



**Australian Government**  
**Department of Defence**

Associate Secretary

Governance and Reform Division

**R25735171**

First Assistant Secretary Governance & Reform  
Finance Business Partner

(R2-1-C067) (for Commitment Approval)  
(CP1-5-008) (for Finance advice)

**SECTION 23 COMMITMENT APPROVAL FOR THE PROCUREMENT OF  
CONTRACTED ASSISTANCE ON CAPABILITY DELIVERY AND SUSTAINMENT  
AND IMPLEMENTATION OF SMART BUYER**

**RECOMMENDATIONS**

That you:

(i) **APPROVE** commitment and expenditure of relevant money for provision of support to the implementation of the First Principles Review (FPR) outcomes and recommendations through a contract/official order under the First Principles Review Implementation Standing Offer Panel arrangements with BECHTEL Management Pty Ltd, ABN 19 606 508 427. For assistance with the implementation of the Smart Buyer function for a period of up to two (2) years at a cost of up to \$65,763,369.00 (GST Inclusive) under Section 23 of the Public Governance, Performance and Accountability Act. The Delegate confirms that the arrangement will be a proper use of relevant money, promotes the achievement of the purposes and financial stability of the entity and is not inconsistent with the policies of the Australian government.

**BACKGROUND**

1. A core element of the First Principles Review, to be implemented as part of capability development life cycle work stream, is the Smart Buyer function and the requirement to be more efficient in purchasing and sustaining major capital equipment, ICT and estate services.
2. The Capability Acquisition and Sustainment (CAS) Group were created on 1 July 2015. The number one priority of CAS Group is to work cooperatively with other parts of Defence to ensure that the Australian Defence Force has the necessary capabilities to fulfil its mission and operations. As a delivery agent, CAS Group will perform the project management function for major capital acquisition and sustainment on behalf of the Capability Manager's across Defence.
3. Defence requires services from Bechtel Management Pty Ltd to assist with the implementation of the Smart Buyer function within the Business Areas of CAS Group and other acquisition elements across the department, and to assist with organisational design within Capability Acquisition Sustainment (CAS) Group.

14. Bechtel have provided numerous resources to provide the deliverables and the cost of the proposed contractors illustrate the skill level of resources provided to the implementation.

15. Bechtel has extensive experience in managing complex, large scale projects and a history of strong change management expertise. Given the scale of change required in CAS Group, Defence believes Bechtel presents a viable, value for money option given their experience with project management reform and their ability to assist with sustainable, long last change within CAS Group.

16. Bechtel was also seen as the preferred option due to their core business being deliver of major complex projects. Bechtel is not seen as a consultancy firm but rather a project management company in its own right. The experience they have is from large scale oil and gas, nuclear and defence projects and this was assessed as being essential in assisting Defence implement rapid yet sustainable change in CAS Group.

## PROCUREMENT METHOD

17. This procurement activity utilised the Department of Defence First Principles Review Implementation Standing Offer Panel (SON3250352). The procurement process was conducted as an open tender process in accordance with the requirements of the Commonwealth Procurement Rules (CPRs) and other Defence specific procurement policy. Achieving value for money is the core rule of the CPRs, and the procurement process undertaken in this case, an open tender approach to market through AusTender, was designed to ensure the achievement of a value-for-money outcome.

18. Endorsement To Proceed (ETP) was obtained for the proposed contract with Bechtel on 29 April 2016 (Attachment B).

19. A Request For Quote and Tasking Statement (RFQTS) was issued to Bechtel (Attachment C) on 17 April 2016. The RFQTS was released via the Standing Offer Panel for First Principles SON3250352. A response was received from Bechtel on 20 April 2016.

20. Our ability to issue the request to one company complies with the conditions of the Standing Offer Panel.

21. Bechtel s 47G

22. The First Principles Office sought advice from Defence Legal on 27 April 2016 and Defence Legal provided their advice on 29 April 2016 (Attachment E).

23. Defence entered into negotiations with Bechtel regarding the modifications to the clauses for the Official Order. Defence emailed Bechtel the advice from Defence Legal and on 30 April 2016 accepted Defence's redraft of the clauses (Attachment F).

24. The modification to the clauses does not affect the Deed of Standing Offer and only relates to the proposed contract. Therefore, a Deed amendment is not required.

## FUNDS AVAILABILITY

34. The total cost of this spending proposal is to be delivered at for a capped cost of \$65,763,369.00 (GST inclusive) and includes any expenses (reimbursements) that may be incurred in completing the services.

35. s 47G

36. The proposed contract commencement date is 1 July 2016 until 29 June 2018. Defence at its discretion may extend the term by up to a period of two (2) years past the expiry date of the initial term.

37. If further extension options are considered by the Commonwealth, Endorsement to Proceed and Section 23 approvals will be sought.

38. If Defence takes up the option to extend, the duration and timings will be negotiated and documented with Bechtel.

39. The funding identified is adequate for the proposed commitment and expenditure and is consistent with the purpose for which it was allocated.

40. The following financial codes will be used for this procurement:

Account Code:	Cost Centre:	WBS:	Fund No:
21035	215009	NA	99998
21309	215009	NA	99998

41. Contingency is not being used to fund the proposal.

42. The planned spread of commitment and expenditure for this proposal is contained in Table 1.

**Table 1. Planned Spread of Commitment and Expenditure**

FY	16/17	17/16	Total
	\$	\$	\$
Commitment	\$29,892,440.45	\$29,892,440.45	\$59,784,880
Expenditure	\$29,892,440.45	\$29,892,440.45	\$59,784,880
GST	\$2,989,244.05	\$2,989,244.05	\$5,978,488.10

## THE CONTRACT EXTENSION AND CONTRACT OPTIONS

43. The proposed contract start date is 1 July 2016 and the validity end date is 29 June 2018. Defence at its discretion may extend the term of the contract up to a period of two (2) years.



**SPECIALIST ADVICE - FINANCE**

As Specialist Advisor Finance I confirm:

- ☒ the sufficiency of the budget; *to be managed within the AFB - AS budget*
- ☒ the soundness of the costing calculations; and
- ☒ the accuracy of the costing calculations.

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(Signature) *Sean Dooley* (Printed Name) (PMKeys No) (Appt/Position No) (Date) *4.5.16*

**SECTION 23 - COMMITMENT APPROVAL**

As Section 23 - Commitment Approval I confirm that:

- ☒ I have consulted with a person who currently holds the required procurement competency and who has been involved in a material way during the development of the arrangement or has provided advice during the procurement process;
- ☒ the arrangement will be a proper use of relevant money;
- ☒ I have taken care and diligence and have made reasonable inquiries to ensure this arrangement meets all required procurement obligations, notably the Commonwealth Procurement Rules, the appropriate Accountable Authority's Instructions, the Defence Procurement Policy Manual, applicable Departmental Procurement Policy Instructions (and in DMO, other relevant instructions such as DMI(FIN)s and DMI(PROC)s) and is not inconsistent with the policies of the Australian government.
- ☒ I am acting in good faith and for proper purpose;
- ☒ I do not stand to gain advantage for myself or other persons or cause detriment to DMO, the Commonwealth or any other person;
- ☒ any real or perceived conflict of interest has been disclosed,

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*4 May 16*

(Signature) (Printed Name) (PMKeys No) (Appt/Position No) (Date)

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Nicole West

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*4 May 16*

(Signature) (Printed Name) (PMKeys No) (Appt/Position No) (Date)

**(Person Consulted)**



**Australian Government**  
**Department of Defence**

ASSISTANT SECRETARY  
GOVERNANCE AND REFORM DIVISION

Associate Secretary (R1-5-B160) (for Commitment Approval)  
Director Budgeting and Business Intelligence (R1-6-A044) (for Finance advice)

**SECTION 23 COMMITMENT APPROVAL TO EXPAND THE CONTRACT WITH  
BECHTEL MANAGEMENT PTY LTD FOR ASSISTANCE ON CAPABILITY  
DELIVERY AND SUSTAINMENT AND IMPLEMENTATION OF SMART BUYER**

**REFERENCES:**

- A. Standing offer deed with Bechtel (SON3250352)
- B. Original section 23 commitment approval for contract with Bechtel Management Pty Ltd
- C. Official Order between Bechtel Management Pty Ltd and the Commonwealth of Australia represented by the Department of Defence, executed 5 May 2016.
- D. Letter No. 26058-100-TC-GAM-00004 from Clive Billiald, Bechtel Management Pty Ltd to Jarrod Howard, Assistant Secretary First Principles Review, dated 25 October 2016.
- E. Endorsement to Proceed, endorsed 31 October 2016.

**RECOMMENDATIONS**

That you:

(i) **APPROVE** the commitment and expenditure of relevant money to expand the contract with Bechtel Management Pty Ltd for the supply of additional services and staff under Section 23 of the Public Governance, Performance and Accountability Act. The contract will be increased by \$31,699,263 (including GST) which will bring the total value of the contract to \$97,462,632 (including GST). The Delegate confirms that the arrangement will be a proper use of relevant money, promotes the achievement of the purposes and financial stability of the entity and is not inconsistent with the policies of the Australian government.

**BACKGROUND**

1. On 1 July 2016 a contract commenced with Bechtel Management Pty Ltd (Bechtel) for assistance with the implementation of the Smart Buyer function within the Business Areas of the Capability Acquisition and Sustainment Group (CASG) and other acquisition elements across the department, and to assist with organisational design within CASG (see Reference C).
2. The procurement to establish this contract was conducted as an Open Tender through the Department of Defence's First Principles Review Implementation Standing Offer Panel (see Reference A).

3. The contract included the following clause 3.1 to allow for the expansion of the contract should it be required:

*Under this Official Order Defence commits to procuring from the Contractor the level of resource commensurate with the estimated requirements to support the Option A 'Yellow' initiatives set out in Section 5 below. After detailed planning has occurred Defence will examine the need to increase contracted support to option B (the green initiatives) below. This will occur no later than 31 October 2016 and will be at Defence's discretion. It is expected that required deliverables will be renegotiated as more detail becomes available in October 2016. More detailed deliverables and the revised statement of work associated with Option B if required will be developed and agreed by both the Commonwealth and the Contractor no later than 31 October 2016.*

4. On 25 October 2016, a quote was obtained from Bechtel for the supply of Option B and the expansion of the contract (see Reference B).

5. Endorsement to Proceed with this procurement was provided by the Assistant Secretary Non Materiel Procurement Branch on 28 October 2016 and the Associate Secretary, representing the line manager, on 31 October 2016 (see Reference C).

#### **CONSIDERATIONS INCLUDING VALUE FOR MONEY ASSESSMENT**

6. The expansion to the contract will result in an increase in 20 FTE over a 20 month period (November 2016-June 2018), bolstered by additional reach back deployments for shorter interventions.

7. The broad scope of this contract expansions will include:
- deploying a team to support transformation within CASG air domain
  - deploying a team to support transformation within CASG maritime domain
  - deploying a team to support transformation within Chief Information Office Group (CIOG)
  - deploying staff to support the development of the engineering, logistics and corporate performance centres of expertise
  - deploying reach back capabilities to assist CASG and the Department of Defence in select areas including leadership development.

8. More detailed deliverables and an associated statement of work for this additional scope will be developed and agreed by no later than 28 February 2016. However, it is expected that these more detailed deliverables and work will include at a minimum:

- establishing embedded teams within the air, maritime and CIOG domains; including developing and supporting implementation of agreed reform plans within these domains and supporting systems program office reform within these domains
- assisting with development and implementation of agreed centres of expertise designs; including assisting with the establishment of engineering, logistics and corporate performance centres of expertise.

9. The expansion of the contract will continue to deliver value for money for the Commonwealth. Bechtel has already been engaged under the existing contract to assist with implementing the Smart Buyer function within CASG and other capability delivery areas within Defence; and to assist with organisational design and structure within the Capability Acquisition and Sustainment Group.



10. Bechtel was selected for the original contract based on its professional experience, detailed knowledge and past performance in the specialised area of First Principles Review reform implementation.

11. Bechtel has extensive experience managing complex, large scale projects and a history of strong change management expertise. Given the scale of change required in CASG, Defence believes Bechtel presents a viable, value for money option. Under the original contract they are already delivering project management reform and assisting with sustainable, long lasting change within CASG.

12. Bechtel was also seen as the preferred option due to their core business being delivery of major complex project. Bechtel is not a consultancy firm, but rather a project management company in its own right. Its experience has been developed through delivering large scale oil, gas, nuclear and defence projects. This delivery experience is assessed as essential in assisting Defence to implement rapid yet sustainable change in CASG.

13. As a result of services delivered under the original contract, Bechtel already has detailed technical knowledge of the Smart Buyer model and other transformation products and approaches being implemented within CASG and other delivery areas within Defence. It also has practical experience effectively supporting implementation of the First Principles Review. In particular, Bechtel has demonstrated its ability to transfer specialist technical knowledge from its staff to ongoing Defence employees.

14. Risk assessment and management was undertaken during the original contract approval process, commensurate with the scale, scope and risk of the procurement. The procurement was identified as a complex procurement with numerous high rated risks, relating to the value of the contract; the complexity of the requirements; the maturity of the market; the need for integration with existing systems and processes; the length of the contract; and the need for specialise legal advice. However, these risks were subsequently addressed or mitigated through the procurement process. There are not considered to be any additional risks associated with this extension to the existing contract.

15. As per the DPPM (Chapter 4.7, paragraph 37), once a standing offer is established, the subsequent purchase of goods or services from a supplier under that arrangement must comply with Division 1 of the CPRs, and where appropriate should also comply with Division 2.

16. This procurement is a domestic procurement valued at above \$200k and is not a remote procurement. In accordance with the Indigenous Procurement Policy (IPP) and as stated within DPPI 1/2015 the mandatory set-aside does not apply to this procurement.

#### FUNDS AVAILABILITY

17. The value of this contract will be increased by \$31,699,263 (GST Inclusive) and  
 s 47G This is divided as follows:

	Cost (GST inclusive)
s 47G	
<b>TOTAL</b>	\$31,699,263

18. The total value of this contract will now be \$97,462,632 (GST Inclusive).
19. The funding identified is adequate for the proposed commitment and expenditure and is consistent with the purpose for which it was allocated.
20. The following financial codes will be used for this procurement:

Account Code: 21309 and 21035	Cost Centre: 215009	WBS: N/A	Fund No: 99998
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21. Contingency is not being used to fund the proposal.
22. The planned spread of commitment and expenditure (based on current contract rates), for this proposal is contained in the table below:

	2016-17	2017-18	Total
Commitment/Estimate Expenditure	\$9,510,735	\$19,306,776	\$28,817,511
GST	\$ 951,074	\$ 1,930,678	\$ 2,881,752
			\$31,699,263

## SPECIALIST ADVISORS

### FINANCIAL ADVICE

23. Specialist Financial Advice has been obtained on the financial aspects of the proposed commitment of relevant money. The following authorities have been consulted in the preparation of this submission:

- a. Mr Rodger Moore, Director Budgeting and Business Intelligence.

### CONTRACTING AND OTHER RELEVANT ADVICE

24. Consideration has also been given to obtaining relevant specialist advice on the proposed commitment of relevant money. The following authorities have been consulted in the preparation of this submission:

- a. Ms Michelle Hale, Non Materiel Procurement Services.

25. Legal advice was sought during the original contract procurement process. However, legal advice was not sought for this part of the procurement process, as it is an extension to an existing contract that does change any of the contract terms and conditions.

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**Jarrod Howard**  
Assistant Secretary Enterprise Reform  
31 October 2016

### Enclosures:

1. Draft Contract Amendment
2. Defence Purchasing form (AE643)



**SPECIALIST ADVICE - FINANCE**

As Specialist Advisor Finance I confirm:

- ☒ the sufficiency of the budget;  
☒ the soundness of the costing calculations; and  
☒ the accuracy of the costing calculations.

# Note: This amount has been requested by Brendan Sargent to be placed on the Defence pressures list s22

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(Signature)

(Printed Name)

(PMKeys No)

(Appt/Position No)

(Date)

31/10/16

**SECTION 23 - COMMITMENT APPROVAL**

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- ☒ the arrangement will be a proper use of relevant money;
- ☒ I have taken care and diligence and have made reasonable inquiries to ensure this arrangement meets all required procurement obligations, notably the Commonwealth Procurement Rules, the Accountable Authority Instructions, the Defence Procurement Policy Manual, applicable Departmental Procurement Policy Instructions, and is not inconsistent with the policies of the Australian government;
- ☒ I am acting in good faith and for proper purpose;
- ☒ I do not stand to gain advantage for myself or other persons or cause detriment to Defence, the Commonwealth or any other person;
- ☒ any real or perceived conflict of interest has been disclosed,

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(Signature)

Brendan Sargeant

(Printed Name)

(PMKeys No)

s22

(Appt/Position No)

(Date)

8/11/16

s22

(Signature)

Joanne Anderson

(Printed Name)

s22

s22

(PMKeys No)

(Appt/Position No)

31/10/2016

(Date)

(Person Consulted)