



Australian Government

Department of Defence

ANNUAL REPORT 2004-05

DEFENDING AUSTRALIA AND ITS NATIONAL INTERESTS

Guide to the Report

The format and content of this annual report reflects the requirements developed by the Department of the Prime Minister and Cabinet and approved by the Joint Committee of Public Accounts and Audit in June 2005 under subsections 63(2) and 70(2) of the *Public Service Act 1999*.

The *Defence Annual Report 2004-05* addresses the Department of Defence and the Australian Defence Force (ADF), which are collectively referred to as 'Defence'. The Department of Veterans' Affairs and the Defence Housing Authority, which are parts of the Defence Portfolio, have separate annual reports. The Australian Strategic Policy Institute, funded substantially by Defence, is a Government-owned company incorporated under the *Corporations Act 2001* and has a separate annual report.

Annual reports and portfolio budget and additional estimates statements are the principal formal accountability mechanisms between the Government, departments and the Parliament. Portfolio budget statements set out performance targets for departmental outputs. Portfolio additional estimates may contain revised targets and annual reports describe achievement against those targets.

In addition, Defence's annual reports are designed to link performance during the year under review with performance forecasts contained in the portfolio budget statements for the following year.

Style Conventions

The following notation may be used:

-	nil
n/a	not applicable (unless otherwise specified)
\$m	\$ million

Figures in tables and in the text may be rounded. Figures in text are generally rounded to one decimal place, whereas figures in tables are generally rounded to the nearest thousand or million. Discrepancies in tables between totals and sums of components are due to rounding.

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Australian Government
Department of Defence

Senator the Hon Robert Hill
Minister for Defence
Parliament House

04 NOV 2005

Dear Minister

We hereby present the annual report of the Department of Defence for the year ended 30 June 2005. This report has been prepared in accordance with Section 63 of the *Public Service Act 1999*.

Subsection 63(1) of the Act requires that our report to you be tabled in the Parliament.

The report summarises the performance of Defence for 2004-05, and includes other mandatory information required by legislation.

In accordance with Section 45 of the *Financial Management and Accountability Act 1997* and pursuant to Regulation 19 of that Act, we are satisfied that Defence has prepared appropriate fraud risk assessments and fraud control plans, and has in place appropriate fraud prevention, detection, investigation and reporting procedures and processes that meet the specific needs of Defence and comply with the Commonwealth Fraud Control Guidelines 2002.

Yours sincerely

Handwritten signature of R C Smith in black ink.

R C Smith AO, PSM
Secretary
Department of Defence

Handwritten signature of A G Houston in black ink.

A G Houston AO, AFC
Air Chief Marshal
Chief of the Defence Force



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Corrections to the Defence Annual Report

Cumulative Expenditure on Major and Medium Capital Facilities Projects

The cumulative expenditure figures for major and medium capital facilities projects as at 30 June 2004 were erroneously reported in the *Portfolio Additional Estimates Statements 2004-05* (pp. 33-4 and 41-4) and the *Defence Annual Report 2003-04* (pp. 241-2 and 250-53).

Major Capital Facilities Projects¹

	Cumulative Expenditure to 30 June 2004 \$m	Correct figure \$m
Richmond - RAAF Richmond Reinvestment	0.685	1.627

Medium Capital Facilities Projects²

	Cumulative Expenditure to 30 June 2004 \$'000	Correct figure \$'000
Holsworthy – Interim Special Forces Works	3,100	1,682
Townsville - Combat Training Centre (Live Simulation Range Storage and Maintenance Facility)	-	16
Bathurst Island – Tactical Air Defence Radar System	14	261
Katherine - RAAF Tindal - Vehicle Shelters	465	758
Darwin - Vehicle Shelters	850	558

Continued Commitment to High Priority People Initiatives

Table 5.20 - *High Priority People Initiatives* of the *Defence Annual Report 2003-04* incorrectly reported the variation between the total funding allocated and actual expenditure as \$3.122m. The correct figure was \$7.742m.

Advertising and Market Research

The correct amount paid to Worthington Di Marzio for Market Research in 2003-04 by the Public Affairs and Corporate Communication organisation was \$76,900. This figure was incorrectly reported on p. 474 of the *Defence Annual Report 2003-04* as \$38,450.

The columns in the following tables were incorrectly designated with the monetary value of \$'000. The correct designation was \$.

- Table 7.22 - *Total Advertising and Market Research Expenditure by Type of Agency* (p. 472)
- Table 7.23 - *Total Advertising and Market Research Expenditure by Group* (p. 472)

¹ Corrected figures marked in footnote 4 of Table 2.3 – *Approved Major Capital Facilities Projects by State and Federal Electorate* (p. 73).

² Corrected figure marked in footnote 4 of Table 2.5 – *Approved Medium Capital Facilities by State and Federal Electorate* (p. 81).

- Table 7.24 - *Particulars of Payments by Group for Advertising and Market Research* (pp. 473-477)

Consultancies

The number of consultancies reported in Table 7.20 - *Use of Consultancies by Defence Group* (p. 450 of the *Defence Annual Report 2003-04*) reported an incorrect number and total expenditure of consultancies used by Defence Materiel Organisation in 2003-04. The correct number was 107 contracts valued at \$3,932,722.

The following entries were erroneously omitted from previous annual reports due to incorrect coding of payments:

Name	Purpose	Total Amount Paid \$	Justification ⁽¹⁾
2002-03			
Intelligence and Security			
Value Creation Group	Development of a customer engagement and survey strategy	4,544	1
2001-02			
Intelligence and Security			
Value Creation Group	Development of a customer engagement and survey strategy	100,380	1
Strategy			
Value Creation Group	Development of a policy evaluation model	22,000	1
2000-01			
Corporate Service and Infrastructure			
Value Creation Group	Senior workshop facilitation for executive and the planning and design of regional workshops	73,091	1
Strategy			
Value Creation Group	Development of a policy evaluation model	32,361	1

Note

1. Justification 1 refers to specialised skills or services required not available within Defence.

Therefore, the total expenditure by Defence on consultants in:

- 2000-01 was \$6,072,021;
- 2001-02 was \$7,693,455; and
- 2002-03 was \$14,705,418.

CHAPTER ONE

OVERVIEW

This chapter provides an overview of Defence and its performance during 2004-05. The chapter includes a review of the year by the Secretary and the Chief of the Defence Force.



Year in Review by the Secretary and the Chief of the Defence Force

Financial Overview

Program of Administrative Savings

Asset Management

Progress on Financial Statements Remediation Plans

Corporate Governance

Year in Review by the Secretary and the Chief of the Defence Force

The year in review saw a continued strong focus on a military operations, procurement reform, and financial management remediation. Particular attention was also accorded to military justice, intelligence reform and issues of Australian Defence Force (ADF) recruitment and retention.

Operations

The ADF's performance in a wide range of military operations and other tasks directed by the Government in 2004-05 again reflected well on Australia.

The ADF was involved in 17 offshore operations during the year, and at 30 June 2005 some 1,700 Defence personnel remained deployed on eight significant operations around the world including in Iraq and the Gulf, the Solomon Islands, Sudan, Timor-Leste and northern Australia and its approaches.

Our presence in Iraq was strengthened in 2004-05 with the deployment of a 450-strong Task Group to the Al Muthanna province in May. As at 30 June 2005, about 1,340 Defence personnel were deployed in the Middle East Area of Operations in the National and Coalition Headquarters; the Maritime, P-3 Orion, C-130 Hercules and Al Muthanna Task Groups; in Medical and Air Traffic Control detachments; and in Training Teams working with the Iraqi Security Force.

During the first months of 2005, Defence played a significant role, under the auspices of Operations Sumatra Assist and Thai Assist, in the Australian response to the tragic aftermath of the South-East Asian tsunami. Our main focus was on the Indonesian province of Sumatra. The humanitarian support provided, demanding as it was on our personnel as they worked amidst the distress of the Indonesian people, was one of Defence's most significant achievements for the year. Our satisfaction with the job done was tempered by the tragic loss of nine ADF personnel, and the injuries suffered by two others, in the helicopter crash on Nias in early April.

Australia's peacekeeping role in Timor-Leste, under Operation Spire, concluded with the end of the operation in May 2005, though Defence remains engaged with the United Nations there through the inclusion of three ADF personnel in a new mission known as the United Nations Office in Timor-Leste. Support will also continue in the form of the Defence Cooperation Program, in which 27 ADF personnel will provide training and advice to assist in the development of a sustained East Timor Defence Force to contribute to national and regional security. The ADF's involvement in Timor-Leste commenced in 1999 and saw the deployment of more than 5,000 personnel over a period of five and a half years.

In March 2005, the Minister for Defence, Senator Robert Hill, and the Minister for Justice and Customs, Senator Chris Ellison, officially opened the Joint Offshore Protection Command. The establishment of this Command has already enabled a more effective, efficient and coherent whole-of-Government approach to the various high priority operations currently conducted in our offshore area to protect Australia's national interests. The augmented patrols commenced on 30 March, and agreement has been reached on key elements of the future direction and the supporting legislative framework.



YEAR IN REVIEW | SPECIAL FEATURE

OPERATION SUMATRA ASSIST

Following both the 2004 South-East Asian tsunami and the March 2005 earthquake, Defence played a vital role in the Australian Government's national humanitarian relief effort to Indonesia. During this event, Defence demonstrated not only its effectiveness in a whole-of-government context, but also its capacity to provide an integrated and coordinated response through the combined effort of the ADF and a number of Defence Groups.

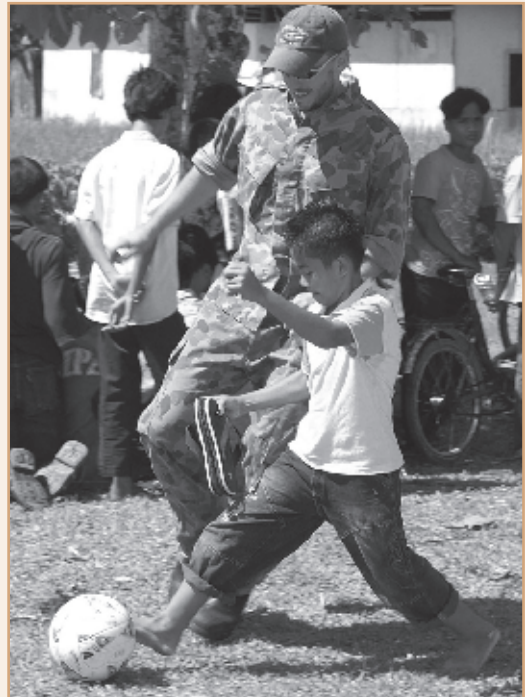
Operation Sumatra Assist, and Sumatra Assist Phase II, was the ADF's contribution to the Australian Government effort to provide assistance to people affected by the tsunami disaster and the earthquake. Sadly, nine ADF members lost their lives in a tragic helicopter accident on the 2 April 2005 during Operation Sumatra Assist Phase II.

Relief assistance provided by Australia was part of a cooperative effort involving the ADF, the Department of Foreign Affairs and Trade and Emergency Management Australia.

I bring Indonesia's message of heartfelt thanks and gratitude, especially from the people of Aceh and North Sumatra, for the generous contribution and acts of compassion and solidarity shown by the people and Government of Australia immediately after the tsunami.

I salute the soldiers of the Australian Defence Forces and the Australian relief workers, who worked tirelessly side by side with the Indonesian military, during the emergency relief operations.

His Excellency Dr Susilo Bambang Yudhoyono
President of the Republic of Indonesia
Parliament House, Canberra
4 April 2005



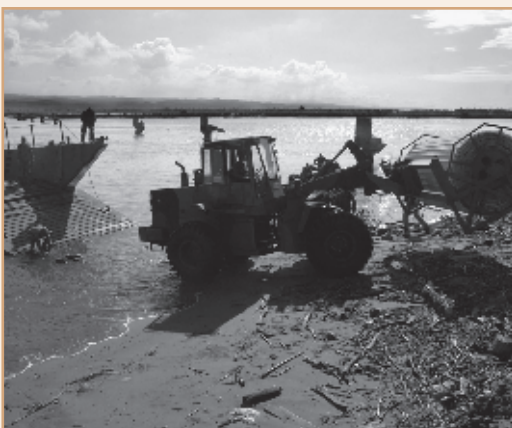
A shore party of sailors from HMAS Kanimbla nicknamed the "Kindergarten Cops" play soccer with children of the earthquake-damaged town of Lahewa, on Nias island, to keep them entertained while Kanimbla's medics run a clinic attending to the injured.

Within 36 hours of hearing the news of the impact of the tsunami, Defence had dispatched initial personnel and emergency supplies to Indonesia. In consultation with the Department of Foreign Affairs and Trade and AusAid, and working with the Indonesian Armed Forces and other foreign force elements in Sumatra, advisers were sent to assist local commanders, and various local command centres were established. This was a complex, but very successful, whole-of-Defence operation.

Banda Aceh and surrounds was one of the worst affected areas. Many of the emergency-services for the region had been destroyed and there was no sanitation, food or running water. The hospital was completely unusable, filled with mud, and the equipment rendered useless. Within days of the disaster, ADF Army engineers had established a clean water supply, which worked around the clock to supply the thousands of survivors with limited clean water. In addition, the ADF established the ANZAC Field Hospital, a field hospital operated jointly by medical personnel of the ADF and the New Zealand Defence Force. The early establishment of these types of services played a significant role in averting a major outbreak of disease.

The ADF's achievements during Operation Sumatra Assist included:

- distributing 1,200 tonnes of humanitarian aid by air,
- undertaking 70 aero-medical evacuations,
- providing air transport for 2,530 people,
- providing 3,700 medical treatments,
- producing 4.7 million litres of clean water,
- clearing 9,000 cubic metres of debris and 1,700 large drains, and
- salvaging six large fishing boats.



Australian Army Engineers take their equipment ashore to support tsunami relief and reconstruction at Banda Aceh, Indonesia.



Members of the 1st Combat Engineer Regiment (ICER) are assisting the people of Banda Aceh by removing fishing boats and debris swept into the city.

After another earthquake in March, two C-130 aircraft were dispatched with medical supplies, bottled water, tarpaulins, rations and water purification tablets. This was followed by a 43-strong medical team to provide surgery, intensive care, X-ray, pathology and post-operative care.

HMAS *Kanimbla*, an amphibious transport ship with a well-equipped medical facility, was also diverted, from Singapore enroute to Australia, to provide assistance to the earthquake victims.

Again under trying circumstances, during Operation Sumatra Assist Phase II, the ADF:

- delivered 133 tonnes of rice,
- provided 5,000 litres of water,
- provided medical treatment to 570 people,
- conducted 13 Surgical and further treatments on board HMAS *Kanimbla*,
- undertook seven Sea King aero-medical evacuations,
- repaired the Lahewa town water pump and generator, and
- moved over 138 tonnes of stores by C-130 Hercules.

Intelligence Reform

The Government's agreement in July 2004 to all but one of the recommendations of a report by Mr Philip Flood led to significant changes in the management of Defence's intelligence responsibilities, and will continue to drive change in the future. The key issues for Defence were the refocusing of the Defence Intelligence Organisation towards meeting strategic-level Defence requirements, particularly in support of military operations; and the requirement to amend relevant intelligence legislation to include the Defence Imagery and Geospatial Organisation, and to bring all intelligence agencies under the scrutiny of the Parliamentary Joint Committee on ASIO, ASIS and the DSD. Defence has since increased the number of ADF personnel posted to Defence intelligence agencies.

Capability Development, Acquisition and Sustainment

There have been continued improvements in capability development, acquisition and sustainment flowing from progressive implementation of key recommendations of the Defence Procurement Review, headed by Mr Malcolm Kinnaird AO and agreed by the Government in September 2003.

The Capability Development Group, established in 2004 under Lieutenant General David Hurley, was consolidated in this, the first full year of the two-pass capability development process, and is contributing effectively to better pre-approval project definition.

Prescribed agency status was achieved for the Defence Materiel Organisation (DMO) on 1 July 2005. The huge and technically complex undertaking of separating the DMO's accounts from those of the rest of Defence was well managed and a credit to all involved. In future years, the DMO's accounts will be presented separately. This will enable the DMO to operate in a more business-like manner, focusing on, and being accountable for, the delivery and sustainment of Defence equipment.

The DMO is also upskilling its staff to improve the management of its business, and has selected project managers to drive the delivery of acquisition projects on time, within budget and to the required specification.

Financial Management

Defence's financial statements for 2004-05 are set out fully in this report. The Secretary and Acting Chief Finance Officer again concluded this year, as in 2003-04, that they could not attest that the overall statements were true and fairly stated. Again, however, they considered that the results in terms of cash management, receivables, revenues from government, and specialist military equipment exclusive of repairable items were fairly stated. They also considered that the value of land and buildings was fairly stated.

While the overall result remains disappointing, it does reflect improvement on the 2003-04 statements. The total value of the uncertainty has been reduced, and the qualification on land and building values removed. As well, 53 of last year's 95 audit findings were submitted to the Australian National Audit Office (ANAO) for clearance during the period.

We continue to drive to improve and reform our management of assets and liabilities. In June 2005, as part of this drive, we launched the Defence Financial Controls Framework project. This project, under the Chief Finance Officer's leadership, aims to establish a best practice financial controls framework in Defence that results in high quality, repeatable, outcomes that are accepted by external auditors.



DEFENCE AWARDS | SPECIAL FEATURE

DEFENCE'S AWARD WINNING PERFORMANCES

Here are just some of the awards recognising achievements by Defence personnel:

Diversity achievement

In October 2005, Defence received an award for leadership and excellence in the category 'Employment and Inclusion of People with a Disability' for its development and implementation of the Disability Management Strategy. This honour was presented at the 2005 Diversity@work Awards, a national award recognising the efforts and initiatives of Australian private and public sector organisations in encouraging workplace diversity.

The Disability Management Strategy is an initiative to drive cultural change within Defence, and identified key issues that needed to be addressed in order to support people with disabilities, including the provision of assistive technologies, equal access to career progression, and better management of people with disabilities.

Defence Materiel Organisation shines at AIPM Awards

Eleven Defence Materiel Organisation projects were nominated for top honours by state chapters of the Australian Institute of Project Management (AIPM) for project management achievement awards, held throughout August and September this year. The projects characterised the depth of spread of our core business - to equip and sustain the ADF - with a healthy representation of projects from Aerospace, Maritime, Land and Electronic and Weapons Systems domains.

'Rehabilitation and Return to Work' Award

The efforts of the 1st Health Support Battalion were recognised when it won the 2005 Defence Safety Award's 'Rehabilitation and Return to Work' category for the battalion's initial employment trainees injury program. This program works collaboratively with the Training Command - Army Rehabilitation Wing to ensure the rehabilitation of medium to long term injured Army initial employment trainees. As a result of winning the category within Defence, the nomination progressed for consideration at the Safety, Rehabilitation and Compensation Commission 2005 Annual Safety Awards, where it was commended.

The employment trainees injury program was formed in July 2003 and aims to restore initial employment trainees, after illness or injury, to full health and to the military standard of fitness.

Test success

In Toronto, Canada in September this year, the Air Force and the Defence Science and Technology Organisation shared receipt of the International Council of Aeronautical Sciences' Von Karman award. This is the first time Australia has won this award, which recognises outstanding examples of international cooperation in the field of aeronautics. The award was presented for the structural testing program assessing the fatigue life of the F/A-18 Hornet aircraft.

As well, detailed remediation plans were developed to address the major adverse findings from the previous year's financial statements. The plans are driven by a project board, chaired by the Secretary, comprising the Service Chiefs, and senior Defence officials and representatives from the Department of Finance and Administration and the private sector.

Further progress in the areas in which our statements remain qualified will depend in large part on our ability to equip our people with the necessary financial skills. A comprehensive review of our financial skilling requirements has been undertaken. Close to 7,000 people in Defence received financial training during the year, some 5,000 of them on our financial management information systems.

That said, and notwithstanding the enormous efforts made, challenging issues remain and the standards we must aspire to will not be achieved easily or early. We will continue to drive the change management and remediation plans vigorously, recognising that taken as a whole they represent a very significant management change agenda.

We continued to work during the year to streamline other management practices. We have achieved significant reform in the maintenance of our aging estate through improved maintenance planning. During 2004-05, the Business Improvement Program, which develops and implements a range of business improvement initiatives, successfully introduced the Defence Travel Card for all business travel (which will enable the recovery of the GST not previously achievable) and implemented the invoice scanning and imaging system (which has reduced the overall number of staff required to process Defence's payments).

We also strengthened the management of Defence's information environment and systems by appointing a Chief Information Officer (CIO) with enhanced reach and responsibility for our performance in this area. All of the significant enterprise application development functions are being brought into the CIO Group to facilitate the growth of deeper and more sustainable expertise in business system technical and project management, and facilitate better integration of business processes and systems. We have also moved to finalise the outsourcing of most of our network management functions.

People

The enormous breadth of Defence activities and interests, covered elsewhere in this report, reflects the organisation's demanding agenda. We are heartened by the performance of our people – military, civilian and contracted support partners. In delivering the outcomes expected by Government, we remain committed to our values and to the enduring philosophy of *Results through People*, and recognising that how we do business is just as important as what we do.

In a recent review of workforce planning in Commonwealth departments and agencies¹, the ANAO observed that only Defence has a systematic and documented means of assessing the workforce impacts on organisational capability. The same report also highlighted innovative workforce management solutions implemented by Defence and offered several of our initiatives as examples for other agencies to follow.

ADF Recruitment and Retention

The overall separation rate for the ADF increased slightly in 2004-05, although remaining under the ten-year average, and overall recruiting targets were not met. This reflected, among other things, the tighter labour market conditions. Defence is pursuing a number of

¹ Australian National Audit Office, Audit Report No. 55 of 23 June 2005.

initiatives to improve recruiting generally and to retain personnel who are in specialist and technical trade categories in particular.

We continue to invest heavily in leadership and professional development, and in training to equip staff with the necessary skills to enhance career management and workplace performance and management. In addition to reviewing training on corporate finance and personnel systems, accessibility to e-learning facilities has been improved. In the coming year, we will review the current workplace arrangements to ensure we remain an employer of choice. This includes renegotiating the Defence Employees' Certified Agreement, in consultation with staff, providing further opportunity for Australian Workplace Agreements for Public Services Staff, and revising the ADF Workplace Remuneration Arrangement.

Military Justice

The administration of the military justice system was a significant issue for Defence during the year. In October 2003, the Senate referred the matter to the Senate Foreign Affairs, Defence and Trade References Committee for inquiry and report. The Committee tabled its report on 16 June 2005 and the Government's response was tabled on 5 October 2005. The Minister for Defence, in a statement to the Senate on that day, announced significant enhancements to the military justice system, representing fundamental change to the system. These changes balance the maintenance of effective discipline with protection of individuals and their rights. Key features include an Australian military court independent of ADF chains of command that will replace the current Courts Martial and Defence Force Magistrates, a new Chief of the Defence Force-authorized Commission of Inquiry for complex or sensitive incidents with an independent civilian president, a joint ADF investigation unit and a streamlined complaints system.

We, and the Service Chiefs, are committed to providing a fair and equitable workplace that includes a transparent and cohesive military justice system and will be working hard over the next two years to implement these recommendation and enhancements.

In closing, we pay tribute to the enormous contribution made by General Peter Cosgrove, who commanded the ADF during the period covered by this annual report. He was an inspirational and highly professional leader. We are very fortunate to have the opportunity to build on his work, and we wish him well in his future endeavours.

R.C. SMITH AO, PSM
Secretary
Department of Defence

A.G. HOUSTON AO, AFC
Air Chief Marshal
Chief of the Defence Force



Minister for Defence, Robert Hill, with Major Matt Silver, Officer Commanding the Australian Security Detachment and Air Commodore Greg Evans (centre) in Baghdad.



The Minister Assisting the Minister for Defence, De-Anne Kelly, receives a briefing on the Leopard tank from Lance Corporal Nicholas Zerafa.



Cadetnet launch by Parliamentary Secretary to the Minister for Defence, Teresa Gambaro, at Parliament House.



Air Chief Marshal Angus Houston accepts command from General Cosgrove at his official departure.

Financial Overview

2004-05 Summary

Defence is required to present three financial statements prepared according to Australian Accounting Standards (Statement of Financial Performance, Statement of Financial Position and Cash Flow Statement). Separately, a Defence resourcing presentation shows the total funds available to Defence in any given year. The total Departmental funding element of this presentation is the most common way of measuring Defence's budget, and is consistent with the presentation of the Defence White Paper, *Defence 2000: Our Future Defence Force*.

Including all supplementary Additional Estimates, the projected level of resourcing available to Defence in 2004-05 was \$19,065m, comprising total departmental funding of \$16,627m and a further \$2,438m for administered expenses (see also the *Portfolio Supplementary Additional Estimates Statements No. 2 2004-05*, p.3). The total departmental funding allocation of \$16,627m (serial 7) comprised funding from Government for outcomes of \$15,808m, an equity injection of \$393m, own-source revenue of \$333m and net capital receipts of \$92m.

Defence's total resourcing for 2004-05 was \$476m higher than the projected result comprising \$180m in total departmental funding and a further \$355m in administered funding. Table 1.1 summarises the total Defence resourcing in 2004-05 compared to the revised additional estimate.

Table 1.1 Total Defence Resourcing 2004-05

Serial	2003-04		2004-05				
	Actual Result \$'000		Budget Estimate \$'000	Revised Estimate \$'000	Revised Additional Estimate ⁽¹⁾ \$'000	Actual Result \$'000	Variation \$'000
Departmental							
		Revenue from Government for Price of					
1	14,636,157	Outcomes	15,625,941	15,729,698	15,808,399	15,749,688	-58,711
2	706,334	Equity Injection	299,025	375,498	393,286	393,286	-
3		Total Revenue from Government (1+2)	15,924,966	16,105,196	16,201,685	16,142,974	-58,711
4	428,849	Own-Source Revenue ⁽²⁾	330,562	332,835	332,835	499,225	166,390
5	101,961	Net Capital Receipts	91,980	91,980	91,980	105,697	13,717
6							
6	530,810	Sub total	422,542	424,815	424,815	604,922	180,107
7	15,873,301	Total Departmental (3+6)	16,347,508	16,530,011	16,626,500	16,747,896	121,396
Administered							
8	2,319,500	Administered Expenses ⁽³⁾	2,336,900	2,438,350	2,438,350	2,793,453	355,103
		Total Defence Resourcing					
9	18,192,801	(7+8)	18,684,408	18,968,361	19,064,850	19,541,349	476,499

Notes

1. The Revised Additional Estimate column in all tables shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05*, including the *Portfolio Supplementary Additional Estimates Statements*.
2. Own-source Revenue (serial 4) includes sales of goods and services, interest, net foreign exchange gains, other revenues and resources received free of charge.
3. Administered funding (serial 8) covers costs associated with the military superannuation schemes, and also covers the provision of housing subsidies to current and retired Defence personnel. The administered appropriation is managed by the

Department of Finance and Administration (Commonwealth Superannuation) and the Defence Housing Authority (housing subsidies) on Defence's behalf. More details on administered funding is provided at pp. 33-34.

Operating Performance

The purpose of the Statement of Financial Performance (the Operating Statement) is to measure and report the result of Defence's activities over the financial year period. It also highlights whether Defence is operating at a sustainable level in the short-term.

At the time of the Additional Estimates, Defence anticipated an operating loss of \$17.0m. Following the Additional Estimates, there were two supplementary appropriations (for assistance to the Australian Government's response to the 2004 South-East Asian tsunami, and continued operational commitments in Iraq). The operating loss forecast did not change as a result of these Appropriation Acts.

In the event, Defence sustained an operating loss of \$869.8m in 2004-05. This was primarily technical in nature as the operating result largely reflects the extensive financial statements remediation work that was undertaken in 2004-05 and which is continuing. This resulted in significant accrual adjustments, in particular write down of assets through inventory stocktaking, stratification of inventory and revaluation of the Defence estate which have all had a major impact on the 2004-05 financial statements. Table 1.2 provides a full comparative Statement of Financial Performance. Explanations of the variation between actual and planned allocation follow Table 1.2.

Table 1.2 Statement of Financial Performance

	2004-05				
	Budget Estimate	Revised Estimate	Revised Additional Estimate	Actual Result	Variation ⁽¹⁾
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenues from ordinary activities					
Revenue from Government ⁽²⁾	15,625,941	15,729,698	15,808,399	15,749,688	-58,711
Sales of Goods and Services	245,670	262,789	262,789	264,237	1,448
Interest	-	-	-	33	33
Revenue from Sale of Assets	230,980	206,480	206,480	198,994	-7,486
Net Foreign Exchange Gains	-	-	-	21,152	21,152
Assets Now Recognised	-	600,000	600,000	1,007,369	407,369
Other Revenue	86,892	72,046	72,046	206,714	134,668
Revenue from ordinary activities	16,189,483	16,871,013	16,949,714	17,448,188	498,474
Expenses from ordinary activities (excluding borrowing cost expense)					
Employees ⁽³⁾	6,710,346	6,677,700	6,692,915	6,173,030	-519,885
Suppliers	6,109,274	6,028,823	6,092,309	6,109,997	17,688
Grants	1,250	9,266	9,266	1,941	-7,325
Depreciation and Amortisation	2,984,937	3,134,337	3,134,337	3,069,310	-65,027
Value of Assets Sold	230,980	206,480	206,480	136,163	-70,317
Write-down of Assets	100,000	800,000	800,000	2,797,356	1,997,356
Other Expenses	-	-	-	5,111	5,111
Expenses from ordinary activities (excluding borrowing cost expense)	16,136,787	16,856,606	16,935,307	18,292,908	1,357,601
Borrowing Cost expense	31,446	31,446	31,446	25,121	-6,325
Net surplus / (deficit) from ordinary activities	21,250	- 17,039	- 17,039	-869,841	-852,802

Notes

1. The variation is between actual result as disclosed in the 2004-05 audited financial statements and the revised additional estimate which is the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the Portfolio Supplementary Additional Estimates Statements.
2. Revenue from Government includes resources received free of charge (\$5m in 2004-05).
3. Correlates to Table 3.7.

Explanation of Major Variations

The variation in Defence's overall operating performance of -\$853m included an increase in revenue of \$498m, and an increase in expenses of \$1,358m.

Revenue (+\$498m)

Overall, revenue exceeded budget by \$498m comprising:

- **Revenue from Government (-\$59m)** – Revenue from Government decreased due to a correction in the accounting treatment of appropriation revenue provided in 2004-05 to reimburse Defence for costs incurred in 2003-04 (-\$66m). This was partly offset by the recognition of resources received free of charge for services provided by the Australian National Audit Office (+\$7m).
- **Revenue from Sale of Assets (-\$7m)** – The result was lower than projected due to:
 - deferrals, into 2005-06, of a number of properties in the Property Sales Program, including Ermington, Maribyrnong and the Fremantle Oil Fuel Installation (-\$71m);
 - an overestimate of the proceeds from the sale of other property, plant and equipment (-\$7m);
 - revenue received from the sale of housing for which Defence owes an annuity to the Defence Housing Authority (+\$35m); and
 - higher than anticipated sale proceeds from a number of properties in the Property Sales Program, including Wacol and Bandiana (+\$36m).
- **Net Foreign Exchange Gains (+\$21m)** – Net variations due to the timing difference between when invoices for transactions in foreign currencies are entered in the financial system for payment and the date they are paid.
- **Assets and Inventories Now Recognised (+\$407m)** – This increase is primarily due to extensive stocktaking and asset revaluation activities undertaken during the year (including a 100 per cent revaluation of Defence land and buildings within Australia by the Australian Valuation Office) which identified a number of assets not previously recognised on Defence's balance sheet, including:
 - land and buildings, including at RAAF bases Townsville and Williamtown, Holsworthy, Robertson Barracks and HMAS Stirling (+\$247m);
 - inventory due to continued stocktake adjustments, and positive price adjustments to records (+\$195m);
 - other Infrastructure Plant and Equipment, including at Holsworthy, Shoal Bay Receiving Station, HMAS Stirling and RAAF base Edinburgh (+\$166m);
 - a number of assets, including artefacts and memorabilia that are, or may be of, national historical or cultural significance (+\$21m); and
 - lower than anticipated Specialist Military Equipment as a result of the continuing remediation work, which reflects increased controls on purchasing and accounting for Specialist Military Equipment as Defence continues to improve its stocktaking activities (-\$222m).

- **Other Revenue (+\$135m)** – This increase was due to a number of factors including:
 - prior year adjustments, including the correction, based on audit advice, of the treatment of certain explosive ordinance expenses which should have been treated as prepayments (+\$83m);
 - settlement of damages including in relation to Collins-class Submarines and tactical air defence radar systems (+\$36m);
 - an actuarial gain due to Defence's asbestos related disease exposure liability being revised down during 2004-05 (+\$14m); and
 - higher than anticipated miscellaneous revenues (+\$2m).

Expenses (+\$1,358m)

Expenses were \$1,358m higher than budget due to:

- **Employee Expenses (-\$520m)** – Employee Expenses were lower than anticipated due to:
 - an overestimate of accrued leave expenses including bringing to account leave expenses in late 2003-04 rather than in 2004-05 as budgeted (-\$248m). There was no cash impact;
 - an overestimate of Employee Expenses in the original budget (-\$155m);
 - lower than anticipated full time employees in Navy (-78), Army (-379) and Air Force (-25) (-\$40m);
 - a one time adjustment to Fringe Benefit Tax expenses to correct timing differences between the Fringe Benefit Tax year and the financial year (-\$32m);
 - lower than expected Fringe Benefits Tax costs due in part to lower than anticipated staffing level (-\$25m);
 - lower than planned average full-time equivalent civilian staffing strength (-\$16m);
 - reduced housing costs, due in part to lower than planned ADF strength (-\$8m) and lower than expected commercial rent payments to the Defence Housing Authority (-\$12m);
 - lower than anticipated expenditure on military employee allowances in relation to overseas operations with funds to be returned to Government under no win – no loss arrangements (-\$5m);
 - lower than projected use of Reserve days by non-Service Groups (-\$5m);
 - the net effect of increased redundancy costs, civilian health services and workers compensation premiums (+\$3m); and
 - increases in health costs relating to medical and professional fees (+\$22m).
- **Supplier Expenses (+\$18m)** – The variation is made up of an increase in inventory consumption (+\$104m) and a lower level of expenses in other suppliers (-\$86m). The increase in inventory consumption was due to:

- increased operational tempo combined with an understatement of the inventory consumption budget (+\$61m); and
- the impact of higher fuel prices (+\$43m).

The variation in other suppliers (-\$86m) was due mainly to:

- purchase rather than repairing of rotatable items, as maintenance of these items had become uneconomical (-\$36m);
 - the return of funding for a project which is being managed under no win-no loss arrangements (-\$22m);
 - the continued appreciation of the Australian Dollar relative to other currencies, and in particular the United States Dollar (-\$20m);
 - reduced property disposal costs in line with the reduction in property disposal proceeds in 2004-05 (-\$11m);
 - lower than anticipated Air Force training activities due to higher operational tempo and related aircraft availability (-\$11m); and
 - additional expenses for classified projects (+\$14m).
- **Grants (-\$7m)** – The lower than anticipated expenditure on grants was as a result of timing issues.
 - **Depreciation and Amortisation (-\$65m)** – The variation in depreciation and amortisation mainly relates to:
 - the impact of extending the life of a number of ADF assets (-\$33m); and
 - an overestimate of depreciation expense for infrastructure, plant and equipment due to a change in the asset recognition policy (-\$32m).
 - **Value of Assets Sold (-\$70m)** – The variation in value of assets sold is due to:
 - deferrals, into 2005-06, of a number of properties in the Property Sales Program, including Ermington, Maribyrnong and the Fremantle Oil Fuel Installation (-\$71m);
 - an overestimation of the value of other property, plant and equipment sold during the year (-\$14m); and
 - sale of housing for which Defences owed an annuity to the Defence Housing Authority (+\$15m).
 - **Write-down of Assets and Inventory (+\$1,997m)** – The variation comprises write-downs of the value of assets (+\$518m) and write-downs of inventory (+\$1,479m). The increase in the write-down of assets was mainly in relation to:
 - Defence undertaking a significant review of financial records for completed estate infrastructure projects (+\$255m);

- a 100 per cent revaluation of the Defence estate within Australia by the Australian Valuation Office which identified a number of other infrastructure, plant and equipment to be written down, including at RAAF base Curtin, Holsworthy and HMAS Stirling (+\$89m);
- specialist military equipment, including for assets under construction where the value of work completed was adjusted to align with the accumulated costs incurred (+\$89m);
- the 100 per cent revaluation of the Defence estate also identified a number of assets required to be written down, including at Holsworthy, RAAF bases Williamstown and Amberley and HMAS Albatross (+\$77m); and
- the write down of intangibles, including software that was previously capitalised (+\$8m).

Additional write-downs of inventory (+\$1,479m) resulted mainly from:

- extensive stocktaking undertaken throughout the year as part of remediation activity (+\$763m); and
 - inventory review identifying items that are being held for contingency purposes, but are unlikely to be used. This includes excess items related to platforms scheduled to be withdrawn from service (+\$716m).
- **Other Expenses (+\$5m)** – Defence did not budget for, or forecast, any other expenses. In the event, other expenses totalling \$5m were incurred during 2004-05, including for Defective Administration Scheme payments and other minor expenses (+\$5m).
 - **Borrowing Cost Expenses (-\$6m)** – Borrowing cost expense was lower than anticipated due to the buy out of on base Defence Housing Authority annuities.

Defence's Financial Position

The Statement of Financial Position sets out Defence's assets, liabilities and equity as at 30 June 2005. Also known as the balance sheet, its purpose is to provide a snapshot of the long-term sustainability of the organisation. Defence had net assets of \$50.1 billion as at 30 June 2005, which was \$1.6 billion higher than the revised additional estimate. The bulk of this variation relates to the revaluation of the entire estate. Table 1.3 provides details. Explanations of variations follow Table 1.3.

Table 1.3	Statement of Financial Position				
	2004-05				
	Budget Estimate	Revised Estimate	Revised Additional Estimate	Actual Result	Variation ⁽¹⁾
	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS					
Financial Assets					
Cash	-90,443	87,584	87,584	254,425	166,841
Appropriate Receivable ⁽²⁾	778,982	585,415	585,415	538,609	-46,806
Other Receivables	282,340	239,384	239,384	358,883	119,499
Total Financial Assets	970,879	912,383	912,383	1,151,917	239,534
Non-Financial Assets					
Land and Buildings	8,923,728	9,879,536	9,879,536	11,018,882	1,139,346
Specialist Military Equipment	31,424,944	31,008,131	31,025,919	30,804,197	-221,722
Infrastructure, Plant and Equipment	4,834,022	5,091,787	5,090,787	5,422,669	331,882
Intangibles	85,847	254,313	254,313	414,797	160,484
Heritage and Cultural	19,047	26,010	26,010	800,459	774,449
Inventories	3,836,895	4,519,866	4,519,866	3,387,440	-1,132,426
Other Non Financial Assets	718,548	689,681	689,681	799,480	109,799
Total Non-Financial Assets	49,843,031	51,468,324	51,486,112	52,647,923	1,161,811
Total ASSETS	50,813,910	52,380,707	52,398,495	53,799,840	1,401,345
LIABILITIES					
Debt					
Interest Bearing Liabilities	317,570	354,336	354,336	260,822	-93,514
Total Debt	317,570	354,366	354,336	260,822	-93,514
Provisions and Payables					
Employees	1,955,018	2,104,151	2,104,151	1,743,638	-360,513
Suppliers Payables	1,200,066	1,017,313	1,017,313	1,184,968	167,655
Other Provisions and Payables	373,729	407,723	407,723	491,760	84,037
Total Provisions and Payables	3,528,813	3,529,187	3,529,187	3,420,366	-108,821
Total LIABILITIES	3,846,383	3,883,573	3,883,523	3,681,188	-202,335
NET ASSETS	46,967,527	48,497,184	48,514,972	50,118,652	1,603,680
EQUITY					
Capital	1,661,852	2,023,674	2,041,462	3,764,746	1,723,284
Reserves	7,247,911	8,176,230	8,176,230	10,610,860	2,434,630
Accumulated Surpluses	38,057,764	38,297,280	38,297,280	35,743,047	-2,554,233
TOTAL EQUITY	46,967,527	48,497,184	48,514,972	50,118,652	1,603,680

Notes

1. The variation is between actual result as disclosed in the 2004-05 audited financial statements and the revised additional estimate which is the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the Portfolio Supplementary Additional Estimates Statements.
2. Appropriation Receivable represents undrawn appropriations from the Commonwealth as at 30 June 2005.

Explanation of Major Variations

The variation in Defence's net asset position of +\$1,604m resulted from an increase in assets of \$1,401m and a decrease in liabilities of \$202m.

Total Assets (+\$1,401m)

Assets were \$1,401m higher than the projected result, mainly due to:

- **Financial Assets (+\$240m)** – Defence's financial assets comprise its cash position, the appropriation receivable and other receivables. Overall, financial assets were \$240m higher than the revised additional estimate primarily due to:
 - the cash balance being \$167m higher than projected due to a higher than planned level of funds in the Foreign Military Sales bank account.
 - the appropriation receivable being \$47m lower than forecast due to:
 - the finalisation of the transfer to the Department of Veterans' Affairs of the military compensation scheme (-\$114m);
 - adjustment to the receivable for the correct accounting treatment of funds provided in 2004-05 to reimburse costs incurred in 2003-04 (-\$66m);
 - revision to the draw downs of cash in relation to employee provision (+\$16m);
 - funds not required in 2004-05 that will be returned to the Budget in 2005-06 under no-win/no-loss arrangements (+\$56m); and
 - undrawn 2004-05 Appropriation relating to a number of purchases where deliveries have been delayed until 2005-06, for which cash is carried forward (+\$61m).
 - an increase in other receivables (+\$120m), mainly due to:
 - timing associated with GST refund from the Australian Taxation Office (+\$78m);
 - other outstanding debtors for sales of goods and services, including sales of properties (+\$35m); and
 - higher than anticipated receivable for fuel, reflecting the fuel exchange agreement including for exercise Talisman Sabre (+\$7m).
- **Land and Buildings (+\$1,139m)** –The land and building balance was \$1,139m higher than the revised additional estimate due mainly to:
 - the outcome of the revaluation of land and buildings across the entire estate (+\$1,417m);
 - site visits by the Australian Valuation Office identified assets not previously recorded or capitalised as part of the comprehensive asset revaluation exercise. These assets have now been bought onto Defence's books (+\$247m);

- net variation in additions, disposals and depreciation (+\$12m);
 - a 100 per cent revaluation of the Defence estate by the Australian Valuation Office identified a number of assets required to be written down, including at Holsworthy Barracks, RAAF bases Williamstown and Amberley and HMAS Albatross (-\$77m);
 - the reclassification of some buildings as infrastructure, plant and equipment and Heritage and Cultural assets (-\$204m); and
 - concurrent with the re-valuation of the Defence estate, Defence reviewed financial records of completed estate infrastructure projects (-\$255m).
- **Specialist Military Equipment (-\$222m)** – The decrease of \$222m can mainly be explained by increased write-downs, including assets under construction where the value of work completed was not in line with the accumulated costs incurred and lower than expected assets now recognised as Defence continues to improve its stocktaking activities. This was partially offset by the higher than planned expenditure on the capital program reflecting improved project management throughput by the Defence Materiel Organisation.
 - **Infrastructure, Plant and Equipment (+\$332m)** – The increase was mainly due to:
 - a net revaluation of infrastructure, plant and equipment assets (+\$419m);
 - the recognition for the first time of infrastructure, plant and equipment assets as a result of the comprehensive asset revaluation exercise and capitalisation of some assets that were previously expensed (+\$166m);
 - higher than anticipated depreciation expense as a result of the revaluation of infrastructure, plant and equipment undertaken during the year (-\$9m);
 - reclassification of certain assets into computer software (-\$50m);
 - the 100 per cent revaluation of the Defence estate within identified a number of other infrastructure, plant and equipment to be written down, including at RAAF base Curtin, Holsworthy Barracks and HMAS Stirling (-\$89m); and
 - lower than anticipated purchases of infrastructure, plant and equipment, off set in purchases of software and other intangibles (-\$105m).
 - **Intangibles (+\$160m)** – This variation mainly comprised:
 - the higher than planned purchases of intangibles including the ASLAV logistics management information system and SAP license fees (+\$110m);
 - a reclassification of certain assets from specialist military equipment and infrastructure, plant and equipment, including an Assets Under Construction rollout of the High Frequency Modernisation project (+\$82m);
 - write-down of intangibles including software previously capitalised (-\$8m); and
 - higher than anticipated amortisation expense, due to higher purchases and reclassifications (-\$24m).

- **Heritage and Cultural Assets (+\$774m)** – The increase was mainly due to the review and cataloguing of potential heritage and cultural items that is currently being undertaken which has resulted in:
 - the revaluation of heritage assets, including Navy Heritage Collections (+\$564m);
 - the net impact of assets re-classification of certain buildings into heritage and cultural assets (+\$187m); and
 - recognition of heritage and cultural assets for the first time (+\$23m).
- **Inventory (-\$1,132m)** – The decrease in inventory holdings of \$1,132m comprises:
 - the large scale inventory stocktake program, which identified significant write-down of inventories (-\$763m);
 - extensive review of inventory holdings to identify inventory that is unlikely to be used due to the planned phasing out of the prime platform resulted in considerable amounts of inventory being recognised as obsolete (-\$716m);
 - additional inventory purchases associated with additional funds, provided by Government for sustainment and through life support, partially off-set by higher than expected consumption during the year (+\$152m); and
 - Inventory recognised for the first time due to continued stocktake adjustments, and positive price adjustments to records (+\$195m).
- **Other Non-Financial Assets (+\$110m)** – Other Non-Financial Assets were higher due to prepayments, including for the purchase of communications and information technology assets below the asset capitalisation threshold, and information technology infrastructure spectrum fees and charges.

Total Liabilities (-\$202m)

Liabilities were \$202m lower than planned due to:

- **Leases (-\$94m)** – Leases were lower than planned due to the buy-out from the Defence Housing Authority of on-base housing annuities.
- **Employees (-\$360m)** – The decrease in employee liabilities was due to a number of factors, including:
 - an overestimate of the accrual leave expenses budget including the bringing to account of leave provisions late in 2003-04 rather than as budgeted in 2004-05 (-\$248m);
 - a higher incidence of leave taken during the year as a result of Defence's leave management strategy (-\$77m); and
 - variations related to pay day accruals, 27th pay day and the lower than planned average funded strength (-\$35m).
- **Supplier Payables (+\$167m)** – The increase was mainly due:
 - higher than anticipated work-performed but not invoiced transactions (+\$160m); and

- other minor variations in non capital trade creditors (+\$7m).

Other Provisions and Payables (+\$84m) – The variation relates to:

- the booking of a provision to meet a potential liability to meet the cost of certain potential common law claims which might emerge in the Voyager/Melbourne cases (+\$68m);
- the provision for liabilities associated with the F-111 Deseal/Reseal project (+\$21m); and
- A decrease in other payables, including for asbestos related disease exposure on actuarial advice (-\$5m).

Trends in Defence Assets and Liabilities

Chart 1.1 shows the actual movement of major categories of assets since 2000-01. Over this period assets have increased by \$5.6 billion from \$48.2 billion to \$53.8 billion.

Chart 1.1 Historical Trends in Defence’s Assets

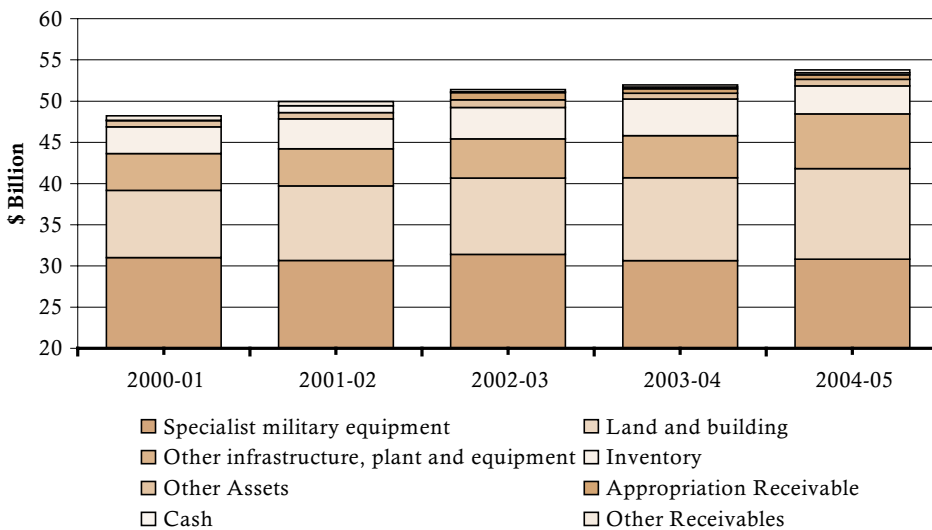
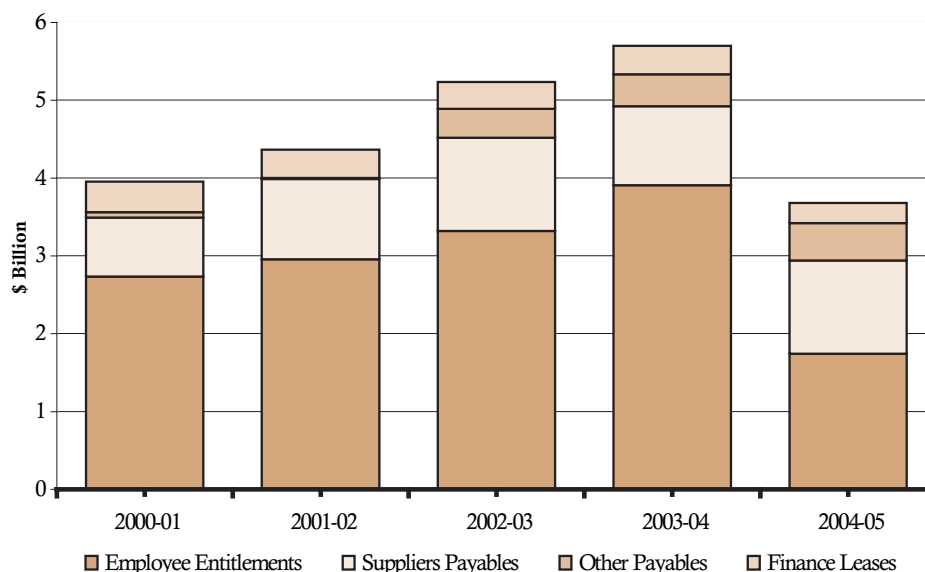


Chart 1.2 shows the actual movement of major categories of liability since 2000-01. The significant reduction in liabilities between 2003-04 and 2004-05 is due primarily to the transfer of military compensation liability to the Department of Veterans’ Affairs (\$1.9 billion).

Chart 1.2 Historical Trends in Defence's Liabilities

Defence's net worth has increased over the period since 2000-01 by \$4.5 billion from \$45.6 billion to \$50.1 billion as follows:

Table 1.4 Movements in Defence's Net Worth 2000-01 to 2004-05

	2001-02	2002-03	2003-04	2004-05
	\$b	\$b	\$b	\$b
Assets	50.0	51.4	52.3	53.8
Liabilities	-4.4	-5.2	-5.7	-3.7
Net Worth	45.6	46.2	46.6	50.1

Defence's Cash Position

Overview

Defence sources its annual cash from the appropriation for outcomes, from the equity injection, and from own-source revenue, capital receipts and cash reserves. The allocations are subject to Government approval as part of the annual budget process. Once funds are appropriated for Defence purposes, they remain in Defence's accounts even if not fully used in the budget year. They are held as an appropriation receivable in the Official Public Account and are available to meet liabilities as they fall due, including employee liabilities, subject to Government approval.

Defence had planned to have cash reserves on hand at 30 June 2005 of \$673m including cash at bank (\$88m) and the appropriation receivable (\$585m). In the event, Defence had cash reserves totalling \$793m comprising cash at bank of \$254m (see Table 1.5) and the appropriation receivable of \$539m (see Table 1.7). Of the \$120m increase in cash, an amount of \$56m is to be repaid to Government in 2005-06 under no win – no loss arrangements. The remaining \$64m will be carried forward in the appropriation receivable in 2005-06 to pay for purchases whose delivery dates were delayed beyond 30 June 2005.

Use of Cash in 2004-05

During 2004-05, Defence had access to \$17,757m in cash including cash at bank on 1 July 2004 of \$238m. During the course of the financial year Defence used \$17,503m leaving it with cash at bank of \$254m at 30 June 2005. This was \$167m higher than forecast due mainly to a higher than planned level of cash in the United States Foreign Military Sales bank account. Table 1.5 provides details of cash sources and cash usage.

Table 1.5 shows the actual movement of cash in 2004-05.

Table 1.5 Use of Cash by Defence in 2004-05	
	2004-05
	Actual Result
	\$'000
Sources of Cash	
2004-05 Opening Cash at Bank ⁽¹⁾	237,809
Appropriation Bills No 1, 3 & 5 (Price of Outputs)	15,692,146
Appropriation Bills No 2, 4 & 6 (Equity Injection)	392,798
Appropriation Bills Tsunami Financial Assistance Bills	50,941
Own-source revenue ⁽²⁾	529,289
GST refund from Australian Taxation Office	833,240
Effect of Exchange Rate Movements	21,152
Cash from Official Public Account	-
Sub-total: Cash Available	17,757,376
Use of Cash	
Employee Payments	6,432,231
Suppliers	4,928,388
GST Expenses	822,294
Other operating expenses (grants, borrowing costs and other)	32,173
Purchase of Land and Buildings	279,580
Purchase of Specialist Military Equipment	2,965,265
Purchase of Property, Plant and Equipment	399,303
Purchase of Inventory	1,221,256
Repayments of Debt	109,753
Cash transfer to Official Public Account	312,709
Sub-total: Cash Used	17,502,951
2003-04 Closing Cash at Bank	254,425

Notes

1. This figure represents the actual cash at bank of 1 July 2004, rather than what was in the estimates contained in the May Budget.
2. Includes sale of goods and services, other revenue, proceeds from sale of assets and interest revenue.

Current Status of the Appropriation Receivable

During the course of the 2004-05 financial year, the level of cash reserves held in the appropriation receivable reduced from the \$779m forecast in the Budget to \$539m. This was \$47m less than the forecast of \$585m. The reasons for the variations are explained in Table 1.6.

Table 1.6	Current Status of the Appropriation Receivable				
	2004-05				
	Budget Estimate	Revised Estimate	Revised Additional Estimate	Actual Result	Variation
	\$'000	\$'000	\$'000	\$'000	\$'000
2004-05 Opening Appropriation Receivable position	640,915	537,660	537,660	537,660	-
less Cash Outflows					
Operation Citadel rephasing	-11,100	-11,100	-11,100	-11,100	-
Operation Catalyst rephasing	-25,200	-39,800	-39,800	-39,800	-
Operation Anode rephasing	-	-12,800	-12,800	-12,800	-
Timor-Leste Special Appropriation return	-	-197	-197	-197	-
Retrospective Foreign Exchange Adjustments	-	-12,051	-12,051	-12,051	-
Employee liability run-down	-34,800	-34,800	-34,800	-18,373	16,427
Additional requirements for 27th pay day	-	-39,775	-39,775	-39,775	-
Department of Veterans' Affairs transfer of additional administrative costs	-	-	-	-114,441	-114,441
Sub-total: Cash Outflows	-71,100	-150,523	-150,523	-248,537	-98,014
plus Cash Inflows					
Defence Procurement Review reimbursement	5,300	5,300	5,300	5,300	-
Papua New Guinea Defence Force reimbursement	3,700	3,700	3,700	3,700	-
Defence Housing Authority Commercialisation Costs reimbursement	20,000	18,500	18,500	18,500	-
Point Nepean Community Grant reimbursement	5,000	5,000	5,000	5,000	-
Property Disposal Costs reimbursement	31,800	22,411	22,411	22,411	-
Provision to meet future liabilities	143,367	143,367	143,367	143,367	-
Communications Project funding not required	-	-	-	22,000	22,000
Operations 2004-05 supplementation not required in 2004-05	-	-	-	18,100	18,100
Defence Housing Authority competitive neutrality underspend	-	-	-	11,664	11,664
Cash Underspend	-	-	-	65,244	65,244
Sub-total: Cash Inflows	209,167	198,278	198,278	315,286	117,008
2004-05 Closing Cash Appropriation Receivable position	778,982	585,415	585,415	604,409	18,994
Accrual Appropriation Receivable ⁽¹⁾	-	-	-	-65,800	-65,800
Total Appropriation Receivable⁽²⁾	778,982	585,415	585,415	538,609	-46,806

Notes

1. The removal of accrual appropriation receivable was due to receiving the cash in 2004-05 for initiatives approved by Government which were funded from balances from Defence existing funding in 2003-04.
2. Cross reference to Table 1.7.

Planned Rundown in Cash Levels

Table 1.7 shows how Defence intends to progressively reduce its cash reserves over the forward estimates in accordance with the schedule agreed by the Government.

2004-05 Actual Result	Use of Cash Reserves	2005-06 Budget Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate
\$'000		\$'000	\$'000	\$'000	\$'000
471,860	Opening balance of cash reserves held by Department of Finance and Administration on behalf of Defence	538,609	477,894	434,251	370,128
-12,051	Retrospective Foreign Exchange adjustments	-	-	-	-
-114,441	Transfer to Department of Veterans' Affairs of administrative costs associated with military compensation scheme	-	-	-	-
-197	Timor-Leste Special Appropriation return	-	-	-	-
-18,373	Drawdown to fund Employee Liabilities	-32,181	-43,643	-64,123	-77,369
-11,100	Operation Citadel rephasing	-2,500	-	-	-
-39,800	Operation Catalyst rephasing	-	-	-	-
-12,800	Operation Anode rephasing	-	-	-	-
-39,775	Additional requirements for 27th pay day	-	-	-	-
5,300	Defence Procurement Review reimbursement	-	-	-	-
5,000	Point Nepean Community Grant reimbursement	-	-	-	-
3,700	Papua New Guinea Defence Force reform program reimbursement	-	-	-	-
22,411	Property Disposal Costs reimbursement	-	-	-	-
18,500	Defence Housing Authority Commercialisation Costs reimbursement	-	-	-	-
143,367	Provision to meet future liabilities	-	-	-	-
22,000	Communications Project funding not required	-22,000	-	-	-
18,100	Operations 2004-05 supplementation not required in 2004-05	-18,100	-	-	-
11,664	Defence Housing Authority competitive neutrality return of funds	-11,664	-	-	-
65,244	Delays in deliveries to 2005-06	-	-	-	-
	Transfer of Defence Materiel Organisation component of appropriation receivable	-40,270	-	-	-
	Projected carryover to Defence Capability Plan in 2006-07	66,000	-	-	-
538,609	Cash Reserves as at 30 June⁽¹⁾	477,894	434,251	370,128	292,759

Note

1. Cross reference to Table 1.6.

Status of White Paper Funding

Defence's departmental funding in 2004-05 and beyond continues to be based primarily on the allocations approved by the Government in the context of the Defence White Paper. This additional funding now totals \$28.9 billion over the 13 years commencing in 2001-02, as shown in Table 1.8, and represents the most specific long-term funding commitment for Defence for more than 25 years.

The additional White Paper funding is being applied to:

- the Defence Capability Plan, containing a program of capital investment in addition to the investment program already planned (\$20.0 billion);
- provision for the through-life support costs of the capability enhancements in the Defence Capability Plan (\$2.9 billion);
- provision for two per cent real growth in personnel costs from 2004-05 onwards, reflecting the cost of maintaining a highly skilled workforce in a sustainable way (\$4.9 billion); and
- funding a number of budget baseline cost pressures, including logistics shortfalls, assisted by a programme of administrative savings (\$1.0 billion).

After taking account of the reprogramming of the Defence Capability Plan agreed by the Government in the 2005-06 Budget, actual expenditure covering the period 2001-02 to 2004-05 totalled \$4.046 billion. The 2005-06 Budget includes a further \$2.253 billion in White Paper funding. The remaining funding, totalling \$22.575 billion, is to be provided over the remainder of the period to 2013-14.

Table 1.8 provides details of White Paper expenditure to date and future allocations in 2005-06 outturned prices.

Table 1.8

Current Status of White Paper Funding Allocations (Outturned 2005-06 prices)⁽¹⁾⁽²⁾

	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	Total	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Major Capital Equipment															
	Original Allocation	510	1,051	1,506	1,552	1,720	2,311	2,426	2,318	2,844	3,490	-	-	-	19,728
	Reprogramming ⁽³⁾	-	-200	-	-	-	-	-	228	-	-	-	-	-	28
	Reprogramming ⁽⁴⁾	-	-	-212	-201	-146	-93	-	185	290	168	109	-	-	100
	Reprogramming ⁽⁵⁾	-	-	-500	-	-	-	-	171	175	178	61	-	-	85
	Reprogramming ⁽⁶⁾	-	-	-	-75	-313	-387	-138	-	207	140	198	308	220	160
	Reprogramming ⁽⁷⁾	-	-	170	-	-	-	-	-194	-	-	-	-	-	-24
	Reprogramming ⁽⁸⁾	-	-	-	-	300	-	-	-	-108	-110	-113	-	-	-31
1	Revised Capital	510	851	964	1,276	1,561	1,831	2,288	2,708	3,408	3,866	255	308	220	20,046
Through-life Support Costs for Defence Capability Plan Projects															
	Original allocation	-	-	-	195	242	294	432	517	611	652	-	-	-	2,944
	Reprogramming ⁽⁹⁾	-	8	21	-134	-64	-5	-	13	86	78	-	-	-	3
2	Revised Allocation	-	8	21	61	178	289	432	530	697	730	-	-	-	2,947
2% Real Growth In Personnel Costs															
	Allocated	-	-	-	238	380	400	422	445	465	535	-	-	-	2,884
	Unallocated	-	-	-	-	-	123	251	387	533	686	-	-	-	1,980
3	Total Allocation	-	-	-	238	380	523	673	832	998	1,221	-	-	-	4,864
4	Baseline Adjustment	-	-	-	117	134	142	148	154	160	161	-	-	-	1,016
	Total (1+2+3+4)	510	859	985	1,692	2,253	2,785	3,541	4,224	5,263	5,978	255	308	220	28,873

Notes

- Figures may not add due to rounding.
- The figures shown in 2001-02, 2002-03, 2003-04 and 2004-05 represent actual expenditure, whereas the figures from 2005-06 onwards are planned.
- The \$200m underspend in 2002-03 was reprogrammed to 2008-09.
- The \$642m represents an increase in the slippage rate from 15 per cent to 20 per cent. The Government agreed in the 2003-04 Budget to reprogram these funds to 2008-09 - 2011-12.
- The \$500m underspend in the Approved Major Capital Equipment Program in 2003-04 was reprogrammed to 2008-09 - 2011-12.
- The \$884m reduction reflects changes to the Defence Capability Plan and revisions to the rate of capital expenditure in the period 2004-08. These funds were reprogrammed to the period 2009-10 to 2013-14.
- This represents the bringing forward of \$170m associated with the decision to proceed with the acquisition of a further two airborne early warning and control aircraft.
- This represents the bringing forward of \$300m in the 2005-06 Budget to take advantage of the Defence Materiel Organisation's improved project performance
- This represents a reprogramming of the original allocations to reflect the revised timetable for entry of equipment into service.

Major Capital Equipment

The additional funding of \$20.0 billion (in 2005-06 outturned prices) was allocated to the Unapproved Major Capital Equipment Program and now forms part of the overall investment program. The additional funding was not for the entirety of the Defence Capability Plan funding but represented a top-up of the existing Major Capital Investment Program, which covers both the Unapproved Major Capital Equipment Program and the Approved Major Capital Equipment Program. To the end of 2004-05, \$3.6 billion of the \$20.0 billion had been spent on new projects.

Through-life Support Costs for Defence Capability Plan Projects

The net through-life support costs of new capability acquired as part of the Defence Capability Plan are being progressively allocated as new equipment enters service. The funding is to ensure that sufficient trained personnel and operating costs are available to operate the equipment on delivery. The phasing of the funds has been adjusted to reflect revised delivery dates of the equipment and is now estimated at \$2.9 billion over the decade. Of this amount, \$90m has been spent to the end of 2004-05.

Two per cent Real Growth in Personnel Costs

The allocation of \$4.9 billion for the two per cent real per capita growth in personnel costs commences in 2004-05. Of this, \$2.9 billion has already been allocated over the period to 2010-11 to cover part of the cost of the new ADF Workplace Remuneration Arrangement and the Defence Employees Certified Agreement. Funding has also been allocated for the last Service Allowance increase and to cover cost increases in housing and health services, which are rising at higher rates than the non-farm gross domestic product deflator. An amount of \$2.0 billion remains unallocated and has been quarantined to contribute to the funding of future salary, allowance and conditions of service increases as they arise, including health services, housing and fringe benefits tax. An amount of \$238m has been spent to the end of 2004-05.

Operating Baseline Adjustment

An amount of \$1.0 billion was allocated to meet cost pressures identified through the Defence White Paper process including logistics shortfalls, some of which were also required to be offset by the now-complete \$200m Administrative Savings Program. On the basis that the allocations are now embedded in baseline allocations and will be spent in the years concerned, this aspect of the Defence White Paper is now considered complete.

ADF Operations

The Government provided \$278.4m in the 2004-05 Budget for the net additional costs of current ADF operations. Funding levels were increased by \$83.0m to \$361.4m in the 2004-05 Additional Estimates, mainly due to the ADF's contribution to Operation Sumatra Assist. Further adjustments were made in the 2005-06 Budget process (see Projected Result) to provide initial funding for the deployment of the Al Muthanna Task Group to Iraq and for costs in relation to increased force protection requirements for the existing commitment to Operation Catalyst.

Actual expenditure was \$388.9m or \$18.1m less than the projected result as shown in Table 1.9. An explanation of these variations follows Table 1.9.

	2004-05				
	Budget Estimate	Revised Estimate	Projected Result	Actual Expenditure	Variation
	\$m	\$m	\$m	\$m	\$m
Operations in Timor-Leste	27.1	27.1	27.1	27.4	0.3
Operations in Iraq	212.5	227.1	272.7	284.9	12.2
Anode	22.2	39.7	39.7	27.6	-12.1
Relax II	16.0	16.0	16.0	11.9	-4.1
Sumatra Assist	-	50.9	50.9	37.0	-13.9
Acolyte	0.6	0.6	0.6	0.1	-0.5
Total	278.4	361.4	407.0	388.9	-18.1

Explanation of Major Variations

Operations in Timor-Leste (+\$0.3m)

Operation Citadel, the United Nations Mission in Support of East Timor, ceased on 20 May 2004 and was replaced by Operation Spire, the United Nations successor mission in Timor-Leste. The 2004-05 Budget provided \$27.1m for operations in Timor-Leste including \$11.1m in funding carried forward from 2003-04 in respect of Operation Citadel and \$16.0m for Operation Spire.

Actual expenditure for operations in Timor-Leste was \$0.3m more than the projected result mainly due to minor additional logistics support costs.

Operations in Iraq (+\$12.2m)

Operations Bastille and Falconer were Australia's predeployment to the Middle East and its contribution to the United States-led war in Iraq. In July 2003, the ADF transitioned to Operation Catalyst. Operation Catalyst is the ADF's contribution to developing a secure environment in Iraq, and assisting national rehabilitation and reconstruction. The 2004-05 Budget initially provided \$212.5m for the continuation of operations in Iraq to June 2005 including \$25.2m of funds carried forward from 2003-04. Subsequent to the budget, the Government agreed to carry forward a further \$14.6m from 2003-04 related to timing issues for inventory purchases and equipment remediation programs and this was formalised in the 2004-05 Additional Estimates.

An additional \$45.6m was provided in the context of the 2005-06 budget process in respect of 2004-05, comprising:

- \$20.8m for force protection enhancements including the Australian Light Armoured Vehicles and ships; and
- \$24.8m for the deployment of the Al Muthanna Task Group for additional strategic lift costs and personnel allowances.

Actual expenditure for operations in Iraq was \$284.9m which was \$12.2m more than the projected result and mainly due to higher than estimated costs for strategic lift and personnel allowances.

Operation Anode (-\$12.1m)

Operation Anode is the ADF contribution to the Regional Assistance Mission to the Solomon Islands (RAMSI). In addition to the \$22.2m of existing funds and \$12.8m of funds carried forward from 2003-04, the 2004-05 Additional Estimates provided for a further \$4.7m in 2004-05 for the continuation of the deployment for up to two years. This brought the total level of funding for Operation Anode in 2004-05 to \$39.7m.

Actual expenditure for Operation Anode was \$12.1m less than the projected result. This was due to timing issues with the transition to a primarily Australian Federal Police-led operation, and reduced requirements for the remediation of vehicles and strategic lift.

Operation Relex II (-\$4.1m)

Operation Relex II involves the conduct of air and surface surveillance and interception operations to protect Australia's northern and western borders from unauthorised boat arrivals. Actual expenditure for Operation Relex II was \$4.1m less than the allocation mainly due to lower than expected costs for inventory and repairable items.

Operation Sumatra Assist (-\$13.9m)

Operation Sumatra Assist was the ADF's contribution to the Australian Government effort to provide assistance to the people affected by the tsunami disaster on 26 December 2004. The Government agreed to provide an additional \$62.0m over two financial years of which \$50.9m was allocated in 2004-05.

Actual expenditure for Operation Sumatra Assist was \$13.9m below the allocation due to an earlier extraction timeline than was originally anticipated at the time of the estimates. This led to lower costs in the areas of fuel purchases, in-theatre logistics and engineering support, replacement C-130 hours, personnel allowances, strategic lift and health support.

Operation Acolyte (-\$0.5m)

Operation Acolyte is the ADF's contribution to the whole-of-government support of the conduct of the Melbourne 2006 Commonwealth Games in March 2006. The Government provided \$13.0m over three financial years for the net additional cost of security support to be provided by Defence, \$0.6m of which was allocated in 2004-05.

Defence incurred less administrative costs than originally forecast in 2004-05 mostly due to timing issues. Planning for the operation continues in 2005-06.

Status of Funding from all Operations

Table 1.10 provides a summary of the current actual and planned levels of expenditure on operations announced to date covering the period 1999-2000 to 2007-08. In summary, the net additional cost of these operations to date is about \$5.3 billion, excluding the recent commitment to Afghanistan as part of Operation Slipper.

Table 1.10	Cost of Operations 2004-05									
	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Total
	Actual	Actual	Actual	Actual	Actual	Actual	Forward	Forward	Forward	
	Result	Result	Result	Result	Result	Result	Estimate	Estimate	Estimate	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Operations in Timor-Leste ¹	598.1	798.5	632.9	579.3	554.0	27.4	4.1	-	-	3,194.3
Operation Bel Isi	-	20.0	10.1	14.6	3.0	-	-	-	-	47.7
Operation Slipper	-	-	320.0	176.0	-5.0	-	-	-	-	491.0
Operation Relex and Relex II	-	-	22.2	27.8	15.9	11.9	16.4	-	-	94.2
Operations in Iraq	-	-	-	285.3	240.6	284.9	402.5	37.4	3.9	1,254.6
Operation Anode	-	-	-	-	90.4	27.6	10.9	3.4	-	132.3
Operation Sumatra Assist	-	-	-	-	-	37.0	11.1	-	-	48.1
Operation Acolyte	-	-	-	-	-	0.1	11.4	1.0	-	12.5
Operation Deluge	-	-	-	-	-	-	-	8.4	11.3	19.7
Total	598.1	818.5	985.2	1,083.0	898.9	388.9	456.9	50.2	15.2	5,294.4

Note

1. Includes force generation funding from 1999-00 to 2003-04, with an ongoing amount of \$448.9m included in Defence's funding base from 2004-05.

Administered Items

Administered Revenue (+\$19m)

The revenues administered on behalf of the Government include dividend payments by the Defence Housing Authority, military employee superannuation contributions and other non-taxation revenues (including reimbursement from the United Nations for costs associated with Timor-Leste). Once collected by Defence, all of these revenues were returned to the Government through the Official Public Account. Total revenues were some \$19m higher than the revised additional estimate of \$727m. The variation related primarily to an increase in housing dividends, but was offset by military superannuation contributions reflecting the lower than planned military personnel numbers and higher contributions by members reflecting the outcome of the ADF Workplace Remuneration Arrangement.

Administered Expenses (+\$355m)

These expenses, administered on behalf of the Government, comprise:

- administered superannuation expenses representing members' accrual expenses and interest expenses for the two military superannuation schemes (Defence Force Retirement and Death Benefits and Military Superannuation and Benefits Schemes). The cash payments of benefits paid under these schemes are subject to biannual indexation of benefits, similar to the Australian Public Service superannuation schemes;
- the Defence Home Owner Scheme, which provides assistance to current and retired Defence personnel. This scheme provides a subsidy on the interest payable on a home loan for members of the ADF under the *Defence Force (Home Loans Assistance) Act 1990*; and
- the retention benefit is a lump sum of one times salary paid directly to military personnel who, on completion of 15 years service, undertake to complete a further five years service. It is not a superannuation benefit, but is an incentive payment made via the administered accounts.

Financial Results

Administered expenses were some \$355m higher than the projected result of \$2,438m with \$328m relating to an increase in value of military superannuation benefits. The increase reflects the most recent Australian Government Actuary's assessment of superannuation liability, compared with the information available at the time of the revised additional estimates. The revised actuarial assessment reflects higher consumer price index and wage growth than was anticipated in the previous actuarial report, and takes into account the inclusion of certain allowances for superannuation expenses.

Summary

A summary of the administered appropriation covering actuals over a four year period, including details for 2004-05 is shown in Table 1.11.

Table 1.11 Revenues and Expenses Administered on Behalf of the Government

	2001-02	2002-03	2003-04	2004-05			Variation \$m
	Actual Result	Actual Result	Actual Result	Revised Estimate	Revised Additional Estimate	Actual Result	
	\$m	\$m	\$m	\$m	\$m	\$m	
Revenues Administered on behalf of Government							
Interest	8,604	1,114	2,273	-	-	3,044	3044
Housing Dividends	88,636	373,525	230,698	52,600	52,600	70,672	18,072
Military superannuation contribution's	607,195	551,849	604,885	672,405	672,405	661,607	- 10,798
Foreign government and UN reimbursements for Timor-Leste	123,364	59,285	20,336	2,000	2,000	7,822	5,822
Assets now recognised – retention benefit prepayment	-	56,918	-	-	-	-	-
Other	22,450	-	3,929	-	-	2,793	2,793
Total Revenues Administered on behalf of Government	850,249	1,042,691	862,121	727,005	727,005	745,938	18,933
Expenses Administered on Behalf of Government							
Military superannuation benefits	2,240,395	2,477,497	2,261,210	2,400,000	2,400,000	2,727,850	327,850
Retention benefits	30,560	21,162	27,297	29,100	29,100	44,718	15,618
Housing subsidies	6,411	7,394	8,202	9,250	9,250	9,177	-73
Other	12,269	88,604	22,792	-	-	11,708	11,708
Total expenses from ordinary activities	2,289,635	2,594,657	2,319,500	2,438,350	2,438,350	2,793,453	355,103

Program of Administrative Savings

In the context of the 2003-04 Budget, the Government agreed that Defence would absorb a range of cost pressures through a program of administrative savings. The five-year program is designed to deliver ongoing savings of \$200m per annum by 2007-08. To date, net savings totalling \$60.6m in 2003-04 and \$127.6m in 2004-05 have been achieved through reductions in overheads, business process improvements and organisation/structure changes. The savings targets for 2003-04 and 2004-05 have been more than fully met and the initiatives underway will ensure that the 2005-06 target will also be achieved. Details are shown in Table 1.12 below:

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	Ongoing \$m
Savings target	50.0	100.0	150.0	175.0	200.0	200.0
Savings achieved/planned to date	60.6	127.6	156.1	175.4	171.3	171.3

Savings to date have been achieved by:

- planned reductions in the civilian workforce over a three year period, in response to a significant APS workforce growth during 2002-03;
- reductions in non capability-related supplier expenses, including professional service providers;
- a 20 percent reduction in overseas travel;
- a 10 percent reduction in domestic travel;
- renegotiations of the Australian Defence Force Academy agreement, resulting in cost savings;
- a reduction in non-operational overseas positions of 110 personnel programmed in 2003-04 and in the years thereafter;
- removal from service of three P-3 Orion derivative training aircraft, following the introduction of the advanced flight simulator, resulting in operational savings which have been redirected to P3-C Orion aircraft logistics;
- the rationalisation of the civilian personnel administration centres from three to two locations;
- rationalisation of the former Public Affairs and Corporate Communication Division;
- introduction of PMKeyS Self Service, resulting in, printing savings and through electronic distribution of civilian and military pay summaries;
- introduction of the Defence Travel Card for domestic and overseas business related travel, including the Diners Club rebate, as part of the Defence Travel Reform;
- closure of the Defence Cash Offices and centralising receipting, resulting in, implementation of automated processes (Bill Pay and Phone Pay) and recovery of debt through salary;

- renegotiations of the Defence ComCover Insurance Premium, resulting in estimated savings totalling \$22.5m in 2004-05, \$20.8m in 2005-06, \$19.1m in 2006-07, and \$17.3m in 2007-08; and
- savings to date from the Regional Information, Communication and Technology Market Testing project.

Table 1.13 details the net savings achieved to date and planned, including transition and up front costs.

Table 1.13	Administrative Savings Achieved/Planned to date				
	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Initiative					
Reductions in civilian workforce	9.5	28.4	46.5	46.5	46.5
Reductions in non-capability related suppliers, including professional service providers	22.0	41.7	41.7	41.7	41.7
Reductions in overseas travel	7.4	7.4	7.4	7.4	7.4
Reductions in domestic travel	11.5	11.5	11.5	11.5	11.5
Renegotiation of the Australian Defence Force Academy agreement	0.9	1.9	1.9	1.9	1.9
Reductions in non-operational overseas positions	4.8	13.4	19.2	20.4	20.3
Removal from service of three P-3 derivative training aircraft	-	-	5.5	5.5	4.0
Rationalisation of civilian personnel administration centres	1.3	1.3	1.3	1.3	1.3
Rationalisation of the former Public Affairs and Corporate Communication Division	2.7	3.2	3.2	3.2	3.2
PMKeyS Self Service	-	0.1	0.1	0.1	0.1
Diners Club Rebate	0.5	-0.2	0.6	0.7	-
Travel Improvement Project (processing staff)	-	0.7	2.0	2.0	2.0
Invoice Scanning and Imaging System	-	0.2	2.4	2.4	2.4
Closure of Defence Cash Offices and centralising receipting	-	0.3	0.3	0.3	0.3
Reduction in ComCover Insurance premium	-	22.5	20.8	19.1	17.3
Regional Information, Communication and Technology Market Testing	-	-	3.7	4.4	4.4
Defence Travel Card/Business Improvement Projects	-	0.2	7.0	7.0	7.0
Savings Achieved/Planned to date	60.6	132.4	175.2	175.4	171.3
CSIG Staff (49 positions)	-	2.5	-	-	-
Business Improvement Project transition costs	-	-	15.8	-	-
Regional Information, Communication and Technology Market Testing transition costs	-	2.3	3.3	-	-
Sub Total of Transition Costs	0.0	4.8	19.1	0.0	0.0
Net Savings	60.6	127.6	156.1	175.4	171.3

Savings achieved and planned are being used to offset the unavoidable cost pressures shown in Table 1.14 to ensure cuts to capability are not required to absorb these costs in the longer term.

Table 1.14 Cost Pressures Offset by Administrative Savings

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Establishment of the Chief Information Office	4.9	4.9	4.9	4.9	4.9
Comcare premium increases	13.0	13.0	13.0	13.0	13.0
Comsuper administration charge	5.4	5.4	5.4	5.4	5.4
Additional legal services and compensation costs	4.0	4.0	4.0	4.0	4.0
Establishment of the Defence Service Call Centre (Cooma New South Wales)	9.5	9.5	9.5	9.5	9.5
Contract costs not able to be funded from Defence Reform Program savings	80.0	100.0	100.0	100.0	100.0
Portfolio contribution to ADF service allowance increase	29.8	29.8	29.8	29.8	29.8
Defence Force Review Tribunal allowance increases	7.0	7.0	7.0	7.0	7.0
ADF Remuneration Reform project costs	13.2	13.2	13.2	13.2	13.2
Increases in overseas leases costs	2.3	2.3	2.3	2.3	2.3
P-3 Orion logistic shortfalls	-	-	5.5	5.5	4.0
Changes in CSS/PSS contribution rates	-	7.2	7.2	7.2	7.2
DFAT common services charges	-	1.7	1.7	1.7	1.7
Higher Comsuper user charges	-	2.4	2.4	2.4	2.4
Higher Comcare user charges	-	1.5	1.5	1.5	1.5
Total Cost pressures requiring funding	169.1	201.9	207.4	207.4	205.9
Savings used as offsets to date	60.6	127.4	156.1	175.4	171.3
Absorbed elsewhere in the Defence Budget or from future savings	108.5	74.5	51.3	32.0	34.6

A number of other initiatives are being developed to deliver the balance of the savings program by 2007-08, as planned.

Asset Management

Defence manages some \$54 billion in assets. This includes some \$31 billion in specialist military equipment and \$11 billion in land and buildings assets, as well as infrastructure, plant and equipment (about \$5 billion), inventories (about \$4 billion), intangibles, and heritage and cultural assets.

In 2001, the then Secretary assigned asset management and accounting responsibilities to various executives in the organisation. For example, the then Under Secretary Defence Materiel Organisation was assigned responsibility for the management and reporting of specialist military equipment assets (including repairable items) and inventory. The Deputy Secretary Corporate Services was assigned responsibilities for land, buildings, infrastructure, property, information technology and administration assets. In December 2004, information technology was transferred to the Chief Information Officer. These executives are responsible for valuing, stocktaking, recording and reporting these assets in accordance with the requirements of the *Financial Management and Accountability Act 1997* and the Finance Minister's Orders.

Defence requires these assets to be managed and recorded in accordance with the Australian National Audit Office *Asset Management Handbook* published in 1996. A key objective of the framework is to assist Defence in complying with Section 44 of the *Financial Management and Accountability Act 1997* which specifies that the Chief Executive is responsible for promoting the efficient, effective and ethical use of resources.

Since 2001, Defence has continued to develop and improve the asset management framework focusing on:

- integrating asset planning, management and disposal decisions into corporate planning processes;
- ensuring that asset planning decisions are based on the evaluation of alternatives, including life-cycle costs, benefits and risks of ownership; and
- assigning responsibility and accountability for asset management policy development, accounting and reporting.

2004-05 Achievements

Defence has moved towards a more comprehensive approach to its asset management and continues to further improve upon strategic asset management initiatives. It has improved the integration of key elements such as whole-of-life planning, procurement, and financial management aspects to maximise its asset management deliverables such as readiness and timeliness of asset delivery, optimal stock holdings and best value for money. A strengthened planning, estimation, risk assessment and approval process (prior to acquisition) has refined and improved the asset acquisition process, including whole-of-life costs and delivery aspects. This will continue to provide improved management of asset acquisitions. Of particular note is the Defence Capability Committee's annual review of planned withdrawal dates of major ADF assets. These decisions are reflected in the financial records of Defence by subsequent revaluation and re-living of assets where appropriate to foster informed decision making, particularly surrounding the replacement of major specialist military equipment platforms.

A new financial control framework is in the process of being implemented to ensure asset accounting difficulties are addressed at their root cause, and that timely remediation plans are put in place to correct major deficiencies. The implementation of remediation plans has improved asset financial reporting in the 2004-05 financial year. The continued implementation of these plans will provide ongoing improvements into the 2005-06 financial year.

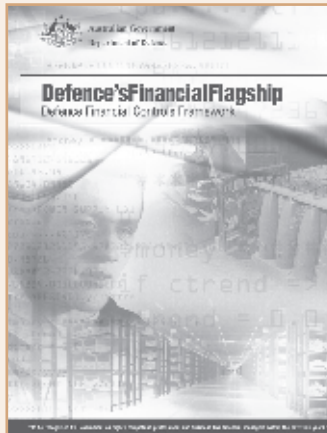
During 2004-05 specialist military equipment was reviewed for impairment and useful lives assessed to unprecedented levels. Work also continued on consolidating the recording of all assets into Defence's primary asset register (ROMAN), including decisions arising from the Defence Capability Committee reviews. All of these activities have led to the improved accuracy and completeness of the asset records, facilitating better informed decision making, particularly where key asset investment and divestment decisions are involved.

During the 2004-05 financial year, Defence undertook to revalue 100 per cent of the non-specialist military equipment assets. The task saw some 27,000 land, building and infrastructure assets and some 31,000 other plant and equipment assets reviewed and the revaluations applied. As part of the revaluation activity the assets were assessed for their heritage and cultural significance. Land, building and infrastructure assets will continue to be progressively revalued on a three-year cycle.

Management of leases is being improved with the development of a centralised lease register and a process for review of classifications and values. Leases represent forward commitments for Defence and the Commonwealth. They can act as an alternative financing vehicle for assets and may involve the sale and leaseback of an asset previously owned by Defence.

DEFENCE'S FINANCIAL FLAGSHIP

During the year, a significant step was taken towards transforming Defence's financial management capabilities. The Defence Financial Controls Framework Project was established to draw together in a structured and integrated fashion all of the components necessary to build a best practice financial management environment. The Secretary and the Chief of the Defence Force officially launched the project on 29 June 2005 as Defence's Financial Flagship. The Auditor-General was a welcome guest at the launch.



The Project (Remediation Plan G1⁽¹⁾) is the cornerstone of the remediation strategies reported in some detail on the following pages. But it is more than just another remediation project. It is a change management program that will standardise and document the way Defence financial business is undertaken so that staff understand what to do, how to do it and how their activities contribute to the overall financial management of Defence.

It will be more comprehensive than any change in the finance domain over recent years and stands apart as the key enabler to implement the Secretary's vision of 'Defence being recognised by Government as highly competent, professional and business-like financial managers within the next five years'.

The five-year time frame is appropriate given the fundamental nature of the changes to be

put in place. The adoption of a comprehensive financial framework for Defence will require significant cultural and behavioural change for all staff working in the finance domain and for Defence people more widely. Such fundamental change in an organisation as large as Defence will take at least five years to achieve.

At its core, the framework will be a simple and intuitive knowledge base that provides all Defence personnel with

access to a comprehensive and integrated source of the financial policies, processes and procedures to manage its business. Documenting and standardising key financial business processes across the portfolio will improve the integrity of financial data and reported information, improve the efficiency of resource management and reduce training costs associated with staff turnover.

The comprehensive Financial Controls Framework is essential, but insufficient by itself, to achieve the Secretary's vision. Having competent staff to transact and manage within the framework is also essential. Business skilling across the finance domain will be re-engineered as part of the framework and a Financial Certification Framework will be established to ensure staff competency requirements are clearly identified and achieved by staff working within the finance domain.

1. See Progress of Financial Statements Remediation Plans

Progress of Financial Statements Remediation Plans

Defence continues to progress a range of improvements to its financial management and business systems and processes, although more work is still required. Defence is currently working through 95 Australian National Audit Office 2003-04 audit findings, and 53 Australian National Audit Office 2004-05 audit findings.

Important initiatives that have been established include:

- implementation of 16 remediation strategies;²
- establishment of program offices in the Chief Finance Officer Group and the Defence Materiel Organisation to drive audit remediation strategies and to provide independent advice to the Secretary and the Financial Statements Project Board on achievement of remediation outcomes;
- rigorous monitoring of remediation strategies by the Financial Statements Project Board, augmented by a representative from the Department of Finance and Administration and a private sector accounting specialist; and
- development of a financial controls framework that will standardise financial transactional and management processes across the portfolio to improve the integrity of Defence financial data, budgeting and financial statements.

Defence has resolved some audit findings in 2004-05, but enduring improvements may take some years.

² Two strategies have been added since the publishing of the *Portfolio Budget Statements 2005-06* (S12 - Provisions for Contaminated or Potentially Contaminated Land, Buildings and Infrastructure and S13 - Commitments and Accounting for Leases)

Table 1.15 Financial Statements Remediation Strategies

Remediation plan	Activity	Major outcomes
G1: Financial Reporting Framework		
<p>The Defence financial management system has been subject to many Australian National Audit Office findings over a period of years. The aim of the remediation activity is to provide a robust control regime for the financial management of Defence business. A financial controls framework has been developed which will draw together, in a structured and integrated fashion, all of the control elements necessary to build a best practice financial management environment for Defence. It will encompass the standardisation of financial processes, reporting and data requirements, a financial staff certification strategy and a change management program.</p> <p>Accountable officer: Chief Finance Officer</p>	<p>Develop and embed a comprehensive Defence Financial Controls Framework that includes:</p> <ol style="list-style-type: none"> establishing the elements of the financial controls framework; assigning responsibility to Group Heads to implement the financial controls framework; implementing standardised processes and practices; and establishing business skilling and competency assessment. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> gain Secretary's endorsement of the project plan and start implementation; gained agreement to the work breakdown structure; developed a fully costed project plan; remediated audit finding relating to appropriations management and reporting; and remediated audit finding relating to reporting of outcomes and outputs. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> develop a workforce strategy for finance staff; develop a skilling strategy for finance staff; develop a financial risk management system across Defence; Identify financial controls shortfalls in existing policies, processes and procedures; and remediate remaining financial reporting framework audit findings relating to special accounts, asset held in trust, goods received/invoice received accrual and military superannuation.

Remediation plan	Activity	Major outcomes
<p>G2: Improving the Australian National Audit Office Annual Audit Process</p> <p>Having clear agreement with the Australian National Audit Office on timelines, methodologies and expectations of deliverables from both parties is crucial to the finalisation of the annual financial statements.</p> <p>Accountable officer: First Assistant Secretary Financial Services</p>	<p>Establish an accountable officer to manage audit activities between Defence and the Australian National Audit Office. Key tasks include:</p> <ol style="list-style-type: none"> negotiating an engagement plan; agreeing to a consistent approach for terminology, quality and format of responses; and establishing comprehensive procedures for quality assurance and clearing audit findings. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> achieved agreement between Defence and the Australian National Audit Office on key issues; establishment of Financial Remediation Program Offices; and regular meetings with Australian National Audit Office staff to improve the relationship between Defence and the Australian National Audit Office. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> clear remaining Australian National Audit findings from 2003-04 and earlier; commence remediation of 2004-05 audit findings; and develop further improvements in the relationship between Defence and the Australian National Audit Office.

Remediation plan	Activity	Major outcomes
<p>G3: Financial Management and Systems Training – Financial and Business Management</p> <p>A consistent theme in the Australian National Audit Office audit findings is the requirement for enhanced skills in the execution of financial management procedures and adherence to approved procedures in the use of Defence corporate information technology systems. The Australian National Audit Office makes some targeted recommendations with regard to enhanced training to address the lack of knowledge in accounting, financial and business management (ROMAN), transactor knowledge (PMKeyS), and the supply system (Standard Defence Supply System). These are complemented by a number of other observations about failures in the application of policy and procedures.</p> <p>Accountable officers: Chief Finance Officer and Director-General Defence Education and Training Development</p>	<p>Develop, conduct and deliver business capability workshops to improve officers' underpinning knowledge and skills:</p> <ol style="list-style-type: none"> accrual accounting; Diploma of Government (Financial Management); Graduate Certificate in Professional Management (Finance); and financial management for Senior Executive Service and Executive Level 2 officers and ADF equivalents. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> financial management training introduced for members of Defence's Senior Leadership Group; and financial management training developed for Executive Level 2 officers and military equivalents. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> develop stronger links between training and systems access; modularise training delivery; establish Key Performance Indicator and metrics for measuring and analysing training effectiveness; financial management training introduced for Executive Level 2 officers and military equivalents; and implement induction level financial courses.

Remediation plan	Activity	Major outcomes
<p>S1: Stores Record Accuracy</p> <p>Defence 'self-qualified' stock quantities relating to general stores inventory and repairable items in 2003-04, following adverse stocktake results. The Australian National Audit Office noted material weaknesses in the internal controls over stocktaking, failure to accurately record and report physical asset quantities, and inadequate system controls to safeguard the accuracy of data. This resulted in a significant range of uncertainty around general stores inventory and repairable items balances.</p> <p>During the systems audit of the Standard Defence Supply System, the Australian National Audit Office have indicated that the control and compliance mechanisms are not adequate and do not provide assurance about the data in the system. The limitation of scope around stores quantities has not been resolved this financial year.</p> <p>Accountable officer: Commander Joint Logistics</p>	<p>Remediate the general stores inventory and repairable items qualification by:</p> <ol style="list-style-type: none"> a. conducting 100 per cent stocktakes at Joint Logistics Command warehouses; b. correcting errors in stores record quantities in the Standard Defence Supply System; and c. promulgating and ensuring compliance with stocktaking policy to improve stocktaking practices and reporting. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> a. implemented compliance and assurance audit methodology; and b. completed 100 per cent stocktake of Defence National Storage and Distribution Centre (Moorebank). <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> a. complete 100 per cent stocktake of Joint Logistics Unit (Victoria); b. finalise audit findings (subject to extent of additional work from S10 and S11); and c. develop plans to address shortcomings with business processes and systems .

Remediation plan	Activity	Major outcomes
<p>S2: General Stores Inventory Pricing and Accounting</p> <p>The 2003-04 Financial Statement had a limitation of scope qualification of approximately \$2,026m with regard to uncertainty around the general stores inventory balance, of which approximately \$610m relates to uncertainty around general stores inventory pricing carried over from 2002-03.</p> <p>At issue was Defence's inability to produce, in a timely manner, invoice and contract documentation to validate the prices in the Standard Defence Supply System. The concerns of the Australian National Audit Office also included the lack of accounting policy in place to ensure the correct treatment of general stores inventory.</p> <p>Inventory pricing issues will need to be assessed in light of the pending Australian Equivalent to International Financial Reporting Standards. The implementation of an even more onerous reporting requirement places greater long-term uncertainty across inventory pricing issues.</p> <p>Accountable officer: Chief Finance Officer, Defence Materiel Organisation</p>	<p>Remediate the general stores inventory pricing and accounting qualification by:</p> <ol style="list-style-type: none"> developing a statistical model to validate legacy (pre-1997) priced items; implementing an exception reporting regime to provide quality assurance; establishing policies and procedures for inventory pricing controls on the Standard Defence Supply System; and establishing policy to ensure the correct treatment of general stores inventory. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> completed remediation action on six audit issues relating to provision for obsolescence, reconciliation of General Stores Inventory, General Stores inventory accounting policy; statistical sampling of data has been undertaken and identified prices potentially requiring error correction where available although it has also indicated that statistical models may not provide sufficient data allowing identification of suitable surrogates for prices generally. Quantification of excess or insurance stock has been calculated; established an exception reporting regime to provide quality assurance of in-year inventory prices; and promulgated financial accounting general stores inventory policy. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> remediation of the audit issue relating to Limitation of Scope – Inventory pricing carried forward from 1999-00 to continue with respect to potential surrogate price sources, although Defence now judges that the cost and effort to seek original paper documentation may not be justifiable, and certainly not ahead of improved systems and controls; complete the financial requirements specification for the Materiel Logistics Financial Framework for inclusion in a replacement logistics system; and review Australian Equivalent to International Financial Reporting Standards implementation to determine system and data retention impacts for multiple pricing records.

Remediation plan	Activity	Major outcomes
<p>S3: Supply Customer Accounts</p> <p>A supply customer account is a location indicator within the Standard Defence Supply System used to track and manage assets and accountable inventory moving through the supply chain, predominantly outside a warehouse structure.</p> <p>The 2003-04 financial statements had a limitation of scope qualification of \$2,857m with regard to the uncertainty around the repairable items balance, of which supply customer accounts are a subset (\$1,000m). The Australian National Audit Office concerns rested with the controls and management of supply customer accounts, including repairable items, and adherence to stocktake procedures.</p> <p>Accountable officer: Chief Joint Logistics</p>	<p>Remediate the supply customer account element of the repairable item quantities qualification by:</p> <ol style="list-style-type: none"> allocating all supply customer accounts an accountable owner; ensuring all supply customer account balances on the Standard Defence Supply System are correct; and improving business processes and controls for supply customer accounts. <p>Note: These include improvements to data creation, maintenance and reporting to ensure accurate quantity, ownership and location details are entered and maintained for all supply customer accounts on the Standard Defence Supply System.</p>	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> accountable owners identified for all supply customer accounts; stocktaking completed for 89 per cent of supply customer accounts and corresponding balances corrected on Standard Defence Supply System. Defence continues its stocktaking program; revised the repair vendor supply customer accounts arrangements to improve management and control between repair vendors and system program offices; and provided enhanced reporting to assist the responsible managers fulfill their obligations and improve the quality of supply customer account data. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> complete stocktake of remaining supply customer accounts and correct balances recorded on the Standard Defence Supply System; and improve business processes regarding management and use of supply customer accounts, incorporate these processes into the Defence Supply Chain Manual and transition the new controls into standard corporate governance activities of all Groups.

Remediation plan	Activity	Major outcomes
<p>S4: Explosive Ordnance</p> <p>The 2003-04 financial statements had a limitation of scope qualification of \$845m relating to uncertainty around Explosive Ordnance pricing. At issue was Defence's inability to produce, in a timely manner, invoice and contract documentation to validate the Explosive Ordnance inventory prices recorded in the Explosive Ordnance procurement management system, Computer System Armaments (COMSARM).</p> <p>The qualification represented approximately 38 per cent of Explosive Ordnance inventory and predominantly relates to direct purchase items and items acquired as part of asset under construction contracts between 1982-2000.</p> <p>Accountable Officer: Head Electronic and Weapon Systems Division, Defence Materiel Organisation</p>	<p>Remediate the Explosive Ordnance inventory pricing qualification by:</p> <ol style="list-style-type: none"> sourcing (where possible) original documentation to substantiate Explosive Ordnance inventory prices; developing tools to substantiate Explosive Ordnance inventory values when appropriate supporting documentation cannot be located to support prices; and improving and integrating Explosive Ordnance inventory accounting and systems management processes. These changes are designed to confirm the accuracy of asset values and enable adherence to financial management standards. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> partly addressed seven audit issues related to the \$845m price qualification; and improved integration of Explosive Ordnance asset and accounting inventory processing and reconciliation procedures. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> continue remediation of the remainder of the \$845m Explosive Ordnance inventory pricing qualification; continue the improvement in Explosive Ordnance inventory processing and reconciliation policies and procedures; implement financial reconfiguration policies to improve the pricing accuracy of complex inventory assets; and continue the program of enhancing computer systems to automate accurate pricing of Explosive Ordnance assets.

Remediation plan	Activity	Major outcomes
<p>S5: Military Leave Records</p> <p>The 2002-03 financial statements had a limitation of scope for military leave provisions because insufficient supporting documentation was available for leave records and, where documentation was available, unacceptable error rates existed in the recording of leave transactions. These shortcomings were mainly attributed to inadequate controls and processes within the military personnel systems and the inability to locate source documentation.</p> <p>The prior year limitation had resulted in a wide-ranging military leave remediation program but Defence did not expect to resolve the problems before 2004-05. Defence 'self-qualified' the military leave provision in 2003-04.</p> <p>Accountable officer: Head Defence Personnel Executive</p>	<p>Remediate the military leave provisions qualification by:</p> <ol style="list-style-type: none"> implementing a risk stratification and sampling methodology to quantify the risk to Defence accounts; providing an accurate representation of the military leave liability by ensuring the integrity of military leave data captured and recorded in PMKeyS; and applying quality assurance to business processes, record keeping strategies, reporting structures, relevant policy foundations, training initiatives and a controls framework. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> remediated military long service leave; and completed a sample of military annual leave. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> Complete military annual leave sampling; and Review leave processing controls including cessation audits.
<p>S6: Civilian Leave Records</p> <p>In 2003-04, the Australian National Audit Office noted problems with civilian leave and payroll processing. The systems issues identified in the management of military leave provisions also affect civilian leave balances.</p> <p>Accountable officer: First Assistant Secretary Personnel, Defence Personnel Executive</p>	<p>Remediate the civilian leave provisions qualification by:</p> <ol style="list-style-type: none"> implementing a risk stratification and sampling methodology to quantify the risk to Defence accounts; providing an accurate representation of the civilian leave liability by ensuring the integrity of civilian leave data captured and recorded in PMKeyS; and applying quality assurance to business processes, record keeping strategies, reporting structures, relevant policy foundations, training initiatives and a controls framework. 	<p>Achieved in 2004-05:</p> <p>Undertook the pilot phase of leave stratification.</p> <p>Planned for 2005-06:</p> <p>Complete further sampling and verification of leave balances.</p>

Remediation plan	Activity	Major outcomes
<p>S7: Executive Remuneration</p> <p>The Executive Remuneration Note (containing information pertaining to civilian and military leave provisions) is ‘material-by-nature’, as required by the Finance Minister’s Orders, and could not be reliably certified because of the limitation of scope within the Australian National Audit Office 2002-03 audit report regarding military leave provisions.</p> <p>A separate limitation of scope was applied to the Executive Remuneration Note in respect of any accrual effects arising from the military leave balances. During the 2004-05 period, Defence focused on improving the accuracy of leave records for the Senior Executive Service and military equivalents by reviewing source documentation.</p> <p>Accountable officer: First Assistant Secretary Personnel, Defence Personnel Executive</p>	<p>Remediate the Executive Remuneration Note qualification by:</p> <ol style="list-style-type: none"> a. completing the 2004-05 Senior Executive Service and military equivalents leave audit; and b. implementing a new system for reporting Executive Remuneration that includes applying quality assurance to business processes, record keeping strategies, reporting structures, relevant policy foundations and training initiatives, and a controls framework. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> a. the Executive Remuneration Note remained qualified as uncertainty remained on the opening balance of both military and civilian leave provisions; and b. implemented revised Executive Remuneration Note management system. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> a. review and verify leave balances for Senior Executive Service and military equivalents; and b. finalise audit finding.

Remediation plan	Activity	Major outcomes
<p>S8: Property Valuations</p>		
<p>The Australian National Audit Office issued a 'limitation of scope' for land, buildings and infrastructure and other plant and equipment as significant flaws were identified in associated project management, reporting practices and management review functions. The requirements to be met by the Australian Valuation Office were not fully and adequately documented and Defence was considered to have misinterpreted the results of revaluations and incorrectly applied depreciation. A particular consequence has been the misapplication of remaining useful life data provided by the independent valuer. This affected both the valuation adopted by Defence and the reported depreciation expense.</p> <p>Accountable officer: Deputy Secretary Corporate Services</p>	<p>Remediate the land, buildings and infrastructure and other plant and equipment qualification by:</p> <ol style="list-style-type: none"> a. revising the Australian Valuation Office engagement letter to clarify valuation policy, procedures and outcomes; b. contracting the Australian Valuation Office to revalue all land, buildings and infrastructure and other plant and equipment assets to fair value in accordance with policy guidance; c. undertaking quality assurance on Australian Valuation Office site reports to ensure completeness; d. entering revaluation data into the financial system (ROMAN) and completing revised depreciation calculations; e. engaging a valuation contractor for the next three year cycle, i.e. 2005-06 to 2007-08; and f. fully documenting the revaluation process in Corporate Services Asset Management and Accounting Manual. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> a. completed all land, buildings and infrastructure valuations by 30 June 2005; b. completed other plant and equipment valuations, except for Chief Information Officer (CIO) by 30 June 2005; c. undertook quality assurance of valuation data and loaded the data into the financial system (ROMAN); d. released request for tender for the next three year cycle ie 2005-06 to 2007-08; and e. documented the revaluation process in the Asset Management and Accounting Manual. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> a. complete the depreciation calculations; b. complete other plant and equipment valuations for Chief Information Officer and undertake quality assurance of valuation data and load the data into the financial system (ROMAN); and c. finalise tender evaluation and engage valuation contractor for the next three year cycle ie 2005-06 to 2007-08.

Remediation plan	Activity	Major outcomes
<p>S9: Preventing the Escalation of Category A and B Findings</p> <p>The 2003-04 Financial Statement Closing Audit Report identified 95 findings that required resolution. The 57 audit findings not allocated to a General or Specific Remediation Plan were grouped under Remediation Plan S9 to ensure each finding is remediated. Any audit findings that are not resolved could escalate from Categories B and C to the most serious category, Category A. Defence has recognised the clear need to improve the outcome, focus and management of the implementation of solutions to Australian National Audit Office findings.</p> <p>Accountable officer: First Assistant Secretary Financial Services</p>	<p>Prevent the escalation of Category A and B findings by:</p> <ol style="list-style-type: none"> a. assigning responsibility across Defence for remediation of each of the 57 audit findings not already allocated to a remediation plan; b. establishing a project-based management system for tracking and managing resolution of these Australian National Audit Office audit findings; c. undertaking progressive and final quality assurance of the remediation outcomes; and d. reporting to the Financial Statements Project Board and Defence Audit Committee on detailed progress. 	<p>Achieved in 2004-05: 37 audit findings completed and forwarded to Australian National Audit Office for clearance.</p> <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> a. finalise remediation of the remaining 2003-04 audit findings; and b. implement strategy for remediating 2004-05 audit findings.

Remediation plan	Activity	Major outcomes
<p>S10: Stock Holding Controls</p> <p>Items first found are items of either asset or inventory that do not have a corresponding Defence register record on any Defence register. Where a check of stock holdings shows that the Defence register record varies from the physical quantity, an investigation into the discrepancy will be required and the outcome may be an adjustment to the Defence Register record, and/or a corresponding financial adjustment. While it is accepted that the normal stock adjustment process will require a certain level of adjustment activity, current levels of adjustment are considered too high and indicate poor adherence to currently approved business processes.</p> <p>Accountable officer: Chief Operating Officer, Defence Materiel Organisation</p>	<p>Improve stock holding controls by:</p> <ol style="list-style-type: none"> preventing or reducing the instance of items first found and write-offs; and accounting for and monitoring those instances first found and write-offs considered legitimate or expected. <p>Note: The remediation activities will focus on preventing errant transactions on the Standard Defence Supply System through improvements in policy, procedure and system process, and the introduction of investigative reporting to measure compliance.</p>	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> developed and implemented a suite of reports in the Standard Defence Supply System in relation to: <ul style="list-style-type: none"> – repair vendors – tracking of repairable items – items in transit – receipting discrepancies; and enhanced Standard Defence Supply System controls, by restricting the ability to change item classifications between inventory and asset, to improve adherence to the accounting guidelines. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> modify the Standard Defence Supply System to increase the rigour applied to tracking of repairable items and receipting discrepancies to improve data accuracy; revise and promulgate supply chain policy relating to lost or damaged items and item tracking; and enhance compliance and audit capability, to ensure that all users are complying with the Standard Defence Supply System business processes.

Remediation plan	Activity	Major outcomes
<p>S11: Standard Defence Supply System Items</p> <p>Not-in-Catalogue</p> <p>Defence is investigating the extent to which items may have been incorrectly accounted for in the Statement of Financial Position. This may occur when an item is purchased via the ROMAN financial system and then not recorded and managed on the Standard Defence Supply System. Such items are managed and tracked locally with no central visibility. It may lead to the incorrect recording and treatment of an item's value.</p> <p>Accountable officer: Chief Operating Officer, Defence Materiel Organisation</p>	<p>Address the potential Not-in-Catalogue issues as they may affect the financial statements by putting in place measures to prevent and remediate Not-In-Catalogue items. The activities include:</p> <ol style="list-style-type: none"> clarifying and simplifying policy directives to better support effective item identification, purchasing and management process. Use the redrafted policies on Item Identification (Codification), ADF Logistics Managers' roles and responsibilities, and procurement routing rules to drive new processes and procedures that will prevent the future incidence of Not-In-Catalogue; developing a 'self remediation' methodology for use by units across Defence to transition Not-In-Catalogue items into the Standard Defence Supply System and the standard financial management regime, including development of a value proposition for the management of legacy items; developing a compliance monitoring and reporting framework to assist with adherence to new policy and process; implementing an ongoing compliance monitoring and reporting regime; and establishing a change management structure to introduce the changes to processes and procedures across Defence, which includes coordination of training, compliance monitoring and communications. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> reviewed and revised policies relating to Item Identification (Codification), Procurement Routing Rules and ADF Logistics Managers roles and responsibilities; and commenced quantification of the magnitude of the Not-In-Catalogue problem across Defence. <p>Planned for 2005-06:</p> <p>Prevention of Not-In-Catalogue:</p> <ol style="list-style-type: none"> modify processes and procedures to support updated policies, including the process for assignment of ADF logistics managers; implement organisational changes (including structural and role related changes) to support the policies; provide training; and develop and implement a compliance monitoring and reporting regime. <p>Remediate existing Not-In-Catalogue:</p> <ol style="list-style-type: none"> complete quantification of Not-In-Catalogue across Defence to enable groups to establish their Not-In-Catalogue remediation priorities; develop and implement a Not-In-Catalogue remediation methodology for use across all sites; and establish a progress reporting regime.

Remediation plan	Activity	Major outcomes
<p>S12: Provisions for Contaminated or Potentially Contaminated Land, Buildings and Infrastructure</p> <p>Defence is required to include a provision for land decontamination in the financial statements. The Australian National Audit Office was unable to verify the adequacy of current procedures nor the accuracy/valuation and completeness of the reported provisions for land decontamination.</p> <p>Accountable officer: Deputy Secretary Corporate Services</p>	<p>Remediate the provision for land decontamination qualification by:</p> <ol style="list-style-type: none"> ensuring accounting policies reflect current reporting requirements; ensuring that sufficient and appropriate policies, procedures and practices are formalised and implemented for the identification of contaminated land, valuation of required decontamination and review of procedures undertaken and assessments made; and obtaining a clear understanding from the Australian Valuation Office regarding matters included in valuation assessments. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> conducted a detailed review of all extant policies to ensure current reporting requirements were met; provided clear guidance in the 2004-05 valuation instructions to the Australian Valuation Office; implemented the Contamination Priority Sites Investigation Program; and pilot review completed for the Australian Capital Territory /Southern New South Wales region. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> assessment of outcomes of Australian Capital Territory /Southern New South Wales pilot study; development of final Remediation Plan including implementation timetable, assessments of legal and/or constructive obligations across the Contaminated Sites Register; and commence site assessments for costings.
<p>S13: Commitments and Accounting for Leases</p> <p>The ANAO were unsatisfied with the methods used by Defence to recognise and record leases and commitments.</p> <p>Accountable officer: Chief Finance Officer</p>	<ol style="list-style-type: none"> Remediate the audit finding issued for Commitments and Accounting for Leases carried forward from 2002-03 by defining the criteria for recording commitments; and establishing a lease register that identifies cashflows, revenues, expenses, liabilities, receivables and commitments. 	<p>Achieved in 2004-05:</p> <p>All leases have been identified and correctly classified.</p> <p>Planned for 2005-06:</p> <p>Complete a central register of all commitments.</p>

Corporate Governance

Defence – its organisation and functions

The organisation known as ‘Defence’ comprises the Australian Defence Force (ADF) and the Department of Defence.

Defence is staffed by Australian Public Service (APS) and ADF personnel. While some parts of Defence are almost exclusively military or civilian, most are not. In most of our organisation, military and civilian personnel work together, each bringing particular expertise and experience, to deliver Defence outcomes.

The ADF is made up of the three Services (Navy, Army and Air Force), though many ADF members work in the Defence Groups. The Defence Groups are the other high-level Defence functional areas that deliver Defence outcomes and/or support those that do. The Services and Groups are broadly categorised into one of the three groupings below, according to the nature of their core work. Each Group and Service also supports, fundamentally in many cases, the ability of the others to achieve Defence outcomes.

Delivering Defence Outcomes

Defence is directly responsible for delivering six core outcomes to the Government. Outcome One, Defence Operations, is the core business of the Chief of Joint Operations. The Services deliver the Navy, Army and Air Force outcomes (Defence Outcomes Two, Three and Four). Outcomes Five and Six are delivered by the Strategy Group and Intelligence Group respectively.

Other Defence Groups are divided into two broad categories: Enabling Groups and Owner Support Groups.

Enabling Defence Outcomes

The Enabling Groups are those that provide the equipment, infrastructure and support that underpin Defence’s ability to deliver its outcomes. The Defence Materiel Organisation, which became a prescribed agency on 1 July 2005, buys, maintains, upgrades and disposes of the specialist military equipment used by the ADF to train for and conduct operations. The contribution of the Defence Materiel Organisation is detailed in Chapter Six – Defence Materiel Organisation. Corporate Services and Infrastructure Group manages the Defence estate of land, buildings and infrastructure and a wide range of corporate services, including legal advice, personnel administration and the management of garrison support and maintenance contractors. The contribution of the Corporate Services and Infrastructure Group is detailed in Chapter Five – Group Contributions.

Supporting our owner

The Owner Support Groups provide specialist advice and support to the Government and Defence to ensure the efficient and effective operation of Defence and the development of our future capability. The Capability Development Group, the Defence Science and Technology Organisation, the Chief Information Officer’s Group, the Chief Finance Officer Group, Defence Personnel Executive, the Inspector-General Group and Coordination and Public Affairs Division are all owner support groups and their contributions are detailed in Chapter Five – Group Contributions.

The Chief Finance Officer Group is responsible for the financial information provided in this report including the Financial Statements, Financial Overview, Capital Budget overview and the Cost to Government and Explanation of Significant Variations analysis for each of the Defence Outcomes.

The work of the Defence Personnel Executive is reported in Chapter Three – People and the Inspector-General is discussed in the ‘Internal Audit and Risk Management Arrangements’ section of the Appendices.

Organisational Changes

In July 2004, the Secretary and the Chief of the Defence Force created a new position of Chief of Staff Australian Defence Headquarters, supported by the newly formed Coordination and Public Affairs Division. This division was drawn principally from the former Ministerial Services and Public Affairs Division and was established on 1 September 2004. A new Defence Legal Division was also created within Corporate Services and Infrastructure Group. This new division combines the former Defence Legal Service with certain other para legal functions that had been performed elsewhere within the National Operations Division of the Group.

In response to reviews of the Defence Information Environment, the Office of the Chief Information Officer was amalgamated with the Information Systems Division (formerly part of the Corporate Services and Infrastructure Group) within an expanded Chief Information Officer Group. The authority of the new group encompasses all aspects of the Defence Information Environment capability management including strategy, planning, prioritisation, development, implementation and support, with regional information technology support delivered by Corporate Services and Infrastructure Group.

On the 26 April 2005, the position of Deputy Director, Defence Intelligence Organisation was re-created in accordance with the recommendations of the Inquiry into Australia’s Intelligence Agencies conducted in 2004 by Mr Philip Flood AO.

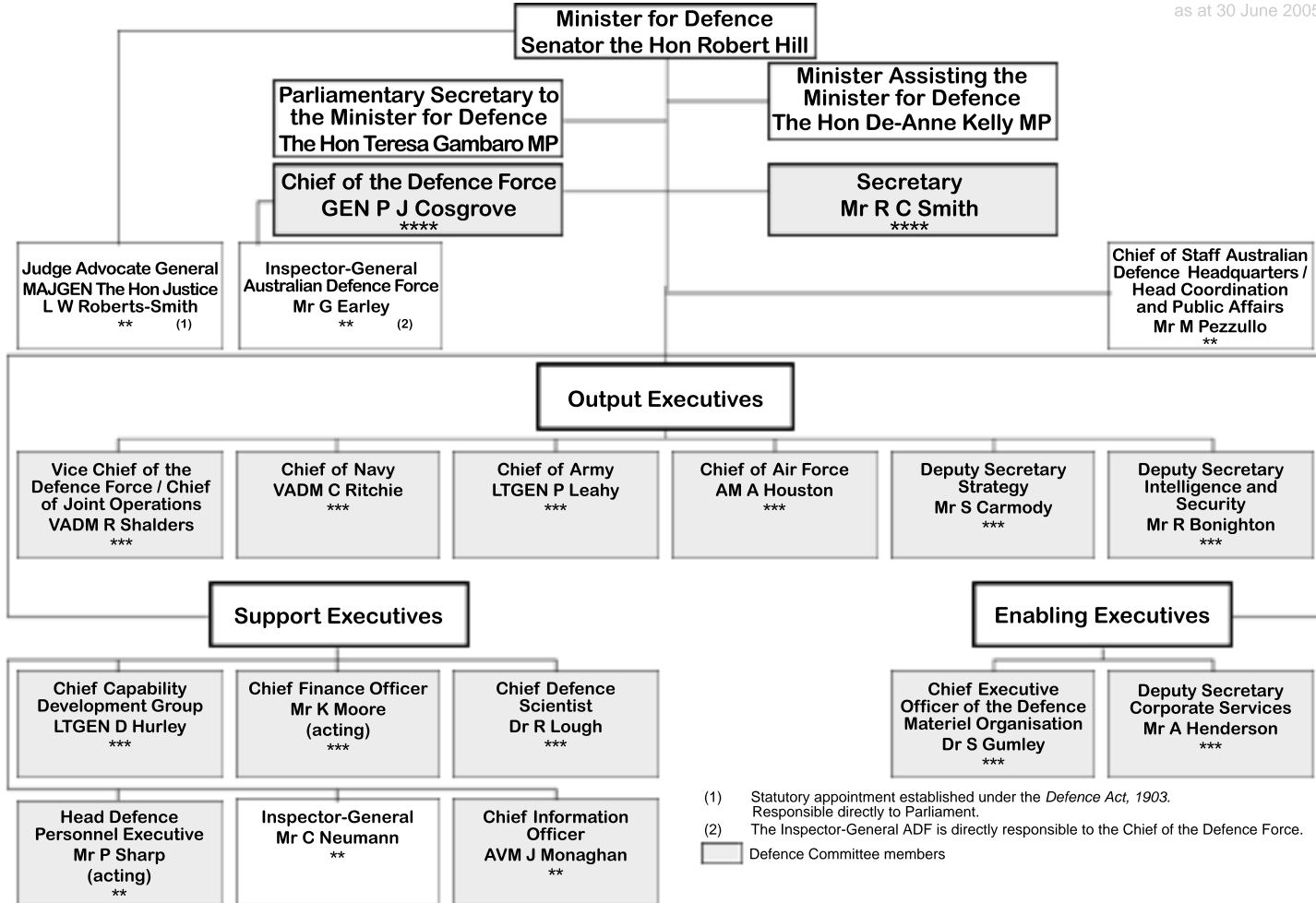
Organisational changes that have taken place within the Defence Materiel Organisation during 2004-05 are detailed in Chapter Six – Defence Materiel Organisation.

Organisational Chart

The following chart depicts the structure of the organisation as at 30 June 2005.

Organisational Chart

as at 30 June 2005



Senior Executives

Changes

Mr Lloyd Bennett, Chief Finance Officer, resigned in March 2005. Mr Ken Moore was appointed as Acting Chief Finance Officer on 29 March pending the permanent filling of the position.

Air Vice-Marshal John Monaghan was appointed as the Chief Information Officer on 3 December 2004.

Major General Maurice McNarn was appointed as the Director Defence Intelligence Organisation on 24 January 2005.

Following a review of the Defence Health Service, Air Vice-Marshal Tony Austin was appointed as the Head, Defence Health Services on 17 May 2005.

Rear Admiral Graham Shirtley was appointed as the Surgeon General of the Australian Defence Force on 9 May 2005.

Remuneration for Period in Office

Remuneration for key Defence executives included in Table 1.16 below includes salary and allowances, accrued superannuation, redundancy payments, accrued leave, car parking, motor vehicle costs and fringe benefits tax. In addition, for ADF members, it includes the value of health and housing subsidies and a number of other miscellaneous allowances such as career transition training, separation and retention allowances.

Table 1.16 Senior Executive Remuneration 2004-05⁽¹⁾	
Position and name	Remuneration \$
Secretary	
Mr Richard Smith	470,000 to 479,999
Chief of the Defence Force	
General Peter Cosgrove	590,000 to 599,999
Chief Executive Officer of the Defence Materiel Organisation	
Dr Stephen Gumley	650,000 to 659,999
Vice Chief of the Defence Force/Chief of Joint Operations	
Vice Admiral Russ Shalders	380,000 to 389,999
Chief of Navy	
Vice Admiral Chris Ritchie	370,000 to 379,999
Chief of Army	
Lieutenant General Peter Leahy	380,000 to 389,999
Chief of Air Force	
Air Marshal Angus Houston	310,000 to 319,999

Note

- The total remuneration for each of the senior executives differs due to different leave liability and superannuation arrangements.

Study of Parliamentary Process

In 2004-05, Defence continued the program of training to enhance the understanding of parliamentary principles and process for the Senior Executive Service and ADF star-ranked officers.

During 2004-05, 72 Senior Executive Service and ADF star-ranked officers undertook the Department of the Senate seminar, *Parliament, Privilege and Accountability*, at Parliament House and Russell Offices.

As at 30 June 2005, 60 per cent of Senior Executive Service and ADF star-ranked officers had completed the program. An additional training session was held in September 2005.

Defence has identified a clear need for an awareness strategy that will assist all levels, especially those newly posted to Canberra, to understand the workings of the Government and its relationship with Defence. In 2004-05, Defence commenced the implementation of a broad Government Awareness Strategy focusing on dedicated orientation briefing sessions and development of an internal training course.

Defence Governance Framework

In 2004-05, Defence published its new governance framework. This framework, based on the Australian National Audit Office's 'house of governance' model, demonstrates the key organisational, risk and process elements of good public sector governance. The framework has embedded within it a number of key accountability documents and measures, including the Ministerial Directive, Group Head and Service Chief charters, organisational performance agreements and guidance on inter-agency consultation.

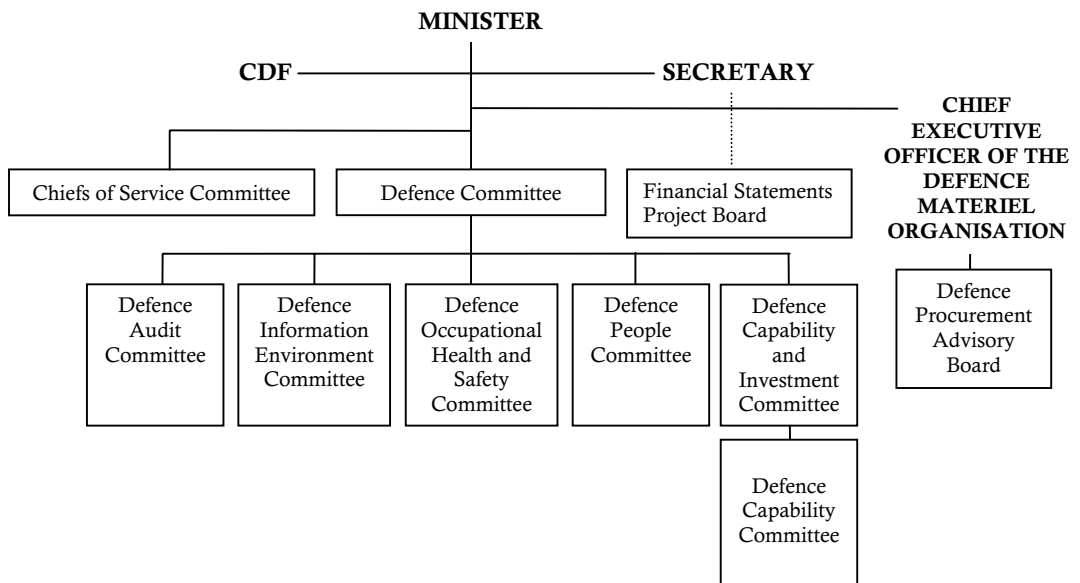
In addition, at the request of the Defence Committee, the Chief of Staff Australian Defence Headquarters undertook a review of Defence governance that focused on streamlining enterprise management and reporting processes and standardising key governance documentation and activities.

Initial recommendations from this review have been implemented and further recommendations will be considered in 2005-06.

Senior Committees

The senior Defence committees are key elements in Defence's governance framework. All senior Defence committees continue to be advisory with the chair exercising executive authority. There were eight senior Defence committees in 2004-05, as well as the Financial Statements Project Board and the Defence Procurement Advisory Board. Their roles and membership are explained on the following pages.

Attendance of committee meetings is available in the internet version of the annual report at www.defence.gov.au/budget/04-05/dar/

Chart 1.4 Senior Defence Committees Structure


Defence Committee

The Defence Committee is the pre-eminent committee in Defence. Its role is to make decisions that assist in achieving the results specified in the Ministerial Directive to the Secretary and the Chief of the Defence Force. These include successful conduct of joint military operations, with the Chief of the Defence Force retaining sole command authority; provision of capability to enable our armed forces to defend Australia and its national interests; timely and responsive advice to the Minister and the Government; proper stewardship of people and of financial and other resources, including operating within budgeted financial performance; and appropriate evaluation and reporting, including an annual Defence Management and Finance Plan, the Defence Capability Plan, and periodic strategic reviews and Defence White Paper reports. The Defence Committee gives direction and assesses performance in delivering those results, with a focus on the longer term.

In 2004-05, members were the Secretary (chair), Chief of the Defence Force, Chief Executive Officer of the Defence Materiel Organisation, Vice Chief of the Defence Force/Chief of Joint Operations, Chief of Navy, Chief of Army, Chief of Air Force, Chief Capability Development Group, Chief Defence Scientist, Chief Finance Officer, Deputy Secretary Corporate Services, Deputy Secretary Intelligence and Security, Deputy Secretary Strategy, Chief Information Officer, and Head Defence Personnel Executive.

The committee held 11 scheduled business meetings in 2004-05 and two planning days.

Chiefs of Service Committee

The Chiefs of Service Committee provides military advice to the Chief of the Defence Force to assist him in discharging his responsibilities in command of the ADF and as principal military adviser to the Government.

In 2004-05, membership comprised the Chief of the Defence Force (chair), the Secretary, Vice Chief of the Defence Force/Chief of Joint Operations, Chief of Navy, Chief of Army and Chief of Air Force. Deputy Secretary Strategy is a permanently invited member.

The committee met 11 times in 2004-05.

Defence Capability and Investment Committee

The Defence Capability and Investment Committee's role is to strengthen independent review of major capability and investment issues by seeking to ensure that resourcing, including capital investment and operating costs, is consistent with Defence's strategic priorities and resourcing strategy. The committee focuses on:

- the overall shape of capability/balance of resource allocation/ten-year Defence Plan;
- force structure, including Service plans;
- the balance between the different organisational performance agreements;
- force disposition;
- the broad new major investment program;
- operating/capital mix; and
- other issues with a significant impact on capability.

In 2004-05, members were the Secretary (chair), Chief of the Defence Force, Chief Executive Officer of the Defence Materiel Organisation, Chief of Navy, Chief of Army, Chief of Air Force and Chief Capability Development Group.

Vice Chief of the Defence Force/Chief of Joint Operations, Chief Defence Scientist, Chief Finance Officer and Deputy Secretary Strategy attended as advisers.

The committee held seven scheduled business meetings in 2004-05 and one extraordinary meeting.

Defence Capability Committee

The role of the Defence Capability Committee is to consider and develop options for current and future capability. The committee is a sub-committee of the Defence Capability and Investment Committee and focuses on individual major capital investment projects to ensure:

- consistency with the Defence White Paper and the Defence Capability Plan;
- a whole-of-life and whole-of-capability perspective;
- an acceptable return on capital expenditure;
- there are no unmanageable strategic, technical, schedule or financial risks; and
- rigorous, independent scrutiny of capability, cost, schedule and risk.

In 2004-05, members were Chief Capability Development Group (chair), Head Strategic Policy, First Assistant Secretary Capability, Investment and Resources, Deputy Chief of Navy, Deputy Chief of Army, Deputy Chief of Air Force, Chief Operating Officer of the Defence Materiel Organisation, First Assistant Secretary Budgets and Financial Planning, Chief Defence Scientist and Head Capability Systems.

Permanently invited members were Deputy Secretary Intelligence and Security, Deputy Chief Joint Operations, Chief Information Officer, Head Infrastructure and Head Defence Personnel Executive. In addition, a representative from the Department of Finance and Administration attended as a permanently invited member.

The committee held 11 scheduled meetings in 2004-05 and one extraordinary meeting.

Defence Audit Committee

Under Section 46 of the *Financial Management and Accountability Act 1997*, the Secretary must establish and maintain an audit committee, with the functions and responsibilities required by the Finance Minister's Orders. The Defence Audit Committee is the only senior Defence Committee that has its authority located in law. The Defence Audit Committee is responsible for reviewing the preparation and audit of the Defence financial statements and providing advice to the Secretary on the adequacy of the statements and the accounting policies, procedures and systems involved. The committee approves internal audit plans and strategies, and reviews internal and external audit reports. It also monitors and provides advice to the Secretary on Defence's risk management policies and practices, ethics awareness activities and fraud control plans.

In 2004-05, the committee consisted of two independent, external members (chair and deputy chair) and three internal Defence members chosen as senior Defence officers, not as representatives of their substantive positions. The Chief Finance Officer and Inspector-General attended as advisers and representatives of the Australian National Audit Office attended as observers.

The committee held 11 scheduled business meetings in 2004-05 and one extraordinary meeting.

Defence People Committee

The purpose of the Defence People Committee is to provide a strategic focus on, and to be an advocate for, the importance of people in supporting Defence capability. This committee supports the Defence Committee by ensuring that Defence takes a strategic approach to people. It is responsible for providing advice, and making recommendations, on strategic people issues to the Defence Committee and Defence Capability and Investment Committee. The committee is also responsible for overseeing the Defence Workforce and People Plans and recommending to the Minister Assisting the Minister for Defence the allocation of the \$100m annual provision, until 2005-06, for high priority people initiatives that assist to attract, recruit and retain people in Defence.

In 2004-05, members were the Head Defence Personnel Executive (chair), Vice Chief of the Defence Force/Chief of Joint Operations, Deputy Secretary Corporate Services, Deputy Chief of Navy, Deputy Chief of Army, Deputy Chief of Air Force, First Assistant Secretary Budget and Financial Planning, First Assistant Secretary Personnel and Ms Noela L' Estrange, an independent, external member of the committee.

The committee held eight scheduled business meetings in 2004-05 and one extraordinary meeting.

Defence Information Environment Committee

The Defence Information Environment Committee advises the Chief Information Officer on the governance of the Defence information environment to meet Defence requirements. The committee has been in abeyance since December 2004, pending clarification of its role, membership and responsibilities in 2005-06 by the Chief Information Officer.

In 2004-05, membership comprised the Chief Information Officer (chair), Deputy Chief Information Officer, Deputy Secretary Intelligence and Security, Chief Finance Officer, Head Defence Personnel Executive, Head Capability Systems, Head Strategic Policy, Deputy Chief Joint Operations, Deputy Chief of Navy, Deputy Chief of Army, Deputy Chief of Air Force, Chief Operating Officer of the Defence Materiel Organisation, Head Electronic and Weapons Systems, Director Information Sciences Laboratory - Defence Science and Technology Organisation, Head Information Systems Division and Assistant Secretary Information Architecture and Management (secretary). The Director-General Information Policy and Plans, and Assistant Secretary Information Strategy and Futures were invited observers.

The committee held six scheduled meetings in 2004-05.

Defence Occupational Health and Safety Committee

The Defence Occupational Health and Safety Committee is responsible for:

- overseeing the implementation of the Defence Occupational Health and Safety Strategic Plan;
- overseeing the progression and management of Defence-wide occupational health and safety initiatives and improvements in occupational health and safety performance;
- assessing Defence occupational health and safety performance;
- monitoring development of the Defence Occupational Health and Safety Management System;
- steering the implementation of recommendations arising from external occupational health and safety investigations and audits;
- facilitating the communication of lessons learned across Defence;
- evaluating corporate compliance with internal and external occupational health and safety requirements; and
- monitoring the risks to people's wellbeing.

In 2004-05, members were the Head Defence Personnel Executive (chair), Vice Chief of the Defence Force/Chief of Joint Operations, Deputy Chief of Navy, Deputy Chief of Army, Deputy Chief of Air Force, Deputy Chief Executive Officer of the Defence Materiel Organisation (previously represented by Head Airborne Surveillance and Control), and Head National Operations Division, Corporate Services and Infrastructure Group.

The committee met six times during 2004-05.

Financial Statements Project Board

In the *Defence Annual Report 2003-04*, the Secretary reported that, due to a number of material account balance uncertainties, he and the Chief Finance Officer could not form the opinion that Defence's 2003-04 Financial Statements gave a true and fair view of Defence's financial position. The subsequent Australian National Audit Office's Audit Report (No.21 – *Audits of Financial Statements of Australian Government Entities for the Period Ended 30 June 2004*) identified 95 audit findings requiring resolution. Resolution of these issues is a high priority at both whole-of-government and portfolio levels. The Financial Statements Project Board was established in 2003-04 to drive the financial remediation project and to report to the Government on progress. The board was augmented in

2004-05 with the addition of two new members, a Department of Finance and Administration representative and a senior private sector accounting representative.

In 2004-05, members were the Secretary (chair), Chief Finance Officer, Vice Chief of the Defence Force/Chief of Joint Operations, Chief of Navy, Chief of Army, Chief of Air Force, Chief Executive Officer of the Defence Materiel Organisation, Deputy Secretary Corporate Services, Head Defence Personnel Executive, a Department of Finance and Administration representative and a senior partner of the accounting firm, Ernst and Young.

The board held 11 meetings in 2004-05.

Defence Procurement Advisory Board

The creation of the Defence Procurement Advisory Board arose from a recommendation of the Defence Procurement Review. The board's role is to monitor the implementation of the recommendations of the Defence Procurement Review, and provide advice and support to the Chief Executive Officer of the Defence Materiel Organisation on strategic issues relating to the direction and focus of objectives, planning management and structure of the Defence Materiel Organisation, including how best to achieve cultural change. The board is accountable to the Ministers for Defence and Finance and Administration, and reports to the Government on the implementation of all Defence Procurement Review recommendations. The inaugural meeting was held in March 2004.

In 2004-05, the committee consisted of four private sector members (one of which is the chair), the Secretaries of Defence, Finance and Treasury, and the Chief of the Defence Force. The Chief Executive Officer of the Defence Materiel Organisation, Dr Stephen Gumley, attends as an *ex officio* member of the Board and a representative from the Department of the Prime Minister and Cabinet is present at all meetings.

The board held eight meetings in 2004-05.

CHAPTER TWO

CAPITAL BUDGET

A large proportion of Defence's budget goes to purchasing and maintaining specialist equipment and facilities. This chapter explains where that money was spent during 2004-05.



Overview

Major Capital Investment Program ¹

Capital Facilities Projects

Other Capital Purchases

Capital Receipts

¹ For details of the Top 30 major capital equipment projects by 2004-05 expenditure see Chapter Six – Defence Materiel Organisation

Overview

Overview of the Capital Investment Program

The Capital Investment Program is comprised of:

- the major capital equipment program which includes two components:
 - the Unapproved Major Capital Equipment Program (Defence Capability Plan) – managed by the Chief of the Capability Development Group; and
 - the Approved Major Capital Equipment Program – managed by the Chief Executive Officer of the Defence Materiel Organisation;
- the Capital Facilities Program – managed by Deputy Secretary Corporate Services;
- other Capital Purchases – managed by the Service Chiefs and Group Heads; and
- Capital Receipts – managed by the Service Chiefs and Group Heads.

Defence's capital investment program includes expenditure that is sourced from both the capital and operating budgets. For example, research and development work, project studies, design work, specialist and professional advice and project office overheads are treated as operating expenses rather than being capitalised. In addition, certain project costs such as initial spares and the first three years of maintenance support costs are charged to the project, but brought to account as inventory purchases or suppliers expense in the operating budget. Accordingly, the Defence Capital Investment Program is comprised of both capital and operating funds.

In the post-Defence Procurement Review environment, more work is being undertaken prior to first pass approval and between first and second pass approval to define the options, costs, schedule and risks of project proposals. A higher proportion of costs for this work is now classified as operating expenses such as project definition studies and project development funds. The same trends are evident in the Capital Facilities Program which also now uses the 'two pass' approval process. Operating costs includes preliminary design work, environmental clearances and initial operating and maintenance costs. The mix of funding will continue to change, reflecting project throughput and the individual circumstances for each project. Table 2.1 which follows therefore shows the investment program by both its capital and operating elements.

Overview of Financial Performance in 2004-05

Excluding capital receipts, Defence capitalised or expended \$4,317.8m on the capital investment program in 2004-05 which was \$151.3m more than the revised estimate as summarised in Table 2.1. Explanations for the variations in each category follow Table 2.1.

Table 2.1 Defence Financial Performance for the Capital Investment Program
2004-05

Component	2004-05			
	Budget Estimate \$m	Revised Estimate \$m	Actual Result \$m	Variance \$m
- Capital Component	2,563.1	2,689.4	2,817.2	127.8
- Operating Component	349.5	438.8	505.3	66.5
1. Sub-total Major Capital Investment Program	2,912.7	3,128.2	3,322.5	194.3
- Capital Component	448.0	388.5	342.6	-45.9
- Operating Component	20.7	23.0	50.7	27.7
2. Sub-total Major Capital Facilities Program	468.7	411.5	393.3	-18.2
3. Other Capital Purchases	472.5	626.8	602.1⁽¹⁾	-24.7
4. Gross Capital Investment Program (1+2+3)	3,853.9	4,166.5	4,317.8	151.3
5. Less Capital Receipts	-92.0	-92.0	-105.7⁽²⁾	-13.7
6. Net Capital Investment Program (4+5)	3,761.9	4,074.5	4,212.1	137.6

Notes

1. See further details at p. 86.
2. See further details in Table 2.7.

Major Capital Investment Program (+\$194m)

All up, Defence expended some \$3,323m on the major capital investment program which was \$410m more than the original budget and \$194m more than the revised estimate. This included start-up expenditure on a range of new projects that were approved during the course of the 2004-05 financial year which, following approval, were transferred to the Defence Materiel Organisation for their acquisition phase.

Defence Capability Plan

The Defence Capability Plan is a detailed, costed plan for Australia's military capabilities over a ten-year period, with broad guidance on major investments over the following ten years. The plan is reviewed regularly to take account of changing strategic circumstances, new technologies and changed priorities. The plan sets out the planned investment in new equipment under six capabilities goals – land forces, air combat, maritime forces, strike, information, and intelligence capability.

Between the period when the Defence White Paper 2000 was announced in December 2000 and 30 June 2005, the Government had approved more than 140 major projects or phases of projects with an approximate cost of \$21.2 billion. The Government will be presented with further projects for consideration in 2005-06.

During the course of 2004-05, 26 projects at a cost of \$2.5 billion were approved by the Government. A list of the acquisition projects approved by the Government in 2004-05 is provided in Table 2.2 below.

Table 2.2		List of Major Capital Equipment Projects Approved by the Government in 2004-05 ⁽¹⁾⁽²⁾⁽³⁾		
Project No	Phase	Name	Approval Budget (Band \$m)	Status as at 30 June 2005
Support to the development of the Major Capital Equipment Program				
		Capability Technology Demonstrators (2004)	10 to 20	Various
		Capability Technology Demonstrators (2005)	20 to 30	Various
		Project Development Funding	10 to 20	Various
First Pass and Pre-First Pass Approval				
AIR 5276	Phase 8B	AP-3C Electronic Support Measures	Less than 10	Study
AIR 5418	Phase 1	Follow-on Stand-Off Weapon	10 to 20	2
JP 126	Phase 2	Joint Theatre Distribution System	Less than 10	4
JP 129	Phase 2	Airborne Surveillance for Land Operations	Less than 10	2
JP 2048	Phase 4A/4B	Amphibious Deployment and Sustainment – Risk Reduction Activity	Less than 10	Study
JP 2089	Phase 2A	Tactical Information Exchange Domain (F/A-18 Hornet)	Less than 10	Various
LAND 58	Phase 3	Weapon Locating Radar Life of Type Extension	Less than 10	4
LAND 146	Phase 1	Combat Identification for Land Forces	Less than 10	Various
SEA 4000	Phase 1D	Air Warfare Destroyer <i>Aegis</i> study	10 to 20	Study
SEA 4000	Phase 2	Air Warfare Destroyer – Design Activity	450 to 600	2
Second Pass Approval				
AIR 5276	Phase 4	AP-3C Electronic Warfare Self Protection	30 to 50	1
AIR 5376	Phase 2.4	The Hornet Target Designation System	100 to 150	2
AIR 9000	Phase 2A	Additional Trooplift Helicopters	750 to 1,000	1
AIR 9000	Phase 5A	Chinook Upgrade – Early Engine Replacement	50 to 70	2
JP 2060	Phase 2B	Deployable Health Capability	50 to 70	4
LAND 125	Phase 2B	Soldier Enhancement Version One – Acquisition	30 to 50	2
SEA 1390	Phase 4B	FFG Standard Missile-1 (SM-1) Replacement	450 to 600	3

Notes

1. This list excludes highly classified projects.
2. This list includes a number of projects that were originally planned for approval in 2002-03 and 2003-04.

3. This list excludes a number of projects that support the development of the new major capital equipment program, such as the Rapid Prototype, Development and Evaluation Project.

Key to Project Status Categories

1. Project under way (contract signed).
 2. Tender closed.
 3. Out to tender.
 4. Yet to go to tender.
-

Various: Either contributing to more than one project or consisting of several internal phases of varying status

Study: Project risk/industry etc study

Approved Major Capital Equipment Program

The approved major capital equipment program is comprised of those projects that generally cost in excess of \$20m and which, following approval, are transferred from the Defence Capability Plan to the Defence Materiel Organisation for their acquisition phase. The Defence Materiel Organisation manages the approved major capital investment program.

Projects costing between \$8m and \$50m are approved jointly by the Ministers for Defence and Finance and Administration. Projects costing less than \$20m are generally categorised as minor capital projects and are part of the other capital purchases category, although individual project phases within the Defence Capability Plan, such as studies, can cost less than \$20m.

Total expenditure including on the newly-approved projects outlined above totalled \$3,323m or \$194m more than the revised estimate.

An overview of the top 30 projects in the approved major capital equipment program can be found in Chapter Six – Defence Materiel Organisation in Table 6.1.

Capital Facilities Projects (-\$18.2m)

The Capital Facilities Program funds the construction of buildings and infrastructure projects including specialised ranges, training and accommodation facilities, maintenance hangars, messes and warehouse facilities. The program develops facilities and infrastructure to support the introduction of new military equipment into operational service, as well as maintaining facilities to support Defence personnel where they work, live and train.

Examples of support to new military capability include:

- the extensions to the Darwin wharf (Northern Territory) for the new Armidale-class patrol boat;
- the construction of state-of-the-art specialised ranges and training facilities at Holsworthy (New South Wales) for special forces units; and
- a range of new and redeveloped facilities and infrastructure at RAAF Williamtown (New South Wales), including a maintenance hangar, aprons and fuel facilities to support the introduction into service of the Airborne Early Warning and Control Aircraft.

Recent projects that support personnel and their families include:

- the construction of childcare facilities at RAAF Williamtown (New South Wales), Puckapunyal (Victoria) and East Sale (Victoria);
- the replacement of existing accommodation, messing and physical fitness facilities at RAAF Townsville (Queensland); and
- the construction of the new headquarters and training facilities at Lavarack Barracks (Queensland).

Approval processes for capital facilities projects vary according to value. Major capital facilities projects cost at least \$6m and are subject to Government consideration and review by the Joint Statutory Committee on Public Works. Medium facilities projects have budgets between \$250,000 and \$6m. Medium facilities projects between \$5m and \$6m are subject to ministerial approval but are not reviewed by the committee. Projects under \$5m are approved by departmental delegates.

Total expenditure on Defence's major capital facilities program in 2004-05 was \$18.2m below the revised estimate of \$411.5m. This primarily reflected an underestimation of the time required to finalise documentation and obtain approval for a number of major and medium projects. Also, adverse weather in some areas delayed construction and the inability of contractors in some regions to take on the work in the expected time frames due to the tempo of activity in the non-residential construction industry being very high in some regions, contributed to the result.

The operating expenses component of Defence's major capital facilities program was \$27.7m above the revised estimate, partially offsetting the slippage in the capital element of project expenditure. Operating expenses include all costs incurred in developing projects such as preliminary designs, environmental clearances and cost estimates for facilities including whole-of-life operating and maintenance costs. The 2004-05 result represented a substantial increase in project development activity and has significantly increased the aggregate value of approved projects.

Approved Major Capital Facilities Projects

In 2004-05, the Government approved eight major facilities projects with one project receiving parliamentary clearance. The remaining seven have been referred to the Joint Statutory Committee on Public Works. A public hearing for one project was held and the remaining six are scheduled for consideration in 2005-06. During the same period, ten medium projects received either departmental or ministerial approval to proceed.

The following tables provide details of estimated and actual expenditure on works during 2004-05 and the status of projects foreshadowed for consideration in 2004-05 by state, federal electorate and locality.

Table 2.3 and the accompanying descriptions provide details on progress and expenditure during 2004-05 on major capital facilities projects, which are those projects that cost over \$6m.

Table 2.3	Approved Major Capital Facilities Projects by State and Federal Electorate ⁽¹⁾					
	Program of Major Works (by State, Federal Electorate and Locality)	Total Estimated Expenditure	Cumulative Expenditure ⁽²⁾	2004-05 Budget Estimate	2004-05 Revised Estimate	2004-05 Actual
		\$m	\$m	\$m	\$m	\$m
New South Wales						
Gilmore						
	Nowra – HMAS Albatross – Base Redevelopment	110.0	104.9	7.4	5.7	4.0
Hughes						
	Holsworthy – Special Forces Training Facilities ⁽³⁾	79.6	23.0	-	15.0	22.4
Kingsford Smith						
	Randwick – Disposal and Rationalisation – Interim Works	8.8	3.7	-	1.0	0.7
Macquarie						
	Richmond – RAAF Richmond – Reinvestment	35.0	24.5 ⁽⁴⁾	25.0	25.0	22.8
Parramatta						
	Ermington – Pre-Disposal Site Works	33.1	16.3	7.6	9.9	9.1
Paterson						
	Williamtown – RAAF Williamtown – Redevelopment Stage 1 and Airborne Early Warning and Control Works	129.2	45.2	38.0	32.0	26.9
Total New South Wales		395.7	217.6	78.0	88.6	85.9
Victoria						
Melbourne Ports						
	Fishermans Bend – Relocation of Defence Science and Technology Organisation Platforms Sciences Laboratory	106.2 ⁽⁵⁾	52.1	6.0	5.0	3.0
Total Victoria		106.2	52.1	6.0	5.0	3.0
Queensland						
Groom						
	Oakey – Oakey Base Redevelopment	80.0 ⁽⁵⁾	79.9	11.5	10.2	10.1
Herbert						
	Townsville – Lavarack Barracks Redevelopment Stage 3	171.1 ⁽⁵⁾	166.6	39.0	48.5	52.5
	Townsville – RAAF Townsville Redevelopment Stage 2	72.5	72.1	0.8	1.1	0.9
Total Queensland		323.6	318.6	51.3	59.8	63.5

Program of Major Works (by State, Federal Electorate and Locality)	Total Estimated Expenditure	Cumulative Expenditure ⁽²⁾	2004-05 Budget Estimate	2004-05 Revised Estimate	2004-05 Actual
	\$m	\$m	\$m	\$m	\$m
South Australia					
Bonython					
Edinburgh – RAAF Edinburgh – Redevelopment Stage 1	41.5	40.7	1.5	2.3	2.8
Edinburgh – Defence Science and Technology Organisation Edinburgh – Extension to Joint Electronics Warfare Building ⁽³⁾	19.9	5.6	-	7.6	5.6
Wakefield					
Port Wakefield – Ammunition Breakdown Facility ⁽⁶⁾	8.4	0.6	-	-	0.6
Total South Australia	69.8	46.9	1.5	9.9	9.0
Northern Territory					
Lingiari					
Timber Creek – Bradshaw Field Training Area Infrastructure	64.8	33.6	24.0	24.0	20.4
Katherine – RAAF Tindal – Security Fence	9.3	8.5	8.6	8.7	8.2
Solomon					
Darwin – RAAF Darwin – Base Redevelopment Stage 1	13.2 ⁽⁵⁾	13.0	2.7	3.3	3.7
Darwin – 1 st Aviation Regiment Relocation	82.0 ⁽⁵⁾	47.6	50.0	47.0	41.3
Total Northern Territory	169.3	102.7	85.3	83.0	73.6
Australian Capital Territory					
Fraser					
Canberra – Intelligence Facilities – Russell Offices	16.4 ⁽⁵⁾	16.3	4.5	5.9	5.9
Canberra Multi-User Depot	13.5	13.2	1.5	1.7	1.4
Total Australian Capital Territory	29.9	29.5	6.0	7.7	7.3
TOTAL	1,094.5	767.3	228.1	253.8	242.3

Notes

1. Addition of individual projects may not match State and column totals due to rounding.
2. Cumulative expenditure to 30 June 2005.
3. Project approved subsequent to *Portfolio Budget Statements 2004-05*.
4. Incorrect values for the cumulative expenditure to 30 June 2004 were reported in the *Defence Annual Report 2003-04* and the *Portfolio Additional Estimates Statements 2004-05*.
5. Budget increased by delegate.
6. Project received parliamentary clearance in June 2005.

New South Wales

Nowra – HMAS Albatross – Base Redevelopment

This project replaces existing facilities and services that are beyond economical repair. It includes redevelopment of the operational and administration support facilities. Outstanding elements include engineering services and the flight deck procedural training facilities, which are due for completion by late 2005.

This project contributes to Navy capability.

Holsworthy – Special Forces Training Facilities

This project provides specialised ranges and training facilities to support Special Forces units based at Holsworthy. Civil works are substantially complete and construction on the training facilities commenced in April 2005, with expected completion in 2007.

This project contributes to Army and joint capabilities.

Randwick – Disposal and Rationalisation – Interim Works

This project, which is related to the Defence property disposal program, will allow the disposal of surplus land at Randwick. There has been progressive remediation of the surplus land. A community centre has been constructed in preparation for transfer to the Randwick City Council for community use. Components of 9th Force Support Battalion have been relocated temporarily to another area within Randwick Barracks to facilitate the disposal project. This element will relocate to RAAF Amberley as part of another project. Key elements scheduled for 2005-06 include the development of a public environmental park and preparation of a further segment of the property for disposal. The revenue received from the sale of the property will be returned to consolidated revenue.

Richmond – RAAF Richmond – Reinvestment

This project involves a limited capital reinvestment to address pressing infrastructure deficiencies. The individual building works associated with the reinvestment project support the current operations of the Air Lift Group as well as an upgrade of the base engineering infrastructure. Construction on the squadron headquarters complex and maintenance workshops commenced in mid-2004 and completion is expected in late 2005.

This project contributes to Air Force capability.

Ermington – Ermington Pre-Disposal Site Works

The project involves preparing the 21.3 hectare site for disposal. It includes progressive site filling and stabilisation of the soil, and the installation of infrastructure services including water, electricity and telecommunications. This will enable the site to be sold progressively over the coming years. Planning is proceeding in close consultation with the Ermington Residents Committee. Stage 2 of the infrastructure work has commenced and is due for completion in late 2005.

Williamtown – RAAF Williamtown – Redevelopment Stage 1 and Airborne Early Warning and Control Works

The project provides a range of new and redeveloped facilities and infrastructure necessary for the introduction into service of the airborne early warning and control capability that will be based at RAAF Williamtown from mid-2006. Construction work has commenced on a maintenance hangar, associated aprons and fuel facilities to support the introduction into service of the new aircraft.

This project contributes to Air Force capability.

Victoria

Fishermans Bend – Relocation of Defence Science and Technology Organisation Platforms Sciences Laboratory

This project relocates science and technology functions from Maribyrnong to Fishermans Bend. It includes the integration of common functions and the construction of enhanced research and laboratory facilities. The chemical, biological and nuclear defence centre was completed in July 2004. Subject to compliance with the National Code of Practice for the construction industry, construction of the conference centre and remaining facilities is expected to commence in February 2006, with completion scheduled for the end of 2007.

This project contributes to Navy, Army and Air Force capabilities.

Queensland

Oakey – Oakey Base Redevelopment

This project redeveloped the base to optimise it for support of Army rotary-wing flying training, including the armed reconnaissance helicopter. The project was completed in May 2005.

This project contributes to Army capability.

Townsville – Lavarack Barracks Redevelopment Stage 3

This project provides new working facilities for Army units at Lavarack Barracks to replace existing ones. New facilities for the 1st Battalion Royal Australian Regiment were completed ahead of schedule in August 2004. New facilities for Headquarters 3rd Brigade commenced in September 2004 and were completed in July 2005. The remaining elements of the Stage 3 works will be completed by mid-2006.

This project contributes to Army capability.

Townsville – RAAF Townsville Redevelopment Stage 2

This project provided a range of new facilities to replace existing ones. Major works included transit accommodation, the main base entrance, a physical fitness centre, a new combined messing facility and an air movements terminal. New facilities for 27 Squadron were completed in August 2004. This project is now complete.

This project contributes to Air Force capability.

South Australia

Edinburgh – RAAF Edinburgh – Redevelopment Stage 1

This project provided enhanced administrative, workshop and warehousing facilities, an upgrade of engineering services and an aircraft shelter. Construction was completed in late 2004.

This project contributes to Air Force and Navy capabilities.

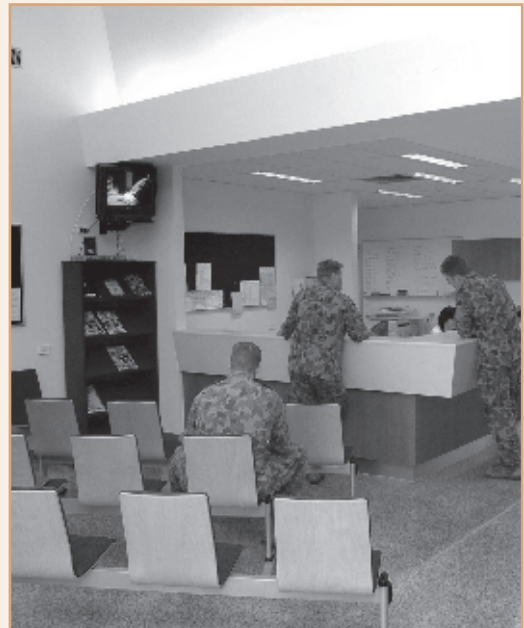


CAPITAL BUDGET | SPECIAL FEATURE

LAVARACK BARRACKS TOWNSVILLE REDEVELOPMENT

The Capital Facilities Program funds the construction of buildings and infrastructure including specialised ranges, training and accommodation facilities, maintenance hangars, messes and warehouse facilities. The program develops facilities and infrastructure to support the introduction of new military equipment into operational service, as well as maintaining facilities to support Defence personnel where they work, live and train.

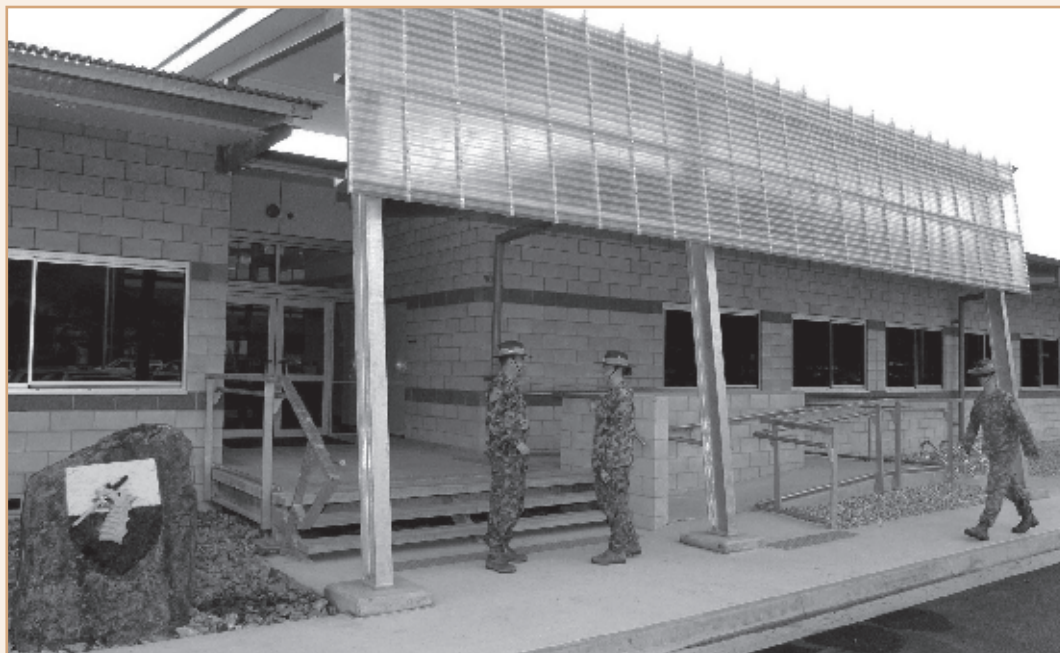
Lavarack Barracks is one of the ADF's largest bases and home of the 3rd Brigade, the Army's light infantry brigade, which forms the core of the Army's Ready Deployment Force. The base currently supports a population of 3,817 military and 626 civilian personnel. Assets at Lavarack Barracks including land, buildings, and infrastructure, are currently valued at \$478m.



Interior of the new Dental Centre.



The exterior of the new Information System Centre.



Exterior of the new Dental Centre.

The proposal to redevelop Lavarack Barracks was first referred to the Joint Statutory Committee on Public Works in July 1998. The first two stages of the redevelopment rationalised combat logistic facilities, provided living-in accommodation (including more than 1,000 single-occupancy accommodation units), centralised catering into three new combined messes, and upgraded communications and road infrastructure across the barracks.

Lavarack Barracks' infrastructure assets have been redeveloped over several stages to support the Army's capability for light infantry operations (Output 3.3). The redevelopment provides essential infrastructure and facilities to support the future training, administration and operational requirements of the base.

The redevelopment of Lavarack Barracks during 2004-05 successfully enhanced Defence's ability to provide and support a professional, well-trained and well-equipped force.

During 2004-05, substantial elements of the stage 3 redevelopment were completed, including new working facilities for the 1st Battalion, Royal Australian Regiment, and new facilities for Headquarters, 3rd Brigade. Facilities to support soldier leadership training and an information systems centre were also completed. A new dental centre to support fitness requirements for operational deployment was substantially completed. Several minor elements of the stage 3 redevelopment works remain in progress and will be completed during 2006.

In September 2004, the Minister for Defence announced the fast tracking of a further \$175m for the stage 4 redevelopment of Lavarack Barracks. Construction is planned to start in 2007 and to be completed in 2010. The project scope will be refined to consider upgraded working accommodation for armoured mobility, combat engineering, artillery, and other elements that support 3rd Brigade operations.

Edinburgh – Defence Science and Technology Organisation Edinburgh – Extension to Joint Electronic Warfare Building

This project will provide facilities to support the collocation of electronic warfare activities, and additional space for the software support facilities for a number of different ADF platforms that have been, or will shortly be, fitted with electronic warfare equipment. Construction is proceeding on schedule and completion is expected by mid-2006.

This project contributes to joint forces capabilities.

Port Wakefield – Ordnance Breakdown Facility

This project will provide storage, cutting and breakdown facilities to support research concerning a variety of military ordnance. The project received parliamentary clearance in June 2005. Construction commenced in August 2005 and completion is expected by December 2006.

This project contributes to Navy, Army and Air Force capabilities.

Northern Territory

Timber Creek – Bradshaw Field Training Area Infrastructure

This project provides engineering services and infrastructure to allow the use of Bradshaw as a field training area for 1st Brigade. Contracts for road construction were awarded in mid-2004. Completion of construction is expected by late 2006.

This project contributes to Army capability.

Katherine – RAAF Tindal – Security Fence

This project will provide a base perimeter security fence, designed to detect and delay intruder access. Construction of the fence commenced in mid-2004 and was completed by September 2005.

This project contributes to Air Force capability.

Darwin – RAAF Darwin – Base Redevelopment Stage 1

This project upgraded sub standard facilities including the existing health services, fire fighting and air movements terminal at RAAF Darwin. Construction was completed in December 2004.

This project contributes to Air Force capability.

Darwin – 1st Aviation Regiment Relocation

This project will provide new facilities for the 1st Aviation Regiment at Robertson Barracks in Darwin and includes purpose-built working, training and domestic accommodation facilities. Construction commenced in April 2004 and is due for completion by mid-2006.

This project contributes to Army capability.

Australian Capital Territory

Canberra – Russell Offices – Intelligence Facilities

Russell Offices Building R4 was refitted to accommodate the increased requirements of the Defence Imagery and Geospatial Organisation. The project was completed in September 2004.

This project contributes to intelligence capability.

Canberra – Canberra Multi-User Depot

This project provided a multi-user depot at HMAS Harman that collocated various Navy, Army and Air Force operational units, reserves and cadets from the Canberra area to one location. The requirement arose from the sale of RAAF Fairbairn and the proposed sale of the Army depot in Canberra city. The project was completed in July 2004.

This project contributes to Navy, Army and Air Force capabilities.

Status of Major Projects Foreshadowed for Government and Joint Statutory Committee on Public Works Consideration in 2004-05

Defence foreshadowed a number of projects for consideration by the Joint Statutory Committee on Public Works in 2004-05. The following table provides details of the progress of the proposed projects.

Table 2.4 Status of Major Capital Facilities Projects	
Program of Major Works (by State, Federal Electorate and Locality)	Status
New South Wales	
Eden-Monaro	
Headquarters Joint Operations Command	Expediency 11 August 2004
Hughes	
Holsworthy – Redevelopment and Special Forces Infrastructure	Hearing held on 10 June 2005
Kingsford Smith	
Randwick Disposal and Rationalisation Project	Deferred to 2005-06
Queensland	
Forde	
Canungra – Redevelopment of Canungra Army Base	Hearing held on 20 July 2005
Blair	
RAAF Amberley – Engineering Services Upgrade	Hearing held on 9 September 2005
RAAF Amberley – Relocate 9 th Force Support Battalion	Hearing held on 9 September 2005
RAAF Amberley – Facilities for Multi Role Tanker Transport	Hearing held on 9 September 2005
Northern Territory	
Solomon	
Darwin – Darwin Naval Base – Patrol Boat Facilities	Hearing held on 19 July 2005

Approved Medium Capital Facilities Projects

The following table provides details of expenditure in 2004-05 for medium capital facilities projects. Medium facilities projects have budgets between \$250,000 and \$6m.

Table 2.5 Approved Medium Capital Facilities by State and Federal Electorate⁽¹⁾

Program of Medium Works (State, Federal Electorate and Locality)	Total Estimated Expenditure \$'000	Cumulative Expenditure ⁽²⁾ \$'000	2004-05 Budget Estimate \$'000	2004-05 Revised Estimate \$'000	2004-05 Actual \$'000
New South Wales					
Hughes					
Holsworthy – Interim Special Forces Works	5,500 ⁽³⁾	2,541 ⁽⁴⁾	1,000	1,000	859
Lindsay					
Orchard Hills Encanister/Decanister Facility	4,500	2,098	-	2,700	2,098
Macquarie – Medium Works					
Richmond – RAAF Richmond – Fuel Farm Upgrade	4,600 ⁽³⁾	3,461	2,000	4,305	3,165
RAAF Richmond – Upgrade Liquid Oxygen Compound ⁽⁵⁾	590	189	430	590	189
Paterson					
Williamtown					
RAAF Williamtown – Childcare Centre	3,839 ⁽³⁾	3,578	1,600	3,511	3,250
Advanced Short Range Air-to-Air Missile/Captive Air Test Module Facility	1,073 ⁽³⁾	1,060	700	941	1,040
RAAF Williamtown – Lead-in Fighter Hangar ⁽⁶⁾	965	871	300	100	6
RAAF Williamtown – Hornet Upgrade Storage Facility ⁽⁷⁾	808	32	-	-	32
RAAF Williamtown – Tactical Air Defence Radar Vehicle Shelters ⁽⁷⁾	1,200	46	-	-	46
Sydney					
Sydney - Victoria Barracks- Building 110 Extension	2,548 ⁽³⁾	2,418	1,350	2,103	2,418
Garden Island –Navy Heritage Centre ⁽⁸⁾	5,500	3,059	-	-	3,059
Total New South Wales	31,123	19,353	7,380	15,250	16,162
Victoria					
Corio					
Geelong – Construction of Army Multi-User Depot ⁽⁵⁾	4,250 ⁽³⁾	173	3,800	1,000	1
Flinders					
HMAS Cerberus – Weapons Training Simulation System	1,600 ⁽³⁾	1,564	1,370	1,363	1,526
Gippsland					
East Sale – East Sale Child-Care Centre	3,564 ⁽³⁾	2,505	1,500	1,500	2,301
Indi					
Bandiana – Simulated Training Facility ⁽⁵⁾	909	300	909	-	-
Latchford Barracks - Weapons Training Simulation System	1,600	1,339	-	1,600	1,339
Lalor					
Laverton					
RAAF Band – Training and Rehearsal Facility	4,100	37	1,000	170	-
Defence International Training Centre	3,205 ⁽³⁾	914	2,300	850	828
McEwan					
Puckapunyal					
Puckapunyal Childcare Centre	3,066 ⁽³⁾	2,854	2,500	2,813	2,631
Regional Training and Simulation Centre	2,200	188	150	150	2
Australian Light Armoured Vehicle Mission Essential Training Facility	3,560 ⁽³⁾	2,170	3,450	1,060	2,115
Total Victoria	28,054	12,044	16,979	10,506	10,743

Program of Medium Works (State, Federal Electorate and Locality)	Total Estimated Expenditure \$'000	Cumulative Expenditure⁽²⁾ \$'000	2004-05 Budget Estimate \$'000	2004-05 Revised Estimate \$'000	2004-05 Actual \$'000
Queensland					
Brisbane					
Enoggera					
Bushmaster Critical Infrastructure Upgrade (formerly critical infrastructure upgrade)	3,200	340	3,160	3,000	340
Australian Light Armoured Vehicle Workshops	4,500	3,179	2,250	2,250	3,179
Groom					
Oakey – Museum of Army Flying	1,935 ⁽³⁾	1,065	-	1,000	1,065
Herbert					
Townsville					
Lavarack Barracks – Helicopter Underwater Escape Training Facility	2,235 ⁽⁹⁾	129	2,400	500	114
Lavarack Barracks – Regional Training Centre (Flexible Learning)	3,995 ⁽³⁾	3,995	3,500	3,500	3,834
Combat Training Centre (Live) Storage and Maintenance Facility	2,800	761 ⁽⁴⁾	2,500	1,800	745
Special Operations Forward Mounting Facility ⁽⁵⁾	1,400	665	1,400	1,400	665
Lavarack Barracks Frontline Redevelopment of Mess	341	341	-	341	341
RAAF Townsville – Base Training and Support Facility ⁽⁷⁾	5,300	51	-	-	51
Field Training Area Air Weapons Range ⁽⁷⁾	4,200	47	-	-	47
Mount Stuart					
Training Area Grenade Range ⁽⁵⁾	400	370	350	400	370
Total Queensland	30,306	10,943	15,560	14,191	10,751
South Australia					
Bonython					
Edinburgh					
Defence Science and Technology Organisation Hybrid Torpedo Simulator Facility	1,573 ⁽³⁾	1,572	10	1	-
Defence Science and Technology Organisation Virtual Ship Facility	860 ⁽⁹⁾	846	10	2	-
Relocation of Defence Materiel Organisation Over the Horizon Radar Systems Program Office	5,039	5,012	470	560	578
Corporate Services and Infrastructure Centre	3,500 ⁽³⁾	3,047	30	30	577
Defence Science and Technology Organisation Surveillance Analysis Centre	1,310	1,287	390	390	199
Aircraft Signature Turntable	1,900 ⁽³⁾	1,570	1,090	1,092	1,543
Total South Australia	14,182	13,334	2,000	2,075	2,897
Western Australia					
Brand					
HMAS Stirling, Garden Island					
Periscope Workshop Facility	3,781 ⁽³⁾	3,634	540	250	176
Wharf Services Upgrade	5,830 ⁽⁹⁾	4,124	3,000	2,800	1,726
Defence Science and Technology Organisation Submarine and Surface Combatants Facility Extension	2,895	2,669	100	46	304
Training Unit ANZAC Ship Support Centre	5,330 ⁽³⁾	4,572	4,400	3,000	2,638

Program of Medium Works (State, Federal Electorate and Locality)	Total Estimated Expenditure \$'000	Cumulative Expenditure⁽²⁾ \$'000	2004-05 Budget Estimate \$'000	2004-05 Revised Estimate \$'000	2004-05 Actual \$'000
Guided Weapons Maintenance Facility	3,705 ⁽³⁾	3,429	1,600	3,200	3,429
Joint Ammunition Logistic Organisation	1,500	-	1,500	1,500	-
West Office Accommodation (formerly Torpedo/Underwater Teams Facility ⁽¹⁰⁾					
Lightweight Torpedo Facility ⁽⁷⁾	1,990	92	-	-	92
Vertical Launch System Extension ⁽⁷⁾	1,250	1,149	-	-	1,149
Weapons Training Simulation System	1,600 ⁽³⁾	1,564	1,370	1,363	1,526
Curtin – Medium Works					
Irwin Barracks - Weapons Training Simulation System	1,600	1,339	-	1,600	1,339
Swanbourne – Campbell Barracks – Extension to Headquarters Building	3,610 ⁽³⁾	3,367	2,400	2,917	3,129
Kalgoorlie					
Taylor Barracks – Training Accommodation	750	-	750	300	-
Total Western Australia	33,841	25,939	15,660	16,976	15,508
Northern Territory					
Lingiari					
Bathurst Island – Tactical Air Defence Radar System	5,800 ⁽³⁾	3,255 ⁽⁴⁾⁽⁸⁾	3,880	3,880	2,994
Katherine – RAAF Tindal – Vehicle Shelters	1,430	1,386 ⁽⁴⁾⁽⁸⁾	830	830	628
Katherine – RAAF Tindal – Advanced Medium Range Air-to-Air Missile/Advanced Short Range Air-to-Air Missile Secure Facility	1,610 ⁽³⁾	319	1,620	1,600	319
Solomon					
Darwin					
Married Quarters Electrical Upgrade	4,850 ⁽³⁾	4,264	3,000	4,000	4,018
Special Operations Forward Mounting Facility ⁽⁵⁾	2,500	-	2,500	2,500	-
1 st Brigade Military Operations in Urban Terrain ⁽¹¹⁾	4,800 ⁽⁹⁾	-	3,000	-	-
1 st Brigade Small Team Skills Training Facility	850	765	250	500	515
Vehicle Shelters	2,475	2,422 ⁽⁴⁾	1,470	1,470	1,864
Robertson Barracks Security Upgrade	1,900	1,846	900	600	601
Darwin Naval Base – Extension of Wharf	5,530	1,927	-	3,000	1,927
Shoal Bay – Receiving Station Refurbishment	3,300	2,615	-	3,000	2,615
Total Northern Territory	35,045	18,799	17,450	21,380	15,481
Australian Capital Territory					
Fraser					
Jervis Bay – Remediation of Mary Creek	1,100	188	300	300	31
Canberra					
Russell Offices – Passive Defence Works ⁽³⁾	3,600	3,567	1,500	1,500	1,500
Federation Guard Facilities	4,200	1,631	-	100	1,631
Total Australian Capital Territory	8,900	5,386	1,800	1,900	3,162

Program of Medium Works (State, Federal Electorate and Locality)	Total Estimated Expenditure \$'000	Cumulative Expenditure⁽²⁾ \$'000	2004-05 Budget Estimate \$'000	2004-05 Revised Estimate \$'000	2004-05 Actual \$'000
Other					
Air Traffic Control Systems – Various Locations	3,258	2,937	320	320	1
Total Other	3,258	2,937	320	320	1
TOTAL	184,709	108,735	77,149	82,598	74,705

Notes

1. Addition of individual projects may not match State and column totals due to rounding.
2. Cumulative expenditure to 30 June 2005.
3. Increase in outturn cost.
4. Incorrect values for the cumulative expenditure to 30 June 2004 were reported in the *Defence Annual Report 2003-04* and the *Portfolio Additional Estimates Statements 2004-05*. See corrections to the *Defence Annual Report 2003-04* on pp vi-vii.
5. Regional delivery.
6. Project completed. Budget decreased, omitted from *Defence Annual Report 2003-04*.
7. Project approved by departmental delegate after the publication of the *Portfolio Additional Estimates Statements 2004-05*.
8. Approved by the Minister for Defence after the publication of the *Portfolio Additional Estimates Statements 2004-05*.
9. Decrease in outturn costs.
10. Project deferred.
11. Project approval awaiting environmental clearances.

Status of Medium Capital Projects for Departmental Approval in 2004-05

The following table lists new medium capital facilities projects foreshadowed for departmental approval in 2004-05.

Table 2.6	Status of Proposed Medium Capital Facilities Projects⁽¹⁾
Program of Medium Works (State, Federal Electorate and Locality)	Status
New South Wales	
Hughes	
Defence Police Training Centre	Deferred to 2005-06
Holsworthy – Childcare Centre	Deferred to 2005-06
Lindsay	
Orchard Hills Encanister/Decanister Facility	Approved
North Sydney	
HMAS Waterhen – Relocation Mine Warfare and Clearance Divers Systems Program Office	Deferred to 2005-06
Patterson	
RAAF Williamtown – Aircraft Rinse Facility	Deferred to 2005-06
Sydney	
Garden Island – Navy – Heritage Centre	Approved
Warringah	
Military Law Centre	Deferred to 2007-08
Queensland	
Herbert	
RAAF Townsville – Base Training and Support Facility	Approved
Kennedy	
Townsville – Field Training Area Air Weapons Range	Approved
Northern Territory	
Solomon	
Darwin – Shoal Bay Receiving Station Refurbishment	Approved
RAAF Darwin – Fuel Equipment Maintenance Section Facility	Deferred to 2005-06

Program of Medium Works (State, Federal Electorate and Locality)	Status
Australian Capital Territory	
Fraser	
Canberra	
Majura Services Development	Approved
Federation Guard Facilities	Approved
Services Study Relocation	Deferred to 2005-06
HMAS Creswell – Modernisation of School of Survivability and Ship Safety ⁽²⁾	Transferred
Other	
RAAF Butterworth – Headquarters Rationalisation ⁽³⁾	Transferred

Notes

1. Deferrals in project approvals are due to delays in departmental development of projects and reassessment of priorities.
2. Now incorporated in HMAS Creswell Redevelopment with Government approval being sought in 2006-07.
3. Now incorporated in a major project with Government approval being sought in 2005-06.

Other Capital Purchases (-\$24.7m)

Other capital purchases comprise minor capital equipment projects, purchase of repairable items and other plant and equipment exceeding the capitalisation threshold of \$10,000, other property, plant and equipment, software and intangibles. Minor capital projects cover new equipment, modifications to existing equipment or enhancement to new equipment that are generally valued between \$250,000 and \$20m. Minor projects costing between \$8m and \$20m are approved jointly by the Ministers for Defence and Finance and Administration (\$8m to \$50m for major projects – see p.71). The Minister for Defence approves projects costing between \$5m and \$8m. The Service Chiefs and Group Heads, or their nominated delegates, approve projects costing below \$5m.

Repairable items are items such as engines, gearboxes and components of platforms. These items are acquired to sustain a pool of spares for use while worn and broken items are repaired, maintained or replaced. Other capital equipment also includes purchases of information technology and administrative assets, other property, plant and equipment assets and software and intangibles costing more than \$10,000.

Other capital purchases totalled \$602.1m in 2004-05, which was \$24.7m less than the revised estimate of \$626.8m. The reasons for the variation include:

- slippage in minor capital projects (-\$13.3m); and
- other minor variations in other plant and equipment purchases (-\$11.4m).

Capital Receipts (+\$13.7m)

The capital receipts program comprises proceeds from property sales which are returned to the Government in the form of equity, and proceeds from the sale of housing annuities by the Defence Housing Authority, sale of specialised military equipment and commercial vehicles, and other plant and equipment items which are retained by Defence, under the Section 31 Agreement.

Net capital receipts for 2004-05 totalled \$105.7m or \$13.7m more than the revised estimate. Details are shown in Table 2.7 with an explanation of the variations for each category shown below.

Category	2004-05			
	Budget Estimate	Revised Estimate	Actual Result	Variance
	\$m	\$m	\$m	\$m
Gross Proceeds from the Sale of Land and Buildings	164.5	140.0	107.0	-33.0
Less: Capital withdrawal (Government requirement)	-139.0	-114.5	-95.3	19.2
Proceeds retained by Defence from sale of Land and Buildings	25.5	25.5	11.7	-13.8
Revenue from sale of housing	-	-	35.5	35.5
Proceeds from sale of Specialist Military Equipment	5.8	5.8	10.3	4.5
Proceeds from sales of other property, plant and other equipment	60.7	60.7	48.2	-12.5
Net Capital Receipts	92.0	92.0	105.7	13.7

Property Sales (-\$33.0m)

In 2004-05, Defence received \$107.0m from the sale of property, which was \$33.0m below the revised estimate of \$140.0m outlined in the *Portfolio Additional Estimates Statements 2004-05*. This was due to a number of factors including the lead-time required to consider state government priority sales proposals for properties at Maribyrnong and Fremantle. Net proceeds of \$95.3m were returned to the Government.

Sale of Defence Housing and Annuity (+\$35.5m)

Defence received \$35.0m from the sale of housing annuities by the Defence Housing Authority in 2004-05.

Sale of Specialist Military Equipment (+\$4.5m)

Defence realised \$10.3m from the sale of specialist military equipment, \$4.5m more than the revised estimate. This was due to foreign exchange movements and higher sales than expected.

Sale of Other Property, Plant and Equipment (-\$12.5m)

Receipts from the sale of other property, plant and equipment totalled \$48.2m in 2004-05, which was \$12.5m less than the revised estimate. This was due to an overestimate of the original budget.

CHAPTER THREE

PEOPLE

This chapter reports on the Defence workforce; including personnel numbers, people priorities and initiatives, investigation mechanisms and complaints handling, occupational health and safety, and ADF recruitment results.



Workforce Overview

Performance Against People Matter Priorities for 2004-05

Non-Operational Training

Workplace Equity and Diversity

Effectiveness of Investigations and Complaints Handling

Occupational Health and Safety

Performance Pay

Annual Report on the *Administration and Operation of the
Defence Force (Home Loans Assistance) Act 1990*

Workforce Overview

The workforce overview is in two parts. The first part contains information on average strength during 2004-05, while the second part includes information on the actual number of people employed by Defence as at 30 June 2005. The average funded strength figures are used by Defence for budget and management purposes and provide a measure of Defence's performance against its budget and personnel estimates over the financial year.

Staffing by Average Strength

This section provides information on average staffing levels for the year and compares numbers of personnel with our estimates for the financial year. The following tables assess performance against budget and revised staffing level estimates for 2004-05.

The Permanent Force average strength in 2004-05 was 51,813, or 482 less than the revised estimate. This was due primarily to emerging recruitment and retention challenges and a slower than anticipated substitution of Reservists undertaking full-time service roles.

Table 3.1 provides details.

	2003-04 Actual	2004-05 Budget Estimate	2004-05 Revised Estimate	2004-05 Actual	Variation ⁽²⁾	
Personnel numbers – average strength						%
Navy	13,133	13,167	13,167	13,089	-78	-0.6
Army	25,446	26,035	25,735	25,356	-379	-1.5
Air Force	13,455	13,670	13,393	13,368	-25	-0.2
Total Permanent Forces	52,034	52,872	52,295	51,813	-482	-0.9

Notes

- Staffing numbers for Permanent Forces are based on average funded strengths and include Reservists undertaking full-time service and military personnel working in the Defence Materiel Organisation. The average funded strength of Reservists undertaking full-time service was 649, comprising 269 Navy, 319 Army and 61 Air Force personnel.
- 2004-05 actual compared to the Revised Estimate.

Table 3.2 shows the number of Reservists who rendered paid service during 2004-05. Overall, 19,275 Reservists undertook paid service, 1,852 less than the revised estimate of 21,127. The main reasons for the shortfall include emerging difficulties in recruitment and retention, as well as lower than projected use of Reserve days by non-Service groups. The figures below exclude Reservists on full-time service in the Permanent Force during 2004-05.

	2003-04 Actual	2004-05 Budget Estimate	2004-05 Revised Estimate	2004-05 Actual	Variation ⁽²⁾	
Personnel numbers – paid strength						%
Navy	1,881	1,850	1,850	1,243	-607	-32.8
Army	16,445	16,700	16,700	15,845	-855	-5.1
Air Force	2,162	2,160	2,577	2,187	-390	-15.1
Total Reserve Forces	20,488	20,710	21,127	19,275	-1,852	-8.8

Notes

- During the financial year, an average of 649 Reservists undertook full-time service in the Permanent Force and are included in the Permanent Force staff table. Reservists working in the Defence Materiel Organisation are included.
- 2004-05 actual compared to the Revised Estimate.

Table 3.3 shows details of the Australian Public Service (APS) full-time equivalent average strength for 2004-05. The average strength was 17,754, which was a decrease of 217 from the revised estimate of 17,971. The decrease results from ongoing measures to reduce the civilian workforce as part of the Defence Program of Administrative Savings and from the challenges experienced in recruiting and retaining skilled personnel in some critical areas, including in the information technology, finance, and project management fields.

Table 3.3 APS Average Funded Strength⁽¹⁾

	2003-04	2004-05	2004-05	2004-05	Variation	
	Actual	Budget Estimate	Revised Estimate	Actual		
Defence Groups						%
Vice Chief of the Defence Force/Chief of Joint Operations		70	1,109 ⁽³⁾	1,045	-64	-5.8
Navy	727	740	727	722	-5	-0.7
Army	626	668	655	625	-30	-4.6
Air Force	842	889	877	858	-19	-2.2
Defence Materiel Organisation	5,942	5,160	4,470	4,364	-106	-2.4
Corporate Services and Infrastructure Group ⁽²⁾	4,441	4,398	4,417	3,901	-516	-11.7
Defence Personnel Executive	1,063	1,198	1,096	1,089	-7	-0.6
Defence Science and Technology Organisation	2,241	2,243	2,241	2,168	-73	-3.3
Other Groups	2,421	2,475	2,379	2,982	603	25.3
Total APS	18,303	17,841	17,971	17,754	-217	-1.2

Notes

- Staffing numbers for APS are based on average full-time equivalent.
- The large variation reflects the transfer of the Information Systems Division function (504 average full-time equivalent) from Corporate Services and Infrastructure Group to Chief Information Officer Group.
- Increase due to transfer of Joint Logistics Command from Defence Materiel Organisation and Commander Australian Theatre to Vice Chief of the Defence Force/Chief of Joint Operations.

Civilian Reduction Program

A programmed reduction in civilian staffing numbers was implemented in 2003-04 as part of the \$200m per annum Program of Administrative Savings. Together with the outsourcing of the Defence warehousing function, this program was designed to yield a reduction of 1,428 full-time equivalent average positions by the end of 2005-06, including 638 for the outsourced contract.

Due to delays in outsourcing the warehousing function and the requirement to fund an additional 180 project management, intelligence, air traffic controller and information technology positions, Defence was not able to achieve the run down in staffing numbers as quickly as envisaged in the original plan. Also, since establishing the savings baseline in the 2003-04 budget, increases to the civilian staffing baseline have been approved for:

- a number of new budget measures approved by the Government for which additional funding and staffing cover was provided, or which Defence was required to absorb; and
- the replacement of Professional Service Provider positions with more cost effective civilian staff (these positions are offset by corresponding reductions in the Professional Service Provider workforce).

As a consequence of these changes, the adjusted civilian staffing target for 2004-05 was 17,971. In summary, Defence was some 217 positions below its adjusted savings targets as shown in Table 3.4.

Table 3.4 Status of the Civilian Savings Program Implemented in 2003-04

Year	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
2002-03 Baseline ⁽¹⁾	18,385	18,385	18,385	18,385	18,385	18,385
New Measures for 2003-04						
Budget Estimates and Framework Review	19	35	31	31	31	31
Current operations	6	-	-	-	-	-
New Measures for 2004-05						
New Intelligence Measures	-	106	208	227	229	-
Defence Procurement Review	-	59	48	48	48	48
Implementation of the Flood Report	-	2	3	3	3	3
New Measures for 2005-06						
New Intelligence measures	-	-	15	15	15	15
Australian Defence Medal	-	-	10	10	10	10
Current operations	-	-	6	-	-	-
Revised Baseline	18,410	18,587	18,706	18,719	18,721	18,492
Warehouse outsourcing	-638	-638	-638	-638	-638	-638
New priority positions	180	180	180	180	180	180
Business improvement project	-	67	-	-	-	-
Civilianisation of military positions	-	-	2	2	3	3
Substitution of Professional Service Providers positions	-	302	378	378	378	378
Savings Program	-264	-527	-790	-790	-790	-790
Adjusted Baseline incorporating savings	17,688	17,971	17,838	17,851	17,854	17,625
Actuals/Planned	18,303	17,754	17,838	17,851	17,854	17,625
Variation	615	-217	-	-	-	-

Note

- In order to provide more clarity, the presentation of the civilian savings program baseline differ from that published in the *Portfolio Budget Statements of 2004-05* (Table 5.3, p. 207) to clearly identify the savings targets.

Professional Service Providers

In addition to military and civilian employees, Defence engages as part of its total workforce, Professional Service Providers, who are individuals with specialist skills contracted to fill an APS line position usually because of Defence's inability to recruit or retain civilian staff with these skills. In 2003-04, Defence also set savings targets for Professional Service Providers positions and introduced a total workforce management framework, which allowed Group Heads to substitute more costly Professional Service Providers with civilian positions, in order to grow Defence's skills base and obtain more cost effective outcomes. As part of this framework, approval has been given for Group Heads to increase the civilian workforce by 378 positions, offset by a reduction of 378 Professional Service Provider positions, as detailed in Table 3.5.

Taking into account these substitutions, a reduction in health service providers (-212) and a small number of additions in relation to Government-agreed budget measures (22 in 2004-05 reducing to two in 2006-07), Defence's Professional Service Provider workforce will reduce by 656 by 2006-07.

Year	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
2002-03 Baseline	2,311	2,311	2,311	2,311	2,311	2,311
Additional Professional Service Providers from Government budget measures	-	22	6	2	2	2
Substitution with civilian staff	-	-302	-378	-378	-378	-378
Reduction of Health Service Professional Service Providers	-200	-212	-212	-212	-212	-212
Savings Program	-	-48	-68	-68	-68	-68
Revised Baseline Incorporating Savings	2,111	1,771	1,659	1,655	1,655	1,655
Actuals/Planned	1,878	1,913	1,659	1,655	1,655	1,655
Variation	-233	142				

In 2004-05, Defence spent \$185.67m on Professional Service Providers, with these expenses funded from suppliers expenses, not employee expenses.

Table 3.6 shows the breakdown of personnel by Service and rank, including the APS.

	2003-04 Actual	2004-05 Budget Estimate	2004-05 Revised Estimate	2004-05 Actual
Navy				
Star-ranked officers	34	36	36	36
Senior officers	434	439	439	433
Junior officers	2,446	2,378	2,378	2,480
Other ranks	10,219	10,314	10,314	10,140
Sub-total Permanent Navy⁽¹⁾	13,133	13,167	13,167	13,089
Reserves ⁽²⁾	1,881	1,850	1,850	1,243
Sub-total Navy	15,014	15,017	15,017	14,333
Army				
Star-ranked officers	49	48	51	51
Senior officers	576	505	606	603
Junior officers	4,524	4,948	4,769	4,626
Other ranks	20,297	20,534	20,309	20,076
Sub-total Permanent Army⁽³⁾	25,446	26,035	25,735	25,356
Reserves ⁽²⁾	16,445	16,700	16,700	15,845
Sub-total Army	41,891	42,735	42,435	41,201
Air Force				
Star-ranked officers	36	37	37	38
Senior officers	518	521	512	515
Junior officers	3,550	3,550	3,525	3,511
Other ranks	9,351	9,562	9,319	9,305
Sub-total Permanent Air Force⁽⁴⁾	13,455	13,670	13,393	13,368
Reserves ⁽²⁾	2,162	2,160	2,577	2,187
Sub-total Air Force	15,617	15,830	15,970	15,556
APS				
Senior executives	102	113	110	110
Senior executive relief staff ⁽⁵⁾	21	-	15	16
Senior officers ⁽⁶⁾	3,649	3,850	4,047	3,814
Senior officer relief staff ⁽⁵⁾	240	-	-	262
Others	14,291	13,878	13,799	13,552
Sub-total APS⁽⁷⁾	18,303	17,841	17,971	17,754
Professional Service Providers⁽⁸⁾	1,878	1,851	1,771	1,913
Total Workforce	92,703	93,274	93,164	90,757

Notes

1. Correlates with Table 3.1.
2. The 2004-05 Reserve strength represents Reservists who undertook paid service. Correlates with Table 3.2.
3. Correlates with Table 3.1.
4. Correlates with Table 3.1.

5. Relief staff represent the full-time average of personnel acting within a higher classification for short duration pending permanent filling action or while the incumbents are taking leave, acting in higher positions or are on secondment to other agencies.
6. Senior Officers comprise substantive Executive Levels 1 and 2.
7. Staffing numbers for APS are based on average full-time equivalent. Correlates with Table 3.3.
8. Professional Service Providers are individuals under contract filling line positions.

Employee Expenses

The actual result for employee expenses in 2004-05 totalled \$6,173.0m, representing a decrease of \$519.9m from the 2004-05 revised estimate of \$6,692.9m. The variation comprises permanent military employees (-\$435.7m), Reserve employees (-\$4.9m) and civilian employees (-\$79.3m). Table 3.7 provides details.

	2004-05 Budget Estimate \$m	2004-05 Revised Estimate \$m	2004-05 Actual Result \$m	Variation \$m	Variation %
Salaries, Allowances, Superannuation and Leave Liability	4,319.1	4,299.1	3,918.6	-380.5	-8.9
Housing	412.8	410.5	390.6	-19.9	-4.8
ADF Compensation ⁽¹⁾	-	-	-	-	-
Health Services	152.5	141.4	162.9	21.5	15.2
Fringe Benefits Tax	293.7	342.6	285.8	-56.8	-16.6
Sub Total Permanent ADF	5,178.1	5,193.6	4,757.9	-435.7	-8.4
Navy Reserves	12.3	13.2	13.3	0.1	0.8
Army Reserves	85.2	91.5	88.2	-3.3	-3.6
Air Force Reserves	19.4	22.2	20.6	-1.6	-7.2
Sub Total Reserves	116.9	126.9	122.0	-4.9	-3.9
Salaries, Allowances, Superannuation and Leave Liability	1,394.3	1,348.6	1,265.1	-83.5	-6.2
Other Expenses including Fringe Benefits Tax	21.0	23.8	28.0	4.2	17.6
Sub Total APS	1,415.3	1,372.4	1,293.1	-79.3	-5.8
Total Employee Expenses⁽²⁾	6,710.3	6,692.9	6,173.0	-519.9	-7.8

Notes

1. Function transferred to Department of Veterans' Affairs in 2004-05.
2. Correlates with Table 1.2.

Permanent Military Employees (-\$435.7m)

Military employee expenses totalled \$4,757.9m, representing a decrease of \$435.7m from the revised estimate of \$5,193.8m.

This decrease was due to:

- an overestimate of accrual leave expenses including bringing to account leave expenses in late 2003-04 rather than as budgeted for in 2004-05 (-\$217.7m). This had no cash impact in 2004-05;
- an overestimate of the original budget estimate (-\$118.0m);
- lower than planned average funded strength of 482 comprising Navy (-78), Army (-379) and Air Force (-25) (-\$39.6m);
- lower than anticipated expenditure on military employee allowances in relation to overseas operations with funds to be returned to the Government under the no win-no loss arrangements (-\$5.0m);

- lower than expected costs associated with Defence Housing Authority commercial rental payments with funds to be returned to Government under the no-win no-loss arrangements (-\$11.9m);
- reduced housing costs, due in part to lower than planned ADF strength (-\$8.0m);
- increases in health costs relating to medical and professional fees due to the Services being unable to fully fill their medical and health services positions (+\$12.5m);
- increased expenses for contracted health practitioners associated with slower than planned substitution of more costly Professional Service Providers with more cost effective civilian employees (+\$9m);
- a one-time adjustment to fringe benefits tax expenses to correct timing differences between the fringe benefits tax year and the financial year over the period 1999-2000 to 2004-2005 (-\$31.6m). This had no cash impact in 2004-05; and
- lower than anticipated fringe benefits tax payable, due in part to lower than planned average funded strength (-\$25.2m).

Reserves Employees (-\$4.9m)

ADF Reserves expenses totalled \$122.0m, representing a decrease of \$4.9m from the 2004-05 revised estimate of \$126.9m. This was primarily due to lower than anticipated number of Reservists and lower than projected use of Reserve days by non-Service groups (-1,852) (-\$4.9m).

Civilian Employees (-\$79.3m)

Civilian employee expenses totalled \$1,293.1m, representing a decrease of \$78.9m on the revised estimate of \$1,372.0m.

The decrease was due to:

- an overstatement of the civilian employee salary and allowances (-\$37.3m);
- the bringing to account of leave expenses late in 2003-04 rather than as budgeted in 2004-05 (-\$30.4m). This had no cash impact in 2004-05;
- lower than planned average full-time equivalent of 217 (-\$15.8m);
- higher than anticipated redundancies costs (+\$5.7m);
- an increase in the Comcare civilian workers' compensation premium (+\$2.1m);
- an increase in civilian health services expenses (+\$1.7m); and
- other minor variations including Fringe Benefits Tax payments (-\$5.3m).

Costs of the Reserve

The Joint Standing Committee for Foreign Affairs, Defence and Trade, in its review of the *Defence Annual Report 2001-02*, recommended that greater visibility be provided of the personnel costs of the Reserves. Salary and allowance costs for the Reserve are shown in Table 3.7. Table 3.8 provides details of the costs in supplier expenses relating to the Reserves Enhancement Initiatives.

Table 3.8 Reserves Enhancement Initiatives

	2004-05 Budget Estimate \$m	2004-05 Revised Estimate \$m	2004-05 Actual Result \$m	Variation	
				\$m	%
Reserve Enhancement	20.0	16.6	13.1	-3.5	-21.1

The Reserves Enhancement Initiative provided funds to make employer support payments, which help compensate employers who release employees for Reserve service. The variation was due primarily to lower than anticipated take up of employer support payments.

Actual Staffing as at 30 June 2005

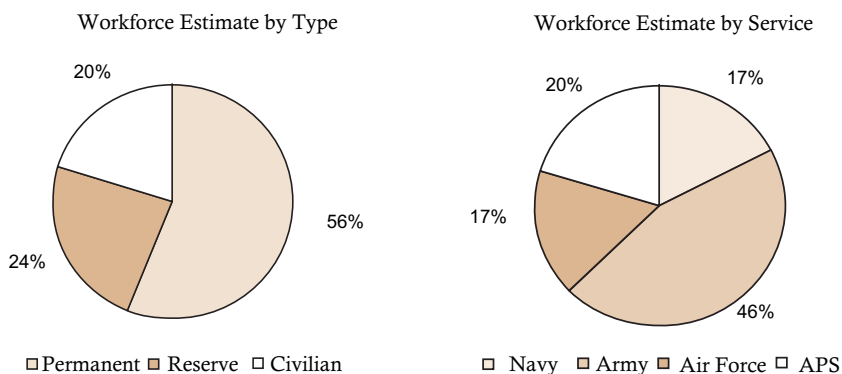
This section outlines the changes in the workforce that occurred during 2004-05, and provides personnel information at, or up to, 30 June 2005. It includes numbers of personnel, employment categories and locations, gender information, and details of recruiting and separations during the year.

At 30 June 2005, Defence had 69,765 permanent employees comprising 51,209 Permanent ADF members and 18,556 APS personnel. The ADF Reserve Force comprised 21,968 employees. The total ADF workforce included 15,987 Navy Permanent and Reserve members, 41,374 Army Permanent and Reserve members and 15,816 Air Force Permanent and Reserve members. The ADF decreased in permanent strength by 1,033 during 2004-05, with an increase in separations of 782 being the main contributor.

The Reserve component of the ADF decreased in strength by 186, from 22,154 in 2003-04 to 21,968 in 2004-05.

The charts below show the percentage of personnel by type of service (ADF, APS, Reserves) and then by the Service to which they belong.

Chart 3.1 Defence Workforce Staffing as at 30 June 2005



At 30 June 2005, there were 18,556 APS personnel. This number includes all APS personnel Defence has recorded as employees and includes full-time, part-time, ongoing and non-ongoing, and paid and unpaid employees.

This was 472 less personnel than the same time last year and is an overall decrease of approximately 2.5 per cent. The decrease results from ongoing measures to reduce the

civilian workforce as part of the Program of Administrative Savings and from the challenges experienced in recruiting and retaining skilled personnel, including in the information technology, finance, and project management fields.

	Navy	Army	Air Force	APS	Total
2003-04					
Permanent	13,205	25,455	13,582 ⁽²⁾	-	52,242
Public Service	-	-	-	19,028	19,028
Total	13,205	25,455	13,582	19,028	71,270
2004-05					
Separations⁽³⁾					
Permanent	1,581	3,213	1,126	-	5,920
Public Service	-	-	-	2,670	2,670
Sub-total	1,581	3,213	1,126	2,670	8,590
2004-05					
Additions⁽⁴⁾					
Permanent	1,231	2,871	785	-	4,887
Public Service	-	-	-	2,198	2,198
Sub-total	1,231	2,871	785	2,198	7,085
2004-05					
Permanent	12,855	25,113	13,241	-	51,209
Public Service	-	-	-	18,556	18,556
Total	12,855	25,113	13,241	18,556	69,765
Variation	-350	-342	-341	-472	-1,505

Notes

- 30 June 2004 figures are sourced from the *Defence Annual Report 2003-04*.
- Adjusted from 13,585 to 13,582 to account for three retrospective separations.
- Separations include all personnel who have left the Defence workforce through voluntary and involuntary redundancy, age or voluntary retirement, or transfer to other agencies.
- Additions include all personnel who have joined the Defence workforce through direct recruitment action, enlistments from overseas, re-enlistments, including transfers from other agencies and non-ongoing personnel. Owing to the diverse methods and timing of entry into the ADF, the figures for ADF Additions are close estimates.

Defence Workforce by Gender and Employment Category

	As at 30 June 2004				As at 30 June 2005			
	Men	%	Women	%	Men	%	Women	%
Navy								
<i>Trained Force</i>								
Officers	1,683	12.7	334	2.5	1,654	12.9	342	2.7
Other ranks	7,542	57.1	1,475	11.2	7,480	58.2	1,483	11.5
<i>Training Force</i>								
Officers	597	4.5	194	1.5	628	4.9	201	1.6
Other ranks	1,082	8.2	298	2.3	884	6.9	183	1.4
Total	10,904	82.6	2,301	17.4	10,646	82.8	2,209	17.2
Army								
<i>Trained Force</i>								
Officers	3,925	15.4	639	2.5	3,967	15.8	644	2.6
Other ranks	17,214	67.6	1,732	6.8	16,915	67.4	1,723	6.9
<i>Training Force</i>								
Officers	569	2.3	105	0.4	553	2.2	99	0.4
Other ranks	1,138	4.5	133	0.5	1,142	4.5	70	0.3
Total	22,846	89.8	2,609	10.2	22,577	89.9	2,536	10.1
Air Force								
<i>Trained Force</i>								
Officers	2,964	21.8	509	3.8	2,882	21.8	517	3.9

Other ranks	7,516	55.3	1,279	9.4	7,367	55.6	1,304	9.8
<i>Training Force</i>								
Officers	526	3.9	137	1.0	505	3.8	140	1.1
Other ranks	539	4.0	112	0.8	464	3.5	62	0.5
Total	11,545⁽³⁾	85.0	2,037	15.0	11,218	84.7	2,023	15.3
ADF Permanent								
<i>Trained Force</i>								
Officers	8,573	16.4	1,482	2.8	8,503	16.6	1,503	2.9
Other ranks	32,272	61.8	4,486	8.6	31,762	62.0	4,510	8.8
<i>Training Force</i>								
Officers	1,693	3.2	436	0.8	1,686	3.3	440	0.9
Other ranks	2,759	5.3	543	1.1	2,490	4.9	315	0.6
Total	45,295	86.7	6,947	13.3	44,441	86.8	6,768	13.2
Reserves⁽⁴⁾								
Navy	2,032	9.2	500	2.3	2,504	11.4	628	2.9
Army	14,304	64.5	2,578	11.6	13,910	63.3	2,351	10.7
Air Force	2,212	10.0	528	2.4	2,078	9.5	497	2.3
Total	18,548	83.7	3,606	16.3	18,492	84.2	3,476	15.8
APS								
Total	12,376	65.0	6,652	35.0	11,706	63.1	6,850	36.9

Notes

- Figures in the table are actual staff numbers as at 30 June 2004 and 30 June 2005.
- Percentage figures are calculated against the employment category totals. The Service totals for 2004-05 can be found in Table 3.14.
- Adjusted from 11,548 to 11,545 to account for three retrospective separations.
- Figures are Reserves on full-time service and those with training obligations.

Table 3.11 APS Personnel by Gender and Category as at 30 June 2005⁽¹⁾⁽²⁾⁽³⁾

Category	Gender	Full-time	Part-time	Total
Ongoing employees	Male	11,333	52	11,385
	Female	6,078	210	6,288
Non-ongoing employees	Male	312	9	321
	Female	533	29	562
Total	Male	11,645	61	11,706
	Female	6,611	239	6,850
Total APS personnel		18,256	300	18,556

Notes

- Figures in this table show actual staff numbers.
- Figures include paid and unpaid staff.
- Figures exclude locally engaged civilians overseas.

Defence Senior Management**Table 3.12 Star-ranked Officers as at 30 June 2005**

	Total star rank ⁽¹⁾			2004-05 promotions ⁽²⁾			2004-05 separations ⁽³⁾		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Four Star									
Navy	-	-	-	-	-	-	-	-	-
Army	1	-	1	-	-	-	-	-	-
Air Force	-	-	-	-	-	-	-	-	-
Three Star									
Navy	2	-	2	-	-	-	-	-	-
Army	2	-	2	-	-	-	-	-	-
Air Force	1	-	1	-	-	-	-	-	-
Two Star									
Navy	6	-	6	-	-	-	1	-	1
Army	9	-	9	3	-	3	3	-	3
Air Force	9	1	10	3	-	3	1	-	1

One Star									
Navy	27	-	27	6	-	6	7	-	7
Army	40	-	40	14	-	14	5	-	5
Air Force	29	-	29	9	-	9	4	-	4
Total	126	1	127	35	-	35	21	-	21

Notes

1. Officers on acting or higher duties are not included. Does not include Reserves.
2. Promotions include those officers promoted between levels.
3. Separations include only those officers who have separated from Defence.

Table 3.13 APS Senior Executive Service staff as at 30 June 2005⁽¹⁾⁽²⁾

	Total SES			2004-05 Engagements⁽³⁾			2004-05 Separations⁽⁴⁾		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Senior Executive Band 1	49	17	66	13	3	16	11	2	13
Senior Executive Band 2 ⁽⁵⁾	20	7	27	10	2	12	2	1	3
Senior Executive Band 3	6	-	6	-	-	-	2	-	2
Chief of Division Grade 2	12	-	12	1	-	1	1	-	1
Chief of Division Grade 3	3	-	3	-	-	-	-	-	-
Senior Executive Relief Staff ⁽⁶⁾	16	-	16	-	-	-	-	-	-
Total	106	24	130	24	5	29	16	3	19

Notes

1. Figures in this table show actual staff numbers at their substantive level and officers on higher duties pending permanent filling action, however not personnel on longer term unpaid leave.
2. Gains and losses do not reflect movement of officers between levels in each of the Senior Executive Service and Chief of Division streams.
3. Engagement figures include new engagements, promotions and transfers from other agencies for ongoing employees only.
4. Separation figures include resignations and redundancies, and promotions and transfers to other departments for ongoing employees only.
5. Senior Executive Band 2 includes Medical Officer Grade 6.
6. Relief Staff represents senior officers acting in Senior Executive Service/Chief of Division positions for short durations pending permanent filling action or while the incumbents are on leave, acting in higher positions or on overseas duty.

Distribution of Defence Personnel**Table 3.14** Distribution of Defence Personnel by Employment Location as at 30 June 2005⁽¹⁾

	NSW	Vic	Qld	SA	WA	TAS	NT	ACT⁽²⁾	O/S⁽³⁾	Total
Permanent Forces⁽⁴⁾⁽⁵⁾										
Navy ⁽⁶⁾	5,586	1,803	789	70	2,636	14	549	1,242	166	12,855
Army	5,672	3,120	9,106	656	838	119	3,368	1,972	262	25,113
Air Force	4,880	1,015	2,330	1,753	426	8	1,092	1,492	245	13,241
Sub Total	16,138	5,938	12,225	2,479	3,900	141	5,009	4,706	673	51,209
Reserve Forces⁽⁵⁾⁽⁷⁾⁽⁸⁾										
Navy	922	304	453	137	431	137	36	710	2	3,132
Army	4,369	2,788	4,252	1,245	1,734	638	679	513	43	16,261
Air Force	602	332	716	261	198	47	64	355		2,575
Sub Total	5,893	3,424	5,421	1,643	2,363	822	779	1,578	45	21,968
Total	22,031	9,362	17,646	4,122	6,263	963	5,788	6,284	718	73,177
APS⁽⁹⁾	3,431	3,804	1,407	1,975	605	96	397	6,742	99	18,556
Grand Total	25,462	13,166	19,053	6,097	6,868	1,059	6,185	13,026	817	91,733

Notes

1. Figures in this table show actual staff numbers as at 30 June 2005 and are not average funded strengths.
2. ACT includes personnel located at Jervis Bay.
3. Permanent Forces and Reserves overseas represent personnel posted for long-term duty and deployments.

4. Permanent Forces figures include paid and unpaid members.
5. Personnel are shown in the location from which they are administered.
6. Personnel serving in ships are included against the state or territory in which the ship is home-ported.
7. Reserve Forces figures include Reserves on continuous full-time service.
8. Figures are Reserves with training obligations.
9. APS figures include full-time, part-time, ongoing, non-ongoing, paid and unpaid employees.

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	O/S ⁽²⁾	Total
Secretary	-	-	-	-	-	-	-	1	-	1
Senior Executive Service ⁽³⁾	-	6	2	10	-	-	-	95	2	115
SES Relief Staffing ⁽⁴⁾	-	1	-	3	-	-	-	12	-	16
Executive Levels ⁽⁵⁾	356	705	85	705	68	5	23	2,055	70	4,072
Executive Relief Staffing ⁽⁶⁾	21	26	8	5	5	-	2	202	12	281
Other APS Levels ⁽⁷⁾	3,054	3,066	1,313	1,254	532	91	372	4,374	15	14,071
Total	3,431	3,804	1,408	1,977	605	96	397	6,739	99	18,556

Notes

1. Figures show staff numbers as at 30 June 2005 and include personnel who are on some form of unpaid leave.
2. Overseas figures represent personnel posted for long and short-term duty as at 30 June 2005.
3. Senior Executive Service includes Chief Executive Officer of the Defence Materiel Organisation, Deputy Secretaries, First Assistant Secretaries, Assistant Secretaries, Chiefs of Division and Medical Officer 6 substantive classifications.
4. SES relief staffing indicates non-SES officers who are temporarily acting in SES positions. These officers are on higher duties while the incumbents are taking leave, acting in higher positions or on secondment to other agencies.
5. Executive levels include Executive Levels 1 and 2.
6. Executive relief staffing indicates APS levels temporarily acting in executive level positions pending permanent filling action or while incumbents are taking leave, acting in higher positions or on secondment to other agencies.
7. APS levels include Australian Public Service levels 1 to 6.

ADF Enlistments and Recruiting

The ADF enlisted 4,934 permanent members, 4,266 men and 668 women, in the 12 months up to 30 June 2005, as shown in Table 3.16. This was 658 fewer personnel than in 2003-04.

The Reserve component of the ADF decreased in strength from 22,154 during 2003-04 to 21,968 in 2004-05 (Table 3.10). Reserve enlistments reduced to 2,372 in 2004-05 compared to the 2,494 recruited in 2003-04. The decrease of 186 in Reserve strength can be attributed to 122 fewer enlistments and 64 more separations.

The overall recruiting achievement against targets for the Permanent and Reserve Forces for 2004-05 was 77 per cent, which was 9 per cent lower than in 2003-04.

ADF recruiting is Defence's highest workforce priority. Initiatives to improve recruitment in 2005 range from targeted advertising campaigns for Defence critical jobs, enhanced training for recruiting staff, and partnership in the 'Step to the Future' Youth forum together with other young Australian community groups. Some 20 new recruiting initiatives were identified for development in the ADF Recruiting Strategic Plan 2005-10, endorsed by the Chiefs of Service Committee in October 2005.

Table 3.16 Permanent Force Enlistments 2003-04 and 2004-05⁽¹⁾⁽²⁾⁽³⁾

	Navy		Army		Air Force ⁽⁴⁾		ADF	
	Men	Women	Men	Women	Men	Women	Men	Women
2003-04								
<i>Trained Force</i>								
Officers	58	5	182	38	29	5	269	48
Other ranks	49	6	154	31	75	22	278	59
<i>Training Force</i>								
Officers	164	59	250	51	164	44	578	154
Other ranks	1,044	285	2,050	221	476	130	3,570	636
Total	1,315	355	2,636	341	744	201	4,695	897
2004-05								
<i>Trained Force</i>								
Officers	27	4	151	27	41	12	219	43
Other ranks	53	10	205	34	62	15	320	59
<i>Training Force</i>								
Officers	134	49	246	51	139	34	519	134
Other ranks	787	177	2,032	162	389	93	3,208	432
Total	1,001	240	2,634	274	631	154	4,266	668

Notes

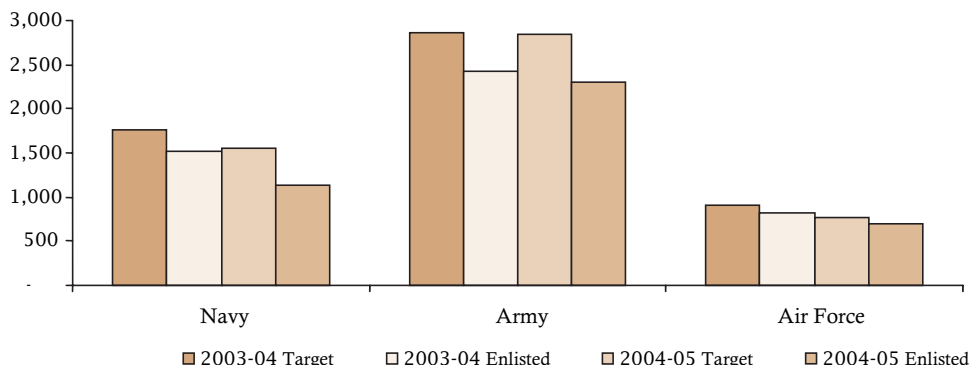
1. Figures in this table show actual staff.
2. Enlistments exclude Reserves commencing periods of full-time duty.
3. Figures include inter and intra-Service transfers processed by the Services and, therefore, do not correlate with the recruiting activity shown in Table 3.17.
4. All Air Force recruits are enlisted into the training force.

Table 3.17 ADF Permanent Force Recruiting Activity 2003-04 and 2004-05

	Navy	Army	Air Force	ADF
2003-04				
Total inquiries	9,575	29,043	20,342	58,960 ⁽¹⁾
Formal applications	4,160	7,689	4,108	15,957
Applicants enlisted	1,515	2,418	814	4,747
Target	1,760	2,862	908	5,530
Percentage achieved	86	84	90	86
2004-05				
Total inquiries	7,138	24,669	12,107	43,914 ⁽²⁾
Formal applications	3,099	6,849	2,951	12,899
Applicants enlisted ⁽³⁾	1,136	2,309	700	4,145
Target	1,551	2,849	762	5,162
Percentage achieved	73	81	91	80

Notes

1. In addition, there were 25,008 tri-Service, Permanent and Reserve Force enquirers who were undecided on which Service they wished to join and whether they were interested in permanent or reserve commitment.
2. In addition, there were 16,754 tri-Service, Permanent and Reserve Force enquirers who were undecided on which Service they wished to join and whether they were interested in permanent or reserve commitment.
3. These figures only include *ab initio* enlistees and, therefore, do not correlate with the enlistments shown in Table 3.16

Chart 3.2 Permanent Force Recruiting Target versus Achievement for 2003-04 and 2004-05**Table 3.18** Reserve Force Recruiting Activity for 2003-04 and 2004-05

	Navy	Army	Air Force	ADF
2003-04				
Total inquiries	1,115	19,510	3,320	23,945 ⁽¹⁾
Formal applications	90	6,222	408 ⁽²⁾	6,720
Applicants enlisted	31	2,317	146	2,494
Target	73	2,759	283	3,115
Percentage achieved	42	84	52	80
2004-05				
Total inquiries	927	20,568	1,869	23,364 ⁽³⁾
Formal applications	118	5,563	462	6,143
Applicants enlisted	33	2,194	145	2,372
Target	131	2,870	278	3,279
Percentage achieved	25	76	52	72

Notes

- In addition, there were 25,008 tri-Service, Permanent and Reserve Force enquirers who were undecided on which Service they wished to join and whether they were interested in permanent or reserve commitment.
- The figure of 1,546 published in *Defence Annual Report 2003-04* was incorrect.
- In addition, there were 16,754 tri-Service, Permanent and Reserve Force enquirers who were undecided on which Service they wished to join and whether they were interested in permanent or reserve commitment.

Separations

In 2004-05, separation rates for the Permanent Force were:

- Navy - 12 per cent;
- Army - 13 per cent;
- Air Force - 8 per cent; and
- ADF - 11 per cent.

The total number of ADF separations increased slightly from 2003-04, due largely to increased separations by Army and Navy other ranks. Separation rates remain below the ten-year average separation rate for each Service and the ADF as a whole.

Retention initiatives are coordinated through the annual Defence People Plan. Comprehensive critical category recovery strategies are being developed for implementation during 2005-06, with notable achievements to date being the new Remote Locality Allowance and School Transition Aides program.

Table 3.19 ADF Permanent Force Separations 2003-04 and 2004-05⁽¹⁾⁽²⁾

		Voluntary ⁽³⁾	Involuntary ⁽⁴⁾	Age Retirement	Cadets and Trainees	Total
2003-04						
Navy	Officers	154	17	1	49	221
	Other ranks	715	146	-	247	1,108
Army	Officers	302	32	4	101	439
	Other ranks	1,310	654	6	402	2,372
Air Force	Officers	201 ⁽⁵⁾	11	1	70 ⁽⁷⁾	283
	Other ranks	516 ⁽⁶⁾	67	25	110	718
Total ADF	Officers	657	60	6	220	943
	Other ranks	2,541	867	31	759	4,198
2004-05						
Navy	Officers	178	22	-	50	250
	Other ranks	815	224	2	310	1,351
Army	Officers	349	28	1	91	469
	Other ranks	1,578	659	3	504	2,744
Air Force	Officers	277	20	2	55	354
	Other ranks	620	61	19	72	772
Total ADF	Officers	804	70	3	196	1,073
	Other ranks	3013	944	24	886	4,867

Notes

- Figures in this table show actual staff.
- Non-effective personnel (personnel on maternity leave and leave without pay) and Reserves completing periods of full-time duty are not included.
- 'Voluntary' includes redundancies and resignations.
- 'Involuntary' primarily comprises members who were medically unfit or unsuitable for further training.
- Adjusted from 200 to 201 to account for one retrospective separation.
- Adjusted from 515 to 516 to account for one retrospective separation.
- Adjusted from 69 to 70 to account for one retrospective separation.

Table 3.20 APS Separations 2003-04 and 2004-05

		Voluntary ⁽¹⁾	Involuntary ⁽²⁾	Resignation/ Retirement ⁽³⁾	Transfers ⁽⁴⁾	Total
2003-04						
SES		8	1	7	6	22
Senior Officers		34	13	183	51	281
Other Staff		91	110	1,314	132	1,647
Total APS		133	124	1,504	189	1,950
2004-05						
SES		2	-	9	8	19
Senior Officers		49	26	210	60	345
Other Staff		647 ⁽⁵⁾	94	1,406	160	2,307
Total APS		698	120	1,625	228	2,671

Notes

- Voluntary figures include Voluntary Redundancies – commercial support program, Defence reform program or program initiated.
- Involuntary figures include abandonment (forfeit), breach of conduct, death, invalidity retirement, involuntary redundancy, lack of qualifications, non-performance and term probation.
- Resignation / retirement includes complete non-ongoing, resignation and retirement.
- Transfers include transfers/promotions to other agencies.
- Increase from 2003-04 due to non-core Defence Integrated Distribution System transitional employees.

Performance against People Matter Priorities for 2004-05

This section reports on performance against the priorities included in the overview of the People chapter of the *Portfolio Budget Statements 2004-05* and in the *Portfolio Additional Estimates Statements 2004-05*. The people goal is to ensure that Defence has the right ADF and civilian personnel with the right skills and experience to provide the capabilities we need to undertake complex military operations, to support operations adequately across a number of fields, and to administer the Defence organisation.

Table 3.21 Performance against People Matter Priorities

Priority	Performance
Introduce improved processes for the priority setting and funding of people initiatives	The Defence Workforce Plan and Defence People Plan have been embedded in the overall Defence management and financial planning framework. People initiatives are prioritised and funded against workforce risks to Defence capability.
Continue to implement the recommendations of the <i>Strategic Workforce Planning Review</i>	Implementation started in mid-2003. In the reporting period, Defence implemented a Defence Workforce Plan with a ten-year outlook. A new method for forecasting and assessing critical ADF workforce shortages was also developed and this has been used to better identify the Defence capability risk posed by workforce shortages. This subsequently drives personnel initiative priorities in the Defence People Plan. A project is under way to apply a similar process to identify and address shortfalls in the Defence civilian workforce.
Implement strategies to target shortages in the ADF workforce	Defence Force Recruiting launched several marketing strategies during 2004-05 targeting shortages in the ADF workforce, including recruitment to the Royal Military College Duntroon, and recruitment of Navy engineers, health officers, Army Reservists, and technical trades people. The impact and effectiveness of these campaigns should be realised throughout 2005-06.
Develop the Defence People Plan to better prioritise human resource activities and expenditure to address capability risks identified in the Defence Workforce Plan	The <i>2005-15 Defence People Plan</i> was developed in February 2005 and is a companion document to the Defence Workforce Plan. While the Workforce Plan identifies risk, the People Plan determines the priorities and resources for personnel recruitment and retention initiatives to mitigate these risks. The People Plan developed strategies to address key workforce capability risks, such as workforce shortages in critical employment categories; high separation rates in certain length of service cohorts, and through medical discharges; and inadequate administrative skills. The effects of these strategies should begin to be realised in 2005-06.
Continue remuneration reform in the ADF, in particular:	
– Superannuating specified skill-based elements of allowances in the nature of pay	Qualification and skill elements of flying, special action forces, specialist operations and submarine service allowances were included in ADF members' salary for the calculation of superannuation benefits with effect from 12 August 2004.
– Developing a flexible salary structure for officers	The Defence Force Remuneration Tribunal has been progressively informed of the Remuneration Reform Program (a flexible salary structure for officers), with a view to presenting the final submissions in December 2005.

Priority	Performance
<ul style="list-style-type: none"> - Implement the <i>Defence Employees' Certified Agreement 2004-06</i>, the <i>ADF Workplace Remuneration Arrangement 2004-06</i>, and the <i>ADF Star Ranks Remuneration Arrangement 2004-06</i> 	<p>The <i>Defence Employees' Certified Agreement 2004-06</i>, the <i>ADF Workplace Remuneration Arrangement 2004-06</i>, and the <i>ADF Star Ranks Remuneration Arrangement 2004-06</i> continue to be implemented in accordance with agreed priorities. Activities in 2004-05 particularly focused on:</p> <ul style="list-style-type: none"> - performance management and improving linkages to organisational outcomes; - ongoing travel reform particularly through the introduction of the Defence Travel Card; - improving ADF and Defence civilian leave management; - improving Defence civilian absence management; and - development of Defence civilian work level standards.
<p>Implement the Military Rehabilitation and Compensation Scheme</p>	<p>New rehabilitation and compensation arrangements for the ADF were introduced with the commencement of the <i>Military Rehabilitation and Compensation Act 2004</i> and the <i>Military Rehabilitation and Compensation (Consequential and Transitional Provisions) Act 2004</i> on 1 July 2004. The Military Rehabilitation and Compensation Scheme, which was transferred to the Department of Veterans' Affairs in 2004-05, provides for a strong focus on the rehabilitation and compensation of ADF members (under one scheme) for all forms of ADF service from 1 July 2004.</p>
<p>Develop an integrated Occupational Health and Safety Management System</p>	<p>The Defence Occupational Health and Safety Management System was endorsed in June 2005. It covers leadership, incident prevention and incident management. The development of an integrated system, guided by the <i>Defence Occupational Health and Safety Strategic Plan 2004-2006</i>, aims to maximise personnel and equipment availability, minimise injury and disease, promote a sense of wellbeing and personnel participation, and improve corporate reputation.</p>
<p>Continue improvements to ADF health:</p>	<p>The Defence Injury Prevention Program continues to be implemented. The program was successfully deployed to the 3rd Brigade in Townsville, Queensland in February 2004 and preliminary results have indicated a 15 per cent reduction in injuries between March 2004 and March 2005. In October 2004, the program was deployed to the 1st Brigade in Darwin, Northern Territory. Further deployment of the program at other Defence locations is planned.</p> <p>The ADF Alcohol, Tobacco and Other Drugs Service is part of the ADF Mental Health Strategy. Major milestones achieved include:</p> <ul style="list-style-type: none"> - training over 500 ADF health and allied health professionals to equip them to conduct interventions; - improving the understanding of alcohol and drug issues for ADF members through a marketing and information campaign that utilises the ADF Mental Health Strategy website, publications and group presentations; - piloting an outpatients alcohol treatment program for ADF members who want to manage their own alcohol consumption; - developing the 'Keep Your Mates Safe Program' that is aimed at peer support and changing the cultural expectation relative to alcohol consumption; - organising a number of alcohol and drug-related health promotional activities linked to the National Alcohol Campaign; and - conducting a review of the Alcohol Rehabilitation and Education program with the aim of improving services.

Priority	Performance
<ul style="list-style-type: none"> - Continue to implement the ADF Suicide Prevention Program 	<p>The ADF suicide prevention program is part of the ADF Mental Health Strategy. Major milestones achieved in 2004-05 include:</p> <ul style="list-style-type: none"> - developing a 30 minute suicide awareness presentation to be given to all ADF members during induction training; - delivering applied suicide intervention skills training, which is supplied by Living Works (Lifeline Australia). This program includes a two-day interactive workshop, which teaches suicide first-aid and a five-day 'Train the Trainer' component for mental health professionals. To date, 100 Defence personnel have completed the 'Train the Trainer' element; and these people have, in turn, trained approximately 1,000 Defence members to be first aid carers; - developing a suicide post-event review (postvention) program to minimise the stressful after effects and traumatic impact of suicide or suicide-related behaviour; - continuing the all-hours Support Line, which is a 24 hour, seven days a week, national confidential crisis support and referral telephone line. A 12-month trial of the support line concluded in October 2004. Use of the line continues while an expansion of the service is considered; and - ongoing development of a website for the program, which provides members with help numbers, resources such as fact sheets, training information (including the 30-minute suicide prevention training presentation) as well as providing a connection to the regional mental health teams.
<ul style="list-style-type: none"> - Establish a Deployed Health Studies Unit within the new Centre for Military and Veterans' Health 	<p>The Deployed Health Studies Unit was established in October 2004 within the Centre for Military and Veterans' Health to conduct the Defence Longitudinal Health Study. Work will continue in 2005-06 on a research plan and the development of a data framework for the longitudinal health study. The aim of the study is to establish and test protocols and processes for the long-term surveillance of the health and wellbeing of ADF personnel deployed to overseas operational environments.</p>
<ul style="list-style-type: none"> - Commence a health study of personnel deployed on Operation Citadel (East Timor) and Operation Anode (Solomon Islands) 	<p>Initial work on the East Timor pilot health study commenced in 2004-05. The Solomon Islands health study is expected to commence in the first half of 2005-06.</p>
<ul style="list-style-type: none"> - Implement the agreed recommendations of the review of Defence Health Services 	<p>In late 2003, the Chief of the Defence Force implemented a review of the Defence Health Service. Major General Paul Stevens (Rtd) was appointed to conduct the review and his May 2004 report provided several recommendations for improvement. One recommendation was the re-establishment of a two-star Head Defence Health Service, which received ministerial approval in January 2005. The selection process for this position resulted in the appointment of an Air Vice-Marshal as the new Head Defence Health Services on 17 May 2005. Defence will examine and implement, where appropriate, the remainder of the recommendations during 2005-06.</p>
<p>Validate the 360-degree senior leadership feedback program to continue to inform senior leadership development</p>	<p>The Defence 360-degree Performance Feedback Program has been significantly amended to align with the Defence People Leadership Model. It now includes an assessment of relationship management and provides participants with valuable individual feedback. Validation of the program is planned to commence in late 2005-06.</p>

Priority	Performance
<p>Develop targeted education and training:</p> <ul style="list-style-type: none"> <li data-bbox="162 249 454 274">– Provide access to eLearning <li data-bbox="162 592 485 662">– Implement agreed outcomes of the Defence Business Skilling Review <li data-bbox="162 811 485 934">– Promote undergraduate and postgraduate courses offered by the Australian Defence College and the Australian Defence Force Academy <li data-bbox="162 1201 485 1372">– Target the Defence Graduate Development Program to capability requirements by developing and implementing a scholarship to attract more people with accounting qualifications 	<p>Since March 2004, Defence personnel, including contractors, have been able to access the Defence Online CAMPUS (formerly known as DOMAIN) through the Defence Intranet. During 2004-05 more than 30 courses have been delivered via CAMPUS with over 80,000 enrolments and over 46,000 course completions.</p> <p>Courses available through CAMPUS include systems skilling, business skilling (procurement, finance, travel card), operational and deployment training (Army specific courses, peace keeping, promotional training), mandatory Defence training (Occupational Health and Safety, Fraud and Ethics, Equity, Merit Selection and Recruitment), and training on other information technology applications.</p> <p>In June 2005, Defence was recognised for the implementation of eLearning with the International Computerworld 21st Century Achievement Award for innovative use of information technology. Priority skill requirements have been defined to support business processes in the domains of finance, human resources, leadership, logistics, general management and administration, procurement, capability development, project management, security and occupational health and safety. Defence has delivered an extensive financial training program, developed new training packages, and reviewed and revised existing packages. Training for users of corporate finance, personnel and logistics information systems has been reviewed and made more accessible.</p> <p>The Australian Defence College aims to promote the learning and development of Defence leaders and managers by providing education up to the postgraduate level to military officers and APS managers. Courses available at the College continue to be widely promoted, in particular through liaison with Defence groups and other government agencies, as well as through articles in Defence internal newsletters and magazines.</p> <p>Substantial work has been undertaken to promote undergraduate and postgraduate study at the Australian Defence Force Academy. In particular, the University of New South Wales has engaged a student recruitment manager to assist Defence in actively targeting regional members for postgraduate courses, and to work closely with Defence Force Recruiting to increase undergraduate student numbers. Initiatives have been developed to visit regional Defence establishments across Australia, targeting new starters to Defence, and to update promotional material.</p> <p>The Chief Finance Officer Scholarship Scheme was developed in 2004 and offered to accountancy students in their penultimate year of study. The scheme offers successful applicants a grant towards administration fees and textbooks, paid vacation work during their final year of study and, upon successful completion, a guaranteed place on the Graduate Development Program. The scheme attracted 37 applicants in 2004, of which 13 were awarded scholarships. On completion of their degrees, the 13 successful applicants will join the business stream of the Graduate Development Program in 2006.</p>
<p>Continue to develop personnel policies:</p> <ul style="list-style-type: none"> <li data-bbox="162 1471 485 1544">– Review ADF leave policy, with a view to streamlining leave procedures <li data-bbox="162 1597 485 1690">– Assess the relevance and appropriateness of the current remote locality conditions of service package 	<p>Outcomes of a four-phase review of ADF leave policy were considered by the Defence People Committee in May 2005 and some refinements to ADF leave policy were agreed. Longer-term options for substantial simplification of ADF leave provisions are undergoing further policy development.</p> <p>A revised conditions of service package for ADF members serving in remote localities was endorsed by the Defence People Committee in July 2005 and was subsequently implemented in September 2005.</p>

Priority	Performance
<ul style="list-style-type: none"> <li data-bbox="150 190 510 295">– Implement national arrangements for the Employee Assistance Program for APS staff <li data-bbox="150 333 510 485">– Implement the outcomes of the Defence Review of Merit in Employment Decisions 2003 to improve the application and perception of the merit principle for APS recruitment <li data-bbox="150 523 510 675">– Improve leave and absence management, in order to reduce unscheduled absences for APS staff and to foster an environment that encourages the taking of annual leave 	<p data-bbox="510 190 1196 523">A national Defence Employee Assistance Program, provided by International Psychological Services (IPS Worldwide), commenced operation in November 2004. The program provides confidential and professional counselling services for APS employees and their immediate families to help them resolve work-related problems, or personal problems that may impact on the employee's working life. Defence continues to progressively implement the outcomes of the <i>Defence Review of Merit in Employment Decisions 2003</i>, including policy and procedural changes resulting from the review. In October 2004, a Merit Selection and Recruitment Proficiency eLearning module was made available to Defence employees. From 1 July 2005, all recruitment delegates and panel members are required to hold this proficiency. It is anticipated that all outcomes from the review will be implemented during 2005-06.</p> <p data-bbox="510 523 1196 872">The Defence Civilian Injury Prevention and Management Framework, an initiative under the <i>Defence Occupational Health and Safety Strategic Plan 2004-2006</i>, has facilitated the development and implementation of a new absence management policy and associated procedures. This has included the development of an absence management kit for supervisors and managers. The framework aims to increase senior manager accountability for preventing workplace injuries and managing absence, irrespective of its cause, through enhanced senior management information and reporting and notional attribution of compensation claims costs to individual Defence Groups. Greater management accountability has also been afforded through devolution of the approval of personal leave to line managers, supported by PMKeyS Self-Service work flow, and the inclusion of leave plans for annual leave in performance agreements.</p>
<p data-bbox="150 872 510 923">Support ADF members and their families:</p> <ul style="list-style-type: none"> <li data-bbox="150 923 510 1113">– Deliver employment assistance for partners of ADF members <li data-bbox="150 1170 510 1620">– Enhance the childcare program 	<p data-bbox="510 923 1196 1113">The 'Services Workforce Access Program for Partners' was introduced in 2003 and offers spouses and partners of ADF members practical and financial assistance with employment placement. During 2004-05, the program was evaluated and consequently, will continue for another two years. Feedback about the 'Services Workforce Access Program for Partners' has been positive, with 581 ADF members' partners using the program during the reporting period. The program will be further enhanced during 2005-06 to include financial assistance with professionally prepared resumes.</p> <p data-bbox="510 1170 1196 1247">The Defence childcare program has been enhanced through a new contract with ABC Corporate Care Pty Ltd. Under the contract, which commenced on 1 July 2005, ABC will:</p> <ul style="list-style-type: none"> <li data-bbox="510 1247 1196 1275">– manage the existing 19 Defence childcare centres; <li data-bbox="510 1275 1196 1351">– expand the program by developing Defence/ABC Corporate childcare centres in areas of need, with the potential to double the size of the program in the first 12 months; <li data-bbox="510 1351 1196 1408">– provide a national '1800 number' call centre service to allow mobile Defence families to seek childcare prior to relocation; and <li data-bbox="510 1408 1196 1456">– provide employment and training opportunities for Defence spouses. <p data-bbox="510 1456 1196 1620">During 2004-05, Defence childcare centres at Puckapunyal and Williamstown were completed. A new childcare centre at East Sale is nearing completion and is in the process of being licensed. Puckapunyal and Williamstown childcare centres are now operating. These centres provide an additional 130 childcare places (90 long-day places and 40 out-of-school hours places). Planning for the construction of the Holsworthy childcare centre is under way.</p>

Priority	Performance
<ul style="list-style-type: none"> - Deliver educational transition assistance and support to children of ADF members - Finalise the development of a new system for classifying the housing entitlements of ADF members with dependants - Upgrade current, and invest in new, accommodation for members without dependants 	<p>Milestones achieved include:</p> <ul style="list-style-type: none"> - expanding the Defence School Transition Aide Program into 127 primary schools nationally. A new program will be introduced into 32 secondary schools in late 2005. This program aims to ease the social and emotional impact of moving. - progressing the development of a student digital portfolio to assist ADF families with keeping educational information about their children. This new initiative was partially funded by the Department of Education Science and Training, in recognition of the difficulties associated with a mobile lifestyle. The student digital portfolio will be made available during 2005-06 and distributed to ADF families. <p>Work has progressed towards resolving a range of complex business issues, which relate to the practical application of the new system for classifying the housing entitlements of ADF members with dependants.</p> <p>The Single Living Environment and Accommodation Precinct project is committed to bringing Defence's accommodation for single ADF members in line with community standards. The project is exploring options for the development of permanent on-base and off-base accommodation for single ADF members at specific sites across Queensland, Northern Territory, Riverina/Regional Victoria and Holsworthy. These regions represent the highest priority for Defence singles living accommodation.</p> <p>As part of Phase One of the project, funding has been allocated toward the development of 20 permanent single living-in accommodation units on base at Robertson Barracks in Darwin, Northern Territory and 40 units in Canungra, Queensland. The new facilities are due for completion at the end of 2006.</p>
<p>Continue improvements to Defence's human resources and payroll management system (PMKeyS):</p> <ul style="list-style-type: none"> - Enhance employee self-service functionality, including the implementation of electronic workflow - Improve management reporting capability using web technology and warehousing software 	<p>During 2004-05, PMKeyS Self Service, a real-time self-service facility, was extended to include ADF members (the roll-out for Defence civilian employees began in 2003-04). For the period 1 July 2004 to 30 June 2005 approximately 62,000 Defence employees/members accessed PMKeyS Self Service.</p> <p>Enhancements included:</p> <ul style="list-style-type: none"> - payslips being made available electronically to ADF members; - the introduction of automated workflow for submitting and approving annual and personal leave applications for Defence civilian personnel; and - providing greater visibility and access to personal data for Defence civilian and ADF staff. <p>Following a successful trial which was completed in early 2005, Defence staff now have the ability to access, analyse and generate aggregate personnel management information at their desktop computers. Defence has reviewed the business and technical requirements for data warehouse technology and a strategy has been agreed to progress business intelligence and reporting solution objectives.</p>

Priority	Performance
Further enhance the Australian Defence Force Cadets	<p>During 2004-05, the Cadet Enhancement Program:</p> <ul style="list-style-type: none">– completed two bodies of research designed to assist in decision making, policy development and program delivery of Cadet initiatives. The first was a study into the attitudes and behaviours of Cadets and Cadet staff, and the second was an examination of the contribution that Cadets make to Defence;– commenced implementation of the Cadets ‘pathways’ project, which is designed to present the ADF as an employer of choice, improve retention and remove barriers to the ADF recruiting process;– continued to improve Cadet unit accommodation to meet building code of Australia and Occupational Health and Safety standards;– developed an action plan approved by the Government to remove barriers to indigenous participation in Cadets;– implemented the Cadet firearms policy and investigated the procurement of standard training firearms for Cadets;– administered a \$0.5m ‘Cadet Initiatives Activities’ program for Cadets, which allows them to bid for adventurous and leadership activities for their unit;– developed tri-service programs for Cadet staff including:<ul style="list-style-type: none">- an action-based learning framework for Cadets that includes a facilitators guide and development template for Cadet staff;- a common performance appraisal system;- an alternative dispute resolution process;– substantially completed the roll-out of training on the Acceptable Behaviour Policy for Cadets and staff; and– scoped a ‘wellbeing’ project to focus on mental health awareness for Cadets.



DEFENCE PEOPLE | SPECIAL FEATURE

SPOTLIGHT ON FAMILY SUPPORT

The ADF recognises that if it is to remain an employer of choice in today's competitive employment market and achieve and maintain its workforce levels now and into the future, it must have a comprehensive suite of appropriately targeted retention and recruitment measures.

A key factor in personnel retention is the way the ADF supports its highly mobile workforce by reducing the impact of frequent relocations on its military members and, importantly, their partners and dependants.

Defence has a range of family support measures in place to ensure that ADF families are engaged within their local communities as they move around Australia on posting.

Defence Childcare Program

The Defence Childcare Program has been supporting ADF families since 1996. A major review of the program was undertaken in 2004-05 and an expanded range of services has been available since 1 July 2005.



Children at play at a Defence childcare centre.



Providing support to children of ADF members as part of the Defence School Transition Aide Program.

The program aims to provide ADF families with quality childcare arrangements, which comprise priority access to childcare places in Defence childcare centres and access to 650 commercial childcare centres throughout Australia, as well as 'outside of school hours' care.

In 2005-06, Defence is looking to broaden childcare support provisions to help families cope with emergencies and the absence of ADF members on deployment.

Defence School Transition Aide Program

When ADF families move from one locality to another, children are faced with enrolling in new schools and settling into different state and territory education curriculums.

To help families and students adjust to the changes, the Defence School Transition Aide Program sponsors aides in 127 primary schools that have a high enrolment of ADF children. In 2005-06, another 32 positions will be funded in secondary schools.

The Defence School Transition Aide Program offers assistance with integrating

students into their new schools and accessing community and Defence services and support.

Assistance is also available towards tuition for children whose education is affected by their change of school on posting.

Services Workforce Access Program for Partners

One of the major challenges faced by spouses and partners of ADF personnel is transferring employment or finding work in their new posting locations. The Services Workforce Access Program for Partners was introduced in 2003 and offers practical and financial assistance with employment placement.

The program may include individually-tailored services, such as transition to work and job placement services, training to help secure employment or payment towards professional registration expenses.

During 2005-06, the program is being enhanced to include financial assistance to help with developing professionally-prepared resumes.

Commitment to High Priority People Initiatives

The 2004-05 Budget continued the Government's commitment to allocate \$100m per year for high priority personnel initiatives totalling \$500m over five years. Spending on these initiatives continues and is subject to management and regular reporting. Details are shown in Table 3.22 below.

Table 3.22	High Priority People Initiatives					Total
	2001-02 Result \$'000	2002-03 Result \$'000	2003-04 Result \$'000	2004-05 Result \$'000	\$'000	
Approved Program						
Family Support Fund ⁽¹⁾	100	-	-	-	-	100
Child Care Centres	1,025	808	1,252	4,623	-	7,708
Spouse Induction Program	169	49	-	-	-	218
Spouse Professional Fees and Courses	14	50	67	48	-	179
Emergency Childcare	7	5	5	1	-	18
Human Resource Career Streaming	76	135	-	-	-	211
ADF alcohol management program	48	313	554	566	-	1,481
ADF mental health strategy	309	159	406	225	-	1,099
Defence school transition aides	-	1,388	1,562	850	-	3,800
eLearning	-	2,610	3,171	2,597	-	8,378
Occupational health and safety management system	-	348	870	-	-	1,218
Defence injury prevention program	-	14	182	466	-	662
Reserves enhancement	12,313	13,674	14,483	13,808	-	54,278
Cadets enhancement	3,030	7,676	6,182	5,096	-	21,984
ADF rental allowance for members without dependants	25,511	49,655	62,545	66,088	-	203,799
Improvements to living-in accommodation	-	39,167	3,821	833	-	43,821
Darwin air conditioning	-	603	2,664	1,693	-	4,960
Duntroon community centre	-	660	-	-	-	660
Defence library service portal	-	275	298	-	-	573
Services workforce access program for partners	-	-	778	1,029	-	1,807
Centre for Military and Veterans' Health	-	-	900	-	-	900
Employee assistance program	-	-	-	172	-	172
Human Resource decision support program	-	-	547	1,214	-	1,761
Suicide intervention training	-	-	327	362	-	689
Total	42,602	117,589	100,614	99,671		360,476
TOTAL ALLOCATION	100,000	100,000	100,000	100,000		400,000
VARIATION	-57,398	17,589	614	-329		-39,524

Note

1. The Family Support Fund was allocated \$100,000 in 2001-02 as a regenerating fund.

Non-Operational Training

Corporate Leadership Initiatives

During 2004-05, work began on developing a whole-of-Defence Leadership Proficiency Framework. This framework is being developed as part of the Business Skilling Review, an initiative to increase Defence's business skilling at all levels. Although focused on Defence civilians at present, it is intended to align the Leadership Proficiency Framework with current ADF leadership development constructs.

Graduate Development Programs

The Graduate Development Program was enhanced with the introduction of the Chief Finance Officer Scholarship Scheme (targeted at accountancy students in their penultimate year of study). The scholarship program consists of three paid work placements within the Chief Finance Officer Group during university term and semester break, and financial assistance to help meet course costs. In 2004, scholarships were awarded to 13 students, who, upon successful completion of their studies, will join the business stream of the 2006 graduate program.

As indicated in the table below, the Defence graduate intake continues to target specific skill sets needed to build Defence capability.

Graduate Program	2000-01	2001-02	2002-03	2003-04	2004-05
Graduate Development Program					
General Stream	45	50	48	37	53
People Stream	-	8	8	3	5
Business Stream	5	10	8	10	10
Infrastructure Stream	-	6	6	2	2
Information Stream ⁽¹⁾	-	-	-	6	4
Defence Materiel Graduate Scheme	29	43	46	30	33
Defence Science and Technology Scheme ⁽²⁾	10	51	36	-	27
Defence Signals Directorate Scheme	36	31	54	29	23
Defence Imagery and Geospatial Organisation Scheme ⁽³⁾	-	-	36	21	14
Navy System Command Scheme ⁽³⁾	5	6	8	5	6
Total	130	205	250	143	177

Notes

1. The Information stream began in 2004.
2. The Defence Science and Technology Organisation did not recruit to its graduate program in 2003-04.
3. This is the first year that these Graduate Programs have been reported.

Vocational Education and Training

Vocational education and training provides Defence people with the skills and knowledge they need to undertake their jobs and pursue their careers. Defence has four Registered Training Organisations that operate within the National Training Framework: three specifically address the needs of the Navy, Army and Air Force; the other addresses the business skilling needs for the whole-of-Defence. Between them, they can issue 352 nationally recognised qualifications ranging from Certificate II to Advanced Diplomas from 23 national training packages, and a further 364 nationally recognised 'accredited course' qualifications. In 2004-05, new qualifications in the areas of security, injury prevention, weapons range management and Defence public affairs were made available to personnel.

Defence Business Training Centre

The Defence Business Training Centre operates within the Defence Learning Services Network as a registered training organisation and provides nationally accredited training and assessment services to Defence. Current training programs include leadership and development, administration, management and technical and specialist courses.

The table below classifies non-operational training provided to Defence staff, according to total student days and numbers of students.

Table 3.24	Non-Operational Training	
Type of Training	Total Student Days	Number of Students
Leadership and Development⁽¹⁾		
Capstone Senior Leadership Program	246	41
Australian Defence College	320,400	1,764
Parliamentary Awareness Training	72	72
Career Development Assessment Centres	51	17
Australia and New Zealand School of Government Executive Masters in Public Administration	334	11
Working in the Senate	273	1
Chief of the Defence Force Scholarship	181	1
Secretary of Defence Scholarship	181	1
Senior Women in Management	306	2
Group Leadership Programs:		
Chief Information Officer Group	10	6
Corporate Services and Infrastructure Group	170	65
Defence Materiel Organisation	4,168	132
Defence Science and Technology Organisation	912	48
Intelligence and Security Group	254	82
Air Force	921	142
Administration and Management⁽²⁾		
Capability Development Group	419	356
Chief Finance Officer Group	374	435
Chief Information Officer Group	861	175
Corporate Services and Infrastructure Group	5,235	4,482
Chief of Staff Australian Defence Headquarters/Head Coordination and Public Affairs Division	60	15
Defence Personnel Executive (including Equity Advisor and Occupational Health and Safety workshops)	3,957	8,770
Defence Business Training Centre (including Finance and Financial Systems training)	22,279	11,892
Defence Flexible Learning Solutions (e-Learning) – Mandatory training ⁽³⁾	7,863	26,210
Defence Flexible Learning Solutions - other administration and management training ⁽⁴⁾	9,177	21,897
Defence Science and Technology Organisation	3,852	636
Inspector-General (including fraud and ethics workshops)	2,370	14,102
Intelligence and Security Group	254	82
Vice Chief of the Defence Force Group	464	112
Public Sector Management Program	70	63
Chief of Staff Australian Defence Headquarters /Head Coordination and Public Affairs Division Results Through People Training	1,656	552
Technical & Specialist⁽²⁾		
Chief Finance Officer Group	26	8
Chief Information Officer Group	2,136	544
Corporate Services and Infrastructure Group	1,253	1,727
Chief of Staff Australian Defence Headquarters /Head Coordination and Public Affairs Division	312	264
Defence Flexible Learning Solutions ⁽⁵⁾	2,695	4,021
Defence Materiel Organisation	10,657	3,331
Defence Science and Technology Organisation	465	342

Type of Training	Total Student Days	Number of Students
Intelligence and Security Group	9,853	11,219
Project Management Methodology training	382	198
Strategy Group	390	189
Vice Chief of the Defence Force Group	147	22
Total	414,765	113,887

Notes

1. The data represents courses run over calendar years and by individual modules. All students do not complete all modules nor were these modules completed in the same timeframes.
2. Courses in this section include online courses that are completed in part-days not whole days.
3. Mandatory training includes equity and diversity, fraud and ethics and occupational health and safety.
4. In addition to the completed courses, there are 14,427 members enrolled in these courses who may not complete the entire course.
5. In addition to the completed courses, there are 9,720 members enrolled in these courses who may not complete the entire course.

Financial Management and Resource Management Systems Training

Financial management and systems training included in Table 3.25 includes a range of training and education in financial management, and in the use of Defence financial, human resources and inventory management information systems. The following table provides a more detailed breakdown of this training.

Table 3.25 Financial and Resource Management Systems Training	
Training Courses	Number of Students
Financial Management Training	
Senior Leadership Group Financial Management Courses	14
Total	14
Financial Information Systems Training	
Resource and Output Management and Accounting Network (ROMAN)	4,355
Budget and Output Reporting Information System (BORIS)	482
Force Element Product Costing (FEPC)	120
Total	4,957
Financial and Business Training	
Accrual Accounting (current enrolments in external courses)	80
Understanding Accounting Processes	464
Introduction to Resources Management	376
Cost Centre Management	216
Total	1,136
Tertiary Financial Training	
Diploma in Government	42
Graduate Certificate in Professional Management (Finance)	59
Total current enrolments in external courses	101
E-Learning	
Defence Purchasing Card	375
Manage Official Bank Accounts	64
Travel Budget Calculators	172
Card Management System	205
ROMAN Procurement Awareness	345
Total	1,161
Subtotal Financial Management and Business Training	7,369
Personnel Systems Training	
Personnel Management Key Solutions (PMKeyS)	5,056
Total	5,056
Supply Systems Training	
Standard Defence Supply System (SDSS)	2,629
Total	2,629



FINANCIAL MANAGEMENT AND BUSINESS TRAINING

Throughout the reporting period, Defence actively pursued a program of skilling development and delivery to meet the current and emerging financial and business needs of Defence. Training was delivered to some 7,300 participants, and work was progressed on updating course-ware for existing training.

While most training was focused largely on financial systems, more emphasis is being given to financial management-related training and providing Defence staff with a better understanding of the underlying principles of sound financial and accounting practices. This trend will continue with the development of specific process and procedural based training to meet gaps in skill sets identified through the Financial Controls Framework Project. Another key trend is the increasing development and use of e-learning.

Financial Information Systems Training - Defence provided training to 4,957 participants on the three corporate financial management systems - ROMAN (accounting system), BORIS (high level budgeting tool) and Force Element Product Costing (costing tool). The ROMAN system accounted for the largest training component, with 4,355 participants.

ROMAN training is being updated to ensure that courses are up-to-date, meet the actual business needs of users and make greater use of flexible learning delivery. These reforms should result in faster turn around times for staff to become job ready.

Financial Management Training - A significant development within the reporting period has been the development of financial management training support for the Senior Leadership Group (SLG) and senior officers at the Executive Level 2/Colonel (equivalent) level. The first of

the SLG courses with 14 participants was held in June, with senior officer level courses planned for introduction in the second half of 2005. These courses will continue throughout the remainder of 2005 and 2006.

Finance and Business Training - A variety of other finance- and business-related training courses were delivered to 1,136 participants during the reporting period. This training included four ten-day accrual accounting courses, as well as basic training in budget development and resource management.

This training is under review, with existing courses being modified and new courses being developed to ensure we are better placed to meet Defence's financial business needs. An added benefit of this work is its alignment with the financial controls framework and articulation of career and development pathways to allow Defence staff to better prepare themselves to meet Defence's requirements in the future.

Tertiary Financial Training - During 2004-05, Defence staff were able to access two tertiary training courses; 42 participants studied the *Diploma in Government (Financial Management)*, and 59 participants studied the *Graduate Certificate in Professional Management (Finance)*. The graduate certificate provides Defence staff with an entry way into postgraduate financial management studies.

e-Learning - Four finance-related e-Learning courses, *Manage Official Bank Accounts*; *Travel Budget Calculators*; *Card Management System*; and *Defence Purchasing Card*, were introduced during 2004-05 and were completed by 816 participants. A further 345 students completed the ROMAN Procurement Awareness course via e-Learning.

Workplace Equity and Diversity

Defence is firmly committed to creating a workplace free from harassment, discrimination and other unacceptable behaviour. The Defence Equity Organisation promotes the principles of equity and diversity through the development of appropriate policies and strategies.

Defence's overarching document to achieve this outcome is the Defence Workplace Equity and Diversity Plan. The plan takes into account Defence's values and corporate goals, as well as the broader Australian Government legal and policy framework including Defence's responsibilities under the Commonwealth Disability Strategy. It contains clear and practical actions based around the themes of leadership and accountability, policy, support, and training. Defence's progress against the *Defence Workplace Equity and Diversity Plan 2003-2005*, including areas that require improvement, is reported in the *Workplace Equity and Diversity Annual Report 2004-2005*.

The report provides information on:

- the initiatives and programs, including training, implemented by Defence in the reporting period;
- the diversity of the Defence workforce including the participation of indigenous Australians, women and people with a disability;
- reports of unacceptable behaviour; and
- Group and Service performance against the 2003-05 plan.

The report is available at the Defence Equity Organisation website at www.defence.gov.au/equity.

Effectiveness of Investigations and Complaints Handling

Overview

On 16 June 2005, the Senate Foreign Affairs, Defence and Trade References Committee tabled its report on its inquiry into the effectiveness of Australia's military justice system. The Government tabled its response to the report on 5 October 2005.

The Government has agreed to significant changes to strengthen the existing military justice system. In all, 30 of the Senate Committee's 40 recommendations were accepted in whole, in part or in principle. In addition, the Government announced alternative solutions to achieve the intent of the Report's recommendations that were not agreed.

The new system is designed to deliver impartial, rigorous and fair outcomes through enhanced external oversight, greater transparency and improved timeliness while, at the same time, ensuring that the ADF can maintain effective discipline and, through that, the operational effectiveness that has been and continues to be its hallmark. Importantly, the essential elements of the military justice system will be independent of the ADF chains of command. The first stage of legislative changes to give effect to the Government's recent reforms has been introduced into Parliament. These relate to, inter alia, the statutory appointments of the Inspector-General of the ADF, the Director of Military Prosecutions and the Registrar of Military Justice.

The key measures agreed by Government include:

- establishing a permanent Australian Military Court that is independent of the chain of command, to replace the current system of individually convened trials by Courts Martial and Defence Force Magistrates;
- appointing an independent civilian president to head mandatory Commissions of Inquiry for suicides by ADF members and deaths in service;
- establishing a tri-Service ADF Investigation Unit that is independent of the Service chains of command, noting that more serious criminal offences will continue to be referred to appropriate civilian authorities for investigation and prosecution; and
- implementing a streamlined ADF complaints and redress of grievances system in accordance with the 2004 joint Defence Force Ombudsman/Chief of the Defence Force Redress of Grievance System Review.

As part of the reform program, \$3.5m per annum initially will be allocated to adequately resource these initiatives and 35 new positions will be created – including the appointment of two new permanent military judge advocates.

The Government has asked Defence to implement these recommendations and enhancements within two years, and to report to the Senate Committee twice a year throughout the implementation period.

Two of the recommendations related to annual reporting on the implementation and effectiveness of reforms to the military justice system and the workload and effectiveness of various bodies within the system. The information provided in relation to the effectiveness of investigations and complaints handling represents Defence's initial commitment to reporting on the state of health of the military justice system and on complaints processes relating to civilian employees of Defence.

Unacceptable Behaviour

All Defence personnel have the right to work in an environment free from harassment and discrimination, and an obligation to treating others fairly and inclusively. Commanders and managers are responsible for promoting this ethos in their workplaces and for managing any complaints of unacceptable behaviour sensitively, seriously and expeditiously.

Unacceptable behaviour in Defence is managed in accordance with two policy instructions, which were revised and promulgated on 10 February 2004:

- Defence Instruction (General) Personnel 35-3 *Management and Reporting of Unacceptable Behaviour*, and
- Defence Instruction (General) Personnel 35-4 *Management and Reporting of Sexual Offences*.

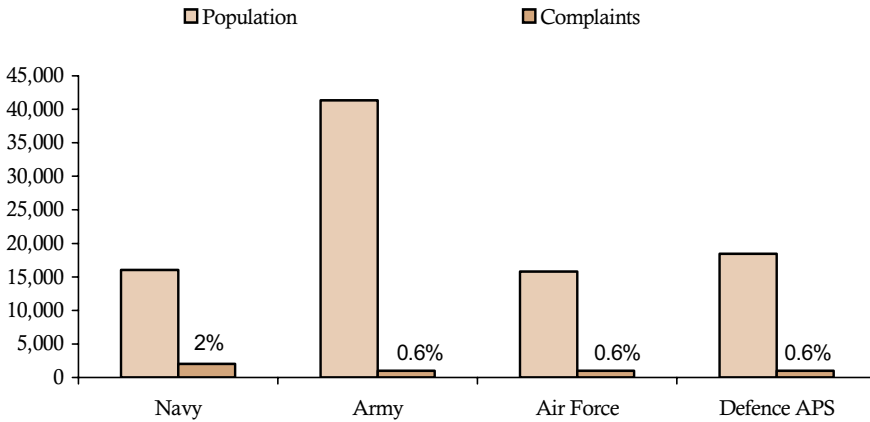
Defence maintains three national Defence Equity Advice Lines which provide a confidential information and referral service for ADF members, Defence civilian employees and contracted staff, and the family members of all Defence personnel. Callers can discuss any form of unacceptable behaviour, including harassment, workplace bullying, abuse of power, sexual harassment, discrimination, inappropriate workplace relationships and sexual offences.

Complaints of unacceptable behaviour are reported to the Defence Equity Organisation, which manages a database of reported claims. The reporting of complaints continues to rise. Contributing reasons for the increase in reporting are:

- an increased awareness of what constitutes unacceptable behaviour;
- mandatory training over the last two years emphasised the process for making and managing a complaint;
- greater confidence in management that complaints will be addressed effectively; and
- increased efforts by the Services to engender a culture of reporting.

Chart 3.3 indicates the number of complaints of unacceptable behaviour per head of Defence population for 2004-05. The figures are derived from a straight percentage calculation using the number of personnel in each Service and the number of complaints reported for each Service.

Chart 3.3 Percentage of Reported Unacceptable Behaviour Complaints by Service for 2004-05 ⁽¹⁾

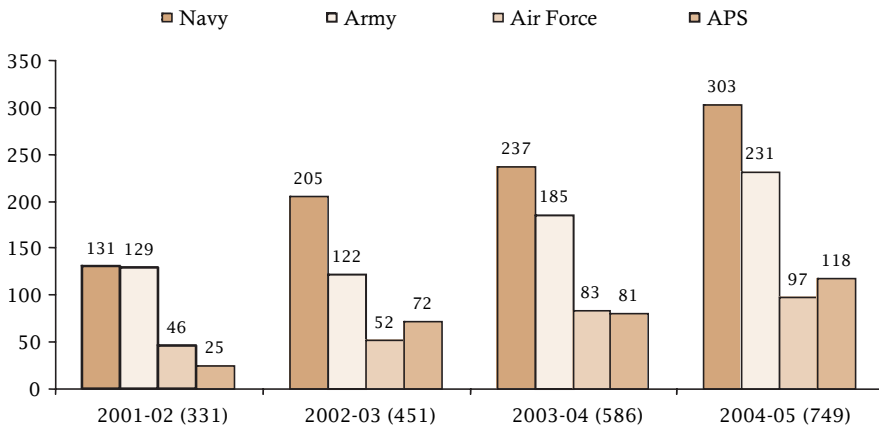


Note

1. Personnel numbers include permanent ADF members and Reservists with a training obligation.

Chart 3.4 below shows the total number of unacceptable behaviour complaints reported over the last four years.

Chart 3.4 Comparison of Reported Unacceptable Behaviour Complaints 2001-02 to 2004-05



Inspector-General of the Australian Defence Force

The Inspector-General of the ADF undertakes internal audit and review of the military justice system, independent of the ordinary chain of command and provides an avenue by which failures of the system, systemic or otherwise, may be examined and remedied as necessary. The functions of the Inspector-General of the ADF fall broadly into four main groupings: investigation, performance review, advice and development.

Investigations

In 2004-05, 55 new references were received, while 34 references were ongoing from the previous financial year. As at 30 June 05, 30 references remained open. The following tables show the methods by which references were received, the outcome of references, the subject matter, Service complained about, gender of complainant and the time taken to complete references.

Table 3.26 References to the Inspector-General ADF by Method Received

Method received	Number of references	Percentage ⁽¹⁾
Email	13	23.7
Fax	2	3.6
Letter	20	36.4
Phone	5	9.0
Phone - 1 800 688 042	1	1.8
Referral	14	25.5
Total	55	100

Note

1. Figures may not add up due to rounding.

Table 3.27 References to the Inspector-General ADF by Outcome ⁽¹⁾⁽²⁾

Outcome	Number of references	Percentage ⁽³⁾
Individual Failure of the Military Justice System	11	12.4
Systemic Failure of the Military Justice System	2	2.2
No Failure of the Military Justice System	39	43.8
References not yet determined	37	41.6
Total	89	100

Notes

- The outcomes of references are described in terms of whether or not the matter disclosed a failure of military justice and, if so, whether the failure was of an individual or systemic nature.
- This table includes those references carried over from the previous financial year.
- Figures may not add up due to rounding.

Table 3.28 References to the Inspector-General ADF by Subject Matter ⁽¹⁾

Subject Matter	Number of Occurrences	Percentage ⁽²⁾
Abuse of Authority	12	15.2
Abuse of Process	2	2.5
Avoidance of Due Process	2	2.5
Bastardisation	5	6.3
Complaint against Service Police	10	12.7
Cover up / Failure to Act	5	6.3
Denial of Legal Rights	5	6.3
Denial of Natural Justice	11	13.9
Error in Disciplinary Process	3	3.8
Error of Law	1	1.3
Harassment	7	8.9
Other	8	10.1
Victimisation/ Threats/Intimidation	8	10.1
Total	79	100

Notes

- References may include allegations with more than one subject.
- Figures may not add up due to rounding.

Table 3.29 References to the Inspector-General ADF by Service⁽¹⁾⁽²⁾

Service	Number of references	Percentage ⁽³⁾
Civilian	1	1.9
Army	27	49.1
Army – Reserves	1	1.9
Air Force	10	18.2
Navy	11	20.0
Tri-Service	5	9.1
Total	55	100

Notes

- References may include more than one originator.
- 'References by Service' relates to the Service to which the complaint refers to, not the Service of the complainant.
- Figures may not add up due to rounding.

Table 3.30 References to the Inspector-General ADF by Gender of Originator⁽¹⁾

Gender	Number of references	Percentage ⁽²⁾
Not stated	3	5.4
Female	12	21.4
Male	41	73.2
Total	56	100

Notes

- References may include allegations with more than one originator.
- Figures may not add up due to rounding.

Table 3.31 Closed or Referred References Made to the Inspector-General ADF by Length of Time Before Being Closed or Referred⁽¹⁾⁽²⁾

Length	Number of references	Percentage ⁽³⁾
<1 month	5	7.8
1-6 months	19	37.3
6-12 months	14	27.5
>1 year	14	27.5
Total	52	100

Notes

- This table includes those references carried over from the previous financial year.
- The time to close matters which have been completed following referral to a Service, includes the time taken by the Service to deal with the referral.
- Figures may not add up due to rounding.

Performance Review

The prototype model developed to identify trends or deficiencies in the military justice system at a macro-level in the previous financial year was further improved during 2004-05. The work done to date has enabled a baseline to be established to assist in the identification of time line trends, if any.

Following trialing of the audit processes at four units, audits of 14 units were conducted during the year. As the audit process has now matured it is expected that 30 to 40 audits will be conducted during 2005-06. The audits conducted indicated that the military justice system was functioning satisfactorily at all units visited.

The views of focus groups at various rank levels were sought during unit audits to assist in gaining a contemporary perspective of the operation of the military justice system.

Indications are that military justice audits are having a broader impact on units in addition to those specifically audited by Inspector-General of the ADF. In particular, the Inspector-General of the ADF template for unit audits is now being used by some

commanders to conduct their own performance checks of military justice arrangements at units within their command.

Advisory

Four courses were conducted for inquiry officers appointed under the Defence (Inquiry) Regulations with 90 officers being trained and included on the register of persons suitable to conduct administrative inquiries.

The ADF Administrative Inquiries Tracking System was developed by the Registrar of Military Justice in conjunction with Inspector-General of the ADF to provide a tool for Commanders at all levels to track the conduct of administrative inquiries and the implementation of accepted recommendations. The system is currently being trialed on the Defence Restricted Network.

Development

Presentations were made to pre-command and legal officer's courses and to the Administrative Law Conference hosted by Defence Legal.

A number of policy issues were identified during investigations and audits, including the need to develop an ADF investigative capability to deal with serious offences that occur on operations overseas and the correct use of the quick assessment process to facilitate administrative inquiries.

Arrangements were made for the Inspector-General of the ADF to visit Canada early in the new financial year to compare the operation of key parts of the Canadian Forces military justice system to that of the ADF military justice system. Visits were received from the Inspectors-General of the Armed Forces of the Philippines and the Netherlands during the period.

At the end of the financial year legislative amendments had been prepared to convert the position of Inspector-General of the ADF from a contract to a statutory appointment. It is expected that this will be introduced at the first available opportunity as part of a Defence Legislative Amendment Bill.

The Redress of Grievance Review conducted jointly by Defence and the Defence Force Ombudsman during the year recommended that the Inspector-General of the ADF assume additional oversight, training, information systems and performance management functions in relation to the grievance system.

During 2004-05, two additional staff were approved for the office. The use of Reservists on a part-time basis to undertake inquiries, and assist with audits and training, has resulted in the development of an as yet small, but important, pool of expertise to deal with the specialised area of military justice. A further review of staff resources will be necessary in the coming year to allow the increasingly significant audit task to proceed independently of the inquiry function and to cope with any additional responsibilities that may arise from the outcome of the Senate Inquiry into the Effectiveness of the ADF Military Justice System.

Awareness of Inspector-General of the ADF has increased and indications are that the existence of the office continues to have a positive impact on the administration of the military justice system. Confidence in the Inspector-General of the ADF as an impartial office has increased as the outcomes of inquiries have become known and the audit process has matured. It is expected that the oversight and review functions of the office will

become more prominent in future as improvements in the visibility and reporting of components of the military justice system become better established.

Director of Military Prosecutions

The Office of the Director of Military Prosecutions commenced operations on 1 July 2003 on an interim basis under a Defence Instruction (General) issued pursuant to the Defence Act until the *Defence Force Discipline Act 1982* can be amended to establish the Director of Military Prosecutions as an independent statutory appointment. Its functions are to advise commanders in respect of serious disciplinary matters; to prosecute in courts martial and Defence Force Magistrate trials; and to represent the Chief of the Defence Force and the Service Chiefs in appellate courts.

During 2004–05, 132 cases were referred to the Office of the Director of Military Prosecutions for prosecution. The Office provided 216 advices to commanders in respect of those matters (and matters which had been referred in the previous year) and prosecuted in 52 trials.

Having commenced 2004–05 with a backlog caused by a caseload of well over double that which had been anticipated, the Office of the Director of Military Prosecutions concluded, by taking to prosecution or otherwise, 190 matters. This effectively alleviated the caseload backlog and for the majority of 2004–05 the Office of the Director of Military Prosecutions operated within acceptable time frames for the performance of its functions.

The Director of Military Prosecutions also gave evidence to the Senate Foreign Affairs, Defence and Trade Reference Committee during its inquiry into the effectiveness of Australia's military justice system. The committee reported that it was 'very impressed with the work of the [Office of the Director of Military Prosecutions] to date'¹.

Judge Advocate General

The Office of the Judge Advocate General of the ADF was created by the *Defence Force Discipline Act 1982*.

Major General the Hon Justice Len Roberts-Smith, RFD was first appointed in 2002 by the Governor-General. He was re-appointed for a further two years in October 2005. While the holder of the office has a rank, they are statutorily independent of the chain of command and must be, or have been, a judge of a Federal Court or State or Territory Supreme Court.

The *Defence Force Discipline Act 1982* prescribes certain functions of the Judge Advocate General. These currently include making rules of procedure for Service tribunals, providing a final legal review of proceedings and appointing Judge Advocates, Defence Force Magistrates, Presidents and members of courts martial. The office of the Judge Advocate General and its functions are indicative of the Legislature's desire for appropriate and independent oversight of the operation of the *Defence Force Discipline Act 1982* in the overall military discipline system of the ADF.

The Judge Advocate General provides the Minister for Defence with an independent annual report relating to the operation of the *Defence Force Discipline Act 1982*, the Regulations and Rules made under it and the operation of any other law of the

¹ Report of the Senate Foreign Affairs, Defence and Trade References Committee *The Effectiveness of Australia's Military Justice System*, tabled in Parliament 16 June 2005, chapter 4, paragraph 4.42.

Commonwealth or the Australian Capital Territory, in so far as that law relates to the discipline of the ADF. The report, for calendar year 2004, was tabled on 26 May 2005.

The Judge Advocate General also gave evidence to the Senate Foreign Affairs and Trade References Committee during its inquiry into the effectiveness of Australia's military justice system.

Further information on the Judge Advocate General, including copies of the Judge Advocate General's annual report to the Minister, may be found on the Judge Advocate General's website at <http://www.defence.gov.au/jag/>

Alternative Dispute Resolution

In 2002, the Directorate of Alternative Dispute Resolution and Conflict Management was established in the Corporate Services and Infrastructure Group. A significant milestone for the program was achieved in June 2003 when the Secretary and the Chief of the Defence Force issued Defence Instruction (General) PERS 34-4 *Use and Management of Alternative Dispute Resolution in Defence*. The Directorate has established close links with the three Services, the Defence Personnel Executive, the Defence Equity Organisation and the Complaint Resolution Agency. The Directorate also liaises with the Inspector-General of the ADF on matters of mutual interest. Additionally, it has also forged strong ties with the wider alternative dispute resolution community.

Currently, the program assists with the management of conflict through the use of prevention and intervention strategies. The major preventative strategy involves general awareness training in conflict management and dispute resolution strategies. The Directorate has also delivered approximately 25 negotiation and communications skills training courses to a wide audience across Defence including the Air Force Officers of Cadets, various naval shore establishments, and participants from the Defence Materiel Organisation and the Corporate Services and Infrastructure Group.

In terms of intervention, the program provides Defence with dispute resolution processes including mediation, as a less formal means of managing and resolving disputes, conflicts, complaints and claims. The program is integral to, and works in conjunction with, the more traditional and formal processes including redresses of grievance, review of actions, and administrative inquiries and investigations by avoiding some of the formalities associated with these processes. Importantly, the program is also used to complement existing command and management relationships and processes.

The following table provides a statistical summary of intervention activities undertaken by the Directorate during 2004-05.

Table 3.32 Intervention Activities during 2004-05

Activity	Total
Calls to Directorate and Files Raised	71
Mediations Conducted	32
Workplace Conferences Conducted	4
Interventions not Proceeding	35
Hours Conducting Interventions	736 hours

The scope of the program is evolving with several changes, implemented including the introduction of conflict coaching. This technique has proven successful in the Canadian Defence Force and it provides individuals with some useful techniques to assist them in dealing with conflict.

The alternative dispute resolution program was evaluated by an external consultant. In addition to examining the day-to-day operations of the directorate, the consultants surveyed and interviewed customers including: commanders and managers; parties to a mediation; referring officers and mediators. The evaluation of parties to a mediation or workplace conference has revealed a 90 per cent satisfaction rate with the process and an 80 per cent satisfaction rate with the outcomes of the interventions.

Redress of Grievance and Review of Actions

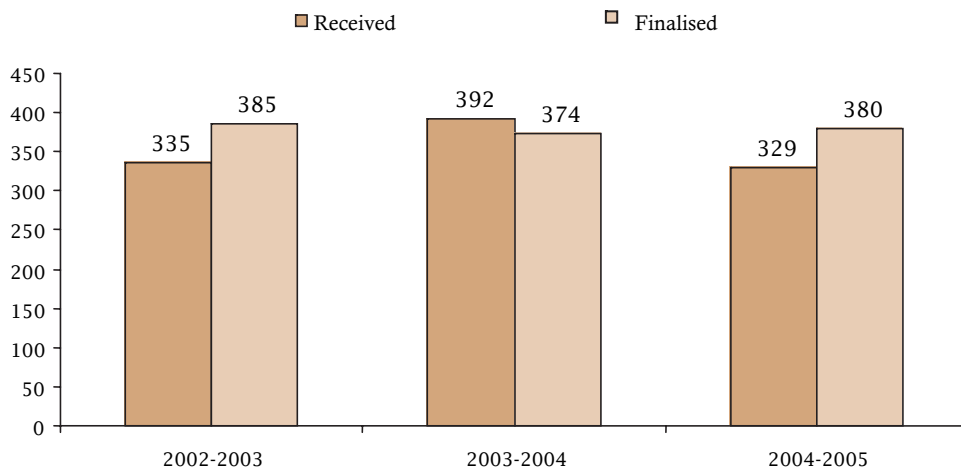
The Complaint Resolution Agency is responsible to the Chief of the Defence Force and the Secretary of Defence for providing independent investigation, review and handling of internal complaints.

The Complaint Resolution Agency is involved in reviewing:

- military redresses of grievance which are managed in accordance with the *Defence Force Regulations 1952* (made under the *Defence Act 1903*); and
- applications for Review of Actions for Defence Australian Public Service employees, managed in accordance with the *Public Service Act 1999*.

Chart 3.5 shows the total number of applications for Redress of Grievance submitted by ADF members to commanding officers in each of the last three financial years and the number of grievances that were finalised in the same period.

Chart 3.5 Number of Military Redresses of Grievance Received and Finalised 2002-03 to 2004-05⁽¹⁾⁽²⁾⁽³⁾

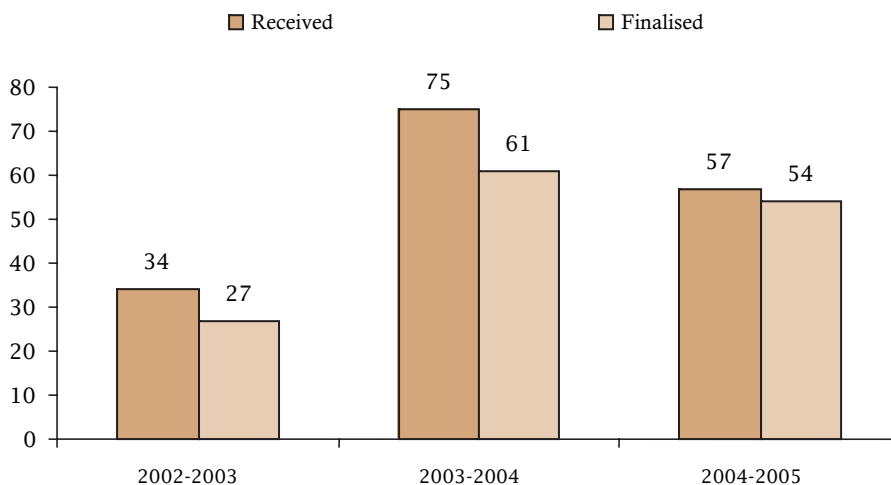


Notes

1. Redresses of Grievance recorded as finalised may have been received in the preceding year.
2. Redresses of Grievance are finalised when the complainant chooses not to pursue the grievance further, or the process of investigation and review is completed.
3. A complainant who is not satisfied with the outcome of a Redress of Grievance submitted at the Unit level may refer the complaint for review by the Service Chief. Officers and warrant officers have a further right to refer their complaint for review by the Chief of the Defence Force.

Chart 3.6 shows the number of applications for Review of Action submitted by Defence civilian employees in each of the last three financial years and the number of complaints finalised in the same period.

Chart 3.6 Number of Defence Australian Public Service Review of Actions Received and Finalised 2002-03 to 2004-05⁽¹⁾



Note

1. Prior to 2003-04, details of Review of Actions managed outside the Australian Capital Territory/Southern New South Wales region were not centrally monitored and are excluded from the chart.

Service Police

The ADF has three Service Police organisations with differing roles and tasks:

- the approved roles of the Naval Police Coxswain Category are policing, whole-ship co-ordination, force protection, seamanship and navigation;
- the Royal Australian Corps of Military Police is responsible for battlefield circulation and control, physical security (including close personal protection, population protection and control and military working dogs), management of detainees and prisoners of war (while on operations) and law and order (general policing and criminal and disciplinary investigations); and
- Air Force Security Police are responsible for counter-intelligence, special investigations, protective security and law enforcement.

Table 3.33

Service Police Position

Employment group	Approved establishment ⁽¹⁾	Filled positions
Navy		
Naval Police Coxswain ⁽²⁾	221	186
	27 (Investigation qualified)	12
Naval Investigative Service ⁽³⁾	11 (Non-Investigation qualified)	11
Officers Total	11	8
Officers in Naval Investigative Service	3	3
Army⁽⁴⁾		
Employment Code Number (ECN) 315 ⁽⁵⁾	581 (ARA - 210; GRes - 371)	366 (ARA - 200; GRes - 166)
	89	62
Employment Code Number (ECN) 190 ⁽⁶⁾	(ARA - 65; GRes - 24)	(ARA - 49; GRes - 13)
	87	112
Officers Total	(ARA - 45; GRes - 42)	(ARA - 56; GRes - 56)
	8	8
Officers in Special Investigation Branch	(ARA - 6; GRes - 2)	(ARA - 6; GRes - 2)
Air Force		
Security Police - Total	336	318
Security Police - Special Investigators	30	30
Security Police Officers - Total	30	30
Security Police Officers - Special Investigators	2	2

Notes

1. Australian Regular Army (ARA) and General Reserve (GRes).
2. Includes Naval Investigative Service positions.
3. Navy has increased the training liability for the Investigator Qualifying Course from 4 to 24, which will see an increase in qualified investigators.
4. A number of Army Military Police are posted to non-corps positions. These are positions that can be filled by any Army member regardless of trade and are required for career progression. For Officers this has resulted in more individuals than there are designated Military Police Officer positions.
5. ECN 315 is Policeman Military.
6. ECN 190 is Investigator Military Police. Positions filled are by qualified personnel not necessarily being paid as ECN 190.

Investigations are conducted to assist the chain of command to maintain Service discipline. In Australia, arrangements exist to ensure that prescribed offences are referred to the appropriate civilian agencies for investigation in accordance with Defence Instructions. Within the three Services, investigations are conducted by the Naval Investigative Service, Army's Special Investigation Branch and Air Force Security Police special investigators. It is intended that a joint investigative capability be established for the ADF to deal with more serious allegations, particularly where they occur overseas.

For the purposes of this report a case is determined as open while Service Police are conducting active inquiries. Closed refers to those investigations that have been referred to Command or the Director of Military Prosecutions, see Table 3.34.

Service	Open ⁽¹⁾	Closed ⁽²⁾
Navy	89	255
Army	162	706
Air Force	80	209

Notes

1. Open is defined as Service Police still conducting enquires.
2. Closed indicates completion of Service Police inquiries but does not indicate that command action has been taken.

Table 3.35 summarises the more common offences investigated by Service Police.

Type	Navy	Army	Air Force
Theft, Fraud and Loss	124	379	103
Assault	62	174	41
Drugs	28	93	7
Other Notifiable Incidents ⁽¹⁾	130	222	138

Note

1. Other Notifiable Incidents include security, failure to comply with a lawful general order, prejudicial behaviour and other disciplinary related offences.

Service Police investigators receive basic and advanced training on a common curriculum. Training is conducted at the Defence Police Training Centre at Holsworthy and the RAAF Security and Fire School at RAAF Amberley. The curriculum is maintained by the Security and Policing Training Advisory Group and meets civilian accreditation standards.

The Defence case management system, known as the Defence Policing and Security management system, is currently undergoing an upgrade to allow it to better meet ADF needs.

Compensation for Detriment caused by Defective Administration

The Compensation for Detriment caused by Defective Administration scheme was established in October 1995 to enable Commonwealth agencies to compensate persons who have no other avenues to seek redress for the adverse effects of 'defective' actions or inactions of such agencies. The scheme is a remedy of last resort. The Department of Finance and Administration circular 2001/01 provided policy guidance on the Compensation for Detriment caused by Defective Administration Scheme.

The Minister for Defence has authorised a number of senior officials in Defence to decide Compensation for Detriment caused by Defective Administration claims. Responsibility for the review and management of claims in Defence (as well as Act of Grace and debt waiver claims) was transferred to Defence Legal in February 2005, from Assistant Secretary Personnel Services. The Directorate of Special Financial Claims has now been established in Defence Legal to review and manage these claims. The move to Defence Legal was undertaken to improve the administration and management of financial claims. The immediate priority is to review and finalise a backlog of claims. Contact is being made with claimants in the older matters on hand. New policies, practices and procedures for managing claims will be developed.

Unlike other government agencies, the majority of claims in Defence are not from members of the public. Claims are mostly from current and former ADF members. There are a small number of claims from APS staff.

The Compensation for Detriment caused by Defective Administration scheme is particularly useful in resolving straightforward matters where there is no doubt that some form of defective administration has directly caused a financial loss, for example, a claim for compensation due to underpayment of salary or allowances. The complex cases that involve elements other than direct entitlements are the most time consuming and difficult to resolve. These cases can involve disputes about the exercise of command authority in a military operational context, the taking of adverse administrative action, the bringing of disciplinary proceedings, and disputes about career progression such as promotion. Claims can also involve allegations of bullying and harassment. Claims can be multi-dimensional requiring compensation, mediation, and demands for an apology. These claims can be resource intensive. Defence Legal aims to work with relevant stakeholders to try and achieve a more integrated approach to resolving complex claims.

Defence Whistleblower Scheme

The current Defence Whistleblower Scheme, which commenced operation in July 2002, applies to all Defence personnel, including Defence contractors.

Defence has a policy of examining all allegations but, as the table below reveals, many of the allegations made are assessed as not warranting a full investigation. In many cases, an initial assessment shows the allegation is incapable of being substantiated because of the lack of evidence and there is little prospect of identifying a suspect.

The total number of allegations for 2004-05 was 162, down from last year's figure of 219.

Allegations of fraud and unethical conduct comprise around two-thirds of all complaints made. The remainder consists of matters such as harassment, mismanagement of resources, use of drugs, discrimination, occupational health and safety, security and assault.

Table 3.36		Defence Whistleblower Scheme 2004-05	
Outcome of Allegations			
Investigations completed ⁽¹⁾			61
Allegations investigated			65
Allegations not investigated			82
Allegations being considered ⁽²⁾			15
Total			162
Outcome of completed investigations⁽³⁾			
Administrative action			22
Unfounded			42
Defence Force Discipline Act			3
Crimes Act			1
Total			68

Notes

1. Investigations completed includes figures from previous years.
2. Allegations being considered are matters still the subject of initial assessment.
3. Some investigations have multiple outcomes.

Occupational Health and Safety

Defence is committed to achieving and sustaining the highest practical occupational health, safety and wellbeing standards for its people. In support of this aim, the Defence Occupational Health and Safety Committee and the Occupational Health, Safety and Compensation Branch focused their attention, during 2004-05, on the following key initiatives:

- the development of an integrated Occupational Health and Safety Management System, guided by the *Defence Occupational Health and Safety Strategic Plan 2004-06*; and
- the implementation of the Military Rehabilitation and Compensation Scheme in partnership with the Department of Veterans' Affairs.

Key initiatives

Develop an integrated Occupational Health and Safety Management System

The Defence Occupational Health and Safety Management System framework was endorsed in June 2005 comprising several key elements, including leadership, incident prevention and incident management.

The Services and Groups continued to align their individual Occupational Health and Safety initiatives with the Defence Occupational Health and Safety Strategic Plan.

The Navy advanced its safety management with the launch of 'Safety Management System-Navy' in September 2004. Specific achievements implemented under this system included a rewrite of the Navy Systems Manual; a comprehensive overhaul of the Navy's hazard management processes; a safety road-show to all major Navy establishments; and the development of an occupational health and safety self-audit tool for use by Navy vessels and establishments.

The Army's Occupational Health and Safety Management System, 'ArmySAFE', was launched in May 2005. 'ArmySAFE' will lead to major improvements through the establishment of a dedicated health and safety directorate; establishment of the 'ArmySAFE' Advisory Service (for specialist advice, the conduct of audits and directed incident investigation); and re-design of training to include relevant occupational health and safety competencies.

The Air Force continued to implement its Occupational Health and Safety Management System (RAAFSAFE) through the development of a web-based audit tool, and development of a revised suite of training courses for both Safety Advisers and Safety Coordinators.

The Corporate Services and Infrastructure Group developed an interim Management Information System to manage all information on the Group's emergencies, hazards, incidents, audits and inspections. The Group also developed a safety manual to address occupational health and safety matters for its people (including contractors) and products and services

The Defence Materiel Organisation developed a tenderer Occupational Health and Safety Management System questionnaire; including the introduction of supplier safety-capability appraisals; implemented a mandatory annual Occupational Health and Safety Management System audit of business elements; and improved occupational health and safety contract monitoring.

The Defence Science and Technology Organisation completed a review of health and safety performance through an annual assessment process. The organisation also continued to develop a holistic employee wellbeing program and successfully implemented a research Task Safety Risk Management Program (aimed at integrating safety risk management into its business processes).

Implement the Military Rehabilitation and Compensation Scheme

New rehabilitation and compensation arrangements for the ADF were established with the commencement of the *Military Rehabilitation and Compensation Act 2004* and the *Military Rehabilitation and Compensation (Consequential and Transitional Provisions) Act 2004* on 1 July 2004. The *Military Rehabilitation and Compensation Act 2004* applies to ADF service on, or after, 1 July 2004.

For injuries or illness related to ADF service prior to 1 July 2004, the *Veterans' Entitlements Act 1986* and the *Safety, Rehabilitation and Compensation Act 1988* continue to apply. Through the *Military Rehabilitation and Compensation (Consequential and Transitional Provisions) Act 2004*, administrative and financial responsibility for ADF claims under the *Safety, Rehabilitation and Compensation Act 1988* was transferred to the Department of Veterans' Affairs under the newly established Military Rehabilitation and Compensation Commission.

The new scheme provides for a strong focus on the rehabilitation of ADF members. Defence and the Department of Veterans' Affairs are working together on the development of a new ADF rehabilitation system. Implementation of the system is scheduled to commence at the end of 2005, with full implementation completed by the end of 2006.

Occupational Health and Safety Reporting

Health and Safety Representatives

In accordance with the *Occupational Health and Safety (Commonwealth Employment) Act 1991*, Health and Safety Representatives are appointed within designated work groups across Defence. The selected representatives and deputies are trained in occupational health and safety issues and form part of the information and assistance network across Defence. New representatives and deputies continue to be selected and trained as vacancies arise.

In 2004, Defence sought concurrence from relevant unions for a one year extension to the operational life of the existing Defence Occupational Health and Safety Management/Union Agreement 2001-04. Consultation on current and future requirements and working arrangements has commenced. A new Agreement is due to be negotiated and implemented in 2006.

Notification and Reporting of Incidents

During 2004-05, 11,728 incident reports were received. Advice to Comcare is based on four categories of incidents: dangerous occurrences, incidents resulting in incapacity, in serious personal injury, and in death. Data on incidents over a three-year period is provided in Table 3.37.

Table 3.37 Incident Reporting			
Reports	2002-03	2003-04	2004-05
Occupational Health, Safety and Compensation Branch			
Total Incident reports ⁽¹⁾	12,016	11,471	11,728
Required to report to Comcare			
Deaths ⁽²⁾	2	3	16
Serious personal injury ⁽³⁾	613	635	595
Incidents resulting in incapacity ⁽⁴⁾	571	873	373
Dangerous occurrences ⁽⁵⁾	3,178	2,518	3,608

Notes

1. An incident report is a record of an event that causes, or has the potential to cause, injury or illness to Defence employees or other people, as the result of a Defence undertaking. This data is not static but changes over time. This occurs because incident reports are submitted after the finalisation of Defence Annual Report figures.
2. Comcare reportable deaths of which nine are attributed to the SeaKing accident on 2 April 2005.
3. Serious personal injury is defined as an injury or disease in a person caused by work-related employment for which the person needs to be given emergency treatment by a registered medical practitioner, treated in hospital as a casualty without being admitted to hospital, or admitted to hospital.
4. Incapacity is being unable to perform Defence work for 30 or more consecutive days or shifts.
5. A dangerous occurrence is a near miss event that could have, but did not, result in incapacity, serious personal injury, or fatality.

Investigations by Comcare

Table 3.38 provides details of Comcare investigations into Defence occupational health and safety matters, undertaken over the last three years.

Table 3.38 Investigations by Comcare			
Reports⁽¹⁾	2002-03	2003-04	2004-05
Planned investigations	-	6	3
Targeted investigations	10	5	2
Reactive investigations	25	33	36
Whole-of-agency investigations	-	2	4
Total	35	46	45

Note

1. Comcare undertakes four categories of investigation into Defence occupational health and safety matters: planned; targeted investigations (at specific Occupational Health and Safety concerns); reactive investigations (in response to an accident or incident); and whole-of-agency investigations (part of Comcare's three-year rolling plan).

Notices issued to Defence by Comcare Investigators

Table 3.39 provides details of notices issued to Defence by Comcare investigators over the past three years.

Table 3.39 Comcare Notices			
Reports	2002-03	2003-04	2004-05
Improvement Notices ⁽¹⁾	5	5	5
Prohibition Notices ⁽²⁾	2	3	5
'Do Not Disturb' Notices ⁽³⁾	3	6	4
Letter of statutory obligation ⁽⁴⁾	-	-	1
Removal of plant or sample ⁽⁵⁾	-	-	2
Total	10	14	17

Notes

1. Based on incidents/occurrences that contravene the *Occupational Health and Safety (Commonwealth Employment) Act 1991* or Regulations.

2. Issued to remove an immediate threat to the health or safety of personnel.
3. Issued for a specific period of time to remove a threat to the health or safety of personnel.
4. Issued to individuals to inform them of a specific breach of the Act. 'Letter of statutory obligation' reports were not tracked prior to 2004-05.
5. Issued when Comcare requires plant or substances from an incident as evidence, or to carry out testing. The two notices referred to in 2004-05 are a single investigation. 'Removal of plant or sample' reports were not tracked prior to 2004-05.

Defence Safety Awards

The annual Defence Safety Awards raise the profile of occupational health and safety-related programs and recognise and reward innovation and excellence. The Defence Safety Awards for 2005 were presented to the:

- Defence Science and Technology Organisation, for the development of the Task Safety Risk Management Program;
- Defence Health Service, for the development of the Defence Injury Prevention Program;
- Commander Australian Navy Aviation Group, for his Safety Management System; and
- 1-Health Support Battalion, for their Initial Employment Trainees Injury Management Program.

Winners of the Defence Safety Awards 2005 were nominated for the Safety, Rehabilitation and Compensation Commission Safety Awards. Consequently, the Defence Health Service received a Highly Commended award and 1-Health Support Battalion received a Commended award.

Performance Pay

Defence is required, under the *Joint Committee of Public Accounts and Audit Requirements for Annual Reports June 2005*, to report performance bonuses paid to Senior Executive Service (SES) and APS staff during 2004-05.

Senior Executives

No performance bonuses were paid to SES Band staff in 2004-05.

Non-Senior Executive Staff

Performance related pay is available to non-SES staff under the current *Defence Employees Certified Agreement 2004-06*. This salary advancement is within an employee's pay band of (usually) 3.8 per cent or, for an employee at the top of a pay band (or on a retained pay point), a lump sum payment of the greater of \$500 or one per cent of the employee's rate of pay (adjusted for part-time hours, if applicable).

Salary advancement in the form of 3.8 per cent is not considered 'performance pay', although the lump sum payment to employees at the top of the pay band is considered to be a form of 'performance pay'.

The following table provides the aggregated amount of these performance payments by classification level, the average bonus payment and range for each level, the number of employees in each classification who received performance payment, and the aggregate bonus payment for the agency as a whole.

Level	Staff eligible	Number of staff paid	Amount paid (\$)	Average payment (\$)	Range (\$)
APS 1	482	404	199,665	494	133-500
APS 2	1,487	1,266	621,578	491	200-500
APS 3	1,297	1,189	576,552	485	108-500
APS3-4	156	153	75,633	494	250-500
APS 4	651	606	300,732	496	266-520
APS 4-5	218	204	107,441	527	217-544
APS 5	1,828	1,708	924,286	541	232-577
APS 5-6	9	7	4,265	609	453-636
APS 6	1,964	1,863	1,169,410	628	254-655
EL1	1,879	1,753	1,330,365	759	200-861
EL2	820	762	759,379	997	583-1,381
Non-SES AWAs		1	4,319	-	-
Total	10,791	9,909	6,073,626	-	-

Note

1. The data in this table represents employees who were paid performance pay at any point during the financial year 2004-05.

Annual Report on the Administration and Operation of the Defence Force (Home Loans Assistance) Act 1990

Legislation

The Defence HomeOwner Scheme is covered by the *Defence Force (Home Loans Assistance) Act 1990* (the Act). Section 39 of the Act requires that an annual report be prepared for the Minister on the administration and operation of the Act. The annual report is set out below.

Description

The Defence HomeOwner Scheme is an Australian Government initiative that provides a subsidy on the interest payable on a home loan for members of the ADF. The scheme is open to permanent Defence Force members who enlisted on or after 15 May 1985 and to those permanent Defence Force members who elected to revoke their entitlement under the Defence Service Homes Scheme in favour of a Defence HomeOwner entitlement. Reserve and Emergency Force personnel who provide part-time efficient service are also eligible for assistance.

The Defence Housing Authority administers the scheme for Defence. The benefits are provided under an agreement between the National Australia Bank and the Commonwealth. Under the scheme, the Commonwealth assesses eligibility and entitlement and pays monthly interest subsidies on loans provided by the National Australia Bank. Interest subsidy is paid on loans between \$10,000 and \$80,000. Spouses who are both members of the ADF can apply for a combined subsidised loan of up to \$160,000. The subsidy amount is calculated at 40 per cent of the average monthly interest payment.

Providing a person has a period of entitlement, the subsidised loans can be used from one home to another during service as often as is required and once within two years of the date of separation from the ADF.

Subsidy Entitlement

The subsidy entitlement period is calculated on the number of completed years of effective full-time service after completion of a five-year qualifying period. The qualifying period for Active Reservists is eight continuous years of efficient service.

For members with operational or war-like service, the five-year qualifying period does not apply and the maximum period of the subsidy may be extended from 20 to 25 years. There are special considerations for re-joining members, widows and widowers, eligible persons and members discharged as a result of a compensable disability.

Objectives

The objectives of the Defence HomeOwner Scheme are to attract and retain ADF personnel, to encourage home ownership during service as a cost-effective alternative to rental assistance and to assist in the reintegration of ADF personnel into the community on return to civilian life.

Home Loan Assistance Applications

The objectives of the Defence HomeOwner Scheme are achieved by providing a subsidised home loan for a period which is directly related to the member's length of service with the Permanent or Reserve Forces, bringing home ownership within the reach of more members and providing a subsidised loan once within two years of separation from the ADF.

During 2004-05, there were 1,913 applications for entitlement certificates and 1,301 applications for loan subsidies processed. The total number of approved loans current as at 30 June 2005 was 6,683. Since a peak in 2000-01 there has been a small gradual decline in the take up rate.

Of new subsidy applications, 40 per cent were to assist in the reintegration of ADF personnel into the community on return to civilian life, through discharge or transfer to the Reserves. This is slightly higher than last year's figure of 35 per cent.

Subject to meeting eligibility requirements, members of the ADF can access the Government's First Home Buyers Scheme and the Defence Home Purchase Assistance Scheme.

Performance Evaluation of the Administration of the Scheme

Defence is satisfied with the Defence Housing Authority's administration of the scheme. During the reporting period, there was one unsuccessful appeal lodged with the Administrative Appeals Tribunal against a decision made by the delegate.

The National Australia Bank has met its obligations to the Commonwealth under the Act and has provided effective support to the scheme. The National Australia Bank and the Defence Housing Authority continue in their efforts to streamline the administration process of obtaining the subsidy.

Activity	2000-01	2001-02	2002-03	2003-04	2004-05
Buy a home	1,332	1,042	953	845	744
Re-finance a loan	350	321	356	365	366
Enlarge a home	8	11	4	5	2
Build a home	139	220	186	160	156
Renovate a home	34	54	45	53	33
Total	1,863	1,648	1,544	1,428	1,301

Note

1. The figures are taken from the subsidy applications.

Table 3.42	Comparison of Activities				
Activity	2000-01	2001-02	2002-03	2003-04	2004-05
Applications for entitlement certificate received	2,959	2,451	2,271	2,095	1,913
Entitlement certificate issued ⁽¹⁾	2,829	2,342	2,186	2,032	1,855
Applications for entitlement certificate declined/withdrawn	130	109	85	63	58
Applications for payments of subsidy received	1,863	1,648	1,544	1,428	1,301
Applications for payments of subsidy approved	1,845	1,634	1,520	1,398	1,286
Applications for subsidy declined/withdrawn	18	14	24	30	15
Amount of Commonwealth subsidy paid	\$6.614m	\$6.453m	\$7.442m	\$8.269m	\$9.289m
Number of subsidy payees as at 30 June	5,051	5,816	6,195	6,481	6,683

Note

1. Entitlement certificates are valid for 12 months.

Operational Costs

Defence paid an annual management fee of \$513,013 (including GST) in 2004-05 to the Defence Housing Authority. The Authority was also paid a fee in respect of each application for entitlement certificates lodged. These fees totalled \$150,984 (including GST).

CHAPTER FOUR

OUTCOME PERFORMANCE

Defence's achievements against seven outcomes are measured against the targets set by the Government for each of the supporting outputs.



Overview of the Defence Outcomes and Outputs

Cost to the Government of Defence Outcomes

Outcome One: Command of Operations

Outcome Two: Navy Capabilities

Outcome Three: Army Capabilities

Outcome Four: Air Force Capabilities

Outcome Five: Strategic Policy

Outcome Six: Intelligence

Outcome Seven: Superannuation and Housing Support

Services for Current and Retired Defence Personnel

Table of Explanations of Significant Variations Across Defence Outcomes

Overview of the Defence Outcomes and Outputs

Defence outcomes are the results that the Government seeks from Defence, and are achieved through the successful delivery of outputs, to the standards set in the *Portfolio Budget Statements 2004-05* and, where applicable, revised in the *Portfolio Additional Estimates Statements 2004-05* and the two Portfolio Supplementary Additional Estimates. The *Defence Annual Report 2004-05* reports our achievement against these targets, in both financial and non-financial terms.

In 2003-04 Defence moved to a new outcome and output structure, involving six Departmental outcomes and one Administered outcome. For the *Portfolio Additional Estimates Statements 2004-05* the structure was amended to cover 28 Departmental outputs and three Administered outputs. There have been four main structural changes since 2003-04, they are as follows:

- Air Force Capability now has four outputs from five in 2003-04. The new output is Output 4.3 - Capability for Surveillance and Response Operations. This is the result of an amalgamation of the Capability for Strategic Surveillance (previously Output 4.3) and Capability for Maritime Patrol Aircraft (previously Output 4.4). Air Force Capability has also revised the title of Output 4.4 from Capability for Air Lift to Capability for Air Lift Operations. This change more accurately reflects the current nature of the output.
- Outcome Five - Strategic Policy has renamed its two outputs. Output 5.1 has changed from Strategic and International Policy, Activities and Engagement to International Policy, Activities and Engagement. Output 5.2 has changed from Military Strategy and Capability Analysis to Strategic Policy and Military Strategy. These reflect changes in responsibilities as a result of Defence reorganisation.
- Outcome Three - Army Capability has revised the titles of four of its outputs. Output 3.1 - Capability for Special Forces Operations has changed to Capability for Special Operations. Output 3.2 - Capability for Mechanised Operations has changed to Capability for Medium Combined Arms Operations. Output 3.3 - Capability for Light Infantry Operations has changed to Capability for Light Combined Arms Operations. Output 3.9 - Capability for Motorised Infantry Operations has changed to Capability for Motorised Combined Arms Operations.
- Outcome Seven, Defence's administered outcome, has been broken down into three outputs. This is to better reflect the different elements and reporting of the outcome.

Defence's departmental outcomes exceeded the revised estimate by \$795m as detailed in Table 4.1. The variation is a reflection of the operating loss which is described in the financial overview and results mainly from the significant accrual adjustments, in particular write down of assets through inventory stocktaking, stratification of inventory and revaluation of the estate.

Table 4.1 Cost of Defence Outputs in 2004-05

Outcome /Output	Budget Estimate ⁽¹⁾	Revised Additional Estimate ⁽²⁾	Actual Result	Variation
	2004-05 \$m	2004-05 \$m	2004-05 \$m	\$m
1. Command of Operations in Defence of Australia and its Interests				
1.1 Command of Operations	358	359	668	309
1.2 Defence Force Military Operations and Exercises	326	382	361	-21
1.3 Contribution to National Support Tasks	10	17	23	6
Sub-Total Outcome 1	694	757	1,052	295
2. Navy Capability for the Defence of Australia and its Interests				
2.1 Capability for Major Surface Combatant Operations	1,425	1,430	1,677	246
2.2 Capability for Naval Aviation Operations	508	529	567	38
2.3 Capability for Patrol Boat Operations	289	280	281	1
2.4 Capability for Submarine Operations	858	853	795	-58
2.5 Capability for Afloat Support	223	228	215	-12
2.6 Capability for Mine Warfare	404	405	439	33
2.7 Capability for Amphibious Lift	372	401	406	5
2.8 Capability for Hydrographic, Meteorological and Oceanographic Operations	247	224	255	30
Sub-Total Outcome 2	4,326	4,350	4,634	284
3. Army Capability for the Defence of Australia and its Interests				
3.1 Capability for Special Operations	322	447	454	7
3.2 Capability for Medium Combined Arms Operations	864	936	835	-101
3.3 Capability for Light Combined Arms Operations	1,019	1,037	1,009	-28
3.4 Capability for Army Aviation Operations	624	639	564	-75
3.5 Capability for Ground-Based Air Defence	182	135	121	-14
3.6 Capability for Combat Support Operations	488	454	504	49
3.7 Capability for Regional Surveillance	160	101	132	31
3.8 Capability for Operational Logistic Support to Land Forces	504	567	542	-25
3.9 Capability for Motorised Combined Arms Operations	584	513	518	5
3.10 Capability for Protective Operations	540	514	737	223
Sub-Total Outcome 3	5,287	5,343	5,416	72
4. Air Force Capability for the Defence of Australia and its Interests				
4.1 Capability for Air Combat Operations	1,959	1,892	2,091	199
4.2 Capability for Combat Support of Air Operations	557	645	678	32
4.3 Capability for Surveillance and Response Operations	1,128	1,232	1,098	-134
4.4 Capability for Airlift Operations	976	928	947	19
Sub-Total Outcome 4	4,620	4,697	4,813	116
5. Strategic Policy for the Defence of Australia and its Interests				
5.1 International Policy, Activities and Engagement	195	174	210	36
5.2 Strategic Policy and Military Strategy	48	39	36	-3
Sub-Total Outcome 5	243	213	246	33
6. Intelligence for the Defence of Australia and its Interests				
6.1 Intelligence	435	465	459	-6
Sub-Total Outcome 6	435	465	459	-6
Total Cost of Defence Outputs	15,605	15,825	16,620	794

Notes

- Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (pp 110, 128, 147, 170, 182, and 191).
- The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements 2004-05*.

The seventh outcome, Superannuation and Housing Support Services for Current and Retired Defence Personnel, covers activities not directly connected to the delivery of the capability outcomes and outputs. Outcome Seven and its three outputs are described on p. 228.

Defence continues to refine its cost attribution rules in order to improve the accuracy of its output costs. There are a number of variables that can influence output costs, including changes to preparedness levels and activity rates, operations, and redirecting funds to meet changing priorities and emergent cost pressures. Changes in the distribution of the workforce and technical adjustments aimed at improving the accounting for Defence's assets and liabilities can have a major impact.

Some of the variations evident between the projected and actual result reflect accounting adjustments and refinements to attribution rules. There have been few changes to preparedness and activity levels from that which were planned, and which cause variations between the projected and actual result.

Cost to Government of Defence Outcomes

Table 4.2 provides details of the operating expenses (\$18.318 billion) and revenues (\$1.698 billion) that contribute to the cost of Defence's six departmental outcomes (\$16.260 billion).

	Budget Estimate ⁽¹⁾	Revised Additional Estimate ⁽²⁾	Actual Result	Variation ⁽³⁾	Variation
	2004-05 \$m	2004-05 \$m	2004-05 \$m	2004-05 \$m	2004-05 %
Operating Expenses					
Employees – Military	5,295	5,320	4,880	-441	-8.3
Employees – Civilian	1,415	1,372	1,293	-79	-5.8
Sub-Total Employees	6,710	6,693	6,173	-520	-7.8
Suppliers expense	6,109	6,092	6,110	18	0.3
Grants	1	9	2	-7	-79.1
Depreciation and amortisation	2,985	3,134	3,069	-65	-2.1
Value of assets sold	231	206	136	-70	-34.1
Write down of assets	100	800	2,797	1,997	249.7
Borrowing costs	31	31	25	-6	-20.1
Other expenses	0	0	5	5	0.0
Total Operating Expenses from Ordinary Activities	16,168	16,967	18,318	1,351	8.0
Revenues	0	0	0	0	0.0
Sale of goods and services	-246	-263	-264	-1	0.6
Interest	0	0	-0	-0	0.0
Revenue from sale of assets	-231	-206	-199	7	-3.6
Net foreign exchange gains	0	0	-21	-21	0.0
Assets now recognised	0	-600	-1,007	-407	67.9
Other revenues ⁽⁴⁾	-87	-72	-207	-135	186.9
Total Own Source Revenues	-564	-1,141	-1,698	-557	48.8
Cost to Government for Defence Outcomes⁽⁵⁾	15,605	15,825	16,620	794	5.0

Notes

1. Budget Estimates are consistent with the Portfolio Budget Statements 2004-05 (p. 100).
2. The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements*.
3. The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.
4. The Actual Result figure for 'Other revenues' includes interest and dividends, net foreign exchange gains/losses, and resources received free of charge.
5. Correlates with Table 4.1.

Table 4.3 Overall Cost to the Government of Defence Outcomes (Departmental and Administered)

	Outcome 1 Command of Operations	Outcome 2 Navy Capabilities	Outcome 3 Army Capabilities	Outcome 4 Air Force Capabilities	Outcome 5 Strategic Policy	Outcome 6 Intelligence	Total Departmental Outcomes	Outcome 7 Superannuation and Housing Services for Current and Retired Defence Personnel	Grand Total
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000
DEPARTMENTAL									
Operating Expenses									
Employees – Military	294,360	1,156,126	2,224,240	1,106,210	48,686	50,308	4,879,930	-	4,879,930
Employees - Civilian	86,281	309,566	387,901	320,327	39,956	149,069	1,293,100	-	1,293,100
Sub-Total Employees	380,641	1,465,691	2,612,141	1,426,538	88,642	199,377	6,173,030	-	6,173,030
Suppliers expense	485,084	1,671,732	1,861,530	1,737,624	153,130	200,897	6,109,997	-	6,109,997
Grants	94	429	936	420	21	41	1,941	-	1,941
Depreciation and amortisation	43,083	993,093	673,670	1,284,851	6,445	68,167	3,069,310	-	3,069,310
Value of assets sold	4,061	18,834	88,502	21,176	1,111	2,479	136,163	-	136,163
Write-down of assets	290,416	863,236	833,758	777,427	14,105	18,414	2,797,356	-	2,797,356
Borrowing costs	1,418	6,042	10,873	5,912	490	386	25,121	-	25,121
Other expenses	791	94	2,733	1,125	181	188	5,111	-	5,111
Total Operating Expenses from Ordinary Activities	1,205,587	5,019,151	6,084,143	5,255,072	264,125	489,951	18,318,029	-	18,318,029
Revenues									
Sale of goods and services	-71,537	-46,708	-86,768	-47,456	-8,292	-3,475	-264,237	-	-264,237
Interest	-2	-8	-13	-10	-0	-1	-33	-	-33
Revenue from sale of assets	-7,502	-35,187	-103,064	-49,278	-1,076	-2,886	-198,994	-	-198,994
Net foreign exchange gains	-1,170	-7,010	-6,030	-6,223	-312	-406	-21,152	-	-21,152
Assets now recognised	-23,110	-236,008	-417,859	-302,144	-7,645	-20,604	-1,007,369	-	-1,007,369
Other revenues	-49,772	-60,385	-54,693	-37,035	-1,232	-3,597	-206,714	-	-206,714
Total Own Source Revenues	-153,094	-385,306	-668,427	-442,147	-18,557	-30,969	-1,698,499	-	-1,698,499
Cost to Government for Defence Departmental Outcomes	1,052,493	4,633,845	5,415,716	4,812,925	245,568	458,982	16,619,529	-	16,619,529
ADMINISTERED									
Expenses								2,793,453	2,793,453
Revenues								-745,938	-745,938
Cost to Government for Defence Administered Outcomes								2,047,515	2,047,515

Major Australian Defence Force Operations during 2004-05



Outcome One: Command of Operations

The Chief of the Defence Force commands the Australian Defence Force. The Vice Chief of the Defence Force, under the authority of the Chief of the Defence Force, is responsible for the day-to-day command of ADF operations, joint exercises and ADF contributions to national support tasks through the Joint Operations Command. Joint Operations Command was established in 2004 to provide simpler and more effective command and control arrangements. It consists of a headquarters with separate strategic and operational level staffs; three environmental components (maritime, land and air); three specialist components (Special Operations, Joint Logistics and Joint Offshore Protection commands); and a number of direct command units which provide functional support in the areas of intelligence, movements, joint training, strategic advice, welfare and northern Australia operations.

Defence continued to develop its command capability through the Headquarters Joint Operations Command and its component headquarters. Joint Operations Command successfully developed and implemented strategic plans and provided operational-level guidance to forces assigned under theatre command. Maritime, land and air forces continued to perform exceptionally well when combined to provide joint and coalition forces. Joint force preparedness requirements continued to be measured rigorously and were validated in exercise programs.

Within Headquarters Joint Operations Command, Strategic Operations Division continued to be primarily focused on strategic, international and whole-of-government level military operational issues. Principal amongst the Division's responsibilities was the provision of military strategic planning and operational advice to the Minister for Defence. The remainder of the Headquarters, including the component headquarters, remained focused on the planning and conduct of military operations and major joint exercises. Concurrently, the component headquarters continued to meet their dual responsibilities to Service Chiefs for raise, train and sustain functions, including the conduct of single Service exercises.

During 2004-05, Joint Logistics Command continued to provide logistic support to military operations with a renewed focus on supply chain support. Joint Logistics Command provided logistic support to four major operations and various minor operations and tasks. The deployment of equipment and personnel resulted in over 23,000 standard demands for the issue, repair or maintenance of stores being raised and satisfied, with 14,600 of these for forces deployed to the Middle East. Within Australia, the Defence National Storage and Distribution Centre played a key role in maintaining a cargo consolidation point for outgoing freight, while Joint Logistics Units North and North Queensland both performed important roles as a mounting base headquarters for operational or exercise support. Joint Logistics Command managed, supervised or conducted \$9.4m of maintenance work in support of post-operation equipment remediation utilising a range of contracted maintenance support.

Performance Summary

Throughout 2004-05, the ADF continued to conduct military campaigns and operations and met the emergency and non-emergency support as required by the Government and in line with the Australian community's expectations. Overseas deployments and various joint and combined exercises involving the three Services and allied or regional military

forces were conducted. Each of these activities proceeded generally as forecast in the *Portfolio Budget Statements 2004-05*.

The ADF continued its commitment to Australia's whole-of-government effort to assist in the rehabilitation of Iraq under Operation Catalyst. In Iraq, the ADF maintained ground forces, military staff officers embedded in coalition headquarters and the Iraqi Ministry of Defence, and training teams undertaking training tasks to assist in the establishment of Iraqi military forces. In the Arabian Gulf, the ADF maintained a frigate continuously on operations and, from April 2005, the commander and headquarters staff for Combined Task Force 58 (CTF 58). With ten ships under control, CTF 58 provided maritime security for Iraq's only two Gulf oil terminals. P-3 Orion and C-130 Hercules aircraft and support crews were maintained in the area of operations providing dedicated national and coalition support throughout the Middle East Area of Operations. Concurrently, the ADF has maintained a small commitment in the area of operations under Operation Slipper as part of Australia's contribution to the United States-led operation against international terrorism. This commitment included the frigate and P-3 Orion platforms and crews being assigned to both operations.

The ADF contribution to the United Nation's peacekeeping commitment to Eritrea under the Operation Pomelo ceased in June 2005. Support to the United Nations in Israel, Lebanon and Syria under Operation Paladin continued throughout the year. Operations in support of the Multi National Force of Observers in the Sinai under Operation Mazurka continued throughout the year. A new operation in support of the United Nations in the Sudan was mounted in May 2005. This small commitment under Operation Azure was historic, as it is the first operational deployment to be commanded by a female member of the ADF.

In Australia's immediate region, Operation Spire ceased in Timor-Leste in May 2005 with the expiry of the United Nations Peacekeeping Mandate. A new operation named Chiron, the ADF's contribution to the United Nations political follow-on mission in Timor-Leste, consists of three military advisers and no security forces. Operation Anode is the ADF's continuing contribution to the Regional Assistance Mission Solomon Islands. A small combined ADF and regional military force remained in the Solomon Islands in support of the ongoing police-led activities. Operation Gateway continued as a maritime surveillance operation. Operation Solania saw the ADF fly surveillance patrols in support of the Pacific Islands Forum Fisheries Agency member states.

The ADF achieved the range of peacetime national tasks directed by the Government, predominantly through Operation Relex II, the conduct of air and surface patrols across Australia's northern approaches to deter unauthorised boat arrivals. The ADF continued to work cooperatively with Coastwatch in meeting the requirements of the national civil surveillance program. ADF contributions were conducted under Operations Relex II and Cranberry.

Following the devastating South-East Asian tsunami on Boxing Day 2004, the ADF mounted Operation Sumatra Assist to provide disaster relief in the Banda Aceh region of Indonesia. At its height, aircraft, ships, vehicles, a hospital and more than 1,000 personnel were deployed within Sumatra, in Jakarta, and in a logistics support base established at Butterworth in Malaysia. The separate, but related, Operation Thai Assist was mounted concurrently to provide linguist support to Australian Federal Police operating in Thailand. Following a large earthquake in the same region in late March 2005, Operation Sumatra Assist Phase II was mounted. This operation was focused on the island of Nias. During this second phase of Operation Sumatra Assist, one of the Sea King helicopters



COMMAND OF OPERATIONS | SPECIAL FEATURE

OPERATION SPIRE

ADF involvement in Timor-Leste began in 1999 when it led the United Nations-mandated mission to bring peace and stability to the troubled nation following the democratic decision of self-determination. Since then, an estimated 13,000 ADF members have served on peacekeeping operations in support of the peace process.

Although the ADF's contribution has taken many forms since the initial deployment of over 5,000 personnel, the cessation of Operation Spire on 24 June 2005 is a very significant change and marks the end of an era.

Timor-Leste celebrated its third anniversary of independent statehood on 20 May 2005.

As a result of progress made by the Timor-Leste Government, the United Nations Security Council ceased peacekeeping operations in 2005 and reduced its role to one of monitoring and reporting. This decision was not only a key milestone for the people of Timor-Leste but also proved to be a pivotal moment in the ADF's modern history. Significantly reducing the ADF's presence to around 30 personnel, the decision brought about the end of Operation Spire and the ADF's largest operational deployment since Vietnam.

The work of the contingent focused on the provision of engineering, transport, logistic and medical support. While much of this enabled other United Nations forces



The Australian flag is lowered over the forward operating base in Moleana. Those attending the ceremony included, from left to right, the Australian National Commander Timor-Leste Lieutenant Colonel Brian Cox, Minister of Agriculture Estanislao A. da Silva, Minister of Planning and Finance Dr Maria M. B. Boavida, Prime Minister of Timor-Leste Dr Mari Alkatiri, the Australian Defence Force representative, the then Major General Ken Gillespie and Australian Ambassador to Timor-Leste Ms Margaret Twomey.



A musician from the First Battalion Royal Australian Regiment band entertains the local Moleana children with claves (wooden percussion sticks) during an impromptu concert.

to perform their task more efficiently, the contingent also made meaningful contributions to the community through its Knowledge Skills Transfer Program. This program saw ADF personnel train Timorese people in many facets of building and construction while working on joint community projects such as the building of schools, halls and road works.

Among the many tangible contributions made by the ADF prior to the cessation of Operation Spire was the handover of its forward operating base in Moleana, now converted to an agricultural college for the Timorese people.

Despite the significant reduction in numbers, the ADF's commitment to Timor-Leste continues. Three members are deployed as part of the United Nations observation team of 12, known as Operation Chiron, and the ADF will provide ongoing support through the Defence Cooperation Program.



Two Australian Army personnel prepare ammunition for disposal prior to the end of Operation Spire.

embarked on HMAS *Kanimbla* crashed on Nias, killing nine of the 11 ADF personnel on board. Operations in Sumatra concluded at the end of April 2005.

Other operations and activities conducted by the ADF throughout the year were:

- Operation Nauru Assist in April 2005 provided an explosive ordnance demolition team to dispose of World War II-era unexploded ordnance.
- Operation Caber in February 2005 provided support to the Edinburgh Military Tattoo in Australia, held in Sydney.
- Operation Valient in October and November 2004 provided ADF assistance in the training of Republic of Fiji Military Force troops deploying to Iraq in support of the United Nations.
- Operation Acolyte commenced in January 2005 to provide ADF support to the Commonwealth Games in Melbourne 2006.

The ADF also provided support to the team led by the Department of Foreign Affairs and Trade for the recovery of Mr Douglas Wood from captivity as a hostage in Iraq.

Mitigation of Key Risks

The concerns arising from concurrent operations have been closely monitored and were subject to periodic strategic-level reviews. Monthly preparedness assessment complements these reviews and, where indicated, remediation priorities have been made. Joint Operations Command continues to operate with dispersed components but has met performance targets. The Program of Major Service Activities has been subject to a comprehensive review and many important interoperability issues were addressed in Exercise Talisman Sabre 05.

Capability Performance Information

Output 1.1

Command of Operations

The Vice Chief of the Defence Force is required to plan, mount and conduct ADF campaigns, operations and other activities as directed by the Chief of the Defence Force.

Planning includes maintaining situational awareness, preparing operational concepts and plans, assessing ADF joint preparedness against the military response options that may be required by the Government, and developing other plans as directed by the Chief of the Defence Force. Effective command relies on clear command arrangements supported by timely and reliable communications and information systems.

	Performance Targets	Performance
Quality	Australian operational concepts are developed to support ADF planning against credible contingencies.	Achieved. Ongoing development of current and new Australian operational concepts.
	Joint Operations Command provides guidance for joint force preparedness in accordance with the Chief of the Defence Force's direction.	Achieved. The previous Joint Operations Command Operational Preparedness Requirement was updated and joint preparedness is assessed and reported monthly.
Quantity	Command of ADF forces is effective and the Government's strategic objectives for operations are achieved.	This target was achieved. Command effectiveness continues to improve as revised joint command arrangements mature.

Quantity	Phased implementation of new ADF operational command arrangements will commence.	The target was achieved. The ADF operational command arrangements introduced in 2004 are proving effective and will continue to develop as the Joint Operations Command prepares for the occupation of new facilities to be built at Bungendore, New South Wales.
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Output 1.2 Defence Force Military Operations and Exercises

ADF military operations, exercises and other activities contribute to the achievement of the Government’s strategic objectives, as defined in the Defence White Paper. The following table lists ADF operations conducted over the year against these strategic objectives.

ADF joint and combined exercises are included in the Program of Major Service Activities. Exercise objectives include training in warfighting and related skills, aimed at confirming interoperability and joint capability and effective engagement with allies and regional partners. Peacetime national tasks are reported under Output 1.3.

Performance is summarised below, with additional information in the supporting tables.

	Performance Targets	Performance
Quality	ADF operations meet Government directives.	Achieved. 15 current operations and 10 that were ceased or completed met Government direction in 2004-05.
	Forces identified for operational tasks maintain required preparedness levels.	Achieved. Joint preparedness levels were monitored against the Joint Operations Command Operational Preparedness Requirement. Preparedness deficiencies were reported and remedied where necessary.
	ADF forces are effectively deployed and sustained.	Achieved. ADF forces were effectively deployed, sustained and re-deployed during the period.
	The Program of Major Service Activities is reviewed regularly and modified where required.	Achieved. The Program of Major Service Activities was regularly reviewed and modified in response to changing priorities, world events and to meet identified training deficiencies.
	The major ADF exercise commitments for 2004-05 are met: - Exercises Rimpac, Bersama Lima, Talisman Sabre 05 and Joint Kiwi 05.	Exercises Rimpac, Bersama Lima and Talisman Sabre 05 were conducted as planned. Exercise Joint Kiwi 05 was cancelled as the New Zealand Defence Force was not able to participate.
Quantity	Number of current ADF operations.	15 current ADF operations, including 3 contributing to the security of the immediate neighbourhood; 6 supporting wider interests; and 6 peacetime national tasks.
	Number of completed ADF operations.	10 completed ADF operations including: 1 contributing to the security of the immediate neighbourhood; 5 supporting wider interests; and 4 peacetime national tasks.
	Total number of exercises programmed over 2004-05.	74 ADF exercises were programmed in the Program of Major Service Activities.
	Number of conducted ADF exercises.	70 programmed exercises were conducted.
	Number of cancelled ADF exercises.	4 programmed exercises were cancelled.

Output 1.3 Contribution to National Support Tasks

The ADF may be called upon to provide emergency and non-emergency assistance to the Australian community in non-combat-related roles. The tasks the ADF may be requested to undertake include emergency assistance, search and rescue, disaster recovery, surveillance and security or non-emergency law enforcement roles. These tasks are categorised as Defence Assistance to the Civil Community.

The ADF can be requested to undertake law enforcement-related tasks where the use of force by Defence personnel may be required. These tasks are categorised as Defence Force Aid to Civilian Authorities.

The ADF also contributes to the civil surveillance program, providing maritime surveillance that is tasked routinely in accordance with the Government’s direction.

Peacetime national tasks undertaken by the ADF may include securing the Australian coastline from illegal immigration, smuggling, quarantine evasion and other intrusions to Australian sovereignty; counter-measures (including chemical, biological, radiological responses); counter-terrorism responses; search and rescue; and natural disaster relief. See Table 4.8 for operations for peacetime national tasks.

	Performance Targets	Performance
Quality	The ADF contribution to peacetime national tasks meets Government directives.	Achieved. 6 current ADF operations and 4 completed operations met the Government’s direction for peacetime national tasks in 2004-05.
	Forces identified to provide Defence Assistance to the Civil Community, Defence Force Aid to Civilian Authorities and search and rescue, maintain required preparedness levels.	Achieved. Preparedness levels were continuously monitored against the Joint Operations Command Operational Preparedness Requirement.
	ADF forces are effectively deployed and sustained.	Achieved. ADF forces continued to be effectively deployed, sustained and re-deployed.
	The ADF response to requests for search and rescue and emergency assistance tasks are effectively managed and reported.	Achieved.
	The ADF continues to conduct minor emergency and non-emergency assistance tasks from local resources where feasible.	Achieved.
	National support tasks undertaken by the ADF as significant emergency assistance, public events of significance and non-emergency law enforcement are effectively undertaken, managed and reported.	Achieved.
Quantity	National support tasks undertaken by the ADF as Defence Force Assistance to Civilian Authorities are effectively managed and reported.	Achieved. The ADF continued to provide consequence management (biological and radiological) and counter-terrorism capabilities.
	ADF support to the civil surveillance program, in consultation with Coastwatch, was provided at the following resource levels: 250 flying hours by P-3 surveillance aircraft, 240 Regional Force Surveillance Unit Patrol Days, and	This target was achieved. ADF support to the civil surveillance program was conducted with priority given to Operation Relex II. Some patrols in support of Operation Relex II were conducted in the civil surveillance program area of operations and met both requirements. The rate of effort for these activities over 2004-05 was: 1,723.8 P-3 flying hours in support of Operation Relex II and 21.5 hours in support of Operation Cranberry. A total of 1,745 P-3 flying hours. 441 Regional Force Surveillance Unit patrol days.

Quantity	1,800 patrol boat days.	262 Fremantle-class patrol boat days in support of civil surveillance program, 582 days in support of Operation Cranberry, and 1,262 Fremantle-class patrol boat days in support of Operation Relex II. A total of 2,131 Fremantle-class patrol boat days.
	<p>Defence Assistance to the Civil Community:</p> <p>Category One – local emergency assistance;</p> <p>Category Two – general emergency assistance;</p> <p>Category Three – civil emergency or disaster recovery;</p> <p>Category Four – public events of significance and general non-emergency assistance;</p> <p>Category Five – minor non-emergency assistance; and</p> <p>Category Six – non-emergency law enforcement-related tasks.</p>	<p>The following tasks were completed:</p> <ul style="list-style-type: none"> - the ADF was actively involved in local communities and provided local emergency assistance within resources; - 1; - 1; - the ADF supported 31 public events of significance and 82 non-emergency assistance tasks during the year, as approved by the Government; - the ADF provided non-emergency assistance within local resources; and - 3.
	Defence Force Aid to Civilian Authorities.	No requests.
	Search and rescue tasks undertaken involving ADF assistance.	18 search and rescue tasks were undertaken.
	Specified Army/Aboriginal and Torres Strait Islander Commission Community Assistance Program milestones are met.	<p>This target was achieved. The 2004-05 Program commenced during April 2005 and was completed in October 2005. Work was conducted in the Fitzroy River Valley, Kimberley Region, Western Australia. The 19th Chief Engineer Works was tasked with design and project management. The 17th Construction Squadron was the primary military construction agency. Additional support was provided by the Air Force, and Army logistics and health units.</p> <p>The 19th Chief Engineer Works and the 17th Construction Squadron completed approximately \$5m of work, including construction of houses, a medical clinic, an airfield, water storage, sewage systems and rubbish tips in and around areas such as Kadjina, Yakanarra and Yilli.</p> <p>Training and primary health care programs were conducted to assist 12 communities in the region, including medical, dental, veterinarian, environmental health, and physical training instructor support.</p> <p>Individuals, selected by their own communities, undertook training courses conducted by the Army:</p> <ul style="list-style-type: none"> - Accredited courses: elements of Certificates 1 and 2 in General Construction. - Non-accredited courses: small engine maintenance, basic steel and aluminium welding, basic computer skills, kitchen hand skills, healthy living, basic house maintenance, and sport and recreation.



OPERATION CATALYST - NAVY CAPABILITIES | SPECIAL FEATURE

TASK FORCE 58

In February 2005, the Government approved the deployment to the Northern Persian Gulf of a RAN headquarters staff member to assume duties as the Commander of coalition Task Force 58. Commodore S.R. Gilmore, CSC, RAN took command of Task Force 58 in April 2005 embarking in the United States Navy cruiser USS *Antietam*. In doing so, Commodore Gilmore became the first non-United States officer to command the Task Force. It was also one of the most senior operational sea commands exercised by a RAN officer since World War II.

Responsible for all coalition maritime security operations across the Northern Persian Gulf, specific tasks allocated to Task Force 58 included the protection of key oil infrastructure, maritime interception operations (that sought to detect and deny



*Royal Australian Navy (RAN) officer,
Commodore Steve Gilmore, CSC, RAN.*



The cruiser USS Antietam (flagship for Commander Task Force 58, Commodore S.R. Gilmore) patrols in the vicinity of the vital Iraqi Al Basra oil terminal.



Commodore Gilmore co-signs the Iraqi Navy Transition Roadmap with the Iraqi Navy Operational Commander, Captain Adel, aboard the Task Force 58 flagship.

the use of the sea by criminals and terrorists), anti-piracy activity and regional engagement.

The Task Force 58 area of operations holds the key to the economic recovery of Iraq. The oil platforms are critical and the oil flowing through them accounts for 80 per cent of Iraq's Gross Domestic Product. This fact has been previously recognised as evidenced by the coordinated attack in April 2004, which tragically resulted in the deaths of three United States servicemen.

Commensurate with the highly important mission of Task Force 58, it is assigned considerable capability. Around ten coalition warships were allocated to the Task Force with up to 1,700 coalition personnel under Australian command. While focused on protection of the oil platforms, Task Force 58 was also responsible for integration of the Iraqi Navy and their subsequent self-maintenance of security in Iraqi territorial waters.

In pursuit of this goal, Task Force 58 and staff were instrumental in the development and promulgation of an Iraqi Navy Transition Roadmap. This initiative now serves as the foundation document that guides, measures and certifies the progress of Iraqi units. It has been highly successful with Iraqi patrol boats now fully integrated and Marines undergoing phased progression of oil terminal point defence.

The Australian-led Task Force achieved its mission commendably and made significant progress over the entire range of tasks assigned.

Cost to Government

The overall cost to Government of Outcome One was \$1,052.5m. This was \$295.0m higher than the 2004-05 revised additional estimate of \$757.5m, representing an increase of 39 per cent.

Table 4.4	Outcome One – Command of Operations in Defence of Australia and its Interests				
	Budget Estimate ⁽¹⁾	Revised Additional Estimate ⁽²⁾	Actual Result	Variation ⁽³⁾	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Operating Expenses					
Employees – Military	156,253	187,847	294,360	106,513	57
Employees – Civilian	75,851	86,058	86,281	223	-
Sub-Total Employees	232,104	273,905	380,641	106,736	39
Suppliers expense	471,364	497,913	485,084	-12,829	-3
Grants	60	359	94	-265	-74
Depreciation and amortisation	62,609	58,214	43,083	-15,131	-26
Value of assets sold	7,784	6,263	4,061	-2,202	-35
Write-down of assets	3,005	44,316	290,416	246,100	555
Borrowing costs	1,468	1,263	1,418	155	12
Other expenses	-	-74	791	865	-1,168
Total Operating Expenses from Ordinary Activities	778,394	882,159	1,205,587	323,428	37
Revenues					
Sale of goods and services	-74,002	-80,666	-71,537	9,129	-11
Interest	-	-	-2	-2	-
Revenue from sale of assets	-7,784	-6,869	-7,502	-633	9
Net foreign exchange gains	-	-	-1,170	-1,170	-
Assets now recognised	-	-34,713	-23,110	11,603	-33
Other revenues ⁽⁴⁾	-2,863	-2,447	-49,772	-47,325	1,934
Total Own Source Revenues	-84,649	-124,695	-153,094	-28,399	23
Cost to Government for Outcome One	693,745	757,464	1,052,493	295,029	39

Notes

- Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (p. 111).
- The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements*.
- The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.
- The Actual Result figure for 'Other revenues' includes interest and dividends, net foreign exchange gains/losses, and resources received free of charge.

Explanations for the variations from the revised additional estimate to the actual result are contained in Table 4.26. Outcome One output level detail is provided in Table 4.5 below.

Table 4.5	Cost Summary of Outputs for Outcome One – Command of Operations in Defence of Australia and its Interests				
	Budget Estimate ⁽¹⁾	Revised Additional Estimate ⁽²⁾	Actual Result	Variation ⁽³⁾	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Output 1.1 – Command of Operations	357,871	359,128	668,287	309,159	86
Output 1.2 – Defence Force Military Operations and Exercises	326,268	381,766	361,241	-20,525	-5
Output 1.3 – Contribution to National Support Tasks	9,605	16,570	22,965	6,395	39
Cost to Government for Outcome One	693,745	757,464	1,052,493	295,029	39

Notes

1. Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (p. 110).
2. The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements*.
3. The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.

Australian Defence Force Operations

The following tables list ADF operations conducted in 2004-05, in line with the Government's strategic objectives of contributing to the security of the immediate neighbourhood, support to wider interests and peacetime national tasks.

Table 4.6		Operations Contributing to the Security of the Immediate Neighbourhood
Operation	Objective, status and contribution	
Chiron May 2005 - continuing	<p>Objective: To support the United Nations Mandate and Australia's national interests by contributing military advisers to assist in the development of Timor-Leste's security and stability.</p> <p>Status: Current.</p> <p>Contribution: The ADF is providing two military liaison advisers and a special military adviser to the Special Representative of the United Nations Secretary General.</p>	
Spire May 2004 – May 2005	<p>Objective: ADF contribution to an extension of the United Nations Mission in Support of East Timor mandate for the mission in East Timor.</p> <p>Status: Completed.</p> <p>Contribution: Australia contributed 100 logistics support personnel, mainly employed in engineering, maintenance and transport roles and supported by an Australian National Command Element. The United Nations mandate for peacekeeping expired on 21 May 2005 and was followed by Operation Chiron (see above).</p>	
Anode July 2003 – continuing	<p>Objective: To support the coalition police forces in restoring the rule of law in the Solomon Islands.</p> <p>Status: Current.</p> <p>Contribution: As at the end of June 2005, Australia's contribution in restoring the rule of law in the Solomon Islands included headquarters staff and an infantry force. An infantry platoon is shared on a rotational basis with other troop contributing nations.</p>	
Gateway 1981 – continuing	<p>Objective: To conduct Northern Indian Ocean and South China Sea maritime surveillance patrols.</p> <p>Status: Current.</p> <p>Contribution: Operation Gateway continued to be conducted at a reduced rate of effort due to assets being assigned to Operations Relex II and Catalyst/Slipper, and the P-3 Orion maritime patrol aircraft upgrade program.</p>	

Table 4.7		Operations Supporting Wider Interests⁽¹⁾
The ADF was involved with, and continues to contribute to, international coalitions of forces beyond the immediate neighbourhood. These operations ranged from peacekeeping to high-intensity conflict.		
Operation	Objective, status and contribution	
Azure May 2005 - continuing	<p>Objective: To contribute to the United Nations Mission in Sudan.</p> <p>Status: Current.</p> <p>Contribution: 9 of the intended 15 military personnel deployed as Headquarters staff and liaison officers to the United Nations Mission.</p>	

<p>Sumatra Assist</p> <p>December 2004 – April 2005</p>	<p>Objective: To contribute to the whole-of-government humanitarian aid mission to Indonesia following the tsunami devastation of West Sumatra.</p> <p>Status: Completed.</p> <p>Contribution: A tri-service Combined Joint Task Force provided water purification, medical assistance, engineering support and aviation support. Approximately 1,050 ADF personnel deployed. At the cessation of operations the Task Force had delivered 2,926,626 pounds of humanitarian assistance stores, relocated 2,528 people, provided medical treatment to 3,693 people, conducted medical evacuations for 70 people, provided approximately 4,696,300 litres of purified water, cleared 9,230 cubic metres of debris and salvaged 12 boats. During Phase II, HMAS <i>Kanimbla</i> medical personnel treated 11 surgical cases, attended to 980 patients at clinics, delivered 123 ton of rice and 5,000 litres of water. 80 tonnes of debris were also cleared to allow a kindergarten to open.</p>
<p>Thai Assist</p> <p>December 2004 – March 2005</p>	<p>Objective: To contribute to the whole-of-government humanitarian aid mission to the Government of Thailand following the tsunami devastation.</p> <p>Status: Completed.</p> <p>Contribution: The ADF provided linguist support to Australian Federal Police operating in Thailand in the wake of the tsunami.</p>
<p>Valient</p> <p>October – November 2004</p>	<p>Objective: To provide equipment and training to the Republic of Fiji Military Forces supporting their assistance to the United Nations Assistance Mission in Iraq.</p> <p>Status: Dormant.</p> <p>Contribution: Training was provided to teach Republic of Fiji Military Forces the correct fitting and use of select items of Australian equipment. The equipment has been provided on a loan basis only. While the operation is dormant, there is a possibility that the ADF will provide further equipment and training assistance if requested by the United Nations or Fijian Government and approved by the Australian Government.</p>
<p>Iraqi Spirit</p> <p>August – September 2004</p>	<p>Objective: To provide assistance to the Iraqi Olympic team to travel to Athens.</p> <p>Status: Completed.</p> <p>Contribution: The ADF contributed a C-130 aircraft with crew.</p>
<p>Catalyst</p> <p>July 2003 – continuing</p>	<p>Objective: To contribute to the United States-led coalition for stabilisation and recovery operations in Iraq.</p> <p>Status: Current.</p> <p>Contribution: The ADF contribution deployed to the Middle East Area of Operations has comprised approximately 880 personnel on average. Forces included:</p> <ul style="list-style-type: none"> - an Australian National Headquarters element; - a maritime element of 1 frigate; - aviation elements, including 2 C-130 Hercules aircraft, 2 P-3 Orion maritime patrol aircraft and an air traffic control detachment; - a security detachment to provide force protection and escort to the Australian Mission in Iraq; - a contingent of ADF and civilian personnel working as embedded staff in various coalition headquarters; - a medical detachment; - 4 ADF training teams supporting training of the Iraqi Army and the Iraqi Coastal Defence Force; - a Navy Command Group commanding coalition naval forces in the North Arabian Gulf; and - a task group operating in the Al Muthanna Province protecting the Japanese Iraq Reconstruction Group and training the Iraqi Army.



OPERATION CATALYST - ARMY CAPABILITIES | SPECIAL FEATURE

AL MUTHANNA TASK GROUP

On 22 February 2005, the Prime Minister, the Hon John Howard MP, announced that an Australian Army task group would deploy to Al Muthanna province in Southern Iraq. The Al Muthanna Task Group's (AMTG) mission was to provide a stable and secure environment for the Japanese Reconstruction and Support Group as they undertook essential humanitarian, engineering and rebuilding tasks and to assist in the training, through the Australian Army Training Team Iraq, of local Iraqi Army units so that they are able to take over the internal and external defence of their country.

The AMTG is made up of around 450 personnel and consists of a headquarters, a cavalry squadron, an infantry company, a training team and 40 Australian Light Armoured Vehicles. The AMTG also took the Bushmaster vehicle on its first operational deployment and its performance in Iraq has been outstanding. Personnel were drawn primarily from the Darwin based 1st Brigade with additional personnel coming from other Army units across Australia. The task group joined 920 ADF colleagues already deployed in the Middle East, as part of Operation Catalyst.



Adjutant to the Al Muthanna Task Group, Captain Angus Hindmarsh shakes the hand of a local while the Commanding Officer, Lieutenant Colonel Roger Noble, shares a drink during a visit to the As Samawah souk.



Australian soldiers of the Al Muthanna Task Group stop for orders before a patrol near the town of As Samawah, Southern Iraq.

Once the Task Group was established at their home base - Camp Smitty - they immediately set about getting to know the locals and establishing an Australian presence in the province. The distinctive Emu plumes on the Light Horse's slouch hat became a familiar sight on the streets of As Samawah. The warm response from the locals was a great start to the deployment.

Members of the task group deployed with confidence knowing that their equipment, leadership and training was amongst the best provided to any troops on operations around the world. The deployment was the result of over two months of hard work by not only the Army, but the entire Defence community and Defence industry. Within the Army, Land Command, Training Command and Special Operations Command all provided professional and dedicated support to the task group. Within Defence, organisations such as the Defence Material Organisation, Defence Science and Technology Organisation, Chief Finance Officer Group, Strategic Operations Division, Capability Development Group and Joint Logistics Command all contributed their considerable resources to deploying and supporting the AMTG. Defence industry worked tirelessly, often around the clock, alongside Defence personnel and their efforts made a significant contribution to the preparation of the AMTG.



The first Australian Light Armoured Vehicle of the Al Muthanna Task Group arrives in the Middle East Area of Operations.

The deployment of the AMTG marks another chapter in the long and proud history of the Australian Army. Whilst the equipment may be different from that which was carried by Diggers as they went ashore at Gallipoli 90 years ago – the ANZAC spirit and determination remains the same. Their efforts have already won them many friends in Al Muthanna and their compassion, professionalism and courage have earned them the respect of coalition allies. As the Army moves ahead the combined arms task specific nature of the AMTG may just be the shape of things to come.

Slipper October 2001 – continuing	Objective: To contribute to the United States-led operation against international terrorism and the multinational maritime interception force in the Persian Gulf. Status: Current. Contribution: The ADF contribution to the Middle East Area of Operations supporting the war against terrorism continued. Deployed forces included: - an Australian National Headquarters element; - a maritime element of 1 frigate; - an aviation element of 2 P-3 Orion maritime patrol aircraft; and - an Army officer working in a coalition headquarters in Afghanistan.
Pomelo January 2001 – June 2005	Objective: To contribute to UN peacekeeping efforts in Africa as part of the United Nations Mission in Ethiopia/Eritrea. Status: Completed. Contribution: 2 military personnel contributed to United Nations peacekeeping efforts.
Mazurka ⁽²⁾ September 1982 - continuing	Objective: To provide personnel to the Multi National Force and Observers to monitor the security arrangements in the Sinai. Status: Current. Contribution: A contribution of 25 military personnel to the Multinational Force and Observers continue to monitor security arrangements.
Paladin June 1956 – continuing	Objective: To contribute to the United Nations Truce Supervisory Organisation in the Middle East. This force of unarmed military observers supervises, observes and reports on the various cease-fire arrangements, truces and peace treaties negotiated between Israel and neighbouring Arab nations since 1948. Status: Current. Contribution: 11 military observers are currently deployed with the United Nations Truce Supervisory Organisation.

Notes

1. Operation Palate was incorrectly reported as ceasing in June 2004 in the *Defence Annual Report 2003-04*. The operation was completed on 5 July 2004.
2. Operation Mazurka was incorrectly reported as commencing in 1992 in the *Portfolio Budget Statements 2004-05*.

Table 4.8 Operations for Peacetime National Tasks

The ADF was called upon to undertake a number of regular and occasional tasks in support of national interests over 2004-05. These included specific and ongoing commitments to coastal surveillance, support to the Department of Immigration, Multicultural and Indigenous Affairs and support to the Australia Customs Service.

Operation	Objective, status and contribution
Nauru Assist II April 2005	Objective: Disposal of a World War II Japanese aerial bomb. Status: Completed. Contribution: The ADF contribution was an explosive ordnance disposal team deployed to Nauru by Air Force aircraft. The bomb was moved to safe location and destroyed.
Acolyte February 2005 – continuing	Objective: To provide ADF support to the Melbourne Commonwealth Games in 2006. Status: Current. Contribution: 15 ADF personnel are assigned to Operation Acolyte for planning and establishment of the operation.

<p>Caber</p> <p>November 2004 – February 2005</p>	<p>Objective: To provide support to the Edinburgh Military Tattoo, held in Sydney, to enhance the image of Australia and the ADF.</p> <p>Status: Completed.</p> <p>Contribution: 113 personnel as ceremonial guard, 1 band of approximately 40 personnel, 3 pipes and drums bands of approximately 60 personnel and a further 30 personnel providing general support.</p>
<p>Banlon</p> <p>July 2004 – November 2004 ⁽¹⁾</p>	<p>Objective: To provide support to the Athens Olympics.</p> <p>Status: Completed.</p> <p>Contribution: The ADF provide a 3 person team to work at the Australian Embassy in Athens during the period of the Olympics and Para-olympic Games.</p>
<p>Relex II</p> <p>March 2002 – continuing</p>	<p>Objective: To conduct air and surface patrols across Australia’s northern approaches to deter unauthorised boat arrivals.</p> <p>Status: Current.</p> <p>Contribution: The ADF continued to provide support to the whole-of-government effort to deter unauthorised arrivals by sea in Australia’s north-west approaches. ADF support included:</p> <ul style="list-style-type: none"> - 1 frigate and one amphibious ship; - 2 P-3 Orion maritime patrol aircraft; - up to 6 Fremantle-class patrol boats; and - up to 3 ADF transit security elements.
<p>Mistral</p> <p>1998 – continuing</p>	<p>Objective: To support Australian sovereign rights and fisheries law enforcement in the Southern Ocean by supporting the Australian Fisheries Management Authority and Australian Customs Southern Ocean fisheries patrols.</p> <p>Status: Current.</p> <p>Contribution: This is the overarching operation covering ADF support to surveillance and patrol of the Southern Ocean.</p>
<p>Cranberry</p> <p>June 1997 – continuing</p>	<p>Objective: To coordinate the intelligence and provide surveillance information to the civil authorities that are operating in northern Australia.</p> <p>Status: Current.</p> <p>Contribution: Surveillance continued to be conducted using a range of ADF assets including Fremantle-class patrol boats, a P-3 Orion maritime patrol aircraft and Regional Force Surveillance Units.</p>
<p>Solania</p> <p>1988 – continuing</p>	<p>Objective: To conduct South West Pacific maritime surveillance patrols.</p> <p>Status: Current.</p> <p>Contribution: Operation Solania was conducted at a reduced rate of effort due to higher operational commitments.</p>
<p>Estes</p> <p>1980 – continuing</p>	<p>Objective: To conduct surface patrols in Bass Strait.</p> <p>Status: Current.</p> <p>Contribution: ADF surface patrols continue.</p>

Note

1. The completion date for Operation Banlon was incorrectly reported as October 2004 in the *Portfolio Additional Estimates Statements 2004-05*.



OPERATION CATALYST - AIR FORCE CAPABILITIES | SPECIAL FEATURE

AIR FORCE CONTRIBUTION TO OPERATION CATALYST

Air Force contribution to Operation Catalyst is based on C-130 and P-3 Orion aircraft, an Air Traffic Control element, the combat support elements enabling these capabilities; key members of Coalition operational planning staff and liaison officers in various Coalition headquarters throughout the Middle East Area of Operations (MEAO); and staff within the ADF's Joint Task Force 633 (JTF 633) headquarters in Baghdad. Significant senior appointments included Air Commodore Greg Evans who commanded JTF 633, and Air Commodore John Quaife who was Director of the Combined Air Operations Centre and responsible for coordinating all Coalition air operations in the theatre.

C-130H Hercules aircraft have been operating in the MEAO since before combat operations commenced in Iraq in 2003. These aircraft provide vital intra-theatre airlift between logistics hubs throughout the theatre, including into Iraq. They were replaced, as a key milestone of their introduction into service, by the new C-130J aircraft. Prior to deployment of the C-130J, a rapid acquisition program was initiated to provide these aircraft with electronic warfare self protection and fuel tank explosion suppressant foam. The C-130 force have carried over 2,500 tonnes of supplies, conducted 466 aero-medical evacuations, and carried 11,252 passengers supporting Operation Catalyst.



Air Traffic Control operations in Iraq.



C130 aircraft departs on a mission in the Middle East.



AP-3C Orion over Persian Gulf.

Two Air Force P-3 Orion long-range maritime patrol aircraft have also been operating in the MEAO since early 2003. They have been providing intelligence, surveillance, and reconnaissance support to Coalition naval forces protecting the oil infrastructure of Iraq and her neighbours, and to Coalition ground forces in Iraq. The P-3 crews flew over 350 sorties during the year in support of the war on terror and the rehabilitation of Iraq.

Air Force Air Traffic Controllers have maintained operations at Balad, in central Iraq, to ensure the flow of air transport into and out of this vital Coalition air base. They operated the control tower at Balad and trained Iraqi air traffic controllers. Over the year, there were 580 - 650 movements per day making Balad Air Base busier than Melbourne Airport.

Enabling these activities were the combat support squadrons providing air base services such as medical, security, chaplaincy, communications, transport, engineering and air movements support.

Major Australian Defence Force Exercises

The following tables list the major joint exercises conducted by the ADF during 2004-05.

Table 4.9 ADF Exercises	
Exercise	Objective
ADF Joint Exercises	
Squadex	To train core amphibious maritime and land command elements of the Amphibious Force Element.
March 2005	
Combined ADF/United States Exercises	
Talisman Sabre 05 ⁽¹⁾	To exercise and appropriate joint and combined forces in a short warning, power projection live-fire and manoeuvre command post and field training exercise.
May - June 2005	
Combined ADF / New Zealand Exercises	
Swift Eagle 04	To practise entry by air and sea and mid-intensity ground operations.
September 2004	
Other Combined Exercises	
Pirap Jabiru 04	To develop the Royal Thai Air Force's and the ADF's understanding of the considerations in planning combined multi-dimensional peace operations at the strategic level.
August 2004	
Singaroo 04	To improve the interoperability of the ADF and the Republic of Singapore forces in combined maritime procedures and tactics.
August 2004	
Wyvern Sun 04	To rehearse an ADF response to an offshore counter-terrorist recovery incident. This exercise was conducted with Thai forces.
July 2004	

Note

1. This exercise was incorrectly listed under the 'ADF Joint Operations' heading in the *Portfolio Budget Statements 2004-05*.

Outcome Two: Navy Capabilities

The Navy provided maritime forces that contributed to the ADF's capacity to defend Australia, contributed to regional security, supported global interests, shaped the strategic environment and protected national interests. Navy capabilities provide maritime patrol and response, interdiction and strategic strike, protection of shipping and offshore territories and resources, maritime intelligence collection and evaluation, hydrographic and oceanographic operations, combat search and rescue, and escort duties. Peacetime activities include maritime surveillance and response within Australia's offshore maritime zones, hydrographic, oceanographic and meteorological support operations, humanitarian assistance, and maritime search and rescue.

Performance Summary

During 2004-05, the Navy maintained support for the ADF's involvement in operations ranging from the war against terrorism to maritime surveillance, sovereignty patrols and hydrographic operations. The Navy has achieved routine and operational goals including commitments to:

- Operation Slipper –the contribution to the United States-led operation against international terrorism and the multinational maritime interception in the Persian Gulf;
- Operation Sumatra Assist I and II –the contribution to the whole-of-government humanitarian aid mission to Indonesia following the tsunami devastation to West Sumatra;
- Operation Catalyst –the contribution to the United States-led coalition for stabilisation and recovery operations in Iraq;
- Operation Cranberry –the coordination of intelligence and providing surveillance information to the civil authorities that are operating in northern Australia;
- Operation Relex II –the conduct of air and surface patrols across Australia's northern approaches to deter unauthorised boat arrivals;
- Operation Anode –support of coalition police forces to restore the rule of law in the Solomon Islands; and
- Southern Ocean support to fisheries law enforcement-continued support to Australian fisheries law enforcement in the Southern Ocean.

The Navy continued to devote effort to reconstituting skills not exercised in operational roles and training and recuperating its workforce. The Navy substantially maintained sufficient combatant forces, amphibious and afloat support ships, submarines, and mine countermeasures forces to deploy on operations, as required in military preparedness directives. The Navy also provided considerable support to collaborative single Service, joint, and combined training, including participation in a variety of bilateral and multilateral exercises in Australia and overseas. These activities enabled the Navy to successfully operate with allied and regional armed forces to undertake operational tasks.

During 2004-05, Navy capability development progress was achieved in area air warfare and anti-ship missile defence, afloat support and amphibious lift, and undersea and littoral warfare through the related capability development projects.

Mitigation of key risks

Personnel

The Navy's full-time workforce fell from 13,459 in 2003-04 to 13,102 during 2004-05 as a result of increased separations and reduced recruiting achievement¹. Navy recruited 1,237 new members in 2004-05, 277 less than in 2003-04. Significant recruiting shortfalls in technical trades outweighed improvements with pilots, seaman officers and combat system operators. Under-achievement in technical trade categories is a reflection of the competition between Defence and other organisations for this diminishing labour force. Of particular concern are electronics technicians, doctors, and marine and electrical engineering officers.

Overall separation rates increased during the year to 12.3 per cent. While the officer separation of 8.6 per cent is consistent with the five-year average, the sailor separation rate is now 13.4 per cent, above the five-year average of 11.85 per cent.

Recognising the critical importance of recruiting and retaining high quality people to meet future objectives, the Navy has introduced the 'Sea Change' program encompassing a wide range of personnel management initiatives aimed at improving personnel conditions of employment and retention. Specific initiatives include:

- Five-year career plans for every sailor. An agreed plan between the sailor and their career manager that identifies realistic career progression milestones, geographic location, sea/shore commitments, education aspirations and desired career goals.
- Improved access to career and posting management will occur via the decentralisation of career management functions and the provision of local career advice face-to-face and online. Local career management centres have been established at fleet bases in Western Australia and the Northern Territory, with Queensland and New South Wales to follow in 2006.
- Alternative crewing arrangements in major fleet units to improve personnel management. These arrangements are aimed at improving our capacity to better meet the modern day lifestyle needs of the individual sailor, including improvement to home-life stability, the ability to get respite and the ability to undertake required training. The multiple crewing concept, currently used on the Leeuwin-class hydrographic ships, will be implemented on all the new Armidale-class patrol boats and a flexi-crewing trial has commenced on two Anzac-class frigates.

Initiatives put in place during 2003-04 to target workforce segments experiencing recruitment difficulties were refined during 2004-05 and continue. These include:

- The critical category management program, which places particular emphasis on recruitment, training and retention of sailors and officers in critical categories.
- A rolling program of officer and sailor category reviews using a human resource decision support system which allows comparable estimates of compensation packages that might be used to improve retention.

¹ The Navy's workforce data represents actual total paid strength, including Reservists undertaking continuous full-time service. This is a different measure to that used in Chapter Three - People.

- Improved data analysis of the pilot and observer training pipeline. The result is a more rapid identification of likely training choke points and solutions in this resource intensive activity.
- Trainee throughput, training content and delivery methods are progressively being reviewed resulting in a significant decline in training failure rates in most categories during 2004-05.

Logistics

The Navy's ability to support the current force structure and to meet preparedness requirements has continued to improve. An injection of \$104.9m in 2004-05 was applied to critical unfunded logistic requirements leading to an overall improvement in preparedness. The establishment of the Defence Materiel Organisation as a prescribed agency will provide important opportunities to improve the transparency of costs and allocation of resource priorities in the sustainment of operations.

Operations and Reconstitution of Forces

The Navy continued to meet all operational commitments within the high tempo of concurrent operations, while remaining aware of the requirement to reconstitute and maintain the full range of Navy capabilities. Reconstitution was completed for force elements returning from operations, while capability and preparedness for high end warfighting skills were enhanced with the conduct of major exercises in 2004-05 including Exercise Rimpac 2004 and Exercise Talisman Sabre 2005.

Air Warfare Capability

The Adelaide-class guided missile frigate upgrade program, designed to improve area air warfare and anti-ship missile defence capabilities, was progressed with the first vessel, HMAS *Sydney*, proceeding to sea trials. The anti-ship missile defence upgrade for the eight Anzac-class frigates was approved by the Government in September 2005. The Government chose the Australian Submarine Corporation as the builder for Australia's new air warfare destroyers in May 2005 and chose Gibbs and Cox as the preferred ship designer in August 2005. The destroyers will provide an area air warfare capability from 2013.

Submarines

Submarine capability enhancements were progressed by the full-cycle docking of HMAS *Waller*. The docking is scheduled to be completed in November 2006. The introduction of the new heavyweight torpedo, Project SEA 1429, was progressed towards an initial operating capability in late 2006. HMAS *Waller* will be the first submarine fitted with the replacement combat system and integrated with the upgraded sonar system, during the full-cycle docking in 2006.

Anti-ship Strike

The introduction into service of the Super Seasprite helicopters continued. Projects to upgrade the Anzac-class frigates with a Harpoon missile capability and the acquisition of an enhanced Harpoon missile were progressed during 2004-05.

Undersea Warfare

A mid-life upgrade for Seahawk helicopters was progressed during 2004-05. This upgrade will enhance their effectiveness in undersea warfare. A partial Seahawk sensor upgrade will occur over the period 2005-07. The introduction of a new lightweight torpedo for the Navy's guided missile frigates, the Anzac-class frigates, the Super Seasprite and Seahawk helicopters was progressed during 2004-05. Improvements to the warfighting capabilities of submarines, including the anti-submarine capability, were progressed during 2004-05.

Capability Performance Information

Output 2.1

Capability for Major Surface Combatant Operations

The surface combatant force comprises six Adelaide-class guided missile frigates and six Anzac-class frigates, progressively increasing to eight by mid-2006. The seventh Anzac-class frigate, HMAS *Toowoomba*, will be commissioned in late 2005. The surface combatant force possesses combat capabilities in all three primary warfare areas (air, surface and undersea) and provides combined coalition and joint ADF command and control facilities for ADF operations.

The guided missile frigate upgrade program for the remaining Adelaide-class guided missile frigates, which is designed to improve air warfare and anti-ship missile defence capabilities, commenced in late 2003 and is due to be completed in 2008. The Anzac-class frigates are progressively undergoing capability upgrades including Harpoon missile, mine and obstacle avoidance sonar, and habitability upgrades.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Achieved. Levels were met in accordance with current preparedness directives.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Substantially Achieved. Collective and individual training in all disciplines continues to be conducted and assessed for overall improvement on an ongoing basis. The training requirements are continually monitored and refined.
	Achieve mission capability ⁽¹⁾ for assigned tasks.	Substantially Achieved. 92 per cent (3,182 days) for the force. Mission capability was not fully achieved due to various systems-related defects. Class achievements: Guided missile frigates – 93 per cent (1,527 days). Anzac-class frigates – 91 per cent (1,655 days).
Quantity	6 guided missile frigates – 1,621 Unit Ready Days (URD) ⁽²⁾ .	6 guided missile frigates – 102 per cent (1,646 URD achieved). The over achievement was due to a delay in the start of the upgrade for HMAS <i>Sydney</i> , which increased ship availability.
	6 Anzac-class frigates – 1,761 URD.	6 frigates – 103 per cent (1,809 URD achieved). The over achievement was due to improved maintenance scheduling during the year, which increased ship availability.

Notes

1. Mission capability measures capability for assigned tasks. It is defined as the required level of unit readiness for the actual tasking for which the force element has been scheduled at any time through its operational cycle. Tasking includes all scheduled activities to achieve assigned Defence operations, international engagement requirements and levels of preparedness required for a military response. Mission capability is assessed against URD achieved to produce a percentage. The mission capability performance is calculated by dividing the URD achieved by the total number of mission capability days recorded throughout the year to produce a percentage.
2. URD are the number of days that a force element is available for tasking, by the Maritime Commander, either outside of major maintenance and within planned readiness requirements or in accordance with contracted availability. (see *Portfolio Budget Statements 2003-04*, p.56, for further explanation).

Output 2.2

Capability for Naval Aviation Operations

The naval aviation force provides a capability for naval aviation operations. The capability is being enhanced by the introduction of Super Seasprite helicopters. The Super Seasprite will provide a number of embarked flights for the Anzac-class frigates, and an enhanced capability for surface surveillance, anti-ship warfare, and undersea warfare. Seahawk helicopters, already in-service, provide the flights for embarkation in Adelaide-class guided missile frigates. A Sea King Squadron is maintained for maritime support operations, including troop lift and a range of logistic tasks, and Squirrel helicopters provide initial helicopter aircrew training.

Seahawk helicopters met all planned operational commitments. Sea King helicopters were meeting operational commitments until the accident on 2 April 2005, which resulted in the loss of one aircraft. Squirrel helicopters met and slightly exceeded their training targets. Kalkara target operations in support of Navy and Air Force training and missile testing met all requested tasking assignments. The Kalkara contract, using current aircraft numbers, has an option to extend until 2011.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Partially Achieved. Levels were met in accordance with current preparedness directives except for the period after the Sea King accident on 2 April 2005.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Substantially Achieved. The naval aviation force achieved a level of training that maintained and improved core skills and professional standards. The commitment to the number of Seahawk flights at sea was temporarily reduced to meet individual training and helicopter modification requirements.
	Achieve mission capability for assigned tasks.	Substantially Achieved. Embarked flights and detachments were mission capable to meet all but a limited number of assigned tasks with the exception of Sea Kings following the 2 April 2005 accident.
Quantity	16 Seahawks – 4,600 hours.	16 Seahawks – 84 per cent (3,874 hours). Seahawk availability and hours achieved improved slightly over the previous year but ongoing projects with the Seahawk fleet and aircrew shortages have limited the achievement of the intended hours.
	7 Sea Kings - 2,000 hours.	6 Sea Kings – 63 per cent (1,267 hours). A Sea King was lost in an accident on Nias, Indonesia on 2 April 2005. The suspension of flying while the cause of the accident was being investigated, and then reduced flying while aircrew currencies were being re-established, limited the achievement of hours for the year.
	13 ⁽¹⁾ Squirrels - 4,000 hours.	13 Squirrels – 106 per cent (4,243 hours). High aircraft availability and unexpected favourable weather conditions allowed flying training to exceed beyond that originally planned.

Quantity	10 ⁽²⁾ Super Seasprites – 1,200 hours.	9 Super Seasprites – 69 per cent (826 hours). Flying was limited by evolving supply and other developmental issues discovered as the aircraft usage increased, and more aircraft were brought into service.
	10 Kalkaras – available for 39 presentations. ⁽³⁾⁽⁴⁾	10 Kalkaras – 31 per cent (12 presentations). The system was available for 39 presentations as per the contractual requirements. Only 12 were required to support Navy and Air Force training exercises and missile testing during 2004-05.

Notes

1. Twelve aircraft are operated, the thirteenth aircraft is held for attrition purposes.
2. The tenth and eleventh Super Seasprite helicopter will be introduced in 2005-06.
3. The *Portfolio Budget Statements 2004-05*, p. 134, inadvertently reported 13 Kalkara when only 10 remained as reported in the *Defence Annual Report 2003-04*, p. 113.
4. Kalkara is an unmanned aerial target system used for Navy and Air Force support. Presentations refer to the number of instances during which the system is used as a target in training or system testing exercises.

Output 2.3 Capability for Patrol Boat Operations

The Patrol Boat output utilised 15 Fremantle-class patrol boats in 2004-05, which provided a patrol, response and surveillance capability. The replacement of the Fremantle-class patrol boats with the Armidale-class patrol boats commenced in June 2005. The first Fremantle-class patrol boat decommissioned was HMAS *Cessnock* on 23 June 2005, and the first Armidale-class patrol boat commissioned was HMAS *Armidale* on 24 June 2005.

The Fremantle-class patrol boats have exceeded their life-of-type by an average of seven years. Hull and system-related defects resulted in a performance shortfall in the number of unit ready days generated by the force. This situation is not expected to improve while the class is in-service. The patrol boat force made a large and effective contribution to the civil surveillance program (managed by Coastwatch) and to the protection of Australia’s sovereignty. Patrol boats also contributed to regional engagement and security through the conduct of operations, port visits and exercises with regional nations.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Achieved. Levels were met in accordance with current preparedness directives.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Achieved. Levels were met in accordance with current preparedness directives.
	Achieve mission capability for assigned tasks.	Achieved. 100 per cent (4,681 days) for the force.
Quantity	15 patrol boats – 5,061 URD.	15 Patrol Boats – 92 per cent (4,681 URD achieved). A total of 54 weeks of unscheduled maintenance activity was conducted during the year. Of this, a total of 25 weeks were lost during the period October 2004 – June 2005 due to unscheduled maintenance in HMA Ships <i>Dubbo</i> , <i>Geraldton</i> , and <i>Launceston</i> .

Output 2.4**Capability for Submarine Operations**

This output, comprising six Collins-class submarines, provides a capability for submarine operations, including anti submarine warfare, maritime surveillance and intelligence collection, and enhanced joint ADF operations. Two of the six submarines have been enhanced with combat system augmentation and platform improvements to provide a higher level of capability; a further three have had platform improvements. Projects are in place to progressively replace the combat system, weapons and sensors capability of all submarines. HMAS *Waller* will complete a full-cycle docking in November 2006 with the first of the class replacement combat system and heavyweight torpedo modifications.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Substantially Achieved. While an overall preparedness level was substantially achieved, delays in certain capability enhancements to the Collins-class continued to require close management.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Achieved. Levels were met in accordance with current preparedness directives.
	Achieve mission capability for assigned tasks.	Substantially Achieved. 95 per cent (707 days) for the force. Mission capability was not fully achieved due to systems related defects.
Quantity	6 submarines - 768 URD ⁽¹⁾ .	6 Collins-class - 96 per cent (741 URD achieved). The under achievement was due to delays in HMAS <i>Sheean</i> and HMAS <i>Farncomb</i> achieving licensing certification requirements during post-maintenance workups in February and May 2005 respectively.

Note

1. HMAS *Collins* and HMAS *Waller* continued in full cycle docking for all of 2004-05.

Output 2.5**Capability for Afloat Support**

This output provides a capability for afloat support and comprises the tanker, HMAS *Westralia*, and the replenishment ship, HMAS *Success*. The afloat support capability is a force multiplier for the major surface combatant force. Revised performance targets reflected in the *Portfolio Additional Estimates Statements 2004-05*, p. 66, were not fully met due to defect rectification and changes to the ship maintenance program. The afloat support force met its preparedness and core skill requirements for short notice contingencies during 2004-05, and mission capability for the force achieved a 68 per cent increase over the previous period, from 319 days in 2003-04 to 537 days in 2004-05. HMAS *Westralia* is due to be replaced in the latter half of 2006 by HMAS *Sirius*, a converted commercial products tanker.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Achieved. Levels were met in accordance with current preparedness directives.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Achieved. Levels were met in accordance with current preparedness directives.
	Achieve mission capability for assigned tasks.	Achieved. 97 per cent (537 days) for the force. Class achievements: Oil tanker – 96 per cent (305 days). Replenishment ship – 100 per cent (232 days).
Quantity	1 oil tanker - 320 URD.	1 oil tanker – 99 per cent (319 URD achieved).
	1 replenishment ship - 239 URD.	1 replenishment ship – 97 per cent (232 URD achieved). The under-achievement was due to changes in the ship's maintenance program.

Output 2.6**Capability for Mine Warfare**

This output provides a mine warfare capability comprising six Huon-class coastal mine hunters, two auxiliary minesweepers and two clearance diving teams. The Huon-class coastal mine hunters provided a mine countermeasures capability and also contributed to maritime surveillance and patrol operations. The Defence Capability Review identified two mine hunters to be placed in extended readiness, a change in operational status, in January and April 2006 with the ability to bring them back into service should the need arise. Two auxiliary minesweepers provided essential support and mine sweeping training capability. The two Navy clearance diving teams supported the full spectrum of mine warfare missions and also provided capability for explosive ordnance and improvised explosive device disposal.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Substantially Achieved. While a credible level of preparedness was maintained, personnel shortfalls began to have a minor affect on the ability to sustain directed levels.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Achieved. Levels were met in accordance with current preparedness directives.
	Achieve mission capability for assigned tasks.	Achieved. 98 per cent (3,319 days) for the force. Class achievements: Coastal mine hunters – 99 per cent (1,890 days). Auxiliary minesweepers – 96 per cent (699 days). Clearance diving teams – 100 per cent (730 days).

Quantity	6 coastal mine hunters – 1,902 URD.	6 coastal mine hunters – 99 per cent (1,906 URD achieved).
	2 auxiliary minesweepers - 730 URD.	2 auxiliary minesweepers – 100 per cent (730 URD achieved).
	2 clearance diving teams - 730 URD.	2 clearance diving teams – 100 per cent (730 URD achieved).

Output 2.7**Capability for Amphibious Lift**

The output provides a capability for amphibious lift, comprising two amphibious landing ships, HMAS Ships *Manoora* and *Kanimbla*, a heavy landing ship HMAS *Tobruk* and six heavy landing craft.

HMAS *Manoora*'s scheduled major maintenance period was extended in order to complete emergent work on the stern door and electrical switchboards. This resulted in a loss of 134 unit ready days against planned availability. Despite HMAS *Manoora*'s extended maintenance period, the amphibious lift force demonstrated its preparedness for short notice contingencies by HMAS *Kanimbla* deploying in Operation Sumatra Assist I, the ADF's response to the South-East Asian tsunami, and Operation Sumatra Assist II, the ADF's response to the March 2005 earthquake on Nias, Indonesia. HMAS *Tobruk* provided sealift for the Australian Army deploying to the Al Muthanna Task Group in Iraq, in support of Operation Catalyst. Development of the amphibious capability through collective joint training continues satisfactorily, despite the impact of these operations and scheduled maintenance delays.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Achieved. Levels were met in accordance with current preparedness directives.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Substantially Achieved. The amphibious lift force achieved a level of training that maintained a moderate level of core skills. Full achievement of collective training skills was not achieved due to scheduled maintenance delays for HMAS <i>Manoora</i> and operational commitments for HMA Ships <i>Kanimbla</i> and <i>Tobruk</i> .
	Achieve mission capability for assigned tasks.	Achieved. 97 per cent (2,431 days) for the force. Class achievements: Heavy landing ship – 98 per cent (358 days). Amphibious landing ships – 98 per cent (398 day). Heavy landing craft – 96 per cent (1,675 days).
Quantity	1 heavy landing ship - 365 URD.	1 heavy landing ship – 100 per cent (365 URD achieved).
	2 amphibious landing ships - 502 URD.	2 amphibious landing ships – 81 per cent (408 URD achieved). The under achievement was due to unforeseen emergent work on HMAS <i>Manoora</i> 's stern door and electrical switchboards, which extended the scheduled maintenance period.
	6 heavy landing craft – 1,770 URD.	6 heavy landing craft – 98 per cent (1,743 URD achieved). The under achievement was due to a period of unscheduled maintenance.

Output 2.8 Capability for Hydrographic, Meteorological and Oceanographic Operations

This output provides a capability for hydrographic, meteorological and oceanographic operations comprising two Leeuwin-class hydrographic ships and their embarked survey motor boats, four Paluma-class survey motor launches, a laser airborne depth sounder aircraft and the hydrographic office deployable survey unit, all supported by the Australian Hydrographic Office in Wollongong, New South Wales. Meteorological and Oceanographic support is conducted by mobile teams, the Operational Meteorological and Oceanographic Centre, the Defence Oceanographic Data Centre, the Fleet Weather and Oceanographic Centre in Sydney, and the Naval Air Station Weather and Oceanographic Centre in Nowra, New South Wales.

The Australian Hydrographic Office resources have been refocused on production of electronic navigation charts to support increasing Defence and commercial use of computer based navigation systems.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Substantially Achieved. Levels of preparedness were substantially achieved. The limited availability of survey motor launch watchkeepers, the sea-keeping limitations of the hydrographic ships and the down time of the laser airborne depth sounder aircraft due to engine failure precluded the achievement of all preparedness requirements.
	Achieve a level of training that maintains core skills and professional standards to conduct survey tasking, produce navigational information and provision of oceanographic and meteorological support.	Achieved. Core skills were maintained in all units. The laser airborne depth sounder aircraft conducted a successful remote deployment during 2004-05 and detached camp capabilities in the hydrographic ships were reinvigorated.
	Achieve mission capability for assigned tasks.	Achieved. 98 per cent (1,982 days) for the ships and launches. Class achievements: Hydrographic ships – 95 per cent (658 days). The under achievement was due to defects on the integrated control system and minor equipment defects. Survey motor launches – 100 per cent (1,324 days).
	Achieve <i>HydrOcscheme 2004-07</i> data and surveying tasking requirements to meet national hydrographic surveying and charting obligations. ⁽¹⁾	Substantially Achieved. 86 per cent. Units recorded 1,049 Survey/Sortie Days Achieved from 1,220 Survey/Sortie Days Planned ⁽²⁾ .
Quantity	2 hydrographic ships – 713 URD.	2 hydrographic ships – 97 per cent (691 URD achieved). The underachievement was due to extended slipping periods for both platforms due to hull damage incurred during previous slippings.

Quantity	4 survey motor launches – 1,324 URD.	4 survey motor launches – 100 per cent (1,324 URD achieved).
	1 laser airborne depth sounder aircraft - 697 flying hours for surveying.	1 laser airborne depth sounder aircraft – 100 per cent (697 hours) for surveying was achieved, despite unscheduled maintenance.
	1 Hydrographic office deployable survey unit - availability 355 days; with - planned deployments 162 days.	1 hydrographic office deployable survey unit – 103 per cent (365 days availability) and 128 per cent (208 deployment days). The over achievement was due to the unscheduled participation in Operation Sumatra Assist I and II.
	Chart Production: - New charts/editions – 25; - New charts/diagrams for use by the Navy – 12; and - Electronic navigational chart cells – 84.	188 per cent (47 new charts/editions were produced and published). The over achievement in new chart production was necessitated by a legal requirement to incorporate designated shipping areas, and was made possible by use of datasets prepared for the Great Barrier Reef project. 100 per cent (12 new charts/diagrams were produced). 86 electronic navigational chart cells were produced (102 per cent). Additional electronic navigational chart cells were produced for the Great Barrier Reef project and Tamar River.

Notes

1. The Hydrographic and Oceanographic Scheme, referred to as the *HydrOcscheme 2004-07*, is the national hydrographic surveying and charting program.
2. Survey/Sortie Days Planned (SDP) comprises all days in a specific, survey deployment in accordance with the *HydrOcscheme 2004-07*.

Cost to Government

The overall cost to Government of Outcome Two was \$4,633.8m. This was \$283.8m higher than the 2004-05 revised additional estimate of \$4,350.0m, representing an increase of seven per cent.

	Budget Estimate ⁽¹⁾	Revised Additional Estimate ⁽²⁾	Actual Result	Variation ⁽³⁾	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Operating Expenses					
Employees – Military	1,244,246	1,259,015	1,156,126	-102,889	-8
Employees – Civilian	346,841	325,140	309,566	-15,574	-5
Sub-Total Employees	1,591,087	1,584,155	1,465,691	-118,464	-7
Suppliers expense	1,676,510	1,662,760	1,671,732	8,972	1
Grants	271	2,092	429	-1,663	-79
Depreciation and amortisation	1,066,026	1,088,404	993,093	-95,311	-9
Value of assets sold	61,601	40,618	18,834	-21,784	-54
Write-down of assets	38,446	261,553	863,236	601,683	230
Borrowing costs	5,414	7,387	6,042	-1,345	-18
Other expenses	-175	-143	94	237	-165
Total Operating Expenses from Ordinary Activities	4,439,180	4,646,826	5,019,151	372,325	8
Revenues					
Sale of goods and services	-34,416	-43,189	-46,708	-3,519	8
Interest	-	-	-8	-8	-
Revenue from sale of assets	-61,601	-40,673	-35,187	5,486	-13
Net foreign exchange gains	-	-	-7,010	-7,010	-
Assets now recognised	-	-195,070	-236,008	-40,938	21
Other revenues ⁽⁴⁾	-17,489	-17,863	-60,385	-42,522	238
Total Own Source Revenues	-113,506	-296,795	-385,306	-88,511	30
Cost to Government for Outcome Two	4,325,674	4,350,032	4,633,845	283,814	7

Notes

- Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (p. 129).
- The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements*.
- The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.
- The Actual Result figure for 'Other revenues' includes interest and dividends, net foreign exchange gains/losses, and resources received free of charge.

Explanations for the variations from the revised additional estimate to the actual result are contained in Table 4.26. Outcome Two output level detail is provided in Table 4.11.

Table 4.11 Cost Summary of Outputs for Outcome Two – Navy Capability for the Defence of Australia and its Interests

	Budget Estimate ⁽¹⁾	Revised Additional Estimate ⁽²⁾	Actual Result	Variation ⁽³⁾	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Output 2.1 – Capability for Major Surface Combatant Operations	1,425,151	1,430,418	1,676,556	246,138	17
Output 2.2 – Capability for Naval Aviation Operations	507,679	529,239	566,785	37,546	7
Output 2.3 – Capability for Patrol Boat Operations	288,600	279,505	280,591	1,086	-
Output 2.4 – Capability for Submarine Operations	858,480	852,844	794,856	-57,988	-7
Output 2.5 – Capability for Afloat Support	223,252	227,538	215,449	-12,089	-5
Output 2.6 – Capability for Mine Warfare	404,361	405,228	438,523	33,295	8
Output 2.7 – Capability for Amphibious Lift	371,605	400,798	406,163	5,365	1
Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations	246,547	224,464	254,923	30,459	14
Cost to Government for Outcome Two	4,325,674	4,350,032	4,633,845	283,811	7

Notes

1. Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (p. 128).
2. The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements*.
3. The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.

Outcome Three: Army Capabilities

The Army contributed to the achievement of the Government's defence objectives by providing capabilities centred on light, medium and motorised combined arms forces; army aviation; ground-based air defence; combat and logistic support; and units for regional surveillance and protective operations. These capabilities contributed to the broader ADF capability, within a primarily maritime strategy, to defend Australian territory from any credible attack, to enhance the security of our immediate neighbourhood, and to contribute to international coalition forces. The Army also provided forces for peacetime national tasks, including forces with a capacity to contribute to the national domestic security response to terrorist chemical, biological, radiological or explosive incidents.

Performance Summary

Support to Operations

During 2004-05, the Army's operational tempo increased. The Army contributed to Operation Sumatra Assist and prepared the Al Muthanna Task Group for operations in Iraq. The Army has also maintained its support to non-regional operations with the United Nations and Multi-National Force and Observers Sinai. Army force elements and individuals were deployed on operations in Iraq, Afghanistan, Timor-Leste, the Solomon Islands, the Middle East, Africa, and on operations conducted in, or mounted from, mainland Australia.

The Army maintained a combined-arms force in Baghdad in the most demanding security environment. The Baghdad Security Detachment has been principally drawn from the 3rd, 5th/7th and 6th Battalions of the Royal Australian Regiment, the 2nd Cavalry Regiment, the 2nd/14th Light Horse Regiment and the 1st Military Police Battalion. The Army continued to provide training for the Iraqi Army after being involved from the outset with the Coalition Military Assistance Training Team. This task has included the training of Iraqi combat and logistic personnel. The Army also maintained a contribution to the Joint Task Force Headquarters in Baghdad and provided personnel in a number of embedded positions with our coalition partners.

In February 2005, the Prime Minister announced the deployment of an Australian battle group to the Al Muthanna Province of South Eastern Iraq. The 450 person battle group, drawn from the 2nd Cavalry Regiment and the 5th/7th Battalion, is principally responsible for the provision of security for the Japanese Iraqi Reconstruction Group and training of the Iraqi Security Forces.

The Army contribution to the Regional Assistance Mission in the Solomon Islands has drawn down to approximately 40 personnel over the past 12 months. Despite this, the Army has demonstrated its capacity to rapidly respond in the event of a breakdown in law and order through the deployment of the Ready Company Group in response to the murder of an Australian Federal Police Officer.

The Army also maintained a significant presence in Timor-Leste primarily to enhance the security and stability of the country through its commitment to United Nations Mission of Support in East Timor (UNMISSET). This commitment included the deployment of logistic and engineering support to the UN-led Military Support Force. The UNMISSET mandate expired in May 2005. Army will continue to contribute to the UNMISSET

successor mission United Nations Office in Timor-Leste (UNOTIL) with the provision of up to three Military Advisers.

In addition to the operations in Afghanistan, Sinai and Israel, the Army has recently deployed a small element in support of the United Nations Mission in the Sudan. The Army will provide both Military Observers and Staff Officers to the United Nations Headquarters in Khartoum.

The Army again demonstrated its flexibility and responsive nature by deploying forces in response to the 26 December 2004, South-East Asian tsunami. The Army provided engineering, medical, aviation, logistic and command and control support to assist the humanitarian aid effort in Sumatra, Indonesia. The Army also contributed to the relief effort following the Indonesian Nias Island earthquake providing medical support to the worst hit and most inaccessible areas of the island.

In Australia, the Army maintained high readiness counter-terrorist response forces drawn from the Tactical Assault Group (West), Tactical Assault Group (East) and the Incident Response Regiment. The Army's Special Operations Command has undertaken remediation of its people and other capabilities following operations in Afghanistan and Iraq, continued refinement of Headquarters Special Operations Command and ongoing development of the Tactical Assault Group (East) and the Incident Response Regiment.

The Army continued to contribute to border protection operations by providing transit security elements in support of the apprehension of illegal boat arrivals, and by regional force surveillance units patrolling the north of Australia.

Meeting Preparedness Requirements

The Army's primary performance measure is whether its preparedness requirements are being met. The Army provided ready forces, as directed by the Government and the Chief of the Defence Force, including five infantry battalion groups and a commando battalion, all at 90 days readiness or less. The Army's combat forces can also be formed into nine combined arms battlegroups based on the headquarters of the infantry battalions, armoured and aviation units. In addition, the Army maintained seven Reserve Response Forces to enhance the Army's domestic security response capability.

With recent increased allocations to logistics, there have been improvements to preparedness. ADF commitments to Iraq and relief efforts in Sumatra reduced the level of Navy and Air Force support for Army activities, and also limited the size and scope of some exercises. Personnel and equipment issues will continue to be addressed in 2005-06 and in future years.

The Army continued to plan for the revitalisation of the Army Reserve to begin implementation in 2005-06 to ensure that it will make the maximum contribution to Army's operational tasks. The Army continues to improve its ability to support joint operations and to enhance its capability through greater lethality and better protection of forces.

Developing the Army's Core Capabilities

The Army continued to maximise its ability to sustain and rotate deployed forces through:

- development of an Army sustainment model designed to ensure that a brigade and battalion group can be deployed continually;

- enhancement of a deployable medical facility for delivery from early 2005; and
- development of systems for bulk liquid distribution capabilities for delivery from 2005.

The Army continued to develop its combat weight through developments in mobility, firepower and protection of existing force elements including:

- procurement of the M1A1 Abrams tank system through a Foreign Military Sales arrangement with the United States, with introduction into service in 2007;
- acceptance of additional ASLAV armoured vehicles into service in South-East Queensland;
- accelerated acquisition of additional troop lift helicopters;
- submission of a proposal to the Government for the acquisition of an indirect fire support system;
- continuation of the enhancement of the existing Black Hawk helicopter fleet with ballistic protection and self-protection capabilities;
- acceptance into service of the first of the Army's armed reconnaissance helicopters;
- preparing for the acceptance of Bushmaster infantry mobility vehicles for delivery from 2005;
- introduction into Army service of the fixed modular bridge system;
- continued procurement of additional Javelin direct fire guided weapons for the remainder of the land forces for delivery from 2006; and
- upgrade of the M113 armoured personnel carrier fleet, planned for delivery from 2006.

The Army continued to develop its command, control, communications and intelligence capability through:

- continuing development of the Tactical Assault Group (East) and the Incident Response Regiment;
- further development of Special Operations Command; and
- preparation for the establishment of a tactical uninhabited aerial vehicle capability for land forces from 2009.

Assistance to the Civil Community

The Army has supported the Australian community by continuing to participate in the Aboriginal and Torres Strait Islander Service/Army Community Assistance Program. The program deployed Army construction engineers, health and logistic elements to the Northern Peninsula Area of Far North Queensland in 2004-05. Over a period of almost five months, Army engineers worked with the Injinoo, Umagico and New Mapoon communities near Bamaga to repair community infrastructure including housing, water and waste facilities.

The Army has also provided a wide range of support to emergency and community projects through the Defence Aid to the Civil Community provisions. These tasks included support to the South Australian Government's post-bushfire clean up of the Eyre Peninsula, support to the Australian Capital Territory Emergency Services Authority

response to the 'white powder' hoaxes, provision of the Red Berets parachute display team for public events of significance, and Army band concerts.

Mitigation of Key Risks

In the *Portfolio Budget Statements 2004-05*, the Army identified two key risks to fully meeting its preparedness responsibilities – personnel and logistics support.

Personnel

In 2004-05, the Regular Army strength decreased by 379 personnel to 25,356. To meet current preparedness requirements and future capability commitments detailed in the Defence White Paper, the Army's funded strength is projected to be 26,442 by 2009-10. The Army still remains on track to achieve this through the development and implementation of a number of strategies to improve recruiting, retention and remediate critical employment categories. In 2004-05, the Army Reserve strength decreased by 855 to 15,845.

There was a downturn in the recruiting achievement from the previous year and an increase in the separation rate. This has increased pressure on key personnel areas such as medical professionals, linguists and technical trades. In 2004-05, the recruiting for both the full-time and part-time Army components was 81 per cent and 76 per cent of targets respectively, compared to the previous year's performance of 84 per cent and 84 per cent. The average recruiting performance for the past four years has been 84.1 per cent and 65.6 per cent for the full-time and part-time components respectively. The full-time Army separation rate increased to 13 per cent, compared to 10.9 per cent for the previous year, which is comparable with the Army's historical separation rate of 12.0 per cent. Lower recruiting achievement and higher separation rates place greater risk on the Army achieving future strength targets.

Logistics Support

Logistics deficiencies have affected all of the Army's outputs. These relate to shortages in serviceable equipment and shortages of qualified logistic personnel in selected mechanical and supply trades. Ongoing funding has been provided to remediate logistic shortfalls. Improvements in the level of preparedness are beginning to be realised. Further measures are being implemented, including a range of retention measures for key logistic trades. The implementation of base support structures and dedicated staffing within Army Headquarters has improved communication and the delivery of garrison services. Army and the Corporate Services and Infrastructure Group have developed the Army National Garrison Support Services Standard. This new national standard has made service contract re-negotiations more efficient and guarantees a universal minimum level of base services to all Army output elements.

The Army's reporting and assessment of the enabling groups' support of the Army has been significantly enhanced by the development and adoption of the Base Enabling Support Assessment Tool. This tool is used to identify and treat risks to Army output and to manage the relationship with Defence's enabling groups. The age of the Army estate and the increasing cost of repairs continues to place added pressure on facility operating costs. Upgrades to permanent and transit living-in accommodation are being progressed under Project Single Leap and programmed base redevelopment respectively.

The development of Materiel Sustainment Agreements with the Defence Materiel Organisation and the provision of supplementary funding will help to resolve the difficulties in maintaining equipment fleets.

The deployment of the Al Muthanna Task Group to Iraq in April 2005 was achieved in only ten weeks. This can be attributed to the systems and procedures in place between the Army and the Defence Materiel Organisation. The close cooperation and good relationship that the Defence Materiel Organisation shares with the Army and industry were instrumental in resolving critical capability deficiencies in Combat Body Armour and protective enhancements for vehicles.

A 100 per cent stocktake was completed in Army on all principal, managed and rotatable items from January through to the end of June 2005. This stocktake was part of the Defence-wide 100 per cent stocktake and the results have not only improved the accuracy of the Army account, but also ratified all Supply Customer Accounts held by Army within the Standard Defence Supply System.

The Defence Road Transport Exemption Framework has progressed well at the national level and now has endorsement from the National Transport Commission. This framework will eliminate the requirement for permits and exemptions for Defence vehicles in all States and Territories and will establish the procedures and policies for further consultation with respective States and Territories Road Traffic Authorities.

Capability Performance Information

Output 3.1

Capability for Special Operations

The special operations capability contributes to the strategic tasks of defending Australia, securing our immediate neighbourhood, supporting wider interests and supporting peacetime national tasks. This is achieved by providing forces to conduct non-combatant evacuation and special recovery operations, counter-terrorism and consequence management operations, and support to conventional land operations.

This capability exploits deception and surprise and employs techniques that are discreet, non-escalatory, and avoid collateral damage, particularly in support of Government domestic security operations. The special forces operations capability is maintained at a high degree of readiness.

	Performance Targets	Performance
Quality	Achieve capabilities and levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, including the provision of a battalion-sized group within 90 days readiness.	Achieved. The special operations capability was able to meet all preparedness requirements for military response options.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas (including counter-terrorism).	Achieved. All training requirements were met.
Quantity	Special Operations Command, comprising: <ul style="list-style-type: none"> - a command headquarters; - a Special Air Service Regiment; - a Regular Army commando regiment; - an Army Reserve commando regiment; - an Incident Response Regiment; - a Special Forces Training Centre; and - a combat service support company. 	This target was achieved. The special operations capability had the personnel and equipment holdings to complete the likely tasks required of it. The special operations capability continued to increase in accordance with the capability growth plan and will reach maturity in December 2006.

Output 3.2 **Capability for Medium Combined Arms Operations**

The medium combined arms operations capability contributes to the strategic tasks of supporting wider interests, defending Australia, securing our immediate neighbourhood and supporting peacetime national tasks. The capability for medium combined arms operations is achieved by providing mechanised and light armoured forces to enhance combat power and weight for more demanding contingencies using surprise, offensive action and concentration of force in order to disrupt or destroy enemy forces' plans, cohesion and morale. It achieves this through engaging the enemy in close combat enabled by force protection and integral firepower.

The medium combined arms operations capability provides forces at high to medium readiness. These forces can be deployed in combined arms teams from company to battalion size. These combined arms teams are drawn from armoured units, mechanised infantry, medium artillery, combat engineers, army aviation and combat support units. This capability is based on the 1st Brigade in Darwin, Northern Territory.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, including the provision of a battalion-sized group within 90 days readiness.	Partially Achieved. The medium combined arms operations capability was unable to meet all allocated preparedness requirements for military response options in this reporting period. Deficiencies in equipment, personnel numbers in key trades, and commitments to operations affected preparedness levels for some response options. Nevertheless, a credible level of capability was available for all of the military response options and this was evidenced by the deployment of the Al Muthanna Task Group, the contribution to the Security Detachment in Baghdad, and the provision of combat engineer support to tsunami relief operations in Sumatra. Equipment deficiencies and personnel shortages continue to be addressed, including the acquisition of upgraded ASLAVs, a new main battle tank, an upgrade of the M113 and personnel retention and remediation initiatives.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Partially Achieved. A number of training activities had to be reduced in scope due to operational commitments. Personnel shortages in a number of key trades, and equipment deficiencies continue to affect the achievement of some core skills.
Quantity	1 st Brigade, comprising: - a brigade headquarters; - a tank regiment; - a cavalry regiment; - a medium artillery regiment; - a combat engineer regiment; - a combat support regiment; - a mechanised infantry battalion; and - a combat service support battalion.	This target was substantially achieved. The medium combined arms operations capability continued to have deficiencies in personnel and equipment holdings that affected its capacity to complete all the likely tasks required of it. In 2004-05 the Army implemented measures to address the personnel deficiencies and these will take effect in 2005-06.

Output 3.3**Capability for Light Combined Arms Operations**

The light combined arms operations capability contributes to the strategic tasks of supporting wider interests, securing our immediate neighbourhood, defending Australia and supporting peacetime national tasks. The capability for light combined arms operations is achieved by providing light, air-mobile forces available for immediate deployment and is supported by components drawn from aviation, fire support and logistic units. It uses strategic, operational and tactical mobility to exploit its flexibility, adaptability and utility across the spectrum of conflict. The capability achieves this through surprise, rapid action and the ability to seize and hold ground.

The light combined arms operations capability provides forces at high readiness. These forces can be deployed in combined arms teams from company to battalion size. These combined arms teams are drawn from an armoured sub-unit, light infantry units, light artillery, combat engineers and combat support units and can also be supported by armoured and aviation units from other Army, Navy, and Air Force outputs. This capability is based on the 3rd Brigade in Townsville, Queensland.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, including the provision of a battalion-sized group within 90 days readiness.	Achieved. The light combined arms operations capability met the levels of preparedness for all military response options. It provided force elements for the Baghdad Security Detachment and operations in the Solomon Islands. The capability also provided personnel, as the transit security element, to border protection operations in the apprehension of illegal immigrants.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Substantially Achieved. Most training requirements were met. Some airborne and amphibious training was restricted due to reduced availability of joint assets as a result of operational commitments in Iraq, the Solomon Islands, and relief efforts in Sumatra.
Quantity	3 rd Brigade, comprising: <ul style="list-style-type: none"> - a brigade headquarters; - an armoured personnel carrier squadron; - a field artillery regiment; - a combat engineer regiment; - a command support regiment; - three infantry battalions; and - a combat service support battalion. 	This target was achieved. Personnel and equipment availability for units in this output were sufficient to meet preparedness requirements.

Output 3.4**Capability for Army Aviation Operations**

The Army aviation operations capability contributes to the strategic tasks of defending Australia, securing our immediate neighbourhood, supporting wider interests and supporting peacetime national tasks. The capability for Army aviation operations is achieved by providing aircraft and personnel at high readiness levels for tactical troop lift, counter-terrorist support, command and liaison and reconnaissance operations. The capability is drawn from aviation units based in the north of Australia.

The capability is based on two aviation regiments and two independent aviation squadrons consisting of Kiowa, Iroquois, Black Hawk and Chinook helicopters, and until December 2004, fixed-wing King Air and Twin Otter aircraft. The Kiowa helicopters in 1st Aviation Regiment are being progressively replaced by two squadrons of Armed Reconnaissance Helicopters. It is intended to replace the Iroquois helicopters with MRH-90 additional troop lift helicopters commencing in 2007. New King Air fixed-wing aircraft will be introduced in late 2005.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Achieved. The Army aviation operations capability met all levels of preparedness for military response options. The capability also provided significant staff effort to the Armed Reconnaissance Helicopter and the Troop Lift Helicopter Projects.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Substantially Achieved. The achievement of the level of training was slightly reduced in the first half of the reporting period due to the restoration of the experience level of aircrew within the Army aviation capability.
Quantity	36 S-70A9 Black Hawk – 7,500 flying hours.	Black Hawk – 85 per cent (6,378 hours achieved). The reduced level of achievement resulted from the impact of the maintenance system upgrade, a modification program to rectify aircraft cracking, and the requirement for aircrews to clear leave accumulated as a result of sustaining the five-year commitment to Timor-Leste.
	42 B-206 Kiowa – 11,415 flying hours.	Kiowa – 85 per cent (9,691 hours achieved). The reduced level of achievement is a result of higher than expected failure rates on the basic helicopter courses, reduced student numbers on instructor courses, and a slippage of the lateral recruiting program. These shortfalls were partly overcome by a number of personnel initiatives in the second half of the reporting period.
	6 CH-47D Chinook – 1,270 flying hours.	Chinook – 92 per cent (1,170 hours achieved). This slightly reduced level of achievement reflects the inability to conduct a planned flight test trial due to the test pilots being required for Armed Reconnaissance Helicopter Tiger testing program development.
	25 UH-1H Iroquois – 4,090 flying hours.	Iroquois – 99 per cent (4,079 hours achieved).
	2 Armed Reconnaissance Helicopter Tiger – 300 flying hours.	Armed Reconnaissance Helicopter Tiger – 23 per cent (72 hours achieved). The underachievement reflects delays in the acceptance testing regime and training program.

Quantity	3 B-200 King Air – 1,333 flying hours.	King Air – 84 per cent (1,050 hours achieved). The reduced level of achievement of is a result of aircrew training on the simulator and replacement aircraft (to be introduced in 2005).
	2 DHC-6 Twin Otter – 414 flying hours.	Twin Otter – 100 per cent (414 hours achieved). The fleet was withdrawn from service in December 2004.
	4 Future Fixed Wing Aircraft – 0 flying Hours.	

Output 3.5 **Capability for Ground-Based Air Defence**

The ground-based air defence capability contributes to the strategic tasks of supporting wider interests, defending Australia, securing our immediate neighbourhood and supporting peacetime national tasks. This is achieved by providing a capability that is versatile and able to defend airspace in conjunction with other land and joint elements. The ground-based air defence capability provides air defence weapon systems at high to medium readiness, that can be deployed on land or on ships to protect high-value targets from air attack. The capability can also be deployed as part of a combined arms team. This capability is drawn from the 16th Air Defence Regiment based in Adelaide, South Australia, which maintains a ground-based air defence system consisting of RBS-70 shoulder-launched missile systems and Rapier missile systems.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Partially Achieved. The ground-based air defence capability was unable to meet all preparedness requirements as directed in the military response options. Ammunition deficiencies and personnel shortfalls in critical trades affected levels of preparedness and sustainment for all military response options. Ammunition deficiencies are being resolved, with the first batch of replacement missiles arriving during 2004-05. Personnel shortages in critical trades are being rectified through recruiting programs and other initiatives.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Substantially Achieved. Most training activities were achieved.
Quantity	An air defence regiment.	This target was partially achieved. The ground-based air defence capability had insufficient ammunition stocks to fully achieve all capability requirements. A reduced but credible capability was provided.

Output 3.6

Capability for Combat Support Operations

The combat support operations capability contributes to supporting combat forces in the range of strategic tasks in which they may be deployed, including supporting wider interests, defending Australia, securing our immediate neighbourhood and supporting peacetime national tasks. The capability for combat support operations is designed to enhance the conduct of operations through effective communications, surveillance and specialist support (in particular construction engineering, topographical support, intelligence, and electronic warfare operations). The combat support operations capability provides forces at high to medium readiness. Small elements of the capability are held at high readiness to support the high readiness units in other outputs. This capability is drawn from combat support units based throughout Australia.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Substantially Achieved. The capability met most preparedness requirements as directed in the military response options. Equipment deficiencies and personnel shortfalls in key trades affected some preparedness requirements. The personnel shortfalls are being progressively addressed through the critical trades remediation plan. Equipment deficiencies will be resolved through new acquisition projects and some limited redistribution of assets. The capability provided significant support to forces deployed on operations throughout the year in all theatres. A construction squadron provided significant support to the Aboriginal and Torres Strait Islander Service/Army Community Assistance Program through the construction of facilities for the indigenous communities in the Northern Peninsula area of Far North Queensland.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Substantially Achieved. Operational deployments and shortfalls in personnel in critical trades affected the achievement of some training requirements.
Quantity	Combat support units include: <ul style="list-style-type: none"> - a surveillance and target acquisition battery; - an engineer support regiment headquarters; - two Army Reserve engineer construction regiments; - two Regular Army engineer construction squadrons; - a construction engineer works section; - a topographical survey squadron; - a signals regiment; - an intelligence battalion; - a military police battalion; and - a combat training centre. 	This target was substantially achieved. The combat support operations capability had sufficient personnel and equipment to provide a reduced, yet credible, capability.

Output 3.7 **Capability for Regional Surveillance**

The regional surveillance capability contributes to the strategic task of defending Australia and supporting peacetime national tasks by providing forces to patrol the north of Australia in support of the national surveillance effort. The capability is maintained through the employment of predominantly Reserve personnel drawn from the local communities and the indigenous population throughout the north of Australia, from the Pilbara to Cape York. The capability for regional surveillance is drawn from three regional force surveillance units: Norforce, the Pilbara Regiment and the 51st Far North Queensland Regiment.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Achieved. All levels of preparedness for military response options were achieved. The three regional force surveillance units provided support to border protection operations in support of Operation Cranberry.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Achieved. All training activities were achieved.
Quantity	Three regional force surveillance units.	This target was achieved. The regional surveillance operations capability had the personnel and equipment holdings necessary to complete the tasks required of it.

Output 3.8 **Capability for Operational Logistic Support to Land Forces**

The operational logistic support to land forces capability contributes to the strategic tasks of defending Australia, contributing to the security of our immediate neighbourhood, supporting our wider interests and undertaking peacetime national tasks. It provides supply, transport, and health functions in support of combat operations. The operational logistic support to land forces capability provides forces at high to medium readiness. Small elements of the capability are held at high readiness to support the high readiness units in other outputs. The capability is grouped in the Logistic Support Force which is a brigade-sized organisation comprising Regular Army and Army Reserve units located throughout Australia.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Partially Achieved. The capability provided significant support to forces deployed on operations throughout the reporting period in all theatres. Additionally, a substantial number of logistic personnel deployed to support relief operations in Sumatra, and to provide training for elements of the Iraqi Army. As a result of the continued support to operations and personnel shortfalls in critical trades, the capability was unable to meet all preparedness requirements as directed in the military response options and will require remediation in 2005-06.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Partially Achieved. Operational deployments, limited exercise opportunities, and personnel deficiencies in a number of key trades affected the achievement of all training requirements.

Quantity	<p>Logistic Support Force and its integral logistic support units including:</p> <ul style="list-style-type: none"> - two logistic force headquarters; - two signals squadrons; - a petroleum company; - a recovery company; - two regular Army and one Army Reserve force support battalions; - a deployed forces support unit; - three health support battalions; and - a psychology unit. 	<p>This target was partially achieved. The logistic support capability had insufficient personnel and equipment to achieve all of the tasks required of it. A reduced yet credible level of capability was maintained.</p>
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Output 3.9 **Capability for Motorised Combined Arms Operations**

The motorised combined arms operations capability contributes to the strategic tasks of defending Australia and securing our immediate neighbourhood. The capability complements the 1st and 3rd Brigades by providing a range of highly mobile forces to conduct land manoeuvre operations utilising surprise, offensive action and concentration of force to disrupt or destroy enemy forces’ plans, cohesion and morale. The capability provides forces at high to medium readiness. These forces can be deployed in combined arms teams from company to battalion size. Combined arms teams are drawn from an armoured unit, a motorised infantry unit, artillery, combat engineers and combat support units and can be supported by armoured and aviation units from other outputs. The capability is based on the 7th Brigade, an integrated formation of Regular Army and Army Reserve personnel, based in Brisbane, Queensland.

	Performance Targets	Performance
Quality	<p>Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, including the provision of a battalion-sized group within 90 days readiness.</p>	<p>Partially Achieved. The motorised combined arms operations capability provided elements of the 6th Battalion and 2nd/14th Light Horse Regiment to support operations in Iraq. The remainder of the capability was not able to support all military response options due to equipment deficiencies and personnel shortfalls in key trades, and sustainability issues. Personnel shortfalls are being addressed through recruiting and retention programs. Equipment deficiencies will be progressively addressed through the redistribution and acquisition of new equipment, including upgraded ASLAV and Bushranger vehicles.</p>
Quality	<p>Achieve a level of training that maintains core skills and professional standards across all warfare areas.</p>	<p>Partially Achieved. Most training activities were successfully conducted. Some collective training activities were reduced in scope due to operational commitments, and deficiencies in equipment and personnel.</p>
Quantity	<p>7th Brigade, comprising:</p> <ul style="list-style-type: none"> - a brigade headquarters; - a cavalry regiment; - a field artillery regiment; - a combat engineer regiment; - a command support regiment; - three reserve integrated infantry battalions; and - a combat service support battalion. 	<p>For <u>Regular Army</u> units, this target was substantially achieved. Regular Army units achieved the required staffing levels, and provided a credible level of preparedness.</p> <p>For <u>Army Reserve</u> units, this target was partially achieved. Army Reserve units achieved lower than expected staffing, which affected capability.</p>

Output 3.10**Capability for Protective Operations**

The protective operations capability contributes to the strategic tasks of being prepared to defend Australia and to support peacetime national tasks. While retaining long-term utility for defence of Australia tasks, the protective operations capability also provided reinforcements for Regular Army units. Elements of this capability are also trained to assist in domestic security incidents. The protective operations capability provides forces at high to low readiness. The capability is grouped in 4th, 5th, 8th, 9th, 11th and 13th Brigades, which are Army Reserve formations based across Australia.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Partially Achieved. The protective operations capability achieved the levels of preparedness directed for the six Reserve Response Forces drawn from 4 th , 5 th , 8 th , 9 th , 11 th and 13 th Brigades. The remainder of the capability was unable to achieve most preparedness tasks as directed in the military response options due to deficiencies in equipment and personnel shortages in all trades. Personnel shortages are being addressed through recruiting and retention programs. Initiatives such as the Reserve Response Force have focused specialist elements within these brigades towards meeting a shorter readiness notice. In 2004-05 the output provided personnel for the transit security element in support of border security operations, and provided a section for security tasks in the Solomon Islands. The output also provided personnel to supplement Regular Army units both in Australia and on operations.
	Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Partially Achieved. Most training activities were successfully conducted. Some collective training activities were reduced in scope due to deficiencies in equipment and personnel.
Quantity	The 4 th , 5 th , 8 th , 9 th , 11 th and 13 th Brigades, each comprising: - a Brigade headquarters; - two or three infantry battalions; - an armoured reconnaissance unit; and - combat and logistic support units.	This target was partially achieved. The quantity for the Reserve Response Forces was achieved during 2004-05. While there were personnel shortfalls in the remainder of the capability, personnel from the output still provided a reinforcement capability for the combat force component of the Army.

Cost to Government

The overall cost to Government of Outcome Three was \$5,415.7m. This was \$72.5m higher than the 2004-05 revised additional estimate of \$5,343.2m, representing an increase of one per cent.

	Budget Estimate ⁽¹⁾	Revised Additional Estimate ⁽²⁾	Actual Result	Variation ⁽³⁾	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Operating Expenses					
Employees – Military	2,543,314	2,532,134	2,224,240	-307,894	-12
Employees – Civilian	408,359	406,783	387,901	-18,882	-5
Sub-Total Employees	2,951,672	2,938,917	2,612,141	-326,776	-11
Suppliers expenses	1,808,648	1,797,105	1,861,530	64,425	4
Grants	594	4,394	936	-3,458	-79
Depreciation and amortisation	619,870	640,338	673,670	33,332	5
Value of assets sold	98,097	96,012	88,502	-7,510	-8
Write-down of assets	16,058	186,199	833,758	647,559	348
Borrowing costs	17,987	14,232	10,873	-3,359	-24
Other expenses	249	480	2,733	2,253	469
Total Operating Expenses from Ordinary Activities	5,513,175	5,677,678	6,084,143	406,466	7
Revenues					
Sale of goods and services	-88,719	-79,185	-86,768	-7,583	10
Interest	-	-	-13	-13	-
Revenue from sale of assets	-98,097	-94,749	-103,064	-8,315	9
Net foreign exchange gains	-	-	-6,030	-6,030	-
Assets now recognised	-	-138,493	-417,859	-279,366	202
Other revenues ⁽⁴⁾	-38,956	-22,024	-54,693	-32,669	148
Total Own Source Revenues	-225,772	-334,451	-668,427	-333,976	100
Cost to Government for Outcome Three	5,287,403	5,343,226	5,415,716	72,490	1

Notes

- Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (p. 148).
- The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements*.
- The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.
- The Actual Result figure for 'Other revenues' includes interest and dividends, net foreign exchange gains/losses, and resources received free of charge.

Explanations for the variations from the revised additional estimate to the actual result are contained in Table 4.26. Outcome Three output level detail is provided in Table 4.13.

	Cost Summary of Outputs for Outcome Three – Army Capability for the Defence of Australia and its Interests				
	Budget Estimate⁽¹⁾	Revised Additional Estimate⁽²⁾	Actual Result	Variation⁽³⁾	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Output 3.1 – Capability for Special Operations	322,331	447,419	454,323	6,904	2
Output 3.2 – Capability for Medium Combined Arms Operations	864,456	936,269	835,025	-101,244	-11
Output 3.3 – Capability for Light Combined Arms Operations	1,018,641	1,036,948	1,009,324	-27,624	-3
Output 3.4 – Capability for Army Aviation Operations	623,949	638,754	564,015	-74,739	-12
Output 3.5 – Capability for Ground-Based Air Defence	181,768	134,520	120,524	-13,996	-10
Output 3.6 – Capability for Combat Support Operations	488,102	454,429	503,510	49,081	11
Output 3.7 – Capability for Regional Surveillance	160,499	101,052	132,267	31,215	31
Output 3.8 – Capability for Operational Logistic Support to Land Forces	503,728	566,829	541,696	-25,133	-4
Output 3.9 – Capability for Motorised Combined Arms Operations	583,837	513,402	518,244	4,842	1
Output 3.10 – Capability for Protective Operations	540,093	513,603	736,790	223,187	43
Cost to Government for Outcome Three	5,287,403	5,343,226	5,415,716	72,490	1

Notes

1. Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (p. 147).
2. The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements*.
3. The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.

Outcome Four: Air Force Capabilities

The Air Force met the Government's direction for contributions to operations for the defence of Australia and promotion of its national interests. This was done primarily through deployments to the Middle East, Northern Sumatra, the Solomon Islands and Timor-Leste, and by supporting border control initiatives in the north of Australia. Air Force capabilities included the ability to conduct offensive and defensive counter-air operations, precision strike operations, support for combat operations, wide and focal area surveillance, maritime patrol and response, and tactical and strategic airlift. These were delivered in 2004-05 through the Air Combat Group, Combat Support Group, Surveillance and Response Group, and Air Lift Group, with the tasking of all air activities being undertaken by the Joint Air Operations Centre.

Performance Summary

The year was operationally demanding for the Air Force. Support was provided for Operations Relex II, Catalyst, Slipper, Citidel, Spire, Anode, and Sumatra Assist. The air traffic control deployment to the Middle East Area of Operations was maintained, albeit at a reduced level from August 2004. The deployment of C-130 aircraft in the Middle East Area of Operations continued throughout the year carrying large quantities of cargo, thousands of passengers and conducting aeromedical evacuations. The C-130 aircraft also made a substantial and important contribution to humanitarian activities in Sumatra following the South-East Asian tsunami, as well as the earthquake relief a few months later. The upgraded P-3 Orion aircraft have been ideally suited to the intelligence, surveillance and reconnaissance role in the Arabian Sea, the Persian Gulf and over Iraq, flying several hundred missions since the beginning of security operations. The P-3 Orion has also flown over 1,000 missions in support of surveillance of Australia's sea approaches in Operation Relex II. The Combat Support Group have provided specialist airbase support to deployed forces in Timor-Leste, the Solomon Islands, Baghdad International Airport and the wider Middle East Area of Operations, and provided valuable humanitarian assistance in northern Sumatra.

Maintenance of the air combat capability following the planned withdrawal of the F-111 is being managed through a range of platform upgrades, and new platforms and weapons (including the ongoing upgrades to the F/A-18 and P-3 Orion and through the acquisition of airborne early warning and control, and air-to-air refuelling aircraft). All major work for the P-3 upgrade has been completed and all aircraft have been delivered.

The Directorate of Air Force Safety developed a number of strategies to enhance the integration of safety into everyday culture. In particular, Air Force introduced a strategy to assess the level of the RAAFSAFE Safety Management System maturity and Air Force's compliance with occupational health and safety legislation.

Planned Mitigation of Key Risks

Personnel

Air Force maintained a focus on, and commitment to, the personnel element of capability. While the separation rate of the trained workforce has increased slightly to 8.2 per cent, this provided a healthy balance between retention and advancement opportunities for personnel, while comparing favourably to the ten-year average of 9.5 per cent.

Targeted initiatives including remuneration, access to professional development training and accreditation, and the introduction of specialist officer career structures in some specialty employment groups, have resulted in higher retention rates for logistics officers and aerospace engineers and an improved retention rate for legal officers. More broad-based personnel initiatives resulted in generally good retention levels across most other employment groups. While the Temporal Discipline methodology has been applied to the pilot workforce, measurable results will not be evident for a number of years as this is a long-term sustainment philosophy. Initiatives to maintain the overall workforce strength include enhanced career management and individual career planning, focusing on consultation and negotiation of postings to provide members with greater confidence in plans for future job and location preferences.

Strategic reviews of workforce structure and employment groups continue to evaluate the relationship between directed Capability Outcomes and workforce structure, and direct the shape of the future workforce to maximise its contribution to capability. Reviews of the imagery and ground defence workforce have been completed, and reviews of the non-pilot aircrew and force protection workforces are under way.

Recruiting achievement continued at high levels despite the competitive national labour market, complementing retention measures in balancing the workforce and maintaining overall personnel capability.

Regional Capability Edge

Air Force has maintained a regional capability edge through ongoing upgrade programs. Following its successful test firing in June 2005, Air Force is integrating the AGM-142 stand-off weapon into its strike capability. Air Force is moving towards its network enabled goals through incremental developments in the Tactical Information Exchange Domain and in other communications and information technology areas.

Warfighting Skills

Warfighting skills, especially in maritime patrol, have been carefully managed to remedy the shortfall generated by the protracted P-3 operational deployment that has restricted opportunities for continuation training. These have been addressed through the targeted training, particularly of selected crews, on specific tactical courses, domestic and overseas exercises such as Lungfish, Rimpac, Comptuex, Aswex and Fincastle. These exercises have focused specifically on maintaining and enhancing surface and anti-submarine warfare skills. Programs have also been put in place to address the recent lack of collective training needed to maintain high-end combat support skills at Combat Support Group.

Enabling Support

The Air Force has continued to work closely with enabling groups and owner support groups such as the Defence Science and Technology Organisation, to achieve the level of support required to deliver Air Force capabilities, within available resources. The refined customer supplier agreement between Air Force and Corporate Services and Infrastructure Group signed in December 2004 increased the focus on relationship management. Air Force has been working with Defence Materiel Organisation to articulate the level of service required to inform the implementation of agency agreements under the new Defence-Defence Materiel Organisation business arrangement. These agreements will form the basis of the Air Force and Defence Materiel Organisation relationship in the future.

Capability Performance Information

Output 4.1

Capability for Air Combat Operations

Air Combat Group provides the Air Force’s air combat capability. It includes the provision of F/A-18 and F-111 aircraft, crews, weapon systems and support infrastructure at the level of capability required to provide air control, maritime and land strike, offensive air support and a limited reconnaissance capability. Hawk Lead-In fighter aircraft and PC-9 Forward Air Control training aircraft contribute to this capability.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Achieved. Preparedness levels were achieved and demonstrated through F/A-18 and F-111 participation in exercises Pitch Black 04, Red Flag 05 and Talisman Sabre 05.
	Achieve levels of training that maintains core skills and professional standards across all assigned warfare areas.	Achieved. Most F/A-18 training objectives were achieved but have been impacted by reduced air traffic control operating hours at Williamstown. The Group’s training objectives have been met through participation in a number of major exercises.
Quantity	28 F-111 – 3,800 flying hours.	28 F-111 (17 F-111C; 4 RF-111C; and 5 F-111G). In addition, 2 aircraft have been reallocated as breakdown spares and a further 5 aircraft have been quarantined in long-term storage, in line with the logistics support concept. 3,469 hours (91 per cent) were achieved. Overall preparedness objectives were met.
	71 F/A-18 – 13,000 flying hours.	71 F/A-18 – 12,467 hours (96 per cent) were achieved. Overall preparedness objectives were met.
	33 Hawk – 9,000 flying hours.	33 Hawk – 7,094 hours (79 per cent) were achieved. Limitations in the number of both technical staff and aircrew restricted the capacity to fully achieve the planned flying hours.

Quantity	4 PC-9/A(F) (Forward Air Control role only) - 1,030 flying hours.	4 PC-9/A(F) (Forward Air Control training role only) – 725 hours (70 per cent) were achieved. This under fly was primarily due to aircraft serviceability and a heavy unit commitment to ground instruction and administration of the ADF Offensive Air Support capability. But the achieved rate of effort is a 10 per cent improvement over the preceding year and it signifies an improving trend in aircraft availability.
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Output 4.2 Capability for Combat Support of Air Operations

The capability for combat support of air operations is provided by Combat Support Group and involves the provision of operations support necessary to support expeditionary air bases within Australia and overseas during contingencies.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by Chief of the Defence Force for military response options with a warning time of less than 12 months.	Achieved. Preparedness levels were achieved as demonstrated by ongoing deployments to the Middle East and short-notice deployments to Indonesia for humanitarian relief operations following the South-East Asian tsunami and later earthquake. Programs are in place to address the recent lack of collective training needed to maintain high-end combat support skills.
Quality	Achieve a level of training that maintains core skills and professional standards in conjunction with Corporate Services and Infrastructure Group and the Defence Materiel Organisation across all operations support areas.	Partially achieved. Overseas commitments continue to place significant pressure on training programs. The training opportunities available to Air Force personnel embedded in the Corporate Services and Infrastructure Group were limited by the restructure of the groups' business practices.
Quality	Development of doctrine, concepts and procedures for expeditionary airfield operations.	Substantially achieved. The contribution of combat support services to operational airworthiness has now been formally recognised by the implementation of annual airworthiness reviews of Airfield Support Services. There have been some advances in wing-level concepts of operation and good progress has been made in restoring sound governance practices and policies.
Quantity	Provide the level of preparedness required based on a force structure of: - 2 combat support wings; - 1 expeditionary combat support wing; - 1 combat Reserve wing; - 1 air field defence wing; and - 1 health services wing.	This target was achieved. The levels of preparedness have continued to be impacted by overseas commitments. Significant progress has been made in amalgamating two combat support wings into one and placing all operational airbases under a single combat support wing. This is expected to enhance the command and control, standardisation and efficiency of these bases.

Output 4.3

Capability for Surveillance and Response Operations

The Air Force’s capability for strategic surveillance and response operations is provided by the Surveillance and Response Group. This involves the provision of P-3 aircraft, crews and weapon systems at the level of capability required to conduct maritime surveillance and reconnaissance, maritime strike, offensive air support and search and rescue. Surveillance and Response Group also provides both ground-based and airborne sensors and battlespace management elements at the level of capability required to support intelligence, aerospace surveillance (wide area and focal), electronic warfare, aerospace battle management, air defence and airspace control.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by Chief of the Defence Force for military response options with a warning time of less than 12 months.	Achieved. Most preparedness targets were met or exceeded, as demonstrated by operational commitments to Operations Slipper, Catalyst and Relex II, including deployments of a small air traffic control element to the Middle East. A limited number of preparedness targets were not achieved due to the high operational tempo.
	Achieve a level of training that maintains core skills and professional standards across all assigned warfare areas.	Achieved. The high operational tempo placed significant pressure in some areas. High operational tempo in the surveillance role and the transition to the upgraded P-3 Orion aircraft constrained the capacity to complete all training activities.
	Maintain the Jindalee Operational Radar Network including over the horizon radar sensors at Laverton, Western Australia and Longreach, Queensland, the Jindalee Radar Facility in Alice Springs, Northern Territory and the coordination centre at RAAF Edinburgh, South Australia.	Achieved. The Jindalee Operational Radar Network has been operating for the full year, and has supported ongoing research and development and other activities.
Quantity	Maintain 10 air traffic control radars.	This target was substantially achieved. Nine air traffic control radars have now been delivered and are operational. Acceptance for the one remaining tactical radar is underway but there are still some contractual delays being experienced.
	Maintain four tactical air defence radars.	This target was not achieved. The tactical air defence radars are beyond their planned withdrawal date and are being replaced by Project Air 5375 with an expected initial operational capability of February 2006.
	19 P-3 Orion aircraft – 8,200 flying hours.	19 P-3 Orion aircraft – 8,431 hours (103 per cent) achieved as a result of maintaining a high operational tempo and associated readiness for operations.

Output 4.4**Capability for Airlift Operations**

The capability for airlift operations is provided by the Air Lift Group. The capability involves the provision of airlift aircraft, crews and weapon systems at the level of capability required to provide air logistics support, airborne operations, aeromedical evacuation, special operations, search and survivor assistance, VIP flights, air-to-air refuelling, navigator training and surveillance operations.

	Performance Targets	Performance
Quality	Achieve levels of preparedness directed by Chief of the Defence Force for military response options with a warning time of less than 12 months.	Substantially achieved. Preparedness has been maintained for all airlift elements except for the B707. Limited B707 aircraft availability has impacted this capability.
	Achieve levels of training that maintain core skills and professional standards across all assigned warfare areas.	Substantially achieved. Most training objectives have been maintained with the exception that the limited availability of B707 has impacted some air to air refuelling training opportunities.
Quantity	24 C-130 – 16,000 flying hours.	24 C-130 - 13,502hrs (84 per cent) achieved. The underachievement was due to high operational tempo, limited aircraft serviceability and availability due to the aircraft modifications required for operations.
	14 DHC-4 Caribou – 5,080 flying hours.	14 DHC-4 - 3,038 hrs (60 per cent) achieved. The need to recover from Operation Anode combined with some maintenance issues, limited the achievement of the forecast rate of effort.
	4 B707 – 1,400 flying hours.	4 B707 – 1,262 hours (90 per cent) achieved. Major maintenance requirements and the age of the aircraft have significantly limited aircraft availability.
	2 Boeing 737 BBJ VIP aircraft – 1,200 flying hours.	2 Boeing 737 BBJ – 1,364 hours (113 per cent) achieved. The overachievement was largely due to increased domestic tasking.
	3 CL604 Challenger – 2,400 flying hours.	3 CL604 Challenger – 1,837 hours (77 per cent) achieved. Tasking was lower than planned, in part due to increased tasking of the 737 BBJ.
	7 B300 Navigator Training aircraft – 4,500 flying hours.	7 B300 Aircraft – 3,647 hours (81 per cent) achieved. Achievement of the forecast rate of effort was constrained by the combined effect of a shortage of personnel and lack of availability due to an aircraft modification program.

Cost to Government

The overall cost to Government of Outcome Four was \$4,812.9m. This was \$115.9m higher than the 2004-05 revised additional estimate of \$4,697.0m, representing an increase of three per cent.

	Budget Estimate ⁽¹⁾	Revised Additional Estimate ⁽²⁾	Actual Result	Variation ⁽³⁾	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Operating Expenses					
Employees - Military	1,224,789	1,254,397	1,106,210	-148,187	-12
Employees - Civilian	392,057	356,536	320,327	-36,209	-10
Sub-Total Employees	1,616,846	1,610,933	1,426,538	-184,395	-11
Suppliers expenses	1,853,911	1,823,449	1,737,624	-85,825	-5
Grants	289	2,270	420	-1,850	-81
Depreciation and amortisation	1,835,911	1,259,386	1,284,851	25,465	2
Value of assets sold	61,073	59,848	21,176	-38,672	-65
Write-down of assets	41,976	287,128	777,427	490,299	171
Borrowing costs	5,958	8,020	5,912	-2,108	-26
Other expenses	-93	-217	1,125	1,342	-618
Total Operating Expenses from Ordinary Activities	4,748,375	5,050,817	5,255,072	204,255	4
Revenues					
Sale of goods and services	-42,213	-52,156	-47,456	4,700	-9
Interest	-	-	-10	-10	-
Revenue from sale of assets	-61,073	-60,125	-49,278	10,847	-18
Net foreign exchange gains	-	-	-6,223	-6,223	-
Assets now recognised	-	-214,019	-302,144	-88,125	41
Other revenues ⁽⁴⁾	-24,769	-27,493	-37,035	-9,542	35
Total Own Source Revenues	-128,054	-353,793	-442,147	-88,354	25
Cost to Government for Outcome Four	4,620,321	4,697,024	4,812,925	115,901	2

Notes

- Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (p. 171).
- The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements*.
- The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.
- The Actual Result figure for 'Other revenues' includes interest and dividends, net foreign exchange gains/losses, and resources received free of charge.

Explanations for the variations from the revised additional estimate to the actual result are contained in Table 4.26. Outcome Four output level detail is provided in Table 4.15 below.

	Cost Summary of Outputs for Outcome Four – Air Force Capability for the Defence of Australia and its Interests				
	Budget Estimate⁽¹⁾	Revised Additional Estimate⁽²⁾	Actual Result	Variation⁽³⁾	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Output 4.1 – Capability for Air Combat Operations	1,959,024	1,891,756	2,090,866	199,110	11
Output 4.2 – Capability for Combat Support of Air Operations	556,983	645,228	677,725	32,497	5
Output 4.3 – Capability for Surveillance and Response Operations	1,128,309	1,231,946	1,097,653	-134,293	-11
Output 4.4 – Capability for Airlift Operations	976,004	928,094	946,681	18,587	2
Cost to Government for Outcome Four	4,620,321	4,697,024	4,812,925	115,901	2

Notes

1. Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (p. 170).
2. The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements*.
3. The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.

Outcome Five: Strategic Policy

Strategy Group provided military, strategic and policy advice to enable the Government to make sound judgements on, and respond to, changes in Australia's strategic environment. This included managing international defence relationships and expanding Australia's counter-proliferation efforts. Strategy Group also supported operations, exercises and the development of future Defence capability.

Through Defence Attachés and liaison officers overseas, and by working with foreign defence representatives in Australia, Strategy Group advanced Australia's relationships with overseas defence partners and allies. The Group also managed the Defence Cooperation Program, which provides financial and military assistance in our region.

Performance Summary

Strategy Group worked effectively across Defence and with other government agencies to provide high-quality, coordinated advice to the Government on key strategic issues facing Australia. This included advice on current deployments, the war against terrorism, international responses to the proliferation of weapons of mass destruction, efforts to improve regional security and enhance stability in the region, and Defence support to domestic security. Strategy Group also produced strategic advice on the rebalancing of Defence capabilities to better reflect changes in the strategic environment and developing lessons learned from Australia's involvement in recent operations. Strategy Group managed and strengthened bilateral defence relationships to support the Government's security objectives. During the reporting period, the Group:

- managed Defence programs to develop regional countries counter-terrorism capabilities and improve their interoperability with Defence counter-terrorism elements;
- provided Defence policy advice to shape government consideration of regional counter-terrorism assistance;
- provided international policy advice to support ADF planning and conduct of Operation Sumatra Assist;
- provided advice on enhancing our alliance with the United States, including initiatives such as Missile Defence cooperation, the Joint Combined Training Centre, cooperation with the United States in regional international engagement and intelligence, surveillance and reconnaissance activities;
- provided policy advice on Australian deployments to Iraq, building new Iraqi security institutions and creating a new bilateral defence relationship with the government of Iraq;
- provided advice to government on options for Australian involvement in Afghanistan, including support to the Special Forces Task Group deployed to Afghanistan;
- developed Defence strategic estimates for current and prospective future operational requirements;

- coordinated Defence involvement in the international Proliferation Security Initiative, which now has the support of over 60 nations and has been established as a central part of international efforts to counter-proliferation;
- contributed advice on Defence's roles and capabilities to whole-of-government reviews of Australia's domestic security;
- coordinated advice on changes to Defence's involvement in regional peacekeeping operations in East Timor and Solomon Islands;
- provided advice to the Minister for Defence and senior Defence officials to support their involvement in bilateral and multilateral visits and activities; and
- administered the export control system for military and dual use goods.

Australia's strong defence relationships in the Asia Pacific region were sustained by broad-based programs of dialogue, training and joint projects. In addition, Defence continued to provide substantial support to the Pacific patrol boat program, the Papua New Guinea Defence Force reform program and a wide range of Defence Cooperation activities with other nations. The Group coordinated Defence engagement with major powers and traditional friends.

The Group also manages the funding agreement between the Government and the Australian Strategic Policy Institute (APSI). APSI was established in 2001 to function as an independent strategic policy research centre. The Institute drew \$2.261m in 2004-05 and will draw \$2.632m in 2005-06. The funding will see APSI commit to a core research program and public engagement plan of benefit to Defence, and contribute to public debate through the publication of a specified number of reports and a program of seminars, workshops and Government-Academic strategic dialogues.

Mitigation of Key Risks

The Defence *Portfolio Budget Statements 2004-05* identified four key risks that could adversely affect the performance of the Strategic Policy outcome. The first of these risks was the prospect of a deterioration in Australia's strategic circumstances, both generally and with respect to specific potential crises. To mitigate this risk, regular reviews of the strategic environment were undertaken during 2004-05 to ensure Defence capabilities were able to respond to possible threats and contingencies and the effectiveness of Defence operations and international engagement was monitored.

A second risk was identified as the emergence of new and more immediate threats from terrorism and the proliferation of weapons of mass destruction. Defence supported enhanced national counter-terrorism efforts, through reviews of Australia's counter-terrorism capabilities and increased cooperation with other countries in our region. Defence also participated in counter-proliferation efforts, mainly through strong involvement in the United States-initiated Proliferation Security Initiative, which now has the support of over 60 nations.

The third risk identified was our ability to manage core priorities at times of increased operational tempo, such as during the war against terrorism or ADF activities in Iraq. This concern was addressed through a variety of strategies, including the continuous monitoring of workloads and reviewing of priorities. This enabled Defence to retain its focus on core priorities, including maintaining capacity to respond to contingencies and the development of new military concepts and priorities for future military capabilities.

The fourth risk identified was the management of projects funded under the Defence Cooperation Program in regional countries where factors external to Defence impacted on the achievement of objectives. This risk was mitigated by regular and close consultation with regional countries over our mutual objectives for cooperative projects and on progress towards achieving them, as well as ensuring appropriate guidance and supervision for the management and implementation of projects.

Capability Performance Information

Output 5.1	Capability for Strategic and International Policy, Activities and Engagement
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This output provides strategic and international policy advice to the Government to enable it to make sound judgements on, and develop appropriate responses to, changes in Australia’s strategic circumstances and specific security issues as they arise. It also applies strategic policy guidance to assist the development of recommendations to the Government on international engagement activities and initiatives.

Performance Targets	Performance
Provide the Government with comprehensive and timely strategic policy advice on current and emerging international Defence issues.	<p>Achieved. Defence provided comprehensive and timely strategic policy advice to the Government that contributed to the achievement of Australia’s strategic objectives. This included policy advice in support of ministerial visits to foreign countries. Defence also provided advice on:</p> <ul style="list-style-type: none"> - issues associated with the effort to stabilise and rebuild Iraq; - issues associated with Australia’s involvement in Afghanistan; - advancing Australia’s alliance objectives with the United States in areas such as missile defence and interoperability; - the Regional Assistance Mission to Solomon Islands; - the Enhanced Cooperation Program with Papua New Guinea (particularly governance and fiscal management improvement in the Papua New Guinea Defence Organisation); - defence relations with the wider Asian region; - the development of Defence Cooperation with other nations; - regional counter-terrorism assistance; - Defence’s operation to provide relief to victims of the South-East Asia tsunami; and - a review of the bilateral Defence Cooperation program and the signing of a new Ministerial-level agreement for the Australia-Papua New Guinea Enhanced Defence Partnership.
Defence’s international engagement activities continue to support Australia’s efforts to promote regional and global security.	<p>Achieved. Defence undertook a comprehensive range of international engagement activities to support Australia’s efforts to promote regional and global security. This included strategic-level dialogue between senior Australian and foreign defence officials, consultation and cooperation on areas of mutual interest, training and training-related projects and exercises conducted under the Defence Cooperation Program. Defence supported multilateral security initiatives such as the Proliferation Security Initiative.</p>

<p>Defence’s overseas representatives contribute to the effective management of Australia’s defence interests in the context of overall bilateral relationships.</p>	<p>Achieved. Defence’s overseas representatives successfully contributed to the effective management of Australia’s defence interests, achieved largely through their advice on, and personal contributions to, developing and strengthening bilateral relationships with allies, neighbours, the Middle East and Europe. Their activities were guided by Defence’s objectives for international engagement as well as directives to Defence Attachés. Defence also established the position of Defence Adviser to NATO and the European Union.</p>
<p>Effectively manage the Defence Cooperation Program to achieve the aims of the program.</p>	<p>Achieved. Defence successfully managed the Defence Cooperation Program, achieving significant outcomes. The program consists of activities aimed at strengthening defence relationships in accordance with the international engagement objectives articulated in the Defence International Engagement Plan. These activities included the provision of training, technical advice, infrastructure development and logistics support to regional nations. Specific details can be found in the Defence Cooperation section.</p>

Output 5.2 Military Strategy and Capability Analysis

This output provides military strategy and strategic policy guidance for the development of future Defence capability and to support military deployments, operations and exercises.

Performance Targets	Performance
<p>Defence is able to provide comprehensive and timely advice to the Government on military strategy, associated policy developments and future concepts that reflect the changing strategic environment.</p>	<p>Achieved. Defence monitored the strategic environment producing a classified Quarterly Strategic Review. Defence also assessed the ability of the ADF to provide military response options at designated levels of readiness and reported this monthly in the Defence Performance Summary to the Defence Committee (including recommended changes to preparedness levels, contingency planning and remediation of capability deficiencies). Defence provided military strategic planning guidance for several contingencies and timely and responsive strategic policy advice on developments in the strategic environment that could affect employment of the ADF. This advice was provided to Government, as well as to various high-level Defence Committees. This advice included revised military strategic priorities, the development of Defence Planning Guidance to meet the requirements of the Defence Procurement Review and the Defence Management and Financial Plan, the drafting of a Defence space policy, evaluation of Defence and whole-of-government business continuity plans and the ongoing development of future warfighting concepts.</p>

Cost to Government

The overall cost to Government of Outcome Five was \$245.6m. This was \$32.8m higher than the 2004-05 revised additional estimate of \$212.8m, representing an increase of 15 per cent.

	Budget Estimate ⁽¹⁾	Revised Additional Estimate ⁽²⁾	Actual Result	Variation ⁽³⁾	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Operating Expenses					
Employees - Military	65,815	42,063	48,686	6,623	16
Employees - Civilian	39,728	45,418	39,956	-5,462	-12
Sub-Total Employees	105,543	87,481	88,642	1,161	1
Suppliers expenses	137,277	125,610	153,130	27,520	22
Grants	16	70	21	-49	-71
Depreciation and amortisation	5,340	6,481	6,445	-36	-1
Value of assets sold	439	433	1,111	678	157
Write-down of assets	314	-1,270	14,105	15,375	-1,211
Borrowing costs	256	248	490	242	98
Other expenses	20	-29	181	210	-723
Total Operating Expenses from Ordinary Activities	249,205	219,025	264,125	45,101	21
Revenues					
Sale of goods and services	-4,157	-4,074	-8,292	-4,218	104
Interest	-	-	-	-	-
Revenue from sale of assets	-439	-661	-1,076	-415	63
Net foreign exchange gains	-	-	-312	-312	-
Assets now recognised	-	-612	-7,645	-7,033	1,149
Other revenues ⁽⁴⁾	-2,052	-897	-1,232	-335	37
Total Own Source Revenues	-6,648	-6,245	-18,557	-12,313	197
Cost to Government for Outcome Five	242,556	212,780	245,568	32,788	15

Notes

1. Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (p. 183).
2. The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements*.
3. The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.
4. The Actual Result figure for 'Other revenues' includes interest and dividends, net foreign exchange gains/losses, and resources received free of charge.

Explanations for the variations from the revised additional estimate to the actual result are contained in Table 4.26. Outcome Five output level detail is provided in Table 4.17 below.

Table 4.17 Cost Summary of Outputs for Outcome Five – Strategic Policy for the Defence of Australia and its Interests

	Budget Estimate ⁽¹⁾	Revised Additional Estimate ⁽²⁾	Actual Result	Variation ⁽³⁾	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Output 5.1 – International Policy, Activities and Engagement	195,030	173,958	209,681	35,723	21
Output 5.2 – Strategic Policy and Military Strategy	47,526	38,821	35,887	-2,934	-8
Cost to Government for Outcome Five	242,556	212,780	245,568	32,789	15

Notes

1. Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (p. 182).
2. The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements*.
3. The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.

Defence Cooperation

The aims and objectives of the Defence Cooperation Program are to support the Government's strategic objectives by:

- contributing to the maintenance of regional security;
- working with allies, regional partners and others to shape the global and regional environment in a way favourable to Australia and the ADF;
- consolidating acceptance of Australia as an obvious and legitimate participant in deliberations on issues that affect regional security; and
- encouraging and assisting with the development of the defence self-reliance of regional countries.

These activities encompass assistance to regional security forces in the areas of strategic planning, command and control, infrastructure, communications and logistics support. The Defence Cooperation Program also supports the conduct of combined exercises to improve the ability of regional countries to contribute to regional security.

Expenditure for the Defence Cooperation Program in 2004-05 was \$74.9m. The table below summarises the achievement of the Defence Cooperation Program by region. More details on the cooperation program in the South Pacific and South-East Asian regions can be found later in this section.

	2002-03 Actual	2003-04 Actual	2004-05 Budget Estimate	2004-05 Revised Estimate	2004-05 Actual
	\$'000	\$'000	\$'000	\$'000	\$'000
Papua New Guinea	9,434	14,508	22,688	22,688	13,874
South Pacific Region	22,478	25,028	25,503	25,503	25,732
South-East Asia	25,831	26,417	26,558	26,558	30,136
Other regional activities	1,521	738	1,343	1,343	1,507
Defence International Training Centre ⁽²⁾	3,384	3,873	4,208	4,208	3,695
Total	62,648	70,564	80,300	80,300	74,945

Notes

1. Figures may not add due to rounding.
2. The Defence International Training Centre enhances the training provided in Australia to South-East Asian and South Pacific defence forces and other selected personnel overseas. Funding was transferred to Air Force for the management of the centre from 2003-04.

Papua New Guinea

The Australian and Papua New Guinea Ministers for Defence signed a joint statement on an Enhanced Defence Partnership in December 2004, which became the new capstone agreement for the bilateral defence relationship. Australia continued to provide significant assistance to the Papua New Guinea Government's Defence Reform Program, which aims to create a smaller, more affordable, effective and responsive defence force. Further progress with Papua New Guinea Defence Force downsizing and improved stability in the force have enabled us to begin joint planning for Australian assistance to the capability rebuilding phase of the program. A joint ADF-Papua New Guinea Defence Force team reviewed the force structure and capability requirements of the Papua New Guinea

Defence Force, to provide a sound basis for defence capability rebuilding, including in the key areas of financial reform and organisational renewal.

The Defence Cooperation Program with Papua New Guinea is focused on advisory staff, training, combined exercises, technical advice and joint infrastructure projects. Highlights included the commencement of a five-year project to improve Papua New Guinea defence infrastructure and the creation of four new 'in-line' positions for senior ADF personnel in Papua New Guinea Defence Force headquarters and the Papua New Guinea Department of Defence. Australian assistance to refurbish ammunition magazines and conduct security awareness training further improved Papua New Guinea Defence Force small arms security. All planned joint ADF-Papua New Guinea Defence Force exercises took place successfully, including a major annual engineering exercise, a company-level infantry exchange and a maritime surveillance exercise. Support was also provided to Papua New Guinea Defence Force contingents as part of the Regional Assistance Mission to Solomon Islands.

South Pacific Region

The Defence Cooperation Program in the South Pacific region grew in 2004-05 by \$0.7m, to cover costs associated with the Pacific patrol boat life-extension program and the expansion of multilateral maritime surveillance exercises and activities. A continued increase in ADF operational commitments resulted in a reduced capacity to support Australia's bilateral relationships in the region, including fewer Air Force maritime surveillance flights over the Pacific.

The defence relationship with Fiji has strengthened during this period. The ADF, in conjunction with the Republic of Fiji Military Forces, carried out infrastructure work at the Queen Elizabeth Barracks. The training program for Fiji was expanded with the addition of a postgraduate scholarship scheme. Defence continued to focus on enhancing the professional skills of the Republic of Fiji Military Forces and encouraging the development of appropriate civil-military relations.

Relationships with Samoa, Tonga, Kiribati, Tuvalu, the Republic of Palau, the Republic of the Marshall Islands, the Federated States of Micronesia and the Cook Islands focused on developing maritime surveillance capabilities. Defence has provided 12 Pacific-class patrol boats to these eight countries (the Federated States of Micronesia and Tonga have three each). In this reporting period, the Pacific patrol boat program continued to provide logistics, fuel, maintenance and training support to the maritime wings of these countries' national police forces and the Tonga Defence Service. ADF advisory teams posted to countries participating in the Pacific patrol boat program assisted them to develop sustainable national maritime surveillance capabilities and enable the projection of a credible maritime presence within the Exclusive Economic Zones of these countries.

Defence continued to promote greater multilateral cooperation in maritime surveillance through support to multilateral operations and the development of further multilateral maritime surveillance agreements between Pacific Island countries. Such measures optimise the deployment of scarce maritime surveillance assets. Defence continued to meet its commitments under the life-extension program for the South Pacific patrol boats.

Table 4.19	South Pacific Region Summary ⁽¹⁾				
	2002-03	2003-04	2004-05	2004-05	2004-05
	Actual	Actual	Budget Estimate	Revised Estimate	Actual
	\$'000	\$'000	\$'000	\$'000	\$'000
Vanuatu	1,900	1,562	1,603	1,603	1,267
Solomon Islands	537	334	498	498	1,307
Tonga	2,407	1,902	1,149	1,149	993
Western Samoa	528	585	1,703	1,703	603
Cook Islands	316	325	346	346	262
Fiji	2,662	3,848	3,503	3,503	2,996
Republic of the Marshall Islands	952	1,160	882	882	680
Federates States of Micronesia	848	1,019	1,137	1,137	795
Tuvalu	415	624	767	767	697
Kiribati	916	850	914	914	476
Palau	647	791	991	991	774
Multilateral General Assistance ⁽²⁾	10,350	12,027	12,010	12,010	14,881
Total	22,478	25,028	25,503	25,503	25,732

Notes

1. Figures may not add due to rounding.
2. Funding relates mainly to support for the Pacific patrol boat program.

Vanuatu

In Vanuatu, the Defence Cooperation Program is centred on engagement with the Force Headquarters, the mobile force and the maritime wings of the Vanuatu Police Force. It provides advisers, training and technical assistance. Training focused on enhancing Vanuatu's maritime and land surveillance capabilities and assisting police with coordination and contingency planning. Defence significantly contributed to the development of Vanuatu's police communications infrastructure through a dedicated project and the provision of an adviser to the Joint Operating Police Centre. Defence maintained its support to Vanuatu's Pacific patrol boat. The relative reduction in expenditure was due to administrative savings and reduced Defence Cooperation activity resulting from the political tensions in Vanuatu in 2004.

Solomon Islands

As key steps to reinvigorating Australia's Defence Cooperation Program with Solomon Islands, Solomon Islands Pacific patrol boat, RSIPV *Auki*, was refurbished and three Navy personnel were reinstated to their maritime surveillance and support roles with the Royal Solomon Islands Police. The second Solomon Islands patrol boat, RSIPV *Lata*, will become fully operational in the latter part of 2005.

Tonga

Defence Cooperation with Tonga focused on engagement with the maritime, air and land elements of the Tonga Defence Service through the provision of advisers, training, technical support and multilateral exercises. Defence contributed to engineering skills and infrastructure development in Tonga through the Aboriginal and Torres Strait Islander Commission – Army Community Assistance Program and supported the participation of Tonga's maritime force element in a multilateral regional exercise. Defence continued to provide assistance to Tonga for maintenance of its three Pacific patrol boats. The relative

decrease in expenditure from the last reporting period was due to a low uptake in training opportunities.

Western Samoa

Defence Cooperation with Samoa centred on engagement with the Samoa Police Force's maritime wing through the Pacific patrol boat program. The Defence Cooperation Program provided advisers, training and technical support. Training for the maritime wing concentrated on professional and technical development of Samoa's maritime officers and operational experience through multilateral exercises. Defence completed the life-extension program on the *Nafanua*, extending the life of the patrol boat out to 2020. Defence also provided technical and planning support to the initial stage of redeveloping the patrol boat wharf in Apia.

Cook Islands

Defence Cooperation with the Cook Islands centred on engagement with the maritime wing of the national police force with provision of an adviser, training and technical support under the Pacific patrol boat program. Training focused on professional development of maritime officers and enhancement of operational capabilities through a multilateral exercise. Defence continued to support maintenance of the Cook Islands' patrol boat. The relative decrease in expenditure from the last reporting period was due to a low uptake in both professional training opportunities and an underspend in the dedicated fuel subsidy for the patrol boat.

Fiji

Defence Cooperation with Fiji focused on training, the provision of advisers and support to infrastructure development. Training centred on the professional development of officers and senior soldiers through attachments, joint and multilateral exercises and the provision of scholarships. Advisers concentrated on developing basic skills within units. The armoury at Queen Elizabeth Barracks was completed in August 2004 and has substantially improved small arms security at the barracks. In addition, Defence provided support to Fiji's commitments to United Nations peace operations in Iraq and Solomon Islands. Defence also maintained its significant support to Fiji's three Pacific patrol boats. The relative decrease in expenditure from the last reporting period reflects a deferment of infrastructure projects to the 2005-06 financial period while the Fiji Government's force structure guidance is finalised.

Republic of the Marshall Islands

Defence Cooperation with the Republic of the Marshall Islands focused on support to the maritime wing of the police force through the provision of advisers and training under the Pacific patrol boat program. Training focused on professional development of the Marshall Island's Sea Patrol and the transfer of operational skills through substantial support to a multilateral exercise. In addition, Defence continued to assist with maintaining Marshall Island's Pacific patrol boat. The relative decrease in expenditure reflects administrative savings in project expenditure for this reporting period.

Federated States of Micronesia

Defence Cooperation with the Federated States of Micronesia focused on enhancing national maritime surveillance capabilities through the Pacific patrol boat program. Defence provided advisers, training and technical support to the maritime wing of the national police, including continued assistance with maintaining the Federated States of Micronesia's three Pacific patrol boats. Through support to a multilateral maritime exercise Defence assisted the Federated States of Micronesia to advance its regional relationships and interoperability with its maritime neighbours. The relative decrease in expenditure from the last reporting period was due to a decrease in patrol boat projects and a low uptake of training opportunities.

Tuvalu

Defence Cooperation with Tuvalu centred on engagement with the maritime wing of the national police force through the provision of advisers, training and technical support. Training focused on maritime surveillance and management skills transfer. Under the Pacific patrol boat program, Defence assisted the maritime wing to enhance operational capabilities through a multilateral exercise and continued to support Tuvalu with the maintenance of their patrol boat. The relative increase in expenditure from the last reporting period relates to an increase in maintenance costs for the Defence Cooperation residential compound.

Kiribati

Defence Cooperation with Kiribati focused on support to the national police maritime wing through the provision of advisers, training and assistance in maintaining their Pacific patrol boat. Australia continued to support a dedicated English language-training program, which enhanced maritime police officers' training opportunities and outcomes for Defence sponsored training courses. The relative decrease in expenditure from the last reporting period reflects a reduction in patrol boat projects.

Palau

Defence Cooperation with Palau focused on support to the Palau Government on marine law enforcement through the Pacific patrol boat program, which provided advisers, technical support and training to Palau's Department of Marine Law Enforcement. Defence provided substantial assistance to Palau to support its leadership of a multilateral regional maritime exercise, which supported national maritime officers developing valuable operational, communication and professional skills.

Multilateral General Assistance

The key activities for this reporting period were continuation of the Pacific patrol boat life-extension program and support to multilateral operations. The life-extension program will double the life of Pacific-class patrol boats from 15 to 30 years and included the refurbishment of three Pacific patrol boats from Papua New Guinea, Solomon Islands and Samoa. The majority of the increased expenditure in 2004-05 was due to the costs associated with the life extension program for the Pacific Patrol Boats.

Australia’s support to Operations Big Eye, Kuru Kuru and Tui Moana promoted practical multilateral cooperation in maritime surveillance. Australia also supported the development of further multilateral maritime surveillance treaties, modelled on the subsidiary agreement to the Niue Treaty between Cook Islands and Samoa. When mature, these arrangements will significantly enhance regional maritime security. In addition, Defence has re-instituted a Navy Surveillance Operations Officer position in the Forum Fisheries Agency, in Honiara, Solomon Islands. This position had been in abeyance since the coup in 2000. The Surveillance Operations Officer has proven vital in coordinating maritime surveillance activities between Australia, France, New Zealand, the United States and Pacific Island countries.

Pacific Patrol Boat Project

Country	Boats
Cook Islands	1
Vanuatu	1
Fiji	3
Federated States of Micronesia	3
Kiribati	1
Marshall Islands	1
Palau	1
Papua New Guinea	4
Tonga	3
Tuvalu	1
Samoa	1
Solomon Islands	2
Total	22

South-East Asia

The Defence Cooperation Program in the South-East Asia region grew in 2004-05 by \$3.7m primarily due to the construction of the Australian advisers’ residential compound project (Phase 1) in East Timor and expenditure to provide the Nomad Maintenance Team in Indonesia with essential maintenance and spares to ensure continued airworthiness of the aircraft. Defence Cooperation in South-East Asia continued to have a strong focus on counter-terrorism.

Defence Cooperation with East Timor continued to support the development of an affordable, sustainable and appropriately focused East Timor Defence Force through infrastructure development, language and leadership training.

Progress was achieved in the Australia-Indonesian defence relationship, particularly in the areas of senior-level dialogue and visits. The Minister for Defence and the Chief of the Defence Force both visited their counterparts in Jakarta. In addition, the Service Chiefs met with their counterparts and service staff talks have been held to agree on practical cooperative activities. The value of an effective defence relationship was demonstrated by the smooth cooperation between the ADF and Indonesian military (TNI) during Indonesia’s operation to bring relief to the victims of the South-East Asian tsunami.

Defence relationships with Singapore, the Philippines, Thailand and Malaysia remained strong and were sustained by broad-based programs of dialogue, training and joint projects in the fields of logistics, defence science and materiel. Developments in exercise programs for Five Power Defence Arrangements, endorsed by Ministers in June 2004, has seen

Australia continue to work closely with Malaysia and Singapore in developing a response to asymmetric threats, including international terrorism. Defence relationships with Thailand, the Philippines and Singapore were strengthened by the contribution these countries made to regional efforts against terrorism.

Defence's engagement with Vietnam included the first visit to Vietnam by the Australian Minister for Defence. Cooperation on counter-terrorism, as agreed by the Vietnamese and Australian Ministers for Defence, commenced with an inaugural visit to Australia by a Vietnamese special forces delegation and a joint anti-malaria project was expanded to include research on dengue fever. Defence relationships with Cambodia and Laos continued to develop at an appropriate level, focused on English language training and officer education. Cooperation with Brunei included several high-level visits and a fee-for-service aircraft airworthiness survey. Further work to promote strategic policy development was undertaken with Cambodia and Brunei.

Defence participation at regular multilateral Association of South-East Asian Nations Regional Forum meetings and active involvement in confidence-building activities, including the Shangri-la Dialogue of Defence Ministers and senior officials, complemented defence bilateral cooperation in the region.

Table 4.21	South-East Asia Summary ⁽¹⁾				
	2002-03	2003-04	2004-05	2004-05	2004-05
	Actual	Actual	Budget Estimate	Revised Estimate	Actual
	\$'000	\$'000	\$'000	\$'000	\$'000
Singapore	254	231	292	292	165
Philippines	3,047	2,879	2,531	2,531	3,070
Thailand	3,478	3,560	3,018	3,018	3,779
Malaysia	4,483	4,678	4,342	4,342	4,704
Indonesia	4,583	5,048	4,671	4,671	6,060
Timor-Leste	7,504	7,076	9,397	9,397	9,557
Vietnam	1,421	1,898	1,365	1,365	1,631
Cambodia and Laos	1,017	1,000	897	897	1,135
Brunei	44	49	45	45	36
Total	25,831	26,417	26,558	26,558	30,136

Note

1. Figures may not add due to rounding.

Singapore

Interaction with the Singapore Armed Forces continued at all levels across a broad range of areas, including high-level policy dialogue, combined exercises, personnel exchanges and training. The Singaporean and Australian Defence Ministers met at the Singapore-Australia Joint Ministerial Committee Meeting in August 2005 and signed the new Shoalwater Bay Training Area Agreement which covers Singapore's ongoing use of the training area until 2009. Exercise Wallaby, Singapore's annual unilateral exercise, will be held in October and November 2005 at Shoalwater Bay. Ministers also met at the International Institute for Strategic Studies Shangri-La Dialogue in 2005, followed by the Five Power Defence Arrangements Ministers' informal meeting. Singaporean detachments continued to utilise RAAF Pearce, Western Australia, and the Army Aviation Centre in Oakey, Queensland, for fixed-wing and helicopter flight training. Defence science collaboration with Singapore continues to grow, with the inaugural Australia-Singapore Science and Technology forum planned for October 2005 in Australia.

Philippines

Australia's defence engagement with the Philippines expanded in areas of high strategic importance, such as counter-terrorism and maritime security. A highlight of the reporting period was the visit in April 2005 of the Philippines' Secretary of Defense. This built on a successful visit by Australia's Chief of Air Force to the Philippines in February 2005. The foundation of the Defence Cooperation Program with the Philippines is education and training. In addition, governance support for the Armed Forces of the Philippines has been focused on a number of critical niche areas, including logistics management, strategic planning and personnel processes. Exercise Dawn Caracha, an annual bilateral special forces counter-terrorism training exercise, was successfully conducted in mid-2004 and Exercise Lumbas, a combined maritime patrol and surveillance exercise, was held in August 2004.

Thailand

The strength and importance of the defence relationship with Thailand was underscored by the visit of the Minister for Defence to Thailand in April 2005, which followed a visit by the Commander in Chief of the Royal Thai Armed Forces in February 2005. The tempo of defence engagement remained high and included an extensive range of exercises, including two special forces exercises and a special recovery exercise, as well as land, sea and air exercises. In addition, Exercise Wyvern Sun, a whole-of-government counter-terrorism special recovery exercise, was held in Thailand in July 2004. Australia also hosted a study visit by the Thai Senate Standing Committee on Military Affairs on investigating Australia's whole-of-government counter-terrorism processes. A number of joint projects were progressed in the areas of logistics and science and technology. Australian training of Thai military personnel remained a significant part of the relationship. English language training continues to be important, as it will further increase Thailand's ability to take up training opportunities in Australia.

Malaysia

The strong defence relationship between Australia and Malaysia is sustained by a wide program of cooperative activities under the Malaysia-Australia Joint Defence Program. Activities included a resumption of the major combined land exercise activity, Exercise Southern Tiger, in September 2004. Professional contact between the two armed forces continued to be facilitated by the presence of an Army rifle company and small Air Force detachment at Royal Malaysian Air Force Butterworth, Malaysia, and multilateral exercises conducted under the auspices of the Five Power Defence Arrangements. The Malaysia-Australian Joint Defence Program also facilitates mutually beneficial professional military education opportunities and exchange postings, which have broadened into new areas such as aerospace engineering and materials science. Regular contact at high levels, including between the respective Secretaries of Defence, also underscores the continued health of the relationship.

Indonesia

The bilateral defence relationship progressed well during the reporting period with the focus on cooperation in areas of shared strategic interest. Senior-level dialogue included the Minister for Defence meeting with his counterpart in Jakarta and counterpart visits by respective Defence Force Chiefs and Service Chiefs. The Indonesian Government and its Armed Forces were appreciative of the support provided by the ADF in the wake of the

devastating South-East Asian tsunami and the March 2005 earthquake off Aceh. Cooperation between our respective Armed Forces during the relief operations demonstrated the growing strength of the bilateral defence relationship. Since the tsunami, the Chief of the Defence Force and all Service Chiefs have visited Indonesia. The Indonesian Head of Armed Forces visited Australia in June 2005 and the Indonesian Chief of Navy visited in April as part of President Yudhoyono's delegation.

Over the period, combined exercises resumed with the Indonesian Armed Forces with the conduct of the air maritime surveillance exercise Albatross Ausindo in April 2005 – the first combined exercise since 1999. Since November last year, six Indonesian navy ships have visited Australian ports and the Indonesian navy participated in the 2005 Navy Exercise Kakadu – a regional maritime exercise focused on interoperability. Defence provided information analysis training to Indonesian officers under the Memorandum of Understanding on Combating International Terrorism, and Special Operations Commander Australia visited Indonesia in May 2005 to meet with his counterparts and discuss counter-terrorism efforts. Further interaction over the period occurred through visits and conference attendance in the areas of defence management, cooperation, peacekeeping, maritime security, air safety and military law. Training provided to TNI remained focused on non-combat-related activities, including postgraduate study and English language training. Limited combat-related training continued in the area of regional Officers Basic Course. Ongoing junior and senior staff college exchanges enhanced educational interaction between our militaries.

Timor-Leste

The Defence Cooperation Program continued to contribute to the development of an affordable, sustainable and appropriately focused East Timor Defence Force throughout 2004-05. Progress has been made in advancing leadership and professional military skills, English language training, and policy and budget development within the Defence Secretariat. There has also been significant infrastructure development.

The English Language Program is successfully training East Timor Defence Force personnel at the recently built English Language Training Facility. During 2004-05, six Timorese Defence Force graduates of the English language training program in East Timor continued their English training in Australia.

Leadership and officer training continues to be an important area of development. Of the six English language graduates, three went on to successfully complete the Third Class of the General Service Officer Course at the Royal Military College and one continues senior officer training at the Australian Defence College. In addition, three Timorese completed the Specialist Service Officer Course at the Royal Military College.

Construction of the Australian advisers' residential compound project (Phase 1) was successfully completed on time and under budget. This facility provides a number of family residences, with support facilities, in a secure environment and allows Defence Cooperation Program advisers to undertake longer postings providing greater continuity for the Defence Cooperation Program.

A project to develop a radio communications network, which will link the East Timor Defence Force headquarters with other bases and units in the field, was progressed, and a security upgrade of the Defence Cooperation Program Headquarters was completed.

New initiatives are being developed which should greatly facilitate the Defence Cooperation Program in meeting its long-term objectives, these including maritime engagement and civil-military operations training.

Vietnam

Australia's Defence Cooperation relationship with Vietnam gained momentum with visits to Vietnam by the Australian Minister for Defence and the Chief of Air Force. High-level visits, ships visits, training and projects and expansion of the anti-malaria project to include research into dengue fever, form the core of the relationship. An Air Force C-130 visited Vietnam in May 2005 to demonstrate aero-medical evacuation and facilitate discussion on lessons learnt from our experiences in response to the South-East Asian tsunami and the Bali bombings. English language training continues to be a bedrock of engagement, providing the foundation for further development of the relationship.

Cambodia and Laos

Australia's bilateral relationships with Cambodia and Laos are developing satisfactorily. Cambodia received its first visit by an Australian Minister for Defence in April 2005. During 2004-05, officers from Cambodia and Laos attended Australian Defence College, English language training, and Defence and emergency management training. Australia also provided assistance to Cambodia with the development of its new White Paper and began a two year project to renovate Cambodia's Strategy Training Centre.

Brunei

The modest, but very positive, defence relationship with Brunei continued to develop through the conduct of mutually beneficial activities, exercises and training. The Sultan of Brunei visited Australia in February 2005, which included a visit to 4RAR in Perth. Highlights of the past year included mutual cooperation in rotary flying standardisation, air safety and logistics. Australia discussed further assistance with the implementation of the new Brunei Defence White Paper, which was released in July 2004. Exercise Star Leopard, a bilateral special forces exercise, was successfully conducted in September 2004. Exercise Penguin, a maritime patrol and surveillance exercise, took place in August 2004.

Other Regional Activities

A range of activities were undertaken, including conferences and seminars, single-Service and combined training, multilateral activities, and Defence Cooperation activities with India, Pakistan and Bangladesh. The defence relationships with India and Pakistan, which were suspended in May 1998 following these countries' nuclear tests, have now resumed and have regained their previous momentum, but with a greater emphasis on activities that will improve the level of strategic dialogue with both countries.

Multilateral

Major activities undertaken during the year were the Pacific-area senior officer logistics seminar, the maritime air surveillance course, the Defence management seminar, Five Power Defence Arrangements meetings, study visits and support for multilateral training activities. Australia continues to benefit from the opportunity to exercise with fellow member nations under the auspices of the Five Power Defence Arrangements. In addition, multilateral exercises Bersama Shield, held in April 2005, and Bersama Lima, held in

August 2004, included non-conventional threat scenarios to assist the continued development of the group's ability to address contemporary asymmetric threats to regional security, including the threat of international terrorism.

India

Defence Cooperation with India included staff college exchanges and senior visits to and from India, including visits to India by the Chief of Defence Force in August 2004 and the Secretary of the Department of Defence in June 2005. The third Defence Joint Working Group meeting with India, held in March 2005 in Canberra, was a significant event in our strategic dialogue. Australian and Indian principals agreed to continue to develop the Australian-India bilateral defence relationship in areas of mutual interest.

Pakistan

The focus of Defence Cooperation activities with Pakistan were staff college exchanges and training activities in Australia. Pakistan's Chief of Air Force visited Australia in March 2005 and attended the Avalon Air Show.

Bangladesh

The modest defence relationship with Bangladesh continues to be supported by occasional attendance at training activities in Australia.

Outcome Six: Intelligence

The Intelligence and Security Group provides intelligence collection and analysis to support the planning and conduct of ADF operations, Defence policy making and planning, capability development, and wider Government decision making. It also provides, on a whole-of-government basis, a range of information security capabilities and services.

Performance Summary

The Group maintained an intelligence capability, conducted intelligence operations, and provided analysis, to produce timely and high-quality intelligence products to Defence and to other government departments and agencies.

A wide range of intelligence products informed Government policy and planning, provided support to ADF operations and capability development, and assisted decision makers and advisers. Intelligence operations and capabilities provided real-time and near real-time intelligence analysis and products on a continuous basis, including on a 24 hours per day, seven days per week basis in key intelligence areas and where priorities dictated. Services and products were tailored to specific customer requirements.

Support to ADF operations and counter-terrorism efforts are high priorities for Defence intelligence. The increased tempo of ADF operations requiring sustained support, the ongoing war against terrorism, and increased demand for intelligence and security advice continue to place considerable pressure on Defence intelligence resources. Through specific supplementation and the reallocation of resources, the highest priority intelligence requirements continue to be met.

The recommendations affecting Defence intelligence agencies, which flowed from the *Report of the Inquiry into Australian Intelligence Agencies* by Mr Philip Flood in 2004, were implemented quickly. A revised mandate has been agreed for the Defence Intelligence Organisation's reporting and has been introduced successfully. Coordination between the Defence Intelligence Organisation and the Office of National Assessments on forward work programs has been improved and institutionalised. Reorganisation has taken place in the Defence Signals Directorate following the appointment of additional senior executive staff, and Defence intelligence system-wide development, resource and coordination personnel have been placed under the direct control of the Deputy Secretary of the Intelligence and Security Group.

The Defence Imagery and Geospatial Organisation has undertaken significant work to develop and finalise its customer engagement strategy. In filling the position of the Director of the Defence Intelligence Organisation, the Secretary and the Chief of the Defence Force followed the preferred selection path set out by the Inquiry, resulting in the appointment of Major General Maurie McNarn to the position. The shortfall of ADF personnel in the Defence intelligence agencies has been addressed by the Chiefs of Service Committee, which has agreed to increase numbers significantly; with phased increases to begin with effect from current posting cycles.

As with the increase in numbers of ADF personnel, some recommendations will take time to finalise. Agreeing the optimal working arrangements between the Defence Intelligence Organisation and the Joint Operations Intelligence Centre will progress in conjunction with a review of ADF command and control, and will not be complete until well into

2005: high operational tempo has also hampered detailed consideration of the many issues involved. Efforts to upgrade the Defence Intelligence Organisation's business and information technology systems require significant resources and will also take time to complete, although two projects have been established and are well under way for completion in early 2006. On the broader intelligence community-wide issues, the Defence Intelligence Group continues to play its part in the successful implementation of new coordination measures and shaping legislation.

On 16 June 2005, the *Intelligence Services Legislation Amendment Bill 2005* was introduced into the Senate. The Bill implements several recommendations from Mr Flood's report, from a review of the *Intelligence Services Act 2001* coordinated by the Department of the Prime Minister and Cabinet in 2004-05 (initially suggested in the 2002 and 2003 Annual Reports of the Inspector-General of Intelligence and Security), and from the Parliamentary Joint Committee. The Bill was passed through both houses of Parliament in October and is awaiting Royal Assent.

The Bill includes a range of proposed amendments in relation to the Defence Signals Directorate, largely stemming from the experience of operating under the *Intelligence Services Act 2001* over the last three years, as well as amendments relating to the Defence Intelligence Organisation. The Bill also provides for the functions and ministerial accountabilities of the Defence Imagery and Geospatial Organisation to be formalised in legislation, and for scrutiny of the organisation by the Inspector-General of Intelligence and Security. As the majority of the amendments in the Bill relate to the Defence intelligence agencies, the Minister for Defence has agreed to sponsor the Bill through the Parliament.

Capability Performance Information

Output 6.1

Intelligence

This output maintains an intelligence capability to inform Government policy and planning, to support the planning and conduct of ADF operations, and to underpin the development of future ADF capability. It conducts intelligence operations, maintains intelligence capabilities and provides analysis in order to provide a range of timely intelligence products to Defence and to other government departments and agencies.

Performance Targets	Performance
Provide quality intelligence products and services.	<p>Substantially Achieved. The Intelligence and Security Group continued to provide high-level support to Defence and to satisfy the bulk of the Australian Government's high-priority intelligence requirements, with a particular focus on the challenges presented by regional terrorist organisations. The Group's work on regional terrorist groups has led to some success in reducing the threat they pose to Australian and allied interests.</p> <p>The Defence Imagery and Geospatial Organisation's capacity to support domestic counter-terrorism forces, law enforcement agencies and emergency response activity is being enhanced as part of the Government's critical infrastructure protection initiative.</p> <p>The Defence Signals Directorate maintained its important role in protection of Australian official communications and information systems, providing information security advice and services to a range of Australian Government departments and agencies.</p>
Ensure effective and sustainable intelligence support for the planning and conduct of ADF operations and for decision makers.	<p>Substantially Achieved. The Group maintained high-level support to the planning and conduct of ADF operations during the year, specifically support to operations in Iraq and the ongoing deployments in East Timor and the Solomon Islands, while continuing to direct resources to meet the high-priority intelligence requirements of the Government. The Defence intelligence agencies continue to build capacity to respond to the continuing high operational tempo of military operations.</p>
Maintain and develop first rate defence intelligence and geospatial information capabilities.	<p>Substantially Achieved. The Defence Signals Directorate deployed new capabilities developed under a number of Defence major capital equipment projects, further increasing its abilities to meet high priority intelligence requirements. These projects will deliver further capability enhancements in the future.</p> <p>Shortcomings in the Defence Imagery and Geospatial Organisation, highlighted in 2003-04, were remedied with the successful move of the organisation's people and systems into newly refurbished accommodation in Russell Offices Building R4 while maintaining a high operational tempo. Capabilities will be enhanced with the building of a new secure facility in Bendigo to house the Geospatial Analysis Centre.</p>
Maintain the knowledge edge by exploiting new technology.	<p>Partially Achieved. The Group has continued to develop and acquire new technologies to maintain its collection, processing and dissemination capabilities in support of intelligence customers.</p>

<p>Strengthen the intelligence contribution to the United States alliance, and to relationships with other intelligence partners.</p>	<p>Substantially Achieved. The Group is successfully building on its intelligence relationships with the United States and other traditional partners; the United Kingdom, New Zealand and Canada. These relationships are developing on a number of fronts in response to challenges such as terrorism and counter-proliferation.</p>
<p>Improve investment and capability planning, accountability and resource and security management.</p>	<p>Substantially Achieved. The lack of central direction in the management of the Group's investment and capability planning and resource management, identified in Mr Flood's report, has been addressed as outlined in the overview above. The Group continues to contribute to Defence planning and reporting processes, including organisational performance agreements, the Defence Management and Finance Plan, and monthly reporting to the Defence Committee.</p>
<p>Develop motivated, adaptable and skilled teams of highly competent professionals.</p>	<p>Substantially Achieved. Increased recruitment efforts and substantial investment in workforce training to meet current and future demands were made this year. Both the Defence Signals Directorate and the Defence Imagery and Geospatial Organisation ran dedicated graduate recruitment programs in 2004-05. The Defence Imagery and Geospatial Organisation also commenced a traineeship program to recruit geospatial analysts for the Geospatial Analysis Centre in Bendigo. The Defence Intelligence Organisation continues to be a strong supporter of the Defence Graduate Development Program²</p>

² Refer to the Graduate Development Program section of Chapter Three – People.

Cost to Government

The overall cost to Government of Outcome Six was \$459.0m. This was \$5.9m lower than the 2004-05 revised additional estimate of \$464.9m, representing a decrease of one per cent.

Table 4.22 Outcome Six – Intelligence for the Defence of Australia and its Interests

	Budget Estimate ⁽¹⁾	Revised Additional Estimate ⁽²⁾	Actual Result	Variation ⁽³⁾	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Operating Expenses					
Employees - Military	60,649	45,039	50,308	5,269	12
Employees - Civilian	152,446	152,484	149,069	-3,415	-2
Sub-Total Employees	213,095	197,523	199,377	1,854	1
Suppliers expenses	179,562	185,472	200,897	15,425	8
Grants	20	81	41	-40	-49
Depreciation and amortisation	44,678	81,514	68,167	-13,347	-16
Value of assets sold	1,986	3,306	2,479	-827	-25
Write-down of assets	201	22,074	18,414	-3,660	-17
Borrowing costs	362	296	386	90	30
Other expenses	-	-18	188	206	-1,147
Total Operating Expenses from Ordinary Activities	439,904	490,247	489,951	-297	-0
Revenues					
Sale of goods and services	-2,162	-3,519	-3,475	44	-1
Interest			-1	-1	-
Revenue from sale of assets	-1,986	-3,403	-2,886	517	-15
Net foreign exchange gains			-406	-406	-
Assets now recognised	-	-17,092	-20,604	-3,512	21
Other revenues ⁽⁴⁾	-763	-1,322	-3,597	-2,275	172
Total Own Source Revenues	-4,912	-25,336	-30,969	-5,633	22
Cost to Government for Outcome Six	434,992	464,911	458,982	-5,930	-1

Notes

1. Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (p. 192).
2. The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements*.
3. The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.
4. The Actual Result figure for 'Other revenues' includes interest and dividends, net foreign exchange gains/losses, and resources received free of charge.

Explanations for the variations from the revised additional estimate to the actual result are contained in Table 4.26. Outcome Six output level detail is provided in Table 4.23.

Table 4.23 Cost Summary of Output for Outcome Six – Intelligence for the Defence of Australia and its Interests

	Budget Estimate ⁽¹⁾	Revised Additional Estimate ⁽²⁾	Actual Result	Variation ⁽³⁾	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Output 6.1 - Intelligence	434,992	464,911	458,982	-5,929	-1
Cost to Government for Outcome Six	434,992	464,911	458,982	-5,930	-1

Notes

1. Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (p. 191).
2. The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the *Portfolio Supplementary Additional Estimates Statements*.
3. The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.

Outcome Seven: Superannuation and Housing Support Services for Current and Retired Defence Personnel

Administered Activities

Outcome Seven covers administered activities that Defence performs on behalf of the Government. This outcome contributed mainly to the provision of superannuation and housing support services to current and retired Defence personnel. Defence also administered reimbursements from the United Nations for costs associated with Timor-Leste and returns the receipts to the Government.

Outcome 7.1 has been renamed to Superannuation Support Services for Current and Retired Defence Personnel. During the year, two new outputs were added to Outcome Seven to better reflect the different elements and reporting of the outcome. The two new outputs introduced were Output 7.2 – Housing Assistance for Current and Retired Personnel and Output 7.3 - Other Administered Revenues and Expenses.

Output 7.2 is used primarily to report on the administered costs associated with dividends received from the Defence Housing Authority, the Defence housing subsidy payments and any other administered items relating to military personnel housing assistance.

Output 7.3 is used primarily to report on the administered costs associated with interest received on official bank accounts, interest received from United States Government on foreign military sales advances, United Nations revenues and receivables, and net foreign exchange losses and gains.

Details on the performance of Defence's administered activities are outlined below.

Performance Summary

In 2004-05, the net cost of Outcome Seven was \$2.048 billion or \$336m more than the revised estimate of \$1.711 billion. Details by expense and revenue items are provided in Table 4.24, and an output view follows at Table 4.25.

Table 4.24	Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel				
	Budget Estimate ⁽¹⁾	Revised Additional Estimate ⁽²⁾	Actual Result	Variation ⁽³⁾	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Administered Expenses					
Subsidies	7,500	9,250	9,177	-73	-1
Employees	2,329,400	2,429,100	2,772,568	343,468	14
Net foreign exchange losses	-	-	71	71	-
Write down and impairment of assets	-	-	7,391	7,391	-
Other expenses	-	-	4,246	4,246	-
Total Administered Expenses	2,336,900	2,438,350	2,793,453	355,103	15
Administered Revenues					
Goods and services	-2,000	-	-7,822	-7,822	-
Interest	-	-	-3,044	-3,044	-
Dividends	-45,047	-52,600	-70,672	-18,072	34
Net foreign exchange gains	-	-	-	-	-
Military superannuation contributions	-601,389	-672,405	-661,607	10,798	-2
Other sources of non-taxation revenues	-	-2,000	-2,793	-793	40
Total Administered Revenues	-648,436	-727,005	-745,938	-18,933	3
Cost to Government for Outcome Seven	1,688,464	1,711,345	2,047,515	336,170	20

Notes

- Budget Estimates are consistent with the *Portfolio Budget Statements 2004-05* (pp 196-97).
- The Revised Additional Estimate column shows the full year budget in the *Portfolio Additional Estimates Statements 2004-05* including the Portfolio Supplementary Additional Estimates Statements.
- The Variation figures are the difference between the Actual Result and the Revised Additional Estimate.

Table 4.25	Cost Summary of Output for Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel				
	Budget Estimate	Revised Additional Estimate	Actual Result	Variation	Variation
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2004-05 %
Output 7.1 – Superannuation Support Services for Current and Retired Defence Personnel					
Output 7.1 – Superannuation Support Services for Current and Retired Defence Personnel	1,728,011	1,756,695	2,110,961	354,266	20
Output 7.2 – Housing Assistance for Current and Retired Defence Personnel					
Output 7.2 – Housing Assistance for Current and Retired Defence Personnel	-37,547	-43,350	-61,495	-18,145	-42
Output 7.3 - Other Administered Revenues and Expenses					
Output 7.3 - Other Administered Revenues and Expenses	-2,000	-2,000	-1,951	49	2
Cost to Government for Outcome Seven	1,688,464	1,711,345	2,047,515	336,170	20

An explanation of the significant variations follows.

Output 7.1 – Superannuation for Current and Retired Defence Personnel

This item mainly includes the superannuation services provided for current and retired Defence personnel under the Defence Force Retirement and Death Benefits Scheme and the Military Superannuation and Benefits Scheme. The cost to Government of this output increased by \$354.3m due mainly to the inclusion of some new allowances in the definition of salary for superannuation purposes and a higher consumer price index that was assumed

at budget. In addition, there was lower than expected military contributions as a result of fewer ADF members than anticipated.

Output 7.2 – Housing Assistance for Current and Retired Defence Personnel

In 2004-05, Defence and the Defence Housing Authority completed the fifth year of an agreement for the delivery of housing services to ADF members. The agreement can be extended until 2010, subject to the Authority meeting agreed key performance indicators in 2006 and 2008. The overall aim of the Defence Housing Authority is to provide a single point for housing and relocation services to ADF members and their families. This includes housing assistance provided for current and retired Defence personnel under the Defence Home Owner Scheme. This scheme provides a subsidy on the interest payable on a home loan for members of the ADF and is covered by the *Defence Force (Home Loans Assistance) Act 1990*. The actual result is an increased return to Government of \$18.1m from \$43.4m to \$61.5m. This relates to revenue from the Defence Housing Authority for *Tax Equivalent Payments for Land Tax and Stamp Duty* received on 30 June 2005, which was not included in the revised estimates.

Table of Explanations of Significant Variations across Defence Outcomes

Table 4.26 Explanations of Common Variations Across Defence Outcomes	Outcome \$m						
	One	Two	Three	Four	Five	Six	Total
Military Employees							
An overestimate of the accrual leave expenses including bringing to account leave expenses in late 2003-04 rather than in 2004-05 as budgeted - there was no cash impact.	-13.1	-51.6	-99.2	-49.3	-2.2	-2.2	-217.6
An overestimate of Employee Expenses in the original budget.	-7.1	-28.0	-53.8	-26.8	-1.2	-1.2	-118.1
Lower than planned average funded strength across the Services.	-2.4	-9.4	-18.0	-9.0	-0.4	-0.4	-39.6
A one time adjustment to Fringe Benefit Tax expenses to correct timing differences between the Fringe Benefit Tax year and the financial year.	-1.9	-7.5	-14.4	-7.2	-0.3	-0.3	-31.6
Lower than expected Fringe Benefit Tax costs due in part to lower than anticipated staffing level.	-1.5	-6.0	-11.5	-5.7	-0.3	-0.3	-25.2
Increases in health costs relating to medical and professional fees.	1.3	5.1	9.8	4.9	0.2	0.2	21.5
Reduced housing costs, due in part to lower than planned ADF strength.	-1.2	-4.7	-9.1	-4.5	-0.2	-0.2	-19.9
Lower than anticipated expenditure on military employee allowances in relation to overseas operations with funds to be returned to Government under no win - no loss arrangements.	-5.2	-	-	-	-	-	-5.2
Lower than projected use of Reserve Days by non-Service Groups.	-0.3	-1.2	-2.2	-1.1	-	-0.1	-4.9
Error in attribution of operations costs in the original budget.	119.2	-	-119.2	-	-	-	-
Change in the methodology of personnel related attribution rules.	9.7	2.8	2.8	-19.8	2.8	1.7	-
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations.	9.1	-2.5	7.0	-29.7	8.1	8.1	-
Variation Military Employees	106.5	-102.9	-307.9	-148.2	6.6	5.3	-440.6
Civilian Employees							
An overestimate of salary and allowances in the budget.	-2.5	-8.9	-11.2	-9.2	-1.2	-4.3	-37.3
An overestimate of accrued leave expenses including booking the impact of the 2004-06 DECA in 2003-04 rather than as budgeted in 2004-05.	-2.0	-7.3	-9.1	-7.5	-0.9	-3.5	-30.4
Lower than planned average full time equivalent civilian staffing strengths.	-1.1	-3.8	-4.7	-3.9	-0.5	-1.8	-15.8
Other net variations including FBT payments in 2004-05.	-0.4	-1.3	-1.6	-1.3	-0.2	-0.6	-5.3
Variation in civilian redundancies costs.	0.4	1.4	1.7	1.4	0.2	0.7	5.7
An increase in the Comcare Premium.	0.1	0.5	0.6	0.5	0.1	0.2	2.1
An increase in civilian health services expenses.	0.1	0.4	0.5	0.4	0.1	0.2	1.7
Change in the methodology of personnel related attribution rules.	2.9	-4.9	12.4	-12.2	1.4	0.4	-
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations.	2.7	8.3	-7.5	-4.4	-4.4	5.3	-
Variation Civilian Employees	0.2	-15.6	-18.9	-36.2	-5.5	-3.4	-79.3

Explanation of Variation	Outcome \$m						
	One	Two	Three	Four	Five	Six	Total
Suppliers							
Increased operational tempo combined with an understatement of the inventory consumption budget.	4.8	16.7	18.6	17.3	1.5	2.0	61.0
The impact of higher fuel prices.	3.4	11.8	13.1	12.2	1.1	1.4	43.0
Additional expenses for classified projects.	-	-	-	-	-	14.0	14.0
Purchase rather than repair of rotatable items, as maintenance of these items had become uneconomical.	-2.9	-9.9	-11.0	-10.3	-0.9	-1.2	-36.1
The return of funding for a project which is being managed under no win - no loss arrangements.	-	-	-	-	-	-22.0	-22.0
The continued appreciation of the Australian Dollar relative to other currencies, and in particular the United States Dollar.	-1.6	-5.5	-6.1	-5.7	-0.5	-0.7	-20.0
Lower than anticipated Air Force training activities due to higher operational tempo and related aircraft availability.	-	-	-	-11.1	-	-	-11.2
Reduced property disposal cost in line with the reduction in property disposed of in 2004-05.	-0.9	-3.0	-3.4	-3.1	-0.3	-0.4	-11.0
Change in attribution rules to increase costs.	10.0	-18.9	10.4	-15.4	18.9	-4.9	-
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations.	-25.7	17.8	42.8	-69.8	7.7	27.1	-
Variation Suppliers	-12.8	9.0	64.4	-85.8	27.5	15.4	17.7
Grants							
The lower than anticipated expenditure on grants was a result of timing issues.	-0.3	-1.7	-3.5	-1.8	-	-	-7.3
Variation Grants	-0.3	-1.7	-3.5	-1.8	-	-	-7.3
Depreciation and Amortisation							
The impact of extending the life of a number of ADF assets.	-0.4	-10.7	-7.2	-13.9	-0.1	-0.7	-33.0
An overestimate of depreciation expense for infrastructure, plant and equipment due to a change in the asset recognition policy.	-0.4	-10.4	-7.0	-13.5	-0.1	-0.7	-32.0
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations.	-14.2	-74.3	47.5	52.9	0.1	-12.0	-
Variation Depreciation and Amortisation	-15.1	-95.3	33.3	25.5	-	-13.3	-65.0
Value of Assets Sold							
Deferrals, into 2005-06 of a number of properties in the Property Sales Program, including Ermington, Maribyrnong and the Fremantle Oil Fuel Installation.	-3.3	-17.1	-20.0	-28.3	-1.2	-1.4	-71.2
An overestimate of the value of other property, plant and equipment sold during the year.	-0.4	-4.0	-4.5	-4.4	-0.1	-0.2	-13.7
Sale of housing for which Defence owes an annuity to the Defence Housing Authority.	0.8	3.5	6.5	3.4	0.1	0.2	14.5
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations.	0.7	-4.2	10.5	-9.4	1.8	0.6	-
Variation Value of Assets Sold	-2.2	-21.8	-7.5	-38.7	0.7	-0.8	-70.3

Explanation of Variation	Outcome \$m						
	One	Two	Three	Four	Five	Six	Total
Write Down of Assets							
Extensive stocktaking undertaken throughout the year as part of remediation activity.	113.4	222.3	211.9	207.4	3.7	4.6	763.2
Inventory review identified items that are being held for contingency purposes, but are unlikely to be used. This includes excess items related to platforms scheduled to be withdrawn from service.	106.4	208.5	198.8	194.5	3.5	4.3	716.0
Adjustments following a review of financial records of completed estate infrastructure projects.	10.2	40.4	110.0	87.2	2.9	4.2	255.0
Write down of various infrastructure and plant & equipment, including items at RAAF base Curtin, Holsworthy and HMAS Stirling following revaluation of the estate.	3.6	14.1	38.4	30.4	1.0	1.5	89.0
Adjustments to Specialist Military Equipment, including assets under construction to align with the accumulated costs incurred to date.	13.2	25.8	24.6	24.1	0.4	0.5	88.7
A revaluation of the Defence estate by the Australian Valuation Office identified a number of assets required to be written down, including Holsworthy, RAAF bases Williamtown and Amberley and HMAS Albatross.	6.7	23.1	15.6	30.0	0.1	1.5	77.0
The write down of intangibles, including software that was previously capitalised.	0.7	2.5	1.7	3.3	-	0.2	8.5
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations.	-8.1	65.0	46.6	-86.7	3.6	-20.3	-
Variation Write Down of Assets	246.1	601.7	647.6	490.3	15.4	-3.7	1,997.4
Other Expenses							
Other expenses totalling \$5m were incurred during 2004-05, including Defective Administration Scheme payments and other minor expenses.	-0.2	1.7	2.6	1.0	-	0.1	5.1
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations.	1.1	-1.5	-0.3	0.3	0.2	0.1	-
Variation Other Expenses	0.9	0.2	2.3	1.3	0.2	0.2	5.1
Borrowing Cost							
Borrowing cost expense was lower than anticipated due to the buy out of on base Defence Housing Authority annuities.	0.2	-1.3	-3.4	-2.1	0.2	0.1	-6.3
Variation Borrowing Cost	0.2	-1.3	-3.4	-2.1	0.2	0.1	-6.3
Revenue from Sale of Assets							
Deferrals, into 2005-06, of a number of properties in the Property Sales Program, including Ermington, Maribyrnong and the Fremantle Oil Fuel Installation.	3.3	16.1	28.8	20.5	1.2	1.4	71.2
An overestimate of the proceeds from the sale of other property, plant and equipment.	0.3	1.7	3.1	2.2	0.1	0.1	7.6
Higher than anticipated sale proceeds from a number of properties in the Property Sales Program, including Wacol and Bandiana.	-1.6	-8.1	-14.5	-10.3	-0.6	-0.7	-35.9
Revenue received from the sale of housing for which Defence owes an annuity to the Defence Housing Authority.	-1.6	-8.0	-14.3	-10.2	-0.6	-0.7	-35.4
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations.	-1.0	3.8	-11.4	8.7	-0.5	0.4	-
Variation Revenue from Sale of Assets	-0.6	5.5	-8.3	10.8	-0.4	0.5	7.5

Explanation of Variation	Outcome \$m						
	One	Two	Three	Four	Five	Six	Total
Net Foreign Exchange Gains							
Net variations due to the timing difference between when invoices for transactions in foreign currencies are entered in the financial system for payment and the date they are paid.	-1.2	-7.0	-6.0	-6.2	-0.3	-0.4	-21.2
Variation Net Foreign Exchange Gains	-1.2	-7.0	-6.0	-6.2	-0.3	-0.4	-21.2
Assets Now Recognised							
Land and Buildings, including at RAAF bases Townsville and Williamtown, Holsworthy, Robertson Barracks and HMAS Stirling.	-9.5	-25.0	-143.7	-55.6	-2.3	-11.3	-247.4
Continued stocktake adjustments, and positive price adjustments to inventory records.	-19.5	-64.5	-43.0	-64.5	-2.0	-2.0	-195.4
Recognition of other Infrastructure Plant and Equipment, including at Holsworthy, Shoal Bay Receiving Station, HMAS Stirling and RAAF base Edinburgh.	-6.4	-16.8	-96.5	-37.3	-1.5	-7.6	-166.1
Recognition of a number of assets, including artefacts and memorabilia that are, or may be of, historical or cultural significance.	-0.8	-2.1	-12.2	-4.7	-0.2	-1.0	-21.0
Lower than anticipated Specialist Military Equipment as a result of the continuing remediation work, which reflects increased controls on purchasing and accounting for Specialist Military Equipment as Defence continues to improve its stocktaking activities.	22.3	73.4	49.0	73.4	2.2	2.2	222.5
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations.	25.6	-6.0	-32.9	0.6	-3.4	16.1	-
Variation Assets Now Recognised	11.6	-40.9	-279.4	-88.1	-7.0	-3.5	-407.4
Other Revenue							
Prior year adjustments, including the correction, based on audit advice, of the treatment of certain explosive ordinance expenses which should have been treated as prepayments.	-	-29.6	-36.3	-17.1	-	-	-83.0
Settlement of damages including in relation to Collins Class submarines and tactical air defence radar systems.	-4.4	-22.1	-5.0	-4.1	-	-0.4	-36.0
An actuarial gain due to Defence's asbestos related disease exposure liability being revised down during 2004-05.	0.7	-4.7	-7.1	-2.8	0.1	-0.2	-14.0
Higher than anticipated miscellaneous revenue.	-0.4	-0.5	-0.4	-0.3	-	-	-1.7
Additional fuel excise refunds received. Also reflects incorrect attribution rule.	-41.8	16.7	4.7	20.2	-	-	-
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations.	-1.3	-2.3	11.5	-5.5	-0.4	-1.6	-
Variation Other Revenue	-47.3	-42.5	-32.7	-9.5	-0.3	-2.3	-134.7
Total Outcome Variation	295.0	283.8	72.5	115.9	32.8	-5.9	794.1

CHAPTER FIVE

GROUP CONTRIBUTIONS

This chapter describes the contribution and key achievements in 2004-05 of the Defence Groups that:

- Provide the equipment, infrastructure and other support that help to deliver Defence outputs.
- Advise and support the Government and Defence to ensure the efficient and effective operation of Defence and the development of future capabilities.



Capability Development Group
Chief Finance Officer Group
Corporate Services and Infrastructure Group
Defence Science and Technology Organisation
Intelligence and Security Group (Defence Security Authority)
Vice Chief of Defence Force Group
Chief Information Officer Group
Defence Personnel Executive
Inspector-General
Coordination and Public Affairs Division

Capability Development Group

Overview

The role of the Capability Development Group is to develop and gain Government approval for future defence capabilities. The Capability Development Group has a close relationship with the Defence Materiel Organisation and oversees the implementation of a number of the Defence Procurement Review recommendations.

The Capability Development Group consists of:

- **Capability Systems Division**, which manages the development of future capability options to assist government decision making on investment in major capital equipment for the ADF;
- **Capability, Investment and Resources Division**, which provides independent analysis and review of capability issues including the balance of investment in capability (current and future), the future structure of the ADF, major investment proposals, preparedness and priorities;
- **Capability and Plans Branch**, which seeks to ensure that current and future capabilities align with the Government's strategic priorities. The branch oversees issues relating to capability guidance, preparedness management, mobilisation and network centric warfare implementation;
- **the Directorate of Trials**, which supports Capability Development Group staff in defining the test and evaluation concepts that will inform capability development, acceptance and utilisation decisions. The directorate also coordinates joint test and evaluation policy and conducts Defence trials that cross Service, Defence and international boundaries;
- **the Australian Defence Simulation Office**, which develops and oversees the implementation of Defence simulation policy and the Defence Simulation Plan providing guidance on, and sponsorship of, simulation projects to enhance capabilities, save resources and reduce risk across the Defence organisation; and
- **the Office of Interoperability**, which oversees interoperability issues concerning capability development. The office is also responsive to the Chief of Joint Operations for interoperability issues with an operations perspective, and to the Strategy Group for consideration of current and emerging strategic affecting interoperability.

Resources

The Group's total spend for 2004-05 was \$39.5m, consisting of \$2.8m capital budget and \$36.7m operating budget (of which \$3.7m was managed on behalf of the portfolio).

As at 30 June 2005, the Capability Development Group had 147 military personnel and 111 Australian Public Service staff¹.

Key Achievements for 2004-05

The following significant projects progressed for Government decision included:

¹ Further information on Defence's people can be found in Chapter Three – People.

- acquisition of an additional squadron of 12 trooplift helicopters together with associated training and support equipment and facilities (AIR 9000 Phase 2);
- the upgrade of the F/A-18 aircraft's electro-optic imaging weapons system (AIR 5376 Phase 2.4);
- the upgrade of the area air defence missile system in four of the Adelaide-class guided missile frigates and the acquisition of stock to outfit the ships (SEA 1390 Phase 4B);
- acquisition of equipment to improve healthcare in future deployments, including disease prevention and diagnosis, casualty treatment and casualty evacuation (JP 2060 Phase 2B);
- first pass approval for a number of major projects including Australia's new air warfare destroyers, the provision of funding to undertake platform systems design and the Aegis combat system design and the selection of a ship builder (SEA 4000 Phases 1C, 1D and 2); and
- rapid acquisition to equip the AP-3C Orion maritime patrol aircraft with electronic warfare self protection systems to protect the aircraft and the crew against threats caused by surface-to-air missiles (AIR 5276 Phase 4).

Other initiatives in support of capability development included the:

- completion of the first Defence Capability Strategy in April 2005, which clearly links strategy to capability decisions;
- development of Materiel Acquisition Agreements with the Defence Materiel Organisation for 194 legacy acquisition projects, as well as improved arrangements for project and financial reporting;
- establishment of the Network Centric Warfare Program Office to oversee capability integration by fostering consistent architectures and standards;
- establishment of the Rapid Prototyping, Development and Evaluation Program to accelerate the ability of the ADF to conduct Network Centric Warfare. This unique program aims to rapidly resolve operational problems through a number of specialised teams recruited from a broad cross-section of industry; and
- establishment of the Joint Combined Training Centre Project, which aims to enhance existing bilateral training in order to increase and measure operational capability and preparedness, improve interoperability and facilitate capability development.

Chief Finance Officer Group

Overview

The role of the Chief Finance Officer Group is to deliver a financial strategy that enables Defence to achieve the results specified by the Government. The financial strategy includes a ten-year Defence Management and Financial Plan, in-year budget management and reporting of Defence's financial accounts.

The major functions of the Group are to:

- advise on key resourcing issues within the guidance provided by the Defence Committee;
- deliver a finance strategy to ensure it delivers the results specified by the Government, by providing financial advice and management to support Defence as a whole;
- assist the Secretary in exercising his statutory responsibilities and authority, particularly under the *Public Service Act 1999* and the *Financial Management and Accountability Act 1997*; and
- provide independent financial analysis and review of capability and investment issues.

The Group consists of:

- **the Budgets and Financial Planning Division**, providing a whole-of-Defence focus to the planning, management, monitoring and reporting of key deliverables, including Defence's outputs, to the Government;
- **the Financial Services Division**, delivering a range of financial services including the development and provision of financial management and accounting policies, and the management of the accounting business systems and treasury and tax management functions;
- **the Financial Controls Framework Branch**, managing the implementation of a comprehensive Financial Controls Framework across Defence to draw together, in a structured and integrated fashion, all of the components necessary to build a best practice financial management environment for Defence; and
- **the Financial Statements Remediation Program Office**, overseeing the Audit Remediation Plans and assisting groups in longer term activities to resolve adverse audit findings.

Resources

The Group's total spend for 2004-05 was \$324.5m, consisting of \$6.9m capital budget and \$317.6m operating budget (of which \$281.0m was managed on behalf of the portfolio).

As at 30 June 2005, the Chief Finance Officer Group had 265 Australian Public Service staff¹.

Key Achievements

In the *Defence Annual Report 2003-04*, the Secretary and the Chief Finance Officer reported that they could not form the opinion that Defence's 2003-04 Financial Statements gave a

¹ Further information on Defence's people can be found in Chapter Three – People.

true and fair view of the organisation's financial position. The Australian National Audit Office identified 95 audit findings requiring resolution.

The Group's achievements in 2004-05 related to the remediation of these findings include:

- the establishment of dedicated program offices in the Chief Finance Group and the Defence Materiel Organisation to drive Defence's remediation and financial controls framework reforms;
- a financial controls framework for all Groups and a 'three-on-one' reporting process where Group Heads will report to the Secretary, Chief of the Defence Force and the Chief Finance Officer on their progress under the framework;
- specific accountability for four of the 16 remediation plans; and
- a series of Senior Leadership Team Finance courses commencing in June 2005 with plans to introduce a series of Executive Level Two courses early in the 2005-06 financial year.

Other key achievements during 2004-05 include the:

- provision of financial policy and resource advice to the Ministers, Secretary, Chief of the Defence Force and other senior executives in Defence;
- management of the 2004-05 Budget to optimise Defence's Outcomes, including the management of additional funding for a range of operational commitments;
- development of the 2005-15 Defence Management and Finance Plan including the resource strategies proposed for the Senior Ministers' Review process;
- management of the 2005-06 Defence Budget process for consideration by the Government in March 2005;
- delivery of the second tranche of the \$200m Program of Administrative Savings in accordance with the agreed Government schedule;
- development of the funding and business model to support the Defence Materiel Organisation as a prescribed agency from 1 July 2005, including the separation of budgets and balance sheets;
- ongoing improvement to Defence's budgeting and reporting systems including implementation of revised whole-of-government reporting arrangements;
- clearance of the financial aspects of all Cabinet and Ministerial Submissions;
- improvement of working relationships with the Australian National Audit Office and the Department of Finance and Administration;
- development of accounting policy relating to audit remediation and the transition to the Australian Equivalent of International Financial Reporting Standards;
- obtaining of Government approval to upgrade the Defence financial management system (ROMAN) to current software release and improved functionality. JP 2080 Phase 2B-1 was ready for first pass approval in June 2005;
- establishment of the Budget and Output Reporting Information System as a corporate budgeting and reporting tool with full financial variance reporting available to all Groups and Services; and
- release of the revised Defence Accounting Policy Manual (Defence Reference Book 48).

Corporate Services and Infrastructure Group

Overview

The Corporate Services and Infrastructure Group supports Defence capability by creating and sustaining the working, training and living environments for more than 90,000 ADF personnel, Defence civilians and contracted service providers.

The Group consists of three divisions - Infrastructure, National Operations, and Defence Legal (established in July 2004). The Group provides garrison and base support services (including catering, cleaning, grounds maintenance, access control, training range management and airfield support services); personnel administration and pay; business services (including travel, insurance and finance); and legal services. The Group is also largely responsible for the management of the Defence estate (which comprises land, buildings and infrastructure valued at \$15.6 billion) including acquisitions and disposals, leases, facilities development and maintenance, and environment and heritage matters.

Resources

The Group's total spend for 2004-05 was \$3.1 billion, consisting of \$0.4 billion capital budget and \$2.7 billion operating budget (of which \$0.8 billion was managed on behalf of the portfolio).

The Corporate Services and Infrastructure Group provides services through an integrated Australian Public Service, ADF and contractor workforce and has representatives working at every major Defence establishment in 12 regions across Australia. As at 30 June 2005, 1,262¹ ADF and 4,116 Australian Public Service personnel worked in the Group².

Key Achievements for 2004-05

During 2004-05, the Corporate Services and Infrastructure Group:

- provided training areas, ranges, environment and garrison services to the Australia-United States Exercise Talisman Sabre 05 and the Singaporean Exercise Wallaby 04;
- delivered more than 600 individual estate upkeep and facilities maintenance works, fully expending the supplemented budget in 2004-05. These works were prioritised in accordance with the *Australian/New Zealand Standard for Risk Management (AS/NZS 4360:2004)*;
- delivered upgraded safety control communications at 24 major Defence training areas in Australia;
- achieved the gazettal of the Bradshaw Field Training Area as a Defence Practice Area. This achievement included the successful negotiation of a landmark Indigenous Land Use Agreement between the Commonwealth, traditional owners and the Northern Land Council. Bradshaw will now be developed to become the principal manoeuvre and live firing training facility for the Army's mechanised force;
- implemented two significant business improvement reforms; the Defence Travel Card and the Invoice Scanning and Imaging System. The new travel card provides

¹ Inclusive of personnel posted to pool positions in the Corporate Services and Infrastructure Group.

² Further information on Defence's people can be found in Chapter Three – People.

travellers with increased flexibility in arranging and paying for business travel, ensures prompt payments to suppliers and enables the recovery of the GST not previously achievable. The Invoice Scanning and Imaging System utilises optical character recognition technology to automate the payment of accounts resulting in the more timely payment of invoices. This has enabled centralisation of the payment function into two business centres in regional Victoria and South Australia, which has reduced the overall number of staff required to process payments but has created additional employment in these two regions;

- finalised a new removals brokerage contract with Toll Transitions in June 2005, providing removals, storage, vehicle relocation and unpacking services. The new contract provides for an improved relocation service for around 21,000 Defence personnel who relocate each year. The contract also provides for increased utilisation of computer-based systems to complete removal requirements in a quicker time frame. The contract is based on specific performance criteria, includes a risk/reward regime and encourages Defence and industry innovation;
- commenced the re-tendering process for the provision of garrison support and comprehensive maintenance services across Defence bases, to be completed in 2007. Two of 11 regions have transitioned to new contracts, with a third soon to commence transition. The contracts in these three regions represent an annual value of about \$140m and provide for a level of small and medium enterprise involvement with benefits to the economies of several regional communities;
- managed and oversaw around 50 environmental impact assessments for military equipment, exercises and infrastructure developments, approximately 35 contamination investigations and six collaborative research projects with the Centre for Environmental Risk and Remediation;
- signed, in April 2005, the Land Development Cooperation Agreement between Defence and the South Australian Land Management Corporation for the sale of approximately 500 hectares of former Defence land at Edinburgh, South Australia. The land is being developed in cooperation with the three tiers of Government over the next 10-20 years;
- completed a number of Capital Facilities Projects including the:
 - Canberra Intelligence Facilities Russell Offices, Australian Capital Territory (\$16m);
 - RAAF Townsville Redevelopment Stage 2, Queensland (\$72m);
 - Oakey Base Redevelopment, Queensland (\$80m);
 - RAAF Edinburgh – Redevelopment Stage 1, South Australia (\$41m);
 - RAAF Darwin – Base Redevelopment Stage 1, Northern Territory (\$13m); and
 - Canberra Multi-User Depot, Australian Capital Territory (\$13m);
- progressed the tender process for the construction of the Headquarters Joint Operations Command facility following the approval of the Joint Standing Committee on Public Works' Report into the project by the Parliament on 12 August 2004. Land for the facility, and the primary access road, were acquired by the Commonwealth on 22 March 2005. Tenders for the private financing components of the project have been received and are under evaluation. It is anticipated that the successful tenderer will be announced in early 2006.

Defence Science and Technology Organisation

Overview

The Defence Science and Technology Organisation supports Australia's defence by:

- investigating future technologies for defence applications;
- ensuring Australia is a smart buyer of defence equipment;
- developing new defence capabilities; and
- enhancing existing capabilities by increasing operational effectiveness, improving safety, maximising availability and reducing the cost of ownership.

The Defence Science and Technology Organisation's capability also supports whole-of-government national security needs.

The Defence Science and Technology Organisation works closely with industry, university, government and other science and technology communities to support Australia's defence capabilities and to contribute to national wealth.

Resources

The Group's total spend for 2004-05 was \$319.2m, consisting of \$14.5m capital budget and \$304.7m operating budget (of which \$6.0m was managed on behalf of the portfolio).

As at 30 June 2005, the Organisation had 2,229 Australian Public Service staff and 18 military personnel¹.

Key Achievements for 2004-05

During 2004-05, the Defence Science and Technology Organisation:

- developed the technical risk assessment, including risk mitigation strategies, for the Air Warfare Destroyer project (SEA 4000) to facilitate its progression to the acquisition phase; and assisted in evaluating proposals for the ship builder and designer;
- identified acquisition options for unmanned combat aerial vehicles as part of the New Aerospace Combat Capability (AIR 6000) project;
- developed science and technology plans and operational concept documentation to support the acquisition of the Multi-mission Unmanned Aerial Vehicle and Maritime Patrol Aircraft Capability project (AIR 7000);
- supported emulated mission computer development for Seahawk helicopters as part of the risk mitigation activity for the Seahawk Mid-life Upgrade project (AIR 9000);
- further developed the soldier combat system test-bed to facilitate systems integration as part of the Soldier Combat System project (LAND 125);
- conducted the anti-tank missile test-firing program to assess and improve target identification as part of the Armed Reconnaissance Helicopters project (AIR 87);

¹ Further information on Defence's people can be found in Chapter Three – People.

- designed and conducted three exercises to develop tactical procedures as part of introducing into service the Airborne Early Warning and Control system;
- conducted a successful demonstration of the surveillance picture dissemination capabilities for networked unmanned aerial vehicles, and developed and demonstrated an unmanned-underwater-vehicle deployable undersea global-positioning-system navigation-system, both as part of the automation of the battlespace initiative to avoid attritional conflict and to reduce the cost of ADF operations;
- developed improved logistics models to reduce the cost of operations and ownership;
- completed a trial at the White Sands Missile Range to support developing Defence's ballistic missile detection capabilities as part of ongoing missile defence collaboration with the United States;
- conducted an experimentation program to assist decisions concerning future force structures for the Navy, Army, and Air Force;
- conducted studies and provided recommendations on improving Defence's counter-intelligence capabilities;
- maintained effective science and technology relationships via The Technical Cooperation Program and also other bilateral arrangements. Part of The Technical Cooperation Program's ongoing work is to harmonise research approaches to network centric warfare;
- implemented three major initiatives flowing from the Trenberth Review into the Defence Science and Technology Organisation's External Engagement and Contribution to Australia's Wealth⁽²⁾. The organisation established a Technology Transfer Advisory Group so that selected industry expertise could assist the organisation to evaluate and commercialise its Intellectual Property; established the Defence Science Access Network to enhance the bilateral information flow between the Defence Science and Technology Organisation and industry; and expanded the Capability Technology Demonstrator program;
- contributed to national research priorities, in particular, the 'Safeguarding Australia' priority⁽³⁾. The Defence Science and Technology Organisation demonstrated its commitment to the Government's promotion of collaboration on counter-terrorism research under that priority by joining the Publicly Funded Agencies' Collaborative Counter-Terrorism research program (launched in March 2005). This program brings together the Defence Science and Technology Organisation, the Commonwealth Scientific and Industrial Research Organisation, the Australian Nuclear Science and Technology Organisation and Geoscience Australia to work collaboratively on counter-terrorism research; and
- established a civilian counter-terrorism research program in response to Government policy. As part of this research program, studies were conducted to improve the Australian capability to respond to chemical, biological, nuclear and radiological attacks.

2. Further information is available at: <http://www.dsto.defence.gov.au/collaboration/page/3125/>

3. National research priorities are coordinated by the Department of Education, Science and Training. See: http://www.dest.gov.au/sectors/research_sector/policies_issues_reviews/key_issues/national_research_priorities/priority_goals/safeguarding_australia.htm

Intelligence and Security Group

The intelligence function of the Intelligence and Security Group is reported in Outcome Six in Chapter Four – Outcome Performance. Information about, and the achievements of, the Defence Security Authority are below.

Overview

The Defence Security Authority coordinates security across Defence by working with ADF commanders, civilian executives and Defence industry to protect Defence's people, information and assets. The Authority's central policy area in Canberra and seven state and territory offices across Australia are responsible for the development of security policy and provision of specialist security services, such as:

- security vetting of personnel;
- security intelligence – including domestic, Defence-specific threat assessments;
- negotiation of bilateral security instruments for the reciprocal protection of classified information;
- security training and awareness activities;
- assessing Defence's security performance against the requirements prescribed in security policy;
- technical counter-measures services; and
- security investigations into serious and complex incidents.

Resources

The total spend for the Defence Security Authority for 2004-05 was \$43.4m, consisting of \$0.2m capital budget and \$43.2m operating budget.

As at 30 June 2005, the Authority had seven military personnel and 362 Australian Public Service staff¹.

Key Achievements for 2004-05

During 2004-05, the Defence Security Authority:

- developed and provided security policy, procedures and practices that met the requirements of all Defence stakeholders including an updated Defence security manual which was released on 1 September 2005;
- continued to reduce the backlog of personnel security vetting requests. The Defence Security Authority is responsible for managing over 120,000 clearances – mainly for Defence, but also including Defence industry and senior personnel from other agencies. Priority is given to operational and short-notice deployments;

¹ Further information on Defence's people can be found in Chapter Three – People.

- delivered security training and awareness activities across Defence, to instill and promote a culture of security. The Defence Security Authority conducts security awareness training primarily for Defence civilians and ADF personnel in joint units and has developed new security awareness initiatives following the completion of a Defence-wide security awareness survey:
 - During 2004-05, the Defence Security Authority trained 911 Unit/Facility Security Officers and provided 223 security awareness presentations for a total of 9,566 personnel. In addition, technical counter-measures awareness sessions were given to some 826 personnel, and a redeveloped course for Information System Security Liaison Officers was piloted and established.
 - The results of the most recent Defence Attitude Survey were positive, but indicated the need for greater emphasis on security awareness training specifically for personnel in supervisory roles.
- provided security threat intelligence assessments (with input from the Australian Security Intelligence Organisation) to support Defence domestic security;
- improved Defence's counter-intelligence capability, including enhanced relationships with other Government agencies;
- completed 114 investigations into serious and complex security incidents;
- managed the Defence Industry Security Program to facilitate industry compliance with Defence security policy;
- managed the exchange of classified information with other countries to support Defence objectives;
- delivered information security support, including security advice on current technology and monitored the introduction of emergent technologies for security implications. The Defence Security Authority also provided security advice to facilitate the information and communications technology links to coalition and multinational networks; and
- maintained an effective technical counter-measures capability, and commenced an upgrade program to modernise this capability.

Vice Chief of the Defence Force Group

Overview

The Vice Chief of the Defence Force Group includes both the Joint Operations Command (which delivers Outcome 1 – Command of Operations) and a number of owner support functions. The performance of the Joint Operations Command is reported in Chapter Four – Outcome Performance.

The owner support functions include providing joint logistics support to capability development, ADF Reserve Policy, ADF Cadet Policy, the management of the ADF Parliamentary Program and the National Welfare Coordination Centre.

The Vice Chief of the Defence Force is both a Group Head and the Chief of Joint Operations. In this role, he commands ADF operations on behalf of the Chief of the Defence Force, and he acts as Chief of the Defence Force whenever the Chief of the Defence Force is absent from duty.

The Vice Chief of the Defence Force Group comprises:

- **Joint Logistics Command** - responsible for strategic logistics by determining and harnessing Defence, domestic and international support, and through the operation of regional Joint Logistics units and through contractors;
- **Reserve Policy Division** - provides advice to the Chief of the Defence Force on matters concerning Reserve personnel, and assists with the coordination of single-service Reserve non-operational activities;
- **Cadet Policy Division** - works with ADF cadet organisations to assist them to become a source of potential recruits by presenting the ADF as an employer of choice through a series of projects designed to improve the cadet experience and removing the barriers to the recruiting process;
- **the ADF Parliamentary Program** - aims to provide parliamentarians with a rewarding, memorable and educational experience with the ADF, and so enable them to contribute to debate on Defence and national security issues in an informed and constructive manner; and
- **the National Welfare Coordination Centre** - provides welfare and family support to personnel deployed on, and in support of, specific operations who are away from their home location, including visitors and Defence civilians.

Resources

The Group's total spend for 2004-05 was \$278.2m, consisting of \$7.6m capital budget and \$270.6m operating budget (of which \$15.2m was managed on behalf of the portfolio).

As at 30 June 2005, the owner support function of the Vice Chief of the Defence Force Group had 357 military personnel and 705 Australian Public Service staff¹.

¹ Further information on Defence's people can be found in Chapter Three – People.

Key Achievements for 2004-2005

During 2004-05, the owner support elements of the Vice Chief of the Defence Force Group:

- progressively implemented the Defence Integrated Distribution Contract with TenixToll Defence Logistics;
- commenced the Stocktake Remediation Project to improve reporting of stocktaking;
- established a working group to review Reserve remuneration following the Government's 2004 election policy commitment to further enhance the contribution of Reserves to operations in the defence of Australia and its interests;
- developed a Government-approved plan to remove barriers to indigenous participation in ADF cadets;
- implemented the 'Pathways Project' which is designed to present the ADF as an employer of choice to ADF cadets; and
- provided welfare and family support assistance to 9,786 ADF families during the period. The centre also provided briefings to a number of commanders and members on the ADF welfare systems.

Chief Information Officer Group

Overview

The Chief Information Officer Group was formed in December 2004 following the amalgamation of the Office of the Chief Information Officer and the Information Systems Division of the Corporate Services and Infrastructure Group (see Chapter One – Organisational Changes). This structure will continue to be consolidated in 2005-06. The Group manages the Defence information environment, either through its own resources or through the governance of initiatives that contribute to, or depend on, the Defence information environment.

The Group comprises:

- **Information Capability Management Division** - responsible for Defence information environment capability planning and program management, managing the major Defence networks, and providing network support to military operations. The head of the division is the principal strategic adviser to the Chief of the Defence Force on information systems support to military operations;
- **Information Systems Division** - responsible for the development of major Defence networks and many of the enterprise applications that support Defence management processes; and
- **Business Management Branch** - provides business support services to the Group.

Resources

The Group's total spend for 2004-05 was \$506.0m, consisting of \$43.1m capital budget and \$462.9m operating budget (of which \$13.1m was managed on behalf of the portfolio).

As at 30 June 2005, the Chief Information Officer Group had 409 military personnel and 614 Australian Public Service staff¹.

Key Achievements for 2004-05

During 2004-05, the Chief Information Officer Group:

- was formed in accordance with the recommendations of an external study into the Defence information environment organisational arrangements. The focus for 2004-05 was on consolidating functions and processes and transferring enterprise application development functions and resources from other Defence Groups;
- introduced a framework to formalise the relationship between those areas of Defence responsible for business process definition and standardisation and the Chief Information Officer Group. As part of this framework, the Chief Information Officer Group has taken ownership of the information and records management processes for Defence;

¹ Further information on Defence's people can be found in Chapter Three – People.

- developed and published the strategic vision for the Defence information environment in support of Defence's future warfighting concept;
- developed and continues to implement integrated strategic planning and risk management processes which more transparently connect Defence information management investment with Defence plans and priorities;
- completed a baseline review of Defence expenditure on the information systems and capability. Defence systems are also being modified to provide the ability to routinely report on this aspect of Defence expenditure; and
- initiated a comprehensive program to implement the recommendations arising from the portfolio evaluation of corporate governance of the Defence information environment.

Defence Personnel Executive

Overview

The Defence Personnel Executive enables Defence capability by providing personnel planning, policies and services that attract, recruit, develop, retain and transition the right people. Defence's need for skilled personnel has never been greater and, as technology increases and Australia's demographics alter, this will not abate and Defence must compete with the private sector to be an employer of choice.

The Defence Personnel Executive comprises:

- **Workforce Planning, Research and Retention** - provides an integrated strategic personnel planning capability, including development of the Defence Workforce Plan and the Defence People Plan;
- **Personnel Policy and Employment Conditions** - develops policies relating to salaries, allowances and conditions of employment for military and civilian personnel, including personnel management of civilian staff;
- **Career Management Policy** - provides a range of policies and services including the management of senior ADF and Australian Public Service staff, senior leadership development, honours and awards, equity and diversity, non-financial conditions of service and management of formal complaints;
- **Defence Force Recruiting** - responsible for ADF recruitment including advertising and market research, career counselling, applicant management and enlistment into the Services;
- **Defence Health Service** - provides a range of medical, dental and mental health care for ADF personnel before, during, and after, operational deployments, and, from a health perspective, is responsible for the preparedness of the ADF for operations;
- **Occupational Health, Safety & Compensation** - supports Defence's corporate occupational health and safety governance responsibilities and provides relevant products and services;
- **Defence Education, Training & Development** - provides non-operational education and training policies and services, including management of the Defence's eLearning environment;
- **Defence Community Organisation** - provides support services for ADF personnel and their families, particularly when personnel are deployed on operations. Programs include childcare, family education support (including families with special needs) and spouse employment assistance; and
- **Personnel Systems** - enables the implementation of a unified personnel management and pay system (PMKeyS) to support decision making in Defence.

Organisationally and administratively the Australian Defence College is part of the Defence Personnel Executive. The College is responsible for providing career education to military officers and other officials from Australia and overseas to promote the learning and development of leaders and managers. The College comprises three tri-service educational organisations; the Centre for Defence and Strategic Studies, the Australian Command and Staff College, and the Australian Defence Force Academy.

Resources

The Group's total spend for 2004-05 was \$549.2m, consisting of \$1.2m capital budget and \$548.0m operating budget (of which \$210.0m was managed on behalf of the portfolio).

As at 30 June 2005, the Defence Personnel Executive included 1,976 military personnel and 1,294 Australian Public Service staff ¹.

Key Achievements for 2004-05

During 2004-05, the Defence Personnel Executive:

- developed the *Defence Workforce Plan 2005-15*, which provides senior Defence decision makers with an annual high-level summary of the pressures facing the workforce over the coming decade;
- developed the *Defence People Plan 2005-15*, which sets out strategies to address workforce issues identified through the Defence Workforce Plan, in particular retention and recruitment;
- reformed the way in which ADF personnel access, understand, and apply their conditions of service, including the release of a revised *ADF Pay and Conditions Manual*;
- completed the *Defence Attitude Survey 2004*, which measured Defence's organisational climate, including supervisor leadership, Service life and career intentions;
- continued implementation of the *Defence Occupational Health and Safety Strategic Plan 2004-06*;
- completed a review into Defence Health Services and consequently established a new two-star permanent Head Defence Health Service, in line with the Government's election commitment, supported by a Reserve two-star Surgeon-General;
- completed a joint review, with the Ombudsman, into the ADF Redress of Grievance System;
- continued to implement e-learning across Defence, providing more than 30 online courses with over 80,000 enrolments. Defence was recognised in June 2005 for its implementation of eLearning, receiving the International Computerworld 21st Century Achievement Award for innovative use of information technology;
- negotiated a new contract for the provision of childcare services for Defence staff, which significantly improves access to childcare at Defence locations across Australia;
- issued over 50,000 medals to serving and ex-serving members and assessed the eligibility of some 5,000 ex-serving members for the Pinjat Jasa Malaysia Commemorative Medal; and
- arranged several concert tours for ADF members deployed to East Timor, the Middle East Area of Operations and the Solomon Islands.

Performance against the implementation of the People Matter Priorities, for which the Defence Personnel Executive is primarily responsible, can be found in Chapter Three – People.

¹ Further information on Defence's people can be found in Chapter Three – People

Inspector-General

Overview

The Inspector-General Group provides Defence with independent advice on the efficient, effective, and ethical use of Defence resources based on the findings of portfolio evaluations, internal audits, and investigations.

Resources

The Group's total spend in 2004-05 was \$9.5m, which is the operating budget (of which \$0.2m was managed on behalf of the portfolio).

As at 30 June 2005, the Inspector-General Group had three military personnel and 92 Australian Public Service staff¹.

Key Achievements for 2004-05

The key achievements of the Inspector-General's Group are reported in the Internal Audit and Risk Management Arrangements section in the Appendices and in the Defence Whistleblower Scheme section of Chapter Three – People.

¹ Further information on Defence's people can be found in Chapter Three – People.

Coordination and Public Affairs Division

Overview

The role of the Coordination and Public Affairs Division is to assist the Chief of Staff Australian Defence Headquarters/Head Coordination and Public Affairs in supporting the Secretary and the Chief of the Defence Force in the effective management of Defence.

The Head of the Coordination and Public Affairs Division is responsible for ensuring the provision of timely, accurate, coordinated and considered advice to the Ministers, the Parliamentary Secretary, the Government and the Parliament; working with the Services and Groups to improve coordination, communications, issues management and governance in Defence; actively managing and coordinating whole-of-Defence issues; providing public affairs support for the Defence Portfolio including for military operations; and progressing the organisational renewal program in Defence.

While the division is mainly located in Canberra, regional public affairs offices are located in Sydney, Brisbane, Townsville, Darwin, Perth, Adelaide and Melbourne.

Resources

The Group's total spend for 2004-05 was \$17.7m, consisting of \$0.2m capital budget and \$17.5m operating budget.

As at 30 June 2005, the Coordination and Public Affairs Division comprised 46 military personnel and 130 Australian Public Service staff.

Key Achievements for 2004-05

During 2004-05, Coordination and Public Affairs Division:

- established a comprehensive intranet site which provides Defence's people with advice on the provision of support to the Ministers and related processes. The Division has had very positive feedback from Defence staff and the Ministers;
- improved monitoring of Defence's progress in delivering key election commitments and other priorities as determined by the Government;
- supported dedicated staff information sessions and formal monthly ministerial writing courses to educate staff and raise awareness about accountability to the Government;
- established the Australian Defence Headquarters' network to improve the high-level coordination and flow of information between Services and Groups;
- provided deployed public affairs support to ADF operations in Iraq, tsunami assistance in Sumatra, Solomon Islands, Timor-Leste and 90th anniversary of the Gallipoli landings through the 1st Joint Public Affairs Unit. In addition, the unit provided tactical public affairs support to seven major ADF combined/joint exercises and events;
- undertook 1,706 imagery tasks, processing 35,000 new still images and digitally archiving 10,000 historic images. In addition, 38 hours of vision of Defence activities was processed, with 141 Defence video news releases, 54 compiles and 93 web videos being issued;

- fielded 8,666 media inquiries and issued 1,571 media releases and alerts in support of Government and departmental announcements, media launches, events and in response to emerging issues;
- conducted 32 formal public affairs training courses for 453 Defence participants and provided a total of eight media awareness training and media operations simulation sessions in support of Defence colleges, organisations and military units preparing to deploy for operations;
- received and processed 384 requests in support of commercial film and television productions/documentaries and applications of Commonwealth copyright material;
- continued to improve the useability and service delivery of the Defence Internet homepage. The defence.gov.au domain had 24.1 million pages viewed;
- produced 69 issues of the Navy, Army and Air Force newspapers, distributing a total of 1.5 million copies to Defence members and subscribers annually;
- established a re-vamped quality monthly Defence Magazine, which is a key internal communications tool that complements the Service newspapers; and
- consolidated the Results Through People philosophy, which seeks to create an organisational climate in which people can do their best, by delivering 47 workshops; and expanding the Results Through People network to encompass around 30 regional leaders at major Defence locations throughout Australia and Defence staff based at the Australian Embassy in Washington.

Responsiveness to Ministers

The Defence Committee continues to receive a monthly report on Defence's performance in meeting the provision of high quality, coordinated advice to the Ministers and Parliamentary Secretary.

Defence provided its Ministers and Parliamentary Secretary with 5,308 submissions or briefs during 2004-05.

Defence prepared and dispatched 5,869 responses to ministerial representations. Approximately 70 per cent of this correspondence was completed on time. Because of an increase in the number of letters requiring complex responses across Defence, the percentage of responses completed on time fell in 2004-05.

Types of Advice/Correspondence	2001-02	2002-03	2003-04	2004-05
Submissions and briefs	2,955	4,250	5,093	5,308
Responses to ministerial representations prepared and dispatched	8,777	12,564	11,240	5,869
Percentage of responses completed on time	76%	83%	77 %	70%

During the year, 36 Cabinet Submissions or memoranda were provided to Cabinet or its National Security Committee.

During 2004-05, Defence received 195 Parliamentary Questions on Notice, and submitted 137 responses to Hansard. In addition, five questions from the Senate were transferred to other portfolios. Defence also responded to 156 questions on notice through parliamentary committees.

CHAPTER SIX

DEFENCE MATERIEL ORGANISATION

This chapter provides an overview of the Defence Materiel Organisation (DMO), including its reform initiatives, budget and achievements against the Top 30 approved major capital equipment projects. The Organisation became a prescribed agency on 1 July 2005.



Overview
Prescription Achieved
Materiel Reform
Approved Major Capital Equipment Projects

Overview

The Defence Materiel Organisation (DMO) equips and sustains the ADF through the acquisition of capital equipment assets and the sustainment of these assets. The DMO's vision is to become Australia's premier program management and engineering services organisation, delivering projects and materiel support on time, on budget and to the required quality, capability and safety.

There are eight divisions in the organisation, which are categorised as 'domains' or 'operations', as well as five major programs. Within the DMO, the term 'domain' is used to describe the section of the organisation responsible for the acquisition and sustainment of ADF equipment in a specific environment. The 'domains' are Aerospace Systems, Maritime Systems, Electronic and Weapons Systems and Land Systems. System Program Offices exist within each domain and are the focal point for procurements, delivery and sustainment of equipment.

The 'operations' divisions are responsible for contracting services, information technology, strategic communications, corporate governance, human resource management, financial services and strengthening relations with industry. They are the Chief Finance Officer, Chief Operating Officer, Industry and General Counsel divisions.

'Major programs' is used to describe a grouping of DMO activities associated with the acquisition of high value, high profile capabilities of strategic significance to the nation. The major programs are for the Air Warfare Destroyers, Amphibious Deployment and Sustainment Capability, New Air Combat Capability and Land Vehicle Systems. The Deputy Chief Executive Officer Division manages delivery of the Airborne Early Warning and Control program.

More detail on the structure of the DMO, as revised during 2004-05, is included on p 263 'Materiel Reform'.

Resources

As at 30 June 2005, the DMO managed 210 major projects (including phases), as well as a number of minor projects. The total expenditure for the DMO in 2004-05 was \$6,821m, consisting of \$2,031m operating expenses (excluding military employee expenses) and \$4,790m for DMO Purchases (see *Portfolio Budget Statements 2004-05* p. 230).

The DMO has approximately 5,900 personnel, comprising 4,400 civilians and 1,500 military in approximately 50 locations throughout Australia and overseas.¹

Key Achievements for 2004-05

During 2004-05, the DMO attained a number of significant achievements in delivering materiel on time, on schedule and to the required capability, safety and quality standards to the ADF, and in reforming the structure and operation of the DMO.

Schedule performance improved significantly over that of the previous year. A comparison of the Top 20 projects indicates that slippage reduced from 20 per cent to 12 per cent. This figure is approaching private sector best practice (typically around ten per cent).

¹ Further information on Defence Materiel Organisation's people can be found in Chapter Three - People

The DMO's management of projects to budget and schedule is equal to, or better than, allied forces, including the United States and United Kingdom.

The DMO also succeeded in ensuring that specialist military equipment and associated supplies, used by ADF personnel deployed on operations around the world, were maintained, supported and ready for use.

During 2004-05, the DMO delivered and sustained materiel for the ADF. Significant achievements during the period are detailed below.

- **Air Warfare Destroyer:** The Government announced in May 2005 that it had selected ASC Shipbuilder Pty Ltd as the preferred shipbuilder for the Navy's Air Warfare Destroyers, which is one of Australia's largest and most complex Defence projects worth up to \$6 billion. In addition, the Government granted first pass approval and provided \$455m towards the next phase of activities including further design work, workforce skilling, initial infrastructure investment and facilities construction.
- **Amphibious Deployment and Sustainment capability:** Suitable designs identified in late 2003 for the two new amphibious ships are being assessed. Defence continues to work closely with the two overseas designers, ARMARIS and Navantia (formerly IZAR) and four Australian Shipbuilders, ADI, ASC, Austal and Tenix, to compile and assess capability, cost, schedule and risk information on the existing designs.
- **Deployment of land vehicles:** In early 2004, ten new Bushmaster land vehicles were deployed to southern Iraq with the Al Muthanna Task Group, providing additional transport protection for the ADF personnel deployed to the southern province. The Bushmaster fleet is being built in Australia, and will provide 'state-of-the-art' transport protection for Australian soldiers. The DMO and Defence industry also worked together to refurbish 40 Australian Light Armoured Vehicles for deployment to the Task Group. The DMO closely managed the work to ensure capability requirements were met within the tight time schedule.
- **Airborne Early Warning and Control:** The Wedgetail Airborne Early Warning and Control aircraft made its first visit to Australia in March 2005 on successful completion of its flight certification program. Australia is the launch customer for Wedgetail and this has secured particular benefits such as lower prices and a strong industry program with the potential for Australian industry to be involved with Boeing in future sales of this aircraft.
- **Joint Strike Fighter program:** Progress continues with the world's largest-ever defence project to develop the F-35 Joint Strike Fighter, a highly capable fifth-generation, stealth air combat aircraft. To date, 20 Australian defence companies have won work in relation to the program on the System Development and Demonstration Phase, which Australia joined in October 2002.
- **Armidale-class patrol boats:** The first of the Navy's Armidale-class Patrol Boats, that will be used to protect Australia's northern coastline, was commissioned on 25 June 2005. HMAS *Armidale* is the first of 14 Armidale-class Patrol Boats all designed and to be built in Australia. The ships will be capable of operating in a greater range of sea conditions, improving the Navy's capability to intercept and apprehend vessels suspected of illegal fishing, quarantine, customs or immigration offences.
- **Collins-class submarines:** Full Cycle Docking of HMAS *Farncomb* was completed in November 2004, with HMAS *Collins* completed in June 2005. These major

maintenance activities recertify the submarines after six years of service, and return them for enhanced operational duties with the Fleet.

- **Air-to-Air Refuelling capability:** European company EADS/CASA signed a \$1.4 billion AUD contract in December 2004 to supply five Airbus A330-200 Multi-Role Tanker Transport aircraft and associated training and support for the Air Force. The aircraft will refuel F/A-18, F-111, Airborne Early Warning and Control and Joint Strike Fighter aircraft while providing a significant strategic airlift capability. The basic platform is already in commercial use in Australia, allowing the ADF to benefit from support capabilities already established in-country.
- **Armed Reconnaissance Helicopter:** The first two of 22 Tiger Armed Reconnaissance Helicopters were delivered on schedule to the Army in December 2004. The first Australian-assembled helicopter has also been accepted into service ahead of contracted schedule. The contract requirements are demanding but the assets are being delivered on schedule and within cost.
- **Electronic and Weapon Systems supporting operations:** As a result of effective in-service support of electronic guided weapon systems and explosive ordnance, operational requirements were met during 2004-05, including deployments to the Middle East.
- **NULKA Active Missile Decoy:** Negotiations are proceeding for the in-service support contract of NULKA electronic missile decoy system. NULKA provides protection to ships from radio-frequency seeker anti-ship missiles.

Further information on the top 30 major capital equipment projects for 2004-05 can be found on pp. 267-283. An update on the DMO corporate achievements and reform is included on pp. 263-265 'Materiel Reform'.



DEFENCE MATERIEL ORGANISATION | SPECIAL FEATURE

NEW ERA FOR DMO AND DEFENCE

A new era in Defence procurement began on 1 July 2005 with the achievement of prescribed agency status by the Defence Materiel Organisation (DMO).

Prescription was one of a series of recommendations resulting from the *Defence Procurement Review 2003* or 'Kinnaird review', which aimed to improve the Defence procurement process and to make the DMO a more business-like entity.

Prescription celebrations to mark the occasion were held across DMO sites throughout

Australia with guests, including Mr Malcolm Kinnaird, Defence Procurement Advisory Board Chair Mr David Mortimer, and Secretary of Defence Mr Ric Smith, delivering addresses to DMO personnel.

The CEO DMO Dr Stephen Gumley, Chief Defence Force General Peter Cosgrove and Defence Secretary Ric Smith officially signed the Memorandum of Arrangements between the DMO and Defence.

The CEO DMO is now directly accountable to the Minister under the *Financial Management and*



(The then) Chief of Defence Force General Peter Cosgrove, CEO DMO Dr Stephen Gumley and the Defence Secretary Mr Ric Smith sign the Memorandum of Arrangements.



CEO DMO Dr Stephen Gumley and Chief of Capability Development Group Lieutenant General David Hurley sign an Agency Agreement for prescription.

Accountability Act 1997 for the efficient, effective and ethical use of Commonwealth resources within the DMO.

Dr Gumley has the necessary independence to manage his organisation and control resources and staffing to deliver outputs. This includes setting the DMO's own financial management policy; preparing separate and auditable financial statements; and significant powers, delegated from the Secretary, to manage and allocate staff resources under the *Public Service Act 1999*.

The DMO remains an integral part of the Defence Portfolio, with a close partnership between DMO and the rest of Defence.

The DMO and Defence de-merger is one of the largest in Australia's history.

On achieving Prescription, Dr Gumley and Mr Smith expressed great appreciation to all staff involved in the work, and congratulated them on their achievement, with Mr Smith wishing Dr Gumley and his DMO colleagues well as their organisation entered this exciting new era.

Prescription Achieved

The DMO became a prescribed agency under the *Financial Management and Accountability Act 1997* on 1 July 2005. This was a major milestone in the implementation of the recommendations from the Defence Procurement Review led by Mr Malcolm Kinnaird, as agreed by the Government in September 2003.

The review recommended that the DMO have a clear and separate identity from Defence so that it could develop its own individual culture, but retain its inextricable link to the defence function. The desired outcomes included the following:

- the DMO should become a more performance and outcomes driven, business-like organisation, leading to improved procurement and support practices;
- a more transparent relationship should be established between the DMO and Defence that ensures alignment of accountabilities, responsibilities and authority;
- the DMO should have the flexibility to adjust financial and staffing resources to meet workload, within the Government's regulatory framework; and
- the DMO should introduce self-discipline that would obviate the need for externally imposed controls.

Upon prescription, the DMO became a financially autonomous organisation within the Defence Portfolio. The DMO remains part of Defence, with the Chief Executive Officer of the Defence Materiel Organisation (CEO DMO) remaining accountable to the Secretary of Defence under the *Public Service Act 1999* and to the Secretary and the Chief of the Defence Force under the *Defence Act 1903*. The CEO DMO continues to serve on appropriate Defence senior committees, including the Defence Committee, to which he will continue to report and provide advice.

The Minister for Defence issued a Directive to the CEO DMO, Dr Stephen Gumley, on 30 May 2005. Under this Directive, the CEO DMO became directly accountable to the Minister from 1 July for the DMO's performance in the efficient and effective delivery of acquisition and through-life support of materiel for Defence capabilities.

Comprehensive agency agreements have been developed to form the basis of the relationship between the DMO and Defence. These agreements cover both the acquisition of Defence equipment and their sustainment in-service, as well as activities normally expected of Defence in support of the organisation. They identify the respective accountabilities, responsibilities and authorities of the DMO and the rest of Defence and aim to provide better visibility of the costs of procuring and sustaining Defence assets. The agreements will be refined and improved over several annual cycles. Workforce agreements have been established to ensure that the DMO has an appropriately skilled workforce.

The CEO DMO has control of the resources necessary to deliver the DMO's products and services and sets the organisation's financial management policy. The CEO DMO has also been delegated the necessary powers to manage and allocate staff resources under the *Public Service Act 1999*.

The formal establishment of the DMO as a prescribed agency was the culmination of considerable work by Defence and central Government agencies over 2004-05 to put in place necessary legislative measures, accounting and procedural arrangements.

These included:

- modification of Defence's corporate information management systems (ROMAN, PMKeyS and SDSS) to identify the DMO as a separate entity;
- separation of the budget for the DMO from that of the rest of Defence in the *Portfolio Budget Statements 2005-06*;
- establishment of Special Accounts to provide the mechanism to fund DMO's activities and the opening of separate bank accounts for the DMO's financial transactions;
- preparation and ratification of Agency Agreements between Defence and the DMO defining accountabilities, responsibilities and performance measures;
- delegation of personnel management powers to the CEO DMO, subject to consultation with the Secretary of Defence;
- establishment of internal DMO governance arrangements including the Materiel Audit Committee, the Chief Executive Instructions and appropriate delegations for officials within the DMO;
- development of protocols for the employment of ADF staff in the DMO; and
- tabling of regulations in both Houses of Parliament to establish the DMO as a prescribed agency.

This work was aided by advice from the Defence Procurement Advisory Board, chaired by Mr David Mortimer. Membership of the Board remained stable since it first met in March 2004. Along with Mr Mortimer, other private sector members are Mr Malcolm Kinnaird, Mr Kevin McCann and Dr John White. The public sector members have been General Peter Cosgrove (the then Chief of the Defence Force), Mr Richard Smith (Secretary of the Department of Defence), Dr Ian Watt (Secretary of the Department of Finance and Administration) and Dr Ken Henry (Secretary of the Department of the Treasury).

The Board met regularly in 2004 and 2005, providing advice to the CEO DMO and the Secretary of Defence on strategic issues and reporting to the Ministers for Defence and Finance and Administration on progress on implementation of the Defence Procurement Review recommendations.

The arrangements established for the DMO provide it with clarity of purpose, appropriate powers and financial autonomy.

Material Reform

The Defence Procurement Review was an impetus for revising the DMO's organisational structure and introducing a challenging change program to make the DMO more business-like and outcome-driven.

Organisational Structure

Significant changes have been made to the organisational structure over 2004-05 to enhance the operation of the DMO, including regrouping the organisation into three major areas: domains, program managers, and operations.

Within the revised organisational structure, the following notable changes occurred during 2004-05:

- the Deputy Chief Executive Officer Division was established on 1 July 2004. The responsibilities of the division include implementing best practice and standardisation of the organisation's processes, policies and practices;
- the Chief Operating Officer Division was established on 1 July 2004 to strengthen corporate governance and oversee corporate support functions;
- the DMO created two new senior program manager positions in September 2004 to oversee the Air Warfare Destroyer program and Amphibious Deployment and Sustainment capability; and
- the DMO established and appointed a General Counsel in November 2004 to advise on procurement and legal issues. A new organisational structure consistent with private sector models for provision of professional services and the management of legal and contract risk was subsequently developed and implemented on 1 July 2005.

Driving Change – Six Key Themes

Material reform within the DMO was restructured in 2004 by the CEO DMO to reflect six key themes to drive change and ensure the DMO achieves its vision of becoming the premier program management and engineering services organisation in Australia. These themes are:

- **Professionalise** our workforce.
- **Reprioritise** work so that effort is concentrated on the high-priority activities.
- **Standardise** systems and work practices to ensure staff work efficiently and effectively.
- **Benchmark** the DMO against the best Australian and international organisations of similar scale and scope.
- **Improve industry relations** so they are more mature, share risks and avoid duplication of costs.
- **Lead reform in Defence** by developing and implementing successful reform in the DMO, which may facilitate change in Defence.

Within these themes a number of specific initiatives have been developed. Detailed below are the major outcomes completed during 2004-05 in delivering against the six themes.

- An interim certification system has been established for the Program Managers' Certification Framework. The framework will certify project directors and managers against clear professional standards, as well as providing professional development opportunities that will be sustained through structured career management. The certification system is expected to be fully operational by December 2006.
- DMO Workforce and People Plans were released in April 2005. Military Workforce Agreements, which deal with all key aspects of the relationship between DMO and the Services regarding military workforce, have been endorsed for the period 1 July 2005 to 30 June 2006.
- The new Business Acumen Training program has been developed, with delivery to commence in August 2005. The program will provide insight into the way defence industry operates and the business drivers that influence industry. DMO intends to train over 3,000 of its staff by end 2008 in commercial practices.
- Work on designing the new DMO leadership training program commenced in June 2005. The design is targeted for completion in the coming months with the pilot courses to commence in late 2005. The program is intended to deepen the succession pool of officers at the senior executive level.
- The DMO Quality Management System was implemented. This is a central repository for DMO's standard business processes, procedures, policies, guidance, tools and templates to assist staff to fulfil duties.
- Monthly reporting on acquisition projects to the Minister and the Defence Committee has been revised, and DMO reporting on the sustainment of ADF capability was introduced in April 2005.
- All reporting on acquisition and sustainment includes a 'Maturity Score', which communicates and benchmarks the level of risk in capital investment projects as they progress through the capability life cycle and issues that may impact upon the ongoing sustainability of capabilities currently in-service.
- The DMO has made significant changes to the Australian Defence Contracting templates and manual for guiding complex acquisitions of equipment and supplies. Following on from this work, the Procurement Improvement Program was initiated, which represents a strategic review and revision of all procurement and contracting policies, practices, templates, guidance and associated training material. The templates will continue to be used until the outcome of the Procurement Improvement Program is released in early 2006, reflecting commercial best practice and providing streamlined user-friendly documentation and templates.
- The DMO reviewed communication with key stakeholders to achieve best practice, and put in place a range of activities to support key business outcomes. These include: a revamp of the DMO's internet site; the introduction of an on-line newsletter targeting industry groups; improved internal communication processes flowing from a review of the intranet and other communication vehicles; and an enhanced corporate presence at major events such as the Avalon Air Show and the Defence and Industry Conference.
- The Minister for Defence announced in June 2005 that the first two companies to receive funding under the Skilling Australia's Defence Industry program will be ADI Ltd and Austal Ships of Australia. The level of Government investment through the program is being matched by both companies and will provide skills in a number of areas, including integrated logistics support, fabrication, welding, hydraulics and

pneumatics and project management. Proposals from other companies covering this and other sectors with critical shortages have also been sought and are under current consideration.

- The DMO launched a revitalised Defence and Industry Study Course in April 2005. The course is a unique national program of seminars and visits that aims to enhance mutual understanding between Defence and the business community in a manner that can contribute to higher quality outcomes for both. The course was originally designed in the 1950s in response to industry and defence communication problems during the Second World War. It seeks to create and maintain business and personal networks that can be used in times of rapid ADF mobilisation or expansion.

Purchasing

Contract Reporting

Defence reports on contracts in several complementary locations.

The Commonwealth Procurement Guidelines require Defence to report certain procurement activities on the Austender website. These include:

- all open business opportunities are to be published on the Government Advertising Website <https://www.tenders.gov.au/federal/index.shtml>;
- all contracts, including contracts made against a standing offer and agency agreements, of a value of \$10,000 or more are to be published at <http://www.contracts.gov.au> within six weeks of entering into the agreement;
- all standing offers with an estimated liability of \$10,000 or more are to be published at <http://www.contracts.gov.au> within six weeks of entering into the agreement; and
- contract amendments with a value of \$10,000 or more.

Contracts and purchase orders valued at \$100,000 and over have separate and additional reporting requirements.

- Senate Order 192 on Departmental and Agency Contracts requires reporting on the Interim Defence Contracts Register at http://www.defence.gov.au/dmo/id/cic_contracts/cic_contracts.cfm.
- The Buy Australian policy requires reporting on the Buy Australia Website <http://www.defence.gov.au/dmo/buying/>.

Small to Medium Sized Enterprises

Defence promotes the engagement of small to medium sized enterprises (enterprises employing less than the full time equivalent of 200 persons) wherever possible in all purchasing areas. Defence does this by:

- the Defence Small Business Access facility (introduced in May 2005), which enables small to medium enterprises to obtain information on doing business with Defence and its prime contractors through an internet web portal and a national freecall enquiry line;
- encouraging prime contractors to maximise the use of small to medium enterprises in defence procurements;

- where practical, opening previously restricted business opportunities to public tender;
- identifying opportunities for small to medium enterprises during the development of industry requirements for larger purchases; and
- monitoring procurement methods to ensure small to medium enterprises are not discriminated against.

Australian Industry Involvement

The Australian Industry Involvement Program is the major program through which Defence leverages its procurement activity to foster critical Australian industry capabilities and ensure that industry delivers more cost effective Defence capability. To achieve these twin industry goals, sector strategic plans and derivatives have been developed. These plans are aimed at identifying, obtaining and sustaining strategic Australian industry capabilities required to support the ADF now and into the future.

Approved Major Capital Equipment Projects

In the DMO's role of supporting Defence capabilities through efficient and effective acquisition and sustainment of equipment for the ADF, DMO manages the approved major capital investment program.

The approved major capital equipment program consists of projects costing generally in excess of \$20m and which, following approval, are transferred from the Defence Capability Plan to the DMO for their acquisition phase. Projects costing less than \$20m are generally categorised as minor capital projects and are part of the other capital purchases category, although individual project phases within the Defence Capability Plan, such as studies, can cost less than \$20m.

Table 6.1 and accompanying descriptions provide details of the approved project cost, cumulative expenditure to 30 June 2005 and actual expenditure for 2004-05, of the top 30 (by 2004-05 expenditure) major capital equipment projects.

Table 6.1		Top 30 Projects by Actual 2004-05 Expenditure⁽¹⁾				
Project	Project Number	Approved Project Expenditure⁽²⁾	Cumulative Expenditure⁽³⁾	2004-05 Budget Estimate⁽⁴⁾	2004-05 Revised Estimate⁽⁵⁾	2004-05 Actual
		\$m	\$m	\$m	\$m	\$m
Aerospace						
Airborne Early Warning and Control	AIR 5077 Ph 3	3,455	2,071	462	497	518
Armed Reconnaissance Helicopter	AIR 87 Ph 2	1,964	806	445	419	382
ADF Air Refuelling Capability	AIR 5402	1,833	189	214	208	188
F/A-18 Hornet Upgrade	AIR 5376 Ph 2	1,474	789	134	155	175
P-3C Update Implementation	AIR 5276	905	836	48	45	43
Anzac Ship Helicopter	SEA 1411 Ph 1	1,001	918	60	29	29
F/A-18 Hornet Structural Refurbishment Program – Stage 1	AIR 5376 Ph 3.1	120	57	23	27	26
Maritime						
Anzac Ship Project ⁽⁶⁾	SEA 1348	5,368	5,052	220	190	170
Collins Replacement Combat System	SEA 1439 Ph 4A	443	208	158	138	127
Armidale-class Patrol Boat	SEA 1444	477	100	81	78	77
New Heavyweight Torpedo FFG Upgrade	SEA 1429 Ph 2	414	131	31	44	59
Implementation	SEA 1390 Ph 2	1,464	965	137	71	54
Evolved SeaSparrow Missile	SEA 1428 Ph 2B/3	273	222	43	48	47
Collins-class Reliability and Sustainability Improvements	SEA 1439 Ph 3	371	146	55	36	31
Anti-Ship Missile Defence	SEA 1448 Ph 2A	496	9	31	20	8
Land						
Australian Light Armoured Vehicles	LAND 112 Ph 3	672	522	58	57	50
Upgrade of M113 Armoured Vehicles	LAND 106	589	182	34	46	44
Direct Fire Guided Weapon	LAND 40	142	60	35	33	36

Ground Surveillance Radar	LAND 53 Ph 1E	84	64	27	7	19
Bushranger Infantry Mobility Vehicles	LAND 116	352	116	32	26	15
Electronic and Weapon Systems						
Jindalee Operational Radar Network	JP 2025 Ph 3/4	1,244	1,137	36	36	42
Milsatcom - Ground Infrastructure	JP 2008 Ph 3E	148	73	52	45	38
Air-to-Surface Stand-Off Weapon Capability	AIR 5398	440	362	28	30	33
High Frequency Modernisation	JP 2043	608	306	30	31	31
Air-to-Air Weapons Capability	AIR 5400 Ph 1/2	313	266	31	30	31
Lightweight Torpedo Replacement	JP 2070 Ph 2	319	113	75	44	29
Electronic Warfare	AIR 5416	290	29	28	20	27
Self-Protection for Selected ADF Aircraft						
New Air Defence Command and Control Systems for 2CRU/3CRU ⁽⁷⁾	AIR 5333	248	68	38	21 ⁽⁸⁾	24
Air-to-Air Weapons Follow-on Buy	AIR 5400 Ph 3	175	132	23	10	15
New Air Combat Capability						
New Air Combat Capability	AIR 6000 SDD	211	92	53	27	26
Total Top 30 Projects		25,893	16,021	2,722	2,468	2,394

Notes

- Variations in approved project expenditure since the publication of the *Portfolio Additional Estimates Statements 2004-05* are a result of price indexation and exchange rate adjustments excluding AIR 5077 Phase 3 Airborne Early Warning and Control aircraft (which transferred \$1m to Corporate Services and Infrastructure Group for facilities work) and AIR 5376 Phase 2 F/A-18 Hornet Upgrade (which reduced approval by \$67m following the Government's decision to revise scope for the project).
- 2005-06 Budget prices.
- Expenditure to 30 June 2005.
- 2004-05 Budget prices
- 2004-05 Additional Estimates prices.
- Project approval, expenditure and estimate figures are the net cost of the ten-ship program after deducting New Zealand payment.
- Project title previously reported as '2CRU/3CRU Control and Reporting Units'.
- The revised estimate for AIR 5333 included in the *Portfolio Additional Estimates Statements 2004-05* was incorrectly reported as \$30m. The correct value should have read \$21m.

Top 30 Projects by 2004-05 Expenditure

AIR 5077 Ph 3 Airborne Early Warning and Control

Prime contractor: The Boeing Company (United States)

This project will provide Defence with an airborne early warning and control capability, with the provision of six aircraft and associated supplies and support. Modification of the last four aircraft will take place in South-East Queensland. The project remains on schedule and on budget, with a planned in-service date of 2007.

The first modified Boeing 737 completed its flight certification testing in March 2005. The second aircraft completed its modification program in December 2004, and the installation of its mission system in May 2005. Mission system testing began in July 2005. Build 6 of the mission computing system software entered test phase in December 2004 and Build 7 in June 2005. Build 8, the final build, will now enter test phase in October 2005 due largely to the failure of a Boeing program for the United States Air Force to deliver software upon which this project was dependent. This slippage has been anticipated since February 2005 and the design test and evaluation program has been adjusted to absorb the delay.

Construction of the support centre building was completed in November 2004, three months ahead of schedule, as part of the prime contract. Construction of the maintenance hangar is planned for completion in January 2006 and associated aircraft parking areas in June 2006 as part of Stage 1 of the RAAF Williamstown Redevelopment. The critical design review for the last of the ground segments and the support facility was successfully completed in October 2004.

The actual expenditure in 2004-05 exceeded estimates due primarily to price escalation in accordance with the provisions of the prime contract and an increase in foreign military sales payments to the United States Government.

The project contributes to Air Force capability.

AIR 87 Ph 2 Armed Reconnaissance Helicopter

Prime contractor: Australian Aerospace

This project will provide Defence with 22 armed reconnaissance helicopters, a training system including simulation devices for aircrew and maintenance personnel, a software support facility and a ground mission management system. The Commonwealth signed a 15-year support contract that commenced when the first helicopters started flying in Australia.

During 2004-05, the Commonwealth accepted three aircraft (helicopters one, two and five). Helicopters three and four were assembled in France, and were shipped to Australia in late 2004-05, but acceptance was delayed until early 2005-06 due to technical issues. In response to the delay of aircraft three and four, due to ongoing test and evaluation activities in France, the Commonwealth brought forward acceptance of aircraft five, which was the first Australian-assembled aircraft. During the period, work continued on further development of the final configuration design assembly of the remaining helicopters, with helicopters six, seven and eight assembled in Brisbane, Australia. The first ten armed reconnaissance helicopters are scheduled to be accepted by June 2006 with medium schedule risk and the final helicopter (22) to be in-service by December 2008.

Training of military and contractor flying instructors continues in France. The training program has experienced a delay due to the late acceptance of French Army helicopters which were required for Australian Instructor training. As a result of the limited availability of training time on the French aircraft, instructor training will now be completed in Australia in the second half of 2005.

Delivery of spares has been slower than contracted, but to date this has not impacted on the support of the accepted aircraft.

The estimated expenditure for 2004-05 was not met. This outcome reflects a delay in the acceptance of one helicopter, delay in spares deliveries and other non-aircraft related contract milestones.

This project contributes to Army capability.

AIR 5402 ADF Air Refuelling Capability

Prime contractors: EADS CASA (acquisition) and through-life support (not yet to contract) under negotiation

This project will provide five new generation Airbus A330 multi-role tanker transport aircraft, together with through-life support services including engineering, maintenance, spares, technical data, software and training support for the new fleet.

The acquisition contract was signed with EADS-CASA on 20 December 2004. The contractor has successfully met the initial payment milestones on schedule, signifying a satisfactory rapid ramp-up and completion of preliminary design activities up to and including the conduct of the Preliminary Design Review.

The in-service date (comprising two aircraft, completion of qualification testing and issue of the military airworthiness certificate) is planned for late 2009.

Slippage in the through-life support contract from late 2004 to 2005-06 is due to negotiations on a critical aspect of the contract. Development of the through-life support contract will continue in 2005-06. Preliminary design activities commenced in early 2005 and were completed in July 2005.

The lower than expected expenditure in 2004-05 was due primarily to economic adjustments and refinement of earned value payments following completion of the baseline review.

This project contributes to Air Force capability.

AIR 5376 Ph 2 F/A-18 Hornet Upgrade

Prime contractor: The Boeing Company (United States)

This project seeks to upgrade the F/A-18 fleet to incorporate enhancements that will improve situational awareness, radar and electronic warfare capabilities to allow the aircraft to perform its air defence tasks more effectively. The improved situational awareness aspects address cockpit displays, a moving map, a helmet-mounted cueing system for the advanced short-range air-to-air missile, and improved datalinks.

Assessment of electronic warfare options, including the source selection of the radar warning receiver and the planned counter measures dispensing system and jammer is progressing with source selection planned for late 2005. A major milestone was achieved with the project completing the aircraft modification on two prototype aircraft. These

aircraft commenced detailed ground and flight testing of the pilot situational awareness modifications in February 2005, with design acceptance certification planned for late 2005.

The revised estimate was due to price and exchange rate fluctuations and the reprogramming of expenditure to align with United States Navy foreign military sales case disbursement forecasts. Further, the successful negotiation of the prime contract for the Hornet aircrew training system has resulted in the acceleration of the schedule, which therefore required additional programming during 2004-05.

The project exceeded its 2004-05 expenditure targets primarily due to additional United States Navy foreign military sales case disbursement for cockpit display hardware procurement and software integration exceeding conservative revised forecasts.

This project contributes to Air Force capability.

AIR 5276 P-3 Update Implementation

Prime contractor: L-3 Communications Integrated Systems

The P-3 update has provided an improved baseline to ensure the effectiveness of the Orion Fleet until the planned withdrawal date of 2015. Under this project, radar, data management, acoustic, navigation and communications systems were replaced with integrated systems. The project also provides training simulators, mission planning/debriefing systems, and engineering and maintenance support tools.

The project remained on schedule in 2004-05 and delivered the last aircraft to the Air Force in December 2004. All associated project deliverables are in service.

The under achievement against the revised 2004-05 budget estimate was mainly the result of exchange rate variations.

The project Integrated Logistics Support Plan will continue to provide services and spares for the next two years.

This project contributes to Air Force capability.

SEA 1411 Ph 1 Anzac Ship Helicopter

Prime contractor: Kaman Aerospace International Corporation

This project will acquire 11 maritime combat helicopters for the Anzac-class frigates, providing an enhanced capability for surface surveillance, anti-ship warfare, contact investigation and maritime utility tasks. The acquisition includes a full mission flight simulator and a software support centre.

Nine of the 11 Super Seasprite maritime combat helicopters have been provisionally accepted in Australia. Of the remaining two aircraft, one is in final assembly in Australia and one remains in the United States for ongoing flight testing. Provisional acceptance of the helicopters has been used to mitigate the impact of the late delivery of the integrated weapons and sensor software by the contractor. This has allowed the commencement of flight trials and initial squadron training in an interim training configuration. During 2004-05, 826 Super Seasprite hours were flown by the Navy.

The contractor continued to make positive but slower than scheduled progress in completing the integration of the full capability software. Flight testing by the contractor of the full functionality commenced in November 2004. Testing of this software should be

completed in November 2005, allowing the contractor to offer the first full capability helicopter for acceptance in June 2006.

The project did not achieve its 2004-05 budget estimate due to software integration and testing activities delaying the first full capability helicopter acceptance milestone from May 2005 to December 2005. It did, however, achieve its revised expenditure target.

This project contributes to Navy capability.

AIR 5376 Ph 3.1 F/A-18 Hornet Structural Refurbishment Program - Stage 1

Prime contractors: L-3 MAS Canada (non-recurring engineering), BAE Systems Australia (interim production contract) and Boeing Australia Ltd (interim contracts) and (mature production contract – yet to be executed).

This project seeks to refurbish the airframe structure of the F/A-18 aircraft and involves the development and installation of several discrete structural modifications. This is the first of two stages of structural refurbishment that are required to ensure continued operation of the fleet until the aircraft's planned withdrawal date.

Following successful prototype of the modification on an aircraft in January 2004, the project is now into the production phase with nine aircraft delivered to date. Production is expected to continue through to December 2008 at RAAF Williamtown, New South Wales.

The project did not achieve its 2004-05 revised estimate due to price and exchange fluctuations, the reprogramming of facilities requirements to align with Corporate Services and Infrastructure Group building requirements, and reprogramming of funding for the installation of modification kits in line with contract schedule milestones.

This project contributes to Air Force capability.

SEA 1348 Anzac Ship Project

Prime contractor: Tenix Defence

This project involves delivery of ten ships, associated shore facilities and logistic support. Two of the ten ships (02 and 04) were for the Royal New Zealand Navy. Eight ships have been delivered and are in service with the Royal Australian Navy and the Royal New Zealand Navy.

Ship 09 (*Toowoomba*) was delivered on 22 July 2005. Tenix, being ahead of schedule, offered to deliver the ship early (in March 2005), but the Navy was unable to accept delivery before the agreed contract date of July 2005. Ship 10 (*Perth*) was launched in March 2004, and is planned for delivery on 16 June 2006.

The project did not achieve its 2004-05 expenditure targets. The prime contractor's proposed earned value payments did not meet estimates due to a re-plan of work by the contractor from 2004-05 into 2005-06. This does not affect the Prime Contract Ship delivery milestones. Additionally, enhancement work for in-service ships did not occur as programmed as changes to ship availability dates impacted on installation schedules.

This project contributes to Navy capability.

SEA 1439 Ph 4A Collins Replacement Combat System

Prime contractors: United States Department of Defense under a foreign military sales case and an armaments cooperative project. Raytheon Australia, Thales, Sonartech Atlas and ASC Pty Ltd are engaged under separate contracts.

This project will provide a replacement combat system for the Collins-class submarines, contributing to the development of the submarine's full capability. It complements other projects that implement a program of modifications and enhancements to the submarine platform.

Formal testing of the initial sets of the United States Navy tactical command and control system under a foreign military sales case is near completion. The United States components will be delivered to Australia in September 2005. The remainder of the foreign military sales case has been transferred to the armaments cooperative project. The first stage of the Australian-based system was completed in mid-July 2005.

Work on the shore integration facility in Western Australia progressed as scheduled, with completion planned for late 2005. Hardware is being installed progressively at the shore integration site, ready for integration activities.

A platform-design contract and the installation contract for the first submarine have been established with ASC Pty Ltd. Installation of the first replacement combat system is scheduled for completion in November 2006. All submarines are to be upgraded by the end of the decade.

The project did not achieve its 2004-05 expenditure targets because of an eight-month delay in establishing the armaments cooperative project with the United States Navy. This delay will not impact the overall delivery schedule.

This project contributes to Navy capability.

SEA 1444 Armidale-class Patrol Boat

Prime contractor: Defence Maritime Services (ships being built by Austal Ships)

This project will deliver 14 Armidale-class patrol boats to replace the ageing Fremantle-class patrol boats. The patrol boats will make a critical contribution to coastal surveillance and enforcement capability.

The contract was signed on 17 December 2003, and will provide a capability for the Navy to achieve up to 3,000 available days per year for Coastwatch and ADF support operations, plus a surge capacity of up to 600 additional available days per year. The new boat is larger than the Fremantle-class and capable of operating in higher sea states.

Additional funding, in line with the Government agreeing an extra two vessels to patrol the North West Shelf, has been endorsed. These extra vessels will be built after the current 12 boats, with delivery commencing in mid-2007.

The first Armidale-class Patrol Boat was launched and named in January 2005 and delivered in Darwin on 17 May 2005, following harbour, sea and mission trials in accordance with the contract schedule. This vessel was commissioned as HMAS *Armidale* on 24 June 2005 and has now entered service.

Upgrades to facilities in Darwin to accommodate the new vessels have commenced, with the wharf extension scheduled for completion at the end of 2005. The remainder of the

work, including stand-by crew facilities and extension to ship lift, is to be completed in 2006.

Relocation of project staff from Canberra to Darwin has commenced. This will allow collocation of staff with the Patrol Boat Force Element Group.

Actual expenditure was lower than the revised estimate due to withholding of a component of the acceptance payment, which is subject to rectification of defects and a delay in payments associated with Government furnished equipment.

This project contributes to Navy capability.

SEA 1429 Ph 2 New Heavyweight Torpedo

Prime contractors: Under a memorandum of understanding, the United States Department of Defense established an armaments cooperative project, with work being performed by the United States Navy (Naval Undersea Warfare Centre) and Raytheon. ASC Pty Ltd is undertaking integration on the platform.

This project will acquire an anti-surface, anti-submarine heavyweight torpedo for the Collins-class submarines to replace the United States Navy Mk 48 Mod 4 heavyweight torpedo currently in-service.

The project scope includes the acquisition of the weapons, associated logistic support, weapon system interface equipment, operational support and test equipment, and transition-into-service. The torpedo maintenance facility upgrade was completed in March 2005.

A platform-design contract was established with ASC Pty Ltd with submarine integration design work scheduled for completion by March 2006. This is later than the previous forecast due to delays in finalising the design, but there is no impact on the overall schedule for the new torpedo. Installation of modifications to the first submarine will be completed in late 2006 with progressive introduction in the remainder of the class through to 2010.

The project exceeded its 2004-05 revised estimated expenditure due to a requirement to bring forward some payments to the United States Department of Defense.

This project contributes to Navy capability.

SEA 1390 Ph 2 FFG Upgrade Implementation

Prime contractor: ADI Limited

This project seeks to regain a comparative regional capability for Adelaide-class guided missile frigates (FFGs) and ensure that they remain effective and supportable to the end of their life. The upgrade will improve the anti-ship missile defence and air surveillance capabilities of the ships. Schedule delays continue to hamper the capability delivery for this project. Contractor delivery of the lead ship (HMAS *Sydney*) is now delayed until 2006. Commonwealth hand-over of the first follow-on guided missile frigate for upgrade remains linked to successful completion of contractor sea trials of HMAS *Sydney*. The commencement and completion dates of the remaining ships are subject to negotiation with the Navy and ADI, and take into account the Navy's operational requirements and ADI's capacity to meet project completion, with the delivery of the last upgraded ship by 2008.

As a result of the Defence Capability Plan decision to remove the two oldest guided missile frigates from service from 2006 when the last of the new Anzac-class frigates is delivered, these two ships are no longer being considered for upgrade under this project. Contract variations are under way.

The project did not achieve its 2004-05 revised estimated expenditure. Overall program schedule slippage has resulted in payment milestones not being achieved and earned value claims being less than estimated. In addition, expenditure for spares has been reprogrammed from 2003-04 to later years.

This project contributes to Navy capability.

SEA 1428 Ph 2B/3 Evolved SeaSparrow Missile

Prime contractor: Raytheon (United States)

This project will continue to incorporate the Evolved SeaSparrow missile capability into Navy service. Progressive missile deliveries have occurred since 2003 and will continue in 2005-06 and subsequent years. Anzac-class ships *Warramunga*, *Stuart*, *Ballarat* and *Parramatta* have been fitted with the Evolved SeaSparrow missile system. The remaining two Anzac ships under construction are having the system fitted. The first two Australian Anzac ships, HMAS *Anzac* and HMAS *Arunta*, will be upgraded during maintenance periods in 2005-06.

European test firings of improved missiles have been successful, giving more confidence in Evolved Seasparrow missile capability.

The Evolved SeaSparrow missile has also been selected as an element of the anti-ship missile defence system for the guided missile frigates under their upgrade program.

The variation in 2004-05 expenditure was due to early payment for missiles previously forecast in 2005-06, delay in award of the Missile Canister Loading Equipment contract, and exchange rate variations.

The project achieved its 2004-05 revised estimate.

This project contributes to Navy capability.

SEA 1439 Ph 3 Collins-class Reliability and Sustainability Improvements

Prime contractor: ASC Pty Ltd

This project will provide a large number of reliability, sustainability and safety improvements to the Collins-class submarines through the on-going implementation of the McIntosh/Prescott report recommendations and the work of the submarine capability team. It also addresses current shortcomings in the submarine support infrastructure.

A number of the smaller modifications have been completed during 2004-05. Further modifications, including special forces, fire fighting and sewage system upgrades, will be incorporated into the submarines during major planned maintenance periods. Full Cycle Docking of the second submarine HMAS *Collins*, including the fitting of components of the special forces modifications, has been completed.

Expenditure for the year was slightly less than the revised estimate due to competing priorities relating to other work being carried out by ASC Ltd.

This project contributes to Navy capability.

SEA 1448 Ph 2A Anti-Ship Missile Defence

Alliance agreement: Anzac Ship Alliance with Tenix and SAAB

This project will provide the Anzac-class frigates with a reasonable level of self-defence against modern anti-ship missiles. This phase of the project has been split into two sub-phases.

Phase 2A aims to deliver an initial operational capability by 2008 which will include the upgrade of the fire control radar and command and control system, and the installation of an infra-red search and tracking capability. Initial risk reduction studies were completed in mid-2004. Project approval for Phase 2A was achieved in January 2004, and the Project Alliance Agreement and Project Charter were signed in May 2005. The tender evaluation of the Infra Red Search and Track (IRST) suppliers has been completed and a contract signed with Sagem Defence Securities to supply their Vampir system.

Phase 2B will complete the anti-ship missile defence capability by the introduction of multiple channels of fire to enable more than one weapon to be controlled in flight. This phase will include the introduction of Australian-developed phased array radar technologies, capable of supporting multiple engagements against incoming missile threats.

The project did not achieve its revised expenditure due to delays in the completion of risk reduction studies and finalisation of contracts prior to the commencement of work under a Project Alliance Agreement. This was important for cost-containment.

This project contributes to Navy capability.

LAND 112 Ph 3 Australian Light Armoured Vehicles

Prime contractor: General Dynamics Land Systems (Canada)

Phase 3 of this project will acquire an additional 144 wheeled light armoured vehicles and standardise the Phase 2 fleet. The additional vehicles will be used to complete the equipping of the 2nd Cavalry Regiment (Darwin, Northern Territory) and the 2nd/14th Light Horse Regiment (Brisbane, Queensland).

Key outcomes for 2004-05 were the delivery of all 144 Phase 3 vehicles and the delivery of 20 of the 113 standardised Phase 2 vehicles. Phase 3 vehicles were delivered on schedule. Delivery of standardised Phase 2 vehicles to the 2nd/14th Light Horse Regiment was affected by unplanned operational enhancements and are now expected to be complete in early 2006.

The Crew Procedural Trainer and acquisition of the multi-spectral surveillance variant have suffered some delays. The Crew Procedural Trainer has had several hardware and software development issues for which solutions were developed in 2004-05 and are now being implemented. Deliveries are planned to commence in 2005-06.

This project did not achieve the 2004-05 estimated expenditure. This shortfall was caused by the diversion of the contractor's resources to the preparation for operational deployments, continued development of the crew procedural trainer project and the slippage of contract signature for the surveillance variant.

This project contributes to Army capability.

LAND 106 Upgrade of M113 Armoured Vehicles

Prime contractor: Tenix

This project is upgrading 350 of the Army's fleet of M113 armoured vehicles, which provide transport and fire support for the Army's mechanised infantry forces to improve protection, firepower, mobility and habitability. The upgrade includes applique armour, a new armoured turret and machine gun, a new engine, drive train and suspension, and the stretching of Armoured Personnel Carriers and other variants.

The applique armour solution for the vehicles has been selected after rigorous testing and will exceed the specified performance level. Other engineering development and systems integration of the upgraded vehicles are progressing but have proven to be more difficult than anticipated in several areas. Resolution of recently identified drive train issues is slowing the construction of initial production vehicles for the test and evaluation program and placing pressure on the project schedule.

The contractor is still planning to enter full production in 2005-06, and meet the key date of an initial capability in-service by December 2006.

The project expenditure was slightly short of the revised budget estimate due to slowing on construction on initial production vehicles.

This project contributes to Army capability.

LAND 40 Direct Fire Guided Weapon

Prime contractor: Raytheon-Lockheed Martin Javelin Joint Venture, through foreign military sales with the United States Government

This project is for the acquisition of a man-portable direct fire guided weapon for use against armoured vehicles, bunkers and fortifications to a range of at least 2,000 metres. The Javelin weapon system has been selected as the materiel solution. The acquisition involves a quantity of command launch units, missiles, training equipment and logistics support.

The Javelin will be issued to selected infantry, cavalry and special forces units. An initial quantity of Javelin weapon systems was purchased for use by special forces units in Afghanistan and Iraq. The letter of offer and acceptance for the main acquisition was signed with the United States Government in August 2002.

The delivery of Javelin Basic Skills training equipment was achieved in March 2005, with the deliveries being 12 months ahead of the contracted schedule. Initial introduction into service training was completed.

The project exceeded its 2004-05 revised estimated expenditure, as equipment and ammunition was delivered ahead of schedule.

This project contributes to Army capability.

LAND 53 Ph 1E Ground Surveillance Radar

Prime contractor: Thales

This project is for the acquisition of 58 ground surveillance radars. The Australian Manportable Surveillance and Target Acquisition Radar, designed by Thales Defence (UK) and produced by Tenix (Adelaide), is the selected materiel solution. The procurement of ground surveillance radars will provide an all-weather target detection and classification capability and indirect fire adjustment at ranges up to 35km for selected infantry, artillery and cavalry units.

The project is behind schedule due to contractor delays in the completion of trials and rectification work arising from performance and quality deficiencies identified during the test and evaluation process with the radar. Defence has collected liquidated damages from the contractor as a result.

The key outcomes expected in 2004-05 were the completion of the third trial, finalisation of the build standard and initial delivery of production equipment. The revised estimate anticipated delays to the delivery of production equipment, but the key outcomes were substantially achieved. Due to these delays, the current time frame for introduction into service and commencement of the through-life support contract is now 2005-06.

The project significantly exceeded its revised estimated expenditure for 2004-05 due to the earlier than expected deliveries of production equipment.

This project contributes to Army capability.

LAND 116 Bushranger Infantry Mobility Vehicles

Prime contractor: ADI Limited

Project Bushranger is acquiring 299 infantry mobility vehicles from ADI Ltd. The infantry mobility family of vehicles will consist of six variants: troop, command, assault pioneer, mortar, direct fire weapon and ambulance. The vehicles will provide two motorised infantry battalion groups to the Army and 12 troop variants to the Air Force Airfield Defence Guards.

The first production vehicle delivered has been the subject of a significant range of tests designed to verify that the vehicle meets specified requirements. While ADI had previously undertaken low-rate production of Bushmaster vehicles, they commenced full-rate production of the vehicles in the latter half of 2004-05.

The key performance outcome for the project for 2004-05 was the move to full rate production and commencement of introduction into service. The move to full rate production has been achieved, and the vehicle has been provisionally accepted for Iraq and Afghanistan, where it is performing well.

The project did not achieve its 2004-05 revised estimate due to delays in the full acceptance of vehicles for reasons of contractual and quality compliance.

The project office has revised initial phasings to reflect a more realistic time frame for expenditure. \$4.4m was re-phased to 2005-06. The variation in forecast expenditure is due to this re-phasing and global updates of costs due to delays in the full acceptance.

This project contributes to Army and Air Force capability.

JP 2025 Ph 3/4 Jindalee Operational Radar Network

Prime contractor: RLM Systems

The Jindalee Operational Radar Network consists of the network control centre at RAAF Edinburgh near Adelaide, South Australia and two new over-the-horizon radars, one near Longreach, Queensland and the other near Laverton, Western Australia. The existing Jindalee radar system near Alice Springs, Northern Territory has also been incorporated to form a three-radar network that is centrally controlled from RAAF Edinburgh. With the successful delivery of the Jindalee Operational Radar Network in April 2003 having resulted in a major enhancement of national surveillance capability, the project's acquisition component is essentially completed.

The remaining project work focuses on maintenance and support activities and engineering services that provide both facility sustainment and higher-end technical upkeep of the network's assets.

Actual expenditure for 2004-05 exceeded the revised estimate due to better than expected performance by the contractor.

The project contributes to Air Force capability.

JP 2008 Ph 3E Milsatcom – Ground Infrastructure

Prime contractor: BAE Systems (Australia)

Phase 3E will provide the high-priority satellite communications ground infrastructure for use with the Optus C1 satellite Defence payload.

Acquisition and through-life support contracts for the maritime element were signed with BAE Systems on 28 November 2003. The delivery of the first terminal is due in the third quarter of 2005, with the final terminal installation to occur in the last quarter of 2006.

A contract for the land terminals was signed with BAE Systems on 30 November 2004, with delivery expected in late 2006.

Defence is the systems integrator for the overall Phase 3E requirements, which includes (in addition to the maritime and land terminals) broadcast software and a primary injection facility. The first delivery of equipment required for the installation of the primary injection facility occurred in April 2005, with further elements being progressively delivered.

The project did not achieve its revised estimated expenditure primarily due to the Commonwealth withholding a major contract milestone as a result of contractor performance. These matters have since been resolved, and activities have been rescheduled for 2005-06.

The project contributes to the Command of Operations capability.

AIR 5398 Air-to-Surface Stand-off Weapon Capability

Prime contractor: Precision Guided Systems (United States), through Foreign Military Sales with the United States Government.

This project will acquire and bring into service the AGM-142E missile for use on F-111C aircraft. It will provide the ADF with a capability to strike non-hardened and

semi-hardened unitary targets while providing improved stand-off range, contributing to the survivability of the aircraft.

Delivery of missiles and ground support equipment continued in 2004-05, as did the upgrades to the aircraft simulator. The acquisition contract for the mission rehearsal system was signed and aircraft ground testing completed. Flight testing also occurred as planned culminating in a successful live missile firing.

A major milestone in the test and evaluation program of AIR 5398 has been achieved following the successful firing of two AGM-142E missiles from an F-111 aircraft conducted on 28 June and 1 July 2005 at the Woomera Test Range in South Australia.

The project's expenditure for 2004-05 was greater than the revised estimate due to a foreign military sales payment associated with equipment delivery during 2004-05.

This project contributes to Air Force capability.

JP 2043 High Frequency Modernisation

Prime contractor: Boeing Australia Ltd

This project will replace naval high-frequency radio stations at Canberra, Darwin, Exmouth, Sydney, Cairns and Perth and the Air Force high-frequency radio stations at Sydney, Townsville, Darwin and Perth. The new network will provide enhanced high-frequency radio communications capabilities and compatible high-frequency equipment in selected ADF mobile platforms. The project will deliver the new capability in two stages. The first stage replaced and rationalised existing facilities. The second stage will provide increased levels of automation, improved capability, enhanced security and survivability and reduced reliance on staff, and will incorporate the new equipment into the mobile platforms.

Contract acceptance, including system integration, system-testing and acceptance of the first stage, occurred in October 2004. The transition of the Navy and the Air Force's radio network operational capability and staff to the new integrated system commenced in the fourth quarter of 2004. The second stage will be introduced progressively between 2005 and 2008, with installation into mobile platforms potentially extending to 2010. The preliminary design review for the second stage is scheduled for completion by September 2005.

The project achieved its 2004-05 estimate.

This project contributes to the Command of Operations capability.

AIR 5400 Ph 1/2 and 3 Air-to-Air Weapons Capability and Air-to-Air Follow-on Buy

Prime contractors: Raytheon, through Foreign Military Sales with the United States Government, and MBDA UK.

The two separate project phases are managed as one project due to their interrelated capability. The project seeks to maintain a credible air-to-air weapons capability for F/A-18 aircraft. To achieve this, new beyond-visual-range missiles (the advanced medium range air-to-air missile) and within-visual-range missiles (the advanced short-range air-to-air missile) have been acquired.

Service release of the advanced medium range air-to-air missile capability occurred in December 2001, with initial deliveries of the missile taking place during 2001.

United States Government approval was granted in late 2001, for the Australian acquisition of a more advanced model of the advanced medium range air-to-air missile. Further deliveries of the less capable missile were halted, with the more advanced variant of the missile being delivered in lieu of outstanding deliveries.

Management and support responsibility of both variants of the advanced medium range air-to-air missile has now been transferred to the in-service support organisation.

Service release of the advanced short-range air-to-air missile occurred in July 2004 and transition to the in-service management agencies will be completed by December 2005. Transition of management responsibility for the maintenance and software support facilities contract with MBDA will also be transferred to in-service management, commencing in August 2005.

The project did not achieve its 2004-05 expenditure targets. While the accelerated delivery of the software support and maintenance facilities resulted in some expenditure from 2005-06 being brought forward into 2004-05, a number of significant planned expenditures did not occur. These included delays in scheduled Foreign Materiel Sales payments and delayed transfer of funds to supporting projects.

This project contributes to Air Force capability.

JP 2070 Ph 2 Lightweight Torpedo Replacement

Alliance agreement: Commonwealth, EuroTorp and Thales Underwater Systems

Phase 2 of this project will introduce the EuroTorp MU90 lightweight torpedo into ADF service in the Anzac- and Adelaide-class frigates, the Super Seasprite and Seahawk helicopters and the P-3 maritime patrol aircraft. This phase will acquire an initial stock of weapons, integrate the weapon to all platforms, establish a local weapon assembly facility and a local in-service support capability. The weapon is being acquired under an Alliance Agreement between the Commonwealth, EuroTorp and Thales Underwater Systems. The agreement was signed in December 2002.

Phase 3 of the project will procure additional weapons, accomplished through a re-negotiated Alliance Agreement. The re-negotiated agreement, which embraces both the remainder of Phase 2 as well as Phase 3, was signed on 31 August 2005. The delay in achieving contract signature for Phase 3 was due to re-negotiations that focused on addressing risks to the Commonwealth and better defining the management arrangements.

European trials of production torpedoes revealed quality control problems. As a result, acceptance of our initial batch of MU90 torpedoes in France is now scheduled for the first quarter of 2006, with delivery to Australia expected in mid 2006. The revised delivery date is subject to satisfactory completion of additional trials.

While the full capability in-service date for the MU90 torpedo is 2009, four Anzac-class frigates have already received the necessary modifications to be able to fire both the current weapon and the MU90. Installation into the other frigates will be completed by December 2007, depending on ship maintenance schedules and fleet activity schedules. The integration contract for the P-3 Orion aircraft is currently being developed. The final integration plan for the helicopters remains to be determined.

The project did not achieve its 2004-05 expenditure targets due to MU90 torpedo production issues, and difficulties associated with re-negotiation of Phase 3 and ADF maritime platform availability.

The project contributes to Navy and Air Force capabilities.

AIR 5416 Electronic Warfare Self-Protection for Selected ADF Aircraft

Prime contractors: Phase 2A – BAE Systems; Phase 2B – Tenix Defence

This project will acquire electronic warfare self-protection and ballistic protection measures for selected ADF aircraft. The project is being implemented under three distinct sub-phases comprising a grouping of Black Hawk with Chinook helicopters, the C-130H fleet and the Sea King helicopters.

Phase 2A will acquire and integrate electronic warfare self-protection onto Black Hawk and Chinook helicopters. The Prime Contract was awarded to BAE Systems on 4 February 2005. One of the main activities under the prime contract is the development of the integration design from the initial design activity. The full production contract is yet to be negotiated, but it is anticipated that the Black Hawk and Chinook fleets will be modified by late 2009.

Phase 2B will upgrade the electronic warfare self-protection capability on all C-130H aircraft. The prime contract was awarded to Tenix in December 2004 and the completion of the engineering design activity is expected in November 2005 to allow induction of the first aircraft in early 2006. The anticipated in-service date for the first four C-130H aircraft is mid-2007, with all 12 aircraft completed by April 2008.

The project exceeded its revised expenditure target for 2004-05 in anticipation of awarding a contract to BAE Systems (Phase 2A) and Tenix (Phase 2B).

The project contributes to Army and Air Force capabilities.

AIR 5333 New Air Defence Command and Control Systems for 2CRU/3CRU (previously reported as 2CRU/3CRU Control and Reporting Units)

Prime contractor: Boeing Australia Ltd

This project will replace the ageing air defence command and control systems at Nos. 2 and 3 Control and Reporting Units located at RAAF Tindal (Northern Territory) and RAAF Williamtown (New South Wales), and will design and implement an integrated, real-time, ADF air defence system and communications network. Acquisition and logistic support contracts were signed with Boeing Australia Ltd on 1 March 2004. The first command and control system is expected to be installed and operational at Tindal by mid-2007.

The project's integrated baseline review was completed in late 2004, disclosing a protracted ramp-up of Boeing Australia's project team that resulted in slower work progress than had been contracted. Consequently, recurring monthly progress payments to the contractor were less than programmed. Also, the reduced rate of progress was anticipated to impede achievement of the next major project milestone and its associated payment to the

contractor, resulting in a revised estimate for the year of \$21m being submitted¹. The project slightly over-achieved against the correct revised expenditure estimate.

The preliminary design review, the third major contractual milestone programmed to occur during 2004-05, was held in May 2005, with formal completion occurring on 21 July 2005.

The project contributes to Air Force capability.

AIR 6000 SDD New Air Combat Capability

Memorandum of Understanding: United States Government

This project aims to introduce a new air combat capability with the air dominance and strike functions currently provided by the F/A-18 Hornet and F-111 aircraft fleets. While a formal decision on the replacement aircraft has not yet been made, the Government stated its expectation in June 2002 that this capability would be provided by the Lockheed Martin F-35 Joint Strike Fighter.

The Joint Strike Fighter is being developed by an international collaborative program, led by the United States, and is in the System Development and Demonstration stage. The System Development and Demonstration phase funds Australia's contribution to the program.

Under a separate phase, the project is undertaking collection and analysis of System Development and Demonstration information and the associated studies, risk mitigation and planning activities necessary to support the Government's first pass procurement decision scheduled for 2006. It also supports Australian industry participation in the Joint Strike Fighter program and development of the international agreement that will provide the means for the Production, Sustainment and Follow-on Development phase of the program. Formal negotiations for this agreement commenced in May 2005 and are planned to conclude in June 2006 and signature of the Memorandum of Understanding in December 2006.

The project achieved its revised 2004-05 expenditure targets.

This project contributes to Air Force capability.

¹ This amount was incorrectly reported in the *Portfolio Additional Estimates Statements 2004-05* as \$30m.

APPENDICES



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Internal Audit and Risk Management Arrangements

Internal Audit

Management Audit Branch, within the Inspector-General's Group, provided an internal audit capability in accordance with an annual audit work program approved by the Defence Audit Committee. The Branch undertook a number of investigative tasks requested by Ministers and senior Defence officials, or as a result of suspect transactions identified through computer-aided audit techniques.

Management Audit Branch completed 86 audits and 41 Management Directed Tasks in 2004-05. Management Directed Tasks can be requested by Ministers and very senior Defence managers and are given priority for action.

Towards the end of 2004-05, the Materiel Audit Committee was established, prior to the Defence Materiel Organisation becoming a prescribed agency on 1 July 2005. The Inspector-General is an adviser on both committees.

Ethics Awareness and Fraud Control

Defence has a well-developed program of ethics and fraud awareness. In 2004-05, over 290 ethics and fraud awareness presentations were given to approximately 13,000 Defence personnel across Australia. In addition, approximately 5,000 Defence personnel undertook awareness training via the Defence Online Learning Campus.

Ethics Awareness

The program also included the provision of material such as videos, newsletters and a dedicated intranet site for information and advice. During 2004-05, a new video was launched: *Against the Odds*. It is a reality-style video based on an actual case. The video looked at the fraud from a number of perspectives, including the adequacy of management controls, the consequences of the fraud for the individual concerned and the gambling addiction that motivated the fraud in the first instance.

Fraud Control

During 2004-05, in line with the Commonwealth Fraud Control Guidelines, Defence undertook a new fraud risk assessment. This assessment will be used as the basis for developing a new Defence Fraud Control Plan (No. 6), which is scheduled for completion by December 2005.

During 2004-05, 445 fraud investigations were registered within Defence and 366 investigations were completed (a number of those completed being registered in the previous years). Approximately 20 per cent of completed investigations resulted in criminal, disciplinary and/or administrative action. Of these, approximately 60 per cent related to action under the *Defence Force Discipline Act 1982*.

The determined fraud loss for completed cases in 2004-05 was some \$1.0m and, during the year, monies awarded and recovered amounted to around \$0.05m. Over the last ten fiscal years, detected fraud has averaged an estimated \$1.8m per year, within a range of \$1.0m to \$3.1m per annum.

Portfolio Evaluations

Portfolio Evaluation Strategy

The Defence Portfolio Evaluation Strategy is promulgated as a Defence Instruction (General). In accordance with that strategy, the Defence Committee authorised a schedule of portfolio evaluations covering 2004-05 and 2005-06.

In accordance with the Secretary's priorities, the Defence Committee revised the foreshadowed list of topics. The principal evaluation topics for calendar year 2005, in order of priority, are now:

- Defence civilian training and development (this topic replaces the Effectiveness of Personnel Policy Development evaluation);
- the injury prevention program; and
- the technical regulatory system.

Topics foreshadowed for calendar year 2006 in the *Portfolio Budget Statements 2005-06*, in order of priority, are:

- ADF safety systems;
- the effectiveness of Defence record keeping; and
- the effectiveness of national health support.

Schedule of Portfolio-level Evaluations for 2004-05

The following evaluation activities were completed in 2004-05:

Preparation of ADF Officers for Joint Appointments. This evaluation, to examine the effectiveness of the ADF's current arrangements to prepare officers to command and serve on war-fighting joint headquarters, was provided to the Chief of the Defence Force and the Secretary in July 2005 and found that:

- education, training and levels of experience currently provided to ADF officers in preparation for joint appointments is generally appropriate, however, there are areas where further improvements could be made;
- there is no clear policy available, nor a sponsor accountable for its development, to provide guidance to career managers on how officers should be prepared for service in joint operational headquarters;
- generally, ADF officers hold a strong perception that promotion prospects are better served by working in parent Service jobs rather than in joint appointments for ranks up to Lieutenant Colonel level and equivalent; and
- there is scope to improve the levels of support provided to ADF star-ranked officers in preparing them for service as joint force commanders.

The Effectiveness of the Defence Customer-Supplier Model. This evaluation, to examine the efficiency, effectiveness, and appropriateness of Defence's customer-supplier model, was completed in July 2005 and found that:

- senior Defence management are generally supportive of the Defence customer-supplier model;
- more improvement is required to adequately link service delivery with Defence's core business;
- the absence of costing data in service agreements is affecting management's ability to make informed decisions as well as adequately setting priorities; and
- there is further scope to standardise services across regions and reduce duplication.

Defence Civilian Performance Schemes. This evaluation, to examine the operation of the performance schemes and to assess the application of the intended behavioural changes, was provided to the Secretary and the Chief of the Defence Force in February 2005 and found that:

- the Defence civilian performance schemes are underpinned by support from the highest levels in Defence, a set of sound principles and clear supporting documentation; and
- there are opportunities for improvement involving issues of both process and procedure, as well as issues of a higher level or strategic nature.

The Secretary and the Chief of the Defence Force have accepted the evaluation's recommendations and plans have been developed to implement them.

Enterprise Risk Management

In 2004, Defence devised treatments to mitigate risks that were judged to be unacceptable to Defence's ability to defend Australia and to manage and conduct its business. Progress reports on those treatments were made to the Defence Committee periodically.

In April 2005, the Defence Committee decided to forego further periodic reports on the treatment of key risk areas in Defence, and instead requested that Defence Groups and Services report to the Inspector-General whenever changes in their risks warranted it. The Defence Risk Management Plan is being revised to accommodate this.

External Scrutiny

Parliamentary Committees

Defence interacted with a number of parliamentary committees throughout 2004-05. This section reports on the status of inquiries or other action by parliamentary committees in relation to Defence as at 30 June 2005.

Information on the parliamentary reports, inquiries and hearings detailed below can be accessed through the Australian Parliament House website at: <http://www.aph.gov.au>.

Joint Statutory Committees

Public Accounts and Audit

Report No. 398, March 2004 – Review of Auditor-General’s Reports, 2002-2003, Fourth Quarter

The Government response was tabled on 24 November 2004.

Report No. 399, March 2004 – Management and Integrity of Electronic Information in the Commonwealth

The Government response was tabled on 19 January 2005.

Review of Auditor-General’s Reports 2004-05, First and Second Quarters

Defence officials attended public hearings on 16 March, 28 April, 12 May and 27 June 2005 at which the committee considered Auditor-General’s Report No. 5 *Management of the Standard Defence Supply System Upgrade* and No. 21 *Audits of Financial Statements of Australian Government Entities for the Period Ended 30 June 2004*.

Defence responded to a total of 25 questions on notice resulting from these hearings. Responses to two questions, one each arising from the 28 April and 12 May hearings, had not been lodged with the committee as at 30 June 2005.

Public Works

Report No. 5/2005, March 2005 – Defence Science and Technology Organisation Ordnance Breakdown Facility, Port Wakefield, South Australia.

This project was considered by the committee at a public hearing on 21 April 2005 and approved by the Parliament on 1 June 2005. See Chapter Two – Approved Major Capital Facilities Projects for further details.

Joint Standing Committees

Foreign Affairs, Defence and Trade

Inquiry into Australia’s Relationship with the Republic of Korea

Defence lodged a submission with the committee on 26 May 2005.

Report No. 122 – Review of the Defence Annual Report 2002-03

The Government response was tabled on 19 April 2005.

Review of the Defence Annual Report 2003-04

Defence witnesses attended a public hearing on 11 March 2005. Responses to seven questions arising from the hearing were lodged with the committee on 21 April 2005.

Inquiry into Australia's Maritime Strategy

The report was tabled on 21 June 2004. A response to the report is currently being considered by the Government.

Inquiry into Australia's Defence Relations with the United States

The inquiry resumed on 2 December 2004. Defence provided a second submission to the committee in May 2005.

Inquiry into Human Rights and Good Governance Education in the Asia Pacific Region

The report was tabled on 24 June 2004. Defence input to the Government response was provided to AusAID on 1 October 2004.

Inquiry into Australia's Relations with Indonesia

The report was tabled on 31 May 2004.

Visits by and Private Briefings to the Defence Sub-Committee

The Chief of the Defence Force provided a private briefing to the committee in relation to the Al Muthanna Task Group on 15 March 2005.

The Chief of Army provided a private a briefing to the committee in relation to protective clothing on 11 May 2005.

Defence officials provided a private briefing to the committee in relation to complex warfighting on 21 June 2005.

Electoral Matters

Inquiry into the Conduct of the 2004 Federal Election and Matters Related Thereto

Defence lodged a submission with the committee on 4 April 2005.

Treaties

Optional Protocol to the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment

Defence officials attended a public hearing on 10 August 2004.

Report 66 – Review of treaties tabled 7 December 2004 (4), 15 March and 11 May 2005

The treaty was tabled on 11 May 2005. Defence witnesses attended a public hearing on 20 June 2005.

Senate Standing Committees

Foreign Affairs, Defence and Trade Legislation Committee

2004-05 Budget Estimates Hearing 31 May, 1 June and 17 June 2004

Defence responded to a total of 52 questions arising from the hearings. Responses to questions 1-28 and W1-W7 were lodged with the committee on 16 June 2004. Responses to questions 29-42 and W8-W10 were lodged with the committee on 18 November 2004.

2004-05 Budget Estimates Supplementary Hearing December 2004

Defence responded to 49 written questions in lieu of a supplementary hearing, which were lodged with the committee on 15 February 2005.

2004-05 Additional Estimates Hearing 16 and 18 February 2005

Responses to 13 questions arising from the hearing were lodged with the committee on 19 April 2005.

2005-06 Budget Estimates Hearing 30-31 May 2005

Responses to 32 questions arising from the hearing were lodged with the committee on 5 August 2005.

Foreign Affairs, Defence and Trade References Committee

Inquiry into Australia's Relationship with China

Defence lodged a submission with the committee on 17 March 2005.

Inquiry into Duties of Australian Personnel in Iraq (ISG Inquiry)

One public hearing was held on 29 March 2005. As at 30 June 2005, the committee's report had not been tabled.

Inquiry into the Effectiveness of Australia's Military Justice System

The report was tabled on 16 June 2005. As at 30 June 2005, a Government response addressing 40 recommendations was being prepared. See Chapter One: Year In Review by the Secretary and the Chief of the Defence Force and Chapter Three – Effectiveness of Investigations and Complaints Handling for further information.

Current health preparation arrangements for the deployment of Australian Defence Forces overseas

The report was tabled on 12 August 2004. A response to the report is currently being considered by the Government.

Inquiry into Security Threats to Australians in South-East Asia

The Government response was tabled on 2 December 2004.

Senate Select Committee

Inquiry into Public Statements Concerning a Certain Maritime Incident

A Defence official attended a public hearing on 1 September 2004. The report was tabled on 9 December 2004.

House Standing Committees

Standing Committee on Science and Innovation

Inquiry into pathways to technological innovation

Defence lodged a submission with the committee on 5 May 2005.

Parliamentary Joint Committee on ASIO, ASIS and DSD

Review of the Intelligence Services Legislation Amendment Bill 2005

Defence officials provided a briefing to the committee on the proposed changes to the *Intelligence Services Act 2001* and associated pieces of legislation on 16 June 2005. The Committee is to review the *Intelligence Services Legislation Amendment Bill 2005* and will table its report in 2005-06.

Review of handling procedures for classified documents

Defence contributed to the Department of the Prime Minister and Cabinet coordinated Government response during 2004-05. Tabling is to occur in 2005-06.

Auditor-General's Reports

The Inspector-General's Group is responsible for identifying Auditor-General reports that have implications for Defence.¹ Seven Auditor-General's reports, relating specifically to Defence, were tabled during the year. The key findings and recommendations of each report were referred to relevant areas within Defence for implementation.

Audit Report No. 1, 8 July 2004 – *Sale and Leaseback of the Australian Defence College Weston Creek*

The audit examined the process of identifying the Australian Defence College, Weston Creek, Australian Capital Territory, property for sale and leaseback and the management of the sale process. The objective of the performance audit was to examine the efficiency and effectiveness of the management of the sale process by Defence, including assessing whether the sale and long-term leaseback arrangements adequately protect the Commonwealth's interests.

The Australian National Audit Office made five recommendations to which Defence agreed, two with qualification.

Audit Report No. 5, 4 August 2004 – *Management of the Standard Defence Supply System (SDSS) Upgrade*

The audit on the Defence Project Management of the SDSS Upgrade Project examined Defence project management procedures and practices in the information management systems domain.

The Australian National Audit Office made eight recommendations to which Defence agreed.

Audit Report No. 9, 25 August 2004 – *Assistance Provided to Personnel Leaving the ADF*

The audit examined the range of support made available to ADF personnel making the transition from military to civilian life; the extent to which the assistance is utilised; the

¹ Australian National Audit Office reports and information on the audit office's operations, including the audit timetable, can be accessed through the Australian National Audit Office's website at: <http://www.anao.gov.au>.

cost to Defence of such assistance; and the relevant responsibilities of those who deliver the assistance.

The Australian National Audit Office made two recommendations to which Defence agreed.

Audit Report No. 25, 1 February 2005 – *Army Capability Assurance Processes*

The audit examined the relationship between the strategic guidance and capabilities provided by Army, through analysis of the Army capability management and reporting framework. The objectives of the audit were to: assess Army capability management and reporting processes; determine whether these processes efficiently and effectively manage resources to provide Army capability; and accurately indicate the capability provided by Army.

The Australian National Audit Office made eight recommendations to which Defence agreed.

Audit Report No. 29, 25 February 2005 – *The Armidale Class Patrol Boat Project: Project Management*

The objective of the audit was to provide independent assurance of the effectiveness of Defence's management of the acquisition, and future provision of the Armidale-class patrol boats capability, relating to the in-service support contract, provision of infrastructure, and crewing sustainability.

The Australian National Audit Office made three recommendations to which Defence agreed.

Audit Report No. 44, 25 May 2005 – *Defence's Management of Long-term Property Leases*

The objective of the audit was to examine Defence's management of leases that have resulted from property sale and leaseback transactions. Leases subject to review were for a period of ten or more years and included the following six properties: the Defence plazas in Sydney, New South Wales and Melbourne, Victoria; the Hydrographic Office Wollongong, New South Wales; Defence National Supply Distribution Centre Moorebank, New South Wales; Campbell Park Offices and the Australian Defence College Weston Creek in Canberra, Australian Capital Territory.

The audit examined the process for identifying the properties for sale and leaseback and the sale approval process. The audit sought to determine the basis on which the properties were proposed for sale and leaseback and the financial impact for the Government. It also reviewed the lease terms and conditions to determine whether they protect the Government's interests, and examined Defence's management of commitments arising from the leases.

The Australian National Audit Office made three recommendations to which Defence agreed.

Audit Report No. 45, 27 May 2005 – *Management of Selected Defence System Program Offices*

The audit focused on the Defence Materiel Organisation's equipment acquisition and support, at the system program management level. The objective of the audit was to assess the adequacy of Defence's capital equipment project definition, approval, acquisition and logistics support management. The Systems Program Offices subject to audit were:

- Aerospace Systems Division's Tactical Fighter Systems Program Office, which is responsible for acquisition and logistics support management of the Air Force's F/A-18 and Hawk 127 fleets and associated equipment;
- Land Systems Division's Track Manoeuvre Systems Program Office, which is responsible for the acquisition and logistics support management of Army's Leopard Tanks and M113 Armed Personnel Carrier fleets;
- Electronic and Weapon Systems Division's Over-the-Horizon Radar Systems Program Office, which is responsible for acquisition and logistics support management of the Jindalee Operational Radar Network and Jindalee Over-the-Horizon Radar systems; and
- Maritime Systems Division's Fast Frigate Guided System Program Office which is responsible for the support and upgrade of the Navy's Fast Frigate Guided fleet.

In view of the significant role that the Systems Program Offices play in managing major capital equipment acquisition projects, the audit includes a case study of the \$1.45 billion upgrade project (SEA 1390).

The Australian National Audit Office made eight recommendations to which Defence agreed; one with qualification, one in principle.

Cross-Portfolio Reports

Defence also participated in, or contributed to, the following cross-portfolio and Business Support Process Auditor-General's reports.

Audit Report No. 6 5 August 2004	<i>Performance Management in the Australian Public Service</i>
Audit Report No. 13 28 October 2004	<i>Superannuation Payments for Independent Contractors working for the Australian Government</i>
Audit Report No. 15 23 November 2004	<i>Financial Management of Special Appropriations</i>
Audit Report No. 21 12 January 2005	<i>Audits of the Financial Statements of Australian Government Entities for the period ended 30 June 2004</i>
Audit Report No. 23 21 January 2005	<i>Audit Activity Report: July to December 2004</i>
Audit Report No. 49 2 June 2005	<i>Administration of Fringe Benefits Tax</i>
Audit Report No. 52 20 June 2005	<i>Legal Services Arrangements in the Australian Public Service</i>
Audit Report No. 55 23 June 2005	<i>Workforce Planning</i>
Audit Report No. 56 24 June 2005	<i>Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005</i>

Defence Force Ombudsman

There was one formal report to the Chief of the Defence Force pursuant to Section 15 of the *Ombudsman Act 1976*, but no reports were raised under sections 16, 17, or 19 of the Act relating to the operations of the ADF during the period under report.

Decisions of Courts and Tribunals

On 2 September 2004, the Supreme Court of the Australian Capital Territory handed down its decision on a question of law in the matter of *Vance v Air Marshal McCormack in his capacity as Chief of Air Force & Anor* [2004]². A single judge of the court held that communications between clients and ADF Legal Officers or Australian Public Service lawyers employed in Defence do not ordinarily enjoy legal professional privilege.

On 12 and 13 May 2005, the Australian Capital Territory Court of Appeal heard the Commonwealth's appeal from that decision. On 23 August 2005 the Court of Appeal handed down its decision on the question of legal professional privilege³. The Court of Appeal has confirmed that in determining a claim for privilege, the primary concerns are still the purpose and confidentiality of the document, and the circumstances of the relationship between lawyer and client. Privilege may be found more readily where a lawyer has a current practising certificate, but the lack of a certificate will not automatically defeat a claim for privilege.

Common law actions for damages for personal injury against the Commonwealth by former crew members of HMAS *Melbourne*, alleged to have arisen from its collision in 1964 with HMAS *Voyager*, continue in the Supreme Courts of New South Wales and Victoria. Common law claims are also being defended in the Supreme Court of Queensland in which plaintiffs allege injury caused by their participation in various de-seal and re-seal programs conducted on F-111 aircraft.

The claim in the Federal Court of Australia by the Commonwealth against ADI Limited, Parker Enzed Technologies Limited, Jetrock Pty Ltd (in liquidation) and Todd Hydraulics Pty Ltd, for damages relating to the 1998 fire onboard HMAS *Westralia*, is continuing. A hearing in early 2006 will be sought by Defence, following completion of the current interlocutory proceedings.

On 9 September 2004, the High Court handed down its decision in *Re Colonel Aird; Ex parte Alpert* [2004]⁴. The decision deals with the legislative power of the Commonwealth to make the alleged conduct of a service member while on leave overseas a service offence triable before an Australian service tribunal. In a split decision, the court ruled that it was within parliament's legislative power, subject to the facts of each case.

On 13 September 2004, a Defence Force Magistrate handed down his decision in a trial under the *Defence Force Discipline Act 1982*. The matter before the Defence Force Magistrate was disobedience of a lawful command under Section 27 of the Act by an officer who had refused to provide a urine sample for testing. The Defence Force Magistrate held that Part VIIIA of the *Defence Act 1903* is an exclusive code for urinalysis testing outside of the investigation of criminal and disciplinary offences. As a consequence, in the view of the Defence Force Magistrate, there was no scope for command initiated urinalysis drug

² Supreme Court of the Australian Capital Territory ACTSC 78 (2 September 2004).

³ Court of Appeal of the Supreme Court of the Australian Capital Territory 2005 ACTCA 35 (23 August 2005).

⁴ High Court of Australia HCA 44 (9 September 2004).

testing and the only basis on which such testing could be instituted is under regulations made under Part VIIIA. Testing under an amended version of Part VIIIA of the Act has subsequently been implemented in the ADF.

Purchaser-Provider Arrangements

Defence Housing Authority

Defence and the Defence Housing Authority have two formal agreements: the Services Agreement for Housing and Related Requirements (the Services Agreement) and the Relocation Services Agreement. The agreements formalise the relationship between Defence (as purchaser) and the Defence Housing Authority (as provider) of housing and related services.

The Services Agreement extends to 2010 and provides for a major review of its terms after five years of operation. The review commenced in February 2005, and Defence and the Defence Housing Authority have agreed to amend the Agreement to develop a commercial agreement to establish more business-like and transparent arrangements.

The Relocation Services Agreement allows for performance reviews to be conducted in 2006, 2008 and 2010.

The cost of Defence Housing Authority services for housing and relocation services and the Defence Home Loans Scheme for ADF members in 2004-05 was \$443.9m. This includes \$83.36m to pay the outstanding annuity liability for 1,078 Defence-owned service residences located on Defence bases.

Defence Housing Authority has continued to provide community-standard housing and tenancy management in accordance with Defence capability requirements and satisfactory relocation services to ADF personnel. In June 2003, the Australian National Audit Office tabled its report *Defence Housing and Relocation Services* (Audit Report No. 51)⁵ and recommended several significant changes to existing arrangements to establish more commercial arrangements between Defence and the Defence Housing Authority and improve contract management arrangements. A report on Defence's implementation of the Australian National Audit Office recommendations was provided to the Joint Standing Committee on Public Accounts and Audit during 2004-05. Most of the recommendations have been implemented, although three recommendations remain to be considered by the Government.

⁵ More information on the Defence Housing and Relocation Services (Audit Report No. 51) can be viewed at <http://www.anao.gov.au/WebSite.nsf/Publications/>.

ComSuper

Defence is required to pay superannuation administration fees to Commonwealth Superannuation Administration (ComSuper). Defence pays ComSuper a fee for each current or separated Defence member or employee who is a contributing, deferred benefit, or pensioner member of the Military Superannuation and Benefits Scheme, the Defence Force Retirement and Death Benefit Scheme, the Defence Forces Retirement Benefits Scheme, the Commonwealth Superannuation Scheme, or the Public Sector Superannuation Schemes. The expenses for 2004-05 were \$16.6m. Performance Service level standards, which are set by the Military Superannuation Benefits Board and the Defence Force Retirement and Death Benefits Authority, apply to the delivery of services provided by ComSuper. During 2004-05, 91 per cent of agreed service standards were achieved.

During the year ComSuper delivered a number of initiatives. These included business processes to support ancillary contributions, including the Government's superannuation co-contribution and a half-yearly member mail out focusing on investment activities. ComSuper also enhanced its reporting to the Military Superannuation Benefits Board and the Defence Force Retirement and Death Benefits Authority.

Defence is currently negotiating a service level agreement with ComSuper, the Military Superannuation Benefits Board Executive, and the Defence Force Retirement and Death Benefits Authority. This agreement is expected to be signed by all parties in 2005-06 and will identify the military superannuation administration services to be provided by ComSuper and the fee Defence will pay. ComSuper's performance under the terms of the service level agreement will be reviewed regularly by the Military Superannuation Benefits Board, the Defence Force Retirement and Death Benefits Authority and Defence.

The Department of Finance and Administration is responsible for negotiating the Commonwealth-wide superannuation administration services provided by ComSuper for civilians. Defence is required to pay the fees negotiated for civilians by the Department of Finance and Administration.

Comcare

Defence is required to pay an annual workers' compensation premium to Comcare to meet the cost of workers' compensation claims for civilian personnel who suffer a work-related injury or illness during the year and the cost of managing those claims. The premium for 2004-05 was \$12.9m.

Defence is also required to pay a regulatory contribution to Comcare to fund costs incurred by Comcare and the Safety Rehabilitation and Compensation Commission to conduct regulatory functions under the *Safety Rehabilitation and Compensation Act 1988* and the *Occupational Health and Safety (Commonwealth Employment) Act 1991*. The regulatory contribution for civilian and ADF personnel for 2004-05 was \$3.5m.

During 2004-05, Defence was satisfied with the level of service provided by Comcare, including its two-week turn around time for the processing of claims. Defence has formal consultative arrangements in place with Comcare to ensure regular review of claims management, Defence's injury prevention and return to work performance indicators, as well as ways of jointly generating efficiencies.

Department of Foreign Affairs and Trade

Defence maintains a service level agreement with the Department of Foreign Affairs and Trade (DFAT) for the provision of management services at DFAT-managed overseas posts. The agreement is intended to facilitate efficient and effective Australian Government business overseas by avoiding unnecessary duplication of common services at overseas posts. An agreed fee is charged for these services. Following an extensive review and consultation process, a new agreement was signed in March 2005.

The services provided for Defence under the agreement include personnel administration, residential and office accommodation, security, financial advice and transactional processing, information technology infrastructure support, and telecommunications and secure network services for Australian-based and program support staff engaged at overseas posts.

The cost of the agreement was \$4.1m in 2004-05, an increase of \$0.8m from 2003-04.

Defence also maintains a memorandum of understanding with DFAT for the provision of information and communication technology services to Defence personnel at DFAT-managed overseas posts. For these services an agreed fee is charged

The services provided to Defence under the memorandum of understanding are:

- local area networked desktop office products at the classified and unclassified levels, facilitating emails and cablegrams being communicated to and from appropriate Defence networks; and
- telephone exchange services, including the provision of a telephone handset.

The information and communications technology infrastructure providing these services is maintained and supported by DFAT.

The services are provided in 28 countries, to approximately 150 Defence personnel and locally engaged staff in overseas posts. A renegotiated memorandum of understanding came into force on 1 July 2004 for a three year period. The cost to Defence for 2004-05 was \$950,408, a saving of approximately \$50,000 in charges that would have been levied for the same services under the terms of the previous agreement.

Legal Expenses

Defence Legal was established as a separate division within the Corporate Services and Infrastructure Group in July 2004. The division provides a broad spectrum of legal services. Uniformed and civilian lawyers provide both legal and legal policy advice and legal training covering operations and international law, the development of Defence policies and legislative amendments, advice in relation to Defence-sponsored international agreements and arrangements, military justice, freedom of information and historical records access matters, litigation and administrative law. In addition to headquarters-based staff located in Canberra, many military legal officers remain outposted to provide direct legal support to ADF commanders and other Defence regional elements.

Consolidation of the new division has involved internal restructuring, a review of internal business processes, and the establishment of new legal directorates for the management of external legal services and special financial claims arising from defective administration.

Expenditure on internal and external legal services in 2003-04 and 2004-05 is shown in Tables 7.1, 7.2 and 7.3. Internal expenses include salaries for military and civilian staff, divisional operating costs and military justice reimbursements. External expenses are professional fees, disbursements and other legal expenses. Total expenditure on legal services declined by \$3.9m, or 6.4 per cent, in 2004-05 reflecting a decline in expenditure on external legal services.

Table 7.1 Expenditure on Internal and External Legal Services in 2003-04 and 2004-05		
Type of legal expenditure	2003-04 (\$m)	2004-05 (\$m)
Internal	22.3	24.1
External	38.7	33.0
Total	61.0	57.1

Table 7.2 Cost Breakdown of Internal Legal Expenses		
Items	2003-04 (\$m)	2004-05 (\$m)
Salaries for military lawyers	10.3	10.5
Salaries for civilian staff	6.6	7.9
ADF legal Reserve officers	2.8	2.7
Operating costs of the Division	2.3	2.7
Military justice reimbursements	0.4	0.3
Total⁽¹⁾	22.3	24.1

Note

1. Figures may not add due to rounding.

Table 7.3 Cost Breakdown of External Legal Expenses		
Items	2003-04 (\$m)	2004-05 (\$m)
Professional fees – Defence legal panel	22.0	24.1
Professional fees – Attorney General's	1.6	1.9
Disbursements	5.0	4.6
Legal expenses – other	10.1	2.4
Total	38.7	33.0

Initiatives

Initiatives are being implemented to improve the management and accountability of Defence's expenditure on external legal services and to enhance the usefulness of legal advice. The new Defence Legal Services Panel arrangements will provide the basis for improved management and control of external legal services. The arrangements will involve multiple panels (each with up to ten panellists), covering 16 areas of expertise, for example environmental law, employment law, and commercial law. In May 2005, 25 shortlisted organisations were asked to respond to a select request for tender for the provision of the required services. Twenty responses have been received and are being evaluated with new standing offers expected to be in place in late 2005. The standing offers will be in place for at least three years with potential for extension. Notwithstanding the creation of the panel, the arrangements will be non-exclusive, so that normal tender processes can be used if better value for money can be provided outside of the panel's standing offers.

Defence is establishing a framework to monitor the performance of external legal providers, including a new database, a procedures manual and an evaluation mechanism. Changes are also being made to the financial management system to improve the accuracy and reporting of legal services expenditure. Legal advice obtained externally will be captured on a centrally-managed database that will facilitate the maintenance of up-to-date advice and enable an effective search capability.

Defence Legal has also started the request for tender process for a provider of tertiary legal education services for military legal officers. The existing contract will expire at the end of 2005. Maintaining high standards of tertiary education for legal officers continues to be a high priority particularly because of the complex environments in which the ADF continue to operate.

Discretionary Grants

Table 7.4 Grants Awarded in 2004-05

Grant Program	2002-03 Actual \$'000	2003-04 Actual \$'000	2004-05 Actual \$'000
Army Military History Research Grants Scheme	50	50	50
Defence Family Support Funding Program	1,107	1,056	927
The Royal United Services Institute of Australia	70	75	75
Council for Security Cooperation in the Asia-Pacific (Australian Chapter)	-	40 ⁽¹⁾	40
Point Nepean Community Trust	-	5,000	-
Transfer of Land at Police Point to the Mornington Peninsula Shire Council	-	1,000	-
Other Grants - Frontline	-	-	850
Total	1,227	7,221	1,942

Note

1. This funding was erroneously omitted from last year's annual report.

Army Military History Research Grants Scheme

This scheme supports and encourages research into the role and involvement of the Army in the development of the nation. Recipients of the grants are shown in the table below.

Table 7.5 Army Military History Research Grants Scheme Expenditure

Grantee	State	Title of Research	Grant \$
Dr Harvey Broadbent	NSW	Turks and the ANZACS	6,000
Captain Craig Stockings	ACT	Australian Army Cadet Movement	9,000
Mr Christopher Wray	Vic	The Anvil: The Battle of Posieres	2,300
Mr Craig Daeyton	Tas	History of 47 th Battalion, 1916-18	3,000
Mr David Hay	ACT	National Service and the Australian Army	2,300
Dr Frances Miley	ACT	Financing Army: A history of money in the Australian Army	1,500
Mr Jim Keep Faggotter	NSW	Australia: Don't Forget Us	1,850
Lieutenant Colonel Robert Likeman	Qld	From Law to War: The Life of Brigadier General Lachlan Wilson of the Light Horse	1,600
Lieutenant Colonel Bruce Cameron	ACT	Canister on Fire! Australian tank operations in Vietnam	4,500
Dr Ross McMullin	Vic	Geoff McCrae and Australia's Lost Generation	6,000
Mr Robin Corfield	Vic	The Lost Battalions	2,900
Mr Peter Phillips	Vic	Clothing and Equipment of the AIF, 1914-18	1,250
Mr Ross St Claire	NSW	54 th Australian Infantry Battalion, AIF, 1916-18	1,500
Mr Steven Bullard	ACT	The Real Enemy: Japanese and Australian forces in New Guinea, 1942-43	6,250
Total			49,950

Defence Family Support Funding Program

This program provides funds to support projects and services initiated by Defence families. It is also available to existing groups in the community composed of, or benefiting, Defence families. The 2004-05 Budget estimate identified \$1.128m available for the program, of which \$0.957m was available for direct grants. The remaining \$0.171m was targeted to family support assistance and necessary administration of the program. The 2004-05 result refers to direct expenditure on grants, which totalled \$0.927m, as identified in the following table.

Table 7.6 Defence Family Support Funding Program Expenditure
2004-05

Organisation	Grant \$
Australian Capital Territory	
Banksia House Interest Group	17,140
Defence Support Group - Butterworth	6,666
Community Centre – Duntroon	34,180
Defence Families Playgroup - Gungahlin	1,983
Australian Defence Family Club – Port Moresby	9,126
Total Australian Capital Territory	69,095
New South Wales	
Playgroup, Anklebiters	2,247
Billaroy Community Centre	23,725
Defence Family Social Group Inc	1,855
Forest Hill Defence Community Group	7,693
Defence Special Needs Support Group – Williamstown	1,000
Defence Special Needs Support Group – National	42,520
Kapooka Community Coordination Management Committee	18,735
Kissing Point Cottage Inc	21,781
RAAF Wagga Playgroup	3,263
Williamstown RAAF Playgroup	912
Singleton Area Military Support Network Inc	9,642
Shoalhaven Defence Families Association Inc	20,717
Wagga Wagga Defence Newsletter	12,750
Waratah Interest Group Inc	7,815
Williamstown Umbrella Group Inc	27,490
Total New South Wales	202,145
Northern Territory	
Creative Craft Club	443
Neighbourhood House Inc – Larrakeyah	58,202
North Australia Area Family Support Committee	40,803
Pilbara Regiment Family Group Inc	7,505
Robertson Barracks Family Centre	4,276
Tindal Playgroup	957
Tindal Preschool Parent Association	1,348
Top Ender Tri Services Newsletter Inc	36,764
Total Northern Territory	150,298
Queensland	
Playgroup – Amberley	4,950
Defence Community Recreation Centre	35,250
Defence Family Centre – RAAF Williams	1,743
Defence Special Needs Support Group – Townsville	641
Family Community Centre Inc	34,078
Kokoda Barracks Community Organisation	6,960
Pine Rivers Families Association Inc – Strathpine	2,832
Toowoomba Defence Families Support Association Inc	26,425
Tri-Service Defence Families Support Association Inc	25,730
Vincent Neighbourhood House Craft Group	350
Total Queensland	138,959
South Australia	
Community Centre – Edinburgh	88,703
North East Defence Community	4,225
Woodside Defence Families Association	13,323
Total South Australia	106,251

Organisation	Grant \$
Tasmania	
Community Centre – Dowsing Point	17,104
Total Tasmania	17,104
Victoria	
Neighbourhood House Inc – Bandiana	4,595
Cerberus Cottage Family & Friends Association Inc	24,023
Family Group Inc – East Sale	5,605
Mactier Community Centre Inc	1,623
Necana Association Inc	13,976
Puckapunyal & District Neighbourhood Centre Inc	36,183
Puckapunyal Kindergarten Association Inc	9,600
Puckapunyal Playgroup Inc	2,628
Western Area Group Support	1,900
Werribee Defence Community House Inc	37,052
Total Victoria	137,185
Western Australia	
Community Centre – Karrakatta	49,208
Marilla House Community Centre Inc	32,363
Special Air Service Regiment Auxiliary Inc	14,284
Submarine Community Group Inc	10,072
Total Western Australia	105,927
Grand Total	926,964

Royal United Services Institute of Australia

The grant of \$0.075m provides assistance to the Royal United Services Institute of Australia in promoting the discussion of national security and defence matters, and improving public awareness and understanding of such matters through:

- the Institute’s program of international seminars;
- ongoing lectures in all states and territories; and
- publication of a national journal, addressing strategic, defence and national security issues.

The grant also provides continuing support for the Institute’s national secretariat to position the Institute to become more financially independent.

Council for Security Cooperation in the Asia-Pacific (Australian Chapter)

The grant provides assistance to the Australian Chapter of the Council for Security Cooperation in the Asia-Pacific. The grant is made to promote discussion on security cooperation between countries of the Asia-Pacific, and to improve academic discourse and dialogue between member nations.

Total Grants – Other

In June 2005, a grant of \$0.850m was made to the Frontline Organisation for funding assistance. Frontline is the Army and Air Force Canteen Service and provides shopping, taverns and leisure facilities on bases in Australia and overseas.

Consultancies

External consultants investigate assigned problems under limited direction or supervision and provide recommendations or options for improvement. They assist Defence management in decision-making, but do not implement those decisions. Consultants are usually engaged because they have the skills currently unavailable within Defence, or there is a need for specialist skills from external sources or a need for independent research and assessment.

When contracting with a consultant, value for money considerations relate not only to cost, but to the experience and demonstrated capabilities of the consultant, the location of the consultant and the associated travelling costs, the capacity of the consultant's locally-based resources to provide continuing services at levels likely to be required during the course of the engagement, and the consultant's professional standing and reputation. The process for selecting consultants is consistent with Defence's procurement policies and the Commonwealth Procurement Guidelines.

During 2004-05, 463 new consultancy contracts were entered into involving total contract values (inclusive of GST) of \$56.677m and actual expenditure of \$38.243m. In addition, 161 ongoing consultancy contracts were active during the year, involving total actual expenditure of \$10.578m.

The increase in expenditure in 2004-05 is primarily attributable to consultancy work associated with the Major Capital Facilities Program. The value of the facilities projects approved in the program has increased from \$295m in 2003-04 to \$741m in 2004-05. The significant increase in project development activity, combined with the new two-pass project approval process, has required significant work by consultants (and hence expenditure) prior to project consideration by the Government and the Parliament. Consultancy work relating to financial remediation and information technology development has also increased significantly over the previous year.

Table 7.7 provides details of consultancy contracts let during 2004-05 with a total contract value of \$10,000 or more (inclusive of GST). More detailed information, including a detailed list of all consultancy contracts let during the year to the value of \$10,000 or more, is available in the internet version of the annual report at www.defence.gov.au/budget/04-05/dar/

Table 7.7 Summary by Group of Consultancy Services Let During 2004-05, of Total Contract Value of \$10,000 or More (Inclusive of GST)		
Group	Number of Contracts Let	Total Contracts Value⁽¹⁾
		\$
Navy	-	-
Army	5	203,898
Air Force	4	102,919
Strategy	2	409,000
Intelligence and Security	12	1,160,162
Vice Chief of the Defence Force/Chief of Joint Operations ⁽²⁾	17	1,287,451
Chief Finance Officer	7	4,856,982
Defence Science and Technology Organisation	10	480,049
Defence Personnel Executive	32	3,177,851
Defence Materiel Organisation	73	5,125,150
Corporate Services and Infrastructure ⁽³⁾	196	34,672,078
Chief Information Officer	21	4,838,002
Secretary/Chief of the Defence Force ⁽⁴⁾	1	11,536
Capability Development Group ⁽⁵⁾	-	-
Total	380	56,325,078

Notes

1. In previous annual reports, the detailed information provided referred to actual expenditure on consultancy contracts rather than the total contract value.
2. Headquarters Joint Operations Command, shown separately in previous year, was merged into the Vice Chief of the Defence Force Group in 2004-05.
3. Corporate Services and Infrastructure Group includes data relating to the Inspector-General Group.
4. Secretary and Chief of Defence Force Group was created on 1 September 2004 and incorporates Public Affairs and Corporate Communication that was shown separately in the previous year.
5. Capability Development Group commenced operations from 1 July 2004.

Advertising and Market Research

Particulars of all amounts relating to advertising and market research paid by, or on behalf of, Defence during 2004-05 are shown in the tables below.

Table 7.8	Total Advertising and Market Research Expenditure by Type of Agency		
	2002-03	2003-04	2004-05
	Expenditure	Expenditure	Expenditure
	\$	\$	\$
Advertising	7,256,125	5,828,392	4,501,446
Market Research	903,910	949,656	576,659
Polling	56,004	-	-
Direct Mail	4,872	-	-
Media Advertising	18,195,161 ⁽¹⁾	12,978,452	17,909,956
Total	26,416,072	19,756,500	22,988,061

Note

1. This total includes expenditure of \$4,985 by the Chief Information Officer Group not previously reported.

Table 7.9	Total Advertising and Market Research Expenditure by Group		
	2002-03	2003-04	2004-05
	Expenditure	Expenditure	Expenditure
Group	\$	\$	\$
Secretary/Chief of the Defence Force ⁽¹⁾	-	-	3,019
Coordination and Public Affairs ⁽²⁾	422,999	172,547 ⁽³⁾	-
Vice Chief of the Defence Force/Chief of Joint Operations ⁽⁴⁾	225,116	140,421	571,761
Navy	62,004	95,943	86,756
Army	168,779	181,593	164,160
Air Force	55,923	98,905	134,505
Capability Development ⁽⁵⁾	-	-	9,268
Strategy	4,695	25,995	14,536
Intelligence and Security	359,738	479,614	790,000
Chief Finance Officer	4,954	25,474	58,246
Chief Information Officer	4,985	14,627	68,169
Defence Science and Technology Organisation	287,488	224,887	352,529
Defence Personnel Executive	21,763,264	16,547,004	17,592,783
Defence Materiel Organisation	645,186	572,510	1,291,394
Corporate Services and Infrastructure	2,410,941	1,213,446	1,850,935
Inspector-General	-	1,984	-
Total	26,416,072⁽⁶⁾	19,794,950	22,985,042

Notes

1. The Secretary/Chief of the Defence Force Group was established on 1 September 2004, and consists of the Secretary's and Chief of the Defence Force's offices, the Inspector-General of the Australian Defence Force organisation and the Coordination and Public Affairs Division, which has been reported separately in Table 7.9.
2. In July 2004, the Public Affairs and Corporate Communication organisation became part of the Coordination and Public Affairs Division. The expenditure listed in 2002-03 and 2003-04 is for Public Affairs only.
3. The expenditure for a contract was incorrectly reported under the Public Affairs and Corporate Communication heading in the *Defence Annual Report 2003-04*. Details are provided in the 'Corrections to the Defence Annual Report' section.
4. This Group includes the expenditure previously listed for Headquarters Australian Theatre and the Vice Chief of the Defence Force organisation.
5. The Capability Development Group was established in February 2004. No advertising expenditure was recorded for 2002-03 and 2003-04.
6. This includes expenditure of \$4,985 by the Chief Information Officer Group not previously reported.

Table 7.10 Particulars of Payments by Group for Advertising and Market Research

	2004-05 Expenditure \$	Purpose
Secretary/Chief of the Defence Force		
Media Advertising		
Weekend Australian media agency	3,019	Recruitment advertising - civilian
Total Secretary/Chief of the Defence Force	3,019	
Vice Chief of the Defence Force/Chief of Joint Operations		
Advertising		
Dan Tomkins Design	3,062	Reserve initiatives advertising
Media Advertising		
3AW Southern Cross Radio	5,440	Reserve initiatives advertising
APN Business Magazines	2,500	Reserve initiatives advertising
Australasian Trade and Industry	1,895	Reserve initiatives advertising
Australian Human Resources Institute	37,110	Reserve initiatives advertising
Australian Nursing Federation	1,800	Reserve initiatives advertising
Borderline Publishing Pty Ltd	4,634	Reserve initiatives advertising
Brisbane Courier Mail	2,823	Recruitment advertising - civilian
Contact Publishing Pty Ltd	11,970	Reserve initiatives advertising
Country Wide Media Limited	21,740	Reserve initiatives advertising
Cre8ive Australasia Pty Ltd	32,146	Reserve initiatives advertising
Deadline Services	81,335	Reserve initiatives advertising
Double T Radio	6,250	Reserve initiatives advertising
Dowd Publications Pty Ltd	4,990	Reserve initiatives advertising
CONTACT Air Land and Sea	1,995	Reserve initiatives advertising
Eryl Morgan Publications Pty Ltd	14,364	Reserve initiatives advertising
Firesedge	4,850	Reserve initiatives advertising
Flight Publishing Pty Ltd	6,904	Reserve initiatives advertising
Hallmark Editions	1,700	Reserve initiatives advertising
Hardie Grant Magazines	6,300	Reserve initiatives advertising
HMA Blaze Pty Ltd	10,547	Reserve initiatives advertising
HMA Blaze Pty Ltd	26,767	Recruitment advertising - civilian
Immedia Publishing Pty Ltd	16,753	Reserve initiatives advertising
Indigo Arch Pty Ltd	25,670	Reserve initiatives advertising
Key Media Pty Ltd	47,922	Reserve initiatives advertising
Loud House Communications Pty Ltd	6,250	Reserve initiatives advertising
Millbank Publications	4,200	Reserve initiatives advertising
Norsearch Limited	1,832	Reserve initiatives advertising
Northern Defence Magazine	9,909	Reserve initiatives advertising
Percival Publishing Pty Ltd	28,120	Reserve initiatives advertising
Queensland Police Union Journal	2,582	Reserve initiatives advertising
Ringo Media Group Pty Ltd	6,743	Reserve initiatives advertising
THC Press	81,000	Reserve initiatives advertising
The Australian Federal Police Association Journal	16,760	Reserve initiatives advertising
The Australian	4,299	Recruitment advertising - civilian
The Canberra Times	21,119	Recruitment advertising - civilian
The Intermedia Group	4,480	Reserve initiatives advertising
The Voice	3,000	Reserve initiatives advertising
Total	571,761	
Navy		
Advertising		
HMA Blaze Pty Ltd	47,766	Recruitment advertising - civilian
HMA Blaze Pty Ltd	38,990	Advertising - various Navy open days
Total Navy	86,756	

	2004-05 Expenditure \$	Purpose
Army		
Advertising		
Marlow Advertising Specialists	5,175	Promotional material for recruiting
Media Advertising		
Army Newspaper	11,219	Recruitment advertising - military
Canberra FM Radio	5,755	Advertising - Beat the Retreat parade
Channel Ten Perth	9,525	Advertising - Open Day
Channel Nine Perth	10,141	Advertising - Open Day
Community Newspaper Group	5,235	Advertising - Open Day
David Morgan Williams Pty Ltd	3,623	Recruitment advertising - civilian
Defence Newspapers	15,832	Recruitment advertising - military
HMA Blaze Pty Ltd	5,514	Advertising - research grants
HMA Blaze Pty Ltd	8,729	Tender notices
HMA Blaze Pty Ltd	42,042	Recruitment advertising - civilian
Initiative media	15,221	Advertising - Open Day
Post Newspaper	1,780	Advertising - 13 Bde Open Day
Prime TV Southern	1,400	Advertising - Trooping the Colour
Prime TV Southern	3,000	Advertising - Beat the Retreat parade
Stepthru Bowral	3,270	Recruitment advertising - military
The Australian	2,818	Recruitment advertising - civilian
The Federal Capital Press Office	1,996	Advertising - Trooping the Colour
The Federal Capital Press Office	4,064	Advertising - Beat the Retreat parade
The Federal Capital Press Office	1,810	Recruitment advertising - civilian
WIN Television	2,011	Advertising - Trooping the Colour
WIN Television	4,000	Advertising - Beat the Retreat parade
Total Army	164,160	
Air Force		
Advertising		
Bytes N Colours	1,503	Balloon advertising
Form a Sign Pty Ltd	2,200	Creation and installation of RAAF Museum signs and banners
Media Advertising		
3AW Southern Cross Radio Pty Ltd	36,195	Twilight Spectacular and RAAF Museum promotion
Copland Publishing Pty Ltd	2,427	Museum Advertisements
Destination Melbourne Incorporated	4,032	Museum Advertisements
Fairfax Community Newspapers	2,012	Museum Advertisements
Geelong Independent	2,280	Museum Advertisements
Geoff Slattery	2,100	Museum Advertisements
HMA Blaze Pty Ltd	62,756	Recruitment advertising - civilian
Media Projects Pty Ltd	4,960	Twilight Spectacular advertising
The Age Company Limited	4,668	Recruitment advertising - civilian
The Australian	3,322	Recruitment advertising - civilian
The Canberra Times	1,730	Recruitment advertising - civilian
The Daily Telegraph	1,932	Public Notice
The Melbourne Age	2,388	Recruitment advertising - civilian
Total Air Force	134,505	
Capability Development		
Media Advertising		
The Australian	1,104	Recruitment advertising - civilian
The Canberra Times	7,665	Recruitment advertising - civilian
The Canberra Times	499	Tender notices
Total Capability Development	9,268	

	2004-05 Expenditure \$	Purpose
Strategy		
Media Advertising		
The Australian	9,558	Recruitment advertising - civilian
The Canberra Times	4,978	Recruitment advertising - civilian
Total Strategy	14,536	
Intelligence and Security		
Media Advertising		
HMA Blaze Pty Ltd	779,000	Recruitment advertising - civilian
HMA Blaze Pty Ltd	11,000	Tender notices
Total Intelligence and Security	790,000	
Chief Finance Officer		
Media Advertising		
HMA Blaze Pty Ltd	2,532	Recruitment advertising - civilian
The Australian	15,955	Recruitment advertising - civilian
The Canberra Times	20,931	Recruitment advertising - civilian
The Financial Review	18,828	Recruitment advertising - civilian
Total Chief Finance Officer	58,246	
Chief Information Officer		
Media Advertising		
HMA Blaze Pty Ltd	2,147	Recruitment advertising - civilian
The Australian	17,895	Recruitment advertising - civilian
Brisbane Courier Mail	8,470	Recruitment advertising - civilian
The Canberra Times	14,208	Recruitment advertising - civilian
The Melbourne Age	6,156	Recruitment advertising - civilian
The Sydney Morning Herald	8,124	Recruitment advertising - civilian
The Weekend Australian	11,169	Recruitment advertising - civilian
Total Chief Information Officer	68,169	
Defence Science and Technology Organisation		
Media Advertising		
Australian Defence Business Review	2,273	Corporate promotion to external audiences
CSIRO Publishing	1,818	Corporate promotion to external audiences
HMA Blaze Pty Ltd	313,138	Recruitment advertising - civilian
HMA Blaze Pty Ltd	7,754	Recruitment advertising - civilian graduates
HMA Blaze Pty Ltd	2,831	Tender notices
Royal Academy Chemists Institute (Chemistry in Australia)	3,600	Corporate promotion to external audiences
The Royal Society of Chemistry / Accounts Cambridge	2,365	Corporate promotion to external audiences
Stroudgate Australasia Pty Ltd	8,450	Corporate promotion to external audiences
Yaffa Publishing Group	10,300	Corporate promotion to external audiences
Total Defence Science and Technology Organisation	352,529	
Defence Personnel Executive		
Advertising		
Army News	1,522	Advertising - Army News
LAM Agency Pty Ltd	384,737	Recruitment advertising production
Motivational Media Assemblies	50,000	Recruitment advertising - military
The Sydney Morning Herald	9,426	Recruitment advertising - civilian
The Weekend Australian	9,223	Recruitment advertising - civilian
Visual Jazz	43,282	Recruitment advertising - military
Young and Rubicam Melbourne	3,597,725	Recruitment advertising - military

	2004-05 Expenditure \$	Purpose
Market Research		
Emitch Pty Ltd	3,927	Market research into ADF recruitment strategies and production plans
Horizon Research K&GM Pty Ltd	139,554	Market research into recruitment strategies and production plans
Horizon Research K&GM Pty Ltd	45,979	Market research into Army Reserve consumer research
Horizon Research K&GM Pty Ltd	19,792	Research to assist recruitment software developments
Horizon Research K&GM Pty Ltd	34,420	Advertising - Army Reserve
Open Mind Research Group	44,892	Market research into the assessment of applicants for the Royal Military College
Open Mind Research Group	19,250	Market research for marine and electronics technician trades for the Navy
Open Mind Research Group	24,100	Market research into Army and Navy stewards
Woolcott Research Pty Ltd	244,745	Evaluation of the impact of Defence Force Recruiting's advertising
Media Advertising		
Adelaide Advertiser	2,500	Recruitment advertising - graduate
Australian Financial Review	6,198	Recruitment advertising - graduate Chief of the Defence Force/Secretary
Australasian Trade	1,420	Scholarship advertising
Brisbane Courier Mail	3,737	Recruitment advertising - graduate
Executive Media	6,864	Advertising - ADF Reserves Yearbook
HMA Blaze Pty Ltd	9,674	Tender notice
HMA Blaze Pty Ltd	6,806	Advertising - Defence childcare services
HMA Blaze Pty Ltd	2,156	Advertising - Military Communications Program
HMA Blaze Pty Ltd	1,872	Advertising - Provision of the Australian Defence Force Academy Bookshop
HMA Blaze Pty Ltd	8,955	Advertising - Defence Community Organisation
HMA Blaze Pty Ltd	212,580	Recruitment advertising - civilian
HMA Blaze Pty Ltd	1,561,686	Recruitment advertising - military
HMA Blaze Pty Ltd	12,125	Recruitment advertising - professional
Northern Defence Magazine	3,273	Advertising - Defence equity advice lines
Quick Copy Reproduction Services	1,655	Career Transition Assistance Scheme brochures
Showcase Publications	3,400	Advertising - Defence equity advice lines
Sydney Morning Herald	4,547	Recruitment advertising - graduate
The Age	3,360	Recruitment advertising - graduate
The Australian	22,893	Recruitment advertising - civilian
The Australian	5,635	Recruitment advertising - graduate
The Canberra Times	15,483	Recruitment advertising - civilian
The Canberra Times	1,412	Advertising - Centre for Defence and Strategic Studies Conference 2004
The Good Guides Group	6,525	Recruitment advertising - Graduate Development Program
The Melbourne Age	3,210	Recruitment advertising - civilian
Unimail Pty Ltd	5,500	Recruitment advertising - Graduate Development Program
Universal McCann	11,001,055	Recruitment advertising - military
Viewpoint Journal	2,370	Recruitment advertising - civilian
West Australian	3,318	Recruitment advertising - graduate
Total Defence Personnel Executive	17,592,783	
Defence Materiel Organisation		
Advertising		
The Good Guides Group	6,525	Recruitment advertising - graduates
HMA Blaze Pty Ltd	8,034	Advertisement - design, deliver and display for Defence Materiel Organisation training
National Promotions	2,626	Promotional material for Industry Conference

	2004-05 Expenditure \$	Purpose
Skettos Marketing	10,780	Production of Brochures
Media Advertising		
Careers Institute of Australian - NSW	9,073	Recruitment advertising - civilian
Darwin Port Authority	7,175	Advertising – Darwin Harbour public relations campaign
Defence News Media Group	2,115	Tender notices
First Class in Grap	10,350	Advertising - Darwin Harbour public relations campaign
Hays Accountancy	4,125	Recruitment advertising - civilian
Hays Personnel Service	9,243	Recruitment advertising - civilian
HMA Blaze Pty Ltd	362,768	Recruitment advertising - civilian
HMA Blaze Pty Ltd	249,825	Tender notices
HMA Blaze Pty Ltd	526,667	Tender notices
HMA Blaze Pty Ltd	45,781	Advertising - Defence/Industry 2005 program campaign
Jane's Information Group	3,296	Tender notices
Michael Page Intern	23,248	Recruitment advertising - civilian
National Promotions	6,983	Recruitment advertising - graduates
Recruitment Management	2,780	Recruitment advertising - civilian
Total Defence Materiel Organisation	1,291,394	
Corporate Services and Infrastructure		
Advertising		
Booth and Lee Pty Ltd	24,338	Marketing sale of Defence property
Chesterton International	80,000	Marketing sale of Defence property
Colliers International	24,405	Marketing sale of Defence property
DDB Melbourne Pty Ltd	62,699	Marketing sale of Defence property
FPDSavills	80,000	Marketing sale of Defence property
Raine and Horne Lithgow	7,428	Marketing sale of Defence property
Media Advertising		
Adcorp Australia Ltd	2,972	Marketing sale of Defence property
APN Newspapers Pty Ltd	1,604	Public notices
APS Commission	189,111	Recruitment advertising - Public Service Gazette
Australasian Trade	1,495	Recruitment advertising - civilian
HMA Blaze Pty Ltd	3,598	Advertising - revaluation of assets
HMA Blaze Pty Ltd	1,727	Advertising for RAAF military working dogs
HMA Blaze Pty Ltd	3,263	Advertising information technology market testing awareness brief
HMA Blaze Pty Ltd	70,997	Marketing sale of Defence property
HMA Blaze Pty Ltd	6,815	Tender notices
HMA Blaze Pty Ltd	1,233,793	Recruitment advertising - civilian
HMA Blaze Pty Ltd	39,236	Public notices
Leader Press Printing	2,590	Public notices
Northern Services Courier	3,000	Public notices
Signature Signs	1,400	Marketing sale of Defence property
The McIvor Times	4,278	Public notices
The One Umbrella	3,470	Recruitment advertising - civilian
The Telegraph	2,716	Public notices
Total Corporate Services and Infrastructure	1,850,935	

Contracts Exempt from Publication in the Purchasing and Disposal Gazette

Defence's commitment to efficient and effective competition requires that procurement is visible and accessible and that there is an opportunity for suppliers to do business with Defence. Defence's commitment to accountability requires that the Parliament and the public have the right to know the extent and type of goods and services needed to support Government programs, including the cost and who supplied it. This visibility is provided through the *Commonwealth Purchasing and Disposal Gazette*.

Defence must report in the Gazette details of any contract or standing offer arranged with a value of \$10,000 or more. In the context of gazettal requirements, 'contract' means any agreement for the procurement of goods and services under which Defence is obliged to make payment of public money to a supplier and includes an purchase order, oral or written contract or lease or corporate credit card transaction. 'Contract' also covers agency agreements, that is, agreements for the procurement of goods and services under which an agency is obliged, or may become obliged, to make a payment of public money to another agency.

The *Commonwealth Procurement Guidelines* and *Best Practice Guidance* provide that if the secretary of a department or officers delegated by the secretary consider gazettal of procurement details to be exempt under the *Freedom of Information Act 1982*, the secretary or the relevant delegate may direct, in writing, that these details are not to be published in the Gazette.

In 2004-05, Defence had a total of 298 contracts or standing offers, with a total value of \$167.4m exempted from publication because publication could cause damage to the national security, defence or international relations of the Commonwealth, in accordance with Section 33(1)(a) of the *Freedom on Information Act 1982*. A breakdown by Group of the number of exemptions and total amounts is shown below.

In 2003, Defence introduced a card management system to streamline the method of processing transactions for purchases made using Defence credit cards. For accountability and security purposes, the credit cards are issued to appropriately trained and authorised personnel, and therefore payments made on these cards can not be attributed to specific Groups or Services. During 2004-05, 125 card management system transactions were exempted with a total value of \$3.56m. These transactions are therefore not captured in Table 7.11.

Table 7.11	Number of Contract/Standing Offer Exemptions from Publication by Group⁽¹⁾			
	2003-04		2004-05	
Group	Number of exemptions	\$'000	Number of exemptions	\$'000
Navy	-	-	1	43
Army	-	-	-	-
Air Force	9	254	2	133
Chief Finance Officer	-	-	-	-
Chief Information Officer Group	-	-	7	1,280
Corporate Services and Infrastructure	1	837	-	-
Defence Materiel Organisation	101	342,150	242	138,556
Intelligence and Security Group	47	30,301	42	16,851
Strategy	-	-	1	1,401
Vice Chief of the Defence Force/Chief of Joint Operations	-	-	3	9,171
Total	158	373,542	298	167,435

Note

1. The Defence Personnel Executive erroneously exempted three contracts during the period with a total value of \$210,299.

Ecologically Sustainable Development and Environmental Performance⁶

This section reports on Defence's ecologically sustainable development and environmental performance during 2004-05 under Section 516A of the *Environment and Protection and Biodiversity Conservation Act 1999*.

Defence reaffirmed its commitment to ecologically sustainable development in 2004-05 with the publication of the Department of Defence Ecologically Sustainable Development Strategy. Defence also continued to implement environment and heritage initiatives consistent with legislative requirements and in accordance with the objectives and targets set out in the Department of Defence Ecologically Sustainable Development Strategy and *Defence Environmental Strategic Plan 2002-05*. The development of the next strategic plan has commenced.

Sustainable Management of Ecosystems

Land Management

The findings of the National Inquiry on Bushfire Mitigation and Management undertaken by the Council of Australian Governments are being progressively incorporated, where applicable, into the review of the *Defence Bushfire Management Policy* that commenced in 2003-04.

Defence continued to promote sustainable environmental management of its properties. In February 2005, Defence circulated the National Guidelines for the Management of Feral Animals, Weeds and Overabundant Native Species on the Defence Estate to ensure the sustainable environmental management of its properties for continued Defence use.

Environmental protection requirements were incorporated into the planning and conduct of major exercises. Data on the environmental impacts of Talisman Sabre 05 were successfully collected as part of a trial Defence commissioned into the use of handheld computer/Geospatial Information Systems to assess the capacity of the technology to deliver more efficient environmental monitoring and reporting.

The Defence Estate Sustainability Assessment Tool was developed and used to identify, document and categorise environmental and social factors posing significant risks to the sustainability of 30 major Defence bases and training areas across Australia. A framework to ensure the long-term sustainability of Defence land-based training areas is under development.

Interaction with Marine and Aquatic Environment

Defence continued its significant role in conservation efforts through 2004-05 by funding independent scientific research into the ecology of blue and pygmy whales off the Western Australia coast. The findings were used to upgrade and expand information relating to the whales and monitor the sub-surface krill on which they feed. The research is critical for sustainable use of maritime exercise areas adjacent to Fleet Base West.

⁶ Further information can be found at <http://www.defence.gov.au/environment>.

The Proof and Experimental Establishment at Port Wakefield (South Australia) is in the final stages of the nomination process with the Department of the Environment and Heritage after being nominated in 2003-04 for inclusion on the list of Wetlands of International Importance under the *Environment Protection and Biodiversity Conservation Act 1999*.

Flora and Fauna Interaction

Threatened Species Management

During 2004-05, Defence received a report from the Department of the Environment and Heritage on the conservation values of Commonwealth land in western Sydney (New South Wales). The review highlighted that the relatively undeveloped Defence properties in western Sydney were some of the few remaining strongholds for Cumberland Plain Woodland vegetation. Defence is currently working with the Department of the Environment and Heritage to develop appropriate management plans to conserve and protect these large areas of remnant vegetation.

Defence continued to contribute to the sustainable management of its training areas across Australia, through the application of sustainable environmental management practices. Strategies included environmental impact and risk assessments, developing and improving Environmental Management Plans and Standing Orders and implementing projects in relation to threatened species.

A project to re-establish the Eastern Bristlebird, which commenced last year, is continuing and the relocation of the bird into suitable habitat within Beecroft Weapons Range on Beecroft Peninsula on the New South Wales coast is proving to be successful. In conjunction with the University of Wollongong and Booderee National Park, Jervis Bay, Defence is monitoring the movements of the relocated birds to ensure the success of the program.

Natural Resource Consumption

Energy Use and Greenhouse Gas Emissions

In February 2005, Defence promulgated the *Defence Energy Management Strategy* to promote energy efficiency across Defence. Defence also continued to develop Energy Management Plans designed to guide effective energy management at the site level.

Defence energy consumption data for 2004-05 is being compiled. Consumption for the previous year is available in the current *Energy Use in the Australian Government's Operations 2003-04* report⁷. In 2003-04, Defence recorded a further six per cent saving in overall energy consumption. Defence also reduced annual greenhouse emissions by seven per cent under the Greenhouse Challenge Program during 2003-04.

Water Use and Conservation

The Defence Sustainable Water Management Strategy, released in February 2004, continued to promote awareness and drive the communication and promotion of water

⁷ More information on the *Energy Use in the Australian Government's Operations 2003-04* report is available at <http://www.greenhouse.gov.au/government/energyuse/pubs/2003.pdf>.

efficiencies in Defence. A number of case studies in poster format were also designed and distributed across Defence to promote water conservation measures.

Pollution Prevention

As reported last year, Defence undertook a number of studies in 2003-04 to consider activities where there was potential for pollution. The studies assessed operations and issues at a number of sites and, during 2004-05, a series of guides were developed for environmental managers. The guides cover issues such as the operation of burning grounds, discharges to stormwater, management of carbon fibre at aircraft crash sites, spray painting operations and sewage treatment plants.

Soil and Water Contamination

Defence produced the Defence Contaminated Land Management Strategy in 2003-04 to ensure the ongoing effective and efficient management of land contamination on its sites, including prevention, management of current contamination, and site remediation. The strategy was implemented through the Priority Sites Investigation Program⁸. This involved initial desktop studies for 30 highest risk sites and investigations to further characterise contamination at nine sites.

Defence also continued to implement a number of other contamination management initiatives including:

- updating the Defence Contaminated Sites Register to better assist decision making regarding Defence's legacy of potential or known contaminated sites from past military and industrial activities;
- completing six cooperative investigation projects with the Centre for Environmental Risk Assessment and Remediation at the University of South Australia. Lessons derived from the projects can be applied at similar sites across the estate where similar contamination issues exist;
- progressing Defence's participation in the Cooperative Research Centre for Contamination Assessment and Remediation of the Environment. This centre will operate for seven years from 2006-07, providing Defence with access to expertise and leading edge technologies that will improve the understanding and cost-effective management of Defence's contaminated sites; and
- In 2004-05, Defence continued its engagement with the University of South Australia to provide training to 15 people on contamination assessment and remediation technologies. Of those, five people are continuing their studies to obtain a Graduate Certificate in Applied Science in Environmental Risk and Remediation.

National Environmental Protection (Air Toxics) Measure

A new National Environment Protection (Air Toxics) Measure was introduced by the Department of Environment and Heritage (on behalf of the National Environmental Protection Council) in December 2004. A review of activities commenced at three typical Defence sites to determine whether wider application of the measure might be required.

⁸ Further information can be found at <http://www.defence.gov.au/environment/contamination/contamination.htm>

National Pollutant Inventory

Defence has contributed to the National Pollutant Inventory in the past three reporting years and continued in 2004-05 to review the data it has collected for the inventory. Defence also reviewed the extent of its participation and will continue to contribute to National Pollutant Inventory for non-operational sites.

Ozone Depleting Substances and Synthetic Greenhouse Gases

Defence continued to manage the phase out of ozone depleting substances and synthetic greenhouse gases in accordance with the *Ozone Protection and Synthetic Greenhouse Gas Management Act 1989*. New regulations were released in 2005 and Defence is rapidly rolling out the new regulations, particularly the end user requirements outlined in the Fire Protection Industry Regulations and the Refrigeration and Air Conditioning Regulations.

To reflect the new regulations, a review and update of the Defence Instruction (General) on Management of Ozone Depleting Substances and Synthetic Green House Gases is near completion. Defence contract clauses have also been updated requiring all facilities and capability developments to be compliant with the new regulations.

During 2004-05, the Navy, Army and Air Force maintained essential user status with the National Halon Essential Users Panel for the use of halon within critical fire fighting systems. An Implementing Arrangement with the United States Defense Logistics Agency was also signed for the storage of halon at the Defence National Storage and Distribution Centre, Moorebank. Defence Materiel Organisation fleet and project areas also continued to encourage suppliers to provide equipment without ozone depleting substances or synthetic greenhouse gases.

Stewardship

Defence Environment and Heritage Panel

Defence established a new panel of specialist environment and heritage consultants on 6 February 2004 under a three-year contract. The panel completed environmental work to the value of \$10.519m during 2004-05. Details of projects carried out during the year are outlined in the following table.

Category	Number	\$m
Statutory reviews	11	0.930
Environmental consultancy	56	2.400
Contamination	21	0.940
Environmental management system	21	1.103
Assessment	15	0.530
Environmental planning	17	1.026
Monitoring	28	0.927
Audit	10	0.310
Asbestos	13	0.211
Heritage	29	0.341
Environmental works	25	0.802
Works management	18	0.700
Other	2	0.299
Total	266	10.519

Infrastructure Development and Support

The Defence Ecologically Sustainable Development Strategy provides guidance on the integration of ecologically sustainable development principles into the development of new Defence facilities, and the refurbishment of older properties. The Defence 'Green Building' guidelines are being finalised to integrate ecologically sustainable development principles into the Defence Infrastructure Asset Development and Approval Process for buildings to ensure longer-term sustainable environmental, economic and social outcomes. In 2004-05, Defence was awarded its first 5 star Green Stars Office Design rating, for the RAAF Base Richmond Project, Combined Squadron Headquarters. Defence also completed a two-year term as a founding board member of the Green Building Council of Australia and was elected as a Board Director for the next term.

Stakeholder Management

Environmental Training and Awareness

Defence expanded its program of environmental training and awareness during 2004-05, to include the provision of improved environmental guidance materials, Defence-wide environment instructions and detailed site plans and guides. The level of environmental awareness in Defence improved with the 2004-05 Defence Attitude Survey recording a substantial increase of around 30 per cent in the number of military and civilian personnel aware of Defence's environmental responsibilities. The Secretary and the Chief of the Defence Force also presented six Defence Environment and Heritage Awards recognising contributions to the management of environmental risks in support of Defence capability.

Business Practices

Risk Management

Risk management was integrated as standard business practice in a number of key areas in 2004-05. A suite of 'risk tools' was introduced to ensure that impacts on the environment were considered (as one of seven risk dimensions) in a number of critical activities. These included the management of contaminated sites, the planning, development, delivery, operation and disposal of infrastructure assets and training operations as part of site environmental management systems.

Incident Reporting

During 2004-05, Defence completed the development and testing of its Environmental Reporting of Incidents and Complaints Tool to provide a mechanism to manage the notification and investigation of environmental incidents. Defence had no significant environmental incidents in 2004-05 but recorded a number of minor incidents that were addressed through the Defence Environmental Management System and relevant environmental site managers. Available data for 2004-05 is summarised in the table below.

Table 7.13 Environmental Incidents Reported 2004-05	
Category	No. of Incidents
Disturbance of soil due to clearing and contamination or by fire, flood or explosion	2
Accidental release, leaks and spills	24
Intentional release ⁽¹⁾	24
Interaction with flora and fauna	10
Interaction with heritage	2
Waste	3
Emissions	1
Management (faults in procedures, processes etc)	5
Total	71

Note

1. Almost exclusively relates to routine fuel dumping by Air Force aircraft for operational safety reasons and is reported because it represents an emission in the context of the Defence Environmental Management System.

Defence Environmental Management System

Defence is in the third year of a five-year program to implement the Defence Environmental Management System at 67 Defence sites. Since commencement of the program, Defence has adopted a new planning approach to the environmental management of training areas and is now implementing environmental plans or environmental management plans that integrate with site environmental management systems.

During 2004-05, a further three sites progressed towards implementation and Defence continued to maintain certification of the RAAF Townsville environmental management system to the International Standard Organisation 14001. The Puckapunyal Military Training Area environmental management system underwent a pre-certification audit towards the end of 2004-05, indicating some 98 per cent compliance. Progress was also made in identifying priorities for improving the implementation of the Defence Environmental Management System in the Navy, Army and Air Force. Documents and processes were developed or updated during the year to ensure that Defence activities are conducted in accordance with environmental requirements.

Heritage Management ⁹

During 2004-05, Defence continued to successfully implement aspects of the heritage amendments to the *Environment Protection and Biodiversity Conservation Act 1999*, initiated in 2004. Highlights included the development of a program of heritage management plans for relevant Defence sites and submission of a draft Defence Heritage Strategy to the Department of the Environment and Heritage and Australian Heritage Council. Defence also completed phase two of the 'Opening the Doors' program to promote Defence heritage sites across Australia and established the Defence Heritage Panel Advisory Service to provide support, advice and guidance to Defence personnel.

⁹ Further information can be found at <http://www.defence.gov.au/environment/heritage/>.

Defence Referrals under the *Environment Protection and Biodiversity Conservation Act 1999*¹⁰

Defence continued to use environmental clearance certificates to ensure environmental mitigation measures were adopted even where activities were unlikely to have a significant impact on the environment. Obligations were also written into standard operating procedures for routine activities and environmental management plans developed for training areas and bases.

Under the Act, Defence is obligated to consult with the Department of Environment and Heritage to ensure that any of its activities that will have, or are likely to have, a significant impact on the environment, only proceed with the approval of the Minister for the Environment and Heritage. Defence formally referred the following actions to the Department of the Environment and Heritage in 2004-05:

Referral Title	Ref No.	Date	Decision/ Determination	Status of Referred Action
Sale or lease of Commonwealth property, Edinburgh, SA, Sale of land at the Edinburgh Defence Precinct	2004/1871	17 November 2004	Non-controlled action	Currently undergoing Defence property disposal process subject to specified conditions.
Defence, Northern Australia, Coral Sea, QLD, Talisman Sabre Military Exercise	2004/1819	12 October 2004	Controlled action	Exercise completed.
Sale or lease of Commonwealth property, Maribyrnong, VIC, Sale of Commonwealth land	2004/1711	9 August 2004	Controlled action	Currently being considered for assessment of preliminary information.
Defence, Shoalwater Bay, Qld, Upgrade of beach egress and road infrastructure supporting Defence amphibious training activities	2004/1674	23 July 2004	Non-controlled action	Action completed.

Note

- In addition to the above referrals, Defence was granted an exemption under Section 158 of the *Environment Protection and Biodiversity Act 1999* to relocate one of the Defence Science and Technology Organisation's laboratories from Maribyrnong (Victoria). The exemption was granted on the grounds that it was in the national interest to do so and that Defence's safeguards would adequately protect matters covered by the Act.

Administration of the Commonwealth Policy on the Management of Land Affected by Unexploded Ordnance

Defence provides advice to Commonwealth, state, territory and local government authorities, and where appropriate, individual landholders, on the policy, technical and commercial aspects of unexploded ordnance management. Established relationships continue to work well with government agencies in the worst affected states - Queensland, New South Wales, Western Australia and the Northern Territory. A summary of the activities of the Defence unexploded ordnance program is set out below.

The field assessment of sites in Queensland is now essentially complete and reports continue to be passed to the Queensland Government. The personnel and equipment

¹⁰ More information on Defence referrals to the Department of the Environment and Heritage can be found at www.deh.gov.au/cgi-in/epbc/epbc_ap.pl.

deployed for the Queensland project were re-located to Canberra, Australian Capital Territory in 2005, where a national unexploded ordnance office has been established.

The Defence unexploded ordnance website (www.defence.gov.au/uxo) has been significantly improved. In addition to the provision of information of interest on unexploded ordnance and on safety, a mapping facility on unexploded ordnance-affected areas has also been incorporated allowing the public to check whether or not land title of interest is affected by unexploded ordnance and, if so, to access advice on to the level of contamination. Information on Queensland properties is currently available on the site.

The Defence unexploded ordnance register has also been significantly revised through the incorporation of information from the Commonwealth of Australia Gazette on historical land acquisition. The database of unexploded ordnance-affected sites has been reviewed. There is no significant variation in the total number of sites to that reported in 2004-05. Information on sites, by state and territory, is presented below.

State/ Territory	Total sites registered	Commonwealth owned/ controlled	State/ privately owned	Sites assessed	Significant sites	Minor sites	Not assessed
ACT	9	8	1	8	8	1	1
Qld	381	18	363	229	66	315	152
NSW	183	25	158	149	44	139	34
Vic	89	13	76	0	18	71	89
Tas	62	5	57	1	5	57	61
SA	75	8	67	0	14	61	75
WA	228	7	221	0	25	203	228
NT	80	4	76	0	31	49	80
Total	1,107	88	1,019	387	211	896	720

It is expected to take in the order of ten years to complete a national program of assessments and mapping of unexploded ordnance sites that are categorised as significant.

The five-year term of the first Defence unexploded ordnance panel, which comprised commercial unexploded ordnance contractors and consultants, expired on 30 June 2005. The panel mechanism has provided an efficient and effective means to deliver Defence-sponsored investigative surveys and remediation projects. The selection of a new panel is under way.

Full page unexploded ordnance warnings were again placed in police child safety handbooks in all states as a means to increase public awareness of unexploded ordnance hazards. In Queensland, additional public awareness activities continued to be undertaken in areas of higher risk.

Freedom of Information

Section 8 of the *Freedom of Information Act 1982* (the Act) requires each Australian Government agency that is subject to the Act to publish information about the way it is organised, its functions, the decision making and other powers that affect the public, arrangements for public participation in the formulation of policy by the agency or in the administration by the agency of any enactment or scheme, and the categories of documents that are held by the agency and how the public can obtain access to them.

Information about the structure of Defence and its functions can be found in Chapter One. Information about how to obtain access to documents held by Defence is set out on the next page. The remainder of the information that is required to be published in accordance with the Act, and advice on less formal avenues for gaining access to information from Defence, is available at www.defence.gov.au/legal/182/default.htm.

The table below shows the number of freedom of information requests received and completed or otherwise dealt with in 2004-05. The figures refer to requests for access to documents under Section 15 of the Act.

Table 7.16	Requests for Access to Documents	
	2003-04	2004-05
Number of requests received	208 ⁽¹⁾	206
Number of requests finalised (including withdrawn and transferred to another agency)	211	197
Number of requests withdrawn	22	29
Number of requests transferred to another agency	4	0
Number of requests outstanding	49 ⁽²⁾	58 ⁽³⁾

Notes

1. In addition to this figure, 52 requests were outstanding from 2002-03.
2. As at 30 June 2004.
3. As at 30 June 2005.

The Department also received 14 requests under Part V of the Act for amendment or annotation of records of personal information (ten in the previous year). Applications for internal review numbered 18 (11 in the previous year) and six applications were made to the Administrative Appeals Tribunal for review of Freedom of Information decisions (five in the previous year).

In addition to formal freedom of information requests, the Freedom of Information Directorate responded to 1,016 inquiries that did not fall for consideration under the Act, including requests for access to personnel records that were re-directed for administration outside the Act, in accordance with section 15A of the Act. Section 15A provides for access to be given in such cases, outside the provisions of the Act, through established administrative channels.

The second table, below, indicates the Department's performance in meeting the 30-day statutory time limit for responding to requests for access to documents. The time limit continues to be a challenge for Defence, in part, because of the relatively high proportion of requests involving 'complex', or policy-related, matters. Such requests, which may involve complex issues and large numbers of documents for consideration by decision-makers, represented 58 per cent of total requests in 2004-05.

Table 7.17 Time Taken to Answer Requests for Access to Documents⁽¹⁾

	2003-04	2004-05
Requests answered in less than 30 days (with % of total)	78 (42.1)	57 (33.9)
Requests answered in 30 to 60 days (with % of total)	47 (25.4)	64 (38.1)
Requests answered in 60 to 90 days (with % of total)	25 (13.5)	19 (11.3)
Requests answered in more than 90 days (with % of total)	35 (19.0)	28 (16.7)

Note

1. The 30-day deadline may be extended by 30 days to allow for consultation with third parties.

Further information about Defence's dealings with freedom of information requests in 2004-05, including information about costs incurred, will be published in the Freedom of Information annual report that the Attorney-General is required to make to Parliament in accordance with section 93 of the Act.

Freedom of Information Procedures and Contact Points

A request for access to documents under the Act must be made in writing and provide sufficient information concerning the documents to enable a responsible officer in Defence to identify them. The request has to be accompanied by a \$30 application fee and should include a telephone number and a return address at which the applicant can be contacted. In some cases, a fee may not be required or may be remitted by the department. Requests may be sent by post or delivered to an officer of the department at the address of the central office (in Canberra, see below), or any regional office of the department specified in a current telephone directory. The following address is preferable:

Freedom of Information Directorate
 Defence Legal
 RG Casey Building (RGC-2-058)
 Department of Defence
 CANBERRA ACT 2600

Advice about making a request under the *Freedom of Information Act 1982* may be obtained by telephoning the directorate on (02) 6266 8860 or (02) 6266 8855, by facsimile on (02) 6266 8857 or by email to FOI.enquiries@defence.gov.au. Applicants seeking access to documents may be liable to pay charges at rates prescribed by the Freedom of Information (Fees and Charges) Regulations.

Authorised Freedom of Information Decision Makers

Decisions on requests made to Defence under the *Freedom of Information Act 1982* may be made by the Minister for Defence, the Minister Assisting the Minister for Defence, the Parliamentary Secretary to the Minister for Defence, the Secretary of Defence or by persons acting under authority given by a Minister, the Parliamentary Secretary or the Secretary. The Secretary may also issue certificates that establish conclusively that documents are exempt from disclosure under the Act.

The authority to disclose documents or to refuse requests for access to documents is held widely throughout Defence at Director level (Executive Level 2 and Colonel or equivalent rank) and above.

Authority to make decisions of other kinds under the Freedom of Information legislation, for example, the power to impose charges on applicants, has also been delegated to appropriate officers. Details can be obtained from the Freedom of Information Directorate, see address and contact numbers above.

Decision Making and Other Powers Affecting Members of the Public

It should be noted that many powers invested in the specific positions described in this section may be delegated formally to subordinate officers.

Table 7.18	Decision Making powers of Defence Officials
Secretary	Under Clause J9 of the <i>Defence Employees' Certified Agreement 2004-2006</i> , the Secretary may authorise the payment of entitlements and benefits to the partner, dependants or legal representative of a deceased employee. Under Part 16 (sections 333-347) of the <i>Telecommunications Act 1997</i> , the Secretary may require a carriage service provider to supply a specified carriage of service for the use of Defence or the ADF and may enter into an agreement with a carrier or carriage service provider about planning for network survivability or operational requirements in times of crisis. Under regulation 101.065 and 101.430 of the Civil Aviation Safety Regulations, the Secretary may give permission to a person to launch a rocket (including a model rocket) or to operate an unmanned aircraft in or over a prohibited area.
Vice Chief of the Defence Force/Chief of Joint Operations	May make decisions relating to the planning and conduct of campaigns, operations and other activities to achieve national objectives within Australia and overseas; may make decisions regarding the planning and conduct of combined and joint training activities and major exercises at the operational and tactical levels; and oversees the provision of Defence assistance to the civil community at the operational level.
Commander Joint Logistics	May issue invitations to register interest and requests for tender and evaluate tenders and recommend source selection.
Chief of Navy, Chief of Army and Chief of Air Force	May exercise powers to prescribe conditions for entry or re-entry, however described (for example, appointment, re-appointment, recruitment, enlistment, re-enlistment, engagement, and re-engagement) to their respective Service; place names of officers and former officers on the retired list; grant to officers on the retired list military title or rank and authorise such persons to wear uniform and insignia; determine appointments in respect of cadets; approve the provision of Defence assistance to the civil community; authorise the use of words and letters protected under the Defence (Prohibited Words and Letters) Regulations; approve the wearing, manufacture or supply of protected Service emblems, crests and flags; determine who should be employed, reside or stay in a Service establishment; approve the possession, sale, supply and consumption of intoxicating liquor at gatherings of Service members and their guests; declare an area in or adjacent to Australia to be a firing or practice area; and grant licences to trade in an establishment of their respective Service.
Maritime Commander Australia	May make decisions relating to public access to naval ships and military (Navy) areas; may provide assistance to civilian authorities in disaster relief or rescue situations; may make public comment in relation to visiting naval forces or ships; convenes Navy courts martial and Defence Force Magistrate trials, which may involve the summoning of civilian witnesses; and provides Defence assistance to the civil community when not managed by the commanding officer of the area.
Commander Australian Navy Systems Command	May make decisions relating to public access to naval establishments and military (Navy) areas; may provide assistance to civilian authorities in disaster relief or rescue situations; may make public comment in relation to visiting naval forces or ships; convenes Navy courts martial and Defence Force Magistrate trials, which may involve the summoning of civilian witnesses; and provides Defence assistance to the civil community when not managed by the commanding officer of the area.
Director-General Navy Personnel and Training	May authorise the release of serving and former Navy members' military records.

Land Commander Australia	May make decisions relating to public access to military (Army) areas; select private, state or Commonwealth property for training exercises; provide Defence assistance to the civil community; may release Army personnel information; may approve local hire or lease of Army property; and may impose constraints on Army personnel which impinge on public enterprise.
Commander Training Command – Army	May authorise the provision of Defence assistance to the civil community by any of the schools, colleges or training establishments within the Command; and may release information from the records of any member and ex-member who has undergone training by the Command.
Air Commander Australia	May summon civilian witnesses to attend Air Force courts martial; and provide Defence assistance to the civil community.
Capability Development Group	Delegates within Capability Development Group have the authority to determine the method of procurement; issue invitations to register interest and requests for tender; evaluate tenders; recommend source selection; and approve contracts.
Chief Finance Officer	May provide instructions to legal providers on the Defence Legal Panel on the settlement of claims against the Commonwealth; declare surplus land, buildings, or land and buildings for disposal; approve exemptions and variations to application of interest on debt repayments; determine rates and charges for all supplies and services provided by Defence; delegate authority to waive the full cost recovery for supplies and services provided by Defence; write-off public money; delegate authority to issue a drawing right to make a payment of public money for a specific purpose and/or request the debiting of an amount against a particular appropriation and delegate authority to revoke or amend a drawing right; enter into agreements with any bank for the receipt, custody, payment or transmission of public money, or for other matters relating to the conduct of the Australian Government's banking business; and open and maintain official bank accounts in accordance with agreements under Section 9 of the <i>Financial Management and Accountability Act 1997</i> and/or request a local bank to provide an encashment facility.
Head Defence Health Services	May authorise the release of serving and former members' medical and dental records.
Director-General Career Management Policy	May authorise the release of serving and former ADF members' honours and awards histories.
Director-General Personnel Policy and Employment Conditions	The Director-General Personnel Policy and Employment Conditions and the Director Defence Workplace Relations may exercise powers to approve claims against the Department brought by former employees in respect of the termination of their employment. These claims of unfair dismissal are made under Section 170CE of the <i>Workplace Relations Act 1996</i> and are lodged with and heard by the Australian Industrial Relations Commission. The powers are exercised in accordance with the <i>Attorney-General's Legal Services Directions</i> .
Director Defence Force Psychology Organisation	May allow the release of information from individual psychological records.
Director of Service Delivery	May authorise the release of individuals' confidential counselling records to those individuals concerned.
Head Coordination and Public Affairs Division	Has the authority to issue invitations to register interest and requests for tender; evaluate tenders; and recommend source selection in relation to contracts for the provision of public affairs services for Defence.
Chief Executive Officer of the Defence Materiel Organisation	May determine methods of procurement and approve contracts for major capital equipment and through-life support requirements, issue invitations to register interest and requests for tender, evaluate tenders and recommend source selection.

Heads of Maritime Systems, Land Systems, Aerospace Systems, Electronic Systems, Management Information Systems and Airborne Surveillance and Control Divisions	May issue invitations to register interest and requests for tender; evaluate tenders; and recommend source selection for major and minor capital equipment. In specific cases, they have the authority to determine the method of procurement and approve major and minor capital equipment contracts.
Head Industry Division	Accepts tenders and recommendations about quotations for the purchase of supplies and services.
Head National Operations Division	May provide Defence assistance to the civil community; control public access to military areas; approve the loan, hire or purchase of defence stores and equipment and, in defined cases, determine the method of procurement; issue invitations to register interest and requests for tender; evaluate tenders and recommend or approve sourcing; approve contracts and the purchase of supplies and services; and grant remission of fees and impose charges payable under the Freedom of Information legislation.
Director of Classified Archival Records Review	In accordance with an arrangement made between Defence and the National Archives of Australia pursuant to section 35 of the <i>Archives Act 1983</i> , the Director Classified Archival Records Review provides advice to the Director-General National Archives of Australia and the Director of the Australian War Memorial specifying which matter, if any, contained in Defence archival records requested by the public under the Archives Act, is considered to be exempt under sections 33(1)(a) and (b) of the Act.
Head Infrastructure Division	May determine the method of procurement; issue invitations to register interest and requests for tender; evaluate tenders; recommend source selection; approve contracts for capital facilities, property transactions, and the purchase of services; and has responsibility for environmental issues within Defence. Head Infrastructure has the delegated authority for implementation of Defence (Areas Control) Regulations which are made under the <i>Defence Act 1903</i> and to give the legal basis for restrictions to be placed by Defence on the height of buildings and other structures and introduced objects, such as trees, in the vicinity of Defence airfields and related facilities.
Chief Information Officer	May determine the method of procurement; issue invitations to register interest and requests for tender; evaluate tenders; recommend source selection; and approve contracts.
Head Information Systems Division	May determine the method of procurement; issue invitations to register interest and requests for tender; evaluate tenders; recommend source selection; and approve contracts.
Head Strategic Policy Division	May issue approvals for the export of certain defence equipment and goods with dual civil and military applications.

Arrangements for Outside Participation

Australian Defence Human Research Ethics Committee

The Committee's mission is to promote and encourage ethical health research in the military context, with responsibility for the review and monitoring of all human research in Defence. It is structured in accordance with the National Health and Medical Research Council's national statement on ethical conduct in research involving human participants and comprises, at the minimum, the following:

- a chairperson;
- at least one member who is a lay man and one member who is a lay woman who have no affiliation with Defence and are not currently involved in medical, scientific or legal work;

- at least one member with knowledge of, and current experience in, the areas of research that are regularly considered by the committee;
- at least one member with knowledge of, and current experience in, the professional care, counselling or treatment of people;
- at least one member who is a minister of religion or a person who performs a similar role in a community, such as an aboriginal elder;
- at least one member who is a lawyer;
- two health graduates from Defence (at least one being a medical graduate); and
- a secretary, being a staff officer nominated by the Head Defence Health Services.

Commercial Support Consultative Forum

This is a forum between Defence, industry and unions for the discussion of ideas and the cooperative resolution of issues related to the broader Defence commercial support activities, including initiatives such as market testing and private financing.

Defence Families of Australia

The Association was established in 1987 with the purpose of improving the quality of life for Service families by providing them with a forum for expressing their views, for reporting and making recommendations to the Chief of the Defence Force, and for influencing policy affecting Service families.

Defence Health Consultative Group

The role of the Group is to establish, at a senior level, formal liaison between Defence and appropriate civilian authorities and to provide advice on major professional health matters of relevance to Defence. The group comprises the Surgeon-General of the ADF, Head Defence Health Services and representatives from other departments and professional bodies, including the Australian Medical and Dental Associations and the Royal College of Nursing Australia.

Defence Reserves Support Council

The Council aims to promote the benefits of Reserve service to the community. As well as spreading the word informally about Reserve service, it sponsors a number of specific activities to encourage business support.

Environmental Advisory Committees

These committees provide advice on environmental matters relating to Defence areas including Shoalwater Bay Training Area, Queensland; Garden Island, Western Australia; Greenbank Training Area and Wide Bay Training Area, Queensland; and Mount Bundy Training Area and Bradshaw Field Training Area, Northern Territory. The committees consist of representatives from Defence, the local community and business organisations.

National Workplace Relations Committee

The Committee, established under the *Defence Employees Certified Agreement 2000-01*, and reaffirmed under the *Defence Employees Certified Agreement 2004-06*, continues to deal with a wide range of employment matters affecting Defence civilian employees. It provides a forum for management and union delegates to consult on current and future Defence workplace policies and conditions.

Royal Australian Air Force Veterans' Trust

The Trust's purpose is to provide residences so that former members of the Royal Australian Air Force and their dependants in circumstances of need can be accommodated and supported. There are three external members of the trust with previous Air Force service or private industry experience.

Woomera Consultative Committee

The Committee advises Defence on matters relating to the management of Woomera, South Australia, and includes representatives from Defence and the Woomera Board, which comprises appointed and elected residents of Woomera.

Categories of Documents Maintained

Documents Available as Part of a Public Register and Subject to a Fee or Other Charge

- Oceanographic data (copies of original survey documents, and hydrographic and oceanographic data held by the Navy on computer file).

Documents Available for Purchase by the Public

- Annual flying safety calendar, aeronautical maps and charts, supplements and planning documents, and aerial photographs.
- Defence cataloguing handbooks and information.
- Defence Freedom of Information Manual (available through the Freedom of Information Directorate).
- Draft and final environmental impact statements (held by, and available from, Corporate Services and Infrastructure Group).
- Manuals that have been cleared for release, and sale, to the public. These include, for example, the Defence Commercial Support Program Manual and the Defence Freedom of Information Manual.
- Journals and magazines published by Service colleges and schools.
- Procurement manuals and guidelines produced by the Defence Materiel Organisation (available for purchase in hard copy or free through the Defence Materiel Organisation website at <http://www.defence.gov.au/dmo>).
- Service newspapers (available by annual subscription).

- Tide tables (Australian national tide tables and navigational charts and publications are available for purchase either through appointed chart agents or direct from the Hydrographic Office in Wollongong, New South Wales, by mail order. The address can be found at the end of this section).
- Documents that are available for inspection or purchase by the public in accordance with Section 9 of the *Freedom of Information Act 1982*, that is manuals, instructions and the like that are used by, or are available to, Defence staff for making decisions affecting the public.

Documents Free of Charge to the Public upon Request

Defence holds a wide range of such material, including information on or in the nature of:

- academic calendars and prospectuses for the Service colleges;
- Defence Annual Reports and the Defence Portfolio Budget and Additional Estimates Statements are available at www.defence.gov.au/budget/ ;
- information about military retirement and superannuation schemes;
- material relating to the activities of the Defence Science and Technology Organisation, consisting of brochures and booklets, research news selected technical reports, technical and research press releases and lectures given at professional, commercial and public events;
- flying and ground safety publications (the Air Force makes magazines on these subjects available to some professional organisations);
- notices to mariners (the Navy issues such notices containing hydrographic advice to correct navigational charts and documents and detailed information of exercises and firings);
- a range of booklets and brochures from the Defence Community Organisation;
- recruitment pamphlets, brochures and video media, the 'career explorer' computer software program on ADF career options, and an internet home page on ADF career options;
- organisational material (functional statements, organisation charts and duty statements);
- procurement policy and procedural guides, contract templates and Defence industry statements;
- lists of approved and unapproved capital facilities projects (the infrastructure 'Green Book' available at <http://www.defence.gov.au/im>)
- general Defence material (pamphlets, brochures, and posters) which is freely available on request or available at Defence exhibitions, launches and open days, including the *Australian Defence Force Journal*;
- transcripts of public seminars conducted by Defence;
- technical material (including technical details of obsolete and selected current equipment, unclassified technical reports and Defence (Australia) Standards);

- personnel documentation and records, including medical and psychological records (such records are only released to the subject of the records or to a third party authorised by the subject);
- pamphlets and brochures on graduate employment programs and scholarships in Defence for civilians and the civilian graduate careers page on the internet;
- pamphlets, brochures, guides and application forms relating to export control and obligations imposed through export controls, including the Australian export control list – Defence and Strategic Goods List; and
- manuals and guides relating to Australian Public Service and ADF pay and conditions, including the Australian Defence Force Member's Guide to ADF Pay and Conditions of Service (2005-06 edition), the Defence Force Pay and Conditions Manual, the *Defence Employees Certified Agreement 2004-06* and the Defence Workplace Relations Manual.

Electronic Documents

Defence's internet homepage can be found at <http://www.defence.gov.au/>. The website contains material of defence interest to the general public, including departmental media releases and speeches, statutory reports, Service-specific information including Service newspapers and export control information.

Departmental press releases are available by email from the press release service by subscription. Photos of a defence nature are also freely available from the image gallery on the site. Ministerial press releases and speeches are linked to the above website.

Other Documents

The department maintains records in various forms and locations relating to the functions of Defence. Records are retained for varying periods depending on their administrative and historical value and are disposed of in accordance with standards and practices approved by the National Archives of Australia. Some particular categories of documents held are:

- arrangements with other Government agencies and with state and territory governments and agencies;
- accounting records;
- Cabinet documents (including submissions, memoranda, minutes and promulgation of decisions);
- Ministerial submissions and briefing papers;
- committee records;
- conditions of service (including documents relating to financial conditions for overseas service);
- contractual documents, requests for tender documents and industry study reports;
- departmental instructions, circulars and reference books;
- industrial matters (including agenda and minutes of meetings of various industrial committees and councils, occupational health and safety committees and policy on industrial practices within the department);

- guidelines held in electronic form by the Directorate of Classified Archival Records Review that are used in determining which matter, if any, contained in classified Defence historical records is exempt under sections 33(1)(a) and (b) of the *Archives Act 1983* from public access. New guidelines are created, or existing ones revised or abolished, progressively as the need arises;
- intelligence reports;
- international agreements and arrangements held in a register of agreements;
- personal documentation (for example, recruitment and enlistment, selection for promotion documents and those of a medical and psychological nature);
- press cuttings;
- documents concerning quality assurance;
- technical publications (relating to maintenance of ADF materiel, and drawings, specifications and standards relating to ships, aircraft and other equipment in use); and
- working papers (internal working papers are maintained throughout the organisation on a wide range of policy, technical and administrative subjects).

Facilities for Accessing Documents

The following areas within Defence maintain access points at which information about their activities is available:

Defence Science and Technology Organisation

Director Defence Science Communications
Defence Science and Technology Organisation
Department of Defence
CANBERRA ACT 2600
Tel: (02) 6265 7928

Coordination and Public Affairs Division

Director-General Public Affairs
Department of Defence
CANBERRA ACT 2600
Tel: (02) 6265 2999

Defence Publishing Service

ACT/Southern NSW Region
Corporate Services and Infrastructure Group
Department of Defence
CANBERRA ACT 2600
Tel: (02) 6266 2022

Hydrographic Office

Locked Bag 8801
WOLLONGONG NSW 2500
Tel: (02) 4221 8612

Documents that are available for inspection or purchase by the public in accordance with Section 9 of the *Freedom of Information Act 1982* are listed in an index available through the offices of National Archives of Australia and through the Defence Freedom of Information Directorate. Arrangements to inspect listed documents, or to purchase copies, may be made by contacting the Freedom of Information Directorate in the Department of Defence, Canberra – see contact details under ‘Freedom of Information Procedures and Contact Points’, on p.324.

Defence Service Charter

Defence's mission is to defend Australia and its national interests. By its nature, Defence provides very few services direct to the Australian public; instead it serves all Australians through, and at the direction of, the Government of the day and the Parliament.

The services that Defence does provide include assistance to the civil community (in times of natural disaster), participating in public events, conducting recruiting activities and managing recruitment offices, and responding to a range of correspondence on many Defence issues.

The *Defence Service Charter* sets out our standards in service delivery. While the service charter is aimed at ensuring quality service to the public, we also apply the standards in our work with our colleagues and other agencies.

Defence reports annually to the Minister for Defence on the extent to which it has met the performance standards relating to the charter. The following is a full account of the report provided to the Minister for 2004-05.

Performance Standards and Monitoring

Defence commits to the following standards in its service charter:

- act on a request from the public in a professional and courteous manner;
- provide accurate information;
- respect privacy and sensitivities;
- respond to phone calls, faxes or emails within two working days; and
- reply to correspondence within 15 working days.

Defence's Groups have systems in place to track compliments and complaints.

Consistent with Australian Standard 4269 on Complaints Handling, Defence only reports on complaints/compliments from members of the public rather than internal complaints. Complaints are reported only if they relate to services provided (that is, the process), not to decisions made.

In most cases, written complaints referred to first assistant secretary and military equivalents or above are recorded.

Where a complaint is resolved at a lower level without recourse to senior levels, no information is recorded for service charter purposes.

Performance in 2004-05

The *Defence Service Charter* remains available electronically on the internal and external Defence websites.

Copies of the service charter are made available to the public through the Defence Community Organisation, Defence Force Recruiting offices, and civilian recruitment areas.

Customer Feedback and Complaints

The Defence Service Charter provides the public with information on how to make a complaint or provide feedback, together with contact details. Members of the public are encouraged to phone or write, in the first instance, to the relevant area of Defence or the supervisor of the area, and then if necessary, the Ministers or the Parliamentary Secretary, or their local Member of Parliament or Senator. There is also a dedicated email address defence.servicecharter@defence.gov.au. In addition, members of the public can contact the Commonwealth and Defence Force Ombudsman.

	2000-01	2001-02	2002-03	2003-04	2004-05
Number of complaints	745	691	490	659	755

Most complaints were resolved within the stated performance standard of 15 working days. Complaints of a more complex nature were generally resolved within 28 days. Some issues, because of their ongoing nature, remained unresolved. The most common complaints related to security clearance processes, lengthy administrative processes, honours and awards, aircraft noise, outcome of procurement processes and general personnel issues.

The most common compliments Groups received were for the overall level of Defence assistance to the civil community, especially in relation to ADF personnel attendance and displays at public/charity events, and the professional conduct of service men and women on operations.

Responsiveness to Ministerial Correspondence

For responsiveness to ministerial correspondence, see the statistics provided in Responsiveness to Ministers in the Coordination and Public Affairs Division information in Chapter 5 - Group Contributions.

Payment of Accounts

Defence has continued to focus on improving the efficiency and timeliness of its accounts payments process. The established indicator used to measure the performance of the process is the proportion of invoices paid within the payment terms (usually 30 days from receipt of a correct invoice and receipt of the goods or services). Defence is aiming to meet the government defined 'due date' performance level of 90 per cent of invoices paid on time.

A continued increase in the usage of the Defence Purchasing Card and the Defence Travel Card has resulted in improved transaction speed and efficiency during 2004-05. Further gains in efficiency are expected as the rollout of the travel card is completed, including more effective recovery of Goods and Services Tax paid on travel related accounts.

The implementation of the Invoice Scanning and Imaging System in late-2004 has also resulted in increased invoice processing through a significant reduction in manual intervention. In a graduated transition, the new centralised processing centres at Puckapunyal, Victoria and Edinburgh, South Australia have been taking on payment processes previously performed in regional processing centres managed by the Corporate Services and Infrastructure Group. Transition is intended to be completed by late-2005

with other group processing to be transferred thereafter. Receipt of invoices directly to these processing centres has improved the timeliness of payments.

Such initiatives have assisted in further improving the payment performance of Defence in 2004-05 and further improvement is expected in future as the initiatives are completed and take full effect. The table below shows Defence's payment performance and the improvement over the last three years.

Table 7.20	Accounts Paid by Due Date		
	2002-03	2003-04	2004-05
Number of accounts paid	1,223,773	1,216,216	1,386,677
Accounts paid by due date	1,026,383	1,037,245	1,222,999
Percentage of accounts paid by due date (%)	83.9	85.3	88.2

Significant Australian Defence Bases / Establishments



ADF Units and Establishments

ADF units and establishments are shown below. The information is correct as at 30 June 2005.

Table 7.21		ADF Units and Establishments	
Name		Location	
Joint Units and Organisations			
Headquarters Joint Operations Command		Sydney, NSW	
Headquarters Joint Logistics Command		Melbourne, Vic	
Australian Defence Force Warfare Centre		Williamstown, NSW	
Headquarters Northern Command		Darwin, NT	
1 st Joint Movement Group		Sydney, NSW	
Australian Defence College		Canberra, ACT	
Australian Defence Force Academy		Canberra, ACT	
Defence Communications Station		Canberra, ACT	
Defence National Storage and Distribution Centre		Liverpool, NSW	
Joint Logistics Unit (North)		Winnellie, NT	
Joint Logistics Unit (South)		Edinburgh, SA	
Joint Logistics Unit (West)		Guildford, WA	
Joint Logistics Unit (North Queensland)		Townsville, Qld	
Joint Logistics Unit (South Queensland)		Bulimba, Qld	
Joint Logistics Unit (Victoria)		Bandiana, VIC	
Joint Proof and Experimental Unit		Orchard Hills, NSW	
Royal Australian Navy			
Name		Location	
Navy Headquarters		Canberra, ACT	
Maritime Command		Sydney, NSW	
Navy Systems Command		Canberra, ACT	
Type of vessel	Name	Base	
Surface Combatants			
6 Guided missile frigates (FFG)	HMAS <i>Adelaide</i>	Garden Island, WA	
	HMAS <i>Canberra</i>	Garden Island, WA	
	HMAS <i>Darwin</i>	Garden Island, WA	
	HMAS <i>Melbourne</i>	Sydney, NSW	
	HMAS <i>Newcastle</i>	Sydney, NSW	
	HMAS <i>Sydney</i>	Sydney, NSW	
6 Anzac-class frigates (FFH)	HMAS <i>Anzac</i>	Garden Island, WA	
	HMAS <i>Arunta</i>	Garden Island, WA	
	HMAS <i>Ballarat</i>	Sydney, NSW	
	HMAS <i>Parramatta</i>	Sydney, NSW	
	HMAS <i>Stuart</i>	Sydney, NSW	
	HMAS <i>Warramunga</i>	Garden Island, WA	
Mine Countermeasures			
6 Coastal mine hunters (MHC)	HMAS <i>Diamantina</i>	Sydney, NSW	
	HMAS <i>Gascoyne</i>	Sydney, NSW	
	HMAS <i>Hawkesbury</i>	Sydney, NSW	
	HMAS <i>Huon</i>	Sydney, NSW	
	HMAS <i>Norman</i>	Sydney, NSW	
	HMAS <i>Yarra</i>	Sydney, NSW	
2 Clearance diving teams (CDT)	AUST CDT 1	Sydney, NSW	
	AUST CDT 4	Garden Island, WA	
2 Auxiliary minesweepers (MSA)	HMAS <i>Bandicoot</i>	Sydney, NSW	
	HMAS <i>Wallaroo</i>	Sydney, NSW	

Type of vessel	Name	Base
Amphibious and Afloat Support		
1 Replenishment ship (AOR)	HMAS <i>Success</i>	Sydney, NSW
1 Oil tanker (AO)	HMAS <i>Westralia</i>	Garden Island, WA
1 Heavy landing ship (LSH)	HMAS <i>Tobruk</i>	Sydney, NSW
2 Amphibious landing ships (LPA)	HMAS <i>Kanimbla</i>	Sydney, NSW
	HMAS <i>Manoora</i>	Sydney, NSW
6 Heavy landing crafts (LCH)	HMAS <i>Balikpapan</i>	Darwin, NT
	HMAS <i>Betano</i>	Darwin, NT
	HMAS <i>Brunei</i>	Cairns, Qld
	HMAS <i>Labuan</i>	Cairns, Qld
	HMAS <i>Tarakan</i>	Cairns, Qld
	HMAS <i>Wewak</i>	Cairns, Qld
Patrol Boat		
15 Fremantle-class patrol boats (FCPB)	HMAS <i>Bendigo</i>	Cairns, Qld
	HMAS <i>Bunbury</i>	Darwin, NT
	HMAS <i>Cessnock</i> ⁽¹⁾	Darwin, NT
	HMAS <i>Dubbo</i>	Darwin, NT
	HMAS <i>Fremantle</i>	Darwin, NT
	HMAS <i>Gawler</i>	Darwin, NT
	HMAS <i>Geelong</i>	Darwin, NT
	HMAS <i>Geraldton</i>	Darwin, NT
	HMAS <i>Gladstone</i>	Cairns, Qld
	HMAS <i>Ipswich</i>	Cairns, Qld
	HMAS <i>Launceston</i>	Darwin, NT
	HMAS <i>Townsville</i>	Cairns, Qld
	HMAS <i>Warrambool</i>	Darwin, NT
	HMAS <i>Whyalla</i>	Cairns, Qld
HMAS <i>Wollongong</i>	Darwin, NT	
1 Armidale-class patrol boat (ACPB)	HMAS <i>Armidale</i> ⁽²⁾	Darwin, NT
Submarine		
6 Collins-class submarines (SSG)	HMAS <i>Collins</i>	Garden Island, WA
	HMAS <i>Dechaineux</i>	Garden Island, WA
	HMAS <i>Farncomb</i>	Garden Island, WA
	HMAS <i>Sheean</i>	Garden Island, WA
	HMAS <i>Rankin</i>	Garden Island, WA
	HMAS <i>Waller</i>	Garden Island, WA
Hydrographic		
2 Hydrographic ships (HS)	HMAS <i>Leeuwin</i>	Cairns, Qld
	HMAS <i>Melville</i>	Cairns, Qld
4 Survey motor launches (SML)	HMAS <i>Benalla</i>	Cairns, Qld
	HMAS <i>Mermaid</i>	Cairns, Qld
	HMAS <i>Paluma</i>	Cairns, Qld
	HMAS <i>Shepparton</i>	Cairns, Qld
1 Laser airborne depth sounder (LADS) aircraft	LADS Flight	Cairns, Qld
Aviation		
Squadron	Aircraft	Base
723 SQN helicopter training squadron	13 ⁽³⁾ AS350BA Squirrel	Nowra, NSW
805 SQN anti-surface helicopter squadron	10 ⁽⁴⁾ SH-2G(A) Super Seasprite	Nowra, NSW
816 SQN anti-submarine helicopter squadron	16 S-70B-2 Seahawk	Nowra, NSW
817 SQN maritime support helicopter squadron	6 Sea King SK50 ⁽⁵⁾	Nowra, NSW
Non-Defence Administered Activity		
1 Youth sail training ship	STS <i>Young Endeavour</i>	Sydney, NSW

Description	Name	Location
Commissioned Establishments		
Headquarters / area administration	HMAS Kuttabul	Sydney, NSW
Naval air station	HMAS Albatross	Nowra, NSW
Ship and submarine base (Fleet Base West)	HMAS Stirling	Garden Island, WA
Patrol boat base and marine science	HMAS Cairns	Cairns, Qld
Patrol boat base / area administration	HMAS Coonawarra	Darwin, NT
Mine warfare	HMAS Waterhen	Sydney, NSW
Training establishments	HMAS Cerberus	Western Port, VIC
	HMAS Creswell	Jervis Bay, ACT
	HMAS Penguin	Middle Head, NSW
	HMAS Watson	Watsons Bay, NSW
Facility/unit		
Communications station / area administration	HMAS Harman	Canberra, ACT
Non-Commissioned Establishments		
Fleet Base East		Garden Island, NSW
Jervis Bay Range Facility		Jervis Bay, NSW
Naval Ammunitioning Facility		Eden, NSW
Naval Communications Station		Canberra, ACT
Naval communications area master stations		Canberra, ACT Rockingham, WA
Naval communications area local stations		Cairns, Qld Sydney, NSW
Naval Transmitting Station		Sale, Vic
Naval Headquarters South Queensland		Brisbane, Qld
Naval Headquarters South Australia		Adelaide, SA
Naval Headquarters Tasmania		Hobart, Tas
Naval fuel installations		Chowder Bay, NSW Darwin, NT
West Head Gunnery Range		Flinders, Vic

Notes

1. HMAS *Cessnock* was decommissioned on 23 June 2005.
2. HMAS *Armidade* was commissioned on 24 June 2005.
3. 12 aircraft are operated, the thirteenth aircraft is held for attrition purposes.
4. The 11th Super Seasprite helicopter will be introduced in 2005-06.
5. One Sea King helicopter was lost during Operation Sumatra Assist II in April 2005.

Australian Army

Name	Location	
Army Headquarters	Canberra, ACT	
Formation/unit		
1 Army Headquarters	AHQ	Canberra, ACT
1 Aviation Support Group Workshop	Avn Spt Gp Wksp	Oakey, Qld
1 Land Warfare Studies Centre	LWSC	Duntroon, ACT
1 Army History Unit	AHU	Campbell, ACT
1 Army Financial Services Unit (Army Reserve)	AFSU	Campbell, ACT
1 Australia's Federation Guard	AFG	Campbell, ACT
1 Directorate of Officer Career Management – Army	DOCM-A	Russell, ACT
1 Soldier Career Management Agency	SCMA	Queenscliff, Vic
1 Directorate of Reserve Career Management – Army	DRCM-A	Russell, ACT
8 Regional Cadet Units	HQ NTH QLD AAC BDE HQ STH QLD AAC BDE HQ NSW AAC BDE HQ VIC AAC BDE	Townsville, QLD Enoggera, QLD Moorebank, NSW MacLeod, Vic

Formation/unit	Designation	Location	
	HQ SA AAC BDE	Hampstead Gardens, SA	
	HQ WA AAC BDE	Fremantle, WA	
	HQ TAS AAC BN	Glenorchy, Tas	
	HQ NT AAC BN	Palmerston, NT	
1 Australian Army Cadets	AAC	Canberra, ACT	
Combat Forces			
1 Land Headquarters	LHQ	Paddington, NSW	
1 Deployable Joint Force Headquarters (Integrated)	DJFHQ	Enoggera, NSW	
1 Divisional Headquarters (Army Reserve)	HQ 2 Div	Randwick, NSW	
9 Brigade Headquarters (6 Army Reserve, 1 Integrated)	HQ 1 Bde	Palmerston, NT	
	HQ 3 Bde	Townsville, Qld	
	HQ 4 Bde	Macleod, Vic	
	HQ 5 Bde	Holsworthy, NSW	
	HQ 7 Bde	Enoggera, Qld	
	HQ 8 Bde	Dundas, NSW	
	HQ 9 Bde	Keswick, SA	
	HQ 11 Bde	Townsville, Qld	
	HQ 13 Bde	Karrakatta, WA	
1 Special Operations Headquarters	SO HQ	Canberra, ACT / Garden Island, NSW	
2 Commando Battalions	1 Cdo Regt	Randwick, NSW	
	4 RAR (Cdo)	Holsworthy, NSW	
1 Special Air Service Regiment	SASR	Swanbourne, WA	
1 Incident Response Regiment	IRR	Holsworthy, NSW	
1 Special Operations Combat Service Support Company	SO CSSC	Holsworthy, NSW	
1 Logistic Support Force Headquarters (Integrated)	HQ LSF	Randwick, NSW	
1 Ground Liaison Group (Integrated)	1 GL GP	Glenbrook, NSW	
1 Combat Training Centre	CTC	Lavarack, Qld	
1 Armoured Regiment (Integrated)	1 Armd Regt	Palmerston, NT	
4 Reconnaissance Regiments (1 Army Reserve, 1 Integrated)	2 Cav Regt	Palmerston, NT	
	1/15 RNSWL	Parramatta, NSW	
	4/19 PWLH	Macleod, Vic	
	2/14 LHR	Enoggera, Qld	
1 Armoured Personnel Carrier Regiment (Army Reserve)	12/16 HRL	Tamworth, NSW	
1 Independent Reconnaissance Squadron (Army Reserve)	A Sqn 10 LH	Karrakatta, WA	
2 Independent Armoured Personnel Carrier Squadrons (1 Army Reserve)	B Sqn 3/4 Cav Regt (APC)	Townsville, Qld	
	3/9 LH (SAMR)	Smithfield, SA	
1 Medium Artillery Regiment	8/12 Mdm Regt	Palmerston, NT	
6 Field Artillery Regiments (4 Army Reserve, 1 Integrated)	1 Fd Regt	Enoggera, Qld	
	4 Fd Regt	Townsville, Qld / Holsworthy, NSW	
		2/10 Fd Regt	St Kilda, Vic
		7 Fd Regt	Pymble, NSW
		23 Fd Regt	Kogarah, NSW
		6/13 Fd Regt	Keswick, SA
1 Air Defence Regiment (Integrated)	16 AD Regt	Woodside, SA	
4 Independent Field Artillery Batteries (3 Army Reserve)	7 Fd Bty 3 Fd Regt	Karrakatta, WA	
	16 Fd Bty	Launceston, Tas	
	48 Fd Bty	Keswick, SA	
	A Fd Bty	Holsworthy, NSW	
1 Locating Battery (Integrated)	131 STA Bty	Enoggera, Qld	

Formation/unit	Designation	Location
6 Combat Engineer Regiments (CER) (3 Army Reserve, 1 Integrated)	1 CER	Palmerston, NT
	2 CER	Enoggera, Qld
	3 CER	Townsville, Qld
	4 CER	Ringwood East, Vic
	5 CER	Penrith, NSW
	8 CER	Adamstown, NSW
9 Command Support Regiments (CSR) (6 Army Reserve, 1 Integrated)	1 CSR	Palmerston, NT
	3 CSR	Lavarack, Qld
	108 Sig Sqn (4 CSR)	Macleod, Vic
	142 Sig Sqn (5 CSR)	Liverpool, NSW
	7 CSR	Enoggera, Qld
	155 Sig Sqn (8 CSR)	Dundas, NSW
	144 Sig Sqn (9 CSR)	Keswick, SA
	11 CSR	Townsville, Qld
109 Sig Sqn (13 CSR)	Karrakatta, WA	
1 Headquarters Engineer Support Regiment	HQ 6 ESR	Enoggera, Qld
2 Construction Regiments (Army Reserve)	21 Const Regt	Holsworthy, NSW
	22 Const Regt	Oakleigh South, Vic
3 Field Engineer Squadrons, Combat Engineer Regiments (Army Reserve)	3 Fd Sqn, 9 CER	Warradale, SA
	13 Fd Sqn, 13 CER	Karrakatta, WA
	35 Fd Sqn, 11 CER	Mount Isa, Qld
2 Construction Squadrons	17 Const Sqn	Holsworthy, NSW
	21 Const Sqn	Enoggera, Qld
1 Chief Engineer Works (Integrated)	19 CE Wks	Randwick, NSW
1 Topographic Survey Squadron (Integrated)	1 Topo Svy Sqn	Enoggera, Qld
1 Joint Support Unit (Integrated)	1 JSU	Enoggera, Qld
2 Signal Regiments (1 Army Reserve)	7 Sig Regt	Cabarlah, Qld
	8 Sig Regt	Randwick, NSW
3 Independent Signal Squadrons (2 Integrated)	110 Sig Sqn	Paddington, NSW
	130 Sig Sqn	Liverpool, NSW
	145 Sig Sqn	Liverpool, NSW
19 Infantry Battalions (13 Army Reserve, 1 Integrated)	1 RAR	Townsville, Qld
	2 RAR	Townsville, Qld
	3 RAR	Holsworthy, NSW
	5/7 RAR	Palmerston, NT
	6 RAR	Enoggera, Qld
	9 RQR	Enoggera, Qld
	25/49 RQR	Enoggera, Qld
	31 RQR	Townsville, Qld
	42 RQR	Rockhampton, Qld
	1/19 RNSWR	Orange, NSW
	2/17 RNSWR	Pymble, NSW
	4/3 RNSWR	Holsworthy, NSW
	41 RNSWR	Lismore, NSW
	5/6 RVR	Hawthorn, Vic
	8/7 RVR	Ballarat, Vic
	10/27 RSAR	Keswick, SA
11/28 RWAR	Karrakatta, WA	
16 RWAR	Karrakatta, WA	
12/40 RTR	Glenorchy, Tas	
3 Regional Force Surveillance Units (Army Reserve)	Norforce	Larrakeyah, NT
	Pilbara Regt	Karratha, WA
	51 FNQR	Cairns, Qld
1 Aviation Brigade	16 Bde (Avn)	Enoggera, Qld
2 Aviation Regiments	1 Avn Regt	Palmerston, NT
	5 Avn Regt	Townsville, Qld
2 Independent Avn Sqns	171 Avn Sqn	Townsville, Qld
	173 Survl Sqn	Oakey, Qld
1 Intelligence Battalion (Integrated)	1 Int Bn	Paddington, NSW
9 Combat Service Support Battalions (CSSB)	1 CSSB	Palmerston, NT

Formation/unit	Designation	Location
(6 Army Reserve, 1 Integrated)	3 CSSB	Townsville, Qld
	4 CSSB	Broadmeadows, Vic
	5 CSSB	Banksmeadow, NSW
	7 CSSB	Enoggera, Qld
	8 CSSB	Dundas, NSW
	9 CSSB	Warradale, SA
	11 CSSB	Townsville, Qld
3 Force Support Battalions (2 Integrated)	13 CSSB	Karrakatta, WA
	2 FSB	Glenorchy, Tas
	9 FSB	Randwick, NSW
	10 FSB	Ross Island, Qld
1 Force Support Group	HQ FSG	Randwick, NSW
3 Ships Army Detachment (SAD)	SAD HMAS <i>Tobruk</i>	Garden Island, NSW
	SAD HMAS <i>Manoora</i>	Garden Island, NSW
	SAD HMAS <i>Kanimbla</i>	Garden Island, NSW
3 Health Support Battalions (HSB) (1 Army Reserve, 2 Integrated)	1 HSB	Holsworthy, NSW
	2 HSB	Enoggera, Qld
	3 HSB	Keswick, SA
1 Petroleum Company (Army Reserve)	1 Petr Coy	Oakleigh South, Vic
1 Recovery Company (Army Reserve)	3 Recov Coy	Dandenong, Vic
1 Military Police Battalion (Integrated)	1 MP Bn	Paddington, NSW
1 Psychology Unit	1 Psych Unit	Randwick, NSW
1 Deployed Forces Support Unit (Integrated)	DFSU	Randwick, NSW
Individual Training		
Headquarters Training Command	HQ TC-A	Paddington, NSW
Headquarters Royal Military College of Australia	HQ RMC-A	Duntroon, ACT
Royal Military College	RMC	Duntroon, ACT
Army Logistic Training Centre	ALTC	Bandiana, Vic
Army Recruit Training Centre	ARTC	Kapooka, NSW
Parachute Training School	PTS	Nowra, NSW
Combat Arms Training Centre	CATC	Puckapunyal, Vic
Special Forces Training Centre (part of Special Ops)	SFTC	Singleton, NSW
Army Aviation Training Centre	AAVNTC	Oakey, Qld
Defence Intelligence Training Centre	DINTTC	Canungra, Qld
Training Technology Centre	TTC	Sydney, NSW
Defence Police Training Centre (Integrated)	DPTC	Holsworthy, NSW
Joint Telecommunications School (Integrated)	JTS	Cabarlah, Qld
Land Warfare Development Centre	LWDC	Puckapunyal, Vic
Headquarters Regional Training Centres	HQ RTC	Canungra, Qld
Command Staff and Operations Training Centre (Integrated)	CS&OTC	Canungra, Qld
8 Regional Training Centres (RTC) (7 Army Reserve, 1 Integrated)	RTC (NSW)	Moorebank, NSW
	RTC (VIC)	Macleod, Vic
	RTC (SA)	Greenacres, SA
	RTC (WA)	East Fremantle, WA
	RTC (TAS)	Hobart, Tas
	RTC (NT)	Palmerston, NT
	RTC (SQ)	Enoggera, Qld
	RTC (NQ)	Townsville, Qld
7 Tertiary Institution Training Units (Army Reserve)	QUR	St Lucia, Qld
	SUR	Darlington, NSW
	UNSWR	Kensington, NSW
	MUR	Carlton, Vic
	MON UR	Mt Waverley, Vic
	AUR	Adelaide, SA
	WAUR	Fremantle, WA

Formation/unit	Designation	Location
Defence Force School of Signals	DFSS	Macleod, Vic
Defence Force School of Music	DFS of Music	MacLeod, Vic
12 Army Bands (6 Army Reserve)	AAB (B)	Enoggera, Qld
	AAB (S)	Paddington, NSW
	AAB (N)	Adamstown, NSW
	RACT Pipes and Drums	Adamstown, NSW
	AAB (K)	Kapooka, NSW
	AAB (M)	Macleod, Vic
	AAB (A)	Warradale, SA
	AAB (P)	Karrakatta, WA
	AAB (T)	Hobart, Tas
	AAPD (P)	Karrakatta, WA
AAB (D)	Larrakeyah, NT	
	RMC Band	Duntroon, ACT

Royal Australian Air Force

Name	Location	
Air Force Headquarters	Canberra, ACT	
Formation/unit	Designation	Location
Air Force Headquarters	AFHQ	Canberra, ACT
Directorate General of Technical Airworthiness – ADF	DGTA-ADF	Laverton, Vic
Directorate of Air Force Safety / Directorate of Flying Safety – ADF	DAFS / DFS-ADF	Canberra, ACT
Airworthiness Coordination and Policy Agency – ADF	ACPA-AF	Canberra, ACT
Air Power Development Centre	APDC	Tuggeranong, ACT
RAAF Aeronautical Information Services Agency	AIS-AF	Melbourne, Vic
Joint Centre for Airspace Management	JCAM	Canberra, ACT
Infrastructure Development Agency	IDA	Canberra, ACT
Directorate of Security and Policing – Air Force	DSP-AF	Canberra, ACT
Management Services Agency	MSA	Canberra, ACT

Air Command

Headquarters Air Command	HQAC	Glenbrook, NSW
Information Operations Squadron	IOSQN	Canberra, ACT
Aerospace Operational Support Group	AOSG	Edinburgh, SA
Headquarters Air Combat Group	HQACG	Williamstown, NSW
Headquarters No 82 Wing	HQ82 Wing	Amberley, Qld
2 Strike and reconnaissance squadrons	1 Sqn	Amberley, Qld
	6 Sqn	Amberley, Qld
Forward Area Control Development Unit	FACDU	Williamstown, NSW
Headquarters No 81 Wing	HQ81 Wing	Williamstown, NSW
3 Tactical fighter squadrons	3 Sqn	Williamstown, NSW
	75 Sqn	Tindal, NT
	77 Sqn	Williamstown, NSW
Headquarters No 78 Wing	HQ78 Wing	Williamstown, NSW
1 Tactical fighter operational conversion unit	2OCU	Williamstown, NSW
1 Lead-in fighter training squadron	76 Sqn	Williamstown, NSW
No 79 Squadron	79 Sqn	Pearce, WA
No 278 Squadron	278 Squadron	Williamstown, NSW
3 No 278 Squadron Detachments	278 Sqn DET TDL	Tindal, NT
	278 DET AMB	Amberley, Qld
	278 DET PEA	Pearce, WA
Headquarters Surveillance and Response Group	HQSRG	Williamstown, NSW
Support Flight	ADGE and ATC	Williamstown, NSW
1 Surveillance and control squadron	2 Sqn	Williamstown, NSW
Headquarters No 44 Wing	HQ44 Wing	Williamstown, NSW

Formation/unit	Designation	Location
11 Air traffic control (ATC) flights	ATC DET AMB	Amberley, Qld
	ATC DET DAR	Darwin, NT
	ATC DET ESL	East Sale, Vic
	ATC DET EDN	Edinburgh, SA
	ATC DET NOWRA	Nowra, NSW
	ATC DET OAK	Oakey, Qld
	ATC DET PEA	Pearce, WA
	ATC DET RIC	Richmond, NSW
	ATC DET TDL	Tindal, NT
	ATC DET TVL	Townsville, Qld
ATC DET WLM	Williamstown, NSW	
Headquarters No 41 Wing	HQ41 Wing	Williamstown, NSW
1 Radar surveillance unit	1RSU	Edinburgh, SA
1 Mobile control and reporting unit	114MCRU	Darwin, NT
1 Mobile control and reporting unit detachment	114MCRU DET TDL	Tindal, NT
1 Control and reporting unit	3 CRU	Williamstown, NSW
1 Surveillance and control training unit	SACTU	Williamstown, NSW
Headquarters No 92 Wing	HQ92 Wing	Edinburgh, SA
2 Maritime patrol squadrons	10 Sqn	Edinburgh, SA
	11 Sqn	Edinburgh, SA
1 Operational conversion squadron	292 Sqn	Edinburgh, SA
No 92 Wing Detachment A	92WG Det A	Butterworth, Malaysia
Headquarters Air Lift Group	HQALG	Richmond, NSW
Headquarters No 84 Wing	HQ84 Wing	Richmond, NSW
1 Long-range transport squadron	33 Sqn	Richmond, NSW
2 Special transport squadrons	34 Sqn	Fairbairn, ACT
	32 Sqn	East Sale, Vic
Headquarters No 85 Wing	HQ85 Wing	Richmond, NSW
1 Air movements training and development unit	AMTDU	Richmond, NSW
No 285 Squadron	285 Sqn	Richmond, NSW
Headquarters No 86 Wing	HQ86 Wing	Richmond, NSW
2 Medium lift transportation squadrons	36 Sqn	Richmond, NSW
	37 Sqn	Richmond, NSW
No 38 Squadron	38 Sqn	Amberley, Qld
No 38 Squadron Detachment B	28 Sqn Det B	Townsville, Qld
Air Command Band	ACBAND	Richmond, NSW
Headquarters Combat Support Group	HQCSG	Amberley, Qld
4 Combat support units (CSU)	CSU AMB	Amberley, Qld
	CSU WLM	Williamstown, NSW
	CSU EDN	Edinburgh, SA
	CSU RIC	Richmond, NSW
Headquarters No 395 Expeditionary Combat Support Wing	HQ395ECSW	Townsville, Qld
4 Expeditionary combat support squadrons (ECSS)	381ECSS	Williamstown, NSW
	382ECSS	Amberley, Qld
	383ECSS	Amberley, Qld
	386ECSS	Richmond, NSW
1 Combat communications squadron	1 CCS	Richmond, NSW
1 Combat logistics squadron	1 CLS	Townsville, Qld
Headquarters Air Terminal Squadron	HQ1ATS	Richmond, NSW
7 Air terminal squadrons	1ATSDETRIC	Richmond, NSW
	1ATSDETWIL	Williamstown, NSW
	1ATSDETAMB	Amberley, Qld
	1ATSDETTVL	Townsville, Qld
	1ATSDETDAR	Darwin, NT
	1ATSDETTDL	Tindal, NT
	1ATSDETPEA	Pearce, WA
Headquarters No 396 Combat Support Wing	HQ396CSW	Darwin, NT
4 combat support squadrons	321CSS	Darwin, NT

Formation/unit	Designation	Location
	322CSS	Tindal, NT
	323CSS	Townsville, Qld
	324CSS	Butterworth, Malaysia
3 Military airfields (bare bases)	RAAF Learmonth	Learmonth, WA
	RAAF Curtin	Curtin, WA
	RAAF Scherger	Scherger, Qld
No 13 Squadron	13 Sqn	Darwin, NT
No 21 Squadron	21 Sqn	Laverton, Vic
No 22 Squadron	22 Sqn	Richmond, NSW
No 23 Squadron	23 Sqn	Amberley, Qld
No 24 Squadron	24 Sqn	Edinburgh, SA
No 25 Squadron	25 Sqn	Pearce, WA
No 26 Squadron	26 Sqn	Williamstown, NSW
No 27 Squadron	27 Sqn	Townsville, Qld
No 28 Squadron	28 Sqn	Fairbairn, ACT
No 29 Squadron	29 Sqn	Hobart, Tas
Training Command		
Headquarters Training Command	HQTC	Laverton, Vic
Air Training Wing	ATW	East Sale, Vic
Australian Defence Force Basic Flying Training School	ADFBFTS	Tamworth, NSW
No 2 Flying Training School	2FTS	Pearce, WA
Central Flying School	CFS	East Sale, Vic
School of Air Navigation	SAN	East Sale, Vic
School of Air Traffic Control	SATC	East Sale, Vic
Combat Survival Training School	CSTS	Townsville, Qld
RAAF Institute of Aviation Medicine	AVMED	Edinburgh, SA
Combat Support Unit East Sale	CSU ESL	East Sale, Vic
RAAF College	RAAFCOL	Point Cook, Vic
Officers' Training School	OTS	Point Cook, Vic
No 1 Recruit Training Unit	1 RTU	Edinburgh, SA
School of Post-Graduate Studies	SPS	Wagga Wagga, NSW
Ground Training Wing	GTW	Wagga Wagga, NSW
RAAF School of Technical Training	RAAFSTT	Wagga Wagga, NSW
RAAF Security and Fire School	RAAFSFS	Amberley, Qld
ADF School of Languages	ADFLANGS	Laverton, Vic
Defence International Training Centre	DITC	Laverton, Vic
Combat Support Unit Wagga	CSUWAG	Wagga Wagga, NSW
Health Services Training Flight	HSTF(LAV)	Laverton, Vic
Combat Support Unit Williams	CSUWIL	Laverton, Vic
Central Band	Central Band	Laverton, Vic
Museum	RAAF Museum	Point Cook, Vic
Combat Support Unit Pearce	CSUPEA	Pearce, WA

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INDEPENDENT AUDIT REPORT

To the Minister for Defence

Matters relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements published in both the annual report and on the website of the Department of Defence for the year ended 30 June 2005. The department's Chief Executive Officer is responsible for the integrity of both the annual report and its web site.

The audit report refers only to the financial statements, schedules and notes named below. It does not provide an opinion on any other information which may have been hyperlinked to/from the audited financial statements.

If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements in the department's annual report.

Scope

The financial statements and Chief Executive's responsibility

The financial statements comprise:

- Statement by the Chief Executive Officer and Chief Finance Officer;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments and Contingencies;
- Schedule of Administered Items; and
- Notes to and forming part of the Financial Statements

of the Department of Defence for the year ended 30 June 2005.

The Chief Executive is responsible for preparing financial statements that give a true and fair presentation of the financial position and performance of the department, and that comply with accounting standards, other mandatory financial reporting requirements in Australia, and the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*. The Chief Executive is also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect



fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, accounting standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Department of Defence's financial position, and of its performance as represented by the statements of financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Chief Executive.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

Comment on the Statement by the Chief Executive Officer and Chief Finance Officer

The Statement by the Chief Executive Officer and Chief Finance Officer states that, due to uncertainty surrounding a number of material account balances, they cannot conclude that the Statement of Financial Performance, Statement of Financial Position, and Statement of Cash Flows give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*.



They attest, however, that the balances relating to cash, receivables, revenues from government, land and buildings, the military long service leave provision (which is an aspect of the Australian Defence Force leave provision) and specialist military equipment (exclusive of repairable items), are fairly stated.

Based on my procedures in relation to cash, receivables, revenues from government, land and buildings, the military long service leave provision (which is an aspect of the Australian Defence Force leave provision) and specialist military equipment (exclusive of repairable items), as part of the audit of the financial statements as a whole, and without derogation to my opinion given below, nothing has come to my attention that the Statement by the Chief Executive Officer and Chief Finance Officer, in relation to those balances, is not materially correct.

Qualification

Assets

Inventories

Inventories, as reported in the Statement of Financial Position, include General Stores Inventory and Explosive Ordnance Inventory.

Due to inadequacies in the department's General Stores Inventory management practices, I have been unable to validate the General Stores Inventory component of \$1.294 billion (2003-04 - \$2.026 billion) of the reported Inventory balance totaling \$3.387 billion (2003-04 - \$4.465 billion). This is as a result of material weaknesses in the internal controls over the accurate recording and stocktaking of the inventory quantities, and a lack of documentation and systems controls to confirm and safeguard the accuracy of pricing data. Further, there are inventories, referred to as "not-in-catalogue", which are not reported and thus affect the completeness of the inventory records. The significance of this matter has not been quantified by the department. This qualification in relation to uncertainties over quantities and prices, also affects the General Stores Inventory obsolescence provision of \$1.193 billion (2003-2004 - \$526 million).

In addition, due to inadequacies in the department's Explosive Ordnance Inventory management practices, I have been unable to validate a further \$309 million (2003-04 - \$845 million) of the reported balance. This is as a result of a lack of appropriate documentation to support the prices used to value that portion of the recorded balance. This qualification in relation to uncertainties over prices also affects \$366 million (2003-04 - \$nil) of the Explosive Ordnance Inventory obsolescence provision of \$465 million (2003-04 - \$80 million).

Repairable Items – as a component of Specialist Military Equipment

Due to inadequacies in the department's Repairable Items asset management practices, I have been unable to validate the \$2.722 billion reported written-down value of Repairable



Items (2003-04 - \$2.857 billion), which is reported within Specialist Military Equipment. This is as a result of material weaknesses in the internal controls over the accurate recording, reporting and stocktaking of the asset quantities, and adequate system controls to safeguard the accuracy of data.

Additional uncertainty exists in relation to the completeness of the recorded asset balance for Repairable Items due to the cumulative effect of the methods used for setting asset recognition thresholds over a number of years. The methods adopted have resulted in some asset purchases being treated as an expense in the Statement of Financial Performance. The department has not quantified the cumulative effect on the Statement of Financial Position.

Further, there are Repairable Items, referred to as “not-in-catalogue”, which are not reported and thus affect the completeness of the Repairable Items record. The significance of this matter has not been quantified by the department.

Infrastructure, Plant and Equipment and Intangibles

Infrastructure, Plant and Equipment, and Intangibles, are reported in the Statement of Financial Position at \$5.423 billion and \$415 million respectively. Within the Infrastructure, Plant and Equipment balance, uncertainty exists in relation to the measurement of certain assets with a reported book value of \$103 million. Additional uncertainty exists in relation to the completeness of the recorded asset balance of Infrastructure, Plant and Equipment, and Intangibles, due to the cumulative effect of the methods used for setting asset recognition thresholds over a number of years, and inadequate asset recording processes. The methods adopted have resulted in some asset purchases being treated as an expense in the Statement of Financial Performance. The department has not quantified the cumulative effect on the Statement of Financial Position.

Liabilities

Employee Leave Provisions

Due to inadequacies in the department’s Australian Public Service and Australian Defence Force employee personnel systems and practices, primarily relating to the capture and recording of data within those systems relating to employee leave records, and the appropriate maintenance of documentation, I have been unable to validate \$453 million (2003-04 - \$1.228 billion) of the reported balance of \$1.136 billion of the Australian Defence Force employee leave provision. Additionally, I have been unable to validate the \$443 million reported balance of the Australian Public Service employee leave provision.

As a consequence of this limitation, I have been unable to validate the amounts reported within the Executive Remuneration Note.



Statement of Financial Position

The scope limitations noted above affect five line items on the Statement of Financial Position: Specialist Military Equipment; Infrastructure, Plant and Equipment; Intangibles; Inventories; and Employees Provisions. The impact in quantitative terms, affects 8% of Total Assets and 24% of Total Liabilities. The assessed impact on Total Assets does not take into account the impact of the qualification associated with the inventory obsolescence provision, nor the effect of the department's application of asset recognition thresholds, nor the issue of "not-in-catalogue" assets, which could materially affect the assessed impact on Total Assets. In addition, several notes to the Statement of Financial Position are also affected by the scope limitations. These notes, which provide a more detailed breakdown of the Statement of Financial Position items include: Note 8B – Specialist Military Equipment; Note 8C – Infrastructure, Plant and Equipment; Note 8D – Intangibles; Note 8G – Inventories; Note 10A – Employee Provisions and Note 12 – Equity.

In qualitative terms, the primary causes of the uncertainties noted above originate from significant weaknesses within the internal control environment and systems and the lack of evidentiary support for the transactions and balances of the department.

Accordingly, the quantitative factors, as a whole, together with the qualitative factors, have resulted in uncertainty that is pervasive to the Statement of Financial Position.

Statement of Financial Performance

The scope limitations noted above have a material impact in quantitative terms which affect the 2004-05 Statement of Financial Performance, including total Expenses from Ordinary Activities, and the Net Deficit From Ordinary Activities, and translate to uncertainty for amounts within the following line items reported on the face of the Statement of Financial Performance: Assets Now Recognised revenue; Other revenue; Employee expenses; Suppliers expenses; Depreciation and Amortisation expense; and Write Down of Assets expense. Several notes to the Statement of Financial Performance are also affected by the uncertainties, including; Note 4F – Assets Now Recognised; Note 4G – Other Revenue; Note 5A – Employee Expenses; Note 5B – Supplier Expenses; Note 5D – Depreciation and Amortisation; Note 5E – Write-down of Assets; and Note 31 – Reporting of Outcomes.

Further, the uncertainties in relation to the 2003-04 Statement of Financial Position, which resulted in a disclaimer of opinion, also have a significant impact on my ability to assess the 2004-05 Statement of Financial Performance. The department has not quantified the impact.

Accordingly, the quantitative and qualitative internal control factors noted above, together with the significance of the potential effect of any financial adjustments required had the limitations of scope in relation to the 2004-05 financial statements not existed, including the resultant effect on the reported Net Deficit of \$870 million, and the uncertainty in



estimating the potential effects of those adjustments, result in uncertainty that is pervasive to the Statement of Financial Performance.

Statement of Cash Flows

Due to the scope limitations noted above, resulting in the uncertainty that is pervasive to the Statement of Financial Performance and Statement of Financial Position, together with the pervasive uncertainty on the comparative Statement of Financial Position as at 30 June 2004, there is uncertainty in the presentation of Net Cash From Operating Activities and Net Cash Used By Investing Activities, including the following line items reported on the face of the Statement of Cash Flows:

- Cash used from operating activities – Suppliers; and
- Cash used from investing activities – Purchase of specialist military equipment, Purchase of plant and equipment, Purchase of software and intangibles, and Purchase of inventory.

Note 13 – Cash Flow Reconciliation is also affected by the uncertainties arising from the above limitations of scope.

Comparative Information

Due to the disclaimer of opinion in relation to the 2003-04 financial statements, I am unable to form an opinion as to whether comparative information in the 2004-05 financial statements was prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, and gives a true and fair view, in accordance with applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

Summary

The internal control environment, which is designed to prevent and detect errors in accounting and financial reporting, contains significant deficiencies due to weaknesses in the internal controls pertaining to financial management and systems, inadequate accounting records, and poor inventory and asset recording. The deficiencies in controls and accounting records have resulted in significant uncertainties in relation to the material balances described above.

Given these effects on the Statement of Financial Position, Statement of Financial Performance (including the potential effect on the reported Net Deficit), Statement of Cash Flows, and the notes to the financial statements, together with the qualitative internal control factors, there is, in my view, a pervasive impact on the financial statements taken as a whole.



Qualified Audit Opinion

In my opinion, because of the existence and pervasiveness of the limitations of scope, outlined above in the qualifications paragraphs, and the effect of any adjustments required had the limitations not existed, I am unable to, and do not express an opinion, as to whether the financial statements:

- (i) have been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (ii) give a true and fair view, in accordance with applicable Accounting Standards and other mandatory financial reporting requirements in Australia and the Finance Minister's Orders, of the financial position of the Department of Defence as at 30 June 2005 and its financial performance and cash flows for the year then ended (and the respective prior year comparative figures).

Other Statutory Matters

As a consequence of the matters raised above, section 48 of the *Financial Management and Accountability Act 1997* has been contravened as the department's accounts and records do not properly record and explain the department's transactions and financial position.



Ian McPhee
Auditor-General

Canberra
4 November 2005



Department of Defence

**STATEMENT BY THE CHIEF EXECUTIVE OFFICER AND CHIEF
FINANCE OFFICER**

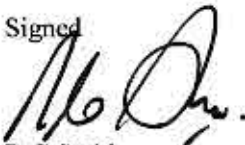
In our opinion, cash, receivables, revenues from government, land and buildings, the military long service leave provision (which is an aspect of the ADF leave provision) and specialist military equipment exclusive of repairable items are fairly stated. Due to uncertainty surrounding a number of other material account balances, we cannot conclude that the Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*. The uncertainties relate to:

- the reported values of general stores inventory and of the provision for obsolescence of this asset. The book value of the general stores at issue is \$1,294million (2004 \$2,026million) and the book value of the provision for obsolescence at issue is \$1,193 million (2004 \$526 million) (Note 8G refers);
- the reported values of explosive ordnance inventory and of the provision for obsolescence of this asset. The book value of explosive ordnance at issue is \$309 million (2004 \$845 million) and the book value of the provision for obsolescence at issue is \$366 million (2004 Nil) (Note 8G refers);
- the reported value of repairable items (a component of specialist military equipment). The book value of repairable items at issue is \$2,722million (2004 \$2,857million) (Note 8B refers);
- the reported value of infrastructure, plant and equipment. The book value of infrastructure, plant and equipment at issue is \$103 million (Note 8C refers);
- an unquantifiable effect of the application of an asset recognition threshold relating to repairable items, infrastructure, plant and equipment, and intangibles over a number of years (Notes 8B, C and D refer); and
- the reported value of APS and ADF leave provisions. The book values of APS and ADF leave provisions at issue are \$443million and \$453million respectively (2004 \$1,228million) (Note 10A refers);

As a consequence of the uncertainty of the civilian and military leave records, it is possible that leave entitlements used in the compilation of the disclosure for executive remuneration may also be in error (Note 15 refers).

As a consequence of the above uncertainties, section 48 of the *Financial Management and Accountability Act 1997* has been breached.

Signed



R C Smith

Secretary

3 November 2005

Signed



Ken Moore

A/Chief Finance Officer

3 November 2005



2004-05 Financial Statements

Department of Defence STATEMENT OF FINANCIAL PERFORMANCE for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
REVENUE			
Revenues from ordinary activities			
Revenues from Government	4A	15,749,688	14,639,217
Goods and services	4B	264,237	252,883
Interest	4C	33	143
Revenue from sale of assets	4D	198,994	185,159
Net foreign exchange gains	4E	21,152	16,552
Assets now recognised	4F	1,007,369	579,828
Other	4G	206,714	156,211
<i>Revenues from ordinary activities</i>		<u>17,448,188</u>	<u>15,829,993</u>
EXPENSE			
Expenses from ordinary activities (excluding borrowing costs expense)			
Employees	5A	6,173,030	6,796,627
Suppliers	5B	6,109,997	5,332,883
Grants	5C	1,941	7,183
Depreciation and amortisation	5D	3,069,310	2,799,405
Value of assets sold	4D	136,163	163,575
Write down of assets	5E	2,797,356	1,152,818
Other	5F	5,111	75,158
<i>Expenses from ordinary activities (excluding borrowing costs expense)</i>		<u>18,292,908</u>	<u>16,327,649</u>
<i>Borrowing costs expense</i>	6	<u>25,121</u>	<u>34,148</u>
Net surplus (deficit) from Ordinary Activities		<u>(869,841)</u>	<u>(531,804)</u>
Net credit (debit) to asset revaluation reserve	12	2,401,397	989,789
Total revenues, expenses and valuation adjustments attributable to the Australian Government and recognised directly in equity		<u>2,401,397</u>	<u>989,789</u>
Total changes in equity other than those resulting from transactions with the Australian Government as owner		<u>1,531,555</u>	<u>457,985</u>

The above statement should be read in conjunction with the accompanying notes.

Department of Defence
STATEMENT OF FINANCIAL POSITION
as at 30 June 2005

	Notes	2005 \$'000	2004 \$'000
ASSETS			
Financial assets			
Cash	7A	254,425	237,809
Receivables	7B	897,492	777,044
<i>Total financial assets</i>		<u>1,151,917</u>	<u>1,014,853</u>
Non-financial assets			
Land and buildings	8A	11,018,882	10,059,528
Specialist military equipment	8B	30,804,197	30,640,503
Infrastructure, plant and equipment	8C	5,422,669	5,102,998
Intangibles	8D	414,797	299,103
Heritage and cultural assets	8E	800,459	26,010
Inventories	8G	3,387,440	4,464,895
Other non-financial assets	8H	799,480	689,681
<i>Total non-financial assets</i>		<u>52,647,923</u>	<u>51,282,718</u>
TOTAL ASSETS		<u>53,799,840</u>	<u>52,297,571</u>
LIABILITIES			
Interest bearing liabilities			
Leases	9A	258,190	367,943
Other interest bearing liabilities	9B	2,631	2,897
<i>Total interest bearing liabilities</i>		<u>260,822</u>	<u>370,840</u>
Provisions			
Employees	10A	1,743,638	3,907,316
Asbestos related disease exposure	10B	390,100	403,700
Other provisions	10C	88,700	-
<i>Total provisions</i>		<u>2,222,438</u>	<u>4,311,016</u>
Payables			
Suppliers	11A	1,184,968	1,017,313
Other payables	11B	12,960	1,126
<i>Total payables</i>		<u>1,197,928</u>	<u>1,018,439</u>
TOTAL LIABILITIES		<u>3,681,188</u>	<u>5,700,295</u>
NET ASSETS		<u>50,118,652</u>	<u>46,597,276</u>

Department of Defence
STATEMENT OF FINANCIAL POSITION
as at 30 June 2005

	Notes	2005 \$'000	2004 \$'000
EQUITY			
Contributed equity	12	3,764,746	1,774,924
Reserves	12	10,610,860	8,209,463
Retained surpluses	12	<u>35,743,047</u>	<u>36,612,889</u>
TOTAL EQUITY		<u><u>50,118,652</u></u>	<u><u>46,597,276</u></u>
Current assets		790,697	1,980,192
Non-current assets		53,009,143	50,317,379
Current liabilities		2,160,130	2,322,821
Non-current liabilities		1,521,058	3,377,474

The above statement should be read in conjunction with the accompanying notes.

Department of Defence
STATEMENT OF CASH FLOWS
for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
OPERATING ACTIVITIES			
Cash received			
Goods and services		150,979	257,836
GST receipts from customers		20,238	16,502
Appropriations		15,742,599	14,570,357
Interest		33	143
Net GST received from Australian Taxation Office		813,002	710,088
Other cash received		179,283	157,944
Cash transferred from Official Public Account		-	398,341
Foreign Military Sales deposit*		-	59,719
Total cash received		16,906,134	16,170,930
Cash used			
Employees		(6,432,231)	(6,237,818)
Suppliers		(4,928,388)	(4,631,013)
GST paid to Suppliers		(822,294)	(750,988)
Grants		(1,941)	(7,183)
Other		(5,111)	(41,165)
Total cash used		(12,189,965)	(11,668,167)
Net cash (used by)/from operating activities	13	4,716,170	4,502,763
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of land and buildings		140,474	131,217
Proceeds from sales of specialist military equipment		10,306	12,249
Proceeds from sales of plant and equipment		46,745	40,900
Proceeds from other assets		1,468	-
Total cash received		198,994	184,366
Cash used			
Purchase of land and buildings		(279,580)	(292,607)
Purchase of specialist military equipment		(2,965,265)	(2,454,482)
Purchase of plant and equipment		(312,228)	(330,366)
Purchase of software and intangibles		(87,075)	(97,550)
Purchase of inventory		(1,221,256)	(1,202,210)
Borrowing costs		(25,121)	(34,148)
Total cash used		(4,890,524)	(4,411,363)
Net cash (used by)/from investing activities		(4,691,530)	(4,226,997)

Department of Defence
STATEMENT OF CASH FLOWS (Continued)
for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
FINANCING ACTIVITIES			
Cash received			
Appropriations - contributed equity		393,286	706,334
Total cash received		<u>393,286</u>	<u>706,334</u>
Cash used			
Repayment of debt		(109,753)	(117,983)
Return of contributed equity		(312,709)	(742,418)
Total cash used		<u>(422,462)</u>	<u>(860,401)</u>
Net cash (used by)/from financing activities		<u>(29,176)</u>	<u>(154,067)</u>
Net increase/(decrease) in cash held			
Cash at the beginning of the reporting period		237,809	99,557
Effect of exchange rate movements on cash at the beginning of the reporting period		21,152	16,553
Cash at the end of the reporting period	7A & 13	<u>254,425</u>	<u>237,809</u>

*2004: The Foreign Military Sales Deposit was reclassified as cash in the reporting period.

The above statement should be read in conjunction with the accompanying notes.

Department of Defence
SCHEDULE OF COMMITMENTS
as at 30 June 2005

	2005 \$' 000	2004 \$' 000
BY TYPE		
Capital commitments		
Land and buildings ¹	247,507	163,970
Infrastructure, plant and equipment ³	125,166	-
Specialist military equipment ²	6,723,517	6,113,265
Other capital commitments ³	31,084	945,249
Total capital commitments	7,127,274	7,222,484
Other commitments		
Operating leases ⁴	2,883,018	3,017,048
Research and development ⁵	152,233	57,120
Other non-capital commitments ⁶	5,735,702	6,031,321
Total other commitments	8,770,953	9,105,489
Commitments receivable⁷	(878,050)	(955,653)
Net commitments	15,020,176	15,372,320
BY MATURITY		
Capital commitments		
One year or less	2,729,642	2,867,640
From one to five years	4,333,438	4,028,051
Over five years	64,194	326,793
Total capital commitments by maturity	7,127,274	7,222,484
Other non capital commitments		
One year or less	2,227,690	2,736,169
From one to five years	2,362,399	2,395,541
Over five years	1,297,847	956,731
Total other non capital commitments by maturity	5,887,935	6,088,441
Operating lease commitments		
One year or less	569,794	407,958
From one to five years	1,873,260	1,946,804
Over five years	439,964	662,286
Total operating lease commitments by maturity	2,883,018	3,017,048
Commitments receivable	(878,050)	(955,653)
Net commitments	15,020,176	15,372,320

Department of Defence
SCHEDULE OF COMMITMENTS (Continued)
as at 30 June 2005

NB: Commitments are GST inclusive where relevant.

1. Outstanding contractual payments for buildings under construction.
2. Outstanding contractual payments for Specialist Military Equipment under construction.
3. Other capital commitments include outstanding contractual payments for plant and equipment and Garrison Support contracts.
4. Operating leases included are effectively non-cancellable and are described in the table below.
5. Outstanding commitments on research and development projects including Through Life Support Agreements.
6. Outstanding commitments on supplier type expenditure including general goods and services, communications, domestic and overseas travel and removal costs.
7. Commitments receivable represents the GST receivable on the gross commitments payable and property revenue leases.

<i>Nature of Leases</i>	<i>General description of leasing arrangement</i>
Property leases	Defence leases both residential and commercial properties in Australia and overseas in support of its activities. Lease payments are subject to the terms and conditions of the lease. Generally the leases are subject to market reviews or reviews in accordance with agreed indexation or a combination of both. The terms range between 1 year and 99 years.
Aircraft leases	Defence leases aircraft in support of scientific and military operations and in support of parliamentary services. Lease terms range between 2 and 12 years.
Motor vehicle leases	Leases for the provision of motor vehicles to Senior Executive Officers and for other general service. No contingent rentals exist. There are no renewal or purchase options available to Defence.
Equipment leases	Defence has leases for items of equipment including computer hardware, photocopiers and communication equipment. General lease terms are 2 to 5 years.
Property revenue leases	Defence receives revenue from the lease of property and office space. Office space is generally let to contractors in support of the Commercial Support Program, or similar outsourcing proposals of major weapons platforms as well as tenants providing a service for Defence employees (eg. Canteen, banking and travel), to other government agencies or to local civic authorities. The terms of these leases range between 1 year and 99 years.

The above statement should be read in conjunction with the accompanying notes.

Department of Defence
SCHEDULE OF CONTINGENCIES
as at 30 June 2005

Contingent Liabilities	Claims for damages or costs		TOTAL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance from previous period	180,250	132,943	180,250	132,943
New	20,082	-	20,082	-
Re-measurement	(25,975)	47,307	(25,975)	47,307
Liabilities crystallised	(7,912)	-	(7,912)	-
Obligations expired	-	-	-	-
Total Contingent Liabilities	166,444	180,250	166,444	180,250
Contingent Assets				
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance from previous period	54,348	68,394	54,348	68,394
New	7,000	-	7,000	-
Re-measurement	(18,429)	-	(18,429)	-
Assets crystallised	(12,000)	(14,046)	(12,000)	(14,046)
Expired	-	-	-	-
Total Contingent Assets	30,918	54,348	30,918	54,348
Net Contingencies			135,526	125,902

There were no guarantees, indemnities, warranties, letters of comfort, uncalled shares or capital subscriptions.

Details of each class in contingent liabilities and assets, including those not included above because they cannot be quantified or considered remote, are disclosed in Note 14: Contingent Liabilities and Assets.

Department of Defence
SCHEDULE OF ADMINISTERED ITEMS
for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Revenues Administered on behalf of Government			
Non-taxation Revenue			
Goods and services	19	7,822	20,174
Interest	19	3,044	2,273
Dividends	19	70,672	230,698
Net foreign exchange gains	19	-	162
Military superannuation contributions	19	661,607	608,814
Other sources of non-taxation revenues	19	2,793	-
Total Revenues Administered on behalf of Government		745,938	862,121
Expenses Administered on behalf of Government			
Subsidies	20	9,177	8,202
Employees	20	2,772,568	2,288,506
Net foreign exchange losses	20	71	-
Write down and impairment of assets	20	7,391	22,792
Other	20	4,246	-
Total Expenses Administered on behalf of Government		2,793,453	2,319,500

The above schedule should be read in conjunction with the accompanying notes.

Department of Defence
SCHEDULE OF ADMINISTERED ITEMS
as at 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Assets Administered on Behalf of Government			
Financial assets			
Receivables	21	3,225	23,896
Investments	21/25	1,258,883	1,258,883
<i>Total financial assets</i>		<u>1,262,108</u>	<u>1,282,779</u>
Non financial assets			
Other non-financial assets	21	79,632	85,044
<i>Total non-financial assets</i>		<u>79,632</u>	<u>85,044</u>
<i>Total Assets Administered on behalf of Government</i>		<u>1,341,740</u>	<u>1,367,823</u>
Liabilities Administered on Behalf of Government			
Provisions			
Employees	22	30,439,000	29,064,000
<i>Total provisions</i>		<u>30,439,000</u>	<u>29,064,000</u>
Payables			
Other payables	22	4,883	-
<i>Total payables</i>		<u>4,883</u>	<u>-</u>
<i>Total Liabilities Administered on behalf of Government</i>		<u>30,443,883</u>	<u>29,064,000</u>
Net Assets Administered on behalf of Government		<u>(29,102,143)</u>	<u>(27,696,177)</u>
Current Assets		82,857	108,940
Non-current Assets		1,258,883	1,258,883
Current Liabilities		1,412,883	1,357,000
Non-current Liabilities		29,031,000	27,707,000

The above schedule should be read in conjunction with the accompanying notes.

Department of Defence
SCHEDULE OF ADMINISTERED ITEMS
for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Administered Cash Flows			
Operating Activities			
Cash received			
Rendering of services		27,530	24,553
Interest		3,044	2,273
Dividends		70,672	230,698
Superannuation contributions		692,780	608,693
Transfer of funded portion from MSBS		-	25,387
Other		2,769	-
Total cash received		796,795	891,604
Cash used			
Employees		(1,392,156)	(1,335,532)
Subsidies paid		(9,177)	(8,202)
Other		(11,636)	-
Total cash used		(1,412,969)	(1,343,734)
Net cash (used by)/from operating activities		(616,175)	(452,130)
Net increase/(decrease) in cash held		(616,175)	(452,130)
Cash at the beginning of the reporting period		-	80,226
Cash from Official Public Account for:			
Special Appropriations		1,387,979	1,343,734
Cash to the Official public account		(771,733)	(971,992)
Effect of exchange rate movements on cash at the beginning of the reporting period		(71)	162
Cash at the end of the reporting period		-	-

The above schedule should be read in conjunction with the accompanying notes.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the year ended 30 June 2005*

Notes

1	Summary of Significant Accounting Policies
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Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 1: Summary of Significant Accounting Policies

1.1 Objective of Defence

The objective of Defence is: The defence of Australia and its national interests.

Defence is structured to meet seven outcomes:

- Outcome 1 – Command of Operations in Defence of Australia and its Interests;
- Outcome 2 – Navy Capability for the Defence of Australia and its Interests;
- Outcome 3 – Army Capability for the Defence of Australia and its Interests;
- Outcome 4 – Air Force Capability for the Defence of Australia and its Interests;
- Outcome 5 – Strategic Policy for the Defence of Australia and its Interests;
- Outcome 6 – Intelligence for the Defence of Australia and its Interests; and
- Outcome 7 – Superannuation and Housing Support Services for Current and Retired Defence Personnel.

An overview of Defence's Output and Outcome structure is described in Part 1 of the Annual Report.

1.2 Basis of Accounting

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (FMOs, being the *Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 30 June 2005)*);
- Australian Accounting Standards (AAS) and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB); and
- Consensus Views of the Urgent Issues Group (UIG).

The Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with the historic cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Statement of Financial Position when, and only when, it is probable that the future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets, which are unrecognised, are reported in the Schedule of Commitments and the Schedule of Contingencies (other than Unquantifiable Contingencies and Remote Contingencies, which are reported at Note 14).

Revenues and expenses are recognised in the Statement of Financial Performance when, and only when, the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

The continued existence of Defence in its present form, and with its present activities, is dependent on Australian Government policy and on continuing appropriations by Parliament for Defence's activities.

Administered revenues, expenses, assets, liabilities, cash flows, commitments and contingencies reported in the Schedule of Administered Items and related notes are accounted for on the same basis and using the same policies as for departmental items, except as otherwise stated in Note 1.21.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

1.3 Changes in Accounting Policy

Changes in accounting policy have been identified in this note under their appropriate headings.

1.4 Revenue

(a) Revenues from Government

Amounts appropriated for departmental outputs for the year (adjusted for any additions and reductions) are recognised as revenue, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Defence operates on a just-in-time drawdown basis that has resulted in undrawn appropriations as at 30 June 2005 being reflected as a receivable. This receivable is available for drawdown to meet future obligations. Appropriations receivable are recognised at their nominal amounts.

(b) Resources Received Free of Charge

Services received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised at their fair value when the asset qualifies for recognition (with the exception of Specialist Military Equipment, refer to Note 1.13), unless received from another government agency as a consequence of a restructuring of administrative arrangements (refer to Note 1.5).

(c) Other Revenue

Revenue from the sale of goods is recognised upon delivery of the goods to customers.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts or other agreements to provide services. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Interest revenue is recognised on a time proportional basis that takes into account the effective yield on the relevant asset.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

(d) Receivables

Receivables for goods and services are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability is reviewed at balance date. Provisions are made when collectability of the debt is judged less rather than more likely. A provision is maintained for debts outstanding for over 90 days.

No provision is made for Australian Government or Foreign Government debtors as they are deemed to be collectable.

Refer to paragraph 1.4(a) of this note for appropriations receivable.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

1.5 Transactions with the Government as Owner

(a) Equity Injections

Amounts appropriated which are designated as 'equity injections' for a year (less any savings offered up in Portfolio Additional Estimates Statements) are recognised directly in Contributed Equity in that year.

(b) Other Distributions to Owners

The FMOs require that distributions to owners be debited to contributed equity, unless in the nature of a dividend. In 2004-05, by agreement with the Department of Finance and Administration, Defence returned surplus output appropriation funding of \$313m (2004: \$742m) to the Official Public Account.

1.6 Employee Benefits

Defence's workforce comprises two employment components: Australian Public Service (APS, i.e. civilians) and Australian Defence Force (ADF, i.e. military) personnel. Employee benefits for each workforce component are based on the relevant employment agreements and legislation.

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including non-monetary benefits), annual leave and sick leave are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of the reporting date are also measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

(a) Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of Defence is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including Defence's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for annual leave for APS and ADF employees reflects the value of total annual leave entitlements of all such employees at 30 June 2005 and is recognised at the nominal amount or discounted to the present value for non-current amounts.

The liability for long service leave has been determined by reference to the work of the Australian Government Actuary. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation. The determination of the current component is based on actual leave taken in the 2005 financial year. The non-current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of employees at 30 June 2005.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

(b) Separation and Redundancy

The provisions for redundancy for both APS and ADF personnel arise from obligations flowing from redundancy programs and ongoing market testing of various Defence activities, where a formal plan exists, there is no realistic possibility of withdrawal, and a reliable estimate of the amount of the payments can be determined. The calculation does not include savings from normal attrition where employees are not replaced.

(c) Superannuation

Permanently appointed APS employees are members of the Commonwealth Superannuation Scheme (CSS) or the Public Sector Superannuation Scheme (PSS). The liability for their superannuation benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

Defence makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Agency's employees.

The Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation Benefits Scheme (MSBS) are defined benefit superannuation plans for ADF members. ADF employer superannuation contributions, pension payments, DFRDB member contributions and the provision for unfunded superannuation are reflected in the Schedule of Administered Items.

Superannuation on-costs have been added to the provisions for annual leave and long-service leave in respect of both APS and ADF employees.

(d) Military Workers' Compensation

On 1 July 2004 the responsibility for administration of Military Rehabilitation and Compensation was transferred from the Department of Defence to the Department of Veterans Affairs (DVA). The liability for future payments under the Military Rehabilitation and Compensation Scheme (\$1.9b at 30 June 2004) will be reported by Department of Veterans Affairs from 2004-2005.

1.7 Asbestos Related Disease Exposure

An amount of \$390.1m (2004: \$403.7m) has been recognised in the departmental financial statements in respect of Defence's estimated liability for asbestos related disease claims (ARD) for former departmental employees.

The provision is based on an actuarial assessment and represents the best estimate of Defence's potential exposure at 30 June 2005, consistent with the requirement of AASB 1044, *Provisions, Contingent Assets and Contingent Liabilities*. The estimate represents the present value of future compensation payments on both future reported claims and currently open claims, including defendant legal costs. No allowances have been made for any recoveries from Comcare.

The actuarial assessment states that it is not possible to put a value on long term claims with certainty, and that outcomes are dependent on future events, including legislative, social and economic forces. In the case of asbestos liabilities the uncertainty is heightened due to the extremely long-term nature of asbestos claims and the risk of significant changes in the way in which claims are litigated and compensated by courts.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

1.8 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the beginning of the lease term and a liability recognised at the same time and for the same amount. The discount rate used is the interest rate implicit in the lease. Non-current assets acquired under a finance lease are depreciated / amortised over the useful life of the asset. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets.

Lease incentives taking the form of 'free' leasehold improvements and rent holidays are recognised as liabilities. These liabilities are reduced by allocating lease payments between rental expense and reduction of the liability.

1.9 Borrowing Costs

All borrowing costs are expensed as incurred except to the extent that they are directly attributable to qualifying assets, in which case they are capitalised. The amount capitalised during a reporting period does not exceed the amounts of costs incurred in that period.

1.10 Cash

Cash means notes and coins held, as well as any deposits held at call with a bank or financial institution. Cash is recognised at the nominal amount.

1.11 Financial Instruments

Accounting policies for Departmental and Administered financial instruments are detailed in Note 18 and Note 26 respectively.

1.12 Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

With the exception of Specialist Military Equipment, assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor agency's accounts immediately prior to the restructuring.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

1.13 Property, Plant and Equipment including Land, Buildings and Infrastructure

(a) Asset Recognition Threshold

Purchases of Property, Plant and Equipment are recognised initially at cost in the Statement of Financial Position where they meet the capitalisation threshold. Individual items will be capitalised where the individual value is equal to or exceeds \$10,000. Grouped assets were capitalised for items of homogenous nature within a single class where the individual item values equal or exceed \$2,000 (2004: \$2,000) and the class group value equals or exceeds \$50,000(2004: \$50,000). Grouping provisions were changed from 1 July 2004 as follows:

- For Specialist Military Equipment assets - capitalise grouped assets for items of homogenous nature within a single class where the individual item values equal to or exceed AUD \$1 and the class group value equals to or exceeds AUD \$50,000.

(2004: Grouped assets were capitalised for items of homogenous nature within a single class where the individual item values equal or exceed \$2,000 (2003: \$1,000) and the class group value equals or exceeds \$50,000(2003: \$50,000. The financial effect of this change in accounting policy resulted in a write-down of assets of \$48.3m).

The application of these policies resulted in the expensing on acquisition of items with purchase costs below the above thresholds totaling \$242 million (2004: \$225 million). These items may have useful lives longer than one year.

(b) Componentisation

Major assets are considered for componentisation where it is considered likely that components will have useful lives that differ significantly from the other parts of the asset. The useful life of components may be determined with reference to the individual asset items, or, where managed on a life cycle basis, over the life of the related military capability. The depreciation of each component is calculated on a straight-line basis over the useful life assigned to that component.

(c) Revaluations Basis

In accordance with the FMOs and AASB 1041 *Revaluation of Non-Current Assets*, non-current assets have been progressively re-valued to the fair value basis over a 3 year cycle from 1 July 2002 by independent qualified experts, with the exception of Specialist Military Equipment, Assets Under Construction (AUC), and Intangibles. From 1 July 2004 Defence moved to a 5 year external revaluation cycle.

In accordance with the FMOs Specialist Military Equipment is maintained at deemed or actual cost.

AUC are not revalued but are accounted for at cost and are separately identified as 'work in progress' in Note 8. In addition to reviewing expenditures from the point of rollout into service, AUC expenditures are now also considered on a whole-of-life basis.

The fair value of all assets not subject to an external valuation in any given year are reviewed by management and the carrying amounts adjusted where they are materially different from fair value.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Fair Values for each class of asset are determined as shown below:

Asset Class	Fair value measured at:
Land	Market selling price
Buildings (owned)	Market selling price or Depreciated replacement cost
Buildings (held under finance lease)	Market selling price or Depreciated replacement cost or net present value of lease payments
Infrastructure, Plant & Equipment	Market selling price or Depreciated replacement cost
Plant & equipment (held under finance lease)	Market selling price or Depreciated replacement cost or net present value of lease payments
Heritage and Cultural	Heritage and Cultural basis
Equipment under finance lease	Lease term

(d) Depreciation and Amortisation

All non-current assets having limited useful lives are systematically depreciated/amortised over their estimated useful lives in a manner that reflects the consumption of their service potential on a straight-line basis.

Heritage assets are anticipated to have very long and indeterminable useful lives. The service potential of heritage and cultural assets has not in any material sense been consumed during the reporting period and as such no amount for depreciation has been recognised in respect of these assets.

Depreciation and amortisation rates (useful lives) and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

The following are typical estimated useful lives for the different asset classes:

	<u>2004-05</u>	<u>2003-04</u>
Buildings	1 to 100 years	1 to 100 years
Infrastructure	1 to 100 years	1 to 100 years
Specialist military equipment	2 to 54 years	2 to 54 years
Other plant and equipment	2 to 30 years	2 to 30 years
Equipment under finance lease	1 to 100 years	1 to 100 years
Heritage and cultural	1 to 100 years *	1 to 100 years

*There are a number of Heritage and Cultural Assets within Defence that have been assessed to have an indeterminate life.

The aggregate amount of depreciation and amortisation allocated for each class of asset during the reporting period is disclosed in Note 5D.

(e) Decontamination/Restoration Costs

Decontamination costs associated with properties listed for disposal are taken into account in the valuation of the property. This valuation adjustment is determined on the basis of remediation surveys and technical assessments. The cost of decontamination work carried out is then capitalised. Typically adjustment to valuations for expected decontamination impacts will be made for properties that have not been listed for disposal.

(f) Asset Disposals

The gain or loss on disposal of Property, Plant and Equipment is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the year ended 30 June 2005*

(g) Road Earthworks

Defence is currently reviewing all road earthworks as required by UIG Abstract 55 'Accounting for Road Earthworks'. Preliminary estimates indicated that up to 1,200 assets (gross value \$2,398m) could be affected. Of these assets, approximately 180 are related to airfields and aircraft parking (total value of \$1,228m) with the remainder comprising of roads, footpaths, driveways, parking areas and parade grounds. The review of road earthworks is expected to be completed by 30 June 2006.

1.14 Impairment of Non-Current Assets

Non-current assets carried at cost or fair value, which are not held to generate net cash inflows, are assessed for indications of impairment. Where indications of impairment exist, the recoverable amount of the asset must be estimated and compared to the asset's carrying amount. If the recoverable amount is less than its carrying amount, the carrying amount must be reduced to the recoverable amount. The reduction is to be shown as an impairment loss.

Non-current assets carried at up to date fair value at the reporting date are not subject to impairment testing.

1.15 Intangibles

Defence's intangibles primarily comprise externally acquired and internally-developed computer software for internal use. Intangibles with gross values greater than \$150,000 are capitalised.

Acquired intellectual property may form part of the acquisition of particular tangible assets and in such cases is reflected in the value reported for Property, Plant and Equipment in the Statement of Financial Position.

Defence carries intangible assets at cost.

The service potential of each non-current intangible asset is reviewed annually. If an intangible asset is regarded as being impaired, the asset is written down to reflect its remaining service potential.

Intangibles are amortised on a straight-line basis over their anticipated useful life.

All intangible assets were assessed for impairment as at 30 June 2005 and none were found to be impaired at this time.

1.16 Heritage and Cultural Assets

Defence is the custodian of items, including artefacts and memorabilia that are or may be of national historical or cultural significance. While many of these items represent military achievements, others are associated with developments in science and exploration, or with significant personal achievements. Items such as land and buildings may be of historical or cultural significance.

Where Defence has established ownership and the value of items, these are recognised in the accounts as heritage and cultural assets.

Defence is currently undertaking a review and cataloguing of its extensive collection of potential heritage and cultural items. This process will identify items of national heritage or cultural significance, establish ownership of items, allocate values where able to be ascertained and determine procedures for the future use and preservation of such items. It is anticipated that this review will be completed by 30 June 2006.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

1.17 Inventory

Defence's inventory is for its own consumption and it does not ordinarily hold inventory for sale. If sales are made they represent disposal of inventory surplus to requirements and minor fuel sales. Inventory is valued at weighted average cost unless no longer required in which case it is valued at net realisable value.

Defence has implemented a policy to identify and provide for potential excess stocks.

Costs incurred in bringing each item of inventory (primarily explosive ordnance and general stores) to its present location and condition that are capable of being allocated on a reasonable basis are assigned on a weighted average cost basis.

Please refer to Note 5E and 8G for further disclosures relating to inventory.

1.18 Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate on the date of payment. Foreign currency receivables and payables are transferred at the exchange rate current as at the balance date.

1.19 Taxation

Defence's activities are exempt from all forms of taxation except fringe benefits tax and the Goods and Services Tax (GST).

Revenues, expenses, assets and liabilities are recognised net of GST:

- except where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- except for receivables and payables.

1.20 Insurance

Defence has insured for key insurable risks through the Government's insurable risk managed fund, called 'Comcover'. Workers compensation for civilians is insured through Comcare.

1.21 Reporting of Administered Activities

Administered revenues, expenses, assets, liabilities, contingencies and commitments and cash flows are disclosed in the Schedule of Administered Items and related Notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Accounting Standards, Accounting Interpretations and UIG Consensus Views.

(a) Administered Cash Transfers to and from Official Public Account

Revenue collected by Defence, for use by the Government rather than Defence, is Administered Revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance and Administration. Conversely, cash is drawn down from the OPA to make payments under Parliamentary appropriation on behalf of Government. These transfers to and from the OPA are reported as adjustments to the administered cash held by Defence on behalf of the Government and reported as such in the Statement of Cash Flows in the Schedule of Administered Items and in the Administered Reconciliation Table in Note 23. Thus the Schedule of Administered Items largely reflects the Government's transactions, through Defence, with parties outside the Government.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

(b) Revenue

All administered revenues relate to the core operating activities performed by Defence on behalf of the Australian Government. Administered revenues mainly comprise military superannuation contributions, payments received from the United Nations and foreign governments, bank interest, foreign exchange gains and dividends paid by the Defence Housing Authority.

(c) Expenses

All administered expenses relate to the core operating activities performed by Defence on behalf of the Australian Government. Administered expenses comprise unfunded military superannuation benefits, ADF housing subsidies and ADF retention benefits.

(d) Administered Investments

Administered investments in controlled entities are not consolidated because their consolidation is relevant only at the Whole of Government level.

Administered investments, other than those required to be equity accounted, are to be recognised on the cost basis, adjusted for any subsequent capital injections or withdrawals and for any impairment losses.

The Australian Government's capital investment in the Defence Housing Authority is outlined at Note 25.

(e) Military Retention Benefits

Certain categories of ADF personnel who are members of the Military Superannuation Benefits Scheme (MSBS) and have had 15 years of service receive retention benefits as an incentive for continued service. Retention benefit payments are initially recorded as prepayments and written down over the period of service.

(f) Military Superannuation

The Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation Benefits Scheme (MSBS) are defined benefit superannuation plans for ADF members. ADF employer superannuation contribution revenue, pension and lump sum payments, the provision for unfunded DFRDB and MSBS superannuation and DFRDB member contribution revenue are reflected in the Schedule of Administered Items.

The DFRDB is a fully unfunded scheme but the MSBS is a partly funded scheme. MSBS member contributions are paid into the MSBS Fund that is controlled by the MSBS Board and are therefore not reflected in the Schedule of Administered Items. The Australian Government on behalf of the MSBS Fund makes funded benefit payments to members of the scheme and the Australian Government is reimbursed by the MSBS Fund for these payments.

The Australian Government Actuary (AGA) estimates the unfunded provisions and expected future cash flows as at 30 June each year. These estimates are reflected in the Schedule of Administered Items. The AGA completes a full review of the unfunded liabilities (a Long Term Cost Report) every three years. A review of costs based on this report was conducted by the AGA in 2005 and the military superannuation provision has been adjusted upward by \$1.38b for 30 June 2005 (\$964m for 30 June 2004). The total unfunded liability for the DFRDB scheme as at 30 June 2005 was \$22.26b (2004: \$21.85b) and the unfunded liability for the MSBS scheme was \$8.18b as at 30 June 2005 (2004: \$7.22b).

The University of NSW had employees engaged or former employees who have been engaged at the Australian Defence Force Academy. On 11 December 2003 the Australian Government signed an agreement with the University to provide funding for costs incurred for the delivery of military education and training services at the Academy. In accordance with the agreement an actuary reviewed the leave and superannuation entitlements. During 2003-04 an amount of \$6.978m was paid in settlement of the leave liability and an amount of \$20m was paid as interim payment for the superannuation liability. During 2004-05 the final adjustment amount of \$5.3m was paid bringing the total payment for the superannuation liability to \$25.3m.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

1.22 Comparative Figures

Comparative figures are provided and, where necessary, have been adjusted to conform to changes in presentation in these financial statements. Where it has not been possible to adjust comparative figures, amounts have been bracketed together or N/A has been shown, as applicable.

1.23 Rounding

Amounts reported in the financial statements have been rounded to the nearest \$1,000 unless stated otherwise.

Sub-totals and totals reported in the financial statements are the sum of unrounded amounts, which are then rounded to the nearest \$1,000 themselves. All individual figures in the financial statements have been verified and the net surplus/(deficit) from ordinary activities as shown in the Statement of Financial Performance and net assets as shown in the Statement of Financial Position have been rounded correctly. In some cases variances of \$1,000 or \$2,000 may be present due to the application of rounding conventions.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

Note 2: Adoption of Australian Equivalents to International Financial Reporting Standards from 2005-06

The purpose of this Note is to make the necessary disclosures to comply with AASB 1047 – *Disclosing the impacts of Adopting Australian Equivalents to IFRS*.

Defence has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian Equivalents to International Financial Reporting Standards (AEIFRS). Defence has engaged external consultants to assist its Accounting Policy Directorate in the drafting of AEIFRS compliant accounting policies and in assessing its readiness to comply with AEIFRS. Defence is currently working on updating its accounting systems to ensure compliance.

Accounting Standard AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to IFRSs* and Finance Brief 18 *International Adoption – Planning and Transition* require that financial statements for 2004-05 disclose:

- Narrative explanations of the key differences in accounting policies arising from the adoption of AEIFRS;
- Any known or reliably estimable information about the impacts on the financial report had it been prepared using AEIFRSs or;
- If the impacts referred to above are not known or reliably estimable, a statement to that effect.; and
- An explanation of how the transition to AEIFRS is being managed.

Management of the transition to AEIFRS

In preparation for implementation of AEIFRS, Defence has undertaken the following steps:

- The Chief Financial Officer is formally responsible for overseeing implementation of AEIFRS;
- The primary responsibility for the transition process resides with Directorates of Financial Reporting and Accounting Policy. Support is obtained from the Financial Statements Project Board and the Defence Audit Committee at appropriate stages throughout the transition;
- All major accounting policy differences between existing Australian Accounting Standards Board (AASB) standards and AEIFRS have been identified and an assessment of the impact of the changes on Defence's financial statements is being made and will be finalised no later than 30 June 2006;
- The implementation of AEIFRS has been divided into subject areas and prioritised according to the degree of risk to Defence's financial reporting;
- Systems and procedural changes necessary to be able to report under AEIFRS, including those changes necessary to enable capture of data under both sets of accounting standards for 2004-05 were identified and testing and implementation of the data capture solution (with the exception of inventory systems) has been undertaken;
- The risks to successful transition to AEIFRS have been identified and remediation strategies have been put in place to ensure successful implementation of AEIFRS; and
- Consultants have been engaged where necessary to assist in the transition process.

In view of the uncertainties surrounding Defence's Financial Statements, there is also uncertainty whether Defence can be a first time adopter of AEIFRS, particularly with respect the valuation of Inventory and Specialised Military Equipment. An interpretation of the relevant standards has been sought from the AASB.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

Major changes in accounting policy

Changes in accounting policies under AEIFRS must be applied retrospectively, i.e. as if the new policy had always applied. This means that a balance sheet prepared under AEIFRS must be prepared as at 1 July 2004, except as permitted in specific circumstances under AASB 1 - *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This will ensure that comparative amounts reported in the 2005-06 financial statement are also prepared in compliance with AEIFRS.

At this stage, Defence has not been able to reliably quantify the impacts on transitioning to AEIFRS. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of Defence.

Restoration Obligations

Under AASB 116 *Property, Plant and Equipment* the cost of an item of property, plant and equipment includes an estimate of the costs of dismantling and removing the item and restoring the asset, where such an obligation to do so exists. Therefore, restoration costs are capitalised and added to the cost of the underlying asset and depreciated over the asset's useful life.

Consequently, a corresponding provision will be recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* for the restoration obligation costs. Where the effect of the time value of money is material, the provision will be discounted to the present value. When discounting is used, the carrying amount of the provision is adjusted to reflect the unwinding of the discount and this is recognised as a borrowing cost. This will result in a change in Defence's accounting policy that only recognises decontamination costs associated with properties listed for disposal. These costs are currently included in the valuation of the property. Defence is currently assessing its assets to determine whether an adjustment to the opening balance is required to take into account a restoration provision that had not been previously recognised. The future financial effect of this change in accounting policy is not yet known, as the process to quantify the impact has not yet been fully completed. Completion date is expected to be no later than 30 June 2006.

Property, Plant and Equipment (PP&E)

Under AASB 116 *Property, Plant and Equipment*, PP&E upon initial recognition is required to be valued at cost or, if no or minimal consideration is paid for the item, it must be recorded at its fair value at date of acquisition. Subsequent to initial recognition, PP&E can be recorded at cost or fair value. Under the draft FMOs issued by the Department of Finance and Administration (Finance), Defence has been advised that specialist military equipment and all other PP&E must be valued at fair value. For assets currently at fair value, there will be no transition adjustments required provided the fair value carrying amount reflects fair value at transition date. The future financial effect of this change in accounting policy is not yet known, as the process to quantify the impact has not yet been fully completed. Completion date is expected to be no later than 30 June 2006.

Impairment of Assets

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of net selling price and value in use. If the AASB 1 exemptions are applied to allow current deemed cost under AASB 1041 to be carried over there may be limited instances of impairment where an asset was held at deprival value up until mid-2001. A methodology enabling a reliable estimate of the future financial effects of this change in accounting policy is nearing completion, and assessment of Defence assets is expected to be completed by 30 June 2006.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the year ended 30 June 2005*

Measurement of Inventory

Under AASB 102 *Inventories*, inventory held for distribution must be valued at lower of cost or current replacement cost. This will represent a change in Defence's accounting policy, as there was no previous distinction in recording inventory held for distribution. Reliable estimation of the future financial effects of this change in accounting policy is unavailable as Defence is reviewing the capacity of its current accounting system to ensure the assessment of inventory can be performed.

Employee Benefits

Under AASB 19 *Employee Benefits*, employer sponsors are required to recognise the net surplus or deficit in their employer sponsored defined benefit as an asset or liability, respectively. There is also a requirement that an entity's proportionate share of any 'multi-employer plan' surplus or deficit should be carried on the balance sheet. This will result in a change to Defence's current accounting disclosure, which does not currently recognise the net assets/liabilities of the defined benefit military funds. Reliable estimation of the future financial effects of this change in accounting policy is unavailable, as actuarial revaluations have not yet been completed as at 30 June 2005.

Under AASB 119 *Employee Benefits* and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, all payments and obligations for payments for employee benefits where there is a legal or constructive obligation (regardless of whether the benefit is vesting or non-vesting) need to be recognised in the balance sheet. This will represent a change in Defence's accounting policy as employment benefits offered by Defence to its staff such as Military Compensation and Military Retention Benefits are not currently recognised. The future financial effect of this change in accounting policy is not yet known, as the process to quantify the impact has not yet been fully completed. Completion date is expected to be no later than 30 June 2006.

Receivables

Under AASB 139 *Financial Instruments Recognition and Measurement* receivables are required to be assessed at the reporting date for impairment. Impairment is based on objective evidence and future events cannot be taken into account. This will result in a change to Defence's current accounting policy as Defence currently uses both specific and statistical methods of provisioning for doubtful debts. The future financial effect of this change in accounting policy is not yet known, as the process to quantify the impact has not yet been fully completed. Completion date is expected to be no later than 30 June 2006.

Internally Generated Intangibles

Under AASB 138 *Intangible Assets* intangible assets can only be measured at valuation where there is an active market for the asset. This will result in a change to Defence's current accounting policy as the intangible assets of Defence are primarily internally-developed software specific to the needs of Defence and are not traded. Defence will write back any valuation component of the carrying amount of these assets that does not meet the necessary criteria of the adopted AEIFRS. The assessment of internally generated intangible assets may result in certain of these assets being de-recognised. The future financial effect of this change in accounting policy is not yet known, as the process to quantify the impact has not yet been fully completed. Completion date is expected to be no later than 30 June 2006.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 3: Events Occurring after Reporting Date

On 1 July 2005 the Defence Materiel Organisation (DMO) became a prescribed entity under the *Financial Management and Accountability Act 1997*.

In respect of functions relinquished, the estimated net book values of assets and liabilities will be transferred from Defence to DMO for no consideration and recognised as at 1 July 2005. This transaction has not been accounted for in this financial statement for the period ending 30 June 2005.

	Defence Assets and Liabilities Transferred to DMO At 1 July 2005 \$'000
ASSETS	
Financial assets	
Receivables	152,881
<i>Total financial assets</i>	<u>152,881</u>
Non-financial assets	
Infrastructure, plant and equipment	202,241
Intangibles	98,012
Other non-financial assets*	684,401
<i>Total non-financial assets</i>	<u>984,654</u>
TOTAL ASSETS	<u><u>1,137,535</u></u>
LIABILITIES	
Provisions	
Employees	115,593
<i>Total provisions</i>	<u>115,593</u>
Payables	
Suppliers	633,241
Other payables	1,286
<i>Total payables</i>	<u>634,527</u>
TOTAL LIABILITIES	<u><u>750,120</u></u>
NET ASSETS	<u><u>387,415</u></u>
Equity	
Contribution by owners	387,415
<i>Total equity</i>	<u>387,415</u>
TOTAL EQUITY	<u><u>387,415</u></u>

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 3: Events Occurring after Reporting Date (cont')

*This represents \$618m in capital prepayments and \$66m in non-capital prepayments. These prepayments relate to acquisition projects and explosive ordinance (capital) and maintenance contract and other sustainment expenses (non-capital).

DMO now act as project managers on behalf of Defence for Assets Under Construction (AUC). Defence engage DMO to provide SME platforms and other assets under Material Acquisition Agreements. Defence will recognise AUC as project milestones are achieved.

With regard to inventory Defence will engage DMO to act as its purchasing agent in accordance with the Material Sustainment Agreements. All inventory balances will be recorded on the Defence Statement of Financial Position.

Asbestos Related Disease Exposure

On 19 October 2005, Asbestos-Related Claims (Management of Commonwealth Liabilities) Act 2005 was enacted. The Act regulates the centralisation of common law asbestos-related condition claims against Australian Government agencies by allowing Comcare to take responsibility for claims and records management. Passage of this legislation will require transfer of common law legal liabilities for asbestos-related claims from the Department of Defence to Comcare.

At the date of signing these financial statements the total common law asbestos-related liabilities to be transferred was not known. As at 30 June 2005, the total provision for asbestos-related claims was \$390.1m (refer to Note 10B). The financial effect of the passage of this legislation has not been recognised in the 2004-05 financial statements.

London Pension Scheme

Reporting of the London Pension Scheme (Refer Note 10A) will transfer to the Department of Foreign Affairs and Trade from 1 July 2005.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 4: Operating Revenues		
<u>Note 4A: Revenues from Government</u>		
Departmental output appropriations	15,742,599	14,636,157
Resources received free of charge	7,089	3,060
Total revenues from Government	<u>15,749,688</u>	<u>14,639,217</u>
<u>Note 4B: Goods and Services</u>		
Goods	68,452	59,180
Services	195,786	193,703
Total sales of goods and services	<u>264,237</u>	<u>252,883</u>
Provision of goods to:		
Related entities	97	24
External entities	68,355	59,156
Total sales of goods	<u>68,452</u>	<u>59,180</u>
Rendering of services to:		
Related entities	6,448	3,701
External entities	189,338	190,002
Total rendering of services	<u>195,786</u>	<u>193,703</u>
Goods and services are represented by:		
Sale of surplus inventory	1,163	2,767
Fuel sales to foreign governments	53,551	47,267
Other goods	13,738	9,145
Operating lease rentals - housing	105,445	99,659
Operating lease rentals - non-housing	8,732	10,422
Operational exercises, training and facilities	6,566	6,059
Rations and quarters	38,191	37,345
Revenue from foreign governments	17,607	18,581
Revenue from other Australian Government Agencies	13,399	15,922
Other services	5,845	5,716
	<u>264,237</u>	<u>252,883</u>
<u>Note 4C: Interest revenue</u>		
Deposits	33	143
Total interest revenue	<u>33</u>	<u>143</u>
<u>Note 4D: Revenue from sale of assets</u>		
Land and buildings		
Proceeds from disposal	140,474	132,080
Net book value of assets disposed	(85,700)	(101,498)
Net gain (loss) from disposal of land and buildings	<u>54,774</u>	<u>30,582</u>

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Specialist military equipment		
Proceeds from disposal	10,306	12,249
Net book value of assets disposed	(1,535)	(20,791)
<i>Net gain (loss) from disposal of specialist military equipment</i>	<u>8,771</u>	<u>(8,542)</u>
Other infrastructure, plant and equipment		
Proceeds from disposal	46,745	40,830
Net book value of assets disposed	(48,928)	(41,286)
<i>Net gain (loss) from disposal of other infrastructure, plant and equipment</i>	<u>(2,183)</u>	<u>(456)</u>
Other assets		
Proceeds from disposals	1,468	-
<i>Net gain (loss) from disposal of other assets</i>	<u>1,468</u>	<u>-</u>
Total proceeds from disposals	198,994	185,159
Total net book value of assets disposed	(136,163)	(163,575)
<i>Total net gain (loss) from disposal of assets</i>	<u>62,831</u>	<u>21,584</u>
<u>Note 4E: Net Foreign Exchange Gains</u>		
Foreign exchange gains		
Non-speculative	38,646	55,506
Less Foreign exchange losses		
Non-speculative	(17,493)	(38,954)
<i>Total net foreign exchange gains</i>	<u>21,152</u>	<u>16,552</u>
<u>Note 4F: Assets Now Recognised</u>		
Specialist military equipment	377,478	348,860
Land and buildings *	247,312	30,408
Other infrastructure, plant and equipment *	166,255	72,354
Software and intangibles *	-	9,373
Heritage and cultural assets*	20,960	7,702
Inventory**	195,364	111,131
<i>Total assets now recognised</i>	<u>1,007,369</u>	<u>579,828</u>

*Land & Buildings and Other Infrastructure, plant & equipment first recognized in 2004/05 increased from the previous year following a stocktake of all assets within these classes.
Software and Intangible assets are carried at cost and are only first recognized when corrections to earlier accounting treatments are made. No such corrections were required in the current year
Heritage & Cultural assets first recognized in 2004/05 increased from the previous year following a comprehensive program to identify, catalogue and value all such assets.

Department of Defence
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2004

** During 2004-05 Defence undertook to stocktake 100% of the major warehouse facilities at DNSDC Moorebank and Bandiana (finished August/September 2005) and the Joint Logistic Command warehouses (certain warehouses belonging to Army, RAAF and NAVY were not subject to a 100% stocktake due to time and resource constraints and this will be addressed in 2005-06), and a substantial portion of fixed assets resulting in an increase in assets first recognised. Previous period stocktakes were based on representative samples or by progressive two year geographical cyclic stocktakes.

(2004: Inventory now recognised includes a net price increment of \$6,161,032 for explosive ordnance (EO). This is as a result of an extensive price remediation exercise carried out to correct legacy pricing issues associated with EO. This exercise resulted in both price increments and decrements across a number of EO inventory items. The net figure is as a result of the following:

Gross price increments	\$51,580,494
Gross price decrements	\$(45,419,462)
Net impact	<u>\$6,161,032</u>

Refer to Note 8G for further information on residual EO pricing issues)

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<u>Note 4G: Other Revenues</u>		
Sale of materials and services	10,520	6,908
Foreign military sales refunds	7,101	8,312
Excise refunds	41,810	39,937
Settlement of damages	36,055	-
Travel and utility rebates	1,318	-
Miscellaneous revenues	12,072	44,017
Prior year adjustment*	83,076	48,594
Actuarial gains – asbestos related disease exposure**	13,600	-
Other minor revenues	1,161	8,443
Total other revenues	206,714	156,211

* 2005: Reinstatement of prepayments incorrectly written off in a prior year.

(2004: Reinstatement of work in progress incorrectly written off in a prior year)

**See Note 1.7 & Note 10B

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 5: Operating Expenses		
<u>Note 5A: Employee Expenses</u>		
Australian Public Service (APS) employee expenses		
Wages and salary	949,706	951,341
Superannuation	191,012	183,352
Leave and other entitlements*	97,119	161,378
Separation and redundancies	7,953	23,024
Fringe benefits tax	1,790	7,806
Other employee expenses	1,506	2,307
Other allowances	27,245	23,023
Health expenses	1,681	1,688
Total APS employee benefit expenses	1,278,012	1,353,919
Workers compensation premiums	15,087	9,286
Total APS employee expenses	1,293,100	1,363,205
Australian Defence Force (ADF) employee expenses		
Wages and salary	2,655,916	2,695,787
Superannuation	713,552	672,315
Leave and other entitlements*	186,928	242,090
Separation and redundancies	658	1,989
Overseas allowance	125,700	162,215
Other allowances	275,740	288,119
Fringe benefits tax	285,784	297,015
Health expenses	162,879	150,082
Housing	390,631	385,665
Other employee expenses	82,142	86,196
Total ADF employee benefit expenses	4,879,930	4,981,475
Military compensation scheme**	-	451,947
Total ADF employee expenses	4,879,930	5,433,421
Total employee expenses	6,173,030	6,796,627

* Refer to Note 10A

**Responsibility for administration of this scheme transferred on 1 July 2004.
Refer Note 32.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<u>Note 5B: Suppliers Expense</u>		
Suppliers expenses are represented by:		
Supply of goods and services		
General goods and services	1,407,103	1,088,072
Communications and information technology	320,974	317,437
Inventory supplies (non capital)	65,095	109,574
Domestic travel	126,713	123,349
Training	225,927	239,084
Removal costs	178,177	166,897
Utilities	104,796	97,265
Overseas travel	67,069	63,059
Advertising	28,115	28,347
Freight and storage	119,991	38,439
Security services	25,045	25,425
Total supply of goods and services	2,669,004	2,296,949
Inventory consumption		
Inventory consumption*	889,393	730,149
Total inventory consumption	889,393	730,149
Property, plant and equipment related items		
Repair and overhaul	1,497,107	1,319,562
Facilities operations (non-utilities)	357,959	283,582
Asset purchases not capitalised**	241,916	225,150
Operating lease rentals	224,898	286,350
Property disposals related costs	13,160	22,374
Total property, plant and equipment related items	2,335,041	2,137,018
Other suppliers expenses		
Research and development	197,852	147,074
Assistance to state/territories (non grants)	18,708	21,693
Total other suppliers expenses	216,560	168,767
Total suppliers expenses	6,109,997	5,332,883
* The uncertainty around inventory carrying value might impact on inventory consumption. Refer to Note 8G.		
** Refer Note 1.13(a),8B,8C,8D.		
Suppliers Expenses		
Goods from related entities	2,460	7,099
Goods from external entities	1,317,460	843,252
Services from related entities	245,174	411,980
Services from external entities	4,320,006	3,784,202
Operating lease rentals	224,898	286,350
Total supplier expenses	6,109,997	5,332,883

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<u>Note 5C: Grants</u>		
Local Governments	-	1,000
Private sector	125	6,183
Related entities	853	-
Individuals	963	-
Total grants	1,941	7,183

Grants are represented by:

Defence family support program	963	1,058
Research Grants	125	125
Frontline Grants	853	-
Other Grants	-	6,000
Total Grants	1,941	7,183

Note 5D: Depreciation and Amortisation

Depreciation

Buildings*	349,318	109,352
Specialist military equipment	2,271,077	2,271,180
Other infrastructure, plant and equipment	364,290	342,207
Total depreciation	2,984,685	2,722,739

Amortisation

Buildings under finance lease*	13,883	25,570
Other Infrastructure, plant & equipment under finance lease	22	56
Software	37,994	22,964
Software under finance lease	14,914	22,372
Intangibles –internally developed software	17,811	5,704
Total amortisation	84,625	76,666
Total depreciation and amortisation	3,069,310	2,799,405

The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable asset are as follows:

Buildings*	363,201	134,922
Specialist military equipment	2,271,077	2,271,180
Plant and equipment**	364,312	342,263
Software***	52,908	45,335
Intangibles - internally developed software	17,811	5,704
Total depreciation and amortisation	3,069,310	2,799,405

* 2005: Buildings depreciation has increased as a consequence of the revaluation of the property portfolio as at 1 July 2004 and due to 1,100 properties being transferred from buildings under finance lease. Refer to Note 8A. (2004: Buildings depreciation was reduced by net decrement corrections of \$209.8m resulting from corrections to the accumulated depreciation value within Defence's fixed asset register).

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

** (2004: Other infrastructure, plant and equipment depreciation was reduced by net decrement corrections of \$86.7m resulting from corrections to the accumulated depreciation value within Defence's fixed asset register).

*** (2004: Software under finance lease depreciation recognised 18 months worth of depreciation following lease reclassification from operating lease to finance lease).

Refer Note 1.13(a),8B,8C,8D.

	2005 \$'000	2004 \$'000
<u>Note 5E: Write-down of Assets (including impairment)</u>		
Financial assets		
Cash	-	3
Bad and doubtful debts expense	462	950
Total financial assets	<u>462</u>	<u>953</u>
This is represented by:		
Bad debts written off	416	2,493
Provision for doubtful debts	46	(1,540)
	<u>462</u>	<u>953</u>
Non financial assets		
Specialist military equipment		
Fixed assets	615,915	505,607
Major project activities expensed	272,751	174,571
Total specialist military equipment	<u>888,666</u>	<u>680,178</u>
Other property, plant and equipment		
Land and buildings		
Fixed Assets	331,889	124,530
Total land and buildings	<u>331,889</u>	<u>124,530</u>
Other infrastructure, plant and equipment *		
Fixed Assets	61,553	88,623
Major OP&E project activities expensed	27,861	51,122
Total other infrastructure, plant and equipment	<u>89,414</u>	<u>139,745</u>
Intangibles *		
Fixed Assets	8,287	221
Write-down - software AUC previously capitalised	203	4,865
Total intangibles	<u>8,490</u>	<u>5,086</u>
Heritage and cultural assets **		
Fixed Assets	5	-
Revaluation decrement	(1,034)	1,034
Total heritage and cultural assets	<u>(1,029)</u>	<u>1,034</u>
Total other property, plant and equipment	<u>428,764</u>	<u>270,394</u>

* The majority increase in the write down of assets is due to the comprehensive asset revaluation program and an \$84m adjustment resulting from a detailed impairment assessment.

**In 2005 a credit of \$1,034m is recognised following a revaluation increment of this asset class where a revaluation decrement has been recognised in 2004

Department of Defence
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	2005 \$'000	2004 \$'000
Inventory		
Write down of inventories	352,996	113,193
Net inventory obsolescence write-down/(write-back)	<u>1,126,468</u>	<u>88,099</u>
Total inventory	<u>1,479,464</u>	<u>201,292</u>

2005: Defence, as part of its financial remediation, reviewed the ageing, likelihood of future benefit and condition of inventory held. As a consequence the provision for obsolescence increased substantially.

As part of the 2004-05 remediation process for GSI Defence implemented a provision for potential excess stocks. Provisioning for excess stocks was determined by a desktop review conducted in year, which identified potential excess stock using the historical usage rate of 5 years. Given the system anomalies, business process compliance issues and stocktake results over the GSI inventory balance there is significant uncertainty around the GSI PFO balance of \$1,193m. With the ongoing remediation activities being incomplete uncertainty will remain around the stock balances.

Inventory write down includes a net price adjustment of \$12.75m for Explosive Ordnance Inventory. This is a result of the price remediation exercise carried out on legacy pricing issues and work performed on in year price corrections. The net figure is a result of the following:

	\$'000
Gross price increments	29,300
Gross price decrements	(42,056)

Net Decrement	(12,756)

(2004: Inventory write down includes a net price adjustment of \$0.83m for general stores inventory. This is as a result of price remediation exercise carried out in legacy pricing issues and work performed on in-year price corrections. The net figure is as a result of the following:

	\$'000
Gross price increments	66,558
Gross price decrements	(65,720)

Net Increment	838

Inventory write down includes a net quantity adjustment of (\$36.34m) and a net price adjustment of (\$25.13m) for General Stores Inventory. This is a result of the price remediation exercise carried out on legacy pricing issues and work performed on in year price corrections. The net figure results from the following:

	\$'000
Gross price increments	43,607
Gross price decrements	(68,734)

Net Decrement	(25,127)

As not all the pricing issues have been resolved on EO, uncertainty remains on the amounts included within the EO obsolescence provision at June 05. Refer to Note 8G for further information on general stores inventory and explosive ordinance pricing issues).

Total write-down and impairment of assets

<u>2,797,356</u>	<u>1,152,818</u>
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Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005	2004
	\$'000	\$'000
<u>Note 5F: Other Expenses</u>		
Act of Grace payment Section 33	31	66
Defective Administration Scheme payments	332	416
Asbestos related disease exposure*	-	60,100
Minor expenses	4,747	14,576
<i>Total other expenses</i>	<u>5,111</u>	<u>75,158</u>

* Refer Note 1.7

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 6: Borrowing Costs Expense		
Leases	25,069	34,060
Other	52	88
Total borrowing costs expenses	<u>25,121</u>	<u>34,148</u>
Note 7: Financial Assets		
<u>Note 7A: Cash</u>		
Cash on hand	994	1,848
Cash at bank - at call	253,432	235,961
Total cash	<u>254,425</u>	<u>237,809</u>
<u>Note 7B: Receivables</u>		
Goods and services	181,747	69,854
Less Provision for doubtful debts	(2,197)	(2,151)
	<u>179,550</u>	<u>67,703</u>
GST receivable from the Australian Taxation Office	128,120	139,066
Appropriation receivable undrawn*	538,609	537,660
Advances and loans	4,768	-
Other	46,445	32,615
Total receivables (net)	<u>897,492</u>	<u>777,044</u>
*Appropriations receivable undrawn are appropriations controlled by Defence but held in the Official Public Account under the Government's just-in-time draw down arrangements.		
Other receivables include an estimate of 2005: \$9.7m (2004: \$9.7m) receivable from ADF personnel due to overpayment of allowances. The identification of the overpayment was a result of Trade Pay Reviews.		
Receivables are represented by:		
Current	892,922	772,004
Non current	4,570	5,040
Total receivables (net)	<u>897,492</u>	<u>777,044</u>

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Receivables (gross) are aged as follows:		
Not overdue	868,232	726,828
Overdue by:		
Less than 30 days	10,300	21,450
30 to 60 days	1,364	1,950
61 to 90 days	831	1,359
More than 90 days	18,962	27,608
Total receivables (gross)	899,689	779,195
The provision for doubtful debts is aged as follows:		
Not overdue	-	-
Overdue by:		
Less than 30 days	-	-
30 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	2,197	2,151
Total provision for doubtful debts	2,197	2,151

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 8: Non-Financial Assets		
<u>Note 8A: Land and Buildings*</u>		
Freehold land		
at cost	319	2,622
at 2000-02 valuation (deprival)	-	979,163
at fair valuation	<u>3,944,829</u>	<u>1,811,655</u>
	3,945,149	2,793,440
Less provision for land decontamination**	<u>(85,932)</u>	<u>(65,932)</u>
	3,859,217	2,727,508
Work in progress - at cost	<u>5,174</u>	<u>7,629</u>
Total freehold land	<u>3,864,390</u>	<u>2,735,137</u>
Buildings on freehold land		
at cost	125,141	272,347
Accumulated depreciation	<u>(547)</u>	<u>(12,609)</u>
	124,593	259,738
Work in progress - at cost	<u>346,886</u>	<u>667,098</u>
at 2000-02 valuation (deprival)	-	2,334,611
Accumulated depreciation	<u>-</u>	<u>(740,707)</u>
	-	1,593,904
at fair valuation	<u>6,414,569</u>	<u>6,591,491</u>
Accumulated depreciation	<u>(59,144)</u>	<u>(2,069,269)</u>
	6,355,426	4,522,222
Buildings held under finance lease	328,709	366,155
Accumulated amortisation	<u>(1,122)</u>	<u>(84,726)</u>
	327,587	281,429
Total buildings	<u>7,154,492</u>	<u>7,324,391</u>
Total land and buildings (non-current)	<u>11,018,882</u>	<u>10,059,528</u>

* 2005: There is no uncertainty as all capitalised Land and Buildings were revalued by the Australian Valuation Office during the financial year. This revaluation and the concurrent stocktaking exercise have resulted in significant movements in the value recognized.

(2004: There was uncertainty relating to the value of the land and buildings. This uncertainty was the consequence of items not being subject to an independent review, due to the application of predetermined asset revaluation thresholds (as set out in the summary of significant accounting policy Note 1.15), finance lease assets not being revalued, and other asset valuation matters. The book value at issue was \$1.394b. Refer also to Note 8C)

** The reported figure above is Defence's best estimate at June 05. Significant remediation activity is planned in 2005-06 to remediate this issue. Also, refer to Note 14 on Unquantifiable Contingencies.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<u>Note 8B: Specialist Military Equipment</u>		
Specialist military equipment		
at cost *	46,183,871	46,506,199
Accumulated depreciation	<u>(23,666,883)</u>	<u>(22,966,740)</u>
	<u>22,516,988</u>	<u>23,539,459</u>
Work in progress - at cost	<u>8,287,208</u>	<u>7,101,044</u>
Total Specialist military equipment (non-current)	<u><u>30,804,197</u></u>	<u><u>30,640,503</u></u>

2005: Remediation programs were undertaken during the year to confirm the existence of repairable items (which form part of Specialist Military Equipment). Stocktakes continue to show variances between the logistic records and physical holdings. Due to errors identified through the Defence stocktakes, business process compliance issues surrounding general warehouse management and system limitations within Standard Defence Supply System (SDSS) there is uncertainty as to the quantities of Repairable Items reported. The Net Book Value (after provision for depreciation) subject to this uncertainty is \$2,722m. Significant remediation programs have been implemented to address the issues of uncertain quantities, system limitations and business process compliance issues in 2006.

A 'not-in-catalogue' issue emerged during Defence's financial remediation highlighting the variance between assets sighted in military stocktaking activity and the records of those items on the logistics systems and/or Defence's asset register. Consequently, it is not yet possible to estimate the extent of the impact of this issue on the financial statements. Management plan to remediate this issue in 2005-06.

(2004: As a result of a number of asset management deficiencies which were identified during the stock taking processes, there was uncertainty as to the quantities of repairable items reported. The net book value (after provision for depreciation) of the repairable items subject to uncertainty was \$2,857m. As a result of the uncertainty of repairable items there was uncertainty in the order of \$2,857m for Specialist Military Equipment. Significant remediation programs have been implemented to address the issues of uncertain quantities).

* The application of Defence's asset recognition thresholds in 2004-05 resulted in some asset purchases of Specialist Military Equipment being treated as an expense. Due to the adoption of similar thresholds over a sustained period of time without appropriate management analysis or recording mechanisms to quantify the effects of such, the effect has not been quantified at this stage.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<u>Note 8C: Infrastructure, Plant and Equipment*</u>		
<i>Plant and equipment</i>		
at cost	731,887	2,000,145
Accumulated depreciation	<u>(283,451)</u>	<u>(1,036,986)</u>
	<u>448,435</u>	<u>963,159</u>
 Work in progress - at cost	 <u>423,027</u>	 <u>386,923</u>
 at 2000-02 valuation (deprival)	 -	 1,529,116
Accumulated depreciation	<u>-</u>	<u>(525,765)</u>
	<u>-</u>	<u>1,003,351</u>
 at fair valuation	 4,843,759	 3,985,271
Accumulated depreciation	<u>(292,552)</u>	<u>(1,235,728)</u>
	<u>4,551,207</u>	<u>2,749,543</u>
 Plant held under finance lease	 704	 974
Accumulated amortisation	<u>(704)</u>	<u>(952)</u>
	<u>-</u>	<u>22</u>
 <i>Total Infrastructure, Plant and Equipment (non-current)</i>	 <u>5,422,669</u>	 <u>5,102,998</u>

All independent revaluations were conducted by the Australian Valuation Office and are conducted in accordance with the revaluation policy stated at Note 1.13(c).

* 2005: The majority of capitalised Infrastructure, Plant and Equipment were externally revalued. This revaluation and the concurrent stocktaking exercise have resulted in significant movements in the value recognized. Approximately \$102.8m (net book value) of information technology and communication assets were not externally revalued. (2004: There was uncertainty relating to the value of infrastructure, plant and equipment. This uncertainty was the consequence of items not being subject to an independent review, (as set out in the summary of significant accounting policies Note 1.13) finance lease assets not being revalued, and other asset valuation matters. The book value at issue was \$1.394b. Refer also to Note 8A)

The application of Defence's asset recognition thresholds in 2004-05 resulted in some asset purchases of Infrastructure, Plant and Equipment being treated as an expense. Due to the adoption of similar thresholds over a sustained period of time without appropriate management analysis or recording mechanisms to quantify the effects of such, the effect has not been quantified at this stage.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<u>Note 8D: Intangibles</u>		
Computer software	292,597	175,769
Accumulated amortisation	(112,163)	(78,694)
	<u>180,434</u>	<u>97,075</u>
Computer software work in progress	<u>80,913</u>	49,543
Intangibles - internally developed software	161,419	140,747*
Accumulated amortisation	(67,473)	(56,585)
	<u>93,946</u>	<u>84,162</u>
Intangibles work in progress	<u>22,219</u>	16,125*
Computer software under finance lease	74,569	74,569
Accumulated amortisation	(37,285)	(22,371)
	<u>37,285</u>	<u>52,198</u>
Total Intangibles	<u>414,797</u>	<u>299,103</u>

* Reallocation of accounts from Intangibles – internally developed software to Intangibles - work in progress of \$0.876m from what was disclosed in 2004.

The application of Defence's asset recognition thresholds in 2004-05 resulted in some asset purchases of Intangibles being treated as an expense. Due to the adoption of similar thresholds over a sustained period of time without appropriate management analysis or recording mechanisms to quantify the effects of such, the effect has not been quantified at this stage.

Note 8E: Heritage and Cultural Assets

at 2001-02 valuation (deprival value)	-	10,019
	-	10,019
at fair valuation	<u>800,459</u>	15,991
	<u>800,459</u>	15,991
Total Heritage and Cultural Assets (non-current)	<u>800,459</u>	<u>26,010</u>

Increased assets resulted from the program to identify, catalogue and value all Defence assets with heritage and cultural significance, reclassification of heritage buildings (\$186.6m), revaluation increment of assets (\$564.3m) and assets first recognised (\$20.9m).

Defence holds in excess of an estimated 1 million items that may have cultural, environmental or historical significance. Despite having intrinsic heritage value items are not recognised as assets where they do not meet the definition and recognition criteria for an asset. In 2005 no items of heritage significance were acquired by purchase or disposed of by sale.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 8F: Analysis of Property, Plant and Equipment and Intangibles

Table A: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles

Item	Land	Buildings	Specialist Military Equipment	Other Infrastructure, Plant and Equipment (owned and leased)	Heritage and Cultural Assets	Computer Software	Intangibles Internally Developed Software	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2004								
Gross Book value	2,735,137	10,231,702	53,607,244	7,902,429	26,010	299,881	156,871	74,959,274
Accumulated depreciation/amortisation	-	(2,907,311)	(22,966,740)	(2,799,430)	-	(101,065)	(56,585)	(28,831,132)
Opening Net book value	2,735,137	7,324,391	30,640,503	5,102,998	26,010	198,816	100,286	46,128,142
Additions:								
by purchase	373	273,037	2,921,664	320,330	-	50,405	36,670	3,602,478
by finance lease	-	6,170	-	-	-	-	-	6,170
Net revaluation increment/decrement	1,218,441	199,016	-	419,567	564,373	-	-	2,401,397
Reclassifications	1,142	(205,346)	(6,446)	(83,865)	186,686	107,572	257	-
Depreciation/Amortisation exp	-	(363,201)	(2,271,077)	(364,312)	-	(52,908)	(17,811)	(3,069,310)
Recoverable amount write downs	(22,404)	(309,485)	(888,666)	(89,414)	1,029	(5,110)	(3,380)	(1,317,430)
Other movements:								
Assets recognised for the first time	2,883	244,429	377,478	166,255	20,960	(143)	143	812,005
Other adjustments	-	-	32,276	-	-	-	-	32,276
Transfers in (out)	-	-	-	37	1,401	-	-	1,438
Disposals:								
Other disposals	(71,181)	(14,519)	(1,535)	(48,928)	-	-	-	(136,163)
As at 30 June 2005								
Gross book value	3,864,390	7,215,305	54,471,079	5,999,466	800,459	448,080	183,639	72,982,418
Accumulated depreciation	-	(60,813)	(23,666,883)	(576,797)	-	(149,448)	(67,473)	(24,521,415)
Closing Net book value	3,864,390	7,154,492	30,804,197	5,422,669	800,459	298,632	116,165	48,461,003

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 8F: Analysis of Property, Plant and Equipment and Intangibles (continued)

Table B: Assets at Valuation

Item	Land	Buildings	Specialist Military Equipment	Other Infrastructure, Plant and Equipment (owned and leased)	Heritage and Cultural Assets	Computer Software	Intangibles Internally Developed Software	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2005								
Gross value	3,944,829	6,414,569	-	4,843,759	800,459	-	-	16,003,616
Accumulated depreciation/ amortisation	-	(59,144)	-	(292,552)	-	-	-	(351,696)
Provision land decontamination	(85,932)	-	-	-	-	-	-	(85,932)
Closing Net Book value	3,858,897	6,355,425	-	4,551,207	800,459	-	-	15,565,988
As at 30 June 2004								
Gross value	2,790,818	8,926,102	-	5,514,387	26,010	-	-	17,257,317
Accumulated depreciation/ amortisation	-	(2,809,975)	-	(1,761,493)	-	-	-	(4,571,468)
Provision land decontamination	(65,932)	-	-	-	-	-	-	(65,932)
Closing Net Book value	2,724,886	6,116,127	-	3,752,894	26,010	-	-	12,619,916

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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Table C: Property, Plant, Equipment and Intangibles held under finance lease

Item	Land	Buildings	Specialist Military Equipment	Other Infrastructure, Plant and Equipment (owned and leased)	Heritage and Cultural Assets	Computer Software	Intangibles Internally Developed Software	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2005								
Gross value	-	328,709	-	704	-	74,569	-	403,982
Accumulated depreciation/amortisation	-	(1,122)	-	(704)	-	(37,285)	-	(39,111)
Net book value	-	327,587	-	-	-	37,285	-	364,872
As at 30 June 2004								
Gross value	-	366,155	-	974	-	74,569	-	441,698
Accumulated depreciation/amortisation	-	(84,726)	-	(952)	-	(22,371)	-	(108,049)
Net book value	-	281,429	-	22	-	52,198	-	333,649

Table D: Property, Plant, Equipment and Intangibles under construction

Item	Land	Buildings	Specialist Military Equipment	Other Infrastructure, Plant and Equipment (owned and leased)	Heritage and Cultural Assets	Computer Software	Intangibles Internally Developed Software	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2005								
Gross value	5,174	346,886	8,287,208	423,027	-	80,913	22,219	9,165,427
As at 30 June 2004								
Gross value	7,628	667,098	7,101,044	386,923	-	49,542	16,125	8,228,360

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<u>Note 8G: Inventories</u>		
Inventories not held for sale	5,045,897	5,071,045
<i>Less provision for obsolescence</i>	<u>(1,658,456)</u>	<u>(606,150)</u>
Total inventories	<u>3,387,440</u>	<u>4,464,895</u>
Inventories is represented by:		
Current	666,484	613,454
Non-current	<u>4,379,413</u>	<u>4,457,591</u>
Total gross inventories	5,045,897	5,071,045
<i>Less provision for obsolescence</i>	<u>(1,658,456)</u>	<u>(606,150)</u>
Total inventories	<u>3,387,440</u>	<u>4,464,895</u>

As disclosed in accounting policy Note 1.17, inventory is valued at weighted average cost. Defence has inventory on hand acquired over the past few decades. As in prior years:

- Invoices and related purchasing documentation are not available to confirm the accuracy of the cost price data for some general stores and explosive ordnance purchases; and
- Pricing details were generally not separately identified for explosive ordnance inventory acquired as part of work in progress contracts.

General Stores Inventory – Quantities, Pricing and PFO

Due to errors identified through the Defence stocktakes, business process compliance issues surrounding general warehouse management and system limitations within Standard Defence Supply System (SDSS) there is uncertainty around the reported value of GSI. The Net Book Value (after provision for obsolescence) subject to this uncertainty is \$1.29b. In addition, in year price anomalies were identified with the existence of zero and suspect pricing and legacy pricing issues as referred to above resulting in quantity and pricing uncertainty over the reported balance of GSI at June 05. As referred to in Note 5E, as a result of these issues, there is uncertainty within the reported \$1.2b of GSI provision for obsolescence (part of \$1.6b above).

Significant remediation programs have been implemented to address the issues of uncertain quantities, system limitations and business process compliance issues in 2006. This uncertainty will reduce with scheduled remediation activity.

Explosive Ordnance (EO) Inventory -Quantities, Pricing and PFO

There is no uncertainty in regards to EO quantities. With regard to EO pricing, the prior year's EO pricing uncertainty of \$845m net has now been reduced to \$309m.

Best Estimates

Defence management used best estimates to correct price anomalies, as Defence was unable to source primary form of evidence was not available. The total net value of inventory price corrected using best estimates is approximately \$133m in 2004-05. The reported EO provision for obsolescence balance of \$465m contains an uncertainty of \$366m at June 05 as a result of lack of evidentiary documentation to support the prices used to value that portion of the recorded balance.

Not in Catalogue (NIC) items

A 'not-in-catalogue' issue emerged during Defence's financial remediation highlighting the variance between assets sighted in military stocktaking activity and the records of those items on the logistics systems and/or Defence's asset register. This issue, as identified by Defence, is subject to investigation. Consequently, it is not yet possible to estimate the extent of the impact of this issue on the financial statements. Management plan to remediate this issue in 2005-06. Refer also to Note 5E

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	2005 \$'000	2004 \$'000
<u>Note 8H: Other Non Financial Assets</u>		
Capital prepayments	631,530	554,319
Non capital prepayments	167,950	135,362
Total other non-financial assets	799,480	689,681

Other non-financial assets are represented by:

Current	632,168	326,803
Non-current	167,312	362,878
Total	799,480	689,681

Note 9: Interest Bearing Liabilities

Note 9A: Leases

Finance lease commitments

Payable:

Within one year	31,914	45,220
In one to five years	93,269	160,754
In more than five years	190,759	406,760
Minimum lease payments	315,942	612,734
<i>Deduct: future finance charges</i>	<i>(57,751)</i>	<i>(244,791)</i>
Net lease liability	258,190	367,943

Lease liability is represented by:

Current	15,033	19,430
Non current	243,157	348,513
Net lease liability	258,190	367,943

The finance leases are non-cancelable and for fixed term. The lease assets secure the lease liabilities. Defence guarantees the residual values of all assets leased. There are no contingent rentals.

Note 9B: Other Interest Bearing Liabilities

Lease incentives	2,631	2,897
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Other interest bearing liabilities are represented by:

Current	227	266
Non-current	2,404	2,631
Total other interest bearing liabilities	2,631	2,897

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 10: Provisions		
<u>Note 10A: Employee Provisions</u>		
Australian Public Service (APS) employee provisions		
Salaries and wages	5,101	43,870
Leave*	443,140	464,618
Superannuation	1,736	6,962
Separations and redundancies	2,576	15,753
Other provisions	14,204	7,112
Aggregate APS employee entitlement liability	466,757	538,315
Australian Defence Force (ADF) employee provisions		
Salaries and wages	20,408	130,447
Leave*	1,135,814	1,228,247
Superannuation	1,910	31,476
Separations and redundancies	1,316	3,528
Other provisions	117,434	66,059
Aggregate ADF employee entitlement liability	1,276,881	1,459,757
Military compensation**	-	1,909,244
Aggregate employee benefit liability and related on-costs	1,743,638	3,907,316
Employee provisions are represented by:		
Current	858,242	1,284,687
Non current	885,396	2,622,629
Total employee provisions	1,743,638	3,907,316

* A systematic sampling review of employee leave entitlements undertaken by Defence in 2004-05 found errors existed in relation to leave balances. In addition, supporting documentation could not be located to support some leave transactions and balances. These errors and potential errors which are outside acceptable parameters, represented uncertainty in ADF annual leave balances and APS annual and long service leave balances. Since 2003-04 Defence commenced a remediation program to support leave balances. This work is ongoing.

** Responsibility for administration of this scheme transferred to the Department of Veterans Affairs on 1 July 2004. Refer Note 32.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

Overseas Pension Scheme

London Pension Scheme (Australian High Commission London – Locally Engaged Staff – Pension Scheme).

The Department has a pension scheme for locally engaged staff at its office in London. The pension scheme is a defined benefit, which is linked to employee's final salaries. The Department recognises actuarial gains or losses immediately as per AASB 119. As of 1 July 2005 the pension scheme was transferred to the Department of Foreign Affairs and Trade administered accounts.

Amount Attributable to Defence

	2005	2004
	\$	\$
Accrued Benefit/Liabilities (Present Value) (1)	(5,645,509)	(4,900,262)
Plan Assets (Fair Value) (2)	4,867,066	4,522,310
Net Assets/(Liabilities)	(778,443)	(377,952)
Vested Benefits (3)	4,995,293	4,376,988

1. Accrued Benefits (30 June 2005) have been based on the data used for the actuarial valuation prepared for funding purposes as at 1 July 2003, plus information provided by the administrator on the membership as at 1 July 2004 and the expected membership movement up to 30 June 2005. Accrued Benefits (30 June 2004) was based on a 1 July 2003 actuarial valuation updated by the actuary for membership data up to 30 June 2004.
2. Plan Assets (30 June 2005) have been valued by the actuary as at 30 June 2005 based on actual values as at 31 May 2005. Plan Assets (30 June 2004) have been valued by the actuary as at 30 June 2004 based on actual values as at 31 May 2004.
3. Vested Benefits (30 June 2005) have been based on the data used for the actuarial valuation prepared for funding purposes as at 1 July 2003, plus information provided by the administrator on the membership as at 1 July 2004 and the expected membership movement up to 30 June 2005. Vested Benefits (30 June 2004) was based on a 1 July 2003 actuarial valuation updated by the actuary for membership data up to 30 June 2004.

The above figures represent approximately 22% of the total value of the fund.

New Delhi Group Gratuity Scheme (Australian Embassy Defined Benefit Plan)

Amount Attributable to Defence

	2005	2004
	\$	\$
Accrued Benefit/Liabilities (Present Value) (1)	(3,995)	(2,519)
Plan Assets (Fair Value) (2)	1,519	1,153
Net Assets/(Liabilities)	(2,476)	(1,366)
Vested Benefits (3)	3,995	2,519

1. Accrued Benefits have been measured by the actuary at 31 March 2005 (for 2005 figures) and 31 March 2004 (for 2004 figures).
2. Plan Assets are as per the Fund's audited financial statements and are measured at 31 March 2005 (for 2005 figures) and 31 March 2004 (for 2004 figures).
3. Vested benefits have not been separately supplied and are taken to be the same as accrued benefits.

The most recent actuarial report has been performed on 1 April 2005.

The above figures represent approximately 15% of the total value of the fund.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<u>Note 10B: Asbestos Related Disease Exposure Provision</u>		
Provision for Asbestos related disease exposure	390,100	403,700
Total asbestos related disease exposure provision	390,100	403,700
<u>Note 10C: Other Provisions</u>		
Provisions for potential liabilities excluding asbestos related diseases	88,700	-
Total other provisions	88,700	-
Note 11: Payables		
<u>Note 11A: Suppliers Payable</u>		
Non capital trade creditors	954,013	860,345
Capital trade creditors	230,956	156,968
Total supplier payables	1,184,968	1,017,313
Supplier payables are represented by:		
Current	1,184,968	1,017,313
Total supplier payables	1,184,968	1,017,313
<u>Note 11B: Other Payables</u>		
Non-supplier payables	12,960	1,126
Total other payables	12,960	1,126
Other payables are represented by:		
Current	12,960	1,126
Total other payables	12,960	1,126

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 12: Equity

Note 12: Analysis of Equity

Item	Accumulated Results		Asset Revaluation Reserve		Contributed Equity/Capital		Total Equity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Opening balance as at 1 July	36,612,888	37,144,693	8,209,463	7,219,673	1,774,924	1,811,008	46,597,276	46,175,375
Net surplus/(deficit)	(869,841)	(531,804)	-	-	-	-	(869,841)	(531,804)
Net revaluation increment/(decrement)	-	-	2,401,397	989,791	-	-	2,401,397	989,789
Changes in accounting policies	-	-	-	-	-	-	-	-
Transactions with owner:								
Restructuring	-	-	-	-	1,909,244	-	1,909,244	-
Returns of contributed equity	-	-	-	-	(312,709)	(742,418)	(312,709)	(742,418)
Contributions by owners:								
Appropriations (equity injections)					393,286	706,334	393,286	706,334
Closing balance as at 30 June	35,743,047	36,612,888	10,610,860	8,209,463	3,764,746	1,774,924	50,118,652	46,597,276
<i>Total equity attributable to the Australian Government</i>	35,743,047	36,612,888	10,610,860	8,209,463	3,764,746	1,774,924	50,118,652	46,597,276

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 13: Cash Flow Reconciliation		
Reconciliation of cash per Statement of Financial Position to Statement of Cash Flows		
Cash at year end per Statement of Cash Flows	254,425	237,809
Statement of Financial Position items comprising above cash: "Financial Assets - Cash"	254,425	237,809
Reconciliation of net surplus/(deficit) to net cash from operating activities:		
Net surplus/(deficit)	(869,841)	(531,804)
Depreciation & amortisation	3,069,310	2,799,405
Net (gain) loss on sale of assets	(62,831)	(21,584)
Write down of assets	2,797,356	1,152,818
Write off of cash	-	(3)
Net (gain) loss on foreign exchange	(21,152)	(16,552)
Recognition of assets previously expensed	(1,007,369)	(579,828)
Borrowing cost expense	25,121	34,148
Reallocation of inventory purchases	1,221,256	1,202,210
(Increase)/decrease in net receivables	(120,911)	374,547
(Increase)/decrease in net inventory	(208,083)	(721,713)
(Increase)/decrease in prepayments	(32,588)	163,246
Increase/(decrease) in other interest bearing liabilities	(266)	-
Increase/(decrease) in employee provisions	(254,433)	589,605
Increase/(decrease) in asbestos related disease exposure provision	(13,600)	-
Increase/(decrease) in other provisions	88,700	33,993
Increase/(decrease) in supplier payables	93,668	24,275
Increase/(decrease) in other payables	11,833	-
Net cash from operating activities	4,716,170	4,502,763

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 14: Contingent Liabilities and Assets

Quantifiable Contingencies

The Schedule of Contingencies reports contingent liabilities in respect of claims for damages/costs of \$166.4m (2004: \$180.2m). The amount represents an estimate of the Department's liability based on precedent cases. The Department is defending the claims.

The schedule also reports contingent assets in respect of claims for damages/ costs of \$30.9m (2004: \$54.3m). The Department is expecting to succeed in claims against suppliers, although the cases are continuing. The estimate is based on precedent in such cases.

Unquantifiable Contingencies

Two hundred claims for damages have been made by former members of the crew (of approximately 974) of the former HMAS Melbourne arising out of the HMAS Voyager/HMAS Melbourne collision of 10 February 1964. Further claims for damages will probably continue to be made by other former members of the crew of HMAS Melbourne. It is not clear how many more claims will be made. To date 87 claims have been resolved.

Eight proceedings have been commenced in connection with settlements of claims by 15 dependants of deceased former members of the crew of HMAS Voyager who died in the 10 February 1964 collision between HMAS Melbourne and HMAS Voyager. Six of these proceedings concern persons who were compensated under earlier settlement arrangements. Two proceedings are by individuals who have not previously been compensated under arrangements for the settlement of claims by dependants of deceased former members of the crew of HMAS Voyager. It remains unclear as to how many further dependency claims might be made. The current claims are unquantifiable at this time"

One claim for damages has been made by a former member of the crew (complement of approximately 1,300) of HMAS Melbourne arising out of the HMAS Melbourne/USS Frank E Evans collision of 3 June 1969. It remains unclear to what extent further claims might be made in respect of that collision.

On 5 May 1998 four crew members aboard HMAS Westralia died due to an on board fire. The Commonwealth initiated proceedings in the Federal Court of Australia in April 2001 against ADI Ltd, Parker Enzed Technologies Ltd, Jetrock Pty Ltd (In Liquidation) and Todd Hydrolics Pty Ltd. for damages relating to the fire. The matter is proceeding to trial with a hearing expected in mid 2006.

There is an emerging pattern of claims of compensation from property owners resulting from operational activities at ordnance depots as well as firing range activities by the RAAF.

Defence redundancy obligations arise from known redundancy programs and ongoing market testing of various Defence activities. Provisions have been made for those redundancies already planned. Other redundancies cannot be quantified until a decision to outsource or downsize has been made and the number and levels of positions are identified.

Defence is continuing a program of work to quantify its total land, buildings and infrastructure decontamination liabilities. The work program also includes an ongoing review of the entire Defence estate to reduce the risks of contaminated sites not being identified and appropriately managed.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

Where a decontamination liability can be reliably quantified, a provision is created in the accounts. However, there are a significant number of contaminated sites where the estimated decontamination costs cannot be quantified, or remediation has not yet progressed sufficiently for reliable quantification to occur.

Remote Contingencies

Defence carries an extensive range of guarantees, indemnities and undertakings, normally of a short-term nature, relating to business, training activities and other arrangements involving contracts, agreements and other Defence activities. Indemnities issued cover potential losses or damages for which the Commonwealth would be liable.

Contingencies relating to such guarantees, indemnities and undertakings issued by Defence are considered too remote to be included in the Schedule of Contingencies. Of these, there are 323 instances in the Defence Central Indemnity Register (2004: 58) that are either unquantifiable or uncapped, and 197 instances (2004: 64) of quantifiable contingencies to the value of \$4,689m (2004: \$2,287m).

Defence is subject to claims by ADI Ltd for indemnity for uninsured losses relating to the fire on HMAS Westralia. Matters arising from the Commonwealth's sale of its shares in ADI Ltd are the subject of litigation involving a claim for damages by the purchasers which was lodged after the end of the financial year.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 15: Executive Remuneration

The number of executives who received, or were due to receive, total remuneration of \$100,000 or more are set out below.

	2005	2004
Remuneration Band		
\$100,000 to \$109,999	15	6
\$110,000 to \$119,999	5	6
\$120,000 to \$129,999	6	6
\$130,000 to \$139,999	11	4
\$140,000 to \$149,999	16	9
\$150,000 to \$159,999	14	16
\$160,000 to \$169,999	20	22
\$170,000 to \$179,999	21	22
\$180,000 to \$189,999	14	17
\$190,000 to \$199,999	14	14
\$200,000 to \$209,999	16	23
\$210,000 to \$219,999	22	23
\$220,000 to \$229,999	18	9
\$230,000 to \$239,999	10	11
\$240,000 to \$249,999	5	4
\$250,000 to \$259,999	9	12
\$260,000 to \$269,999	6	4
\$270,000 to \$279,999	4	3
\$280,000 to \$289,999	1	3
\$290,000 to \$299,999	5	1
\$300,000 to \$309,999	2	-
\$310,000 to \$319,999	2	1
\$320,000 to \$329,999	-	2
\$330,000 to \$339,999	1	3
\$340,000 to \$349,999	-	2
\$360,000 to \$369,999	1	-
\$370,000 to \$379,999	1	1
\$380,000 to \$389,999	3	-
\$390,000 to \$399,999	-	-
\$400,000 to \$409,999	-	1
\$420,000 to \$429,999	-	1
\$440,000 to \$449,999	-	1
\$470,000 to \$479,999	1	-
\$560,000 to \$569,999	1	-
\$590,000 to \$599,999	1	-
Total number of executives	<u>245</u>	<u>227</u>
The aggregate amount of total remuneration of executives shown above.	<u>\$48,797,053</u>	<u>\$45,336,650</u>
The aggregate amount of separation and redundancy/termination benefit payments during the year to executives shown above.	<u>\$1,644,339</u>	<u>\$ 1,546,789</u>

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the year ended 30 June 2005*

The Executive Remuneration Note includes remuneration details for Defence senior executives comprising the Secretary of Defence, the Chief of the Defence Force (CDF), the Chief Executive of the Defence Materiel Organisation, APS SES and ADF Star Ranked Officers. In addition Chief of Division Grades 1 and 2, Medical Officer Grade 6 and Chaplains all of whom are part of the Defence Senior Leadership Group are included in the Note. Executives who act in substantive SES or Star ranked positions are included in the Note if their remuneration received while acting in that position exceeds \$100,000 during the financial year.

Remuneration includes calculations based on salary and allowances, accrued superannuation, redundancy payments, accrued leave, car parking, motor vehicle costs and fringe benefits tax. In addition, for Australian Defence Force (ADF) members, it includes the value of health and housing subsidy and a number of other miscellaneous allowances (including field allowances, career transition training, and separation and retention allowances).

It should be noted that the performance pay figures, in some cases, include bonuses for financial year 2003-04 and 2004-05 in line with contractual arrangements.

Executives who are employed overseas for a period exceeding six months are not included in the note. In addition reimbursement of out-of-pocket expenses incurred by executives are not included.

As a result of a review of military leave and civilian executive leave entitlements, it is possible that there may be uncertainty in the opening balances of those entitlements which were used in the compilation of remuneration for executives in the above note. The impact of any uncertainty could result in movement between the salary bands.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005	2004
Note 16: Remuneration of Auditors		
Financial Statement audit services are provided free of charge to the department.		
The fair value of the services provided by the Auditor-General was:	<u>\$6,980,000</u>	<u>\$2,929,242</u>
No other services were provided by the Auditor-General.		
Note 17: Average Staffing Levels		
The average staffing levels for the department during the year were:	<u>88,842</u>	<u>90,825</u>

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

Note 18: Departmental Financial Instruments

(a): Terms, conditions and accounting policies

Defence's accounting policies, including the terms and conditions of each class of departmental financial asset, financial liability and equity instrument, both recognised and unrecognised as at 30 June 2005, are as follows:

Financial Instrument	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of Underlying Instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
FINANCIAL ASSETS		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	Refer to details below.
Cash	7A	Cash includes cash on hand and at bank, measured in nominal dollars. Cash held in foreign currencies is converted to AUD at the applicable exchange rate applying at 30 June 2005.	Under just-in-time appropriation drawdown arrangements, cash is drawn as required. Any residual funds in Departmental bank accounts do not earn interest.
Receivables for Goods and Services and Other Receivables	7B	Receivables are carried at nominal amounts less a provision for doubtful debts. The provision is based on an analysis of the expected realisation of outstanding debts and write-off experience from prior years. Bad debts are written-off as they are identified.	Receivables are with entities predominantly external to the Commonwealth. Credit terms are 30 days (2004: 30 days).
Appropriations Receivable	7B	These receivables are recognised at their nominal amounts.	Amounts appropriated by the Parliament in the current or previous years which are available to be drawn down by Defence. Also includes amounts to be appropriated by the Parliament in a future year for services provided in previous years under a purchasing, workload or similar agreement.
FINANCIAL LIABILITIES		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	Refer to details below.
Finance Lease Liabilities	9A	Liabilities are recognised at the present value of the minimum lease payments at the beginning of the lease. The discount rates used are estimates of the interest rates implicit in the leases.	As at 30 June 2005, Defence had finance leases with an average lease term of 12.2 years (2004: 14 years). The interest implicit in the leases averaged 6.91% for 2005 (2004: 7.16%).

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

Suppliers and Other Payables	11A & 11B	Creditors and accruals are recognised at their nominal value, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	All creditors are entities that are not part of the Commonwealth legal entity. Settlement is usually made within 30 days (2004: 30 days).
Unrecognised Financial Liabilities			
Indemnities / Guarantees	14	All indemnities/guarantees are considered remote and are reported in a separate note to the financial statements unless they have been specifically identified otherwise.	Indemnities issued cover potential losses for which Defence may otherwise be liable at law although the initial loss would accrue to the other party, or potential losses or damages for which Defence would not be liable without the indemnity.

Note 18 Departmental Financial Instruments (continued)

(b) Interest rate risk

Defence's exposure to interest rate risks and the effective rate of financial assets and liabilities are as follows:

Financial Instrument	Notes	Floating interest rate		Fixed interest rate maturing in						Non interest bearing		Total		Weighted average effective interest rate	
		Floating interest rate		1 year or less		1 to 5 years		> 5 years							
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 %	2004 %
Financial Assets															
Cash on hand	7A	-	-	-	-	-	-	-	-	994	1,848	994	1,848	N/A	N/A
Cash at bank	7A	-	-	-	-	-	-	-	-	253,432	235,961	253,432	235,961	N/A	N/A
Receivables for goods and services (gross)	7B	-	-	-	-	-	-	-	-	181,747	69,854	181,747	69,854	N/A	N/A
Appropriations receivable	7B	-	-	-	-	-	-	-	-	538,609	537,660	538,609	537,660	N/A	N/A
Other receivables	7B	-	-	-	-	-	-	-	-	179,333	171,681	179,333	171,681	N/A	N/A
Total		-	-	-	-	-	-	-	-	1,154,115	1,017,005	1,154,115	1,017,005	N/A	N/A
Total Assets												53,799,840	52,297,571	N/A	N/A

Financial Instrument	Notes	Floating interest rate		Fixed interest rate maturing in						Non interest bearing		Total		Weighted average effective interest rate	
		Floating interest rate		1 year or less		1 to 5 years		> 5 years							
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 %	2004 %
Financial Liabilities															
Finance lease	9A	-	-	15,033	19,430	32,018	82,211	211,139	266,302	-	-	258,190	367,943	6.91	7.16
Suppliers	11A	-	-	-	-	-	-	-	-	1,184,968	981,389	1,184,968	981,389	N/A	N/A
Other payables	11B	-	-	-	-	-	-	-	-	12,960	4,023	12,960	4,023	N/A	N/A
Total			-	15,033	19,430	32,018	82,211	211,139	266,302	1,197,928	985,412	1,456,118	1,353,355	6.910	7.160
Total Liabilities (per Statement of Financial Position)												3,681,188	5,700,295		
Unrecognised Indemnity	14	-	-	-	-	-	-	-	-	4,689,440	2,136,074	4,689,440	2,136,074	N/A	N/A

Notes

- Interest earned is returned to the Official Public Account through the Administered entity

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 18 Departmental Financial Instruments (continued)

(c) Net Fair values of Financial Assets and Liabilities

The net fair values of cash and non-interest bearing monetary financial assets approximate their carrying amounts.

The net fair value of finance leases are based on the discounted cash flows using current interest rates for liabilities with similar risk profiles. The net fair value of trade creditors are approximated by their carrying amounts. The net fair value of indemnity given is taken to be nil as the likelihood of any part being called upon is regarded as remote.

(d) Credit risk exposure

Defence's maximum credit risk at the reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

Defence has no significant exposures to any concentrations of credit risk.

All figures for credit risk referred to do not take into account the value of any collateral or other security.

(e) Foreign exchange risk

Foreign currency transactions are recorded at the rate of exchange at the date of the transaction.

Foreign currency receivables, payables and provisions are translated at exchange rates current at the balance date. Exchange gains and losses are brought to account in determining the operating result for the year. These exchange gains and losses are not speculative and no hedging is undertaken.

Defence is exposed to foreign exchange rate risk through primary financial assets and liabilities.

The following table summarises the foreign exchange risk in respect of recognised financial assets and financial liabilities.

	United States Dollars \$'000	Euros \$'000	British Pounds \$'000	Canadian Dollars \$'000	Arab Emirates Dirham \$'000	Malay Ringgit \$'000	Solomon Islands Dollars \$'000	Other \$'000
Financial Assets								
Cash	199,473	13	-	-	107	1,584	80	83
Receivables	6,503	14	225	-	-	-	-	32
	205,976	27	225	-	107	1,584	80	115
Financial Liabilities								
Suppliers*	54,749	128,100	9,935	4,905	-	-	-	4,217

* Represents amounts payable to suppliers in foreign currencies.

Departmental currency risk is minimised through budget supplementation for any adverse movements in exchange rates on financial assets and financial liabilities held in foreign currencies.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 19: Revenues Administered on behalf of Government		
Non-taxation revenues		
Goods and services		
Rendering of services - external entities (United Nations)	7,822	20,174
Total Goods and services	7,822	20,174
Interest		
Deposits	3,044	2,273
Total Interest	3,044	2,273
Dividends		
Australian Government entities	70,672	230,698
Total Dividends	70,672	230,698
Net foreign exchange gains		
Non-speculative	-	162
Total Net Foreign Exchange Gains	-	162
Military superannuation contributions		
Military superannuation contributions	661,607	608,814
Total Military Superannuation Contributions	661,607	608,814
Other Revenue		
Other	2,793	-
Total Other Revenue	2,793	-
Total Revenues Administered on behalf of Government	745,938	862,121

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 20: Expenses Administered on behalf of Government		
Subsidies		
Payable to related entities - Defence Home Owner Subsidy	9,177	8,202
<i>Total Subsidies</i>	<u>9,177</u>	<u>8,202</u>
Employees		
Wages and salaries	44,718	27,296
Superannuation	2,727,850	2,261,210
<i>Total Employees</i>	<u>2,772,568</u>	<u>2,288,506</u>
Net foreign exchange losses		
Non-speculative	71	-
<i>Total Net Foreign Exchange Losses</i>	<u>71</u>	<u>-</u>
Write down and impairment of assets		
Financial assets - United Nations	7,391	22,792
<i>Total Write-down and Impairment of Assets</i>	<u>7,391</u>	<u>22,792</u>
Other expenses		
Chartered special purpose aircraft	4,246	-
<i>Total Other Expenses</i>	<u>4,246</u>	<u>-</u>
<i>Total expenses administered on behalf of Government</i>	<u><u>2,793,453</u></u>	<u><u>2,319,500</u></u>

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

as at 30 June 2005

	2005 \$'000	2004 \$'000
Note 21: Assets Administered on Behalf of Government		
Financial assets		
Receivables		
Goods and Services - United Nations	3,127	22,835
Accrued superannuation	73	1,061
Other receivables	24	-
Total receivables (net)	3,225	23,896
Receivables (gross) are aged as follows:		
Not overdue	2,544	23,896
Overdue by:		
Less than 30 days	-	-
30 to 60 days	274	-
61 to 90 days	407	-
Total receivables (gross)	3,225	23,896
Investments		
Commonwealth authorities - Defence Housing Authority	1,258,883	1,258,883
Total investments	1,258,883	1,258,883
Non financial assets		
Other non-financial assets		
Prepayments - Retention benefits	79,632	85,044
Total other non-financial assets	79,632	85,044
Total Assets Administered on behalf of Government	1,341,740	1,367,823
Assets are represented by:		
Current Assets	82,857	108,940
Non-current Assets	1,258,883	1,258,883

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

as at 30 June 2005

	2005 \$'000	2004 \$'000
Note 22: Liabilities Administered on Behalf of Government		
Provisions		
Superannuation - DFRDB	22,255,000	21,846,000
Superannuation - MSBS	8,184,000	7,218,000
<i>Total provisions</i>	<u>30,439,000</u>	<u>29,064,000</u>
Payables		
Other Payables		
MSBS funded contributions	4,883	-
<i>Total Other Payables</i>	<u>4,883</u>	<u>-</u>
<i>Total payables</i>	<u>4,883</u>	<u>-</u>
<i>Total Liabilities Administered on behalf of Government</i>	<u><u>30,443,883</u></u>	<u><u>29,064,000</u></u>
Liabilities are represented by:		
Current Liabilities	1,412,883	1,357,000
Non-current Liabilities	29,031,000	27,707,000

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Note 23: Administered Reconciliation Table			
<i>Opening administered assets less administered liabilities as at 1 July</i>		(27,696,177)	(26,635,927)
<i>Plus: Administered revenues*</i>	19	745,938	862,121
<i>Less: Administered expenses</i>	20	(2,793,453)	(2,319,500)
Administered transfers (to)/from Government		-	-
Appropriation transfers from Official Public Account:			
-Special Appropriation (Limited)		4,638	-
-Special Appropriation (Unlimited)		1,408,644	1,369,120
Transfers to Official Public Account		(771,733)	(971,992)
<i>Administered assets less administered liabilities as at 30 June</i>		(29,102,142)	(27,696,177)

* Reallocation of accounts from currency translation gain/(loss) from what was disclosed in 2004.

Note 24: Administered Contingent Liabilities and Assets

as at 30 June 2005

There are no Administered contingent liabilities or assets.

Note 25: Administered Investments

as at 30 June 2005

The Commonwealth holds a 100% interest in the Defence Housing Authority which is incorporated in Australia.

The principal activity of the Defence Housing Authority is:

To provide total housing services that meet Defence operational and client needs.

Note 26: Administered Financial Instruments**(a) Terms, Conditions and Accounting Policies**

The Department's accounting policies, including the terms and conditions of each class of administered financial assets and liabilities, both recognised and unrecognised as at 30 June 2005, are as follows:

Financial Instrument	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of Underlying Instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial Assets		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	Refer to details below.
Cash	21	Cash includes reserved money held in the Official Public Account, measured in nominal dollars. Cash held in foreign currencies is converted to AUD at the exchange rates applying at 30 June 2005.	The balance of the administered cash account is non-interest bearing.
Receivables	21	Receivables are carried at nominal amounts less a provision for doubtful debts. The provision is a percentage of outstanding non-Government receivables based on analysis of the recoverability of outstanding debts and write-off experience from prior years. Bad debts are written-off as they are identified.	Receivables are with entities predominantly external to the Commonwealth. Credit terms are 30 days (2004: 30 days).
Investments	21	Administered investments are recognised on the cost basis, adjusted for any subsequent capital injections or withdrawals and for any impairment losses.	Dividends are received from the Defence Housing Authority.

26 Administered Financial Instruments (continued)

(b) Administered interest rate risk

Financial Instrument	Notes	Floating interest rate		Fixed interest rate maturing in						Non interest bearing		Total		Weighted average effective interest rate	
		Floating interest rate		1 year or less		1 to 5 years		> 5 years							
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 %	2004 %
Financial Assets															
Receivables	21	-	-	-	-	-	-	-	-	3,127	22,835	3,127	22,835	N/A	
Investments	21	-	-	-	-	-	-	-	-	1,258,883	1,258,883	1,258,883	1,258,883	N/A	
Total		-	-	-	-	-	-	-	-	1,262,010	1,281,718	1,262,010	1,281,718	N/A	
Total Assets												1,341,740	1,367,823	N/A	
Financial Liabilities															
														N/A	N/A
Finance lease	22	-	-	-	-	-	-	-	-	-	-	-	-		
Suppliers	22	-	-	-	-	-	-	-	-	-	-	-	-		
Other payables	22	-	-	-	-	-	-	-	-	4,883	-	4,883	-	N/A	
Total		-	-	-	-	-	-	-	-	4,883	-	4,883	-	N/A	
Total Liabilities												30,443,883	29,064,000		

(c) Net fair values of Administered financial assets and liabilities

The net fair values of cash and non-interest bearing monetary financial assets approximate their carrying amounts.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 27: Appropriations

As per Note 1, Defence is structured to meet seven outcomes:

Outcome 1: Command of Operations in Defence of Australia and its Interests

Outcome 2: Navy Capability for the Defence of Australia and its Interests

Outcome 3: Army Capability for the Defence of Australia and its Interests

Outcome 4: Air Force Capability for the Defence of Australia and its Interests

Outcome 5: Strategic Policy for the Defence of Australia and its Interests

Outcome 6: Intelligence for the Defence of Australia and its Interests

Outcome 7: Superannuation and Housing Support Services for Current and Retired Defence Personnel

Accordingly for Tables A to C below, all items are attributable to seven outcomes.

Note 27A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund for Ordinary Annual Services Appropriations

Particulars	Administered Expenses	Departmental Outputs	Total
	\$	\$	\$
Year ended 30 June 2005 (current period)			
Balance carried from previous year		837,523,621	837,523,621
Reallocation of carried forward balance to Equity Appropriation Note 27B		(471,168,540)	(471,168,540)
Adjusted balance carried forward from previous period		366,355,081	366,355,081
Appropriation Act (No. 1) 2004-2005		15,625,941,000	15,625,941,000
Appropriation Act (No. 3) 2004-2005		103,757,000	103,757,000
Appropriation Act (No. 5) 2004-2005		28,248,000	28,248,000
Appropriation (Tsunami Financial Assistance) Act 2004-2005		50,453,000	50,453,000
Comcover receipts (Appropriation Act s13)		570,124	570,124
Refunds credited (net) (FMA s30)		1,880,254	1,880,254
Sub-total 2004-2005 Annual Appropriation		15,810,849,378	15,810,849,378
Appropriations to take account of recoverable GST (FMA s30A)		822,289,627	822,289,627
Annotations to 'net appropriations' (FMA s31) ¹		550,433,753	550,433,753
Total appropriation available for payments		17,549,927,839	17,549,927,839
Cash payments made during the year (GST inclusive)		(17,139,044,845)	(17,139,044,845)
Appropriations credited to Special Accounts (excluding GST)			
Balance of Authority to Draw Cash from the Consolidated Revenue Fund for Ordinary Annual Services Appropriations		410,882,995	410,882,995
<i>Represented by:</i>			
Cash at bank and on hand		254,425,349	254,425,349
Departmental appropriations receivable		106,961,001	106,961,001
GST Receivable from the ATO		128,120,088	128,120,088
Net GST on customer receivables and supplier payables		(78,623,443)	(78,623,443)
Total		410,882,995	410,882,995

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 27: Appropriations (continued)

Particulars	Administered Expenses \$	Departmental Outputs \$	Total \$
Year ended 30 June 2004 (comparative period)			
Balance carried from previous year	-	1,031,813,400	1,031,813,400
Appropriation Act (No. 1) 2003-2004	181,000	14,398,319,000	14,398,500,000
Appropriation Act (No. 3) 2003-2004	-	181,238,000	181,238,000
Departmental Adjustments by the Finance Minister (Appropriation Acts)	-	56,600,000	56,600,000
Appropriations to take account of recoverable GST (FMA s30A)	-	836,741,029	836,741,029
Annotations to 'net appropriations' (FMA s31)	-	616,839,497	616,839,497
Other cash adjustments	-	59,719,200	59,719,200
Appropriation lapsed	(181,000)		(181,000)
Total appropriations available for payments	-	17,181,270,126	17,181,270,126
Payments made during the year (GST inclusive)		(16,343,746,505)	(16,343,746,505)
Balance carried to the next period	-	837,523,621	837,523,621

No determination to lapse administered appropriations for 2004-05 had been made by the time of completion of the 2004-05 financial statements.

¹ Appropriation Acts nos. 1 and 3 (for the ordinary annual services of government) authorise the supplementation of an agency's annual net appropriation by amounts received in accordance with agreements made under section 31 of the *Financial Management and Accountability Act 1997* between the Finance Minister and the responsible Minister or their delegated or authorised officials.

Doubt has arisen as to whether the agency's Section 31 Agreement(s) covering the period(s) 1 July 1999 to 30 June 2005 were effective because Defence's/Finance's signatory may not have had an express delegation or authority for signing the agreement. To put the matter beyond doubt, the agency's current agreement was revised on 30 June 2005 to capture all monies that were subject to prior agreement(s) to the extent it/they may have been ineffective.

The period and amounts covered by the agreement(s) are set out below:

	2000 \$,000	2001 \$,000	2002 \$,000	2003 \$,000	2004 \$,000	Sub-Total \$,000	2005 \$,000	Total 2000 to 2005 \$,000
Receipts affected	436,607	426,772	469,278	1,153,188	616,839	3,102,684	550,434	3,653,118
Spent	237,267	484,288	-	196,434	788,448	1,706,437	555,642	2,262,079
Unspent	199,340	(57,516)	469,278	956,754	(171,609)	1,396,247	(5,208)	1,391,039

Legal advice indicates that a court is unlikely to conclude that the doubtful agreements are invalid for the purposes of determining whether there has been a breach of section 83 of the *Constitution*.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 27: Appropriations (continued)

Note 27B: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund for Other than Ordinary Annual Services Appropriations

Particulars	Non-operating	
	Equity \$	Total \$
Year ended 30 June 2005 (current period)		
Reallocation of carried forward balance from Annual Services Appropriation Note 27A	471,168,540	471,168,540
	471,168,540	471,168,540
Appropriation Act (No.2) 2004-2005	299,025,000	299,025,000
Appropriation Act (No.4) 2004-2005	76,473,000	76,473,000
Appropriation (Tsunami Financial Assistance and Australia Indonesia Partnership) Act 2004-05	488,000	488,000
Appropriation Act (No. 6) 2004-2005	17,300,000	17,300,000
Sub-total 2004-2005 Annual Appropriation	393,286,000	393,286,000
Total appropriations available for payments	864,454,540	864,454,540
Cash payments made during the year (GST inclusive)	(432,806,716)	(432,806,716)
Appropriations credited to Special Accounts (GST exclusive)	-	-
<i>Balance of Authority to Draw Cash from the Consolidated Revenue Fund for Other Than Ordinary Annual Services Appropriations</i>	431,647,824	431,647,824
<i>Represented by:</i>		
Departmental appropriations receivable	431,647,824	431,647,824
Total	431,647,824	431,647,824
Year ended 30 June 2004 (comparative period)		
Appropriation Act (No.2) 2003-2004	1,020,524,000	1,020,524,000
Total appropriations available for payments	1,020,524,000	1,020,524,000
Cash payments made during the year (GST inclusive)	(617,634,000)	(617,634,000)
<i>Balance of Authority to Draw Cash from the Consolidated Revenue Fund for Other Than Ordinary Annual Services Appropriations</i>	402,890,000	402,890,000
<i>Represented by:</i>		
Savings Offered up	402,890,000	402,890,000
Balance carried to the next period	-	-

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 27: Appropriations (continued)

Note 27C: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund
- Administered Special Appropriations (Unlimited Amount)

The responsible agency is Defence and ComSuper has drawn against the following Special Administered Appropriations

Defence Forces Retirements Benefits Act 1948

Purpose: The Defence Forces Retirements Benefits Act 1948 is an act to provide Retirement Benefits for Members of the Defence Force who enlisted before 1 October 1972, and for other purposes.

Defence Force Retirement and Death Benefits Act 1973

Purpose: Defence Force Retirement and Death Benefits Act 1973 is an act to make provision for and in relation to a Scheme for Retirement and Death Benefits for Members of the Defence Force who enlisted before 1 October 1991.

Military Superannuation and Benefits Act 1991

Purpose: Military Superannuation and Benefits Act 1991 is an Act to make provision for and in relation to an occupational superannuation scheme for, and the payment of other benefits to members of the Defence Force, and for related purposes.

The responsible agency is Defence and Defence has drawn against the following Special Administered Appropriations (Unlimited)

Defence Force (Home Loans Assistance) Act 1990	2005	2004
	Outcome 7	
	\$	\$
Purpose: Defence Force (Home Loans Assistance) Act 1990 is an Act to provide for the payment of home loan subsidies in respect of certain members of the Defence Force and certain other persons, and for related purposes. All transactions under this Act are disclosed as administered items		
Cash payments made during the year	(9,177,057)	(8,201,508)
Total charged to appropriation	(9,177,057)	(8,201,508)
Budget estimate	9,250,000	5,700,000

Military Superannuation and Benefits Act 1991	2005	2004
	Outcome 7	
	\$	\$
Purpose: Military Superannuation and Benefits Act 1991 is an Act to make provision for and in relation to retention benefits for ADF personnel who enlisted before 1 October 1991. All transactions under this Act are disclosed as administered items		
Cash payments made during the year	(39,306,318)	(38,323,000)
Total charged to appropriation	(39,306,318)	(38,323,000)
Budget estimate	29,100,000	30,600,000

Variance due to underestimation of members taking up the retention bonus.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 27: Appropriations (continued)

<i>Totals for Unlimited Special Administered Appropriations drawn down by Defence</i>	2005	2004
	Outcome 7	
	\$	\$
Cash payments made during the year	(48,483,375)	(1,331,943,761)
Total charged to appropriation	(48,483,375)	(1,331,943,761)
Budget estimate	38,350,000	2,236,300,000

Table 27D: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund – Special Appropriation (Limited Amount)

The responsible agency is Defence and Defence has drawn against the following Special Administered Appropriations (Unlimited)

<i>Appropriation (East Timor) Act 1999-2000</i>	2005	2004
	Outcome 7	
	\$	\$
<i>Purpose: Appropriation (East Timor) Act 1999-2000 is an Act to appropriate money out of the Consolidated Revenue Fund for certain expenditure related to East Timor in respect of the year ending on 30 June 2000, and for related purposes.</i>		
<i><u>All transactions under this Act are disclosed as administered items</u></i>		
Amount available carried from previous period	-	135,197,716
Available for payments	-	135,197,716
Payments made	-	-
Amount available carried to the next period	-	135,197,716
<i>Represented by:</i>		
Savings offered up	-	135,197,716
Total	-	135,197,716

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 27E: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund – Special Appropriation (Section 39 of the FMA Act) and Refund Provisions

For the periods 2003-04 and 2004-05 Defence has not used the refund provisions or Section 39 of the *Financial Management and Accountability Act 1997*.

Note 27F: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund - Special Appropriation (Limited Amount). The responsible agency is Finance and Defence has drawn against the following Administered Special Appropriations.

	2005 <i>Appropriation by type</i>	2004 <i>Appropriation by type</i>
<i>Parliamentary Entitlements Act 1990</i>		
<i>Purpose: An Act relating to the provision of benefits to the Members of each House of Parliament for charter of Special Purpose Aircraft</i>		
<i>All transactions under this Act are disclosed as administered items</i>		
Appropriation for reporting period	3,602,134	-
Appropriation to take account of recoverable GST (FMA s30A)	392,852	
Other administered receipts	667,925	
Available for payments	4,662,911	-
Cash payments made during the year (GST inclusive)	(4,638,594)	-
Amount available carried to the next period	24,317	-
Represented by:		
Administered receipts receivable	24,317	-
Total	24,317	-

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

Note 27G: Acquittal of Authority to draw cash from the Consolidated Revenue Fund – Special Appropriations*

No special appropriations were drawn upon by Defence under the following legislation containing Special Appropriation clauses, that are administered by the Department

1	Air Force Act 1923
2	Approved Defence Projects Protection Act 1947
3	Cockatoo and Schnappers Islands Act 1949
4	Commonwealth and State Housing Agreement (Service Personnel) Act 1990
5	Control of Naval Waters Act 1918
6	Defence Act 1903, except to the extent administered by the Prime Minister and the Attorney-General and other than sections 58F to 58Q, 61, 61A, 61B, 61C, 118A and 118B and paragraph 124(1)(qba)
7	Defence Force Discipline Act 1982
8	Defence Force Retirement and Death Benefits (Pension Increases) Acts
9	Defence Forces Retirement Benefits Fund (Distribution of Surplus to Pensioners) Act 1976
10	Defence Forces Retirement Benefits (Pension Increases) Acts
11	Defence Forces Special Retirement Benefits Act 1960
12	Defence Housing Authority Act 1987
13	Defence Reserve Service (Protection) Act 2001
14	Defence (Parliamentary Candidates) Act 1969
15	Defence (Special Undertakings) Act 1952
16	Explosives Act 1961
17	Geneva Conventions Act 1957, Part IV
18	Intelligence Services Act 2001, in so far as it relates to that part of the Department of Defence known as the Defence Signals Directorate
19	Military Rehabilitation and Compensation Act 2004, Chapter 3, in relation to rehabilitation of serving members of the Australian Defence Force; and Chapter 6, in relation to treatment for injuries and diseases of serving members of the Australian Defence Force
20	Naval Defence Act 1910
21	Royal Australian Air Force Veterans' Residences Act 1953
22	Services Trust Funds Act 1947
23	War Service Estates Act 1942
24	Weapons of Mass Destruction (Prevention of Proliferation) Act 1995
25	Williamstown Dockyard Employees Act 1987

* Other FMA agencies may utilise the Special Appropriations contained within these Acts. Amounts drawn down by other agencies are required to be reported in their own financial statements

The Department of Veteran's Affairs is part of the Defence Portfolio and is responsible for various legislation. Refer to Department of Veteran Affairs 2004-05 Financial Statements for details.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 28: Special Accounts

	2005 \$	2004 \$
Defence - Services for Other Governments and Non-Agency Bodies		
<i>Legal Authority: Financial Management and Accountability Act 1997 s20 and s21</i>		
<i>Purpose: Payment for all costs in connection with services performed on behalf of other Governments and Non-Agency Bodies. Monies advanced to Defence by Comcare for the purpose of distributing compensation payments made in accordance with the Safety Rehabilitation and Compensation Act 1998</i>		
This account is non-interest bearing.		
Balance carried forward from previous period	93,927,484	72,068,264
Less adjustment of opening balance	-	(3,967,436)
Restated cash balance from previous year	93,927,484	68,100,828
Costs recovered	166,400,650	108,672,138
GST credits (FMA s30A)	4,358,436	5,099,171
Available for payments	264,686,570	181,872,137
Payments made to suppliers	(109,257,661)	(87,944,653)
<i>Balance carried forward to next year</i>	155,428,909	93,927,484
<i>Represented by:</i>		
Cash - transferred to the Official Public Account	155,428,909	93,927,484
Total	155,428,909	93,927,484

Defence - Endowments		
<i>Legal Authority: Financial Management and Accountability Act 1997 s20</i>		
<i>Purpose: For application in accordance with the conditions of each endowment.</i>		
This account is interest bearing in regard to cash held by-the entity.		
Balance carried forward from previous year	265,853	263,908
Add (Less) adjustment of opening balance	-	(7,494)
Restated cash balance from previous year	265,853	256,414
Costs recovered	21,980	35,295
GST credits (FMA s30A)	16,667	5,053
Other receipts	11,419	-
Available for payments	315,919	296,762
Payments made to recipients	(31,082)	(30,909)
<i>Balance carried forward to next year</i>	284,837	265,853
<i>Represented by:</i>		
Cash - transferred to the Official Public Account	58,967	33,608
Cash - held by the entity	225,870	232,245
Total	284,837	265,853

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Financial statements continue overleaf.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005 \$	2004 \$
Fedorczenko Legacy Fund		
<i>Legal Authority:</i>	<i>Financial Management and Accountability Act 1997 s20</i>	
<i>Purpose:</i>	<i>Residue of the estate of the late Petro Fedorczenko which is to be used for the defence of Australia</i>	
This account is interest bearing in regard to cash held by the entity. -		
Balance carried forward from previous year	150,780	148,410
Restated cash balance from previous year	150,780	148,410
Costs recovered	-	6,570
Realised investments	6,999	-
Available for payments	157,779	154,980
Payments made to suppliers	(4,200)	(4,200)
<i>Balance carried forward to next year</i>	153,579	150,780
<i>Represented by:</i>		
Cash - transferred to the Official Public Account	12,394	12,394
Cash - held by the entity	141,185	138,386
Total	153,579	150,780

Other Trust Monies		
<i>Legal Authority:</i>	<i>Financial Management and Accountability Act 1997 s20</i>	
<i>Purpose:</i>	<i>For receipt of money temporarily held in trust or otherwise for the benefit of a person other than the Commonwealth.</i>	
This account is non-interest bearing.		
Balance carried forward from previous year	9,355,979	10,885,311
Add (Less) adjustment of opening balance	-	(860,417)
Restated cash balance from previous year	9,355,979	10,024,894
Costs recovered	1,353,849	1,055,031
GST credits (FMA s30A)	1,271,173	423,465
Available for payments	11,981,001	11,503,390
Payments made to suppliers	(4,187,668)	(2,147,411)
<i>Balance carried forward to next year</i>	7,793,333	9,355,979
<i>Represented by:</i>		
Cash - transferred to the Official Public Account	7,793,333	9,355,979
Total	7,793,333	9,355,979

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$	2004 \$
Young Endeavour Youth Scheme Operating Fund		
<i>Legal Authority:</i>	<i>Financial Management and Accountability Act 1997 s20</i>	
<i>Purpose:</i>	<i>For the receipt and payment of money in connection with the operations and activities of the STS Young Endeavour, as specified by the Young Endeavour Program Board of Management or by the Commonwealth</i>	
This account is interest bearing in regard to cash held by the entity. -		
Balance carried forward from previous year	878,247	2,035,363
Add (Less) adjustment of opening balance	-	5,584
Restated cash balance from previous year	878,247	2,040,947
Costs recovered	737,422	714,167
GST credits (FMA s30A)	171,015	57,541
Available for payments	1,786,684	2,812,655
Payments made to suppliers	(959,075)	(1,934,408)
<i>Balance carried forward to next year</i>	827,609	878,247
<i>Represented by:</i>	-	-
Cash - transferred to the Official Public Account	782,006	839,568
Cash - held by the entity	45,603	38,679
Total	827,609	878,247
For the periods 2003-04 and 2004-05, Defence has not used Section 39 of the FMA Act in respect of the above listed Special Accounts.		

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 29: Assets Held in Trust

Defence - Endowments Assets Held in Trust

The transactions of the account have been disclosed in Note 28 of the Special Accounts.

Fedorczenko Legacy Fund

The transactions of the account have been disclosed in Note 28 of the Special Accounts.

	2005 \$	2004 \$
Young Endeavour Youth Scheme Public Fund		
<i>Legal Authority: Financial Management and Accountability Act 1997 s20.</i>		
<i>Purpose: To create a capital fund for the purpose of furthering youth development initiatives, to make specific acquisitions and to support the Young Endeavour Youth Scheme through sail training for young Australians.</i>		
The Fund is listed as a deductible gift recipient.		
Balance carried forward from previous year	38,679	5,960
Restated cash balance from previous year	38,679	5,960
Receipts during the year	6,924	48,272
Available for payments	45,603	54,232
Payments made	-	(15,553)
<i>Balance carried forward to next year held by the entity</i>	45,603	38,679
This balance has been disclosed as "Cash – Held by Entity" in the Note 28 Special Accounts – Young Endeavour Youth Scheme Operating Fund Account.		

Comcare Trust Account

Legal Authority: Financial Management and Accountability Act 1997 s21.

Purpose: Monies held in trust and advanced to Defence by Comcare for the purpose of distributing compensation payments made in accordance with the Safety Rehabilitation and compensation Act 1998.

The transactions of the account have been included in the Special Accounts; *Services for Other Government and Non-Agency Bodies.*

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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	2005 \$	2004 \$
Note 30: Specific Payment Disclosures		
<i>Administered</i>		
No 'Act of Grace' payments made during the reporting period pursuant to authorisation given under s33(1) of the <i>Financial Management and Accountability Act 1997</i> (2004: No payments made)	nil	nil
No 'Act of Grace' payments outstanding at the end of the reporting period pursuant to authorisation given under s33(1) of the <i>Financial Management and Accountability Act 1997</i> (2004: No payments outstanding)*	nil	nil
No Waivers of amounts owing to the Commonwealth made during the reporting period pursuant to subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> (2004: No payments made)	nil	nil
No Ex-gratia payments made during the reporting period (2004: No payments made)	nil	nil
No Payments made under 'Defective Administration Scheme' during the reporting period (2004: No payments made)	nil	nil
No Payments made under 'Defective Administration Scheme' during the reporting period (2004: No payments made)	nil	nil
* ComSuper made Act of Grace payments from Defence's administered special appropriation. During 2004-05 they paid 9 (2004: 8) people a total amount of \$77,280 (2004: \$72,064).		
<i>Departmental</i>		
Four 'Act of Grace' payments made during the reporting period pursuant to authorisation given under s33(1) of the <i>Financial Management and Accountability Act 1997</i> (2004: One payment made)	91,351	5,871
No 'Act of Grace' payments outstanding at the end of the reporting period pursuant to authorisation given under s33(1) of the <i>Financial Management and Accountability Act 1997</i> (2004: One payment made)	nil	60,000
Four hundred and sixty Waivers of amounts owing to the Commonwealth made during the reporting period pursuant to subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> (2004: Four payments made)	739,530	1,501,074
No Ex-gratia payments made during the reporting period (2004: No payments made)	nil	nil
Twenty-nine payments made under 'Defective Administration Scheme' during the reporting period (2004: Twenty-one payments made)	332,062	359,010
No Payments made under s73 of the <i>Public Service Act 1999</i> during the reporting period (2004: One payment made)	nil	7,472

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Department of Defence
Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2005

Note 31: Reporting of Outcomes

As per Financial Statement Note 1, Defence is structured to meet seven outcomes:

Outcome 1: Command of Operations in Defence of Australia and Its Interests

Outcome 2: Navy Capability for the Defence of Australia and Its Interests

Outcome 3: Army Capability for the Defence of Australia and Its Interests

Outcome 4: Air Force Capability for the Defence of Australia and Its Interests

Outcome 5: Strategic Policy for the Defence of Australia and Its Interests

Outcome 6: Intelligence for the Defence of Australia and Its Interests

Outcome 7: Superannuation and Housing Support Services for Current and Retired Defence Personnel

Additional details relating to Defence's Outcomes and Outputs are disclosed in Chapter Four of the 2004-05 Annual Report.

Table 31A: Net Cost of Outcome Delivery

	Outcome 1		Outcome 2		Outcome 3		Outcome 4		Outcome 5		Outcome 6		Outcome 7		Total Outcomes ⁴	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<i>Expenses</i>																
Administered	-	22,793	-	-	-	-	-	-	-	-	-	-	2,793,453	2,296,708	2,793,453	2,319,501
Departmental	1,205,587	905,095	5,019,151	4,508,380	6,084,143	5,396,614	5,255,072	4,859,979	264,125	218,037	489,951	473,692	-	-	18,318,029	16,361,797
Total expenses	1,205,587	927,887	5,019,151	4,508,380	6,084,143	5,396,614	5,255,072	4,859,979	264,125	218,037	489,951	473,692	2,793,453	2,296,708	21,111,482	18,681,297
<i>Costs recovered from provision of goods and services to the non-government sector</i>																
Administered	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Departmental ¹	69,523	59,429	45,634	46,422	84,796	80,590	46,160	51,540	8,192	8,515	3,388	2,661	-	-	257,692	249,158
Total costs recovered	69,523	59,429	45,634	46,422	84,796	80,590	46,160	51,540	8,192	8,515	3,388	2,661	-	-	257,692	249,158
<i>Other external revenues</i>																
Administered																
Goods and services revenue from related entities	-	20,174	-	-	-	-	-	-	-	-	-	-	7,822	-	7,822	20,174
Interest	-	51	-	627	-	127	-	1,322	-	-	-	146	3,044	-	3,044	2,273
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	70,672	230,698	70,672	230,698
Net foreign exchange gains	-	162	-	-	-	-	-	-	-	-	-	-	-	-	-	162
Military superannuation contributions	-	-	-	-	-	-	-	-	-	-	-	-	661,607	608,814	661,607	608,814
Other sources of non-taxation revenues	-	-	-	-	-	-	-	-	-	-	-	-	2,793	-	2,793	-
Total Administered	-	20,387	-	627	-	127	-	1,322	-	-	-	146	745,938	839,512	745,938	862,121
Departmental																
Goods and services revenue from related entities	2,015	258	1,074	893	1,972	1,373	1,297	908	101	134	87	160	-	-	6,545	3,725
Interest	2	87	8	10	13	28	10	18	0	0	1	(0)	-	-	33	143
Revenue from sale of assets	7,502	5,574	35,187	34,490	103,064	95,983	49,278	45,653	1,076	962	2,886	2,497	-	-	198,994	185,159
Net foreign exchange gain	1,170	349	7,010	4,517	6,030	925	6,223	9,709	312	(23)	406	1,075	-	-	21,152	16,552
Assets now recognised	23,110	46,369	236,008	207,868	417,859	104,560	302,144	213,498	7,645	1,575	20,604	5,958	-	-	1,007,369	579,828
Other	49,772	52,635	60,385	35,999	54,693	25,604	37,035	37,243	1,232	979	3,597	3,751	-	-	206,714	156,211
Total Departmental	83,571	105,272	339,672	283,776	583,631	228,472	395,987	307,030	10,366	3,628	27,581	13,440	-	-	1,440,807	941,617
Total other external revenues	83,571	125,659	339,672	284,403	583,631	228,598	395,987	308,352	10,366	3,628	27,581	13,587	745,938	839,512	2,186,745	1,803,739
Net cost/(contribution) of outcome³	1,052,493	742,799	4,633,845	4,177,555	5,415,716	5,087,425	4,812,925	4,500,087	245,568	205,894	458,982	457,445	2,047,515	1,457,196	18,667,044	16,628,401

Notes

- In accordance with Finance Minister's Orders 2004-05, Defence disclosed the above 'cost recoveries' as required by Finance Circular No 2002/02 'Cost Recovery by Government Agencies'. The specific elements that constitute cost recoveries are the sale of Navy Hydrographic and Aerial Survey maps and charts, and the provision of specific training provided by the Defence College to foreign forces. The disclosed cost recoveries are in accordance with the 'Commonwealth Cost Recovery Guidelines for Information Agencies' and therefore exclude intra- and inter- governmental services. Cost recoveries are Departmental in nature and are included as part of the Sale of Goods and Services total in the Statement of Financial Performance.
- The 2003-04 comparative figures have been adjusted, where applicable, to conform with presentational changes.
- Net costs/(contribution) of outcome includes intra-government costs that are eliminated in calculating the actual budget outcome.
- The figures for Total Outcomes are consistent with Defence's Statement of Financial Performance.
- The Department of Defence uses various methods to attribute shared items. These methods are based on:
 - internal reallocation of functions;
 - revised underlying data, such as Defence's property register and Group's/Service's headcount database;
 - the general business activity undertaken by the respective Groups/Services; and
 - staff numbers, operational support and asset utilisation.
- Details of each Outcome are further explained in Chapter Four under 'Overall Cost to the Government of Defence Outcomes'.

Department of Defence
Notes to and Forming Part of the Financial Statements
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Note 31: Reporting of Outcomes
Table 31B: Major Classes of Departmental Revenues and Expenses by Output

Outcome 1 Defence Operations	Output 1.01		Output 1.02		Output 1.03		Total	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Departmental expenses								
Employees	223,840	204,393	142,809	145,761	13,991	12,462	380,641	362,616
Suppliers	187,985	161,195	285,875	191,742	11,223	10,379	485,084	363,317
Grants	70	238	22	11	1	2	94	251
Depreciation and amortisation	36,313	55,741	5,889	5,231	882	317	43,083	61,289
Value of assets sold	3,082	3,421	919	164	60	46	4,061	3,631
Write down and impairment of assets	254,265	80,656	34,298	25,817	1,852	731	290,416	107,203
Other	175	2,945	606	2,309	10	203	791	5,458
Borrowing costs expense	978	1,146	421	127	20	58	1,418	1,331
Total departmental expenses	706,708	509,734	470,840	371,162	28,039	24,199	1,205,587	905,095
Funded by:								
Revenues from Government	316,584	427,486	323,165	399,657	17,325	14,648	657,074	841,791
Goods and services	7,207	9,418	60,710	49,959	3,621	311	71,537	59,688
Interest	1	2	0	84	0	0	2	87
Revenue from sale of assets	5,826	4,957	1,561	525	115	91	7,502	5,574
Net foreign exchange gains	782	70	368	279	20	(0)	1,170	349
Assets now recognised	18,577	7,285	4,142	38,909	391	175	23,110	46,369
Other	6,027	8,507	42,817	41,094	927	3,034	49,772	52,635
Total departmental revenues	355,004	457,726	432,764	530,506	22,399	18,260	810,168	1,006,492

Notes

- The 2003-04 comparative figures have been adjusted, where applicable, to conform with presentational changes.
- Details of this Outcome are further explained in Chapter Four under Outcome One.

Outcome 2 Navy Capability	Output 2.01		Output 2.02		Output 2.03		Output 2.04		Output 2.05		Output 2.06		Output 2.07		Output 2.08		Total	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Departmental expenses																		
Employees	513,622	526,698	199,524	213,447	120,440	141,134	154,355	163,110	84,292	96,931	128,777	161,737	159,846	178,407	104,834	115,215	1,465,691	1,596,678
Suppliers	531,623	458,306	207,731	192,924	98,309	104,454	309,043	313,334	90,940	66,449	163,897	139,803	163,847	134,931	106,341	86,260	1,671,732	1,496,461
Grants	163	552	57	256	32	140	36	168	25	105	38	113	50	220	28	71	429	1,627
Depreciation and amortisation	422,886	344,987	83,357	81,789	21,883	15,043	271,199	303,903	28,483	37,251	87,647	88,400	59,285	60,588	18,352	21,462	993,093	953,422
Value of assets sold	6,967	7,985	2,484	3,614	1,459	2,059	1,712	2,318	1,097	1,518	1,714	1,710	2,133	3,145	1,266	1,018	18,834	23,367
Write down and impairment of assets	332,517	118,856	128,207	52,613	63,906	19,464	126,704	117,110	25,783	16,561	90,405	42,276	47,793	28,236	47,921	15,174	863,236	410,289
Other	47	7,215	139	2,245	97	1,322	103	1,467	(159)	1,332	127	1,640	(326)	2,543	66	1,006	94	18,770
Borrowing costs expense	2,334	3,005	784	1,095	439	663	507	445	355	470	513	727	727	1,010	383	351	6,042	7,766
Total departmental expenses	1,810,160	1,467,604	622,284	547,982	306,566	284,278	863,660	901,856	230,816	220,615	473,117	436,407	433,356	409,080	279,192	240,558	5,019,151	4,508,380
Funded by:																		
Revenues from Government	1,414,119	1,263,373	522,802	456,731	277,163	279,607	837,574	851,896	225,184	210,799	404,691	386,476	401,574	345,490	223,657	245,942	4,306,764	4,040,313
Goods and services	17,647	18,170	5,574	5,741	3,230	3,756	3,308	2,661	2,553	2,749	3,668	4,129	5,166	5,466	5,563	4,644	46,708	47,315
Interest	3	5	1	2	0	1	1	(1)	0	0	1	1	1	2	0	0	8	10
Revenue from sale of assets	14,603	12,237	4,933	5,131	2,257	2,826	2,879	3,885	2,014	2,170	2,723	2,581	4,139	4,252	1,639	1,410	35,187	34,490
Net foreign exchange gains	3,503	1,890	776	688	283	165	1,427	1,082	199	674	387	3	292	6	144	8	7,010	4,517
Assets now recognised	74,980	47,300	43,377	13,234	17,639	11,339	38,002	44,456	9,222	16,184	21,708	41,934	14,672	24,703	16,408	8,719	236,008	207,868
Other	22,868	19,851	838	3,079	2,566	1,426	23,189	5,102	1,378	1,465	6,108	2,137	2,923	2,199	515	740	60,385	35,999
Total departmental revenues	1,547,722	1,362,825	578,301	484,604	303,139	299,119	906,378	909,081	240,552	234,041	439,286	437,260	428,767	382,117	247,926	261,463	4,692,070	4,370,511

Notes

- The 2003-04 comparative figures have been adjusted, where applicable, to conform with presentational changes.
- Details of this Outcome are further explained in Chapter Four under Outcome Two.

Outcome 3 Army Capability	Output 3.01		Output 3.02		Output 3.03		Output 3.04		Output 3.05		Output 3.06		Output 3.07		Output 3.08		Output 3.09		Output 3.10		Total	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Departmental expenses																						
Employees	256,801	276,181	405,486	474,692	517,631	566,146	269,467	262,187	58,385	63,518	212,784	215,762	51,221	61,640	288,441	326,664	257,583	295,582	294,344	346,500	2,612,141	2,888,871
Suppliers	126,991	119,303	247,685	242,579	282,339	267,604	215,790	197,495	39,246	39,439	187,176	127,699	59,366	47,267	175,017	156,526	180,104	154,031	347,816	226,370	1,861,530	1,578,314
Grants	60	234	131	471	173	409	83	252	19	91	71	284	29	117	101	313	102	288	166	454	936	2,912
Depreciation and amortisation	65,791	29,142	107,570	120,870	137,779	69,506	70,863	97,160	15,309	18,333	56,059	57,672	13,380	19,168	74,329	49,512	64,958	51,781	67,633	63,224	673,670	576,366
Value of assets sold	6,122	6,302	10,688	11,535	13,402	11,906	7,451	7,040	1,478	1,869	7,391	7,788	2,487	2,211	10,817	10,146	10,572	8,943	18,093	13,174	88,502	80,915
Write down and impairment of assets	77,093	10,750	174,030	50,208	198,232	31,982	64,919	62,636	16,860	7,357	108,383	26,193	13,979	2,700	53,594	16,162	51,432	9,044	75,236	7,504	833,758	224,535
Other	232	2,863	389	5,254	487	6,570	238	2,752	51	712	254	2,391	69	400	300	3,415	277	2,846	437	2,144	2,733	29,347
Borrowing costs expense	734	1,252	1,880	2,655	2,511	3,270	1,170	1,074	270	384	862	1,605	161	270	1,391	1,947	1,064	1,407	829	1,490	10,873	15,354
Total departmental expenses	533,824	446,028	947,859	908,263	1,152,554	957,393	629,981	630,595	131,617	131,703	572,981	439,393	140,693	133,773	603,990	564,685	566,092	523,921	804,553	660,861	6,084,143	5,396,614
Funded by:																						
Revenues from Government	436,242	308,917	900,853	800,798	1,017,443	970,603	610,984	543,090	130,720	177,127	452,044	471,389	102,355	147,853	559,139	491,893	505,535	541,644	518,088	458,245	5,233,402	4,911,559
Goods and services	5,887	6,885	14,521	14,883	18,997	18,605	9,588	6,289	2,225	2,338	7,187	8,821	1,441	1,183	10,895	10,108	8,518	7,370	7,508	5,481	86,768	81,963
Interest	1	2	2	6	2	6	1	2	0	6	1	3	0	1	1	4	1	2	2	1	13	28
Revenue from sale of assets	7,986	7,484	14,032	14,471	18,087	14,728	10,471	8,916	2,268	2,321	8,399	9,214	2,178	2,513	12,823	11,752	11,639	10,237	15,181	14,348	103,064	95,983
Net foreign exchange gains	494	(0)	1,104	(1)	1,104	(1)	1,282	(0)	264	(0)	602	(0)	61	(0)	535	(1)	496	(0)	(108)	(0)	6,030	925
Assets now recognised	61,476	6,556	64,903	26,470	86,427	19,265	43,347	16,267	5,223	3,212	47,389	8,253	4,071	1,872	36,288	6,751	25,706	7,050	43,028	8,865	417,859	104,560
Other	3,656	2,257	18,075	5,617	18,613	4,838	1,276	5,212	1,114	752	5,892	2,311	674	240	1,751	2,239	1,488					

Department of Defence
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Note 31: Reporting of Outcomes

Note 31B: Major Classes of Departmental Revenues by Output

Outcome 4 Air Force Capability	Output 4.01		Output 4.02		Output 4.03		Output 4.04		Total	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Departmental expenses										
Employees	442,573	461,212	312,343	361,637	397,621	526,585	274,000	304,746	1,426,538	1,654,181
Suppliers	710,011	607,625	245,282	229,395	324,668	411,459	457,664	376,325	1,737,624	1,624,804
Grants	120	450	121	757	104	503	75	522	420	2,233
Depreciation and amortisation	744,162	682,285	112,064	44,046	289,513	271,585	139,112	136,191	1,284,851	1,134,107
Value of assets sold	6,486	27,627	6,070	10,714	4,616	7,354	4,005	7,719	21,176	53,415
Write down and impairment of assets	339,896	189,966	95,370	20,064	167,858	95,763	174,303	58,539	777,427	364,332
Other	289	5,901	559	3,548	219	4,972	58	3,423	1,125	17,843
Borrowing costs expense	1,785	2,088	1,446	2,602	1,470	2,582	1,211	1,790	5,912	9,063
Total departmental expenses	2,245,321	1,977,155	773,256	672,765	1,186,068	1,320,804	1,050,427	889,255	5,255,072	4,859,979
Funded by:										
Revenues from Government	2,182,311	1,891,195	634,730	458,284	1,129,136	973,533	924,413	900,265	4,870,590	4,223,277
Goods and services	14,247	13,379	10,339	11,787	12,044	17,467	10,827	9,814	47,456	52,448
Interest	2	2	4	8	2	5	1	3	10	18
Revenue from sale of assets	11,278	10,727	17,325	13,448	10,672	11,741	10,003	9,738	49,278	45,653
Net foreign exchange gains	2,757	2,234	286	7	2,777	7,326	402	143	6,223	9,709
Assets now recognised	104,469	124,785	64,282	12,829	54,423	39,907	78,970	35,978	302,144	213,498
Other	21,701	22,095	3,295	2,273	8,497	10,893	3,543	1,983	37,035	37,243
Total departmental revenues	2,336,765	2,064,416	730,261	498,635	1,217,552	1,060,871	1,028,159	957,925	5,312,737	4,581,846

Notes

- The 2003-04 comparative figures have been adjusted, where applicable, to conform with presentational changes.
- The titles of outputs have been revised since the *Portfolio Budget Statements 2004-05* to more accurately reflect the current nature of the outputs. For further details, refer to Table 4.1 Cost of Defence Outputs in 2004-05 on p. 143.
- Details of this Outcome are further explained in Chapter Four under Outcome Four.

Outcome 5 Strategic Policy	Output 5.01		Output 5.02		Total	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Departmental expenses						
Employees	68,802	64,741	19,840	18,725	88,642	83,466
Suppliers	136,710	105,341	16,420	10,042	153,130	115,384
Grants	18	36	3	2	21	38
Depreciation and amortisation	4,462	3,464	1,983	861	6,445	4,325
Value of assets sold	928	548	183	31	1,111	579
Write down and impairment of assets	12,529	12,951	1,576	47	14,105	12,998
Other	152	722	29	250	181	973
Borrowing costs expense	473	247	17	27	490	275
Total departmental expenses	224,074	188,051	40,051	29,986	264,125	218,037
Funded by:						
Revenues from Government	176,421	174,273	39,362	43,916	215,783	218,189
Goods and services	8,165	8,504	127	144	8,292	8,649
Interest	0	0	0	(0)	0	0
Revenue from sale of assets	850	910	226	52	1,076	962
Net foreign exchange gains	126	(23)	186	(0)	312	(23)
Assets now recognised	4,361	1,510	3,283	66	7,645	1,575
Other	890	875	341	104	1,232	979
Total departmental revenues	190,813	186,049	43,527	44,282	234,340	230,332

Notes

- The 2003-04 comparative figures have been adjusted, where applicable, to conform with presentational changes.
- The titles of outputs have been revised since the *Portfolio Budget Statements 2004-05* to more accurately reflect the current nature of the outputs. For further details, refer to Table 4.1 Cost of Defence Outputs in 2004-05 on p. 143.
- Details of this Outcome are further explained in Chapter Four under Outcome Five.

Outcome 6 Intelligence	Output 6.01		Total	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Departmental expenses				
Employees	199,377	210,814	199,377	210,814
Suppliers	200,897	154,604	200,897	154,604
Grants	41	122	41	122
Depreciation and amortisation	68,167	69,894	68,167	69,894
Value of assets sold	2,479	1,664	2,479	1,664
Write down and impairment of assets	18,414	33,464	18,414	33,464
Other	188	2,769	188	2,769
Borrowing costs expense	386	360	386	360
Total departmental expenses	489,951	473,692	489,951	473,692
Funded by:				
Revenues from Government	466,075	404,089	466,075	404,089
Goods and services	3,475	2,821	3,475	2,821
Interest	1	(0)	1	(0)
Revenue from sale of assets	2,886	2,497	2,886	2,497
Net foreign exchange gains	406	1,075	406	1,075
Assets now recognised	20,604	5,958	20,604	5,958
Other	3,597	3,751	3,597	3,751
Total departmental revenues	497,044	420,190	497,044	420,190

Notes

- The 2003-04 comparative figures have been adjusted, where applicable, to conform with presentational changes.
- Details of this Outcome are further explained in Chapter Four under Outcome Six.

Department of Defence
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Note 31: Reporting of Outcomes

Note 31B: Major Classes of Departmental Revenues and Expenses by Output

Total Defence Departmental Outcomes	Outcome 1		Outcome 2		Outcome 3		Outcome 4		Outcome 5		Outcome 6		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental expenses	380,641	362,616	1,465,691	1,596,678	2,612,141	2,888,871	1,426,538	1,654,181	88,642	83,466	199,377	210,814	6,173,030	6,796,627
Employees	380,641	362,616	1,465,691	1,596,678	2,612,141	2,888,871	1,426,538	1,654,181	88,642	83,466	199,377	210,814	6,173,030	6,796,627
Suppliers	485,084	363,317	1,671,732	1,496,461	1,861,530	1,578,314	1,737,624	1,624,804	153,130	115,384	200,897	154,604	6,109,997	5,332,883
Grants	94	251	429	1,627	936	2,912	420	2,233	21	38	41	122	1,941	7,183
Depreciation and amortisation	43,083	61,289	993,093	953,422	673,670	576,366	1,284,851	1,134,107	6,445	4,325	68,167	69,894	3,069,310	2,799,405
Value of assets sold	4,061	3,631	18,834	23,367	88,502	80,915	21,176	53,415	1,111	579	2,479	1,664	136,163	163,571
Write down and impairment of assets	290,416	107,203	863,236	410,289	833,758	224,535	777,427	364,332	14,105	12,998	18,414	33,464	2,797,356	1,152,823
Other	791	5,458	94	18,770	2,733	29,347	1,125	17,843	181	973	188	2,769	5,111	75,158
Borrowing costs expense	1,418	1,331	6,042	7,766	10,873	15,354	5,912	9,063	490	275	386	360	25,121	34,148
Total departmental expenses	1,205,587	905,095	5,019,151	4,508,380	6,084,143	5,396,614	5,255,072	4,859,979	264,125	218,037	489,951	473,692	18,318,029	16,361,797
Funded by:														
Revenues from Government	657,074	841,791	4,306,764	4,040,313	5,233,402	4,911,559	4,870,590	4,223,277	215,783	218,189	466,075	404,089	15,749,688	14,639,217
Goods and services	71,537	59,688	46,708	47,315	86,768	81,963	47,456	52,448	8,292	8,649	3,475	2,821	264,237	252,883
Interest	2	8	8	10	13	28	10	18	0	0	1	(0)	33	143
Revenue from sale of assets	7,502	5,574	35,187	34,490	103,064	95,983	49,278	45,653	1,076	962	2,886	2,497	198,994	185,159
Net foreign exchange gains	1,170	349	7,010	4,517	6,030	925	6,223	9,709	312	(23)	406	1,075	21,152	16,552
Assets now recognised	23,110	46,369	236,008	207,868	417,859	104,560	302,144	213,498	7,645	1,575	20,604	5,958	1,007,369	579,828
Other	49,772	52,635	60,385	35,999	54,693	25,604	37,035	37,243	1,232	979	3,597	3,751	206,714	156,211
Total departmental revenues	810,168	1,006,492	4,692,070	4,370,511	5,901,828	5,220,621	5,312,737	4,581,846	234,340	230,332	497,044	420,190	17,448,188	15,829,993

Note

1. The 2003-04 comparative figures have been adjusted, where applicable, to conform with presentational changes.

The financial impacts of the basis changes between the Financial Statements and the Budgeted PAES across each outcome are as follows:

Total Defence Departmental Outcomes	Variation Impacts						
	Outcome 1	Outcome 2	Outcome 3	Outcome 4	Outcome 5	Outcome 6	Total
	2005	2005	2005	2005	2005	2005	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental expenses	121,951	(118,464)	(326,777)	(184,395)	1,161	1,854	(504,670)
Employees	121,951	(118,464)	(326,777)	(184,395)	1,161	1,854	(504,670)
Suppliers	50,656	8,972	64,425	(85,825)	27,520	15,425	81,174
Grants	(266)	(1,663)	(3,458)	(1,850)	(49)	(39)	(7,325)
Depreciation and amortisation	(15,131)	(95,311)	33,332	25,465	(36)	(13,347)	(65,027)
Value of assets sold	(2,202)	(21,784)	(7,511)	(38,672)	678	(827)	(70,317)
Write down and impairment of assets	246,099	601,683	647,560	490,299	15,375	(3,659)	1,997,356
Other	864	236	2,252	1,342	210	206	5,111
Borrowing costs expense	155	(1,345)	(3,359)	(2,109)	242	90	(6,325)
Total departmental expenses	402,128	372,325	406,466	204,254	45,100	(296)	1,429,977
Funded by:							
Revenues from Government	(4,651)	(43,268)	(109,825)	173,566	3,003	1,164	19,990
Goods and services	(9,128)	3,520	7,583	(4,700)	4,218	(44)	1,448
Interest	2	8	13	10	0	1	33
Revenue from sale of assets	633	(5,486)	8,315	(10,847)	415	(517)	(7,486)
Net foreign exchange gains	1,170	7,010	6,030	6,223	312	406	21,152
Assets now recognised	(11,603)	40,938	279,365	88,125	7,032	3,512	407,369
Other	47,325	42,523	32,669	9,543	334	2,275	134,668
Total departmental revenues	23,748	45,244	224,151	261,920	15,315	6,797	577,175

Notes

1. The 2003-04 comparative figures have been adjusted, where applicable, to conform with presentational changes.

2. The Department of Defence uses various methods to attribute shared items. These methods are based on:

- a) internal reallocation of functions;
- b) revised underlying data, such as Defence's property register and Group's/Service's headcount database;
- c) the general business activity undertaken by the respective Groups/Services;
- d) staff numbers;
- e) direct operational support; and
- f) asset utilisation.

Note 31C: Major Classes of Administered Revenues and Expenses by Outcome

Administered Revenues	Outcome 1		Outcome 2		Outcome 3		Outcome 4		Outcome 5		Outcome 6		Outcome 7		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Goods and services	-	20,174	-	-	-	-	-	-	-	-	-	-	7,822	-	7,822	20,174
Interest	-	51	-	627	-	127	-	1,322	-	-	-	146	3,044	-	3,044	2,273
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	70,672	230,698	70,672	230,698
Net foreign exchange gains	-	162	-	-	-	-	-	-	-	-	-	-	-	-	-	162
Military superannuation contributions	-	-	-	-	-	-	-	-	-	-	-	-	661,607	608,814	661,607	608,814
Other sources of non-taxation revenues	-	-	-	-	-	-	-	-	-	-	-	-	2,793	-	2,793	-
Total Revenues Administered on Behalf of Government	-	20,387	-	627	-	127	-	1,322	-	-	-	146	745,938	839,512	745,938	862,121
Administered Expenses																
Employees	-	-	-	-	-	-	-	-	-	-	-	-	2,772,568	2,288,506	2,772,568	2,288,506
Subsidies	-	-	-	-	-	-	-	-	-	-	-	-	9,177	8,202	9,177	8,202
Net foreign exchange losses	-	-	-	-	-	-	-	-	-	-	-	-	71	-	71	-
Write-down and impairment of assets	-	22,793	-	-	-	-	-	-	-	-	-	-	7,391	-	7,391	22,793
Other	-	-	-	-	-	-	-	-	-	-	-	-	4,246	-	4,246	-
Total Expenses Administered on Behalf of Government	-	22,793	-	-	-	-	-	-	-	-	-	-	2,793,453	2,296,708	2,793,453	2,319,501

Notes

1. The 2003-04 comparative figures have been adjusted, where applicable, to conform with presentational changes.

2. Details of this Outcome are further explained in Chapter Four under Outcome Seven.

3. The Department of Defence uses various methods to attribute shared items. These methods are based on:

- a) internal reallocation of functions;
- b) revised underlying data, such as Defence's property register and Group's/Service's headcount database;
- c) the general business activity undertaken by the respective Groups/Services;
- d) staff numbers;
- e) direct operational support; and
- f) asset utilisation.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005	2004
	\$	\$
Note 32: Restructuring		
<i>The Military Rehabilitation and Compensation Act 2004 and the Military Rehabilitation and Compensation (Consequential and Transitional Provisions) Act 2004 created a new military rehabilitation and compensation scheme. As a result of the restructuring arrangements, Defence relinquished responsibility for the Military Compensation Scheme on 1 July 2004 to the Department of Veterans' Affairs.</i>		
<i>In respect of functions relinquished, the following assets and liabilities were transferred by Defence:</i>		
Total assets relinquished	-	-
Total liabilities relinquished	<u>1,909,244</u>	-
<i>Net decrease in liabilities during the year</i>	<u><u>1,909,244</u></u>	<u><u>-</u></u>

Refer Note 10A for comparative information.

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Glossary

Accrual accounting	The system of accounting where items are brought to account and included in the financial statements as they are earned or incurred, rather than as they are received and paid.
Accumulated depreciation	The aggregate depreciation recorded for a particular depreciating asset.
Additional estimates	Where amounts appropriated at Budget time are required to change, the Parliament may make adjustments to portfolios through the Additional Estimates Acts.
Administered appropriation	Revenues, expenses, assets and liabilities administered by an agency for the Commonwealth (such as taxes, benefits payments and public debt) which are not concerned with running the agency or its commercial activities.
Administered items	Expenses, revenues, assets or liabilities managed by agencies on behalf of the Commonwealth. Agencies do not control administered items. Administered expenses include grants, subsidies and benefits. In many cases, administered expenses fund the delivery of third party outputs.
Agency	Assets, liabilities, revenues and expenses which are controlled by Defence or a subsidiary. Includes officials allocated to the organisation.
Amortisation	A term used interchangeably with depreciation, except that it applies to a non-current physical asset under finance lease, or a non-current intangible asset, over its limited useful life.
Annual appropriation	Two appropriation Bills are introduced into the Parliament in May and comprise the Budget for the financial year beginning 1 July. Further Bills are introduced later in the financial year as part of the additional estimates.
Appropriation	An authorisation by the Parliament to spend money from the Consolidated Revenue Fund (the principal working fund of the Commonwealth) for a particular purpose.
Assets	Future economic benefits controlled by Defence as a result of past transactions or other past events. Assets are initially recognised at the cost of acquisition. Non-financial assets are subject to ongoing revaluation assessment.
Assets under construction	Assets under construction by Defence for Defence, or for the use of another entity according to a construction contract where Defence controls the asset until completion, or assets under construction or otherwise being made ready by another entity for use by Defence.
Australian Accounting Standard	Australian Accounting Standards specify techniques of accounting practice and the method of presenting financial information about a reporting entity.
Average funded strength	A budgetary measure used to count the average number of ADF members paid on a full-time equivalent basis during a financial year.
Capability	The combination of military equipment, personnel, logistics support, training, resources, etc. that provides Defence with the ability to achieve its operational aims.
Capability manager	A Capability Manager is responsible for raising, training and sustaining in-service capabilities through the coordination of fundamental inputs to capability. Capability Managers include the Service Chiefs, the Chief of Joint Operations and the Chief Information Officer.

Capital budget	All proposed capital expenditure funded by appropriation for outcomes, by equity injections or loans and/or appropriations for administered capital, or by other sources.
Capital expenditure	Expenditure by an agency on capital projects, for example purchasing a building.
Chief Executive Instructions	Instructions issued by the Chief Executive of Defence (the Secretary) for the administration of the department. These instructions are issued under the authority of the <i>Financial Management and Accountability Act 1997</i> and carry the force of the law.
Chief of the Defence Force's Preparedness Directive	A principal strategic-level directive containing strategic planning guidance. It lists military response options and sets preparedness requirements. It informs all subordinate preparedness directives at the operational level, which set specified levels of preparedness and contain the capability standards against which force units measure and report.
Combined exercise	An exercise or activity involving one or more Services of the ADF with the forces of other countries.
Consolidated revenue fund	Section 81 of the Constitution stipulates that all revenue raised or money received by the Commonwealth forms the one consolidated revenue fund. The fund is not a bank account. The Official Public Account reflects most of the operations of the fund.
Consultants/consultancies	Individuals or organisations contracted to provide independent advice on an agreed subject.
Corporate governance	The process by which agencies are directed and controlled. It is generally understood to encompass authority, accountability, stewardship, leadership, direction and control.
Customer-supplier agreement	An agreement between internal customers and suppliers for the supply of a service at an agreed quantity, standard and price.
Defence Assistance to the Civil Community	A program which provides Defence resources, in exceptional circumstances, for the performance of emergency or non-emergency tasks which are the responsibility primarily of the civil community. Defence Assistance to the Civil Community comprises six categories under two headings: Counter-disaster and emergency assistance and non emergency assistance.
Defence Capability Plan	The Defence Capability Plan is a costed, detailed development plan for Australia's military capabilities over a ten-year period. The plan is reviewed regularly to take account of the changing strategic circumstances, new technologies and changed priorities, in the context of the overall Defence budget.
Defence Employees Certified Agreement	An enterprise agreement made under the <i>Workplace Relations Act 1996</i> about terms and conditions of service, including rates of pay, for Australian Public Service Defence employees. The agreement is negotiated between Defence, Australian Public Service employees and their representatives and is certified by the Australian Industrial Relations Commission.
Defence Integrated Distribution Service	An outsourced logistics project that provides national warehousing, distribution and selected land equipment maintenance support for Joint Logistics Command.

Defence information environment	Encompasses all of Defence’s computing and communications capabilities at all classification levels. It supports all Defence warfighting functions, including Defence’s overseas deployed elements and connection to coalition networks, as well as the day-to-day management functions of Defence.
Defence Management and Finance Plan	The Defence Management and Finance Plan provides Ministers and central agencies with a clear oversight of Defence planning and financing strategies. It describes the strategies agreed through the 2000 Defence White Paper and subsequent Strategic Review papers. As a compendium of information attached to Defence’s annual Portfolio Budget Submission, it is intended to help Ministers make informed strategic and budgetary decisions on Defence, by bringing into one document the expected financial position of the portfolio taking into account existing commitments and proposed new investments. The Plan also provides the Government with the information necessary to ensure that its investment in Defence is both affordable and sustainable.
Defence Procurement Review	An independent review initiated by the Government in December 2002 to examine the procurement process for major acquisitions in Defence. The review was led by Mr Malcolm Kinnaird and is also known as the ‘Kinnaird Review’.
Departmental items	Assets, liabilities, revenues and expenses that are controlled by the agency in providing its outputs. Departmental items would generally include computers, plant and equipment assets used by agencies in providing goods and services and administrative expenses incurred.
Depreciation	Apportionment of an asset’s capital value as an expense over its estimated useful life to take account of normal usage, obsolescence, or the passage of time.
Discretionary grants	Payments where the portfolio minister and paying agency has discretion in determining whether or not a particular applicant receive funding and may or may not impose conditions in return for the grant. There is a central discretionary grants register.
Employee	Any Australian Public Service officer of Defence or serving Defence Force member who receives a salary or wage, along with other benefits, for the provision of services whether on a full-time, part-time, permanent, casual or temporary basis.
Employee expenses	Include, but are not limited to, benefits provided to employees in the form of salaries and wages, performance pay, senior officers’ allowances, leave, and superannuation, but does not include amounts paid or owed to employees as reimbursement of out-of-pocket expenses.
Equity injection	An additional contribution, over and above the cost of outputs. Equity injections form part of the Commonwealth’s investment in Defence.
Equity or net assets	Residual interest in the assets of an entity after deduction of its liabilities.
Expense	Total value of all the resources consumed in producing goods and services or the loss of future economic benefits in the form of reductions in assets or increase in liabilities of an entity.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm’s length transaction. The fair value can be affected by the conditions of the sale, market conditions and the intentions of the asset holder.

Financial Management and Accountability Act 1997	The Act establishes the regulatory framework for financial management within Defence and other public sector agencies.
Five Power Defence Arrangements	Agreed in 1971 and commits Australia, Malaysia, New Zealand, Singapore and the United Kingdom to consult in the event of an attack on Singapore or Malaysia.
Force element	A component of a unit, a unit or an association of units having common prime objectives and activities.
Force Element Group	A grouping of force elements with an appropriate command and control structure for a specified role or roles (eg the Navy Submarine Group).
Force element product costing tool	A methodology that provides all Defence Groups with a consistent framework to cost their internal products or services and identify how these contribute to the costs of operating a force element.
Forward estimates	The level of proposed expenditure for future years (based on relevant demographic, economic and other future forecasting assumptions). The Government requires forward estimates for the following three financial years to be published in each annual Federal Budget paper.
Garrison support services	Include a range of base support services including: grounds maintenance, hospitality, training area management, base security, transport, air support and fire-fighting and rescue services.
Group	A high-level organisational grouping of functions and activities used by the Defence Executive as its primary management grouping (eg the Capability Development Group)
Infrastructure	Items owned, leased or otherwise under the control of Defence in support of activities on land and within buildings. Infrastructure includes items such as runways, roads, car parks, parade grounds, ovals, lighting, water, sewerage and other general service related items. It does not include land upon which, or within which, it is constructed or those fixed items integral to, and under, buildings.
Interoperability	The ability of systems, units or forces to provide the services to, and accept services from, other systems, units or forces and to use the services so exchanged to enable them to operate effectively together.
Inventory	Inventory is comprised of consumable stores and supplies, fuel and explosive ordnance used in the delivery of Defence services. These are items which are consumed in normal use, lose their identity during periods of use by incorporation into, or attachment upon, another assembly, as a result of wear and tear, cannot be reconditioned because their design does not make it possible or their specific values do not justify it.
Joint exercise	An exercise involving two or more Services of the ADF.
Liabilities	Sacrifices of future economic benefits that Defence is presently obliged to make to other entities as a result of past transactions or other past events.
Material Acquisition Agreements	Material Acquisition Agreements will cover the Defence Material Organisation's acquisition services to Defence for both major and minor capital equipment.
Material Sustainment Agreements	Material Sustainment Agreements will be between the Capability Managers and the Chief Executive Officer of the Defence Material Organisation. These agreements will cover the sustainment of current capability, including services such as repairs, maintenance, fuel and explosive ordnance.

Military response options	A set of generic tasks that describe the range of military options the Government could consider as a basis for a response to a particular situation or contingency.
Mission capability	The required level of unit readiness for tasking for which a force element is scheduled at any time through its operational cycle (includes all scheduled activities to achieve assigned Defence operations, international engagement requirements and levels of preparedness required for a military response).
Net assets	See <i>equity</i>
Network Centric Warfare	The aim of Network Centric Warfare is to improve the ability of the ADF to collaborate internally, with supporting agencies, and with coalition partners across organisational and geographic boundaries. Network Centric Warfare will allow Defence to harness recent developments in computing and communications technologies to enhance decision making and warfighting capability.
Operating result	Equals revenue less expense.
Other property, plant and equipment	This comprises the following sub-classes; administrative assets, commercial vehicles, general military assets, heritage assets and other (includes all items not specific to one of the classes or sub-classes referred to above and can include testing equipment and non-specific non-rotable spares.)
Outcomes	The results that the Government seeks from Defence, and are achieved by the successful delivery of its outputs, to the standards set in the portfolio budget statements.
Output	The product or service produced by Defence on behalf of the Government for external organisations or individuals.
Output groups	A logical aggregation of agency outputs, where useful, and based either on homogeneity, type of product, business line or beneficiary target group. Aggregation of outputs may also be needed for the provision of adequate information for performance monitoring, or based on a materiality test.
Outturned prices	Estimates adjusted to incorporate the expected rate of inflation.
Permanent forces	The permanent Navy, the regular Army and the permanent Air Force.
Platforms	Refers to air, land, surface or sub-surface assets that are discrete and taskable elements within the ADF.
PMKeyS (Personnel Management Key Solution)	Defence's personnel management system for the administration of ADF and civilian staff.
Portfolio Additional Estimates Statements	Similar to the portfolio budget statements and prepared at Additional Estimates time to support an update on the Government's original annual budget for Defence.
Portfolio budget statements	A document presented by the Minister for Defence to Parliament to inform Senators and Members of the basis for the Defence budget appropriations in support of the provisions in Appropriation Bills 1 and 2. The statements summarise the Defence budget and provides detail of outcome performance forecasts and resources in order to justify expenditure for Defence.
Prescribed agency	A prescribed agency is an agency established by regulation under the <i>Financial Management and Accountability Act 1997</i> . It provides financial management authority to, and requires accountability by, the Chief Executive of an agency.
Professional service providers	Individuals with specialist skills contracted to fill a line position.

Purchaser-provider arrangements	Arrangements under which the outputs of one agency are purchased by another agency to contribute to outcomes. Purchaser-provider arrangements can occur between Commonwealth agencies and state/territory government or private sector bodies.
Qualifying assets	Assets under construction.
Readiness	The readiness of forces to be committed to operations within a specified time, dependent on the availability and proficiency of personnel, equipment, facilities and consumables.
Receivables	Amounts payable to Defence, including debtors, bills of exchange and promissory notes, loans to other governments and other entities, interest accrued but not yet received, and advances to Defence employees and other entities that are to be returned or acquitted.
Reconstitution	A component of the phases of operations, immediately following an operation, being a period required to revert a force element to the directed level of capability in a specific time. The preparedness cycle is not complete until reconstitution to a directed level has been achieved, including immediate maintenance, rest and recuperation, and redistribution of supplies and systems, if necessary.
Reserves	The Naval Reserve, the Army Reserve and the Air Force Reserve.
Revenues	Inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in assets or reductions in liabilities of Defence, other than those relating to contributions by the Commonwealth, that result in an increase in equity during the reporting period.
Risk management	At the highest level, it involves the identification and mitigation of those risks that have the potential to affect adversely the achievement of agreed output performance at the agreed output price.
Resource and Output Management and Accounting Network (ROMAN)	Defence's primary financial management system incorporating corporate budgeting, accounting and reporting.
Special account	Balances existing within the Consolidated Revenue Fund, that are supported by standing appropriations (<i>Financial Management and Accountability Act 1997</i> , ss.20 and 21). Special accounts allow money in the Consolidated Revenue Fund to be acknowledged as set-aside (hypothecated) for a particular purpose. Amounts credited to a Special Account may only be spent for the purposes of the Special Account. Special Accounts can only be established by a written determination of the Finance Minister (s.20 of the <i>Financial Management and Accountability Act 1997</i>) or through an Act of Parliament (referred to in s.21 of the <i>Financial Management and Accountability Act 1997</i>).
Special appropriations (including standing appropriations)	An amount of money appropriated by a particular Act of Parliament for a specific purpose and number of years. For special appropriations the authority to withdraw funds from the Consolidated Revenue Fund does not generally cease at the end of the financial year.
Specialist military equipment	Items of a specific military nature and that are not available through the normal external market in their current form to other than government military purchasers. It includes the prime military equipment plus the direct support items associated with the equipment.

Standard Defence Supply System (SDSS)	A key information system for the financial management of inventory, general stores, repairable items and other assets associated with Defence's logistic capability.
Theatre	The area in which military operations/activities take place.
'Two pass' approval process	The process by which major capital investment proposals are developed for consideration and approval by the Government.
Unit ready days	The number of days that a force element is available for tasking within planned readiness requirements. Planned unit ready days are determined for each Force Element Group by aggregating total days for the unit in commission, less all days when the unit is programmed to be in major maintenance and conducting pre-workup (preparations for initial operational training).
Weighted average cost	An inventory valuation method which considers the fluctuating prices and quantities of acquired goods in computing of the cost of inventory. The weighted average method takes the prices of units at the beginning inventory and the varying prices of purchases made and are weighted by the number of units to determine the weighted average cost per unit. It may be computed as the weighted average cost of all available goods present in a given period, or as a weighted moving average cost adjusted when new goods are delivered.
Write-offs	The recording in the accounting records of irrecoverable or uneconomic to recover debts.
Write-downs	The reduction in value of asset.

Acronyms and Abbreviations

A

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ADF	Australian Defence Force
ADFA	Australian Defence Force Academy
AEIFRS	Australian Equivalent to International Financial Reporting Standards
AEW&C	Airborne Early Warning and Control
AFS	Average Funded Strength
AMTG	Al Muthanna Task Group
ANAO	Australian National Audit Office
ANZAC	Australian and New Zealand Army Corps
APS	Australian Public Service
ARDs	Asbestos-related diseases
ASLAV	Australian Light Armoured Vehicle
AUC	Assets Under Construction

B

BORIS	Budgetary and Output Reporting Information System
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C

CEO DMO	Chief Executive Officer of the Defence Material Organisation
CIO	Chief Information Officer
COMSARM	Computer System Armaments
CTF	Combined Task Force

D

DFAT	Department of Foreign Affairs and Trade
DFRDB	Defence Force Retirement and Death Benefits Scheme
DHA	Defence Housing Authority
DMO	Defence Materiel Organisation
DoFA	Department of Finance and Administration
DSD	Defence Signals Directorate
DSTO	Defence Science and Technology Organisation

F

FFG	Guided Missile Frigate
FMA Act	<i>Financial and Management Accountability Act 1997</i>
FMO	Finance Minister's Orders
FMS	Foreign Military Sales

G

GDP	Gross Domestic Product
GST	Goods and Services Tax

Appendices

H

HMAS Her Majesty's Australian Ship

I

IT Information technology

J

JTF Joint Task Force

M

MSBS Military Superannuation Benefits Scheme

P

PAES Portfolio Additional Estimates Statements

PBS Portfolio Budget Statements

PMKeyS Personnel Management Key Solution

PSP Professional Service Provider

R

RAAF Royal Australian Air Force

RAN Royal Australian Navy

RAR Royal Australian Regiment

ROMAN Resource and Output Management Accounting Network

S

SDA Survey/Sortie Days Achieved

SDP Survey/Sortie Days Planned

SDSS Standard Defence Supply System

SES Senior Executive Service

T

TNI Indonesian Armed Forces

U

UIG Urgent Issues Group

UN United Nations

URD Unit Ready Days

W

White Paper *Defence 2000: Our Future Defence Force*

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