

# Steady as she goes?

2019-20 FEDERAL BUDGET: DEFENCE AND NATIONAL  
SECURITY REVIEW

APRIL 2019 | Synergy Group Australia  
*Strategy, Defence & National Security Practice*



## STEADY AS SHE GOES?

The two major parties have used the 2019-20 Federal Budget week as an opportunity to launch their respective campaigns ahead of a May Federal election. For Defence, it's 'steady as she goes', with no surprises and continued investment in key projects identified in the 2016 Defence White Paper, and both sides recommitting to achieve the Defence spending goal of 2% of GDP by 2020-21.

Both parties recognise the radically shifting regional security environment that Australia's defence forces and intelligence and security agencies now operate in, with relevant policies largely bipartisan. With the recent renewed focus on foreign interference and cyber security, the Government has also announced significant boosts to the AFP and ASIO.

## KEY DEFENCE & NATIONAL SECURITY BUDGET IMPLICATIONS

The Government is on track to achieve its goal of investing 2% of GDP on Defence. There will be around a \$3b increase in spending over financial year 2020-21 as Defence looks to commence several projects aimed at the regeneration of key capabilities. This spending will come with the ongoing scrutiny of Defence to spend efficiently and effectively.

The growing security threats and heightened geostrategic competition in our region underpins a shift in focus from the Middle East to regional security that will require strategic policy planning and targeted funding across the defence, intelligence and national security sectors to ensure government objectives are met.

The Government's additional focus on cyber security and countering foreign interference and terrorism sees significant boosts to intelligence and security services in recognition of the increasingly complex national security environment. To deliver against this, Australia's intelligence and security agencies have received a \$571m funding boost in the Government's Budget, with a strong focus on counter-terrorism and cyber security. The creation of a Cyber Security Response Fund, as well as an increased budget focus on cyber security future workforce skills and training, reinforces the Government's commitment to building Australia's cyber resilience capabilities.

## WHAT WE CAN EXPECT

The Coalition Government's continued focus on bolstering Australia's sovereign defence industry and infrastructure, and the forecasted increase in the Defence budget presents an opportunity to industry partners who can deliver good value, clearly defined Defence projects and programs. However, it also presents some challenges to the public sector. Reaching the stated 2% of GDP target by financial year 2020-21 will attract greater levels of public scrutiny of Defence spending. Strategic planning and efficacy in decision-making across multiple projects, programs and portfolios will be critical to defence and national security leaders to achieve Government spending objectives.

As both parties' election campaigns unfold, we are likely to see more detail in key policies in the defence and national security portfolios, including immigration, border protection, defence industry spending and potential machinery of government changes.



**MICHAEL MAHY**, ACCOUNT LEAD

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**SEAN WORTH**, ACCOUNT LEAD

A handwritten signature in black ink, appearing to read 'S. Worth', with a horizontal line underneath.

# DEFENCE & DEFENCE INDUSTRY

## Government's 2019-20 Budget

- **The Integrated Investment Program** will receive \$200b over the next decade, including the \$90b continuous shipbuilding program, as well as JSF and P-8A Poseidon acquisitions.
- **Defence infrastructure** – including capital sustainment projects and new facilities – will receive \$4.9b; while **Defence IT** will receive \$864m in acquisition and \$1.3b in sustainment.
- **Major capital investment program** will receive \$8.7b, for a total of \$11.8b in new programs across Defence.
- **New Defence Capabilities** will receive \$47.5b, which includes phased funding for the \$50b Attack class submarine program, \$35b for 9 Hunter class frigates, unmanned maritime patrol aircraft including an initial \$1.4b investment to acquire the MQ-4C Triton, \$1b Integrated Soldier Systems, and the first tranche of the \$1.1b Defence Fuel Transformation Program.
- **Regional security** will see a renewed focus, including supporting the Pacific Step-Up and increased support in Southeast Asia. This will include continued investment in Guardian Class patrol boats and a \$2.25b Australia-Singapore Military Training Initiative
- **Defence Industry** will receive funding through support programs including the Industry Participation Plan and the Defence Industry STEM Strategy as well as a number of **grant programs**. The grant programs include: the \$4.1m-a-year Defence Global Competitiveness Grant; the \$17m-a-year Sovereign Industrial Capability Grant; and continued investment in the Defence Innovation Hub.
- **Australian Troops** in Iraq and Syria will be drawn down, reducing the cost of overseas deployments to \$703m in 2019-20. Although there are no operations with substantial funding growth, **national support tasks** (including regional security, border protection, counter-terrorism, search and rescue, and disaster relief) will see an increase in Defence contribution by \$27m in 2019-20.
- **Defence APS staff** will see a boost of 262 personnel; while the **Department of Veterans Affairs** will be cut by 108 through use of shared services.
- **Veterans** and their families also retained a focus in the Budget, with \$24.4m over 4 years from 2019-20.

## KEY INSIGHTS

Void of any surprises, the Coalition's Budget signals an overall adherence to its 2016 Defence White Paper and Integrated Investment Program funding commitments, heralding overall good news for Defence and its industry partners. The Defence Budget will sit on 1.93% of GDP - \$38.7b, up from \$36.4b last year - and is on track to meet its 2% target by 2020-21. The Government has announced spending over the next decade of \$200b to deliver the Integrated Investment Program, which includes already-committed funds for major acquisition projects, including the JSF and LA, and \$90b on shipbuilding.

An increase of \$3b to reach the 2% of GDP target by financial year 2020-21 will attract greater levels of public scrutiny of Defence spending. Strategic planning, efficacy in decision-making and a focus on clearly defining requirements and investment priorities to Cabinet will increasingly be required over the next decade.

Personnel numbers across Defence are also steadily increasing, including with its civilian staff seeing the fourth largest employee boost in the APS, up 262 to meet the demands for intelligence, space and cyber security capabilities and naval shipbuilding. This will alleviate initial pressures on workforce capacity and capabilities, however as the global security environment continues to evolve, continuous and iterative strategic planning around Defence's military and civilian workforce will be required.

Additionally, the recent lowering of the Australian Industry Capability threshold down to \$4m for materiel and non-materiel procurements and \$7.5m for the procurement of construction services spell significant opportunities for Industry partners who can deliver the wide range of Defence's procurement activities as it sees a major spending increase to 2020-21.

# NATIONAL SECURITY & RESILIENCE

## Government's 2019-20 Budget

- **AFP** will receive a \$512m increase over the next 5 years for counter-terrorism, including for anti-drone technology.
- **ASIO** will receive a \$58m increase to tackle increasingly complex national security, terrorism and espionage threats.
- \$34.8m has been allocated to counter foreign interference, including to fund the establishment of a **Foreign Interference Threat Assessment Centre** run by ASIO and the AFP; and a further \$3.9m of existing departmental funding set aside to create a 'diplomatic strategy' with international partners to counter threats.
- The Medevac bill will be repealed, setting aside only \$23.7m in 2019-20 for the Christmas Island facilities with a view for the legislation repeal by July 1 and the re-transfer of **asylum seekers** to Nauru and Manus Island.
- **Operation Sovereign Borders** will see Defence contribute an extra \$6m; and there will be continued investment in the **Regional Cooperation Arrangement** in Indonesia, providing \$39.5 in assistance.
- **Department of Home Affairs** will see the second largest boost in APS numbers, up 425 employees; and the **AFP** with the third largest, up 312. Intelligence agencies **ASIO and ASIC** will see staffing boosts of 107 and 108 respectively.
- The **Safer Communities Fund** has received a \$35.1m boost following the Christchurch attack, extending the Fund out to 2022-23. This will be on top of \$55m security upgrades already announced after Christchurch.
- \$132.2m over the next 5 years will be provided to deliver initiatives to reduce **disaster risk** and improve risk information
- An **Emergency Respond Fund** will be established to fund national disaster recovery and response initiatives, with an initial capital of \$3.9b, with up to \$150m available annually.

### KEY INSIGHTS

The Government's \$571m injection and associated staff increases into the AFP and ASIO's funding for countering terrorism and foreign interference clearly reflect the growing complexities in the intelligence and security space. Countering foreign influence and interference are highlights this year, with a new Foreign Interference Threat Assessment Centre, and a continued focus on increasing Australia's strategic footprint and influence in the Pacific amid geostrategic competition and influence in the region. This includes \$6.2m over 4 years to boost Fiji's border security, building Fiji's Blackrock police training camp, and boosting security cooperation with Vanuatu and the Solomon Islands.

It is a timely recognition of the growing risks around foreign interference, particularly in the lead up to a federal election, as well as the heightened international security awareness in our region, as threats ranging from extremism, to foreign influence continue to make the Pacific and Southeast Asian region a national security priority.

# CYBER SECURITY & SPACE

## Government's 2019-20 Budget

- The creation of **cyber security 'SPRINT teams'** to counter foreign interference and espionage and protect sensitive government data.
- The creation of a **Cyber Security Response Fund** with an undisclosed 5-year funding commitment within the **Australian Cyber Security Centre**.
- **Australian Information Officer** will receive a \$25m boost to investigate privacy breaches and social media networks
- Under ASD, the **Foreign Signals Intelligence, Cyber Security and Offensive Cyber Operations** program will expend \$833m in 2019-20, with a plan to increase it by nearly \$20m by 2022-23.
- Home Affairs will receive \$1.8m for 'digital engagement' initiatives to counter violent extremism.
- As part of the Government's \$525.3m **Delivering Skills for Today and Tomorrow** package, training packages will be developed across sectors including IT, communications and cyber security.
- A **National Skills Commission** will be established to oversee the \$2.8b annual investment in VET funding, to drive research and analysis of future skills across industry to ensure market priorities are addressed, including around automation and AI.
- **Academic Centres of Cyber Security Excellence** will receive \$488,000 in 2019-20.
- The pilot program to **digitise Australia's employment services model** will see a \$250m boost over the next 5 years.
- A new **national Space Infrastructure Fund** will receive \$19.5m to support the emerging domestic space industry, including \$2m for space manufacturing capability in NSW, and a \$6m Mission Control Centre in SA.

### KEY INSIGHTS

Following the cyber-attacks on the Parliament House network by foreign spies in February, the Government is focussing on anti-cyber espionage measures and online privacy through a number of funding boosts, the creation of cyber security 'SPRINT teams' and the Cyber Security Response Fund. Despite the lack of funding disclosure for the SPRINT teams and the Fund due to 'national security concerns', its emphasis in this week's Budget is significant.

The Government's greater focus on cyber security skills and training also indicates an increased focus on building a workforce with the necessary capabilities to support an advanced defence and national security cyber force – a welcome move for a sector in a staff and skills drought. How effectively it will improve Australia's cyber workforce capability and resourcing will be the thing to watch across Defence and the intelligence communities.

The \$19.5m funding injection over 4 years for the space industry through the new national Space Infrastructure Fund is a necessary investment boost but unlikely to significantly advance the Government's objective of tripling the size of the sector to \$12b by 2030.

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