

Chapter 2

Issues raised with the committee

2.1 This chapter summarises the main issues raised during the committee's hearing at Port Augusta and in submissions from South Australia. It considers: mechanisms to enhance communication and engagement; suggestions from witnesses regarding business opportunities; the challenges faced by local businesses; communication about training exercises; the need for greater transparency around regional engagement; and the South Australian Industry Participation Policy.

Facilitating opportunities for regional and local business

2.2 Spencer Gulf Cities outlined the challenges facing the region as well as the strengths and opportunities.¹ Mr Sam Johnson, Chair, Upper Spencer Gulf Common Purpose Group told the committee that the region has identified the expansion of the Cultana training facility as well as new military vehicle and vessel construction as opportunities to grow the region's involvement and capabilities in defence industries. The region is also interested in maximising local business activity during exercises and troop rest and recreation, citing Exercise Hamel as an example.²

2.3 Mr Johnson also highlighted potential accessories, component manufacturing and fabrication opportunities during construction 'as part of the Australian government's commitment to a continuous shipbuilding program for major surface combatants and minor war vessels and to the construction of new submarines'.³

2.4 Mr Dion Dorward, Chief Executive Officer, Regional Development Australia, Whyalla and Eyre Peninsula, emphasised that Whyalla needs to diversify its economy and Defence training and asset building are an opportunity to assist this process.⁴ Mr Dorward reported that over the last six months there has been interest from companies looking at the infrastructure and other capabilities in Whyalla related to future defence opportunities and this is very welcome.⁵

2.5 Mayor Lyn Breuer, City of Whyalla, echoed these comments stating that:

A good working relationship between Defence and the three Spencer Gulf cities is really important and certainly leads to that much-needed economic boost that all three cities need for our regions given the current economic predicaments that we are facing.⁶

1 *Submission 2*, p. 1. See also South Australian Government, *Submission 3*, p. 3.

2 Mr Johnson, *Proof Committee Hansard*, 8 June 2017, p. 1.

3 Mr Johnson, *Proof Committee Hansard*, 8 June 2017, p. 2.

4 *Proof Committee Hansard*, 8 June 2017, pp 33, 36.

5 *Proof Committee Hansard*, 8 June 2017, p. 33.

6 *Proof Committee Hansard*, 8 June 2017, p. 38.

Utilising the skills in the region

2.6 The committee heard that there can be a perception that regional areas do not have the necessary skills to provide goods and services. Ms Paula Osborn, Deputy Chief Executive Officer, Regional Development Australia (RDA) Far North, also pointed out that successful tenderers may not know what businesses are in the local region and what the capabilities are and 'unless they come out here and actually face the businesses, they are not going to find out'.⁷ Witnesses emphasised the capabilities and skills available in the regions. As an example, Mr Johnson highlighted local manufacturing skills:

It is no secret that we are an industrialised region between Port Augusta, Whyalla and Port Pirie. We do have the skill set. We have the skill base. We have the people here who know how to manufacture. For example, Whyalla used to build ships for our Defence Force. So we have a proven history in being able to do it. We are not sitting here thinking that we are going to be building ships again in Whyalla, much as we would like to, but what about the componentry for that? What are the small widgets, for example, that could be made to be put into these vessels, whether it be in Adelaide or anywhere in Australia? What are the opportunities here that we can maximise while we still have that skill base here in the region?⁸

2.7 The South Australian Government also noted the skills available in the region:

The USG [Upper Spencer Gulf] region does comprise a number of businesses, that have the experience and capabilities in delivering civil and heavy industry works, due to their exposure to the mining sector. These companies are available to support the expansion; however, some businesses may experience capacity pressures and will need to make a decision whether to grow and diversify into the Defence sector or miss out on business opportunities.⁹

Challenges for local business

2.8 RDA Far North highlighted that the majority of local businesses are SMEs and therefore:

...when dealing with a large Department such as Defence, it is quite daunting for these SMEs to go through the rigorous procurement and prequalification processes that are sometimes required. RDAFN did extensive work with local suppliers and businesses and assisted them with the paperwork and requirements for the prequalification process. Without this assistance, these businesses may not have been able to complete the paperwork.¹⁰

7 *Proof Committee Hansard*, 8 June 2017, p. 16.

8 Mr Johnson, *Proof Committee Hansard*, 8 June 2017, p. 3.

9 *Submission 3*, p. 5.

10 *Submission 4*, p. 3.

Documentation

2.9 The committee heard how some aspects of dealing with Defence can be daunting for smaller businesses. The committee was told that a key challenge for smaller businesses is the procurement process, including the documentation. Mr Johnson told the committee:

I think the process itself needs to be simplified. The process has become quite onerous, from what I understand. I have obviously not gone through a tender process myself, but, in terms of the way in which it is presented, it is really quite difficult and in some cases impossible for some small businesses to tender.¹¹

2.10 Mr Tony Mitchell, Director, Crossroads Concepts, also spoke about the complexity of the tender documents.¹² Mr Mitchell also reported that local businesses are hesitant to put in the time and energy into the documentation when it may just be a waste of time.¹³

2.11 Mr Wayne Kirkham, Director, Port Augusta Refrigeration & Air Conditioning Service, also told the committee that the documentation is onerous. Ms Osborn agreed, explaining that the first time businesses are confronted with the documentation 'it is very onerous and very confusing and longwinded'.¹⁴

2.12 Mayor Breuer also pointed out that local businesses 'are butchers, not accountants. They really have great difficulty working their way through a tender process'.¹⁵

2.13 When asked about the complexity of tender documentation, Defence responded that as a result of the First Principles Review,¹⁶ a 'slimmed down' version of the Defence procurement manual has been recently reissued.¹⁷ To investigate this issue further, the committee asked Defence on notice to explain why there appears to be a difference in the amount of paperwork between civil and Defence-civil contracts.¹⁸

11 Mr Johnson, *Proof Committee Hansard*, 8 June 2017, p. 2.

12 *Proof Committee Hansard*, 8 June 2017, p. 16.

13 *Proof Committee Hansard*, 8 June 2017, p. 17.

14 *Proof Committee Hansard*, 8 June 2017, p. 20.

15 *Proof Committee Hansard*, 8 June 2017, p. 40.

16 The First Principles Review was commissioned in August 2014 to ensure that Defence is fit for purpose and is able to deliver against its strategy with the minimum resources necessary. The final report was released on 1 April 2015.

17 Mr Grzeskowiak, *Proof Committee Hansard* 8 June 2017, p. 29.

18 *Proof Committee Hansard* 8 June 2017, pp 28-29.

Mechanisms to enhance engagement

Improving communication and coordination

2.14 Spencer Gulf Cities highlighted coordination as the key for local business to take advantage of business opportunities:

Maximising the local business opportunities of the Cultana expansion for the Upper Spencer Gulf is a key consideration that will require a coordinated and concerted effort between Defence SA and Office of Industry Participation, Department of Defence and Regional Development boards in the Upper Spencer Gulf.¹⁹

2.15 The South Australian Government also pointed to the need for an appropriate communication mechanism within the region which requires:

...a coordinated and concerted effort between local businesses, local government, and state government organisations including Defence SA and the Office of the Industry Advocate and the Department of Defence and Regional Development Australia associations in the USG region. This will ensure that local communities have a full understanding of their requirements and potential investment opportunities.²⁰

2.16 In relation to Woomera, the South Australian Government advised the committee of the Woomera Prohibited Area Advisory Board.²¹ In addition, the Department of State Development coordinates a weekly schedule of activities and events taking place in the region which is circulated for information and input.²²

2.17 The South Australian Government noted that many local businesses do not track Defence procurement portals as the exercises are infrequent. It suggested a method of advertising these opportunities locally needs to be explored to assist local business to maximise business opportunities.²³

2.18 The committee explored existing communication and coordination mechanisms with witnesses.

Port Augusta

2.19 Some businesses indicated to the committee that despite reaching out, they have had difficulties finding information about work opportunities associated with the Cultana explanation project.²⁴ Ms Osborn stressed the need to open communication with key agencies such as the RDAs, local government, businesses associations and

19 *Submission 2*, p. 2.

20 *Submission 2*, p. 4.

21 Members include Defence, industry, finance and representation from the South Australian Government. See *Submission 3*, p. 4.

22 *Submission 3*, p. 4.

23 *Submission 3*, p. 5.

24 Ms Sarah Joyce, Commercial Manager, Max Crane & Equipment Hire Pty Ltd, *Proof Committee Hansard*, 8 June 2017, p. 14.

other agencies which can be the conduit for information sharing.²⁵ The committee heard that Global Maintenance Upper Spencer Gulf may provide the basis or means for such a coordinated effort.²⁶

2.20 RDA Far North told the committee they have also played a key connection role with Defence and local and regional businesses in relation to operations and opportunities at Cultana and Woomera.²⁷ Ms Osborn told the committee that she would like to see increased communication by Defence to key organisations, businesses and community leaders.²⁸

2.21 Some witnesses suggested that local SMEs should have the opportunity to showcase their capabilities directly to the department and/or head contractors.²⁹ Ms Sarah Joyce, Commercial Manager, Max Crane & Equipment Hire, spoke about the need to be proactive and make contact with the large tier 1 contractors in the region:

From our point of view, we try awfully hard to try to get in front of the client to understand who their tier-1 contractors are likely to be, and then we do our own homework behind the scenes to try to talk to them about our capability, local pricing and being regional. Hopefully, we could provide cost benefits to them...³⁰

2.22 Ms Osborn spoke about a new initiative to bring together stakeholders from the region including the RDAs, AusIndustry, chambers of commerce and industry, local government, the Department of State Development and Defence. This group held its first workshop in May 2017 and a key outcome is to develop a coordination framework. Defence is also 'taking the lead in providing information about sector opportunities that are relevant to the region and also key contacts'.³¹

2.23 Ms Osborn also highlighted the Industry Capability Network (ICN) where businesses can load their business profile and capabilities and can nominate companies to follow. ICN also links closely with Global Maintenance Upper Spencer Gulf which has a similar system for their members.³²

25 *Proof Committee Hansard*, 8 June 2017, p. 15.

26 Mr Johnson, *Proof Committee Hansard*, 8 June 2017, p. 4.

27 Ms Paula Osborn, Deputy Chief Executive Officer, Regional Development Australia Far North, *Proof Committee Hansard*, 8 June 2017, p. 14. See also *Submission 4*, p. 1.

28 *Proof Committee Hansard*, 8 June 2017, p. 14.

29 Ms Paula Osborn, Deputy Chief Executive Officer, Regional Development Australia Far North, *Proof Committee Hansard*, 8 June 2017, p. 15.

30 *Proof Committee Hansard*, 8 June 2017, pp 16, 19.

31 Ms Osborn, *Proof Committee Hansard*, 8 June 2017, p. 19.

32 *Proof Committee Hansard*, 8 June 2017, p. 20.

Whyalla

2.24 Mr Dorward indicated that they are working on appointing a coordinator who would assist businesses to access opportunities through defence.³³ However, he advised the committee of an existing forum which includes Defence, the Cultana Expansion Area Environmental Advisory Committee, which has 'provided a forum locally for finding out more about the opportunities that are emerging and monitoring issues that might arise from a community or environmental perspective'. The committee meets approximately quarterly and includes Defence, South Australian related Defence agencies and a mixture of agencies from within the region. Mr Dorward's view was that Defence has been 'first rate in terms of saying 'these are the opportunities' but 'trying to move past that to seriously engage has been difficult'.³⁴

2.25 Mr Dorward felt there is a need for education on both sides where local businesses need to develop the right skills and strategies to be able to take advantage of the opportunities and Defence needs to facilitate access to the opportunities.³⁵

2.26 Mayor Breuer supported the need for communication and collaboration:

The key we see is for effective communication and collaboration at all levels of government—federal, state and local—and the communities as stakeholders. We want to ensure that clear and concise information is being disseminated.³⁶

2.27 To this end Mr Sotirios Stuppos, Executive Member, Whyalla Chamber of Commerce, reported that the chamber has spent time working with the State Department and the Centre for Defence Industry Capability (CDIC) to ensure they are working through a common person who will disseminate information to the council and chamber who get the messages out to clients.³⁷ His view was that with clear communication the smaller SMEs should be able to achieve a portion of the contracts:

Do not talk to a client in Whyalla about building a submarine. They will run scared; they are not capable. But if you ask that person: 'Can you build 20,000 widgets for us?' they will probably say yes.³⁸

2.28 Mr Stuppos also reported to the committee that the Chamber of Commerce has written to St Hillers, the Tier 1 contractor, to ask them to visit with their procurement team to facilitate meeting with potential subcontractors.³⁹ Mr Stuppos explained that their approach has been:

33 *Proof Committee Hansard* 8 June 2017, p. 33.

34 *Proof Committee Hansard* 8 June 2017, pp 33-34.

35 *Proof Committee Hansard* 8 June 2017, p. 34.

36 *Proof Committee Hansard* 8 June 2017, p. 38.

37 *Proof Committee Hansard* 8 June 2017, p. 38.

38 *Proof Committee Hansard* 8 June 2017, p. 38.

39 *Proof Committee Hansard* 8 June 2017, p. 39.

Let's collaborate and see how we can help you and find a solution to the problem.' Hence the chamber has been very proactive in attending to trying to get St Hilliers to come in. We basically said in our letter: 'Tell us what you want and what your shortfalls are and we will try and match the business community with that person so that they can all have a good chat and, hopefully, an outcome comes from it.'⁴⁰

2.29 Mayor Breuer reported that local businesses need assistance to navigate the processes:

I spoke to the fellow the other day about it. I said, 'Are you getting any work from Defence? He said: 'No. We went to a meeting and they put me on an email list and they keep sending me emails, but it looks like it's all to do with the eastern states. I don't really know what we're meant to do so I don't think we're going to get any.' The guy is a butcher. He probably has trouble working out the system. So I think there is a big block there. The willingness is there, but they do not know how to go about it. That is what has been happening to a large extent. That is something I think we as a community have to try to overcome with Defence, so that businesses are comfortable and able to find somebody who can assist them with this process.'⁴¹

2.30 Mr Stuppos indicated that they are part of the coordination committee mentioned by Ms Osborn above with RDA Whyalla and Eyre Peninsula and the Chamber of Commerce working together to disseminate information to the business community.⁴²

Port Pirie

2.31 Ms Kelly-Anne Saffin, Chief Executive Officer, Regional Development Australia Yorke and Mid North, highlighted the work of the Global Maintenance Upper Spencer Gulf mentioned above in relation to the mining industry:

One of the key activities that they have done over the last three or four years is put together a panel of mining companies who have put together a model tender. They invite companies to do that, and then that panel provides feedback on that tender. What that does is give a specific opportunity for them to see how their own business looks, as opposed to the more proforma Tender Ready workshops. It also gives an opportunity for them to have feedback in a really positive, preparatory manner. That is a tool that has really assisted our local businesses to do that.'⁴³

40 *Proof Committee Hansard* 8 June 2017, p. 39.

41 *Proof Committee Hansard* 8 June 2017, p. 40.

42 *Proof Committee Hansard* 8 June 2017, p. 40.

43 *Proof Committee Hansard* 8 June 2017, p. 45.

2.32 Ms Saffin acknowledged that each region has different mechanisms for communication but she suggested that stability would come from channels of communication with the local government.⁴⁴

2.33 Mr Stephen Richter appearing in a private capacity, was attracted to the idea of an office in Port Augusta where SMEs could go to provide information on what they can supply and in turn, they can receive information on how to best engage with Defence and the standards required.⁴⁵

2.34 The committee explored whether the local skill sets, services and products have been captured so that the information could be provided to Defence. Dr Andrew Johnson, Chief Executive Officer, Port Pirie Regional Council, said that between the council and RDA, the information is easily available.⁴⁶

Defence contact point

2.35 Witnesses also called for a local Defence contact point for procurement explaining that initial contact can sometimes be made but when that person moves on there seems to be no continuity and the contact is lost.⁴⁷ While understanding that most discussions about specific procurements are with the tier 1 contractors, rather than the department, Mr Dorward reported that trying to speak with the department about general procurement issues such as utilising locally produced goods has been frustrating.⁴⁸ Defence confirmed that there is no single person in Defence who would be the point of contact for everything in terms of various defence procurements.⁴⁹

Local engagement underway

2.36 Regarding the creation of local jobs, Defence has provided the following information on the Cultana Training Area Expansion Project on its website:

Media reports that suggested there will be large numbers of jobs created as a result of the expanded training area are misleading. The project will generate short-term employment during the construction phase through on-site labour and construction materials fabrication and supply. This will have a positive economic impact on local communities.

The proposed works, including training facilities, camp accommodation and environmental sustainability works will be delivered by one or more Head Contracts. Defence anticipates that local building sub-contractors would be employed on a large proportion of the construction works by the Head Contractor. Increased use of the expanded Cultana Training Area by the

44 *Proof Committee Hansard* 8 June 2017, p. 45.

45 *Proof Committee Hansard* 8 June 2017, p. 46.

46 *Proof Committee Hansard* 8 June 2017, p. 49.

47 Mr Mitchell and Ms Osborn, *Proof Committee Hansard*, 8 June 2017, p. 21.

48 *Proof Committee Hansard*, 8 June 2017, p. 35.

49 Mr Grzeskowiak, *Proof Committee Hansard* 8 June 2017, p. 24.

Australian Defence Force will provide further opportunities for the local communities through the purchasing of supplies.⁵⁰

2.37 However, Defence acknowledged that using local contractors can provide a value for money solution and Brigadier Noel Beutel, Director, Capital Facilities and Infrastructure, Department of Defence, addressed this point:

The point I would make here is that, as all our head contractors and managing contractors understand, ultimately the Commonwealth is seeking a value-for-money outcome for the Commonwealth and for the taxpayer. Using local contractors or subcontractors or sourcing local suppliers is synonymous with getting value for money, but it is where there is the capacity and the capability. Ultimately, at the end of the day they have to prove a value-for-money solution. It is well known with all our contractors—the primes or tier 1s and tier 2s that we referred to this morning—that it is beneficial to source from local contractors if there is capacity, capability and a value-for-money solution.⁵¹

2.38 Defence informed the committee that the 2014 Cultana expansion ceremony also provided information to local communities regarding the development and related contract opportunities. Following that, community contract information sessions were held in November 2014 in Whyalla and Port Augusta.⁵² Brigadier Beutel reported:

[The fact sheets provided at the community information sessions] goes through about contracting opportunities, the process of the Commonwealth Procurement Rules, how to get registered on AusTender...⁵³

2.39 In relation to the specific tender process for the Cultana Training Area Expansion Project, Brigadier Beutel advised that the Austender process:

...was conducted in accordance with the Commonwealth Procurement Rules. It was an open tender; it was not a select tender. There were about 13 companies that tendered for that, off the top of my head. Technical merit was undertaken as part of that procurement process, and also a value for money assessment. That was a decision that was undertaken. All unsuccessful tenderers were offered a debrief. My understanding is that at that stage, when that contract went through, most of the unsuccessful tenderers accepted the opportunity for that debriefing.⁵⁴

2.40 Defence informed the committee of the steps being undertaken by the head contractor St Hilliers to engage with the local community in relation to the Cultana Training Area Expansion Project:

St Hilliers, in undertaking their response to us for the request for tender for the head contract, undertook an amount of local industry or market testing

50 See <http://www.defence.gov.au/id/cultana/faqs.asp#3> accessed 28 July 2017.

51 Brigadier Beutel, *Proof Committee Hansard*, 8 June 2017, p. 26.

52 Brigadier Beutel, *Proof Committee Hansard*, 8 June 2017, pp 24-25.

53 Brigadier Beutel, *Proof Committee Hansard*, 8 June 2017, p. 25.

54 Brigadier Beutel, *Proof Committee Hansard*, 8 June 2017, p. 25.

to understand what the capacity and capability was within the local market. That was included as part of their tender and as part of our assessment of their technical merit on methodology. That was part of what we were looking at. Again I would say that it is not that we are now looking for 'Are you using local contractors?' but understanding what their subcontracting methodology is. St Hilliers intend now to hold a forum within the next month to further engage with local communities about the potential opportunities for subcontracting packages. St Hilliers will be advertising that. They have also made contact, I am advised, with the local chamber of commerce or equivalent in Whyalla, and they intend to consult further with the Port Augusta equivalent of that chamber of commerce.⁵⁵

2.41 Brigadier Beutel also indicated that St Hilliers will look to break down the whole scope of works into trade packages or subcontracted trade packages. Additionally they have identified that about 65 per cent of the trade value of the contract will potentially come to the Port Augusta and Whyalla region.⁵⁶

2.42 While sourcing 10 per cent of procurement by value from SMEs is a national target, Defence indicated that it will be able to track regional information regarding the Cultana expansion project through St Hilliers as the prime contractors and their subcontracting processes.⁵⁷

Encouraging collaboration

2.43 Mr Dorward spoke about the need for local companies to work as consortiums rather than as individual companies:

There has also been work undertaken between companies to look at how they can better organise themselves to have collective bids so that, rather than competing against each other, they are looking to how they can collaborate and go in as a single unit to win opportunities. So there has been a lot of activity. There has not been a lot of positive outcome yet, but it is still very early days for a lot of those contracts.⁵⁸

2.44 Ms Saffin spoke about a mechanism used by a local company in Port Pirie:

We are lucky enough to have a company in Port Pirie—they are Adelaide based but have an office in Port Pirie—who do significant work in Woomera and Cultana and other places for Defence. One of the mechanisms we have put in place with them is that, when they know work is coming on, we put together a labour pool that can be used by all businesses. For instance, there is that example of 20 people that we have put through asbestos training, working at heights and driving forklifts and other activities. Some of that labour pool worked in other businesses

55 Brigadier Beutel, *Proof Committee Hansard*, 8 June 2017, p. 26.

56 Brigadier Beutel, *Proof Committee Hansard*, 8 June 2017, p. 30.

57 Mr Grzeskowiak, *Proof Committee Hansard* 8 June 2017, p. 29.

58 *Proof Committee Hansard*, 8 June 2017, p. 34.

outside that business, some actually went to council and some also worked on Defence projects.⁵⁹

2.45 The committee heard how local businesses need to take into consideration that Defence business may be transitory and when it is finished they need to survive on their local clients and importantly, that labour pool outlined above was available for that business to use to maintain the contracts they had in local areas.⁶⁰

2.46 Mr Stuppos spoke about how he assists his clients with smaller businesses to look at the larger contracts in a different way:

[A client] said, 'I can't cope with five people to be able to do that job.' As part of the chamber, I said to him as my client, 'Don't look at the contract as the whole; pick parts of the contract that you can do and tender for that. I suspect the reason they've done it is that the prime contractor does not have enough people either, but, if he can get five of your guys to do that little bit and another concreter with five blokes to do that little bit, the whole project can be done.' The mentality was, 'It's too big for me; I'm not interested.'⁶¹

Engaging with Tier 1 contractors

2.47 Mr Dorward indicated that most discussion around procurement is not usually with Defence but with the Tier 1 contractors.⁶² As indicated above, Mr Stuppos told the committee that he encouraged local businesses to speak with the prime contractors if they believe they can do a portion of the work but not all of it.⁶³

Centre for defence industry capability

2.48 Mr Theunis Victor, Chairman, Heavy Industry Cluster Group, Regional Development Australia, Whyalla and Eyre Peninsula, was positive about the new CDIC:

What we have seen in the last six to eight months is that the discussions that we have had with the CDIC, the Centre for Defence Industry Capability, have taken a very different approach. We have the right contacts. We have fairly senior people who came to Whyalla and had interactions with businesses on the shop floor. So I think that was a different experience, and that is something that we are really pushing hard.⁶⁴

Assistance from the Office of the Industry Advocate

2.49 Mr Ian Nightingale, the Industry Advocate, Department of State Development, Government of South Australia told the committee that he looks at the

59 *Proof Committee Hansard*, 8 June 2017, p. 45.

60 *Proof Committee Hansard*, 8 June 2017, p. 45.

61 *Proof Committee Hansard*, 8 June 2017, p. 39.

62 *Proof Committee Hansard*, 8 June 2017, p. 35.

63 *Proof Committee Hansard*, 8 June 2017, p. 40.

64 *Proof Committee Hansard*, 8 June 2017, p. 35. See also <https://www.business.gov.au/centre-for-defence-industry-capability> accessed 26 July 2017.

communication mechanisms between local businesses, councils and the opportunities with Defence. Over the last three years 'meet the buyer' events have been run as well as 'supplying to government' workshops. Mr Nightingale was of the view that as Commonwealth and state procurement is similar, such gatherings would benefit businesses looking to do business with Defence or other Commonwealth departments.⁶⁵

2.50 Mr Nightingale told the committee that they ran an information session with Defence but his advice was that any further sessions should be more targeted.⁶⁶

2.51 When discussing other methods to inform communities of possible opportunities Mr Nightingale stressed the need for a forward procurement plan. In addition, in South Australia, there is a tender website, tenders.sa.gov.au which is also used by local government as well as the events outlined above.⁶⁷

2.52 Defence advised that it is required to conduct its tendering through Austender. In addition, Defence advised the committee that it puts out an annual procurement plan on AusTender every year and businesses can receive alert emails when opportunities arise.⁶⁸

Examples of successful businesses

2.53 Mr Wayne Kirkham, Director, Port Augusta Refrigeration & Air Conditioning Service spoke to the committee as a Defence subcontractor for a company in Adelaide.⁶⁹ Mr Kirkham highlighted that he does not deal directly with Defence but with the head contractor and he has found out about the work through word of mouth and previous engagement with the company.⁷⁰ Mr Kirkham also mentioned using platforms such as BidContender or EstimateOne.⁷¹

2.54 Mr Dorward provided an example of a company which has been successful with a Defence contract:

Walcha Mining won a contract around fencing and a few civil works for the Cultana training facility, which really assisted that company. They had a very good win there and that enabled them to employ, I think, another seven or eight people, which is tremendous. But they also narrowly missed an opportunity—I think they were just advised earlier this week—for some further work. I was looking forward to being able to talk to them about that, to understand why and see what we can learn for the future.⁷²

65 *Proof Committee Hansard*, 8 June 2017, p. 9.

66 *Proof Committee Hansard*, 8 June 2017, p. 9.

67 *Proof Committee Hansard*, 8 June 2017, p. 11.

68 Brigadier Beutel, *Proof Committee Hansard*, 8 June 2017, p. 25.

69 *Proof Committee Hansard*, 8 June 2017, p. 16.

70 *Proof Committee Hansard*, 8 June 2017, p. 18.

71 *Proof Committee Hansard*, 8 June 2017, p. 19.

72 *Proof Committee Hansard*, 8 June 2017, p. 34.

Drawing on successful processes from other industries

2.55 Witnesses brought up the practices and processes being used by the mining industry, specifically OZMinerals, to engage with the local community:

I will give full credit to OZ Minerals. OZ Minerals have a very good track record at supporting locals supporting the region. From an employee perspective, they set their own targets to make sure they are employing locally. They also set their own procurement targets to make sure they engage local businesses, so much so that they have held a couple of sessions, as recent as last week in Port Augusta, focusing on the three cities, trying to engage those businesses and also work out how those local businesses can therefore tender into their major contracts, should Carrapateena get board approval. That has opened up some opportunities for, certainly, our smaller businesses, whether it be in transport logistics, civil works or construction. The businesses amongst the three cities have been given an opportunity. I think that is a good example of a corporate taking some initiative and engaging with local communities and local industry to make sure they get their fair share.⁷³

2.56 Ms Joyce also spoke positively of the processes used by OZMinerals:

From our point of view, we are finding that fantastic. They have employed a local content advisor. He has been great to us. He is keeping us informed of potential contracts or people to speak with in the private sector to get our capability out there and make people aware of what we can do in the region.⁷⁴

2.57 Mr Richter spoke to the committee about their initial experience of trying to engage with the mining sector, comparing it to the current situation with Defence:

One thing that seems obvious to me that you are looking for are ways for Defence to engage with small to medium enterprises. We suffered the same problem about 15 years ago trying to engage the mining sector. Fifteen years ago Roxby Downs was established and they are about to go through a major upgrade. As contractors, we have found in our region that we could not engage with the procurement people at Western Mining. The amount of paperwork they wanted was like this, and we discovered we did not have the skills—we could not do it. So we sat down with the state development part of the Premier's office and engaged the majors—Pasminco, at the time; Western Mining; and OneSteel—and said, 'Let's try and make this work and get it together.' They all put their hands in their pockets, and so did I, and we formed a cluster and we did exactly what you are trying to do. We engaged with the client, we sat down with them, we learnt what they wanted and then we disseminated that to everybody in the engineering arena in our region.⁷⁵

73 Mr Johnson, *Proof Committee Hansard*, 8 June 2017, p. 7.

74 *Proof Committee Hansard*, 8 June 2017, p. 18.

75 *Proof Committee Hansard*, 8 June 2017, pp 45-46.

Communication about exercises

2.58 Mr Johnson told the committee that in relation to training exercises he finds the communication from Defence to be very good:

Defence, particularly at a federal level, have always been extremely good in notifying us as the local council, which I would imagine they would be doing across a number of other bodies as well. They always give us advance notice. Even with exercises happening at Cultana at present, we get advance notice of what it is, what it involves, timing, what to expect and what not to expect. So Defence are very good at engaging and ensuring they communicate effectively.⁷⁶

2.59 Mayor Andrew Rohde, Port Pirie Regional Council was similarly happy with the level of engagement by Defence:

In being a host location for such a large exercise, we were regularly informed and closely associated with the preplanning of operation Hamel. Defence staff went out of their way to visit and inform us of what was proposed, and they liaised effectively with council staff. Council had one contact point during this process, which made it easier to seek information and clarity.⁷⁷

2.60 However, Mr Stuppos said that in his view everyone had learned from Exercise Hamel:

The first operation Hamel was a bit of a learning curve for everybody in the community and Defence. We had a debrief straight after operation Hamel and I think we have narrowed down the issues that we all had. Going forward, I believe that it will be a lot better than it was. All we asked for is that we can get media releases out, telling the community of Whyalla, for example, 'On such-and-such a day and between such-and-such a time, we are going to be letting off a few shells and they will make a little bit of a bang and might upset your dogs, cats or whatever.' That is all it was.⁷⁸

2.61 The South Australian Government highlighted the need for sufficient advance notice of large exercises as:

Local communities can often become frustrated by the impact of these exercises on their lives without perceiving any benefit to their communities.⁷⁹

2.62 Mr Stuppos spoke about the experience of local business who were not prepared to take advantage of business opportunities:

76 *Proof Committee Hansard*, 8 June 2017, p. 4.

77 *Proof Committee Hansard*, 8 June 2017, pp 44, 47; see also Spencer Gulf Cities, *Submission 2*, p. 2.

78 *Proof Committee Hansard*, 8 June 2017, p. 41.

79 South Australian Government, *Submission 3*, p. 4.

They did not have an expectation of what was going to happen when the troops marched into town, basically, and anecdotal evidence was that the fast food outlets ran out of food the first night and all records were broken on the delivery of pizzas and things like that. If we knew that that is what they were expecting, obviously the chamber or whoever else could have geared the town up by saying, 'We've got a couple of thousand guys coming in. They'll be eating pizzas every night. You'd better make certain you've got enough flour, ham, pineapple and whatever else makes a pizza.' That is all we are asking for so that we can gear the community to provide the services that are potentially required by Defence.⁸⁰

2.63 Mayor Breuer indicated that from her perspective the exercise was 'fairly unexpected':

There were 10,000 troops between Whyalla and Port Augusta. We knew there was an exercise happening, but we were under the understanding that they would be in the Cultana area all the time and we would not see them, and all of a sudden we had soldiers walking down the streets with guns and it was like, 'What's going on?' It was actually a little bit of a surprise and a shock. Businesses were not prepared. The local Apex Club made something like \$7,000 in a day or two selling sausages and bread, so there is obviously something wrong with the rations! They were looking for coffee.⁸¹

2.64 Mayor Breuer added that in the last month there had been an agreement that they would receive more warning. She stressed how important advance notice is otherwise it would be a missed opportunity for the community.⁸²

2.65 Mayor Rohde made a similar point. Despite being informed there would be limited opportunity for local procurement, once personnel started to arrive, their needs were much greater than was catered for by Defence on site. A wide range of food and services were accessed locally and 'many local businesses could have provided a full range of goods and services if given the opportunity and early notification'.⁸³

2.66 Mayor Breuer said that an ongoing contact point in Defence about exercises has been problematic. They have recognised however, that they also need to supply a contact point to Defence.⁸⁴

2.67 Dr Andrew Johnson, Chief Executive Officer, Port Pirie Regional Council saw value in a post exercise debrief to talk about learnings and what could be improved. He states 'we see a lot of benefit in cooperating and working together a lot closer for community benefit'.⁸⁵

2.68 Defence advised that in the lead up to Exercise Hamel 2016:

80 *Proof Committee Hansard*, 8 June 2017, p. 41 See also Spencer Gulf Cities, *Submission 2*, p. 2.

81 *Proof Committee Hansard*, 8 June 2017, p. 41.

82 *Proof Committee Hansard*, 8 June 2017, p. 41.

83 *Proof Committee Hansard*, 8 June 2017, p. 44.

84 *Proof Committee Hansard*, 8 June 2017, p. 41.

85 *Proof Committee Hansard*, 8 June 2017, p. 49.

...there was—starting approximately six months out from the exercise—engagement with around 30 regional and state based organisations that covered multiple forms of communication, from face-to-face contact and forums to email and telephone. That included coverage of things like the exercise activities, the conduct and dates, to the procurement plan and covering the AusTender process.⁸⁶

Post exercise issues

2.69 Mayor Rohde highlighted that it had been difficult to get issues addressed post exercise:

Whilst the processes in working with the Defence Force before and during the exercise worked seamlessly, dealing with issues after completion was not as faultless. I mentioned earlier the very clear contact point that we had in the beginning and beforehand. Unfortunately, this did not extend once the exercise was complete, when we identified around \$50,000 worth of damage to areas of the airport. In the clean-up phase, it was difficult to contact one person with our concern. Council seem to be dealing with a number of people and are having to retell the problems we had. It took some time for the issues to be rectified.⁸⁷

Purchasing foodstuffs for exercises

2.70 The local community is keen to be able to maximise local business activity during exercises. However, the committee heard from witnesses that there seems to be a trend away from purchasing supplies locally. Mr Johnson provided the committee with the example of the provision of milk:

Defence buys its milk from the one supplier. There is only one supplier in South Australia. That used to go through our local vendors and, during Exercise Hamel, they also supplied that milk. To give you an idea of the volume, that was \$251,000 worth to that local business. They were notified last week by Defence that they will no longer be procuring locally; it will be coming directly from Adelaide—but still from the same supplier. So there is one business that, unfortunately, overnight has lost \$251,000 of their turnover due to Defence procurement changes.⁸⁸

2.71 In response to questions from the committee about sourcing food supplies locally for exercises, Defence responded that:

...as with most of our major activities, it is a combination of both regional and local and, if you like, state and regional procurements to do the things. Some of the fresh food came from Adelaide but there was also significant purchases of food and foodstuffs inside that \$2.7 million locally in this region as part of that exercise expenditure.⁸⁹

86 Brigadier Cameron Purdey, Director General Logistics, Army, Department of Defence, *Proof Committee Hansard*, 8 June 2017, p. 23.

87 *Proof Committee Hansard*, 8 June 2017, p. 44.

88 Mr Johnson, *Proof Committee Hansard*, 8 June 2017, p. 2.

89 Brigadier Purdey, *Proof Committee Hansard*, 8 June 2017, p. 23.

Defgram 218/2017

2.72 In relation to this area, the committee raised the issue of Defgram 218/2017⁹⁰ which came out on 23 May 2017 from the estate service delivery infrastructure group in relation to the procurement of foodstuffs such as dairy, meat and bread. The committee was concerned that the words around encouraging the use of the Standing Offer Panels could appear to be at odds with the government's intent of engaging with SMEs.

2.73 Mr Grzeskowiak responded that the Defgram was to inform the organisation that there has been a re-tendering of the standing panel that existed. He explained there are three ways in which food is purchased across Defence: first is the food provided through the messes which is through contracts with two providers: Broadspectrum and Compass Group The second is through the Standing Offer Panel for providing food supplied to ships or for exercises. The third way is by local purchase using the Defence purchasing card which is used for exercises as required.⁹¹

The need for more transparency regarding regional engagement

2.74 Mr Grzeskowiak provided some high level examples of local procurement to the committee from his area covering estate, facilities and infrastructure:

Across the 12 most recent infrastructure projects that we have running, there are something like 1,300 separate trade packages that will be awarded under those 12 projects, which add up to something like \$1.9 billion of expenditure. Concerning those 12 projects, so far around 400 of those work packages have been placed, with a value of around \$570 million. Of those work packages, around 250 have been awarded to local contractors, with a total value of around 73 per cent of the total value of those contracts. That is, of course, an Australia-wide look. It is looking at some fairly large infrastructure projects that we have running at the moment, but I think it just makes the point that we do have a fair degree of success in working with some local contractors in terms of those trade packages that we place.⁹²

2.75 Brigadier Beutel also provided some examples of using local contractors:

This is not particularly rural now, but there is RAAF Edinburgh or the Edinburgh Defence Precinct. It is on the fringes of Adelaide. It is a recently completed a project of about \$41 million under a managing contract. Ninety-one per cent of the value of the subcontracts on that project were awarded to local contractors within a 50-kilometre radius of RAAF Edinburgh. The Air 7000 2B projects are the main operating base facilities for Poseidon at RAAF Edinburgh at the moment as well—through their procurement process at the moment we are tracking in the order of about an

90 A Defgram is internal advice to staff.

91 Mr Grzeskowiak, *Proof Committee Hansard* 8 June 2017, p. 28.

92 *Proof Committee Hansard*, 8 June 2017, p. 22.

80 per cent by value of the trade packages let have gone to local contractors within a 50-kilometre radius.⁹³

2.76 Brigadier Beutel added that there is recognition that the use of local contractors can achieve value for money:

The point I am making here is that within that particular area there is capacity and capability and there is the ability to provide a value-for-money submission to do that. So where those three line up we get very good or high statistics. It comes back to my point that the use of local contractors is synonymous with value for money. Where there are other more rural and remote areas, sometimes that capacity and capability is not always there. This is particularly why we tend to go for those tier 1 and tier 2 companies on some of the larger projects. But even with the subcontracting opportunities there may not be that capacity and capability there. I would also note that the value-for-money chain does not stop with the subcontractors. It goes to the subsubcontract aspect as well.⁹⁴

2.77 Ms Paula Osborn, Deputy Chief Executive Officer, Regional Development Australia Far North told the committee she would like to see some 'real data on the number of local or regional businesses that have gained work through contracts with Cultana and Woomera in, say that last three to five years'. She pointed out that the submission from Defence focuses on the economic contribution to the South Australian and Australian economies but she would like to see a breakdown for local or regional communities.⁹⁵

Commonwealth procurement rules

2.78 Defence confirmed that it must follow the Commonwealth Procurement Rules (CPRs) and work within those rules⁹⁶ and that they do not allow preferential treatment of a supplier because they are local.⁹⁷ The CPRs state that a procurement must be non-discriminatory which means that:

All potential suppliers to government must, subject to these CPRs, be treated equitably based on their commercial, legal, technical and financial abilities and not be discriminated against due to their size, degree of foreign affiliation or ownership, location, or the origin of their goods and services.⁹⁸

2.79 An update to the CPRs commenced on 1 March 2017. A key addition is the consideration of broader economic benefits in procurement which states at new paragraph 10.30:

93 *Proof Committee Hansard*, 8 June 2017, p. 26.

94 *Proof Committee Hansard*, 8 June 2017, p. 26.

95 *Proof Committee Hansard*, 8 June 2017, p. 15.

96 Mr Grzeskowiak, *Proof Committee Hansard* 8 June 2017, p. 22.

97 Mr Grzeskowiak, *Proof Committee Hansard* 8 June 2017, p. 29.

98 Commonwealth Procurement Rules, 1 March 2017, paragraph 5.3, p. 13.

In addition to the considerations at paragraph 4.4, for procurements above \$4 million, Commonwealth officials are required to consider the economic benefit of the procurement to the Australian economy.⁹⁹

2.80 Mr Grzeskowiak explained the changes:

The changes to the procurement rules that came into effect a couple of months ago do not change, in any way, the underlying tenet, which is around value for money. That remains the core piece of the Commonwealth Procurement Rules. My belief is that the economic benefits test was really more aimed at ensuring that there is understood economic benefit to Australia as a whole from procurements that are being undertaken by government across the board. In the [estate] space in which I operate, which is infrastructure and services, spending something like \$4 billion a year, the vast majority of that expenditure occurs in Australia with Australian-owned or Australian-based companies. There are other parts of the acquisition process in Defence that, for very necessary reasons, spend overseas—buying high-technology equipment from the Joint Strike Fighter program or whatever. I think, really, the economic benefits test is more focused on how we are leveraging Australian economic benefit from those types of procurements and how we...get Australian industry involved in those types of procurements. That is where the real target of that clause will be.¹⁰⁰

South Australian industry participation policy

2.81 Noting that the CPRs economic benefit test for contracts over \$4 million is based on the economic impact to the Australian economy and not a particular region, the committee was interested to hear from Mr Ian Nightingale, Industry Advocate, Department of State Development, Government of South Australia about the SA model. The Industry Advocate:

Provide[s] independent advice to the government on procurement reforms and advocate[s] for increasing the number and diversity of locally based businesses winning government contracts.¹⁰¹

2.82 Mr Nightingale advised the committee that the approaches used under the South Australian Industry Participation Policy, which has been designed to deliver regional and economic benefits, could be tailored to the national, state and regional level. The policy establishes:

...a framework for assessment of economic contribution between rival tenders and grants within a broad value-for-money framework.¹⁰²

2.83 Mr Nightingale emphasised that the South Australian policy 'is not about special treatment or price preferencing but, rather, about recognising the important

99 See <https://www.finance.gov.au/procurement/procurement-policy-and-guidance/commonwealth-procurement-rules/> accessed 26 July 2017.

100 Mr Grzeskowiak, *Proof Committee Hansard* 8 June 2017, p. 31.

101 *Proof Committee Hansard* 8 June 2017, p. 8.

102 *Proof Committee Hansard* 8 June 2017, p. 8.

contribution businesses make to the South Australian economy'.¹⁰³ The model can measure state economic benefit verses regional economic benefit.¹⁰⁴

2.84 Mr Nightingale reported that when the Minister for Finance, Senator the Hon Mathias Cormann, spoke about the recent amendments to the CPRs, he acknowledged Australia's obligations under free trade agreements and other treaties but also acknowledged that these 'do not preclude the commonwealth from appropriately gathering information and looking at the full economic effects of procurement as part of the decision-making process'.¹⁰⁵

2.85 The model used in SA has a weighting or a percentage at tender which measures the economic benefit using capital, supply inputs and labour. Currently the weighting is mandated at 15 per cent minimum for all government procurement above \$220,000. In larger projects above \$4 million it can be around 20 per cent. In explaining further how it works Mr Nightingale stated:

Let us take 20 per cent. If 80 per cent are the other components of your tender evaluation, that is still going to dominate the outcome of your tender, so you will still get a very competitive tender, but you are measuring a legitimate economic benefit as part of the tender evaluation.¹⁰⁶

2.86 There was strong interest in the South Australian Industry Participation Policy model and support from a number of witnesses. Mr Dorward stated:

It is one of the best things the state government has done in a long time in terms of a really effective policy. Ian Nightingale should be congratulated for the tremendous work he has done there. He hosted his first forum when he changed the state government's approach, over at Wudinna probably a couple of years ago now. From that one meeting, we had two or three companies get work in the coming months. These are very small businesses in the middle of the peninsula, companies that might employ two or three people. I could not speak highly enough of that. There are plenty of safeguards there, I think. Local procurement policies can be sometimes interpreted as 'stacking the deck' in regards to whether or not it is the most efficient or best spend. The way that has been put together to ensure that the broader picture in the economic benefit to the region and the country has been well assessed.¹⁰⁷

2.87 Mr Stuppos also supported the South Australian policy indicating that it has made a 'tangible difference'.¹⁰⁸ Ms Saffin provided the following example:

103 *Proof Committee Hansard* 8 June 2017, p. 8.

104 *Proof Committee Hansard* 8 June 2017, p. 13.

105 *Proof Committee Hansard* 8 June 2017, p. 8.

106 *Proof Committee Hansard* 8 June 2017, p. 10.

107 *Proof Committee Hansard* 8 June 2017, p. 34. See also Mr Theunis Victor, Chairman, Heavy Industry Cluster Group, Regional Development Australia, Whyalla and Eyre Peninsula, *Proof Committee Hansard* 8 June 2017, p. 34

108 *Proof Committee Hansard* 8 June 2017, p. 40.

...a \$40 million road project at the moment in Yorke Peninsula which is jointly funded by Commonwealth and state government. We found that the introduction of those industry participation plans that are required to be done means that the tier 1 and tier 3 tenderers who have the capability to undertake that then contact the region earlier. I am not aware of the general number of tenderers, but we certainly had five tenderers contact us as an organisation commercially-in-confidence to keep their tenders but for us to provide the local intelligence that we would provide given our exposure, including what businesses, capability and employment were available. That has now extended to the successful tenderer working with us in relation to fulfilling their local demands, which are \$11 million worth of work locally and 75 employees...¹⁰⁹

2.88 When asked whether the templates to measure the economic benefit and guidelines used by the Industry Advocate could be adapted for Commonwealth agencies like Defence, Mr Nightingale was of the view that it should be possible.¹¹⁰

Work of the joint select committee on government procurement

2.89 The Joint Select Committee on Government Procurement tabled a report in June 2017 which covered areas of interest to this committee. In investigating the possibility of a weighting system to help implement the new clause in the CPRs to consider broader economic benefits, the Joint Select Committee was advised from Finance and the ANAO that the weighting given to various factors varies from procurement to procurement. Defence told the Joint Select Committee that it prefers a qualitative process as a mandated weighting system does not provide the flexibility required to assess complex procurement projects. The Joint Select Committee concluded that it would like to see any implementation guidelines prescribe the appropriate use of rubrics and weighted criteria (at a minimum of 15 per cent) except for large or complex procurement projects.¹¹¹

2.90 Of particular relevance to this committee is the Joint Select Committee's recommendation that rural and regional small and medium businesses be added to the list of exemptions under Appendix A: Exemptions from Division 2 of the Commonwealth Procurement Rules.¹¹²

109 *Proof Committee Hansard* 8 June 2017, p. 45.

110 *Proof Committee Hansard* 8 June 2017, p. 9.

111 Joint Select Committee on Government Procurement, *Buying into our Future: Review of amendments to the Commonwealth Procurement Rules*, June 2017 pp 75-77, 133.

112 Joint Select Committee on Government Procurement, *Buying into our Future: Review of amendments to the Commonwealth Procurement rules*, June 2017 p. 134.

Other initiatives in the procurement area

Indigenous Procurement Policy

2.91 Mr Grzeskowiak told the committee about the successful focus by Defence on Indigenous companies as a result of the Commonwealth's Indigenous Procurement Policy (IPP).¹¹³

We have done a lot of work with local Indigenous companies using the government's Indigenous procurement policy. Last financial year Defence spent roughly \$140 million, essentially direct sourced to Indigenous companies, on a whole range of types of work. That represented more than half of the whole of the Commonwealth government's spend through the [IPP].¹¹⁴

Dynamic sourcing for panels

2.92 Defence advised the committee that the Department of Finance has introduced new Dynamic Sourcing for Panels (DS4P) which

...provides government buyers with the information, search tools and process automation to better access the Commonwealth's 500 panels, 60% of which are shared arrangements. DS4P builds on AusTender's reach and integration across agencies to deliver a standard and streamlined approach to panel buying.¹¹⁵

2.93 At the hearing Defence indicated that as this is a new initiative, it is still considering how it will use dynamic sourcing.¹¹⁶

113 The IPP was launched on 1 July 2015 and its purpose is to leverage the Commonwealth's annual multi-billion procurement spend to drive demand for Indigenous goods and services, stimulate Indigenous economic development and grow the Indigenous business sector. See <https://www.pmc.gov.au/indigenous-affairs/economic-development/indigenous-procurement-policy-ipp> accessed 14 August 2017.

114 Mr Grzeskowiak, *Proof Committee Hansard* 8 June 2017, p. 28.

115 See <https://www.finance.gov.au/blog/2016/12/09/Dynamic-Sourcing-for-Panels/> accessed 26 July 2017.

116 Ms Jane Wood, Acting Assistant Secretary, Non-Materiel Procurement, Department of Defence, *Proof Committee Hansard*, 8 June 2017, p. 32.