

**Submission
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INQUIRY INTO DEFENCE INDUSTRY IN NEW SOUTH WALES

Organisation: ServeGate Australia

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NSW LEGISLATIVE COUNCIL – DEFENCE INDUSTRY IN NEW SOUTH WALES

This short paper is submitted in response to the invitation by The Hon. Paul GREEN MLC who has kindly made us, ServeGate Pty Ltd, aware of the NSW Legislative Council Standing Committee on State Development’s Terms of Reference for consideration of opportunities and incentives arising from the strategic study “*New South Wales: Smart and Connected Defence and Industry Strategy 2017*”.

The competitive entry-point to consideration of the opportunities and incentives that are available must necessarily be based on understanding the extent, inventory and nature of the State’s existing Defence-related capabilities and capacities. This is an essential pre-cursor for efficient utilisation of such resources as the basis for development of incentives and growth.

For these attributes to be developed to accommodate increasing or future needs will also require acceptance of the need for resource flexibility in land usage, trade skills and capital. The required flexibility must necessarily incorporate assessment of risks associated with forward development initiatives; in particular the adequacy of capital to accept commercial, and political, risk associated with such needs is essential unless incentives or sovereign guarantees are incorporated in forward development proposals. This is of considerable significance to small businesses that tend to operate without large financial reserves.

ServeGate Pty Ltd and ServeGate Australia Pty Ltd (“ServeGate”) are Australia-owned and operated companies whose direction and management incorporate over fourteen years of operations providing contract services for Small and Medium Enterprises(SMEs). They exist primarily to assist SMEs to gain access to work on offer from Government Departments and Agencies by providing tender and contract services infrastructure support on a co-operative business model. This business model provides a unique value-for-money proposition that ultimately provides financial benefits for both customers and SME suppliers. ServeGate management’s experience has been gained working with start-ups and SMEs contracting to Defence and the accumulation of experience has encompassed the many, and continuing, Defence contracting policy changes.

ServeGate operates Australia-wide and has accommodated participating member-sub-contractor opportunities in all Australian States wherever work opportunities have arisen. From its small head office in Canberra it is able to maintain an effective direct liaison with Defence and a good understanding of the requirements and needs for supply, support and sustainment of the Defence Force-in-being. From this base it is also able, as far as can be seen, to gain an understanding of future projections of sovereign capabilities plans and threats. It has also developed associations with Australia-wide Defence-industry organisations and developed co-operative Memoranda of Understanding with them. Significant among such organisations are the Australian Business Defence Industry Association (ABDIA) (an operating arm of the NSW Business Chamber) the Australian Defence Industry Network(AIDN) and the Defence Teaming Centre(DTC).



The Access Point For SME Capability

ServeGate has developed further initiatives to assist Indigenous Industry development by offering its services to Indigenous businesses operating in New South Wales and Western Australia. These initiatives have been undertaken at ServeGate's own expense and have been recognised by the Commonwealth Department of Prime Minister and Cabinet(PM&C).

ServeGate believes that it can provide significant assistance to New South Wales Defence Industry SMEs by making them aware of the opportunities available by joining in and using ServeGate's unique business model.

ServeGates already well-established links with Defence Capability and Contracting Authorities would ensure that a consistent flow of work opportunities are made available to its members sub-contractors to respond through ServeGate. Any incentive to optimise this process should probably include the prospect of resources or capital being made available to establish a NSW communications hub at an appropriate location.

By utilising ServeGate as their Prime contracting conduit, participants are able to avoid the large margins or margins-on-margins most usually imposed by the large, mostly overseas-owned and profit-based organisations. ServeGate's business model operates on a commercial sustainability basis where membership and management fees are limited to what is needed to sustain the model plus a small margin for contingencies and growth. It does not operate to maximise profit to pay dividends to overseas owners.

The unique benefits of the ServeGate business model are that its low management fee enables it to incorporate supplier sub-contractors commercially realistic rates in its responses to tenders and apply its significantly lower management fees to offer a lower price than larger profit-oriented competitors that incorporates a higher return for suppliers. We describe this as the WIN-WIN situation.

To further understand the ServeGate model the following points are relevant:

- a. ServeGate operates for the benefit of Australian Industry participants;
- b. ServeGate is not subject to any external or overseas ownership interests;
- c. ServeGate does not pay dividends;
- d. ServeGate does not own any competing capabilities of its own or have any interest in any sub-contractors competing for work;
- e. ServeGate facilitates collaboration between SMEs with limited capabilities;
- f. ServeGate is impartial in assessing competing responses to Tenders.

ServeGate has been established with the capital based on the three founders assets and is working towards reduction of these liabilities while maintaining the integrity of its Principal Aim to assist SMEs compete fairly for work that they would otherwise not be aware of or be precluded from responding to on the basis of being 'too small'.

The attached paper provides a more comprehensive summary of ServeGates principles and methods of operation. ServeGate would be very pleased to answer any questions the Committee may have or to have the opportunity make a presentation to the Committee

Attachment: Proposal for the Standing Committee on State Development on Defence Industry in NSW