



Australian Defence Business Review

Budget Briefing

Australian Institute of International Affairs Centre

Senator Mark Bishop

Chair Senate Foreign Affairs, Defence
and Trade Committee

Thursday 13th May, 2010

Trevor Thomas, thank you for the invitation.

My address to you today concerns matters which I addressed in speeches I made to the Senate in March.

They concerned accountability for Defence expenditure;

- the need for transparency in procurement decisions including the need for consistency and continuity of information; and
- recognising the great weakness in the system which demands short term decisions for tens of billions of taxpayer dollars over the terms of many governments – and perhaps 40 years.

Additionally Trevor asked me to address two other matters.

Firstly, the effect of the procurement reforms made to date.

Secondly, the question of competition in light of the commitment to purchase more off-the-shelf.

As a prelude however, may I repeat my congratulations to ADBR for the 'DCP at a Glance' wall chart.

The chart tracks expenditure on major capability projects over their life times.

I confess that I had tried the same in 2005 but dismally failed.

There are many blank spaces.

My attempt failed simply because the sands continually shifted.

Project budgets, exchange rates, nomenclature, phasing, scales – in fact almost every parameter shifted across the lifetime of most projects.

In Opposition the only tools I had apart from annual reports, were Estimates and questions on the notice paper.

The point I was making was the need for much more information to account for taxpayers' money.

I also acknowledged though that Defence is probably the most intensely scrutinised agency – for very good reason.

May I say things seem to be changing.

While I think there is a long way to go before full transparency is achieved, we do seem to be making some progress.

Certainly at the Parliamentary level, the Joint Committee on Public Accounts has a healthy dialogue in place with Dr Gumley.

I can say for a fact that Ministers Faulkner and Combet are bowling a very good line and length.

We hope this will all add some transparency for progress against the DCP.

I hope therefore that the ABDR 'DCP at a Glance' benefits from this too – and thereby your readers.

Of course, this only relates to procurement – the rest of Defence has so far escaped.

In my speech to the Senate I also referred to the need for greater transparency of decision making, not just procurement costs.

In public policy terms, we make relatively quick fire decisions on all sorts of things involving hundreds of billions of dollars.

However that's often with little public information and less public discussion.

Some of these decisions extend over the terms of many governments – in fact decades.

Once made, they're difficult to abandon.

The cancellation of the Sea Sprite contract is a good example of what can go wrong.

I'm pleased to say the Government, by implementing the Mortimer recommendations, has gone a long way to remedy past failings.

Hopefully that means no more back door deals, no winks and nods, but a discipline on procurement agreement and process at least.

In answer to Trevor's first question 'are these changes working'?, it's too early to say.

With the Mortimer implementation, I'm confident things will improve substantially, both for the taxpayer, and industry.

But there's a large caveat to that confidence.

Defence procurement is a very complex matter.

True, it has been a mess for a long time, which to some extent has been a political issue.

However, it's also been one of attitude and culture.

From my reading these matters have long been matters for industry concern.

Hence my long held concern for improved transparency, accountability and the availability of information.

Additionally, it needs to be understood there are many other complexities.

For example, the catch cry of self sufficiency, while desirable, is not always practicable.

We are a small economy with a relatively small defence force.

My fear is an absolute attitude here would simply reproduce the Wirraway versus Zero scenario of 1940.

Globalisation of Defence industries is a fact, as is the vertical integration of those companies.

Alliances are essential.

As are common platforms between nations with the resultant emphasis on formal intergovernmental agreements.

Some of you may have read of US Defence Secretary Gates' remarks recently.

In his remarks he seriously questioned the prevailing secrecy affecting its staunchest allies, the UK and Australia.

This in turn rebounds on the US.

We are also a high cost country, where the manufacturing sector is dominated by the strength of our mining and service industries.

Defence demand is highly specialised and technically very sophisticated.
We also suffer from the past failure to invest in infrastructure across the board.

So while self sufficiency is a worthy goal, its achievement will never be complete.

These limitations also apply to the flip side of competition.

Competition is a global condition, not just domestic, and this is universally recognised – even within Europe.

Defence is a monopsony, and the local market is patchy.

As Minister Combet has clearly indicated, we need to be flexible.

We need to avoid being caught up in ideological disputes, in the interests of achievable outcomes.

We need to avoid throwing the baby out with the bath water.

It seems to me the new approach is very sensible in that it respects the above, but stops short of iron clad guarantees.

Above all we need to be realistic – and this includes the potential for our Defence industries.

We also need to be realistic about our needs.

We should not be cowed by those who simply want the absolute best, regardless.

Here I'm reminded of the criticism of the JSF in that it's alleged it won't beat the Sukoi in a dogfight.

The alternative sought by the armchair experts was the Raptor which now even the US says it can't afford.

It's true too often Defence has sought a blue sky product, many of which become problematic.

The bleeding edge can have huge costs, and the record is not a happy one.

Hence the call for more off-the-shelf procurement.

However, as we've seen with the AWAC aircraft, off-the-shelf was fine for the aircraft, but it ran foul on the new systems to be fitted.

Importantly, the risks associated with systems development and integration has now at last been recognised.

They have become the Achilles heel of so much procurement.

These economic and practical realities are setting in all around the world.

Many see this as a dilemma, but I suggest it's not a simple choice.

As we've seen with the decisions for new navy ships, the model will be very mixed.

The Rudd Government has certainly made it clear that performance must improve.

Flowing from that and the brief context I've just painted.

While self-sufficiency and local industry engagement are key criteria, they're not givens.

They also entail consideration of relative costs, industry capacity and demand for labour – but most important, continuity.

From my experience with naval ship building, the biggest issue in Australia has been the severe fluctuation of demand.

For industry this is an impossible cost – and it must be passed on.

This has been a traditional industry to some extent, with reasonable infrastructure and skill base in place.

Clearly for aircraft manufacture, we can only ever be participants as part of a competitive world market.

Land transport is again different – clearly an indigenous industry can compete and be commercial internationally.

The most important area however, as we all know is weapons and communications systems – which are high tech, high value added.

Realistically, again it's not possible to be self contained.

This is at the core of the often expressed need for 'interoperability'.

That also, like the claim of 'uniqueness' is not a blanket rationale.

So in my view, there are no simple answers and no simple rules.

Competition, while an accepted principle does have its limits.

However, I do remind you that it's a global phenomenon, even though its effectiveness is lumpy.

May I say I support the increased emphasis on off-the-shelf, simply because we have to stop the blue sky attitudes which have cost us so dearly.

In the battle between the proponents of more competition and the protectionists, I'm on Dr Gumley's side.

For those who crave certainty and predictability for all the reasons I've mentioned, it can never be as sure as we might like.

Policy in this area will remain a moving feast, depending on the circumstances.

For industry that will entail some uncertainty, but it can be minimised by four things:

- honest and open provision of information;
- a clear strategy for the foreseeable future, reviewed at regular intervals i.e. the continuation and refinement of the White paper;
- continuity of government investment; and
- an understanding that while the efficiencies of the market are understood, they are not absolute either.

It seems to me that on the provision of timely and reliable information, we're doing better.

There should be no doubt about the commitment to industry – it's a given, but always dependent on prevailing circumstances.

I think if you look carefully at the current plans for the procurement of the DCP, they conform with that approach.

Particularly the need for continuity and long term planning.

So, having briefly dealt with the context of changing procurement, policy and processes, and competition.

Let me return to the themes of transparency and accountability with which I began.

At the heart of these matters are two things.

Firstly, there's the means and process by which original strategic and procurement decisions are made.

Secondly, there's the scrutiny of performance almost after the event, by institutions such as the ANAO and the Parliament.

Both in my view can be improved.

With respect to the analytical and advisory function, frankly, governments in the past have not made some decisions based on the best advice.

Every new government inherits the sins of its predecessor, and the Rudd Government is no exception.

The question is what do we do, given that government life spans are shorter than the procurements they authorise?

The first matter concerns what's called the contestability of advice.

Remember the old saying in the bureaucracy "governments may come and go, but we go on forever..."

My previous comments on this were prompted by very trenchant criticism made of the process and reported in the press in late February.

The essence of this and other criticism is as follows.

While-ever proposals on strategic Defence matters, including the preparation of the Capability Plan, emanate from the narrow confines of a hierarchical military order, any broader consideration will be difficult.

If this is the case then the operations of the Capability Development Group, will need to improve.

This is not new, and as we all know extends to the conflict within that group, and with the DMO.

We can only hope the changes made to that relationship by the Government will have an impact.

It was also said in addition to endemic secrecy, rivalry and jealousies of the three services the former process resulted in democratically elected governments simply endorsing proposals, not approving them.

We should hope this is no longer true.

Otherwise the risk to subsequent government consideration and decision, both by Cabinet or its National Security Committee is substantial.

From my own perspective, it's impossible to say the consultative and approval process is adequate within government.

Let alone the wider public interest.

My experience over the years I've spent in the Parliament is governments are often presented with fait accomplis in this area.

Thereafter their role and that of the parliament is simply monitoring progress against the plan.

The intention of the reforms now being implemented should minimise that risk.

What concerns me is the long term cost of policy lock-in.

The imperative is to get it right the first time.

By long term I mean several governments from now.

From a parliamentary perspective I believe the detail of proposals ought to be exposed earlier.

There should be more scrutiny in the parliamentary and public arenas.

Here I mean more than consultation, which in my past experience has been more a process of take it and leave it.

I mean active, long term inclusion – way beyond the military perimeter.

In fact I've suggested the process could mirror that of the Reserve Bank.

Just as monetary policy is too important to be left to the Treasury and government.

Defence policy is too important to be left to the military (as has been observed by others).

Provided of course it's not captive to political considerations.

Turning to the second shortcoming, current parliamentary scrutiny is also inadequate. There are numerous committees, Senate and Joint, which concentrate on the short term budgetary cycle and accountability of funds allocated.

That's effective, but limited.

In most instances, the work of these committees is restricted to the details of the annual budget.

This is certainly the charter of the Joint Public Accounts and Audit Committee.

Naturally the Committee's consideration is episodic.

Likewise with Senate Estimates.

Long term continuity is very difficult to achieve, especially for strategic policy over and above financial accountability.

At best, as a member of those committees, we only get to consistently pursue the progress of the top 30 projects.

The lock-in comes into effect here as well.

We have a panoply of accountability measures – the entire reporting system is built around them – but mainly on financial management.

There are annual reports, budget papers, estimates, parliamentary committees, ANAO and auditors statements.

There is the scrutiny of Treasury and DoFA, reviews and reform programs – and more reviews.

The trouble is its all haphazard, sometimes ad hoc, and ill focussed.

In brief I've suggested two things.

First I believe the policy implementation process post preparation of white papers ought to be independent of the vested interests and the conflicts of the Defence bureaucracy and the diarchy.

This includes operations of the DCG.

It should be subject to maximum public and expert input.

It should be more transparent.

It ought to be inclusive and involve those experts in the various think tanks who are sometimes regarded as heretics.

Second, I believe there should be a permanent parliamentary process.

A process that continually scrutinise, not just financial accountability, but the long term Defence implementation outlook.

This includes the evolution of white papers and the DCP.

None of this should preclude expert military technical input of the most professional kind.

But it would leave the provision of balanced formulation of advice to Government in more objective hands.

It would be free of self interest and more sensitive to the balance of good public policy.

If we could remove Defence policy implementation from the political fray, as we've done with monetary policy, we would be so much better off.

A higher level political scrutiny in the democratic public interest can be attained.

As a precedent I've refer to the experience of the Senate Foreign Affairs, Defence and Trade Committee.

Prior to 2005 the Committee conducted a major inquiry into the conduct of military justice in the ADF with outstanding results.

The report of 2005 wasn't a simple report tabled, and then left as is sometimes the case.

The Committee was collectively so concerned at the gravity of its findings, it has ever since maintained a watching brief over the matter.

The Government agreed – and to his great credit, so did CDF.

Defence as part of the implementation of the Committee's recommendations continued to report on progress.

The Committee duly reported to the parliament on that accountability.

As an independent force the Committee has been absolutely respected by both the military and governments of both persuasions.

This is an instructive precedent for two critical reasons.

Primarily it makes Defence accountable to the Parliament on a very serious matter of public policy.

Further, accountability by public institutions in a public forum is very effective.

The public gets to see what's going on.

Hence my suggestion, of a more apolitical and continuous approach to long term policy formulation.

Remembering again, this is not about budgetary accountability and short term processes.

It's about long term strategic policy in the collective national interest.

Hence my suggestion that in this way, the gap between long term strategies and short term decision making might be overcome.

Remembering that it's not often Defence policy which is the political issue, but management of process.

As I said in my more detailed speech in March, there has to be a better way.

Trevor, I hope I've dealt with the issues you put to me, and I thank you for listening.

Thank you