

COVER.

ADF must have budget growth beyond 2010

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THERE is no way that the Government's current plan to expand and modernise the Australian Defence Force (ADF) can be realised without some level of real growth in funding into the next decade. Yet, when the "golden decade" of 3 per cent per annum real growth delivered by the 2000 White Paper runs out in 2010, the budget flatlines pending government consideration next year.

Most observers assume that the Government will come to the party. Defence certainly appears confident; otherwise they'd be making cuts to accommodate the looming crunch. Instead, they've been busy formulating new bids, including one for a larger and heavier Army which appears to have in-principle support from the Government. But nothing's guaranteed. The Government is going to issue a strategic update some time before the end of this year, and a revised defence capability plan early next year.

Until these documents are out, it's too early to count on a big boost to Defence coffers.

The strategic update should clarify how the Government sees Australia's strategic priorities. Five years ago, in the shadow of the East Timor crisis, it was all very clear. The 2000 White Paper gave priority to defending Australia and fostering security in the immediate neighbourhood. While it was recognised that operations further afield would arise from time to time, the ability to undertake them was not a factor in the design of the ADF.

A lot has happened since then: terrorism has emerged as a global preoccupation; Australian forces have been deployed to Afghanistan and Iraq; and a debate has emerged in academic and media circles about the continued relevance of the 30-year-old Defence of Australia doctrine and its regional focus.

So far the Government's position has been unclear. The official line is that the old policy remains, but that the ADF needs to be more flexible and mobile. Yet Defence Minister Robert Hill has repeatedly gone much further, challenging the old doctrine and emphasising the importance of global expeditionary operations.

The critical question for the update concerns the type of military forces the Government wants available for distant coalition operations. Will it stick to relatively low-risk niche contributions as in the past, or raise the bar to include conventional ground forces? The answer will drive the future shape and cost of the Army.

With its strategic priorities resolved, the Government can then revise its decade-long program of capital investment, the defence capability plan. This will not be easy. Aside from recent bids to harden and network the Army, the investment program is already feeling the strain of rising costs due to overly optimistic initial estimates and creeping capability aspirations. Something has to give.

In fact, the Government's current plans — let alone those for a larger expeditionary defence force — are unaffordable without more money.

Unless the budget continues to grow past 2010, either the planned level of capital investment must be cut, or the size of the defence force reduced — or both. This holds true even before any new proposals or cost increases are taken into account — it's the inevitable consequence of introducing already planned new capability into service. It's likely that the Government will employ a number of strategies to accommodate the looming defence funding crunch.

Firstly, resources will be shifted from low to high priority areas. Irrespective of the rhetoric in the strategic update, this will be the truest sign of any strategic shift. For example, advocates of a larger Army have often suggested taking money from the joint strike fighter project to fund a larger and

more capable land force. Secondly, rising costs will be partially accommodated by delaying the purchase of new equipment, although the cost of life-of-type extensions can quickly render such a strategy uneconomic. Thirdly, the defence force will be asked to make savings, albeit modest ones.

Even though it's been almost a decade since the last comprehensive review of defence efficiency, the Government has shown little interest in tackling the service chiefs over waste and productivity.

Finally, because the Government can hardly abandon the military buildup they began five years ago, more money will be found for defence. The question is, how much?

In the current environment of heightened strategic uncertainty, it's tempting to conclude that the government will be generous. However, as Treasury Secretary Ken Henry recently pointed out (to the dismay of some commentators), Defence is unlikely to be quarantined from the fiscal impact of Australia's ageing population in the coming decades.

These future pressures matter now — defence planning is a long-term business with equipment often remaining in service for decades. Consequently, the Government's plan for the ADF will almost certainly take account of the looming fiscal impasse. This could mean that future defence funding growth falls below the current 3 per cent annual rate.

If so, that's better than spending up big only to make precipitous cuts when the money gets tight.

To see how expensive this can get, consider the tale of Navy's six FFG frigates. Last month HMAS Canberra was retired from service seven years early to offset rising costs elsewhere. HMAS Adelaide will follow soon for the same reason. Unfortunately, Defence has already signed a \$15 billion contract to upgrade the entire fleet, including those two vessels. With most of the equipment already purchased, almost \$1 billion spent and only one vessel upgraded, the prospect of recovering more than a very limited fraction of the money is remote. (Perhaps that's why, more than two years after the decision, Defence is yet to renegotiate the contract.)

Expensive mistakes like this can only be avoided by taking into account the long-term susceptibility of the defence budget. Thus, no matter how large the surplus is today, the Government needs to focus on what it can afford to maintain in 2020 when spending billions of taxpayers' dollars on military equipment that will, funds permitting, be around for decades.

Mark Thomson runs the budget and management program at the Australian Strategic Policy Institute (ASPI). These are his personal views.

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