

How does Australia respond to the rising cost of military technologies ... There are only two answers: increase defence expenditure every year or review strategy and force structure.¹

Funding

Introduction

- 5.1 Before we looked at the suitability of the Army's force structure we decided to look at the issue of the Army's funding. In a perfect world funds would be allocated to provide the force structure that best satisfied the Army's required capabilities. In a perfect world we would simply decide what the Army needed and then, in the final chapter to this report, we would tally up the bill. In the real world this is not possible for two reasons:
- The absence of a clear threat means that both strategy and the process of determining defence capabilities is a subjective process based on judgement, not scientific certainty.
 - This judgement must balance the competing national demands for resources in a fashion that is acceptable to the Community
- 5.2 In this chapter we look at official and community views on funding and the major army cost drivers - personnel, operations and equipment. These issues are discussed with a particular emphasis on efficiency. We conclude by considering whether the Army's funding is sufficient to meet the minimum capability requirement specified in Chapter 4.

1 Austin, G, 'Slogans derail serious debate on security' *Financial Review*, 11 January 2000, p. 15.

Official and Community Views on Funding

Introduction

- 5.3 The views expressed to the us on funding tended to fall into one of three categories:
- Broad suggestions for defence funding
 - Funding priorities and distribution
 - Cost effectiveness and efficiency
- 5.4 Like the views expressed on strategy and capability, views on funding were driven by differing individual and organisational perspectives on security.

Broad Suggestions on Defence Funding

- 5.5 With a few exceptions most respondents to the inquiry recommended an increase in defence funding. These increases were generally expressed in terms of Gross Domestic Product (GDP). The amounts suggested ranged between 2.3 per cent² and 3 per cent³ of GDP. That some increase in Army funding was necessary was made clear to the Committee by the additional funds needed to support the Army's commitments in East Timor.
- 5.6 It was pointed out that in the past the Army has been able to reduce personnel numbers as a means of funding capabilities. With East Timor's demand for soldiers on the ground this was no longer possible. The Army has either to defer acquisition of new equipment to fund operations or more funds will have to be allocated. This tension within the Army's funding priorities was emphasised to the Committee by the Chief of the Army in public hearing:

While it is possible both to maintain high levels of readiness and simultaneously to invest in future capability, the balance between the two becomes more and more difficult as resources become constrained ... During the past year the Army has continued to plan for continuous modernisation, even while we have been engaged in very demanding current operations. Realising these plans though, will require more resources than we have at our disposal at the moment.⁴

2 Defence Reserves Association, Submission 25, pp. 217.

3 Mr N Filby, Submission 49, p. 1.

4 Lieutenant General F Hickling, Transcript, p. 313.

- 5.7 Professor Dibb pointed out that the current allocation of 1.8 per cent of GDP was the lowest level of defence funding since 1938. He acknowledged that defence funding was a matter for judgement but, at the moment, present allocations were clearly insufficient to meet operational demands and fund modernisation of the forces.⁵
- 5.8 Professor Dibb acknowledged that GDP was an imperfect measure by which to gauge defence funding.⁶ Possibly because of this the Australian Defence Association thought that funding for defence should be based on an allocation of 10 per cent of government's annual increase in revenues. The Defence Association thought that this allocation should be maintained each year for the next eight years. The views expressed by the Australian Defence Association were, in part, a rejection of views previously expressed by our Committee.⁷
- 5.9 In April 1998 the Joint Standing Committee on Foreign Affairs Defence and Trade (JSCFADT) recommended 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.⁸
- In previously recommending this growth rate the Committee was guided by a judgement on three competing demands. These were:
- The need to meet future demands for replacement of major systems (eg, The F / A 18 fighters and Adelaide class frigates);
 - ongoing operating costs; and
 - an assessment of what the community would tolerate.⁹
- 5.10 Not all the submissions made to the inquiry supported an increase in funding. Some considered that, by implementing national service schemes, funding could actually be decreased.¹⁰ Dr Cheeseman considered that the funding was adequate to meet demands. He recommended that there was a need to look at alternative and innovative ways for achieving defence. As an example he suggested that some of the high technologies being looked at by the Department of Defence were not necessary to address the emerging forms of warfare.¹¹ This suggestion

5 See Professor P Dibb, Transcript, p. 198.

6 *ibid.* p. 198.

7 *Paying for Defence*, *Defender*, Vol 17(1) Autumn 2000, p. 28.

8 Australia, Parliament, *Funding Australia's Defence*, Report of the Joint Standing Committee on Foreign Affairs, Defence and Trade, AGPS, Canberra, April 1998, p. xv.

9 *Funding Australia's Defence*, pp. 105–106.

10 Mr Downey, Submission 3, pp. 23–29.

11 Dr G Cheeseman, Transcript, p. 96–101.

raised the issue of what should be the priorities for funding within the Army.

Funding Priorities and Distribution

- 5.11 At the time of the inquiry the Army had commenced realloaing savings achieved through the Defence Reform Program (DRP). Its priorities for reinvestment being the raising of an intelligence battalion and the conversion of the 4th Battalion to a commando unit. In addition the Army had reallocated funds to raise a unit specifically for supporting the Olympic games.¹²
- 5.12 Other respondents appeared to see the Army's immediate spending priorities differently. A number of witnesses suggested to the inquiry that a greater funding priority needed to be placed on the Reserve. To improve the position of reservists the ACTU suggested that more funds needed to be allocated to the Defence Force Reserve Support Council (DRSC). The Defence Reserves Association noted that a previous JSCFADT report had recommended that an additional \$100 million needed to be spent on the Reserves. Some of the arguments for increased spending on the Reserves were based on cost effectiveness. This topic will be discussed later within this chapter.
- 5.13 The Army's broad allocation of funds was split between operations and modernisation. Approximately two-thirds of Army funding went to support operations and one-third to modernisation.¹³ The commitment to East Timor had placed pressure on this distribution as funds were withdrawn from capital investment into operations.¹⁴ Army did not see its priorities for funding only in terms of competing demands to fund operations or future equipment. For the Army there was a need to redress the organisation's limited capacity to expand to meet an unforeseen requirement. Specifically, the Army thought there should be a priority on increasing instructional staff to allow Army to expand its personnel numbers.¹⁵ This limited capacity for force expansion was partially attributed to recent efficiency measures that have reduced the capability of Army's training organisation.¹⁶

12 Lieutenant General F Hickling, Transcript, p. 65.

13 Colonel D Chalmers, Submission 50, p. 4.

14 In May 2000 newspaper reports indicated that as much as \$380m had to be removed from future project funding to pay for personnel costs associated with East Timor. See Daley, P, 'Timor costs puts Defence in the red', *The Age*, Thursday 4 May 2000, p. A8.

15 Lieutenant General F Hickling, Transcript, pp. 72–73.

16 Major General Powell, in Command of the Army's Training Command, noted that as a consequence of the Defence Efficiency Review his organisation had been reduced by 20 per cent – ie, from 7500 to 6000. See Major General R Powell. Transcript, pp. 289 and 293.

- 5.14 The problem with maintaining a balance in funding priorities was emphasised by Admiral Barrie. He made the point to us that some funds for future investment could be used to fund current operations, but:
- ... it is true to say you cannot, as in any large company, continue to use your investment for current operations because in the fullness of time you will not be building the capability.¹⁷
- 5.15 East Timor has brought the tension between investment and operating costs into stark contrast. The Australian Defence Association suggested that this tension existed before East Timor. Previously the priority lay with investment and this priority may have, in part, been responsible for a dangerous reduction in training funds. The Defence Association pointed to the Blackhawk disaster of 1996 as a possible example of this tension in funding priorities.¹⁸
- 5.16 There were clear conflicting priorities between operating funds and investment and neither could be rectified under current levels of investment. For instance a replacement aircraft for the F / A 18 may be as expensive as \$150 million per aircraft.¹⁹ By the time that both the F / A 18 and Adelaide class frigates are due for replacement, under the current funding allocation, one estimate suggests there will only be sufficient money to pay wages and operating costs.²⁰
- 5.17 It was clear that maintaining the status quo within the Army and Defence was not an option. The current implementation of defence strategy within Defence exceeded the funds available for its realisation. Defence and Army would have to either:
- Get additional funds to pay for their likely operating and investment demands, or
 - Change the current implementation of strategy to keep costs within achievable funding.
- 5.18 Initially we were uncertain as to which of these courses needed to be followed. Allocating the Army more funds suggests that the current expenditure of the Army's funds is efficient. There is evidence to suggest that this is not always the case.

17 Admiral Barrie, Transcript, p. 79.

18 Mr M O'Connor, Transcript, p. 173-174.

19 Air Marshal D Evans, Transcript, p. 120.

20 Professor P Dibb, Transcript, p. 199.

Cost Effectiveness and Efficiency

- 5.19 A key issue associated with Army's funding is the efficiency with which present resources are being used. In terms of return for investment the Reserves were cited as an area capable of providing a high return. Lieutenant Colonel Strain acknowledged that the armed forces could be vociferous consumers of funds and put forward the contention that, in terms of improving the Army's operational capability:
- ... the application of increased resources into our part-time forces is where our money would be best spent to generate an increase in the operational capability of our Army.²¹
- 5.20 It was asserted that the cost benefit of the Reserve lay in its relatively low cost for the capability obtained. The suggestion was made that a reservist was only one-tenth the cost of a regular soldier.²² A perceived failure to focus on the benefits of the Reserves was seen by some as an impediment to Australia's defence. It was proposed that the maintenance of a standing Army not only denied funds for the Reserve but also lowered their morale.
- 5.21 We were cautioned about some activity areas that may waste funds without providing any benefit to Australia's defence. Some suggested that peacekeeping was a distraction for an Army with very limited resources.²³ The JSCFADT had previously recognised that peacekeeping activities, without reimbursement, could have a negative impact on Defence.²⁴
- 5.22 The heavy Defence involvement in the Olympics was not without cost. The estimated full cost of Army support for this activity was estimated at 297 million dollars over the years 1999 to 2001. The actual net cost of the Army's involvement was claimed to be approximately 25 million dollars over the same period.²⁵ Although much less than the full cost the net cost does not indicate the opportunity costs to the Army. For instance the loss of collective training time for Reservists with subsequent degradation in capability.

21 Lieutenant Colonel D Strain, Transcript, p. 4.

22 See Lieutenant Colonel D Strain, Transcript, p. 3 and Submission 38, p. 592. It should be noted that the Department of Defence estimates that the cost of a Reserve soldier is approximately 15 per cent, or closer to one-fifth the cost of a Regular soldier. See Department of Defence, Submission 73, p. 1116.

23 Mr H Jennings, Submission 26, p. 297.

24 Australia, Parliament, *Australia's Participation in Peacekeeping*, Report of the Joint Standing Committee on Foreign Affairs, Defence and Trade, AGPS, Canberra, 1994, pp. 37-38.

25 Department of Defence, Submission 73, p. 1086.

- 5.23 Another area of potential inefficiency is the maintenance of elements at levels close to or below viability. As noted in the JSCFADT inquiry into Defence Funding:

Any reduction in permanent defence force personnel reduces the capacity of the ADF to regenerate force, and the Committee's current concern is that the critical mass of the ADF will be eroded beyond the capacity of the force to regenerate itself.²⁶

- 5.24 We believe that this prediction has, in part, been vindicated by the difficulties the Army experienced in preparing for East Timor. The marginal resourcing and staffing of reserve units has forced the Army to recruit and train approximately 3,000 additional personnel. This initiative has been taken despite the expenditure in excess of 400 million dollars annually on maintaining some 20,000 Reserve personnel. In 1991 it was estimated that the non-capital cost for approximately 24,000 Reservists was 407 million dollars. The Audit office concluded, based on availability, that the cost per day of a Reserve soldier was 50 per cent higher than for a Regular.²⁷
- 5.25 A final area of possible inefficiency raised with the Committee related to the implementation of reform and change. Both Major General Clunies-Ross and Lieutenant General Sanderson provided examples where initiatives within the Army had not been followed through or properly resourced. The inference appeared to be that these 'half' initiatives did not result in effective change and left a legacy of cynicism amongst those affected.²⁸

Army Cost Drivers – Personnel, Equipment and Operations

- 5.26 At the time of the inquiry we were fortunate to be informed by an analysis of defence funding conducted by the Parliamentary Research Services.

26 *Funding Australia's Defence*, p. 69.

27 It can reasonably be assumed that the figure of 400 million dollars has increased since 1992. See Auditor General, Audit Report No 3, 1990–1991, Department of Defence: *Australia's Army Reserve*, AGPS, Canberra, p. 41.

28 See Major General A Clunies-Ross, Transcript, p. 216, and Lieutenant General J Sanderson, Transcript, p. 152. Major General Clunies-Ross noted the initiatives taken with the Reserve following the Soviet invasion of Afghanistan. These initiatives were not followed through. Lieutenant General Sanderson points out the impact of unresourced initiatives.

The research paper, *Pressures on Defence Policy; The Defence Budget Crisis*²⁹ by Mr Derek Woolner drew a number of critical conclusions. These were:

- Defence funding is currently being pressured by the competing and increasing demands from operations, personnel and planned equipment acquisitions.
- This pressure is such that it cannot be relieved even with an increase of funding by a few per cent of GDP. It would necessitate a significant rise in expenditure and a consequent notable change to the Commonwealth budget.
- The most plausible solution is that radical changes will be required in defence policy as it 'will not be affordable for more than a few years'.³⁰

5.27 The problems facing Defence are similarly reflected in the Army. Historically the Army consumes around 30 per cent of the Defence budget. The largest single expense for the Army is payment for personnel. This consumes 48 per cent of the Army budget. Operating costs consumes 35 per cent and capital expenditure 17 per cent.³¹ If these funding levels are looked at as a reasonably constant allocation the problems facing the Army over the next 10 to 20 years can be easily illustrated. The analysis of the Army's funding situation provided below makes the following assumptions:

- Army's allocation of funding as a component of Defence allocations remains at around 30 per cent; and
- The proportion of Army funding between personnel, investment in new equipment, and operations remains relatively constant.

Personnel Costs

5.28 Mr Woolner, in analysing Defence expenditure, assumed a yearly increase in personnel costs of 4 per cent with supplementation for wages growth by the Department of Finance being averaged at around 1.5 per cent.³² Figure 5.1 indicates that a funding increase to Defence of 2.2 per cent of GDP would defer pressure on the Army's personnel costs until around 2006. An increase to 2.5 per cent of GDP would only buy another three years grace, to about 2009–2010.

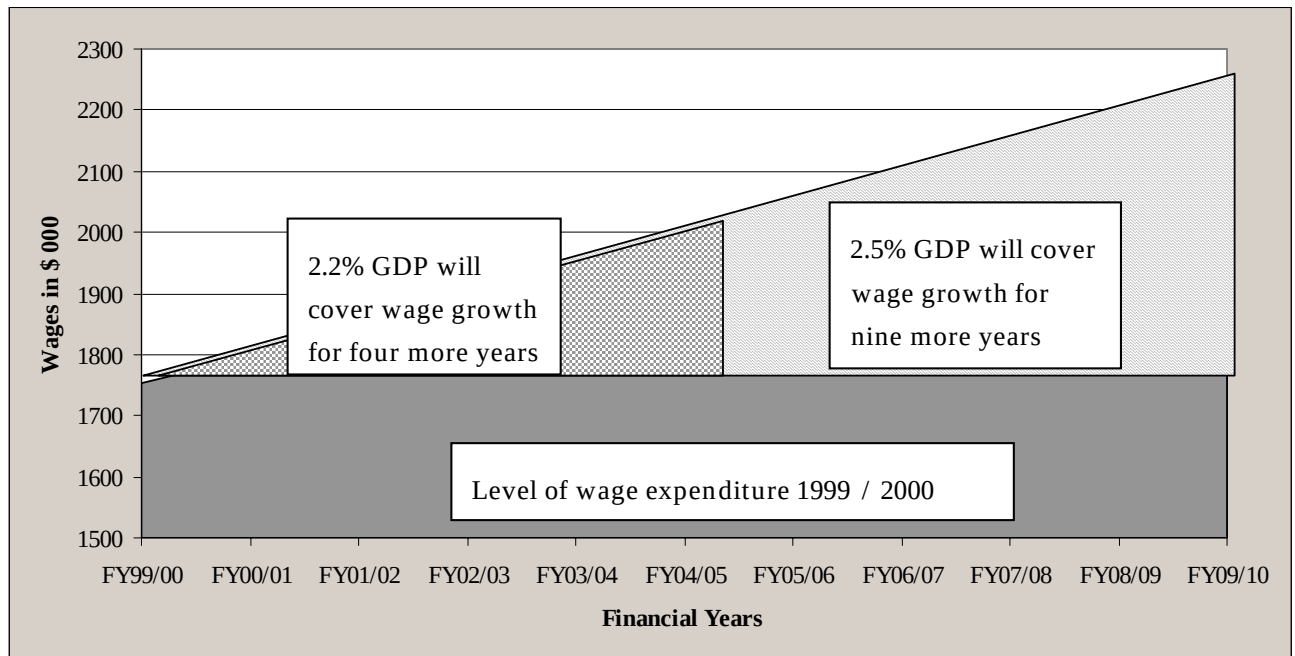
29 Woolner, D, *Pressures on Defence Policy: The Defence Budget Crisis*, Research Paper No. 20, 1999–2000, The Department of the Parliamentary Library.

30 *Pressures on Defence Policy*, p. 1.

31 Australian Army, Submission 47, p. 918.

32 *Pressures on Defence Policy*, p. 18.

Figure 5.1 The Ability for Increases in GDP Expenditure on Defence to Accommodate Army's Annual Wage Growth



5.29 While these are broad indications they show that, all else remaining constant:

- by 2009 (assuming the Army's wages remain a fixed percentage of total Defence expenditure) defence funding will have to rise to 2.5 per cent of current GDP simply to handle growth in personnel costs, or
- alternate methods will have to be found to meet the Army's personnel requirement.

5.30 A method to manage personnel costs would be to make greater use of Reserve forces. Figure 5.2 indicates the impact on cost of converting 20 per cent of ARA personnel to reserve forces. Two options are indicated:

- Progressive conversion of 20 per cent of ARA personnel into General Reservists over five years, commencing 2001-2002
- Progressive conversion of 20 per cent of ARA personnel into Reservists utilising similar conditions of service to those employed under the Ready Reserve scheme.

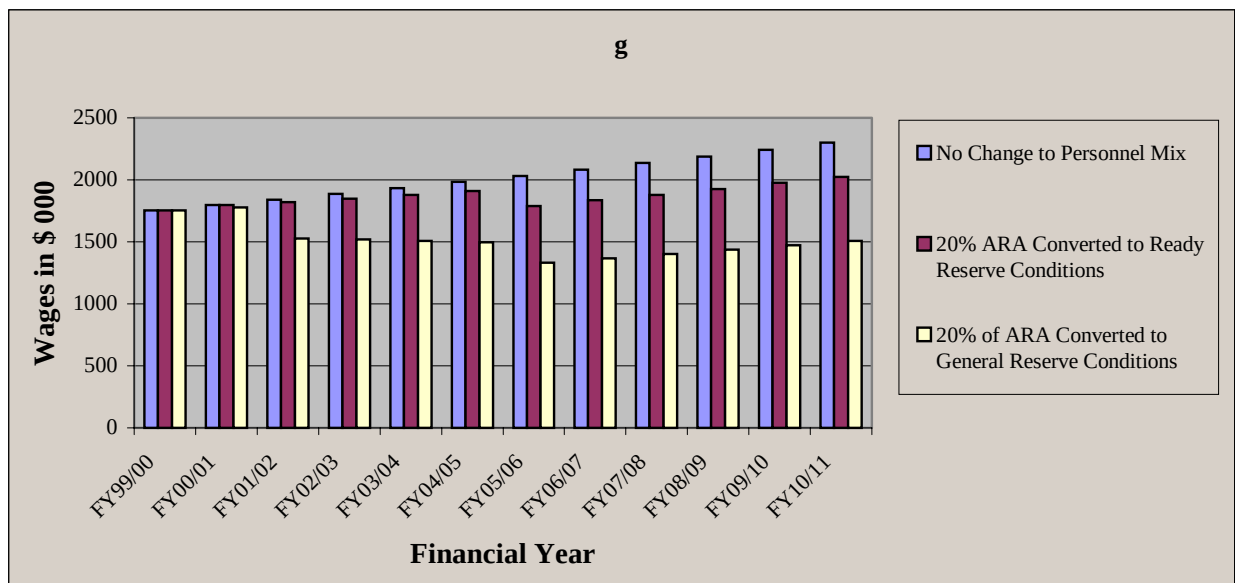
5.31 Figure 5.2³³ indicates that, by conversion of 20 per cent of the ARA to Ready Reserve-type conditions of service, an increase to 2.2 rather than

33 This figure was derived from information provided within Department of Defence, Submission 73 – the Army Manpower Summary.

2.5 per cent of GDP would cover personnel costs until 2009. Use of General Reserve soldiers would avoid the need for any increase above the current level of spending. This assessment once again assumes GDP remains constant.

- 5.32 Both these examples are not being considered as recommendations. They have been used to illustrate cost options assuming a fixed personnel strength. There are clear limits to the number of ARA that can be replaced by General Reservists for reasons of readiness and demographics. In Chapter 7, Personnel, it is suggested that the sustainable size of the General Reserve is approximately 16,000 personnel. Clearly, under current arrangements, there are limits to the achievement of savings through altering the mix of personnel.

Figure 5.2 Savings Created by Alternate Staffing



Equipment Costs

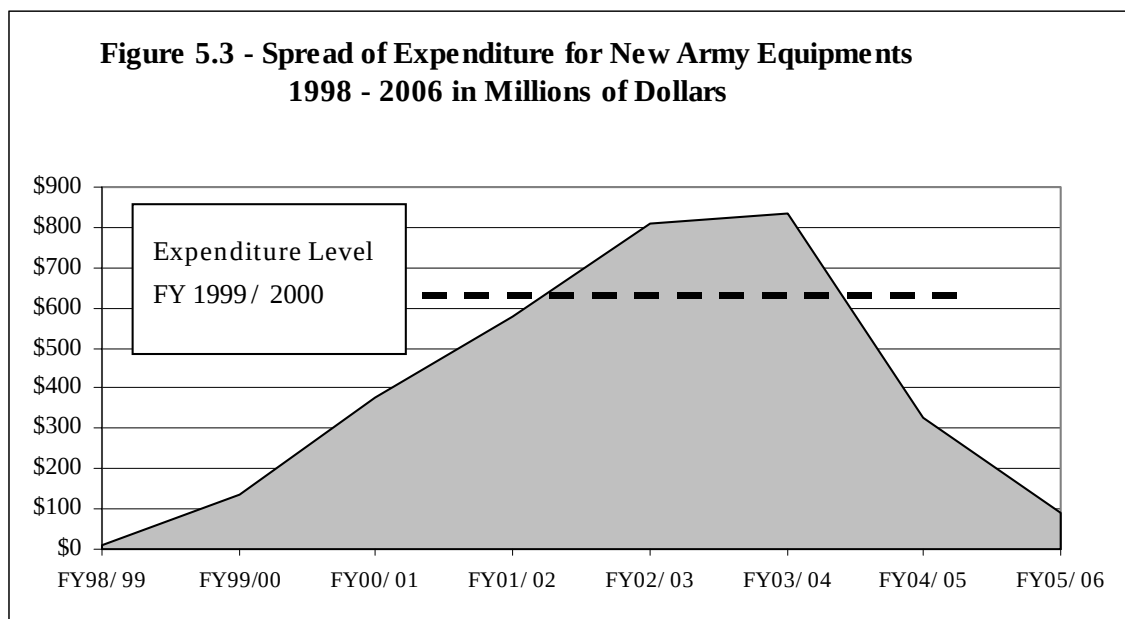
- 5.33 It is difficult to isolate all the equipment costs associated with the Army. A significant component of the Army's equipment is acquired through a number of joint projects. These projects partially support one or both the other services. The Army claims that, on average, it has received 7 to 13 per cent of Defence's expenditure on equipment.³⁴ An examination of the Army's planned acquisitions over the next five years appears

³⁴ Department of Defence, Submission 73, p. 1111.

unremarkable. This assumes the Army receives ongoing equipment funding of the order of 620 million dollars per year.³⁵

- 5.34 Figure 5.3 has been derived by creating an indicative expenditure spread for the forecast Army projects currently listed in the 'Pink Book'.³⁶ It is clear that, while a rise on normal expenditure can be expected between 2002 and 2004, this is not significant in terms of yearly defence capital expenditure. This above average expenditure appears to be driven by the acquisition of the Army's Armed Reconnaissance Helicopter.
- 5.35 Of more concern for the Army would be the implications if planned air and sea lift capabilities were not acquired. For instance scrapping of the planned light tactical aircraft, although an Air Force project, would impact heavily on the Army.³⁷

Figure 5.3 Spread of Expenditure for New Army Equipments 1998-2000 in Millions of Dollars



- 5.36 There are two significant issues relating to the funding of the Army's equipment requirement. These are:
- The size of the shortfall in equipment to fully equip units for operations; and

35 This figure was provided in the Australian Army, Submission 47, p. 918.

36 Department of Defence, *Defence Forward Procurement Plans for Major Capital Equipment 1999–2004, The Pink Book*. June 1999. For a discussion on the Pink Book see Chapter 8.

37 The suggestion that this project would be scrapped was reported in the newspapers. Garran, R, 'Defence budget strains force strategic rethink', *The Australian*, 29 February 1999, p. 2.

- The annual average increases in costs for military equipment.
- 5.37 The Army does not equip all units with the quantities of equipments needed for operations. **To bring the Army's nine brigades up to their operational³⁸ entitlement of equipment has been estimated at 4.5 billion dollars.** In addition, not all units have their recommended level of equipment provisioning for peacetime training. To redress this shortfall to achieve proper peacetime training would alone cost an estimated 2.3 billion dollars. These figures represent enormous costs and a serious shortfall within the Army's actual capability.
- 5.38 The other significant issue affecting the cost of Army equipment is the average annual rise in prices for military equipment. This has been estimated at 4 per cent per year³⁹ and represents a similar figure to the annual rise in personnel costs. This figure also represents the approximate rate of GDP growth during the period of the inquiry.

Operating Costs

- 5.39 Operating costs during peace should remain relatively constant. With increased use of simulation in training they might even be reduced over time. However, commitments such as the Olympics, East Timor and Bougainville cannot be avoided and inevitably force costs up. East Timor required, in 1999-2000, a reported increase in Defence expenditure of 860 million dollars.⁴⁰ It has been estimated that to raise the readiness levels of the 1st Brigade in Darwin alone cost 183 million dollars.⁴¹
- 5.40 Another driver of operating costs is the percentage of the total force that has to be placed on higher readiness. The Army estimates that a battalion on 90 days notice to move will cost approximately 43 million dollars per year. To raise the battalion's readiness to 30 days notice to move will cost an additional 4 million dollars per annum. The high cost of moving the 1st Brigade to 28 days notice to move (in excess of 180 million dollars) suggests that the readiness costs of a battalion may actually be higher than estimated by the Army. We suspected that the Army had not captured all costs in the estimate it provided to us.
- 5.41 The point was made that readiness funding needs to be used selectively if costs are not to blow out. For instance the lifting of the 1st Brigade's readiness meant that a number of units of limited utility to the East Timor

38 The word 'operational' is being used here to mean the unit/brigades wartime entitlement to equipment.

39 *Funding Australia's Defence*, p. 101.

40 Dodson, L, 'Defence needs to get out of the bunker' *Financial Review* (10 December 1999) p. 33.

41 Australia, Parliament, Research Paper No 20, 1999-2000, 'Pressures on Defence Policy: The Defence Budget Crisis', Woolner, D, Department of the Parliamentary Library, Canberra, p. 8.

crisis also received additional funding.⁴² However, this suggestion assumes that the Army would not have to deploy the entire brigade. This may not have been certain at the time the readiness of the brigade was raised.

Discussion – the Cost Efficiency of the Army

- 5.42 There is a degree of community and official evidence to suggest that the Army could use funds more efficiently. We were at times confused as to what the Army's funding priorities were and this alone raises concern about efficiency. For instance the Army had used Defence Reform Program (DRP) savings to re-role an infantry battalion that had recently been created⁴³ and to create a new intelligence battalion.⁴⁴ Yet the Army appears replete with battalions most of which, as will be seen in subsequent chapters, are understaffed and under equipped. A more efficient use of resources from the outset may have been to re-role two exiting battalions.
- 5.43 Another area of cost inefficiency may be the maintenance of units at readiness levels where they are no longer viable. We considered that for a unit to be of use it must be able to deploy within no more than 120 days from being given notice. Notwithstanding the issues associated with Reserve call out legislation the Army appears to have a number of units not capable of this standard. The majority of units appear to be at readiness levels of 180 days or greater. This was evidenced by the need to recruit 3,000 additional personnel to sustain the commitment to East Timor.
- 5.44 These partially staffed and equipped units might be justified as 'seed forces'.⁴⁵ But there may be more cost-effective ways to maintain seed capabilities. For instance it may be possible to create additional capabilities by judicious use of overseas exchange postings and equipment procurement planning. We have no evidence that this type of cost-benefit analysis has been done. We do know, however, that Reserve units, which

42 Colonel D Chalmers, Submission 50, p. 827.

43 The 4th Battalion was created during the 1990's and has been re-roled to form a commando battalion.

44 We were not offered a reason why the creation of an intelligence battalion was a priority for the Army. Nor were we informed of its role. Similarly we were not advised why, in such a small Army, there was a need to re-role a standard infantry battalion to create a second commando battalion.

45 This term was used in the Restructuring the Army concept. See Department of Defence, *Restructuring the Army*, Directorate of Publishing and Visual Communications, Canberra, 1997, p. 74.

are invariably understaffed and equipped, consume an estimated 400 million dollars annually but provide limited utility under current arrangements.⁴⁶

- 5.45 We suspect that there is inherent inefficiency in the number of headquarters and the high officer-to-soldier rations within the Army and Defence. Defence has made moves towards greater tri-service cooperation. However, we find the existence of large and separate maritime, air and land headquarters under a relatively large Headquarters Australian Theatre of concern.
- 5.46 Other potential areas for efficiency we considered within the Army include:
- Greater use of Reserves within viably staffed and equipped units. This will be subject to the readiness demands placed on the Army.
 - Exploration of ways to reduce the demand for equipment funding – including greater use of commercial equipment where appropriate.
 - Judicious use of readiness – ie, only raising the readiness of those units needed to actually support a contingency instead of complete formations.
- 5.47 A final area for improved efficiency exists that is beyond the Army's control. This is the need to put stability into funding. Stable funding permits the longer-term certainty needed to avoid inefficiencies. The problem of Governments shifting funding guidance was discussed in a historical context in Chapter 2. This problem still exists⁴⁷ and may be affecting efficient planning within the Army and Defence generally. By stable funding we mean not only funding as forecast by Government but making due allowance for known areas of growth, such as wages.⁴⁸
- 5.48 In summary there appear to be a number of ways in which the capability derived from Army's current funding could possibly be improved through efficiencies. These are important initiatives that should be pursued. But they are unlikely to be a determinant of whether the Army

46 This cost estimate is based on a National Audit Office estimate in 1992 and is discussed again later in the report.

47 For an illustration of shifting financial guidance figures between 1974 and 1992 see Shephard, A, *A Compendium of Australian Defence Statistics*, Australian Defence Studies Centre, Canberra, 1995, pp. 36-38.

48 Mr Woolner of the Parliamentary Library has pointed out that the personnel funding difficulties being experienced by the Department of Defence were because of a clash of policies. The problems with the interpretation applied to the Department of Defence on the public sector policy on pay rate needs to be addressed. See Defence Strategy Debate, Transcript 30 June 2000, p. 43.

has sufficient funding to meet what we established as the minimum capability requirement. We discuss this in the conclusion.

Conclusion

- 5.49 In Chapter 4 the Committee examined the capabilities required of the Army. Three of the identified capabilities we considered to be major drivers of Army's funding requirements were:
- A capability to concurrently address and sustain one major and one minor operation within Australia's ACSI at short notice.
 - A capability to logistically support these concurrent operations in different locations within the ACSI
 - A capability to incrementally generate forces for subsequent and larger threats in a time frame not greater than two years.
- 5.50 In very broad terms, as will be discussed in the next Chapter, the minimum Army requirement to support the first two capabilities would be:
- three brigades – one deployed, one returning and one preparing to deploy.
 - three battalions groups – one deployed, one returning and one preparing to deploy.
- 5.51 This represents a total force of roughly four brigades in an Army that notionally has nine brigades at present. However, as will be shown in the next chapter, the average staffing of this force is close to 50 per cent of operational requirement. In addition it is deficient some 4.5 billion dollars in equipment. Taking these deficiencies into account we estimate the Army's funds are currently sufficient to field between three and four brigades held at useful readiness levels. Unfortunately this does not take into account the funding needed to be capable of expanding the size of the force in the event of a serious defence emergency.
- 5.52 In short, we believe that the Army could barely achieve a minimum base line of needed capability on current funding with its current operational commitments. Achieving greater efficiencies from equipment, personnel and operating funds will assist but not solve this problem. **The critical problem is the need to rationalise the Army's force structure to generate the necessary minimum capability. This rationalisation, although likely to save funds in the longer term by more efficient use of resources, will itself need to be funded. In the longer term the Army, with ever**

increasing costs for personnel, equipment and operations will have to receive additional funding.

- 5.53 The Army's ability to generate additional force is a significant element of the capability we believe it should have. We have not done cost estimates on this capability. This is partly because of the diverse approaches that the Army could take to this problem. For example, the Army could choose to stockpile some supplies, locally produce others and purchase other supplies from assured overseas sources. These different options for generating equipment and supplies require detailed cost-benefit analysis and evaluation. These activities are certainly not being conducted at the moment to achieve defined force generation levels. But they will need to be done. We anticipate however, that this capability to acquire equipment and train personnel will be an important but not a major component of the Army's funding.
- 5.54 We believe from the evidence received that there would be general support for funding Defence at between 2 and 2.5 per cent of GDP. Assuming all services were adjusted equally this would equate to an increase in the Army's current funding of between 10 and 30 per cent. Viewed another way, the Community would be unlikely to support funding beyond 2.5 per cent of current GDP without additional justification.