



Federal Budget 2016

Defence

A review of the Budget's
major business implications

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Introduction

The 2016 Federal Budget has confirmed the promises made in the February 2016 Defence White Paper. Some \$33.9 billion of spending in FY16/17, and a 3.4 percent increase compared to FY15/16. With the promise of \$195 billion for new capability through to FY25/26, the signals to the Defence industry are positive.

Five highlights

- 1 The Integrated Investment Plan (IIP) will invest \$1.7 billion in the Major Capital Facilities program in 2016-17, and signals a much greater need to collaborate regionally with customers, suppliers and competitors. This new style of investment is beginning to flow, and those that can work nationally, across states and territories, and adopt a more collaborative mindset will benefit.
- 2 \$195 billion assigned to new Defence capability through to FY25/26, which will flow into the order books of prime systems integrators, small-to-medium-sized companies, plus infrastructure, information and communications technology (ICT) and services providers. While South Australia and Western Australia might get the largest direct share, the funds will eventually flow to all states and territories.
- 3 \$1.6 billion through to FY25/26 for a series of Defence Industry Programs including a new Centre for Defence Industry Capability based in Adelaide, a virtual Innovation Hub and Next Generation Technology Fund enabling Defence Industry growth and innovation across the nation.
- 4 In the national security sector there has been a re-allocation of \$195 million to implement recommendations of the 2015 Cyber Security Review. Although not new money, this is an aggregation of budgets that should benefit larger cyber service providers.
- 5 The scale and complexity of regional infrastructure programs creates opportunities to work more closely with other ICT and infrastructure providers, plus the prime system integrators, to ensure the infrastructure is developed and delivered in unison with broader Australian Defence Force (ADF) capability.

KPMG Insight: The State and Territory view

- 1 The positive signs are not uniform across the country. For example, the \$90 billion for naval shipbuilding programs will benefit South Australia and Western Australia the most, with further benefits rippling through national and global supply chains.
- 2 The infrastructure investments (more easily discovered in the budget documents compared to other Defence investments) will logically follow the distribution of ADF personnel. Queensland and New South Wales in particular, appear to have benefited in this regard.
- 3 States and territories are investing in the capture of new Defence work. From advocates to advisory committees and dedicated public servant teams, the various states and territories are effectively competing for dollars now. They are aiming to attract the programs and Defence industry to grow employment, innovation and adjacent sector opportunities.

“Queensland, with its large ADF presence, naturally features in Defence infrastructure and new capability spending plans. Townsville and RAAF Amberley continue to attract substantial investment with the P-8A acquisition only continuing the trend.”

Jonathon Peacock, Partner

- **Lavarack Barracks** In November 2013, the Australian Government committed \$752.7 million to logistics infrastructure to modernise and enhance wholesale storage, distribution and land materiel functions of the Joint Logistics Command units to provide optimum support to Defence operations. Those works are completed, with the exception of Lavarack Barracks, which are scheduled for completion by mid-2016. The opportunity for industry will shift to maintenance and upgrade in 2017.
- **RAAF Amberley and Townsville** The Explosive Ordnance Logistics Reform Program will upgrade storage facilities across Australia for all explosive ordnance. This \$210 million reform program will upgrade existing storage infrastructure and increase storage capacity across the explosive supply chain network. It is a major opportunity for Defence infrastructure design, delivery and service providers. This program will optimise the national explosive storage network and deliver required capacity and operational efficiencies. Twelve sites nationally will have improvements delivered under the program, including RAAF Amberley and Townsville. The program will commence a detailed design process in early 2016 with construction in 2018.
- **Engaging People with Disability in Townsville, Enoggera and RAAF Amberley** The Defence Administration Assistance Program employs people with disability, through partnerships with community-based Australian Disability Enterprises, to provide Defence personnel with administrative assistance. Over the next 12 months, Defence will implement the Defence Administrative Assistance Program at seven sites nationally, including Townsville and RAAF Base Amberley. The program has been operating in Enoggera, Queensland since 2014.
- **Townsville** Defence Housing Australia currently has four development projects in regional areas, valued at approximately \$415 million overall, which includes investment in Townsville. Defence Housing Australia’s diverse operations provide significant opportunities for small and medium businesses in regional Australia by engaging with local trade contractors on residential maintenance services.

Defence Infrastructure / Capital Facilities Projects

\$1.7 billion has been allocated to the Major Capital Facilities program in 2016-17. Major Capital Facilities projects in Queensland include the following:

- **AIR 7000 Maritime Patrol Aircraft Phase 2B** The Australian Government is investing \$707.9 million to provide new and upgraded facilities and infrastructure to support the introduction of the P-8A aircraft including at RAAF Base Townsville. Construction is planned to commence in mid-2016 and be completed by mid-2020.
- **AIR 9000 Phase 5C (CH-47F Chinook) Replacement Chinook Facilities Project** The government is investing \$54.8 million in facilities at RAAF Base Townsville. This will provide new and upgraded facilities to support the introduction and sustainment of the new CH-47F Model Chinook Medium Lift Helicopters. Construction commenced in November 2014 and is scheduled for completion by mid-2017.
- **17th Construction Squadron Relocation Infrastructure Project** The government is investing \$71.8 million to provide facilities to co-locate the 17th Construction Squadron with the 6th Engineer Support Regiment and the 21st Construction Squadron at RAAF Base Amberley. Construction commenced in late 2015 and is scheduled for completion by late 2016.
- **AIR 8000 Battlefield Airlifter Facilities Project Phase 2** The government is investing \$370.4 million to provide facilities at RAAF Base Amberley to accommodate and support the operation of the new C-27J Battlefield Airlifter aircraft. Construction is scheduled to commence in mid-2016 and is scheduled for completion by early 2019.
- **AIR 5349 Phase 3 Growler Airborne Electronic Attack Capability Facilities Project** The government is investing \$348.6 million to provide working accommodation, maintenance, warehousing and training facilities. This includes at RAAF Base Amberley and Army Aviation Centre Oakey to support the introduction of the Growler Airborne Electronic Attack Capability. Construction is scheduled to commence in mid-2016 and be completed in 2021.

Northern Territory

- **Air Traffic Control Complex Infrastructure Project and AIR5431 Phases 2 and 3 Fixed Base Defence Air Traffic Management and Control System** The government is investing \$409.9 million to provide facilities in support of replacement Air Traffic Management Surveillance, Command and Control Systems under AIR5431 Phases 2 and 3, including the replacement of aged and degraded Air Traffic Control Towers. The project will deliver purpose-built facilities and improved infrastructure at 13 Defence properties throughout Australia including Queensland's:
 - RAAF Base Amberley
 - Army Aviation Centre Oakey
 - Off-base sensor site Turkey Hill – approximately 9km to the north of the Army Aviation Centre Oakey
 - RAAF Base Townsville
- Off-base sensor site Many Peaks – approximately 7km to the north of RAAF Base Townsville. Construction is planned to be completed by late 2021.

“The Defence infrastructure spend keeps flowing in the Northern Territory, including Delamere. The challenge now is for the NT to secure its share of national Defence maintenance and sustainment spending.”

Denys Stedman, Partner in Charge, Darwin

- **Infrastructure** The government is investing in infrastructure across bases and facilities in the Northern Territory. The Force Posture Initiatives agreed between Australia and the United States will see continuing training rotations across Northern Australia by the US Marine Corps, as well as enhanced cooperation between the two nations' air forces. Both governments are investing in infrastructure and other supporting arrangements, providing significant opportunities to industry in the Northern Territory.

The government is investing \$709.377 billion nationally to 2022 for new and upgraded infrastructure in support of the P-8A maritime patrol aircraft and the Joint Strike Fighter. This will include construction projects at RAAF Bases Darwin and Tindal.

The government is investing \$348.6 million to 2021, for the Growler Airborne Electronic Attack Capability, which includes an allocation for facilities and maintenance at the Delamere Air Weapons Range.

The government is investing \$74.4 million to mid-2018 to enable the continued use of Delamere Air Weapons Range, including the new Growler Mobile Threat Training Emitter Systems capability.

- **Maintenance and Support** The government has committed to sustaining Defence capabilities and facilities across Australia, including the maintenance of helicopters and military fighting vehicles in Darwin. The Adelaide-based Centre for Defence Industry Capability will support this vital role, through its network of business and skills advisers, including across the Northern Territory.
- **Logistics** Construction will commence in 2018 on the \$210 million Explosive Ordnance Logistics Reform Program, to upgrade the storage of explosive ordnance nationally, including at RAAF Darwin.

New South Wales

- **Defence in the Community** The government is investing \$18.114 million nationally for 2016-2017 to link Defence families to the resources and support services they require to integrate into local communities. In the Northern Territory, this is a focus of the Defence Community Organisation offices in Darwin and Katherine.
- **Defence Housing** Defence Housing Australia currently has four development projects in regional areas, with a total value of \$415 million, including RAAF Base Tindal. In addition, Defence Housing Australia is undertaking some \$45 million in upgrade work nationally, employing local maintenance contractors, including in Alice Springs and Katherine.
- **Indigenous Engagement** Indigenous Australians seeking military or civilian careers in Defence can access pathways programs, such as the Defence Indigenous Development Program in Batchelor. The North-West Mobile Force (NORFORCE), headquartered in Darwin, includes approximately 60 percent Indigenous members. Defence base services contractors are required to demonstrate a commitment to Indigenous employment and a current Indigenous Training, Employment and Supplier Plan.
- **Engaging People with Disability** The government is investing almost \$9 million nationally over 3 years to the Defence Administration Assistance Program. It employs people with disability at various sites across Australia, including in Darwin.

“NSW has a substantial ADF footprint and this leads to a large proportion of Defence infrastructure and capability spending being directed to NSW. Joint Strike Fighter and Multi Role Helicopter are a particular focus right now.”

Warwick Shanks, Partner in Charge, Wollongong

- **AIR6000 New Air Combat Capability** RAAF Williamtown (Newcastle) and Myambat (Hunter Valley) will benefit from Commonwealth Government investing \$1.477 billion nationally over 7 years to provide new and upgraded facilities and infrastructure to support the introduction of the Joint Strike Fighter.
- **MH-60R Seahawk Maritime Combat Helicopters** The government is investing \$189 million in facilities for Maritime Helicopters nationally. A portion of this spend will be at HMAS Albatross and Twofold Bay (Nowra).
- **HMAS Albatross Redevelopment** HMAS Albatross (Nowra) will benefit from a \$192 million spend over the 3 years on facilities, infrastructure and engineering services.
- **RAAF Williamtown Redevelopment** RAAF Williamtown (Newcastle) will receive a \$274 million investment over the next 5 years. This spend will be on upgrades or replacements to infrastructure.
- **Explosive Ordnance Reform Program** The government is investing \$210 million to upgrade existing storage infrastructure and increase network capacity. NSW will be a beneficiary of a portion of that spend with the impacted facilities being RAAF Williamtown (Newcastle), Myambat in the Hunter Valley and Eden.
- **Defence Housing Australia** Newcastle will benefit from two housing development projects run by Defence Housing. In addition Defence Housing Australia will be engaging local contractors to upgrade existing housing in Kapooka.

Victoria

“Victoria is often regarded as the ADF’s training state. The Air Force Pilot Training Program arrival into East Sale is likely the next major Defence industry opportunity, with the Williamstown shipyard issue still unresolved.”

Mike Kalms, Lead Partner, Defence Industry

- **Explosive Ordnance Logistics Reform Program** The government has allocated \$210 million to fund infrastructure improvements, including at three sites within Victoria – Cerberus, Mangalore – Seymour and Point Wilson. Subject to approvals, this work is anticipated to commence in 2018.
- **Defence Housing** \$415 million has been proposed to expand five developmental regional projects, including at Sale in Victoria.

Western Australia

“There is a little new Defence spending in Western Australia in this Federal Budget, but the medium-term prospects for the State appear very strong, on the back of Pacific Patrol Boat and Offshore Patrol Vessel decisions to build in Henderson.”

Jonathan Smith, Partner

- **AIR 7000 Maritime Patrol Aircraft Phase 2B** The government is investing \$707.9 million to provide new and upgraded facilities and infrastructure to support the introduction of the P-8A aircraft including at RAAF Base Pearce. Construction is planned to commence in mid-2016 and be completed by mid-2020.
- **Facilities for the MH-60R Seahawk Maritime Combat Helicopters** The government is investing \$189 million to provide new and upgraded facilities for operational maritime helicopter squadrons, including at HMAS Stirling. The project aims to provide new and upgraded facilities to support the new maritime helicopter operations. The works include the provision of facilities for explosive ordnance storage, aircraft hangars, aircraft workshops, synthetic training, and working accommodation. Construction commenced in late 2013 and is scheduled for completion by mid-2017.
- **Air Traffic Control Complex Infrastructure Project and AIR5431 Phases 2 and 3 Fixed Base Defence Air Traffic Management and Control System** The government is investing \$409.9 million to provide facilities in support of replacement Air Traffic Management Surveillance, Command and Control Systems under AIR5431 Phases 2 and 3, including the replacement of aged and degraded Air Traffic Control Towers. The project will deliver purpose-built facilities and improved infrastructure at 13 Defence properties throughout Australia, including:
 - RAAF Gingin
 - RAAF Base Pearce
 - Off-base sensor site Eclipse Hill – approximately 32km to the north of RAAF Base Pearce.Construction is planned to be completed by late 2021.
- **Explosive Ordnance Logistics Reform Program** The \$210 million of planned expenditure on infrastructure improvements includes works scheduled for Garden Island in WA, with construction due to commence in 2018.

South Australia

“This Federal Budget provides a signpost towards the project flow to come with the largest share of Defence’s \$90 billion naval shipbuilding investment to channel through South Australia and continued significant infrastructure investment in the Edinburgh precinct for the imminent arrival of the RAAF P8 aircraft.”

Peter Sexton, Partner

Explosive Ordnance Logistics Reform Program

This \$210 million reform program will upgrade existing storage infrastructure and increase storage capacity across the explosive supply chain network. Twelve sites nationally will have infrastructure improvements delivered under the Explosive Ordnance Logistics Reform Program including RAAF Edinburgh. The Explosive Ordnance Logistics Reform Program will commence the detailed design process in 2016. Subject to all required approvals construction will commence 2018.

Defence Infrastructure / Capital Facilities Projects

Major Capital Facilities projects in South Australia include the following:

- **Enhanced Land Force Facilities Stage 2** The government has been investing \$1.458 billion in facilities to support Enhanced Land Force Stage 2. All remaining works, including facilities and supporting infrastructure at Cultana Training Area, are scheduled for completion by early 2017.
- **AIR 7000 Maritime Patrol Aircraft Phase 2B** The government is investing \$707.9 million to provide new and upgraded facilities and infrastructure to support the introduction of the P-8A aircraft including at RAAF Edinburgh – the home of the Maritime Patrol Group in Air Force. Construction is planned to commence in mid-2016 and be completed by mid-2020.
- **Air Traffic Control Complex Infrastructure Project and AIR5431 Phases 2 and 3 Fixed Base Defence Air Traffic Management and Control System** The government is investing \$409.9 million to provide facilities in support of replacement Air Traffic Management Surveillance, Command and Control Systems under AIR5431 Phases 2 and 3, including the replacement of aged and degraded Air Traffic Control Towers. The project will deliver purpose-built facilities and improved infrastructure at 13 Defence properties throughout Australia including:
 - RAAF Woomera
 - RAAF Edinburgh

Construction is planned to be completed by late 2021.

Tasmania

“There is Tasmanian Defence content in this Budget – for example Fort Direction is flagged for upgrade. But the underlying story for Tasmanian Defence industry is around supply chain and the ability of capable local SME’s to find positions with the national and global prime systems integrators.”

Paul Green, Partner, Tasmanian Chairman

- **Explosive Ordnance Reform Program** The \$210 million to upgrade existing storage infrastructure and increase network capacity, with Fort Direction in Tasmania one of the facilities targeted for improvements

Contact us

Mike Kalms

+61 3 9288 6426
mkalms@kpmg.com.au

Denys Stedman

+61 8 8982 9002
dstedman@kpmg.com.au

Peter Sexton

+61 8 8236 3308
petersexton@kpmg.com.au

Paul Green

+61 3 6230 4053
pjgreen@kpmg.com.au

Jonathon Peacock

+61 7 3233 3150
jjpeacock@kpmg.com.au

Jonathan Smith

+61 8 9263 4895
jesmith1@kpmg.com.au

Warwick Shanks

+61 2 4231 5355
wshanks@kpmg.com.au

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[Defence Innovation Redesigned: What the 2016 Defence White Paper means for industry](#)

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