



Dissenting Report—Senator Mark Bishop

I wish to express dissent with the Committee's position as expressed at paragraphs 3.30 – 3.35 concerning the provision of information on indexation of project funding, and the reversal of the ANAO's previously expressed position.

The role of the Committee in scrutinising Defence accounts on behalf of the Parliament and the taxpayer, as assisted by ANAO, is to monitor the Defence procurement program for the delivery of important capability on budget, in light of a disastrous history of over expenditure. Not to mention extremely late delivery, getting worse, thereby dramatically reducing ADF capability.

In monitoring costs the Committee, through the Major Projects Review (MPR) conducted by ANAO, has traditionally received information on timelines, as well as original project cost as approved by government together with any approved changes in scope, and the effect of price escalation and foreign exchange movements as separate factors beyond the control of Defence and DMO.

Identification of both these latter variables has enabled the Committee to judge not just the overall performance of Defence and DMO in delivering Defence capability, but financial and project management in particular. The MPR report has to date provided detail on both those variables, but now, as agreed by DMO and ANAO, and accepted by the Committee, the indexation figure will no longer be provided for post 2010 projects. I don't accept that position for the following reasons.

As agreed by the Committee and many other critics over recent years, the largest single failing of the Defence procurement system is inadequate project specification and over optimism on part of Defence and industry, leading to cost blow outs and enormous delays. The result of that is that governments are effectively misled, resulting in additional disciplines and processes, and new measures of ensuring transparency and accountability, such as the JCPAA work and this MPR review process.

Within the funding process, 'the Government decision provides a limit on project expenditure apart from variations for price indexation, foreign exchange adjustments and other subsequent approval decisions'.¹ Within that project price, provision is also made for contingencies, which are unforeseen but inevitable, particularly in the case of large and complex projects. It's understood that caps are placed on both contingency and price indexation as a discipline in managing funds, but also imposing pressure for more accurate project specification and cost estimating from the outset. The Committee has no information of the level of contingency funding or the effectiveness of that discipline, but it has to date been provided with the detail of price indexation and foreign exchange variations within each project which have proven very informative and useful.

It's now asserted by DMO that it's no longer possible to report on price indexation, with the rationale that 'that information is not normally public' and that such itemisation 'is not part of the proposal that goes to government',² asserting also, rather presumptuously, that the Committee doesn't need to know. Putting aside this unfortunate attitude to which I object, if in fact there has been a change in budget practice by allowing global project funding, I believe it's a retrograde step at a time when transparency and accountability should be maintained not reduced.

Especially given that the total budget for price indexation last year was \$1.16 billion – no small amount to be hidden away.

Furthermore, given that such reporting has been possible to date, the Committee might well ask what has happened to make it administratively impossible as alleged. Indeed the advice of the Auditor General to the Committee was that in exchange for agreement to the use of out turn prices, which is logical, other 'sufficient disclosures' should be maintained to allow assessments to be made of project performance against budget' - including indexation amounts. Acceptance by the Auditor General of the DMO line is therefore somewhat disappointing, particularly given the tenacity which ANAO has shown over recent years in flushing out the inefficiency and waste within Defence procurement. In fact without ANAO there would be no MPR, little scrutiny at all, and the Parliament and the taxpayer would be blind.

Simply put I believe that the current reporting on financial and output timeliness by DMO and Defence need to be retained. Noting too, that the government has also tightened up by placing a limitation on indexation for post 2010 projects whereby it ceases at the agreed delivery date, thus imposing a welcome added disincentive for time over runs and extra unbudgeted cost.

1 DMO response to Recommendation No. 7 JCPAA Report 422, paragraph 15.

2 JCPAA Report 429, paragraph 3.23.

Notwithstanding the administrative task in reporting price indexation fluctuations, it's essential knowledge, just as contingency costs and exchange rate variations are. Together with approved project costs as contracted, they form a total picture by which the Committee and the Parliament can make judgements on the adequacy of performance of the bureaucracy involving hundreds of billions of dollars into the future, no different to any other area of administration.

The Committee should continue to gather accurate estimates for all expenditure, with all variables and risks identified and monitored. While such estimates might begin as notional, they are negotiated in contracts presumably, and inevitably become funds expended and must be acquitted. As a minimum I believe the Committee ought to expect to be informed of all estimates and expenditure of price indexation over the life of all MPR projects. The Committee's acceptance of the proposal for the DMO to simply provide an assurance that any one project will be completed within budget, in part defeats the Committee's purpose, and effectively removes an important area of transparency and accountability as a fundamental principle.

