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THE SENATE

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COMMITTEES

**Foreign Affairs, Defence and
Trade References Committee**

SPEECH

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Speaker Fawcett, Sen David

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Senator FAWCETT (South Australia) (18:20): This report by the Foreign Affairs, Defence and Trade References Committee into procurement procedures for Defence capital projects has been tabled and distributed and we are starting to get feedback from a range of people on the report. It is another report in a long line of reports looking at defence procurement. You can go back to Mortimer and Kinnaird and there have been other reports such as the report by Rufus Black, looking into accountability within Defence. There have been a string of reports and people have been asking—indeed the committee asked the question during this report—why, after so many reviews and so many reports, are people not happy with how the system is working.

One of the issues that came to light, very clearly, was that people over many years have looked at the symptoms of failure or dysfunction within the organisation but they have not necessarily identified the underlying causes of that dysfunction. When I talk about dysfunction it is worth noting that Defence produce many good projects. People working within Defence—this came through very clearly in the committee—in the services, in the broader Defence organisation and within defence industry are all working with best intent and best endeavours within the system they have to produce good results. And many of those results have served people in the field well. But the real challenge at the moment, particularly facing the financial pressures that the department is under, is: is it being done as efficiently as possible? Is it good use of the taxpayers' money—is the capital that the taxpayer is investing in defence through the government being productive? The answer so often is no. Some of the projects that were highlighted during the report, such as the Seasprite project, were sold to government as off-the-shelf, non-developmental projects, and they have ended up taking many years. Every time you have a delay there are flow-on effects to the services as the chiefs have to rearrange posting cycles and infrastructure plans and extend the life of legacy capabilities. There are many costs involved with that.

One of the prescient aspects of this report, compared to others, is that it has tried to look beyond the immediate symptoms and look at the cause. One of the causal factors that have been identified is the impact of the savings measures that have been made by governments

over the last two decades. The Commercial Support Program, the Defence efficiency reviews and many short-term measures looked at achieving savings on a day-to-day basis. That has led in time to some of the failures that we are seeing, like the failure of the amphibious fleet last year. The Rizzo report that followed identified that Defence no longer retained the competence, the skill sets, that it needed to effectively manage the capability it had.

The report also identified that those same capabilities are often required by the Defence Acquisition Organisation or by Capability Development Group to accurately identify and assess where there is risk in materiel or equipment that is being offered to the Commonwealth for purchase. If those skills do not exist then people cannot actually identify where the risk is, cannot take appropriate action and cannot set boundaries around schedules. So we are not actually the smart customer that Australia likes to think it is in the defence space. Many of the failures in cost and schedule overruns and capability shortfalls that have occurred did so because of the growing gap between where we think we are as a smart customer and the actual competencies that we have across the three services.

Much of the feedback I have had from people about this report have been comments on the fact that some of these issues have been identified. Some people have said it is a little disjointed, which is probably a fair comment given the nature of the committee, which heard a very broad and diverse range of witnesses and opinions. It is one of the reasons I ended up writing an additional chapter to the report as additional comments—to attempt to bring together a lot of those threads and to address the fact that, if we are going to have sustainable reform, it needs to be for the whole system, and that includes the interface of executive government with Defence.

There are a lot of people talking about a lack of accountability within Defence. Can I say to the Senate that accountability also flows the other way—back to executive government. Every time executive government decides to defer a decision, delay a procurement or commit the ADF to an activity that was not in its plans, there are flow-on effects. The capability managers have what we call the raise, train and sustain function. Those are the investments that

we make in people in terms of individual training, collective training, developing doctrine and doing the deeper maintenance on equipment. All of those things get thrown into some degree of disarray when a government makes a decision. So there has to be accountability from the government back to Defence in terms of its understanding of the opportunity cost of decisions that it takes. Much of the poor capital productivity that we see can actually be traced back to government decisions in terms of deferring, not making decisions or changing decisions within the DCP.

We cannot afford to continue down that path. The inefficiencies within the defence department that have arisen out of those short-term savings measures, whereby the service chiefs have been largely disempowered. They no longer control all of the elements they need to achieve their task, and yet we are happy to hold them accountable for it. They need to have control restored over those things they need to do their job. That came through loud and clear from many of the reviews, from the Rizzo review to the Coles review and the Black review.

One of the challenges is to make sure that we do not lose the benefits of standardisation and of a common approach to things like sustainment, procurement and IT and pay systems which were behind the development of the DER and the CSP. There are ways that we can achieve that. Defence already has some models at work, particularly in the aerospace world, where there is a common regulator who sets standards which apply to all three services, even though the service chiefs operate their own aircraft; they have their own air crew. There are separate organisations with responsibility and accountability but they are held to a common standard, and that model can be applied across Defence more broadly.

People often talk about the fact that Defence should be run more like a company. Well, a company works in a similar way. If you are in the finance sector, you have APRA. Most commercial companies look to the ACCC. If you are in the civil aviation business there is CASA. There is a regulator that sets the standard but does not take away from the CEO the full profit and loss responsibility they have. That same model can be applied across Defence.

The other part that we can apply is the concept of governance. The way to get government more engaged and to understand the impact of the decisions they take is to look at the way the chair of a board of a publicly listed company, a private company or an NGO is engaged in an ongoing manner with the CEO and other stakeholders within the company. The chair of the board does not run it; the CEO does that. But the chair of the board sets the strategic direction and he engages

with people to understand what is happening inside the company as well as the impacts of the external environment on the company.

If the defence minister was the chair of a defence board whereby the senior stakeholders within Defence had the opportunity to come on a regular basis and present information about what was happening within the department, considerations around capability development and the various implications of delays, he would be far better informed when he came back to the National Security Committee of Cabinet to inform his colleagues as to why a decision should be made or, if it should not be made, what the cost would be either in terms of capability or financially. The British have actually gone down this path. After Lord Levene's review in 2011, the British have instituted a defence board, where the Secretary of State for Defence, the defence minister, is the chair of the board. They have the service chief and a person looking after procurement, as well as non-executive directors who sit to provide some broader perspective on good concepts of governance.

There is a lot in this report that leads to and points to the fact that we do need to have a broader debate within Australia about the scope of reform that is required, and not just within the procurement part of Defence. If it is going to be sustainable and effective, it needs to include the whole of the Defence organisation as well as its interface with government. It needs to significantly change our approach to governance. It needs to re-empower the service chiefs.

I commend the report to anyone who is interested in the defence of our nation, and I encourage them to also read the additional comments at the end of the report. I seek leave to continue my remarks.

Leave granted; debate adjourned.