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THE SENATE

COMMITTEES

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

Government Response to Report

SPEECH

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Questioner
Speaker Fawcett, Sen David

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Senator FAWCETT (South Australia) (18:49): I rise to speak to the government response to the final report of the Foreign Affairs, Defence and Trade References Committee inquiry on procurement procedures for capital projects. The time available does not allow justice to be done to the scope of the report or, indeed, to the paucity of parts of the government response. However, I will take a little time to talk in broad terms about the scope, the priority and the purpose of the report. Afterwards, in the time remaining, I will address just a few of the specific responses that the government has come back with.

Whilst the title of the report specified an examination of Defence procurement, the scope of the report recognised that procurement is an activity that occurs within a system. Systems engineering tells us that we cannot tweak reform or change one component of a system without considering the inputs from other parts of the system and the flow-on effects of changing that one component. What we see in many organisations—and particularly in Defence—is that often, when dysfunction is identified or there are outcomes which are not what people desire, there is a focus on one part of an organisation and an expectation that a new process or tweaking things at the edges will somehow remediate problems which may well have developed over many years and involve many parts of the organisation in question. The committee held discussions with a wide range of witnesses across the defence spectrum—the uniformed services, the groups within Defence, the Defence Materiel Organisation, the defence industry, academics, think tanks, peak bodies and individuals who had worked in industry and who had worked in defence. Importantly, within those groups there were subsets of people who chose to come and give their evidence in camera. They wanted to give evidence because they were so passionate and believed that there were reforms which could be made to this process, but they wanted to do so in camera because they did not feel free to put their views in the public space. They thought that publicly taking on some of the entrenched views might have disadvantaged them.

The committee was looking at how to treat procurement as a system, not just what to do with the Defence Materiel Organisation and the Defence Capability Development Group—disappointingly, that is largely where the government's response focuses. We were also looking at the structure of the groups

within Defence, including the fact that the service chiefs do not have the degree of responsibility they need in order for them to be held to account to the level that we—and clearly, from reports in the media, the public—expect them to be held.

The committee also looked to the role of government and how government decisions—or delayed decisions or lack of decisions—or actions impacted on the ability of Defence to work productively with the capital it had been allocated. It is particularly important to get this right. At a time when the whole of the economy is under some stress and government spending has been cut in many areas, including in defence, it is particularly important that the money allocated is used effectively.

The Australian Institute of Company Directors has written some good, prescient articles about the term 'capital productivity'—a useful concept in looking at the investment of taxpayers' money across a portfolio. But, in the use of that money, if there is not a good relationship between the executive and the department, or if the governance is not appropriate, then unnecessary opportunity costs and wastage can result. At a time when money is tight, that is not a good outcome for the taxpayer.

It is therefore important that the Senate is able to look at the whole of this organisation, the whole of this procurement process, and the composite parts that feed into it and draw from it—and to make recommendations. So it is particularly disappointing to see in the response, particularly in the executive summary, some language which implies that the report was, shall I say, tolerated by the department. In paragraph 3 it more or less says, 'Well, we considered it to see what further insights might be offered on top of all the good things we are already doing.'

I recognise that Defence is working hard. There are many good people within the department who are working very diligently. But they are working within a system that has not been as functional as the taxpayer, the parliament and, indeed, many in Defence wish it to be. It is particularly galling, when we have taken a whole-of-system approach—almost going back to a greenfields approach, asking what fundamentally needs to change—that comments come back saying, 'We will not agree with the recommendation because that recommendation is

inconsistent with the government's previous public advice.' Well hello! We know that! That is part of the reason we made the recommendation. We were saying that perhaps we need to step back and look at whether there is a way we can make the whole system work together better.

Accountability is a classic case. There was a lot of discussion about accountability and how that could improve outcomes. Defence comes back and talks to us about the Rufus Black report and some of the reforms they are putting in place. But we also looked back at Kinnaird and Mortimer and we looked at some of the symptoms pointed to by Black and Pappas—and many of them point to the need for serious organisational reform. A good paper was written just recently by Will Clegg, who used to work for ASPI and is now in the UK on a scholarship. The paper looks at how the ADF can be sustained in a time of tight fiscal conditions. One of the points he brings out aligns with and agrees with many of the things that were discussed during this inquiry and in the report. He talks about the fact that an organisation which is input driven will often have more longer term organisational dysfunction than an organisation which is output led.

Many of the committee's recommendations look at some of those macro organisational changes. What is the role of the many groups within Defence? Is the matrix model still the most important model? Should that be collapsed in part in order to empower the service chiefs—to give them command and control of all the elements they need to do their job so they can be held accountable? The government's response does not go to any of those types of considerations. It points merely to the process reforms they are looking at enacting, particularly within the Defence Capability Development Group and the Defence Materiel Organisation.

In the two minutes I have remaining, I will touch on three or four areas where I believe there is some progress, some acceptance, but where implementation will be critical. Risk management is the first. I am pleased to see that the response from the government recognises that risk management is an issue which needs work. I am disappointed to see that they talk about the fact that part of the response is more training in the process. In fact, you need to understand that, right through the interactions with government, through the DMO and through to the interaction with industry, there are many things which drive risk—and all of those elements need to be considered in managing it.

We have become very risk averse and it is important that we do not, perversely, increase risk through extending processes to such a length—trying to minimise or exclude risk—that we actually become

risk avoiders as opposed to risk managers. There are very few things involving technical capabilities, whether in the resource sector, the building sector or the defence sector, where you can eliminate risk. We need to have the appropriate people to recognise risk and we need to have the systems in place so that it is not buried or hidden when it does not suit the agendas of those who have sought to sell a capability to government as off-the-shelf or low risk.

I am pleased to see the response from the government talks about competence; I am a little disappointed to see that it focuses almost straightaway on additional training. Competence is a combination of both qualifications and experience. It is important that the government plan for how it will not only give people training but also give them the requisite experience so that they have the competence required to do the job. I believe it is important also that we look at having levels of competence that are predetermined for certain roles within the procurement process and, if that competence level is not met, the project should not go ahead until the Commonwealth has procured those skills. I seek leave to continue my remarks later.

Leave granted; debate adjourned.