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Speaker Fawcett, Sen David

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Senator FAWCETT (South Australia) (19:40): I rise tonight to address the Senate Foreign Affairs, Defence and Trade References Committee report into defence procurement, which I had the pleasure and privilege of being involved with. The report was 18 months in the making; I was involved since July last year. The first thing I would like to say is that one of the very strong themes that came through from witnesses across academia, defence, industry and various think tanks was that people recognise that those who are participating in defence and defence industry are working hard to achieve the very best possible outcomes they can for Australia's national security.

Defence personnel are rightly proud of the work they are doing and the improvements they are making within the process that they are constrained to use. Not only did industry participants highlight their concern to remain profitable, which at the end of the day is part of what they need to do, but also, importantly, they highlighted the fact that one of their high priorities is to make tangible improvements in the capabilities used by Australia's service men and women. I just want to put on record the fact that, whilst the committee's report and my additional comments highlight a range of areas where improvements can be made, I recognise that people who are working in that system are working with integrity, with best intent, within the constraints that they have.

The issue I have is that defence procurement does not occur in isolation. Most reports that have looked at defence procurement and most reforms that have been implemented by governments of both persuasions have tended to focus on the procurement aspect, whether that be the services or the Defence Acquisition Organisation, now the Defence Materiel Organisation. But Defence is a system and, just as systems engineering requires that you look at each of the subcomponents and their interactions with each other, many of which will have second- and third-order interactions, it is important that if we are going to look at Defence and making Defence a more effective organisation then we have to look at it as a whole system. We have to look at the actions and interface of all of the stakeholders, which includes executive government. Too many reviews that have occurred over the years tend to look at the department, and fingers are pointed at the department from all levels—from outside, from the media, from government,

from opposition—and they blame the department. There is a raft of areas where the department can improve, but they are only part of the system and executive government and the interface with executive government of either persuasion is an important element in determining the effectiveness of our defence capability.

The aim of the additional comments that I have written to the report and that I seek to address very briefly tonight is to look at what a systems approach to the reform of defence procurement may be like. These comments are designed to stimulate a debate at a level that moves well beyond the kind of very specific actions that have been recommended in the past. Some people say that we should recreate FDA—Force Development and Analysis—and others argue that we should separate DMO. A whole raft of individual things have been suggested and they may or may not have merit, but the important thing is to look at it as a whole system and understand what changes need to be made to the whole. It is also important to understand what the intended outcomes were when the existing organisational structures and approaches to procurement from the various reforms were put in place. To what extent have these outcomes been achieved and to what extent have these previous outcomes contributed to unintended consequences that mean that the effectiveness, efficiency or cost savings that were desired by government in the past have not been achieved? How, whilst taking action to try to address some of those unintended consequences, can we avoid either going back to the past or throwing out the baby with the bathwater and losing the developments that have happened?

I have four key areas of concern that I believe the report could have addressed more thoroughly in their scope and depth. This goes to this concept of the whole system. Those four areas are: governance, strategy, sovereignty and industry. I will quickly run through those tonight and I will use other opportunities to talk in some more detail. For anyone listening to this debate, they can get the full details online of both the report and additional comments.

The governance of the Australian Defence Organisation is dysfunctional, and by that I am talking not just about the Defence department but also about its relationship with government. There are many people

who have said that Defence should be run more like a business. There are not too many publicly listed businesses that I can see that would run in the same manner that the Defence Force is. Essentially, the minister should be providing the role of the chair of a board in terms of setting strategic direction and holding people to account. You would not find a publicly listed company where there is a degree of separation between the chair of the board and the CEO running the company. Normally you would find a framework—and it is a board construct, generally—where they are far more engaged and have a deeper understanding of the issues, whether they be internal environment issues or external issues that the CEO is dealing with. They would have much more engagement in the ongoing governance processes of the organisation to ensure compliance with appropriate regulations.

Currently, due to the policy of 'one voice to government', the minister is almost isolated and does not have the degree of trust in or insight into the department to make timely decisions in response to changing circumstances. The two decades of government initiated measures at reducing costs, which have been well documented by Kinnaird, Mortimer, Black, Rizzo and Coles, highlight that the department now struggles to provide that timely information to the minister. The inefficiency here is significant. In particular, as we enter a period where resources that have been directed at Defence are severely constrained, it is vital that we address these inefficiencies at that very top level of governance for Defence.

The strategic view of Australia's national interest should look at Defence primarily through the prism of what we want it to be able to do and not just a list of equipment we think it will have. Currently, the Defence white paper appears to provide a whole range of options; it is almost a wish list. The Defence capability group have come back to government and put up cases at the first and second passes hoping they might be approved. But what we have seen is that changes can be made due to budget considerations, government decisions and deferrals that do not reflect the strategic guidance that may have driven the white paper in the first place. There needs to be a more closed feedback loop so that, before the white paper and the Defence Capability Plan are issued, the government understands in far greater detail and owns the level of capability that it needs to generate the effects it wants from its military to support its foreign policy and its national security policy, and then plans to afford that. If trade-offs need to be made they need to be made before the issue of the white paper and before the Defence Capability Plan is issued.

Both Defence and the capability managers, who have to do the raise, train and sustain function, who need to be

providing personnel and who need to be providing the ability for new equipment to come into service, rely to a certain extent on the big picture planning of a DCP to start doing some of those functions. Industries certainly rely on that in terms of the kind of investments that they make in people and infrastructure, and while the DCP is such a variable document industry cannot use it to effectively invest in their capability.

Sovereignty is about the ability to choose a course of action as a nation. It does not mean we should seek to be a superpower where we design, make and support everything we need for Defence. It also means that we cannot afford to be a Third World nation with no choice but to accept what someone else will give us without understanding the level of capability or risk that may be tied up with that. We need to be able to choose where we sit along that spectrum, to be the smart customer. That means that we need to purposely develop the ability to assess and, where necessary, modify or repair and certify equipment.

I have more to say about industry and more to say about principles on this topic, but for those interested in the defence of our nation, and making it affordable and effective, I commend to you the committee's report on Defence procurement.