

# Defence industry in the 2023-24 Budget

**Defence spending will stay at around 2.0% of GDP** over the forward estimates, and will raise to 2.3% of GDP by 2032-33.

**Forward funding on defence capabilities declines in real terms** to 2025-26 due to elevated levels of inflation.

The government will invest **\$19 billion to implement the immediate priorities identified in the DSR** over the next four years, achieved through redirections and offsets.

**The outlook for Australian defence industry hinges on key program and capability reviews** that the government is currently conducting.

**On May 9**, the Commonwealth Government handed down its first budget since the Defence Strategic Review (DSR) was released. This document outlines key highlights and implications that will shape the future of the Australian defence industry.

## Defence resourcing outlook

**The total resourcing for Defence to 2025-26 is \$172 billion**, or 2.5% ahead of the \$168 billion budgeted by the previous government over the same period. The 2023-24 budget shows that:

- **Defence spending will stay at around 2.0% of GDP** over the forward estimates until 2026-27, as per its long-term trajectory.
- **Additional spending** to implement the DSR recommendations **will raise to 2.3% of GDP by 2032-33** based on current projections.

## Defence Strategic Review Funding

**Over the next four years**, the government will invest \$19 billion to implement the immediate priorities identified in the DSR, delivered within Defence's existing resourcing and a \$7.8 billion reprioritisation of the Defence Integrated Investment Program. Funding includes:

- **\$9 billion** for the nuclear-powered submarine program through AUKUS.
- **\$4.1 billion** for long-range strike capabilities: \$1.6bn for accelerating long-range strike capabilities and \$2.5bn for local production of guided weapons.
- **\$3.8 billion** for northern base infrastructure.
- **\$400 million** to support ADF personnel through a new continuation bonus.
- **\$900 million** on defence innovation

## New capabilities' capital spending hit by inflation

- Defence spending on new capabilities until 2025-26 will be 1.9% lower in real terms than the April 2022-23 budget.
- While nominal spending on sustainment will increase by 1.7% and operational spending will rise by 2.4%, high inflation has seen these nominal increases result in lower real spending values.

## Defence industry projects announced in the budget

### Nuclear-powered submarine program – initial implementation

- **\$4.5 billion** over ten years (and \$482.7 million per year ongoing) to support the initial steps to acquire nuclear-powered submarine capability. Funding includes:
- **\$4.2 billion** to establish a new Australian Submarine Agency (ASA) and several other regulatory reforms, and forms part of the whole-of-program cost over the decade.
- AUKUS is a long-term program and the budget up to 2026-27 covers only the initial spending on submarines.
- Defence's portfolio budget statement shows that an initial commitment is expected to reach **\$5.6 billion over the next four years**. The statement shows \$515 million will be spent on submarines in 2023-24 with a big payment of \$3.7 billion in 2025-26.

### Advanced Strategic Capabilities Accelerator

- **The measure provides \$748.4 million to 2026-27** and \$3.4 billion over ten years to establish the Advanced Strategic Capabilities Accelerator (ASCA).
- The government has tasked the accelerator program with developing cutting-edge technologies for use by the military.
- Priorities for the program are hypersonics, directed energy, trusted autonomy, quantum technology, information warfare and long-range fires.

### Recognising the Australian Defence Force's Unique Service to the Nation

- **\$397.4 million to pilot a \$50,000 continuation bonus** for ADF personnel nearing the completion of service if they serve another three years.
- The bonus will be implemented from 2024 and reviewed after two years.
- The ADF is currently experiencing a shortage of servicemen and women and has failed to meet recruitment targets consistently since the release of the 2016 Defence White Paper.

### Extension of Defence Industry Pathways Program

- **\$11.4 million over three years** to extend the Defence Industry Pathways Program within the Western Australian shipbuilding sector.
- The Program provides 12-month skills development opportunities through which participants gain an understanding of the defence industry and obtain a nationally accredited Certificate III qualification.

## Outlook: Key reviews still to come

- **The outlook for the defence industry hinges on key reviews** the government is currently conducting that will inform crucial decisions on:
- The make-up of the Navy fleet when a surface combatant review is delivered in Q3 2023.
- Options to increase guided weapons and explosive ordnance stocks, including domestic manufacturing, when a review is delivered in Q2 2024.
- Long-term priorities attached to ongoing capability acquisition programs considering the revised strategic priorities identified in the DSR