



10 July, 2017

Senator the Hon. Alex Gallacher
Chair
Senate Foreign Affairs, Defence and Trade Reference Committee
PO Box 6100
Parliament House
Canberra ACT 2600

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

Dear Senator Gallacher,

Cubic Defence Australia (Cubic) welcomes the opportunity to provide a submission in response to the Australian Senate inquiry into the Impact of Defence training activities and facilities on rural and regional communities.

Cubic's formal response to this Australian Senate inquiry will focus on the benefits, which can flow to regional communities from Defence training activities and facilities.

Cubic's core business areas in supporting Australian Defence Force's (ADF) training activities are:

- Supply of technical simulation systems;
- Operations, support and maintenance services for those simulation systems;
- Specialised technical support to simulation training;
- Professional services support for the design, management and evaluation of complex training, and;
- Design, delivery and maintenance of training range communications networks.

The nature of operations in support of ADF training events requires Cubic to provide deployed support across Australia, very often in remote and regional areas.

Cubic commenced operations in Townsville in 2007, and has since experienced year-on-year growth to exceed annual revenue of \$29 million in 2016 with more than 110 full-time employees. In support of ADF training activities across the country, Cubic also employs more than 150 casual staff. Whilst our programs have expanded across a broad geographical footprint, we have maintained our head office in Townsville, which is also the home for the largest concentration of our workforce (48 staff). In 2016, Cubic Defence Australia's operations resulted in over \$9 million being injected into the local Townsville economy.

Cubic invested early in establishing an Australian company and has built a strong domestic capability over the last ten years; including the transfer of intellectual property and key technical skills to our Australian workforce. We have already utilised the skills developed within our Australian workforce to support regional opportunities. We are also actively seeking opportunities to accelerate the transfer of technology for local delivery and to build on these skills to support international customers.

As a medium-sized Defence company, Cubic has built the capacity to directly bid for and win a number of Defence contracts. This has enabled us to build local expertise, not only in the delivery of services, but also in the Company's Management in addition to the oversight of all of our Defence programs. For example, Cubic maintains the Program Management Office (PMO) for our largest program (Combat Training Centre – Live Instrumentation System) in Townsville, along with specialist business support personnel required to enable ongoing operations of the Company as a whole.

Cubic has also built a network of small small-to-medium (SME) sized businesses, which supply a range of goods and services to our operations. In doing so, we have provided opportunities that would generally not be available to these businesses; many of whom find it difficult to engage directly with Defence or to compete with the existing chains of large "prime" contractors. Beyond the direct revenues for work conducted, the opportunity to be involved in Defence support programs has significant potential flow on benefits for small regional businesses.



Benefits for local suppliers, Case Studies:

Access. Contracting with a local medium-sized company provides greater access for SMEs which struggle to engage directly with Defence or the supply chain of large, "prime" contractors. For example, Miles Electronics, a Cairns-based business, has been able to gain significant amount of work within Defence training and safety communications projects as a member of a Cubic-led team.

Capability enhancement. In many cases, local businesses have been able to increase their own technical and commercial capabilities through exposure to complex projects. For example, Cubic has regularly contracted Townsville Sheetmetal for the design, engineering and construction of specialised communications stations and field deployable work shelters. This work has enabled Townsville Sheetmetal to increase internal engineering and design capability.

Exposure to Defence customers. Some companies have been able to leverage the experience gained in supporting Defence programs as a sub-contractor to directly bid for and win Defence contracts. For example, Tropical Waste Services, a Townsville-based company and Cubic supplier, has been successful in gaining direct contracts with the ADF.

Given the clear benefits which can flow to the regional economy, Cubic believes that there would be great merit in a more deliberate approach to ensuring regional engagement in Defence programs and to ensuring this engagement goes beyond the local delivery of services. Contracting directly with local companies ensures that enhancement of managerial and commercial skills in the region, rather than being delivered from a national head office in a capital city. Some initiatives that may assist in achieving this objective are:

- Development of Evaluation Criteria, which give credit for the regional management and delivery of programs within formal procurements, would be beneficial. This would be particularly valuable if the criteria were sufficiently granular to identify the nature of work delivered. For example, a company may receive greater credit for conducting high technology or high value tasks in Northern Australia. In application, this would simply see an extension of Australian Industry Content policy to a higher level of fidelity.
- Increase government program management and procurement presence in Northern Australia in order to facilitate greater local industry engagement. In many cases, the delivery of major Defence programs occurs in Northern Australia but is managed from the Southern Capitals. This increases the complexity and costs of engagement for both industry and Defence.
- Where appropriate, particularly for niche capabilities, priority should be given to SME suppliers rather than large consolidated prime contracts. This would enable those SMEs to form teams of local small businesses to bid for direct contracts, rather than being relegated to sub-contractor status.

Thank you for this opportunity to contribute to this inquiry and for invitation to participate in the Townsville Senate Committee hearing on the 'Impact of Defence training activities and facilities on rural and regional communities'.

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