reported that the native title is unresolved however NLC hosts a working group with Lendlease:

...which meets every month to give Indigenous organisation work packages that are going to be released for Tindal and Delamere sites in the Katherine region.<sup>35</sup>

3.33 Ms Rigby-Christophersen championed the model used for the Bradshaw Training Field engagement with Defence:

NLC are pivotal in carrying out consultations with traditional owners or native title claimants, and in the absence of an ILUA would recommend the endorsement of engagement principles and, upon reflecting on the success of the Bradshaw model, feel this would be a proactive approach to progressing communications with Defence and, in particular, raising community awareness around tendering opportunities for Aboriginal owned

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33 *Proof Committee Hansard*, 23 August 2017, pp 10-11.

34 *Proof Committee Hansard*, 23 August 2017, p. 27.

35 *Proof Committee Hansard*, 23 August 2017, pp 28-29.

businesses and the creation of long-term jobs growth for Aboriginal residents in and around Katherine.<sup>36</sup>

3.34 In contrast Mrs May Rosas, Director, Ngaigu-Mulu Aboriginal Corporation, told the committee of her experience regarding the Delamere Air Weapons Range:

I'm a senior traditional owner of Delamere, and we have been involved with Defence for over 20 years in discussions and negotiations, to the point where, if my memory serves me right, in 2010 we signed off on an agreement. Part of that agreement was an ILUA, an Indigenous land use agreement. Now, we are constantly educating people within Defence, businesses and companies, people in this town and individuals about this ILUA. Obviously, nobody has read the ILUA. The ILUA clearly stated, in black and white, that the traditional owners were to be given first preference of employment, and then Indigenous people. We still don't have any jobs. We are utterly disgusted by the way that everything has been happening in our community. We are dissatisfied. We now have distrust with these people that we're dealing with, because it's all lip-service. That's all it is: lip-service. We have not seen any action. We've been involved since last year. We have a business. We have full capacity to be able to do any job on our country, and yet the whole process has failed us. To date, it has excluded us.

I would like to see the government really review this ILUA, because it's affecting us, it's affecting significant sacred sites on our country, and yet we still have not been given the opportunity to be able to work on our country with the companies that are out there. Now, I'm making some very, very serious statements this afternoon, because as a traditional owner it's been a kick in the guts. We are constantly trying to get our people into jobs, yet the procedural employment process is not working for us. It is excluding us. This is wrong. It is such an injustice to us. We have the goodwill to be able to negotiate and give our land for the rest of Australia, to protect Australia. This is what we have seen as traditional owners. It was huge way back then before my parents died. We have seen it as a potential safety mechanism to look after the whole country. We are part of that process, yet we feel that it is such a bureaucratic system that it is not only excluding traditional owners but our local people in Katherine. We have businesses in Katherine that we would love to work with. We have individuals in this town who have skills that we can utilise on our country, yet we still cannot get jobs.<sup>37</sup>

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

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

# Chapter 4

## Conclusions and recommendations

4.1 This chapter outlines the conclusions and recommendations of the committee arising from the hearings in Darwin and Katherine.

4.2 Again the committee was pleased to hear how communities are extremely supportive of Defence presence, activities and most engagement with Defence.

4.3 Darwin appears to have many forums available to engage with Defence. The committee heard about additional measures to ensure the NT benefits from Defence projects. These include the establishment of the Defence and National Security Advocate; workshops to build knowledge and capacity; funding to the Australian Industry Defence Network; support for the Industry Capacity Network; and Development of a Defence Engagement Plan.

4.4 To the committee, the NT appears proactive and well positioned to take advantage of local business opportunities. As with previous hearings the committee was told that local businesses just want to maximise the opportunities for local businesses to bid for work.

4.5 It is important for Defence to understand the capabilities of local businesses and this information is readily available through organisations such as the Chamber of Commerce.

4.6 As in previous reports the committee believes it is important for Defence to provide information and data to local communities detailing the extent of their engagement.

### Recommendation 1

**4.7 The committee recommends that Defence make information available to local communities about Defence expenditure in the area.**

4.8 A key suggestion from the Darwin hearing centred on the size of work packages. In relation to the Master Builders proposal for Defence to use smaller work packages, the committee is pleased to note the recent announcement by the Minister for Defence, Senator the Hon Marise Payne, that Defence will change the way managing contractors sub-contract:

At present, the typical arrangements are for the sub-contracts to be based on 'trade packages'. Defence has considered feedback from Northern Territory enterprises and will instead trial the use of smaller 'work packages' for the upcoming Larrakeyah Redevelopment and Naval operations in the North projects...

Under this approach, buildings or work elements may be tendered separately, rather than by individual trade. It is expected that this initiative will provide greater opportunity to local industry in the Northern Territory.<sup>1</sup>

4.9 As mentioned in the committee's second interim report, the Minister also announced the Local Industry Capability Plan pilot to ensure that local industry has the best possible opportunity to be involved in the government's investment in Defence capability over the next decade. There will be three pilot projects:

- the Explosive Ordnance Logistics Reform Program, a \$230 million project covering 12 Defence sites;
- Shoalwater Bay Training Area redevelopment, a \$135 million infrastructure upgrade project; and
- Townsville Field Training Area Mid-Term Refresh, a \$24 million project to ensure the training area is fit for purpose, safe and environmentally compliant.

4.10 The pilot projects will require:

...tenderers bidding for major capital facilities projects to state clearly how they have engaged with local industry in providing their tendered solution, and how local industry will specifically be involved in delivering the work packages that underpin the project.<sup>2</sup>

4.11 The Minister indicated that the pilot projects will 'inform the development of a Defence Industry Participation Policy' which will be released in the first half of 2018. The policy will provide:

...a more consistent approach to maximising Australian and local industry involvement in Defence procurement of \$4 million and above, recognises that Defence procures a range of different equipment, services, and support across many sectors of the Australian economy'.<sup>3</sup>

4.12 The committee welcomes these announcements which, according to the evidence received, should facilitate greater engagement by local businesses.

4.13 The committee was pleased to hear from the Katherine Mayor about the positive relationship between the town and RAAF Base Tindal. This is particularly pleasing given the PFAS issues being dealt with in Katherine. The committee acknowledges the effort from both sides to establish strong personal relationships by facilitating regular opportunities to discuss issues. The committee notes comments

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1 Senator the Hon Marise Payne, Minister for Defence 'Strengthening opportunities for local industry', *Media release*, 31 August 2017.

2 Senator the Hon Marise Payne, Minister for Defence, 'Strengthening opportunities for local industry', *Media release*, 31 August 2017.

3 Senator the Hon Marise Payne, Minister for Defence, 'Strengthening opportunities for local industry', *Media release*, 31 August 2017.



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from the Mayor about the open dialogue that has been established with Defence, with particular reference to the provision of information about PFAS issues.<sup>4</sup>

4.14 Katherine witnesses spoke of similar issues to other hearings such as capacity building and highlighting the need to have the local workforce ready to engage. The committee was impressed with the work underway to ensure businesses are prepared to offer services. The high level of engagement with Tier 1 contractors is also a positive step in making sure contractors know what capability and capacity is available in the local area.

4.15 The committee was pleased to hear about the improving level of engagement by Defence with Indigenous businesses and the support available for them. While the committee acknowledges the positive report from the NLC regarding the Bradshaw Field Training Area, the committee was concerned to hear from Mrs May Rosas, Director, Ngaigu-Mulu Aboriginal Corporation who told the committee of the negative experience regarding the Delamere Air Weapons Range agreement and local employment.

## **Recommendation 2**

**4.16 The committee recommends that Defence review the evidence from the Ngaigu-Mulu Aboriginal Corporation at the Katherine public hearing and investigate the issues raised.**

**Senator Alex Gallacher**

**Chair**

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4 Note: in 2016, the committee tabled the report for its inquiry into the Contamination of ADF facilities and other Commonwealth, state and territory sites in Australia which focussed on contamination at RAAF Base Williamtown and the Army Aviation Centre in Oakey.



# **Appendix 1**

## **Submissions**

1. Great Barrier Reef Marine Parl Authority
2. Spencer Gulf Cities (SGC)
3. Defence SA
4. Regional Development Australia Far North
5. Livingstone Shire Council
6. Regional Australia Institute
7. National Farmers' Federation (NFF)
8. Townsville Enterprise
9. Department of Defence
10. Queensland Government
11. Dianne Priddle and David Jefferis
12. Townsville City Council
13. Williamtown and Surrounds Residents Action Group
14. Confidential
15. Northern Territory Government
16. Charters Towers Regional Council
17. City of Whyalla and Whyalla Chamber of Commerce
18. Gladstone Regional Council
19. Mr Ben Hughes
20. Mr Peter Bahr
21. Burdekin River Pastures and Revegetation Contractors
22. Cubic Defence Australia
23. Rockhampton Regional Council

24. Capricornia Chamber of Commerce
25. Industry Capability Network Queensland
26. CQG Consulting
27. Shamrock Civil Engineering
28. Townsville Chamber of Commerce
29. Mr Roger Toole
30. Capricorn Conservation Council
31. Helping People Achieve
32. Master Builders NT
33. Northern Land Council
34. Mr Rankin Kundle

## **Appendix 2**

### **Public Hearings and witnesses**

#### **Tuesday 22 August 2017 Darwin**

Mr Brendan Dowd, Chief Executive Officer, City of Darwin

Mr Ricki Bruhn, Chief Executive Officer, City of Palmerston

#### **Defence NT**

Mr Jason Schoolmeester, Executive Director

Mr Luke Bowen, General Manager

#### **Australian Industry Defence Network**

Mr Andrew Jones, President

Mr Kevin Peters, Chief Executive Officer, Industry Capability Network NT

Mr Greg Bicknell, Chief Executive Officer, Northern Territory Chamber of Commerce and Industry

#### **Master Builders Northern Territory**

Mr David Malone, Executive Director

Mr Dick Guit, President

Mr Neil Sunners, Sunbuild

#### **HPA (Helping People Achieve)**

Mr Tony Burns, Chief Executive Officer

#### **Irranda Holdings**

Mr Colin Rogan, Managing Director and owner

**Department of Defence**

Brigadier Noel Beutel, Director General, Capital Facilities and Infrastructure

**NT Indigenous Business Network**

Mr Roy Jansan, Vice-Chair and owner, HSS NT

**Rusca Bros**

Mr Rodney Illingworth

**Coach Charters Australia**

Ms Jodie Cassidy, Business Development Manager

**Wednesday 23 August 2017 Katherine**

**Katherine Town Council**

Ms Fay Miller, Mayor

Mr Peter Gazey, Deputy Mayor

Mr Jason Schoolmeester, Executive Director, Industry and Economic  
Development

**NT Indigenous Business Network**

Ms Alice Beilby, Public Officer-Katherine Representative

**Crowhurst Goodline**

Mr Geoff Crowhurst, Managing Director

**Katherine Chamber of Commerce**

Mr Kevin Grey, Chairperson

**ACDC Electrical and Communications Services**

Mr Allan Glass, Director

Mrs Katherine Glass, Director

**Northern Land Council**

Ms Patricia Rigby-Christophersen, Research and Policy Officer

**Ngaigu-Mulu Aboriginal Corporation**

Mrs May Rosas, Director