

## 2008/09 DEFENCE & NATIONAL DOMESTIC SECURITY BUDGET ANALYSIS

### Defence acquisition 'takes a holiday' whilst next Defence White Paper is framed up

Trevor J Thomas/CANBERRA

Flush with money courtesy of the minerals & energy boom, but concerned with keeping an overheated economy under tight control in order to reduce the prospect of rising inflation, the Rudd Labor government has budgeted for an underlying cash surplus in 2008/09 of \$21.7 billion (1.8% of GDP), compared with the 2007 Pre-Election Economic & Fiscal Outlook (PEFO) estimate of \$14.3b (1.2% of GDP).

In deference to a new 'culture of economy', all new spending programmed for 2008/09 by the new government since the PEFO was published in early-December 2007 - and including Labor's own election commitments - have been funded in the new 13 May Budget by offsetting spending cuts in other areas. Overall, the Government is claiming to have made total cash savings of \$33.3b over four years, including \$7.3b in 2008/09 to offset new policy initiatives costing \$5.3b.

Overall, and aided by some changes to accounting policy commencing with the 2008/09 Budget - and despite the growth of government expenditures to \$292.5b (from an estimated \$280.6b in 2007/08), real government spending is forecast to grow by 1.1% in 2008/09, down from the 2007/08 Mid-Year Economic & Fiscal Outlook (MYEFO) estimate of 2.9%. Over the budget and forward estimates period, spending is now projected to grow on average by 2.3% a year - significantly lower than the 4% growth recorded over the preceding four years to 2007.08.

**TWO-YEAR REAL FUNDING INCREASE EXTENSION:** The framing of the 2008/09 Budget has met (in aggregate) Labor's election commitment to provide 3% real growth per year (on average) in Defence's underlying funding base to 2015/16. However, a -\$477m provision in 2008/09 means that a total of \$3.214 billion has now been pulled out of the 2000 Defence White Paper funding estimates for re-programming into forward years. Cost-shifting adjustment have also been made in terms of operating the C-17 global strategic lift fleet.

In recognition of the impact of re-programming, the new Government has now proposed to extend the 3% real funding guarantee commenced in 2000, two extra years to 2017/18. So while growth rates in total Defence spending may vary between years due to slippage in acquisitions (now almost exclusively blamed on contractors for extracting \$1,065.9m out of 2008/09) and other factors, the Budget papers indicated that real growth in total Defence spending is expected to average 4% a year over the next four years.

Defence expenditures will nevertheless come under increased scrutiny over the next few years, not only via the 2008 White Paper investigation and formulation process, but also as a result of the government deciding to

implement a major 'audit' of the Defence budget in parallel with a \$5m program of annual independent checks of major acquisition projects by the Australian National Audit Office.

**STATEMENT OF NEW STRATEGIC DIRECTION:** Contrary to the traditional expression of Australian national security policy - in terms such as the 'Defence of Australia and its Interests' - the 2008/09 Budget papers talk more of Defence's principal focus being "to ensure that Australia's interests are protected and advanced through the provision of military capabilities, and the promotion of international security and stability." This is very much 'in theme' with ideas expressed within the 2020 Summit group charged with developing new ambitions for Australia's future security and prosperity in a rapidly changing region and world (see DIAR.com, Vol.10, No.12 of 20 April 2008).

Preparation of the new Defence White Paper is naturally very much at the head of Departmental focus over 2008/09, with the document pitched as ultimately articulating Government policy and funding for Defence within a framework of "fully costed" future Defence capability, and "fully-costed support functions, informed by a long-term cost model" that is capable of supporting the delivery of up to \$1b per annum, for the next 10 years, of savings and efficiencies for reinvestment in priority areas of Defence.

The White Paper will also be accompanied by a Force Structure Review, which will take a top-down approach to analysing the Australian Defence Force and future capability priorities needed out to 2030 in the context of: consideration of the strategic & security environment; the identification of likely tasks for Australia's military forces; a determination of the joint capabilities that will be needed; and the development of force structure and capability options.

The White Paper's deliberations will also be informed by a series of 'companion reviews', including: reviews of how the ADF can sustain its uniformed and civilian workforce; formulation of the DCP to equip the ADF; the nature of the accompanying facilities investment program; Defence information technology requirements; Departmental requirements of defence-industry, and science & technology; and Defence logistics. Consultations will be progressed with other departments "to find ways to connect Defence more effectively into the wider national security framework demanded by the new security environment," supplemented by a community consultation program.

**DEFENCE BUDGET OVERVIEW:** Defence's departmental appropriations in 2008/09 is proposed to be \$21,757.8m, however, the addition of the drawdown of appropriations carried forward, net capital receipts and own source revenue will deliver total departmental funding of \$22,690.3m – 1.8% of gross domestic product (GDP), and 7.1% more than the 2007/08 forecast outcome - but a decrease of \$966.0m (4.1%) compared to the 2007/08 Portfolio Additional Estimates Statements (PAES).

This comprises a decrease of \$558.4m associated with departmental budget measures (including a chopping of the Capability Technology Demonstrator (CTD) program, a decrease of \$461.3m for other budget adjustments including \$939.0m in price indexation supplementation, a decrease of \$1,250.6m due to re-programming of expenditure to later years, and a decrease of \$126.5m due to 'no-win-no-loss' foreign exchange movements).

Government funding to Defence in 2008/09 and across the next nine financial years includes an additional \$2,430.0m for new budget measures, including supplementation on a 'no-win-no-loss' basis for the net additional costs over the forward estimates of: continued stabilisation and reconstruction activities in Iraq to December 2008 (\$23.6m, of a total \$215.7m); continued funding to help restore peace and stability in Timor-Leste to June 2009 (\$18.7m, of a total \$174.3m); and continued funding for ADF deployments to Afghanistan to June 2009 (\$53.1m, of a total \$618.9m).

In short, funding for overseas operations in 2008/09 is being sourced from internal resources and funding. During the next 12 months, the Reconstruction Task Group in Afghanistan will transition into a Mentoring & Reconstruction Task Force, with the inclusion of an Operational Mentoring & Liaison Team focused specifically on assisting Afghan forces to carry out more security and reconstruction tasks in Oruzgan Province. The Special Operations Task Group will continue to enhance security in the Province by targeting and disrupting Taliban extremists.

Also included in the Budget outlook is an additional \$905.8m in 2016/17, and \$1,879.3m in 2017/18 as a result of the Government's continuation of the 3% per annum real growth in funding to Defence for another two financial years. All other Budget measures, along with 2008/09 costs of operations, are being funded by price indexation supplementation and Defence's savings and efficiencies program.

**SAVINGS FUNDING NEW INITIATIVES:** At the direction of the new government, Defence has embarked upon a program to implement internal efficiencies and identify savings of up to \$10b across ten years for reinvestment in higher priority activities. An initial exercise is said to have identified savings and efficiencies in a range of non-operational areas across Defence, yielding savings of \$477.6m in 2008/09.

The said savings are being used to: fund new and continuing budget measures (\$77.0m); fund a 'Responsible Economic Management' initiative aimed at provisioning future requirements (\$191.2m); and a partial offset to the cost of 2008/09 operations (\$209.4m). The balance of the net additional costs of operations in 2008/09 will be funded by price indexation supplementation (826.5m).

Savings and efficiency program sources for the above \$209.4m include: rationalisation of access control to Defence facilities (\$2.9m); garrison support contract efficiencies (\$9.8m); administrative operating cost reductions (\$13.4m); reductions in the use of external service providers (\$19.4m); efficiencies in the use of the civilian workforce (\$0.8m); reductions in administrative travel (\$5.7m); efficiencies in telecommunication contracts (\$13m); reduction in the scope of IT projects (\$6.8m); reductions in minor capital procurement (\$26m); efficiencies in the sustainment procurement cycle (\$89.3m); and efficiencies in the delivery of sustainment services (\$22.3m).

Programs being funded next financial year under the 'Responsible Economic Management' initiative include: ADF improvements to 'Sea King' helicopter safety (6.1m); Aust-US Defense Trade Cooperation Treaty (\$28.6m); improved Defence intelligence capability (5.5m); critical infrastructure protection modelling & analysis (\$2.2m); new ADF general medical & dental care (2.4m); mental health support to ADF members and veterans (0.4m); the gifting of HMAS 'Adelaide' (\$3m); development of a National Threat Assessment Centre (0.6); intelligence support to counter illegal fishing (1.2m); enhanced counter-terrorism support (\$14.2m); critical infrastructure protection (\$1.5m), reductions in non-operational ADF postings overseas (-12.1m), and progressing the Kings Highway Upgrade (\$23.3m) promised by Dr Mike Kelly during the campaign.

Sources of the savings to fund the above initiatives include: efficiencies in the sustainment procurement cycle (\$25.9m); reduction of the sustainment budget for the sinking of HMAS 'Adelaide' (\$3m); reductions in other elements of the major capital facilities program in order to fund the Kings Highway upgrade (\$23.3m); reductions in administrative travel (\$12.8m); reductions in scientific research programs (\$2m); efficiencies in telecommunications contracts (\$13m from 2009/10), and a reduction in project definition costs for major capital equipment projects (\$10m). Reprogramming of sustainment purchases, facilities work, upgrades to living-in accommodation and scientific support programs make up another \$191.2m in 2008/09.

**DEFENCE CAPABILITY PLAN:** Subject to preparation of the new Defence White Paper, the next substantive revision to the Defence Capability Plan (DCP) will now be published in mid-2009, and relating to the period 2009-2019. In the meantime, the new Labor government is implementing in 2008/09 several key non-controversial (in political terms) elements of the previous government's new military acquisition capability agenda (albeit almost a year later than when originally canvassed in the 2007/08 Defence portfolio budget statements), as well as a number of new capability requirements (principally via \$26.8m in rapid acquisitions) thrown up by challenges experienced on operations.

As such, the current approved DCP (as subsequently confidentially enhanced and amended since June 2006) is said in the Budget papers to foreshadow Defence funding of \$6,898.8m on new projects yet to be approved by the Government over the Budget and forward estimates. Since the 2000 Defence White Paper, government is said to have approved some 230 major projects or phases of projects with an all-up cost of approximately \$48.3b.

The approved major capital investment program for 2008/09 comprises \$4,299.0m, discounted by a slippage provision of \$309.9m and – after adding the DMO's project management service fee (\$373.1m) – totals \$4,362.2m. Adding in programs administered by other agencies – Army (\$0.6m); Capability Development Group (\$7.1m); Chief Finance Officer (\$0.2m); Chief Information Officer (\$22.2m) and DSTO (\$27.6m) – yields a total net approved major capital program of \$4,419.9m in 2008/09. On top of this, the major capital facilities program is planning to spend \$838.3m over the year.

**Proposed projects scheduled for 'first pass' approval over 2008/09 include:**

**Air 5428, Phase 1** – Pilot Training System;

**Air 7000, Phase 1B** – Multi-Mission Unmanned Aerial Vehicle (intermediate pass);

**Air 8000, Phase 1** – C-130H Refurbishment/Replacement;

**Air 9000, Phase 5B** – ‘Chinook’ helicopter Mid-life Upgrade;

**Land 121, Phase 4** – ‘Overlander’ Protected Light Vehicles (new);

**Sea 1000, Phase 1A** – Future Submarine Concept Studies (new);

**Sea 1397, Phase 5** – ‘Nulka’ Missile Decoy (new);

**Sea 1439, Phase 6** – ‘Collins’ Sonar Replacement;

**Sea 1778, Phase 1** – Deployable (Organic) Mine Counter Measures;

**Joint Project 90, Phase 1** – ADF Identification Friend or Foe;

**Joint Project 2048, Phase 3** – Amphibious Watercraft Replacement;

**Joint Project 2110, Phase 1** – Chemical, Biological, Radiological & Nuclear Defence (new);

**Joint Project 2069, Phase 2** – High Grade Cryptographic Equipment.

**Projects scheduled to receive ‘second pass’ approval consideration over 2008/09 include:**

**Air 5416, Phase 2A** – Additional Radar Warning Receivers for Helicopters: a new project not previously listed in the 2006-16 DCP, but seeking to extend the installation of more sophisticated radar warning/counter-measure capabilities into Army helicopters;

**Air 5416, Phase 4B.1** – Radar Warning Receiver for C-130J ‘Hercules’: previously listed as Phase 4 (\$75-100m) in the 2006-16 DCP, and now seeking to extend the installation of more sophisticated radar warning/laser counter-measure capabilities into the RAAF’s most recently acquired tactical airlifters;

**Air 5416, Phase 4B.2** – Large Aircraft Infra Red Counter Measures for C-130Js: previously listed as Phase 4 in the 2006-16 DCP, this project seeks to further bolster the combat survivability of the latest generation ‘Hercules’ tactical transporter with more sophisticated counter-measure systems;

**Air 5440, Phase 1** – C-130J Block 7.0 Upgrade Program: previously listed in the 2007/08 Budget for approval, this new project aims to provide the C-130J ‘Hercules’ tactical airlifters with the most recent capability upgrade achieved by the aircraft’s builders (Lockheed Martin);

**Air 6000, Phases 2A/2B** – New Aerospace Combat Capability – Acquisition: intends to undertake the collection and detailed analysis of system development & demonstration and early production (LRIP) information and the associated studies, risk mitigation and planning activities necessary to support a Joint Strike Fighter aircraft quantity purchase commitment in early-2009;

**Air 9000, SCAP1** – ‘Seahawk’ helicopter Capability Assurance Program: replaces the \$350-450m phase 3 component initially focused on determining capability shortfalls and the identification of potential technical upgrade options, now made all the more urgent by the recent cancellation of the ‘Seasprite’ helicopter acquisition (project Sea 1411);

**Land 17, Phase 1** – 155mm Artillery Replacement: seeks to conclude a \$450-600m preferred option from either the PzH 2000 or AS-9 for the protected self-propelled 155mm howitzer system, and either a direct or FMS purchase of the M777A2 as the lightweight 155mm artillery solution;

**Land 40, Phase 2** – Direct Fire Support Weapon: involves the \$150-200m acquisition of night sights for existing Saab Bofors M2/M3 ‘Carl Gustav’ 84mm recoilless single shot medium direct fire support weapons, and a new high rate of fire suppressive direct fire support weapon along the lines of a 40mm automatic grenade launcher or new 25mm low velocity cannons firing both smart-fused and air-burst ammunition;

**Land 75, Phase 3.4** – Mounted Battlefield Command Support System: involves some further roll-out of the Saab Systems Battlefield Command Support System (BCSS), and acquisition of an interim military off-the-shelf (MOTS) battle management system (including a fleet of digital combat net radios) to equip an Army combined

arms battle group. Phase 3.4 is an element of the \$75-100m combined tender for Army C4I, known as 'Land 200';

**Land 125, Phase 3** – Soldier Enhancement Version 2: involves the \$450-600m acquisition of dismounted C4I capability (combined with Land 75 as a single tender) with increased lethality (weapon sights) and survivability (body armour);

**Sea 1439, Phase 3.1** – 'Collins' Submarine Obsolescence Management: reincarnates a \$250-350m 2001 DCP initiative to develop optimum arrangements for through-life support for the 'Collins'-class submarines, including ongoing access to key technologies from a range of world suppliers;

**Joint Project 154, Phase 1** – Joint Counter Improvised Explosive Device: seeks to advance ADF counter-IED capabilities beyond hand-held detectors and manual removal techniques, and – in concert with capabilities previously considered under project Land 144 - potentially extending ADF capabilities beyond less favoured high frequency countermeasures to laser-based systems mounted on robots;

**Joint Project 2068, Phase 2B.1** – Computer Network Defence: brings on the first element of a \$30-50m project to improve the management, monitoring, security and visibility of the Defence Information Environment, including the deployment of tools and techniques to protect Defence's core information systems against intrusions, along with potential upgrades of systems at HMAS 'Harman';

**Joint Project 2089, Phase 2** – Tactical Information Exchange Domain (Data Links): involves implementation of \$100-150m TIED solutions for Link 16 and variable message format for the 'Anzac'-class frigates and F/A-18 'Hornet' fighters, with potential extension to the project Air 87 'Tiger' armed reconnaissance helicopters.

**AIR (RAAF) CAPABILITIES:** The Air Force reports in the 13 May Budget papers it is undergoing the largest upgrade of capabilities since WWII that, when combined with the ongoing high operational tempo, "is placing considerable pressure on a limited workforce." Accordingly, the high level of new capability deliveries and upgrades over the coming decades are recognised as requiring "careful management to ensure that current capabilities are maintained during transition to the required levels of preparedness. This will require modest growth to the Air Force workforce."

As part of the RAAF's enduring goal of achieving and maintaining a modern, networked force, the F1-11 capability will be withdrawn from service in 2010, with the strike role proposed to transition to a fleet of 24 F/A-18F Block II 'Super Hornet' multi-role aircraft, and the upgraded F/A-18A/B 'Hornet' jets. The introduction of the KC-30B multi-role tanker transport aircraft, the 'Wedgetail' airborne early warning and control aircraft, and the acquisition of the AGM-158 Joint Air-to-Surface Stand-off Missile (JASSM) – which has just achieved Lot 7 production approval in the US – for the 'Hornet' fleet (ie: to engage fixed targets), combined with improved short-range, day and night, all-weather precision guided weapons, will ensure that the Air Force maintains its capability edge.

The Budget papers indicate that the initial operating capability of the four C-17A 'Globemaster III' strategic transport aircraft procured under project Air 8000, will be further improved by the addition of self-protection modifications, along with a role expansion to include tactical airdrop. Flight testing is continuing in order to authorise Australian F/A-18Fs in future to carry JASSM, whilst the US Navy continues to develop 'Super Hornet' operational flight program software. Once cleared, the F/A-18F will carry the JASSM, and use the US Navy-developed operational flight program in the Australian test and evaluation program. This will culminate in live missile firings, to be conducted in both the US and Australia, to validate aircraft integration and missile capabilities – including an option for a full operational capability to engage relocatable and mobile targets. Work with the USAF is also proceeding on the development of a maritime interdiction capability.

**LAND (ARMY) CAPABILITIES:** The Budget papers indicate that the Australian Army in 2008/09 will continue to increase its ability to sustain a brigade group offshore for extended periods, and a battalion group for short-notice contingency operations. In particular, the Government has given its support for core capability enhancements to focus on continued introduction of the Hardened and Networked Army (HNA) and the Enhanced Land Force (ELF) initiatives, to improve its ability to generate adequate combat weight, support deployed forces, and contribute to domestic security.

Combat weight enhancements achieved through improvements in mobility, firepower and protection of existing force elements will be progressed by: continuing to raise a second mechanised Battle Group based on 7<sup>th</sup>

Battalion RAR and an additional motorised Battle Group based on 8<sup>th</sup>/9<sup>th</sup> Battalion RAR; continuing to develop 1<sup>st</sup> Armoured Regiment M1A1 'Abrams' tank capability via a scope change to project Land 907 to add a Tank Urban Survivability Kit (TUSK) upgrade over 2009-2010; the progressive acquisition of MRH-90 troop lift helicopters; and achieving operational capability of the 'Tiger' armed reconnaissance helicopters.

Outside of projects already mentioned above, the Army over 2008/09 will also be: continuing the introduction into service of upgraded M-113AS4 APCs; continuing to develop its contribution to domestic security operations – primarily through its ongoing development of the Tactical Assault Group (East) and Incident Response Regiment; and bettering its capability to maintain situational awareness through the development of a tactical unmanned aerial vehicle capability, vehicle mounted surveillance systems, and the continued introduction into service of improved thermal imagery capabilities.

**MARITIME (NAVY) CAPABILITIES:** The reinvigoration of naval aviation, area air warfare, anti-ship missile defence and amphibious lift are said in the 2008/09 Budget papers to be the Navy's highest priorities for capability development over the coming financial year, followed by undersea and littoral warfare capabilities. The critical capability of 'Collins'-class submarine systems is described as "continuing to improve", although regional proliferation of submarine and anti-submarine capabilities is duly noted. HMA Ships 'Sheean' and 'Rankin' will remain in full cycle docking for all of 2008/09, with HMAS 'Dechaineux' in the same state until late-2008. HMAS 'Collins' will commence mid-cycle docking in late-2008, with completion expected in early-2009.

Australian submarine capability enhancements are nevertheless credited with offering major improvements to warfighting capabilities through continued development of the combat system, improved communications, sonar integration, and the introduction into service of a new heavyweight torpedo. Cancellation of the 'Super Seasprite' helicopter project is said to have had "a significant impact on aviation capability, particularly in the effectiveness of the 'Anzac'-class frigate/helicopter combination. Navy is similarly resigned to the fact that 'Seahawk' helicopters will carry the additional tasking burden until a replacement capability is introduced under project Air 9000/8 – the future naval aviation combat system." Lockheed Martin officials have recently told DIAR.com of a 30-month wait associated with the supply of latest generation MH-60R helicopters.

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