DEFENCE DELIVERS CAPABILITY WITHIN LONG TERM BUDGET PLANS

One of Defence’s key priorities is the delivery of military capability to Government from within its allocated budget.

The Government is providing long-term funding certainty to Defence so it can deliver the strategy set out in the 2016 Defence White Paper (DWP16) and as updated in the 2020 Defence Strategic Update and 2020 Force Structure Plan.

Government is continuing its policy of providing a 10-year funding model for Defence, first outlined in DWP16.

Under DWP16, Defence’s funding was decoupled from Gross Domestic Product (GDP) to avoid the need to regularly adjust Defence’s plans in response to GDP fluctuations and to provide long term funding stability for both Defence and Defence industry.

The stability provided by the 10-year funding model is demonstrated in the Chart below which outlines the 10 year funding set out in the DWP16 (extrapolated beyond 2025-26), and the current budget as outlined in the 2020 Defence Strategic Update supported by the capability plans outlined in the 2020 Force Structure Plan.

As outlined in Chapter 5: Resourcing of the 2020 Defence Strategic Update, Defence funding, including ASD, will grow over the next ten years to $73.7 billion by 2029-30 with total estimated funding of $575 billion over the decade.

MANAGING THE DEFENCE BUDGET WITHIN A FUNDING ENVELOPE

The Defence budget is comprised of three major categories:

• Acquisition of new capability which includes the estimated costs of acquiring new capability including military equipment, facilities and infrastructure, and Information and Communications Technology (ICT) projects.

• Sustainment of existing capability which includes the costs of sustaining existing capability in service and the estimated costs of planned future capability yet to be introduced into service.

• Workforce which is largely comprised of military employee expenses (approximately 80%) to support Defence outcomes including military capability.

• Defence also receives funding for operations and operating expenses.

The 10 year funding envelope set out in the 2020 Defence Strategic Update represents an estimate and will be subject to change due to variations in foreign currency exchange rates; updates for major military operations funding; ongoing capability reviews; and future Government decisions.

To effectively manage and deliver capability over time, Defence will adjust and refine its investments across capability acquisition, sustainment and personnel costs to ensure a balanced capability outcome. Through ongoing reviews, Defence will adjust its plans to meet Government priorities, emerging issues, new or enhanced risks and budget management.

Note:
The Defence budget is as at the MYEFO 2019-20 price basis. This price basis will be regularly adjusted in line with the Commonwealth Budget process.
DEFENCE MANAGES ACROSS ITS BUDGET CATEGORIES

- Defence has multiple (over 200) large scale acquisition programs underway at any one time and it must retain the flexibility to deliver the required capability within its overall Budget.
- Given the complexities of the budget and Defence’s competing priorities, Defence is required to take a programmatic approach to managing its funding risk. Defence utilises the following methods to manage budget risks:
  - Defence will slightly over-allocate its budget to mitigate the risk that projects and activity plans will slip to future years.
  - The Defence Integrated Investment Program (IIP) is the method used by Defence to plan and deliver capability and its sustainment over the long time frames required. The IIP covers two-thirds of the Defence budget delivering capability acquisition programs and Defence sustainment. The IIP not only encompasses military capability, but also estate and infrastructure and ICT related projects.
  - The Defence budget, incorporating the IIP, is reviewed twice a year in line with the Commonwealth Budget process. These reviews encompass changes required within the IIP itself or matters impacting the Defence Budget more broadly.
  - Bi-annual reprioritisations provide Defence with the flexibility to deliver both the long-term capability outlined in the 2020 Defence Strategic Update and 2020 Force Structure Plan and to meet any immediate priorities or pressures as they emerge from time to time.
  - Regular reprioritisations of the IIP may involve moving some project’s delivery and funding into later years than initially planned, due to a range of factors that can be experienced with delivering complex and technologically cutting edge projects. This in turn provides short term flexibility to invest in bringing forward the delivery of other projects or to meet other Defence or Government priorities as required.
  - Budget adjustments occur over long periods of time and the decisions affecting project profiles do not impact the overall budgets approved by Government for the major capability acquisition projects over the life of the project – just their annual expenditure profiles.
  - Reprioritisations may also require Defence to move funds across elements of its budget where the need arises to ensure it can meet its capability requirements.

APPROVAL AND MANAGEMENT OF CAPABILITY PROJECT BUDGETS

- The Force Structure Plan establishes financial provisions for each project (acquisition and future sustainment) including phasings across the expected life of the project reflecting the estimated cost for acquiring and maintaining that capability.
- Provisions are out-turned in that they include allowances for future inflationary cost increases. The provisions also include an initial estimate of foreign exchange impacts at that point in time. Foreign exchange estimates are updated regularly in line with Commonwealth Budget processes on a No Win No Loss basis.
- Provisions are allocated within the IIP in line with expected approval and delivery timelines, and will be updated and re-phased throughout Defence's bi-annual update processes as new information becomes available.
- Once the provision is established, project approval is required by Government which occurs in a number of stages or passes.
- In addition to this staged approval approach, a project may involve multiple individual rolling approvals or tranches, including for sustainment. This is where Defence will periodically seek Government consideration to allow progress to the next stage of the capability acquisition or sustainment activity.
- Once approved this will unlock budget from the allocated provision.
- A project or phase remains within the IIP as an unapproved provision until considered by Government. Once approved funding moves to the approved status phase for delivery.
- A real cost increase to a project would only occur where it is assessed there is insufficient budget available to deliver the Government agreed scope for the project within its total provision. Government approval is required for real cost increases. Any real cost increases are generally required to be managed within the overall Defence funding envelope.