

Additional Comments by Senator Nick Xenophon

Independent Senator for South Australia

In 2011, I could not support the Coalition's Defence Force Retirement and Death Benefits Amendment (Fair Indexation) Bill 2010 due to combined concerns over the affordability of such a measure, together with the potential of funding it through savings in Defence. In particular I raised concerns over the expenditure and efficacy relating to the Defence Materiel Organisation (DMO).

As a result of discussions with the Federal Government, the terms of reference to this inquiry were amended to allow for the examination of the effectiveness of the DMO, particularly in terms of its role, function, structure, cost and output.

1.1 DMO is responsible for the acquisition and sustainment of Defence capital equipment and to ensure that it achieves value-for-money project results. Failure to deliver cost effective projects has a direct impact on the funds available to support Australia's current and former serving men and women.

1.2 This inquiry is not the first time Australia's Defence procurement procedures have come under scrutiny, with five major reviews into procurement having taken place since 2003. This poses the question: how many more reviews must take place before meaningful and sustainable reform into procurement procedures is implemented?

1.3 Public confidence in Defence procurement will continue to be tested if projects continue to be scrapped years after their approval and only after billions of dollars worth of wasted expenditure. I hope that Defence, and in particular DMO, will take the findings of the Committee's report as an opportunity to implement much needed sustainable reform.

1.4 The savings that could be obtained through reducing Defence wastage are astounding. For example, the Committee heard that had the Super Seasprite helicopter project been given the proper scrutiny at the project's inception, \$1.4 billion could have been saved.¹ It borders on incomprehensible that so much money can be spent with so little outcome for Australia and our Defence capabilities.

1.5 Given the total budgeted costs in the 2011-12 Major Projects Report have increased by 20 percent (after the projects had already received second pass approval), it is imperative that projects receive proper assessment and scrutiny early in their

1 ANAO Audit Report No.41 2008-09, *The Super Seasprite*, pp.13-14 and The Hon Joel Fitzgibbon MP, Minister for Defence, 'Seasprite Helicopters to be cancelled', MIN14/08, 5 March 2008, <http://www.defence.gov.au/minister/70tpl.cfm?CurrentId=7480> (accessed 2 April 2012).

inception. DMO's belief that all of these projects are '*delivering capability within the approved budget*' despite the large increase is further cause for concern.²

1.6 Project costs cannot continue to be obscured in Defence White Papers, and the current practice of providing little detail about projects above \$1.5 billion in value must be reversed. From a public policy point of view that appears to be perverse. The public must be able to make an informed decision as to whether current and future projects represent value for money.³ I endorse the Committee's recommendations regarding the 2013 White Paper and encourage Defence to take a more transparent approach to their reporting.

1.7 The majority report identified many of the factors that contributed to project failures, including misunderstandings between DMO, Capability Managers and contractors. The Committee heard evidence that when legitimate disputes regarding DMO arise, (for example by way of an adversarial approach taken by a DMO employee) the primary mechanism to deal with such issues is for management to have an 'open door policy' in relation to complaints.⁴ However I believe that a more formal and proactive approach should be taken by management to address misunderstandings, particularly those that arise as a result of behavioural issues.

1.8 One contributing factor to cost blowouts and project failure is the inadequate management of risk. It appears that the multiple risk management guidelines and handbooks available to Defence staff, including DMO employees, have been unsuccessful in achieving substantial risk mitigation. This suggests that a different approach to implementing risk management policies should be taken, perhaps by way of a greater emphasis on individual accountability.

1.9 It is clear that although Defence responded positively to the recommendations made by Kinnard and Mortimer and accepted that DMO accountability needed to be clarified through Material Acquisition Agreements, more specific agreements regarding risk management responsibility are required.⁵ Boundaries and tasks need to be clearly defined, and tasks need to be aligned with the authority and resources necessary to execute them.

1.10 Until such time as Defence procurement procedures are strengthened by minimising risk, improving communication, fostering a culture of accountability and improving project cost transparency, Defence will continue to run the risk of

2 ANAO Report No. 20 2011-12, 2010-11 *Major Projects Report*, paragraph 24 and p. 103.

3 Leigh Purnell and Mark Thomson, *How much information is enough?: The disclosure of defence capability planning information*, Prepared by the Australia Strategic Policy Institute under contact to the Australian Department of Defence, December 2009, p. 40.

4 Mr Warren King, Acting Chief Executive Officer, Defence Material Organisation, *Committee Hansard*, 7 October 2011, p. 60.

5 ANAO Audit Report No.57 2010-11, *Acceptance into Service of Navy Capability*, 2011. paragraph 29.

expensive and embarrassing project delays, cost blowouts and failures. The Federal Government must take additional steps to eliminate wastage in Defence so that we are better able to meet the critical requirements of Defence preparedness, the needs of service men and women and the long term interests of Australian tax payers.

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