

CHAPTER TEN

OTHER FUNDING PRESSURES

Restructuring the Army

10.1 One Defence initiative requiring specific attention by the Committee was the Australian Army's Restructuring the Army (RTA) program. This emerged from a 'first principles' derivation of future Army requirements known as 'Army 21'. The initiative is intended to reduce 'hollowness' in Army's current structure, and to make the capabilities of the Australian Army more relevant to the scenarios in which it may be required to operate over the next 10 to 15 years. However, the Committee notes that the RTA initiative pre-dates the most recent strategic review.

10.2 The reason for the Committee's specific attention to RTA was due in part to the estimated cost quoted. Army estimates that the investment required to re-equip and restructure under RTA will require about \$9.5 billion over a 17 year time span,¹ or around \$500 million in additional funding per year. The Deputy Chief of Army claimed that this restructuring could not proceed within 'anything like' the planned time span within the level of funds now available to Army,² implying that in the absence of any significant increase in the overall level of Defence funding, Army would be seeking a significantly larger proportion of funding for capital equipment for almost two decades. In view of the emphasis given to a maritime concept in the strategic review, to 'concentrate on defeating any aggressors in our maritime approaches, before they reach our territory',³ the Committee initially questioned this apparent skewing of priorities toward land-based capabilities. The strategic review makes the clear distinction:

[N]otwithstanding the important role of land forces in a maritime concept, combat aircraft, submarines and surface combatants, supported by well-developed intelligence, surveillance and command and control systems, would be our first line of defence and our highest priority.⁴

10.3 As further reinforcement, the strategic review implies that the two highest priority areas for maintaining technological edge, even should it be lost in other areas of military capability, would be the capabilities to deny our air and sea approaches to any credible force, and to maintain a strong regional presence as a maritime power.⁵

10.4 The Committee harboured additional concerns arising from the experimental nature of the RTA concept. The documentation available is unclear in its explanation of the derivation of RTA, although it is apparent that the product will be radically different in structure from other modern armies, and will be subject to a series of trials to validate

1 Hartley, Dept. of Defence, Transcript, pp. 33-34.

2 *ibid.*, p. 39.

3 *Australia's Strategic Policy*, op. cit., p. 44.

4 *ibid.*, p. 45.

5 *ibid.*, p. 47.

concepts. The Committee questioned the underlying assumptions behind the estimated costings, especially given the as-yet undetermined outcomes of the current trials. Evidence given to the Committee also contained some contradiction as to whether the quoted costings included only capital equipment elements,⁶ or also included personnel and operating costs.⁷ Without additional information on costings, the Committee was forced to conclude that the task-force based structure which will result from RTA may impose increased operating costs. The structure of imbedding infantry, artillery, armour and engineers into a more mobile, single task force would appear to contradict the logic of the traditional divisional structure, which has traditionally been seen as the most economical way of providing combat capabilities on the battlefield.

10.5 Throughout this inquiry the Committee found ample evidence of force hollowness and problems impacting on preparedness within Army. Accordingly, it supported the need for a major reform program, and additional funding to address those deficiencies. While the Committee would like to see more detail on the basis for the estimated cost of the program, it accepted that a substantial investment would be required. The quantum of the investment required, and the duration over which it will be programmed, will further encumber the Defence capital equipment program, and exacerbate the looming problem currently posed by block obsolescence.

Defence Industry

10.6 A number of representatives of defence industry gave evidence to the inquiry, generally advocating the need to develop Australian industry as an adjunct to Defence self-reliance. The Committee confirms the need for Australian industry involvement in providing Defence capabilities. The current strategic review undermines the literal interpretation of self-reliance in its discussion of the ANZUS Treaty. It states that the strength of the US alliance enables the ADF to 'plan on the expectation of substantial and vital non-combat support from the United States in a crisis'.⁸ However, the Committee believes that there is a need, on the grounds of self reliance, for Australian industry to be involved in certain strategic areas.

10.7 Industry representatives criticised Defence's procurement practices as excessively project-based, which frequently worked against the sustenance of indigenous industry capability. This contributed towards the fragmentation of indigenous industry in key high technology areas, to national detriment.⁹ While noting that the Defence tendering policy process did not fall within the terms of reference of this inquiry, the Committee agreed with the need for a coordinated policy within Defence purchasing, to enhance local industry. Some weight should be accorded, in Defence procurement decisions, to the importance of sustaining indigenous defence industry, but not to a point where that support occasioned a high financial premium, from which there was no tangible residual benefit.

10.8 The Committee noted Defence's intention to continue its policy of basing future decisions on support-related purchases on strictly commercial logic, to cultivate the

6 Hartley, Dept. of Defence, Transcript, p. 33.

7 Dept. of Defence, Submission, p. S334.

8 *Australia's Strategic Policy*, op. cit., p. 18.

9 Rowland, AEEMA, Transcript, pp. 61-62.

efficiency of the national support base.¹⁰ Current intentions to reduce the size of the ADF will clearly allow scope for increasing involvement of Australian business and industry in the defence function.¹¹ Specific areas identified for potentially greater involvement by Australian industry were the logistics areas of warehousing, distribution and maintenance of inventory. This is an area recognised as requiring major reform, and a likely outcome would be to see inventory and management of the distribution system delegated to an organisation outside Defence.¹² Further encouragement came from Navy, which noted that there would always be greater potential for Australian industry to be involved with Naval vessel construction, particularly in the areas of auxiliary machinery and support equipment. However, although it appreciated the competition available from having multiple players in the shipbuilding industry, Navy alone was unlikely to provide sufficient work to keep several shipbuilding companies viable.¹³

10.9 Competitiveness and cost-efficiency are continuing themes in current Defence industry policy. The Strategic Review has also stated that the sector of industry where Defence is the major (or only) customer would be kept as small as possible,¹⁴ and cost-effectiveness of support of key systems will also be an important determining factor.¹⁵ However, there will be situations where Defence has a strategic requirement that is so Defence-specific that there is little opportunity for commercial use. It would only be in such very limited areas that Defence would consider providing funding to sustain an industry capacity, and any decision would be made on a case-by-case basis.¹⁶

10.10 Given these statements, there would appear little basis for expectations that additional funds are required, or should be allocated, to support Australian Defence industry, beyond what is able to be earned through fair competition for Defence contracts. This should still offer a reasonable scope for commercial viability. Currently around 65 per cent of Defence's \$2.4 billion capital equipment budget is spent within Australia, which is roughly double the proportion of that spent in 1985-86.¹⁷ The Committee saw no potential for Defence industry considerations to impact upon the overall requirement for funding.

10 *Australia's Strategic Policy*, op. cit., p. 49

11 Barrie, Dept. of Defence, Transcript, p. 12

12 *ibid.*, pp. 259-260.

13 Oxenbould, Dept. of Defence, Transcript, p. 184.

14 *Australia's Strategic Policy*, loc. cit.

15 *ibid.*

16 Dept. of Defence, Submission, p. S338.

17 Tonkin, Dept. of Defence, Transcript, p. 12.

Science and Technology

*Australia needs to do the research and development homework which will allow it to deploy new-generation, high-technology weaponry in its own area of primary strategic interest.*¹⁸

10.11 A number of submissions to the inquiry stressed the importance of an indigenous research and development (R&D) capability. Their reasoning was that continued investment in high technology offers the best prospect for increasing the leverage of Australia's small but able defence forces during the coming decades.¹⁹ The size of the Australian defence market has made it difficult to develop a thriving Defence production and export industry in most areas, and hence is insufficient to make viable much commercially-based R&D. As a result, the focus of Defence R&D has tended to remain on the technological capabilities required for in-country support and modification of Defence equipment, for the provision of advice necessary to allow Defence to be an informed buyer.

10.12 The direction of Australia's R&D towards small, niche areas, has also been influenced by past decades of dependence on overseas suppliers for items of major equipment. Australia's likely capital outlays are insufficiently large to justify R&D towards construction of a major platform such as an aircraft or ship. Where Defence Science can most usefully focus its efforts is in adapting platforms acquired elsewhere, to meet the ADF's specific requirements in terms of electronic warfare, missiles and other sub-systems.²⁰

10.13 The quantum of Defence spending currently allocated to the Defence Science and Technology Organisation is in the order of \$250 million, although approximately \$20 million of that will be reallocated within Defence as a function of recent restructuring initiatives. This sum represents approximately 2.3 per cent of current Defence outlays,²¹ compared with a figure of around three per cent expended in 1988. Estimates of the proportion of DSTO's effort expended on R&D range from 10 to 20 per cent.²²

10.14 The Committee noted that the growing numbers of different types of equipment, and its increasing sophistication was liable to place additional pressure on Defence science in maintaining its current level of support. Although the allocation to DSTO has decreased over the recent past by 18 to 19 per cent, the Chief Defence Scientist was confident that continuing efficiency measures had enabled his organisation to keep up with its level of support of Defence overall. Reductions imposed on Defence science expenditure have been achieved through the reduction of overheads, such as the number of support staff and administrative costs. The number of scientists has actually increased, and Defence was confident that the output of the Defence scientific organisation has also gone up.²³ Defence is also currently considering a bid for increased allocation to the Science and Technology Division of around \$30 million per annum, to alleviate existing cost pressures and demands. As this increase had already been quantified at the time evidence was taken, it was understood to be a bid of some historical standing, that would most likely be funded from gains thrown up by the Defence Reform Program.

18 Medley Consulting, Submission, p. S158.

19 *ibid.*, p. S155.

20 McCormack, Dept. of Defence, Transcript, p. 58.

21 Brabin-Smith, Dept. of Defence, Transcript, p. 93.

22 DER Secretariat Papers, p. 327.

23 Tonkin, Dept. of Defence, Transcript, p. 251.

10.15 The provision of R&D, Test and Evaluation, and technical advice to capability development staff is an essential indigenous resource for Defence, and the Committee welcomed advice that the output of the Defence Science and Technology Program had increased, notwithstanding a significant reduction in staff in recent years. Given the ADF's heavy reliance on equipment sourced mainly from the United States and Europe, the capacity to adapt that equipment to optimise its operation in the substantially different physical environment of Australia and the Asia Pacific region is indispensable to indigenous capabilities. An obvious example of this is the adaptation of infra-red equipment, which gives starkly different performance in a cold continental European environment, compared with the more humid, tropical, maritime environment in which it may be required to operate in ADF service. Since the ADF places a premium on technological superiority, the Committee believes a case could be made for increased funding to R&D capacity within DSTO, particularly in areas such as electronics.

10.16 In considering the arguments raised in a number of submissions to the inquiry, that increased emphasis be given specifically to R&D, the Committee makes two observations:

- Considered against the totality of Defence funding, the amount of funding devoted to R&D forms a small proportion of a small Program within Defence. Even large changes to its apportionment of resources would have inconsequential impact on the overall quanta of Defence funding in the context of this inquiry.
- Even if significant resources were required to be redirected to R&D, that adjustment of priorities falls within the gift of the Minister for Defence, and outside the terms of reference of this inquiry.

10.17 In considering the wider Defence Science and Technology program, the Committee was reassured by the Chief Defence Scientist's confidence in the increasing efficiencies within his Program. In view of his apparent satisfaction with the funding increases envisaged and planned for as an outcome of the Defence Reform Program, the Committee believed that this area was not a likely source of pressure for additional funding within the Defence Portfolio.

