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Flood of money does not negate the necessity of $20bn cut to expenditure

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NO matter how much money the Government gives to the Defence Department, it never seems to be enough. Next year, defence funding will reach $26.8 billion, equivalent to 2.3 per cent of gross domestic product. This comes after nine years in which the defence budget grew by 30 per cent in real terms.

And there is more to come; during the next decade spending is set to grow by at least another 30 per cent.

The core of the increase is the decade-long 3 per cent real annual growth committed by the 2000 white paper and since extended to 2018. But that was only the start of the extra funding.

Between 2005 and 2008, the Howard government announced a string of new multi-billion-dollar programs, including the $10 billion expansion of the army under the enhanced land force initiative, $6 billion to purchase 24 Super Hornet fighters and $3.2 billion for the acquisition of four C-17 Globemaster strategic lift aircraft.

In addition to these big-ticket purchases, even more money has been provided to meet the increasing cost of logistics, personnel and the sprawling defence estate. Then, on top of all this, $7.6 billion in supplementation has been provided to cover the cost of deployments, including those to Iraq, Afghanistan, East Timor and Solomon Islands.

Yet, despite the flood of money, the Defence Department has to find about $20 billion of savings during the next 10 years to balance the books.

How can this be? Why is there such a yawning gap between plans and available resources after almost a decade of growing funding?

In part, the answer is poor planning. From the formulation of the 2000 white paper onwards, the department has consistently underestimated the true cost of acquiring and operating military equipment. This systematic bias has been driven by a combination of self-delusion and indifference.

Self-delusion in that defence planners are, by nature, inherently optimistic. There is nothing unique about this. A strong optimism bias pervades the civil sector as well; just ask the builders of Melbourne's Southern Cross railway station. Large ambitious projects tend to be planned by larger-than-life ambitious people who have little interest in dwelling on what may go wrong.

And indifference because escalating defence costs are ultimately borne by the taxpayer, rather than the military or civilian officials who advise the government.

Given that, in the past at least, the Defence Department has always been able to ask for more money, there have been few incentives to produce rigorous cost estimates; if anything, the opposite has been the case. Whatever the reasons, the bottom line is that the Rudd Government inherited a sizable program of modernisation and expansion of the defence force that was seriously underfunded.

Perhaps in better economic times, Kevin Rudd would have been happy to pick up the tab for John Howard's plans, but not in the middle of a recession. Instead, the department has been told to make up the difference between what it undertook to deliver and the money it has.

The $20 billion savings program also underpins the ambitious 20-year plan set out in the new defence white paper. During the first decade, there are several new initiatives to be squeezed among existing projects.

The Cyber Security Operations Centre and land-attack cruise missiles for the air warfare destroyers, for example, will cost many hundreds of millions of dollars each, as will the urgent purchase of naval helicopters.

In the second decade, the goal of having 12 new submarines and a fleet of larger frigates will be possible only if the Defence Department substantially reduces its overheads through the savings program. So a lot is riding on finding $20 billion of savings in the budget. How much confidence can we have that this will be achieved?

The best comparison we have is the 1997 defence reform program. Designed to find savings of about $1 billion a year (representing about 10 per cent of the then annual budget) the program saw large personnel cuts and extensive outsourcing across the organisation. When the dust settled, only $660 million of savings were claimed, and even that figure is hard to credit.

But what was clear was the damage done to the defence force by a rushed, poorly planned and badly implemented reform program. When the East Timor crisis hit two years later, the defence force was no better prepared or funded than it had been before the reform program, and some would argue it was worse off on both counts.

The proposed, decade-long $20 billion savings program represents a slightly smaller percentage savings target of about 7.5 per cent. However, given that many of the opportunities to improve efficiency through consolidation or outsourcing have already been tried, it is a substantial target to deliver.

Unfortunately, we know precious little about how the $20 billion will be delivered. While the original program was accompanied by 500 pages of explanation, there are only six pages in the new white paper on how the most ambitious and wide-ranging reform program in more than a decade will be accomplished.

With the modernisation of the defence force hanging in the balance, and a history of poorly executed reform in the Defence Department, the proposed reform program cannot be taken on trust. When the plans for $20 billion savings program are eventually made available, they will deserve close scrutiny.

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