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GOVERNMENT RESPONSE

**TO THE JOINT STANDING COMMITTEE ON FOREIGN
AFFAIRS, DEFENCE AND TRADE'S REPORT**

'FUNDING AUSTRALIA'S DEFENCE'

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*FUNDING AUSTRALIA'S DEFENCE***

The Government welcomes the Committee's inquiry into and report on the level of Defence funding required to provide for the defence of Australia. The report provided a valuable contribution to raising public awareness of issues in national security and informed public debate on defence funding.

Following the tabling of the Committee's report and the last federal election, the Government began a thorough review of Australia's defence needs. This review included an extensive community consultation program and an unprecedented level of ministerial involvement in defence policy formulation through the National Security Committee of Cabinet.

Following this wide-ranging review, the Government tabled the Defence White Paper 2000 in Parliament on 6 December 2000. *Defence 2000: Our Future Defence Force* presents the Government's decisions and commitments concerning the future of Australia's defence force, including the level of funding that will be provided to enable the Australian Defence Force to achieve Government-directed strategic objectives.

The commitments and plans made by the Government in the Defence White Paper, particularly in the sections on Capability and Funding, comprehensively address the current pressures and future demands on funding for the Australian Defence Force. These new plans and commitments build on earlier Government initiatives, particularly the Defence Reform Program, which sought, among other initiatives, to maximise the resources available for the sustainment and enhancement of Defence capability. The Government remains strongly committed to continuing improvements and reforms in Defence to ensure that money spent on defence is managed wisely and that funding Australia's defence is both affordable and sustainable over the long term.

The Recommendations of the Committee

1. The Committee recommends that the Government undertake to provide Defence with a five-year budget commitment, to provide Defence with a more secure basis for long term planning of resource allocations.

The Government has decided to provide Defence funding commitments covering the whole of the coming decade matched to the capability enhancements detailed in the Defence Capability Plan. This funding commitment is the most specific long-term defence funding projections provided by any Australian government in more than 25 years. This commitment will provide Defence with a secure basis for managing and planning the development of capability.

2. *The Committee recommends that the Department of Defence be required to report to the Parliament annually, and in a report separate from the Defence Annual Report, specifically detailing the progress made in implementing major efficiency initiatives.*

Separate reporting by the Department is considered unnecessary. Defence already reports regularly to Parliament on progress in implementing major efficiency initiatives in Portfolio Budget Statements and Annual Reports. This reporting is being expanded to cover all improvements as Defence migrates to a culture of continuous improvement. This specific reporting together with the regular ministerial statements on efficiency initiatives to Parliament should obviate the need for separate reports. There will be a higher level of accountability attendant with the introduction of the classified Defence Financial and Management Plan, which will set annual targets for the delivery of savings and efficiency measures.

3. *The Committee recommends that Defence funding should be increased in real terms, to enable the ADF to remain a well-equipped, highly-trained force relying on technologically advanced weapons and support systems*

In the White Paper, the Government has committed itself to increasing Defence funding by an average of about three percent per annum in real terms over the next decade. The Government intends that funding for 2001-02 and 2002-03 will increase by \$500 million and \$1,000 million respectively, to provide substantial initial funding for a number of key capability initiatives that will ensure the ADF is equipped, trained and supported to the level necessary to enable it to perform the roles Government directs.

4. *The Committee recommends that the mechanism of fixing a real rate of growth be adopted as a means of defining the increase in Defence spending.*

The Government has determined the appropriate level of increase in Defence spending through a rational, structured approach. The Government has assessed Australia's strategic environment; confirmed Australia's strategic interests and objectives; and then developed and costed the capabilities required in the Australian Defence Force to ensure it is able to protect Australia's strategic interests and achieve our strategic objectives. This approach, coupled with a thorough evaluation of current Defence funding programs and pressures has enabled the Government to forecast an appropriate level of Defence funding over the next decade. The appropriate level of funding averages about three per cent per annum in real terms over the decade. It should be stressed that these Defence funding levels have been (and will in the future be) determined by reference to strategic objectives (ie outcomes and outputs) and budgetary and defence requirements in a given year.

5. *Given that the recommendations made in this report can have no impact on the decisions taken in the 1998-99 Federal Budget, the Committee recommends that real growth in Defence funding should commence in FY 1999-00.*

The Government intends that the first increase in Defence funding of \$500 million will be provided in the 2001-02 Federal Budget.

6. *The Committee recommends that the current level of Defence funding be increased by a real growth rate of between 1.5 and 2.5 per cent annually for the next five years.*

As discussed above, the Government has estimated that the appropriate level of funding increase for Defence is initial increases of \$500 million and \$1,000 million in financial years 2001-02 and 2002-03, respectively, with an average of about three per cent per annum growth in real terms over the decade.

7. *The Committee is concerned about the substantial additional expenditure required to overcome block obsolescence in the 2010-15 period. The Parliament and Expenditure Review Committees of successive Governments must be involved in the advance financial planning to overcome this problem.*

The Government has addressed comprehensively the issue of block obsolescence in its consideration and development of the White Paper. It has made explicit funding provision for the life extension, refurbishment, upgrade or replacement of all current Defence platforms and weapon systems that are reaching the end of their service life over the next two decades through the Defence Capability Plan, which will be implemented through the classified Defence Financial and Management Plan (this document informs Government of the impact and options available for managing block obsolescence). Ongoing review and development of the Defence Capability Plan will occur through the annual Budget process, and it is through this established mechanism that the Government will manage long term Defence funding pressures. The Parliament and Expenditure Review Committees will have visibility and involvement in this planning through normal Defence reporting and Government accountability mechanisms – particularly the classified Defence Financial and Management Plan as well as Annual Reports, Portfolio Budget Reports, Additional Estimates and appearances before Parliamentary Committees by representatives from the Department of Defence.