



PORTFOLIO BUDGET STATEMENTS 2004-05

**DEFENCE PORTFOLIO
(Department of Defence and the Defence Housing Authority)**

**BUDGET INITIATIVES AND EXPLANATIONS OF APPROPRIATIONS SPECIFIED
BY OUTCOMES AND OUTPUTS
2004-05**

BUDGET RELATED PAPER Nos 1.4 A and 1.4 C

2004-05 BUDGET PAPERS

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No. 1 Budget Strategy and Outlook 2004-05

Contains information on the economic and financial outlook, together with information on the fiscal strategy.

No. 2 Budget Measures 2004-05

Provides a comprehensive statement on the budget expense, revenue and capital measures in the 2004-05 Budget.

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Provides information on the Australian Government's financial relations with the States, Territories and local government.

No. 4 Agency Resourcing 2004-05

Contains information on resourcing for Australian Government agencies (including the Appropriation Bills Nos. 1 and 2 and the Appropriation (Parliamentary Departments) Bill No. 1).

2004-05 BUDGET RELATED PAPERS

No. 1 Portfolio Budget Statements

Detailed information on the expected financial position of each Australian Government agency for 2004-05.

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Defence Portfolio Budget Statements

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Senator the Hon Robert Hill
Leader of the Government in the Senate
Minister for Defence

7 May 2004

Senator the Hon Paul Calvert
President of the Senate
Parliament House
CANBERRA ACT 2600

The Hon Neil Andrew MP
Speaker of the House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Mr President and Mr Speaker

I hereby submit Portfolio Budget Statements in support of the 2004-05 Budget for the Department of Defence and the Defence Housing Authority.

The Portfolio Budget Statements set out:

- the outcomes and outputs developed for the portfolio;
- the portfolio's administered items;
- information on budget measures affecting portfolio outcomes; and
- the performance indicators and evaluations to be used to assess performance against portfolio outcomes.

I present these statements by virtue of my Ministerial responsibility for accountability to the Parliament and, through it, the public.

A handwritten signature in cursive script that reads 'Rob. Hill'.

ROBERT HILL

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USER GUIDE

The purpose of the Defence Portfolio Budget Statements is to provide further explanation for Senators and Members of the proposed expenditure for Defence in Appropriation Bills (Nos. 1 and 2) 2004-05.

This document contains the Portfolio Budget Statements for the Defence Housing Authority, which provides housing to meet Defence's requirements.

The document does not address the Department of Veterans' Affairs, which is part of the Defence Portfolio but for which Budget Statements are tabled separately.

The performance information contained in the Defence Portfolio Budget Statements is derived from the Government-endorsed *Defence Management and Finance Plan 2004-14*. The plan itself is classified for reasons of national security.

FORMAT OF THE STATEMENTS

The chapter structure of the *Portfolio Budget Statements 2004-05* has changed from the 2003-04 structure to provide more logical flow of information and to prepare for the Defence Materiel Organisation (DMO) becoming a prescribed agency under the *Financial Management and Accountability Act 1997* from 1 July 2005. Financial information for Defence (including the DMO) has been grouped together. A separate chapter has been established which includes a budget overview of the DMO for visibility purposes prior to separate financial accountability from Defence in 2005-06.

There have been two changes to the output structure.

- Outcome Four – 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).
- Outcome Five - Strategic Policy has two outputs. The second output, Output 5.2, has changed from Military Strategy and Strategic Operations to Military Strategy and Capability Analysis. This is to better reflect the change in responsibilities as a result of the Defence reorganisation.

Chapter One - Overview

This chapter contains:

- an overview of the strategic environment;
- Defence White Paper implementation details;
- Defence capability development overview; and
- changes to Defence's structure.

Chapter Two - Resourcing

This chapter details Defence's financial outlook for 2004-05, including:

- a budget summary and measures;
- budgeted financial statements and notes for 2004-05 and forward estimates;
- discretionary grants; and
- purchaser-provider arrangements with the Defence Housing Authority.

Chapter Three - Capital Budget

This chapter focuses on Defence's capital budget. It includes information on:

- projects to be approved in 2004-05;
- an overview of the approved major capital equipment program (details of the program are in Chapter Seven);
- capital facilities projects;
- other capital purchases; and
- capital receipts.

Chapter Four - Planned Outcome Performance

This chapter relates to the delivery of the outcomes required by the Government. Defence has a budget structure which has seven outcomes (including an administered outcome) and twenty-nine outputs. It contains detailed explanations of the outcomes and outputs including:

- a schematic illustration of Defence's outcome structure;
- the estimated cost of each outcome and output; and
- a description of each outcome and output, including planned performance, key risks and strategies and risk mitigation initiatives.

Chapter Five - People

This chapter relates to Defence attracting and leading people and maximising their skills and knowledge in order to deliver outcomes sustainably. The information provided in this section includes:

- a personnel overview; and
- a workforce summary, including personnel numbers and employee expenses.

Chapter Six - Management Reforms and Efficiencies

This chapter relates to the implementation of internal business processes that are designed to ensure sustainable delivery of outcomes. The chapter includes information on:

- the implementation of the Defence Procurement Review;
- progress of budget and business process reform;
- the program of administrative savings;
- the Commercial Support Program;
- delivering internal services;
- the Defence information environment; and
- portfolio evaluations.

Chapter Seven – Defence Materiel Organisation

This new chapter anticipates the Defence Materiel Organisation (DMO) becoming a prescribed agency from 1 July 2005. The information in this section includes:

- the DMO's strategic priorities and initiatives;
- key elements of the DMO's overall budget – operating, purchases and inventory; and
- details of the performance and estimated expenditure of the top 30 major capital equipment projects.

The 2005-06 budget statements will contain separate financial statements and performance information for the DMO.

Defence Housing Authority

This section contains:

- an overview of the Authority, including performance forecasts for 2004-05;
- details of the Authority's outcome and output, including performance information; and
- a detailed tabular explanation of the 2004-05 budget and forward estimates.

STYLES AND CONVENTIONS USED

Figures in tables and in the text may be rounded. Discrepancies in tables between totals and sums of components are due to rounding. Negative figures are presented in two ways in this document – by bracketed figures in the financial statements, and by a minus sign elsewhere in the document.

Related References

Previous years' Defence Portfolio Budget Statements, Portfolio Additional Estimates Statements and annual reports are available at: www.defence.gov.au/budget/

The Defence White Paper is available at: www.defence.gov.au/whitepaper/

The *Defence Capability Plan 2004-14* is available at: www.defence.gov.au/dmo/id/dcp/dcp.cfm.

DEFENCE

CHAPTER ONE OVERVIEW

OVERVIEW

Strategic Objectives and Environment

Force Structure

IMPLEMENTING THE DEFENCE WHITE PAPER

CAPABILITY DEVELOPMENT

ORGANISATIONAL STRUCTURE

OVERVIEW

STRATEGIC OBJECTIVES AND ENVIRONMENT

Strategic Objectives

The strategic principles set out in *Defence 2000 – Our Future Defence Force* (the Defence White Paper) and in *Australia's National Security: A Defence Update 2003* (the Defence Update 2003) remain a valid framework for addressing Australia's defence policy.

The Defence White Paper sets out five strategic objectives for Defence. These are:

- ensuring the defence of Australia and its direct approaches;
- fostering the security of Australia's immediate neighbourhood;
- promoting stability and cooperation in South-East Asia;
- supporting strategic stability in the wider Asia-Pacific region; and
- supporting global security.

The Government continues to pursue these objectives by:

- developing the capabilities needed to meet our strategic objectives;
- maintaining Australia's military alliance with the United States; and
- pursuing close defence relationships with countries in the nearer region and further afield in order to promote strategic stability, interoperability and transparency of intentions.

Defence needs to be able to perform four strategic tasks. These are to:

- defend Australian territory from any credible attack, without relying on help from the combat forces of any other country;
- make a major contribution to the security of our immediate neighbourhood;
- contribute effectively to international coalitions of forces to meet crises beyond Australia's immediate neighbourhood in which Australia's interests are engaged; and
- undertake both regular and occasional peacetime national tasks.

The first two tasks will determine the Australian Defence Force's (ADF) capability priorities, and will provide capabilities which may be drawn on to perform the other two tasks. The training and skill levels of the ADF will be suitable for providing the nucleus for an Australian-led coalition force, or for providing a commitment to other coalitions. Consequently, the ADF will be able to operate in the maritime, air and land environments both separately and jointly.

Changing Strategic Environment

The Defence Update 2003, released in February 2003, reviewed Australia's security environment and highlighted the following issues:

- While the threat of direct military attack on Australia is less than it was in 2000, in other important ways certainty and predictability have decreased because the strategic advantage of Australia's geographical location does not protect it from threats such as terrorism, weapons of mass destruction, and the direct impact of global conflicts on its national interests.
- Numerous terrorist attacks throughout the world demonstrate that terrorism is more than just a transitory phenomenon and now includes a willingness and capability to inflict massive civilian casualties for strategic ends.
- Australia has been identified as a potential terrorist target. Militant extremist groups in our region are now large, active and capable, and are prepared to take up causes other than local issues.
- The threat of proliferation of weapons of mass destruction and their means of delivery, especially by rogue states and terrorists, remains a significant security challenge.
- Australia's region is more exposed to world events, including security threats, than it was previously. Some countries have made little progress against their daunting economic, political and social challenges. These challenges leave our nearer neighbours vulnerable to transnational threats, which can affect Australia's interests.

The priorities for Defence in this new strategic environment include the need to be able to respond to:

- a greater likelihood of participation in coalition operations with important niche capabilities, requiring increased interoperability, readiness and sustainability;
- increased calls on Defence for operations in our immediate neighbourhood; and
- the growth in scale of non-military threats (terrorism, illegal immigration, illegal fishing, drug smuggling) requiring ADF support for civil law enforcement.

FORCE STRUCTURE

To deliver outputs to the Government in order to achieve the six capability requirements and the strategic objectives contained in the Defence White Paper, the ADF is maintaining a force structure with the following major combat elements:

- a surface combatant force of six guided missile frigates, otherwise called FFGs (to be reduced to four from 2006), and five Anzac-class frigates (rising to eight by 2006), together with onboard helicopters;
- six Collins-class submarines;
- an amphibious lift and sea command force comprising two amphibious landing ships and one heavy landing ship;
- a mine hunter force comprising six coastal mine hunters (two of which are to be placed in extended readiness from 2006) and a hydrographic force comprising two hydrographic ships;
- an afloat support force comprising one oil tanker (to be replaced by 2006 with a more environmentally-friendly double-hulled tanker) and one replenishment ship;
- five Army infantry battalions at 90-days readiness or less, supported by a range of armour, aviation, engineer, artillery, logistics and transport assets, and a number of lower-readiness formations and units able to provide personnel for sustainment and rotation;
- a Reserve Force designed to sustain, reinforce and, to a lesser degree, rotate personnel and equipment;
- three Regional Surveillance Units;
- a special forces group consisting of a Special Air Service regiment, a regular commando regiment, a reserve commando regiment, an Incident Response Regiment and a combat service support company;
- an air combat force of three front-line F/A-18 squadrons and one operational F-111 squadron (to be retired from service by about 2010), supported by training squadrons, a wide-area surveillance system (Jindalee Operational Radar Network) monitoring Australia's northern approaches, and a range of ground radars and other support elements. Airborne early warning and control aircraft will be deployed from 2007 and new operational air-to-air refuelling aircraft from late 2006;
- a maritime patrol force of two P-3C Orion squadrons; and
- agencies responsible for intelligence collection and analysis.

The major combat elements are being progressively more integrated and informed through a number of command, communications and intelligence systems.

IMPLEMENTING THE WHITE PAPER

The Defence White Paper continues to set out the Government's long-term policy direction and the capability enhancement framework for Defence. It is a guide to developing proposals to enhance the ADF's capabilities in 2004-05 and in future years, and provides the framework for presentation of major capital investment proposals to the Government.

Defence's long-term plan to acquire the equipment necessary to meet the requirements set out in the White Paper is contained in the Defence Capability Plan. The Defence Capability Plan is updated regularly to ensure that it continues to reflect the effects of changes in Australia's strategic environment, changes in technology and any other requirements. The Defence Update 2003 foreshadowed that, while the principles set out in the White Paper remain sound, some re-balancing of capability and expenditure would be necessary. This re-balancing would not fundamentally alter the size, structure and roles of the ADF but would result in increased emphasis on readiness and mobility, on interoperability and on adjustment of some capabilities. The results of this re-balancing were announced by the Government in November 2003 and a public version of the updated Defence Capability Plan was released on 4 February 2004.

The most significant initiatives expected to be introduced in 2004-05, and other major milestones for the coming year, are summarised below. Additional detail on these initiatives can be found in the remaining chapters of the document.

Initiatives to Improve Capability

Land Forces Goal

The Government's aim is the provision of land forces that can respond swiftly and effectively to any credible armed incursion on Australian territory and to more likely operations in our immediate neighbourhood. The emphasis is on providing a professional, well-trained, well-equipped force that is available for operations at short notice, and one that can be sustained over extended periods. This type of force will have the flexibility to deal with special operations, operations other than conventional war, and to contribute to coalitions.

Defence's ability to meet the Government's aim will be enhanced in 2004-05 by:

- continued development of the Special Operations Command, including the expansion of the special operations headquarters, the establishment of a special operations service support company and an additional commando company;
- ongoing development of the second Tactical Assault Group, Incident Response Regiment and high readiness reserve elements to bolster the ADF's anti-terrorist capability;

- initial delivery of Tiger armed reconnaissance helicopters;
- initial delivery of Bushmaster vehicles;
- completion of the redevelopment of Oakey Base (Queensland); and
- acceptance of ground surveillance radars, and delivery of thermal surveillance and unattended ground sensor systems.

Defence will take steps in 2004-05 to further develop our land forces in future financial years by:

- managing a Foreign Military Sales case for the acquisition of the M1A1 Abrams tank system;
- signing a contract for additional troop-lift helicopters;
- developing an agreement with the United States Government to purchase additional Javelin direct fire guided weapons;
- releasing the request for tender for a tactical uninhabited aerial vehicle system; and
- continuing the redevelopment of Lavarack Barracks (Townsville, Queensland), the relocation of the 1st Aviation Regiment (Darwin, Northern Territory) and the development of the Bradshaw Training Area (Timber Creek, Northern Territory).

To further enhance the ADF's land capabilities, Defence will present proposals to the Government in 2004-05 for:

- upgrading the Chinook Helicopter engines; and
- investigating options for an assured, positive combat identification system for land forces.

Air Combat Goal

The air combat goal is to protect Australia from air attack and control its air approaches to ensure the ADF can operate effectively against any hostile forces. The Government's aim is to maintain the air combat capability at a level at least comparable qualitatively to any in the region, and with a sufficient margin of superiority to provide an acceptable likelihood of success in combat. These forces should be large enough to provide a high level of confidence that we could defeat any credible air attack on Australia or in our approaches, and capable enough to provide options to deploy an air combat capability to support coalitions. They will also have the capacity to provide air defence and support for deployed ground and maritime forces in our immediate region. This capability will be further enhanced through the acquisition of two additional airborne early warning and control aircraft, equipping Australia with a fleet of six of the leading edge air and maritime surveillance aircraft.

Defence's ability to meet the Government's aim will be enhanced in 2004-05 by:

- finalising the introduction into service of the AIM-132 advanced short range air-to-air missile for the F/A-18 Hornets; and

- completing the base redevelopment of RAAF Darwin (Northern Territory) and RAAF Townsville (Queensland).

Defence's ability to meet the Government's aim beyond the next financial year will be enhanced through a range of activities in 2004-05 including:

- obtaining contract signature for the acquisition of new air-to-air refuelling aircraft; and
- continuing redevelopment of the facilities at RAAF Williamtown (New South Wales), and reinvestment in RAAF Richmond (New South Wales).

Maritime Forces Goal

The Government's aim for Australia's maritime forces is to maintain an assured capability to detect and attack any major surface ships and to impose substantial constraints on hostile submarine operations in our extended maritime approaches. Our maritime forces also need the ability to support Australian forces deployed offshore, to contribute to maritime security in the wider region, to protect Australian ports from sea mines, and support civil law enforcement and coastal surveillance operations.

Defence's ability to meet the Government's aim will be enhanced in 2004-05 by:

- the delivery of the sixth of eight Anzac-class frigates, *HMAS Ballarat*;
- the return to service of the guided missile frigate, *HMAS Sydney*, after a significant upgrade;
- the ongoing delivery of Evolved SeaSparrow missiles to improve the self-protection of the Anzac-class and upgraded guided missile frigates;
- the ongoing delivery of the Super Seasprite helicopters;
- delivery of the final AP-3C upgraded Orion aircraft and additional enhanced AP-3C Orion electro-optic sensors;
- commencing the phasing in of the Armidale-class patrol boats to replace the Fremantle-class;
- progressing the acquisition of the *HMAS Westralia* replacement; and
- completing the base redevelopment of HMAS Albatross (Nowra, New South Wales) and RAAF Edinburgh (South Australia).

Defence's ability to meet the Government's aim beyond the next financial year will be enhanced through a range of activities in 2004-05 including:

- continuing the guided missile frigate upgrade program;
- completing the introduction into service of the AP-3C flight simulator; and
- initiating the installation of the mine and obstacle avoidance sonar on the Anzac-class frigates.

To further enhance the ADF's maritime capabilities, Defence will present proposals to the Government in 2004-05 including:

- acquiring new fire control radars for Anzac-class frigates;
- updating components of the AP-3C Orion electronic warfare system;
- developing a detailed design for the air warfare destroyer; and
- more detailed investigations of new amphibious ships.

Strike Goal

The strike goal is the ability to attack military targets within a wide radius of Australia, against credible levels of air defences, at an acceptable level of risk to aircraft and crews. The Government expects that the strike capabilities developed for the defence of Australia would provide options to contribute to regional coalitions against more capable adversaries.

Defence's ability to meet this goal will be improved in 2004-05 and beyond, through enhancements to Defence's special forces, surface combatants, submarines and AP-3C Orion aircraft. The Government has recently approved a bomb improvement program to enhance the ADF's all-weather, day and night strike capability.

To further enhance the ADF's strike capabilities, Defence will present proposals to the Government in 2004-05 including acquiring long range stand-off air-to-surface weapons for the AP-3C Orion and F/A-18 aircraft.

Information Goal

The information goal is to position the ADF to harness advances in information technology to ensure timely, accurate and secure information to fully exploit individual and unit combat capabilities, and allow their employment in more flexible ways. This involves the development of intelligence, surveillance, communications and command, logistics and business systems.

Defence's ability to meet this goal will be enhanced in 2004-05 by:

- initial delivery of the air defence command and control system;
- delivery of battlefield command support system elements; and
- enhancement of specialist intelligence collection and analysis systems.

To further enhance the ADF's information capabilities, Defence will present proposals to the Government in 2004-05 including:

- establishing permanent connections between ADF and key allied command and control networks;
- enhancing Defence's logistics information systems;
- establishing tactical information exchange links between key platforms including Anzac-class frigates, the armed reconnaissance helicopters and the F/A-18s; and

- continuing the development of the Defence Network Operations Centre in Canberra.

People Goal

The people goal is to ensure that Defence has the right people with the right skills and experience to provide the capabilities it needs to undertake complex military operations.

In 2004-05, Defence will pursue this goal through:

- continuing implementation of key *Strategic Workforce Planning Review 2003* recommendations to address major workforce challenges confronting Defence over the next ten years and to provide competitive remuneration, a challenging and diverse workplace, flexible working arrangements and quality health and safety management;
- developing the Defence People Plan to better prioritise human resource activities and expenditure to address capability risks identified in the Defence Workforce Plan;
- implementing agreed outcomes of the Nunn Review;
- implementing the new *ADF Workplace Remuneration Arrangement: 2004-2006* and the new *ADF Star Ranks' Remuneration Arrangement: 2004-2006*;
- implementing the new *Defence Employees' Certified Agreement 2004-2006*;
- developing targeted education and training programs, including e-learning;
- continuing to improve in the delivery of ADF health services, including ongoing implementation of the ADF mental health strategy and the injury prevention program;
- developing an integrated occupational health and safety management system guided by Defence's Occupational Health and Safety Strategic Plan; and
- developing strategies to better encourage ADF Cadet organisations to be a source of potential recruits for the ADF and further enhancing the ADF Cadet Scheme.

Initiatives to Improve the Provision of Advice and Decision Making

Defence will continue to improve its advice to the Government for decision making through strengthening its business model and accountability arrangements and continuing to improve its budgeting and business systems and processes.

Accountability for results is made explicit through a Ministerial Directive to the Secretary of the Department of Defence and the Chief of the Defence Force, charters between the Secretary and Chief of the Defence Force and all Group

Heads, and organisational and individual performance agreements. The use of customer-supplier agreements between enabling Groups and internal customers will continue to strengthen accountability arrangements and make transparent the cost of services required to deliver Defence outputs.

The intended establishment of the Defence Materiel Organisation (DMO) as a prescribed agency from 1 July 2005 will focus renewed emphasis on establishing project and materiel support agreements between it and capability managers. The force element product-costing tool will also facilitate greater transparency in the costing of force elements and internal products and services. This will be augmented by strengthened reporting arrangements to the Government as part of the annual Defence Management and Finance Plan.

Key initiatives under way to improve advice to the Government include:

- implementing additional reporting arrangements to the Government as part of the annual ten-year Defence Management and Finance Plan, including:
 - setting out the key components of the budget by outcome and capital programs; any proposed changes in capability including preparedness (readiness and sustainment) or capability acquisition and the key pressures on the Defence budget and how they are to be managed,
 - separate disclosure in the plan of the DMO following its transition to a prescribed agency from 1 July 2005, including progress against schedule and budget for major acquisitions and as requested by Ministers,
 - an expanded range of performance measures and targets for inclusion within the 2005-15 plan, and
 - in conjunction with the Department of Finance and Administration, a review of possible further changes to the Defence outcome and output reporting structure.
- providing more comprehensive and more robust information on Defence Capability Plan projects in line with the recommendations of the Defence Procurement Review (the Kinnaird review);
- continuing to improve performance reporting to the Defence Committee, by providing better visibility of performance and highlighting underlying management issues;
- high-level oversight, under the Secretary's direction, of the financial statements reform agenda to ensure Defence meets the Government's requirement for auditable annual financial statements by 30 July 2004 (through Project Resolve);
- further developing the budget and output reporting information system to provide a ten-year budgeting capability with greater consistency and depth of financial information, as well as greater transparency of the

manner in which resources are used within the organisation. The system is also being used to meet Government-directed reporting requirements flowing from the Budget Estimates and Framework Review. Having implemented a standard Defence budgeting capability, the priority is to develop a capacity to automate monthly management and financial statements reports at the whole-of-Defence level, thus eliminating disparate systems and processes now required to perform these tasks;

- improving management of the Defence information environment including:
 - a review of the organisational arrangements, which includes the role and function of the Chief Information Officer's organisation, and
 - a stocktake of all current and planned expenditure on the maintenance and evolution of information technology capabilities aimed at consolidation and rationalisation of these projects.
- the successful implementation of a devolved defence delegation system (which places responsibility for delegation management to lower levels in the organisation through a formal process of appointments supported by competency standards, explicit business rules and responsibilities, and reporting/accountability regimes); and
- the successful implementation of a Regulation 10 approval regime, the approval process for spending public money in the next financial year or later.

Initiatives to Get Best Value for the Defence Dollar

A fundamental challenge for Defence is to live within its means, both now and into the future. In responding to this challenge, a 'culture of economy' is being established, augmented by business rules and accountability mechanisms. Ten-year Group budgets have been established, enabling Group Heads greater certainty in terms of planning and long-term resource allocation.

In 2004-05, Defence will:

- continue to absorb a range of cost pressures through a program of administrative savings (see Chapter Six for further details);
- continue to reform business processes and contractual arrangements through the Business Improvement Project, covering around 20 individual projects, some of which are already well advanced;
- implement the recommendations of the Defence Procurement Review, with the objective of transitioning the DMO to a prescribed agency by 1 July 2005; and
- continue a rolling program of zero-based budgets to functions and expenditure, and free up resources for other requirements, including essential replacement of information technology and administrative assets and upkeep of the Defence estate.

Initiatives to Enhance Strategic Relationships

Defence supports an extensive range of strategic relationships throughout the Asia-Pacific region and beyond, through involvement in bilateral defence and security arrangements, including the United States alliance, as well as participation in multilateral security forums.

In 2004-05, Defence will:

- maintain and build upon security relationships in the Asia-Pacific region through a diverse range of cooperative defence activities and security dialogue;
- participate in peace support operations led by the United Nations;
- further develop Australia-United States defence cooperation, including through participation in coalition operations and the enhancement of ADF interoperability with United States forces;
- support global and regional efforts to reduce the security threat posed by terrorism and proliferation of weapons of mass destruction through international export control regimes and activities such as the Proliferation Security Initiative; and
- continue to support Government programs that are designed to improve governance and law and order in Papua New Guinea and the Pacific, through participation in coalition operations and continuation of Australia's Pacific patrol boat program.

Initiatives for Science and Technology and Australian Industry

Defence seeks to make the best use of technology and to have the skills required to exploit it to advantage. A competitive industry base should support a technologically-advanced ADF.

In 2004-05, Defence will:

- continue its science and technology program to provide better support and advice to Defence, and contribute to national research priorities, including 'Safeguarding Australia';
- continue research, especially in transformational defence technologies, network-centric warfare, Defence experimentation, automation of the battlespace, reducing the cost of ownership and operations, and support to current ADF platforms;
- enhance its research program for defence against terrorism, particularly against chemical, biological, nuclear and radiological attack;
- continue the Capability and Technology Demonstrator program to investigate how new, technology-driven capabilities can be introduced into wider ADF service;

- enhance science and technology links with industry, universities, other government research agencies and international bodies, to broaden Defence's technical base;
- seek opportunities via commercialisation mechanisms for technology transfer to Australian industry to enhance industry's ability to provide support to Defence and to increase the national wealth; and
- continue implementing the *Defence and Industry Strategic Policy Statement 1998*.

Monitoring and Reporting

Defence has established an internal mechanism to monitor and report upon the progress of initiatives outlined in the Defence White Paper. Defence publicly reports its progress in meeting Defence White Paper goals in the Defence annual report.

Status of Defence 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 \$28.1b over 13 years commencing in 2001-02 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;
- provision for the net through-life support costs of the capability enhancements in the Defence Capability Plan;
- provision for two per cent real per capita growth in personnel costs from 2004-05 onwards, reflecting more accurately the cost of maintaining a highly skilled workforce in a sustainable way; and
- funding of a number of baseline cost pressures, including offsetting some of these through administrative savings.

Table 1.1 shows the revised allocation of White Paper funding in 2004-05 Budget prices and exchange rates.

After taking account of the reprogramming of the Defence Capability Plan agreed by the Government in the 2004-05 Budget, additional Defence White Paper funding already provided by the Government totals \$2.2b over the period 2001-02 to 2003-04. The 2004-05 Budget includes a further \$1.7b in White Paper funding, and an additional \$8.0b is included in the forward estimates. The remaining additional funding, totalling \$16.2b, is to be provided over the period to 2013-14.

Table 1.2 provides details of the White Paper funding allocations in 2004-05 prices, including the reprogramming of \$2,547m (comprising \$2,226m at current prices plus \$321m for price outturning in future years) in capital funds. Further details on reprogramming of capital funds are provided in Chapter Three.

Table 1.1: Revised Defence White Paper Funding from 2001-02 to 2010-11 (Outturned 2004-05 prices)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total
	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b
Defence Funding from the Government	12.7	12.7	13.8	13.8	13.8	13.8	14.0	14.1	14.3	14.6	20.5 ⁽¹⁾	21.1 ⁽¹⁾	21.9 ⁽¹⁾	201.1
East Timor/Force Generation	0.7	0.6	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	6.7
Defence White Paper Increase ⁽²⁾	0.5	0.9	0.8	1.7	1.9	2.7	3.4	4.3	5.2	5.9	0.4	0.3	0.2	28.1
Total⁽³⁾	13.8	14.2	15.2	15.9	16.1	16.9	17.9	18.8	20.0	21.0	21.4	21.9	22.7	235.9

Notes

1. Funding guidance after 2010-11 is assumed to remain at zero real growth pending government consideration of the matter in the 2005-06 Budget context.
2. The Defence White Paper funding increase has been adjusted to reflect reprogramming of the Defence Capability Plan agreed in the 2004-05 Budget, shown in Table 1.2.
3. The figures for 2003-04 to 2007-08 are the same as those in Serial 3 in Table 2.1.

Table 1.2: Current White Paper Funding Allocations (Outturned, 2004-05 prices)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	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	1,537	1,663	2,234	2,345	2,241	2,749	3,374	-	-	-	19,210
	Reprogramming	-	-200	-712	-273	-446	-462	-133	564	649	469	354	298	213	321⁽¹⁾
A	Revised expenditure/allocation	510	851	794	1,264	1,217	1,772	2,212	2,806	3,397	3,843	354	298	213	19,531
Through-life Support Costs for Defence Capability Plan Projects															
	Original allocation	-	-	-	193	234	284	418	500	591	630	-	-	-	2,850
B	Revised allocation	-	8	21	60	172	278	418	513	674	705	-	-	-	2,850
	Allocated	-	8	21	52	12	16	15	19	18	17	-	-	-	150
	Unallocated	-	-	-	8	160	262	403	494	655	688	-	-	-	2,700
Two Per Cent Real Growth in Personnel Costs															
	Allocated	-	-	-	236	253	270	289	309	326	391	-	-	-	2,075
	Unallocated	-	-	-	-	114	235	361	495	639	789	-	-	-	2,634
C	Total	-	-	-	236	367	505	650	805	965	1,180	-	-	-	4,709
D	Operating Baseline Adjustment	-	-	-	116	130	137	143	149	155	156	-	-	-	986
	Total (A+B+C+D)	510	859	815	1,676	1,887	2,693	3,423	4,273	5,191	5,884	354	298	213	28,076

Note

1. The amount of \$321m is due to price outturning associated with the reprogramming of the Defence Capability Plan.

Major Capital Equipment

The additional funding of \$19.5b for the Defence Capability Plan was allocated to the Unapproved Major Capital Equipment Program and is now 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. Total additional expenditure to the end of 2003-04 is expected to be \$2,155m after allowing for reprogramming. Chapter Three provides more detail on the investment program.

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 provision has been adjusted to reflect revised delivery dates of the equipment and is now estimated at \$2.9b over the decade, of which \$150m has been allocated to date.

Two per cent Real Growth in Personnel Costs

The provision of \$4.7b for the two per cent real per capita growth in personnel costs commences in 2004-05. Of this, \$2.1b has already been allocated to cover the cost of the initial increase under the new ADF Workplace Remuneration Agreement, the recent service allowance increase and increases in housing, compensation and health costs, which are rising at substantially higher rates than the non-farm gross domestic product deflator. An amount of \$2.6b remains unallocated and will be used to fund future salary, allowance and conditions of service increases as they arise, including health services, housing and Fringe Benefits Tax.

Operating Baseline Adjustment

The \$1.5b included in the Defence White Paper as an operating baseline adjustment was allocated to meet unavoidable cost pressures identified through the White Paper process. This included offsetting shortfalls with planned Defence Reform Program savings and a contribution to logistics cost pressures caused by redirection of Defence Reform Program savings to fund the 50,000 ADF members. All funds have been allocated and this part of the White Paper funding is now considered complete.

CAPABILITY DEVELOPMENT

Capability development is the process of ensuring future capability will match the Government's strategic objectives. Judgements need to be made concerning what mix of capability and what trade-offs between new and existing equipment are in the nation's interests. The Defence Procurement Review identified the need for further reform. The review recognised that the determination of strategic priorities for the defence and security of the nation had obvious implications for the development of defence capability. The review saw a need for further reform at each stage of the cycle of acquisition and whole-of-life management of the equipment that comprises the core of defence capability, and for Defence to clearly set out available capability options to develop and sustain ADF capabilities within a defined budget.

To serve as a single point of accountability for the capability process and to ensure that the capability process maintains a joint warfare focus, the Government announced on 22 December 2003 the formation of the Capability Development Group, which was established in February 2004.

Capability Development Group is responsible and accountable for assessing and defining what capabilities the ADF should have now and in the future. It is also responsible for taking capability proposals from initial government consideration and financial endorsement through to final approval by the Government.

As the organisation matures, it will have a close relationship with the DMO and oversight a number of recommendations arising from the Defence Procurement Review.

ORGANISATIONAL STRUCTURE

Senior Executive Changes

Mr Mick Roche, Under Secretary Defence Materiel, retired in August 2003. Dr Stephen Gumley was appointed as the Chief Executive Officer of the Defence Materiel Organisation in February 2004. Rear Admiral Kevin Scarce, AO, CSC acted in the position of Under Secretary Defence Materiel from August 2003 until his retirement in February 2004, with Air Vice Marshal Norman Gray filling the position for the brief period between Rear Admiral Scarce's retirement and Dr Gumley's commencing duty.

Organisational Structure Changes

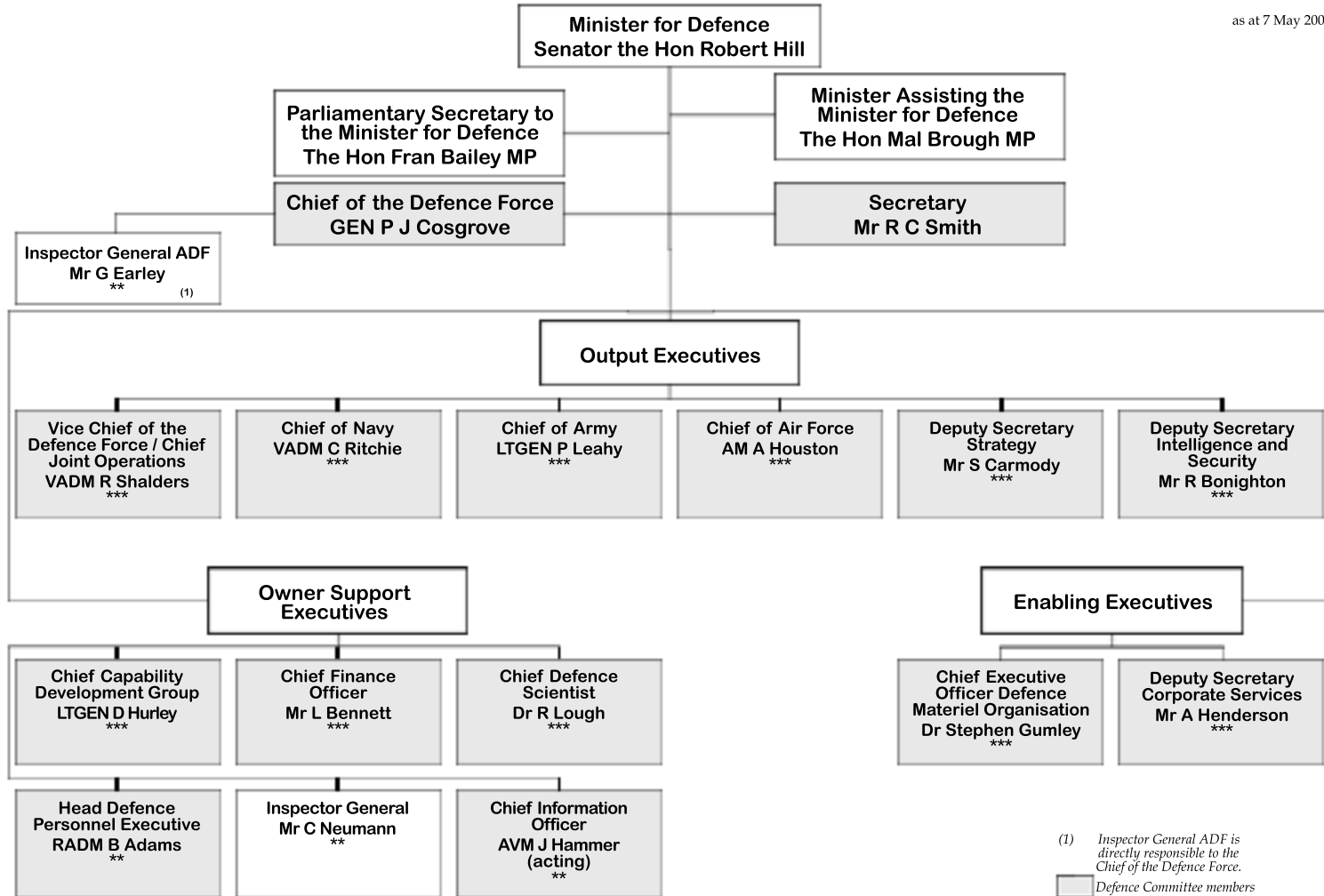
In March 2004, a new Joint Operations Command was formed, as a result of the Clarke and Molan reviews. Vice Admiral Russ Shalders was appointed the first Chief of Joint Operations, while continuing in his current position as the Vice Chief of the Defence Force. The Command will bring into one structure the Strategic Operations Division, Headquarters Australian Theatre, Headquarters Northern Command's operational responsibilities, Joint Logistics Command and the Deployable Joint Force Headquarters. The former Headquarters Australian Theatre will now become Headquarters Joint Operations Command under the command of Major General Mark Evans, who has been appointed as deputy to Vice Admiral Shalders. From 1 July 2004, the Joint Logistics component of the DMO will report to the Chief of Joint Operations. The Joint Logistics component provides strategic logistics advice and input into ADF planning. It will develop and manage ADF access to operational logistic services and develop policies, procedures and doctrine for the provision of joint logistic support.

In response to a recommendation of the Defence Procurement Review, the Capability Development Group was established in February 2004 and is headed by Lieutenant General David Hurley. It comprises Capability Systems Division, Capability Investment and Resources Division, Capability and Plans Branch, Directorate of Trials, and the AS/US Interoperability Review Team.

Also in February 2004, the Strategic Policy Group was renamed the Strategy Group. The Strategy Group now consists of three divisions: International Policy, Strategic Policy, and Ministerial Services and Public Affairs. The last of these divisions is an amalgamation of the former Public Affairs and Corporate Communication Group and Defence Improvement Division. The new division is headed by Mr Mark Cunliffe, previously the First Assistant Secretary Defence Improvement. Mr Cunliffe's new position title is First Assistant Secretary Ministerial Services and Public Affairs.

Organisational Chart

The following chart depicts the structure of the organisation at May 2004.



(1) Inspector General ADF is directly responsible to the Chief of the Defence Force.

Defence Committee members

DEFENCE

CHAPTER TWO RESOURCING

2004-05 BUDGET SUMMARY

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Resourcing

**Review of Governance Arrangements of the Defence
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2004-05 BUDGET SUMMARY

Total resourcing available to Defence in 2004-05 is \$18,684m, comprising departmental funding of \$16,348m and a further \$2,337m for the administered appropriation. The total departmental funding allocation of \$16,348m (serial 7), which represents 1.9 per cent of Gross Domestic Product, is the most common way of measuring Defence's budget, and is consistent with the presentation of the 2000 Defence White Paper (refer to page 39 for the various ways in which the Defence budget can be presented).

The total level of departmental funding of \$16,348m represents:

- an increase of \$725m compared with the projected result of 2003-04; and
- an increase of \$405m in 2004-05 compared with the Forward Estimate published at the time of the *Portfolio Budget Statements 2003-04* (page 19).

In real terms, these variations are much greater when the transfer of the Military Compensation function to the Department of Veterans' Affairs from 2004-05 onwards (-\$168.3m) and exchange rate savings (-\$324.1m) are taken into account.

Total Defence resourcing is summarised in Table 2.1.

Table 2.1: Total Defence Resourcing

Serial No	2003-04 Projected Result \$'000	2004-05 Budget Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	
	Departmental					
1	14,569,666	Revenue from Government for Price of Outputs	15,625,941	15,254,845	15,807,771	16,600,178
2	617,634	Equity Injection	299,025	876,037	1,103,867	1,319,381
3	15,187,300	Total Revenue from Government (1+2)	15,924,966	16,130,882	16,911,638	17,919,559
4	328,791	Own-Source Revenue ⁽¹⁾	330,562	339,629	343,126	349,991
5	106,484	Net Capital Receipts	91,980	40,000	40,000	40,000
6	435,275	Sub Total	422,542	379,629	383,126	389,991
7	15,622,575	Total Departmental Funding (3+6)	16,347,508	16,510,511	17,294,764	18,309,550
	Administered					
8	2,016,900	Administered appropriation ⁽²⁾	2,336,900	2,436,900	2,436,900	2,636,900
9	17,639,475	Total Defence Resourcing (7+8)	18,684,408	18,947,411	19,731,664	20,946,450

Notes

1. Own-source revenue (serial 4) excludes 'assets now recognised' revenue and 'net gains from sales of assets' revenue.
2. The Administered appropriation (serial 8) of \$2,336.9m 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.

2004-05 BUDGET MEASURES

New budget measures are set against the background of a changing strategic landscape, which has seen terrorism and the proliferation of weapons of mass destruction assume new prominence and the continuation of some adverse trends in our immediate neighbourhood. At the same time, there have been continuing increases in the tempo of operations, increased demands on major capabilities and pressures on essential training, maintenance and the reintegration of capabilities after operations. The budget measures announced by the Government, totalling \$522.5m in 2004-05 and \$1,830.2m over the forward estimates, address these issues. Details are shown in Table 2.2 and described in more detail in Table 2.3. Table 2.3 shows the movements in Defence funding since the last budget, including those adjustments agreed in the 2003-04 Additional Estimates. Serial numbers are provided against each of the measures explanations below for ease of reference with Table 2.3.

Table 2.2: Summary of New Budget Measures Disclosed in the 2004-05 Budget

	Defence Outcome	2004-05 Budget Estimate \$m	2005-06 Forward Estimate \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	Total \$m
Logistics – continuation of funding	2,3,4	-	-	-	205.3	205.3
Logistics – additional funding	2,3,4	142.1	146.7	158.4	163.1	610.3
Military personnel – supplementation	2,3,4	6.8	57.0	-6.5	22.7	80.0
Personnel initiatives – continuation	2,3,4	-	-	10.6	10.8	21.4
Personnel initiatives – expansion of rental assistance	2,3,4	-	59.3	91.1	92.9	243.3
Personnel initiatives – improvements to living-in accommodation	2,3,4	2.0	12.5	37.1	61.6	113.1
Accommodation – supplementation for the purchase of Defence Housing Authority services	2,3,4	108.0	88.0	-	-	196.0
Papua New Guinea Defence Force – funding to support downsizing	5	14.6	2.7	-	-	17.3
Coastal Surveillance – continuation	1	16.0	-	-	-	16.0
Defence Procurement Review – implementation of recommendations	Various	17.5	5.0	5.0	5.0	32.5
Property sales – costs	Various	57.3	-	-	-	57.3
Point Nepean Community Trust – establishment	Various	5.0	-	-	-	5.0
Defence Capability Review – operational cost savings	Various	0.0	-80.0	-97.4	-109.1	-286.5
Iraq – funding for operations and rehabilitation activities	Various	124.6	3.0	4.0	-	131.6
East Timor – support to the United Nations mission	Various	16.0	4.1	-	-	20.1
Estate upkeep	Various	-	90.0	100.0	110.0	300.0
Investing in Australia's Security – increased funding to intelligence agencies	6	10.3	12.2	12.3	12.6	47.4
Investing in Australia's Security – enhanced regional consequence management training	6	-	-	-	-	-
Investing in Australia's Security – enhanced regional training and exercise programme	6	-	-	-	-	-

Investing in Australia's Security – enhanced regional cooperation	6	-	-	-	-	-
Investing in Australia's Security – critical infrastructure protection	6	1.7	1.8	1.8	1.8	7.1
Melbourne 2006 Commonwealth Games - contribution	Various	0.6	11.4	1.0	-	13.0
Total		522.5	413.7	317.4	576.4	1,830.2

Logistics – continuation of funding (Serial 13 in Table 2.3)

The Government will provide \$205.3 million in 2007-08 for logistics support to help enable the Australian Defence Force to sustain current levels of operational tempo and to meet specific preparedness targets. This decision will provide funding for a range of platforms and equipment, including:

- F/A-18 fighter aircraft fleet;
- C-130J Hercules transport aircraft;
- Collins-class submarines; and
- Explosive ordnance stocks, including those required for enhanced training of Army personnel.

This funding represents a continuation of the \$1.145 billion provided in the 2003-04 Budget for logistics. This funding is in addition to the \$27 billion over 10 years provided as part of the Government's *Defence 2000* White Paper. The White Paper funding was provided primarily to undertake the equipment acquisitions and upgrades necessary to enhance the capabilities of the Australian Defence Force.

See also the related expense measure titled *Logistics - additional funding* in the Defence portfolio.

Logistics – additional funding (Serial 14 in Table 2.3)

The Government will provide an additional \$610.3 million over four years for logistics support to the Australian Defence Force. The increased funding will enable enhanced maintenance, refits and/or planned upgrades for a range of key platforms and equipment to ensure the Australian Defence Force sustains its capabilities and meet preparedness requirements. The specific platforms and equipment to benefit from the funding include:

- Afloat Support (HMAS *Success* refit);
- Maritime Patrol Aircraft (P-3C Orions);
- Anzac Frigates;
- Training Aircraft (PC-9);
- Naval Aviation;
- Army Aviation (Black Hawk helicopters);
- Army Surveillance;
- Army Battlefield Combat Support System; and
- Transport Aircraft (C-130H Hercules).

The supplementation stems from a Defence-wide review of logistics funding aimed at ensuring the Australian Defence Force's platforms and equipment are resourced to help sustain performance at the current levels of preparedness.

See also the related expense measure titled *Logistics - continuation of funding* in the Defence portfolio.

Military personnel – supplementation (Serial 15 in Table 2.3)

The Government will provide \$80 million over four years to meet increasing Australian Defence Force personnel costs. The additional funding will help Defence continue to offer competitive levels of remuneration, including non-salary entitlements, such as health, housing and compensation. This will assist in both attracting and retaining suitably skilled military personnel for the Australian Defence Force.

This measure is in addition to the Government's *Defence 2000* White Paper which funded two per cent per annum real growth in Defence's per capita personnel costs over the 2004-05 to 2010-11 period.

Personnel initiatives – continuation (Serial 16 in Table 2.3)

The Government will provide \$21.4 million over 2006-07 and 2007-08 to continue a number of personnel initiatives that have proven highly effective in improving conditions for Australian Defence Force members and their families. These initiatives include the provision of childcare places and support to spouses.

A number of other personnel initiatives are also being funded in this Budget. See also the related expense measures titled *Personnel initiatives – expansion of rental assistance* and *Personnel initiatives – improvements to living-in accommodation* in the Defence portfolio.

Personnel initiatives – expansion of rental assistance (Serial 17 in Table 2.3)

The Government will provide \$243.3 million over three years from 2005-06 to help provide greater flexibility for Australian Defence Force members without dependants in their accommodation arrangements. This measure will increase the number of members without dependants receiving rent assistance from 4,500 to around 10,600 by 2006. Rent assistance has been successful in improving the accommodation available to members without dependants, which in turn is likely to improve retention.

A number of other personnel initiatives are also being funded in this Budget. See also the related expense measures titled *Personnel initiatives – continuation* and *Personnel initiatives – improvements to living-in accommodation* in the Defence portfolio.

Personnel initiatives – improvements to living-in accommodation (Serial 18 in Table 2.3)

The Government will provide \$113.1 million over four years for the renewal and repair of living-in accommodation for Australian Defence Force members without dependants. Funding in 2004-05 will allow the most effective means of improving the standard of accommodation to be determined.

A number of other personnel initiatives are also being funded in this Budget. See the related expense measures titled *Personnel initiatives – continuation* and *Personnel initiatives – expansion of rental assistance* in the Defence portfolio.

Accommodation – supplementation for the purchase of Defence Housing Authority services (Serial 19 in Table 2.3)

The Government will provide the Department of Defence with additional funding of \$108 million in 2004-05 and \$88 million in 2005-06 to meet increased rental costs associated with commercialising Defence Housing Authority operations in line with the Government's competitive neutrality policy. The additional funding is expected to be budget neutral as the Defence Housing Authority will return additional funds to the Government through increased dividends and tax equivalent payments.

Papua New Guinea Defence Force – funding to support downsizing (Serial 20 in Table 2.3)

The Government will provide \$20.3 million (including \$6.7 million in 2003-04) to assist the downsizing of the Papua New Guinea Defence Force. Of the funds provided in 2003-04, \$3 million will be absorbed from within existing funding from the Defence Cooperation Programme.

This measure represents the planned second tranche of funding to support the Papua New Guinea Defence Force reform programme and builds upon the first tranche of \$20 million provided in 2001-02.

Coastal surveillance – continuation (Serial 21 in Table 2.3)

The Government will provide \$16 million in 2004-05 for Australian Defence Force deployment costs associated with the continuation of coastal surveillance of Australia's northern approaches to help detect and deter unauthorised boat arrivals.

Defence Procurement Review – implementation of recommendations (Serial 22 in Table 2.3)

The Government will provide \$32.5 million over five years (including \$5.3 million in 2003-04) to improve capability development and acquisition processes within the Department of Defence. These improvements were recommended by the Defence Procurement Review (also known as the Kinnaird Review). They include the establishment of a Capability Development Group within the department and the development and operation of the Defence Materiel Organisation as a prescribed agency under the *Financial Management and Accountability Act 1997*.

Property sales – costs (Serial 23 in Table 2.3)

The Government has provided \$31.8 million in 2003-04 for the costs associated with selling surplus Defence properties in 2003-04.

The Government will also provide \$25.5 million in 2004-05 to meet the estimated net costs of selling surplus properties in 2004-05. This will involve applying a lower Defence property sales target threshold, above which Defence is entitled to retain the proceeds of property sales for other uses.

Point Nepean Community Trust – establishment (Serial 24 in Table 2.3)

The Government has committed \$5 million in 2003-04 to establish the Point Nepean Community Trust. The Trust has been established to manage former Defence land at Point

Nepean in the interests of the community. The Trust will be responsible for preserving the environment and heritage values of the site.

Defence Capability Review – operational cost savings (Serial 25 in Table 2.3)

Operational cost savings of \$286.5 million (including capital of \$67.5 million) over three years will be achieved from changes to capability decided by the Government as part of the comprehensive Defence Capability Review. The capability changes include the early retirement of the F-111 fleet and the retirement of two mine hunters and two frigates. The savings continue beyond 2007-08.

Iraq – funding for operations and rehabilitation activities (Serial 26 in Table 2.3)

The Government will provide \$131.6 million for the Australian Defence Force's contribution to Iraqi stabilisation and reconstruction. This will allow for continuation of the deployment through financial year 2004-05. The funding for 2005-06 and 2006-07 covers the cost of repatriation and remediation of equipment. The current timeframe for, and composition of, Operation CATALYST will be kept under review.

East Timor – support to the United Nations mission (Serial 27 in Table 2.3)

The Government will provide \$26.7 million over two years to fund an expected extension of the Australian Defence Force and Australian Federal Police contribution to the United Nations mission in East Timor. This funding will cover operational costs as well as repatriation and remediation of Defence equipment. Of this funding, the Government has committed \$20.1 million to the Department of Defence.

Estate upkeep (Serial 28 in Table 2.3)

The Government will provide \$300 million over three years from 2005-06 to meet increasing costs of maintaining the Defence estate. The additional funding will help Defence to increase its rate of effort in maintaining facilities such as airfields, fuel farms and Defence bases. Funding will also be used for accelerated asbestos remediation, and to meet increased environmental and occupational health and safety regulatory requirements.

Investing in Australia's Security – increased funding to intelligence agencies (Serial 29 in Table 2.3)

The Government will provide additional funding of \$227.8 million (including \$31.5 million capital funding) over four years to intelligence agencies to enhance Australia's counter-terrorism capabilities and strengthen our ability to protect against possible threats to Australia's national security. This funding provides resources for these agencies to improve their capacity to provide analysis and assessment of high priority areas to meet increased operational demands.

This is a cross portfolio measure, with funding to be provided to the Australian Secret Intelligence Service, Australian Security Intelligence Organisation, Department of Defence and the Office of National Assessments.

The Government has provided \$47.4 million over four years for the Department of Defence to establish a regional Special Forces/Counter-Terrorism network with its regional counterparts.

Investing in Australia's Security – enhanced regional consequence management training

The Government will provide \$0.7 million over four years to extend its counter-terrorism consequence management training with regional countries.

This measure will involve funding of \$0.1 million in 2004-05, \$0.2 million in 2005-06, \$0.2 million in 2006-07 and \$0.2 million in 2007-08. This measure is being fully absorbed within the existing resourcing of the Department of Defence.

Investing in Australia's Security – enhanced regional training and exercise programme

The Government will provide an additional \$1.6 million over four years to expand the Department of Defence's regional training and exercise programme.

This measure will involve funding of \$0.1 million in 2004-05, \$0.5 million in 2005-06, \$0.5 million in 2006-07 and \$0.5 million in 2007-08. This measure is being fully absorbed within the existing resourcing of the Department of Defence.

Investing in Australia's Security – enhanced regional cooperation

The Government will provide \$0.8 million over four years to the Department of Defence to enhance cooperation with its regional counterparts on regional counter-terrorism issues.

This measure will involve funding of \$0.2 million in each year from 2004-05 to 2007-08.

This measure is being fully absorbed within the existing resourcing of the Department of Defence.

Investing in Australia's Security - critical infrastructure protection (Serial 30 in Table 2.3)

The Government will provide funding of \$50.2 million (including \$1.7 million capital funding) over four years as part of continuing efforts to ensure there are adequate levels of protective security in respect of critical infrastructure, minimal single potential points of failure and rapid, tested recovery arrangements. This funding provides resources for nine Government agencies for a range of activities to progress three key areas of critical infrastructure protection. They are:

- national coordination and leadership – including activities such as the provision of expanded Secretariat support to the Trusted Information Sharing Network for Critical Infrastructure;
- infrastructure vulnerability identification, analysis and remediation – including activities such as the testing of Australian Government and private sector national information infrastructure; and
- infrastructure interdependence modelling and analysis – including activities to model and analyse interdependencies between different critical systems and networks.

The Government will assume a leadership role in these three core areas of activity, working in partnership with the States and industry to progress critical infrastructure protection.

The Government has provided \$7.1 million over four years to the Department of Defence to fund its intelligence contribution to this whole-of-government initiative.

Melbourne 2006 Commonwealth Games – contribution (Serial 31 in Table 2.3)

The Government will provide a package of assistance totalling \$272.5 million over four years from 2003-04 to 2006-07 to contribute to the staging of the Melbourne Commonwealth Games (M2006) to be held from 15-26 March 2006.

The assistance package includes \$139.8 million (including \$40 million in 2003-04) in new funding over the four years as a contribution to meeting the costs of the Games. The Government will also provide \$132.7 million in services and support which will be absorbed within existing resources.

Funding includes a grant of \$102.9 million to the Victorian Government for specific M2006 initiatives. These include \$40 million for the Opening and Closing Ceremonies, \$15 million for the Queen's Baton Relay, \$18.2 million for the M2006 Volunteer Programme, \$10 million for the Elite Athletes with a Disability Programme, \$7.5 million to provide airfare subsidies for athletes from developing countries participating in M2006, and \$6 million towards the costs of the M2006 Cultural Programme.

Funding of \$84.8 million will be provided over three years to provide security services and support to ensure a safe and secure M2006. Of this, \$56.5 million will be funded from existing resources.

Funding of \$27.1 million (including capital of \$0.2 million) over three years will be provided for non-security related services associated with staging M2006, of which \$18.5 million will be provided from existing resources. Activities involved include pre-event drug testing of international athletes, sporting programmes for people with disabilities, provision of aviation safety information and increased trade and investment promotion activities.

The Australian Sports Commission will provide an estimated \$55.3 million in direct assistance for M2006 sports through existing programmes over two years from 2004-05. Significant indirect assistance is also provided to support athletes, coaches and support staff of M2006 sports.

Visa application costs will be waived for Commonwealth Games Family Members, resulting in revenue forgone of \$1.4 million. Exemptions from Income and Withholding Tax for the Commonwealth Games Federation, estimated at \$1 million, were recorded as a measure, *Income tax exemption for the Commonwealth Games Federation*, in the 2002-03 Mid-Year Economic and Fiscal Outlook.

Of this funding, the Government has committed \$13.0 million over three years to the Department of Defence to provide security support.

Budget estimates – enhanced quality and timeliness

The Government will provide \$88.5 million over four years (including \$24.8 million in 2003-04) to implement the Budget Estimates and Framework Review recommendations that were endorsed by the Government in 2002. This amount includes \$1.4 million in capital funding.

Provision for this purpose was made in the Contingency Reserve in the 2003-04 Budget pending consideration of funding for individual agencies.

This funding is in addition to the \$3.6 million specifically provided to the Foreign Affairs and Trade and Employment and Workplace Relations portfolios in the 2003-04 Budget, and \$54.4 million provided to the Department of Finance and Administration was recorded as a measure in the *Mid-Year Economic and Fiscal Outlook 2002-03*.

The Department of Defence has been supplemented \$18.1 million over five years from 2003-04 for its involvement in this activity as reported in the *Portfolio Additional Estimates Statements 2003-04* (page 8).

Other Budget Adjustments

The Government has agreed to a number of other budget adjustments in addition to the new measures detailed above, including reprogramming of funds, offsetting adjustments between appropriations, price and exchange movements and other adjustments. These adjustments are discussed below.

Reprogramming of the Defence Capital Program (Serial 32 in Table 2.3)

The Government has agreed to reprogram \$884.0m from the forward estimates to across the period 2009-10 to 2013-14, reflecting a reappraisal of Defence's currently planned funding levels. Chapter three provides details.

Adjustment to the Capital/Operating Mix of the Investment Program (Serial 33 in Table 2.3)

The Government has agreed to adjust the split between the capital and operating elements of the investment program across the forward estimates to ensure expenditure is brought to account in accordance with Australian Accounting Standards. The adjustment does not represent a reduction in investment spending, but a re-classification of expenditure in respect of Defence's investment program.

Comcover Premium Increase (Serial 34 in Table 2.3)

The Government has provided \$11.7m in 2004-05 to partially offset the increase in Comcover premiums.

Transfer of Military Compensation Scheme funding (SRCA) to the Department of Veterans' Affairs (Serial 35 in Table 2.3)

The *Military Rehabilitation and Compensation Bill 2003* and the *Military Rehabilitation and Compensation (Consequential and Transitional Provisions) Bill 2003* (MRC (C&T) Bill) passed by the Parliament on 1 April 2004, provide for the establishment of the new Military Rehabilitation and Compensation scheme. The new scheme significantly reforms the existing arrangement of two separate military compensation schemes under multiple sources of legislation including the *Veterans' Entitlements Act 1986* and the *Safety Rehabilitation and Compensation Act 1988* (SRCA).

Additionally, some aspects of compensation for ADF personnel are provided through Defence Determination 2003/21, made under Section 58B of the Defence Act. The Determination is being amended to effect the transfer of responsibility for these payments to the Secretary of the Department of Veterans' Affairs.

Effective from 1 July 2004, the Department of Veterans' Affairs will be the single administrative body for all forms of ADF compensation under the old and the new

schemes. The transfer of responsibility necessitates the transfer to the Department of Veterans' Affairs of funding associated with the administration and payment of benefits under the SRC Act and the Defence Act.

Price Indexation (Serial 36 in Table 2.3)

The Government has approved a revision to price parameters provided in the 2003-04 Additional Estimates reflecting movements in the gross non-farm domestic product deflator of 2.5 per cent (\$220.7m).

Foreign Exchange Adjustments (Serial 37 in Table 2.3)

Defence is required to return to the Government surplus foreign exchange supplementation. This surplus reflects the difference between parameters provided in the 2004-05 Budget and those on which the previous Forward Estimates (as reflected in the *Portfolio Additional Estimates Statements 2003-04*) were based (\$324.1m).

Other Adjustments (Serial 38 in Table 2.3)

The budget contains a number of other minor and technical adjustments.

Movement in Funding (Revenue) provided by the Government

Table 1.4 (page 21) of the *Portfolio Budget Statements 2003-04* provided details of how Defence's total revenue from appropriations had varied by Government decision since the release of the White Paper. Table 2.3 shows further movements in funding since then.

Table 2.3: Defence Revenue from Government⁽¹⁾⁽²⁾⁽³⁾

Serial No.		2003-04	2004-05	Variation	2005-06	2006-07	2007-08
		\$m	\$m	\$m	\$m	\$m	\$m
1	Funding Base as a Consequence of 2003-04 Budget	15,418.8	15,595.4	176.6	15,848.3	16,808.0	
	2003-04 Additional Estimates						
2	Operation Anode Net additional cost for the first 90 days (Additional Funding)	111.0	22.3	-88.8	-	-	
3	National Threat Assessment Centre (NTAC) supplementation	0.7	0.5	-0.2	0.5	0.5	
4	Operation Bastille/Falconer/Catalyst revised phasings	-50.7	36.9	87.6	13.8	-	
5	Operation Bel Isi II - Reimbursement of 2002-03 expenditure and additional funding	9.5	-	-9.5	-	-	
6	Budget Estimates and Framework Review Supplementation	4.6	3.8	-0.9	3.5	3.1	
7	Operating Lease Supplementation	24.8	21.9	-2.9	22.2	22.9	
8	Comcover Premium increase	11.7	-	-11.7	-	-	
9	Funding for Other Current Operations (Return of uncommitted funds – Operation Citadel)	-27.6	-	27.6	-	-	
10	Locally Engaged Staff Transfer	3.3	3.5	0.2	3.5	3.6	
11	Price Indexation	75.0	76.2	1.5	78.1	82.8	
12	Foreign Exchange Adjustments	-295.2	-	295.2	-	-	
	2003-04 Published PAES	15,285.9	15,760.5	474.6	15,970.0	16,920.9	17,425.7
	2004-05 Budget Adjustments						
	Budget Measures:						
13	Logistics – continuation of funding	-	-	-	-	-	205.3
14	Logistics – additional funding	-	142.1	142.1	146.7	158.4	163.1
15	Military personnel – supplementation	-	6.8	6.8	57.0	-6.5	22.7
16	Personnel initiatives – continuation	-	-	-	-	10.6	10.8

17	Personnel initiatives – expansion of rental assistance	-	-	-	59.3	91.1	92.9
18	Personnel initiatives – improvements to living-in accommodation	-	2.0	2.0	12.5	37.1	61.6
19	Accommodation – supplementation for the purchase of Defence Housing Authority services	-	108.0	108.0	88.0	-	-
20	Papua New Guinea Defence Force – funding to support downsizing	-	14.6	14.6	2.7	-	-
21	Coastal Surveillance – continuation – Relex II	-	16.0	16.0	-	-	-
22	Defence Procurement Review – implementation of recommendations	-	17.5	17.5	5.0	5.0	5.0
23	Property sales – costs	-	31.8	31.8	-	-	-
24	Point Nepean Community Trust - establishment	-	5.0	5.0	-	-	-
25	Defence Capability Review – operational cost savings	-	-	-	-80.0	-97.4	-109.1
26	Iraq – funding for operations and rehabilitation activities	-	124.6	124.6	3.0	4.0	-
27	East Timor – support to the United Nations mission	-	16.0	16.0	4.1	-	-
28	Estate upkeep	-	-	-	90.0	100.0	110.0
29	Investing in Australia's Security – increased funding to intelligence agencies	-	10.3	10.3	12.2	12.3	12.6
30	Investing in Australia's Security – critical infrastructure protection	-	1.7	1.7	1.8	1.8	1.8
31	Melbourne 2006 Commonwealth Games – contribution	-	0.6	0.6	11.4	1.0	-
Other Budget Adjustments:							
32	Reprogramming of the Defence Capital Program	-	-74.0	-74.0	-303.0	-374.0	-133.0
33	Adjustment to the Capital/Operating Mix of the Investment Program	-	-	-	-	-	-
34	Comcover Premium increase	-	11.7	11.7	-	-	-
35	DVA Transfer of Military Compensation	-	-168.3	-168.3	-174.4	-184.1	-193.9
36	Price Indexation	-	220.7	220.7	223.5	230.3	243.0
37	Foreign Exchange Adjustments	-88.7	-324.1	-235.4	-	-	-
38	Other Adjustments	-9.9	1.5	11.4	1.1	1.1	1.1
Published 2004-05 PBS (refer serial 3 of Table 2.1)		15,187.3	15,925.0	737.7	16,130.9	16,911.6	17,919.6

Notes

1. Funding from Government is the sum of revenue for price of outputs and the equity injection.
2. The funding baseline at each published budget milestone reflects the Forward Estimates at that time.
3. Funding in 2004-05 includes \$65.8m reimbursed to Defence for expenditure in 2003-04, which was drawn from Defence's cash reserves. Refer to Table 2.8: Use of Cash (Appropriation Receivable).

Summary of Net Additional Costs of Current Operations

The ADF has approximately 2,000 personnel deployed on more than ten operations around the world that include border protection, United Nations operations, coalition operations and third country deployments. The projected result for current operations, including Force Generation for East Timor, in 2003-04 is \$960.6m, \$38.8m less than the total allocation. The Government has agreed to reprogram the \$38.8m to 2004-05 (\$36.3m) and 2005-06 (\$2.5m). Including decisions from prior budgets, the Government has provided \$762.8m in 2004-05 to cover the net additional costs of these operations including Force Generation for East Timor. Details are shown in Table 2.4.

Table 2.4: Revised Net Additional Cost of Current Operations

Operation	2003-04	2003-04	Variation	2004-05	2005-06	2006-07
	Budget	Projected Result		Budget	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Deployment costs	233.1	157.0	-76.1	27.1	4.1	-
Force generation costs	319.9	384.9	65.0	448.9	448.9	448.9
Sub total East Timor	553.0	541.9	-11.1	476.0	453.0	448.9
Bastille/Falconer/Catalyst	282.9	255.2	-27.7	212.5	19.3	4.0
Anode	111.1	111.1	-	22.2	-	-
Slipper	-5.0	-5.0	-	-	-	-
Relax II	17.8	17.8	-	16.0	-	-
Bel Isi II	5.0	5.0	-	-	-	-
Safebase	34.6	34.6	-	36.1	-	-
Total	999.4	960.6	-38.8	762.8	472.3	452.9

Operation Citadel

Operation Citadel was established to replace Operation Tanager following East Timor's independence in May 2002. Its objective was to contribute to the United Nations support to East Timor. In addition, the Government, as part of the White Paper, announced ongoing funding for Force Generation to sustain two battalion groups, provide for an additional airfield defence squadron and meet the increased costs of supporting operations. The extra forces, which involved an increase of 3,000 positions for the Army and 555 for the Air Force, were to ensure the ADF could deal with contingencies such as East Timor into the future.

In accordance with the most recent Force Extraction plan for the current commitment, the Government has agreed to reprogram \$11.1m from 2003-04 to 2004-05. After allowing for the reprogramming of \$11.1m, the projected result for 2003-04 is \$157.0m or \$65.0m less than last published in the *Portfolio Additional Estimates Statements 2003-04* (page 9). The estimates for deployment costs were overstated at this time, and those for Force Generation were understated. Overall, both elements of East Timor funding will be managed within the revised allocation of \$541.9m.

Australia has been a lead participant in successive UN missions in East Timor to date. The United Nations is in the process of planning for a one-year extension of the current UN mission in East Timor beyond May 2004. A possible Australian contribution to the UN peacekeeping force is expected to form a major part of the extended UN Mission. To reflect this contribution, the Government has provided supplementation of \$20.1m over two financial years. Table 2.5 details the 2003-04 projected result and forward estimates.

Table 2.5: Revised Net Additional Cost of Operation Citadel

	2001-02 Actual	2002-03 Actual	2003-04 Budget	2003-04 Projected Result	Variation	2004-05 Forward Estimate	2005-06 Forward Estimate	2006-07 Forward Estimate
	\$m	\$m	\$m	\$m		\$m	\$m	\$m
East Timor deployment	187.5	172.4	233.1	157.0	-76.1	11.1	-	-
Force Generation	445.4	406.9	319.9	384.9	65.0	448.9	448.9	448.9
Sub total existing deployment	632.9	579.3	553.0	541.9	-11.1	460.0	448.9	448.9
Supplementation for post-UNMISSET mission	-	-	-	-	-	16.0	4.1	0.0
Total	632.9	579.3	553.0	541.9	-11.1	476.0	453.0	448.9

Operations Bastille/Falconer/Catalyst

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 into Operation Catalyst. Operation Catalyst is the ADF's contribution to developing a secure environment in Iraq, assisting national rehabilitation and facilitating the transition to Iraqi self-government. The net additional cost of all three operations as published in the *Portfolio Additional Estimates Statements 2003-04* (page 11) was estimated at \$644.7m including \$197.2m for Operation Catalyst. Included in this estimate was a contingency amount of \$6.8m.

Since the 2003-04 Additional Estimates, the Government has approved extensions to the P-3C Orion and air traffic controller deployments and the deployment of training forces to help train the new Iraqi military forces. Based on current expenditure trends, Defence expects to be able to absorb the net additional costs associated with these additional commitments within the original estimate of \$644.7m including the \$6.8m contingency.

In the context of the 2004-05 Budget, the Government also agreed to Defence reprogramming \$27.7m from 2003-04 to 2004-05 (\$25.2m) and 2005-06 (\$2.5m). This funding relates to the repatriation and remediation of specialist equipment and aircraft deployed during the operational phase of Operations Bastille/Falconer/Catalyst.

The Government has also announced that the ADF's contribution to the continued rehabilitation and stabilisation of Iraq post hand-over to the new Iraqi Government will continue through financial year 2004-05, for which the Government has provided supplementation of \$131.6m over three financial years.

Defence now expects that the net additional cost of all three operations will total \$776.3m as shown in Table 2.6.

Table 2.6: Revised Net Additional Cost of Operations Bastille/Falconer/Catalyst

	2002-03 Actual	2003-04 Projected Result	2004-05 Budget	2005-06 Forward Estimate	2006-07 Forward Estimate	Total
	\$m	\$m	\$m	\$m	\$m	
Agreed allocations as per <i>Portfolio Additional Estimates Statements 2003-04</i> (page 11)	285.3	282.9	62.7	13.8	-	644.7
Re-phasing agreed	-	-27.7	25.2	2.5	-	0.0
Revised allocations	285.3	255.2	87.9	16.3	-	644.7
Continuation of the rehabilitation of Iraq	-	-	124.6	3.0	4.0	131.6
Total	285.3	255.2	212.5	19.3	4.0	776.3

Operation Anode

Operation Anode is the Defence contribution to the Regional Assistance Mission Solomon Islands. In the 2003-04 Additional Estimates, the Government provided Defence with supplementation totalling \$133.3m spread over two financial years, of which \$111.1m is required in 2003-04 and \$22.2m in 2004-05. At this stage the estimates remain unchanged but will be reviewed at the end of the 2003-04 financial year.

Operation Relex II

Operation Relex II provides air and surface patrols across Australian's northern approaches to deter unauthorised boat arrivals. The Government provided \$17.8m in 2003-04 for this activity. The planned ADF force commitment to Operation Relex II in 2004-05 is similar to that of 2003-04, including one Frigate, one P-3C Orion maritime patrol aircraft, two Fremantle-class patrol boats and Army transit security elements. The net additional costs estimated at \$16.0m in 2004-05.

Operation Bel Isi II

Operation Bel Isi II commenced in 1998 with the objective of supporting the regional Peace Monitoring Group to monitor and report on the maintenance of the cease-fire in Bougainville. The ADF involvement in Operation Bel Isi II ceased in August 2003. Defence was supplemented \$5.0m in the 2003-04 Additional Estimates to cover the estimated cost of the operation post 30 June 2003. The final outcome will be reviewed at the end of the 2003-04 financial year.

Operation Safebase

The Government provided an additional \$34.6m in 2003-04 and \$36.1m for 2004-05, to continue the enhanced protective security measures for Defence personnel and facilities (Operation Safebase). The funds are being applied mainly to increase guarding, patrolling and protective searches. The additional allocation of \$70.7m brings the Government's total commitment on enhanced protective security for Defence personnel and facilities to \$138.8m since the events of 11 September 2001. At this stage, the estimates remain unchanged but will be reviewed at the end of the 2003-04 financial year.

Appropriations

The total appropriations for Defence in the 2004-05 budget are \$18,684m, as shown in Table 2.1. Table 2.7 shows the total appropriations for Defence for 2004-05 split across the seven Government outcomes, by administered expenses, cost of output appropriation and departmental equity injection.

Table 2.7: Appropriations and Other Revenue

Outcome	Departmental (Price of Outputs) (\$'000)					Administered (\$'000)			(\$'000) Total Appropriations (I=E+H)	
	Revenue from Government (Appropriations)			Receipts ⁽¹⁾ (D)	Price of Outputs (E=C+D)	(F) Annual Approps	(G) Special Approps	(H=F+G) Total Approps		
	(A)	(B)	(C=A+B) Total							
	Bill No 1	Special Approps								
Outcome 1: Command of Operations	677,155	-	677,155	80,760	757,915	-	-	-	757,915	
Outcome 2: Navy Capability	4,336,333	-	4,336,333	76,847	4,413,180	-	-	-	4,413,180	
Outcome 3: Army Capability	5,297,660	-	5,297,660	158,203	5,455,863	-	-	-	5,455,863	
Outcome 4: Air Force Capability	4,631,217	-	4,631,217	93,658	4,724,875	-	-	-	4,724,875	
Outcome 5: Strategic Policy	247,259	-	247,259	7,629	254,888	-	-	-	254,888	
Outcome 6: Intelligence	436,317	-	436,317	5,445	441,762	-	-	-	441,762	
Outcome 7: Administered	-	-	-	-	-	-	2,336,900	2,336,900	2,336,900	
Total	15,625,941	-	15,625,941	422,542	16,048,483	-	2,336,900	2,336,900	18,385,383	
									Departmental Capital (equity injection) (serial 2, Table 2.1)	299,025
									Administered Assets and Liabilities	-
									Total Appropriations (serial 9, Table 2.1)	18,684,408

Note

- Receipts comprise the sale of goods and services (\$246m), cash receipts from other revenue (\$85m), and net proceeds from the sale of property, plant and equipment (\$92m), as set out in the budgeted cash flows statement, with GST receipts from customers being excluded.

Use of Cash Reserves

In implementing the recommendations of the Government's Budget Estimates and Framework Review, Defence implemented an 'as required' cash drawdown system in February 2003. Defence's cash reserves are now held as a receivable by the Department of Finance and Administration and, rather than maintain large cash balances in its accounts, Defence will draw on these cash reserves to meet existing liabilities as they fall due in future years. Defence plans to have cash reserves totalling \$641.0m held as a receivable at the end of 2003-04, which the Government has agreed can be drawn down to meet existing employee and other liabilities as payments become due. Defence's employee liabilities are expected to be \$3,758m as at 30 June 2004 (refer to Table 2.13), which will reduce after the transfer of \$1,701m to the Department of Veterans' Affairs in relation to accrued military compensation provisions.

Table 2.8: Use of Cash (Appropriation Receivable)

2003-04 Use of Cash Reserves		2004-05	2005-06	2006-07	2007-08
Projected		Budget	Forward	Forward	Forward
Result		Estimate	Estimate	Estimate	Estimate
\$m		\$m	\$m	\$m	\$m
870.201	Opening balance of reserves to receivables held by Department of Finance and Administration ⁽¹⁾	640.915	778.982	723.882	648.582
-46.900	Cash used to reduce employee liabilities	-34.800	-52.600	-75.300	-97.000
112.900	Use of cash for Operation Bastille and returned from budget in 2003-04	-	-	-	-
14.600	Use cash reserve for Bougainville and returned from budget in 2003-04	-	-	-	-
42.540	Provision to meet future liabilities ⁽²⁾	143.367	-	-	-
0.846	Transfer from the Department of Foreign Affairs and Trade for employee liabilities of Locally Engaged Staff	-	-	-	-
-26.916	Return of excess 2002-03 current operations funding	-	-	-	-
-3.600	Mulwala tendering costs	-	-	-	-
11.100	Operation Citadel rephasing	-11.100	-	-	-
27.700	Operation Catalyst rephasing	-25.200	-2.500	-	-
-5.300	Reimbursement of Defence Procurement Review implementation costs	5.300	-	-	-
-20.000	Reimbursement of Commercialisation of DHA costs	20.000	-	-	-
-3.700	Reimbursement of part of the second tranche of the Papua New Guinea Defence Reform Program	3.700	-	-	-
-95.756	Access to 2002-03 property proceeds (part) ⁽³⁾	-	-	-	-
-5.000	Reimbursement of Point Nepean community grant costs	5.000	-	-	-
-31.800	Reimbursement of Property disposal costs from 2003-04	31.800	-	-	-
500.000	Forecast Capital underspend in 2003-04	-	-	-	-
-700.000	Reprogramming of capital expenditure (including \$200m held in cash reserves at the end of 2002-03)	-	-	-	-
640.915	Sub total: Appropriation Receivable	778.982	723.882	648.582	551.582

Notes

1. Includes the \$200m in capital funds not spent in 2002-03.
2. Cash set aside to enable Defence to meet future liabilities.
3. Use of cash retained by Defence from the proceeds of property sales in 2002-03 to meet operating cost pressures.

Methods of Presenting the Defence Budget

The Defence budget is presented using three methods. All three methods are consistent and are used for different purposes.

Method 1: Defence Resourcing

The Defence resourcing method excludes administered appropriations, which are administered on Defence's behalf by other organisations. This method includes total funding appropriated by the Government to Defence plus net capital receipts and own-source revenue. It is based on Australian accounting standards (accrual basis). Method 1 is used in the Defence Portfolio Budget Statements and also in the Commonwealth Budget Paper 4 (Appropriation Bills).

The Defence resourcing method is derived as follows:

	2004-05	Reference
	\$m	
Appropriation from Government for price of outputs	15,626	Table 2.1, Serial 1
Appropriation for equity injection	299	Table 2.1, Serial 2
Own-source revenue	331	Table 2.1, Serial 4
Net capital receipts	92	Table 2.1, Serial 5
Total Department Resourcing	16,348	Table 2.1, Serial 7

Method 1 is commonly used to measure movements in Defence's funding allocations relative to the previously agreed budget and forward estimates allocations.

Method 2: Underlying Cash Balance Impact

Method 2 is the sum of Defence cash flows from operating activities and net capital investment, including both departmental and administered expenditure, and is used by the Treasury to describe the Defence budget in underlying cash impact terms. It is a measure of spending rather than resourcing, and is an estimate of the net impact of Defence spending on the whole-of-government cash balance. This number is derived on an Australian Bureau of Statistics government finance statistics cash operating payments basis, adjusted for net proceeds of asset sales returned to the Government.

A figure of \$15.314b is used in the Treasury budget overview and the Treasurer's budget speech and is derived as follows:

	2004-05	Reference
	\$m	
Underlying cash baseline ⁽¹⁾	13,268	Department of Finance and Administration
Logistics – additional funding	142	Table 2.3, Serial 14
Military Personnel – supplementation	7	Table 2.3, Serial 15
Personnel Initiatives – improvements to living-in accommodation	2	Table 2.3, Serial 18
Papua New Guinea Defence Force – funding to support downsizing	11	Table 2.3, Serial 20
Coastal Surveillance – continuation – Relex II	16	Table 2.3, Serial 21
Defence Procurement Review – implementation of recommendations	12	Table 2.3, Serial 22
Property sales – costs	26	Table 2.3, Serial 23

Iraq – funding for operations and rehabilitation activities	125	Table 2.3, Serial 26
East Timor – support to the United Nations mission	16	Table 2.3, Serial 27
National security – increased funding to intelligence agencies	10	Table 2.3, Serial 29
Critical Infrastructure Protection	2	Table 2.3, Serial 30
Australian Government contribution to the costs of staging the Melbourne 2006 Commonwealth Games	1	Table 2.3, Serial 31
White Paper Funding Increase	1,676	Table 1.2
Total Defence Funding	15,314	Treasury, Budget Overview and Treasurer’s Budget Speech

Note

1. This is an underlying cash figure derived by the Department of Finance and Administration. The important distinction between methods 1 and 2 is that the latter approach describes estimates of spending in a cash sense, rather than appropriations from the Government which include funding for accrual items such as depreciation.

Method 3: Defence Function

Method 3 includes only expenses that have a direct impact on the fiscal balance and excludes superannuation, which is recorded in the superannuation function. This method is derived using the Government finance statistics accrual expense approach and is used in Statement 6 of Commonwealth Budget Paper No. 1. It also includes investment in specialist military equipment but excludes depreciation of specialist military equipment and intra-government flows such as fringe benefits tax payments to the Australian Taxation Office. It is derived as follows:

	2004-05 \$m	Reference
Defence (AAS 31) Expenses ⁽¹⁾	14,254	Department of Finance and Administration
Investment in specialist military equipment	2,869	Department of Finance and Administration
Specialist military equipment depreciation	-2,367	Table 2.16
Net sales value of assets sold	-231	Table 3.1
Net write-down of non-financial assets	-100	Table 2.12
Total Defence Function Expense	14,425	Statement 6, Budget Paper No. 1

Note

1. Australian Accounting Standards 31 – Financial Reporting by Governments.

Revised Financial Performance 2004-05

Defence is anticipating a surplus of \$21.3m in 2004-05. This surplus represents reimbursement to Defence for a number of items that were funded initially from within its cash reserves in 2003-04 (\$65.8m) offset by retention of a portion of the 2004-05 property sales proceeds to meet property disposal related costs totalling \$25.5m and expenditure of \$19.1m relating to the rephasing of funding for Operations Citadel and Catalyst. Details are shown in Table 2.9.

Table 2.9: Variation in Planned Financial Performance 2004-05⁽¹⁾

	2004-05			
	Previous Estimate ⁽²⁾	Budgeted Estimate	Variation	Variation
	\$'000	\$'000	\$'000	%
REVENUE				
Revenues from ordinary activities				
Revenue from Government	14,929,723	15,625,941	696,218	4.7
Sales of goods and services	242,093	245,670	3,577	1.5
Revenue from sale of assets	242,312	230,980	-11,332	-4.7
Other	86,250	86,892	642	0.7
Revenue from ordinary activities	15,500,378	16,189,483	689,105	4.4
EXPENSE				
Expenses from ordinary activities (excluding borrowing cost expense)				
Employees ⁽³⁾	6,777,338	6,710,346	-66,992	-1.0
Suppliers	5,362,434	6,109,274	746,840	13.9
Grants	1,911	1,250	-661	-34.6
Depreciation and amortisation	2,984,937	2,984,937	-	-
Value of assets sold	242,312	230,980	-11,332	-4.7
Write down of assets	100,000	100,000	-	-
Expenses from ordinary activities (excluding borrowing cost expense)	15,468,932	16,136,787	667,855	4.3
Borrowing cost expense	31,446	31,446	-	-
Net surplus	-	21,250	21,250	100

Notes

1. See also Table 2.12.
2. As reported in the *Portfolio Additional Estimates Statements 2003-04* (page 55).
3. Employee expenses are referred to in Table 5.4.

Revenue has increased by \$689.1m due mainly to:

- increased revenue from the Government for the operating expense component of activities outlined below (\$696.2m); and
- reduced anticipated revenue from the 2004-05 property sales program (-\$11.3m).

Expenses have increased by \$667.9m due mainly to the measures and other technical adjustments outlined in the financial overview including:

- reclassification of a portion of the capital budget as operating expenses (\$186.4m);
- revision to price parameters provided in the 2003-04 Additional Estimates process (\$172.7m);

- supplementation for logistics cost pressures (\$142.1m);
- supplementation for the net additional costs of Operation Catalyst (2004-05 element) (\$124.6m);
- supplementation for higher charges to Defence from the Defence Housing Authority, arising from the application of competitive neutrality principles (\$88.0m); and
- transfer of the Military Compensation function to the Department of Veterans' Affairs (-\$168.3m).

Revised Financial Position 2004-05

Compared with the 2004-05 previous estimate, Defence's net assets are estimated to decrease by \$498.1m, as shown in Table 2.10.

Table 2.10: Revised Financial Position 2004-05⁽¹⁾

	2004-05			
	Previous Estimate ⁽²⁾	Budget Estimate	Variation	Variation
	\$'000	\$'000	\$'000	%
ASSETS				
Financial Assets				
Cash	99,557	-90,443	-190,000	-190.8
Receivables	1,358,178	1,061,322	-296,856	-21.9
Total Financial Assets	1,457,735	970,879	-486,856	-33.4
Non-Financial Assets				
Land and Buildings	8,912,396	8,923,728	11,332	0.1
Infrastructure plant and equipment	37,892,245	36,258,966	-1,633,279	-4.3
Intangibles	85,847	85,847	-	-
Heritage and Cultural	19,047	19,047	-	-
Inventories	3,749,395	3,836,895	87,500	2.3
Other	718,548	718,548	-	-
Total Non-Financial Assets	51,377,478	49,843,031	-1,534,447	-3.0
Total ASSETS	52,835,213	50,813,910	-2,021,303	-3.8
LIABILITIES				
Debt				
Leases	317,570	317,570	-	-
Total Debt	317,570	317,570	-	-
Provisions and Payables				
Employees and other provisions	3,478,248	1,955,018	-1,523,230	-43.8
Suppliers payables	1,200,066	1,200,066	-	-
Other payables	373,729	373,729	-	-
Total Provisions and Payables	5,052,043	3,528,813	-1,523,230	-30.2
Total LIABILITIES	5,369,613	3,846,383	-1,523,230	-28.4
NET ASSETS	47,465,600	46,967,527	-498,073	-1.0

EQUITY

Capital	2,945,499	1,661,852	1,283,647	-43.6
Reserves	7,247,911	7,247,911	-	-
Accumulated surpluses	37,272,190	38,057,764	785,574	2.1
TOTAL EQUITY	47,465,600	46,967,527	-498,073	-1.0

Notes

1. See also Table 2.13.
2. As reported in the *Portfolio Additional Estimates Statements 2003-04* (page 56).

Total assets are estimated to decrease by \$2,021.3m or 3.8 per cent due mainly to:

- the reprogramming of \$700m in capital underspends (\$200m arising from 2002-03 and \$500m from 2003-04) to the period beyond 2007-08. Funds will be reappropriated in relevant years;
- variations in exchange rate levels (-\$412.8m);
- reclassification of a portion of the capital budget as operating expenses (-\$344.7m); and
- revised depreciation estimates (-\$265.0m).

Total liabilities are estimated to decrease by \$1,523.2m, reflecting:

- increased liability arising from corrections to long service and annual leave liabilities and the transfer of the three per cent productivity liability from the Administered statements to Defence's Departmental statements (\$368.2m);
- recognition of the discharge of the 27th pay liability in 2004-05 (-\$190.0m); and
- transfer of the Military Compensation function and associated projected liability to the Department of Veterans' Affairs (-\$1,701.4m).

Revised Cash Flows 2004-05

The difference in cash flow projections between the 2004-05 previous estimate and the 2004-05 Budget reflect the combined impact (both operating expense and capital) of the funding adjustments outlined in the financial overview. The reduction of \$495.1m in purchase of specialist military equipment predominantly reflects the return of foreign exchange savings to the Budget and the re-categorisation of some capital expenditure to the capital program as an operating expense to reflect Australian Accounting Standards. Details are shown in Table 2.11.

Table 2.11: Variation in Cash Flows 2004-05⁽¹⁾

	2004-05			
	Previous Estimate ⁽²⁾	Budget Estimate	Variation	Variation
	\$'000	\$'000	\$'000	%
CASH RECEIPTS				
Appropriations from Government	14,929,723	15,625,941	696,218	4.7
Sales of goods and services	262,913	266,798	3,885	1.5
Net GST refund	851,109	872,561	21,452	2.5
Other	84,250	84,892	642	0.8
Cash transfer from Official Public Account	34,800	71,100	36,300	104.3
Proceeds from sales of property, plant and equipment	242,312	230,980	-11,332	-4.7
Equity appropriation	830,804	299,025	-531,779	-64.0
Total Cash Receipts	17,235,911	17,451,297	215,386	1.2
CASH PAYMENTS				
Employees	6,689,073	6,812,081	123,008	1.8
Suppliers	5,341,872	6,110,472	768,600	14.4
Grants	1,911	1,250	-661	-34.6
Other	31,446	31,446	-	-
Cash transfer to Official Public Account	143,367	209,167	65,800	45.9
Purchase of specialist military equipment	3,370,074	2,874,945	-495,129	-14.7
Purchase of Inventory	832,016	840,586	8,570	1.0
Purchase of property, plant and equipment	636,713	608,743	-27,970	-4.4
Repayments of debt	13,607	13,607	-	-
Capital withdrawal	175,832	139,000	-36,832	-20.9
Total Cash Payments	17,235,911	17,641,297	405,386	2.4
Net Increase/(Decrease) in Cash Held	-	-190,000	-190,000	-100.0
Cash at 1 July	99,557	99,557	-	-
Cash at 30 June	99,557	-90,443	-190,000	-190.8

Notes

1. See also Table 2.14.

2. As reported in the *Portfolio Additional Estimates Statements 2003-04* (page 57).

At this stage, funding for the 27th payday in 2004-05 is not included. The Government has agreed that Defence can bring forward a proposal for consideration in the 2004-05 Additional Estimates. The \$190m decrease in cash held reflects the need to make that payment, pending resolution in the 2004-05 Additional Estimates process.

BUDGETED FINANCIAL STATEMENTS

This section provides the budgeted financial statements for Defence. They have been prepared consistent with the Government's financial budgeting and reporting framework. They consist of the following statements and accompanying notes for both departmental and administered performance.

Budgeted Statement of Financial Performance (Budgeted Operating Statement)

This statement provides a picture of the expected financial results for Defence by identifying revenues and expenses over 2004-05 and the forward estimates. This highlights whether Defence is operating at a sustainable level in the short-term.

Budgeted Statement of Financial Position (Budgeted Balance Sheet)

This shows the projected financial position of Defence for 2004-05 and the forward estimates. It enables decision-makers to track the management of Defence's assets and liabilities.

Budgeted Statement of Cash Flows (Budgeted Cash Flow Statement)

The budgeted statement of cash flows categorises expected cash flows arising from operating activities, investing activities and financing activities.

Capital Budget Statement

This shows all proposed capital expenditure and receipts during the budget year and the forward estimates. It also shows how new asset acquisitions are funded by appropriation for outputs, by equity injections or loans, or by sales of existing assets.

Non-Financial Assets – Summary of Movement

This statement shows movement in non-financial assets in the budget year.

Schedule of Budgeted Revenues and Expenses Administered on Behalf of Government.

This schedule identifies the main revenues and expenses Defence administers on behalf of the Government.

Schedule of Budgeted Assets and Liabilities Administered on Behalf of Government.

This schedule shows the main assets and liabilities Defence administers on behalf of the Government.

Schedule of Budgeted Administered Cash Flows

This schedule shows cash flows Defence administers on behalf of the Government.

Schedule of Administered Capital Budget

This schedule has been excluded as Defence does not have any administered capital budget items.

Schedule of Administered Non-Financial Assets – Summary of Movement

This schedule has been excluded as Defence does not administer any non-financial assets.

Table 2.12: Budgeted Statement of Financial Performance⁽¹⁾

2003-04 Projected Result		2004-05 Previous Estimate	2004-05 Budget Estimate	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000		\$'000	\$'000	%	\$'000	\$'000	\$'000
	REVENUES						
14,569,666	Revenues from Government	14,929,723	15,625,941	4.7	15,254,845	15,807,771	16,600,178
243,085	Sales of goods and services	242,093	245,670	1.5	251,200	253,449	258,993
-	Interest	-	-	-	-	-	-
306,384	Revenue from sales of assets	242,312	230,980	(4.7)	40,000	40,000	40,000
278,000	Assets now recognised	-	-	-	-	-	-
87,706	Other	86,250	86,892	0.7	88,429	89,677	90,998
15,484,841	Total Revenues	15,500,378	16,189,483	4.4	15,634,474	16,190,897	16,990,169
	EXPENSES						
6,932,305	Employees ⁽²⁾	6,777,338	6,710,346	(1.0)	6,993,119	7,118,766	7,197,428
5,552,967	Suppliers	5,362,434	6,109,274	13.9	5,726,334	6,062,832	6,696,137
1,874	Grants	1,911	1,250	(34.6)	1,275	1,301	1,327
3,091,654	Depreciation and amortisation	2,984,937	2,984,937	-	2,742,171	2,835,282	2,928,394
306,384	Value of assets sold	242,312	230,980	(4.7)	40,000	40,000	40,000
378,000	Write-down of assets	100,000	100,000	-	100,000	100,000	100,000
-	Other	-	-	-	-	-	-
16,263,184	Total Expenses	15,468,932	16,136,787	4.3	15,602,899	16,158,181	16,963,286
31,263	Borrowing cost expense	31,446	31,446	-	32,075	32,716	26,883
(809,606)	Net Operating Result	-	21,250	100.0	(500)	-	-
37,144,689	Equity Interests Accumulated surpluses at 1 July	37,272,189	36,335,083	(2.5)	36,356,333	36,355,833	36,355,833
36,335,083	Total Available for Appropriation	37,272,189	36,356,333	(2.5)	36,355,833	36,355,833	36,355,833
-	Change in accounting policy	-	-	-	-	-	-
-	Capital withdrawal	-	-	-	-	-	-
36,335,083	Accumulated Surpluses as at 30 June	37,272,189	36,356,333	(2.5)	36,355,833	36,355,833	36,355,833

Notes

1. See also Table 2.9.
2. Employee expenses are referred to in Table 5.4.

Table 2.13: Budgeted Statement of Financial Position⁽¹⁾

2003-04 Projected Result		2004-05 Previous Estimate	2004-05 Budget Estimate	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000		\$'000	\$'000	%	\$'000	\$'000	\$'000
	ASSETS						
	Financial Assets						
99,557	Cash	99,557	(90,433)	(190.8)	(90,443)	(90,443)	(90,443)
923,255	Receivables	1,358,178	1,061,322	(21.9)	1,006,222	930,922	833,922
1,022,812	Total Financial Assets	1,457,735	970,879	(33.4)	915,779	840,479	743,479
	Non-Financial Assets						
9,129,857	Land and buildings	8,912,396	8,923,728	0.1	8,873,234	8,817,185	8,756,376
35,873,509	Infrastructure, plant and equipment	37,892,245	36,258,966	(4.3)	37,362,407	38,601,479	40,080,577
130,637	Intangibles	85,847	85,847	-	65,663	44,769	23,166
19,047	Heritage and Cultural	19,047	19,047	-	19,047	19,047	19,047
3,886,800	Inventories	3,749,395	3,836,895	2.3	3,763,612	3,788,731	3,796,831
718,548	Other	718,548	718,548	-	718,548	718,548	718,548
49,758,398	Total Non-Financial Assets⁽²⁾	51,377,478	49,843,031	(3.0)	50,802,511	51,989,759	53,394,545
50,781,210	Total Assets	52,835,213	50,813,910	(3.8)	51,718,290	52,830,238	54,138,024
	LIABILITIES						
	Debt						
331,177	Leases	317,570	317,570	-	303,090	287,670	271,310
331,177	Total Debt	317,570	317,570	-	303,090	287,670	271,310
	Provisions and Payables						
3,758,183	Employees	3,478,248	1,955,018	(43.8)	1,895,861	1,807,792	1,694,847
1,200,066	Suppliers	1,200,066	1,200,066	-	1,200,066	1,200,066	1,200,066
373,729	Other	373,729	373,729	-	373,729	373,729	373,729
5,331,978	Total Provisions and Payables	5,052,043	3,528,813	(30.2)	3,469,656	3,381,587	3,268,642
5,663,155	Total Liabilities	5,369,613	3,846,383	(28.4)	3,772,746	3,669,257	3,539,952
45,118,055	Net Assets	47,465,600	46,967,527	(1.0)	47,945,544	49,160,981	50,598,072
	EQUITY						
1,501,827	Capital	2,945,499	1,661,852	(43.6)	2,537,889	3,641,756	4,961,137
7,281,144	Reserves	7,247,911	7,247,911	-	7,247,911	7,247,911	7,247,911
36,335,084	Accumulated surpluses	37,272,190	38,057,764	2.1	38,159,744	38,271,314	38,389,024
45,118,055	Total Equity	47,465,600	46,967,527	(1.0)	47,945,544	49,160,981	50,598,072
	Represented by:						
2,024,551	Current assets	1,962,474	1,964,958	0.1	1,898,611	1,827,166	1,731,409
48,756,659	Non-current assets	50,872,739	48,848,952	(4.0)	49,819,679	51,003,072	52,406,615
2,868,562	Current liabilities	2,462,218	2,233,182	(9.3)	2,211,972	2,180,556	2,140,354
2,794,593	Non-current liabilities	2,907,395	1,613,200	(44.5)	1,560,774	1,488,701	1,399,598

Notes

1. See also Table 2.10.
2. Refer to Table 2.16 for a detailed breakdown of land and buildings, infrastructure, plant and equipment, intangibles and heritage and cultural assets.

Table 2.14: Budgeted Statement of Cash Flows⁽¹⁾

2003-04 Projected Result		2004-05 Previous Estimate	2004-05 Budget Estimate	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000		\$'000	\$'000	%	\$'000	\$'000	\$'000
OPERATING ACTIVITIES							
14,569,666	Appropriations from Government	14,929,723	15,625,941	4.7	15,254,845	15,807,771	16,600,178
263,991	Sales of goods and services	262,913	266,798	1.5	267,624	269,924	275,828
-	Interest	-	-	-	-	-	-
794,868	Net GST refund	851,109	872,561	2.5	844,694	903,808	988,403
85,706	Other	84,250	84,892	0.8	88,429	89,677	90,998
938,972	Cash transfer from Official Public Account	34,800	71,100	104.3	55,100	75,300	97,000
16,653,203	Total cash received	16,162,795	16,921,292	4.7	16,510,692	17,146,480	18,052,407
6,491,833	Employees	6,689,073	6,812,081	1.8	6,949,796	7,095,265	7,192,663
5,509,433	Suppliers	5,341,872	6,110,472	14.4	5,654,842	6,008,449	6,780,906
1,874	Grants	1,911	1,250	(34.6)	1,275	1,301	1,327
107,154	Inventory	108,162	109,276	1.0	111,713	129,972	120,714
31,263	Other	31,446	31,446	-	32,075	32,716	26,883
709,686	Cash transfer to Official Public Account	143,367	209,167	45.9	-	-	-
12,851,243	Total cash used	12,315,831	13,273,692	7.8	12,749,701	13,267,703	14,122,493
3,801,960	Net cash from/(to) Operating Activities	3,846,964	3,647,600	(5.2)	3,760,991	3,878,777	3,929,914
INVESTING ACTIVITIES							
306,384	Proceeds from sales of property, plant and equipment	242,312	230,980	(4.7)	40,000	40,000	40,000
306,384	Total cash received	242,312	230,980	(4.7)	40,000	40,000	40,000
2,585,499	Purchase of specialist military equipment	3,370,074	2,874,945 ⁽²⁾	(14.7)	3,325,512	3,658,838	3,977,148
483,991	Purchase of property, plant and equipment	636,713	608,743 ⁽²⁾	(4.4)	589,422	478,573	487,932
717,111	Purchase of Inventory	723,854	731,310	1.0	747,614	869,813	807,855
3,786,601	Total cash used	4,730,641	4,214,998	(10.9)	4,662,548	5,007,224	5,272,935
(3,480,217)	Net cash from/(to) investing activities	(4,488,329)	(3,984,018)	(11.2)	(4,622,548)	(4,967,224)	(5,232,935)
FINANCING ACTIVITIES							
617,634	Equity appropriation	830,804	299,025	(64.0)	876,037	1,103,867	1,319,381
617,634	Total cash received	830,804	299,025	(64.0)	876,037	1,103,867	1,319,381

Budgeted Financial Statements

2003-04 Projected Result		2004-05 Previous Estimate	2004-05 Budget Estimate	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000		\$'000	\$'000	%	\$'000	\$'000	\$'000
12,561	Repayments of debt	13,607	13,607	-	14,480	15,420	16,360
926,816	Capital withdrawal	175,832	139,000	(20.9)	-	-	-
939,377	Total cash used	189,439	152,607	(19.4)	14,480	15,420	16,360
(321,743)	Net Cash from/(to) financing activities	641,365	146,418	(77.2)	861,557	1,088,447	1,303,021
	Net Increase/ (Decrease) in Cash Held	-	(190,000)	(100.0)	-	-	-
99,557	Cash at 1 July	99,557	99,557	-	(90,443)	(90,443)	(90,443)
99,557	Cash at 30 June	99,557	(90,443)	(190.8)	(90,443)	(90,443)	(90,443)

Notes

1. See also Table 2.11.
2. Purchase of Specialist Military Equipment and Property plant and Equipment equals the Total of Gross value additions in Table 2.16 and Total Capital Payments in Table 2.15.

Table 2.15: Capital Budget Statement

2003-04 Projected Result	2004-05 Previous Estimate	2004-05 Budget Estimate	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000	\$'000	\$'000	%	\$'000	\$'000	\$'000
CAPITAL EXPENDITURE						
2,585,499	3,370,074	2,874,945	(14.7)	3,325,512	3,658,838	3,977,148
483,991	636,713	608,743	(4.4)	589,422	478,573	487,932
3,069,490	4,006,787	3,483,688	(13.1)	3,914,934	4,137,411	4,465,080
Total Capital Payments⁽¹⁾						
Funded from:						
617,634	830,804	299,025	(64.0)	876,037	1,103,867	1,319,381
2,345,372	3,109,503	3,092,683	(0.5)	2,998,897	2,993,544	3,105,699
106,484	66,480	91,980	38.4	40,000	40,000	40,000
3,069,490	4,006,787	3,483,688	(13.1)	3,914,934	4,137,411	4,465,080
Total Capital Funding⁽²⁾						
CAPITAL RECEIPTS						
-	-	-	-	-	-	-
306,384	242,312	230,980	(4.7)	40,000	40,000	40,000
(199,900)	(175,832)	(139,000)	(20.9)	-	-	-
106,484	66,480	91,980	38.4	40,000	40,000	40,000
Net Capital Receipts⁽²⁾						

Notes

- Total Capital Payments equates to Purchases of Specialist Military Equipment and Property, plant and equipment in Table 2.14.
- Total Capital Funding and Net Capital Receipts cross reference to Table 3.3.

Table 2.16: Non-Financial Assets – Summary of Movement

Revised Budget Year 2004-05	Land	Buildings	Commercial Vehicles, Other Equipment and Infrastructure	Specialist Military Equipment	Software	Other Intangibles	Heritage and Cultural	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
GROSS VALUE								
Gross value as at 30 June 2004	2,313,335	9,772,081	7,441,691	55,057,663	149,532	133,891	19,047	74,887,240
Gross value – additions	-	219,302	387,723	2,874,945	-	1,718	-	3,483,688 ⁽¹⁾
Gross value – revaluations	-	(33,233)	-	-	-	-	-	(33,233)
Gross value – disposals	(80,970)	(142,108)	(118,270)	(39,934)	-	-	-	(381,282)
Gross value – write-offs	-	-	-	(100,000)	-	-	-	(100,000)
Gross value – other movements	-	-	-	-	-	-	-	-
Gross Value as at 30 June 2005	2,232,365	9,816,042	7,711,144	57,792,674	149,532	135,609	19,047	77,856,413
ACCUMULATED DEPRECIATION/AMORTISATION								
Accumulated depreciation/amortisation as at 30 June 2004	-	2,955,559	2,591,297	24,034,548	70,780	82,006	-	29,734,190
Depreciation/amortisation on assets held at the beginning of the year	-	221,617	349,466	2,367,346	18,486	28,022	-	2,984,937
Accumulated depreciation/amortisation on assets disposed through the year	-	(52,497)	(63,641)	(34,164)	-	-	-	(150,302)
Accumulated depreciation/amortisation as at 30 June 2005	-	3,124,679	2,877,122	26,367,730	89,266	110,028	-	32,568,825
Written Down Value as at 30 June 2005⁽²⁾	2,232,365	6,691,363	4,834,022	31,424,944	60,266	25,581	19,047	45,287,588

Notes

1. Total of 'Gross value—additions' equals purchase of Specialist Military Equipment and Property, Plant and Equipment in Table 2.14.
2. The written-down values are represented in Table 2.13.

Table 2.17: Schedule of Budgeted Revenues and Expenses Administered on Behalf of Government

2003-04 Projected Result	2004-05 Previous Estimate	2004-05 Budget Estimate	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000	\$'000	\$'000	%	\$'000	\$'000	\$'000
Revenues Administered on Behalf of Government						
229,364	144,900	45,047	(68.9)	13,203	17,465	21,264
580,683	563,389	603,389	7.1	661,389	712,389	755,389
Total revenues administered on behalf of Government						
810,047	708,289	648,436	(8.5)	674,592	729,854	776,653
Expenses Administered on Behalf of Government						
2,009,400	2,321,200	2,329,400	0.4	2,429,400	2,429,400	2,629,400
7,500	7,400	7,500	1.4	7,500	7,500	7,500
-	-	-	-	-	-	-
Total expenses administered on behalf of Government						
2,016,900	2,328,600	2,336,900	0.4	2,436,900	2,436,900	2,636,900

Table 2.18: Schedule of Budgeted Assets and Liabilities Administered on Behalf of Government

2003-04 Projected Result		2004-05 Previous Estimate	2004-05 Budget Estimate	Variation %	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000		\$'000	\$'000		\$'000	\$'000	\$'000
Assets Administered on Behalf of Government							
-	Cash	80,226	-	(100.0)	-	-	-
25,000	Receivables	10,000	10,000	-	-	-	-
1,258,883	Investments	1,258,883	1,258,883	-	1,258,883	1,258,883	1,258,883
74,016	Other Non-Financial Assets	74,018	74,016	-	74,016	74,016	74,016
Total assets administered on behalf of Government							
1,357,899		1,423,127	1,342,899	(5.6)	1,332,899	1,332,899	1,332,899
Liabilities Administered on Behalf of Government							
28,680,000	Military benefits	29,800,000	29,580,000	(0.7)	30,580,000	31,480,000	32,580,000
Total liabilities administered on behalf of Government							
28,680,000		29,800,000	29,580,000	(0.7)	30,580,000	31,480,000	32,580,000
Represented by:							
25,000	Current assets	90,226	10,000	(88.9)	-	-	-
1,332,899	Non-current assets	1,332,901	1,332,899	-	1,332,899	1,332,899	1,332,899
-	Current liabilities	-	-	-	-	-	-
28,680,000	Non-current liabilities	29,800,000	29,580,000	(0.7)	30,580,000	31,480,000	32,580,000

Table 2.19: Schedule of Budgeted Administered Cash Flows

2003-04 Projected Result		2004-05 Previous Estimate	2004-05 Budget Estimate	Variation %	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000		\$'000	\$'000	%	\$'000	\$'000	\$'000
OPERATING ACTIVITIES							
Cash Received							
	Cash from the Official Public Account	1,428,600	1,436,900	0.6	1,436,900	1,536,900	1,536,900
1,216,900	Interest and dividends	144,900	45,047	(68.9)	13,203	17,465	21,264
229,364	Other	578,389	618,389	6.9	671,389	712,389	755,389
606,629							
2,052,893	Total Cash Received	2,151,889	2,100,336	(2.4)	2,121,492	2,266,754	2,313,553
Cash Used							
1,209,400	Military benefits	1,421,200	1,429,400	0.6	1,429,400	1,529,400	1,529,400
7,500	Subsidies	7,400	7,500	1.4	7,500	7,500	7,500
	Cash to the Official Public Account	723,289	663,436	(8.3)	684,592	729,854	776,653
916,383	Other	-	-	-	-	-	-
-							
2,133,283	Total Cash Used	2,151,889	2,100,336	(2.4)	2,121,492	2,266,754	2,313,553
(80,390)	Net cash from/(to) operating activities Net (decrease) / increase in cash held	-	-	-	-	-	-
(80,226)	Cash at the beginning of the reporting period	80,226	-	-	-	-	-
80,226							
	Cash at the end of the reporting period	80,226	-	(100.0)	-	-	-

NOTES TO THE BUDGETED FINANCIAL STATEMENTS

Note 1 - Key Accounting Policies

1.1 Budgeted Financial Statements Overview

Budgeted financial statements have been included to show the planned financial performance over the 2004-05 budget year, and each of the following forward years from 2005-06 to 2007-08.

Budgeted statements of financial performance, financial position, and cash flows and a budgeted capital statement are provided to show the revenues, expenses, assets, liabilities and equity of Defence. These budgeted statements contain estimates prepared in accordance with the requirements of the Government's financial budgeting and reporting framework.

The projected results for 2003-04, shown in the portfolio budget statements for comparative purposes, are based on estimates at the time these portfolio budget statements were prepared and are not necessarily estimates determined during the *Portfolio Additional Estimates Statements 2003-04*. These estimates include pressures and opportunities that have arisen during, or are foreseen for the remainder of, the 2003-04 financial year. Audited financial results for Defence will be provided in the annual report following the completion of the financial year.

1.2 Comparative figures and variations

In recognition of the budget development and scrutiny process, variations explained in the budgeted financial statements are between the budget and the previously published forward estimate for 2004-05 (*Portfolio Additional Estimates Statements 2003-04*) unless otherwise noted. This most recent previous estimate for 2004-05 is also included in these budgeted financial statements for comparative purposes.

1.3 Rounding

Unless otherwise stated, the convention used in these budgeted financial statements is to round amounts to the nearest \$'000. Totals are the sum of unrounded figures.

1.4 Budgeted Departmental Financial Statements and Schedule of Budgeted Administered Activity

Note that the term '*budgeted financial statements*' and '*statements of*' are used interchangeably.

Under the Australian Government's accrual-based budgeting framework, and consistent with Australian Accounting Standards, transactions that agencies

control (Departmental transactions) are separately budgeted for and reported, compared to transactions that agencies do not have control over (Administered transactions). This ensures that agencies are only held fully accountable for the transactions over which they have control.

- Departmental expenses include employee and supplier expenses and other administrative costs, which are incurred by Defence in providing its goods and services.
- Administered items are revenues, expenses, assets and liabilities that are managed by Defence on behalf of the Government according to set Government directions and which Defence does not have management control. These include Military Superannuation contributions, payments received from the United Nations and foreign governments, bank interest and dividends paid by the Defence Housing Authority.

1.5 Appropriations in the accrual budgeting framework

Under the Australian Government's accrual budgeting framework, separate annual appropriations are provided for:

- Departmental price of outcomes appropriations (represent the Government's funding for outcomes from agencies);
- Departmental capital appropriations (representing investments by the Government for either additional equity or loans in agencies);
- Administered expense appropriations (representing estimated Administered expenses relating to an existing outcome, a new outcome or a Specific Purpose Payment to the states); and
- Administered capital appropriations (represent increases in Administered equity through funding non-expense Administered payments).

Special appropriations fund the majority of payments from the Consolidated Revenue Fund (especially those that are entitlement driven or involve transfers to State governments).

1.6 Basis of Accounting

The Budgeted statements have been prepared in accordance with:

- The Financial Management and Accountability Orders under the authority of section 63 of the *Financial Management and Accountability Act 1997*;
- Australian Accounting Standards (AAS) and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB); and
- Consensus Views of the Urgent Issues Group.

The Budgeted 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 (refer to items 1.15 and

1.16), are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or financial position.

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.

Administered revenues, expenses, assets and liabilities and cash flows reported in the Schedules of Administered Items (Tables 2.17, 2.18 and 2.19) are accounted for on the same basis and using the same policies as for departmental items, except as otherwise stated.

1.7 Changes in Accounting Policy

The accounting policies used in the preparation of these budgeted financial statements are consistent with those used in 2002-03, except in respect of raising the threshold for grouping assets from \$1,000 to \$2,000.

1.8 Revenue

Revenues from Government

Departmental outputs appropriation for the year (less any savings offered up in Portfolio Additional Estimate Statements) are recognised as revenue, except for certain amounts which relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

From 2002-03, Defence elected to operate on an 'as required' drawdown basis that may result in undrawn appropriations as at 30 June 2004 that will be reflected as a receivable. This receivable is available for drawdown to meet future obligations.

Other Revenue

Revenue from the delivery of goods and the rendering of services is recognised by reference to the stage of completion of contracts or other agreements to provide goods or 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. Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

Under the Transactional Banking arrangements adopted 1 July 1999, Defence manages its own cash bank accounts in line with the Department of Finance and Administration's 'as required' drawdown arrangements.

Interest revenue is recognised as it is earned, on a proportional basis taking into account the interest rates applicable to the financial assets. Dividend revenue is recognised when the right to receive a dividend has been established.

1.9 Transactions with the Government

Equity Injection

Equity injection represents an additional contribution to Defence by the Government, which is over and above the revenue from Government for the price of outcomes. Equity injections are used entirely to fund capital expenditure. The Finance Ministers' Orders require that amounts of appropriations designated as 'equity injections' (less any savings offered up in the Portfolio Additional Estimate Statements) are recognised directly in Contributed Equity as at 1 July or later date of effect of the appropriation.

1.10 Employee Benefits

Defence's workforce comprises two employment components: Australian Public Service (APS, ie civilians) and Australian Defence Force (ADF, ie 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.

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 long service leave is determined by reference to the work of an actuary. The estimate of the value of the liability takes into account attrition rates and pay increases through promotion and inflation.

The liability for annual leave for APS employees reflects the value of total annual leave entitlements of all such employees and is recognised at the nominal amount. All annual leave for APS employees is current. The liability in respect of annual leave for ADF personnel reflects an estimate of the total value of annual leave entitlements. The liability is recognised as the best estimate of the nominal amount required to settle the obligation as at the reporting date. All annual leave for ADF is current.

Superannuation

Permanently appointed APS employees and the Department contribute to the Commonwealth Superannuation Scheme (CSS) or the Public Sector Superannuation Scheme (PSS). These schemes are defined benefit superannuation plans for APS employees. No liability is shown for APS superannuation in the Statement of Financial Position as the employer superannuation contributions by Defence fully extinguish the accruing liability, which is assumed by the Commonwealth, and is reported by the Department of Finance and Administration, with the administration being conducted by ComSuper. For APS employees who are not members of the CSS or PSS the Department makes an employer superannuation contribution to their nominated fund.

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 Schedules of Administered Items (Tables 2.17, 2.18 and 2.19).

Military Workers' Compensation

The Military Rehabilitation and Compensation Bill 2003 and the Military Rehabilitation and Compensation (Consequential and Transitional Provisions) Bill 2003 (MRC(C&T) Bill) passed by the Parliament on 1 April 2004, provide for the establishment of the new Military Rehabilitation and Compensation scheme. The new scheme significantly reforms the existing arrangement of two separate military compensation schemes under multiple sources of legislation including the Veterans' Entitlements Act 1986 and the Safety Rehabilitation and Compensation Act 1988 (SRCA). Effective from 1 July 2004, the Department of Veterans' Affairs will be the single administrative body for all forms of ADF compensation under the old and the new schemes.

Employee Workplace Agreements

As a result of workplace agreements in place for Defence employees, a number of pay increases for both APS and ADF personnel are due to be paid in ensuing years. The current military agreement is for a period of 18 months from 7 November 2002 until 6 May 2004. The last pay rise was three per cent from 3 July 2003. The APS Certified Agreement expires on 31 December 2006. The pay rises are two per cent from 1 January 2004, four per cent from 4 November 2004, two per cent from 2 June 2005 and two per cent from 12 January 2006. Remuneration for executives (being members of the Senior Executive Service or equivalent) is subject to individual agreements.

1.11 Asbestos Related Disease Exposure

An inter-departmental committee chaired by the Department of Finance and Administration commissioned Trowbridge Deloitte to perform an actuarial

study on the nature and extent of the Australian Government's liability for Asbestos-Related Diseases. The Actuarial Assessment of the Australian Government Asbestos-Related Disease Exposure report, which was finalised in October 2003, involved collecting extensive data on individual Australian Government claims, modeling the various sources of claims and conducting interviews with various Australian Government agencies involved in managing the claims.

The provision is based on the best estimate of Defence's potential exposure, consistent with the requirement of AASB 1044, Provisions, Contingent Assets and Contingent Liabilities. In making the best estimate of the consideration required to settle the provision, the Actuary has applied independent expertise and has used existing historical data, as well as similar claims elsewhere. The estimate represents the present value of future compensation payments on both future reported claims and currently open claims, including defendant legal costs. In the financial statements Defence is required to gross-up the liability and disclose the assets.

1.12 Cash

Cash means notes and coins held, as well as any deposits held at call with a bank or financial institution. Changed cash management procedures during 2002-03 required Defence to adopt an 'as required' drawdown approach to appropriations. This has reduced the amount of cash held by Defence. Undrawn appropriation is represented as a receivable from the Commonwealth.

1.13 Acquisition of Assets

Assets are recorded at cost of 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 as 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.

1.14 Property, Plant and Equipment including Land, Buildings and Infrastructure

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the Budgeted 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 will be 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).

Asset valuation

From 1 July 2002 Commonwealth agencies and authorities are required to use the cost basis (for specialist military equipment and intangibles) or the fair value basis (for other, infrastructure, plant and equipment) to measure Property, Plant and Equipment. The shift from the deprival method of valuation to fair value occurred gradually over a three-year period. Fair value essentially reflects the current market value of an asset.

Revaluations

In accordance with Schedule 1 of the Financial Management and Accountability (Financial Statements 2003-2004) Orders and AASB 1041 Revaluation of Non-Current Assets, all non-current assets are valued on the fair value basis from 1 July 2002, with the exception of specialist military equipment, which is currently valued on the basis of historical costs.

Property, plant and equipment, except for assets under construction and specialist military equipment with values greater than established revaluation thresholds, are revalued progressively in successive three-year cycles. All current progressive revaluation cycles commenced on 1 July 2002 and will conclude by 30 June 2005.

Assets within each class acquired after the valuation of the asset type in the current revaluation cycle are reported at cost for the duration of the cycle unless significant changes in the value of the asset have occurred, in which case the asset will be subject to revaluation or indexation.

Assets under construction are not revalued but are accounted for at cost. In addition to reviewing expenditures from the point of rollout into service, assets under construction expenditures are now also considered on a whole of life basis.

All valuations are conducted by an independent qualified valuer.

Depreciation and Amortisation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to Defence using, in all cases, the straight-line method of depreciation from the time they are first

held ready for use. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements and the unexpired period of the lease.

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.

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.

New disclosure requirements from 2002-03 require the proceeds from asset sales to be separately disclosed from the net book value of assets sold. Therefore the gross position is disclosed in the Budgeted Statement of Financial Performance.

1.15 Inventory

Defence does not ordinarily hold inventory for sale. Sales recorded represent disposal of inventory, surplus to requirements, and minor fuel sales. Inventory has been brought to account at weighted average cost since 2001-02.

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.

Previously, as historic cost was not available in all instances, inventory was brought to account at average cost, replacement cost or at last purchase price.

Inventory is considered obsolete based upon the nature of current inventory levels and expected usage of such assets in the achievement of Defence's Outcomes.

1.16 Investments

Investments held on behalf of the Commonwealth are included as administered assets and are brought to account as the value of the Commonwealth's share as at 30 June 1997 of the net assets of the entity, except where there has been a return of equity to the owner (the Government). This is a requirement of the Finance Ministers' Orders. Administered investments in controlled entities are not consolidated because their consolidation is relevant only at the whole of government level.

1.17 Taxation

Defence's activities are exempt from all forms of taxation except fringe benefits tax and the goods and services tax (GST). Defence is able to claim input credits for goods and services tax incorporated within the costs of assets and supplies purchased by Defence.

Revenues, expenses and assets are recognised net of GST except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office (in these circumstances GST is recognised as part of the cost of acquisition of the asset or part of the item of expense); and
- for receivables and payables (which are shown inclusive of GST in the Budgeted Statement of Financial Position).

1.18 Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets and operating leases under which 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 inception of the lease and a liability recognised for the same amount. Leased assets are amortised over the period of the lease. Operating lease payments are expensed on a basis, which is representative of the pattern of benefits derived from the leased assets.

1.19 Bad and Doubtful Debts

The provision for bad and doubtful debts 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. No provision is made for Australian Government or Foreign Government debtors as they are deemed to be collectable.

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 the Government's Comcare Australia. Defence meets the benefit costs for military compensation on an emerging cost basis.

1.21 Schedule of Budgeted Administered Activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the Schedules of Administered Items (Tables 2.17, 2.18 and 2.19) 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 to the greatest extent possible of Australian Accounting Standards, Accounting Interpretations and UIG Consensus Views.

Administered appropriations received or receivable from the Official Public Account are not reported as administered revenues or assets respectively. Similarly, administered receipts transferred or transferable to the Official Public

Account are not reported as administered expenses or payables. These transactions or balances are internal to the Administered entity.

Accounting policies that are relevant to administered activities only of Defence are disclosed below.

Administered Revenue

All administered revenues are revenues relating to the core operating activities performed by Defence on behalf of the Commonwealth. Administered revenues comprise Military Superannuation contributions, payments received from the United Nations and foreign governments, bank interest and dividends paid by the Defence Housing Authority.

Administered Expenses

All administered expenses are expenses relating to the core operating activities performed by Defence on behalf of the Commonwealth. Administered expenses comprise unfunded Military Superannuation benefits, ADF Housing Subsidies, ADF Retention Benefits and foreign exchange losses.

Administered Investments

Each Commonwealth department is required to show an Administered investment in each *Commonwealth Authority and Company (CAC) Act 1997* entity within their portfolio. These Administered investments should be valued at the Commonwealth's ownership interest in the net assets of those CAC entities, fixed at a notional acquisition date of 30 June 1997.

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. From 1 July 2002, Retention Benefit payments are recorded as prepayments instead of expenses. The change has been made to recognise the nature of these payments.

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 Schedules of Administered Items (Tables 2.17, 2.18 and 2.19).

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 Schedules of Administered Items (Tables 2.17, 2.18 and 2.19). The Commonwealth on behalf of the MSBS Fund makes funded benefit payments to members of the scheme and the Commonwealth is reimbursed by the 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 Schedules of Administered Items (Tables 2.17, 2.18 and 2.19). The AGA completes a full review of the unfunded liabilities (a Long Term Cost Report) every three years. The most recent Long Term Cost Report was completed as at 30 June 2002. ComSuper administers MSBS and DFRDB benefit payments on behalf of Defence. These payments are made using Defence Special Appropriations.

Note 2 - Budgeted Statement of Financial Performance - Variations in Estimates

This note provides explanations for the material variations between the 2004-05 budget and the previous 2004-05 forward estimates as published in the *Portfolio Additional Estimates Statements 2003-04* for Defence.

Departmental Statements

Budgeted Statement of Financial Performance

Appropriations from Government

The cost to the Government of Defence's outcomes directly equates to the full operating costs of inputs used by Defence during the year in delivering the outcomes. Defence's remaining funding requirements for the year are provided as new equity injection. Defence's budgeted cash flow statement shows how total cash received by Defence during the year is used to meet operating, investing and financing costs.

The cost of Defence's outcomes to the Government for 2004-05 is expected to increase by \$696.2m predominantly due to new budget measures and a number of other technical adjustments including:

- reclassification of a portion of the capital budget as operating expenses (\$186.4m);
- revision to price parameters (\$168.4m);
- supplementation for logistics cost pressures (\$142.1m);
- supplementation for Operation Catalyst (\$124.6m);
- supplementation for costs associated with the commercialisation of the Defence Housing Authority (\$108.0m);
- reimbursement of 2003-04 property disposal costs (\$31.8m);
- supplementation for the Defence Procurement Review (\$17.5m);
- supplementation for Operation Citadel (\$16.2m);
- continuation of funding for Operation Relex II (\$16.0m);
- supplementation for the second tranche of funding to support the downsizing of Papua New Guinea Defence Force (\$14.6m);
- supplementation for the Comcover premium increase (\$11.7m);
- supplementation for national security capabilities (\$10.3m); and
- transfer of Military Compensation and associated liability to the Department of Veterans' Affairs (-\$168.3m).

Equity

The equity injection from the Government has decreased by \$531.8m mainly due to the:

- price and exchange movements (\$52.2m);
- foreign exchange movements (-\$324.1m);
- reclassification of a portion of the capital budget as operating expenses (-\$186.4m); and
- revisions and rephasing of Defence Capability Plan expenditure (-\$74.0m).

Sales of Goods and Services

The estimate for sales of goods and services has increased by \$3.6m from previous estimates due to movements in price parameters.

Employee Expenses

Employee expenses have decreased by \$67.0m from previous estimates mainly due to:

- adjustments relating to price and exchange movements (\$91.3m);
- supplementation for costs associated with the commercialisation of the Defence Housing Authority (\$88.0m);
- additional supplementation for Operation Catalyst (\$46.7m);
- ongoing refinements to the cost of the workforce (-\$169.2m); and
- transfer of Military Compensation to the Department of Veterans' Affairs (-\$143.3m).

Suppliers Expenses

Suppliers expenses have increased by \$746.8m from previous estimates mainly due to:

- reclassification of a portion of the capital budget as operating expenses (\$186.4m);
- ongoing refinements to the estimates (\$169.9m);
- supplementation for logistics cost pressures (\$142.1m);
- rephasing and additional supplementation for Operation Catalyst (\$85.4m);
- price movements (\$81.4m);
- supplementation for 2004-05 property disposal costs (\$25.5m);
- continuation of funding and rephasing of Operation Citadel (\$23.2m);
- continuation of funding for Operation Relex II (\$15.6m);
- supplementation for the Comcover premium increase (\$11.7m);

- supplementation for the second tranche of funding to support the downsizing of the Papua New Guinea Defence Force (\$10.9m); and
- transfer of Military Compensation to the Department of Veterans' Affairs (-\$25.0m).

Budgeted Statement of Financial Position

Cash and Receivables

The \$190m decrease in cash held from the previous budget estimate reflects the need to make the payment for the 27th payday in 2004-05. The Government has agreed that Defence can bring forward a proposal for consideration of this matter in the 2004-05 Additional Estimates.

Receivables have decreased by \$296.9m from the previous budget estimate as a result of:

- reprogramming of \$200 million in capital expenditure not utilised in 2002-03 (-\$200m); and
- use of cash retained from the proceeds of property sales in 2002-03 (-\$95.8m).

Infrastructure, Plant and Equipment

Infrastructure, Plant and Equipment has decreased by \$1,633.3m from previous estimates, as a result of:

- reprogramming of the 2003-04 projected capital underspend to be re-appropriated beyond 2007-08 (-\$500.0m);
- revised exchange rate projections (-\$412.8m);
- reclassification of a portion of the capital budget as operating expenses (-\$344.7m);
- revised depreciation estimates (-\$265.0m); and
- revision and reprogramming of the Defence Capability Plan expenditure (-\$74.0m).

Employees and Other Provisions

Employees and other provisions has decreased by \$1,523.2m from previous estimates, as a result of:

- adjustments arising from corrections to Long Service and Annual leave liabilities and the transfer of the three per cent productivity liability from the Administered statements to Defence's Departmental statements (\$368.2m);
- transfer of Military Compensation to the Department of Veterans' Affairs (-\$1,701.4m); and
- recognition of the discharge of the 27th pay liability in 2004-05 (-\$190.0m).

Budgeted Statement of Cash Flows

In general, the explanation of variations in cash flows associated with operating items is included under the relevant statement of financial performance item above. Reasons for other material variations elsewhere are outlined below.

Net GST Refund

Defence is registered as an Australian business and therefore is able to claim input tax credits from the Australian Taxation Office.

Proceeds from Sales of Property, Plant and Equipment

Proceeds from the sale of property, plant and equipment have decreased by \$11.3m from previous estimates, reflecting the revision of the 2004-05 property sales target.

Capital Withdrawal

Capital withdrawal, which represents the return of property sales proceeds to the Government, has decreased by \$36.8m from the previous estimate reflecting revised property sales target for 2004-05.

Administered Statements

Interest and Dividends

Interest and dividends has decreased by \$99.9m from previous estimates, reflecting the revised estimate of dividends from the Defence Housing Authority.

Other Revenues

Other revenues administered on behalf of Government have increased by \$40.0m from the previous estimate, reflecting the revised estimate of military superannuation contributions.

Cash

Cash has reduced to zero reflecting the return of the cash from items administered by Defence to Government.

Note 3 – Summary of Estimated Special Account Balances

Table 2.20: Summary of Estimated Special Account Balances⁽¹⁾⁽²⁾

	Opening Balance 2004-05 ⁽³⁾ 2003-04	Receipts 2004-05 2003-04	Payments 2004-05 2003-04	Adjustments 2004-05 2003-04	Closing Balance 2004-05 2003-04
	\$'000	\$'000	\$'000	\$'000	\$'000
Services for Other Governments (SOG) and Non-Agency Bodies – <i>Financial Management and Accountability Act 1997</i> ⁽⁴⁾	84,812 <i>72,068</i> ⁽⁵⁾	85,000 <i>57,999</i>	65,000 <i>45,255</i>	- -	104,812 <i>84,812</i>
Defence Endowments – <i>Financial Management and Accountability Act 1997</i> ⁽⁴⁾	255 <i>264</i>	6 <i>15</i>	15 <i>24</i>	- -	246 <i>255</i>
Fedorczenko Legacy Fund – <i>Financial Management and Accountability Act 1997</i> ⁽⁴⁾	155 <i>149</i>	6 <i>6</i>	11 <i>0</i>	- -	150 <i>155</i>
Other Trust Monies – <i>Financial Management and Accountability Act 1997</i> ⁽⁴⁾	36,140 <i>10,885</i>	19,300 <i>26,921</i>	4,000 <i>1,666</i>	- -	51,440 <i>36,140</i>
Young Endeavour Youth Program – <i>Financial Management and Accountability Act 1997</i> ⁽⁴⁾	1,406 <i>2,035</i>	810 <i>901</i>	151 <i>1,530</i>	- -	2,065 <i>1,406</i>
Total Special Accounts	122,768 <i>85,401</i>	105,122 <i>85,842</i>	69,177 <i>48,475</i>	- -	158,713 <i>122,768</i>

Notes

1. 2004-05 revised estimates in bold.
2. 2003-04 projected outcome in italics.
3. The revised opening balance for 2004-05 is the expected actual closing balance for 2003-04.
4. These are Departmental special accounts.
5. The SOG balance in the future (2003-04 and onwards) will include Comcare money. This is because Defence does not have a Ministerial determination for Comcare and therefore it cannot be disclosed separately in this note to the financial statements.

DISCRETIONARY GRANTS

Discretionary grants are payments made to organisations or individuals at the discretion of the Portfolio Minister or Department of Defence. Grant recipients must satisfy eligibility and/or reporting requirements, and may be subject to certain conditions.

Discretionary grants in Defence:

- are one-off *ad hoc* grants (no grants extend beyond a 12-month period);
- can be grants-in-kind or services-in-kind rather than grant payments;
- include awards, gifts and departmental (non-legislated) rebate schemes; and
- are funded either from Defence's administrative or departmental expenses.

The Government requires Defence to report on all discretionary grant approvals. Table 2.10 provides information on grants approved for 2004-05.

Table 2.21: Discretionary Grants

Title of Grant Program	Total Grants 2004-05 \$'000
Army Military History Research Grants Scheme	50
Defence Family Support Funding Program	1,128
Grant to the Royal United Services Institute of Australia	75
Total	1,253

Army Military History Research Grants Scheme

The scheme supports and encourages research into the role and involvement of the Army in the development of the nation.

Defence Family Support Funding Program

This program provides funds to support projects and services initiated by Service families. It is also available to existing groups in the community composed of, or benefiting, Service families.

Grant to the Royal United Services Institute of Australia

The grant 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 its organisation of international seminars, lecture programs 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.

PURCHASER-PROVIDER ARRANGEMENTS WITH THE DEFENCE HOUSING AUTHORITY

Control Arrangements

The Defence Housing Authority is a statutory authority responsible, through its board, to the Minister for Finance and Administration and the Minister for Defence. It was established in 1987, commenced operations on 1 January 1988, and provides a range of customer services formerly delivered by Defence.

The only change to the board is the replacement of Air Vice Marshal C Spence with Air Vice Marshal R McLennan as an ADF representative.

The authority's activities are overseen by a board comprising:

Chairman	Mr P V Jones AM;
Managing Director	Mr K T Lyon;
Commercial Director	Mr T J R O'Brien AM;
Commercial Director	Mr J D C O'Grady;
Commercial Director	Ms B Boezeman AO;
Commercial Director	Mr W L Stokes;
ADF representative	Rear Admiral B L Adams AM RAN;
ADF representative	Rear Admiral R Moffitt RAN;
ADF representative	Major General F X Roberts AM;
ADF representative	Air Vice Marshal R McLennan;
Department of Defence representative	Dr R Neumann; and
Defence Families Australia representative	Mrs C Waller.

Resourcing

The 2004-05 estimate for the purchase of services from the Defence Housing Authority is \$378.1m, compared with the estimate of \$349.4m in 2003-04, an increase of \$28.7m. This covers the housing and relocation services and the Defence Home Loan Scheme for ADF members. The major reason for the significant increase in the cost of services is land taxes and stamp duty that will be incurred by Defence from 2004-05 onwards.

Review of Governance Arrangements

In February 2004, an inter-departmental committee was established to review the Defence Housing Authority's governance arrangements. The committee consisted of representatives from the departments of Defence, Finance and Administration, Treasury, and the Prime Minister and Cabinet. It was co-chaired by Defence and Finance and Administration.

The review aimed to recommend to the Ministers for Defence and Finance and Administration an improved legislative framework for the Defence Housing

Authority to deliver housing effectively and efficiently to meet the operational needs of the ADF and Defence. The committee also considered the long-term viability of the Defence Housing Authority as a Government Business Enterprise.

The main governance items assessed by the committee were the legal structure and board composition of the Defence Housing Authority, expansion of its services, and the inconsistencies between the *Defence Housing Authority Act 1987* and the *Commonwealth Authorities and Companies Act 1987*.

The committee's terms of reference did not include privatisation of the Defence Housing Authority, ADF entitlements, housing standards or Defence housing policy.

The Committee first met in early March and is expected to present its findings to the Minister of Defence and the Minister of Finance and Administration at the end of May 2004.

DEFENCE

CHAPTER THREE CAPITAL BUDGET

CAPITAL BUDGET

Overview

Defence Capability Plan

The Approved Major Capital Equipment Program

Capital Facilities Projects

Other Capital Purchases

Capital Receipts

CAPITAL BUDGET

OVERVIEW

Reprogramming of the Investment Program

The Defence Major Capital Equipment Program has been revised to reflect a profile of funding over the period 2004-14 that differs from that previously agreed by the Government. Less funds are required in the early years of the program and the Government has agreed to reprogram \$2,226m to the period 2008-09 to 2013-2014. In outturned prices, this represents \$2,547m comprising:

- \$200m that was held in Defence's appropriation receivable, to be reprogrammed to 2008-09;
- \$642m relating to increasing the slippage rate from 15 to 20 per cent that the Government agreed in the 2003-04 Budget, to be reprogrammed to 2008-09 to 2011-12;
- \$500m representing the projected underspend in the Approved Major Capital Equipment Program in 2003-04, to be reprogrammed to 2008-09 to 2011-12;
- reducing by \$884m the funding for the period 2004-08, reprogramming this amount to 2009-10 to 2013-14; and
- incorporating a price outturn provision of \$321m to the reprogrammed amounts.

Table 3.1 shows that the net effect over ten years is \$1,663m, comprising the \$1,342m disclosed in the 2003-04 Additional Estimates (with associated price outturning of \$168m) and price outturning of \$153m in respect of the additional \$884m also to be reprogrammed.

Table 3.1: Reprogramming of the Defence Capital Program (Outturned, 2004-05 prices)

	2004-05	2005-06	2006-07	2007-08	Fwd Est	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total Ten Year
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
\$200m underspend in 2002-03	-	-	-	-	-	220.4	-	-	-	-	-	220.4
\$642m slippage 15-20 per cent	-	-	-	-	-	178.5	279.9	161.6	105.2	-	-	725.3
\$500m underspend in 2003-04	-	-	-	-	-	165.3	168.6	172.0	58.5	-	-	564.3
DCP Reprogramming	-74.0	-303.0	-374.0	-133.0	-884.0	-	200.1	135.3	190.6	298.2	212.9	153.0
Total	-74.0	-303.0	-374.0	-133.0	-884.0	564.2	648.5	468.9	354.3	298.2	212.9	1,663.0

Capital/Operating Adjustment

In accordance with Australian Accounting Standards, Defence is required to classify certain investment costs such as research and development, project studies, design work, specialist and professional advice and project office overheads as Operating expenses rather than through the Capital appropriation.

In the post-Defence Procurement review environment, more work will be undertaken prior to first pass approval and between first and second pass to define the options, costs, schedule and risks of project proposals. There will be an increasing proportion of costs to support the work to be undertaken, classified as Operating expenses such as project definition costs and project development funds. Transfers of a similar nature have also been made in the Capital Facilities Program, and further offsetting adjustments between the capital and operating appropriations have been agreed by the Government to reflect the increase in the information technology and administrative asset capitalisation threshold from \$1,000 to \$2,000.

These transfers do not represent a reduction in the Investment Program, but are an offsetting adjustment between appropriations to reflect accounting standards as shown in Table 3.2.

Table 3.2: Capital and Operating Adjustment

	2004-05 Budget \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	Forward Estimates \$m
Decrease in Capital	-186.4	-191.3	-225.0	-489.9	-1,092.6
Increase in Operating	186.4	191.3	225.0	489.9	1,092.6
Net Impact	-	-	-	-	-

Overview of Capital Investment Program

The Capital Investment Program is comprised of:

- The Defence Capability Plan;
- The Approved Major Capital Equipment Program;
- The Capital Facilities Program;
- Other Capital Purchases; and
- Capital Receipts.

The capital investment program for 2004-05 totals \$3,854m, with a further \$13,799m to be spent over the forward estimates period, as summarised in Table 3.3.

Table 3.3: 2004-05 Capital Investment Program incorporating Forward Estimates

Group/Item Description	Projected Result 2003-04	Budget Estimate 2004-05	Variation 2003-04 to 2004-05	Forward Estimates 2005-06	Forward Estimates 2006-07	Forward Estimates 2007-08
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Capital	-	79,312	79,312	242,493	1,017,001	1,603,490
Operating	9,642	20,666	11,024	43,915	178,642	226,801
Sub total Defence Capability Plan⁽¹⁾	9,642	99,978	90,336	286,408	1,195,643	1,830,291
Capital	2,140,721	2,483,834	343,113	2,550,823	2,022,351	1,743,788
Operating	318,438	328,882	10,444	312,401	243,921	210,961
Sub total Approved Major Capital Program⁽²⁾	2,459,159	2,812,716	353,557	2,863,224	2,266,272	1,954,749
Capital	411,061	448,009	36,948	383,219	327,176	320,796
Operating	10,000	20,679	10,679	21,093	21,515	21,945
Sub total Capital Facilities⁽³⁾	421,061	468,688	47,627	404,312	348,691	342,741
Other Capital ⁽⁴⁾	517,708	472,532	-45,176	426,801	457,841	442,963
Foreign Exchange Provision – Capital ⁽⁵⁾	-	-	-	311,598	313,041	354,042
Total Capital Component	3,069,490	3,483,688	414,198	3,914,934	4,137,411	4,465,080
Total Operating Component	338,080	370,227	32,147	377,408	444,078	459,708
Total Capital Investment Program	3,407,570	3,853,915	446,345	4,292,342	4,581,489	4,924,788
Net Capital Receipts⁽⁶⁾	-106,484	-91,980	14,504	-40,000	-40,000	-40,000
Total Capital	3,301,086	3,761,935	460,849	4,252,342	4,541,489	4,884,788

Notes

1. See further details at page 80.
2. See further details at Table 3.5.
3. See further details at page 82.
4. See further details at Table 3.10.
5. Foreign Exchange provision held centrally by Defence for progressive adjustment in future budgets.
6. See further details at Table 2.15 and Table 3.11.

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. This plan was reviewed, and a revised Defence Capability Plan was announced in February 2004. The plan sets out the planned investment in new equipment under five capability goals - land forces, air combat, maritime forces, strike and information capability.

Since the Defence White Paper was announced in 2000, the Government has approved more than 110 major projects or phases of projects with an all-up cost of around \$18b. Further projects will be considered for approval by the Government in 2004-05.

Major projects recently approved by the Government

Projects that have recently received Government approval, but which have not yet been transferred to the approved major capital equipment program, are:

- A project which seeks to replace the ADF tank fleet with a more modern, survivable and interoperable tank capability that will be supportable until at least 2020. This capability requirement has been developed in order to support the Combined Arms Team in close combat. The replacement vehicles will be capable of satisfying the ADF operational requirement until replaced by a future combat vehicle system capability.
- Phase 3 of a project that will commence enhancement of the ADF maritime communications capability, with the introduction of the maritime tactical wide area network in guided missile frigates, Anzac-class ships, HMA Ships *Kanimbla* and *Manoora* and HMAS *Success*. This provides the introduction of tactical IP networking and provides the foundation for the network-centric warfare roadmap in the maritime environment.
- The acquisition of two additional airborne early warning and control aircraft, equipping Australia with a fleet of six of the leading edge air and maritime surveillance aircraft.

Table 3.4 provides details of projects to be approved in 2004-05.

Table 3.4: Defence Capability Projects to be Approved in 2004-05⁽¹⁾⁽²⁾

Project Number	Project Title
AIR 5276 Phase 8B	AP-3C Electronic Support Measure – Acquisition
AIR 5276 Phase 5B	P-3C Orion Electro-optic Enhancement
AIR 5418 Phase 1	Follow-on Stand-Off Weapon Capability
AIR 9000 Phase 5A	Chinook Upgrade – Early Engine Replacement
JP 2068 Phase 2A	Defence Network Operations Centre – Defence Network Management System
JP 2068 Phase 2B	Computer Network Defence
JP 2077 Phase 2B	Improved Logistics Information Systems
JP 2080 Phase 2B	Defence Management Systems Improvement
JP 2089 Phase 2	Tactical Information Exchange Domain
JP 2090 Phase 1B	Combined Information Environment (Data Links)
JP 2095 Phase 1	Aviation Fire Trucks
SEA 1448 Phase 2B	Anzac Anti-Ship Missile Defence Upgrade – Fire Control Radar

Notes

1. In addition, it is planned to consider first-pass approvals for amphibious ships, multi-mission unmanned aerial vehicles, combat identification for land forces, maritime training helicopters, and to further consider the development of air warfare destroyers.
2. Capability and Technology Demonstrator projects, Project Development activities and some sensitive projects are not included in the list.

THE APPROVED MAJOR CAPITAL EQUIPMENT PROGRAM

The approved major capital equipment program is comprised of those projects which generally cost in excess of \$20m and which, following approval, are transferred from the Defence Capability Plan to the DMO for their acquisition phase. Up until 2003-04, projects costing \$20m or more required approval by the Government. Following implementation of the new two pass approval process as part of the Defence Procurement Review, the Government approval threshold has been increased to \$50m. Projects costing between \$8m and \$50m (formerly \$8m to \$20m) are now approved jointly by the Ministers for Defence and Finance and Administration.

An overview of the top 30 projects is included at Chapter Seven in Table 7.2. A summary of the total approved major capital equipment program is shown at Table 3.5.

Table 3.5: The Approved Major Capital Equipment Program

	2004-05 Budget \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Top 30 Projects Gross Plans (Constant 2004-05 dollars)	2,722	2,628	2,174	1,322
Other Projects Gross Plans (Constant 2004-05 dollars)	797	882	548	302
Sub total Gross Capital Program	3,519	3,510	2,722	1,624
Programming Adjustment/Slippage	-706	-703	-544	218
Outturning Adjustment	-	56	88	113
Total Net Major Capital Program	2,813	2,863	2,266	1,955

CAPITAL FACILITIES PROJECTS

The capital facilities program is comprised of approved and unapproved major projects, approved and unapproved medium projects and approved and unapproved minor projects.

The following information provides details of estimated expenditure in 2004-05 for approved major and medium capital facilities projects, and lists the major and medium facilities projects foreshadowed for approval in 2004-05.

Major capital facilities projects have expenditure over \$6m and are subject to Government approval and review by the Joint Standing Committee on Public Works. Medium facilities projects have expenditure between \$250,000 and \$6m. Projects between \$5m and \$6m are subject to Government approval but are not reviewed by the Joint Standing Committee on Public Works. Projects under \$5m are approved by departmental delegates. Minor projects are those under \$250,000.

The capital facilities program is designed to give priority to projects that support the Defence Capability Plan, sustain current capability requirements, support other Government initiatives, meet legislative obligations and assist initiatives that support people. A significant proportion of the program funding is directed towards the provision of basic engineering and infrastructure services, either in support of new projects or upgrades to existing facilities.

Approved Major Capital Facilities Projects

The following table and descriptions provide details on progress and expenditure in 2004-05 for major facilities projects.

Table 3.6: Approved Major Capital Facilities Projects by State and Federal Electorate

Program of Major Works (by State, Federal Electorate and Locality)	Total Estimated Expenditure	Estimated Cumulative Expenditure to 30 June 2004	Budget Estimate 2004-05
	\$m	\$m	\$m
NEW SOUTH WALES			
Gilmore			
Nowra – HMAS Albatross – Base Redevelopment	110.0	101.4	7.4
Macquarie			
Richmond – RAAF Richmond – Reinvestment	35.0	3.1	25.0
Parramatta			
Ermington – Pre-Disposal Site Works	33.2	7.3	7.6
Paterson			
Williamtown – RAAF Williamtown – Redevelopment Stage 1 and Airborne Early Warning and Control Works ⁽¹⁾	129.2	18.7	38.0
Total New South Wales	307.4	130.5	78.0
VICTORIA			
Melbourne Ports			
Fishermans Bend – Relocation of Defence Science and Technology Organisation Platforms Sciences Laboratory	61.2	51.0	6.0
Total Victoria	61.2	51.0	6.0
QUEENSLAND			
Groom			
Oakey – Oakey Base Redevelopment	76.2	64.6	11.5
Herbert			
Townsville – Lavarack Barracks Redevelopment Stage 3	170.6	110.8	39.0
Townsville – RAAF Townsville Redevelopment Stage 2	72.5	71.7	0.8
Total Queensland	319.3	247.1	51.3
SOUTH AUSTRALIA			
Bonython			
Edinburgh – RAAF Edinburgh – Redevelopment Stage 1	41.5	39.6	1.5
Total South Australia	41.5	39.6	1.5
NORTHERN TERRITORY			
Lingiari			
Timber Creek – Bradshaw Field Training Area Infrastructure	64.8	13.0	24.0
Katherine – RAAF Tindal – Security Fence	9.3	0.6	8.6
Solomon			
Darwin – RAAF Darwin – Base Redevelopment Stage 1	11.7	8.9	2.7
Darwin – 1 st Aviation Regiment Relocation	75.0	6.0	50.0
Total Northern Territory	160.8	28.5	85.3
AUSTRALIAN CAPITAL TERRITORY			
Fraser			
Canberra – Intelligence Facilities – Russell Offices	14.9	10.4	4.5

Program of Major Works (by State, Federal Electorate and Locality)	Total Estimated Expenditure	Estimated Cumulative Expenditure to 30 June 2004	Budget Estimate 2004-05
	\$m	\$m	\$m
Canberra Multi-User Depot	13.5	12.0	1.5
Total Australian Capital Territory	28.4	22.4	6.0
TOTAL	918.6	519.1	228.1

Note

1. Total estimated expenditure reduced to reflect turnkey project for airborne early warning and control support centre being delivered by Boeing at \$19.8m. These funds are held in the major capital equipment program. Total estimated cost is adjusted accordingly.

Nowra, New South Wales – 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 that are due for completion by late 2005.

This project contributes to Navy capability.

Richmond, New South Wales – 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 is scheduled to commence by mid-2004 and be completed by the end of 2005. Major works for 2004-05 are a squadron headquarters complex and maintenance workshops.

This project contributes to Air Force capability.

Ermington, New South Wales – Ermington Pre-Disposal Site Works

The project involves preparing the 21.28 hectare site for disposal. It includes two elements: 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 in four stages over the coming years. Infrastructure works commenced in February 2004. Planning is proceeding in close consultation with the Ermington Residents' Committee.

Williamtown, New South Wales – 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 at RAAF Williamtown. The managing contractor for the main works will complete the planning phase by late 2004, with the delivery phase to commence by the end of 2004. Major works planned

for 2004-05 include the airborne early warning and control aircraft hangar, taxiway widening and base engineering infrastructure upgrade works.

This project contributes to Air Force capability.

Fishermans Bend, Victoria – 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 will be completed by mid-2004 along with the bulk of the Maritime Platforms Division laboratory, less fit-out. A conference centre is scheduled for completion by mid-2005.

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

Oakey, Queensland – Oakey Base Redevelopment

This project will redevelop the base to optimise it for support of Army rotary-wing flying training, including the armed reconnaissance helicopter. The project is largely complete, with the flight simulator scheduled to be delivered in February 2005. The project is due for completion in May 2005.

This project contributes to Army capability.

Townsville, Queensland – Lavarack Barracks Redevelopment Stage 3

This project provides new working facilities for Army units at Lavarack Barracks to replace existing ones. Construction of new facilities for the 1st Battalion Royal Australian Regiment will be completed by October 2004 and construction of new facilities for Headquarters 3rd Brigade will commence in November 2004. All Stage 3 works will be completed by December 2005.

This project contributes to Army capability.

Townsville, Queensland – RAAF Townsville Redevelopment Stage 2

This project provides a range of new facilities to replace existing ones. This project is substantially complete, with new facilities for 27 Squadron to be completed by August 2004.

This project contributes to Air Force capability.

Edinburgh, South Australia – RAAF Edinburgh – Redevelopment Stage 1

This project will provide enhanced administrative, workshop and warehousing facilities, an upgrade of engineering services and an aircraft shelter.

Construction is substantially complete, with the key remaining deliverable, a new ground support equipment hangar, due for completion by August 2004.

This project contributes to Air Force and Navy capabilities.

Timber Creek, Northern Territory – 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. The indigenous land use agreement has been registered and contracts for road construction will be awarded by mid-2004. Construction is expected to be completed by the end of 2005.

This project contributes to Army capability.

Katherine, Northern Territory – RAAF Tindal – Security Fence

This project will provide a base perimeter security fence, which is designed to detect and delay intruder access. Construction of the fence will commence in late May 2004 and will be completed by December 2004.

This project contributes to Air Force capability.

Darwin, Northern Territory – RAAF Darwin – Base Redevelopment Stage 1

This project provides enhanced support facilities at RAAF Darwin. The majority of facilities have been completed and are in use. The base medical facilities and upgrading of the firefighting water supply are due for completion in August 2004.

This project contributes to Air Force capability.

Darwin, Northern Territory – 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 the end of 2005.

This project contributes to Army capability.

Canberra, Australian Capital Territory – Intelligence Facilities – Russell Offices

Russell Offices Building R4 will be refitted to accommodate the increased requirements of the Defence Imagery and Geospatial Organisation. The project is well progressed with remaining works expected to be completed by September 2004.

This project contributes to Intelligence capability.

Canberra, Australian Capital Territory – Canberra Multi-User Depot

This project will provide a multi-user depot at HMAS Harman that will collocate various Navy, Army and Air Force operational units, reserves and cadets from the Canberra area. The requirement arises from the sale of RAAF

Fairbairn and the proposed sale of the Army depot in Canberra city. Work is scheduled for completion by August 2004.

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

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

In 2004-05, Defence expects to present proposals to the Government and then to the Joint Standing Committee on Public Works for a number of facilities projects. The following table provides details of the proposed major capital projects expected for referral and consideration in 2004-05.

Table 3.7: Proposed Major Capital Projects for Parliamentary Consideration in 2004-05

Program of Major Works (by State, Federal Electorate and Locality)	Referral Date	Indicative Hearing Date
NEW SOUTH WALES		
Eden-Monaro		
Headquarters Joint Operations Command (formerly Headquarters Australian Theatre)	March 2004	June 2004
Hughes		
Holsworthy – Redevelopment and Special Forces Infrastructure	June 2004	August 2004
Kingsford Smith		
Randwick -- Disposal and Rationalisation Project – Interim Works ⁽¹⁾	December 2002	12 March 2004
Randwick Disposal and Rationalisation Project	December 2002	Late 2004
QUEENSLAND		
Forde		
Canungra – Redevelopment of Canungra Army Base	October 2004	March 2005
Blair		
Amberley – RAAF Amberley - Engineering Services Upgrade	April 2005	July 2005
Amberley – RAAF Amberley - Relocate 9 th Force Support Battalion and 21 Construction Squadron	April 2005	July 2005
SOUTH AUSTRALIA		
Bonython		
Edinburgh – RAAF Edinburgh - Extensions to Joint Electronic Warfare Operational Support Unit Facility	June 2004	August 2004
Port Wakefield		
Port Wakefield Ammunition Facility	June 2004	August 2004
NORTHERN TERRITORY		
Solomon		
Darwin – Darwin Naval Base – Patrol Boat Facilities	October 2004	February 2005
LOCATION TO BE ADVISED		
Air-to-Air Refuelling Facilities	April 2005	July 2005

Note

1. Project considered by the Joint Standing Committee on Public Works on 12 March 2004 at an estimated cost of \$8.75m.

The RAAF College project for East Sale and Wagga is scheduled for referral in July 2005 and an indicative hearing date of August 2005.

Eden-Monaro, New South Wales – Headquarters Joint Operations Command (formerly Headquarters Australian Theatre)

The Headquarters Joint Operations Command Project will collocate the Chief of Joint Operations and Strategic Operations Division, the Sydney-based Deputy Chief of Joint Operations and staff, Component Commanders and related staff, the Joint Operations Intelligence Centre and the Headquarters 1st Joint Movement Group into Headquarters Joint Operations Command at a site 11 kilometres south-west of Bungendore, New South Wales. The Government approved the project on 9 March 2004 at a cost of \$301m. Subject to Government approval, Defence proposes to procure the buildings and infrastructure component of the project under private finance arrangements. A traditional (or direct) procurement strategy will be used to acquire and install the command, control, communications and information systems. A supplementary report to the draft environmental impact statement is due to be finalised by mid-2004.

This project contributes to Command of Operations capability.

Holsworthy, New South Wales – Redevelopment and Special Forces Infrastructure

The Holsworthy program of works will deliver five project elements: the redevelopment of the Holsworthy Barracks area; the delivery of facilities to support the establishment of a full-time commando capability; the establishment of the Tactical Assault Group (East); facilities for the Incident Response Regiment and facilities for the establishment of Special Operations Command. The Holsworthy program of works will be delivered in two packages: the redevelopment and Special Forces infrastructure package (working accommodation) and a separate Special Forces training facilities package. Development work will continue during 2004-05. Construction is expected to commence on high-priority work packages following Government and Parliamentary consideration in mid-2004. The major work proposed for construction this financial year is base engineering infrastructure.

This project contributes to Army capability.

Randwick, New South Wales – Disposal and Rationalisation Project – Interim Works

Defence is required to deliver some interim works at Randwick prior to the larger disposal and rationalisation project. The interim works include delivery of community facilities as part of the agreed strategy for the disposal of the site, relocation of some Army units and preparation of some land for disposal. The interim works were considered by the Joint Standing Committee on Public Works on 12 March 2004, at an estimated cost of \$8.75m.

This project contributes to Army capability.

Randwick, New South Wales – Disposal and Rationalisation Project

This project, which is related to the Defence property disposal program, will allow for the disposal of surplus land at Randwick and the redevelopment of the portion of the barracks to be retained. The rationalisation works will support the relocation of the 19th Chief Engineer Works, the 1st Commando Regiment and barracks security and functionality.

This project contributes to Army capability.

Canungra, Queensland – Redevelopment of Canungra Army Base

This project will provide upgraded training and mess facilities, working accommodation, and living-in accommodation for the Army training units collocated there. It also includes the upgrading of all infrastructure services. Construction is scheduled to commence in mid-2005. The target completion date is mid-2007.

This project contributes to Army capability.

Amberley, Queensland – RAAF Amberley – Engineering Services Upgrade

This project will upgrade trunk engineering services at RAAF Amberley. Works will include refurbishment and upgrade of the electrical reticulation, trunk communications, water, stormwater, and sewerage infrastructure including connection to the Ipswich sewerage treatment plant. The works will allow capacity for future infrastructure developments within Amberley (Amberley Stage 3 Redevelopment).

This project contributes to Air Force capability.

Amberley, Queensland – RAAF Amberley – Relocate 9th Force Support Battalion and 21st Construction Squadron

This project will provide new working accommodation for the relocation of Army units to RAAF Amberley. The works to support the relocation of these Army units include workshops, administration buildings, hardstands and vehicle shelters. Construction is scheduled to commence in late 2005. The target completion date is early 2007.

This project contributes to Army capability.

Edinburgh, South Australia – RAAF Edinburgh – Extensions to Joint Electronic Warfare Operational Support Unit Facility

This project will provide facilities to support the collocation of joint electronic warfare operational activities and additional space for the software support facilities for various ADF platforms. Construction is scheduled to commence in late 2004. The target completion date is early 2006.

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

Port Wakefield, South Australia – Port Wakefield Ammunition Facility

The aim of this project is to construct new facilities for the breakdown and analysis of medium to heavy weight ammunition and ordnance. The project will deliver buildings, supporting infrastructure and upgrades to security and range control facilities.

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

Darwin, Northern Territory – Darwin Naval Base – Patrol Boat Facilities

This project will provide upgraded facilities at the Darwin Naval Base for the new Armidale-class patrol boats. Construction is expected to commence in April 2005, and will be completed in stages to allow the continued operation of the naval base and support the introduction into service of the Armidale-class patrol boats. The project is due for completion by the end of 2006.

This project contributes to Navy capability.

Construction of Air-to-Air Refuelling Facilities

This project will provide facilities to support the relocation of the ADF's air-to-air refuelling capability and to support the introduction of the new airframes to be delivered under the ADF Air Refuelling Capability project. The air-to-air refuelling works include construction of administration buildings, airfield pavement upgrades, maintenance facilities and the provision of hydrant refuelling. There has been no formal decision by the Government on the location of the air-to-air refuelling capability. Construction is scheduled to commence in late 2005. The target completion date is early 2007.

This project will contribute to Air Force capability.

Approved Medium Capital Facilities Projects

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

Table 3.8: Approved Medium Capital Facilities by State and Federal Electorate

Program of Medium Works (State, Federal Electorate and Locality)	Total Estimated Expenditure \$'000	Estimated Expenditure to 30 June 2004 \$'000	Budget Estimate 2004-05 \$'000
NEW SOUTH WALES			
Hughes – Medium Works			
Holsworthy – Interim Special Forces Works	4,100	3,100	1,000
Macquarie – Medium Works			
Richmond – RAAF Richmond – Fuel Farm Upgrade	3,010	890	2,000
RAAF Richmond – Upgrade Liquid Oxygen Compound	590	160	430
Paterson – Medium Works			
Williamtown – RAAF Williamtown – Child-Care Centre	2,200	600	1,600
Williamtown – Advanced Short Range Air-to-Air Missile/Captive Air Test Module Facility	1,000	300	700
Williamtown – RAAF Williamtown – Lead-In Fighter Hangar	965	660	300
Sydney – Medium Works			
Sydney – Victoria Barracks - Building 110 Extension	2,200	800	1,350
Total New South Wales	14,065	6,510	7,380
VICTORIA			
Corio – Medium Works			
Geelong – Construction of Army Multi-User Depot ⁽¹⁾	4,250	190	3,800
Flinders – Medium Works			
HMAS Cerberus – Weapons Training Simulation System	1,400	30	1,370
Gippsland – Medium Works			
East Sale – East Sale Child-Care Centre	1,800	250	1,500
Indi – Medium Works			
Bandiana – Simulated Training Facility	909	-	909
Lalor – Medium Works			
Laverton – RAAF Band – Training and Rehearsal Facility	4,100	40	1,000
Laverton – Defence International Training Centre	2,440	90	2,300
McEwan – Medium Works			
Puckapunyal – Puckapunyal Child-Care Centre	2,700	140	2,500
Puckapunyal – Regional Training and Simulation Centre	2,200	190	150
Puckapunyal – Australian Light Armoured Vehicle Mission Essential Training Facility	3,560	60	3,450
Total Victoria	23,359	990	16,979
QUEENSLAND			
Brisbane – Medium Works			
Enoggera – Critical Infrastructure Upgrade	3,200	40	3,160
Enoggera – Australian Light Armoured Vehicle Workshops	4,500	-	2,250

Capital Budget

Program of Medium Works (State, Federal Electorate and Locality)	Total Estimated Expenditure \$'000	Estimated Expenditure to 30 June 2004 \$'000	Budget Estimate 2004-05 \$'000
Herbert – Medium Works			
Townsville – Lavarack Barracks – Helicopter Underwater Escape Training Facility	2,500	10	2,400
Townsville – Lavarack Barracks – Regional Training Centre (Flexible Learning)	3,850	120	3,500
Townsville – Combat Training Centre (Live) Storage and Maintenance Facility	2,800	20	2,500
Townsville – Special Operations Forward Mounting Facility	1,400	-	1,400
Mount Stuart – Training Area Grenade Range	400	10	350
Total Queensland	18,650	200	15,560
SOUTH AUSTRALIA			
Bonython – Medium Works			
Edinburgh – DSTO Hybrid Torpedo Simulator Facility	1,545	1,520	10
Edinburgh – DSTO Virtual Ship Facility ⁽¹⁾	860	850	10
Edinburgh – Relocation of Defence Materiel Organisation Over the Horizon Radar Systems Program Office	5,039	4,400	470
Edinburgh – Corporate Services and Infrastructure Centre ⁽¹⁾	2,850	2,480	30
Edinburgh – DSTO Surveillance Analysis Centre	1,310	920	390
Edinburgh – Aircraft Signature Turntable	1,132	40	1,090
Total South Australia	12,736	10,210	2,000
WESTERN AUSTRALIA			
Brand – Medium Works			
Garden Island – HMAS Stirling – Periscope Workshop Facility	3,521	2,980	540
Garden Island – HMAS Stirling – Wharf Services Upgrade	5,850	2,760	3,000
Garden Island – HMAS Stirling – DSTO Submarine and Surface Combatants Science and Technology Facility Extension	2,895	2,550	100
Garden Island – HMAS Stirling – Training Unit ANZAC Ship Support Centre	5,210	800	4,400
Garden Island – HMAS Stirling – Guided Weapons Maintenance Facility	2,500	900	1,600
Garden Island – HMAS Stirling – Joint Ammunition Logistic Organisation West Office Accommodation (formally Torpedo/Underwater Teams Facility)	1,500	-	1,500
HMAS Stirling – Weapons Training Simulation System	1,400	30	1,370
Curtin – Medium Works			
Swanbourne – 4 th Signal Troop Facilities	3,210	800	2,400
Kalgoorlie – Medium Works			
Taylor Barracks – Training Accommodation	750	-	750
Total Western Australia	26,836	10,820	15,660
NORTHERN TERRITORY			
Lingiari – Medium Works			
Bathurst Island – Tactical Air Defence Radar System	4,486	600	3,880
Katherine – RAAF Tindal – Vehicle Shelters	1,430	600	830

Program of Medium Works (State, Federal Electorate and Locality)	Total Estimated Expenditure \$'000	Estimated Expenditure to 30 June 2004 \$'000	Budget Estimate 2004-05 \$'000
Katherine – RAAF Tindal – Advanced Medium Range Air-to-Air Missile/Advanced Short Range Air-to-Air Missile Secure Facility ⁽²⁾	1,766	90	1,620
Solomon – Medium Works			
Darwin – Married Quarters Electrical Upgrade	3,600	600	3,000
Darwin – Special Operations Forward Mounting Facility ⁽¹⁾	2,500	-	2,500
Darwin – 1 st Brigade Military Operations in Urban Terrain	5,660	600	3,000
Darwin – Vehicle Shelters	2,475	1,000	1,470
Darwin – Robertson Barracks Security Upgrade	1,900	1,000	900
Total Northern Territory	23,817	4,490	17,200
AUSTRALIAN CAPITAL TERRITORY			
Fraser – Medium Works			
Jervis Bay – Remediation of Mary Creek	1,100	137	300
Canberra – Medium Works			
Russell Offices – Passive Defence Works	3,600	2,100	1,500
Total Australian Capital Territory	4,700	2,237	1,800
OTHER – Medium Works			
Air Traffic Control Systems – Various Locations	3,258	2,900	320
Total Other	3,258	2,900	320
TOTAL	127,421	38,357	76,899

Notes

1. Increase in outturn cost.
2. Approval anticipated in mid-2004.

Proposed Medium Capital Projects for Departmental Approval in 2004-05

Table 3.9: Proposed Medium Capital Projects for Departmental Approval in 2004-05

Program of Medium Works (State, Federal Electorate and Locality)
NEW SOUTH WALES
Hughes Defence Police Training Centre Holsworthy – Child-Care Centre
Lindsay Orchard Hills Encanister Decanister Facility
North Sydney HMAS Waterhen – Relocation Mine Warfare and Clearance Divers Systems Program Office
Patterson RAAF Williamtown – Aircraft Rinse Facility
Sydney Garden Island – Royal Australian Navy – Heritage Centre
Warringah Military Law Centre
QUEENSLAND
Herbert RAAF Townsville – Base Training and Support
Kennedy Townsville – Field Training Area Air Weapons Range
NORTHERN TERRITORY
Solomon Darwin – Shoal Bay Receiving Station Refurbishment
AUSTRALIAN CAPITAL TERRITORY
Fraser Canberra – Majura Services Development Canberra – Federation Guard Facilities Canberra – Services Study Relocation HMAS Creswell – Modernisation of School of Survivability and Ship Safety
OTHER RAAF Butterworth – Headquarters Rationalisation

OTHER CAPITAL PURCHASES

Other capital purchases consist of Minor Capital Equipment projects, purchase of repairable items and Other Plant and Equipment which exceeds the asset capitalisation threshold of \$10,000 (for grouped assets, \$50,000) but are not designated minor capital projects. Minor capital projects cover new equipment, modifications to existing equipment or enhancements to new equipment, and are generally valued at between \$250,000 and \$20m. Minor projects costing between \$8m and \$20m are approved jointly by the Ministers for Defence and Finance and Administration. Projects costing between \$5m and \$8m are approved by the Minister for Defence. Projects costing below \$5m are approved by the Service Chiefs and Group Heads, or their nominal delegates.

Repairable items are items such as engines, gearboxes, and components of platforms which are acquired as others wear out or become unserviceable.

Other capital equipment includes purchases of IT and administrative assets costing more than \$2,000 and other projects, plant and equipment assets costing more than \$10,000, and software and intangibles.

Table 3.10: Other Capital Purchases

Group/Item Description	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimates 2005-06 \$'000	Forward Estimates 2006-07 \$'000	Forward Estimates 2007-08 \$'000
Minor Capital	178,485	163,807	-14,678	157,977	158,333	165,188
Repairable Items	191,451	148,389	-43,062	115,313	81,419	76,618
Other Plant and Equipment	147,772	160,336	12,564	153,511	218,090	201,157
Total Other Capital	517,708	472,532	-45,176	426,801	457,842	442,963

CAPITAL RECEIPTS

Capital Receipts

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 Specialist Military Equipment, commercial vehicles and Other Plant and Equipment items which are retained by Defence. Details are shown in Table 3.11.

Table 3.11: Capital Receipts

Group/Item Description	Projected Result 2003-04	Budget Estimate 2004-05	Variation 2003-04 to 2004-05	Forward Estimates 2005-06	Forward Estimates 2006-07	Forward Estimates 2007-08
	\$m	\$m	\$m	\$m	\$m	\$m
Property Sales						
Proceeds from the sale of land and buildings	199.9	164.5	-35.4	-	-	-
Less Capital withdrawal (DoFA requirement)	-199.9	-139.0	60.9	-	-	-
Proceeds retained by Defence ⁽¹⁾	-	25.5	25.5	-	-	-
Proceeds from sale of Specialist Military Equipment	25.3	3.0	-22.3	3.0	3.0	3.0
Proceeds from sale of other property, plant and Other Equipment	81.2	63.5	-17.7	37.0	37.0	37.0
Net Capital Receipts	106.5	92.0	-14.5	40.0	40.0	40.0

Note

1. Proceeds retained by Defence to fund property sale costs.

The Government has agreed on a schedule of surplus Defence properties to be marketed in 2004-05. On current valuations, this will provide an estimated \$164.5m in revenue, which represents a reduction of \$11.3m on previous estimates. Further variations may be made to this estimate following revaluation of properties prior to sale.

The proceeds from the sale of specialist military equipment is expected to be \$22.3m less than in 2003-04 due principally to the non-recurrence of the sale of the APG radars.

The proceeds from the sale of other property, plant and equipment assets is expected to be \$17.7m less than in 2003-04, reflecting variations in the pattern of sales for commercial vehicles and a range of other equipment items.

DEFENCE

CHAPTER FOUR PLANNED OUTCOME PERFORMANCE

DEFENCE OUTCOME AND OUTPUT STRUCTURE

COST OF DEFENCE OUTCOMES

Net Cost of Defence Outcomes

Cost summary of Defence Outcomes

Group Contributions to Defence Outcomes

Explanation of Common Variations across Defence Outcomes

OUTCOME ONE COMMAND OF OPERATIONS

OUTCOME TWO NAVY CAPABILITY

OUTCOME THREE ARMY CAPABILITY

OUTCOME FOUR AIR FORCE CAPABILITY

OUTCOME FIVE STRATEGIC POLICY

Defence Cooperation

OUTCOME SIX INTELLIGENCE

**OUTCOME SEVEN SUPERANNUATION AND
HOUSING SUPPORT SERVICES FOR CURRENT
AND RETIRED DEFENCE PERSONNEL**

DEFENCE OUTCOME AND OUTPUT STRUCTURE

OUTCOME ONE – Command of Operations in Defence of Australia and its Interests

OUTPUTS

- 1.1 Command of Operations
- 1.2 Defence Force Military Operations and Exercises
- 1.3 Contribution to National Support Tasks

OUTCOME TWO – Navy Capability for the Defence of Australia and its Interests

OUTPUTS

- 2.1 Capability for Major Surface Combatant Operations
- 2.2 Capability for Naval Aviation Operations
- 2.3 Capability for Patrol Boat Operations
- 2.4 Capability for Submarine Operations
- 2.5 Capability for Afloat Support
- 2.6 Capability for Mine Warfare
- 2.7 Capability for Amphibious Lift
- 2.8 Capability for Hydrographic, Meteorological and Oceanographic Operations

OUTCOME THREE – Army Capability for the Defence of Australia and its Interests

OUTPUTS

- 3.1 Capability for Special Forces Operations
- 3.2 Capability for Mechanised Operations
- 3.3 Capability for Light Infantry Operations
- 3.4 Capability for Army Aviation Operations
- 3.5 Capability for Ground-Based Air Defence
- 3.6 Capability for Combat Support Operations
- 3.7 Capability for Regional Surveillance
- 3.8 Capability for Operational Logistic Support to Land Forces
- 3.9 Capability for Motorised Infantry Operations
- 3.10 Capability for Protective Operations

OUTCOME FOUR – Air Force Capability for the Defence of Australia and its Interests

OUTPUTS

- 4.1 Capability for Air Combat Operations
- 4.2 Capability for Combat Support of Air Operations
- 4.3 Capability for Surveillance and Response Operations⁽¹⁾
- 4.4 Capability for Air Lift

OUTCOME FIVE – Strategic Policy for the Defence of Australia and its Interests

OUTPUTS

- 5.1 Strategic and International Policy, Activities and Engagement
- 5.2 Military Strategy and Capability Analysis⁽²⁾

OUTCOME SIX – Intelligence for the Defence of Australia and its Interests

OUTPUT

- 6.1 Intelligence

OUTCOME SEVEN – Superannuation and Housing Support Services for Current and Retired Defence Personnel

OUTPUT

- 7.1 Superannuation and Housing Support Services for Current and Retired Defence Personnel

Notes

1. Following further refinement of the Business Efficiency Framework Review changes in 2003-04, 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).
2. Outcome Five – Strategic Policy has two outputs. The second output, Output 5.2, has changed from Military Strategy and Strategic Operations to Military Strategy and Capability Analysis. This is to better reflect the change in responsibilities as a result of the Defence reorganisation.

COST OF DEFENCE OUTCOMES

NET COST OF DEFENCE OUTCOMES

Table 4a: Net Cost of Defence Outcomes

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	5,598,806	5,295,066	-303,740	5,560,616	5,632,475	5,911,510
Employees - Civilian	1,333,499	1,415,281	81,782	1,432,503	1,486,291	1,285,917
Sub total employees	6,932,305	6,710,347	-221,958	6,993,119	7,118,766	7,197,427
Supplier Expenses	4,695,659	5,218,782	523,123	4,793,722	5,088,165	5,775,667
Inventory Consumption	857,308	890,491	33,183	932,610	974,666	920,469
Sub total suppliers	5,552,967	6,109,273	556,306	5,726,332	6,062,831	6,696,136
Depreciation and amortisation	3,091,654	2,984,937	-106,717	2,742,171	2,835,282	2,928,394
Write down of assets	378,000	100,000	-278,000	100,000	100,000	100,000
Value of assets sold	306,384	230,980	-75,404	40,000	40,000	40,000
Other	-	-	-	-	-	-
Grants	1,874	1,250	-624	1,275	1,301	1,327
Borrowing cost expense	31,263	31,446	183	32,075	32,716	26,883
Total operating expenses from ordinary activities	16,294,447	16,168,233	-126,213	15,634,972	16,190,897	16,990,167
Revenues						
Sale of goods and services	243,085	245,670	2,585	251,200	253,449	258,993
Revenue from sale of assets	306,384	230,980	-75,404	40,000	40,000	40,000
Assets now recognised	278,000	-	-278,000	-	-	-
Other	87,706	86,892	-814	88,429	89,677	90,998
Total Own Source Revenue	915,175	563,542	-351,633	379,629	383,126	389,991
Net Cost of Defence Outcomes	15,379,271	15,604,691	225,420	15,255,343	15,807,771	16,600,176

COST SUMMARY OF DEFENCE OUTCOMES

Table 4b: Cost Summary of Defence Outcomes

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Departmental Outcomes						
Outcome One						
Command of Operations	810,463	693,745	-116,718	537,856	548,144	541,936
Outcome Two						
Navy Capability	4,211,238	4,325,674	114,436	4,271,729	4,468,284	4,746,483
Outcome Three						
Army Capability	5,279,527	5,287,403	7,876	5,288,670	5,476,524	5,724,203
Outcome Four						
Air Force Capability	4,444,792	4,620,321	175,529	4,494,448	4,628,296	4,874,650
Outcome Five						
Strategic Policy	220,143	242,556	22,414	231,067	237,840	256,413
Outcome Six						
Intelligence	413,109	434,992	21,883	431,573	448,683	456,490
Total Cost for Defence						
Departmental Outcomes⁽¹⁾	15,379,271	15,604,691	225,420	15,255,343	15,807,771	16,600,176
Administered Expenses						
Outcome Seven						
Superannuation and Housing						
Support Services for Current						
and Retired Defence						
Personnel	2,016,900	2,336,900	320,000	2,436,900	2,436,900	2,636,900

Note

1. Cross references to Table 4a.

Defence introduced a new Outcome and Output structure in 2003-04. The presentation of outcome and output costs in the portfolio budget statements, portfolio additional estimates statements and annual reports is supported by a sophisticated output attribution process. Defence continues to refine the business rules contained in the output attribution model in order to present as accurately as possible the cost of Defences outcome and outputs. Table 4c is provided to show the movement in outcome cost since the model was introduced in the 2003-04 Budget. Movements in outcome cost reflect, in the main, new budget measures agreed by the Government during this time, price and exchange rate variations, other technical adjustments including transfers of functions, resource allocation decisions by the Defence Committee to meet changing priorities, and refinements to the cost attribution business rules.

Table 4c: Movement in Defence's Outcome Costs Since 2003-04

Outcomes	Actual Result⁽¹⁾ 2002-03 \$'000	Adjusted Budget⁽²⁾ 2003-04 \$'000	Additional Estimate 2003-04 \$'000	Projected Result 2003-04 \$'000	Budget 2004-05 \$'000
Departmental Outcomes					
Outcome One					
Command of Operations	869,113	681,483	705,578	810,463	693,745
Outcome Two					
Navy Capability	3,568,172	4,087,698	4,027,285	4,211,238	4,325,674
Outcome Three					
Army Capability	4,981,368	4,845,019	4,885,945	5,279,527	5,287,403
Outcome Four					
Air Force Capability	4,158,122	4,003,694	4,207,085	4,444,792	4,620,321
Outcome Five					
Strategic Policy	178,823	213,429	213,198	220,143	242,556
Outcome Six					
Intelligence	316,984	403,085	412,967	413,109	434,992
Total Cost for Defence					
Departmental Outcomes	14,072,581	14,234,399	14,452,057	15,379,271	15,604,691⁽³⁾
Outcome Seven					
Superannuation and Housing Support Services for Current and Retired Defence Personnel	2,594,657	2,236,481	2,228,600	2,016,900	2,336,900
Total Outcomes	16,667,238	16,470,880	16,680,657	17,396,171	17,941,591

Notes

1. Excludes capital use charges which was discontinued in 2002-03.
2. The Budget Estimate as published in the *Portfolio Budget Statements 2003-04* included an estimate of the reimbursement of the 2002-03 operating expenses for Operations Bastille/Falconer (\$153.8m) and Bel Isi II (\$10.1m) of \$163.9m. To reflect the true cost to the Government in 2003-04 of Outcome One, an 'Adjusted Budget' column was developed which deletes the \$163.9m in order to facilitate like-for-like comparisons.
3. Cross references to the last column shown in Table 4d.

GROUP CONTRIBUTION TO DEFENCE OUTCOMES

Table 4d: Group Contribution to Defence Outcomes

	Outcome One Command of Operations	Outcome Two Navy Capability	Outcome Three Army Capability	Outcome Four Air Force Capability	Outcome Five Strategic Policy	Outcome Six Intelligence	Total for Defence Outcomes
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Headquarters Joint Operations							
Command	84,854	-	-	-	-	-	84,854
Navy	9,659	1,235,434	-	-	-	8,899	1,253,993
Army	-	-	2,292,564	-	-	-	2,292,564
Air Force	10,606	19,718	34,144	1,288,757	6,358	4,133	1,363,716
Defence Materiel Organisation	197,678	1,804,524	843,628	1,813,783	8,579	14,987	4,683,178
Corporate Services and							
Infrastructure Group	112,699	561,557	1,146,415	718,930	23,900	51,529	2,615,030
Defence Personnel Executive	29,737	147,819	305,281	171,725	15,048	18,907	688,518
Intelligence	872	7,494	13,489	7,813	440	272,684	302,792
Strategic Policy	339	429	406	406	142,201	339	144,119
Defence Science and Technology							
Organisation	32,601	71,932	48,141	94,590	18,694	20,742	286,699
Vice Chief of the Defence Force	2,261	14,133	17,230	14,024	2,386	1,831	51,865
Chief Finance Officer	7,507	82,608	159,745	77,516	4,690	5,571	337,637
Chief Information Officer	1,033	6,459	7,874	6,410	1,090	837	23,704
Secretary/Chief of the Defence							
Force	188	1,175	1,433	1,166	198	152	4,313
Former Public Affairs and							
Corporate Communication							
Division	658	3,334	4,064	3,308	563	432	12,359
Inspector General	482	3,009	3,669	2,986	508	390	11,044
Portfolio⁽¹⁾	202,571	366,047	409,321	418,907	17,901	33,559	1,448,307
Total Cost	693,745	4,325,674	5,287,403	4,620,321	242,556	434,992	15,604,691⁽²⁾

Notes

1. Portfolio includes funds to be allocated to Defence Groups following the announcement of the budget for new budget measures and price supplementation. It also includes funds being held centrally to meet the ADF Military Workforce Remuneration Arrangement and Defence Employees' Certified Agreement pay increases as they occur. It also includes other items such as funding for estate upkeep, information technology and administrative asset refreshment programs.

2. Reconciles to the 2004-05 budget figures in Table 4c.

EXPLANATION OF COMMON VARIATIONS ACROSS DEFENCE OUTCOMES

At the Senate Legislation Committee hearing in February 2004, Senators commented that it would be useful to show common variations that applied across more than one outcome, for ease of reference. Table 4e is provided to show the common variations between the 2003-04 forecast result and the 2004-05 budget across the various Defence Outcomes.

Table 4e: Explanation of Common Variations Across Defence Outcomes

Explanation of Variation	Outcome \$m						
	One	Two	Three	Four	Five	Six	Total
Military Employees							
Price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases.	5.0	66.1	133.3	66.3	2.6	3.2	276.5
Real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance.	1.0	13.1	26.4	13.1	0.5	0.6	54.7
Increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations.	0.2	3.0	6.1	3.0	0.1	0.1	12.6
Non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions combined with a non-recurring transfer of Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts.	-11.2	-87.9	-179.7	-90.4	-3.2	-3.9	-376.3
Transfer of military compensation function to the Department of Veterans' Affairs.	-2.6	-34.3	-69.0	-34.4	-1.3	-1.6	-143.3
Overestimate in accrual provisions in 2003-04 in relation to long service and annual leave and compensation.	-	-18.5	-24.5	-19.2	-	-	-62.2
Reclassification of rations costs to supplier expenses.	-	-14.2	-5.7	-8.2	-	-	-28.1
Civilian Employees							
Price indexation to cover the Defence Employees' Certified Agreement and other cost increases.	4.6	20.3	24.5	23.4	2.3	8.8	83.8
Real growth in civilian employee costs as provided for in the Defence White Paper.	1.4	6.2	7.5	7.2	0.7	2.7	25.7
Non-recurrence of one-off payments in 2003-04 for long service leave and superannuation provisions for University of New South Wales staff at the Australian Defence Force Academy.	-1.7	-7.2	-9.0	-8.2	-0.9	-3.1	-30.1
Increase in voluntary redundancy costs as a result of the Defence Integrated Distribution System contract.	-	8.0	7.1	6.4	-	-	21.5
Suppliers							
Price indexation for supplier expenses.	11.8	51.2	49.2	52.3	4.8	6.4	175.7
Increase in expenditure on estate upkeep and other cost pressures including Comcover and Comcare premiums, legal services and other overheads.	6.9	29.6	28.5	30.3	2.8	3.7	101.8
Increased provision for support to core portfolio information systems.	3.7	16.1	15.5	16.5	1.5	2.0	55.3
Additional logistics support funding for maritime patrol aircraft (P3) to sustain current levels of operational tempo and to meet specific preparedness targets.	-	-	-	48.4	-	-	48.4
Increased purchase of information technology and administrative assets as part of Defence's asset refreshment program.	2.7	11.6	11.2	11.9	1.1	1.4	40.0
Through-life support costs for new equipment entering service.	2.4	10.5	10.1	10.7	1.0	1.3	36.0
Provision for through-life costs for new capital facilities.	1.0	8.3	12.9	7.7	-	0.2	30.2
Reclassification of rations costs from military employee expenses.	-	14.2	5.7	8.2	-	-	28.1

Additional logistics support funding for naval aviation to sustain current levels of operational tempo and meet specific preparedness targets.	-	21.1	-	-	-	-	21.1
Additional logistics support funding for Anzac-class frigates to sustain current levels of operational tempo and to meet specific preparedness targets.	-	19.4	-	-	-	-	19.4
Additional logistics support funding for transport aircraft (C-130H) to sustain current levels of operational tempo and to meet specific preparedness targets.	-	-	-	16.0	-	-	16.0
Additional logistics support funding for Army aviation to sustain current levels of operational tempo and to meet specific preparedness targets.	-	-	15.9	-	-	-	15.9
Increased insurance premium payments under Defence's insurance policy with Comcover.	0.8	3.4	3.3	3.5	0.3	0.4	11.7
Additional logistics support funding for training aircraft (PC-9) to sustain current levels of operational tempo and to meet specific preparedness targets.	-	-	-	8.7	-	-	8.7
Additional logistics support funding for Army surveillance to sustain current levels of operational tempo and to meet specific preparedness targets.	-	-	6.7	-	-	-	6.7
Additional logistics support funding for Battlefield Combat Support Systems to sustain current levels of operational tempo and to meet specific preparedness targets.	-	-	3.3	-	-	-	3.3
Transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs.	-1.7	-7.3	-7.0	-7.4	-0.7	-0.9	-25.0
Inventory Consumption							
Increase in Inventory Consumption reflecting the heightened operational tempo and increased logistics funding.	2.4	3.2	8.3	19.3	-	-	33.2
Depreciation							
Non-recurring adjustment in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base, offset by rescheduling and rephasing of asset roll outs.	-17.7	-37.5	-23.7	-42.8	-0.2	-2.7	-124.5
Write Down of Assets							
Expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base.	-8.2	-94.9	-58.4	-114.1	-1.2	-0.4	-277.2
Value of Assets Sold							
Reduction in the projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.	-2.5	-20.1	-32.0	-19.9	-0.1	-0.6	-75.4
Sales of Goods and Services							
Price Indexation.	-2.9	-1.0	-2.0	-1.0	-0.5	-0.3	-7.8
Revenue from sale of Assets							
Reduction in the projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.	2.5	20.1	32.0	19.9	0.1	0.6	75.4
Assets Now Recognised							
Reduction in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base.	8.7	104.4	46.1	114.0	0.7	0.6	274.5
Other Revenue							
Price Indexation.	-0.1	-2.5	-9.0	-2.9	-1.3	0.3	-15.5
TOTAL	6.4	104.5	33.6	138.3	10.0	18.9	310.9

OUTCOME ONE – COMMAND OF OPERATIONS

Outcome One – Command of Operations in Defence of Australia and its Interests

- Output 1.1 Command of Operations
- Output 1.2 Defence Force Military Operations and Exercises
- Output 1.3 Contribution to National Support Tasks

Defence conducts a range of activities to satisfy the Government's strategic interests and objectives. These activities include the conduct of military campaigns and operations, the provision of emergency and non-emergency support to the Government and the Australian community, overseas deployments and representations, and various joint and combined exercises involving the three Services and allied or regional military forces. Collectively, these activities are referred to as Defence operations.

Successful Defence operations are underpinned by effective command capability and appropriate joint force preparedness. Defence maintains its command capability through joint headquarters with forces assigned under joint theatre command. The maritime force, land forces and air force capabilities maintained by the three Services are combined to provide joint forces. Joint force preparedness is developed in accordance with ADF preparedness requirements and evaluated through an exercise program.

On 16 March 2004, the Minister for Defence announced significant changes to the higher command and control of the ADF. These changes centered on the establishment of a new Joint Operations Command with the Vice Chief of the Defence Force appointed as the inaugural Chief of Joint Operations. Joint Operations Command consists of a headquarters (formerly Headquarters Australian Theatre), three environmental components (maritime, land and air), two specialist components (Special Operations and Joint Logistics) and a number of direct command units which provide functional support in the areas of intelligence, movements, joint training, strategic advice, welfare and northern operations.

Planned Performance

During 2004-05 current ADF operations in support of the Government's strategic objectives are expected to continue. ADF operations that will contribute to the security of our immediate neighbourhood in 2004-05 include:

- ongoing commitment to the United Nations' activities in East Timor or in support of Australia's Defence Cooperation Program initiatives;
- the conduct of maritime surveillance patrols in the northern Indian Ocean and South China Sea (Operation Gateway); and
- ongoing ADF support (Operation Anode) to the Coalition Police Forces element of the Regional Assistance Mission in the Solomon Islands to re-establish the rule of law will be at a lesser scale as the security situation improves and commercial logistic support arrangements are established post-July 2004.

ADF operations that will support Australia's wider interests in 2004-05 include:

- an ADF contribution (Operation Catalyst) to an Australian whole-of-government effort to assist with the rehabilitation of Iraq, through a coalition effort to develop a secure environment, assist national recovery programs and facilitate the transition to Iraqi self-government;
- a continued ADF commitment (Operation Slipper) to the United States-led operation against international terrorism; and
- ADF contributions to United Nations and other peacekeeping and humanitarian operations (Operations Paladin, Mazurka, Palate and Pomelo).

ADF peacetime national tasks that are expected to continue as regular or occasional tasks in 2004-05 include:

- operations to deter unauthorised boat arrivals, including air and surface patrols across the northern and western maritime approaches to Australia (Operation Relex II);
- ongoing operations to provide surveillance and law enforcement support to Coastwatch in northern Australia (Operation Cranberry);
- support to the Australian Fisheries Management Authority, when appropriate, in enforcing Australia's exclusive economic zone in the Southern Ocean (Operation Celesta);
- a range of cyclical maritime surveillance operations in Australia's region (Operations Burbage, Osteal, Estes, Mellin, Mistral and Solania). These operations are a lesser priority than Operation Relex II and will be conducted when surveillance capabilities are available; and
- Australian land surveillance and the collection of military geographic information (Operations Prowler and Beachcomber), although these are likely to remain dormant until resources become available.

These ongoing operations and their objectives are summarised in later tables.

ADF joint and combined exercises are conducted to train forces and to evaluate joint force capability. Combined exercises with allies and regional partners enhance and maintain close relationships and develop essential force interoperability. Combined exercises also contribute to the strategic goals of the Defence International Engagement Plan (see also Outcome Five). The ADF exercise program is inherently flexible and is likely to be adjusted to allow for strategic circumstances and participant availability during 2004-05. The ADF exercise program for 2004-05, detailing planning dates and exercise objectives, is included in later tables.

Extant ADF policy and internal instructions for Defence assistance to the civil community tasks include counter-disaster and emergency assistance. Small-scale tasks undertaken within local ADF resources are numerous and generally have minimal impact on ADF resources. Larger tasks involving coordinated activity with state or territory authorities or with Emergency Management Australia (in the Attorney-General's Department) may arise at short notice. Existing contingency plans are likely to remain appropriate in 2004-05.

Non-emergency assistance and non-emergency law enforcement excluding the use of force, is also likely to conform with historic levels of small tasks conducted within local ADF resources, where available.

Existing contingency plans for assistance to Commonwealth or state and territory Governments and their civil authorities in law enforcement tasks where there is the possibility that force may be required are also likely to remain appropriate in 2004-05.

ADF support to national search and rescue authorities, when and as required, will continue under current arrangements, within available resources.

Key Risks and Limitations

The key risks for command of operations are those that constrain commanders at any level in their ability to execute the Government-endorsed plan and to meet the designated operational end state.

Concurrent Operations

The Government's highest priorities will continue to be met, including commitment to the Middle East Area of Operations. The overall operational tempo is expected to decrease with a lower commitment of deployed forces in East Timor and the Solomon Islands. There will be a concerted effort to reconstitute capabilities in 2004-05.

Deficient Operational Preparedness

The high level of operational tempo in 2003-04 will constrain some training and consequent preparedness levels until reconstitution is complete.

Geographical Dispersion of Command Elements

Joint Operations Command is a geographically dispersed organisation with subcomponents located throughout the country. Physical collocation of units will not occur until the completion of the new headquarters for Joint Operations Command at Bungendore in New South Wales in 2007-08.

Logistic Support to Operations

The key risk to capability for logistic support to operations is the erosion of national inventory by the extended commitment to high-intensity operations.

Reduced Exercise Participation

The high operational tempo in 2003-04 restricted the availability of assets for joint and combined exercises scheduled in the Program of Major Service Activities. The range of available ADF core warfare skills must now be reinstated and confirmed by exercise evaluation.

Loss of Skills and Interoperability with Allies and Regional Partners

The loss of structured training activities with allies and regional partners in 2003-04 risks the degradation of combined operational skills and loss of interoperability.

Strategic Initiatives

Concurrent Operations

Risk mitigation will continue during 2004-05 through a strategic-level review of major operational commitments. The ADF contribution to operations will continue in accordance with Government direction. Reconstitution of capabilities will be prioritised to address critical areas to regain those capabilities eroded through concurrent demands.

Deficient Operational Preparedness

The ADF preparedness reporting system provides monthly assessment of capability options for the ADF to meet Government operational objectives. The reporting system identifies deficiencies and indicates remediation priorities. The system continues to be enhanced and will be further developed within the ADF exercise program during 2004-05.

Logistic Support

Inventory levels are being assessed and inventory expenditure for operations is being monitored. Inventory visibility is being addressed through the Joint Theatre Distribution project.

Reduced Exercise Participation

The Program of Major Service Activities is regularly reviewed and may be modified in response to changing priorities, world events and to meet specific training deficiencies. The development of Australian joint essential tasks will enable an improved assessment of joint capability through more rigorous performance measures.

Loss of Skills and Interoperability with Allies and Regional Partners

To mitigate this risk, critical exercises have been emphasised in the Program of Major Service Activities for 2004-05. Where possible, ADF elements will consider participation at a higher level of force commitment than was available in 2003-04.

Cost Summary of Outcome One

Table 4.1.1: Breakdown of Outcome One by Output

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 1.1 – Command of Operations ⁽¹⁾	375,310	357,871	-17,439	360,372	381,901	405,725
Output 1.2 – Defence Force Military Operations and Exercises ⁽²⁾	426,446	326,268	-100,178	169,374	157,604	127,135
Output 1.3 – Contribution to National Support Tasks ⁽³⁾	8,706	9,605	899	8,111	8,638	9,075
Total Cost of Outcome One	810,463	693,745	-116,718	537,857	548,143	541,934

Notes

1. Cross references to Table 4.1.3.
2. Cross references to Table 4.1.11.
3. Cross references to Table 4.1.13.

Net Cost of Outcome One

Table 4.1.2: Net Cost of Outcome One – Command of Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000		2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	225,648	156,253	-69,395	112,212	111,485	117,235
Employees - Civilian	76,725	75,851	-874	76,870	80,626	69,387
Sub total employees	302,373	232,104	-70,269	189,082	192,111	186,621
Supplier Expenses	456,174	422,814	-33,360	317,204	320,931	322,535
Inventory consumption	46,117	48,550	2,433	49,741	52,471	49,057
Sub total suppliers	502,291	471,364	-30,927	366,945	373,402	371,592
Depreciation and amortisation	80,254	62,609	-17,645	58,700	61,102	64,272
Write down of assets	11,220	3,005	-8,214	2,995	3,001	3,006
Value of assets sold	10,325	7,784	-2,541	1,320	1,296	1,292
Other	-	-	-	-	-	-
Grants	89	60	-30	61	64	65
Borrowing cost expense	1,462	1,468	6	1,497	1,527	1,255
Total operating expenses from ordinary activities	908,014	778,394	-129,620	620,601	632,503	628,102
Revenues						
Sale of goods and services	-74,968	-74,002	966	-78,283	-79,833	-81,593
Revenue from sale of assets	-10,325	-7,784	2,541	-1,320	-1,296	-1,292
Assets now recognised	-8,704	-	8,704	-	-	-
Other	-3,554	-2,863	691	-3,142	-3,231	-3,283
Total Own Source Revenues	-97,551	-84,649	12,902	-82,745	-84,360	-86,168
Net Cost of Outcome One ⁽¹⁾	810,463	693,745	-116,718	537,857	548,143	541,934

Note

1. Cross references to Table 4.1.1.

Significant Variations

The major variations to Outcome One are due to:

- A net decrease in military employee expenses (-\$69.4m) due to:
 - price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases (+\$5.0m),
 - real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance (+\$1.0m),
 - increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations (+\$0.2m),

Outcome One - Command of Operations

- a reduction in current commitments in East Timor under Operation Citadel (-\$35.6m) and the Solomon Islands under Operation Anode (-\$31.3m), as these operations reduce in scope,
- non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions combined with a non-recurring transfer of Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts (-\$11.2m),
- transfer of the military compensation function to the Department of Veterans' Affairs (-\$2.6m),
- a refinement in the 2004-05 Operation Relix estimates for ADF health expenditure (-\$0.6m), and
- other net variations (+\$5.7m).
- A net decrease in civilian employee expenses (-\$0.9m) due to:
 - price indexation to cover the *Defence Employees' Certified Agreement 2004-2006* and other cost increases (+\$4.6m),
 - real growth in civilian employee costs as provided for in the Defence White Paper (+\$1.4m),
 - a reduction in current commitments in East Timor under Operation Citadel (-\$2.3m) and the Solomon Islands under Operation Anode (-\$0.4m),
 - non-recurrence of one-off payments in 2003-04 for long service leave and superannuation provisions for University New South Wales staff at the Australia Defence Force Academy (-\$1.7m),
 - civilian reduction program (-\$1.0m), and
 - other net variations (-\$1.5m).
- A net decrease in supplier expenses (-\$33.4m) due to:
 - an increase in Defence support and force generation costs attributed to Outcome One (+\$48m),
 - price indexation for supplier expenses (+\$11.8m),
 - increase in expenditure on estate upkeep and other cost pressures including Comcover and Comcare premiums, legal services and other overheads (+\$6.9m),
 - increased provision for support to core portfolio information systems (+\$3.7m),
 - increased purchase of information technology and administrative assets as part of Defence's asset refreshment program (+\$2.7m),
 - through-life support costs for new equipment entering service (+\$2.4m),
 - provision for through-life costs for new capital facilities (+\$1.0m),

- increased insurance premium payments under Defence's insurance policy with Comcover (+\$0.8m),
- a reduction in current commitments in East Timor under Operation Citadel (-\$51.3m) and the Solomon Islands under Operation Anode (-\$53.0m), as these operations reduce in scope,
- the cessation of Operation Bel Isi II (-\$4.3m),
- a reduction in the 2004-05 Operation Relex estimates, based on 2003-04 experience (-\$2.6m),
- transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs (-\$1.7m), and
- other net variations (+\$2.2m).
- Increase in inventory consumption reflecting the heightened operational tempo and increased logistics funding (+\$2.4m).
- A net decrease in depreciation and amortisation in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base offset by rescheduling and rephasing of asset roll-outs (-\$17.7m).
- Expected reductions in write-down of assets as Defence progressively improves tracking and reporting of its asset base (-\$8.2m).
- A net decrease in value of assets sold due to a reduction in the projected asset sales for 2004-05 due to a decreased property sales program and the completion of sale of APG radars (-\$2.5m).
- A net decrease in sale of goods and services (+\$1.0m) due to:
 - price indexation (-\$2.9m), and
 - other net variations (+\$3.9m).
- A net decrease in revenue from sale of assets due to a reduction in the projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars (+\$2.5m).
- A net decrease in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base (+\$8.7m).
- A net decrease in other revenue (+\$0.7m) due to:
 - price indexation (-\$0.1m), and
 - other net variations (+\$0.8m).

OUTPUT STRUCTURE FOR OUTCOME ONE

Output 1.1 - Command of Operations

The Chief of Joint Operations is responsible for the delivery of Defence Outcome One - Command of Operations in defence of Australia and its interests. The Chief of Joint Operations commands Joint Operations in order to plan, control and conduct campaigns, operations, joint exercises and other activities on behalf of the Chief of the Defence Force.

Planning includes maintenance of situational awareness, preparation of operational concepts and assessment of ADF joint preparedness against the military response options that may be made available to the Government.

Effective command relies on clear command arrangements supported by timely and reliable communications and information systems.

Effective conduct of operations is also reliant on the effective contribution of logistic and supporting agencies.

Performance Targets
<ul style="list-style-type: none">• Australian operational concepts are developed to support ADF planning against credible contingencies.• Joint Operations Command provides guidance for joint force preparedness in accordance with the Chief of the Defence Force's direction.• Command of ADF forces is effective and the Government's strategic objectives for operations are achieved.• Phased implementation of new ADF operational command arrangements will commence.

Table 4.1.3: Net Cost of Output 1.1 – Command of Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 to 2005-06	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	95,647	92,157	-3,490	98,199	96,962	102,314
Employees - Civilian	52,799	54,007	1,209	54,891	57,821	49,647
Sub total employees	148,446	146,164	-2,281	153,090	154,783	151,961
Supplier Expenses	161,032	162,963	1,931	162,619	181,239	205,643
Inventory consumption	-2,272	-2,637	-366	-2,183	-2,532	-2,175
Sub total suppliers	158,760	160,326	1,566	160,436	178,707	203,468
Depreciation and amortisation	73,166	55,446	-17,720	51,181	52,829	55,120
Write down of assets	8,973	2,372	-6,601	2,362	2,367	2,373
Value of assets sold	7,292	5,498	-1,794	908	892	880
Other	-	-	-	-	-	-
Grants	75	50	-25	51	52	53
Borrowing cost expense	1,296	1,302	6	1,328	1,355	1,113
Total operating expenses from ordinary activities	398,007	371,158	-26,849	369,356	390,985	414,969
Revenues						
Sale of goods and services	-5,914	-6,234	-320	-6,480	-6,551	-6,697
Revenue from sale of assets	-7,292	-5,498	1,794	-908	-892	-880
Assets now recognised	-6,794	-	6,794	-	-	-
Other	-2,696	-1,555	1,141	-1,595	-1,641	-1,667
Total Own Source Revenues	-22,697	-13,287	9,410	-8,984	-9,084	-9,244
Net Cost of Output 1.1⁽¹⁾	375,310	357,871	-17,439	360,372	381,901	405,725

Note

1. Cross references to Table 4.1.1.

The variation in Output 1.1 is mainly due to a decrease in depreciation and amortisation in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base offset by rescheduling and rephasing of asset roll-outs.

Output 1.2 - Defence Force Military Operations and Exercises

The ADF is required to undertake a range of military operations at Government direction to ensure the defence of Australia and its national interests. ADF military operations, exercises and other activities contribute to the achievement of the Government's strategic objectives, defined in the Defence White Paper as defending Australia, contributing to the security of the immediate neighbourhood and supporting wider interests. Peacetime national tasks are included under Output 1.3.

ADF joint and combined exercises are included in the Program of Major Service Activities. Exercise objectives include training in warfighting and related skills,

confirmation of interoperability and joint capability and effective engagement with allies and regional partners.

Performance Targets	
<ul style="list-style-type: none"> • ADF operations meet Government directives. • Forces identified for operational tasks maintain required preparedness levels. • ADF forces are effectively deployed and sustained. • The Program of Major Service Activities is regularly reviewed and modified where required. • The major ADF exercise commitments for 2004-05 are met: <ul style="list-style-type: none"> – Exercise Rimpac, to improve interoperability with Pacific Rim Navies, – Exercise Bersama Lima, an exercise in conjunction with the Five Power Defence Arrangements nations, – Exercise Talisman Sabre 05, a combined exercise in Australia with United States forces, and – Exercise Joint Kiwi 05, a combined exercise in New Zealand with the New Zealand Defence Force. 	

ADF Operations

Table 4.1.12 in Output 1.3 contains details of operations in support of peacetime national tasks.

Table 4.1.4: Contributing to the Security of the Immediate Neighbourhood

Operation	Objective
Anode Commenced July 2003 Forces: ADF	To support the coalition police forces in restoring the rule of law in the Solomon Islands.
Citadel Commenced 2002 Forces: ADF	To contribute to United Nations support to East Timor.
Gateway Commenced 1981 Forces: Air Force	To conduct northern Indian Ocean and South China Sea maritime surveillance patrols.

Table 4.1.5: Supporting Wider Interests

Operation	Objective
Catalyst Commenced 2003 Forces: ADF	ADF contribution in support of the rehabilitation of Iraq.
Mazurka Commenced 1992 Forces: ADF	To provide personnel to the Multinational Force and Observers to monitor the security arrangements in the Sinai.
Paladin Commenced 1956 Forces: Army	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 that have been negotiated between Israel and neighbouring Arab nations since 1948.

Operation	Objective
Palate Commenced 2003 Forces: Army	ADF support to the United Nations Assistance Mission in Afghanistan.
Pomelo Commenced 2001 Forces: Army	To contribute to United Nations peacekeeping efforts in Africa as part of the United Nations Mission in Ethiopia/Eritrea.
Slipper Commenced 2001 Forces: ADF	To contribute to the United States-led operation against international terrorism and to the Multinational Maritime Interception Force in the Persian Gulf.

Australian Defence Force Exercise Program

Exercises are presented in these statements under the following headings:

- ADF Joint Exercises.
- Combined ADF and United States Exercises.
- Combined ADF and Five Power Defence Arrangements Exercises.
- Combined ADF and New Zealand Exercises.
- Other Combined Exercises.

A number of exercises expected to be scheduled in the Program of Major Service Activities are yet to be confirmed. It is expected that further exercises will be scheduled for 2004-05 and these will be reported in the *Portfolio Additional Estimates Statements 2004-05*.

Table 4.1.6: ADF Joint Exercises

Exercise	Forces	Objective
Squadex 05 March 2005	ADF	To train core amphibious maritime and land command elements of the Amphibious Force Element.
Talisman Saber 05 May - June 2005	ADF	To exercise and appropriate joint and combined forces in a short warning, power projection live-fire and manoeuvre command post and field training exercise.

Table 4.1.7: Combined ADF/United States Exercises

Exercise	Australian Forces	Objective
Air Warrior II 2005 May 2005	Air Force	To train airlift and ground force crews in short-notice tactical operations and combat airlift.
Dugong 04 September 2004	Navy	To conduct combined mine counter measures diving and explosive ordnance disposal procedures exercise.
Extendex 04-4 September 2004	Air Force	To conduct maritime patrol aircraft undersea warfare training.
Extendex 05-1 December 2004	Air Force	To conduct maritime patrol aircraft undersea warfare training.
Extendex 05-2 March 2005	Air Force	To conduct maritime patrol aircraft undersea warfare training.
Extendex 05-3 June 2005	Air Force	To conduct maritime patrol aircraft undersea warfare training.
Gold Eagle 04 June - July 04	Army	To further develop interoperability between the Australian Army and the United States Marine Corps in combined operations by conducting a field training or amphibious exercise.

Exercise	Australian Forces	Objective
Lone Arrow 05 March 2005	Air Force	To conduct C-130 aircraft training for selected combat airlift instructor aircrew.
Lungfish 04 July 2004	Navy, Air Force	To practise undersea warfare with joint and independent maritime patrol aircraft cooperation and to practise and develop combined Royal Australian Navy / United States Navy submarine operations.
Miracle Play 04 October 2004	Special Forces	To practise Australian and United States Special Forces in a combined special operations taskforce environment.
Red Flag 05 March - April 2005	Air Force	To conduct coalition conjoint air combat operations in a high density integrated air defence system.

Table 4.1.8: Combined ADF/Five Power Defence Arrangements Exercises

Exercise	Australian Forces	Participating Countries	Objective
Bersama Lima 04 September 2004	Navy, Air Force	Malaysia, New Zealand, Singapore, UK	To practise and develop operational procedures and tactics with Five Power Defence Arrangements units in a joint/combined maritime exercise.

Table 4.1.9: Combined ADF/New Zealand Exercises

Exercise	Australian Forces	Objective
ASWEX 04 November 2004	Navy, Air Force	To improve undersea warfare skills in all participating maritime units and exercise interoperability between maritime undersea warfare platforms.
Joint Kiwi 05 October 2004 - March 2005	ADF	To improve the standardisation of New Zealand and Australian defence capabilities.
Ocean Protector 04-2 July - August 2004	Navy, Air Force	To return the surface combatant, major amphibious and afloat support, submarine and mine countermeasures force element groups to the minimum level of capability following a reduced activity period.
Ocean Protector 05-1 February 2005	Navy, Air Force	To return the surface combatant, major amphibious and afloat support, submarine and mine countermeasures force element groups to the minimum level of capability following a reduced activity period.
PWO Sea Assessment Week 04-1 August 2004	Navy, Air Force	To ensure the ability of students to act as Defence Watch Principal War Officers at sea, by conducting training and subsequent assessment.
PWO Sea Assessment Week 04-2 November 2004	Navy, Air Force	To ensure the ability of students to act as Defence Watch Principal War Officers at sea, by conducting training and subsequent assessment.
Swift Eagle September 2004	ADF	To practise entry by air and sea and mid-intensity ground operations.

Table 4.1.10: Other Combined Exercises

Exercise	Australian Forces	Participating Countries	Objective
Austhai 04 September 04	Navy	Thailand	To develop basic interoperability in aspects of maritime warfare common to the Royal Australian Navy and Royal Thai Navy.
Goodwill 04 October 2004	Navy	Japan	To further develop interoperability with the Japanese Navy through the conduct of a sea exercise program.

Exercise	Australian Forces	Participating Countries	Objective
Joint Maritime Course 04-3 October – November 2004	Air Force	Canada, France, New Zealand, UK, US, Germany, Italy, Spain, Netherlands	To train participants in maritime warfare roles, including air, maritime surface, and subsurface power projection and battlespace dominance.
Lumbas 04 August 04	Navy	Philippines	To develop interoperability in coordinated or combined maritime patrol and surveillance operations between the Royal Australian Navy and Philippines Navy.
Mastex 04 September 2004	Navy	Malaysia	To improve the interoperability of the ADF and the Republic of Malaysian forces in combined maritime procedures and tactics.
Night Lion 2004 July - August 2004	Army	Singapore	To develop relations and enhance interoperability with Singapore's Special Forces.
Night Tiger 2004 July - August 2004	Army	Malaysia	To develop relations and enhance interoperability by conducting training with the Malaysian Special Forces.
Pacific Airlift Rally 2005 June 2005	Air Force	Bangladesh, Brunei, Canada, India, Indonesia, Japan, Laos, Malaysia, Mongolia, Philippines, PNG, Republic of Korea, Singapore, Thailand, US, Vietnam, Russia, Sri Lanka.	To enhance regional engagement and coalition airlift development through a military airlift symposium and command post exercise to exchange humanitarian airlift, airland and airdrop delivery techniques for specific regional aircraft.
Penguin 04 August 2004	Navy, Air Force	Brunei	To enhance interoperability between the Royal Australian Navy, Air Force and the Royal Brunei Navy by practising maritime patrol and surveillance procedures.
Pirap Jabiru 04 August - September 2004	ADF	Thailand	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.
Pitch Black 04 July - August 2004	Air Force	France, Singapore, Thailand, UK, US	To conduct a large-scale activity to exercise ADF and international participants in the tasking, planning and execution of offensive counter air operations in a Coalition environment.
RAN/RSN MCMEX 04 Western Pacific Naval Symposium (MCM) April - May 2004	Navy	Malaysia, New Zealand, Philippines, Singapore, Thailand, UK, US	To coordinate and enhance interoperability between the Royal Australian Navy and some regional navies by conducting a combined exercise.

Outcome One - Command of Operations

Exercise	Australian Forces	Participating Countries	Objective
Rimpac 04 June - July 2004	Navy, Air Force	Canada, Chile, Japan, Republic of Korea, Peru UK, US	To improve interoperability with regional forces to operate in coalition arrangements by conducting a combined maritime warfare exercise.
Singaroo 04 August 2004	ADF	Singapore	To improve the interoperability of the ADF and the republic of Singapore forces in combined maritime procedures and tactics.
Singaroo 05 April - May 2005	ADF	Singapore	To improve the interoperability of the ADF and the republic of Singapore forces in combined maritime procedures and tactics.
Taa Nok In Sii 04-2 September 2004	Air Force	Thailand	To progressively develop Royal Thai Navy maritime air surveillance capability and combined Royal Thai Navy and Air Force surveillance procedures.
Taa Nok In Sii 05-1 April 2005	Air Force	Thailand	To progressively develop Royal Thai Navy maritime air surveillance capability and combined Royal Thai Navy and Air Force surveillance procedures.
Tamex 04-3 September - October 2004	Navy, Air Force	New Zealand or US	To practise combined maritime patrol aircraft undersea warfare operations and enhance interoperability with the United States Navy.
Tamex 04-4 December 2004	Navy, Air Force	New Zealand or US	To practise combined maritime patrol aircraft undersea warfare operations and enhance interoperability with the United States Navy.
Tamex 05-1 March 2005	Navy, Air Force	New Zealand or US	To practise combined maritime patrol aircraft undersea warfare operations and enhance interoperability with the United States Navy.
Tamex 05-2 June 2005	Navy, Air Force	New Zealand or US	To practise combined maritime patrol aircraft undersea warfare operations and enhance interoperability with the United States Navy.
Vigilant Pacific 04 November 2004	ADF	Canada, UK, US	To refine command and control within a joint and combined environment.
Wyvern Sun 2004 July 2004	ADF	Thailand	To rehearse an ADF response to an offshore counter terrorist recovery incident.

Table 4.1.11: Net Cost of Output 1.2 – Defence Force Military Operations and Exercises

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	128,218	62,372	-65,847	12,214	12,649	12,896
Employees - Civilian	21,690	19,432	-2,258	19,490	20,202	17,485
Sub total employees	149,908	81,804	-68,104	31,704	32,851	30,381
Supplier Expenses	290,845	254,741	-36,104	151,174	135,989	112,601
Inventory consumption	48,389	51,187	2,799	51,924	55,003	51,232
Sub total suppliers	339,234	305,928	-33,306	203,098	190,992	163,833
Depreciation and amortisation	6,474	6,547	73	6,857	7,557	8,373
Write down of assets	2,058	582	-1,476	582	582	582
Value of assets sold	2,880	2,171	-709	392	384	392
Other	-	-	-	-	-	-
Grants	11	7	-4	7	9	8
Borrowing cost expense	123	122	-1	125	127	105
Total operating expenses from ordinary activities	500,688	397,161	-103,526	242,764	232,502	203,674
Revenues						
Sale of goods and services	-68,863	-67,569	1,293	-71,602	-73,079	-74,689
Revenue from sale of assets	-2,880	-2,171	709	-392	-384	-392
Assets now recognised	-1,765	-	1,765	-	-	-
Other	-734	-1,153	-419	-1,395	-1,435	-1,458
Total Own Source Revenues	-74,242	-70,893	3,348	-73,390	-74,898	-76,539
Net Cost of Output 1.2⁽¹⁾	426,446	326,268	-100,178	169,374	157,604	127,135

Note

1. Cross references to Table 4.1.1.

The variation in Output 1.2 is due to the reduced ADF commitment to operations (mainly Operations Citadel and Anode) in 2004-05 offset by price indexation, real growth in employee costs and other adjustments.

Output 1.3 - Contribution to National Support Tasks

The ADF can be called upon to provide emergency and non-emergency assistance to the Government and the Australian community in non-combat related roles. The tasks the ADF may be requested to undertake could include emergency assistance, search and rescue, disaster recovery, surveillance, security or non-emergency law enforcement roles. Tasks may be directed by the Government or requested by other civil authorities or Government departments.

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

Peacetime national tasks undertaken by the ADF may include the security of the Australian coastline from illegal immigration, smuggling, quarantine evasion and other intrusions to Australian sovereignty, counter-terrorism responses, search and rescue and natural disaster relief.

Performance Targets	
•	The ADF contribution to peacetime national tasks meets Government directives.
•	Forces identified to provide Defence Assistance to the Civil Community, Defence Assistance to Civil Authorities and search and rescue maintain required preparedness levels.
•	ADF forces are effectively deployed and sustained.
•	The ADF response to requests for search and rescue and emergency assistance tasks are effectively managed and reported.
•	ADF support to the civil surveillance program, in consultation with Coastwatch, is provided at the following resource levels: <ul style="list-style-type: none"> – 250 flying hours by P-3C surveillance aircraft, – 240 Regional Force Surveillance Unit patrol days, and – 1,800 patrol boats days.
•	The ADF continues to conduct minor emergency and non-emergency assistance tasks from local resources, where feasible.
•	National support tasks undertaken by the ADF as significant emergency assistance, public events of significance and non-emergency law enforcement are effectively managed and reported.
•	National support tasks undertaken by the ADF as Defence Assistance to Civil Authorities are effectively managed and reported.

ADF Operations

Table 4.1.4 in Output 1.2 contains details of operations contributing to the security of the immediate neighbourhood and operations supporting wider interests.

Table 4.1.12: Peacetime National Tasks

Operation	Objective
Beachcomber Commenced 1996 Forces: Navy and Army	To collect beach information in Australia for operational planning.
Burbage Commenced 1995 Forces: Navy and Air Force	To conduct Indian Ocean maritime surveillance patrols.
Celesta Commenced 2001 Forces: ADF	Overarching plan to conduct surface fisheries patrols in the Heard Island-McDonald Island Exclusive Economic Zone.
Cranberry Commenced 1997 Forces: ADF	To conduct surveillance in northern Australia.
Estes Commenced 1980 Forces: Navy	To conduct surface patrols in Bass Strait.
Gaberdine Commenced 2001 Forces: ADF	To provide support to the Department of Immigration and Multicultural and Indigenous Affairs to manage any increase in unauthorised boat arrivals.

Operation	Objective
Mellin Commenced 1995 Forces: Navy and Air Force	To contribute to Torres Strait and Timor Gap maritime surveillance patrols.
Mistral Commenced 1998 Forces: Navy and Air Force	To support Australian sovereign rights and fisheries law enforcement in the Southern Ocean by contributing to Southern Ocean fisheries patrols.
Osteal Commenced 1995 Forces: Navy and Air Force	To conduct Coral Sea maritime surveillance patrols.
Prowler Commenced 1996 Forces: Navy and Army	To collect military geographic information in northern Australia.
Relex II Commenced 2002 Forces: ADF	To conduct air and surface patrols across Australia's northern approaches to deter unauthorised boat arrivals.
Solania Commenced 1988 Forces: Navy and Air Force	To conduct South West Pacific maritime surveillance patrols.

Table 4.1.13: Net Cost of Output 1.3 – Contribution to National Support Tasks

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	1,783	1,724	-58	1,799	1,874	2,024
Employees - Civilian	2,237	2,412	175	2,490	2,603	2,255
Sub total employees	4,019	4,136	116	4,288	4,476	4,279
Supplier Expenses	4,297	5,110	813	3,413	3,703	4,291
Inventory consumption	-	-	-	-	-	-
Sub total suppliers	4,297	5,110	813	3,413	3,703	4,291
Depreciation and amortisation	614	616	2	662	717	778
Write down of assets	189	51	-137	51	51	51
Value of assets sold	153	115	-38	20	20	20
Other	-	-	-	-	-	-
Grants	4	3	-1	3	3	3
Borrowing cost expense	43	43	1	44	45	37
Total operating expenses from ordinary activities	9,319	10,074	755	8,482	9,016	9,460
Revenues						
Sale of goods and services	-191	-198	-7	-200	-203	-207
Revenue from sale of assets	-153	-115	38	-20	-20	-20
Assets now recognised	-144	-	144	-	-	-
Other	-124	-155	-31	-151	-155	-158
Total Own Source Revenues	-613	-469	144	-371	-378	-385
Net Cost of Output 1.3⁽¹⁾	8,706	9,605	899	8,111	8,638	9,075

Note

1. Cross reference to Table 4.1.1.

OUTCOME TWO – NAVY CAPABILITY

Outcome Two – Navy Capability for the Defence of Australia and its Interests

- Output 2.1 Capability for Major Surface Combatant Operations
- Output 2.2 Capability for Naval Aviation Operations
- Output 2.3 Capability for Patrol Boat Operations
- Output 2.4 Capability for Submarine Operations
- Output 2.5 Capability for Afloat Support
- Output 2.6 Capability for Mine Warfare
- Output 2.7 Capability for Amphibious Lift
- Output 2.8 Capability for Hydrographic, Meteorological and Oceanographic Operations

The Navy provides maritime forces that contribute to the defence of Australia, contribute to the security of Australia's immediate region, support wider interests and international engagement, and conduct national tasks. This is done by providing maritime patrol and response, interdiction and strategic strike, protection of shipping and offshore territories and resources, collection and evaluation of maritime intelligence, and escort duties. National tasks include maritime surveillance and response within Australia's exclusive economic zone in support of Coastwatch, hydrographic, oceanographic and meteorological support operations, border protection, distribution of humanitarian aid, and maritime search and rescue.

Planned Performance

In 2004-05, the Navy will continue to maintain support for the ADF's involvement in the global war on terror, maritime surveillance and associated border and offshore resource protection or enforcement tasks, peace monitoring, and hydrographic operations in accordance with the Hydrographic and Oceanographic Scheme (the national hydrographic surveying and charting program), also referred to as *HydrOcscheme 2003-06*.

In 2003-04, the Navy devoted considerable effort to reconstituting skills not exercised in recent operational roles and in the training and recuperation of its workforce. This thrust will continue in 2004-05. The Navy will continue to maintain sufficient combatant forces, amphibious and afloat support ships, submarines, and mine counter measures forces to deploy on operations, as required in military preparedness directives. The Navy will also devote effort to meeting international engagement and interoperability requirements with allied and regional maritime forces.

Area air warfare and anti-ship missile defence, afloat support and amphibious lift are the Navy's highest priority for capability development, followed by undersea and littoral warfare.

Key Risks and Limitations

Personnel

The Navy's uniformed workforce strength has been increasing since the second quarter of 2001, but shortages in some employment categories continue to be a risk to Navy capability. The Navy will maintain a strong focus on both retention and recruiting to address these issues.

Logistic Support

Accumulated logistics shortfalls have the potential to affect the long-term ability of the Navy to sustain the existing force structure.

Operations and Reconstitution of Forces on Completion

The nature and tempo of ADF operations undertaken during the last few years, in particular by the surface combatant and naval aviation force elements and consequent reduction of training assets and opportunities, has had an adverse impact upon some higher end warfighting skills within the Navy.

Air Warfare Capability

The ageing primary air warfare system of the surface combatant force remains suitable for a range of operations, but the ability of the surface combatant force to provide long-range air warfare protection for ADF forces in higher level contingencies is more problematic. The delivery of HMAS *Sydney* in late 2004 following upgrade and operational release, and ongoing delivery of new short range missiles for both the Anzac-class and upgraded guided missile frigates, are important early milestones in redressing the anti-ship missile defence deficiency within the surface combatant force.

Submarine

The overall submarine capability continues to improve following the operational release of the Collins-class submarines in the first quarter of 2004. Existing programs that will maintain the 'capability edge' in a region experiencing a proliferation of submarine and anti-submarine capabilities will remain a strong focus, as will retention and recruiting of submariners.

Anti-Ship Strike

The surface combatant force is well served with the Harpoon missile as an open ocean anti-ship weapon, but this system is less effective in the littoral. An upgrade program for the missile will redress this shortcoming. The Super Seasprite helicopter armed with the Penguin missile is an important element

that will deliver much improved littoral anti-ship strike, when it enters operational service in 2005.

Undersea Warfare

Improvements in the ability of maritime surface and air forces to provide anti-submarine protection for ADF forces or maritime trade in higher level contingencies will be achieved with the planned upgrades of the Seahawk helicopter, delivery of upgraded guided missile frigates with torpedo defence systems from late 2004, delivery of new lightweight torpedoes from 2007, and the continuous improvement of the Collins-class submarines.

Risk Mitigation

Personnel

The Navy's strategy is to recover personnel shortfalls through a concentrated effort to improve retention, recruitment and optimising trainee throughput, while sustaining operations. Initiatives are in place to target segments of the workforce that are difficult to recruit, including seaman, aviators, doctors and technical tradespeople. Additional retention strategies are being developed and are focused on the employment groups with significant shortfalls. Lead indicators show an optimistic forecast for 2004-05.

Logistic Support

Planned savings from offsets in force structure and supplementary funding will be provided to logistic support. The DMO and the Defence Science and Technology Organisation are developing ways of determining logistics cost drivers to inform strategies aimed at reducing current and future shortfalls.

Operations and Reconstitution of Forces on Completion

Measures already in place will continue to manage the operational and personnel tempo effects on preparedness. Personnel will be released for recreational leave and individual training, and assets will be concentrated for effective collective skills training. The recovery of the Navy's high-end warfighting skills will remain a major focus of the reconstitution program.

Air Warfare Capability

The Navy is introducing more capable sensor and weapon systems for both the Anzac-class and guided missile frigates. The upgrade programs will enhance the air warfare effectiveness of these units leading up to the planned introduction of the air warfare destroyer in 2013. The planned delivery of the Standard Missile Two, area air defence missile, in the guided missile frigates from 2008 will significantly improve the Navy's capability for air defence.

Submarine

Submarine capability enhancements will accrue, with major improvements to warfighting capabilities, through continued development of the combat system, sonar replacement, and the introduction into service of a new heavyweight torpedo.

Anti-Ship Strike

The introduction into service of the Super Seasprite helicopters, armed with the Penguin missile, will complement the open ocean capabilities of the Harpoon missile. Upgrading the Anzac-class frigates with a Harpoon capability, as well as the approved acquisition of an enhanced Harpoon missile, will further overcome deficiencies.

Undersea Warfare

A mid-life upgrade of the Seahawk helicopters will enhance their effectiveness in undersea warfare. The planned introduction into service of a new lightweight torpedo will enhance the effectiveness of air and surface anti-submarine assets, and improvements to the Collins-class submarines will increase their anti-submarine capability.

Cost Summary of Outcome Two

Table 4.2.1: Breakdown of Outcome Two by Output

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 2.1 – Capability for Major Surface Combatant Operations ⁽¹⁾	1,362,904	1,425,151	62,646	1,448,784	1,539,180	1,655,931
Output 2.2 – Capability for Naval Aviation Operations ⁽²⁾	485,629	507,679	22,050	504,910	523,563	558,242
Output 2.3 – Capability for Patrol Boat Operations ⁽³⁾	275,055	288,600	13,545	280,986	288,339	306,478
Output 2.4 – Capability for Submarine Operations ⁽⁴⁾	878,370	858,480	-19,891	809,469	833,127	868,795
Output 2.5 – Capability for Afloat Support ⁽⁵⁾	218,217	223,252	5,036	225,018	252,259	253,061
Output 2.6 – Capability for Mine Warfare ⁽⁶⁾	391,274	404,361	13,086	385,721	410,555	440,788
Output 2.7 – Capability for Amphibious Lift ⁽⁷⁾	366,381	371,605	5,224	377,614	373,612	398,573
Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations ⁽⁸⁾	233,407	246,547	13,140	239,226	247,649	264,617
Total Cost of Outcome Two⁽⁹⁾	4,211,238	4,325,674	114,436	4,271,729	4,468,284	4,746,483

Notes

1. Cross references to Table 4.2.3.
2. Cross references to Table 4.2.4.
3. Cross references to Table 4.2.5.
4. Cross references to Table 4.2.6.
5. Cross references to Table 4.2.7.
6. Cross references to Table 4.2.8.
7. Cross references to Table 4.2.9.
8. Cross references to Table 4.2.10.
9. Cross references to Table 4.2.2.

Net Cost of Outcome Two

Table 4.2.2: Net Cost of Outcome Two – Navy Capability

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000		2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	1,291,845	1,244,246	-47,599	1,331,580	1,361,346	1,425,624
Employees - Civilian	321,247	346,841	25,594	345,876	359,304	310,921
Sub total employees	1,613,092	1,591,087	-22,005	1,677,455	1,720,650	1,736,546
Supplier Expenses	1,358,265	1,491,678	133,413	1,401,553	1,507,808	1,747,784
Inventory Consumption	181,672	184,833	3,161	191,440	202,954	187,494
Sub total suppliers	1,539,936	1,676,510	136,574	1,592,993	1,710,762	1,935,277
Depreciation and amortisation	1,074,739	1,066,026	-8,713	1,007,838	1,043,158	1,083,002
Write down of assets	133,373	38,446	-94,928	38,456	38,412	38,327
Value of assets sold	81,713	61,601	-20,112	10,812	10,872	10,932
Other	-	-175	-175	-175	-175	-175
Grants	407	271	-136	278	286	292
Borrowing cost expense	5,432	5,414	-17	5,523	5,633	4,629
Total operating expenses from ordinary activities	4,448,691	4,439,180	-9,511	4,333,180	4,529,598	4,808,831
Revenues						
Sale of goods and services	-32,728	-34,416	-1,688	-36,307	-35,917	-36,677
Revenue from sale of assets	-81,713	-61,601	20,112	-10,812	-10,872	-10,932
Assets now recognised	-104,357	-	104,357	-	-	-
Other	-18,655	-17,489	1,166	-14,332	-14,525	-14,738
Total Own Source Revenues	-237,453	-113,506	123,947	-61,451	-61,314	-62,347
Net Cost of Outcome Two⁽¹⁾	4,211,238	4,325,674	114,436	4,271,729	4,468,284	4,746,483

Note

1. Cross references to Table 4.2.1.

Significant variations

The major variations for Outcome Two are due to:

- A net decrease in military employee expenses (-\$47.6m) as a result of:
 - price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases (+\$66.1m),
 - real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance (+\$13.1m),
 - variation in relation to recruitment and retention initiatives (+\$8.5m),
 - variations in per capita costs for military employees (+\$7.5m),
 - growth in the Navy workforce in line with the Defence White Paper targets from 13,121 to 13,167 (+\$4.4m),

Outcome Two - Navy Capability

- increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations (+\$3.0m),
- non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions combined with a non-recurring transfer of the Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts (-\$87.9m),
- transfer of the military compensation function to the Department of Veterans' Affairs (-\$34.3m),
- overestimation of accrual provisions in 2003-04 in relation to long service and annual leave, and compensation (-\$18.5m),
- reclassification of rations costs to supplier expenses (-\$14.2m), and
- other miscellaneous variations including salary arrears adjustments and refinements to attribution rules (+\$4.7m).
- A net increase in civilian employee expenses (+\$25.6m) as a result of:
 - price indexation to cover the *Defence Employees' Certified Agreement 2004-2006* and other cost increases (+\$20.3m),
 - increase in voluntary redundancy costs as a result of the Defence Integrated Distribution System contract (+\$8.0m),
 - real growth in civilian employee costs as provided for in the Defence White Paper (+\$6.2m),
 - Defence Procurement Review implementation funding (+\$1.2m),
 - non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and superannuation provisions for University of New South Wales staff at the Australian Defence Force Academy (-\$7.2m),
 - savings as part of the civilian reduction program (-\$2.4m), and
 - other miscellaneous variations (-\$0.5m).
- A net increase in supplier expenses (+\$133.4m) as a result of:
 - Price indexation for supplier expenses (+\$51.2m),
 - increase in expenditure on estate upkeep and other cost pressures including Comcover and Comcare premiums, legal services and other overheads (\$29.6m),
 - additional logistics support funding for naval aviation to sustain current levels of operational tempo and to meet specific preparedness targets (+\$21.1m),
 - additional logistics support funding for Anzac-class frigates to sustain current levels of operational tempo and to meet specific preparedness targets (+\$19.4m),

- increased provision for support to core portfolio information systems (+\$16.1m),
- reclassification of rations costs from military employees expenses (+\$14.2m),
- increased purchase of information technology and administrative assets as part of Defence's asset refreshment program (+\$11.6m),
- through-life support costs for new equipment entering service (+\$10.5),
- provision for through life costs for new capital facilities (+\$8.3m),
- increased insurance premium payments under Defence's insurance policy with Comcover (+\$3.4m),
- refinement of outcome attribution rules to Outcome One for expenditure on operations (-\$12.0m),
- variation in management information support from the DMO (-\$8.0m),
- transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs (-\$7.3m),
- administrative savings program (-\$6.6m),
- non-recurring supplementation provided by the portfolio in 2003-04 for naval aviation (-\$5.4m),
- non-recurring supplementation provided by the portfolio in 2003-04 for Anzac-class (-\$5.0m), and
- Defence Procurement Review implementation funding (-\$1.0m), and
- other net variations (-\$6.7m).
- A net increase in inventory consumption as a result of increase in inventory consumption reflecting the heightened operational tempo and increased logistics funding (+\$3.2m).
- A net decrease in depreciation (-\$8.7m) as a result of:
 - non-recurring adjustment in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base, offset by rescheduling and rephasing of asset roll-outs (-\$37.5m),
 - rollout of assets from projects including HMAS *Sydney* upgrade, missile systems and Super Seasprite helicopters (+\$31.0m), and
 - other miscellaneous variations (-\$2.2m).
- A net decrease in write-down of assets as a result of expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base (-\$94.9m).

- A net decrease in the value of assets sold as a result of a reduction in the projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars (-\$20.1m).
- A net increase in sales of goods and services (-\$1.7m) including:
 - revised outcome attribution rules (-\$2.3m),
 - price indexation (-\$1.0m), and
 - other miscellaneous variations (+\$1.6m).
- A net decrease in revenue from the sale of assets involving a reduction in the projected asset sales for 2004-05 due to a decreased property sales program (+\$20.1m).
- A net decrease in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base (+\$104.4m).
- A net decrease in other revenue (+\$1.2m) as a result of:
 - non-recurrent insurance receipt for Holsworthy bushfire damage in 2003-04 (+\$2.8m),
 - price indexation (-\$2.5m), and
 - other miscellaneous variations (+\$0.9m).

OUTPUT STRUCTURE FOR OUTCOME TWO

Output 2.1 – Capability for Major Surface Combatant Operations

The major surface combatant force consists of 12 frigates made up of six guided missile frigates and six Anzac-class frigates. A seventh Anzac-class frigate will be delivered in 2005, with all eight planned to be in service progressively by 2006. Two guided missile frigates will be withdrawn from service from 2006, maintaining surface combatant numbers at twelve. For those remaining, the guided missile frigate upgrade program to ensure ship survivability in the increasingly sophisticated maritime warfare environment is a rolling program commenced in late 2003 and due to be completed in 2008. Work has begun to provide an air warfare destroyer capability by 2013, to be delivered by the Air Warfare Destroyer Project.

The surface combatants possess combat capabilities in all three primary warfare areas (air, surface and undersea), and provide combined, coalition and joint ADF command and control facilities for ADF operations. This has been particularly well proven in recent operational deployments. They are fully aviation capable and are able to sustain independent operations in remote areas for prolonged periods of time. They are essential force elements in any task group where the ADF deploys for maritime operations at all levels. Their flexibility and versatility, particularly with a helicopter flight embarked, make these ships platforms of first resort in contingencies throughout the broad

spectrum of maritime operations.

Performance Targets		
Vessel Type	Number	Budget Estimate
Guided missile frigates	6	1,690 URD ⁽¹⁾
Anzac-class frigates	6	1,704 URD

Note

1. Unit Ready Days (URD) is the number of days that a force element is available for tasking, by the Maritime Commander, outside of major maintenance and within planned readiness requirements.

Table 4.2.3: Net Cost of Output 2.1 – Capability for Major Surface Combatant Operations

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	423,155	402,351	-20,803	441,031	453,401	476,281
Employees - Civilian	96,949	104,110	7,161	103,653	107,794	93,785
Sub total employees	520,104	506,462	-13,642	544,683	561,194	570,066
Supplier Expenses	372,049	451,263	79,213	450,273	497,274	598,105
Inventory Consumption	106,687	108,157	1,471	112,645	119,383	110,069
Sub total suppliers	478,736	559,420	80,684	562,918	616,658	708,174
Depreciation and amortisation	370,606	363,155	-7,451	344,317	364,253	381,407
Write down of assets	45,320	13,186	-32,134	13,181	13,167	13,142
Value of assets sold	30,363	22,887	-7,476	4,072	4,108	4,148
Other	-1	-100	-99	-100	-100	-100
Grants	170	113	-57	116	119	121
Borrowing cost expense	2,208	2,233	25	2,277	2,323	1,909
Total operating expenses from ordinary activities	1,447,506	1,467,355	19,849	1,471,465	1,561,721	1,678,868
Revenues						
Sale of goods and services	-11,190	-12,218	-1,028	-13,060	-12,941	-13,231
Revenue from sale of assets	-30,363	-22,887	7,476	-4,072	-4,108	-4,148
Assets now recognised	-35,655	-	35,355	-	-	-
Other	-7,394	-7,101	293	-5,548	-5,492	-5,559
Total Own Source Revenues	-84,602	-42,205	42,396	-22,680	-22,541	-22,938
Net Cost of Output 2.1⁽¹⁾	1,362,904	1,425,151	62,246	1,448,784	1,539,180	1,655,931

Note

1. Cross references to Table 4.2.1.

The increase in Output 2.1 relates mainly to supplier expenses and includes additional logistics support funding for Anzac-class frigates to sustain current levels of operational tempo and meet specific preparedness requirements.

Output 2.2 – Capability for Naval Aviation Operations

The naval aviation force comprises 16 Seahawk helicopters, seven Sea King helicopters and 13 Squirrel helicopters. The Navy’s aviation capability is being enhanced by the introduction of ten Super Seasprite helicopters, which are being accepted progressively with limited operational capabilities and used to completed flight trials and initial squadron training. The eleventh Super Seasprite will be introduced some time after 2004-05. Fully operational Super Seasprite helicopters will begin being deployed in 2005-06. Organic frigate-based naval aviation assets are part of, and extend substantially, the sensor and weapons systems of the parent ship. Seahawks and, in the future, Super Seasprites contribute to the Navy’s capability for surface warfare (strike), undersea warfare, reconnaissance, surveillance, maritime support, search and rescue, medical evacuation, electronic warfare and aircrew training. The provision of maritime aviation support is the primary role of the Sea King helicopters, although all naval aviation assets can contribute. Amphibious operations from HMA Ships *Success*, *Kanimbla*, *Manoora* or *Tobruk* are supported by the Sea Kings.

Naval aviation, like Army aviation, is dependent on the Air Force for the initial training of aviation technicians and flying training for officer aircrew. Initial helicopter aircrew training is conducted using the Squirrel helicopters. As the Squirrel approaches its planned date of withdrawal from service, a proposal to replace both Sea Kings and Squirrels with an interim leased helicopter is being progressed. The purpose of the proposed leased maritime interim rotary-wing training and support system is to provide a more cost-effective training aircraft using the one aircraft type that can also meet the embarked maritime support role. The proposal is due for first pass consideration by the Government in mid-2004. Naval aviation also manages the operation of the Kalkara aerial target system, which supports fleet and Air Force training.

Performance Targets		
Aircraft	Number	Flying Hours 2004-05
Seahawks	16	4,600
Sea Kings	7	2,000
Squirrels	13 ⁽¹⁾	4,000
Super Seasprites	10 ⁽²⁾	1,200
Kalkaras	13	39 presentations ⁽³⁾

Notes

1. Twelve aircraft are operated, the thirteenth aircraft is held for attrition purposes.
2. The eleventh Super Seasprite helicopter will be introduced after 2004-05.
3. Kalkara is an unmanned aerial target system used for Fleet and Air Force support. Presentations refer to the number of instances during which the system is used as a target in training exercises.

Table 4.2.4: Net Cost of Output 2.2 – Capability for Naval Aviation Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	177,861	171,775	-6,086	182,238	186,272	195,008
Employees - Civilian	43,068	46,310	3,241	46,560	48,328	41,873
Sub total employees	220,930	218,085	-2,845	228,798	234,600	236,881
Supplier Expenses	177,119	201,675	24,556	190,847	197,072	224,888
Inventory Consumption	4,430	4,546	116	4,646	4,936	4,577
Sub total suppliers	181,549	206,221	24,673	195,493	202,008	229,466
Depreciation and amortisation	84,182	83,736	-446	80,993	87,309	92,466
Write down of assets	15,945	4,453	-11,491	4,448	4,449	4,439
Value of assets sold	6,097	4,597	-1,500	740	716	692
Other	-	-10	-10	-10	-10	-10
Grants	43	29	-14	30	30	31
Borrowing cost expense	550	540	-11	550	561	461
Total operating expenses from ordinary activities	509,295	517,650	8,355	511,042	529,663	564,425
Revenues						
Sale of goods and services	-3,667	-3,731	-64	-3,876	-3,824	-3,908
Revenue from sale of assets	-6,097	-4,597	1,500	-740	-716	-692
Assets now recognised	-12,131	-	12,131	-	-	-
Other	-1,771	-1,643	128	-1,516	-1,559	-1,584
Total Own Source Revenues	-23,666	-9,971	13,695	-6,132	-6,099	-6,184
Net Cost of Output 2.2⁽¹⁾	485,629	507,679	22,050	504,910	523,563	558,242

Note

1. Cross references to Table 4.2.1.

The increase in Output 2.2 relates mainly to additional logistics support funding.

Output 2.3 – Capability for Patrol Boat Operations

The patrol boat force consists of 15 Fremantle-class patrol boats which will be replaced by a fleet of 12 Armidale-class patrol boats between 2004-05 and 2007-08. Fremantle-class patrol boats will pay off progressively between 2004-05 and 2007-08. The Armidale-class patrol boats will be commissioned in pairs (except for the first and last hulls) between April 2005 and April 2007. The transition phase of the delivery of the Armidale-class patrol boats and the disposal of the Fremantle-class patrol boats will be actively managed to maintain the output performance targets.

The patrol boat force makes a large and effective contribution to the civil surveillance program (managed by Coastwatch) and to the protection of Australia's sovereignty through the provision of a patrol, response and surveillance capability in Australia's maritime approaches. Patrol boats contribute to regional engagement and security through the conduct of operations, port visits and exercises with regional nations.

Performance Targets		
Vessel Type	Number	Budget Estimate
Patrol boats	15 ⁽¹⁾	4,737 URD

Note

- The lowest total number of hulls forecast to be available during 2004-05 during the transition to the Armidale-class is 12.

Table 4.2.5: Net Cost of Output 2.3 – Capability for Patrol Boat Operations

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	126,869	123,583	-3,286	130,762	133,613	139,755
Employees - Civilian	22,558	23,820	1,262	23,756	24,641	21,477
Sub total employees	149,428	147,403	-2,024	154,518	158,254	161,232
Supplier Expenses	81,451	95,560	14,108	80,335	85,516	100,249
Inventory Consumption	19,113	19,385	272	20,171	21,376	19,714
Sub total suppliers	100,564	114,944	14,380	100,506	106,892	119,963
Depreciation and amortisation	26,819	27,773	954	27,431	24,681	26,930
Write down of assets	6,389	1,681	-4,709	1,680	1,686	1,681
Value of assets sold	6,036	4,550	-1,486	792	792	792
Other	-	11	11	11	11	11
Grants	31	21	-10	21	22	23
Borrowing cost expense	428	423	-4	432	441	362
Total operating expenses from ordinary activities	289,694	296,807	7,112	285,393	292,778	310,993
Revenues						
Sale of goods and services	-2,710	-2,636	74	-2,765	-2,773	-2,835
Revenue from sale of assets	-6,036	-4,550	1,486	-792	-792	-792
Assets now recognised	-4,666	-	4,666	-	-	-
Other	-1,228	-1,021	207	-851	-875	-889
Total Own Source Revenue	-14,639	-8,207	6,432	-4,407	-4,439	-4,516
Net Cost of Output 2.3⁽¹⁾	275,055	288,600	13,545	280,986	288,339	306,478

Note

- Cross references to Table 4.2.1.

Output 2.4 – Capability for Submarine Operations

The Navy has six Collins-class submarines that were operationally released into service in March 2004. Two submarines have been enhanced to provide a higher

level of capability. A number of joint projects are in place to progressively enhance the combat system and weapon capability of all six submarines.

The submarine force is capable of fulfilling the roles of maritime strike and interdiction, maritime surveillance, reconnaissance and intelligence collection, undersea warfare, and special forces operations. Submarines may be employed to operate independently, either as an element of the ongoing national intelligence collection effort, or as a forward reconnaissance unit in an area of heightened tension. They may also be employed as one of a number of key elements in task group operations that deny opponents the use of Australia's maritime approaches. The submarine force is also able to conduct operations in a combined or coalition force.

Performance Targets		
Vessel Type	Number	Budget Estimate
Submarines	6 ⁽¹⁾	948 URD

Note

1. HMAS *Waller* will remain in full-cycle docking for all of 2004-05.

Table 4.2.6: Net Cost of Output 2.4 – Capability for Submarine Operations

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	124,173	121,344	-2,829	128,353	131,130	136,169
Employees - Civilian	57,605	64,484	6,878	63,652	66,167	55,845
Sub total employees	181,778	185,827	4,049	192,006	197,297	192,014
Supplier Expenses	344,909	321,315	-23,594	285,489	304,331	341,624
Inventory Consumption	6,572	6,700	129	6,909	7,325	6,785
Sub total suppliers	351,481	328,015	-23,465	292,399	311,656	348,409
Depreciation and amortisation	343,862	339,873	-3,989	319,700	318,633	322,970
Write down of assets	32,440	9,883	-22,557	9,878	9,863	9,837
Value of assets sold	8,180	6,167	-2,013	1,084	1,092	1,096
Other	-	-106	-106	-106	-106	-106
Grants	27	18	-9	19	20	20
Borrowing cost expense	337	331	-6	338	345	283
Total operating expenses from ordinary activities	918,105	870,009	-48,096	815,317	838,800	874,523
Revenues						
Sale of goods and services	-2,386	-2,772	-386	-2,993	-2,760	-2,782
Revenue from sale of assets	-8,180	-6,167	2,013	-1,084	-1,092	-1,096
Assets now recognised	-26,545	-	26,545	-	-	-
Other	-2,623	-2,590	33	-1,770	-1,821	-1,850
Total Own Source Revenue	-39,735	-11,501	28,206	-5,847	-5,673	-5,728
Net Cost of Output 2.4⁽¹⁾	878,370	858,480	-19,891	809,469	833,127	868,795

Note

1. Cross references to Table 4.2.1.

Output 2.5 – Capability for Afloat Support

The afloat support capability consists of an oil tanker and a replenishment ship. This capability has a major role in the provision of afloat tactical logistics, particularly under way replenishment. It also has the capacity for logistic support to land forces and utility in a range of peacetime national tasks. The afloat support capability contributes significantly to the performance of Output 2.1 - Capability for Major Surface Combatant Operations through the provision of logistic support. These major fleet units have provided important logistic support to operations and exercises and have contributed to Defence international engagement through these activities. The maritime operational support capability project is being progressed to provide an improved afloat support capability.

Performance Targets		
Vessel Type	Number	Budget Estimate
Oil tanker	1	334 URD
Replenishment ship	1	273 URD

Table 4.2.7: Net Cost of Output 2.5 – Capability for Afloat Support

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	75,994	73,085	-2,910	77,432	78,258	82,024
Employees - Civilian	16,893	17,859	966	17,852	18,527	16,132
Sub total employees	92,887	90,943	-1,944	95,283	96,785	98,156
Supplier Expenses	71,641	77,453	5,812	77,832	100,836	99,658
Inventory Consumption	12,356	12,698	342	12,954	13,746	12,770
Sub total suppliers	83,997	90,150	6,154	90,785	114,582	112,428
Depreciation and amortisation	42,917	43,625	708	40,394	42,359	44,079
Write down of assets	5,640	1,521	-4,120	1,521	1,521	1,521
Value of assets sold	7,231	5,451	-1,780	960	968	976
Other	-	16	16	16	16	16
Grants	26	18	-9	18	18	19
Borrowing cost expense	363	355	-8	362	369	303
Total operating expenses from ordinary activities	233,061	232,079	-982	229,339	256,619	257,498
Revenues						
Sale of goods and services	-2,158	-2,230	-73	-2,305	-2,306	-2,358
Revenue from sale of assets	-7,231	-5,451	1,780	-960	-968	-976
Assets now recognised	-4,198	-	4,198	-	-	-
Other	-1,258	-1,145	113	-1,056	-1,086	-1,103
Total Own Source Revenue	-14,845	-8,827	6,018	-4,321	-4,360	-4,437
Net Cost of Output 2.5⁽¹⁾	218,217	223,252	5,036	225,018	252,259	253,061

Note

1. Cross references to Table 4.2.1.

Output 2.6 – Capability for Mine Warfare

The mine warfare force comprises six Huon-class coastal mine hunters, two auxiliary minesweepers and two clearance diving teams.

The Huon-class mine hunters provide an advanced mine hunting and clearance capability, and a limited maritime patrol and surveillance capability. The mine hunters contribute to regional engagement and security through the conduct of port visits and exercises with regional nations. Two auxiliary minesweepers deliver influence mine and moored minesweeping capabilities. Clearance diving teams support the full spectrum of mine warfare operations, including explosive ordnance and improvised explosive device disposal. In line with the Defence Capability Review, two Huon-class mine hunters will be placed in extended readiness in January and April 2006.

Performance Targets		
Vessel Type	Number	Budget Estimate
Coastal mine hunters	6	1,902 URD
Auxiliary minesweepers	2	730 URD
Clearance diving teams	2	730 URD

Table 4.2.8: Net Cost of Output 2.6 – Capability for Mine Warfare

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	130,184	126,529	-3,655	133,412	135,783	142,159
Employees - Civilian	31,818	34,557	2,739	34,398	35,752	31,142
Sub total employees	162,002	161,086	-916	167,810	171,535	173,301
Supplier Expenses	118,184	130,003	11,819	110,216	125,056	149,260
Inventory Consumption	7,082	7,211	129	7,456	7,903	7,315
Sub total suppliers	125,266	137,214	11,948	117,672	132,958	156,575
Depreciation and amortisation	105,353	106,043	690	100,319	106,126	111,194
Write down of assets	13,639	3,983	-9,656	3,988	3,978	3,969
Value of assets sold	5,515	4,158	-1,357	724	732	740
Other	-	-6	-6	-6	-6	-6
Grants	39	26	-13	27	27	28
Borrowing cost expense	598	596	-2	608	620	509
Total operating expenses from ordinary activities	412,411	413,100	689	391,143	415,971	446,310
Revenues						
Sale of goods and services	-3,379	-3,474	-96	-3,607	-3,562	-3,643
Revenue from sale of assets	-5,515	-4,158	1,357	-724	-732	-740
Assets now recognised	-10,805	-	10,805	-	-	-
Other	-1,438	-1,107	331	-1,091	-1,122	-1,140
Total Own Source Revenue	-21,137	-8,739	12,398	-5,421	-5,416	-5,522
Net Cost of Output 2.6⁽¹⁾	391,274	404,361	13,086	385,721	410,555	440,788

Note

1. Cross references to Table 4.2.1.

Output 2.7 – Capability for Amphibious Lift

The amphibious lift capability consists of two amphibious landing ships, a heavy landing ship, and six heavy landing craft. These elements provide the core of the ADF amphibious capability.

The three major fleet units provide amphibious lift and support to landing forces. They also have utility in a broad range of peacetime national tasks including evacuation operations, disaster relief, Navy individual training, and humanitarian assistance and peace support operations. The ships' inherent capability for command, control and communications, helicopter operations and medical support facilities make them extremely versatile and this has been ably demonstrated during a range of recent operational deployments. Both major and minor amphibious units contribute to joint training outcomes. The Amphibious and Afloat Support Group works with a range of authorities, such as the DMO and other Navy Force Element Groups with the aim of improving the effectiveness of the amphibious lift capability.

Performance Targets		
Vessel Type	Number	Budget Estimate
Heavy landing ships	1	365 URD
Amphibious landing ships	2	609 URD
Heavy landing craft	6	1,910 URD

Table 4.2.9: Net Cost of Output 2.7 – Capability for Amphibious Lift

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	133,741	126,876	-6,865	133,034	136,798	143,419
Employees - Civilian	23,617	25,444	1,827	25,348	26,300	22,953
Sub total employees	157,358	152,320	-5,038	158,382	163,098	166,372
Supplier Expenses	114,161	123,399	9,238	127,822	114,063	134,731
Inventory Consumption	23,734	24,390	656	24,879	26,404	24,512
Sub total suppliers	137,895	147,790	9,894	152,701	140,467	159,243
Depreciation and amortisation	73,010	73,998	988	68,892	72,453	75,611
Write down of assets	10,023	2,686	-7,337	2,696	2,691	2,686
Value of assets sold	15,135	11,411	-3,724	2,048	2,072	2,100
Other	-	-33	-33	-33	-33	-33
Grants	51	34	-17	35	36	37
Borrowing cost expense	670	680	10	693	707	581
Total operating expenses from ordinary activities	394,142	388,885	-5,258	385,415	381,490	406,597
Revenues						
Sale of goods and services	-3,584	-3,734	-150	-3,881	-3,881	-3,968
Revenue from sale of assets	-15,135	-11,411	3,724	-2,048	-2,072	-2,100
Assets now recognised	-7,363	-	7,363	-	-	-
Other	-1,679	-2,134	-456	-1,872	-1,925	-1,956
Total Own Source Revenues	-27,761	-17,279	10,482	-7,801	-7,878	-8,024
Net Cost of Output 2.7⁽¹⁾	366,381	371,605	5,224	377,614	373,612	398,573

Note

1. Cross references to Table 4.2.1.

Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations

The hydrographic survey force comprises two Leeuwin-class hydrographic ships and their embarked survey motor boats, four Paluma-class survey motor launches, a laser airborne depth sounder aircraft and hydrographic office deployable survey unit, all supported by the Australian Hydrographic Office in Wollongong.

Oceanographic operations are conducted by mobile teams, the Operational Meteorological and Oceanographic Centre, Australian 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.

All elements provide products to the Navy and national and international authorities, with a primary Defence focus on military geospatial information and rapid environmental assessment initiatives. The national tasking supports navigation safety, infrastructure development, preservation of the marine environment and obligations to manage hydrographic, meteorological and oceanographic data.

Performance Targets		
Vessel/Aircraft/Unit/Chart Production	Number	Budget Estimate
Hydrographic ships	2	713 URD
Survey motor launches	4	1,324 URD
Laser airborne depth sounder aircraft	1	727 hours for surveying
Hydrographic office deployable survey unit	1	Availability 300 days; 190 days are planned deployments
Chart production: - New charts/editions - New charts/diagrams for Navy use only - Electronic navigational chart cells		25 in number 8 in number 30 in number

Table 4.2.10: Net Cost of Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate 2005-06	Forward Estimate 2006-07	Forward Estimate 2007-08
	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating expenses						
Employees - Military	99,868	98,704	-1,164	105,319	106,092	110,810
Employees - Civilian	28,737	30,257	1,520	30,656	31,795	27,714
Sub total employees	128,605	128,961	355	135,974	137,887	138,524
Supplier Expenses	78,751	91,011	1,260	78,739	83,660	99,267
Inventory Consumption	1,698	1,744	46	1,779	1,881	1,751
Sub total suppliers	80,449	92,755	12,307	80,518	85,541	101,018
Depreciation and amortisation	27,991	27,823	-167	25,791	27,344	28,347
Write down of assets	3,978	1,054	-2,924	1,064	1,059	1,054
Value of assets sold	3,156	2,380	-776	392	392	388
Other	-	52	52	52	52	52
Grants	19	13	-6	13	14	14
Borrowing cost expense	277	257	-20	262	267	219
Total operating expenses from ordinary activities	244,475	253,295	8,820	244,068	252,557	269,616
Revenues						
Sale of goods and services	-3,655	-3,621	34	-3,820	-3,868	-3,954
Revenue from sale of assets	-3,156	-2,380	776	-392	-392	-388
Assets now recognised	-2,993	-	2,993	-	-	-
Other	-1,265	-748	517	-629	-647	-657
Total Own Source Revenues	-11,068	-6,748	4,320	-4,841	-4,907	-4,999
Net Cost of Output 2.8	233,407	246,547	13,140	239,226	247,649	264,617

Note

1. Cross references to Table 4.2.1.

OUTCOME THREE – ARMY CAPABILITY

Outcome Three – Army Capability for the Defence of Australia and its Interests

- Output 3.1 Capability for Special Forces Operations
- Output 3.2 Capability for Mechanised Operations
- Output 3.3 Capability for Light Infantry Operations
- Output 3.4 Capability for Army Aviation Operations
- Output 3.5 Capability for Ground-Based Air Defence
- Output 3.6 Capability for Combat Support Operations
- Output 3.7 Capability for Regional Surveillance
- Output 3.8 Capability for Operational Logistic Support to Land Forces
- Output 3.9 Capability for Motorised Infantry Operations
- Output 3.10 Capability for Protective Operations

The Army contributes to the achievement of the Government's Defence outcomes through the provision of capabilities for land and special forces operations. The Army's capabilities contribute 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 to meet crises beyond Australia's immediate neighbourhood where Australian interests are engaged. The Army also provides forces for peacetime national tasks, including forces with a capability to enhance the national domestic security response to terrorist, chemical, biological, radiological or explosive incidents.

The Army contributes to the achievement of the Government's desired defence and security outcomes by providing capabilities centered on special forces; light, mechanised and motorised infantry; army aviation; ground-based air defence; combat and logistic support; and units for regional surveillance and protective operations.

The Army's capabilities provide the capacity to conduct:

- shaping and influencing operations, including operations to prevent the effective operational command and control of adversary forces by influencing, degrading or destroying their operational systems;
- land focused offensive operations through pre-emptive or reactive operations to destroy enemy forces or power projection assets, including command, control and communications nodes;
- ground-based air defence;

Outcome Three - Army Capability

- peace support operations with the intention of establishing a stable security environment through the presence of military forces, either armed or unarmed;
- operational logistic support to sustain forces through the maintenance of lines of communications to a forward operating base and by providing distribution, materiel support, support engineering, health services support, personnel services and civil affairs;
- counter-terrorism operations to defeat terrorism throughout the entire threat spectrum, including protection from terrorist acts and offensive measures taken to prevent, deter and respond to terrorism, including support to incidents involving the use of chemical, biological or radiological materials;
- consequence management operations to provide detection, identification, marking, warning, reporting and decontamination of chemical, biological or radioactive material;
- non-combatant evacuation operations to protect Australian nationals and approved foreign nationals where host nations are unwilling or unable to provide security; and
- humanitarian assistance operations in support of the civil populace in times of significant need and disaster.

Planned Performance

The Army intends to achieve its performance milestones in 2004-05 by balancing the requirements to support operations, to meet extant preparedness requirements and to develop the Army's core capabilities.

Support to Operations

In 2004-05, the Army's first priority will be to continue to support forces and individuals deployed on operations. These operations will include forces and individuals deployed to the Middle East Area of Operations, Israel, Egypt, Timor Leste, the Solomon Islands, Ethiopia and Eritrea, and deployed on operations mounted from mainland Australia.

Meeting Preparedness Requirements

The Army will continue to provide ready forces as directed by the Government and the Chief of the Defence Force Preparedness Directive, including five infantry battalion groups and one commando unit at 90 days readiness or less. In addition, the Army will provide a High Readiness Reserve capability, which includes six company-sized Reserve Response Forces to enhance the Army's domestic security response capability. Meeting preparedness requirements will be the Army's primary performance measure.

Developing the Army's Core Capabilities

The Army's approach to modernisation is to achieve the Chief of the Defence Force's vision of a seamless force with the agility and balance to deploy strategically, conduct operations in complex environments and excel in harnessing joint effects.

The Army will continue to enhance its capability to sustain a brigade group offshore indefinitely, a battalion group for short-notice contingency operations, maintenance of five high-readiness infantry battalion groups and one commando unit, and an enhanced special forces counter-terrorist capacity. In particular, the development of the Army's core capabilities in 2004-05 will focus on enhancing its ability to generate combat forces, its combat weight, its ability to support deployed forces and its ability to contribute to domestic security.

The Army will continue to develop its combat weight through developments in the mobility, firepower and protection of existing force elements by:

- procuring the M1A1 Abrams tank system through a Foreign Military Sales case with the United States, with introduction into service in 2007;
- accepting the Bushmaster infantry mobility vehicle into service in 2005;
- accepting additional ASLAV armoured vehicles into service in south-east Queensland in 2005;
- procuring additional Javelin direct fire guided weapons for the remainder of the land forces by 2006;
- accelerating the provision of additional troop lift helicopters;
- accepting into service the first of the Army's armed reconnaissance helicopter;
- continuing with the upgrade of the M113 armoured personnel carrier fleet for delivery in 2006;
- submitting a proposal to the Government for acquisition of an indirect fire support system; and
- enhancing the existing Black Hawk helicopter fleet with ballistic protection and self-protection capabilities.

The Army will continue to maximise its ability to sustain deployed forces through:

- the development of an Army sustainment model designed to ensure that a brigade and battalion group can be deployed continually;
- the continued enhancement of a deployable medical facility for deployed forces for delivery in 2004; and
- the continued development of systems for water purification and bulk liquid distribution for delivery in 2005.

The Army will continue to develop its contribution to domestic security operations, primarily through its ongoing development of the Tactical Assault Group (East) and the Incident Response Regiment. The Army will continue to develop its intelligence capabilities through the delivery of a tactical uninhabited aerial vehicle system for land forces in 2009.

Key Risks and Limitations

The Army will pursue the reduction of key vulnerabilities identified in the Defence Management and Finance Plan, including the remediation of personnel and logistic deficiencies within the Army.

Personnel

To support the introduction of new capabilities while maintaining extant preparedness requirements, the Army's strength is projected to grow to 26,035 by the end of 2004-05, and to 26,443 by 2009-10. Currently, recruiting and retention rates are healthy, but challenges remain in some specific ranks and trades such as health services, pilots, engineers, communications, technicians and linguists, and in developing the Army to man new capabilities identified in the Defence Capability Plan.

Logistic Support

The Army has experienced logistics challenges over the past year pertaining to training ammunition and the maintenance of the general service vehicle fleet. Remediation plans, including increases in ammunition holdings, enhanced maintenance programs for key Army fleets, and the replacement of a range of ageing equipment, will continue.

Risk Mitigation

Personnel

The continuing development of an Army Sustainment Model will assist the Army to identify and develop its force and personnel requirements to sustain offshore operations and respond to short notice contingencies. The Army Capability Implementation Plan and Army Personnel Establishment Plan will identify personnel requirements to enable timely recruitment and training, and to build new capabilities, as specified in the Defence White Paper.

Improved recruiting and retention measures have resulted in positive recruiting and retention rates. This is assisting the Army in addressing its most critical trade deficiencies. However, this situation will need to continue for some time as the Army continues to increase its strength and meet planned performance measures.

Logistic Support

The Army continues to develop the Army Equipment Establishment Plan that will inform the Army's equipment liability planning process and set the priorities for equipping the Army against authorised levels of capability. The Army is also benefiting in the short-term from additional funding to support logistic shortfalls for the general service B vehicle and explosive ordnance fleets.

Cost Summary for Outcome Three

Table 4.3.1: Breakdown of Outcome Three by Output

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 3.1 – Capability for Special Forces Operations ⁽¹⁾	335,210	322,331	-12,879	322,482	337,033	352,454
Output 3.2 – Capability for Mechanised Operations ⁽²⁾	866,123	864,456	-1,667	861,000	902,079	942,502
Output 3.3 – Capability for Light Infantry Operations ⁽³⁾	1,034,593	1,018,641	-15,952	1,033,120	1,072,374	1,122,338
Output 3.4 – Capability for Army Aviation Operations ⁽⁴⁾	592,573	623,949	31,376	623,677	634,659	657,429
Output 3.5 – Capability for Ground-Based Air Defence ⁽⁵⁾	175,658	181,768	6,109	182,877	187,899	200,343
Output 3.6 – Capability for Combat Support Operations ⁽⁶⁾	495,509	488,102	-7,408	484,184	498,026	515,766
Output 3.7 – Capability for Regional Surveillance ⁽⁷⁾	150,418	160,499	10,080	162,017	165,731	176,156
Output 3.8 – Capability for Operational Logistic Support to Land Forces ⁽⁸⁾	521,802	503,728	-18,074	509,364	524,972	548,111
Output 3.9 – Capability for Motorised Infantry Operations ⁽⁹⁾	577,318	583,837	6,519	586,997	609,854	644,720
Output 3.10 – Capability for Protective Operations ⁽¹⁰⁾	530,322	540,093	9,771	522,951	543,898	564,383
Net Cost of Outcome Three ⁽¹¹⁾	5,579,527	5,287,403	7,876	5,288,670	5,476,524	5,724,203

Notes

1. Cross references to Table 4.3.3.
2. Cross references to Table 4.3.4.
3. Cross references to Table 4.3.5.
4. Cross references to Table 4.3.6.
5. Cross references to Table 4.3.7.
6. Cross references to Table 4.3.8.
7. Cross references to Table 4.3.9.
8. Cross references to Table 4.3.10.
9. Cross references to Table 4.3.11.
10. Cross references to Table 4.3.12.
11. Table 4.3.1 cross references to Table 4.3.2.

The table below provides a breakdown for the cost of Outcome Three-Army Capability for the Defence of Australia and its interests.

Total Budgeted Cost to the Government

Table 4.3.2: Net Cost of Outcome Three – Army Capability

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	2,660,053	2,543,314	-116,740	2,685,125	2,722,225	2,858,939
Employees - Civilian	396,605	408,359	11,753	413,325	429,549	371,065
Sub total employees	3,056,659	2,951,672	-104,986	3,098,450	3,151,775	3,230,004
Supplier Expenses	1,272,740	1,434,096	161,356	1,337,173	1,424,657	1,618,650
Inventory Consumption	366,271	374,552	8,280	382,401	405,904	377,299
Sub total suppliers	1,639,011	1,808,648	169,637	1,719,574	1,830,561	1,995,949
Depreciation and amortisation	659,580	619,870	-39,710	567,263	592,990	603,022
Write down of assets	74,496	16,058	-58,438	16,037	16,037	16,057
Value of Assets sold	130,121	98,097	-32,024	17,064	17,100	17,132
Other	-	249	249	249	249	249
Grants	890	594	-296	603	613	625
Borrowing cost expense	17,716	17,987	271	18,347	18,714	15,377
Total operating expenses from ordinary activities	5,578,473	5,513,175	-65,298	5,437,587	5,628,038	5,878,414
Revenues						
Sales of goods and services	-86,739	-88,719	-1,980	-85,807	-87,129	-89,035
Revenue from sale of assets	-130,121	-98,097	32,024	-17,064	-17,100	-17,132
Assets now recognised	-46,055	-	-	-	-	-
Other	-36,031	-38,956	-2,926	-46,046	-47,286	-48,044
Total Own Source Revenues	-298,946	-225,772	73,174	-148,916	-151,515	-154,211
Net Cost of Outcome Three⁽¹⁾	5,279,527	5,287,403	7,876	5,288,670	5,476,524	5,724,203

Note

1. Cross references to Table 4.3.1.

Significant Variations

Overall, the budgeted price for Army capability will reduce by \$7.8m to \$5.287b, representing an decrease of 0.1 per cent from the 2003-04 projected results. The major variations are due to:

- A net decrease in the military employee expense (-\$116.8m) due to:
 - price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases (+\$133.3m),
 - real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance (+\$26.4m),

- increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations (+\$6.1m),
- non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions, combined with a non-recurring transfer of Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts (-\$179.7m),
- transfer of the military compensation function to the Department of Veterans' Affairs (-\$69.0m),
- Overestimate in accrual provisions in 2003-04 in relation to long service and annual leave and compensation (-\$24.5m),
- reclassification of rations costs to suppliers expense (-\$5.7m), and
- other net variations (-\$3.7m).
- A net increase in the civilian employee expense (+\$11.8m) due to:
 - price indexation to cover the *Defence Employees' Certified Agreement 2004-2006* and other cost increases (+\$24.5m),
 - real growth in civilian employee expenses as provided for in the Defence White Paper (+\$7.5m),
 - increase in voluntary redundancy costs as a result of the Defence Integrated Distribution System contract (+\$7.1m),
 - Defence Procurement Review implementation funding (+\$0.5m),
 - civilian reduction program (-\$10.7m),
 - redistribution of workforce within the DMO that has resulted in decreased funding being allocated to Outcome Three (-\$9.2m),
 - non-recurrence of one-off payments in 2003-04 for long service leave and superannuation provisions for University of New South Wales staff at the Australian Defence Force Academy (-\$9.0m), and
 - other net variations (+\$1.1m).
- A net increase in suppliers expense (+\$161.4m) due to:
 - price indexation for suppliers expense (+\$49.2m),
 - additional logistics support funding (+\$32.7m) to sustain current levels of operational tempo and to meet specific preparedness targets for Battlefield Combat Support Systems (+\$3.3m), army aviation (+\$15.9m), surveillance (+\$6.7m) and B vehicles (+\$6.8m),
 - increase in expenditure on estate upkeep and other cost pressures including Comcover and Comcare premiums, legal services and other overheads (+\$28.5m),
 - increase in funding for Special Operations Command (+\$18.6m),

Outcome Three - Army Capability

- increased provision for support to core portfolio information systems (+\$15.5m),
- provision for through-life costs for new capital facilities (+\$12.9m),
- increased purchase of information technology and administrative assets as part of Defence's asset refreshment program (+\$11.2m),
- through-life support costs for new equipment entering service (+\$10.1m),
- reclassification of rations costs from military employee expense (+\$5.7m),
- increased insurance premium payments under Defence's insurance policy with Comcover (+\$3.3m),
- Defence Procurement Review implementation funding (+\$0.3m),
- administrative savings program (-\$18.2m),
- transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs (-\$7.0m), and
- other net variations (-\$1.4m).
- Increase in inventory consumption reflecting the heightened operational tempo and increased logistics funding (+\$8.3m).
- A net variation in depreciation (-\$39.7m) comprising:
 - non-recurring adjustment in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base, offset by rescheduling and rephasing of asset roll-outs (-\$23.7m), and
 - adjustment to asset values (-\$16.0m).
- Expected reductions in write-down of assets, as Defence progressively improves tracking and reporting of its asset base (-\$58.4m).
- Reduction in the value of asset sold projected asset sales for 2004-05, due to decreased property sales program and the completion of sale of APG radars (-\$32.0m).
- Variation in sales of goods and services due to price indexation (-\$2.0m).
- Reduction in revenue from asset sales for projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars (-\$32.0m).
- Reduction in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base (+\$46.1m).
- Other revenue price indexation (-\$3m), comprising:
 - non-recurrence of revenue from Comcover for Holsworthy bush fire damage (+\$6.0m), and
 - price indexation (-\$9.0m).

OUTPUT STRUCTURE FOR OUTCOME THREE

Output 3.1 – Capability for Special Forces Operations

The special forces operations capability contributes to the strategic tasks of defending Australia, securing our immediate neighbourhood, supporting wider interests and supporting peacetime national tasks. This capability exploits deception and surprise; and employs techniques which are discreet, non-escalatory, avoid collateral damage and which span the continuum of specialist conventional to unconventional operations.

The capability for special forces operations is grouped in Special Operations Command and is commanded through Headquarters Special Operations. Special Operations Command consists of:

- a command headquarters;
- a Special Air Service regiment;
- a regular commando regiment;
- a reserve commando regiment;
- an incident response regiment; and
- a combat service support company.

Performance Targets
<ul style="list-style-type: none">• 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, and• achieve a level of training that maintains core skills and professional standards across all warfare (and counter-terrorist) areas.

Table 4.3.3: Net Cost of Output 3.1 – Capability for Special Forces Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	206,898	194,344	-12,554	203,875	210,440	221,580
Employees - Civilian	22,751	22,844	94	23,011	23,967	20,755
Sub total employees	229,648	217,188	-12,460	226,886	234,407	242,335
Suppliers Expense	57,240	60,106	2,867	52,616	57,209	65,729
Inventory Consumption	18,309	18,725	416	19,120	20,294	18,853
Sub total suppliers	75,549	78,831	3,282	71,736	77,503	84,582
Depreciation and amortisation	34,481	32,581	-1,900	30,016	31,369	32,136
Write down of assets	4,432	958	-3,474	958	953	958
Value of Assets sold	10,203	7,692	-2,511	1,372	1,384	1,392
Other	-	-	-	-	-	-
Grants	74	49	-25	50	51	53
Borrowing cost expense	1,048	1,090	42	1,112	1,134	932
Total operating expenses from ordinary activities	355,435	338,390	-17,045	332,130	346,801	362,388
Revenues						
Sales of goods and services	-5,110	-5,161	-50	-4,975	-5,052	-5,162
Revenue from sale of assets	-10,203	-7,692	2,511	-1,372	-1,384	-1,392
Assets now recognised	-2,721	-	2,721	-	-	-
Other	-2,191	-3,207	-1,016	-3,302	-3,332	-3,380
Total Own Source Revenues	-20,225	-16,059	4,166	-9,649	-9,768	-9,934
Net Cost of Output 3.1⁽¹⁾	335,210	322,331	-12,879	322,482	337,033	352,454

Note

1. Cross references to Table 4.3.1.

Output 3.2 – Capability for Mechanised Operations

The mechanised operations capability contributes to the strategic tasks of supporting wider interests, defending Australia, securing our immediate neighbourhood and supporting peacetime national tasks. The capability provides light mechanised and light armoured forces to enhance combat power and weight for more demanding contingencies utilising the effects of surprise, offensive action and concentration of force in order to disrupt or destroy enemy forces' plans, cohesion and morale. It achieves this through engaging with the enemy in close combat enabled by mobility, protection and integral firepower, all of which arise from the employment of the combined arms team.

The capability for mechanised operations is grouped in 1st Brigade and is commanded through Headquarters 1st Brigade. 1st Brigade consists of:

- a brigade headquarters;
- an armoured regiment;

- a cavalry regiment;
- a medium artillery regiment;
- a combat engineer regiment;
- a command support regiment;
- a mechanised infantry battalion; and
- a combat service support battalion.

Performance Targets	
•	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, and
•	achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 4.3.4: Net Cost of Output 3.2 – Capability for Mechanised Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000		2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	446,363	422,696	-23,668	446,453	455,880	478,351
Employees - Civilian	60,318	57,491	-2,827	57,601	59,870	51,766
Sub total employees	506,681	480,187	-26,495	504,054	515,750	530,118
Supplier Expenses	178,936	209,448	30,512	189,433	208,680	237,697
Inventory Consumption	69,598	71,168	1,571	72,656	77,130	71,683
Sub total suppliers	248,533	280,616	32,083	262,089	285,810	309,380
Depreciation and amortisation	120,616	115,191	-5,425	107,021	112,965	116,185
Write down of assets	12,472	3,032	-9,440	3,022	3,026	3,031
Value of Assets sold	23,989	18,016	-5,882	3,212	3,248	3,284
Other	-	18	18	18	18	18
Grants	166	111	-55	112	114	114
Borrowing cost expense	2,089	2,124	35	2,167	2,210	1,816
Total operating expenses from ordinary activities	914,456	899,295	-15,161	881,695	923,142	963,946
Revenues						
Sales of goods and services	-10,568	-10,723	-155	-9,896	-10,014	-10,233
Revenue from sale of assets	-23,898	-18,016	5,882	-3,212	-3,248	-3,284
Assets now recognised	-8,560	-	8,560	-	-	-
Other	-5,307	-6,100	-793	-7,586	-7,801	-7,927
Total Own Source Revenues	-48,333	-34,839	13,494	-20,695	-21,063	-21,444
Net Cost of Output 3.2⁽¹⁾	866,123	864,456	-1,667	861,000	902,079	942,502

Note

1. Cross references to Table 4.3.1.

Output 3.3 – Capability for Light Infantry Operations

The light infantry operations capability contributes to the strategic tasks of securing our immediate neighbourhood, defending Australia and supporting peacetime national tasks. The capability provides light, air-mobile forces available for immediate deployment and is supported by specialist components drawn from combat support, fire support and logistic units. It utilises strategic, operational and tactical mobility and to exploit its flexibility, adaptability and utility across the spectrum of conflict. The capability achieves this through surprise, rapidity of execution and a capacity to seize and hold ground.

The capability for light infantry operations is grouped in 3rd Brigade and is commanded through Headquarters 3rd Brigade. 3rd Brigade consists of:

- 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.

Performance Targets
<ul style="list-style-type: none">• 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 three battalion-sized groups within 90 days readiness, and• achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 4.3.5: Net Cost of Output 3.3 – Capability for Light Infantry Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	635,622	621,414	-14,208	656,421	672,649	706,609
Employees - Civilian	64,616	58,275	-6,341	58,474	60,736	52,751
Sub total employees	700,237	679,689	-20,549	714,894	733,385	759,359
Supplier Expenses	195,535	208,166	12,630	190,837	204,445	232,091
Inventory Consumption	62,627	63,678	1,411	65,008	69,017	64,136
Sub total suppliers	257,802	271,844	14,042	255,845	273,462	296,227
Depreciation and amortisation	89,347	83,331	-6,106	77,588	81,091	83,209
Write down of assets	11,136	2,442	-8,694	2,447	2,447	2,457
Value of Assets sold	23,745	17,901	-5,844	3,164	3,184	3,204
Other	-	18	18	18	18	18
Grants	208	139	-69	141	143	146
Borrowing cost expense	2,609	2,664	57	2,716	2,773	2,279
Total operating expenses from ordinary activities	1,085,085	1,058,028	-27,055	1,056,814	1,096,503	1,146,900
Revenues						
Sales of goods and services	-13,194	-13,292	-98	-12,748	-12,942	-13,225
Revenue from sale of assets	-23,745	-17,901	5,844	-3,164	-3,184	-3,204
Assets now recognised	-7,073	-	7,073	-	-	-
Other	-6,480	-8,196	-1,716	-7,783	-8,003	-8,133
Total Own Source Revenues	-50,492	-39,389	11,103	-23,695	-24,129	-24,561
Net Cost of Output 3.3⁽¹⁾	1,034,593	1,018,641	-15,952	1,033,120	1,072,374	1,122,338

Note

1. Cross references to Table 4.3.1.

Output 3.4 - Capability for Army Aviation Operations

The Army aviation operations capability contributes primarily to the strategic tasks of defending Australia, securing our immediate neighbourhood, supporting wider interests and supporting peacetime national tasks. The capability provides aircraft, which are maintained at high readiness, for mobility through tactical troop lift, command and liaison, and reconnaissance operations. The capability for army aviation operations is grouped in 16th Brigade (Aviation) and is commanded through Headquarters 16th Brigade.

16th Brigade consists of:

- a brigade headquarters; and
- two aviation regiments.

Table 4.3.6: Army Aviation Aircraft

Aircraft	Number	Flying Hours 2004-05
CH-47D Chinook	6	1,270
S-70A9 Black Hawk	36 ⁽¹⁾	8,600
B-206 Kiowa	42	12,795
UH-1H Iroquois	25	4,090
Armed Reconnaissance Helicopter Tiger ⁽²⁾	4 ⁽³⁾	718
B-200 King Air ⁽⁴⁾	3	1,333
DHC-6 Twin Otter ⁽⁴⁾	2	800
Future Fixed Wing Aircraft ⁽⁵⁾	4	952

Notes

1. One aircraft awaiting write-off.
2. Armed Reconnaissance Helicopter flight simulators will not be delivered in 2004-05.
3. Aircraft one and two to be delivered in December 2004, aircraft three in January 2005 and aircraft four in April 2005.
4. Current lease expires on 28 February 2005.
5. Subject to contract negotiation.

Performance Targets

- 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, and
- achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 4.3.7: Net Cost of Output 3.4 – Capability for Army Aviation Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	194,990	186,643	-8,348	198,820	199,627	209,808
Employees - Civilian	47,331	50,616	3,284	51,308	53,304	46,001
Sub total employees	242,322	237,629	-5,063	250,127	252,931	255,809
Supplier Expenses	184,212	224,951	40,738	216,339	215,269	238,177
Inventory Consumption	62,267	63,678	1,411	65,008	69,017	64,136
Sub total suppliers	246,479	288,629	42,149	281,348	284,286	302,313
Depreciation and amortisation	106,729	101,255	-5,474	94,676	99,956	102,109
Write down of assets	14,050	3,764	-10,286	3,759	3,754	3,749
Value of Assets sold	8,058	6,075	-1,983	996	972	952
Other	-	-	-	1	1	1
Grants	59	39	-20	40	41	42
Borrowing cost expense	779	761	-18	776	791	650
Total operating expenses from ordinary activities	618,476	637,781	19,305	631,722	642,732	665,625
Revenues						
Sales of goods and services	-4,520	-4,782	-262	-4,881	-4,872	-4,978
Revenue from sale of assets	-8,058	-6,075	1,983	-996	-972	-952
Assets now recognised	-10,296	-	10,296	-	-	-
Other	-3,029	-2,976	53	-2,168	-2,230	-2,266
Total Own Source Revenues	-25,903	-13,833	12,070	-8,046	-8,073	-8,195
Net Cost of Output 3.4⁽¹⁾	592,573	623,949	31,376	623,677	634,659	657,429

Note

1. Cross references to Table 4.3.1.

The increase in the cost of Output 3.4 includes additional logistics support funding for army aviation to sustain current levels of operational tempo and to meet specific preparedness targets (+\$15.9m).

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. The capability is versatile and able to defend airspace in conjunction with other land and joint elements. The capability provides weapon systems that can be deployed on land or onboard ships, to protect high-value targets from air attack.

The capability for ground-based air defence resides in 16th Air Defence Regiment which consists of:

- a regimental headquarters;

- an RBS70 battery; and
- a Rapier battery.

Performance Targets	
•	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 readiness, and
•	achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 4.3.8: Net Cost of Output 3.5 – Capability for Ground-Based Air Defence

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	61,099	61,162	62	67,111	63,844	67,401
Employees - Civilian	20,241	20,100	-141	20,401	21,212	18,348
Sub total employees	81,340	81,262	-79	87,512	85,056	85,749
Supplier Expenses	68,516	75,293	6,777	72,380	78,806	91,096
Inventory Consumption	7,322	7,490	168	7,648	8,092	7,547
Sub total suppliers	75,838	82,783	6,945	80,028	86,898	98,643
Depreciation and amortisation	21,826	20,691	-1,135	18,290	18,967	19,104
Write down of assets	2,105	442	-1,663	442	442	442
Value of assets sold	2,390	1,802	-588	268	260	252
Other	-	-	-	-	-	-
Grants	20	13	-7	14	14	14
Borrowing cost expense	340	303	-37	309	315	259
Total operating expenses from ordinary activities	183,860	187,296	3,436	186,863	191,952	204,463
Revenues						
Sales of goods and services	-2,260	-2,347	-87	-2,303	-2,338	-2,389
Revenue from sale of assets	-2,390	-1,802	588	-268	-260	-252
Assets now recognised	-1,352	-	1,352	-	-	-
Other	-2,200	-1,379	821	-1,415	-1,455	-1,478
Total Own Source Revenues	-8,201	-5,528	2,673	-3,986	-4,053	-4,120
Net Cost of Output 3.5⁽¹⁾	175,658	181,768	6,109	182,877	187,899	200,343

Note

1. Cross references to Table 4.3.1.

Output 3.6 – Capability for Combat Support Operations

The capability for combat support operations contributes primarily to supporting combat forces in the range of strategic environments in which they may be deployed, including supporting wider interests, defending Australia,

securing our immediate neighbourhood and supporting peacetime national tasks. This capability is designed to enhance the conduct of operations through effective communications, surveillance and specialist support, in particular construction engineering, topographical support and electronic warfare operations.

The capability for combat support operations are grouped in Land Command and commanded through Land Headquarters. It consists of:

- a surveillance and target acquisition battery;
- an engineer support regiment headquarters;
- two engineer construction regiments;
- two 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.

Performance Targets
<ul style="list-style-type: none">• 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 readiness, and• achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 4.3.9: Net Cost of Output 3.6 – Capability for Combat Support Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	256,049	243,803	-12,247	257,912	260,726	269,878
Employees - Civilian	48,324	49,425	1,100	50,033	51,986	44,205
Sub total employees	304,374	293,227	-11,146	307,944	312,711	314,083
Supplier Expenses	121,372	130,680	9,308	122,278	129,287	146,917
Inventory Consumption	9,523	9,734	211	9,949	10,550	9,817
Sub total suppliers	130,895	140,414	9,519	132,226	139,836	156,734
Depreciation and amortisation	66,764	62,071	-4,693	56,212	57,994	58,005
Write down of assets	8,355	1,963	-6,392	1,962	1,962	1,959
Value of assets sold	10,111	7,622	-2,489	1,276	1,256	1,236
Other	-	36	36	37	37	37
Grants	87	58	-29	56	57	49
Borrowing cost expense	1,312	1,315	3	1,341	1,368	1,124
Total operating expenses from ordinary activities	521,896	506,706	-15,190	501,055	515,222	533,227
Revenues						
Sales of goods and services	-7,106	-7,329	-223	-5,094	-5,142	-5,253
Revenue from sale of assets	-10,111	-7,622	2,489	-1,276	-1,256	-1,236
Assets now recognised	-5,557	-	5,557	-	-	-
Other	-3,614	-3,653	-40	-10,501	-10,798	-10,973
Total Own Source Revenues	-26,387	-18,605	7,782	-16,871	-17,196	-17,461
Net Cost of Output 3.6⁽¹⁾	495,509	488,102	-7,408	484,184	498,026	515,766

Note

1. Cross references to Table 4.3.1.

Output 3.7 – Capability for Regional Surveillance

The regional surveillance operations capability contributes to the strategic tasks 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 Army 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 resides in three regional force surveillance units.

Performance Targets	
•	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 readiness, and
•	achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 4.3.10: Net Cost of Output 3.7 – Capability for Regional Surveillance

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	45,317	45,645	328	49,607	45,665	48,120
Employees - Civilian	17,287	20,225	2,938	20,717	21,549	18,552
Sub total employees	62,603	65,869	3,266	70,324	67,214	66,672
Supplier Expenses	68,925	77,238	8,313	76,839	83,162	94,528
Inventory Consumption	1,464	1,487	23	1,523	1,610	1,504
Sub total suppliers	70,390	78,725	8,336	78,362	84,772	96,032
Depreciation and amortisation	21,730	20,346	-1,384	17,693	18,203	18,173
Write down of assets	1,849	233	-1,616	233	233	233
Value of assets sold	2,604	1,963	-641	300	296	292
Other	-	9	9	10	10	10
Grants	17	12	-5	11	12	12
Borrowing cost expense	804	787	-17	802	818	672
Total operating expenses from ordinary activities	159,997	167,945	7,948	167,735	171,558	182,095
Revenues						
Sales of goods and services	-4,502	-4,213	-161	-4,424	-4,510	-4,609
Revenue from sale of assets	-2,604	-1,963	641	-300	-296	-292
Assets now recognised	-803	-	803	-	-	-
Other	-2,118	-1,270	848	-994	-1,022	-1,039
Total Own Source Revenue	-9,578	-7,446	2,132	-5,718	-5,828	-5,939
Net Cost of Output 3.7⁽¹⁾	150,418	160,499	10,080	162,017	165,731	176,156

Note

1. Cross references to Table 4.3.1.

The increase in cost of Output 3.7 includes additional logistics support funding for Army surveillance to sustain current levels of operational tempo and to meet specific preparedness targets (+\$6.7m).

Output 3.8 – Capability for Operational Logistic Support to Land Forces

The capability for operational logistic support to land forces contributes primarily to the strategic tasks of defending Australia, contributing to the security of our immediate neighbourhood, supporting our wider interests and peacetime national tasks. It provides supply, transportation, repair and health functions in support of combat operations.

The capability for operational logistic support to land forces is grouped in the Logistic Support Force and is commanded through Headquarters Logistic Support Force. It consists of:

- two force headquarters;
- two signals squadrons;
- a petroleum company;
- a recovery company;
- three force support battalions;
- a deployed forces support unit;
- three health support battalions; and
- a psychology unit.

Performance Targets
<ul style="list-style-type: none">• 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 readiness, and• achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 4.3.11: Net Cost of Output 3.8 – Capability for Operational Logistic Support to Land Forces

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	301,055	285,834	-15,222	303,073	307,703	321,287
Employees - Civilian	42,177	42,578	401	43,391	45,139	38,585
Sub total employees	343,233	328,412	-14,821	346,464	352,842	359,873
Supplier Expenses	124,498	125,373	875	116,729	123,781	140,549
Inventory Consumption	10,987	11,235	248	11,472	12,160	11,321
Sub total suppliers	135,485	136,608	1,122	128,201	135,940	151,870
Depreciation and amortisation	50,670	47,383	-3,287	43,244	44,928	45,662
Write down of assets	6,000	1,312	-4,688	1,303	1,308	1,311
Value of assets sold	8,854	6,675	-2,179	1,152	1,156	1,160
Other	-	55	55	55	55	55
Grants	113	75	-38	79	80	76
Borrowing cost expense	1,683	1,702	19	1,736	1,770	1,455
Total operating expenses from ordinary activities	546,038	522,222	-23,816	522,234	538,079	561,462
Revenues						
Sales of goods and services	-8,279	-8,430	-152	-8,311	-8,447	-8,631
Revenue from sales of assets	-8,854	-6,675	2,179	-1,152	-1,156	-1,160
Assets now recognised	-3,790	-	3,790	-	-	-
Other revenues	-3,313	-3,389	-76	-3,407	-3,504	-3,560
Total Own Source Revenues	-24,236	-18,494	5,742	-12,870	-13,107	-13,351
Net Cost of Output 3.8⁽¹⁾	521,802	503,728	-18,074	509,364	524,972	548,111

Note

1. Cross references to Table 4.3.1.

Output 3.9 – Capability for Motorised Infantry Operations

The motorised infantry 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 in order to disrupt or destroy enemy forces' plans, cohesion and morale.

The capability for motorised infantry operations is grouped in 7th Brigade and is commanded through Headquarters 7th Brigade. 7th Brigade is an integrated formation of full and part-time personnel and consists of:

- a brigade headquarters;
- a cavalry regiment;
- a field artillery regiment;

Outcome Three - Army Capability

- a combat engineer regiment;
- a command support regiment;
- three reserve-integrated infantry battalions; and
- a combat service support battalion.

Performance Targets
<ul style="list-style-type: none"> • 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, and • achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 4.3.12: Net Cost of Output 3.9 – Motorised Infantry Operations

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	291,219	275,478	-15,740	290,386	294,033	315,541
Employees - Civilian	40,013	44,876	4,863	45,686	47,512	42,028
Sub total employees	331,232	320,355	-10,877	336,072	341,544	357,570
Supplier Expenses	126,788	149,918	23,130	141,720	153,310	177,337
Inventory Consumption	6,2267	63,678	1,411	65,008	69,017	64,150
Sub total suppliers	189,055	213,596	24,542	206,728	222,327	241,487
Depreciation and amortisation	66,121	31,632	-4,489	54,934	56,964	57,330
Write down of assets	5,509	839	-4,670	839	839	845
Value of assets sold	18,138	13,674	-4,464	2,412	2,432	2,448
Other	-	36	36	37	37	37
Grants	76	51	-25	51	52	70
Borrowing cost expense	2,190	2,230	40	2,274	2,320	1,906
Total operating expenses from ordinary activities	612,321	612,413	92	603,347	626,514	661,693
Revenues						
Sales of goods and services	-10,341	-10,516	-175	-10,863	-11,067	-11,311
Revenue from sale of assets	-18,138	-13,674	4,464	-2,412	-2,432	-2,448
Assets now recognised	-2,587	-	2,587	-	-	-
Other	-3,936	-4,386	-449	-3,074	-3,161	-3,213
Total Own Source Revenues	-35,002	-28,576	6,426	-16,350	-16,660	-16,973
Net Cost of Output 3.9⁽¹⁾	577,318	583,837	6,519	586,997	609,854	644,720

Note

1. Cross references to Table 4.3.1.

Output 3.10 – Capability for Protective Operations

The protective operations capability contributes to the strategic tasks of defending Australia and supporting peacetime national tasks. While retaining long-term utility for defence of Australia tasks, this capability also meets contemporary needs by providing reinforcements for deployed regular units and a mobilisation base for subsequent rotations in the event of protracted operations. Elements of these forces are also trained to assist in the event of a domestic security incident.

The capability for protective operations is grouped in 4th, 5th, 8th, 9th, 11th and 13th Brigades. These are predominantly reserve formations and each consists of:

- a brigade headquarters;
- two or three infantry battalions;
- an armoured reconnaissance unit; and
- combat and logistic support units.

Performance Targets
<ul style="list-style-type: none"> • 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 readiness, and • achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 4.3.13: Net Cost of Output 3.10 – Capability for Protective Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	221,441	206,267	-15,144	211,467	211,660	220,362
Employees - Civilian	33,547	41,929	8,382	42,704	44,275	38,073
Sub total employees	254,988	248,226	-6,672	254,171	255,934	258,436
Supplier Expenses	146,718	172,923	26,206	158,003	170,709	194,530
Inventory Consumption	62,267	63,678	1,411	65,008	69,017	64,150
Sub total suppliers	208,985	236,601	27,617	223,011	239,726	258,680
Depreciation and amortisation	81,296	75,388	-5,908	67,589	70,555	71,108
Write down of assets	8,588	1,072	-7,516	1,072	1,072	1,072
Value of assets sold	22,121	16,677	-5,444	2,912	2,912	2,912
Other	-	73	73	73	73	73
Grants	70	47	-23	48	49	49
Borrowing cost expense	4,863	5,013	150	5,114	5,216	4,286
Total operating expenses from ordinary activities	580,911	583,097	2,186	553,990	575,536	596,616
Revenues						
Sales of goods and services	-21,310	-21,926	-617	-22,312	-22,747	-23,246
Revenue from sale of assets	-22,121	-16,677	5,444	-2,912	-2,912	-2,912
Assets now recognised	-3,316	-	3,316	-	-	-
Other	-3,842	-4,401	-558	-5,814	-5,979	-6,075
Total Own Source Revenues	-50,589	-43,004	7,585	-31,038	-31,638	-32,233
Net Cost of Output 3.10⁽¹⁾	530,322	540,093	9,771	522,951	543,898	564,383

Note

1. Cross references to Table 4.3.1.

OUTCOME FOUR – AIR FORCE CAPABILITY

Outcome Four – Air Force Capability for the Defence of Australia and its Interests

- Output 4.1 Capability for Air Combat Operations
- Output 4.2 Capability for Combat Support of Air Operations
- Output 4.3 Capability for Surveillance and Response Operations
- Output 4.4 Capability for Air Lift Operations

The Air Force will continue to work to ensure it remains a balanced expeditionary force capable of delivering swift and decisive application of air and space power in joint operations or as a part of a larger coalition force. To achieve this, the Air Force provides four key capabilities including offensive combat, rapid mobility, battlespace management and combat support that contribute to the defence of Australia, security of the region, support of our wider interests and peacetime national tasks.

Planned Performance

The Air Force will continue to support the Government's border control initiatives including, if required, the ability to surge in surveillance and response capabilities. During 2004-05 the Air Force will continue to support the war on terror and conduct operational deployments as directed by the Government, in particular:

- Operation Anode, although support is expected to end during the early part of 2004-05 and the Caribou aircraft returned to Australia;
- Operation Catalyst and Slipper (Iraq), including P-3 Orion surveillance activities, C-130 transport support and expeditionary combat support elements; and
- Operation Relex II, with P-3 Orion surveillance of the northern borders.

With airborne early warning and control due to enter service in 2006, Air Force is merging Maritime Patrol Group with Surveillance and Control Group into a single Output - Surveillance and Response Group. This will place Air Force intelligence, surveillance reconnaissance and electronic warfare components into a single force element group to develop emergent capabilities and the information infrastructure for the introduction of new systems required for network centric operations.

Planning for the withdrawal of the F-111 around 2010 has commenced and will continue in 2004-05 to ensure that there will be no capability gaps and that all risks are addressed and minimised.

This will be done through the transition of the F-111 land and maritime strike capability to Hornet and P-3C Orion aircraft and:

- upgrade of F/A-18 Hornet aircraft with new weapons systems, including electronic warfare self-protection, and the life-extension of the airframe to ensure that it remains a viable capability until the introduction of the new air combat capability;
- finalisation of the P-3C upgrade during 04-05;
- the introduction of new air-to-air refueling aircraft;
- the introduction of airborne early warning and control aircraft, including the additional two aircraft recently approved by the Government;
- acquisition of long-range standoff weapons; and
- acquisition of improved short-range, day and night, all-weather precision guided weapons.

Air Force recruitment and retention continues to be solid and reflects the successful strategies implemented in recent years which have led to the high morale and satisfaction of Air Force people. Work will continue in 2004-05 on strategies aimed at ensuring the recognition of individuals contribution as fundamental inputs to capability.

The creation of the DMO as a prescribed agency will require close consultation with DMO staff to develop meaningful and measurable Management Sustainment Agreements at the force element level for the DMO products and services required to assure the necessary level of support for Air Force capabilities.

A Joint Deployable Air Component Commander was established recently. The focus during 2004-05 and beyond will be on streamlining planning and better command and control of information to deployed operations by networking of the Air Force.

Greater attention and resources will also be applied to workplace health and safety. Additional positions will be allocated to implement, monitor and report on all workplace health and safety issues in accordance with our responsibilities under the *Occupational Health and Safety Act 1991* in line with our duty of care.

Finally, internal and external intellect will be harnessed to recognise and take advantage of disruptive technologies and develop innovative future operating concepts.

Key Risks and Limitations

Personnel

Overall, Air Force personnel numbers are healthier than they have been for many years, mainly as a result of successful personnel management initiatives and favorable retention and recruitment outcomes. Nevertheless, shortfalls continue to exist in some specialised and highly marketable skill areas. In

particular, the retention of experienced people in the fields of communications, electronics and information systems continue to pose challenges.

Low separation rates pose some risks to future workforce structure as recruiting numbers are necessarily curtailed to help contain the workforce within overall funding availability.

Regional Capability Edge

Aerospace combat capability within the region continues to develop rapidly, placing pressure on the Air Force to maintain a capability edge.

Warfighting Skills

Ongoing contribution to operations has degraded some higher-level warfighting skills, particularly within the maritime patrol squadrons, and will require careful management during 2004-05.

Enabling Support

The delivery of Air Force capabilities is highly dependent on the ongoing support of the Enabling Groups such as the DMO and Corporate Services and Infrastructure Group, and Owner Support Groups such as the Defence Science and Technology Organisation.

Risk Mitigation

Personnel

The Air Force continues to monitor the state of its workforce and in particular that small number of employment categories identified as at risk or potentially at risk. These include communications electronic technicians, communication information system controllers, air traffic controllers, aeronautical engineers, dental officers, and logistic officers. The Air Force has put in place various targeted initiatives to increase retention in these categories including bonuses, allowances, and training improvements.

The Air Force has also introduced a new workforce flow management system (known as temporal discipline) to manage long lead-time employment categories such as aircrew. This initiative aims to ensure the availability of a sufficient and appropriately trained workforce to support operational capability. The use of return of service obligation provisions coupled with temporal discipline is expected to ensure increasing workforce stability over the next decade.

To address current category/rank imbalances, the Air Force is conducting a holistic workforce structure review to assess whether the current workforce structure remains appropriate noting that the nature of work, including warfighting concepts continues to change.

In addition, the Air Force is implementing new personnel strategies aimed at further increasing the attractiveness of Air Force employment, by reinforcing the

role of the individual in mutual partnership with commanders and Air Force Headquarters.

Regional Capability Edge

The Air Force will maintain the desired capability edge with the development of a networked air force over the next few years with combat effect enhanced by the total system. The operational commissioning of the Jindalee over the horizon radar system, plus ongoing upgrades to the F/A-18 and the introduction of other combat and surveillance capabilities such as air-to-air refuelling aircraft, airborne early warning and control aircraft, and communication and information networking infrastructure, are all part of these plans.

Warfighting Skills

The operational degradation of skills is being addressed through targeted training, particularly of selected crews in specific exercises within the maritime patrol wing.

Enabling Support

The Air Force will continue to work closely with all Defence Groups to develop meaningful agreements, which clearly set out the level of support required to deliver Air Force capabilities, within available funding allocations.

Cost Summary of Outcome Four

Table 4.4.1: Breakdown of Outcome Four by Output

	Estimated Outcome	Budget Estimate	Variation 2003-04 to 2004-05 to	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 4.1 – Capability for Air Combat Operations ⁽¹⁾	1,888,748	1,959,024	70,276	1,830,444	1,844,475	1,949,967
Output 4.2 – Capability for Combat Support of Air Operations ⁽²⁾	571,189	556,983	-14,206	567,407	583,196	620,286
Output 4.3 – Capability for Surveillance and Response Operations ⁽³⁾	1,051,684	1,128,309	76,625	1,133,999	1,201,817	1,281,390
Output 4.4 – Capability for Airlift ⁽⁴⁾	933,170	976,004	42,835	962,599	998,808	1,023,007
Net Cost of Outcome Four ⁽⁵⁾	4,444,792	4,620,321	175,529	4,494,448	4,628,296	4,874,650

Notes

1. Cross references to Table 4.4.3.
2. Cross references to Table 4.4.4.
3. Cross references to Table 4.4.5.
4. Cross references to Table 4.4.6.
5. Cross references to Table 4.4.2.

The table below provides a breakdown for the cost of Outcome Four – Air Force Capability for the Defence of Australia and its interests.

Total Budgeted Cost to the Government

Table 4.4.2: Net Cost of Outcome Four – Air Force Capability

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	1,294,035	1,224,789	-69,246	1,296,999	1,302,985	1,369,056
Employees - Civilian	360,941	392,057	31,116	393,795	407,911	352,896
Sub total employees	1,654,976	1,616,846	-38,130	1,690,794	1,710,896	1,721,953
Supplier Expenses	1,333,303	1,553,356	220,054	1,450,542	1,531,743	1,735,669
Inventory Consumption	263,246	282,555	19,308	309,026	313,335	306,617
Sub total suppliers	1,596,549	1,853,911	239,362	1,759,568	1,845,078	2,042,287
Depreciation and amortisation	1,210,894	1,835,911	-24,480	1,062,449	1,089,836	1,130,204
Write down of assets	156,112	41,976	-114,136	41,997	42,020	42,065
Value of Assets sold	81,008	61,073	-19,935	10,436	10,376	10,304
Other	-	-93	-93	-93	-93	-93
Grants	434	289	-144	296	301	306
Borrowing cost expense	6,020	5,958	-61	6,078	6,199	5,094
Total operating expenses from ordinary activities	4,705,992	4,748,375	42,383	4,571,525	4,704,613	4,952,119
Revenues						
Sales of goods and services	-39,094	-42,213	-3,119	-44,219	-43,863	-44,831
Revenue from sale of assets	-81,008	-61,073	19,935	-10,436	-10,376	-10,304
Assets now recognised	-114,013	-	114,013	-	-	-
Other	-27,085	-24,769	2,317	-22,422	-22,078	-22,334
Total Own Source Revenues	-261,200	-128,054	133,146	-77,077	-76,317	-77,469
Net Cost of Outcome Four⁽¹⁾	4,444,792	4,620,321	175,529	4,494,448	4,628,296	4,874,650

Note

1. Cross references to Table 4.4.1.

Significant Variations

- A net decrease in the military employees expenses (-\$69.2m), as a result of:
 - price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases (+\$66.3m),
 - increased average funded strength due to lower than anticipated separation rates in 2003-04 and forecast for 2004-05 (+\$15.0m),
 - real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance (+\$13.1m),

Outcome Four - Air Force Capability

- increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations (+\$3.0m),
- non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions combined with a non-recurring transfer of Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts (-\$90.4m),
- transfer of the military compensation function to the Department of Veterans' Affairs (-\$34.4m),
- overestimate in accrual provisions in 2003-04 in relation to long service and annual leave and compensation (-\$19.2m),
- changes in contribution of military workforce to other Outcomes (-\$10.0m),
- reclassification of rations costs to supplier expenses (-\$8.2m), and
- other net variations including reduced take up of Home Purchase Assistance Scheme, and allowances associated with reduction in overseas positions (-\$4.4m).
- A net increase civilian employees expenses (\$31.1m), as a result of:
 - price indexation to cover the *Defence Employees' Certified Agreement 2004-2006* and other cost increases (+\$23.4m),
 - real growth in civilian employee costs as provided for in the Defence White Paper (+\$7.2m),
 - increase in voluntary redundancy costs as a result of the Defence Integrated Distribution System contract (+\$6.4m),
 - Defence Procurement Review implementation funding (+\$0.7m),
 - increase in full time equivalent-average positions in 2004-05 (+\$0.3m),
 - non-recurrence of one-off payments in 2003-04 for long service leave, annual leave and superannuation provisions for University of New South Wales staff at the Australian Defence Force Academy (-\$8.2m), and
 - other net variations (+\$1.3m).
- A net increase in supplier expenses (+\$220.0m), as a result of:
 - price indexation for supplier expenses (+\$52.3m),
 - additional logistics support funding for maritime patrol aircraft (P3) to sustain current levels of operational tempo and to meet specific preparedness targets (+\$48.4m),

- increase in expenditure on estate upkeep and other cost pressures including Comcover and Comcare premiums, legal services and other overheads (+\$30.3m),
 - increased provision for support to core portfolio information systems (+\$16.5m),
 - additional logistics support funding for transport aircraft (C-130H) to sustain current levels of operational tempo and to meet specific preparedness targets (+\$16.0m),
 - increased purchase of information technology and administrative assets as part of Defence's asset refreshment program (+\$11.9m),
 - through-life support costs for new equipment entering service (+\$10.7m),
 - additional logistics support funding for training aircraft (PC-9) to sustain current levels of operational tempo and to meet specific preparedness targets (+\$8.7m),
 - reclassification of rations costs from military employee expenses (+\$8.2m),
 - provision for through-life costs for new capital facilities (+\$7.7m),
 - increased insurance premium payments under Defence's insurance policy with Comcover (+\$3.5m),
 - increase in supplier expenses to cover payments for the Defence Integrated Distribution System contract (+\$3.3m),
 - Defence Procurement Review implementation funding (+\$0.6m),
 - transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs (-\$7.4m), and
 - other net variations including provision for through-life support costs for a range of equipment including life support equipment and other net variations (+\$9.3m).
- Increase in inventory consumption, reflecting the heightened operational tempo and increased logistics funding (+\$19.3m);
 - A net decrease in the depreciation expense (-\$24.5m) as a result of:
 - roll-out of assets from platform and system upgrades including the F/A-18, P3 and F-111 (+\$21.1m),
 - non-recurring adjustment in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base, offset by rescheduling and rephasing of asset roll-outs (-\$42.8m), and
 - other net variations including reduction for revised asset capitalisation thresholds (-\$2.8m).

Outcome Four - Air Force Capability

- A net decrease in the write-down of assets (-\$114.1m) due to expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base.
- A net decrease in the revenue from sale of assets (+\$19.9m) related to a reduction in projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.
- A net increase in the revenue from sale of goods and services (-\$3.1m) due to:
 - increased provision for price indexation (-\$1.0m), and
 - other net variations (-\$2.1m).
- A net decrease in the value of assets sold (-\$19.9m) related to a reduction in projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.
- A net decrease in assets now recognised (+\$114.0m) reflecting the continued work to more accurately track and record Defence's asset base.
- Net decrease in other revenue (+\$2.3m) due to:
 - provision for price indexation (-\$2.9m), and
 - net variations including provision for non-recurring other revenue (+\$5.2m).

OUTPUT STRUCTURE FOR OUTCOME FOUR

Output 4.1 – Capability for Air Combat

The capability for air combat is exercised through the Air Combat Group using F-111 and F/A-18 aircraft crews, weapon systems and support infrastructure. The group supports air control, maritime and land strike, offensive air support and limited reconnaissance roles.

Performance Targets		
<ul style="list-style-type: none"> 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. Achieve levels of training that maintains core skills and professional standards across all assigned warfare areas. 		
Aircraft	Number	Flying Hours 2004-05
F/A-18	71 (55 F/A-18A and 16 F/A-18B)	12,500
F-111	28 ⁽¹⁾	3,800
Hawk lead-in fighter	33	9,000
PC-9/A FAC training aircraft	4	1,030

Note

- An additional five F-111G aircraft are in long-term storage and a further two F-111G have been broken down for spares.

Table 4.4.3: Net Cost of Output 4.1 – Capability for Air Combat Operations

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	337,046	321,341	-15,705	339,965	338,067	354,397
Employees - Civilian	147,701	162,550	14,849	161,831	167,677	145,260
Sub total employees	484,747	483,891	-857	501,796	505,744	499,657
Supplier Expenses	514,082	581,950	67,866	529,120	553,103	629,389
Inventory Consumption	145,714	157,040	11,327	168,742	153,635	163,865
Sub total suppliers	659,796	738,990	79,193	697,862	706,738	793,254
Depreciation and amortisation	752,894	742,279	-10,615	635,839	636,091	661,943
Write down of assets	76,364	21,534	-54,830	21,530	21,514	21,490
Value of Assets sold	34,438	25,963	-8,475	4,460	4,432	4,408
Other	-	-151	-150	-150	-150	-150
Grants	135	90	-45	93	93	95
Borrowing cost expense	1,833	1,802	-31	1,838	1,875	1,540
Total operating expenses from ordinary activities	2,010,207	2,014,400	4,193	1,863,267	1,876,337	1,982,236
Revenues						
Sales of goods and services	-12,346	-13,717	-1,371	-14,456	-14,108	-14,424
Revenue from sale of assets	-34,438	-25,963	8,475	-4,460	-4,432	-4,408
Assets now recognised	-58,120	-	58,120	-	-	-
Other	-16,555	-15,696	859	-13,907	-13,322	-13,436
Total Own Source Revenue	-121,459	-55,376	66,083	-32,823	-31,862	-32,269
Net Cost of Output 4.1⁽¹⁾	1,888,748	1,959,024	70,276	1,830,444	1,844,475	1,949,967

Note

- Cross references to Table 4.4.1.

The increase in the cost of Output 4.1 includes additional logistics funding for the P-C9 aircraft and accounting and accrual adjustments.

Output 4.2 – Capability for Combat Support of Air Operations

The Combat Support Group provides the capability for combat support of air operations. It involves the command and control of the airbase, airbase security and emergency response, local airspace management, provision of airbase communications and navigation aids, aeromedical staging and evacuation and a range of airbase supply and flightline services.

Performance Targets

- 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.
- Achieve a level of training that maintains core skills and professional standards in conjunction with Corporate Services and Infrastructure Group and the DMO across all operations support areas.
- Provide the level of preparedness required based on a force structure of:
 - two combat support wings.
 - one expeditionary combat support wing.
 - one combat reserve wing.
 - one air base defence wing.
 - one health services wing.
- Further development of doctrine, concepts and procedures for expeditionary air base operations will formalise direction for future capability.

Table 4.4.4: Net Cost of Output 4.2 – Capability for Combat Support of Air Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	378,040	351,512	-26,528	368,589	371,990	392,852
Employees - Civilian	33,948	36,524	2,576	38,137	39,652	34,403
Sub total employees	411,988	588,036	-23,952	406,726	411,642	427,255
Supplier Expenses	125,784	139,665	13,881	134,133	144,100	166,674
Inventory Consumption	14,932	14,400	-532	13,396	13,710	13,267
Sub total suppliers	140,716	154,065	13,349	147,529	157,810	179,941
Depreciation and amortisation	23,764	22,557	-1,208	20,994	21,729	21,561
Write down of assets	4,050	324	-3,725	324	350	383
Value of Assets sold	8,364	6,305	-2,059	1,072	1,060	1,052
Other	-	57	56	57	57	57
Grants	113	76	-38	79	82	80
Borrowing cost expense	1,582	1,611	29	1,643	1,676	1,377
Total operating expenses from ordinary activities	590,578	573,029	-17,549	578,423	594,405	631,707
Revenues						
Sales of goods and services	-7,977	-8,262	-284	-8,745	-8,915	-9,115
Revenue from sale of assets	-8,364	-6,305	2,059	-1,072	-1,060	-1,052
Assets now recognised	-1,197	-	1,197	-	-	-
Other	-1,850	-1,480	370	-1,200	-1,234	-1,253
Total Own Source Revenues	-19,389	-16,047	3,342	-11,016	-11,209	-11,420
Net Cost of Output 4.2⁽¹⁾	571,189	556,983	-14,206	567,407	583,196	620,286

Note

1. Cross references to Table 4.4.1.

Output 4.3 – Capability for Surveillance and Response Operations

The capability for surveillance and response operations is provided by Surveillance and Response Group, an amalgamation of the Surveillance and Control Group (previously Output 4.3) and the Maritime Patrol Group (previously Output 4.4). The new Output has been formed to better integrate the surveillance and response aspects and to ensure that systems and processes are aligned.

Performance Targets		
<ul style="list-style-type: none"> • 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. • Achieve levels of training that maintains core skills and professional standards across all assigned warfare areas. • Maintain the Jindalee Operational Radar Network including over the horizon radar sensors at Laverton, Western Australia and Longreach, Queensland, the Jindalee Radar Facility at Alice Springs, Northern Territory and the coordination centre at RAAF Edinburgh, South Australia. • Maintain 10 air traffic control radars. • Maintain four tactical air defence radars. 		
Aircraft	Number	Flying Hours 2004-05
P-3 Orion aircraft	19	9,000

Table 4.4.5: Net Cost of Output 4.3 – Capability for Surveillance and Response Operations

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	337,372	320,938	-16,434	347,480	357,223	374,007
Employees - Civilian	113,988	123,332	9,344	123,424	128,205	110,861
Sub total employees	451,360	444,269	-7,090	470,904	485,428	484,868
Supplier Expenses	315,163	400,192	85,030	307,682	495,824	460,019
Inventory Consumption	36,016	38,849	2,833	51,282	61,613	58,234
Sub total suppliers	351,178	439,041	87,863	421,965	457,437	518,252
Depreciation and amortisation	248,341	243,231	-5,109	239,422	257,090	276,941
Write down of assets	53,122	14,661	-38,462	14,676	14,686	14,705
Value of Assets sold	16,545	12,474	-4,071	2,096	2,076	2,048
Other	-	-37	-37	-37	-37	-37
Grants	102	68	-34	70	71	71
Borrowing cost expense	1,405	1,370	-35	1,398	1,425	1,172
Total operating expenses from ordinary activities	1,122,052	1,155,077	33,025	1,150,493	1,218,176	1,298,021
Revenues						
Sales of goods and services	-9,662	-10,618	-956	-11,132	-10,926	-11,171
Revenue from sale of assets	-16,545	-12,474	4,071	-2,096	-2,076	-2,048
Assets now recognised	-39,612	-	39,612	-	-	-
Other	-4,549	-3,676	872	-3,265	-3,358	-3,412
Total Own Source Revenue	-70,368	-26,768	-43,600	-16,494	-16,360	-16,631
Net Cost of Output 4.3⁽¹⁾	1,051,684	1,128,309	76,625	1,133,999	1,201,817	1,281,390

Note

1. Cross references to Table 4.4.1.

The increase in the cost of Output 4.3 includes additional logistics support funding for maritime patrol aircraft (P3) and accounting and accrual adjustments.

Output 4.4 – Capability for Airlift Operations

The capability for airlift operations is provided by Air Lift Group through the application of various transport aircraft. The capability entails the provision of 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		
<ul style="list-style-type: none"> • 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. • Achieve levels of training that maintain core skills and professional standards across all assigned warfare areas. 		
Aircraft	Number	Flying Hours 2004-05
C-130H and C-130J Hercules aircraft	12 C-130H 12 C-130J	16,000
B707	4	1,800
DHC-4 Caribou	14	5,080
B737 BBJ VIP aircraft	2	1,200
CL604 Challenger VIP aircraft	3	2,400
B300 Beechcraft Kingair Navigator Training aircraft	7	6,000

Table 4.4.6: Net Cost of Output 4.4 – Capability for Air-Lift Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	241,577	230,998	-10,579	240,966	235,705	247,801
Employees - Civilian	65,304	69,651	4,347	70,403	72,376	62,372
Sub total employees	306,881	300,649	-6,232	311,369	308,081	310,173
Supplier Expenses	378,273	431,548	53,275	416,607	438,716	479,588
Inventory Consumption	66,585	72,266	5,681	75,606	84,377	71,252
Sub total suppliers	444,858	503,814	58,956	492,213	523,093	550,840
Depreciation and amortisation	185,895	178,347	-7,548	166,195	174,926	169,759
Write down of assets	22,575	5,457	-17,119	5,467	5,471	5,486
Value of Assets sold	21,661	16,331	-5,330	2,808	2,808	2,796
Other	-	38	38	38	38	38
Grants	84	56	-28	54	55	59
Borrowing cost expense	1,200	1,176	-24	1,199	1,223	1,005
Total operating expenses from ordinary activities	983,155	1,005,868	22,713	979,343	1,015,695	1,040,156
Revenues						
Sales of goods and services	-9,109	-9,616	-508	-9,886	-9,914	-10,120
Revenue from sale of assets	-21,661	-16,331	5,330	-2,808	-2,808	-2,796
Assets now recognised	-15,084	-	15,084	-	-	-
Other	-4,131	-3,916	215	-4,050	-4,165	-4,232
Total Own Source Revenues	-49,985	-29,863	20,121	-16,744	-16,887	-17,149
Net Cost of Output 4.4⁽¹⁾	933,170	976,004	42,835	962,599	998,808	1,023,007

Note

1. Cross references to Table 4.4.1.

The increase in cost of Output 4.4 includes additional logistics support funding for the C-130H aircraft and accounting and accrual adjustments.

OUTCOME FIVE – STRATEGIC POLICY

Outcome Five – Strategic Policy for the Defence of Australia and its Interests

Output 5.1 Strategic and International Policy, Activities and Engagement

Output 5.2 Military Strategy and Capability Analysis

Defence provides timely and responsive strategic policy advice to enable the Government to make sound judgements on, and develop appropriate responses to, changes in Australia's strategic circumstances. Defence applies strategic policy guidance to inform the development of recommendations to the Government on force structure, capability development, preparedness of ADF elements, international relationship management and operational matters as they arise.

Defence manages the Defence Cooperation Program as an integral part of its approach to international engagement.

Planned Performance

The changing strategic environment has increased the importance of a strategic policy capability that is able to adequately inform Government policy and planning, and to support the development of ADF capability and the planning and conduct of ADF operations. Defence strategic policy will focus on:

- providing timely and considered strategic and international policy advice to the Government;
- providing timely and accurate strategic advice on Defence operations to the Government;
- providing appropriate policy guidance on the development and management of future concepts and capability; and
- effectively managing Defence's international relationships and the Defence Cooperation Program.

Key Risks and Limitations

The key risks and limitations are:

- any deterioration in Australia's strategic circumstances, both generally and with respect to specific potential crises;
- the emergence of new and more immediate threats from terrorism and increased concerns about the proliferation of weapons of mass destruction;
- managing core priorities at times of increased operational tempo, such as during the war on terror or the activities in Iraq; and

- managing projects funded under the Defence Cooperation Program in regional countries where factors external to Defence impact on the achievement of objectives.

Risk Mitigation

To varying degrees, these risks and limitations will be mitigated by:

- continuously reviewing the strategic environment to enable the shaping of appropriate policies;
- continuing the development of Defence's international relationships;
- ensuring personnel management practices are focused on optimising staff skills and balancing competing priorities;
- ensuring alignment between Defence's policy and operational objectives; and
- developing project management skills in relevant areas.

Cost Summary for Outcome Five

Table 4.5.1: Breakdown of Outcome Five by Output

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Output 5.1 – Capability for Strategic and International Policy, Activities and Engagement ⁽¹⁾	173,382	195,030	21,649	183,381	188,074	205,774
Output 5.2 – Capability for Military Strategy and Capability Analysis ⁽²⁾	46,761	47,526	765	47,686	49,766	50,639
Net Cost of Outcome Five ⁽³⁾	220,143	242,556	22,414	231,067	237,840	256,413

Notes

- Cross references to Table 4.5.3.
- Cross references to Table 4.5.4
- Cross references to Table 4.5.2.

Total Budgeted Cost to the Government

Table 4.5.2: Net Cost of Outcome Five – Strategic Policy

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000		2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees – Military	66,931	65,815	-1,116	68,907	69,245	71,890
Employees – Civilian	38,856	39,728	872	40,577	42,045	36,480
Sub total employees	105,787	105,543	-244	109,485	111,290	108,369
Supplier Expenses	115,911	137,277	21,366	121,430	126,116	147,453
Inventory Consumption	-	-	-	-	-	-
Sub total suppliers	115,912	137,277	21,366	121,431	126,116	147,454
Depreciation and amortisation	5,180	5,340	160	5,487	5,885	6,206
Write down of assets	1,479	314	-1,165	319	324	329
Value of assets sold	582	439	-143	52	48	40
Other	-	20	19	20	20	20
Grants	24	16	-8	16	16	17
Borrowing cost expense	258	256	-2	261	266	219
Total operating expenses from ordinary activities	229,221	249,205	19,984	237,070	243,964	262,654
Revenues						
Sales of goods and services	-6,324	-4,157	2,167	-4,402	-4,483	-4,582
Revenue from sale of assets	-582	-439	143	-52	-48	-40
Assets now recognised	-1,378	-	1,378	-	-	-
Other	-794	-2,052	-1,258	-1,549	-1,593	-1,619
Total Own Source Revenues	-9,078	-6,648	2,430	-6,003	-6,124	-6,241
Net Cost Outcome Five ⁽¹⁾	220,143	242,556	22,414	231,067	237,840	256,413

Note

1. Cross references to Table 4.5.1.

Significant Variations

The cost of Outcome Five will increase by \$22.4m to \$242.6m or 10.2 per cent from the 2003-04 estimated outcome of \$220.1m. The major variations to Outcome Five are due to:

- A net decrease in military employees expenses (-\$1.1m), primarily due to:
 - price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases (+\$2.6m),
 - real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance (+\$0.5m),
 - increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations (+\$0.1m),

Outcome Five - Strategic Policy

- non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions combined with a non-recurring transfer of the Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts (-\$3.2m),
- transfer of the military compensation function to the Department of Veterans' Affairs (-\$1.3m),
- a reduction in the number of non-operational military personnel overseas (-\$0.6m), and
- other net variations (+\$0.8m).
- A net increase in civilian employees expenses (+\$0.9m), primarily due to:
 - price indexation to cover *the Defence Employees' Certified Agreement 2004-2006* and other cost increases (+\$2.3m),
 - real growth in civilian employee costs as provided for in the Defence White Paper (+\$0.7m),
 - non-recurrence of one-off payments in 2003-04 for long service leave and superannuation provisions for University of New South Wales staff at the Australian Defence Force Academy (-\$0.9m),
 - a reduction in the number of non-operational civilian personnel overseas (-\$0.2m), and
 - other net variations (-\$1.0m).
- A net increase in supplier expenses (+\$21.4m), primarily due to:
 - net variation due to the second tranche of the Papua New Guinea Defence Force Reform Program, comprising \$14.6m supplemented by the Government less \$2.9m spent by Defence in 2003-04 (+\$11.7m),
 - price indexation for supplier expenses (+\$4.8m),
 - increase in expenditure on estate upkeep and other cost pressure including Comcover and Comcare premiums, legal services and other overheads (+\$2.8m),
 - increased provision for support to core portfolio information systems (+\$1.5m),
 - increased purchase of information technology and administrative assets as part of Defence's asset refreshment program (+\$1.1m),
 - through-life support costs for new equipment entering service (+\$1.0m),
 - increased insurance premium payments under Defence's insurance policy with Comcover (+\$0.3m),

- transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs (-\$0.7m),
- a reduction in the number of non-operational personnel overseas (-\$0.2m), and
- other net variations (-\$0.9m).
- A net increase in depreciation expense (+\$0.2m), primarily due to:
 - revised depreciation expense estimate taking account of forecast asset roll-outs for 2004-05 (+\$0.2m),
 - non-recurring adjustment in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base, offset by rescheduling and rephasing of asset roll-outs (-\$0.2m), and
 - other net variations (+\$0.2m).
- Expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base (+\$1.2m).
- A net decrease in the value of assets sold (-\$0.1m) due to a reduction in the projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.
- A net decrease in the sale of goods and services (+\$2.2m), primarily due to:
 - non-recurrence of revenue associated with the completion of the command and control experiment of the Integrated Air Defence System (+\$2.7m), and
 - price indexation for revenue (-\$0.5m).
- A net decrease in the revenue from the sale of assets (+\$0.1m) due to a reduction in the projected asset sales for 2004-05 due to decrease property sales program and the completion of sale of APG radars.
- A net decrease in the assets now recognised (+\$1.4m), primarily due to:
 - the continued work to more accurately track and record Defence's asset base (+\$0.7m), and
 - other net variations (+\$0.7m).
- A net increase in other revenue primarily due to price indexation (-\$1.3m).

OUTPUT STRUCTURE FOR OUTCOME FIVE

Output 5.1 – Strategic and International Policy, Activities and Engagement

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 on

specific defence 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	
•	The Government is provided with comprehensive and timely strategic policy advice on current and emerging international Defence issues.
•	Defence's international engagement activities continue to support Australia's efforts to promote regional and global security.
•	Defence's overseas representatives contribute to the effective management of Australia's defence interests in the context of overall bilateral relationships.
•	The Defence Cooperation Program is achieved.

Table 4.5.3: Net Cost of Output 5.1 – Strategic and International Policy, Activities and Engagement

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	56,401	55,309	-1,091	57,971	58,280	60,191
Employees - Civilian	20,994	21,448	454	21,684	22,397	19,555
Sub total employees	77,394	76,757	-637	79,656	80,677	79,746
Supplier Expenses	98,039	117,826	19,787	103,146	106,506	124,817
Inventory Consumption	-	-	-	-	-	-
Sub total suppliers	98,039	117,826	19,787	103,146	106,506	124,817
Depreciation and amortisation	3,695	3,910	216	4,064	4,448	4,865
Write down of assets	1,357	312	-1,045	312	312	312
Value of Assets sold	521	393	-128	48	44	36
Other	-	11	10	11	11	11
Grants	6	4	-2	4	4	4
Borrowing cost expense	74	69	-5	70	72	59
Total operating expenses from ordinary activities	181,086	199,282	18,196	187,311	192,074	209,850
Revenues						
Sales of goods and services	-5,408	-3,208	2,200	-3,405	-3,464	-3,541
Revenue from sale of assets	-521	-393	128	-48	-44	-36
Assets now recognised	-1,294	-	1,294	-	-	-
Other	-481	-650	-170	-478	-491	-499
Total Own Source Revenue	-7,704	-4,252	3,452	-3,930	-3,999	-4,076
Net Cost of Output 5.1⁽¹⁾	173,382	195,030	21,649	183,381	188,074	205,774

Note

1. Cross references to Table 4.5.1.

The increase in cost of Output 5.1 includes the additional \$11.7m in relation to the second tranche of the Papua New Guinea Defence Force Reform Program.

Output 5.2 – Military Strategy and Capability Analysis

This output provides military strategy and strategic policy guidance to provide a framework for the development of future Defence capability, and to support military deployments, operations and exercises.

Performance Target	
•	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.

Table 4.5.4: Net Cost of Output 5.2 – Military Strategy and Capability Analysis

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	10,530	10,506	-24	10,936	10,965	11,698
Employees - Civilian	17,863	18,280	418	18,893	19,647	16,925
Sub total employees	28,393	28,786	394	29,829	30,612	28,623
Supplier Expenses	17,872	19,451	1,578	18,284	19,610	22,637
Inventory Consumption	-	-	-	-	-	-
Sub total suppliers	17,873	19,451	1,578	18,284	19,610	22,637
Depreciation and amortisation	1,485	1,430	-56	1,423	1,437	1,341
Write down of assets	122	2	-120	7	12	17
Value of Assets sold	61	46	-15	4	4	4
Other	-	9	9	9	9	9
Grants	18	12	-6	12	12	13
Borrowing cost expense	183	187	3	190	194	160
Total operating expenses from ordinary activities	48,135	49,923	1,787	49,759	51,891	52,804
Revenues						
Sales of goods and services	-916	-949	-33	-997	-1,019	-1,041
Revenue from sale of assets	-61	-46	15	-4	-4	-4
Assets now recognised	-84	-	84	-	-	-
Other	-313	-1,402	-1,089	-1,071	-1,102	-1,120
Total Own Source Revenue	-1,374	-2,396	-1,022	-2,073	-2,125	-2,165
Net Cost of Output 5.2⁽¹⁾	46,761	47,526	765	47,686	49,766	50,639

Note

1. Cross references to Table 4.5.1.

DEFENCE COOPERATION

Overview

The Defence International Engagement Plan provides a robust policy for business planning and management of Defence's international engagement and particularly for the Defence Cooperation Program over the next five years. 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, education and training, command and control, infrastructure, communications and logistics support. A key element of the Defence Cooperation Program is the Pacific patrol boat program, comprising 22 vessels in 12 countries.

The program is designed to help the Pacific island countries to improve their ability to independently police their maritime zones. The Defence Cooperation Program also supports the conduct of combined exercises to improve the ability of regional countries to contribute to regional security. A key focus continues to be the development of the nascent East Timor Defence Force. Australian assistance will include a range of training initiatives and infrastructure projects. A breakdown of the \$80.3m allocated to the program in 2004-05 is shown in the following table.

Table 4.5.5: Defence Cooperation Funding

	Estimated Actual 2003-04 \$'000	Budget Estimate 2004-05 \$'000
Papua New Guinea⁽¹⁾	11,185	22,688
South Pacific		
Vanuatu	1,519	1,603
Solomon Islands	360	498
Tonga	2,127	1,149
Western Samoa	532	1,703
Cook Islands	295	346
Fiji	3,799	3,503
Marshall Islands	1,201	882
Federated States of Micronesia	1,070	1,137
Tuvalu	625	767
Kiribati	820	914
Palau	693	991
Multilateral General Assistance ⁽²⁾	10,950	12,010
Sub-total	23,991	25,503
South-East Asia		
Singapore	235	292
Philippines	2,590	2,531
Thailand	3,012	3,018
Malaysia	4,601	4,342
Indonesia	4,902	4,671
East Timor	6,397	9,397
Vietnam	1,395	1,365
Cambodia and Laos	956	897
Brunei	97	45
Sub-total	24,185	26,558
Other Regional Activities	4,978	5,551
Total	64,339	80,300

Notes

1. Includes funding for the second tranche of the Papua New Guinea Defence Force Reform Program of \$2.895m in 2003-04 and \$14.600m in 2004-05.
2. Predominantly relates to support of the Pacific Patrol Boat project, including the Life Extension Program.

OUTCOME SIX – INTELLIGENCE

Outcome Six – Intelligence for the Defence of Australia and its Interests

Output 6.1 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.

Planned Performance

Good intelligence remains critical to Australia's strategic posture in a complex and changeable environment. Defence will maintain 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. Defence conducts intelligence operations, maintains intelligence capabilities and provides analysis in order to provide timely intelligence products to Defence and to a range of other government departments and agencies. Support to counter-terrorism (including the recently established National Threat Assessment Centre) continues to be a high priority for Defence intelligence.

Defence's intelligence functions include:

- maintenance of intelligence capabilities, including trained and experienced personnel, databases and collection, production and dissemination systems, to meet national and Defence priority requirements;
- production of signals intelligence reports and electronic warfare databases, imagery and geospatial products and databases, and all-source intelligence assessments, reports and databases;
- provision of national communications and information security capabilities and services to meet whole-of-Government requirements;
- a tangible and continuous contribution to alliances and to other important Defence relationships; and
- provision of specialist assistance to counter-terrorism.

Key Risks and Limitations

The continued war on terror, the increased tempo of ADF operations, and increased demand for intelligence and security advice, has placed pressure on Defence intelligence resources. Through specific supplementation and the

reallocation of resources, the highest priority intelligence requirements continue to be met.

Defence's ability to preserve its capability edge in intelligence collection and analysis is critically dependent on the availability of skilled and experienced personnel to support ongoing operations, the acquisition and exploitation of new technology, and the maintenance of effective security.

Risk Mitigation

A number of strategies have been developed to mitigate risks. These include progressing carefully targeted capital investment and personnel development programs, strengthening agency partnerships, an increased customer focus, the implementation of a security renewal agenda and development of business continuity plans.

Significant initiatives have been implemented to enhance intelligence capabilities as part of the Defence Capability Plan. These include substantial and sustained investment in signals intelligence and imagery collection capabilities, enhanced geospatial information systems and improved intelligence processing and dissemination systems. These initiatives are progressing, and will assist in meeting increased requirements for intelligence support.

Cost Summary for Outcome Six

Table 4.6.1: Breakdown of Outcome Six by Output

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Output 6.1 – Intelligence	413,109	434,992	21,883	431,573	448,683	456,490
Net Cost of Outcome Six⁽¹⁾	413,109	434,992	21,883	431,573	448,683	456,490

Note

1. Cross references to Table 4.6.2.

Total Budgeted Cost to the Government

Table 4.6.2: Net Cost of Outcome Six – Intelligence

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	60,294	60,649	355	65,793	65,189	68,766
Employees - Civilian	139,125	152,446	13,321	162,060	166,857	145,168
Sub total employees	199,419	213,095	13,676	227,854	232,046	213,934
Supplier Expenses	159,266	179,561	20,294	165,820	176,910	203,574
Inventory Consumption	1	1	-	1	1	1
Sub total suppliers	159,268	179,562	20,294	165,821	176,911	203,576
Depreciation and amortisation	61,007	44,678	-16,329	40,433	42,311	41,687
Write down of assets	1,320	201	-1,119	196	206	216
Value of Assets sold	2,635	1,986	-649	316	308	300
Other	-	-	-	-	-	-
Grants	30	20	-10	21	21	22
Borrowing cost expense	377	362	-15	370	377	310
Total operating expenses from ordinary activities	424,055	439,904	15,849	435,011	452,180	460,045
Revenues						
Sales of goods and services	-3,232	-2,162	1,069	-2,183	-2,225	-2,274
Revenue from sale of assets	-2,635	-1,986	649	-316	-308	-300
Assets now recognised	-3,493	-	3,493	-	-	-
Other	-1,587	-763	823	-938	-965	-980
Total Own Source Revenues	-10,946	-4,912	6,035	-3,437	-3,497	-3,554
Net Cost of Outcome Six⁽¹⁾	413,109	434,992	21,883	431,573	448,683	456,490

Note

1. Cross references to Table 4.6.1.

Significant Variations

Overall, the budgeted cost of Outcome Six: Intelligence will increase by \$21m to \$434m. This is an increase of five per cent from the 2003-04 estimated outcome.

- Military employee expenses will increase by \$0.3m due to:
 - price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases (+\$3.2m),
 - real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance (+\$0.6m),
 - increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations (+\$0.1m),

- non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions combined with a non-recurring transfer of Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts (-\$3.9m),
- transfer of the military compensation function to the Department of Veterans' Affairs (-\$1.6m), and
- other net variations (+\$1.9m).
- Civilian employee expenses will increase by \$13.3m due to:
 - price indexation to cover the *Defence Employees' Certified Agreement 2004-2006* and other cost increases (+\$8.8m),
 - new budget initiatives, such as strengthening counter-terrorism and critical infrastructure protection, and increased funding for Defence White Paper approved initiatives (+\$6.5m),
 - real growth in civilian employee costs as provided for in the Defence White Paper (+\$2.7m),
 - non-recurrence of one-off payments in 2003-04 for long service leave and superannuation provisions for University of New South Wales staff at the Australian Defence Force Academy (-\$3.1m), and
 - other net variations (-\$1.6m).
- Supplier expenses will increase by \$20.3m as a result of:
 - new budget initiatives, such as strengthening counter-terrorism and critical infrastructure protection, and increased funding for Defence White Paper approved initiatives (+\$7.8m),
 - price indexation for supplier expenses (+\$6.4),
 - increase in expenditure on estate upkeep and other cost pressures including Comcover and Comcare premiums, legal services and other overheads (+\$3.7m),
 - increased provision for support to core portfolio information systems (+\$2.0m),
 - increased purchase of information technology and administrative assets as part of Defence's asset refreshment program (+\$1.4m),
 - through-life support costs for new equipment entering service (+\$1.3m),
 - increased insurance premium payments under Defence's insurance policy with Comcover (+\$0.4m),
 - provision for through-life costs for new capital facilities (+\$0.2m),
 - transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs (-\$0.9m), and
 - other net variations (-\$2.0m).

Outcome Six – Intelligence

- Depreciation and amortisation expenses are expected to reduce by \$16.3m due to:
 - a review of the useful life of assets resulting in the acceleration of depreciation for certain assets and the recognition of an abnormally high depreciation expense in 2003-04 (-\$13.3m),
 - a non-recurring adjustment in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base, offset by rescheduling and rephasing of asset roll-outs (-\$2.7m), and
 - other net variations (-\$0.3m).
- Write-down of assets expenses will decrease by \$1.1m due to:
 - expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base (-\$0.4m), and
 - other net variations (-\$0.7m).
- Value of assets sold expenses will decrease by \$0.6m due to a reduction in projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.
- Reduced revenue from sale of goods and services (+\$1.1m) due to:
 - an overestimation of revenue from sales in 2003-04 (+\$1.4m), and
 - price indexation (-\$0.3m).
- Revenue from sale of assets will decrease by \$0.6m because of a reduction in projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.
- A net decrease in assets now recognised (+\$3.5m) reflecting the continued work to more accurately track and record Defence's asset base.
- Reduction in revenues from other activities (+\$0.8m) due to:
 - price indexation (-\$0.3m), and
 - other net variations (+\$1.1m).

OUTCOME SEVEN – SUPERANNUATION AND HOUSING SUPPORT SERVICES FOR CURRENT AND RETIRED DEFENCE PERSONNEL

Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel

Output 7.1 Superannuation and Housing Support Services for Current and Retired Defence Personnel

Outcome Seven covers activities that Defence performs on behalf of the Government relating mainly to the provision of superannuation and housing support services to current and retired Defence personnel. Defence also administers reimbursements from the United Nations for costs associated with East Timor and returns the receipts to the Government. Details of the administered activities are outlined below.

Administered Activities

Administered Revenue

Revenues administered on behalf of the Government represent dividends from the Defence Housing Authority; non-taxation revenue, which includes contributions for military superannuation; and reimbursement from the United Nations for costs associated with East Timor. These revenues are returned to the Government once collected.

Superannuation for Current and Retired Defence Personnel

This includes all 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.

Housing Assistance for Current and Retired Defence Personnel

In 2004-05, Defence and the Defence Housing Authority will complete the fifth year of a 10-year agreement for the delivery of housing services to ADF members. 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*

Cost Summary for Outcome Seven

The costs of performing the administered activities are very small and therefore have not been separately identified and form part of the total departmental outcome costs.

Table 4.7.1: Revenues Administered on behalf of the Government

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Revenues Administered on Behalf of Government						
Housing Dividends	229,364	45,047	-184,317	13,203	17,465	21,264
Military Superannuation Contributions	557,683	601,389	43,706	661,389	712,389	755,389
Foreign Government and the United Nations reimbursements for East Timor	23,000	2,000	-21,000	-	-	-
Total revenues administered on behalf of Government	810,047	648,436	-161,611	674,592	729,854	776,653

Significant Variations

Revenue administered on behalf of the Government will decrease by \$162m from \$810m to \$648m, representing a decrease of 20 per cent from the 2003-04 projected result. The major variations are due to:

- variations to numbers of ADF personnel and rates of salary make up the difference in Military Superannuation Contributions (+\$44m);
- expected reduction in capital return special dividend payments from the Defence Housing Authority to the Government (-\$184m); and
- revised estimates for the reimbursements from foreign Government and the United Nations for East Timor from \$23m to \$2m (-\$21m).

Table 4.7.2: Expenses Administered on behalf of the Government

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Expenses Administered on Behalf of Government						
Military Superannuation Benefits	1,980,000	2,300,000	320,000	2,400,000	2,400,000	2,600,000
Retention Benefits	29,400	29,400	-	29,400	29,400	29,400
Housing Subsidies	7,500	7,500	-	7,500	7,500	7,500
Other	-	-	-	-	-	-
Total expenses administered on behalf of Government	2,016,900	2,336,900	320,000	2,436,900	2,436,900	2,636,900

Significant Variations

Expenses administered on behalf of the Government will increase by \$320m from \$1,980m to \$2,300m. The major variations are due to:

- The transfer of \$220m for Military Superannuation Benefits three per cent productivity liability for the Defence Force Retirement and Death Benefits Scheme from the Administered budget to the Departmental budget, and
- An increase of \$100m for Military Superannuation Benefits due to pension indexation and an increase in recipients.

DEFENCE

CHAPTER FIVE PEOPLE

OVERVIEW

WORKFORCE SUMMARY

OVERVIEW

People are fundamental to Defence capability. The 2000 Defence White Paper, the Defence Update 2003 and the Defence Capability Review outlined the Government's expectations of capabilities that Defence should develop and sustain over a ten-year period. They emphasised the requirement for more ready forces (including concurrent deployments in several areas of operation) to respond to more demanding international circumstances and to present the Government with a wider range of options. The White Paper, in particular, provided guidance on the need for Defence to take account of the changing demography. The goal is to ensure that now, and in the future, Defence has the right people with the right skills, as well as the appropriate training, leadership and experience, to meet capability requirements.

Priorities

Priorities in 2004-05 include:

- introducing improved processes for the priority setting and funding of people initiatives;
- continuing to implement the recommendations of the *Strategic Workforce Planning Review 2003* by:
 - implementing the new Defence Workforce Plan to address major workforce challenges confronting Defence over the next ten years,
 - taking action to manage and forecast critical employment categories particularly in the information environment, aerospace, health and project management, and
 - continuing to develop policies towards achieving a separation rate of eight per cent for the ADF by 2010.
- developing the Defence People Plan to better prioritise human resource activities and expenditure to address capability risks identified in the Defence Workforce Plan;
- continuing remuneration reform in the ADF by implementing the agreed outcomes of the *ADF Review of Australian Defence Force Remuneration 2001* (the Nunn Review), in particular:
 - superannuating specified skill-based elements of allowances in the nature of pay, and
 - developing a flexible salary structure for officers.
- implementing the *Defence Employees' Certified Agreement 2004-2006*, the *ADF Workplace Remuneration Arrangement 2004-06*, and the *ADF Star Ranks Remuneration Arrangement 2004-06*;

Overview

- implementing the Military Compensation Scheme in partnership with the Department of Veterans' Affairs (the Military Compensation function is to be transferred to the Department of Veterans' Affairs from 2004-05);
- developing an integrated occupational health and safety management system guided by the Defence Occupational Health and Safety Strategic Plan;
- implementing measures to further improve ADF health, including:
 - the Defence injury prevention program,
 - the ADF drug and alcohol program,
 - the ADF suicide prevention program,
 - establishing a deployed health studies unit within the new Centre for Military and Veterans' Health,
 - commencing a health study of personnel deployed on Operation Anode (Solomon Islands),
 - continuing the health study of personnel deployed on Operation Citadel (East Timor), and
 - implementing agreed recommendations of the review of Defence health services.
- validating the 360-degree senior leadership feedback program to continue to inform senior leadership development;
- developing targeted education and training including:
 - providing access to e-learning,
 - implementing agreed outcomes of the Defence Business Skilling Review, and
 - promoting undergraduate and postgraduate courses offered by the Australian Defence College and the Australian Defence Force Academy.
- targeting the Graduate Development Program to capability requirements by developing and implementing a scholarship to attract more people with accounting qualifications;
- developing personnel policies for Defence including:
 - reviewing ADF leave policy, with a view to streamlining leave procedures,
 - assessing the relevance and appropriateness of the current remote locality conditions of service package,
 - implementing national arrangements for the Employee Assistance Program for APS staff, and
 - implementing outcomes of the *Defence Review of Merit in Employment Decisions 2003* to improve the application and perception of the merit principle for APS recruitment.

- supporting ADF members and their families through:
 - delivering employment assistance for partners of ADF members,
 - enhancing the child-care program,
 - delivering educational transition assistance and support to children of ADF members,
 - finalising the development of a new system for classifying the housing entitlements of ADF members with dependents, and
 - upgrading current, and investing in new, accommodation for members without dependents.
- continuing improvements to Defence's human resources and payroll management system (PMKeyS) including:
 - enhancing employee self-service functionality, including the implementation of electronic workflow, and
 - improving management reporting capability using web technology and warehousing software.
- developing strategies to better encourage ADF Cadet organisations to be a source of potential recruits for the ADF and further enhancing the ADF Cadets through programs aimed at:
 - addressing the occupational health and safety compliance and functionality of cadet accommodation,
 - developing a cadet firearms training policy and examining the viability of acquiring a standard Defence training firearm for cadets,
 - providing information technology systems, and
 - undertaking a cadet research study to increase awareness of the cadet community as a means of targeting potential recruits to the ADF.

WORKFORCE SUMMARY

The overall Defence workforce is forecast to be 91,423 in 2004-05, a reduction of 22 from the 2003-04 projected result of 91,445.

The change in the workforce is due to continuing growth towards White Paper targets, which has been offset by a reduction in Australian Public Service (APS) staffing - mainly through the expected implementation during 2004-05 of the Defence Integrated Distribution System project, along with progress on the programmed reduction of the APS workforce. Changes within the respective elements of the workforce are shown at Table 5.1. Under current planning, the Defence workforce is estimated to comprise:

- Permanent Forces of
 - 13,167 Navy personnel,
 - 26,035 Army personnel, and
 - 13,670 Air Force personnel.
- 20,710 Reserve Forces; and
- 17,841 APS staff.

Chart 5.1: Defence Workforce – Budget Estimates by Service and Type

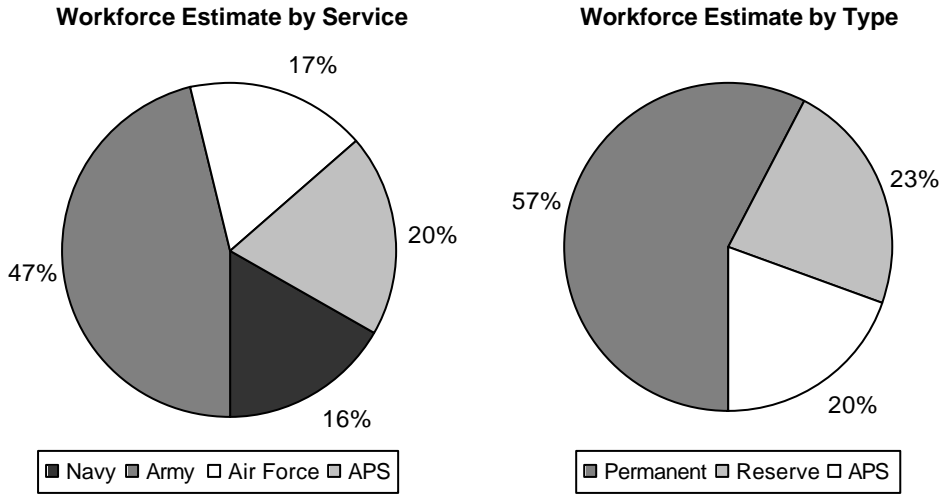


Table 5.1: Defence Workforce⁽¹⁾

	2003-04		2004-05		Variation	
	Projected Result	Budget Estimate				%
Navy	13,121	13,167	46	0.4		
Army	25,623	26,035	412	1.6		
Air Force	13,481	13,670	189	1.4		
Sub total Permanent Force⁽²⁾	52,225	52,872	647	1.2		
Reserve Force Staffing	20,864	20,710	-154	-0.7		
Sub total Military	73,089	73,582	493	0.7		
APS Staffing	18,356	17,841	-515	-2.8		
Total Workforce	91,445	91,423	-22			

Notes

1. Numbers for the Permanent Forces and APS are based on average funded strengths (AFS) and full-time equivalent (FTE) respectively. Numbers for Reserves represent numbers of General or Active Reservists who will undertake paid service during the financial year.
2. Numbers for the Permanent Force include General Reservists undertaking full-time service.

ADF Permanent Force

The estimated permanent ADF average funded strength for 2004-05 is 52,872, an overall increase of 647 from the 2003-04 projected result of 52,225. This increase is due to the following changes:

- The Navy increase of 46 in average funded strength (AFS) is for continued growth towards White Paper targets, and builds on the additional average funded strength gained during 2003-04 from favourable recruiting and improved retention.
- The increase of 412 average funded strength in the Army is for growth towards White Paper targets, along with continued staffing growth for the Special Operations Command and counter-terrorist capabilities (+156).
- The Air Force increase of 189 average funded strength is due to current low separation rates flowing from the implementation of revised strategies to re-shape the workforce and meet the White Paper targets.

ADF Reserve Force

The estimated size of Reserve Force for 2004-05 is 20,710, the same as the budget estimate for 2003-04, and a decrease of 154 (-0.7 per cent) from the then estimated outcome in 2003-04 of 20,864. This figure represents the active component of the Reserve element who are expected to undertake paid service during 2004-05. These figures do not include Reservists undertaking full-time service, as they are included in the Permanent Force numbers (see Note 2 to Table 5.1).

Civilian Workforce

The APS full-time equivalent average (FTE-A) funded strength budget estimate for 2004-05 is 17,841. This represents a decrease of 515 from the 2003-04 projected result of 18,356.

Table 5.2 shows the breakdown of personnel by service and rank including the APS.

Table 5.2: Breakdown of Personnel Numbers by Service and Rank

	2003-04 Projected Result	2004-05 Budget Estimate
NAVY⁽¹⁾		
Star Ranked Officers	36	36
Senior Officers ⁽²⁾	439	439
Junior Officers	2,362	2,378
Other Ranks	10,284	10,314
Sub total: Permanent Forces	13,121	13,167
Reserve Forces ⁽³⁾	1,850	1,850
Total Navy	14,971	15,017
ARMY⁽¹⁾		
Star Ranked Officers	49	48
Senior Officers ⁽²⁾	588	505
Junior Officers	4,499	4,948
Other Ranks	20,487	20,534
Sub total: Permanent Forces	25,623	26,035
Reserve Forces ⁽³⁾	16,982	16,700
Total Army	42,605	42,735
AIR FORCE⁽¹⁾		
Star Ranked Officers	37	37
Senior Officers ⁽²⁾	521	521
Junior Officers	3,551	3,550
Other Ranks	9,372	9,562
Sub total: Permanent Forces	13,481	13,670
Reserve Forces ⁽³⁾	2,032	2,160
Total Air Force	15,513	15,830
APS⁽¹⁾		
Senior Executives ⁽⁴⁾	115	113
Senior Officers ⁽²⁾	3,860	3,850
Other APS Staff	14,381	13,878
Total Civilians	18,356	17,841

Notes

1. Permanent Forces and APS numbers are forecasts of the average strength for 2003-04. Reserve figures represent actual numbers of General or Active Reservists who render service during 2003-04.
2. Senior Officers are of Colonel or Lieutenant Colonel rank equivalent and substantive APS Executive Level 1 and 2.
3. Reservists on full-time service are reported in the Permanent Force.
4. The figure of 113 average substantive Senior Executive Service includes the Secretary of the Department of Defence.

Civilian Reduction Program

As previously reported, a programmed reduction plan was developed in response to the APS workforce growth during 2002-03. This is expected to yield a reduction of 981 FTE-A positions by the end of 2004-05, primarily as the result of market-testing the Defence Integrated Distribution System as well as efficiencies achieved from the program of administrative savings. The number of civilian personnel employed on the Defence Integrated Distribution System will reduce by around 700 during 2004-05, following the contract signature.

As foreshadowed in the *Portfolio Additional Estimates 2003-04*, increases in some areas such as intelligence functions, civilianisation of military functions, project acquisition and air traffic controllers will be offset as part of the savings program.

Since the 2003-04 Budget, Defence has been allocated additional funding and FTE-A for the implementation of the Budget Estimates and Framework Review, implementation of the Defence Procurement Review and new intelligence measures. Table 5.3 shows these add-ons and demonstrates the plan to achieve the original savings targets set in the 2003-04 Budget.

Table 5.3: Status of the Civilian Savings Program Implemented in 2003-04

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
2002-03 Baseline and APS Staffing (as shown in Table 5.2 page 179 of the 2003-04 PBS)	18,385	17,377	17,404	17,137	17,137	17,137
2003-04 Additional Estimates adjustments (internal)						
Slippage in implementation of Defence Integrated Distribution System Project	-	638	-	-	-	-
Adjustments to savings targets to reflect actual 2002-03 achievement	-	90	-	-	-	-
Additional intelligence functions	-	167	-	-	-	-
Additional project acquisition staff	-	50	-	-	-	-
Additional air traffic controllers	-	35	-	-	-	-
Additional IT staffing	-	8	-	-	-	-
Delays in recruitment of staff	-	-12	-	-	-	-
Substitution of PSPs for APS staff to achieve a more cost-effective workforce	-	11	-	-	-	-
Government approved add-ons						
Implementation of the Budget Estimates and Framework Review	-	19	35	31	31	31
Additional staff to support current operations	-	6	-	-	-	-
2003-04 Additional Estimates Baseline (see page 114 of <i>Portfolio Additional Estimates Statements 2003-04</i>)	-	18,389	17,439	17,168	17,168	17,168
2004-05 Budget Estimates adjustments (internal)						
Slippage in recruitment in 2003-04	-	-117	-	-	-	-
Substitution of PSPs for APS staff to achieve a more cost-effective workforce	-	84	237	222	222	222

Government approved add-ons for 2004-05						
New intelligence measures	-	-	106	208	227	229
Implementation of Defence Procurement Review	-	-	59	48	48	48
2004-05 Budget Estimates - APS	18,385	18,356	17,841	17,646	17,665	17,667
Total savings ⁽¹⁾	-	-149	-981	-1,248	-1,248	-1,248

Note

1. Total savings after discounting for government approved add-ons and substitutions from reductions in more expensive professional service providers (PSP) staff.

Employee Expenses

The budget estimate for employee expenses in 2004-05 is \$6,710.3m representing a decrease of \$221.8m from the 2003-04 projected result of \$6,932.3m. The decrease in military expenses is due to one-off adjustments in 2003-04 for Superannuation, Leave Liability and Compensation (see notes at Table 5.4). These decreases are partially offset by increases related to continued growth towards White Paper targets, along with the increased costs related to certification of the new industrial agreement for the ADF, the Workplace Remuneration Arrangement 2004-06, and rising health services, housing and fringe benefits tax costs. The increase in APS expenses is due to redundancies related to the Defence Integrated Distribution System and costs of the *Defence Employees' Certified Agreement 2004-2006* pay increases that will occur during 2004-05. These additional costs will be partially offset by the reduction in overall APS employee numbers as part of the civilian reduction program.

Table 5.4: Employee Expenses

	2003-04 Projected Result	2004-05 Budget Estimate	Variation (2004-05 Budget Estimate less 2003-04 Projected Result)	
	\$m	\$m	\$m	%
ADF				
Permanent Salary and Allowances	3,416.8	3,564.1	147.4	4.3
Superannuation ⁽¹⁾	901.9	664.3	-237.6	-26.3
Leave Liability ⁽²⁾	244.3	90.7	-153.6	-62.9
Housing	375.1	412.8	37.7	10.1
ADF Compensation ⁽³⁾	143.2	-	-143.2	-100.0
Health	132.0	152.5	20.5	15.5
Other Expenses including FBT	268.4	293.7	25.3	9.4
Reserves Salary and Allowances	117.1	116.9	-0.2	-0.2
Sub total ADF Expenses	5,598.8	5,295.0	-303.7	-5.4
APS				
Salary and Allowances	998.4	1,177.1	178.8	17.9
Superannuation	200.7	182.0	-18.7	-9.3
Leave Liability	114.8	35.2	-79.6	-69.3
Other Expenses including FBT	19.6	21.0	1.4	7.1
Sub total Civilian Expenses	1,333.5	1,415.3	81.9	6.1
Total Employee Expenses	6,932.3	6,710.3	-221.8	-3.2

Notes

1. Includes one-off transfer of Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from Administered to Departmental accounts (\$220.0m).
2. Includes one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions (\$147.0m).
3. Function transferred to the Department of Veterans' Affairs from 2004-05.

ADF Reserve Costs

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. This presentation continues the provision of additional information on the Reserves.

The budget estimate for ADF Reserves expenses in 2004-05 is \$116.9m, representing a decrease of \$0.2m from the 2003-04 projected result of \$117.1m. This is primarily due to a reduction in participation in the Army.

The Reserves enhancement funding is primarily for employer support payments to help compensate employers who release reservist employees for Reserve service. The budget estimate in 2004-05 is \$20.0m representing an increase of \$5.6m from the 2003-04 projected result of \$14.4m and is due to an increased requirement for employer support payments.

Table 5.5: ADF Reserves

	2003-04 Projected Result	2004-05 Budget Estimate	Variation (2004-05 Budget Estimate less 2003-04 Projected Result)	
	\$m	\$m	\$m	%
Navy Reserve Expenses	13.5	12.3	-1.2	-8.9
Army Reserve Expenses	87.8	85.2	-2.6	-3.0
Air Force Reserve Expenses	15.8	19.4	3.6	22.8
Total Reserve Expenses	117.1	116.9	-0.2	-0.2
Reserves Enhancement	14.4	20.0	5.6	38.9
Total ADF Reserves	131.5	136.9	5.4	4.1

Defence is developing a force element and product costing model. From the model it will in future be possible to identify the cost of various Defence Force Elements and units. In order to give greater transparency of the Reserves, information will be provided in the 2003-04 Annual Report, once the project is complete.

DEFENCE

CHAPTER SIX MANAGEMENT REFORMS AND EFFICIENCIES

**IMPLEMENTING THE DEFENCE PROCUREMENT
REVIEW**

**PROGRESS ON BUDGET AND BUSINESS PROCESS
REFORM**

PROGRAM OF ADMINISTRATIVE SAVINGS

COMMERCIAL SUPPORT PROGRAM

DELIVERING INTERNAL SERVICES

DEFENCE INFORMATION ENVIRONMENT

PORTFOLIO EVALUATIONS

IMPLEMENTING THE DEFENCE PROCUREMENT REVIEW

The review of Defence procurement, led by Mr Malcolm Kinnaird, was completed in August 2003. In September 2003, the Government announced that, as part of the ongoing reform of Defence procurement, it had agreed to accept the recommendations of the review.

The principal decisions arising from the review were:

- to establish a new head of capability development at a senior level, with clearly defined accountability, who will improve the identification and costing of projects before they move to the procurement phase;
- to strengthen the 'two pass' system for new acquisitions with Government considerations dependent on comprehensive analyses of technology, cost (prime and whole-of-life) and scheduled risk subject to external verification;
- to appoint a new head of the Defence Materiel Organisation (DMO), appropriately remunerated, with clear responsibility and accountability for ensuring that the organisation operates in a business-like manner;
- to establish a high-level advisory board, accountable to the Ministers for Defence and Finance and Administration, to assist the head of the organisation, with four members, including the chair, from the private sector;
- to consider the remuneration and tenure of project managers, and to select staff, civilian or military, on merit; and
- to establish the DMO as a prescribed agency, accountable directly to the Minister for Defence on matters under the *Financial Management and Accountability Act 1997*, while remaining accountable to the Secretary of the Department of Defence and the Chief of the Defence Force for administration under the *Public Service Act 1999* and the *Defence Act 1903*.

Defence has successfully implemented a number of the recommendations with work continuing on the remainder. Recommendations that have been implemented to date include:

- a Capability Development Group has been established, headed by Lieutenant General David Hurley, who has been appointed for three years;
- the 'two pass' system for new acquisitions has been revised and agreed by the Government and is now in use for project approvals;
- Dr Stephen Gumley has been appointed as the Chief Executive Officer of the DMO, and commenced on 25 February 2004;

- the Defence Procurement Advisory Board had its inaugural meeting in March and is now meeting monthly. Chaired by Mr David Mortimer, Mr Malcolm Kinnaird will also serve on the board, along with Dr John White and Mr Kevin McCann;
- the roles and responsibilities of capability managers and providers of the fundamental inputs to capability have been clarified to ensure reporting is timely and accurate;
- a business model which provides the basis for establishing the DMO as a prescribed agency under *the Financial Management and Accountability Act 1997* from 1 July 2005, has been developed and agreed by the Defence Procurement Advisory Board; and
- at a more detailed level, arrangements are being completed for the employment of military personnel in the DMO from 1 July 2005, and Project Governance Boards broadening their oversight to address through-life support issues.

Priorities for Defence in 2004-05 include:

- establishment of the DMO as a prescribed agency which will:
 - have direct financial accountability;
 - have greater autonomy to manage and deliver its products and services; and
 - produce separate annual financial statements.
- implementing systems changes to support the operation of Defence and the DMO as two separate agencies under the *Financial Management and Accountability Act 1997*, with the least possible duplication of services and the completion of financial and business due diligence to assist in the separation of the finances of the two agencies.

PROGRESS ON BUDGET AND BUSINESS PROCESS REFORM

In 2000, Defence and the Department of Finance and Administration reviewed Defence's financial management arrangements. Subsequently, Defence has undertaken a range of improvements to its budgeting and business systems and processes. Substantial progress has been made in improving the financial and materiel management arrangements within Defence, although more work is required.

Defence recognises that it must achieve a best practice planning and budget system, best practice business processes and develop a well-regulated financial environment. The reform agenda will continue for several years. At the same time, new opportunities for improvements and the requirement to address emerging deficiencies (in part due to an improved understanding of underlying problems) need to be addressed to ensure that the reforms continue.

Defence has adopted a financial systems strategy to assist with budget and financial management reform. The strategy will embed lasting processes and understandings to support more effective planning and reporting of Defence finances.

The strategy aims to:

- link financial and capability planning, management and reporting to ensure alignment of financial processes;
- ensure processes maintain full compliance with legislative and charter requirements relating to financial management, such as the *Financial Management and Accountability Act 1997* and Defence's Chief Executive Instructions;
- achieve a higher return on investment in Defence's financial infrastructure through more effective planning and sustainment of corporate systems into the future, including a business process review to align workflows with a defined end-state and to minimise customisation of required applications in order to remain on the software upgrade path;
- deliver interoperability between, and upgrades to, key systems supporting financial management within Defence. This involves upgrading financial and personnel systems and introducing enhanced business system functionality to cater for initiatives such as e-business, cash management and travel cards. These initiatives are designed to streamline processes and produce administrative efficiencies;
- further develop the budget and output reporting information system to enable Defence to develop a range of program-level information for budgeting and reporting purposes. This will lead to greater consistency

and depth of financial information, as well as increasing transparency of the manner in which resources are used; and

- develop a product costing tool which will identify the costs (past, present, and planned) of each of Defence's force elements and products and services. It will underpin further development of customer service agreements and inform the long-term planning and budget process.

Important initiatives under way include:

- establishing the financial statements project board, chaired by the Secretary, which will drive the reform agenda and ensure that Defence meets the Government's requirement for auditable annual financial statements by 30 July 2004; and
- Project Resolve, which will oversee the implementation of more rigorous end-of-month financial procedures and all key aspects of the production of the 2003-04 financial statements to ensure that the statements are completed successfully and on time. It will also deal with the management of financial and accounting issues associated with the establishment of the DMO as a prescribed agency.

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 program is designed to deliver administrative savings of \$200m per annum by 2007-08, in annual tranches of \$50m commencing in 2003-04 and with \$25m in each of the last two years. The savings targets are shown in Table 6.1 below:

Table 6.1: Program of Administrative Savings Targets

	2003-04	2004-05	2005-06	2006-07	2007-08	Ongoing
	\$m	\$m	\$m	\$m	\$m	\$m
Savings target	50	100	150	175	200	200

The program of administrative savings is being progressively implemented around four key themes, which involve:

- reducing Defence's overheads, which were growing at unsustainable levels. This includes reductions in civilian personnel numbers, professional service providers, the number of personnel posted overseas and travel;
- the structure of the Defence organisation, including the remaining overlaps of common services;
- business process improvements covering a range of financial transformation projects, including implementation of data imaging technology and travel and simple procurement reforms; and
- further outsourcing of functions, where feasible, in terms of military workforce structures.

The savings target for 2003-04 has been met and the 2004-05 target will also be achieved. Savings achieved to date are detailed in Table 6.2.

Table 6.2: Administrative Savings Programmed

Initiative	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Reductions in civilian workforce	9.6	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
Savings Programmed to date	60.2	108.8	138.2	139.4	137.8
Savings Target	50.0	100.0	150.0	175.0	200.0
Savings in excess of target (+)/remaining savings to be achieved (-)	+10.2	+8.8	-11.8	-35.6	-62.2

Savings achieved and planned in the future are being used to offset the unavoidable cost pressures shown in Table 6.3, thus ensuring cuts to capability are not required to absorb these costs in the longer term.

Table 6.3: 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
Comcover premium increases	20.8	20.8	20.8	20.8	20.8
Comcare premium increases	12.5	12.5	12.5	12.5	12.5
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 Centre call centre (Cooma, NSW)	9.5	9.5	9.5	9.5	9.5
Defence Reform Program contracts ⁽¹⁾	80.0	100.0	100.0	100.0	100.0
Portfolio contribution to 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
Remuneration reform project costs	13.2	13.2	13.2	13.2	13.2
Overseas leases costs	2.3	2.3	2.3	2.3	2.3
Total cost pressures requiring funding	189.4	209.4	209.4	209.4	209.4
Savings to be used as offsets	50.0	100.0	150.0	175.0	200.0
To be absorbed from elsewhere in budget	139.4	109.4	59.4	34.4	9.4

Note

1. Covers contracts not able to be funded from the reduced Defence Reform Program savings provision.

A number of other initiatives are being developed to deliver the balance of the savings program.

COMMERCIAL SUPPORT PROGRAM

The Commercial Support Program is a competitive tendering and contracting initiative through which Defence seeks to achieve best value for money in the delivery of its support services. Benefits can be achieved through contracting out activities and restructuring in-house arrangements.

Efficiency gains from market-testing of support services are redirected to combat capability and higher priority requirements.

The program has been used to market-test the work of about 16,000 positions since 1991. Of the activities tested, 80 out of 121 service delivery activities have been outsourced to industry. Efficiency improvements average around 30 per cent of original costs prior to market testing.

During 2004-05, an announcement is expected for information technology infrastructure support services in the ACT region. Another four commercial support program activities will be progressed during 2004-05. These activities, in most cases, are still in the early stages of planning.

Table 6.4: Identified Commercial Support Program Activities for 2004-05

Activity	Status
ADF rotary wing flying training – Army	The project scope is under assessment.
Routine pathology services	Appropriate service delivery method to be determined.
Information technology	Request for tenders issued October 2003 for ACT services.
infrastructure support services	Planning is progressing for market testing regional services.
Personnel services	Being rationalised and restructured under the business improvement project. Market-testing considerations are to follow as appropriate.
Navy technical training services	The project scope is under assessment and a business case is being finalised.

DELIVERING INTERNAL SERVICES

Corporate Services and Infrastructure Group (CSIG) supports the working and living environments of Defence personnel. With representatives at every Defence site around the country, CSIG provides essential services and support to more than 80,000 personnel.

The Group's structure incorporates three Divisions.

- National Operations Division provides conventional corporate support, manages major contracts for the provision of facilities maintenance and garrison support and manages the agreements with the Defence Housing Authority, and provides legal services and advice.
- Information Systems Division is primarily responsible for the Defence information infrastructure, including operation of and support for in-service systems and the development of new capabilities.
- Infrastructure Division is responsible for the development of the Defence estate, including major and medium facilities construction projects and property disposals, and policy for environment and heritage issues.

CSIG Initiatives for 2004-05

Key CSIG management initiatives for 2004-05 includes management of Defence infrastructure, environmental initiatives, business improvement and strategic planning.

Management of Defence Infrastructure

CSIG is responsible for developing and managing the Defence estate, which is in the order of 3 million hectares of land with some 25,000 facilities at a value of around \$16b. CSIG will strengthen its management of Defence infrastructure through:

- continuing to divest surplus Defence property assets;
- investigating innovative ways of funding major infrastructure assets, such as private-public partnerships;
- upgrading training ranges to ensure a safe, sustainable and technologically advanced capability to support ADF preparedness requirements; and
- more effective prioritisation of expenditure on the upkeep of the Defence estate.

Environmental Initiatives

Defence is committed to taking a leading role in pursuing sustainable environmental initiatives through improvements in energy management practices, which will result in reduced greenhouse gas emissions and operating costs. CSIG will continue to improve Defence's energy and environment management processes by:

- refining the Defence environment management system in order to better support Defence capability, reduce impacts on the environment and avoid non-compliance with relevant environmental legislation;
- assessing the viability of acquiring land buffer zones around certain bases to minimise the training impacts on surrounding communities; and
- implementing software for monitoring and managing energy use across Defence.

Business Improvement

A major reform program within CSIG is the business improvement project that will continue to drive a wide range of initiatives aimed at taking best advantage of current and emerging technology, improving management arrangements and reducing personnel and overhead costs. Major initiatives include:

- introducing more efficient travel administration, personnel administration and accounts processing;
- reviewing current arrangements for ADF hospitality and catering, ADF member relocations and commercial vehicles;
- market testing of IT support services in the regions; and
- identifying and eliminating duplication of services between CSIG and other Defence Groups, in areas such as the provision of stores, rations, fuel distribution and IT services.

Strategic Planning

CSIG will further improve its strategic planning capability and establish more robust links within the broader Defence planning domain. This will be achieved by strengthening ties with Capability Group and the DMO, and relevant committees. CSIG will also continue to make process improvements to deliver Corporate Services through regional areas to support capability by:

- determining whether new infrastructure requirements meet Government policy and have funding allocated to be delivered;
- ensuring early warning of personnel arriving to train or exercise;
- integrating specialist military equipment and facilities planning; and
- providing better estimates of through-life support operating costs.

Industry Engagement

A large proportion of the products and services for which CSIG is responsible are delivered by industry. CSIG places high importance on managing relationships with industry in an open and transparent way. During 2004-05, it is anticipated that major contracts will be tendered in various regions for the following areas:

- garrison support services and comprehensive maintenance services;
- electricity and other utilities;
- information technology support services; and
- property leases.

Almost \$2b of products and services are estimated to be delivered under contract in 2004-05. These contracts include the delivery of products and services in the areas shown below.

Table 6.5: Estimated Expenditure on Products and Services' Contracts

Service	Value \$m
Infrastructure investment including training range upgrades	425
Information technology and telecommunication services and products	286
Garrison support	346
Housing services	305
Facilities operations	247
Travel services	152
Property services	104
Utilities	95
Total	1,960

DEFENCE INFORMATION ENVIRONMENT

Work on the Defence information environment in 2004–05 will focus on maturing planning, measuring investment, articulating enterprise processes, assuring effective governance and continuing improvement of organisational arrangements. Establishing these fundamental enablers of mature management will build on substantial improvements already achieved.

This approach is considered to be essential to meet Defence's aspirations for its information systems and to enable sustainment and improvement of the Defence information environment's contribution to Defence capabilities. It will facilitate increasingly well-informed decision making by managers and assist in the effective and efficient delivery of an affordable, functional, interoperable, sustainable, dependable and secure information environment.

Priorities for the Defence information environment in 2004–05 include:

- further articulating the future shape of Defence's information environment using the future warfighting concept;
- producing more substantial, inclusive and comprehensive planning;
- developing a clearer picture of Defence's investment in information systems and capability using the baseline funding review;
- establishing an explicit framework of enterprise processes and ownership to articulate requirements for information systems to better support processes;
- implementing the recommendations of the portfolio evaluation review of the corporate governance of the Defence information environment; and
- utilising the findings of a study into Defence information environment organisational arrangements to inform decisions about future improvements.

PORTFOLIO EVALUATIONS

Portfolio evaluations endorsed by the Defence Audit Committee for calendar year 2004 are:

- the preparation of ADF officers for joint appointments;
- implementation of the customer-supplier model; and
- civilian performance schemes.

The foreshadowed topic, *Defence Strategic Workforce Planning Outcomes*, was dropped from the 2004 schedule because of the work done by the Strategic Workforce Planning Review.

The topic, *The Effectiveness of the Risk Management Framework*, was deferred from the 2004 schedule following a recommendation from the sponsor.

Portfolio evaluations agreed in principle by the Defence Audit Committee for calendar year 2005 are:

- the technical regulatory system;
- the effectiveness of personnel policy development and delivery; and
- the injury prevention program.

Results from portfolio evaluations conducted in 2004-05 will be reported in the Defence annual report.

DEFENCE

CHAPTER SEVEN DEFENCE MATERIEL ORGANISATION

MATERIEL REFORM

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MATERIEL REFORM

The Defence Materiel Organisation (DMO) supports the ADF by acquiring and sustaining leading edge military equipment. It is staffed by some 4,400 Australian Public Service personnel and approximately 1,700 ADF members.

Headquartered in Canberra, the DMO is a geographically dispersed organisation with staff in over 50 locations across Australia. This allows staff in DMO's core functions – acquisition and sustainment – to be collocated with their operational customers in the ADF and to promote closer partnerships with industry.

DMO's strategic direction has been shaped by its reform program, which commenced on 1 July 2000. In tabling its report in March 2003 into materiel acquisition and management in Defence, the Senate Foreign Affairs, Defence and Trade References Committee inquiry was generally positive about the DMO reform program and acknowledged the progress made and the need for ongoing reform. Further reforms have now flowed from the Defence Procurement Review, led by Mr Malcolm Kinnaird, which was presented to the Government in August 2003.

As discussed in Chapter Six, the Government broadly agreed to accept the recommendations of the Defence Procurement Review. A number of the recommendations are aimed at developing the DMO into a more 'business-like' entity, in particular establishing the DMO as a prescribed agency under the *Financial Management and Accountability Act 1997*.

As a prescribed agency, the DMO will be required to report its financial performance separately from that of Defence. As an interim measure for 2004-05, the DMO will separately forecast and report its performance in Defence's portfolio budget and additional estimates statements and annual report, although its funding is not yet separate. As in previous years, the DMO will forecast and report progress on its continuous improvement efforts.

PRIORITIES FOR 2004-05

Priorities for 2004-05 include:

- implementing the recommendations of the Defence Procurement Review to better place the DMO to deliver capability to the ADF on time, within budget, and in accordance with specifications and required safety and quality;
- undertaking the work necessary to enable the DMO as a prescribed agency by 1 July 2005;
- increasing the professionalism of the organisation;
- adopting a more commercially-focused business philosophy;
- standardising processes, based on business-like best practices;
- strengthening relationships between the DMO and industry; and

- benchmarking the DMO against commercial and other defence organisations.

INITIATIVES FOR 2004-05

Implement Defence Procurement Review recommendations

Reforms include:

- extending the role of project governance boards to consideration of in-service support of capability;
- strengthening the 'two pass' Government project approval process;
- establishing financial reporting and accountability arrangements for the DMO as a prescribed agency under the *Financial Management and Accountability Act 1997*;
- establishing new customer-supplier relationships between the DMO and Defence. This will include high-level agreements with various Defence Groups, and more specific service agreements for individual acquisition projects, sustainment activities and services provided by Defence to the DMO; and
- implementing strategies to address legacy data issues associated with asset accounting and improve internal controls and business processes to enhance the quality of management and financial information.

Increase the professionalism of the organisation

Reforms, which will take two years to complete, include:

- continuing to improve recruitment, development and retention to get the right people in the right positions at the right time;
- designing and implementing a professional certification framework for all DMO program managers based on the risk profile of acquisition projects. This framework will encompass qualifications, experience and training;
- re-balancing and re-skilling the workforce to ensure individuals possess the professional skills and experience required for a high performing project management and engineering organisation;
- continuing the definition of job roles and requirements to ensure that the DMO has access to appropriately qualified staff for key roles;
- increasing the numbers of DMO staff who are professionally recognised personnel (such as Chartered Professional Engineers and Certified Practising Accountants);
- establishing an employment framework that enables the DMO to recruit and retain high calibre professionals across the organisation consistent with Government direction; and

- ensuring that workforce planning processes, tools and outcomes achieve a total DMO workforce plan over a 10-year period that describes resources in terms of civilian, military and external service providers.

Adopt a more commercially-focused business philosophy

Reforms include:

- setting productivity objectives consistent with industry benchmarks, while noting overheads associated with being a government agency; and
- reviewing contracting methodologies.

Standardise processes, based on business-like best practices

Reforms include:

- implementing the Improve Project Scheduling and Status Reporting methodology;
- implementing the DMO Quality and Environmental Management System across the organisation;
- improving guidelines for the capability development process which will lead to better requirement specifications and quality of information for the Government;
- introducing improved techniques for better estimating costs of acquisitions;
- rationalising reporting by developing a single reporting tool for project performance and corporate reporting requirements;
- improving understanding of logistics cost drivers, with early emphasis on developing a framework to assess possible shortfalls;
- implementing guidelines for better managing risk in projects in the needs, requirements and acquisition phases of the capability life cycle, supported by a common risk management tool;
- continuing to implement the DMO system safety management policy, process and products to ensure safety management programs meet both organisational and regulatory requirements;
- implementing improvements to the Standard Defence Supply System to overcome audit qualifications and improve productivity; and
- implementing guidelines for using a risk-based approach to Earned Value Management on Defence contracts.

Strengthen relationships between the DMO and industry

Reforms include:

- strengthening contract incentives and remedies to improve contractors' ability to deliver on time;
- implementing agreed sector plans;
- improving communication with internal and external stakeholders; and
- clearly articulating the DMO's expectations of industry.

BUDGET

In anticipation of the DMO commencing operation as a prescribed agency in July 2005, Table 7.1 has been provided to give visibility to DMO elements currently contained within the overall Defence budget. The estimates in Table 7.1 contribute to the cost of Defence outcomes and outputs detailed in Chapter Four. The DMO will present a full set of budgeted financial statements separate from the rest of Defence in the Defence *Portfolio Budget Statements 2005-06*.

Table 7.1: Key Elements of the Defence Materiel Organisation Budget⁽¹⁾⁽²⁾

	Projected Result 2003-04 (Incl JLC) \$'000	Projected Result 2003-04 (Excl JLC) \$'000	Budget Estimate 2004-05 (Excl JLC) \$'000	Variation 2003-04 to 2004-05 (Excl JLC) \$'000
DMO OPERATING EXPENSES				
Employees – Military	160,833	121,283	99,319	-21,964
Employees – Civilian	406,100	335,324	336,556	1,232
Total employees	566,933	456,607	435,875	-20,732
Total suppliers	1,601,943	1,498,838	1,653,894	155,056
Total	2,168,876	1,955,445	2,089,769	134,324
DMO PURCHASES				
Approved Major Capital Equipment Purchases				
Capital	2,140,720	2,140,720	2,483,834	343,114
Operating	318,438	318,438	328,882	10,444
Total	2,459,158	2,459,158	2,812,716	353,558
Other Capital Purchases				
Minor Capital Equipment	134,700	134,700	110,886	-23,814
Repairable Items	191,450	191,450	145,729	-45,721
Other Plant and Equipment	105,500	104,200	114,869	10,669
Total	431,650	430,350	371,484	-58,866
Inventory Purchases				
General Inventory	509,208	503,717	570,476	66,759
Fuel	223,350	223,350	255,900	32,550
Explosive Ordnance	217,306	217,306	192,561	-24,745
Total	949,864	944,373	1,018,937	74,564

Notes

1. This table reflects current estimates of the impact of transferring the majority of Joint Logistics Command functions to the new Joint Operations Command, due to take place on 1 July 2004.
2. All budget estimates amounts are at a 2004-05 PBS price and exchange basis. Approved Major Capital Equipment reflects the program of acquisition projects for new equipment capabilities that have been approved by the Government and are in the course of being acquired by the DMO. Projects for the acquisition of new equipment capabilities that have not yet been approved by the Government are not included in this funding. They are managed as part of the Not Yet Approved Major Capital Program contained in Table 3.4.

APPROVED MAJOR CAPITAL EQUIPMENT PROJECTS

The DMO manages the part of the Defence investment program that focuses on approved major capital equipment projects. The following table and descriptions provide details of the top 30 projects ranked by forecast expenditure in 2004-05. Planned expenditure for the top 30 projects represents 77 per cent of the total planned expenditure on major capital equipment projects in 2004-05.

Table 7.2: Top 30 Projects by Forecast 2004-05 Expenditure⁽¹⁾

	Project Number	Approved Project Expenditure	Estimated Cumulative Expenditure to Estimate 30 June 2004	2004-05 Budget
		\$m	\$m	\$m
Aerospace				
Airborne Early Warning and Control	AIR 5077	3,426	1,556	462
Armed Reconnaissance Helicopter	AIR 87 Ph2	1,894	454	445
ADF Air Refuelling Capability	AIR 5402	1,771	1	214
F/A-18 Hornet Upgrade	AIR 5376 Ph2	1,516	605	134
Anzac Ship Helicopter	SEA 1411 Ph1	998	891	60
P-3C Update Implementation	AIR 5276	902	799	48
F/A-18 Hornet Structural Refurbishment Program – Stage 1	AIR 5376 Ph3.1	116	26	23
Maritime				
Anzac Ship Project ⁽²⁾	SEA 1348	5,352	4,878	220
Collins Combat System	SEA 1439 Ph4A	433	59	158
FFG Upgrade Implementation	SEA 1390	1,442	923	137
Armidale-class Patrol Boat	SEA 1444	455	24	81
Lightweight Torpedo Replacement	JP 2070 Ph2	307	91	75
Collins-class Reliability and Sustainability Improvements	SEA 1439 Ph3	359	114	55
Evolved SeaSparrow Missile	SEA 1428 Ph2B/3	270	175	43
Anti-Ship Missile Defence	SEA 1448 Ph2A	471	1	31
New Heavyweight Torpedo	SEA 1429	405	67	31
Land				
Australian Light Armoured Vehicles	LAND 112 Ph3	666	466	58
Direct Fire Guided Weapon	LAND 40	141	26	35
Upgrade of M113 Armoured Vehicles	LAND 106	566	133	34
Bushranger Infantry Mobility Vehicles	LAND 116	341	101	32
Ground Surveillance Radar	LAND 53	83	45	27
New Air Combat Capability				
Joint Strike Fighter	AIR 6000 JSFSD	205	39	53
Electronic Systems				
Milsatcom - Ground Infrastructure	JP 2008 Ph3E	144	32	52
2CRU/3CRU Control and Reporting Units	AIR 5333	239	45	38
Jindalee Operational Radar Network	JP 2025 Ph3/4	1,238	1,089	36
Air-to-Air Weapons Capability	AIR 5400 Ph1/2	311	244	31
High Frequency Modernisation	JP 2043	595	263	30
Air-to-Surface Stand-Off Weapon Capability	AIR 5398	438	326	28
Electronic Warfare Self Protection for Selected ADF Aircraft	AIR 5416	278	2	28

Air-to-Air Weapons Follow-on Buy	AIR 5400 Ph3	176	111	23
TOTAL TOP 30 PROJECTS		25,538	13,586	2,722

Notes

1. All approved expenditure and budget estimates amounts are at a 2004-05 PBS price and exchange basis.
2. Project approval, expenditure and estimate figures are the net cost of the ten-ship program after deducting New Zealand payment.

PROJECT DESCRIPTIONS

AIR 5077 Airborne Early Warning and Control

Prime contractor: Boeing (USA)

This project will provide Defence with an airborne early warning and control capability of six aircraft and associated supplies and support. The project remains on schedule and on budget, with a planned in-service date of 2007.

Modification of the first Boeing 737 airframe was completed in January 2004 and the aircraft will commence an extensive flight test program in May 2004.

Modification of the second aircraft is planned for completion in November 2004 at which point it will commence design test and evaluation of the mission systems. The critical design review process for the elements of the ground support segment is planned for completion in September 2004. Build 6 of the mission computing software is scheduled for delivery in September 2004, followed by Build 7 in February 2005 and Build 8 in June 2005. Construction of the Airborne Early Warning and Control Support Centre building is planned for completion in February 2005.

This project contributes to Air Force capability.

AIR 87 Ph2 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 has also signed a 15-year support contract that commences when the first helicopters start flying in Australia. System test, certification and validation activities are progressing satisfactorily with the first production helicopter flying for the first time on 20 February 2004.

2004-05 will see the assembly of four aircraft (helicopters five to eight) in Brisbane, in association with the progressive acceptance into service of four aircraft from France. The delivery of helicopters one and two is planned for December 2004, while helicopters three and four have delivery planned for January and April 2005 respectively. Training of ground crew and maintenance technicians will commence in Australia with the training of flying instructors continuing in France. A squadron-strength initial operational capability is currently planned for mid-2007.

This project contributes to Army capability.

AIR 5402 ADF Air Refuelling Capability

Preferred tenderer: European Aeronautic Defence and Space Company and Qantas Defence Services

The Military Transport Division of the European Aeronautic Defence and Space Company, teamed with Qantas Defence Services, has been selected as the preferred tenderer for the supply of five new air-to-air refuelling aircraft, together with through-life support services including engineering, maintenance, spares management, upkeep of technical data, software management and training support.

The schedule for 2004-05 provides for the award of the acquisition and through-life support contracts later in 2004 and preliminary design activities occurring in the first half of 2005. Initial aircraft delivery is planned for 2007.

This project contributes to Air Force capability.

AIR 5376 Ph2 F/A-18 Hornet Upgrade

Prime contractor: Boeing (USA)

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. The radar upgrade production phase was completed in August 2003.

The project schedule for 2004-05 includes the assessment of electronic warfare options, including the planned source selection of the radar warning receiver, counter measures dispensing system and jammer. Work on the cockpit and display design and development is continuing with design acceptance certification planned for late 2005.

Early in 2005, the project will commence flight testing of the pilot situational awareness modifications.

This project contributes to Air Force capability.

SEA 1411 Ph1 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-surface warfare, contact investigation and maritime utility tasks. The acquisition includes a full mission flight simulator and software support centre.

To mitigate the impact of late delivery of the integrated weapons and sensor systems by the contractor, Defence commenced provisional acceptance of the

helicopters with a basic suite of software in October 2003. The contracted schedule for delivery of the fully capable helicopter is December 2004.

This would allow Defence to commence the final acceptance processes for all 11 helicopters in 2005.

This project contributes to Navy capability.

AIR 5276 P-3C Update Implementation

Prime contractor: L-3 Communications

This project will update the P-3C Orion fleet to ensure continued operational effectiveness through to the planned withdrawal date of 2015. Under this project, the radar, acoustic system, data management system, and navigation and communications equipment are being replaced with integrated systems. The project also provides training simulators, mission planning/debriefing systems, and engineering and maintenance support tools.

The final upgraded AP-3C aircraft will be delivered during 2004-05 and most aspects of the project will be completed during this period. Delivery of some long lead time spares and payments for interim support contracts may extend into succeeding years.

As of May 2004, a total of 13 upgraded aircraft have been delivered, with delivery of the final aircraft due by December 2004.

This project contributes to Air Force capability.

AIR 5376 Ph3.1 F/A-18 Hornet Structural Refurbishment Program - Stage 1

Prime contractor: Boeing (USA)

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.

In 2003, due to evidence of structural cracking, four of the discrete modifications were 'fast-tracked'. Approximately one third of the fleet had these modifications installed by March 2004. Prototyping of the remaining modifications was completed at the L-3 Communications facility in Mirabel, Canada, in the first quarter of 2004.

The project schedule for 2004-05 includes the completion of the full suite of modifications on seven aircraft. These production activities will be conducted at Williamstown in New South Wales.

This project contributes to Air Force capability.

SEA 1348 Anzac Ship Project

Prime contractor: Tenix

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 08 (*Ballarat*) was delivered on 30 April 2004 and Ship 09 (*Toowoomba*) is planned for delivery in the third quarter of 2005. Ship 10 (*Perth*) was launched on 20 March 2004.

Delivery of Ship 08 (*Ballarat*) was brought forward from the third quarter of 2004 to the second quarter of 2004 at the request of Tenix and with the approval of the Government.

This project contributes to Navy capability.

SEA 1439 Ph4A Collins Combat System

Prime contractor: Raytheon, through Foreign Military Sales with the United States Government, and Raytheon Australia, Thales and Sonartech Atlas

This project will provide a replacement combat system for the Collins-class submarines. This will contribute to the development of the submarines' full capability, in conjunction with other phases of the project that implement a program of modifications and enhancements to the submarine platform.

A significant portion of the Foreign Military Sales will be transferred to the Armaments Cooperative Project; this is expected to take place by early 2004-05. The design studies contract with the Australian Submarine Corporation should be implemented in early 2004-05.

Establishment of the shore integration facility in Western Australia is planned for late 2005. Installation of the first replacement combat system in a submarine is planned for 2006, with all submarines to be upgraded by the end of the decade.

This project contributes to Navy capability.

SEA 1390 FFG Upgrade Implementation

Prime contractor: ADI

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. An overall schedule delay of up to 24 months was mutually agreed between the Commonwealth and the prime contractor in June 2002 and the contract change was signed in April 2004. ADI commenced the installation/production phase of the upgrade at its Garden Island facility for the lead ship (HMAS *Sydney*) on 22 September 2003.

Contractor delivery of the lead ship is planned for late 2004. The second ship is planned to enter upgrade after provisional acceptance of the lead ship.

As a result of the decision to remove the two oldest FFGs from service from 2006 when the last of the new Anzac-class frigates is delivered, these two ships will no longer be considered for upgrade under this project. The cost impact of this decision and a formal contract change are still to be finalised. Some savings will be realised from annual operating costs for spares, fuel, maintenance and other running costs, while other cost savings will be made under the current prime contract. The reprogramming of expenditure is due mainly to a revised assessment of prime contract earned value, milestone cashflow and a reassessment of how prime contract incentive payments will be managed. In addition, expenditure for spares has been reprogrammed from 2003-04 to 2004-05.

This project contributes to Navy capability.

SEA 1444 Armidale-class Patrol Boat

Prime contractor: Defence Maritime Services

This project will replace the capability provided by the Fremantle-class patrol boats. The prime contractor will supply a fleet of twelve 56.8 metre aluminium vessels to provide 3,000 days operational availability in support of Defence Output 2.3 - Capability to Conduct Patrol Boat Operations.

The prime contract for acquisition and 15 years support for each vessel was signed on 17 December 2003. The project has a tight production schedule that is on track to deliver the first patrol boat in the second quarter of 2005, in accordance with the Defence White Paper.

In addition to delivery of the first patrol boat, other significant events planned for 2004-05 include the commencement of upgrades to facilities in Darwin to accommodate the larger vessels and the relocation of project staff from Canberra to Darwin to allow collocation with the Patrol Boat Force Element Group.

This project contributes to Navy capability.

JP 2070 Ph2 Lightweight Torpedo Replacement

Alliance agreement: EuroTorp and Thales

Phase 2 of this project will introduce the EuroTorp Mu90 lightweight torpedo into ADF service. It is proposed to fit this into the Anzac and Adelaide-class frigates, anti-submarine warfare helicopters and the AP-3C 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. The agreement was signed in December 2002.

The method of procurement for additional weapons under phase 3 of the project is being assessed. It is expected that a contract will be signed in the third quarter of 2004.

While the in-service date for the Mu90 torpedo is December 2005, the first platform (HMAS *Parramatta*) has already received the necessary modifications to be able to fire the weapon.

Integration into the FFG frigates will be on an opportunity basis during depot-level maintenance periods following their current upgrade program. The integration contract for the AP-3C aircraft is currently being developed. The integration plan for the helicopters remains to be determined.

The project contributes to Navy and Air Force capabilities.

SEA 1439 Ph3 Collins-class Reliability and Sustainability Improvements

Prime contractor: Australian Submarine Corporation

This project will provide reliability and sustainability improvements to the Collins-class submarines through the ongoing 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 modifications have been incorporated into the last three submarines built, with further modifications being incorporated into all submarines during planned major maintenance.

This project contributes to Navy capability.

SEA 1428 Ph2B/3 Evolved SeaSparrow Missile

Prime contractor: Raytheon (USA)

This project will continue to incorporate the Evolved SeaSparrow missile capability into Navy service. Progressive missile deliveries occurred throughout 2003 and will continue in 2004-05 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.

The Evolved SeaSparrow missile has also been selected as an element of the anti-ship missile defence system for the FFGs under their upgrade program.

This project contributes to Navy capability.

SEA 1448 Ph2A 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 was approved in December 2003 and 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 and a very short range air defence system. Phase 2A also includes a feasibility study and related trials, including an active phased array radar in the Anti-Ship Missile Defence solution for the Anzac-class. Such a radar would provide significant performance and operational advantages over a conventional radar-based solution. Initial risk reduction studies are planned for completion in mid-2004 followed by implementation under an alliance agreement between Defence and the principal companies involved.

Phase 2B (not yet approved, year of decision 2004-05) will complete the Anti-Ship Missile Defence capability by the introduction of a second channel of fire to enable more than one weapon to be controlled in flight. How this capability will be achieved is dependent on the outcome of the active phased array radar feasibility study and trials under Phase 2A. The capability is being acquired through the Anzac Ship Alliance.

This project contributes to Navy capability.

SEA 1429 New Heavyweight Torpedo

Memorandum of Understanding: United States Government, under the Armaments Cooperative Project, with work being performed by Raytheon and the Naval Undersea Warfare Centre of the United States Navy

This project will acquire a replacement anti-surface and anti-submarine heavyweight torpedo for the Collins-class submarines. The new heavyweight torpedo will replace the United States Navy Mk48 Mod 4 heavyweight torpedo currently in service with the Royal Australian Navy.

The Government approved the heavyweight torpedo project in March 2003. Defence has since signed a memorandum of understanding with the United States Navy to jointly develop, produce and support the torpedoes under an armaments cooperative project.

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 upgrade to the torpedo maintenance facility is planned to be completed by late 2004 and the submarine integration design work by the first quarter of 2005. Initial operating capability is planned for late 2006, subject to submarine availability.

This project contributes to Navy capability.

LAND 112 Ph3 Australian Light Armoured Vehicles

Prime contractor: General Dynamics Land Systems (Canada)

This project is acquiring additional wheeled light armoured vehicles that provide the basis of the Army's armoured reconnaissance and surveillance capability. The additional vehicles will be used to complete the equipping of the 2nd Cavalry Regiment, in Darwin, and to equip the 2/14 Light Horse Regiment, which is located in Brisbane.

There have been delays in some elements of the project, such as the surveillance variant and the commander's weapon station. These are considered manageable, and the overall project remains on schedule. Vehicle deliveries to the Army Logistics Training Centre, the School of Armour and 1st Combat Service Support Battalion have been completed under this phase. Delivery of vehicles to the 2nd Cavalry Regiment has commenced.

Key outcomes for 2004-05 will be the completion of Phase 3 vehicle deliveries to the 2nd Cavalry Regiment and the commencement of deliveries to the 2/14 Light Horse Regiment.

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.

Key outcomes expected in 2004-05 are the delivery of training equipment and commencement of introduction into service training. The project is on schedule to achieve introduction into service in 2005-07.

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. Although used operationally in East Timor, the vehicle's capabilities are being overtaken by modern weapons and becoming obsolete.

The upgrade will restore the vehicle's capability with improved protection, firepower, mobility and habitability. It includes applique armour, a new armoured turret and machine gun, a new engine, drive train and suspension, and stretching of 259 vehicles.

A contract for the upgrade was signed in July 2002 and the project is proceeding on schedule, with full production due to commence in 2005 and the first company group in service in 2006.

Key outcomes for 2004-05 will be the selection of the armour solution for the M113 and commencement of initial production vehicle testing.

This project contributes to Army capability.

LAND 116 Bushranger Infantry Mobility Vehicles

Prime contractor: ADI

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.

Two prototype infantry mobility vehicles underwent reliability qualification testing from October to December 2002. The vehicles passed the required reliability levels and the project has entered the next stage of the contract. The first production vehicle was delivered to Defence in August 2003. This vehicle is currently being tested to ensure it meets specified requirements. Results of this test will be known by June 2004.

A further three production vehicles commenced reliability and acceptance testing in October 2003. The final result of this testing will be known by June 2004 and, if successful, will result in the commencement of full-rate production in the second half of 2004.

The key performance outcome for the project for 2004-05 will be the move to full rate production and commencement of introduction into service.

This project contributes to Army capability.

LAND 53 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.

Key outcomes expected in 2004-05 are the delivery of production equipment and the commencement of the through-life support contract. The current timeframe for introduction into service is 2005-06.

This project contributes to Army capability.

AIR JSFSDD Joint Strike Fighter

Memorandum of Understanding: United States Government

The New Air Combat Capability project seeks to replace the air combat capability currently provided by the F/A-18 and F-111. While a formal decision 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.

Involvement in the system development and demonstration program is providing Australia with significant data access and preferential acquisition terms in addition to opportunities for Australian industry in the global Joint Strike Fighter project.

Phase 1 provides for collection and analysis of system development and demonstration information and the associated studies, risk mitigation and planning activities necessary to support the Government procurement decision scheduled for 2006. It also supports Australian industry participation in the Joint Strike Fighter program and initial exploratory discussions on the nature of the international agreement that will provide the means for acquisition, support and ongoing development of the aircraft.

The second phase of the project will be conducted in a number of stages and will acquire the aircraft and associated systems and transition the capability into service.

This project contributes to Air Force capability.

JP 2008 Ph3E Milsatcom Ground Infrastructure

Prime contractor: BAE Systems (UK)

Phase 3E will provide the high-priority satellite communications ground infrastructure required by Deputy Chief Joint Operations for use with the Optus C1 satellite Defence payload fielded under Phase 3D of the project.

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 final terminal installation to occur in the last quarter of 2006.

Defence is the systems integrator for the overall Phase 3E requirements, which includes (in addition to the maritime terminals) land terminals, broadcast software and a Primary Injection Facility. These elements will be progressively delivered from first quarter 2005 to the first quarter 2007.

The project contributes to the Command of Operations capability.

AIR 5333 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 Tindal and Williamstown and will design and implement an integrated, real-time, ADF Air Defence System 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.

Major outcomes expected in 2004-05 are completion of an integrated baseline review in late 2004 and completion of a preliminary design review in early 2005.

The project contributes to Air Force capability.

JP2025 Ph3/4 Jindalee Operational Radar Network

Prime contractor: RLM Systems

In April 2003, this project delivered into service two new over-the-horizon radars: one near Longreach, Queensland and the other near Laverton, Western Australia. The radar network coordination centre is located at RAAF Edinburgh, South Australia. With delivery of the Jindalee Operational Radar Network having been successfully achieved, resulting in a major enhancement of national surveillance capability, the project's acquisition component is essentially completed. The remaining project work focuses on initial maintenance and support activities.

The project contributes to Air Force capability.

AIR 5400 Ph1/2 and 3 Air-to-Air Weapons Capability and Air-to-Air Weapons Follow-on Buy

Prime contractor: Raytheon, through Foreign Military Sales with the United States Government, and MBDA UK

These 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. A new beyond-visual-range missile (the advanced medium range air-to-air missile) and a new within-visual-range missile (the advanced short range air-to-air missile) have been acquired.

Activities for 2004-05 include the transition of advanced medium range air-to-air missile system management and support responsibilities to in-service organisations. Also planned for 2004-05 are the establishment of support arrangements and the introduction into service of the advanced short range air-to-air missile.

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 will be to replace and rationalise 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.

Due to delays in software development and integration, system acceptance of the first stage did not occur as originally scheduled in 2001-02. This is now scheduled to occur in mid-2004 with transition into service by the end 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 late 2004 to early 2005.

This project contributes to the Command of Operations capability.

AIR 5398 Air-to-Surface Stand-Off Weapon Capability

Prime contractor: Precision Guided Systems US, 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.

The project schedule for 2004-05 includes continued delivery of missiles and ground support equipment into Australia. Aircraft ground and flight testing, which has encountered some delay, will continue along with upgrades to the flight simulator and acquisition of a mission rehearsal system.

This project contributes to Air Force capability.

AIR 5416 Electronic Warfare Self Protection for Selected ADF Aircraft

Prime contractor: Contract not yet awarded

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. Awarding of the prime contract is anticipated by the end of July 2004. Planned activity under the prime contract in 2004-05 is to mature the design that was developed under the initial design activity conducted in 2001-02. The anticipated in-service dates for this phase are early 2008 for the Black Hawk and mid-2008 for the Chinook aircraft.

Phase 2B will upgrade the electronic warfare self protection capability on all C-130H aircraft. Awarding of the prime contract is anticipated by the end of August 2004 and completion of the engineering design activity over 2004-05 will allow induction of the first aircraft in early 2005-06. The anticipated in-service date for the C-130H is mid-2007. Due to the proposed retirement of the Sea King in 2007, work on the ballistic protection for this aircraft has been suspended.

The project contributes to Army and Air Force capabilities.

DEFENCE HOUSING AUTHORITY

OVERVIEW

Mission

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OVERVIEW

MISSION

To deliver total housing and relocation services that meet Defence operational and client needs through a strong customer and business focus.

OVERVIEW

As a result of the Defence Housing Authority Act 1987 coming into effect, the Defence Housing Authority was established in 1988. Its function is to provide adequate and suitable housing for members of the ADF and their families to meet the operational needs of the ADF and the requirements of Defence. The Authority is required by legislation to perform its function in accordance with the policies of the Government and in accordance with sound commercial practice. At the time of the Authority's establishment, housing provided to Defence personnel was of poor quality and was significantly affecting morale and retention within the ADF. Defence attitudinal data confirms that satisfaction with housing influences members to stay and, generally, satisfaction with the provision of housing is reported as good. From Defence exit survey data, housing issues do not rate highly as a factor that influenced a member's decision to separate.

The Authority provides a coordinated service for ADF members' housing needs. In addition to portfolio management, the Authority undertakes tenancy and property management and the management of relocation services (other than the physical removal of personal effects) provided to ADF personnel. There are currently around 17,300 ADF families being housed by the Defence Housing Authority or through rental allowance arrangements. The Authority provides homes in all states and territories of Australia for the housing of married ADF personnel. Of these properties, approximately 2,000 are located on Defence bases. The Authority employs around 750 staff located in 15 major regional offices and 16 outpost offices, which are in the vicinity of most major military establishments. This enables individual case management for relocating ADF members and their families. The Authority's central management is also supported by a customer support centre.

The Authority lies within the Defence portfolio, and is responsible to the Hon Fran Bailey MP, Parliamentary Secretary to the Minister for Defence. The Hon Eric Abetz, Special Minister of State, is a joint shareholder minister of the Authority.

The composition of the Board of Directors of the Authority is governed by legislation and comprises five commercial directors, five representatives of the Department of Defence, a spouse of a member of the ADF and the Managing Director of the Authority.

It should be noted that the Authority is not required to complete its corporate plan until 31 May 2004 and that the financial projections included in the estimates have yet to be finalised or endorsed by the Authority's Board.

The Board has finalised its review of cash requirements and cash expectations and the scope for the DHA to make special dividend payments this financial year and over the three year planning period. The Board considers that an interest cover of at least five times is a prudent financial measure to be maintained, given the risks facing the Authority, particularly in softening residential property markets. The Board has revised down its proposed special cash dividends for 2003-04 from \$270m to \$150m. Further, at this time the Board is not forecasting any special dividends over the 2004-07 planning period.

The Authority has made special dividend/capital return payments to the Government of \$957m in the past three years. A further special dividend/capital return payment is planned for 2003-04. The Authority has negotiated a loan facility for \$425m with the Department of Finance and Administration. Over the past two years, \$200m has been drawn down. The debt drawdowns have maturities of three to seven years and are based on interest rates that were prevailing at the time the forward rate agreements were struck. A further \$200m is available to be drawn down from June 2004 and is hedged by \$100m being fixed at the rate prevailing in October 2003.

The Authority plans to acquire or construct 1,189 new properties during 2004-05, principally to replace old stock and properties where the lease is expiring. The estimated cost of this is \$440m. It plans to sell 788 houses, under sale and leaseback arrangements, and dispose of a further 516 houses which are no longer required.

OUTCOME AND OUTPUT INFORMATION

Outcome

To contribute to Defence outcomes by providing total housing services that meet Defence operational and client needs through a strong customer and business focus.

Output

The provisioning of Defence housing services.

Output Performance Indicators

Quality:	Modern housing.
Quantity:	16,959 houses by 30 June 2005.
Price:	Average rental cost to Defence is estimated to be \$339 per week per house.

Achievement of planned performance will be reported in the annual report of the Defence Housing Authority and monitored through the governance arrangements for Commonwealth Government Business Enterprises.

Appropriation

The Authority is a non-budget funded organisation deriving its operating income from charging the Department of Defence for rent and housing-related services.

Evaluations

Proposed amendments to the Authority's enabling legislation have been provided to the shareholder ministers and the Authority will be seeking support for the proposed changes to be tabled in Parliament.

Competitive Tendering and Contracting

All contracts for the construction and maintenance of houses are arranged on a competitive basis.

Purchaser/Provider Arrangements

A Services Agreement between the Authority and Defence came into effect on 1 July 2000 for a period of ten years. The Agreement is based on commercial principles with pricing and risk sharing arrangements, with risk allocated to the party best able to manage the risks. A relocation services agreement between the Authority and Defence was signed on 20 December 2002. This agreement, which is an eight-year agreement, covers the provision of allocation and relocation services.

BUDGETED FINANCIAL STATEMENTS

The following budgeted financial statements for the Defence Housing Authority are presented in this section.

Budgeted Statement of Financial Performance

This statement provides the expected financial results for the Authority by identifying full accrual expenses and revenues, which highlight whether the Authority is operating at a sustainable level in the short to medium term.

Budgeted Statement of Financial Position

Shows the financial position of the Authority. It enables decision makers to track the management of the Authority's assets and liabilities.

Budgeted Cash Flow Statement

Budgeted cash flows, as reflected in the statement of cash flows, provide information on the extent and nature of cash flows by categorising them into expected cash flows from operating activities, investing activities and financing activities.

Capital Budget Statement

Shows all proposed capital expenditure funded from internal sources.

Non-financial Assets - Summary of Movement

This statement shows only the budget year 2004-05.

Table 1: Statement of Financial Performance

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
REVENUE					
Revenue from ordinary activities					
Goods and services	347,622	356,185	392,703	414,916	437,433
Interest	2,520	4,880	4,837	6,921	5,842
Net gain from sale of assets	29,480	10,570	15,811	13,000	13,197
Revenues from ordinary activities	379,622	371,635	413,351	434,837	456,472
EXPENSE					
Employees	44,174	42,839	44,125	45,447	46,811
Suppliers	242,054	254,361	286,918	297,061	308,520
Depreciation and amortisation	16,746	17,000	17,000	17,000	17,000
Expenses from ordinary activities (excluding borrowing costs expense)	302,974	314,200	348,043	359,508	372,331
Borrowing costs expense	14,083	26,000	23,725	24,700	21,100
Operating profit before Income Tax from ordinary activities	62,565	31,435	41,583	50,629	63,041
Income Tax Expense	-	9,430	12,475	15,189	18,912
Net surplus or deficit attributable to the Commonwealth	62,565	22,005	29,108	35,440	44,129
Net credit (debit) to asset revaluation reserve	200,345	176,170	171,759	170,254	62,999
Total revenues, expenses and valuation adjustments attributable to the Commonwealth and recognised directly in equity	262,910	198,175	200,857	205,694	107,128

Table 2: Statement of Financial Position

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
ASSETS					
Financial assets					
Cash	53,851	42,893	88,171	62,848	25,819
Receivables	378,486	376,767	382,739	382,244	382,853
Other	10,697	10,233	10,887	10,471	11,073
Total financial assets	443,034	429,893	481,797	455,563	419,745
Non-financial assets					
Land and buildings	1,232,993	1,276,232	1,273,509	1,365,301	1,440,565
Infrastructure, plant and equipment	31,803	28,303	24,803	21,303	17,803
Inventories	-	-	-	-	-
Total non-financial assets	1,264,796	1,304,535	1,298,312	1,386,604	1,458,368
Total Assets	1,707,830	1,734,428	1,780,109	1,842,167	1,878,113
LIABILITIES					
Interest bearing liabilities					
Loans	200,000	215,000	180,000	175,000	140,000
Provisions					
Employees	6,383	7,316	7,536	7,762	7,994
Payables					
Suppliers	3,626	4,156	4,280	4,970	5,103
Other	92,963	107,770	118,643	106,956	91,673
Total Payables	102,972	119,242	130,459	119,688	104,770
Total liabilities	302,972	334,242	310,459	294,688	244,770
Equity					
Contributed equity	249,572	249,572	249,572	249,572	249,572
Reserves	1,059,554	1,077,924	1,131,483	1,191,337	1,254,336
Total accumulated results	95,732	72,690	88,595	106,570	129,435
Total equity	1,404,858	1,400,186	1,469,650	1,547,479	1,633,343
Total liabilities and equity	1,707,830	1,734,428	1,780,109	1,842,167	1,878,113

Table 3: Statement of Cash Flows

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	364,663	378,772	391,805	416,681	441,080
Interest	2,520	4,880	4,837	6,921	5,842
Total cash received	367,183	383,652	396,642	423,602	446,922
Cash used					
Taxes Paid	-	20,000	29,430	32,475	35,189
Employees	44,173	42,839	44,124	45,448	46,811
Suppliers	248,806	247,925	264,475	291,399	311,994
Borrowing costs	14,083	26,000	23,725	24,700	21,125
Total cash used	307,062	336,764	361,754	394,022	415,119
Net cash from/(used by) operating activities	60,121	46,888	34,888	29,580	31,803
INVESTING ACTIVITIES					
Cash received					
Proceeds from sales of property, plant and equipment	488,082	411,111	576,676	431,581	431,581
Total cash received	488,082	411,111	576,676	431,581	431,581
Cash used					
Purchase of property, plant and equipment	435,068	438,910	518,083	464,019	444,149
Total cash used	435,068	438,910	518,083	464,019	444,149
Net cash from (used by) investing activities	53,014	(27,799)	58,593	(32,438)	(12,568)
FINANCING ACTIVITIES					
Cash received					
Proceeds from loans	-	50,000	-	-	-
Total cash received	-	50,000	-	-	-
Cash used					
Repayment of loans	-	35,000	35,000	5,000	35,000
Dividends paid	229,364	45,047	13,203	17,465	21,264
Total cash used	229,364	80,047	48,203	22,465	56,264
Net cash from/(used by) financing activities	(229,364)	(30,047)	(48,203)	(22,465)	(56,264)
Net increase/(decrease) in cash held	(116,229)	(10,958)	45,278	(25,323)	(37,029)
Cash at the beginning of the reporting period	170,080	53,851	42,893	88,171	62,848
Cash at the end of the reporting period	53,851	42,893	88,171	62,848	25,819

Table 4: Capital Budget Statement

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
CAPITAL APPROPRIATIONS					
Total loans	-	-	-	-	-
Total	-	-	-	-	-
PURCHASE OF NON CURRENT ASSETS					
Funded internally by Departmental resources	435,068	438,910	518,083	464,019	444,149
TOTAL	435,068	438,910	518,083	464,019	444,149

Table 5: Non-financial Assets – Summary of Movement (Budget Year 2004-05)

	Land \$'000	Buildings \$'000	Total Land and Buildings \$'000	Other infrastructure plant and equipment \$'000	Total \$'000
Gross Value as at 1 July 2003	701,523	531,470	1,232,993	46,685	1,279,678
Additions	248,869	188,541	437,410	1,500	438,910
Disposals	(231,940)	(175,717)	(407,657)	-	(407,657)
Revaluation increments	24,742	18,744	43,486	-	43,486
Other Movements	(17,069)	(12,931)	(30,000)	-	(30,000)
Gross value 30 June 2004	726,125	550,107	1,276,232	48,185	1,324,417
Accumulated Depreciation as at 1 July 2003	-	-	-	14,882	14,882
Charge for the reporting period	-	12,000	12,000	5,000	17,000
Disposals	-	(7,116)	(7,116)	-	(7,116)
Revaluations	-	(4,884)	(4,884)	-	(4,884)
Accumulated Depreciation as at 30 June 2004	-	-	-	19,882	19,882
Net Book Value as at 30 June 2004	726,125	550,107	1,276,232	28,303	1,304,535

DEFENCE

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GLOSSARY

ACRONYMS AND ABBREVIATIONS

LIST OF TABLES AND CHARTS

ALPHABETICAL INDEX

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.
Administered Items	Those items controlled by the Government and managed or oversighted by Defence on behalf of the Government, including grants, subsidies and benefits.
Appropriation	An authorisation by Parliament to spend moneys from the Consolidated Revenue Fund 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.
Average Funded Strength	A budgetary measure used to determine the resource requirement for the average number of members paid working full-time in the military workforce during a financial year.
Budget Estimates and Framework Review	A review undertaken by the Department of Finance and Administration of the budget estimates and advice processes after the 2002–03 Budget was brought down in May 2002. The review was a thorough assessment of the budget estimates and advice system and canvassed ways to improve the accuracy, responsiveness and effectiveness of the Government's budget estimates and framework system. It was also aimed at assisting agencies to improve financial management and reporting within their own organisations.
Combined Exercise	An exercise involving one or more Services of the ADF with the forces of other countries.
Customer-Supplier Arrangement	An agreement between internal customers and suppliers for the supply of a service at an agreed quantity, standard and price.
Defence Management and Finance Plan	A classified plan extracted from Defence's principal internal planning document, which satisfies whole-of-government budget requirements. The Management and Finance Plan forms part of the portfolio budget submission to the Government.
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.
Equity Injection	An additional contribution, over and above the cost of outputs to the Government as customer, to Defence by the Commonwealth as owner. Equity injections form part of the Commonwealth's investment in Defence and partly reflect the Commonwealth's ownership interest in Defence.
Expenses	Consumptions or losses of future economic benefits, in the form of reductions in assets or increases in liabilities of Defence, other than those relating to distributions to the Commonwealth, that result in a decrease in equity during the reporting period.
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.
Force Structure	<i>See</i> Preparedness Concepts and Planning.
Indigenous Land Use Agreement (ILUA)	A voluntary agreement between a native title group and others about the use and management of land and waters.
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.
Joint Exercise	An exercise involving two or more Services of the ADF.
Kinnaird review	<i>See</i> Defence Procurement Review.
Liabilities	Sacrifices of future economic benefits that Defence is obliged presently to make to other entities as a result of past transactions or other past events.
Nunn Review	<i>See</i> Review of Australian Defence Force Remuneration 2001.
Outcome	The result, impact or consequence of actions by the Commonwealth for the Australian community.
Outputs	The agreed goods and services produced by Defence.
Preparedness Concepts and Planning	Military capability is achieved by developing a force structure appropriately prepared for operations. Preparedness is, therefore, of fundamental importance to Defence, which must be able to manage it effectively and communicate its status to the Government.
<i>Directed Level of Capability (DLOC)</i>	The fundamental level of capability maintained during a specified budget period. DLOC is formally agreed in organisational performance agreements between the Chief

- of the Defence Force/Secretary of the Department of Defence and each of Defence's six Output Executives. DLOC captures the levels of capability to be maintained to meet preparedness, ongoing operations, and known national task requirements.
- Force Structure*** Relates to the type of force required – personnel, equipment, facilities and military doctrine – to achieve the level of capability necessary to conduct operations effectively. In the medium to long term, military capability will vary due to changes in force structure generated by the capability development process.
- In the short term, force structure is the more constant component of military capability and the level of capability available for operations is determined by Defence's management of preparedness of the current force.
- Changes to force structure usually affect the preparedness of the associated forces. For example, the introduction of a new platform, retirement of an old platform or capability enhancement will have a direct impact on the resource, training and facility requirements of the forces involved.
- Preparedness*** A measurement of how ready (readiness) and how sustainable (sustainability) the whole, or part, of the ADF is to undertake military operations.
- Preparedness Planning*** The preparedness planning process begins with a strategic appreciation involving an analysis of the national security objectives which are specified in Government guidance. These objectives are considered against current strategic circumstances and defence policy. In the light of this appreciation, military strategies are developed or refined to achieve the objectives. Military strategic objectives and military response options are then derived from the military strategies and are used to provide preparedness planning guidance.
- Readiness*** The readiness of forces to be committed to operations within a specified time is dependent on the availability and proficiency of personnel, equipment, facilities and consumables.
- Sustainability*** The ability to provide personnel, equipment, facilities and consumables to enable a force to complete the needed period of operations.
- The Chief of the Defence Force's Preparedness*** This principal strategic-level directive contains strategic planning guidance, lists military response options and sets preparedness requirements. It informs all subordinate

Directive	preparedness directives at the operational level, which set specified levels of preparedness and contain the capability standards against which force units measure and report.
Readiness	<i>see</i> Preparedness Concepts and Planning.
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.
Review of Australian Defence Force Remuneration 2001	A Government endorsed review of Australian Defence Force (ADF) personnel remuneration arrangements, which aimed to ensure that such arrangements provide an effective, efficient and flexible remuneration framework consistent with reforms in the wider public and private sectors. The review panel was chaired by Major General Barry Nunn AO RFD ED (Rtd). The review is also known as the Nunn review.
Sustainability	<i>see</i> Preparedness Concepts and Planning.
Theatre	The area in which military operations/activities take place.
Unit Ready Days	The number of days that a naval force element is available for tasking by the Maritime Commander, 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).

ACRONYMS AND ABBREVIATIONS

A

ACT	Australian Capital Territory
ADF	Australian Defence Force
AFS	Average Funded Strength
AM	Air Marshal
AVM	Air Vice Marshal
ANAO	Australian National Audit Office
Anzus	Australia, New Zealand, United States
APS	Australian Public Service

C

CDF	Chief of the Defence Force
CSS	Commonwealth Superannuation Scheme
CSIG	Corporate Services and Infrastructure Group

D

DIDS	Defence Integrated Distribution System
DMO	Defence Materiel Organisation
DSTO	Defence Science and Technology Organisation

F

FBT	Fringe Benefits Tax
FFG	Guided Missile Frigate

G

GDP	Gross Domestic Product
-----	------------------------

H

HMAS	Her Majesty's Australian Ship
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I

IT	Information Technology
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L

LTGEN	Lieutenant General
-------	--------------------

M

MAJGEN	Major General
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Acronyms and Abbreviations

N

NSW	New South Wales
NT	Northern Territory

P

PAES	Portfolio Additional Estimates Statements
PBS	Portfolio Budget Statements
PMKeyS	Personnel Management Key Solution
PSS	Public Service Superannuation

Q

Qld	Queensland
-----	------------

R

RAAF	Royal Australian Air Force
RADM	Rear Admiral
ROMAN	Resource and Output Management Accounting Network
RAN	Royal Australian Navy
RAR	Royal Australian Regiment

S

SA	South Australia
SASR	Special Air Service Regiment
SDSS	Standard Defence Supply System

T

Tas	Tasmania
-----	----------

U

UHF	Ultra-High Frequency
URD	Unit Ready Days

V

VADM	Vice Admiral
Vic	Victoria

W

WA	Western Australia
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