



**Australian Government**

**Department of Defence**

# **DEFENCE POLICY FOR INDUSTRY PARTICIPATION**

© Commonwealth of Australia 2019

ISBN: 978-1-925890-11-2 (Print)

ISBN: 978-1-925890-12-9 (Online)

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DEFENCE POLICY FOR INDUSTRY PARTICIPATION



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## Minister's foreword

I am pleased to release the *Defence Policy for Industry Participation*.

Australian industry supporting Defence is a national strategic asset. Defence relies upon businesses all over Australia – large and small – to deliver the capability the Australian Defence Force and the broader Department of Defence needs today and for the future. The Government has a long-term vision for an Australian industry that is positioned to meet Defence's requirements, to generate economic growth, and to support greater employment across Australia.

The Government's industry policy agenda for Defence is ambitious and multi-faceted. The *2016 Defence White Paper* and *2016 Defence Industry Policy Statement* recognised Australian industry as a Fundamental Input to Capability and committed to resetting the Defence–industry relationship. The Government provided plans for growing, upskilling and reforming our industry through the *2017 Naval Shipbuilding Plan*, *2018 Defence Export Strategy* and *2018 Defence Industrial Capability Plan*. The *Defence Policy for Industry Participation* represents the next step in maximising opportunity for Australian industry to support Defence in delivering its mission.

Defence is the Australian Government's largest procurer. It undertakes a wide range of procurement activities from materiel acquisition and sustainment to construction and base services, logistics, health, training and professional services. Companies across our nation already make a substantial contribution to meeting Defence's needs. The purpose of the *Defence Policy for Industry Participation* is to provide greater consistency, unity and opportunity for Australian industry involvement in Defence procurement. We want companies across Australia to have the best possible opportunity to compete for Defence work, recognising that providing the best capability to Defence and value for money will continue to drive our decisions.

The *Defence Policy for Industry Participation* formalises consideration of Australian industry at the national and local level in procurements valued at or above \$4 million for materiel and non-materiel procurements, and at or above \$7.5 million for construction procurements. It does this through specific schedules or plans that will now form part of tender requirements depending on the nature and size of the procurement. Our direction in this Policy will make consideration of Australian industry in defence procurement simpler, easier and intrinsic to Defence business.

The *Defence Policy for Industry Participation* will help drive the long-term development of our industry as well as deliver national and local benefits. This will be supported by the range of industry support programs the Government has already put in place—including the Centre for Defence Industry Capability—that are focused on building the capability of Australian companies to meet Defence’s requirements.

The Policy has been developed following extensive consultation with industry and with other Australian Government departments and agencies. We have been cognisant of maximising opportunities for Australian industry without unduly raising the cost of tendering.

Realising the benefits of the *Defence Policy for Industry Participation* will be a shared undertaking between Defence and industry. We are committed to working together to ensure the investment decisions we make today help secure Australia’s national security and national prosperity for generations to come.



Senator the Hon Linda Reynolds CSC  
Minister for Defence Industry

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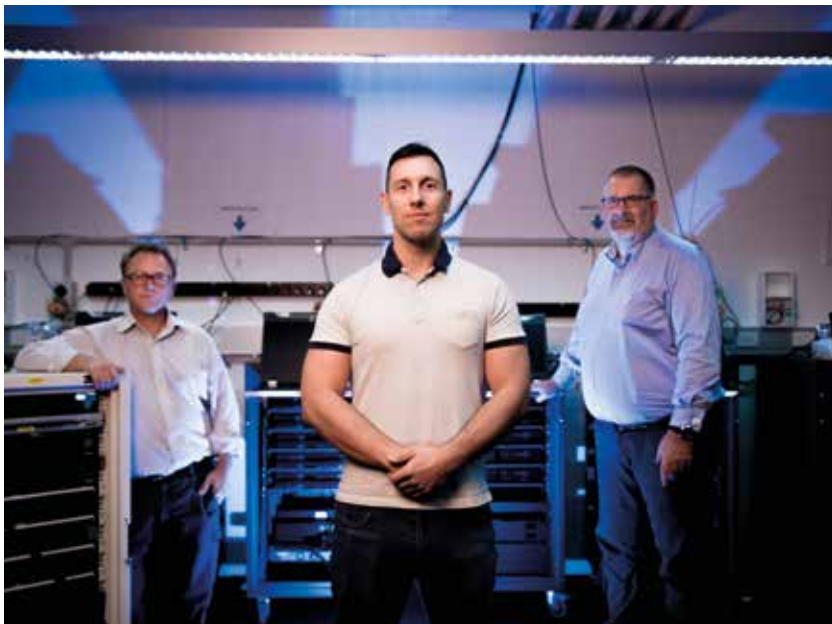
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## ► Chapter 1 – Overview

- 1.1 Maintaining the Australian Defence Force's (ADF) capability edge is essential to achieving the Government's Strategic Defence Objectives. Investment in Australian industry is critical to assuring Australian sovereignty in developing, operating and sustaining our defence capability. The recognition of industry as a Fundamental Input to Capability is intended to ensure that Defence fully considers the industrial capability and capacity of Australian businesses—micro, small, medium and large—to help deliver the Strategic Defence Objectives. The Government expects that global prime companies seeking to work with Defence will partner with Australian industry in developing their proposed solutions.



Defence's End User Computing team is upgrading over 100,000 computers across the Department

- 1.2 Australian industry provides a range of direct and supporting services that contribute to the efficient and effective operation of Defence. The Government recognises the importance of investing in key enablers that underpin our defence capability, such as health services, wharves, airfields, bases, training ranges, information and communications technology, and a trained and skilled industry workforce. The Government also recognises that the large majority of Defence procurements in key enablers are already being delivered in Australia by Australians.
- 1.3 Defence procurement is the key interface between Defence and Australian industry. It is the means through which Defence obtains the goods and services it needs, and is the most important lever for building a strong, sustainable and internationally competitive Australian industry that can help reduce Australia's strategic risk and maximise economic benefit. The *Defence Policy for Industry Participation* is structured in four parts:
- ▶ **Chapter 1 – Overview.** This chapter summarises the key aspects of the Policy.
  - ▶ **Chapter 2 – Australian Industry in Defence Procurement.** This chapter describes the Commonwealth legislative and policy framework governing procurement, Defence's procurement framework, long-term requirements, and how Australian industry (nationally and locally) is already helping to meet these needs.
  - ▶ **Chapter 3 – Defence Policy for Industry Participation.** This chapter addresses the Policy's objectives, design elements and how it will be applied across Defence procurements.
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► **Chapter 4 – Implementing the Defence Policy for Industry**

**Participation.** This chapter addresses how the Policy will be implemented and reviewed.

- 1.4 As highlighted in chapter 2, Defence procurement engages almost every sector of our economy, touching communities right across Australia and involving businesses ranging from small to medium enterprises (SMEs) to global prime companies. The Policy will connect the Government's goal and strategic objectives stated in the 2018 Defence Industrial Capability Plan with the means to deliver them through Defence procurement.
- 1.5 Defence already implements the Australian Industry Capability (AIC) Program for materiel procurements of \$20 million and above. Tenderers are required to provide AIC Plans that demonstrate their engagement with Australian industry in developing their proposal, and how opportunities for Australian industry participation will be maximised across the project, including the companies, and nature and value of work that will be undertaken. The successful tenderer's AIC Plan is a contracted deliverable with Defence.
- 1.6 Defence has also implemented Local Industry Capability Plan pilots for six major capital facilities projects. The approach is similar to the AIC Program but with a focus on maximising opportunities for businesses within reasonable geographic proximity to the location of the work, as well as at a national level. The pilots are already delivering significant benefits locally and will now become a standard component of Defence infrastructure projects.
- 1.7 Defence's approach with non-materiel procurements valued at or above \$20 million has previously been aligned with the Australian Government's *Australian Industry Participation Policy* requirements which have a common philosophy but with different requirements to the AIC model.

1.8 Chapter 3 describes how providing the best capability to Defence and value for money will continue to drive Defence procurement decisions. The *Defence Policy for Industry Participation* is guided by the following principles:

- ▶ the primary goal of all Defence procurement is the delivery of capability through a value for money solution
  - ▶ within the context of this primary goal, Defence will maximise opportunities for Australian industry participation, to the greatest practical extent, across all categories of Defence procurement
  - ▶ a tailored (rather than a one size fits all) approach will be used to suit the differing nature of Defence procurement recognising that many Defence procurements are already undertaken primarily in Australia with an extensive use of Australian industry
  - ▶ proportionality to the nature, value, complexity and risk of the procurement to minimise the costs of tendering for both industry and Defence
  - ▶ consistency with the Commonwealth legislative and policy framework, and related international obligations
  - ▶ commonality of the framework, leveraging the mature AIC Program approach to Australian industry participation
  - ▶ consideration of local industry capability as part of economic benefit in assessing overall value for money, and
  - ▶ employ and engage Australia's veterans with Australian industry.
-

- 1.9 The Policy's core element is to apply a consistent, unified approach across Defence procurement valued at or above \$4 million (\$7.5 million for construction services). This approach requires tenderers to demonstrate appropriate formal consideration of Australian industry—locally and nationally—through a schedule or plan that forms part of their tender response. Whether a schedule or plan is used will depend on the size and nature of the procurement. This new approach will be implemented as follows:
- ▶ **Procurements valued less than \$4 million** – no specific requirements.
  - ▶ **Materiel procurements valued between \$4 million and \$20 million** – new requirement for an AIC Schedule.
  - ▶ **Materiel procurements valued at \$20 million or more** – continued requirement for an AIC Plan including an AIC Schedule.
  - ▶ **Non-materiel procurements valued between \$4 million and \$20 million** – new requirement for an Industry Participation Schedule.
  - ▶ **Non-materiel procurements valued at \$20 million or more** – new requirement for an Industry Participation Plan including a schedule.
  - ▶ **Construction services valued at \$7.5 million or more** – new requirement for a Local Industry Capability Plan.
- 1.10 Local industry considerations will be incorporated in all schedules and plans, except for materiel acquisition procurements which are predominantly location agnostic and focused on maximising opportunities for Australian industry participation at a national level.

- 1.11 The relevant schedule or plan forms part of the overall value for money consideration which will continue to be driven by the capability need, cost, schedule and other elements of procurement decision-making. Defence will not preference Australian industry. The focus is on maximising opportunities to compete for work.
  - 1.12 Links to the relevant plans and schedules and industry guides supporting the Policy will be made available at [www.defence.gov.au](http://www.defence.gov.au)
  - 1.13 The Policy adopts a pragmatic approach to the concept of 'local' industry, acknowledging that local has different meaning in different metropolitan, regional and remote settings. Tenderers will propose what constitutes local in the context of the specific procurement and their particular tendered solution. Defence expects tenderers to adopt a common sense approach based on reasonable geographic proximity to the location where work is to be performed. Importantly, if works or services are required to be delivered in a regional or remote area, 'local' industry will not include the nearest capital city.
  - 1.14 Using a common schedule for Defence procurements will allow the economic benefit proposed by tenderers to be compared as part of the procurement decision. For efficiency and consistency with the Commonwealth procurement policy framework, Defence will only take into account direct effects to the Australian economy.
  - 1.15 The objectives for the *Defence Policy for Industry Participation* must be pragmatic and not unnecessarily raise the cost of tendering for little or no benefit. Procurements may be exempt from the Policy requirements where the additional burdens for Defence and industry would disproportionately exceed the potential benefits. Exemptions will be considered case-by-case and require the approval of the Defence official signing the Endorsement to Proceed.
-



- 1.16 Finally, industry is encouraged to employ and engage with veterans who have a deep understanding and appreciation of Defence and industry needs, along with continuing their valuable contribution to our national interests.
- 1.17 The practical approach outlined in this Policy will assist the Government and Defence to make decisions about what Australian industry can offer, and to maximise the opportunity for Australian industry capability development, innovation and employment that benefits Australia's defence and economic prosperity.
- 1.18 The requirements set out in the Policy will not be applied retrospectively, but rather through a staged implementation process over 2019 to both new projects and new phases of existing projects. This will be supported by the roll out of supporting resources described in chapter 4.

The background is a gradient of teal and blue colors. It features several white geometric shapes, including triangles and diamonds, some of which are outlined with thin white lines. A large, bold white number '2' is positioned on the left side of the image.

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## ► Chapter 2 – Australian industry in Defence procurement

### Meeting Defence's future needs

#### The Defence budget

- 2.1 The Defence budget, not including its funding for overseas operations, comprises four major categories: capital investment in new equipment; sustainment of capabilities; employees; and operating costs. The Defence budget is revised annually and its growth is driven primarily by increased capital investment and sustainment costs. The allocation of the Defence budget across the period to 2021–22 is shown in table 1.1.

	2018–19 \$m	2019–20 \$m	2020–21 \$m	2021–22 \$m	Total 2018–19 to 2021–22 \$m
Capital Investment Program	11,025.1	12,331.4	14,267.7	16,497.3	54,121.5
Capability Sustainment Program	10,975.0	11,697.4	12,417.3	13,385.3	48,475.0
Payments to employees	11,775.6	12,167.6	12,490.7	13,001.9	49,435.7
Operations	750.1	96.2	79.2	0.0	925.5
Remaining budget	1,005.9	923.4	1,201.1	1,220.6	4350.9
<b>Total appropriation</b>	<b>35,531.6</b>	<b>37,216.0</b>	<b>40,456.0</b>	<b>44,105.0</b>	<b>157,308.6</b>

Table 1.1: 2018–19 Defence Portfolio Budget Statement by category

- 2.2 Defence investments across these categories are realised through a range of procurement activities that provide significant business opportunities for Australian industry.

### *The Integrated Investment Program*

- 2.3 The Government's \$200 billion capital investment in Defence capability over the next decade is set out in the *Integrated Investment Program*. This describes the scope and level of capital investment across six capability streams, including major equipment, facilities, and information and communications technology. The six capability streams identified in the *Integrated Investment Program* are:
- ▶ Intelligence, Surveillance, Reconnaissance, Electronic Warfare, Space and Cyber
  - ▶ Key Enablers (including infrastructure)
  - ▶ Air and Sea Lift
  - ▶ Maritime Operations and Anti-Submarine Warfare
  - ▶ Strike and Air Combat, and
  - ▶ Land Combat and Amphibious Warfare.
- 2.4 The *Integrated Investment Program* is an important tool to help industry plan and prioritise its future activities. It is constantly evolving in-line with Government decision-making, informed by emerging threats, rapid technology change, rate of new capability acquisition, and budget priorities.
- 2.5 At the same time, sustainment is a critical component of Defence capability delivery and offers considerable opportunities for Australian industry participation in long-term contracts. The vast majority of sustainment work is undertaken in Australia often with high levels of participation by businesses local to the Defence base where the capability is operated.
-

- 2.6 Defence will continue to rely upon Australian industry to provide services and support for the effective operation of a very broad range of business functions.

### *The 2018 Defence Industrial Capability Plan*

- 2.7 The *2018 Defence Industrial Capability Plan* complements the Government's *Naval Shipbuilding Plan*. It:
- ▶ provides the Government's long-term vision and roadmap for Australian defence industry
  - ▶ sets out the Government's strategic goal to grow Australia's defence industrial base over the next decade to build a broader and deeper Australian defence industry
  - ▶ identifies a range of opportunities for industry in the short, medium and long-term, and
  - ▶ outlines a suite of initiatives and funding options available to industry.
- 2.8 The Plan highlights that the Government's goal is to achieve an Australian defence industry that has the capability, posture and resilience to help meet Australia's defence needs by 2028. It provides a detailed analysis of the *Integrated Investment Program* capability streams and insights into where industry will likely be best placed or most needed to support Defence capability over the next decade. The Plan also provides information on how to better understand and connect with these opportunities. To support effective implementation of the *2018 Defence Industrial Capability Plan*, the Government will release Australian industrial strategies for each of the *Integrated Investment Program* capability streams by the end of 2019.

- 2.9 The *2018 Defence Industrial Capability Plan* also identified the initial Sovereign Industrial Capability Priorities and how they are managed across Defence planning. It announced a grants program of up to \$17 million a year to support the capacity and resilience of companies that contribute to a Priority. The Government will release implementation plans for each Sovereign Industrial Capability Priority from mid2019.
- 2.10 More information on the *2018 Defence Industrial Capability Plan* is available at [www.defence.gov.au/SPI/Industry/CapabilityPlan](http://www.defence.gov.au/SPI/Industry/CapabilityPlan)

## Australian industry supporting Defence capability

### Defence is the Australian Government's largest procurer

- 2.11 In 2017–18 Defence gazetted contracts totalling \$48.5 billion, representing 68.2 per cent of the total value of all gazetted Australian Government contracts. Defence has a physical footprint covering metropolitan, regional and remote locations across Australia, and generates significant demand for a wide range of goods and services. Local companies, including SMEs, have been successful in competing for Defence contracts by demonstrating their ability to deliver value for money. As well as this success, SMEs also make a significant contribution to Defence procurement as part of prime contractor supply chains.

### Defence procurement in regional Australia

- 2.12 Defence makes a significant contribution to regional Australia through its bases and personnel, and by fostering links with local communities. Defence personnel are active members of their local communities. At 1 January 2019, the total number of Defence personnel in regional Australia was 31,852. The regional workforce equates to 31.8 per cent of the total 100,272 *Defence personnel* located in Australia.

- 2.13 Defence is the Australian Government's largest landholder and one of the largest landholders in Australia. The Defence estate is approximately 2.6 million hectares and includes 400 properties (including 72 major bases) and about 388 expenditure leases. It includes bases, training areas and ranges, research facilities and office accommodation to support ADF capability. It is estimated to have a gross replacement value of over \$68 billion (excluding land). The Government is committed to ongoing investment with over \$8 billion of Defence construction works currently approved and over \$20 billion planned over the coming decade.
- 2.14 Defence's direct and indirect impact on local economies varies depending on the size of the base or training area, and the scale and intensity of the local economy. The economic contribution of a base includes:
- ▶ **direct expenditure contributions** arising from the number of people directly employed on the base and all economic activity that has a direct relationship with the base, and
  - ▶ **indirect expenditure contributions** from the input/output expenditure links between the base and other industrial and commercial activities (such as retail trade, electrical supply and equipment maintenance).

### Case study: socio-economic impact of the Australia–Singapore Military Training Initiative

Australia has a long and well-established relationship with Singapore which includes access to Australian Defence training areas.

In 2015 Australia and Singapore entered into a Comprehensive Strategic Partnership designed to further develop the bilateral relationship. In 2016 the two countries announced a package of bilateral cooperation initiatives, including the Australia–Singapore Military Training Initiative (ASMTI). This allows better access to and enhancement of training areas including joint development of military training facilities in Australia.

The Memorandum of Understanding signed by Australia and Singapore identifies that up to \$2.25 billion will be invested in the Townsville and Fitzroy (Rockhampton) regions from approximately 2019 to 2026. It prioritises local Australian commercial enterprises in the locality of the training areas and supports both the development and ongoing training phases.

KPMG conducted a socio-economic impact assessment of proposed training area development and training rotations in June 2017. It reported that:

- ASMTI will deliver positive benefits for Queensland
- Central and North Queensland will see the greatest benefits, including an increase in net income, and
- additional jobs will be created during the construction phase, and once the new facilities are operational.

These net benefits account for any negative impact to other industries, including the agricultural sector.



***Queensland region<sup>1</sup>***

New investment of around \$2 billion into the state during the development of the training facilities could lead to a net increase of up to:

- \$50.3 million in annual income and up to 591 new jobs across Queensland during development, and
- \$20.5 million in annual income and up to 147 new jobs across Queensland when the new training facilities are fully operational.

***Townsville region***

New investment of around \$1 billion into the Townsville region during development could lead to a net increase of up to:

- \$26.3 million in annual income and up to 264 new jobs during development, and
- \$10.7 million in annual income and up to 74 new jobs when the new training facilities are fully operational.

***Fitzroy region***

New investment of around \$1 billion into the Fitzroy region during development could lead to a net increase of up to:

- \$15.9 million in annual income and up to 219 new jobs during development, and
- \$7.3 million in annual income and up to 68 new jobs when the new training facilities are fully operational.

The socio-economic impact assessment found that local regions were equipped to provide local sub-contractor support to these major development contracts. The more local businesses that secure supply contracts for the enhanced training facilities, the greater the economic benefit will be for the regions.

The full report is available at [www.defence.gov.au/Initiatives/ASMTI](http://www.defence.gov.au/Initiatives/ASMTI)

<sup>1</sup>Note: state impacts include the Townsville region, Fitzroy region and impacts across the rest of Queensland.

### Major capital facilities projects

**2.15** Re-development of existing bases, facilities and training areas to support Defence affects the local economy directly and indirectly, particularly the construction and services sectors. Defence typically engages a contractor for its major capital facilities and infrastructure projects through either a head contract or managing contractor contract.

**2.16** Under a head contract, the contractor is responsible for seeking, evaluating and engaging its subcontractors and suppliers. Defence is not a party to these contracts. Under the managing contractor contract, the contractor is required to tender all construction work as subcontract packages (i.e. it cannot perform the construction work itself). Subcontract works are packaged by the managing contractor based on its experience and understanding of the market. Defence requires the managing contractor to ensure that all tender processes are conducted consistently and under the principles of the Commonwealth Procurement Rules and, in particular, achieving value for money, encouraging competition and acting ethically.

**2.17** Defence has a successful track record with its contractors engaging local subcontractors for major capital facilities and infrastructure projects. Examples include:

- ▶ a recently completed project at Edinburgh, South Australia, contracted to a prime company which awarded 91% of trade packages to local firms valued at around \$38 million, and
- ▶ the New Air Combat Capability Facilities project at Royal Australian Air Force Base Tindal in the Northern Territory, where 65% of the total value of trade packages let to date has been awarded to Northern Territory enterprises totalling approximately \$216.5 million.

## Defence implementation of the Indigenous Procurement Policy

**2.18** Defence procurement gives effect to the requirements of the Australian Government's Indigenous Procurement Policy (IPP). In 2017–18 Defence exceeded its target of 420 contracts for Indigenous suppliers, and awarded a total of 612 contracts valued at \$485.2 million. Defence is building on this success through its new Defence Indigenous Procurement Strategy, which recognises that—as the Commonwealth's largest procurer—Defence can:

- ▶ play a leading role in supporting Indigenous procurement opportunities, and
- ▶ help deliver the IPP's aims to stimulate Indigenous economic development and grow the Indigenous businesses sector.

**2.19** Defence is committed to overcoming barriers for Indigenous business, to increase workforce skills and capacity, and the size and diversity of Australian industry. In 2017 the AIC Program was strengthened to ensure tenderers:

- ▶ maximise inclusion
- ▶ demonstrate how they engage with Indigenous businesses, and
- ▶ show how they involve these businesses in their supply chain.

Indigenous businesses can register with Supply Nation's Indigenous Business Directory at <https://supplynation.org.au/benefits/supplier/> to make it easier to be identified by Defence.

# The Defence Procurement Framework

- 2.20 A range of legislation and policy governs Australian Government procurement, including the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule) and the Commonwealth Procurement Rules. The Defence Procurement Policy Manual (DPPM) is the principal compliance document for Defence officials conducting procurement (see [www.defence.gov.au/casg/DoingBusiness/ProcurementDefence/](http://www.defence.gov.au/casg/DoingBusiness/ProcurementDefence/)).
- 2.21 Figure 1.1 shows the relationship between Defence’s procurement policy and the *Defence Policy for Industry Participation* in the Government procurement framework.

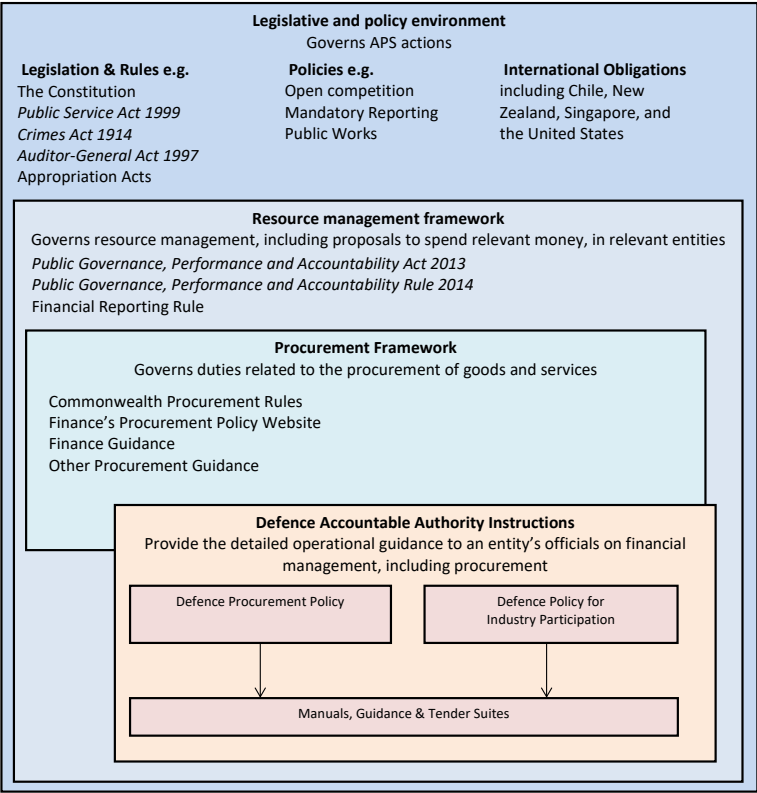


Figure 1.1: Government and Defence Procurement Framework

2.22 Sitting within this framework are three distinct streams of Defence procurement:

- ▶ **Materiel procurement.** Capability Acquisition and Sustainment Group (CASG) leads the delivery of materiel procurement on behalf of Defence, including both materiel acquisition and sustainment procurements. Acquisition includes equipment that can be integrated into Defence platforms and systems, or used by Defence personnel on operations. Materiel sustainment procurements are related to ongoing maintenance, upkeep, repair and other support of current Defence platforms and systems. Prime contractors are generally engaged by Defence on long-term contracts with sub-contracting opportunities for Australian businesses.
- ▶ **Non-materiel procurement.** CASG also leads delivery of non-materiel procurements, which are undertaken by various Defence groups and services. Defence buys a wide range of non-materiel goods and services such as base (including garrison support and comprehensive maintenance), health, logistics, professional support, and childcare services. As well as training, travel, information communications technology and corporate products.
- ▶ **Construction services.** Defence's Estate and Infrastructure Group manages all construction services procurements covering the construction or maintenance of Defence facilities, establishments and training areas. There is no one contract which fits all construction projects and Defence has developed a suite of construction contracts to allow flexibility to select the most appropriate contract for a specific project. The three most commonly used contracts for major construction projects are the design services contract, the head contract and the managing contractor contract.

### Australian Industry Capability (AIC) Program

- 2.23 Since its launch in 2008, the AIC Program has become the most critical lever for maximising opportunities for Australian industry participation in materiel procurements and long-term capability development. It requires tenderers to propose AIC Plans that demonstrate Australian industry engagement, consideration as part of supply chain selection, and ultimately commitment through contracts if the tenderer is successful.
- 2.24 The AIC Program does not mandate a percentage of Australian industry participation in a project or procurement. It focuses instead on maximising the opportunity for competitive Australian industry to meet Defence's capability needs. The Program creates opportunities for Australian suppliers to compete for Defence work on a value for money basis by:
- ▶ requiring tenderers to deliver AIC Plans that demonstrate Australian industry engagement and commitment as part of their tendered solution
  - ▶ evaluating the AIC Plans as part of procurement decisions
  - ▶ requiring implementation of the agreed AIC Plan under the contract
  - ▶ publishing public versions of AIC Plans with the agreed contract commitment, and
  - ▶ monitoring compliance and delivery of the agreed AIC Plan.
- 2.25 The AIC Program has been strengthened through explicit requirements on tenderers to:
- ▶ maximise opportunities for Australian industry participation in the project
  - ▶ deliver an enduring Australian industrial capability by developing the Australian supply chain to support broader defence capability needs
-

- ▶ facilitate innovation, technology transfer, and research and development collaboration
- ▶ provide a broader set of domestic and global supply chain opportunities for Australian industry, and
- ▶ promote the involvement of Indigenous business in the delivery strategy.

- 2.26 These strengthened requirements are reflected in recent major materiel procurements and have been incorporated into the Australian Defence Contracting (ASDEFCON) tendering and contracting templates.
- 2.27 The AIC Program now sits within the wider Defence Policy for Industry Participation and will continue to drive long-term development of the Australian defence industrial base through Defence materiel procurement.

### Local industry capability pilots

- 2.28 Defence recognises the benefits of local contractors and suppliers where the capacity and capability is available, and where there is demonstrated value for money. Local industry not only makes an important contribution to building, enhancing and managing Defence bases and training areas, it also generates local economic benefits and employment opportunities.
- 2.29 The importance of local industry has been reinforced through Local Industry Capability Pilots. In August 2017, the then Minister for Defence announced that a local industry capability requirement would be piloted in three Defence major capital facilities projects to recognise the contribution local businesses make to Defence capability. The Minister subsequently announced three additional projects incorporating a local industry capability requirement. These six projects are shown in table 2.1.

Pilot project	Location	Value
Explosive Ordnance Logistics Reform Program	11 Defence sites across Australia: <ul style="list-style-type: none"><li>Ipswich and Townsville (Queensland)</li><li>Darwin (Northern Territory)</li><li>Denman, Williamtown and Eden (New South Wales)</li><li>Seymour, Hastings and Avalon (Victoria)</li><li>South Arm (Tasmania)</li><li>Rockingham (Western Australia)</li></ul>	\$230.9 million
Shoalwater Bay Training Area Redevelopment	Shoalwater, Queensland	\$135 million
Townsville Field Training Area Mid-Term Refresh	Townsville, Queensland	\$24 million
HMAS Cerberus Redevelopment Project	Crib Point, Victoria	\$463.1 million
HMAS Cairns Mid-Term Refresh	Cairns, Queensland	\$22 million
RAAF Townsville Mid-Term Refresh	Townsville, Queensland	\$67 million

Table 2.1: Local Industry Capability Pilot projects

- 2.30 Under each pilot, tenderers are required to develop a Local Industry Capability Plan as part of their tender response, outlining how local industry has been engaged in developing the proposed solution, and the work it will undertake (within the overall Australian industry outcome proposed).
- 2.31 The Defence Policy for Industry Participation incorporates the Local Industry Capability Plan requirement in all infrastructure projects valued at \$7.5 million or more.



## Defence's commercial reforms

**2.32** Following the 2015 First Principles Review, Defence implemented a new Capability Life Cycle and Smart Buyer Decision-Making Framework to enhance industry engagement, relationships and commercial outcomes in the delivery of the Integrated Investment Program. Reforms are supporting:

- ▶ earlier and more effective industry engagement
- ▶ new approaches for dealing with key commercial issues such as liability and intellectual property, and
- ▶ better tender process design.

These reforms are reducing the cost of tendering for both Defence and industry, and—along with other initiatives—are being progressed with industry.

## Doing business with Defence

**2.33** Defence is a large potential market for businesses of all sizes and there are many resources to help business engage commercially with Defence. As a starting point, businesses are encouraged to explore material available on the Defence website including:

- ▶ [www.defence.gov.au/casg/DoingBusiness/ProcurementDefence/](http://www.defence.gov.au/casg/DoingBusiness/ProcurementDefence/)
- ▶ <http://www.defence.gov.au/SPI/Divisions/IndustryPolicy.asp>

The Department of Finance also has resources to help businesses interested in supplying goods or services to the Australian Government (<http://sellingtogov.finance.gov.au/>). These answer basic questions such as:

- ▶ how the government market works
- ▶ where you can find business opportunities

- ▶ how to win government business, and
- ▶ what rules apply when the government purchases from the private sector.

- 2.34 Business advisors from the Centre for Defence Industry Capability (CDIC) can help SMEs navigate the defence market and identify opportunities to work with prime contractors or Defence. CDIC can also facilitate domestic and international opportunities, and it complements the work of the Australian Defence Export Office. Advisors can also assist Australian businesses to connect with industry programs. Information on the CDIC is available at <http://www.business.gov.au/cdic>
- 2.35 Businesses that are export ready and that have already engaged with the CDIC can contact the Australian Defence Export Office at [www.defence.gov.au/export/office/](http://www.defence.gov.au/export/office/) which helps businesses achieve export success.



Overseeing construction of a dedicated C-17A maintenance hangar at RAAF Base Amberley Queensland

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## ► Chapter 3 – Defence Policy for Industry Participation

### Purpose

- 3.1 The *Defence Policy for Industry Participation* provides a more consistent, structured and tailored approach to maximising the consideration and opportunity for Australian industry in Defence procurements. The Policy is guided by the following principles:
- the primary goal of all Defence procurement is to deliver capability through a value for money solution
  - within this context, Defence will maximise opportunities for Australian industry participation to the greatest practical extent across all categories of Defence procurement
  - a tailored (rather than a ‘one size fits all’) approach will be used to suit the differing nature of Defence procurement, recognising that many Defence procurements are already undertaken primarily in Australia with an extensive use of Australian industry
  - proportionality to the nature, value, complexity and risk of the procurement to minimise the costs of tendering for both industry and Defence
  - consistency with the Commonwealth legislative and policy framework as well as with related international obligations
  - commonality of the framework leveraging the mature AIC Program approach to Australian industry participation

- ▶ local industry capability must be considered as part of the economic benefit in assessing overall value for money, and
- ▶ employing and engaging Australia's veterans with Australian industry.

3.2 These principles will ensure that procurements deliver:

- ▶ the best Defence capability and value for money
- ▶ maximum opportunity for Australian industry participation at the national and local level, and
- ▶ a consistent approach to consideration of Australian industry.

### Deliver the best Defence capability and value for money

- 3.3 A more capable, agile and potent ADF supported by an effective force structure is essential to protect Australia's security and prosperity over the coming decades. The Government is making a significant long-term investment in Defence capability and key enablers to ensure that Australia maintains a regionally superior ADF with the highest level of military capability and scientific and technological sophistication.
- 3.4 A key objective of Integrated Investment Program is to ensure that key enablers of capability—such as wharves, airfields, training areas and bases, information and communications technology systems, and supporting science technology—are accorded appropriate priority in investment decisions. The focus on enablers will ensure our future force is appropriately supported, works together as a whole, and is sustainable.
- 3.5 To fulfil the Defence mission and provide the ADF with the best capability, Defence must generate maximum capability benefit from every dollar of procurement.
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### Maximise opportunity for Australian industry participation

- 3.6 Australia needs a competitive and sustainable industry base to meet our defence capability and wider needs. Defence will seek to maximise opportunities for competitive Australian industry at the national and local levels to win work and develop industrial capability. The Government expects that global prime companies seeking to work with Defence will engage with Australian industry as part of providing their proposed solutions.
- 3.7 The approach of maximising opportunity for Australian industry participation provides all potential suppliers flexibility to develop solutions to deliver the best Defence capability based on value for money. Requiring tenderers to more explicitly address Australian industry in their solutions (at a national and local level) will ensure that they undertake due diligence on the capability, capacity and competitiveness of Australian industry, and that the solution is appropriate to the circumstances.
- 3.8 Defence recognises that many of its suppliers already have a strong record of engaging with Australian industry at all levels. The *Defence Policy for Industry Participation* provides potential suppliers with new opportunities to market this strength as part of their proposed solution so they can be recognised for good industry participation performance under their contracts.

## Provide a consistent approach to consideration of Australian industry in Defence procurement

- 3.9 Defence relies on Australian industry to meet its needs by providing a wide range of materiel, non-materiel, and construction goods and services. There is no ‘one size fits all’ approach to Defence procurement—it must be proportionate to the value, nature, complexity and risk of the procurement. The Policy ensures all Defence materiel and non-materiel procurements valued at or above \$4 million (\$7.5 for construction services) consider Australian industry in the economic benefit assessment as part of evaluating overall value for money.
- 3.10 A consistent approach to considering Australian industry enables Defence to better deliver the Government’s defence industry policy, and implement Australian industry as a Fundamental Input to Capability.

## Core policy approach

- 3.11 The core element of the Policy is a tiered approach to considering Australian industry across materiel, non-materiel and construction procurements as follows:
- ▶ **Procurements valued less than \$4 million** – no specific requirements.
  - ▶ **Materiel procurements valued between \$4 million and \$20 million** – new requirement for an Australian Industry Capability (AIC) Schedule.
  - ▶ **Materiel procurements valued at \$20 million or more** – continued requirement for an AIC Plan including an AIC Schedule.
  - ▶ **Non-materiel procurements valued between \$4 million and \$20 million** – new requirement for an Industry Participation Schedule.
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- ▶ **Non-materiel procurements valued at \$20 million or more** – new requirement for an Industry Participation Plan including a Schedule.
- ▶ **Construction services valued at \$7.5 million or more** – new requirement for a Local Industry Capability Plan.

3.12 Local industry considerations will be incorporated in all schedules and plans, except for materiel acquisition procurements which are predominantly location agnostic and focused on maximising opportunities for Australian industry participation at a national level.

Defence Procurement			
	Materiel	Non-Materiel	Construction Services
\$20 million	Australian Industry Capability Plan	Industry Participation Plan	Local Industry Capability Plan
\$7.5 million	Australian Industry Capability Schedule	Industry Participation Schedule	
\$4 million			No requirement
	No requirement	No requirement	

Figure 2.1: Plan and schedule requirements

- 3.13 The relevant schedule or plan forms part of the overall value for money consideration which will continue to be driven by the capability need, cost, schedule and other elements of decision-making related to the procurement. Defence will not preference Australian industry at a local or national level. The focus is on maximising opportunity to compete for work.
- 3.14 Links to the relevant plans and schedules will be made available at: [www.defence.gov.au](http://www.defence.gov.au)

### Industry schedules

- 3.15 Schedules require a breakdown of the value of the planned expenditure in Australia in terms of companies, nature and value of work. They provide the ability for tenderers to address local industry involvement where relevant, and contribute to Defence's assessment of the economic benefit of the tendered solution as part of considering overall value for money.

### Industry plans

- 3.16 These plans describe how the tenderer has engaged with Australian industry at the national and local levels (where applicable) to deliver the required goods, works or services. This includes the specific commitments by the tenderer to maximise opportunities for competitive Australian industry to participate in the supply chain and to support development of Australian industry capability. The plans will also describe how the tenderer will monitor and report on its commitments once in contract. Similar to the tendering requirements, the requirements to report post contract signature will be proportional to the nature, value, complexity and risk of the contract. The plans also include the schedule discussed above.

- 3.17 The Local Industry Capability Plan has been tailored to reflect the specific nature and requirements of construction-related procurement. As with the other plans and schedules, the Local Industry Capability Plan seeks information on Australian industry participation—whether this is local or national—with demonstrated engagement with Australian industry and detail on the proposed work to be undertaken by industry.

## Interaction with the Australian Industry Participation Policy

- 3.18 The *Australian Industry Participation Policy* is administered by the Department of Industry, Innovation and Science. It requires successful tenderers for certain non-materiel Commonwealth procurements valued at or above \$20 million to prepare and implement an Australian Industry Participation Plan that maximises Australian industry participation by providing full, fair and reasonable opportunities. The *Defence Policy for Industry Participation* addresses the requirements of the *Australian Industry Participation Policy*, and means that potential defence suppliers will not need to prepare a separate Australian Industry Participation Plan.

## Defining local industry

- 3.19 Defence understands that the concept of local industry can mean different things to different people. Because no two local areas are the same, Defence has not developed a rigid, geographical definition of what ‘local’ means. Defining ‘local’ by applying an arbitrary geographic boundary would risk undermining the intent of the *Defence Policy for Industry Participation*, particularly in the context of regional and remote Australia.

- 3.20 The policy takes a pragmatic approach to the concept of local industry. Tenderers propose what constitutes local in the context of the specific procurement and their particular tendered solution. However, Defence expects tenderers to adopt a common sense approach based on reasonable geographic proximity to the location where the work is to be performed.
- 3.21 Importantly, if works or services are required in a regional or remote area, local industry would not include the nearest capital city. For example, Brisbane based contractors would not be counted as local industry for work required in the Shoalwater Bay Training Area. Brisbane based contractors would, however, still count as Australian industry for the purposes of the tender evaluation for that procurement. Defence will consider tenderers' claims to examine whether local industry has genuine opportunities to be involved.
- 3.22 The requirement for tenderers to address local industry as part of their Australian industry commitments does not imply that local industry is to be 'preferred' as part of the solution. The Policy's intent is to ensure that tenderers take steps to understand the local industry capacity and capability, and to provide local industry with a fair opportunity to compete for work within the tenderer's broader Australian supply chain. Ultimately, local industry must contribute to delivering the maximum value for money of the tenderer's proposed solution.
- 3.23 There will also be a range of Defence procurements, particularly materiel acquisitions, where prime contractors will draw upon defence industry across Australia, noting that in many cases, the procurement solution is agnostic of location within Australia. The delivery of major platforms, such as ships, submarines, aircraft and armoured vehicles are national undertakings and will draw on a wide spread of Australian defence industry, in addition to industry based in the location or state where the platform construction or integration is being undertaken.
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- 3.24 In maximising opportunities for Australian industry participation in these national undertakings, prime contractors are expected to consider competitive Australian industry at all levels.

## Policy exemptions

- 3.25 The objectives for the *Defence Policy for Industry Participation* must be pragmatic and not unnecessarily raise the cost of tendering for little or no benefit. Procurements may be exempt from the Policy requirements where additional burdens for Defence and industry would disproportionately exceed potential benefits. Exemptions will be considered case-by-case and will require the approval of the Defence official signing the Endorsement to Proceed. Procedures for considering exemptions—and guidance on the types of exemptions—will be set out in guidance materials for Defence officials. Guidance will also be provided to industry. Procedures for Defence officials will include a requirement for record keeping when such an exemption has been approved, and the reasons for the exemption.
- 3.26 Examples of procurements which may be exempt include, but are not limited to:
- ▶ leasing land, existing buildings or other infrastructure or any associated rights
  - ▶ goods and services (including construction) outside Australian territory, for consumption outside Australian territory, including for ADF operations overseas
  - ▶ government advertising services
  - ▶ spares for Defence systems or platforms in service with the ADF that are produced exclusively overseas, and

- ▶ procurements that exceed a total value of \$4 million for materiel and non-materiel, and \$7.5 million for construction, but that are for the delivery of goods and services over a long period of time and where the effort to apply the Policy would be significantly outweighed by the cost to industry.
- 3.27 A decision to exempt a procurement from the requirements of the *Defence Policy for Industry Participation* does not also exempt the procurement from the requirements of the Commonwealth Procurement Rules or the Defence Procurement Policy Manual. Further details on these exemptions are set out in the Defence Procurement Policy Manual.

## Economic benefit to the Australian economy

- 3.28 For procurements valued above \$4 million (or above \$7.5 million for procurements of construction services), the Commonwealth Procurement Rules require officials to consider the economic benefit of the tender responses to the Australian economy as part of assessing overall value for money. The plans and schedules under the *Defence Policy for Industry Participation* requirements form the basis of this consideration in Defence procurements. To avoid doubt, tenderers only need to address the content requirements of the plans and schedules, and are not required to undertake an economic benefit assessment.
- 3.29 In general terms, benefits to Australia's economy result when the procured supply:
- ▶ makes better use of Australian resources that would otherwise be under-used. For example:
    - employing those who would otherwise be under or unemployed
    - spare industrial capacity, or
    - freeing government funds for other spending
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- ▶ otherwise increases productivity. For example:
  - adopting new know-how or innovation
  - enabling more people to acquire in-demand skills, or
  - allowing resources to be allocated to sectors in which Australia has a comparative advantage.

3.30 There are many ways that suppliers can provide benefit to the Australian economy. While every procurement is different and will require a tailored approach, examples of the types of economic benefits Defence may consider include:

Benefit	Impact	Approach
Industrial sustainability	<ul style="list-style-type: none"><li>• Strengthening the Australian national economy and supporting vibrant local economies in regional and remote areas.</li><li>• Increasing the resilience and competitiveness of the Australian industrial base.</li></ul>	<p>Potential suppliers could:</p> <ul style="list-style-type: none"><li>• demonstrate their use of Australian industry as part of their supply chain</li><li>• describe plans to share knowledge, skills and technology with Australian businesses, including SMEs, or</li><li>• explain how Australian industry will be able to access export or global supply chain opportunities.</li></ul>
Employment and training	<ul style="list-style-type: none"><li>• Creating employment opportunities for those who would otherwise be unemployed or under-employed.</li><li>• Developing practical training opportunities.</li></ul>	<p>Potential suppliers could:</p> <ul style="list-style-type: none"><li>• quantify the expected employment opportunities, or</li><li>• demonstrate training and development plans to fill skills gaps in the market.</li></ul>

Benefit	Impact	Approach
Diversity and equality	<ul style="list-style-type: none"><li>• Ensuring all businesses have the same opportunity to tender for contracts.</li><li>• Ensuring that supply markets for essential inputs remain diverse and competitive.</li><li>• Ensuring that suppliers such as SMEs, Indigenous businesses and businesses employing people with disability are positioned for success.</li></ul>	<p>Potential suppliers could:</p> <ul style="list-style-type: none"><li>• outline plans to communicate supply chain opportunities to Australian industry, or</li><li>• demonstrate their use of SMEs, Indigenous businesses and businesses employing people with disability as part of their supply chain.</li></ul>
Fostering innovation	<ul style="list-style-type: none"><li>• Building new skills and connections to overcome difficulties in developing new capabilities.</li><li>• Creating a more innovative supply chain through risk taking,</li></ul>	<p>Potential suppliers could:</p> <ul style="list-style-type: none"><li>• describe their research and development investments and partnerships, or</li><li>• demonstrate their collaboration principles, technology, systems or innovations.</li></ul>
Community resilience	<ul style="list-style-type: none"><li>• Enhancing the resilience of Australian communities and institutions.</li><li>• Supporting vibrant local communities in regional and remote areas.</li><li>• Reducing adverse environmental, social and economic impacts.</li></ul>	<p>Potential suppliers could:</p> <ul style="list-style-type: none"><li>• outline plans for building, leasing or procuring infrastructure that supports Australian communities</li><li>• describe plans to work with local communities to manage transition arrangements at the conclusion of the contract, or</li><li>• demonstrate the environmental benefits of a proposed solution.</li></ul>



- 3.31 Defence recognises that these economic benefits are interconnected and will consider the impacts holistically. For consistency and efficiency with Commonwealth procurement policy, Defence will only take into account direct effects to the Australian economy. For example, the direct economic benefit of the nature, value and enduring benefit of work proposed by potential suppliers would be considered, but not potential second order effects on the economy in terms of services, products or jobs that might result from those companies and their employees having greater resources to spend.
- 3.32 Using a common schedule for procurements allows the economic benefits proposed by tenderers to be compared as part of the procurement decision. Defence takes particular care to avoid discrimination in cases where the economic benefit is a function of discriminatory factors expressly prohibited by the Commonwealth Procurement Rules. For example, the tenderers' size, degree of foreign affiliation or ownership, location, or the origin of its goods and services.



The Australian designed and manufactured Hawkei Protected Mobility Vehicle (light, four-door variant) undergoes trials at the Taji Military Complex, Iraq



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## ► Chapter 4 – Defence Policy for Industry Participation

### A shared responsibility

4.1 Implementing the *Defence Policy for Industry Participation* is a shared responsibility between Defence and industry. Defence is responsible for:

- clearly articulating the Policy intent and expectations
- providing appropriate tools, guidance and support to facilitate and assure implementation
- maintaining a robust framework to ensure value for money and accountability
- evaluating effectiveness and refining the approach to improve outcomes, and
- engaging with industry on an ongoing and collaborative basis.

4.2 Industry is responsible for:

- understanding the Policy and seeking clarification where necessary
- undertaking due diligence to determine the capability, capacity and competitiveness of Australian industry
- developing value for money solutions that maximise opportunity for Australian industry participation
- managing, monitoring and reporting on Australian industry engagement, and
- engaging with Defence on an ongoing and collaborative basis.

- 4.3 Defence understands tenderers may bear additional implementation costs during the tender processes and when reporting. Defence remains committed to working with industry to reduce the costs of tendering and implementing the Policy.

## Training and outreach

- 4.4 The *Defence Policy for Industry Participation* depends on Defence procurement officials and suppliers working together. The foundation of success is a shared understanding of the policy objectives and requirements for tendering and contracting. Defence will deliver an online training module for Defence procurement officials on the Policy and its implementation in Defence tendering and contracting processes. Defence will also convene internal engagement sessions across key procurement areas to raise awareness of the Policy and to work through implementation.
- 4.5 Defence consulted with industry and other stakeholders during development of the Policy and is committed to helping industry to fully implement it. Defence will work with key industry associations and state and territory governments to deliver outreach events that explain the Policy and what it means for doing business with Defence.

## Assurance

- 4.6 The schedules and plans to be established under this Policy form one part of the overall assessment and contracted deliverables for the procurement. The lead area within Defence managing the contract with the successful tenderer will be responsible for reviewing reporting against contract milestones and assuring that contractors meet their obligations to deliver the agreed Australian industry outcomes.
- 4.7 Defence is introducing a risk-based assurance review program for contracted AIC Plans in 2019, and will consider broadening this into other procurement areas.
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## Tools and resources

- 4.8 A suite of resources will be available to support Defence officials and industry to implement the *Defence Policy for Industry Participation*. This includes:
- ▶ *Defence Policy for Industry Participation* schedules and plans – these will be used to implement the Policy as part of Defence procurement and will be available at [www.defence.gov.au](http://www.defence.gov.au)
  - ▶ *Defence Policy for Industry Participation* Guide – this provides industry guidance on best practice for the development and delivery of the Policy's requirements. The Guide will be available at [www.defence.gov.au](http://www.defence.gov.au)
  - ▶ *Defence Policy for Industry Participation* reference materials – a suite of internal reference materials will support Defence officials to implement the Policy requirements.

## Reporting and review

- 4.9 Defence will report on Policy implementation as part of its annual reporting requirements. Reporting will address policy impact across Defence procurement. It will not assess individual suppliers or performance of their contracted commitments.
- 4.10 The Policy will be reviewed periodically through a Defence Industry Policy Division working group to ensure it aligns with the Government's defence industry policy objectives. This may include enhancements to tendering and contracting templates. Defence will engage with industry and other stakeholders as part of this process.
- 4.11 Lead areas in Defence for materiel, non-materiel and construction procurement will continue to be responsible for overall procurement policy and the contracting suite specific to their area of Defence.



DEFENCE POLICY FOR INDUSTRY PARTICIPATION



