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**PREPARING AUSTRALIA'S  
DEFENCE FOR 2020 –  
TRANSFORMATION OR  
REFORM?**

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*Researching Australia's Security Challenges*

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## Executive Summary

This report examines the key elements of Australia's defence, identifies areas that are most problematic for the future, and considers options for dramatic improvement that are practical, affordable, innovative and relevant over a fifteen year time horizon.

The report is derived from conclusions reached in sixteen closed workshops that discussed aspects of Australian defence transformation.<sup>1</sup> Participants in these workshops included senior defence officers, officials and researchers.

The report argues that there are five main factors that make the Australian Defence Organisation unsustainable and which require early remedial action. There are also three major areas of opportunity that deserve early exploitation.

The report concludes by identifying ten key changes that are needed to prepare Australia's defence system for 2020. These are:

1. A recognition that the security environment in 2020 is likely to be substantially different and probably more demanding than that of today. There is a parallel need to express repeatedly a clear vision for adapting and modernising Australia's national security systems to suit.
2. A disciplined re-structuring of the Defence Organisation so as to align management prerogatives with production outputs. Under a newly-appointed Head of the Australian Defence Organisation (either the Secretary or

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<sup>1</sup> Military transformation is a continuing process of innovation and development in the capabilities of a nation to identify and leverage new sources of power. The strategic objective is to ensure a sustained competitive advantage in warfare.

the CDF), a small number (five to ten) senior executives should each be allocated clear responsibilities for the delivery of specified outputs—and held personally responsible for their organisation’s performance.

3. A recognition that for Defence’s performance to be world class, staff need to be encouraged to develop deep expertise in one or more professional fields. Career planning and progression needs to be managed to encourage mastery in at least one key disciplines, while posting cycles for both Service and civilian personnel need to be lengthened.
4. Defence’s leadership must insist on the very highest standards of service and civilian officer education. Defence education programs need to be led by world-class educators in appropriate fields. For service and civilian personnel alike, the achievement of high course results and true professional mastery should be a pre-requisite for advancement. Defence’s leadership should insist that these establishments become thriving centres of intellectual discourse on matters relevant to the profession of arms and international and national security planning and administration.
5. The current Defence personnel model is both unsustainable and suboptimal. There is a need to relax many of the Defence Force’s current age restrictions and focus instead on recruiting and retaining personnel with the physical and mental competencies to perform the specified duties. There is also a need to make more extensive use of lateral

recruitment, and to exercise more discipline when creating new positions.

In future national security crises, Defence will need to be able to engage effectively much larger numbers of people with a far wider range of skills than is currently possible. Amongst the innovations required is the raising of two new categories of highly-skilled Defence reserves: a *National Security Education Initiative* aimed at full-time tertiary students, and a new category of *Specialist Reserve* would that recruit people with relevant civilian qualifications to supplement the ADF in times of crisis.

6. Australia needs to develop a larger and more flexible range of national security instruments so as to shape the international environment in Australia's favour and to plan and conduct campaigns to defeat any future state or non-state opponent. Moreover, the National Security Committee of the Federal Cabinet needs to be given additional support in order to facilitate timely and effective decision-making in the types of fast-moving, complex crises that are anticipated in coming decades.
7. It will be important for the National Security Committee to focus its attention increasingly on the clear definition of the country's strategic objectives and the selection and application of diplomatic, economic, military and other instruments so as to deliver key effects. The Committee's oversight of the development of Defence and broader national security capabilities would be simplified were the Defence Organisation to develop, test and cost complete alternative defence structures, with varying capabilities and price tags.

8. There would be vast benefits for Australian security were Defence and associated departments and agencies to embrace more enthusiastically the opportunities now provided by network-enabled operations and the revolution in national security affairs.
9. There is a strong case for Commonwealth national security agencies to engage appropriate state and local government authorities, as well as business and broader community organisations, in basic planning for priority national security crises. Sectoral crisis plans should be endorsed and key people and systems should be tested periodically to ensure that appropriate levels of proficiency are reached and maintained. Disruption to business and the broader society would be minimal, but national resilience in crisis situations would be enhanced substantially.
10. The Defence and broader national security budget needs to be increased to compensate for the real rates of cost growth in personnel and capital equipment. Whilst the Australian Government has kept its promise of boosting defence expenditure by 3 per cent per annum, the real growth rate of capital equipment costs has been 3-9 per cent, depending on the equipment type, and the real cost growth of defence personnel has risen by an average of 6 per cent per annum. There is an urgent need for defence expenditure to be increased in order to permit the essential elements of Defence modernisation to proceed.

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## About the Author

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Professor Babbage has held several senior positions in the Australian Public Service, including Head of Strategic Analysis in the Office of National Assessments, Assistant Secretary Force Development and head of the ANZUS policy branch in the Department of Defence. From 1986-1990 he was Deputy Head of the Strategic and Defence Studies Centre at the Australian National University. Through the 1990s, Professor Babbage worked in the corporate sector with ADI Limited. In 2000 he was appointed the inaugural Director of the Centre for International Strategic Analysis in Perth. In 2003 and 2004 he served as Head of the Strategic and Defence Studies Centre at the Australian National University and played a prominent role in re-establishing the Graduate Program in Strategy and Defence.

Professor Babbage has Bachelors and Masters degrees in economics from the University of Sydney and a PhD in International Relations from the Australian National University. He is author of *A Coast Too Long: Defending Australia Beyond the 1990s* (Allen & Unwin, Sydney, 1990) and *Rethinking Australia's Defence* (University of Queensland Press, St Lucia, 1980). He has also written extensively on Asia-Pacific security affairs.

## **Why Does Defence Have to Change?**

This report reveals a consensus amongst senior defence experts that many parts of the Australian Defence Organisation are under severe stress and will be unsustainable in the long term. Already some important functions are being neglected, management systems and processes have been weakened and the overall performance of the Defence Organisation away from military operational theatres has declined. The primary reasons are well-known and, for the most part, uncontested.

The Defence Organisation is being pressured, on the one hand, by steeply rising demands to do more. These demands spring, in part, from rapid changes in the security environment that are altering the types of challenges with which the Australian Defence Force (ADF) has to deal. Some of these new demands are daunting, and are likely to become more so. A second complicating factor is that most of the new security challenges need the application of resources that have to be accessed outside Defence and, in many cases, beyond the resources normally controlled by national governments. This imposes new requirements on Defence for external relationship-building, new joint processes, new types of training and much else besides.

These demands for Defence to do a wider range of more complex things come at a time when the resources available to support Defence operations are contracting in real terms. The Australian Government has kept its promise to boost defence spending

significantly, and has maintained a 3 per cent annual real growth in the Defence budget since 1996. This commitment is, however, scheduled to expire in 2010. Moreover, these budgetary increases have not kept pace with the much higher rates of growth in the costs of defence capital equipments, defence personnel and defence operations. Defence is now in the situation where it cannot afford to sustain its current personnel structures and numbers, nor an equipment acquisition program focussed primarily on replacing current systems as they approach obsolescence.

The outlook for the coming decade poses even more serious challenges. The aging of the Australian population and rising pressures for governments to redirect scarce funds to priority health, infrastructure and social welfare programs is making the prospect of significant rises in defence expenditure remote. Moreover, with little change projected in the number of people in the critical 18-35 year age bracket over the coming two decades, the maintenance of current numbers of ADF and broader Defence personnel looks very doubtful and would prove extremely expensive.

The central conclusion is that the current defence system, structure and organisation is both unsustainable and, in many respects, inappropriate. Significant change is inevitable.

Fortunately, these pressures for change are rising at a time when opportunities for conducting much of Defence's business with greater efficiency and effectiveness are growing. New approaches to defence strategy, new operational concepts, new technologies and a range of innovative administrative

and personnel approaches offer the Australian Government some attractive options for moving forward. There appear, in short, to be ways of restructuring the development and operations of the Australian Defence Organisation that should increase markedly ADF combat and broader operational effectiveness and, at the same time, simplify and improve the quality of management and administration.

There is, moreover, at least one other powerful reason for addressing major change to the Australian Defence Organisation now. Australia's major alliance partner, the United States, is already advancing the transformation of its armed forces and national security architecture. Consequently, Defence has strong incentives to consider ways of following suit in a manner that is scalable and affordable. Senator Robert Hill, the Minister for Defence, has noted that:

‘...maintaining interoperability with the United States as its military undergoes transformation is a massive challenge for the ADF. It will require significant investment and energy. It will also require the courage to re-examine entrenched assumptions and develop new concepts.’<sup>1</sup>

That spirit has driven this project. Evaluating the potential for dramatically improved efficiency and effectiveness in Defence has meant challenging the

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<sup>1</sup> Hill, Senator the Hon. Robert, Minister for Defence, 2003, *US Grand Strategy: Implications for Alliance Partners*, Transcript of a speech to the Centre for Defence and Strategic Studies 2003 Conference, Hyatt Hotel, Canberra ACT, Friday, 1 August 2003

orthodoxy. It has meant asking, and attempting to answer, many hard questions. It has also required serious consideration of leaving many of the legacies of the past behind. Participants in a series of closed workshops (see text box) realised that if appropriate changes were made, the ADF could become a markedly more capable force by 2020 and, in future crises, the Government would have available both more and better options to secure Australia's interests.

## **REPORT STRUCTURE**

The body of this report is organised as follows.

First, the report identifies and discusses the five main factors that make the current defence system unsustainable. In the case of each of these 'unsustainability factors', the main options identified for overcoming the challenge are discussed briefly.

Second, the report addresses three main areas of new transformational opportunity that appear to be available to Defence. Again, in each case, the nature of the opportunity is described and the conclusions of relevant workshops discussed.

The report then turns to the broad agenda for change. It describes briefly the top ten initiatives emerging from the project that are recommended for serious consideration.

Finally the report asks whether, given the challenges ahead, it will be adequate for Defence to rely on standard processes of gradual reform, or whether the need is really for a more rapid and thoroughgoing process of transformation.

## **The Methodology**

### **ASSESSING THE CHALLENGES BY DRAWING ON RELEVANT EXPERTISE**

In order to consider seriously the challenges facing the Defence Organisation and the options for change, it was necessary to draw on the experience and insights of a wide range of people, including senior ADF officers, Defence and other Commonwealth officials, senior business people, selected researchers and others who could contribute particular expertise to aspects of this large and very complex agenda. To make this feasible, sixteen half-day workshops were organised, each of which focussed on a key aspect of potential change. The topics of the workshops are listed over the page. In each case some 20-30 individuals possessing deep expertise were invited to participate on the clear understanding that their contributions would be non-attributable. Accordingly, there are few footnotes or attributions in this paper.

For the most part, the senior people invited shared frankly, and at length, their views in a positive spirit. Without the constructive contributions of all concerned this project would not have been possible.

Each of the sixteen workshop discussions were started with two to four short presentations on key aspects of the topic. People selected to deliver these opening presentations normally held either deep experience of operations in the particular field and/or were known to hold innovative views. The organisers of this project wish to acknowledge the substantial contributions made by the 50 presenters. Their contributions were invaluable.

This report has drawn extensively on the records of these workshops. Whilst not all participants in all of the workshops will necessarily agree with every point made in this report, a serious effort has been made to present fairly the primary conclusions that emerged. Much more could, and probably should, be said about many of the themes highlighted in this summary report. Those wishing to take some of the arguments further, or in other directions, are invited to contribute their insights to future editions of the Kokoda Foundation's new journal, *Security Challenges*.

**WORKSHOPS: DEFENCE TRANSFORMATION OPTIONS**

1. Strategic and Defence Policy Priorities
2. Management of Budget Priorities
3. How to Implement Whole of Nation Concepts?
4. Implementing the Revolution in Military Affairs and Network Centric Warfare in Australia
5. Tailored Effects—Precisely What and How to Plan and Conduct Effects-Based Operations?
6. Force Projection—What for, What Ends, Where and How?
7. Force Protection—What and How?
8. Force Generation and Sustainment—What, for How Long and Where?
9. Defence Industry—What For and How Much?
10. Information Warfare—What Role and How?
11. Information Superiority and Support Options
12. Defence Personnel Systems—Are There Better Ways?
13. Total Force Structure—What are the Best Options?
14. Defence Management (including Culture, Ethics and Values)
15. Command and Control of the ADF
16. The Transformation Agenda: How to Make it Happen?

## **Five Main Factors that Make the Current Defence Organisation Unsustainable**

### **UNSUSTAINABILITY FACTOR 1: THE DIFFERENT DEFENCE ENVIRONMENT OF 2020**

In 2020 Australia's international security environment will be significantly different to that of today. Whilst it is not possible to be precise about the defence challenges Australia may face in fifteen years, it is feasible to identify some of its features.

By 2020, China will likely have an economy that, in scale, will be close to that of the United States. India's economy will also approach that of the United States in the following decade. Japan will still be an important strategic player in East Asia, though its economy will have been left in the wake of China and India and its prospects will remain moderate at best, with Japanese society burdened by its relatively high cost structures and large numbers of elderly.

China's military capabilities will also have expanded substantially by 2020 and in some respects they will rival those of the United States in the Pacific theatre. So whilst China will not have emerged as a true superpower competitor of the United States, it will likely be the most powerful Asian country and the second most powerful state in the world. A key question is whether this much stronger China develops elements of a liberal democracy and becomes a *status quo* power or, alternatively, whether China seeks to

use its greater strength to coerce regional powers and to confront the United States and its allies globally.

The countries of Southeast Asia will have made uneven progress in their processes of modernisation and democratisation by 2020. Much will depend upon how well these mostly developing societies can build their civil institutions, systems of governance, habits of accounting and broader social behaviours. Myanmar, the Philippines, Cambodia, Thailand, Laos and Indonesia will probably continue to suffer from major transnational criminal activities. The Philippines, Thailand, Myanmar and possibly Indonesia will also suffer from separatist movements, some of which will surge periodically into localised insurgencies. By 2020 Islamic radicalism may have developed a stronger nationalist flavour and become a substantial force in Indonesia, the southern Philippines and possibly elsewhere. A continuing terrorist presence is also likely in some of these countries.

While the military capabilities of most Southeast Asian countries will retain a heavy domestic security focus, the capabilities of some to conduct conventional military operations will have progressed significantly. Singapore will have a very advanced and highly networked set of military capabilities. Singapore will be able to win rapidly any conventional conflict with its immediate neighbours. It will also be able to launch limited strike operations well beyond its immediate region. Some other regional countries will have deployed selected advanced defence systems in limited numbers.

The security situation in Papua New Guinea may have deteriorated further by 2020 with a serious

risk of the country becoming a failing state of about 9 million people. Other weak and possibly failing states can be expected elsewhere in the South Pacific, with major external powers periodically seeking to manipulate local developments to their advantage.

Australia's primary ally, the United States, will remain the strongest power in the Pacific and globally, though in more situations it is likely to be deterred from intervening forcefully by growing regional military capabilities, by regional threats to use weapons of mass destruction (WMD), by the risks of directly confronting China and, possibly, by an increased domestic sensitivity to casualties sustained in distant theatres.

There is also a possibility, and maybe a probability, that by 2020 the United States will have suffered an extremely serious terrorist attack using one or more weapons of mass destruction. Any such attack is likely to galvanise the United States—and many other governments—to turn inwards, dramatically tighten border security, and simultaneously to engage in a more pro-active pattern of global intervention. The United States and some other Western countries could also be expected to cling more closely together and become far more suspicious of countries not sharing their values and failing to participate in the United States-led counter-terrorism campaign.

Another possibility is that Australia could be struck by one or more serious terrorist attacks during the coming fifteen years. Conventional bomb detonations in a major Australian city are probably the most likely form of attack but it would be unwise to

exclude the possibility of a more serious chemical, radiological or even a biological weapon attack.

Overlaying these complex possibilities and shifting power relativities will be several streams of broader social-political change. Western market values will have penetrated more deeply into most of Asia's developing societies, though in some—particularly Indonesia, Pakistan and Malaysia—there will also be strong competing forces seeking to reinforce conservative Islamic approaches. Non-government actors of many types will gain greater influence in national and regional decision-making. In some countries the power and practical capacities of national governments will be reduced as a result.

The processes of globalisation can also be expected to have further significant consequences for Australia in the period to 2020. Further restructuring of the Australian economy is likely to be among these changes, as some manufacturing and services that have traditionally been performed domestically move offshore and new fields of local competitive advantage and investment emerge. This will have many consequences for the level of support that the Defence Force will be able to obtain domestically. Indeed, in one workshop it was suggested that by 2020 Australia's defence industry may look rather like a branch office of United States' defence industry, with serious consequences for Australian sovereignty.

A likely related development during the coming fifteen years is an increasing drain of Australia's young professionals to foreign business centres in New York, London, Hong Kong and elsewhere. The global competition for quality labour will intensify just when

the country's best and brightest are becoming far more mobile. Australia's success in attracting and retaining its young professionals will be critical for the nation's economy, as well as for its security, and measures to address this problem deserve early attention.

For Australian security planners this outlook poses more serious risks than have been evident in recent decades. There will be new possibilities of major power clashes and Australian involvement in those intense hostilities. Major war in East Asia will be a serious possibility in the 2020 timeframe. At the same time, there will also be increased challenges arising from weak states in Australia's immediate approaches. Islamic radicalism will also likely continue to destabilise parts of neighbouring countries and periodically reach out to strike regional Australian interests, and possibly targets on the Australian mainland. Moreover, this more challenging security environment will be developing during a period when some of the key foundations of Australia's domestic resilience may be weakened.

In consequence of this significantly altered security outlook, the first Defence Transformation workshop concluded that in 2020 Australian defence planners will need to focus on the following five priorities:

- Domestic security in a wide range of circumstances including those of conventional military attack.
- The ability to control Australia's maritime approaches.

- The ability to lead stabilization operations in Australia's immediate region (which was defined as maritime Southeast Asia and the Southwest Pacific).
- The capacity to deploy 'niche capabilities' for operations further afield alongside major allies, including for intense conventional operations, potentially against the forces of major powers.
- The development of strategies and capabilities for coping with irregular WMD threats and for countering WMD proliferation.

Attempting to perform these functions in 2020 with only a modest development of Australia's current Defence capabilities was seen to be non-viable because:

- The continuing modernisation of militaries in the region will lead to the erosion of Australia's relative 'technological edge'.
- The emergence of so-called 'grey-area' problems in weak and failing states will generate the need for new mechanisms to facilitate the employment of military *and* non-military instruments in order to secure priority Australian interests.
- In some contingencies, particularly in the closer region, the ADF may be required to lead a coalition—imposing demands for which it is not fully prepared.
- In the 2020 timeframe, there is a serious risk of the ADF becoming engaged in a major war in Asia for which very few elements of the

Australian defence structure are likely to be adequately prepared.

- The 'tides' of regional and global change would expose the inadequacy of many of Australia's current security and defence mechanisms and increase markedly the prospects of ADF failure in a future crisis.
- There is a need to consider new measures to attract and hold young professionals in the country and also to ensure that strategically important defence support capabilities are maintained within Australian industry.

Should the Australian Government wish to possess a range of viable operational options in each of the situations described above in 2020, several key capabilities will need to be transformed so as to deliver more powerful effects than those currently available.

## **UNSUSTAINABILITY FACTOR 2: THE DEFENCE BUDGET**

During the last three decades Australian governments and, to some extent, the Australian people have wanted more defence options and more defence capabilities than they have been prepared to pay for. The result has been a mismatch between expectations of what the Defence Organisation is expected to be able to deliver and the budgets allocated.

During the course of this project's workshops, participants were reminded on more than one occasion of the dictum enunciated by the former Secretary of

the Department of Defence, Sir Arthur Tange, that 'strategy cannot be discussed seriously without simultaneously addressing resources and priorities.' There was a broad consensus that this principle has often been overlooked in recent years. A key result is that during the last fifteen years, Australia's real capabilities to conduct some types of defence operations have become marginal. Indeed, for operations in East Timor substantial elements of the ADF were committed without a full complement of needed equipments and personnel. These operations did not fail largely because of the high quality of the personnel that were committed and exceptional doses of good fortune. However, committing forces in these types of circumstances entails serious risks. Making a habit of the practice courts disaster.

These weaknesses have arisen largely because the funding commitments in the Australian defence budget have not kept pace with the costs of running a modern defence force. The scale of this problem grew markedly from the early 1980s to the mid-1990s when real defence funding fell from 2.6 per cent to 1.9 per cent of Gross Domestic Product (GDP). Since 1996 defence spending as a percentage of GDP has been held at about 1.9 per cent, and baseline real defence expenditure has grown at an annual rate of 3 per cent. In addition, the government has provided supplementation to cover the additional logistic costs of offshore operations and to augment the personnel and the estate (facilities) budgets.

Nevertheless, and despite these funding increases, the real costs faced by Defence have risen even faster. The four main categories of Defence expenditure – facilities, personnel costs, defence

operational costs (fuel, spare parts, etc) and new capital equipment have all risen markedly in recent years. Defence equipment costs have grown at an average real rate of 3-9 per cent per annum, depending on the equipment type. The nominal annual rise in defence personnel costs has also averaged some 6 per cent. In addition, the costs of new capital facilities have grown by some 3-10 per cent, depending on the region. Moreover, while the government did act to reimburse Defence for the direct additional costs of the commitments to Bougainville, East Timor, Afghanistan, the Solomons, Iraq, tsunami relief in Aceh, and also for the intensified maritime border patrolling (Operation *Relex*), many of the secondary costs of such operations – such as the wear and tear of assets deployed – have had to be absorbed by Defence.

In the early 1990s the primary effect of this mismatch of budget allocations and real costs was to drive several waves of efficiency measures in the Defence organisation. However, during the last decade it has forced a more complex pattern of change. On the one hand there have been cuts in several categories of personnel and reductions in logistic support capabilities. A consequence of this has been to 'hollow out' some defence capabilities and, in particular, to reduce the ADF's capabilities to sustain some types of operation. The budget/cost mismatch has also forced the ADF to prematurely phase out several major types of equipment, including two almost new *Huon* Class minehunters, two *Adelaide* Class frigates and, at the end of this decade, the F-111 bomber force. However, these strategic capability decisions have provided room to plan the introduction

of several much more capable systems such as the air warfare destroyers, the *Wedgetail* airborne early warning and control aircraft, the new amphibious ships and the Joint Strike Fighters. So in the 2005-2015 period, the ADF's capabilities are in a state of transition. Several legacy systems have been cut, in part to free up financial and personnel resources required for important new systems. These new systems will be highly capable, but generally deployed in fewer numbers. A key question is whether these modernised, but generally smaller forces, will give future governments adequate options in the security crises that might be anticipated in the 2020 timeframe.

A series of other budgetary management problems have arisen largely because of a succession of decisions taken in the late 1980s and early 1990s to weaken the qualitative and quantitative analytical capacities held within Defence. Prior to that time highly-qualified staffs rigorously analysed, from an early stage, capability proposals and options, so that the advice and capability recommendations going forward to ministers was held in considerable respect. However, with the loss of most of these staff by the mid-1990s the Department's project analysis, planning and cost estimates were often found to be deficient. The result was that ministers and others lost faith in the quality of the figures and broader judgements that were proffered.

Defence has paid a very high price over the last decade for this loss of analytical capability. One consequence has been that when a need has been seen for a new ground vehicle, a new ship or a new type of aircraft, key questions concerning capability priorities, real performance standards, staffing

requirements, acquisition risks and other important issues have often not been addressed with the vigour and intellectual depth that they deserved. Amongst the consequences have been some projects proceeding that should not have been endorsed, gross underestimations of personnel and other costs, poor selections of equipment options and a serious weakening of professional standards. Some of the special interest groups or 'tribes' within Defence may feel that by crippling the central analytical staffs they secured important new equipments and other capabilities by avoiding intense analytical scrutiny. However, these tactical 'victories' have only been won at the price of bringing Defence into serious disrepute, reducing the efficiency of the defence acquisition process and forcing on Defence layers of new processes that are seriously debilitating.

The staffs and processes now being strengthened within the Defence Materiel Organisation and the newly-formed Capability Development Group may go some way towards remedying these deficiencies; so too will improvements that are underway in the techniques used for estimating acquisition and through-life costs. However, the reinstatement of quality disciplines in this field will not be simple. Nor will the attraction and retention of the necessary highly-experienced analytical staff. Without them, Defence's reputation for quality decision-making and advice will remain weak.

In this context it is appropriate to consider whether other initiatives should be launched to strengthen the analysis and assessment of key options and to build a deeper culture of providing only the highest quality advice to ministers. One possible step

might be for the Chief of the Defence Force to establish his own high quality analytical and advisory staff. Another might be to provide a small, but high grade, pool of analytical staff to assist the Service chiefs and the Deputy Secretaries on priority issues.

A related complication for the Defence Organisation in recent years has been the imposition of more intrusive and exceedingly complicated financial management processes. Accrual accounting is not readily applied to a function as complex and multi-dimensional as Defence, and its introduction has proved to be very costly and distracting. The more extensive involvement of the central departments, and of Cabinet itself, in supervising defence spending has removed much of the flexibility that had formerly been available to Defence managers to reprioritise expenditures within a global Defence budget, in the manner of most large corporations.

Much more will be said about the need for change in Defence management later. However, one issue that is relevant here is the requirement for more rigour to be applied to the assessment of new defence capability options. Up until recent years, Defence routinely submitted individual project proposals to government for decision in a never-ending stream. This was a little like attempting to purchase a new car over several years by purchasing wheels and tyres in one year, an engine in the second, a transmission and suspension system in the third and so on until the car is complete. Ministers rarely gained a sense of what the total 'vehicle' would look like, or of what it might be able to deliver. Moreover, the prospects of the completed 'vehicle' working optimally were remote.

In recent years the government has introduced a more strategic approach by considering within the annual budget cycle the entire 'shopping list' of prospective Defence purchases in the *Defence Capability Plan*. Then, for individual projects to proceed, the National Security Committee (NSC) of Cabinet needs first to endorse an initial, in-principle project proposal and then, later, approve a detailed acquisition proposal. This so-called two-pass (of the NSC) system provides periodic opportunities for individual ministers, and the NSC as a whole, to consider the overall direction of Defence force development as well as individual project proposals.

These more refined approaches to government consideration of defence capability are undoubtedly a significant advance. However, to continue the analogy above, their primary effect is to allow the NSC to consider a wider range of potentially desirable car components at the same time and then to review twice and in more detail alternative wheel, brake, muffler and gearbox options, etc.

A more logical and efficient approach would be to assess the capabilities of the entire Defence Organisation as they are now, and then consider, as complete packages, alternative, fully-costed defence structures for acquisition over the following 5-20 years. Alternative total defence system mixes could be tested rigorously for their capacity to deliver relevant outputs in command team games and exercises, and also by the application of relevant analytical techniques. Periodically government could be briefed on progress in developing the alternative total force options. Then every two-to-three years government might be briefed in detail on alternative total defence systems and

provided the opportunity to authorise acquisition of one or other total defence system models over the following 5-20 year period.

Such a process would force much tighter capability development discipline, reduce the scope for incoherence and incompatibilities and ensure far higher levels of total system efficiency. In effect, it would allow ministers to evaluate and debate alternative total defence 'vehicles' for their capacities to provide government with priority options, rather than just consider alternative lists of 'car' components. It would help ministers lift their sights and focus on the more important strategic questions of what the ADF needs to be able to do in a range of future crises. It would encourage ministers to think hard about the types of effects the ADF needs to be able to deliver (in cooperation with other government departments), where these effects might be needed, and for how long the effect would need to persist. It would also facilitate ministerial consideration of alternative total defence force structure options and whether there are new and innovative approaches worth considering.

After detailed discussion of these and related issues, the relevant project workshops concluded that:

- The current Defence budget is inadequate to sustain current capability levels, largely because the main categories of cost continue to grow faster than defence appropriations.
- The current budgeting arrangements are cumbersome and rigid. There is a need for a more flexible defence budgeting system, and also for periodic government consideration of

alternative fully-costed total defence capability mixes.

- The processes of developing and managing financial resources within Defence need to be better aligned to the organisation's outcomes. There is currently a poor alignment between budget, responsibility, delegation and accountability and little transparency through the accountability chains.
- Whilst the Department of Defence's financial reporting and management systems are improving, they still require significant development.
- Defence needs much stronger joint analysis capabilities, backed by improved capability management processes at both the strategic and operational levels. This should deliver understandable, repeatable processes of capability development, acquisition and through-life support in which the true costs of new defence capabilities and the total costs of ownership are identified accurately at an early stage. Managers overseeing such processes should possess relevant authorities and be held fully accountable for project development.

### **UNSUSTAINABILITY FACTOR 3: INAPPROPRIATE DEFENCE MANAGEMENT SYSTEMS AND CULTURE**

One of the strongest themes to emerge from the workshops was the need for serious reform in the management of the Defence Organisation. The challenges of managing a bureaucracy as large and

complex as Defence were acknowledged but there was a strong consensus that its management culture, systems and habits were preventing the achievement of excellence in just about every part of the organisation. The primary problems identified are discussed below.

First, there is an almost universal failure to align responsibilities with authorities, outputs and accountabilities. This means that whilst most senior officials (uniformed and civilian) are notionally responsible for the delivery of certain defence outputs, they rarely have the authority to manage relevant inputs with any efficiency and they are virtually never held accountable for the scale and quality of the relevant outputs. This is largely because, with a few partial exceptions (such as the Defence Science and Technology Organisation), the responsibilities of senior managers overlap, the outputs for which managers are notionally responsible are poorly defined and unquantified, and the tenures of many senior managers are short. Indeed, key decisions are often made (or not made) by committees, an important effect of which is to further dilute personal responsibility and accountability. The result is that the strongest incentives for senior managers are not to focus on the achievement or over-achievement of their organisations' core outputs, but rather to prevent crises arising during their tenures, to maintain good relations with other senior managers—especially those at more senior levels and the Minister—do what they can to maintain the morale of their own staff and to move on to another (preferably higher) post as soon as possible. More pervasively, however, this culture means that the Defence Organisation expends most of

its energy on internal, and frequently conflicting, processes rather than on striving coherently for optimisation of the organisation's core outputs.

Among the down-stream consequences has been a strong tendency to focus on immediate matters, such as those in the in-tray, rather than on the generally more important longer term issues of shaping the security agenda, planning and preparing for change or experimenting with innovative, more efficient or effective approaches. These more creative activities would risk upsetting other managers, challenge the organisation's deep aversion to risk and are most unlikely to be rewarded.

Indeed, risk aversion has driven a broader process of disempowering Defence officers, including senior ones, by withdrawing their decision-making delegations and concentrating all important decisions in a few of the most senior positions, where heavily over-worked individuals attempt to micro-manage all important issues. Knowing that the very top-level officials will decide matters of any importance discourages staff initiative and drives most officials to send any decision of importance further up the organisational chain. This, in turn, delays important decisions, reduces the organisation's responsiveness and contributes further to staff detachment.

A further serious consequence of this culture is that some senior Defence officials are expected to manage personally the fine details of very large organisations. The spans of fine-grain management responsibility for many senior personnel are simply too large to be realistic, but devolution of significant

management functions to lower levels is generally discouraged.

Another consequence is that down the line the incentives to produce high quality work are reduced greatly. There, the pervading sense is that no matter how good the contributions of individuals or small groups may be, their influence on outcomes will be limited, at best. Staff dissatisfaction has, in consequence, proliferated and staff turnover has risen to high levels; running in recent years at over 40 per cent per annum in several parts of the organisation. As a result, functional experience within most parts of the Defence Organisation is low. Senior managers consider that some critical parts of the Defence Organisation are now dominated by young, bright, but seriously inexperienced, 'gifted amateurs'.

A further product of Defence's deep risk aversion has been to encourage senior managers to place an unusually high priority on the achievement of harmony within their organisations and in their dealings with others. Managers' annual performance reviews routinely include an assessment of their capacities to get along with others and for achieving consensus outcomes. This striving for consensus and harmony is frequently achieved by down-playing an insistence on quality, by tolerating poor performance and, on occasions, even overlooking gross mismanagement. Personnel who perform exceptionally badly are often not disciplined formally and are virtually never dismissed. They are more frequently tolerated further, shuffled elsewhere or offered generous retirement packages. This signals to Defence staff that incentives are generally weak for high grade performance, for exceptional effort in shaking up

moribund organisations and for generating rigorous alternative thinking.

Running across the top of this less than efficient Defence management system, almost all uniformed members of the organisation are posted to new positions every second year. This means that just as officers are established and gaining some efficiency and effectiveness in a particular role, they need to start preparations for moving on. Even with the very best of intentions, the quality and quantity of an individual's contributions are limited. The potential for performing strongly is reduced even further when a position requires specialist knowledge or requires skills not held, or only partially held, by the appointee. Time taken on training further reduces the time available for effective task performance.

The workshops discussed on more than one occasion the logic of continuing to split the leadership of the Defence Organisation between the Chief of the Defence Force (CDF), who commands the ADF and is responsible for military operations, and the civilian Secretary of the Department of Defence, who is responsible for managing the defence budget and providing policy and administrative advice and support. There is a strong case for changing this arrangement to make either the CDF or the Secretary the unqualified head of the Defence Organisation, carrying full responsibility and accountability for the Defence Organisation's outputs. Under this logic, were the CDF to become the head of the organisation, the Secretary's role would change to assisting the CDF with policy, budgetary and administrative support. Alternatively, were the Secretary to become the head of the organisation, the CDF would continue to

command the Defence Force subject to the policy guidelines approved by the Secretary and Minister. Appointing a clear head of the Defence Organisation would ensure unity of command, help to clarify lines of responsibility and remove any doubt about accountability for achieving improved efficiency and effectiveness in the overall Defence system.

The workshops that focused on the challenges confronting the management of the Defence organisation concluded, as follows:

- The disempowerment of senior officials constitutes a serious problem. In order to overcome this, senior uniformed and civilian personnel need to work hard to re-establish the confidence and trust of ministers who, in turn, need to authorise a broader delegation of responsibilities amongst officials, where appropriate.
- It is also critical that people appointed to senior Defence positions possess the skills and experience that are required to perform well.
- Too much senior management time is presently spent on 'managerialism' and maintaining unnecessarily high levels of administrative tempo.
- Senior leadership focus should be on change – not stasis.
- Greater continuity is needed in both the personnel and structural dimensions. High level staff 'churn' is debilitating. The periods of

staff postings need to be extended markedly, and officers—particularly military officers—need to have the opportunity to develop a staff speciality (an issue discussed further below).

- A complete review of the professional military education system is needed, with particular attention on financial management and ethics training.
- Overall, Defence's systems/culture needs to be aligned with the organisation's purpose. However, the systems, responsibilities and accountabilities within the defence system are rarely mapped and even less frequently are they aligned.
- There is a strong case for making the CDF or the Secretary head of the Defence Organisation, and making the selected individual formally responsible for the organisation's overall efficiency and effectiveness.

#### **UNSUSTAINABILITY FACTOR 4: AN UNAFFORDABLE AND SUBOPTIMAL DEFENCE PERSONNEL SYSTEM**

There are two primary challenges confronting the Australian defence personnel system:

- First, maintaining an appropriate number of defence personnel; and
- Second, ensuring that Australian defence personnel are of the very highest quality.

Australia has a modest number of defence personnel but they account for the largest single slice of the Defence budget. In total, the ADF has about 54,000 permanent personnel serving in uniform (about half a Melbourne Cricket Ground crowd). There are some 20,000 part-time reservists and some 17,000 Defence civilians. In addition there are about 10,000-20,000 people employed in defence industry, depending on who one chooses to include.

The Australian Defence Organisation currently spends some 40 per cent of its total budget on direct personnel costs. During the last decade this expenditure has risen from about 33 per cent. Indirect costs relating to personnel support (such as health services, housing, and community-related services) have also risen steeply, partly driven by Defence personnel expectations of parity with community standards.

These personnel cost pressures on the Defence budget are expected to intensify over the coming fifteen years. By 2020, the Australian population will have only grown to about 22.5 million, but the median age will have risen from 34.9 years (in 1999) to 41.2 years. The proportion of the population aged 65 and over is expected to rise from 12 per cent to 18 per cent. An important corollary is that the number of people in the full-time workforce will grow very little at a time when the pension, health and broader social welfare burden on the nation's tax revenues will have risen to a much higher level. Competition for government revenues will likely be very intense and unless the case for defence expenditure can be made exceptionally compelling, significant cuts might be anticipated.

By 2020, competition for quality personnel in the 18-35 year bracket is expected to be intense and salary levels for most of these people can be expected to run at premium levels. The challenges of attempting to maintain Australia's current defence personnel structures in this environment would be extreme.

Lifting rates of immigration are unlikely to assist significantly because even a doubling of the rate of immigration would make only a marginal impact on the scale of the 18-35 year old workforce during the next fifteen years. A second reason is that many nationalities immigrating to Australia have a cultural aversion to military service and diluting this negative sentiment normally takes a few generations.

Already there are signs that Defence's personnel systems are approaching unsustainability. Some specialist personnel—such as doctors—are exceptionally difficult to recruit and retain. Within a decade, the current defence personnel system will be unworkable. Either substantially more money will need to be appropriated to cover the increased personnel costs or completely new personnel systems will need to be introduced.

The growth in the number of officer positions over the last ten years—at a time when the overall size of the ADF has decreased—is another factor contributing to the personnel system's unsustainability. This growth has been caused, in the main, by new officer positions being raised without old positions being cancelled to compensate. Certainly, some officer positions were redistributed from logistics and central headquarters areas in the mid-1990's, but the increasing numbers of vacancies for middle

ranking officers (Captain and Major and their Air Force and Navy equivalents) shows that not enough has been done to meet the demand. Combat units and their headquarters are consequently being forced to carry numerous vacancies indefinitely.

The practice of commissioning senior non-commissioned officers and warrant officers to fill the increasing number of officer vacancies is compounding the situation. While this practice may be highly beneficial for individuals and have positive effects on staff retention, the ADF's technical expertise and professional core is being eroded at an unsustainable rate. What's more, once commissioned, many of these highly trained and experienced soldiers, sailors and airmen are being tasked with administrative or minor governance functions to provide a 'gap filler' capacity for the burgeoning officer corps.

The workshops concluded that the most effective approach to reforming the Defence personnel system is likely to require some combination of the following elements:

- Reduced permanent Defence Force numbers and much greater discipline and rigour employed in their use. This will be driven, in part, by that fact that the *per capita* costs of civilian personnel are between half to two-thirds those of uniformed personnel. New mechanisms need to be instituted to ensure that defence personnel—either uniformed or civilian—cannot be viewed as a 'free good' and that managers have strong incentives to economise.

- As well as employing uniformed personnel only in essential roles, Defence needs to examine the rank levels assigned to different jobs and the way new establishment positions are created. More flexible job classification, and better incentives and enhanced status for non-commissioned and warrant officers, are needed in order to protect the ADF's high professional standards.
- Defence will need to relax many of its current age restrictions and focus instead on recruiting and retaining personnel with the physical and mental competencies to perform the specified duties—almost regardless of age.
- Defence needs to make more extensive use of lateral recruitment. In an age when most citizens prefer to work for multiple employers during the course of their careers, Defence needs to ensure that the staffing traffic is two-way. For this to be achieved, Defence needs to find new ways of bringing quality people into the system at every career level.
- In order to strengthen the flexibility and adaptability of the Defence system to cope with new security challenges, the ADF needs systems to facilitate access to a much wider range of skills that reside within the civil community.

The workshops concluded that at least two new types of 'reserve' service will need to be introduced to make this possible. The first type, a system similar to the former 'Ready Reserve', was

discussed at length in one workshop. In levels of training, capability and cost, this force would fall somewhere along the continuum between the regular force and the General Reserve. Its training would be longer and more concentrated than that given to the General Reserve and, accordingly, this force could be maintained at a higher state of readiness and provide the regular force with swift back-up when required. While not without its shortcomings, something along the lines of this concept was seen by most as a cost-effective and inherently viable solution to many of the aforementioned problems.

Perhaps the most attractive approach would be to establish a *National Security Education Initiative*. Under this system, tertiary students would be paid to train full time for some twelve months and then to undertake supplementary training for four weeks annually for a minimum of a further six years. Students completing the first year's training would qualify for their entire programs of tertiary study to be funded by Defence. Large re-enlistment bonuses could be offered to those signing on for periods of service beyond the initial six years.

A second new type of reserve service would provide a mechanism for engaging more effectively the skills of a wide range of highly qualified civilians whose services would be extremely valuable in future crises. These Specialist Reserves would engage information technology experts to operate as information technology experts in uniform, transport professionals as transport specialists in uniform and construction experts as construction experts in uniform, etc. Specialist Reserves would not need to be trained extensively in specialist infantry or other military-

specific skills, and hence would require modest formal training times. However, they would provide an effective means of harnessing a much wider range of specialist civilian skills that will be required in many future contingencies.

The Defence personnel system needs to be reformed not only to ensure the supply of an appropriate number of defence people, but also to deliver defence personnel of the very highest quality.

It is perhaps ironic that in an era of highly advanced technologies, complex military systems and widely dispersed network operations that the quality of defence personnel is of steeply rising strategic significance. When looking forward to the security crises of 2020, Australia will rarely possess numerical superiority. Moreover, the Australian Defence Organisation's technologies and military systems, whilst generally good, will be matched increasingly by others, including potential opponents. This means that Australia has a greatly increased incentive to leverage its traditionally high quality personnel skills in order to continue 'punching above its weight'.

However, there is little evidence that Australia's key officer training and related systems are receiving the priority or delivering the exceptional quality that is required. Indeed, there are many indicators that officer and related training has been weakened in recent years and that expertise applied and standards achieved are falling.

In a sense, it could be said that the current model of officer education is a 'bulk food calorie' model, in which large numbers of students are fed as much moderate nutrition learning as possible, rather

than a 'vitamin' model that identifies each student's needs and delivers high-grade content appropriate to those needs.<sup>2</sup> A further sign of this system's inefficiency is the large number of course participants who depart the defence organisation within three years of completing one of Defence's expensive staff college courses.

A second problem is the relatively low priority that has been accorded to Australia's middle and senior officer institutions since the late 1990s. Key positions at these institutions have been reduced in rank, less care has been taken to select well-qualified personnel and many staff have been sent to the Defence College on the way to retirement. In a few cases, some staff have been posted to the colleges as a way of holding them temporarily in the system, prior to re-posting to 'higher priority' command and staff positions. What's more, some senior personnel have been posted there in effective part-time capacities so that they can be despatched overseas to undertake their own training programs, or to conduct other duties without disrupting command and central policy functions. Moreover, of the few long-tenured personnel at these institutions, a significant number are clearly unsuited to their roles. The end result has been declining educational standards and a tendency towards introversion. Current staff are reducing the

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<sup>2</sup> A similar argument is made in Clark A. Murdock, Michele A. Flournoy *et al*, *Beyond Goldwater-Nichols: US Government and Defense Reform for a New Strategic Era* (Phase 2 Report) (Center for Strategic and International Studies, Washington D.C., July 2005), p.116.

scale and effectiveness of quality external inputs and are trying to plan, manage and deliver programs with the relatively poor resources held on site. Secondary consequences are many and include a widespread view that most programs conducted at the College are of limited value and that rising stars avoid postings there at all costs. The attractiveness to foreign neighbours and friends of middle and senior officer education in Australia has fallen markedly.

A third serious problem arises from the system of posting most promising officers to two, year-long, staff college courses during their careers. This means that there are very high opportunity costs entailed in detaching highly skilled individuals for such long blocks of time—lengths that few private corporations would ever contemplate. This rigid system also means that there is little scope for those officers needing some command and staff education and training earlier in their careers to dip into the system and accelerate their skills development appropriately. Nor does it provide ways of refreshing officers in core areas of understanding and skill once they have departed. Moreover, in an era of continuing high levels of defence operational tempo, when officers are routinely scattered to many parts of the world, it provides no way for them to study in remote locations.

Still other problems arise in attracting an appropriate number and range of civilian personnel into the Defence College system. The courses are simply too long and inadequately focussed to attract the range of Defence civilians who should be involved. The challenges would be even more marked were an attempt made to attract key personnel from the full range of Commonwealth, State and private sector

organisations that have important roles to play in Australia's developing national security framework. Key personnel from all of these organisations should be attracted to the College, but the current course structures make this virtually impossible.

In short, the Defence officer education system currently fails to achieve the high levels of excellence required. It also lacks flexibility and adaptability, and it does a very modest job of inculcating such key characteristics in those sent to participate in its courses.

In summary, the discussions of defence personnel issues concluded, as follows:

- The impending crisis in the defence personnel system highlights the need for a review of personnel roles and numbers in the total defence system.
- Fulltime ADF personnel will become increasingly expensive to maintain and will be difficult to justify in all but direct warfighting, warfighting-support and senior command roles.
- The issue of personnel retention requires closer attention, including the possibility of transferring individuals into second/third in-house careers so as to keep them within the 'defence family.' The desirability of keeping most categories of defence personnel in active service for significantly longer periods will require a revision of numerous personnel policies, regulations and practices. New

measures are also required to expand lateral recruitment.

- It is doubtful that the defence system currently employs the right output-focused personnel management systems. In particular, the frequency of posting cycles needs to be reduced markedly.
- Key structural problems are that *per capita* personnel costs are too high and current rigidities prevent effective emergency access to the broad range of skills that many future security crises will require. Whilst the provision of additional finance would help, the core need is for new personnel options, choices and opportunities. In particular, there is a need for more integrated full-time/part-time personnel mixes.
- The recruitment of personnel with strong tertiary educational backgrounds will become increasingly important for the Defence Force. Hence, an attractive new component of the Defence personnel system would be a *National Security Education Initiative*. Under this system, tertiary students would be paid to train full time for some twelve months and then to undertake supplementary training for four weeks annually for a minimum of a further six years.
- There is also a strong case to establish a new Specialist Reserve scheme that would provide a mechanism for engaging more effectively the skills of a wide range of civilians whose

services would be exceptionally valuable in future crises.

- The strategic importance of the Australian Defence Organisation possessing the highest quality, flexible and adaptable personnel needs to be highlighted. Defence staff selection procedures, and defence education and training programs, must be of outstanding quality. This is one field in which there can be no compromise in quality. The recent drift towards educational mediocrity needs to be reversed rapidly.
- One of the highest priority duties of senior defence managers should be the selection of those given the task of educating and training personnel—especially educating and training those of middle and senior rank. These people need to be the ‘cream of the cream’ and need to be recruited specifically for the task from right across the community, and even internationally. Nothing should be allowed to impede the achievement of world’s best practice in Australia’s defence education programs.
- Innovative educational and training systems are needed in order to deal with the sustained high rates of operational tempo, and other disruptive factors that have become the ADF norm in recent years.
- The defence system will not find it easy to adapt to the much more difficult personnel environment of 2020. Early experimentation

and the adoption of new approaches would be prudent.

### **UNSUSTAINABILITY FACTOR 5: DEFENCE IS STRUCTURED FOR NARROW DEFENCE ROLES RATHER THAN BROADER NATIONAL SECURITY CHALLENGES**

As discussed earlier, the future security environment has the potential to throw up a wider range of threats, some of which may be far more demanding than those which have commanded Australia's attention in recent years. In these circumstances it would be foolhardy to imagine that the Defence Organisation alone will be capable of providing Australia's future security. The annual defence budget of some A\$17-19 billion in cash will not buy Australians effective defence on its own.

It is already obvious that inter-agency operations will be required to meet almost all of the new security challenges and, indeed, such operations are already becoming the norm. Yet crises continue to be managed largely on a case-by-case basis, with inter-agency coordination mechanisms continuing to be severely limited and key systems and partnerships being reinvented each time. This approach might generate some agility, but such processes are neither durable nor coherent, and there is frequent and wasteful 'reinvention of the wheel'. Given the outlook for future security challenges, there is a need for early steps to institutionalise strategic planning not just for defence, but for national security.

What is required is a much broader ability to marshal and effectively apply resources from right across the nation to meet Australia's national security requirements at short notice. It must be possible for a wide range of transport, medical, computer, communications, energy, construction and many other types of assets to contribute to national security at short notice. Moreover, we need the capability to harness such assets with great flexibility, with close coordination and with fine precision. At present neither Defence, nor any other part of the national government, is structured to do this.

The sort of 'whole-of-nation' thinking required is broadly analogous to that which was employed during the Second World War. It is not suggested here that a form of mass mobilisation of civil society will be necessary. However, planning, preparations and some exercising is required in order to harness effectively a wide range of civil and commercial personnel and facilities to assist in crises as diverse as a devastating earthquake in a neighbouring country to an influenza pandemic threatening the Australian population, a major terrorist strike in Sydney or Melbourne or the outbreak of a major war in East Asia.

Australia has already developed the start of such a comprehensive planning system. The National Security Committee of the Federal Cabinet is now clearly the key decision-making body for Australian national security planning, preparations and crisis management. Whilst the operations of the NSC have evolved successfully through numerous crises since the late 1990's, current arrangements are far from optimal. In particular, the NSC has shown itself to be largely reactive rather than proactive. In structure it

continues to be dominated by the central portfolios of Prime Minister and Cabinet, Defence, Foreign Affairs, Finance and Treasury. The rise of new and more virulent forms of international terrorism have, in recent years, driven consideration of some new types of threat, some new categories of defensive measures and also given the Attorney-General, the Commissioner of the Federal Police and the heads of several intelligence agencies a more prominent role in NSC meetings. However, this still leaves the NSC ill-prepared for what lies ahead. Several new, evolutionary steps are needed.

First, and most importantly, there is a need for a small but expert support staff to routinely provide briefing to the NSC on longer-term security issues and challenges. The staff of the National Security Division of the Department of Prime Minister and Cabinet, whilst of high quality, are understandably driven by the demands of immediate and near-term issues. One way of raising the sights, and extending the time horizon of the NSC might be to have a meeting once a quarter with a small external advisory council, whose purpose would be to highlight the medium and long-term security challenges and brief on possible management options.

Another practical priority for the NSC should be the installation of facilities to permit much faster and better-informed decision-making. In an age when key strategic crises and other events are often beamed around the world in real-time or close to real-time, nothing but the very best briefing and communication facilities are needed. Ministers must be in a position to act quickly and decisively and also to communicate in an appropriate and timely manner with the Australian

public. Amongst other things, this may require the installation of purpose-built briefing, communication and command facilities in the basement of Parliament House or elsewhere.

At present the only truly coordinated national security planning is at the very top—in the National Security Committee of the Federal Cabinet. Coordination below that level is patchy at best, and largely focussed on crisis management and the very short-term. The Secretaries' Committee on National Security (SCONS) draws together the heads of relevant Commonwealth departments and agencies to filter advice to the NSC, but the inherent busyness of these people in their normal line functions means that their capacity to think creatively and deeply about non-standard or longer-term requirements is limited. One step further down the decision-tree, the Strategic Policy Coordination Group (SPCG) sometimes considers matters of broader and longer-term relevance. However, its considerations rarely engage the full range of relevant institutions, virtually never extend beyond government agencies, and lack a formal mechanism to submit recommendations to the NSC. Periodically the NSC or SCONS may create inter-departmental committees to consider specific issues—such as the security of the Commonwealth Games or the next APEC Ministerial Meeting—but these efforts are *ad hoc* and there are few mechanisms to foster early consideration of deeper, more fundamental, security challenges nor to integrate or implement recommendations when they require action beyond Federal Government departments.

A core problem is that—below the NSC—nearly all key government capacities are organised in

vertical departmental 'stove-pipes' when most of the new security challenges are multi-disciplinary, requiring 'horizontal' whole-of-nation responses. Australia's national security planning, preparation and exercising machinery needs to be broadened to involve not only a much wider range of government agencies, but many elements of the business and general communities. Effectively confronting many of the security challenges Australia is likely to face in 2020 will necessitate the involvement of a much wider range of government and non-government actors, which current practices effectively exclude.

Clearly several changes to current arrangements are required. The establishment and strengthening of the National Security Division in the Department of Prime Minister and Cabinet and the attraction of very high grade people to that organisation is a substantial advance. However, there is now a need for these people to be authorised to be far more pro-active in leading national security planning across government and, indeed, the broader community.

In parallel with the stronger leading role suggested for the Department of Prime Minister and Cabinet, there is a need for a wide range of Commonwealth and State departments and agencies to carry responsibility for planning, preparing and exercising priority sections of the community for the broader range of security challenges Australia may confront in the future. Important progress has already been made towards these goals in some agencies. For instance, the Department of the Attorney-General now has finely-tuned means—primarily through the Protective Security Coordination Centre machinery—to

manage terrorist and similar crises. Emergency Management Australia has capabilities to access Defence and a wide range of other national assets to meet the needs of crises, especially civil disasters. In addition, the Commonwealth Department of Health and Ageing has taken the lead in developing policy for managing a major medical emergency, such as an influenza pandemic. The Commonwealth Department of Transport and Regional Services now has a special Office of Transport Security, which provides a range of policy and advisory services to the transport industry.

Australian Government departments and agencies need now to take a more pro-active role in engaging relevant parts of the civil community, especially when developing plans for emergency responses or trialling and exercising national response capabilities. Whilst many of these sectoral security plans and preparations should be led by relevant Commonwealth agencies, some local programs would best be planned and managed by appropriate state and local government agencies. The overall planning, coordination and funding arrangements would best be agreed at a Council of Australian Governments (COAG) meeting between relevant Commonwealth ministers and the State premiers.

The practicalities of making detailed progress in this field would best be left for relevant agencies to discuss. However, there will be a need to engage more extensively with the civil community on aspects of national security planning and preparations. Knowledge of how best to transport special goods to a remote location, to rapidly increase the security of computer systems in Australia's financial institutions or to speedily manufacture a special type of fuel or

lubricant is most likely to reside in civil industry rather than in any government department or agency. The new security planning mechanisms need to be developed to bring together government and private sector executives to consider the nature of the new security challenges, to develop jointly appropriate response plans and, periodically, to exercise key aspects of those plans. Effectively the need is to develop a very flexible national security network in a close government-private sector partnership.

Encouraging public understanding of this shift beyond defence preparations to national security preparations would not require extensive public advertising or other intensive efforts. The broader approach to national security would probably best be heralded by a succession of speeches and statements by the Prime Minister and other relevant ministers, and then the discussion of such issues at COAG and other relevant forums. It may also make sense for the Government to prepare and issue a National Security White Paper prior to release of new Defence or Foreign Affairs white papers.

For the average voter the shift in policy emphasis and approach may be noted and they might also become aware, in due course, of new emergency evacuation plans from the workplace or that one or two senior members of their company or organisation are engaged part-time in planning for emergencies. There would be no need to disrupt either business or the broader community.

One further suggested change would be to adapt much of the higher-level defence and foreign affairs staff college training so that some short course

modules focus on national security training and involve personnel from a much wider range of organisations from both the public and private sectors. This would, over time, build a strong cadre across Australian society that could coordinate tailored multi-element responses in a highly flexible manner in almost any security crisis. It would also contribute to the development of a deeper national security culture in Australia.

The discussions of broader national security and 'whole-of-nation' issues concluded by highlighting the following points:

- The altered security environment and anticipated future changes make the case for directly involving much broader elements of society in security planning and preparations overwhelming.
- Defence needs to find better and more enduring mechanisms for engaging key elements of the broader community in security thinking and planning. These mechanisms must go far beyond a monologue and will require significant senior officer commitment. Over time it would be appropriate to strive for the generation of a uniquely Australian approach to security in which just about every citizen feels connected and, in the event of serious crises, to which most can make practical contributions.
- There was a consensus in the workshops that the creation of a major new bureaucracy to operate in this field should be avoided. Rather,

it would be far better for key principles and priorities to be developed in dialogue with the community and then for relevant public and private sector organisations to self-organise themselves to ensure satisfactory operation in key categories of crises. Selected elements of the broader national security system would be periodically tested and reviewed, and processes of refinement would be on-going. By these means, Australia's real national security capacity would be boosted markedly, but disruption to normal operations—and to the general economy—would be minimal.

- It was appreciated that using this decentralised approach to security would result in non-standard approaches being adopted in some regions. Overall this diversity and sense of local ownership was seen to be a strength rather than a weakness. Over time, friendly competitive rivalry might be expected to foster innovation and high levels of output efficiency.
- It would be critical for the national and state coordinators of these broader national security programs to focus their primary attention on achieving key outputs or delivering vital services (e.g., maintaining the city electricity supply in a crisis or surging the health system to deal effectively with thousands of serious casualties). It would be the delivery of these key outputs for which senior national security managers would be responsible and held accountable. The tactical planning and management of inputs to deal with crises

would generally be the responsibility of the existing managers of relevant institutions (e.g. power companies and hospital administrators). Nevertheless, Commonwealth–state–private sector agreements may need to be put in place to clarify peacetime and crisis funding of contingency preparations and the carriage of legal liabilities.

## **Three Key Opportunities for Australian Defence**

### **OPPORTUNITY 1: GENERATING MORE AND BETTER OPTIONS FOR GOVERNMENT BY FOCUSING ON EFFECTS**

In 2020 Australia will continue to need a highly professional and capable defence force that can work effectively with neighbours, allies and friends to maintain and enhance regional and global security and, ultimately, provide a strong direct defence of Australia. Similarly, Australia will also clearly continue to need a highly professional and flexible diplomatic service. However, the multi-disciplinary nature of most of the security challenges with which Australia may be confronted in this timeframe provides opportunities for the Department of Defence and related agencies to generate a larger and better menu of options and also a wider range of instruments for the Australian Government's national security 'tool box'. These have the potential to provide valuable new options for the

National Security Committee in a range of future crises.

The best way of appreciating these new opportunities is to start by thinking carefully about the range of 'effects' the NSC may wish to achieve in future crises. In many, and possibly most, cases the key desirable effects will be to persuade or coerce an opposing decision-making elite to change its stance in ways compatible with Australia's interests. The opposing decision-making elite may be the president of a country, a cabinet, or a much wider decision-making group. It may also, in some instances, be one or more leaders of a terrorist or other non-state organisation. In these situations getting the opposition to shift ground is the key outcome. In these circumstances standard military or diplomatic approaches may have some utility, but other instruments could prove to be far more useable and effective.

Several workshops discussed potential approaches to this broader menu of security options. One approach is to consider items on the expanded menu of security instruments within the following categories:

- *Diplomatic.* This includes the wide range of discussions, negotiations, consultations, informal persuasive activities and might escalate to include warnings, bribery, or threats.
- *Information.* This may range from the provision of standard categories of information that targeted personnel may have overlooked, to

the overt or covert modification or manipulation of information flows to Australia's advantage. Key information may be denied, spurious information may be inserted, or complicating information may be supplied to the principals and their associates. The information flows addressed may be those on closed, apparently secure networks—or they may be publicly-accessible channels such as print, radio, television, internet, SMS and mobile phone.

- *Military.* Military forces can and are used not only to conduct combat operations, but also to impress, to attract, to assure, to deter and to undertake a very wide range of military-diplomatic operations including discussions, negotiations and signalling indirect messages.
- *Economic.* Governments which are supported by strong economies can employ a wide range of open and covert economic pressures. Trade facilitation or obstruction, aid provision or denial and investment facilitation or discouragement are some of the primary overt tools. However, in some situations, the covert closure or manipulation of bank accounts, investment holdings, financial or foreign investment flows and other measures may have a place.
- *Social.* Some opposing decision-makers may be vulnerable to the disruption of their domestic social, religious and cultural frameworks in ways that can exert substantial pressure on them. For instance, a clear goal of

counter-terrorist strategies is generally to seek to isolate such individuals and groups from their support bases by portraying them as social or religious pariahs.

- *Technological.* There are ways of supplying and then exploiting new technologies to one's national advantage or, alternatively, of denying certain categories of technology in ways that may constrain or handicap an opposing decision-making elite. The technologies of greatest potential leverage vary from society to society but may include surveillance, transport, power generation, information processing and civil and military communications.

A consensus emerged from the workshops that Australia's senior decision makers have generally given insufficient attention to defining clearly the effects they wish to achieve before considering the full range of instruments or tools that may be most appropriate to apply. Successive governments have developed considerable experience in the use of diplomatic and military instruments. However, in the more challenging security environment anticipated, it will be desirable to have available a much wider range of instruments and to possess the skills to employ them in creative combinations to achieve key outcomes.

Strengthening Australia's national security options by these means will require significant developments in three main fields:

- First, there is a need to plan and coordinate the development of new national security instruments—such as tailored economic

weapons, mechanisms for information strategies and systems and processes for undermining and isolating terrorist organisations. Some of these instruments would need to be tested, trialled and tuned for employment in particular theatres.

Several new instruments may provide extremely valuable means of shaping the security environment in Australia's interests—either overtly or covertly—well in advance of future crises. It was suggested in one workshop that the development and coordination of these new national security instruments should be managed by a new 'Department of National Effects'. However there was stronger support for the notion that this function would be better handled by an extension of the National Security Division of the Department of Prime Minister and Cabinet.

- Second, the above developments would facilitate substantial improvements in the efficiency and effectiveness of NSC decision-making in the more challenging security environment anticipated in two particularly important respects:

First, they would provide new and better options for the NSC to consider as means of furthering Australia's interests. This would effectively enhance Australia's power and leverage in a wide range of future situations.

Second, by focussing the NSC's primary attention on the precise outcomes it

wishes to achieve and the effects it wishes to deliver for those purposes, it could free itself of the lower-order issues of designing and acquiring security inputs. In particular, it could afford to adopt a more strategic and detached approach to the acquisition of individual defence and broader national security systems and equipments.

- The third significant development required in this field is a change in the mindsets of key decision-makers. The new, driving focus should shift to defining desired national outcomes, selecting preferred strategies for their achievement and then directing combinations of instruments to secure those end-states. This might, for instance, entail strategies or 'campaigns' to convince a foreign government to modify its position on a key issue or to isolate a terrorist group from its traditional supporters.
- This, in turn, would permit decision-makers to discard much old and increasingly counter-productive thinking, such as focussing on issues relating to defence platforms (e.g. ships, aircraft, armoured vehicles) and narrow single-Service or single department approaches. In the emerging security environment, Australia's senior security decision-makers will need to focus intently on the achievement of clearly identified security outputs, or they will risk distraction and failure.

## **OPPORTUNITY 2: EXPLOITING NETWORK-ENABLED OPERATIONS AND THE REVOLUTION IN MILITARY AFFAIRS**

The second major field of opportunity available for Australia is to exploit creatively the major changes that are underway in modern warfare.

First, and most obviously, the technological options that are available for modern defence forces are expanding markedly. New categories of sensors—such as radars, sonars and multi-spectral scanners—are providing ways to monitor movements over far greater ranges and with unprecedented accuracy. Advanced communication systems provide means of tying the advanced sensor systems together with sophisticated command and control centres. In these command centres powerful computer systems fuse digital data streams coming from multiple sensor systems and generate close to real-time displays of friendly, enemy and ‘unknown’ movements over theatres several thousand kilometres wide. Commanders can then speedily test alternative courses of action using ‘what if’ decision games and choose optimal courses of action, despatching orders with unprecedented speed. Then, if appropriate, it is possible to deliver bombs, missiles and other ordnance onto both fixed and mobile targets with great precision, such that enemy systems are routinely destroyed by the first round, even when it is launched from several hundred or even thousands of kilometres away.

Whilst many technologies have contributed to these dramatic technological advances, it has been the digitisation of information flows and the broader information technological revolution that have made

network-enabled operations possible. Tying each component of a widely-dispersed sensor-command-response network together as a working entity can bring unprecedented speed and efficiency to modern military operations and render less advanced defence forces exceedingly vulnerable.

Australia is, in fact, well down the track in securing advanced sensor, communication, command and control and strike systems. It already has some systems operational and is in the process of acquiring many others that will provide the basis for highly networked operations in the air, maritime and land environments. There may be questions about the numbers of particular systems that are being purchased, the gaps in current capabilities and the adequacy of sustainment systems in the event of intense operations. However, the logic of highly networked operations is widely accepted in the ADF and many elements are already in place.

Advances in modern warfare do, however, extend far beyond network-enabled systems and processes. The so-called revolution in military affairs requires parallel changes in at least two other dimensions; operational concepts and organisations.

It is one thing to purchase a swathe of new technology systems and even tie them together in a functioning network, however, it is something else to develop advanced operational concepts and practise innovative game-plans that provide means of delivering key effects and winning critical phases of a campaign. Again, the ADF has been giving thought to concepts that may be most appropriate to apply in a range of contingent circumstances. Australian

personnel have also taken a keen interest in the experiments and actual operations of its close allies. However, there is scope for a more systematic process of experimentation to assess and refine advanced operational concepts, particularly in demanding joint (i.e. involving all three Services) contingencies. There is also room to train ADF units more thoroughly for some of the more challenging modern operations.

A third, and perhaps the most difficult, challenge in exploiting the new military options is the modernisation of organisations and their cultures. The reality is that many current organisational structures and systems need to be altered significantly in order to make the most of highly networked operations. The challenges in this respect are analogous to the shift from horse cavalry to panzer divisions, or from battleship-driven naval task groups to aircraft carrier battle groups. The types of systems and operations changed markedly in both cases and so did the organisational structures, modes of operation and military effects. Cultures need to change in order to break traditional strongholds and allow new thinking and innovation to proceed. Similar creativity is now required of Australian defence planners, not least because optimal approaches for Australia may differ significantly from those of our allies and friends.

The potential payoffs from addressing these opportunities for greatly improved operational efficiency and effectiveness are substantial. At the operational level they can be expected to deliver:

- Information and decision superiority—or knowing far more about where everyone is in a theatre and what they are doing, and being

able to decide faster than anyone else what to do to exploit the situation.

- Freedom of manoeuvre because knowledge superiority means that the opponent's key vulnerabilities can be identified readily and, when appropriate, attacked. There are more opportunities to see potential challenges, and more opportunities to prepare appropriate responses.
- Greater economy of effort in logistics becomes feasible because it is possible to examine data about what a unit is consuming and what it is likely to require for the next operational phases. This will allow logistic agencies to deliver tailored support precisely and quickly to the unit's location, even if it is thousands of kilometres distant.

The workshop discussions on these issues recognised the benefits for Australia in pressing strongly the advantages of network-enabled operations and Australia's tailored version of the revolution in military affairs. There was strong support for mechanisms that encouraged innovative experimentation and the development of concepts and systems *via* processes of learning-by-trying and learning-by-doing. In this respect, Defence's new processes of Rapid Prototyping, Development and Evaluation (RPDE) are a welcome advance.

However there was a sense that Defence is currently under-performing and under-delivering in the field of adapting to the requirements of advanced military operations. Several reasons were suggested in workshops for the disappointing progress in this field:

- First, much of Defence's leadership, whilst periodically mouthing the need for pursuing modernisation, gives every appearance of being half-hearted. These individuals appear to be generally light on the vision of what might be possible for a modernised ADF and rarely talk about it unless prompted. It was remarked in one workshop that at their core, networked-enabled operations and the revolution in military affairs are not so much about technologies as they are about attitudes. Attitudinal or cultural change is something that the Australian Defence Organisation has always found difficult. Australia needs its defence leaders to personally oversee the development and implementation of a set of modern operational approaches that are concept-led, capability-based and experimentally and experientially sound.
- Much of the Defence Organisation continues to be driven by the Service and sub-Service 'tribes'. Groups strive for new ships of a certain type, or new types of armoured vehicles or aircraft, because they are seen to be essential to the continued power and status of their part of the Defence Organisation—whether or not a rational analysis shows that they offer an optimal means of delivering priority effects in the future. Mechanisms are needed to penalise such sub-optimal behaviour and encourage total force thinking.
- There is also a strong conservative stream within the Defence Organisation that suggests that change is not necessary until current

systems or processes fail. Several workshops noted that this 'if it ain't broke don't fix it' approach to Defence courts disaster in a future crisis.

- Defence has a track-record of paying lip-service to the need for change and then grossly under-funding any change processes that eventually emerge. The workshop discussions perceived a more strategic and excellence-driven process of rapid modernisation being required.

Finally, whilst most of the workshop discussions concerning the potential for network-enabled operations and the revolution in military affairs focussed on optimising military capabilities, some attention was also given to the potential for an even more advanced approach. Several participants thought that there were strong attractions in building a much broader national security approach into the processes of defence modernisation. In effect, it was suggested that Australia's best way ahead would not be a revolution in military affairs, as usually conceived, but rather a revolution in national security affairs.

Within this framework a much expanded menu of national security instruments would be employed creatively in order to deliver the precise effects desired by the National Security Committee. This concept was seen to have great potential if Australia's decision-makers were driven to optimise the country's national influence and power. However, it was noted that the cultural and bureaucratic obstacles to rapid and innovative progress in Defence may well be even more pronounced were the agenda for reform to also

embrace the Departments of Foreign Affairs and Trade, the Attorney-General, Immigration and Multicultural Affairs, etc. Nevertheless, given the requirements of the crisis in the Solomon Islands and the prospect of other highly complex contingencies in the future, there would appear to be a strong case for attempting to progress the modernisation of campaign planning and operations across this wider multi-agency front, whilst simultaneously accelerating the processes of modernisation within Defence.

### **OPPORTUNITY 3: BUILDING STRONGER PARTNERSHIPS WITH OTHER GOVERNMENT AGENCIES AND WITH THE WIDER COMMUNITY**

A strong theme emerging from several workshops was that the Australian Defence Organisation currently has an exceptional opportunity to forge close partnerships with a wide range of other government departments and agencies, with business and with the broader community. There are several factors driving these unusually favourable circumstances, including:

- Community recognition that terrorist and other threats can arise at short notice not only abroad, but within Australia's cities and regional communities. In short, recent events have underlined the public consensus that national security must be taken seriously.
- Many government departments and agencies at the Commonwealth, State and Local Government level have, or are, reviewing their practices and programs in the light of the

changed security circumstances. Some major corporations are also paying closer attention to security issues.

- There are numerous indications that members of the Australian public are more than usually interested in national security issues and are seeking opportunities to become better informed.
- The Australian Defence Force is perceived to have performed with great distinction in recent years. Indeed, it is one of the national institutions which the public holds in high trust and regard.
- As discussed in earlier sections of this report, the challenges confronting the Australian Defence Organisation strengthen greatly the imperative for finding new ways of accessing a wider range of civilian capacities in future crises.

Consideration of these and related issues led several workshops to conclude that Defence needed to work to develop deeper partnerships with a range of government departments and agencies, with business and also with the wider community. Workshops concluded that this would require Defence moving beyond its cultural introversion and actively establishing new initiatives along the following lines:

- Once relevant ministers gave their blessing to the planned program of public engagement and dialogue, senior officials from Defence and other relevant departments could develop priority national security themes and lines of

briefing. It would be important for the key themes to be non-political and preferably endorsed by all major political parties. Whilst Defence would have a key role to play in this, so would the Departments of the Attorney General, Foreign Affairs and Trade, Prime Minister and Cabinet, Customs, Immigration and Multicultural Affairs, Health and Ageing and possibly others.

- Second, small teams of senior officials from relevant departments and agencies (e.g. The Attorney General's Department, Defence, Australian Federal Police and State/Territory Police) would take 'road-show' briefings to capital cities and major regional centres. The focus would be on the developing security situation, the primary current and planned systems for protecting Australia, and practical implications for local communities. High level briefings would also be provided to business groups.
- In contrast to some Defence public interactions in the past, this multi-agency approach should not be designed around a one-sided dialogue. Public comments and suggestions would need to be recorded and taken seriously. On-going discussion and debate would be encouraged as part of an 'open-door' policy of public partnership. Furthermore, briefings would need to be re-tuned, updated and re-delivered at least annually.

- Behind these processes of public engagement would be a revised approach to the government's media and public relations programs in the national security field. Public organisations, media representatives and individual members of the public should be given easier access to government programs and plans and they should also periodically have opportunities to discuss national security issues with senior officials.

From the Defence perspective, these activities would help take the culture and outlook of the organisation beyond joint operations, towards embracing the broader community in whole-of-nation security thinking. In the final analysis the business of defence and national security is the interest of every Australian and it would be sensible to take advantage of the current propitious circumstances to forge closer enduring partnerships with other government agencies, with business and with the broader community. Building and sustaining this much stronger sense of national security community would provide a firmer foundation for the long-term security of the nation.

## **Is Defence Transformation Possible in Australia?**

One of the remarkable features of this investigation into the options for Australian defence transformation was that whilst the senior officials, Defence Force officers, business executives and defence analysts who participated in this project's

workshops sometimes differed on details, there was no dispute about the need for major change in the Australian Defence Organisation. Key features of the current system were viewed to be not only sub-optimal but unsustainable. Some aspects were even considered highly dangerous, rendering the Australian Defence Force and the broader Australian community unnecessarily vulnerable in a range of future crises.

Five major features of the current Defence system were found to be untenable and in urgent need of change. In addition, three important areas of opportunity were identified that, in combination, offer the prospect of improving Australia's security in 2020.

However, it is one thing to identify areas requiring priority change, but it is quite another to have confidence that such reforms will be accepted and implemented anytime soon. Indeed, the overwhelming view of the workshops was that the kinds of reform needed were most *unlikely* to be initiated from within the Defence Organisation itself. The history of Defence since the Second World War suggests that major change in its functions and operations is really only possible when imposed from outside. Major reforms have mainly occurred in response to dramatic external events, such as the Korean and Vietnam Wars, or the imposition of key people from outside with clear agendas and strong ministerial support, such as Sir Arthur Tange and Malcolm Kinnaird. In these circumstances the most credible way forward is for the National Security Committee to come to the view that major changes are required in Defence and to insist on them being made. The primary motivations would be:

- Its determination that Australia's Defence capabilities not be found to be seriously deficient in a future crisis, when important Australian interests may be at stake, and when there may be a risk of large-scale losses of Australian personnel and damage to Australia's credibility.
- A strong desire to avoid a situation where the ADF is unable to render meaningful assistance to the forces of the United States and other close allies and friends in their time of need.
- A determination to assure the Australian public that its security is being maintained, in part by taking the broader community into its confidence and facilitating public briefings and an ongoing process of national security engagement.
- A keen desire to ensure that its reputation for building a strong Australian defence capability is maintained and enhanced.

Were the National Security Committee to decide on serious Defence reform, this research suggests that there are ten key actions that deserve priority attention.

## **THE TOP TEN INITIATIVES FOR DEFENCE REFORM**

1. A recognition that the security environment in 2020 is likely to be substantially different and probably more demanding than that of today. There is a parallel need to express repeatedly

a clear vision for adapting and modernising Australia's national security systems to suit.

2. A disciplined re-structuring of the Defence Organisation so as to align management prerogatives with production outputs. Under a newly-appointed Head of the Australian Defence Organisation (either the Secretary or the CDF), a small number (five to ten) senior executives should each be allocated clear responsibilities for the delivery of specified outputs (e.g. the Head of Defence Intelligence for the delivery of specified intelligence products, the Chief of Defence Science for the delivery of specified defence science services, the Commander Joint Combat Capability for the delivery of specified high grade combat capabilities, etc). These senior executive managers would also be given authority to manage inputs so as to optimise performance. In other words, senior executives would be empowered to manage and they would be held personally responsible for their organisation's performance.

All inputs, including staff and facilities, would be priced appropriately and fall within the function's global budget. Senior executives could change structures, employ more or fewer staff, introduce or remove systems, technologies and facilities, and make other changes that may be required in order to maximise clearly specified priority outputs for an agreed total budget. If they perform well, they could expect substantial rewards and long tenures, but if they deliver poor outputs

they could expect very short postings. These changes would have a dramatic impact on Defence's culture, drive substantial efficiencies (including in personnel) consign most internal rivalries to history and produce a far more focussed, professional and capable defence system.

3. A recognition that for Defence's performance to be world class, staff need to be encouraged to develop deep expertise in one or more critical fields—such as defence project management, strategic and operational analysis, intelligence analysis, defence financial management, operational command and control, etc. Career planning and progression needs to be managed to encourage mastery in at least one of these key disciplines, while posting cycles for both service and civilian personnel need to be lengthened to facilitate the achievement of higher-order expertise and the routine delivery of higher quality outputs.
4. Defence's leadership must insist on the very highest standards of service and civilian officer education. Defence education programs need to be led by world-class educators in appropriate fields. For service and civilian personnel alike, the achievement of high course results and true professional mastery should be a pre-requisite for advancement. Defence staff colleges and other high-level educational institutions should be led by some of the Defence Organisation's best, brightest and most innovative personnel. Defence's

leadership should insist that these establishments become thriving centres of intellectual discourse on matters relevant to the profession of arms, and international and national security planning and administration. Indeed, these establishments should become the leading centres of security excellence in the Asia-Pacific and Indian Ocean regions. This priority should recognise that Australia's security in coming decades will require the very highest quality Defence personnel.

5. The current Defence personnel model is both unsustainable and suboptimal. There is a need to relax many of the Defence Force's current age restrictions and focus instead on recruiting and retaining personnel with the physical and mental competencies to perform the specified duties—almost regardless of age. There is also a need to make more extensive use of lateral recruitment, and to exercise more discipline when creating new positions.

In future national security crises, Defence will need to be able to engage effectively much larger numbers of people with a far wider range of skills than is currently possible. Amongst the innovations required is the raising of two new categories of highly-skilled Defence reserves:

- a. A *National Security Education Initiative* would encourage full-time tertiary students to enrol for some twelve months full-time training, supplemented by four weeks annual training for a

- further six years. Students would be well paid and also have their tertiary study funded by Defence. This initiative would generate highly trained, ready reinforcements for the ADF's permanent forces at a comparatively modest cost.
- b. A new category of *Specialist Reserve* would be recruited to facilitate the use of much larger numbers of transport, information technology, medical, construction and other specialists in future crises. These *Specialist Reserves* would expand greatly the flexibility of the ADF to deal with the much more diverse challenges anticipated in coming decades at a low cost.
6. Australia needs to develop a larger and more flexible range of national security instruments so as to shape the international environment in Australia's favour and to plan and conduct campaigns to defeat any future state or non-state opponent. Moreover, the National Security Committee needs to be given additional support in order to facilitate timely and effective decision-making in the types of fast-moving, complex crises that are anticipated in coming decades.
  7. It will be important for the National Security Committee to focus its attention increasingly on the clear definition of the country's strategic objectives; and the selection and application of diplomatic, economic, military and other instruments so as to deliver key effects. The

Committee's oversight of the development of Defence and broader national security capabilities would be simplified were the Defence Organisation to develop, test and cost complete alternative defence structures, with varying capabilities and price tags, for the National Security Committee to consider on a rolling two or three yearly basis. This innovation would help the National Security Committee on key strategic goals and outputs whilst simultaneously providing a more effective framework for guiding defence force structure development.

8. There would be vast benefits for Australian security were Defence and associated departments and agencies to embrace more enthusiastically the opportunities now provided by network-enabled operations and the revolution in national security affairs. Whilst some progress has been made in these fields, an enormous amount remains to be done. Australian versions of these modern operational concepts, if concept-led, capability-based and experimentally and experientially sound, would have the potential to magnify dramatically the power of the operational effects Australia could deliver. In essence, they could help overcome the country's perennial problem of small numbers and vast geographical scale.
9. There is a strong case for Commonwealth national security agencies to engage appropriate state and local governments, as well as business and broader community

organisations, in basic planning for priority national security crises. Part of this effort should be to brief and discuss the nature and implications of potential security challenges, while engaging broader society in planning for crisis responses in, for instance, the health and hospital system, transport systems, and energy system. These sectoral crisis plans should be endorsed tested periodically to ensure that appropriate levels of proficiency are reached and maintained. Disruption to business and the broader society would be minimal, but national resilience in crisis situations would be enhanced substantially.

10. The Defence and national security budget needs to be increased to compensate for the real rates of cost growth in personnel and capital equipment. Whilst the Australian Government has kept its promise of boosting defence expenditure by 3 per cent per annum, the real growth rate of capital equipment costs has been 3-9 per cent, depending on the equipment type, and the real cost growth of defence personnel has risen by an average of 6 per cent per annum. Unless the defence and national security budget takes full account of these trends, the real value of Australia's defence expenditure will be further eroded and the country's national security capabilities will decline. There is an urgent need for an increase in defence expenditure to permit the essential elements of Defence modernisation to proceed.

## **THE TOP 10 INITIATIVES FOR DEFENCE REFORM**

1. Recognise that the 2020 security environment will be different and probably more demanding than today's and plan accordingly.
2. Re-structure Defence to align management prerogatives with production outputs, under a newly-appointed Head of the Australian Defence.
3. Encourage staff to develop deep expertise in one or more critical fields.
4. Insist on the very highest standards of service and civilian officer education.
5. Reform the personnel system in terms of age restrictions, establishment gaps, lateral recruiting and reserve service categories.
6. Develop a larger and more flexible range of national security instruments.
7. Define Australia's strategic objectives and provide government with the option of considering periodically alternative complete defence force structures to drive capability development.
8. Embrace the opportunities provided by network-enabled operations and the revolution in national security affairs.
9. Engage appropriate state and local government authorities, as well as business and broader community organisations, in basic planning for priority national security crises.
10. Increase the Defence and broader national security budget to compensate for the real growth in personnel, equipment and related costs.

## Defence Transformation or Reform?

The senior military and civilian officials, business people and other experts who participated in this project perceived the need for substantial change in the way that Australia develops and employs its defence and broader national security capabilities. But is the best way ahead a dramatic transformation or, rather, a gradual process of defence reform?

Almost all participants in this project saw a need for transformational change in Defence's personnel system, management and culture, operational concepts and a number of other fields. Current approaches and systems are clearly inadequate for the challenges anticipated and major transformational changes are required.

However, the *processes* of change need not be revolutionary. Many of this report's proposals would take years to implement and, in some areas, the precise nature of change could only be defined after testing and experimentation. Nevertheless, momentum in implementation would be critical.

So is the requirement for transformation or reform? Both have key roles to play. The end result must be a transformed and markedly improved defence system focused on the delivery of priority security effects. In this sense, there is a need for a new 'system of affairs' within Defence and for people to be imbued with a transformational mindset. However, it would be best if most of the changes required could be implemented in an evolutionary and carefully phased manner, so as not to disrupt on-going priority activities.

## **The Kokoda Foundation**

The Kokoda Foundation has been established as an independent, not-for-profit think tank to research and foster innovative thinking on Australia's future security challenges. The foundation's priorities are:

- To conduct quality research on security issues commissioned by public and private sector organisations.
- To foster innovative thinking on Australia's future security challenges.
- To publish quality papers (*The Kokoda Papers*) on issues relevant to Australia's security challenges.
- To develop *Security Challenges* as the leading refereed journal in the field.
- To encourage and, where appropriate, mentor a new generation of advanced strategic thinkers.
- Encourage research contributions by current and retired senior officials, business people and others with relevant expertise.

## **Membership**

The Kokoda Foundation offers corporate, full and student memberships to those with an interest in Australia's future security challenges. Membership provides first-release access to the *Kokoda Papers* and the refereed journal, *Security Challenges*, and invitations to Foundation events. Membership applications can be obtained by calling +61 2 6230 5563, and downloaded from <http://www.kokodafoundation.org/join/join.htm>.