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Chairman:

Air Marshal E.J. McCormack AO (Retd)

Executive Officer

Wing Commander L.J. Halvorson MBE (Retd)



PO Box 5266
KINGSTON ACT 2604

chairman@williamsfoundation.org.au

Implementing the Defence White Paper 09 – the Need for Signposts and Indicators

The Defence White Paper 09 (DWP09) is the latest in a long series of Australian Government Defence papers outlining defence policy, projected Defence funding, structural reform proposals and expected savings plans. It should be noted that, over the past 30 years, none of the implementation programs associated with policies, reforms or savings goals has fully met Government expectations/goals. In many cases, the failure to achieve the stated goals left a legacy of hollow force structures and organisational deficiencies which adversely impacted the war-fighting capability of the Australian Defence Force (ADF).

Whilst the defence organisation does not have a good record of reform and savings program implementation, there are clear examples of programs that do work, and that do achieve significant savings. The current RAAF re-engineering program is based on one such program that did produce savings across weapons systems in the order of 30% without reducing operational capabilities. Such results are difficult to achieve: they are not simple belt-tightening exercises, but they can be done.

Much of the public commentary on DWP09 has focused on the policy framework and the underlying funding challenges. In particular, the lack of detail concerning the funding of DWP09 and the associated reform savings program has been criticised. In commenting, the Williams Foundation seeks not to deride the policy or associated plans but rather to highlight some of the lessons that can be derived from past attempts to implement Defence policies and plans. By addressing the risks associated with future Defence policy implementation, the Foundation hopes to stimulate informed public debate.

Failure to implement DWP09 effectively will degrade the ADF's war-fighting capability. Moreover, in the case of airpower, capability deficiencies cannot be remedied rapidly, regardless of the level of funding applied. Therefore it is critical that past policy implementation failures not be repeated: we must learn the lessons from our history.

Some Lessons Suggested by History

The 1976 White Paper reflected the new coalition Government's desire to invigorate defence capability. However, the ambitious funding profile outlined in that paper (an annual budget increase of more than 5% in real terms through the period 1976 to 1981) lasted less than one year, despite the shock of the USSR invasion of Afghanistan in 1979.

A decade later, the 1987 Defence of Australia White Paper (DOA87) outlined an ambitious capability development program based on forecast real growth in the defence budget of 3% per annum. However, when faced with subsequent Defence expenditure cuts in 1990, the then-Defence Minister Ray stated that ‘...a defence policy which required real growth over the coming decade would be a badly flawed policy for Australia as there is simply no way that a set percentage can be guaranteed.’

By 1991, the Force Structure Review (FSR) noted that, by the year 2000, constrained defence budgets would fund only three quarters of the DOA 87 projected program. As a result, FSR 91 outlined a restructuring program based on zero real growth in future defence funding. However, only two years after FSR 91, defence funding was reduced by 0.75%, with further cuts of 0.5% scheduled for the following years to FY 96/97. Minister Ray’s comments were proving to be correct.

Despite difficulties experienced in funding DOA 87, the 1994 Defence White Paper (DA94) made no significant changes in defence capability planning. At the time, Greg Sheridan of The Australian observed that ‘(DA94) is a steady-as-she-goes document ... Hopefully they (defence assumptions and priorities) reflect a PR effort rather than the deepest thinking of our defence planners ...’.

The Defence Efficiency Review (DER) of 1996 was an attempt by Government to cut substantial waste in support areas and address perceived imbalances between support and combat force components. The DER was intended to achieve savings of between \$770m and \$1.0b per year. While recognizing the real difficulty of identifying actual achieved savings in defence budget reports, many who were involved considered that the DER did not achieve the stated savings goal. Moreover, they felt that the DER was implemented and conducted with considerable haste, resulting in the loss of many essential support functions, with a consequent negative impact on the ADF in subsequent years.

The 1997 Australian Strategic Policy (ASP97) provided some improvement on previous policies but the associated longer-term defence budget increases were contingent on achievement of efficiency gains from, but never fully realized by, the Defence Reform Program.

This short review of Defence policies, plans and associated funding levels suggests that Australia does not have a good record of implementing Defence reforms or achieving projected savings programs. More significantly, it would appear that the Governments of the day were loath to revise their defence policy goals despite significant funding shortfalls. It was not until the Government decided to intervene, first in Timor and the Solomon Islands, and then to participate in coalition operations in Afghanistan and Iraq, that funding levels began to match capability funding requirements. Following the Timor intervention, the Government in December 2000 released a Defence White Paper (WP2000) and ‘Australia’s National Security; A Defence Update 2003’ (DU03) to take account of changed strategic circumstances. However, despite funding increases, there still remained a legacy of significant shortfall in logistic support funding.

Thus, it can be seen that, in recent decades, Government commitments in Defence funding were rarely sustained. The capability impacts of these funding shortfalls were significant, particularly when the Defence policy goals remained largely unchanged. Project cancellations were a rare response to funding shortfalls; rather, projects were ‘slipped’ because of ‘insufficient justification’ (with compounding effects on subsequent Defence budgets). Budget pressures also resulted in platforms being acquired without a full suite of operational equipments on the assumption that advanced systems could be retrofitted once the threat level (and thus funding) grew - referred to as ‘fitted-for-but-not-with’. There have been some classic examples of the ‘fitted-for-but-not-with’ syndrome: ANZAC frigates were at one stage to be commissioned without their main armament fitted! In recent years we witnessed the rushed introduction of military equipments for operations in Iraq and Afghanistan. For example, until recently most combat aircraft were not fitted with radar or missile warning systems and were thus not operationally ready for operations in medium or high threat environments.

These types of measures accommodated funding shortfalls, but with a capability impact that was rarely visible to the public until it became evident that forces could not be deployed due to capability deficiencies. The public and political condemnation of Defence in these circumstances failed to recognise the underlying historical and political causes of the deficiencies, preferring to attribute such failures to 'Defence incompetence'.

The simple lessons that can be drawn from history are that long-term funding levels cannot be 'guaranteed' and that savings targets are rarely fully realised. Therefore, a prudent Government should have publicly visible performance indicators against which policy goals and plans can be reviewed, either confirming successful achievement or highlighting the need for early revision of plans when full implementation is no longer achievable. The pursuit of unachievable goals is far more damaging to a nation's Defence forces than a realistic rebalancing of ambition and resources in the face of financial limitations.

Defence White Paper 09

DWP09 is the first Government paper that has included the four elements of policy, funding, reforms and savings. As with all previous Government papers, the major challenge in DWP09 appears to be financial. To be fair, it must be said that the levels of funding provided to Defence in recent years have been significantly increased, largely to sustain the consistently high level of operational commitment.

DWP09 has postulated two sources of funding: a Government commitment to increased funding for the long term, and a requirement for Defence to make significant savings within the authorized budget. The Defence savings plan, detailed in the booklet 'The Strategic Reform Program 2009 - Delivering Force 2030', states that the 'Program will deliver gross savings of around \$20 billion' over the next decade, and outlines a group of 'savings streams' (such as 'Logistics', 'Smart Maintenance' and 'Defence Savings Program') which is expected to produce the savings. The Program outlines the quantum of expected savings from each 'savings stream' and states 'The major part of this \$5.1 billion in savings (from the Defence Savings Program) comes from a general belt tightening exercise'.

Based on previous attempts by Defence to make significant savings, one could conclude that this quantum of savings will be difficult to achieve. The well-trodden path of 'salami slice'/belt tightening funding cuts across all Defence groups does not have a good track record of success. Similarly, the addition of a small number of high-level executives on top of already overworked staffs is unlikely to provide a simple solution to the Department's savings challenge. A further concern is whether or not the cost pressure estimate (ie, the \$20B shortfall which drove the cost savings goals) is correct. Defence's cost estimation and accounting processes have never been regarded as being of benchmark quality.

Savings of the magnitude projected in the Defence White Paper will require fundamental, transformational change encompassing structure, process and culture across the Defence organisation, rather than just a 'general belt tightening'!

The Defence Budget

A recent Australian Strategic Policy Institute Defence Budget brief highlighted a deferral of \$8.8B from the first six years of the Defence program, to be 'repaid' later in the next decade. Such a deferral is understandable given the financial pressures faced by this country over the near term. However, both the Defence Department and defence industry were already experiencing difficulty in achieving project expenditure/delivery in recent years. The new deferral of \$8.8B will result in a

project delivery/expenditure rate in the latter half of the decade which will require the Department and defence industry to deliver capability at a rate not achieved in recent decades.

Implementation Risks

In broad terms the risks associated with the implementation of DWP09 include the:

- provision of promised funding increases by Government,
- achievement of ambitious savings program goals,
- accuracy of cost projections which determined the quanta of budget growth and cost savings goals,
- the cost of the reform program itself, and
- ability of the Defence Department and defence industry to deliver at the rate and scale required by the Defence Capability Plan (DCP).

None of these risks is really new. The question that needs to be answered is what can be done differently this time to avoid repeating the historical failures in policy implementation? In the event of reduced funding levels, how can we ensure that the situation is recognised and acted upon rapidly? This will mean that the Government of the day must address the funding shortfall or adjust the Defence policy/capability goals to match the available funding levels in a timely fashion; rather than allow a hollow force structure to develop to the point where hasty, reactive and often poorly coordinated force structure reviews and reform programs are implemented, with resulting damage to the ADF's future war-fighting capability.

The politicians and Defence leaders of the past were not lacking in intelligence or dedication to their task. Nevertheless they failed in the task they were set. Perhaps this was compounded by public apathy and conflicting political priorities at the time. Analysis in hindsight is always a luxury; however, when reviewing the indicators of the time one could conclude that the changes in funding levels or circumstances were occurring at a pace which was below the 'public perception' level and were thus not afforded adequate attention or priority. In other words, the changes viewed in isolation did not appear significant until viewed in hindsight over a number of years. So, the issue becomes: what indicators should we look for to indicate success or failure in the implementation of DWP09 and the associated DCP?

Signposts and Indicators

In this discussion 'signposts' are taken to mean the goals set for, and assumptions made in, the development of Defence policy and plans; whilst 'indicators' are the relevant performance measures of policy and plans achievement.

An examination of signposts and indicators during the late 1980s and through the 1990s is illustrative. Despite the economy moving from deficit to surplus in the years after the release of DOA87, funding gradually fell below planned levels (the signpost) within a year or two. Surveys of the time highlight the reduced levels of threat perceived by the Australian public in the late 80s, largely associated with the end of the Cold War. As a result, Governments felt little public resistance to reductions in defence funding. Within four years it was clear that the actual constrained defence budgets (the indicator) would fund only three quarters of the DOA 87 projected program (the signpost) by the year 2000. Subsequent national budget deficits precluded Defence budget remediation; with the result that, instead of a projected growth in Defence budgets in the years following DOA87, budgets reduced significantly. For example, during the period 1993 to 1996, the level of defence funding was reduced in real terms by 2.23% or \$230m per annum.

Signposts. The signposts that could be used to monitor implementation of DWP09 include the projected real budget levels, the projected real savings, the assumed CPI (2.5%), budget

surplus/deficit levels, and - most importantly - the projected capability levels in terms of preparedness (readiness and sustainability) including measures related to equipment and personnel goals. Whilst security requirements preclude full public reporting of preparedness targets, the Department should report capability achievement in greater detail than simply the acquisition/delivery of platforms.

Indicators. The indicators should address each of the signposts and could include the actual underlying budgets (accounting for increases in operations costs supplementation, which can mask underlying budget reductions). For example, Defence could report publicly how its performance indicators map to the goals/budget assumptions (signposts), including analysis such as the:

- percentage of DWP09/DCP capability and preparedness goals that will be achieved by the end of the 2009/19 DCP;
- percentage reduction in actual versus projected budget levels, taking into account Government funding, savings achievement, CPI impacts and cost growth above projected levels (ie, identified cost growth which would invalidate the assumed \$20B savings goal); and
- percentage delays in expenditure on capability acquisition which would translate into reduced capability and additional budget pressures in later years.

The key judgment that would need to be made by the Government of the day would be what compounding shortfalls/delays could be accommodated before a significant change in policy, plans or funding levels was required. What is clear is that, in the case of DOA87 implementation, a 25% projected shortfall in capability after only four years of implementation should have triggered a significant reconsideration of the DOA87 goals and not just a series of reform programs. Had this occurred, the damage to the Defence organisation and the ADF's war-fighting capabilities over the subsequent two decades could have been minimised, and the ADF's war-fighting capability maximised within the available budget.

Conclusions

The DWP09 and associated Government commitments are to be applauded. As with all plans, the proof will be in the implementation. What will be needed is informed leadership and constructive debate to ensure that the implementation risks are addressed and that the best outcome possible is achieved. History would suggest that decisive leadership and action will be required by both our political and defence leaders, and constructive public debate will be essential to ensure that our national goals and available resources remain in balance. Our collective challenge will be to learn from our history.