

Successive governments have struggled mightily to tame the defence portfolio. And not without good reason; botched multi-billion dollar projects, sex scandals, equipment failures, financial mismanagement and claims of wanton inefficiency arise with such alarming regularity as to seem routine. Despite the capable performance of our defence force in the field, it's clear that something is very seriously wrong with the management of Defence.

Every government approaches the problems they encounter in Defence similarly. Once a problem emerges a review is commissioned. The review then produces a report, which in turn leads to a raft of reforms. It would be impractical to list all the reviews undertaken over the past several years, but they are far from rare. For example, seven separate reviews into ADF culture were commissioned this year alone. Important as these might be, they pale in comparison with the 2008 audit of the defence budget which led to the current Strategic Reform Program (SRP).

The SRP is essential to delivering the 2009 Defence White Paper. Indeed, the government's plan to expand and modernise the Australian Defence Force is predicated on the SRP finding savings of \$20 billion over the next decade. But the SRP is more than just a savings program; it also aims to improve both planning and accountability within Defence. Two years on, we can begin to assess progress on all these fronts.

On the surface, the SRP is delivering the planned savings. In fact, over the first twelve months, gross savings \$1,022 million dollars were reported against a target of \$797million. But all is not as it seems. A close examination reveals that costs continued to increase in many areas where substantial savings were claimed. For example, net savings of \$288 million were claimed in non-equipment procurement despite the fact that costs actually grew by \$73 million. The explanation offered is that the claimed savings are relative to a 'business-as-usual' estimate of what the costs would have been absent reform.

Given that the defence force is presently introducing several new equipment fleets into service, it's plausible that costs could be increase even after savings. But plausible is not good enough given what else is occurring. Incredibly, Defence has been returning hefty sums of money back to Treasury above and beyond the claimed savings. Last financial year they handed back \$400 million of unspent operating costs and \$1.1 billion in investment funds. If not for the last-minute opportunity buys of the HMS *Largs Bay* and an extra C-17 transport aircraft, the hand-back would have been close to \$2 billion.

With so much money lying idle, it's clear that the White Paper granted Defence considerably more than it actually needed—at least for the present moment. It follow that the SRP savings are being claimed against an implausibly high business-as-usual estimate. So while progress is undoubtedly being made, the headline figure is a bare-faced exaggeration. Consistent with this, the government responded to the last year's hand-back by deferring \$1.3 billion of capital investment until after 2014 and cutting \$3.9 billion from the defence budget across the forthcoming decade.

The recent volatility in the annual budget is nothing new. The past decade is littered with deferrals and hand-backs totalling billions of dollars. Sadly, Defence consistently fails to produce plans that are even remotely realistic. Not one of the Defence Capability Plans produced by Defence since 2001 has come close to being delivered because of the persistent tendency of costs to escalate and deliveries to be delayed by years.

Whatever the SRP is doing to improve planning has so far proven inadequate. Apart from the manifest failure to budget accurately, the plan for new equipment acquisitions laid out in the 2009 White Paper is falling steadily behind schedule. If we are lucky, what was supposed to be 'Force 2030' might be available sometime around 2035.

Most worrying is the glacial progress in the initial 'first-pass' approval of projects—the lead indicator of future activity. Over the past two years, less than a third of planned projects have reached this milestone. In response, the government has announced changes to speed up the process, including additional personnel. But these changes will take a while to have an effect. In the meantime, the accumulation of deferred projects has led to a planned doubling of investment over just four years later this decade. This scheme is manifestly unachievable and further delays are inevitable.

Why does Defence continue to get things so wrong? To start with there is moral hazard at play; the military have every reason to lock the government into big ticket plans irrespective of their feasibility. Just as importantly, Defence's management information systems are inadequate and its business processes are dysfunctional. The latter was amply demonstrated through the failure of the Navy's entire amphibious lift fleet on the eve of a cyclone hitting Queensland earlier this year. The ensuing report by ex-Telstra executive Paul Risso confirmed the worst.

The systemic failings are best captured by Risso's unashamedly prosaic recommendations; take whole-of-life decisions about assets, formalise asset and sustainment methodologies, establish a risk management system, rebuild an engineering capability in Navy, make sure there's enough money to operate planned new capability, reinstate the cultural importance of technical integrity, and establish closer working relations between Defence and its acquisition and sustainment agency the Defence Materiel Organisation. In short, just about all of the preconditions for the effective and efficient management of a critical defence capability were lacking. One has to ask why an organisation with so many highly paid executives got so many basic things wrong.

There are at least three reasons. First, accountability is confused because the chiefs of the three services have only limited control of the resources needed to do their job. Instead, the massive Defence Support Group and Defence Materiel Organisation control most support activities. Second, Defence lacks anything resembling a headquarters to coordinate what's going on—despite having a business model reminiscent of the command economy of the Soviet Union. Instead, Defence is governed as a federation of fourteen separate groups each with its own agenda. Third, individual accountability is undermined by the absence of effective personal incentives and sanctions.

Naturally, there is yet another review dealing with these issues; the Review of the Defence Accountability Framework undertaken by Rufus Black and released in August this year. First the good news; the government is reinstating independent contestability of acquisition proposals. Properly implemented, this will not only see capability planning put on a more realistic footing but will also strengthen the linkage between geopolitical strategy and capability development. Hopefully, plans for the ADF become something more than what they are at present—the sum total of the disparate aspirations of the three services.

In most other ways, Black's recommendations are decidedly conservative. For example, he recommends that a corporate plan be developed for Defence. While this is sensible as far as it goes (who would have thought that a \$26 billion a year enterprise did not have such a thing?) a corporate plan falls well short of creating a proper headquarters. Similarly, although Black recommends a cull of Defence's multitude of internal committees, he leaves the current federated approach to governance largely intact. And rather than transfer support activities back to the military so that

they can be held to account for the military capabilities they are nominally responsible for, Black recommends stronger agreements between the services and the supporting agencies. While this would be a positive step nonetheless, it's one that's been promised repeatedly over the past decade to no avail—just as with the introduction of performance measures.

So the overall picture of reform in Defence is mixed. Savings are being made but not on the scale claimed. Capability planning is being improved but not quickly enough to prevent further delays. And although sensible steps are being taken to reform accountability and governance, many of the underlying structural problems will remain. Nonetheless, compared with much of the last decade when Australia's fiscal situation was strong and the shadow of 9/11 accorded national security an unchallenged priority, a lot more is now being demanded of Defence in terms of efficiency and effectiveness. With the global economy now facing uncertain prospects, the government's appetite for reforming Defence may grow further still.

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