

## **Public Hearing**

### **Senate Foreign Affairs, Defence & Trade Committee Inquiry**

#### **Defence Procurement**

**Thursday 11 August 2011**

#### **Opening Statement**

Chair and members of the Committee, thank you for the opportunity to speak to you today about defence procurement.

As you can see from the Ai Group Defence Council submission to the Committee, we have offered 16 recommendations for improving defence capital equipment procurement.

Defence capital equipment procurement is complex.

At any one time, the Capability Development Group (CDG) and Defence Materiel Organisation (DMO) have responsibility for more than 230 major projects, or phases of projects.

In data presented by Dr Gumley, the former CEO of the DMO, in 2009, of the 239 projects closed over the previous 10 years:

- 60% were under budget;
- 23% were on budget; and
- 17% were over budget

In separate work by the ANAO addressing 22 current defence projects, it found that there were no cost over-runs and for off-the-shelf purchases no delays in delivery. It identified, however, that more attention needed to be given to in-country sourcing to improve schedule delivery. This is being progressively addressed by both Defence and industry.

No other federal department, nor commercial entity, has such a large number of major projects to address concurrently.

By far the majority of that activity is undertaken on time and on budget.

Without Defence industry, the Australian Defence Force (ADF) would be unable to undertake its many operational responsibilities. This includes its deployment at war in Afghanistan.

Australian military equipment, such as the highly successful Bushmaster vehicles produced by Thales Australia, is protecting ADF personnel in Afghanistan.

Not one ADF soldier has been killed whilst operating in those vehicles, despite more than 30 Bushmasters being damaged by Improvised Explosive Devices, or IEDs.

It's true, too, that deployed ADF personnel generally receive positive media coverage, particularly for their bravery in the battlefield. It is well deserved!

By contrast, defence procurement often gets a poor wrap.

Sometimes, this is justified. Mostly, however, it's not!

It's true that there have been some spectacular procurement failures.

The Seasprite debacle is but one example.

The ongoing problems with the Collins Class submarine availability is another.

Wedgetail and FFG Modernisation are others.

The failures share a number of common themes, such as:

- Over specification, including poor capability development arrangements;
- Underestimate of cost and risk;
- Ambitious scheduling;
- Lack of access to Intellectual Property; and
- Acquisition of old, second-hand platforms

The recent revelation about delays to the Air Warfare Destroyer project highlights, yet again, ongoing difficulties in bringing major projects in on time.

Clearly, one of the failings related to the AWDs relates to capacity of the prime contractor to undertake the work effectively.

A principle issue is the challenge of having in place the necessary experienced and skilled work force to undertake the work on this ambitious, complex project, as well as other major projects identified in the 2009 Defence White Paper.

Defence has estimated that the defence industry workforce will need to grow by about 5,000 people to 34,000 to meet the Defence White Paper's requirements.

Most of the growth will be required in the next decade, not this one, so there is time to prepare.

Ai Group is playing a leading role in this regard, building on its existing, impressive Group Training program in association with ASC, in South Australia.

One of the issues being experienced by defence companies is the loss of personnel to the booming resource sector.

The Chairman of BHP, Jack Nasser, yesterday called on Australia to create a Silicon Valley-style hub where more than 60,000 workers could be trained for that sector. Whilst clearly desirable, this will pose additional challenges to the defence sector's skilling challenge.

We are pleased that the ministers announced earlier this week their intention to continue with implementation of the Kinnaird and Mortimer Reviews, which were principally aimed at improving the capability development and materiel procurement processes within Defence.

One worrying trend, however, is how the organisation continues to grow in number and with an expanded, top-heavy structure. At a time when manufacturing industry is doing it tough, it sends a poor signal about public sector efficiency.

I'm sure the Committee will want to test officials on this development.

I would be pleased to take your questions.

