

## CHAPTER SIX

### THE DEFENCE POSITION

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6.1 The Department of Defence claims to be experiencing very substantial rising cost pressures across a range of areas. Where existing capabilities are being replaced by new equipment, items of major capital equipment are almost inescapably more expensive than the items they replace. In cases where the platforms acquired are new capabilities, such as airborne early warning and control (AEW&C) aircraft, there consequently exists no old equipment which may be retired, allowing its operating costs to be used as a partial offset. To maximise the use made of some items of major equipment, these are also being kept in service longer through modifications and refitting. However, this increases the average age of those platforms, and hence raises the cost of maintenance. As the level of technology employed increases, so too does the skill level required of the personnel who work with that equipment, and the unit cost of labour increases as a result. The need to fund wage rises from within the Defence budget adds to already existing pressures.

6.2 Defence argues that it is quickly approaching the point at which, given no real increase in funding, it will exhaust its ability to find significant efficiencies to fund increasing activity and capability levels. On full implementation of the DRP initiatives in three years, it believes it will closely approach the limit in terms of major efficiency measures. After this point is reached, any additional item of major capability required, or pay rise for personnel, will require a decrease in preparedness levels, activity rates, or the loss of capability.<sup>1</sup>

6.3 There is apparent validity in the Defence case. Investment in new equipment has been required to keep pace with new technologies, and to replace aging capabilities, while the cost of major capital equipment has grown at around four per cent<sup>2</sup> and the cost of personnel has similarly increased. The third variable in the Defence funding equation - operating costs - if cut beyond a given level adversely affects operational readiness, and there is evidence that this minimum level has now been reached. The two main pressures of equipment and personnel costs must now be accommodated within a Defence budget that has been reduced by 2.23 per cent, or some \$230 million per annum in real terms since 1988-89.<sup>3</sup> This represents, at the time of the next Budget, a cumulative detriment to Defence from these decreases of over \$1 billion.

6.4 The Defence budget is apportioned, in its broadest division, between investment, personnel and operating costs. For maximum effectiveness, military forces must be adequately and appropriately equipped, its personnel must be available to operate, maintain and support that equipment, and the personnel should be collectively and individually trained to a level where they can undertake operations at sufficiently short notice to meet their roles. These three areas must be carefully balanced by Defence planners, as excessive emphasis on one, at the expense of the others, produces a less capable force than the optimum balance, and so tends to waste resources. There are currently difficulties in funding necessary equipment, the number of personnel in the ADF is being reduced, and resources devoted to meeting

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1 Tonkin, Dept. of Defence, Transcript, pp. 224-225.

2 Dept. of Defence, Submission, p. S287.

3 DER Secretariat Papers, op. cit., p. 17.

operating costs are being cut to a point where units have difficulties maintaining basic operating proficiencies.

6.5 Defence operates on a cost versus risk basis, with the result that Defence force development planning results largely from a compromise between what Defence judges is needed, and what can be afforded. One acknowledgment by Navy in discussing judgements on capabilities required was that '[t]here has always got to be a balance. The most powerful influencing factor in that is the amount of money which is available'.<sup>4</sup> Other evidence comes from the continuing overall reduction in personnel numbers within the ADF, and the reliance of Army's current restructuring on a large Reserve component, even though the problems of attracting, retaining, and providing adequate training for Reserves have yet to be resolved.

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4 Oxenbould, Dept. of Defence, Transcript, p. 172.