

ONE INDISCRETION TOO MANY

Faulkner inherits DWP'09, reform program & new DCP

■ Trevor J Thomas/CANBERRA

One week out from a major NATO meeting when first sworn in as Minister for Defence on 5 June, Senator John Faulkner was at pains to stress he was “right at the bottom of a very steep learning curve” in picking up the Government’s new Defence White Paper, getting a grip on the \$20 billion reform and savings plan required to make the White Paper viable, and preparing to launch a new Defence Capability Plan (DCP) within four weeks of his first day at work.

Having secured the position of Special Minister for State and Cabinet Secretary in the new Rudd Government, John Faulkner is one of the Prime Minister’s most trusted Cabinet colleagues. At 55, and due to contest his fourth Senate term at the next Federal election, Faulkner is young enough to invest a decent term (ie: at least five years) in seeing through the Government’s change agenda, in the tradition of his forebears, Kim Beazley and Robert Ray.

Whilst Joel Fitzgibbon had been foolish in terms of his personal affairs and the handling of a number of issues in the Defence portfolio, the fact remains that during the Howard era six Defence Ministers (McLachlan, Moore, Reith, Hill and Nelson) departed in quick succession, along with the ejection of two Departmental Heads (Hawke & Smith). They could not have all been incompetent, suggesting there is something very wrong inside Defence, and it now needs fixing under a new Minister with assured authority and longevity.

One of the advantages of a Federal Budget containing four-year forward estimates, is that the short time frame works to limit the visibility of longer-term



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Key Points

- **Leeton (NSW)-born Senator John Faulkner has become** Labor’s fifth Defence Minister since the Whitlam era, and follows Gordon Scholes (1983-1984), Kim Beazley (1984-1990), Robert Ray (1990-1996) and Joel Fitzgibbon (2007-2009).
- **Fitzgibbon had tendered his resignation** to Prime Minister Rudd the day before, in the aftermath of revelations that meetings were hosted in his office with his brother and US health firm, Humana, in clear breach of ministerial conduct guidelines.
- **Having served as Minister for Veterans Affairs** and Defence Science & Personnel in the second Keating Ministry, Faulkner went on in Opposition to hone his tough and questioning character as Shadow Minister for Public Administration, and a Public Accounts & Audit committee member.
- **Understood to have reluctantly taken up the post** in deference to the best interests of the Rudd Government, the 55-year old, third term Senator, first described his appointment as “a great honour, responsibility and clearly a major challenge.”

realities, as well as follow-on debate over the robustness of assumptions used in the estimates. In the weeks since budget night, however, a government hesitant to utter the numerics (ie: net debt will peak at 13.8% of GDP in 2013/14) associated with the economic fundamentals of deficit financing, has also failed to deliver an adequate level of transparency in relation to proposed military expenditures associated with new White Paper initiatives – something it campaigned in the last election it would not do.

How Faulkner now handles this contradiction of transparency

which transpired under the watch of Joel Fitzgibbon – in terms of his admirable history of support for Freedom of Information (FoI) legislation and improved transparency within Government – will perhaps mark his early days in the Defence portfolio.

The 2009 Defence White Paper’s now familiar words sketched out the bones of a new defence funding model, that includes:

- continuing the commitment to grow underlying Defence funding by 3% on average in real terms to 2017/18, with 2.2% average real growth per annum thereafter to 2029/30;

- providing fixed indexation at 2.5% each year to 2020/30 – said to be in harmony with the target set for consumer price inflation agreed by the Australian Government and the Reserve Bank of Australia, for the purposes of Defence planning;

- implementing a comprehensive program of reform, efficiencies and savings, generating around \$20 billion worth of savings over 10 years;

- reprogramming existing capital acquisitions to meet the new strategic assessment and timetable in the 2009 Defence White Paper; and

- instituting a commitment by Defence to meet any shortfalls in the White Paper through further internal efficiencies within Defence.

The new funding model applies from 1 July 2009, with increases resulting from the new indexation approach over the forward estimates being returned from 2016/17 onwards, in line with outer year funding demands for Defence’s ‘Force 2030’ acquisition timetable. Defence funding will transition to the new long-term path over 2013/14 and 2014/15.

To enable this, Defence funding has been set \$1 billion below the new long-term funding path in 2013/14, with a further \$500 million withdrawal in 2014/15 (and prospectively another \$500m in the year after – that is not in the forward estimates), after which higher funding levels – courtesy of new real growth parameter and fixed indexation initiatives) begin to be phased in. The Budget papers indicate such amounts will be added back to the Defence budget from 2016/17 onwards.

The Forward Estimates accordingly show that savings of \$2 billion over three years from 2010/11 (ie: -\$100m, -\$200m & -\$1,700m) will be withdrawn

from the Defence Budget. These are not planned for return until the period beyond 2015/16 to (just in time) meet funding pressures building in relation to new acquisitions being undertaken to deliver the military capability enhancements set out under 'Force 2030'.

More accurate indications of the timing of such shifts are not expected to achieve visibility until publication of the new (2009) Defence Capability Plan (DCP). Even so, the quantum of funding for new projects in the first five years of DWP'09, are expected to be much smaller when compared to those funded at the start of the 2000 Defence White Paper. DWP'09 indicated the new funding model would deliver Defence some \$308 billion over the next decade, and additional funding of \$146.1b through to 2029/30.

Defence reforms are at the same time envisaged to deliver gross savings of \$20.5 billion over the mid to latter years of the decade. Strategic Reform Program (SRP) savings are expected to be supplemented by further 'culture of economy' initiatives, along with the reprogramming of funds unused, and by new funding from Government to provide nearly \$45b in total for investment in new initiatives.

At least \$30 billion of this will be more immediately invested to 'fill holes' in the Defence budget, fix critical equipment and capability gaps, and remediate the enterprise backbone. Of the remaining \$15 billion of savings across the decade, a net \$1.6b will be returned to the Budget (comprising \$2b returned over the Forward Estimates, and repayments commencing in 2016/17), with the balance (\$14b) funding new capability acquisitions and other new initiatives.

Senate Estimates hearings in the first week of June witnessed the emergence of new details of the savings program to be implemented under the joint authority of the Secretary of Defence and Chief of the Defence Force. Moving forward, the SRP required to deliver 'Force 2030' will be activated in 15 separate reform streams, that will take between

three and five years to fully implement and deliver mature savings.

The 15 reform streams (and nominated gross savings across the decade) comprise: Capability Development; the Defence Estate, Information & Communications Technology (\$1.9b); Intelligence; Smart Maintenance (\$4.4b); Inventory Management (\$700m); Procurement & sustainment; Logistics (\$320m); Non-equipment Procurement (\$4.4b); Preparedness, Personnel & Operating Costs; Reserves (\$380m); Science & Technology; Output Focussed Budget Model; Strategic Planning; and Workforce & Shared Services (\$3.3b).

In addition, savings from other categories previously identified under former Defence Minister Fitzgibbon's savings program comes from a general 'belt tightening' exercise. Officials note it was past practice in Defence to retain some central funding provisions (drawn from part of prior

year indexation and real budget growth) to cater for future contingencies – however, this is now seen to have reflected deficiencies in some elements of Defence cost estimation.

A zero-based budgeting exercise undertaken for the 2009 Defence White Paper has since considered the central provisions (some \$3.9b over the decade) were no longer required to be retained, and could be reallocated to address shortfalls in funding for existing activities, and funding for White Paper initiatives.

Reductions (\$750m over the decade) have been made to funding in the major capital facilities program and minor capital equipment programs, to drive greater efficiency and remove low priority activities.

Savings of around \$70m are also said to have been obtained by removing some minor administrative activities considered to be of low priority. Finally, around

\$350m in savings were identified from anticipated mature, ongoing productivity savings that would commence after the initial productivity measures from the SRP had been achieved around the middle of the next decade.

Two areas anticipated to begin immediately impacting upon defence-industry include its proposals relating to Maintenance and Inventory. Implementing \$360m of 'smart maintenance' techniques across Defence's 100+ weapon systems – costing around \$4.9b per annum to sustain – and resulting in a better prepared ADF delivered at a lower cost.

The initial wave of activities is planned to commence in the second half of 2009, starting with one or more major weapon system or capability per Service in July 2009. Building on lessons learned in these early activities, these reforms will be scaled up year-on-year until complete in 2014/15.

To maximise the potential productivity benefits to be gained in this area, Defence is also planning to develop appropriate incentive arrangements in its future maintenance contracts to encourage providers to implement more efficient maintenance principles. 'Experts' said to have conducted similar programs in the past found that end customer demand management contributes around 50% of the savings; suppliers contribute 30% through increased productivity; and the buying organisation 20% through internal efficiency, better contracting and improved processes.

Defence also holds \$4.9 billion of inventory, and consumes around \$560m of this annually. A program moving forward will seek to optimise such holdings (thus reducing the cost of ownership) by the running down of excess inventory in the order of 15% over time by way of resort to a \$9m program of increased domestic manufacturing, better stock target setting and a risk weighted approach to inventory management.

Defence also plans to have another go at rationalising its logistics infrastructure after the po-



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and missile capabilities. As noted above, the capability requirement to engage a moving maritime target is an option under the contract.

Australian progress with this option depends on USAF development of an anti-surface warfare capability within a timeframe that is suitable for local application. Defence continues to collaborate with the USAF on the definition of its maritime interdiction requirements, while independently continuing to fund LM to conduct simulation studies into missile performance in a maritime environment. Defence has acknowledged US Navy plans for its F/A-18Fs to carry the JASSM, and once cleared, will leverage USN-developed operational flight data into the Australian test and evaluation program.

NEW AIR COMBAT CAPABILITY: The \$109m phase 1B of project Air 6000 aims to progress decision making in regard to the introduction of a new air combat capability for the RAAF to satisfy 'Force 2030' expectations upon replacement of both the current F/A-18A/B 'Hornet' and F/A-18F 'Super Hornet' fleet. The 2009 Defence White Paper spoke of Lockheed Martin's F-35 Joint Strike Fighter (JSF) being the 'preferred solution' for this capability requirement, and stated the Government "has decided that it will acquire around 100 F-35 JSF, along with supporting systems and weapons.

The first stage of this acquisition will acquire three operational squadrons comprising not fewer than 72 aircraft. The acquisition of the remaining aircraft will be ... in conjunction with the withdrawal of the F/A-18F 'Super Hornet' fleet, and will be timed to ensure that no gap in our overall combat capability occurs." The JSF is a fifth-generation, stealthy, multi-role fighter being developed as an eight-nation (including Australia) international collaborative program. Three variants are being produced, with the RAAF's preference being the conventional take-off and landing (CTOL) variant.

Upon coming to office, the Rudd Government commissioned a two-part Air Combat Capability Review to provide advice on aspects of Australia's air combat requirements. The first part of the Review re-affirmed 17 March 2008 that the Howard Government's decision to buy 24 F/A-18F 'Super Hornet' fighters to fill the gap between retirement of the F-111 fleet in 2010, and full realisation of the new JSF capability (around 2018) was sound, "as long as it retains commonality with the planned US Navy development path."

The second part of the Review concluded that "a fleet of around 100 fifth generation, multi-role combat aircraft would provide Australia with an effective and flexible air combat capability to 2030," and went on to nominate the F-35 as the "preferred solution" for that requirement (see story page 8). The 2009/10 Federal Budget confirmed phases 2A and 2B of project Air 6000 are scheduled to receive 'second pass' approval over the year for \$12-14b first tranche acquisition of three JSF squadrons. The National Security Committee of Cabinet is expected to consider approval of the 2009-2014 DCP by end-June, along with a decision on JSF acquisition that should see a formal order in August.

How this will be affected by the 6 June reshuffle of Federal Cabinet and lead ministerial positions, is yet to be determined. Should this all occur, however, the RAAF would most likely take delivery of its first F-35s in the US in 2014, and after the program's achievement of international flight clearances, would see the initial squadron becoming operational in Australia in 2015.

2009/10 Budget papers nevertheless describe the JSF program as "a developmental project, and as such, many technical and programmatic challenges remain. Defence's planning has therefore taken into account the risk of budget and schedule pressures on the US program, and the impact of these on introducing the JSF into service in Australia." This project phase also supports preliminary activity necessary to prepare for the acquisition of the JSF, Australian defence industry participation in the F-35 program, and Australia's initial contribution to the production, sustainment and follow-on development (PSFD) phase.

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litically compromised Defence Integrated Distribution System (DIDS) advanced in the late-1990s. At a cost of \$240m over the coming decade, the storage and distribution footprint is proposed to be rationalised by consolidating 24 wholesale sites into seven. Defence will in parallel improve logistics planning, management & execution through better systems and practices, and involving targeted investments in logistics technology to deliver greater visibility to the whole supply chain, as well as savings.

Areas for \$630m of new investment include Information & Communications Technology (ICT) hardware already in commercial use, and automated identification technology (to enhance visibility of stock and the accuracy of Defence's inventory records) to achieve productivity gains between 40-50%.

In a related White Paper initiative, investment will also be made in modernising Defence's land materiel maintenance facilities to provide improvement to the operational availability, and governance of Army equipment and vehicle fleets. The reforms will increase capacity and effectiveness of the land materiel maintenance system from first and second line unit servicing and repair workshops through to fourth line deep maintenance repair.

Defence currently spends \$5.2b a year across 23 categories of non-military goods & services from external suppliers, and spanning: travel; building maintenance; professional services; clothing; training; R&D; advertising; freight & cartage; explosive ordnance; health services; removals; hospitality; catering & food; utilities; security services; other garrison support; cleaning; grounds maintenance; office supplies; waste management; stores management; office furniture; and fuel.

Although these areas have previously been gouged in earlier efficiency and commercialisation initiatives, Defence plans to spend around \$127m over the

next decade on programs to skill staff and equip them with necessary technology to achieve savings, some 20% of which will be achieved through improved governance arrangements to standardise and streamline contracting and buying practices across Defence Services and Groups.

Defence proposes to initially examine opportunities to consolidate general services contracts for furniture, office supplies and professional services. A centre of procurement and contracting excellence will be established in the Defence Support Group to provide guidance and strategies to ensure defence non-equipment procurement is undertaken with an improved commercial approach. Officials anticipate 60% of savings will come from changes to policy, usage and demand. A further 20% will be achieved through improving supporting processes to remove waste and duplication across Services and Groups. Initiatives include ensuring greater access to electronic business, self-administration, and use of automated processes.

Defence also proposes to have another go at some hairy old chestnuts, and moving forward will "closely examine" all aspects of support services, including: potentially rationalising messes – integrating other ranks with officer facilities, and replacing single service facilities with joint ones; rethinking policies on single day travel and reducing senior executive entitlements; and exploring current standards for hospitality & catering, while cleaning and access control will be costed and adjusted to implement a consistent and affordable delivery model across all Defence bases.

The reforms in the above stream will target different categories in three to six month 'waves', with each wave focusing on three to five categories. Opportunities in clothing & removals are to be explored first, followed by office supplies & office furniture.

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