



PORTFOLIO BUDGET STATEMENTS 2006-07

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

**BUDGET INITIATIVES AND EXPLANATIONS
OF APPROPRIATIONS SPECIFIED BY OUTCOMES AND OUTPUTS
2006-07**

BUDGET RELATED PAPER NOS. 1.4A and 1.4C

2006-07 BUDGET PAPERS

Budget Speech

- No. 1 Budget Strategy and Outlook 2006-07
Contains information on the economic and financial outlook, together with information on the fiscal strategy.

- No. 2 Budget Measures 2006-07
Provides a comprehensive statement on the budget expense, revenue and capital measures in the 2006-07 Budget.

- No. 3 Federal Financial Relations 2006-07
Provides information on the Australian Government's financial relations with the States, Territories and local government.

- No. 4 Agency Resourcing 2006-07
Contains information on resourcing for Australian Government agencies (including the Appropriation Bills Nos. 1 and 2 and the Appropriation (Parliamentary Departments) Bill No. 1).

2006-07 BUDGET RELATED PAPERS

- No. 1 Portfolio Budget Statements
Detailed information on the expected financial position of each Australian Government agency for 2006-07.

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MINISTER FOR DEFENCE
THE HON DR BRENDAN NELSON MP

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

4 MAY 2006

The Hon David Hawker MP
Speaker of the House of Representatives
Parliament House
CANBERRA ACT 2600

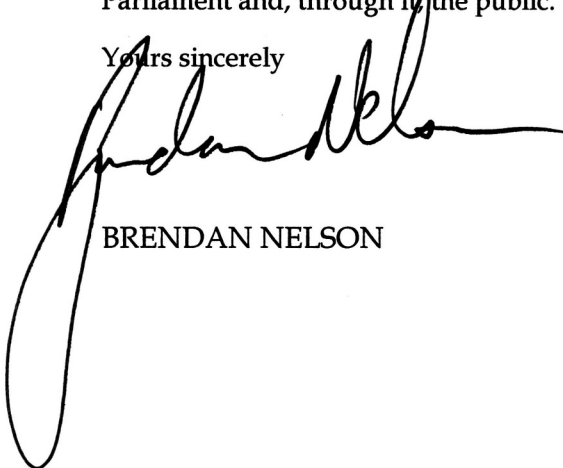
Dear Mr President and Mr Speaker

I hereby submit Portfolio Budget Statements in support of the 2006-07 Budget for the Department of Defence, the Defence Materiel Organisation and Defence Housing Authority.

These statements have been developed, and are submitted to the Parliament, as a statement of the outcomes for the Defence portfolio. They also cover the purpose of portfolio budget measures.

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

Yours sincerely



BRENDAN NELSON

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USER GUIDE TO THE PORTFOLIO BUDGET STATEMENTS

Purpose of the Portfolio Budget Statements

The purpose of the *Portfolio Budget Statements 2006-07* is to inform Senators and Members of Parliament of the proposed allocation of resources to government outcomes, by agencies, within the portfolio. Agencies receive resources from the annual appropriations bills, special appropriations, standing appropriations (including special accounts), and revenue from other sources.

A key role of the Portfolio Budget Statements is to facilitate the understanding of proposed annual appropriations in Appropriation Bills No. 1 and No. 2 2006-07 (or Appropriation Bill [Parliamentary Departments] No. 1 2006-07 for the parliamentary departments). In this sense, the Portfolio Budget Statements are officially Budget Related Papers and are declared by the Appropriation Bills to be 'relevant documents' to the interpretation of the Bills according to section 15AB of the *Acts Interpretation Act 1901*.

The Portfolio Budget Statements provide information, explanation and justification to enable Parliament to understand the purpose of each outcome proposed in the Bills.

As required under section 12 of the *Charter of Budget Honesty Act 1998*, non-general government sector entities are not consolidated into the Commonwealth general government sector fiscal estimates. Accordingly, these entities are not reported in the Portfolio Budget Statements.

How to read the Portfolio Budget Statements

The Portfolio Budget Statements are presented in three sections, aligned in several ways to the Budget Papers, as outlined below.

| SECTION ONE: DEFENCE | |
|--|--|
| Chapter One — Overview | An overview of Defence's strategic objectives and environment, force structure and Defence's organisational structure. |
| Chapter Two — Resourcing | Defence's financial outlook for 2006-07, including a budget summary and measures, and Defence's purchaser-provider arrangements. |
| Chapter Three — Capital Investment Program | A summary of Defence's capital budget, including projects to be considered in 2006-07, medium and major capital facilities projects, other capital purchases and capital receipts. |
| Chapter Four — People | This chapter provides a summary of personnel initiatives for 2006-07 and a summary of Defence's workforce. |
| Chapter Five — Planned Outcome Performance | A brief overview of Defence's outcomes and outputs for 2006-07. It details the estimated cost of Defence's outputs and outcomes and describes each outcome and output including planned performance targets. |

| | |
|---|---|
| Chapter Six — Management Reforms and Efficiencies | Information on the implementation of internal business processes in 2006-07, designed to ensure sustainable delivery of outcomes. |
| Chapter Seven — Budgeted Financial Statements | Defence's budgeted financial statements, in accrual format, covering 2006-07, the current year and three out-years. |
| SECTION TWO: DEFENCE MATERIEL ORGANISATION | |
| Chapter One — Overview | An overview of the organisation, including the challenges and opportunities facing the Defence Materiel Organisation (DMO) and the organisational structure. |
| Chapter Two — Resourcing | The DMO's financial outlook for 2006-07, including DMO's Purchaser-Provider Arrangements. |
| Chapter Three — Planned Outcome Performance | An overview of the DMO's outcome and outputs, including the Top 30 Projects. |
| Chapter Four — Governance and Materiel Reform | This chapter contains a summary of the DMO's governance activities and reform initiatives. |
| Chapter Five — People | This chapter provides a summary of personnel initiatives for 2006-07 and a summary of the DMO's workforce. |
| Chapter Six — Budgeted Financial Statements | The DMO's budgeted financial statements, in accrual format, covering 2006-07 and three out-years. |
| SECTION THREE: DEFENCE HOUSING AUTHORITY | |
| | An overview of the Authority, including performance forecasts for 2006-07, the Authority's outcome and output, and its 2006-07 budgeted financial statements. |
| APPENDICES | |
| | A list of tables and charts, a glossary, acronyms and abbreviations, and an alphabetical index. |

PORTFOLIO BUDGET STATEMENTS AND BUDGET PAPERS

Comprehensive information on all government decisions announced in the Budget are in Budget Paper No. 2, *Budget Measures 2006-07*. The Portfolio Budget Statements include Budget appropriations for this Budget in each agency's Table 2.2, 2006-07 Budget Measures.

The following chart shows the parts of Portfolio Budget Statements which relate to specific Budget papers.

| Budget Paper | Portfolio Budget Statements |
|---|--|
| Budget Paper No. 1: Budget Strategy and Outlook | |
| Statement 1: Fiscal Strategy and Budget Priorities Overview of the fiscal and economic outlook | Defence – Section One, Chapter Two DMO – Section Two, Chapter Two |
| Statement 2: Fiscal Outlook Budget aggregates and variations to the fiscal balance estimates | Defence – Section One, Chapter Two DMO – Section Two, Chapter Two |
| Statement 10: AAS Financial Statements Accrual financial statements for the general government sector | Defence – Section One, Chapter Seven DMO – Section 2, Chapter Six |
| Budget Paper No. 2: Budget Measures | |
| Budget revenue, expense and capital measures | Defence – Section One, Chapter Two DMO – Section Two, Chapter Two |

| Budget Paper | Portfolio Budget Statements |
|---|--|
| Budget Paper No. 3: Federal Financial Relations | |
| Information on the Australian Government's relations with States, Territories and local government, in particular, Specific Purpose Payments (SPPs) | Defence – Section One, Chapters Two and Chapter Five |
| Budget Paper No. 4: Agency Resourcing | |
| Resourcing for Australian Government agencies, including Appropriation Bills | Defence – Section One, Chapter Two DMO – Section Two, Chapter Two |

Departmental and Administered items

Under the Australian Government's accrual-based budgeting framework, and consistent with Australian Accounting Standards, transactions that agencies decide (departmental transactions) are separately budgeted for and reported on from transactions agencies make on behalf of others (administered transactions). This ensures that the transactions decided by agencies are reported separately from other transactions in their accounts.

Departmental items

Assets, liabilities, revenues and expenses in relation to an agency or authority that are controlled by the agency. Departmental expenses include employee and supplier expenses and other administrative costs, which are incurred by the agency in providing its goods and services.

Administered items

Revenues, expenses, assets and liabilities that are managed by an agency or authority on behalf of the Government according to set Government directions. Administered expenses include subsidies, grants and personal benefit payments and Administered revenues include taxes, fees, fines and excises.

Appropriations in the accrual budgeting framework

In the accrual budgeting framework, separate annual appropriations are provided for:

- Departmental price of outputs appropriations: representing the Government's funding for outputs from agencies;
- Departmental capital appropriations for investments by the Government for either additional equity or loans to agencies or payments from previous years' outputs;
- Administered expense appropriations: for the estimated administered expenses relating to an existing outcome, a new outcome or a Specific Purpose Payment to the States and Territories; and
- Administered capital appropriations: for 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). The appropriation framework is discussed further in the introduction to Budget Paper No. 4, *Agency Resourcing 2006-07*.

Components of agency financial statements

Reporting requirements for budgeted financial statements differ between agencies (for example, according to whether the agency participates in administered transactions). Therefore, not all agencies are required to report against all schedules.

The budgeted financial statements contain the estimates prepared in accordance with the requirements of the government’s financial budgeting and reporting framework, including the principles of the Australian Accounting Standards and Statements of Accounting Concepts, as well as specific guidelines issued by the Department of Finance and Administration. They show the planned financial performance for the 2006-07 Budget year and each of the forward years from 2007-08 to 2009-10. The statements also include the estimated actual for 2005-06 for comparative purposes.

The schedules included in the budgeted financial statements for 2006-07 are as follows.

| Schedule | Purpose |
|---|--|
| Budgeted departmental income statement | Shows the expected financial results for the agency. Identifies full accrual expenses and revenues, which highlights whether the agency is operating at a sustainable level. |
| Budgeted departmental balance sheet | The financial position of the agency. It helps decision makers to track the management of assets and liabilities. |
| Budgeted departmental statement of cash flows | Provides information on the extent and nature of cash flows by categorising them into expected cash flows from operating activities, investing activities and financing activities. |
| Budgeted departmental statement of changes in equity — summary of movement | This is a new statement for Portfolio Budget Statements that represents the movement of parent entity (the Commonwealth) interest in the agency. The statement has been prepared to reflect the net operating result, movements of capital return and additional capital injections from the Commonwealth. |
| Departmental capital budget statement | Shows all planned departmental capital expenditure (capital expenditure on non-financial assets), whether funded through capital appropriations for additional equity or borrowings, or from funds from internal sources. |
| Departmental property, plant, equipment and intangibles — summary of movement | Shows budgeted acquisitions and disposals of non financial assets during the Budget year. |
| Schedule of budgeted income and expenses administered on behalf of government | Identifies the main revenues and expenses administered on behalf of government. |
| Schedule of budgeted assets and liabilities administered on behalf of government | Shows the assets and liabilities administered on behalf of government. |
| Schedule of budgeted administered cash flows | Shows cash flows administered on behalf of government. |

| Schedule | Purpose |
|--|--|
| Schedule of administered capital budget | Shows details of planned administered capital expenditure. |
| Schedule of administered property, plant, equipment and intangibles — summary of movement | Discloses details of movements in administered non financial assets. |

Abbreviations and conventions

The following notations may be used:

| | |
|---------|---|
| NEC/nec | not elsewhere classified |
| - | nil |
| .. | not zero, but rounded to zero |
| na | not applicable (unless otherwise specified) |
| nfp | not for publication |
| \$m | \$ million |

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

Enquiries

Should you have any enquiries regarding this publication, please contact:

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A copy of this document can be located on the Australian Government Budget website at www.budget.gov.au and the Defence website at www.defence.gov.au/budget

References

Previous years' Defence portfolio budget statements, portfolio additional estimates statements and annual reports can be found at: www.defence.gov.au/budget

The Defence Update 2005 can be found at: www.defence.gov.au/update2005

DEFENCE

CHAPTER ONE

OVERVIEW

OVERVIEW

Overview of the 2006-07 Budget

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OVERVIEW

Overview of the 2006-07 Budget

In *Defence 2000: Our Future Defence Force* (the Defence White Paper) the Government committed to increase Defence spending by an average of 3 per cent real growth a year from 2000-01 to 2010-11. In this budget the Government has decided to continue to increase Defence spending by 3 per cent real growth per-annum until 2015-16. This will mean a 15-year commitment to 3 per cent real growth in Defence funding.

In addition to the \$28.5 billion already committed over the decade to 2010-11, the Government will provide an additional \$10.7 billion over the period 2011-12 to 2015-16. This will fund vital projects such as the Joint Strike Fighters and Air Warfare Destroyers and other priorities set out in the revised 2006-16 Defence Capability Plan to be released in June.

In addition to the \$3.0 billion in Defence White Paper funding provided in 2006-07, Defence will also receive an extra \$1.4 billion in the coming financial year in new budget measures. This is the sixth successive budget in which the Government has met or exceeded its Defence White Paper funding commitment. The \$1.4 billion builds on the additional funds provided in recent Budgets for operations, logistics sustainment, military personnel, single accommodation, and estate upkeep.

All up, the Defence budget will increase to \$19.6 billion in 2006-07 or 9 per cent of Commonwealth outlays and about 1.9 per cent of Gross Domestic Product (GDP).

In addition to the 3 per cent real growth commitment, the Budget provides an additional \$1.9 billion to acquire a new heavy airlift capability (the Boeing C-17 Globemaster III), and a further \$1.5 billion over ten years for the Hardened and Networked Army initiative. The Budget also brings forward \$625.0m in Defence Capability Plan funding, reflecting improved project management by the Defence Materiel Organisation (DMO).

The Government has also provided an additional \$623.0m in the budget for Defence operations comprising:

- \$392.7m over three years from 2006-07 for a continuation of operations in Iraq;
- \$218.2m over three years from 2006-07 for operations including deploying and sustaining our Reconstruction Task Force to Afghanistan; and
- \$12.1m in 2006-07 for the surveillance of Australia's northern approaches as part of Operation Relex II.

Increasing military workforce numbers and enhancing the conditions of service of military personnel and their families is a high priority. Key initiatives include:

- funding to renew the military Workforce Remuneration Agreement;
- funding for a number of recruitment and retention initiatives designed to recover and grow Australian Defence Force (ADF) workforce numbers;
- a number of initiatives to improve conditions of service for Defence personnel and support for ADF families; and
- increased remuneration for Reserve personnel.

Other new measures contained in the Budget include:

- \$26.2m in 2006-07 to sustain and enhance Naval aviation capability;
- about \$300m over four years to modernise propellant manufacturing at the explosives and propellant facility at Mulwala, New South Wales, of which the Government will contribute \$131m in new funding; and
- \$22.1m over four years to enhance maritime surveillance and detection capabilities.

As part of the Budget, Defence's funding allocations have also been adjusted for movements in the non-farm GDP deflator, which is the index used to price update the Defence budget. Funds are to be returned to the Government under the no-win/no-loss arrangements that apply to Defence's foreign exchange exposure. These handbacks do not affect Defence's purchasing power but reflect the strength of the Australian dollar relative to the exchange rates at the time of the original Defence White Paper funding.

After allowing for the handback of \$5.3 billion in foreign exchange supplementation, all up, the Government has provided an additional \$10.4 billion over ten years including \$1.4 billion in 2006-07, as shown in Table 1.1.

Table 1.1: Additional Funding Provided to Defence in the 2006-07 Budget

| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | Total |
|--|--------------|------------|-------------|-------------|-------------|-------------|---------------|---------------|--------------|--------------|---------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| New Budget Measures | | | | | | | | | | | |
| Defence capability – heavy airlift | 792 | 518 | 360 | 249 | 222 | -44 | -140 | -57 | - | - | 1,899 |
| Hardened and Networked Army – phase 2 | 24 | 68 | 152 | 196 | 212 | 220 | 164 | 142 | 174 | 196 | 1,548 |
| Iraq – funding for stabilisation and reconstruction activities | 310 | 67 | 16 | - | - | - | - | - | - | - | 393 |
| Afghanistan - contributing to a Provincial Reconstruction Team | 92 | 99 | 27 | - | - | - | - | - | - | - | 218 |
| Afghanistan - providing aviation support | 15 | - | - | - | - | - | - | - | - | - | 15 |
| Army Reserves - increasing remuneration | 36 | 47 | 47 | 52 | 53 | 56 | 65 | 67 | 68 | 70 | 560 |
| Coastal surveillance - increased patrolling of maritime approaches | 24 | 24 | 24 | 24 | 25 | 25 | 26 | 26 | 27 | 27 | 252 |
| Coastal surveillance - continuation | 12 | - | - | - | - | - | - | - | - | - | 12 |
| Mulwala redevelopment project | - | - | 61 | 29 | 27 | 5 | 5 | 4 | - | - | 131 |
| Defence housing - supplementation for competitive neutrality policy | 78 | - | - | - | - | - | - | - | - | - | 78 |
| Defence Headquarters Joint Operations Command | nfp | nfp | nfp | nfp | nfp | nfp | nfp | nfp | nfp | nfp | nfp |
| Defence funding beyond 2010-11 | - | - | - | - | - | 652 | 1,350 | 2,094 | 2,888 | 3,735 | 10,719 |
| Logistics - additional funding for naval aviation | 26 | - | - | - | - | - | - | - | - | - | 26 |
| National Security | | | | | | | | | | | |
| defence communications project | -35 | -31 | 14 | 19 | 20 | 18 | 17 | 17 | 21 | 21 | 80 |
| - improving intelligence connectivity | 2 | 4 | 1 | 1 | - | - | - | - | - | - | 8 |
| Securing Borders against Illegal Foreign Fishing | | | | | | | | | | | |
| - charting and surveying in northern waters | 5 | 6 | 7 | - | - | - | - | - | - | - | 19 |
| - enhanced detection capabilities | 1 | 1 | 1 | 1 | - | - | - | - | - | - | 4 |
| Military Superannuation Schemes - removal of inequities | - | - | - | - | - | - | - | - | - | - | - |
| Australian Defence Force – recovering workforce strength | - | - | - | - | - | - | - | - | - | - | - |
| 1.Sub - Total New Budget Measures | 1,380 | 802 | 711 | 571 | 559 | 931 | 1,486 | 2,293 | 3,178 | 4,048 | 15,961 |
| Savings Measures | | | | | | | | | | | |
| Australian Defence Force command and control structure - rationalisation | -6 | -13 | -21 | -31 | -31 | -31 | -31 | -31 | -31 | -31 | -256 |
| Efficiency dividend – broadening of the application in Defence | -4 | -11 | -20 | -29 | -38 | -46 | -53 | -60 | -68 | -75 | -405 |
| Crisis communications - improvements | -4 | - | - | - | - | - | - | - | - | - | -4 |
| 2. Sub - Total Savings Measures | -14 | -24 | -41 | -60 | -69 | -77 | -84 | -91 | -99 | -106 | -665 |
| 3. Total 2006-07 Budget Measures (1+2) | 1,366 | 779 | 670 | 511 | 490 | 855 | 1,402 | 2,201 | 3,079 | 3,942 | 15,296 |
| Other Budget Adjustments | | | | | | | | | | | |
| Bring forward of Defence Capability Plan funding | 154 | 207 | 52 | 212 | - | - | -337 | -343 | - | - | -55 |
| Price Indexation | 106 | 72 | 39 | 41 | 42 | 44 | 45 | 48 | 52 | 56 | 546 |
| Return of Foreign Exchange Supplementation | -258 | -257 | -333 | -491 | -591 | -653 | -736 | -736 | -638 | -651 | -5344 |
| 4. Sub Total Other Budget Adjustments | 2 | 22 | -242 | -238 | -549 | -609 | -1,027 | -1,031 | -586 | -595 | -4,854 |
| 5. Total Increase in Defence Funding (3+4) | 1,368 | 800 | 428 | 273 | -59 | 246 | 375 | 1,170 | 2,493 | 3,347 | 10,442 |

The Government commitment to increase Defence funding over the period 2010-11 totals \$10.7 billion and is to be allocated for the purposes outlined in Table 1.2.

Table 1.2: Allocation of Additional Funding Beyond 2010-11

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | Total |
|---|------------|--------------|--------------|--------------|--------------|---------------|
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Personnel Costs | 147 | 337 | 534 | 741 | 918 | 2,678 |
| Living-In Accommodation | 48 | 101 | 159 | 221 | 290 | 819 |
| Defence Capability Plan | 251 | 374 | 543 | 499 | 683 | 2,350 |
| Major Capital Facilities Program | 17 | 35 | 54 | 74 | 95 | 274 |
| Other Capital Purchases | 4 | 8 | 13 | 17 | 23 | 65 |
| Operating Costs including for New Equipment | 49 | 192 | 396 | 854 | 1,160 | 2,651 |
| Logistics Sustainment | 61 | 125 | 192 | 264 | 339 | 980 |
| Facilities Operating Costs/Estate Upkeep | 75 | 178 | 203 | 217 | 228 | 901 |
| Total Allocation | 652 | 1,350 | 2,094 | 2,888 | 3,735 | 10,719 |

Status of Defence White Paper Funding

Defence's departmental funding in 2006-07 and beyond continues to be based primarily on the allocations approved by the Government in the context of the 2000 Defence White Paper. The additional funding commitment totals \$28.5 billion (Outturned, 2006-07 Budget prices) over 11 years commencing in 2001-02 and represents the most specific long-term funding commitment for Defence for more than 25 years.

The additional Defence 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 at that time (+\$19.8 billion);
- provision for two per cent real per capita growth in personnel costs from 2004-05 onwards, reflecting the cost of maintaining a highly skilled workforce in a sustainable way (+\$4.8 billion);
- provision for the through-life support costs of the capability enhancements in the Defence Capability Plan (+\$2.9 billion); and
- funding of a number of baseline cost pressures, including offsetting some of these through administrative savings (+\$1.0 billion).

After taking account of the reprogramming of the Defence Capability Plan that was agreed by the Government, including in this Budget, additional Defence White Paper funding already provided by the Government totals \$6.3 billion over the period 2001-02 to 2005-06. The 2006-07 Budget includes a further \$3.0 billion in Defence White Paper funding, and an additional \$13.3 billion is

included in the forward estimates. The remaining funding, totalling \$6.0 billion, is to be provided over the period 2010-11 to 2013-14.

Table 1.3 provides details of the current Defence White Paper funding allocations in 2006-07 prices, including the bringing forward of \$625.0m in Defence Capability Plan funding into 2006-07 and the Forward Estimates, as agreed by the Government in the 2006-07 Budget.

Table 1.3: Current Defence White Paper Funding Allocations (Portfolio Budget Statements 2006-07 prices, Outturned)⁽¹⁾

| | 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 | 1,552 | 1,722 | 2,325 | 2,411 | 2,282 | 2,796 | 3,429 | - | - | - | 19,584 |
| Defence Capability Program (DCP) reprogramming agreed in 2002-03 Budget | | -200 | | | | | | 224 | | | | | | 24 |
| DCP reprogramming agreed in 2003-04 Budget | | | -542 | -201 | -146 | -94 | 0 | 159 | 457 | 339 | 167 | 0 | 0 | 139 |
| DCP reprogramming agreed in 2004-05 Budget | | | | -75 | -314 | -389 | -137 | 0 | 203 | 137 | 194 | 302 | 216 | 138 |
| DCP reprogramming agreed in 2005-06 Budget | | | | | 300 | | | | -106 | -108 | -111 | | | -25 |
| DCP reprogramming agreed in 2006-07 Budget | | | | | | 154 | 207 | 52 | 212 | | | -337 | -343 | -55 |
| A Defence Capability Plan | 510 | 851 | 964 | 1,276 | 1,563 | 1,996 | 2,481 | 2,717 | 3,563 | 3,797 | 250 | -35 | -127 | 19,805 |
| Through-Life Support Costs for DCP Projects | | | | | | | | | | | | | | |
| Original Allocation | - | - | - | 195 | 242 | 296 | 430 | 509 | 601 | 640 | - | - | - | 2,913 |
| Reprogramming | - | 8 | 21 | -134 | -64 | -5 | - | 13 | 84 | 76 | - | - | - | -1 |
| B Through-life Support for DCP Projects | - | 8 | 21 | 61 | 178 | 290 | 430 | 522 | 686 | 716 | - | - | - | 2,912 |
| C Two Per Cent Real Growth in Personnel Costs | - | - | - | 238 | 380 | 525 | 668 | 819 | 982 | 1,199 | - | - | - | 4,812 |
| D Operating Costs | - | - | - | 117 | 135 | 143 | 147 | 152 | 158 | 159 | - | - | - | 1,009 |
| Total (A+B+C+D) | 510 | 859 | 985 | 1,692 | 2,255 | 2,954 | 3,726 | 4,210 | 5,388 | 5,871 | 250 | -35 | -127 | 28,538 |

Note

1. Figures may not add due to rounding.

Strategic Objectives and Environment

The Government's defence strategy is articulated in the Defence White Paper, and the subsequent reviews *Australia's National Security: A Defence Update 2003* and *Australia's National Security: A Defence Update 2005* (hereafter referred to as the Defence Updates 2003 and 2005).

The most recent strategic review, the Defence Update 2005, confirms and builds on the key judgments made in 2000 and 2003, highlighting the longer-term trends associated with the impacts of globalisation, the threats of terrorism and counter-proliferation, the United States' strategic primacy and the maturing relationships between the major powers of the Asia-Pacific region that will shape Australia's strategic environment into the future.

STRATEGIC OBJECTIVES

The Defence Update 2005 refined the key roles of the ADF as outlined and endorsed in the Defence White Paper. The ADF will continue to plan to be able to undertake four key tasks: the defence of Australia and its direct approaches; contributing to the security of our immediate neighbourhood; supporting Australia's wider interests and objectives; and contributing to peacetime national tasks. The Defence Update 2005 notes importantly that Australia's security interests are not defined by geography alone, reflecting Australia's extensive and complex role in the global community.

CHANGING STRATEGIC ENVIRONMENT

The Defence Update 2005 confirms the trends identified in 2003. Defeating the threat of terrorism, countering the proliferation of weapons of mass destruction and supporting regional states in difficulty, remain the Government's highest priorities.

The Defence Update 2005 states that threats will be increasingly interrelated across both national and international environments, and across organisational and jurisdictional boundaries. It also notes that in the years ahead Australia may face challenges that cannot be anticipated or predicted easily. The contribution the ADF makes to future national security is likely to go far beyond traditional warfighting against traditional types of adversaries.

At the same time, the current high demands placed on the ADF in responding to threats and meeting other responsibilities is likely to continue. The ADF can expect to conduct concurrent deployments domestically, regionally and internationally in support of Australia's interests.

To meet these strategic needs, this Government is committed to the development of future forces that are versatile, robust, joint and integrated.

The Government will pursue a defence policy which will:

- shape and build an ADF that is balanced, versatile and adaptable by continuing the capability developments begun in the Defence White Paper, aimed at increasing the ADF's combat weight, mobility, and sustainability; and
- build a strong set of security relationships – regionally and globally – that allow Australia to continue to help shape the international environment towards Australian interests, and to lead, contribute to, support and enable military coalitions as appropriate.

Force Structure

Defence maintains a force structure to meet the strategic tasks outlined in the Defence White Paper and the Defence Updates 2003 and 2005. The shape of the force structure is influenced, among other things, by lessons learnt during major operations. The force-in-being consists of the following major combat or combat-support elements:

- a surface combatant force of five Adelaide-class guided missile frigates (to be reduced to four by the end of 2007) and seven Anzac-class frigates (increasing to a total of eight by September 2006);
- a naval aviation force comprising 16 Seahawk naval combatant helicopters, six Sea King maritime support helicopters and 13 Squirrel naval training helicopters. The introduction of the Super Seasprite helicopter to operational service has been delayed by the need to resolve a system problem identified during the flight test program. The last Super Seasprite helicopter is scheduled for delivery in March 2007;
- a mix of Fremantle-class and Armidale-class patrol boats to provide patrol, response and surveillance capability in Australia's maritime approaches. The existing Fremantle-class force is being progressively replaced and all will be decommissioned by June 2007 by which time 12 Armidale-class patrol boats will be in service. An additional two Armidale-class patrol boats will be delivered in late 2007;
- six Collins-class submarines;
- an amphibious lift and sea command force comprising two amphibious landing ships, one heavy landing ship and six heavy landing craft;
- a mine warfare force comprising six Huon-class coastal mine hunter vessels, two auxiliary minesweepers and two clearance diving teams;

- a hydrographic force comprising two Leeuwin-class hydrographic ships, four Paluma-class survey motor launches, a laser airborne depth sounder aircraft and a deployable geospatial support team;
- an afloat support force comprising one auxiliary oil tanker (to be replaced in September 2006 with a more environmentally-compliant double-hulled tanker) and one fleet replenishment ship;
- nine combined arms battlegroups to provide depth, sustainability, utility and flexibility for the Army;
- a Reserve Force designed to provide specified individual and collective capabilities to support, sustain and reinforce the Army's operational forces;
- three regional force surveillance units;
- a Special Operations Command consisting of the Special Air Services regiment, a Regular Army commando regiment, an Army Reserve commando regiment, an Incident Response Regiment, a Special Forces Training Centre and a Special Forces Combat Service Support Company;
- an air combat force consisting of three front-line F/A-18 Hornet squadrons and one operational F-111 squadron (to be retired from service from 2010), supported by a training wing comprising four units, a wide-area surveillance system (Jindalee Operational Radar Network) monitoring Australia's northern approaches, and a range of ground radars and other support elements;
- an air lift and air-to-air refueling force that operates two C-130 Hercules airlift squadrons, one squadron each of DHC-4, B-707, and Special Purpose Aircraft (B-737 BBJ and CL-604 Challenger) supported by a training wing, and the Boeing C-17 Globemaster III heavy airlifter which will enter service from late 2006;
- a combat support group consisting of three expeditionary combat support squadrons that provide the essential air base combat support required to conduct deployed air operations on bare bases and in low infrastructure conditions, an airfield defence wing and a health support wing;
- a maritime patrol force comprising two front line AP-3C Orion squadrons and one conversion unit, and the Wedgetail airborne early warning and control aircraft which will enter service from 2007; and
- diverse capabilities for intelligence collection and analysis.

The major combat elements are being integrated through a robust communications network and the information systems required to support the ADF's mission command, intelligence, surveillance, reconnaissance, imagery and military geospatial information sharing requirements. Capabilities such as

satellite communications, tactical information exchange links and the Command Support Environment are being progressed.

The delivery of Defence capabilities continues to be dependent on the support of the Defence Science and Technology Organisation.

ORGANISATIONAL STRUCTURE

Senior Executive Changes

Mr Alan Henderson, Deputy Secretary Corporate Services, will depart Defence on 30 June 2006. A replacement is yet to be announced.

Organisational Structure Changes

On 21 February 2006, the Secretary and the Chief of the Defence Force announced structural changes aimed at streamlining Defence processes that would be introduced on 1 July 2006. These changes were made after consideration and consultation with the Defence Committee in December 2005 and February 2006, and were endorsed by the Minister for Defence. These changes will:

- improve performance of the central policy functions by creating an integrated Australian Defence Headquarters;
- establish more cohesive service delivery with a Defence Support Group; and
- improve coordination and visibility of issues for the Secretary and the Chief of the Defence Force, and for the Government.

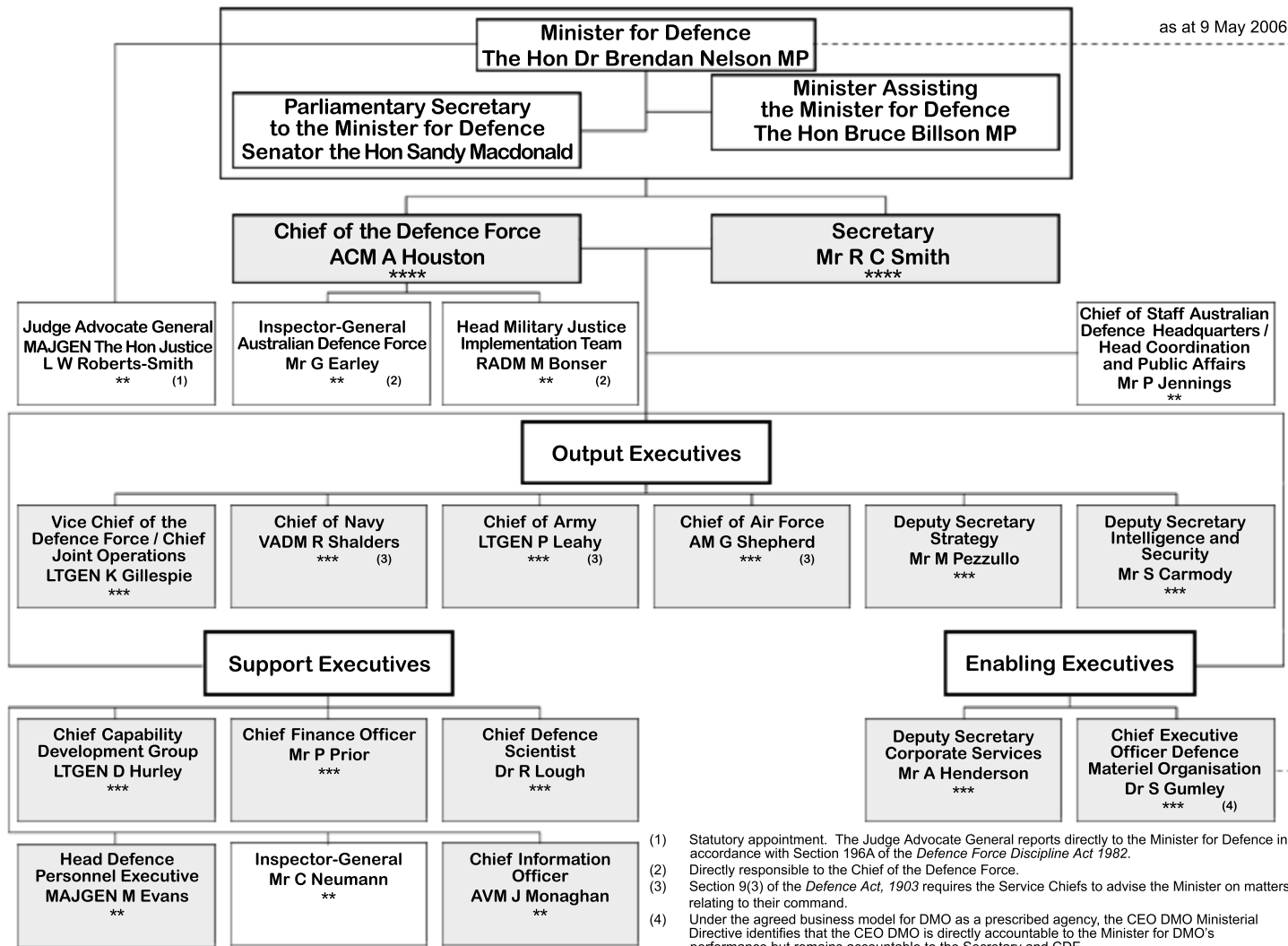
Associated with these structural changes is, from 1 July 2006, the establishment of Joint Logistics Command as a Group. The responsibility for the development of cadet policy has been transferred from the Vice Chief of the Defence Force to the Head Defence Personnel Executive.

The proposed new organisational structure and initial Australian Defence Headquarters structure is shown in Chart 1.2. The final structure is still being refined, and revised Outcomes and Outputs will be reported in the *Portfolio Additional Estimates Statements 2006-07*.

Organisational Chart

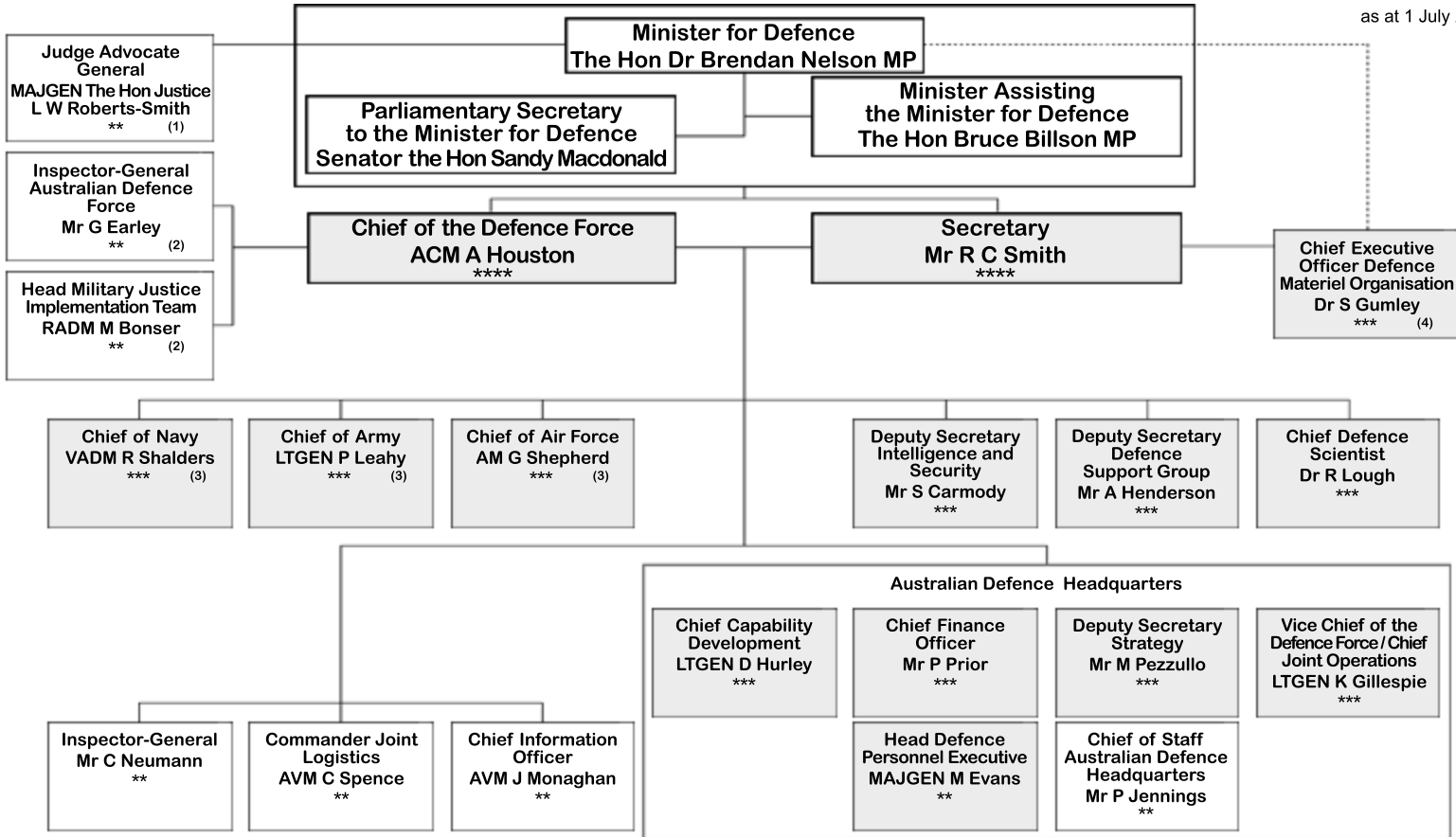
Chart 1.1 depicts the structure of the organisation as at 9 May 2006.

Chart 1.2 depicts the structure of the organisation as at 1 July 2006.



(1) Statutory appointment. The Judge Advocate General reports directly to the Minister for Defence in accordance with Section 196A of the *Defence Force Discipline Act 1982*.
 (2) Directly responsible to the Chief of the Defence Force.
 (3) Section 9(3) of the *Defence Act, 1903* requires the Service Chiefs to advise the Minister on matters relating to their command.
 (4) Under the agreed business model for DMO as a prescribed agency, the CEO DMO Ministerial Directive identifies that the CEO DMO is directly accountable to the Minister for DMO's performance but remains accountable to the Secretary and CDF.

■ Defence Committee members



as at 1 July 2006

- (1) Statutory appointment. The Judge Advocate General reports directly to the Minister for Defence in accordance with Section 196A of the *Defence Force Discipline Act 1982*.
- (2) Directly responsible to the Chief of the Defence Force.
- (3) Section 9(3) of the *Defence Act, 1903* requires the Service Chiefs to advise the Minister on matters relating to their command.
- (4) Under the agreed business model for DMO as a prescribed agency, the CEO DMO Ministerial Directive identifies that the CEO DMO is directly accountable to the Minister for DMO's performance but remains accountable to the Secretary and CDF.

☐ Defence Committee members

DEFENCE

CHAPTER TWO

RESOURCING

2006-07 BUDGET SUMMARY

2006-07 BUDGET MEASURES

FUNDING FOR OPERATIONS

2006-07 FINANCIAL STATEMENTS

**PAYMENTS TO THE DEFENCE MATERIEL
ORGANISATION**

DISCRETIONARY GRANTS

INDIGENOUS PROGRAMS

SAVINGS AND EFFICIENCY MEASURES

PURCHASER-PROVIDER ARRANGEMENTS

Defence Materiel Organisation

Defence Housing Authority

Department of Foreign Affairs and Trade

Comcare

ComSuper

2006-07 BUDGET SUMMARY

Defence has budgeted to receive \$22,251.1m in total resourcing in 2006-07, comprising departmental funding of \$19,619.1m and a further \$2,632.0m for the administered appropriation.

The total departmental funding is provided from four sources, comprising:

- revenue from the Government for the price of outcomes (\$17,063.4m);
- an equity injection (\$1,937.9m);
- own source revenue (\$594.6m); and
- net capital receipts (\$23.2m).

The total level of departmental funding of \$19,619.1m represents:

- an increase of \$1,866.9m compared with the estimated actual in 2005-06 of \$17,752.2m; and
- an increase of \$1,397.5m or 7.7 per cent in 2006-07 compared with the Forward Estimate published at the time of the *Portfolio Additional Estimates Statements 2005-06*.

Total Defence resourcing is summarised in Table 2.1.

The total departmental funding allocation of \$19,619.1m (serial 7), maintains Defence funding at about 1.9 per cent of GDP and is the most common way of measuring Defence's budget. The method is consistent with the presentation of the Defence White Paper. The various ways in which the Defence budget is presented are explained in Chapter Seven.

Table 2.1: Total Defence Resourcing

| Serial No | 2005-06 | 2006-07 | 2006-07 | 2007-08 | | 2008-09 | 2009-10 | |
|---------------------|--|---|------------------------------|---------------------|--------------|-------------------------------|-------------------------------|-------------------------------|
| | Estimated Actual \$'000 | Previous Estimate ⁽¹⁾ \$'000 | Budget Estimate \$'000 | Variation \$'000 | % | Forward Estimate \$'000 | Forward Estimate \$'000 | Forward Estimate \$'000 |
| Departmental | | | | | | | | |
| 1 | 16,133,541 | 16,362,110 | 17,063,404 | 701,294 | 4.3 | 17,424,698 | 17,498,316 | 18,089,342 |
| 2 | 972,080 | 1,369,024 | 1,937,879 | 568,855 | 41.6 | 1,588,444 | 1,880,401 | 2,379,642 |
| 3 | 17,105,621 (1+2) | 17,731,134 | 19,001,283 | 1,270,149 | 7.2 | 19,013,142 | 19,378,717 | 20,468,984 |
| 4 | 621,752 | 484,706 | 594,645 | 109,939 | 22.7 | 600,432 | 610,408 | 637,832 |
| 5 | 24,863 | 5,792 | 23,192 | 17,400 | 300.4 | 22,508 | 21,810 | 4,599 |
| 6 | 646,615 Sub Total (4+5) | 490,498 | 617,837 | 127,339 | 26.0 | 622,940 | 632,218 | 642,431 |
| 7 | 17,752,236 Departmental Funding (3+6) | 18,221,632 | 19,619,120 | 1,397,488 | 7.7 | 19,636,082 | 20,010,935 | 21,111,415 |
| Administered | | | | | | | | |
| 8 | 2,618,000 | 2,616,100 | 2,632,000 | 15,900 | 0.6 | 2,713,000 | 2,801,000 | 2,893,000 |
| 9 | 20,370,236 (7+8) | 20,837,732 | 22,251,120 | 1,413,388 | 6.8 | 22,349,082 | 22,811,935 | 24,004,415 |

Notes

- As reported in *the Portfolio Additional Estimates Statements 2005-06* (p. 17).
- Own-source revenue (serial 4) excludes revenue from 'assets now recognised' and 'net gains from sales of assets'.
- The Administered appropriation (serial 8) of \$2,632.0m 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 on Defence's behalf by the Department of Finance and Administration in respect of military superannuation schemes and by the Defence Housing Authority in respect of housing subsidies.

Included in Defence's \$19,619.1m in departmental funding is:

- \$2,954.0m relating to the Government's Defence White Paper funding commitment (further details on the status of the White Paper funding allocation are provided in Chapter One - Overview);
- an additional \$1,380.5m relating to new budget measures, the details of which are provided in Table 2.2; and
- new savings measures totalling \$14.4m, the details of which are also shown in Table 2.2.

2006-07 BUDGET MEASURES

The new budget measures announced by the Government total \$1,380.5m in 2006-07 and \$3,465.0m over four years, including \$440.5m for the Hardened and Networked Army, \$181.6m for the Reserve Remuneration Review and \$1,918.6m for the acquisition of an enhanced heavy airlift capability. Additional funding has also been provided for operations, including for continuation of operations in Iraq and Afghanistan.

In addition to these funding decisions, new savings measures totalling \$138.8m over four years are to be implemented through the rationalisation of the ADF's Command and Control structure, the broadening of the efficiency dividend and Defence's contribution to a whole-of-government communications initiative. The combination of the new funding and savings measures result in a net increase in Defence funding levels of \$1,366.1m in 2006-07 and \$3,326.2m over four years. The new funding and savings measures are shown in Table 2.2.

Table 2.2: Summary of New Budget Measures Disclosed in the 2006-07 Budget

| | | 2006-07 | 2007-08 | 2008-09 | 2009-10 | Total | |
|------------------------------|--|-----------------|------------------|------------------|------------------|----------------|------------------|
| | Defence Outcome | Budget Estimate | Forward Estimate | Forward Estimate | Forward Estimate | | |
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | |
| New funding measures: | | | | | | | |
| | Defence capability - heavy airlift | 4 | 792,277 | 517,621 | 360,132 | 248,541 | 1,918,571 |
| | Hardened and Networked Army - phase 2 | 3 | 24,064 | 67,919 | 152,072 | 196,424 | 440,479 |
| | Iraq - funding for stabilisation and reconstruction activities | 1 | 309,975 | 67,106 | 15,610 | - | 392,691 |
| | Afghanistan - contributing to a Provincial Reconstruction Team | 1 | 91,520 | 99,350 | 27,280 | - | 218,150 |
| | Afghanistan - providing aviation support ⁽¹⁾ | 1 | 14,627 | - | - | - | 14,627 |
| | Army Reserves - increasing remuneration | Various | 36,064 | 46,912 | 46,844 | 51,778 | 181,598 |
| | Coastal surveillance - increased patrolling of maritime approaches | 2 | 23,508 | 23,755 | 23,937 | 24,431 | 95,631 |
| | Coastal surveillance - continuation | 1 | 12,110 | - | - | - | 12,110 |
| | Mulwala redevelopment project | Various | - | - | 61,000 | 29,100 | 90,100 |
| | Defence housing - supplementation for competitive neutrality policy | Various | 78,000 | - | - | - | 78,000 |
| | Defence Headquarters Joint Operations Command - delivering through a public private partnership ⁽²⁾ | 1 | nfp | nfp | nfp | nfp | nfp |
| | Defence funding beyond 2010-11 | Various | - | - | - | - | - |
| | Logistics - additional funding for naval aviation | 2 | 26,200 | - | - | - | 26,200 |
| | National Security | | | | | | |
| | - defence communications project | Various | -35,000 | -31,000 | 14,497 | 18,505 | -32,998 |
| | - improving intelligence connectivity | 6 | 1,559 | 3,578 | 1,283 | 1,308 | 7,728 |
| | Securing Borders against Illegal Foreign Fishing | | | | | | |
| | - charting and surveying in northern waters | 2 | 5,000 | 6,200 | 7,300 | - | 18,500 |
| | - enhanced detection capabilities | 6 | 615 | 998 | 993 | 1,012 | 3,618 |
| | Sub-total New Budget Measures | | 1,380,519 | 802,439 | 710,948 | 571,099 | 3,465,005 |

| | Defence Outcome | 2006-07 Budget Estimate \$'000 | 2007-08 Forward Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | Total \$'000 |
|--|-----------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|------------------|
| New savings measures: | | | | | | |
| Australian Defence Force command and control structure – rationalisation | 1 | -5,900 | -12,700 | -20,500 | -31,000 | -70,100 |
| Efficiency dividend – broadening the application in Defence | Various | -4,481 | -11,182 | -20,077 | -28,997 | -64,737 |
| Crisis communications - improvements | Various | -4,000 | - | - | - | -4,000 |
| Sub-total New Savings Measures | | -14,381 | -23,882 | -40,577 | -59,997 | -138,837 |
| Budget Measures to be Offset or Absorbed | | | | | | |
| Australian Defence Force - recovering workforce strength | 2,3,4 | - | - | - | - | - |
| Military Superannuation Schemes - removal of inequities | 2,3,4 | - | - | - | - | - |
| Total | | 1,366,138 | 778,557 | 670,371 | 511,102 | 3,326,168 |

Note

1. As reported in the Portfolio Additional Estimates Statements 2005-06 (p. 20).
2. Not for publication due to commercial sensitivities.

OTHER BUDGET ADJUSTMENTS

In addition to the above Budget measures, the Government has agreed a number of other Budget adjustments and these are detailed below.

Defence Capability Plan Reprogramming

The Government has agreed to bring forward \$625.0m of Defence Capability Plan funding from beyond the forward estimates, including \$153.9m into 2006-07. This is as a result of improvements in project management performance of the Defence Materiel Organisation.

Price Indexation

The Government has approved a revision to price parameters provided in the 2005-06 Additional Estimates reflecting a net increase in the forecast non-farm GDP deflator of approximately 0.6 per cent in 2006-07. The rate for 2006-07 is 2.4 per cent.

Foreign Exchange Adjustments

Defence is required to return to the Government any surplus foreign exchange supplementation under the no-win/no-loss arrangements. Since the White Paper funding injection in 2001-02, Defence's budget allocations have been adjusted on a year by year basis for foreign exchange rate fluctuations compared to the rates prevalent at the time of the White Paper. Rather than adjusting the out years, the Department of Finance and Administration has held in a contingency reserve, the projected impact across the forward estimates. During the development of this Budget, the Government decided that Defence's appropriations would be adjusted in the forward estimate years, as well as the

budget year. All future exchange updates will be done on the same basis, resulting in the discontinuation of the contingency reserve. While this results in a decrease in Defence's funding of \$257.4m in 2006-07 and a further \$1,081.7m across the forward estimates, it has no impact on Defence's purchasing power.

MOVEMENT IN FUNDING (REVENUE) PROVIDED BY THE GOVERNMENT

Table 2.3 (p. 21) of the *Portfolio Additional Estimates Statements 2005-06* detailed how Defence's total revenue from appropriations had varied by Government decisions since the 2005-06 Budget. Table 2.3 below shows further movements in funding since the 2005-06 Additional Estimates.

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

| Serial No. | 2005-06 \$m | 2006-07 \$m | Variation \$m | 2007-08 \$m | 2008-09 \$m | 2009-10 \$m |
|---|----------------|----------------|------------------|----------------|----------------|----------------|
| Published in the <i>Portfolio Additional Estimate Statements 2005-06</i> (refer serial 3 of Table 2.1) | | | | | | |
| | 17,105.6 | 17,731.1 | 625.5 | 18,300.6 | 18,992.0 | 20,195.6 |
| 2006-07 Budget Measures | | | | | | |
| 1 | | 24.1 | 24.1 | 67.9 | 152.1 | 196.4 |
| 2 | | - | - | - | 61.0 | 29.1 |
| 3 | | 310.0 | 310.0 | 67.1 | 15.6 | |
| 4 | | 91.5 | 91.5 | 99.4 | 27.3 | - |
| 5 | | 36.1 | 36.1 | 46.9 | 46.8 | 51.8 |
| 6 | | 26.2 | 26.2 | - | - | - |
| 7 | | 12.1 | 12.1 | - | - | - |
| 8 | | -35.0 | -35.0 | -31.0 | 14.5 | 18.5 |
| 9 | | 1.6 | 1.6 | 3.6 | 1.3 | 1.3 |
| 10 | | 0.6 | 0.6 | 1.0 | 1.0 | 1.0 |
| 11 | | 78.0 | 78.0 | - | - | - |
| 12 | | 5.0 | 5.0 | 6.2 | 7.3 | - |
| 13 | | -5.9 | -5.9 | -12.7 | -20.5 | -31.0 |
| 14 | | -4.0 | -4.0 | | | |
| 15 | | 792.3 | 792.3 | 517.6 | 360.1 | 248.5 |
| 16 | | -4.5 | -4.5 | -11.2 | -20.1 | -29.0 |
| 17 | | 23.5 | 23.5 | 23.8 | 23.9 | 24.4 |
| 18 | | -83.5 | -83.5 | -87.7 | -41.6 | 0.2 |

| Serial No. | | 2005-06 \$m | 2006-07 \$m | Variation \$m | 2007-08 \$m | 2008-09 \$m | 2009-10 \$m |
|--|---------------------------------------|------------------------|------------------------|--------------------------|------------------------|------------------------|------------------------|
| Other Budget Adjustments: | | | | | | | |
| 19 | Defence Capability Plan Reprogramming | | 153.9 | 153.9 | 206.8 | 52.1 | 212.2 |
| 20 | Price Indexation | | 105.6 | 105.6 | 72.1 | 38.9 | 41.3 |
| 21 | Exchange adjustment | | -257.4 | -257.4 | -257.2 | -333.1 | -491.4 |
| Published in the <i>Portfolio Budget Statements 2006-07</i> (refer serial 3 of Table 2.1) | | | 19,001.3 | 1,895.6 | 19,013.1 | 19,378.7 | 20,469.0 |

Notes

1. Funding from the 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.

FUNDING FOR OPERATIONS

The ADF has approximately 1,900 personnel deployed on 11 concurrent operations, including United Nations peacekeeping and regional assistance missions. The 2006-07 Budget provides an additional \$623.0m over three financial years for operations in Iraq (\$392.7m), Afghanistan (\$218.2m) and deterring unauthorised boat arrivals – Operation Relex II (\$12.1m). Together with funds already approved in prior budgets, including commitments to operations in Iraq to 30 June 2006, a total of \$724.9m is provided in the Budget and forward estimates including \$496.8m in 2006-07 for all operations as shown in Table 2.4.

Table 2.4: Revised Net Additional Cost of Current Operations

| Operation | Budget 2005-06 | Estimated Actual 2005-06 | Variation | Budget Estimate 2006-07 | Forward Estimate 2007-08 | Forward Estimate 2008-09 |
|---|-------------------|--------------------------------|--------------|-------------------------------|--------------------------------|--------------------------------|
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Operations in Iraq to 30 June 2006 | 402.5 | 390.3 | -12.2 | 37.4 | 3.9 | - |
| Continuation of Operations in Iraq to 30 June 2007 | - | - | - | 310.0 | 67.1 | 15.6 |
| Sub-total Iraq (Operation Catalyst) | 402.5 | 390.3 | -12.2 | 347.4 | 71.0 | 15.6 |
| Special Forces Task Group ⁽¹⁾ | - | 57.6 | 57.6 | 18.4 | 3.5 | - |
| CH-47D Aviation Support Element ⁽¹⁾ | - | 37.0 | 37.0 | 14.6 | - | - |
| Reconstruction Task Force | - | - | - | 91.5 | 99.4 | 27.3 |
| Sub-total Afghanistan (Operation Slipper) | - | 94.6 | 94.6 | 124.5 | 102.9 | 27.3 |
| Coastal Surveillance (Operation Relex II) | 16.4 | 13.6 | -2.8 | 12.1 | - | - |
| Operation in Solomon Islands (Operation Anode) | 8.9 | 10.9 | 2.0 | 3.4 | - | - |
| Tsunami Assistance (Operation Sumatra Assist) | 11.1 | 11.1 | - | - | - | - |
| Commonwealth Games 2006 (Operation Acolyte) | 11.4 | 11.9 | 0.5 | 1.0 | - | - |
| APEC 2007 (Operation Deluge) | - | - | - | 8.4 | 11.3 | - |
| Operations in Timor-Leste (Operation Spire) | 4.1 | 4.1 | - | - | - | - |
| Total | 454.4 | 536.5 | 82.1 | 496.8 | 185.2 | 42.9 |
| Pakistan Assistance (Operation Pakistan Assist) ⁽²⁾ | - | 13.7 | 13.7 | - | - | - |
| Total⁽³⁾ | 454.4 | 550.2 | 95.8 | 496.8 | 185.2 | 42.9 |

Notes

1. An amount of \$17.2m is held in the appropriation receivable (refer to Table 2.10) and will, subject to Government agreement, now be spent in 2006-07.
2. Defence will be reimbursed \$13.4m for the net additional cost of the operation by the Department of Foreign Affairs and Trade through the existing aid budget.
3. Including funding from the Department of Foreign Affairs and Trade.

OPERATION CATALYST

Operation Catalyst is the ADF's contribution to Multinational Force Efforts to develop a secure and stable environment in Iraq and assist national recovery programs. In 2005-06, Australia's contribution to Coalition operations in Iraq under Operation Catalyst included strategic airlift and maritime patrol assets, a Major Fleet Unit in the North Arabian Gulf, a Security Detachment in Baghdad, an Embedded Support Group, Force Level Logistic Assets and a Headquarters element. Australia's commitment to Iraq also included a Task Group to the southern Iraqi province of Al Muthanna to provide security support to the Japanese reconstruction personnel and to continue Australia's commitment to train new Iraqi army personnel in the province.

As part of the 2006-07 Budget, the Government has decided to continue operations in Iraq at about the same levels until 30 June 2007, and has provided Defence with an additional \$392.7m over three financial years for this purpose.

OPERATION SLIPPER

Operation Slipper is the ADF's contribution to the international coalition against terrorism. In September 2005, a Special Forces Task Group of about 190 personnel was deployed for 12 months to support the reconstruction and stability of Afghanistan by providing combat patrols of remote regions, reconnaissance and surveillance operations with coalition partners. The Government has provided funds over three financial years including \$18.4m in 2006-07 for the net additional cost of the deployment including personnel allowances, communications and logistics support.

An aviation support element comprising two CH-47D helicopters and 140 personnel has also been deployed as part of the Combined Forces Command in Afghanistan, to provide additional aero-medical evacuation and air mobility support to the Special Forces Task Group and a Reconstruction Task Force until November 2006. Defence has been provided with funds over two financial years for the net additional cost of this deployment, including \$14.6m in 2006-07.

Additionally the Government has agreed to the deployment of a Reconstruction Task Force comprising approximately 240 ADF personnel as part of a Netherlands-led Provincial Reconstruction Team. The ADF contribution will be a mixed security and reconstruction task force to work on reconstruction and community based projects to assist Afghanistan to achieve a stable and secure future. The Government have since approved, as part of the 2006-07 Budget, additional supplementation for the deployment of a Reconstruction Task Force of \$218.2m across three financial years, including \$91.5m in 2006-07, bringing the total net additional cost of Operation Slipper in 2006-07 to \$124.5m.

OPERATION RELEX II

Operation Relex II involves the conduct of air and surface surveillance and interception operations to protect Australia's northern and western borders from unauthorised boat arrivals. The Government has provided \$12.1m in 2006-07 for the net additional costs involved in this operation.

Through the multi-tasking nature of the activities within Operations Relex II and Cranberry, the ADF's contribution to civil agencies involved in maritime security activities will be further enhanced. This will ensure that Defence assets are effectively employed against a wide range of recognised threats, including illegal foreign fishing.

OPERATION ANODE

Operation Anode is the ADF's contribution to the Regional Assistance Mission to the Solomon Islands. The Government has provided \$3.4m in 2006-07 for the continuation of an ADF presence until 30 December 2006 and the remediation of ADF vehicles returned from operation in the Solomon Islands.

OPERATION ACOLYTE

Operation Acolyte was the ADF's contribution to the whole-of-government support to the conduct of the Melbourne 2006 Commonwealth Games in March 2006. The Government provided \$1.0m in 2006-07 for the remediation of equipment and reconstitution of stores used during the operation.

OPERATION DELUGE

Operation Deluge is the ADF's contribution to the whole-of-government support for hosting the Asia Pacific Economic Cooperation forum in Australia in 2007. The ADF contribution deals primarily with the provision of counter-terrorism, security and ceremonial capabilities. The Government has provided \$19.7m for the net additional cost of security support to be provided by Defence over two financial years, including \$8.4m in 2006-07.

MINOR OPERATIONS

The ADF also participates in a number of minor United Nation peacekeeping operations, the costs of which are absorbed by Defence within its annual funding allocation. These include operations based in Sudan, Sinai and the Middle East.

STATUS OF FUNDING FROM ALL OPERATIONS

Table 2.5 provides a summary of the actual and planned expenditure on operations for which Defence has been supplemented covering the period 1999-00 to 2008-09. To date, the Defence budget has been supplemented by \$6,047.7m for these operations.

Table 2.5: Summary of the Net Additional Cost of Operations for which Defence has been Supplemented.

| Operation | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | Total ⁽¹⁾ |
|--|--------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|----------------------|
| | Actual | Actual | Actual | Actual | Actual | Actual | Original | Estimated | Budget | Budget | Budget | |
| | Result | Result | Result | Result | Result | Result | Budget | Actual | Estimate | Estimate | Estimate | |
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Operation Spire (Timor-Leste) ⁽²⁾ | 598.1 | 798.5 | 632.9 | 579.3 | 554.0 | 27.4 | 4.1 | 4.1 | - | - | - | 3,194.3 |
| Operation Bel Isi | - | 20.0 | 10.1 | 14.6 | 3.0 | - | - | - | - | - | - | 47.7 |
| Operation Slipper ⁽³⁾ | - | - | 320.0 | 176.0 | -5.0 | - | - | 94.6 | 124.5 | 102.9 | 27.3 | 840.3 |
| Operation Relex and Relex II Operations | - | - | 22.2 | 27.8 | 15.9 | 11.9 | 16.4 | 13.6 | 12.1 | - | - | 103.5 |
| Bastille/Falconer/Catalyst | - | - | - | 285.3 | 240.6 | 284.9 | 402.5 | 390.3 | 347.4 | 71.0 | 15.6 | 1,635.1 |
| Operation Anode | - | - | - | - | 90.4 | 27.6 | 8.9 | 10.9 | 3.4 | - | - | 132.3 |
| Operation Sumatra Assist | - | - | - | - | - | 37.0 | 11.1 | 11.1 | - | - | - | 48.1 |
| Operation Acolyte | - | - | - | - | - | 0.1 | 11.4 | 11.9 | 1.0 | - | - | 13.0 |
| Operation Deluge | - | - | - | - | - | - | - | - | 8.4 | 11.3 | - | 19.7 |
| Sub total Defence Supplementation | 598.1 | 818.5 | 985.2 | 1,083.0 | 898.9 | 388.9 | 454.4 | 536.5 | 496.8 | 185.2 | 42.9 | 6,034.0 |
| Operation Pakistan Assist | - | - | - | - | - | - | - | 13.7 | - | - | - | 13.7 |
| Total Supplementation | 598.1 | 818.5 | 985.2 | 1,083.0 | 898.9 | 388.9 | 454.4 | 550.2 | 496.8 | 185.2 | 42.9 | 6,047.7 |

Notes

1. Total Net Additional Cost of Operations includes the Actual Results for 1999-2005, the 2005-2006 Estimated Actual and Estimates for 2006-2009.
2. Includes force generation funding from 1999-2000 to 2003-2004, with an ongoing amount of \$448.9m included in Defence's funding base from 2004-2005.
3. An amount of \$17.2m is held in the appropriation receivable (refer to Table 2.10) and will, subject to Government agreement, now be spent in 2006-07.

2006-07 FINANCIAL STATEMENTS

Income Statement

Defence is budgeting for a balanced operating result in 2006-07 which is consistent with the operating result planned at the time of the *Portfolio Additional Estimate Statements 2005-06*. Since then, total income and total expenses have increased by \$938.7m. Details are shown in Table 2.6.

Table 2.6: Variation in Planned Income Statement 2006-07⁽¹⁾

| | 2006-07 | | | |
|---|--|-----------------------------|-----------------------|--------------|
| | Previous Estimate ⁽²⁾ \$'000 | Budgeted Estimate \$'000 | Variation \$'000 % | |
| INCOME | | | | |
| Revenue | | | | |
| Revenue from Government for Outcomes | 16,362,110 | 17,063,404 | 701,294 | 4.3 |
| Goods and services | 258,130 | 530,482 | 272,352 | 105.5 |
| Other Revenue | 228,076 | 65,663 | -162,413 | -71.2 |
| Total Revenue | 16,848,316 | 17,659,549 | 811,233 | 4.8 |
| Gains | | | | |
| Reversals of previous asset write-downs | 72,500 | 200,000 | 127,500 | 175.9 |
| Total Gains | 72,500 | 200,000 | 127,500 | 175.9 |
| Total Income | 16,920,816 | 17,859,549 | 938,733 | 5.5 |
| EXPENSES | | | | |
| Employees ⁽³⁾ | 6,549,692 | 6,609,082 | 59,390 | 0.9 |
| Suppliers | 6,885,384 | 7,649,136 | 763,752 | 11.1 |
| Grants | 5,201 | 5,592 | 391 | 7.5 |
| Depreciation and amortisation | 3,336,323 | 3,336,323 | - | - |
| Finance costs | 32,716 | 20,412 | -12,304 | -37.6 |
| Write-down of assets and impairment of assets | 107,500 | 235,000 | 127,500 | 118.6 |
| Other | 4,000 | 4,004 | 4 | 0.1 |
| Total Expenses | 16,920,816 | 17,859,549 | 938,733 | 5.5 |
| Operating Result | - | - | - | - |

Notes

1. See also Table 7.1.
2. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 141).
3. Further details on employee expenses can be found in Chapter Four – People.

Income (+\$938.7m)

Income is estimated to increase by \$938.7m due to:

- increased revenue from the Government of \$701.3m, as a result of:
 - continuation of operations in Iraq – operating element (+\$264.4m)
 - the operating element of Defence Capability Plan funding brought forward from beyond the Forward Estimates to 2006-07 (+\$102.6m);

- supplementation for the operating element of Operation Slipper for the deployment and sustainment of personnel and equipment comprising a Reconstruction Task Force to Afghanistan (+\$87.4m);
- continued supplementation for the increased costs associated with the Government's Competitive Neutrality policy to the Defence Housing Authority (+\$78.0m);
- revision to the price parameter estimates reflecting a net increase in the forecast non-farm gross domestic product deflator of approximately 0.6 per cent in 2006-07 (+\$71.5m);
- the Reserve Remuneration Review initiative to build a more capable Reserve Force (+\$36.1m);
- implementation of Phase 2 of the Hardened and Networked Army initiative to improve the sustainability and survivability of the Army in operational conditions (+\$24.1m);
- supplementation for increased patrolling of Australia's maritime approaches (+\$23.5m);
- the operating element of additional funding to allow the Naval Aviation capability to be maintained to meet its directed levels of capability (+\$19.1m);
- increased disposal costs associated with the 2006-07 Property Disposals Program (+\$17.4m);
- the operating element of continuation of Operation Relex II beyond 30 June 2006 (+\$10.0m);
- the operating element of funding to purchase C-17 Globemaster III heavy airlifters to enhance Defence's heavy airlift capability (+\$6.2m);
- Defence's contribution to Australian Fisheries and Maritime Surveillance (+\$5.0m);
- supplementation for enhancements to the connectivity of the Australian Intelligence Community (+\$0.8m);
- increased funding associated with changes in intelligence priorities (+\$0.6m);
- Broadening of the Efficiency Dividend (-\$4.5m);
- savings associated with the Rationalisation of the Australian Defence Force's Command and Control structure (-\$5.9m); and
- savings achieved in a communications project (-\$35.0m).
- increased revenue from sales of goods and services of \$272.4m comprising:
 - reclassification from Other Revenue of the payments that the DMO makes back to Defence for the cost of the military workforce provided to that organisation (+\$163.8m);

- revenue received from the DMO associated with the Defence Integrated Distribution System contract and additional maintenance revenue which had not been included at the time of the last estimates (+\$82.0m);
 - additional revenue received from the DMO for project related work undertaken by the Defence Science and Technology Organisation (+\$25.0m); and
 - revision to the price parameter estimates reflecting a net increase in the forecast non-farm gross domestic product deflator of approximately 0.6 per cent in 2006-07 (+\$1.6m).
- a reduction in Other Revenue of \$162.4m is primarily due to the reclassification of the payments that the DMO makes back to Defence for the cost of the military workforce provided to that organisation (-\$163.8m).
 - variation in reversals of previous asset write-downs as a result of planned stock-taking and audit remediation activities (+\$127.5m).

Expenses (+\$938.7m)

Expenses are estimated to increase by \$938.7m compared with the last published estimates due to:

- increased employee expenses of \$59.4m as a result of:
 - continuation of operations in Iraq (+\$105.3m);
 - the Reserve Remuneration Review initiative to build a more capable Reserve Force (+\$36.1m); and
 - changes in the rank profile of the ADF, variations in per capita rates and a lower number of permanent force members than the previous estimate (-\$82.0m).
- increased suppliers expenses of \$763.8m, mainly due to:
 - a continuation of operations in Iraq – operating element (+\$159.1m);
 - increased inventory consumption as a result of increased fuel prices and changes in purchasing and consumption patterns (+\$140.0m);
 - Defence Capability Plan funding brought forward from beyond the forward estimates – operating element (+\$102.6m);
 - additional expenditure associated with work undertaken under the Defence Integrated Distribution System contract on behalf of the DMO not included in previous estimates (+\$82.0m);
 - revision to price parameters reflecting a net increase in the forecast non-farm gross domestic product deflator of approximately 0.6 per cent in 2006-07 (+\$74.5m);
 - supplementation for Operation Slipper for the deployment and sustainment of personnel and equipment involved in the Reconstruction Task Force in Afghanistan (+\$71.2m);

- a higher proportion of property, plant and equipment expenditure classified as operating rather than capital (+\$46.1m);
 - additional expenses for project related work undertaken by the Defence Science and Technology Organisation on behalf of the DMO (+\$25.0m);
 - increased expenditure on patrolling Australia's maritime approaches (+\$23.5m);
 - implementation of Phase 2 of the Hardened and Networked Army initiative (+\$21.2m);
 - additional funding for logistics sustainment of the Naval Aviation fleet (+\$19.1m);
 - disposals costs associated with the 2006-07 Property Disposal Program (+\$17.4m);
 - continuation of Operation Relex II beyond 30 June 2006 (operating component) (+\$9.7m);
 - purchase of C-17 Globemaster III aircraft to enhance Defence's heavy airlift capability (operating component) (+\$6.2m);
 - Defence's contribution to Australian Fisheries and Maritime Surveillance (+\$5.0m);
 - increased funding associated with changes in intelligence priorities (+\$0.6m);
 - enhancements to the connectivity of the Australian Intelligence Community (+\$0.3m);
 - reclassification of funding to Grants (-\$0.4m);
 - Broadening of the Efficiency Dividend (-\$4.5m); and
 - reduced expenditure due to savings achieved in a communications project (-\$35.0m).
- variation in grant funding of \$0.4m due to timing issues associated with the grant to be provided to the Livingstone Shire Council and a new grant to support the Operation Aussie Home Initiative;
 - decreased finance costs following buy-out in 2005-06 of on-base Defence Housing Authority annuities (-\$12.3m); and
 - increased write-down of assets and impairment of assets of \$127.5m as a result of stock-taking and audit remediation activities.

BALANCE SHEET

Compared with the previous estimate for 2006-07, Defence's net assets are estimated to increase by \$475.1m or 0.9 per cent comprising an increase in assets of \$436.1m and reduction in liabilities of \$39.0m. Details are shown in Table 2.7 and the reasons for variation follow.

Table 2.7: Revised Balance Sheet 2006-07⁽¹⁾

| | 2006-07 | | Variation | |
|--|--|---------------------------|----------------|-------------|
| | Previous Estimate ⁽²⁾ \$'000 | Budget Estimate \$'000 | \$'000 | % |
| ASSETS | | | | |
| Financial Assets | | | | |
| Cash | 161,249 | 161,249 | - | - |
| Appropriation Receivables | 438,251 | 455,451 | 17,200 | 3.9 |
| Other Receivable | 256,235 | 256,235 | - | - |
| Total Financial Assets | 855,735 | 872,935 | 17,200 | 2.0 |
| Non-Financial Assets | | | | |
| Land and Buildings | 10,906,161 | 10,982,127 | 75,966 | 0.7 |
| Infrastructure plant and equipment | 29,578,070 | 38,216,881 | 8,638,811 | 29.2 |
| Intangibles | 306,148 | 306,210 | 62 | 0.0 |
| Heritage and Cultural | 800,459 | 800,459 | - | - |
| Inventories | 4,150,815 | 4,169,043 | 18,228 | 0.4 |
| Other | 8,604,028 | 289,816 | -8,314,212 | -96.6 |
| Total Non-Financial Assets | 54,345,681 | 54,764,536 | 418,855 | 0.8 |
| Total Assets | 55,201,416 | 55,637,471 | 436,055 | 0.8 |
| LIABILITIES | | | | |
| Debt | | | | |
| Leases | 228,290 | 228,290 | - | - |
| Other interest bearing liabilities | 2,631 | 2,631 | - | - |
| Total Debt | 230,921 | 230,921 | - | - |
| Provisions and Payables | | | | |
| Employees and other provisions | 1,532,896 | 1,493,890 | -39,006 | -2.5 |
| Suppliers payables | 608,219 | 608,219 | - | - |
| Other | 527,606 | 527,606 | - | - |
| Total Provisions and Payables | 2,668,721 | 2,629,715 | -39,006 | -1.5 |
| Total Liabilities | 2,899,642 | 2,860,636 | -39,006 | -1.3 |
| Net ASSETS | 52,301,774 | 52,776,835 | 475,061 | 0.9 |
| EQUITY | | | | |
| Capital | 5,998,086 | 6,482,741 | 484,655 | 8.1 |
| Reserves | 10,610,860 | 10,610,860 | - | - |
| Retained surpluses or accumulated deficits | 35,692,828 | 35,683,234 | -9,594 | - |
| TOTAL EQUITY | 52,301,774 | 52,776,835 | 475,061 | 0.9 |

Notes

1. See also Table 7.2.
2. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 142).

Assets (+\$436.1m)

Total assets are estimated to be \$436.1m higher than the previous estimate for 2006-07 due to movements in both financial and non-financial assets.

Financial Assets are \$17.2m higher than projected in the 2005-06 Additional Estimates due to:

- Operation Slipper funding from 2005-06 being held in the Receivable at 30 June 2006 pending agreement to draw-down in 2006-07.

Non-Financial Assets are \$418.9m higher than projected in the 2005-06 Additional Estimates due to:

- Land and Buildings are estimated to increase by \$76.0m due to increased expenditure in the Major Capital Facilities Program (+\$162.3m), offset by revised treatment of the construction of Defence Headquarters Joint Operations Command (-\$53.9m) and property expected to be sold through the Property Disposals Program (-\$32.4m);
- Infrastructure, plant and equipment assets are estimated to increase by \$8,638.8m due to:
 - the transfer of assets under construction from the DMO's balance sheet back to Defence's after receiving further advice from the Australian National Audit Office and the Department of Finance and Administration (+\$8,314.2m);
 - funding to purchase C-17 Globemaster III aircraft to enhance Defence's heavy airlift capability - capital element (+\$786.1m);
 - additional funding brought forward for the 2006-16 Defence Capability Plan from beyond the forward estimates - capital element (+\$51.3m);
 - revision to price parameters reflecting a net increase in the forecast non-farm GDP deflator of approximately 0.6 per cent in 2006-07 (+\$26.8m);
 - purchase of repairable items as part of an increase in logistics sustainment funding for the Naval Aviation capability to be maintained to meet its directed levels of capability (+\$7.1m);
 - continuation of Operation Relex II beyond 30 June 2006 (capital element) (+\$2.1m);
 - increased expenditure as a result of continuation Operation Slipper for the deployment and sustainment of personnel and equipment comprising a Reconstruction Task Force to Afghanistan (capital element) (+\$1.3m);
 - continuation of operations in Iraq (+\$1.1m);
 - enhancements to the connectivity of the Australian Intelligence Community (+\$0.8m);

- Defence's contribution to the cross-portfolio initiative to ensure adequate communications services are available in the event of a crisis (-\$4.0m);
 - variation in the level of infrastructure, plant and equipment purchases (-\$22.3m);
 - revised treatment of the construction of the Defence Headquarters Joint Operations Command (-\$29.6m);
 - the flow-on impact of increased write-down of assets in 2005-06 as a result of stocktaking and audit remediation activities (increased estimates for assets recognised for the first time and write down of assets in 2006-07 are offsetting) (-\$238.7m); and
 - a handback of foreign exchange supplementation reflecting the difference between current foreign exchange parameters and those on which the 2006-07 Budget were based (-\$257.4m).
- intangibles have increased by \$0.1m due to revision to price parameters reflecting a net increase in the forecast non-farm GDP deflator of approximately 0.6 per cent in 2006-07.
 - inventories are planned to increase by \$18.2m due to:
 - purchase of inventory associated with the continuation of operations in Iraq (+\$44.5m);
 - revision to price parameters reflecting a net increase in the forecast non-farm GDP deflator of approximately 0.6 per cent in 2006-07 (+\$7.3m);
 - purchase of inventory associated with Operation Slipper for the deployment for the deployment and sustainment of personnel and equipment comprising a Reconstruction Task Force to Afghanistan (+\$2.8m); and
 - reduced inventory balance as a result of changes in purchasing and consumption patterns (-\$36.3m).
 - other non-financial assets are lower primarily due to assets under construction being transferred from Defence Materiel Organisation's balance sheet back to Defence's balance sheet after receiving further advice from the Australian National Audit Office and the Department of Finance and Administration (-\$8,314.2m).

Liabilities (-\$39.0m)

Total liabilities are estimated to be \$39.0m lower than projected in the 2006-07 Budget due to employee provisions being \$39.0m lower as a result of the flow on impact of adoption of the Australian Equivalent to the International Financial Reporting Standards, where the non-current component of annual leave liability has been discounted appropriately.

CASH FLOWS

During 2006-07 Defence has budgeted to receive \$1,412.5m or 7.6 per cent more cash from all sources than the previous estimate. Defence has budgeted to use all of the \$19,984.8m cash it plans to receive (including the additional \$1,412.5m) and the details are shown in Table 2.8. No change in cash balances are planned with cash at bank at 30 June 2007 expected to be \$161.2m.

The budgeted cash flow statement is shown in Table 2.8 below.

Table 2.8: Variation in Cash Flows 2006-07⁽¹⁾

| | 2006-07 | | | |
|--|----------------------------------|-------------------|------------------|------------|
| | Previous Estimate ⁽²⁾ | Budget Estimate | Variation | % |
| | \$'000 | \$'000 | \$'000 | % |
| CASH RECEIPTS | | | | |
| Appropriations from the Government | 16,362,110 | 17,063,404 | 701,294 | 4.3 |
| Sales of goods and services | 268,234 | 540,586 | 272,352 | 101.5 |
| Net GST refund | 296,921 | 296,921 | - | - |
| Other Revenue | 226,576 | 64,163 | -162,413 | -71.7 |
| Cash transfer from Official Public Account | 43,643 | 43,643 | - | - |
| Proceeds from sales of property, plant and equipment | 5,792 | 38,192 | 32,400 | 559.4 |
| Equity appropriation | 1,369,024 | 1,937,879 | 568,855 | 41.6 |
| Total Cash Receipts | 18,572,300 | 19,984,788 | 1,412,488 | 7.6 |
| CASH PAYMENTS | | | | |
| Employees | 6,494,534 | 6,553,924 | 59,390 | 0.9 |
| Suppliers | 6,347,578 | 7,022,330 | 674,752 | 10.6 |
| Grants | 5,201 | 5,592 | 391 | 7.5 |
| Finance Costs | 32,716 | 20,412 | -12,304 | -37.6 |
| Other | 4,000 | 4,004 | 4 | 0.1 |
| Cash transfer to Official Public Account | - | - | - | - |
| Purchase of specialist military equipment | 3,969,944 | 4,522,933 | 552,989 | 13.9 |
| Purchase of Inventory | 1,236,199 | 1,239,727 | 3,528 | 0.3 |
| Purchase of property, plant and equipment | 466,708 | 585,446 | 118,738 | 25.4 |
| Repayments of debt | 15,420 | 15,420 | - | - |
| Capital withdrawal | - | 15,000 | 15,000 | - |
| Total Cash Payments | 18,572,300 | 19,984,788 | 1,412,488 | 7.6 |
| Net Increase/(Decrease) in Cash Held | - | - | - | - |
| Cash at 1 July | 161,249 | 161,249 | - | - |
| Cash at 30 June | 161,249 | 161,249 | - | - |

Notes

1. See also Table 7.3.
2. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 143).

USE OF CASH RESERVES

In implementing the recommendations of the Government's Budget Estimates and Framework Review, Defence introduced an 'as required' cash draw-down system in February 2003. As a result, Defence's cash reserves are held as a receivable by the Department of Finance and Administration and, rather than maintain cash balances in its accounts, Defence draws on these cash reserves to meet employee liabilities as they fall due in future years.

Defence has progressively reduced the level of funds held in the appropriation receivable in recent years as shown in Table 2.9.

Table 2.9: Rundown in Appropriation Receivable 2006-07

| | 2002-03 Actual | 2003-04 Actual | 2004-05 Actual | 2005-06 Projected | 2006-07 Planned |
|--------------------------------------|-------------------|-------------------|-------------------|----------------------|--------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| End of Year Appropriation Receivable | 870,201 | 537,660 | 538,609 | 499,094 | 438,251 |

Defence originally planned to have \$438.3m held as a receivable at the end of 2006-07 as shown in Table 2.6 of the *Portfolio Additional Estimates Statements 2005-06* (p. 33). No change is expected to this estimate, and details are shown in Table 2.10.

Table 2.10: Use of Cash (Appropriation Receivable)

| 2005-06 Estimated Actual \$m | Use of Cash Reserves | 2006-07 Previous Estimate | 2006-07 Budget Estimate \$m | 2007-08 Forward Estimate \$m | 2008-09 Forward Estimate \$m | 2009-10 Forward Estimate \$m |
|---------------------------------------|---|---------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| 538,609 | Opening balance of reserves to receivables held by Department of Finance and Administration at 1 July 2005 | 481,894 | 499,094 | 438,251 | 388,251 | 333,251 |
| -32,181 | Cash used to reduce employee liabilities ⁽¹⁾ | -43,643 | -43,643 | -50,000 | -55,000 | -60,000 |
| -2,500 | Operation Catalyst rephasing | - | - | - | - | - |
| -40,270 | DMO Component of Appropriation Receivable | - | - | - | - | - |
| -11,664 | DHA Supplementation Return | - | - | - | - | - |
| 70,000 | 2005-06 quarantine Military Employees | - | - | - | - | - |
| -1,700 | Residual 2004-05 Operations Handback | - | - | - | - | - |
| -2,000 | Operation Anode rephasing | - | - | - | - | - |
| -500 | Operation Acolyte rephasing | - | - | - | - | - |
| -13,900 | Operation Sumatra Assist Handback | - | - | - | - | - |
| -22,000 | Communications Project Handback | - | - | - | - | - |
| 17,200 | Operation Slipper 2005-06 rephasing ⁽²⁾ | - | -17,200 | - | - | - |
| 499,094 | Sub total: Appropriation Receivable at 30 June | 438,251 | 438,251 | 388,251 | 333,251 | 273,251 |

Notes

1. Cash set aside with Government agreement to enable Defence to meet employee entitlements.
2. Rephasing in 2006-07 subject to Government consideration.

Cash reserves will continue to decline over the Forward Estimates as funds are drawn down to meet employee liability payments, in accordance with agreements reached with the Government. The appropriation receivable is sufficient to fund about 29 per cent of Defence's employee entitlements as they fall due. Employee entitlements are estimated to be \$1,493.9m at 30 June 2007.

APPROPRIATIONS

The total appropriations for Defence in the 2006-07 Budget are \$22,251.1m, as shown in Table 2.1. Table 2.11 shows the total appropriations for Defence for 2006-07 split across the seven Government outcomes, by administered expenses, cost of output appropriation and departmental equity injection.

Table 2.11: Appropriations and Other Revenue

| Outcome | Departmental (Price of Outputs) (\$'000) | | | | | Administered (\$'000) | | | Total Appropriations (\$'000) (I=E+H) |
|--|--|------------------------|--|-------------------------|-------------------|-----------------------|------------------------|--------------------------|--|
| | Revenue from Government (Appropriations) | | | Receipts ⁽¹⁾ | Price of Outputs | (F) Annual Approps | (G) Special Approps | (H=F+G) Total Approps | |
| | (A) Bill No 1 | (B) Special Approps | (C=A+B) Total | (D) | (E=C+D) | | | | |
| Outcome 1: Command of Operations | 1,013,697 | - | 1,013,697 | 24,961 | 1,038,658 | - | - | - | |
| Outcome 2: Navy Capability | 4,615,517 | - | 4,615,517 | 181,273 | 4,796,790 | - | - | - | |
| Outcome 3: Army Capability | 5,904,884 | - | 5,904,884 | 220,939 | 6,125,823 | - | - | - | |
| Outcome 4: Air Force Capability | 4,837,691 | - | 4,837,691 | 169,226 | 5,006,917 | - | - | - | |
| Outcome 5: Strategic Policy | 224,629 | - | 224,629 | 10,009 | 234,638 | - | - | - | |
| Outcome 6: Intelligence | 466,986 | - | 466,986 | 11,429 | 478,415 | - | - | - | |
| Outcome 7: Administered | - | - | - | - | - | - | 2,632,000 | 2,632,000 | 2,632,000 |
| Total | 17,063,404 | | 17,063,404 | 617,837 | 17,681,241 | | 2,632,000 | 2,632,000 | 20,313,241 |
| | | | Departmental Capital (equity injection) (serial 2, Table 2.1) | | | | | | 1,937,879 |
| | | | Administered Assets and Liabilities | | | | | | |
| | | | Total Appropriations (serial 9, Table 2.1) | | | | | | 22,251,120 |

Note

1. Comprises own source revenue of \$594.6m (serial 4 of Table 2.1) and net capital receipts \$23.2m (serial 5 of Table 2.1).

PAYMENTS TO THE DEFENCE MATERIEL ORGANISATION

The DMO was established as a prescribed agency on 1 July 2005. It is responsible for equipping and sustaining the ADF through the acquisition of capital equipment assets and the sustainment of these assets to meet directed levels of preparedness.

Defence has budgeted to pay the DMO \$8,460.9m in 2006-07 for the procurement of capital equipment (\$4,957.0m) and the sustainment of equipment (\$3,503.9m). Funding for procurement of capital equipment is provided under a suite of Materiel Acquisition Agreements (one agreement for each project) together with a service fee which covers the DMO project staffing and associated overheads. Payments for sustainment of existing assets is provided under a suite of Materiel Sustainment Agreements (one agreement with each capability manager), together with an associated service fee which covers systems program office staffing costs and associated overheads.

Table 2.12 provides a summary of the composition of payments to the DMO in 2006-07 and over the Forward Estimates period.

Table 2.12: Payments to the DMO in 2006-07

| | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|--|----------------|----------------|----------------|----------------|
| | \$m | \$m | \$m | \$m |
| Approved Major Capital Equipment Projects ⁽¹⁾ | 4,367.8 | 3,449.2 | 2,790.5 | 1,855.3 |
| Unapproved Major Capital Equipment Projects (DCP) ⁽²⁾ | 229.7 | 1,091.3 | 1,814.1 | 3,212.7 |
| Navy Minor Projects | 29.9 | 30.6 | 30.9 | 32.7 |
| Army Minor Projects | 64.0 | 57.4 | 69.9 | 74.5 |
| Air Force Minor Projects | 36.9 | 36.2 | 31.3 | 21.3 |
| Chief Information Officer Minor Projects | 21.8 | 15.6 | 14.5 | 12.4 |
| Skilling Australia's Defence Industry | 10.8 | 21.3 | 21.5 | 21.9 |
| Sub-Total | 4,761.0 | 4,701.7 | 4,772.7 | 5,230.9 |
| Service Fee | 196.0 | 194.3 | 194.7 | 199.3 |
| 1. Total Acquisition (DMO Output 1) | 4,957.0 | 4,896.0 | 4,967.4 | 5,430.3 |
| Contract Component – Approved | | | | |
| Navy Sustainment | 1,218.6 | 1,244.1 | 1,149.7 | 1,146.9 |
| Army Sustainment | 796.1 | 844.8 | 820.1 | 833.9 |
| Air Force Sustainment | 933.9 | 960.6 | 876.5 | 853.5 |
| Chief Information Officer Sustainment | 28.9 | 36.6 | 58.1 | 64.3 |
| Operating costs for DCP | 113.9 | 258.6 | 308.8 | 379.0 |
| Sub-Total | 3,091.4 | 3,344.7 | 3,213.3 | 3,277.7 |
| Service Fee | 412.6 | 427.7 | 432.3 | 455.9 |
| 2. Total Sustainment (DMO Output 2) | 3,503.9 | 3,772.5 | 3,645.6 | 3,733.6 |
| 3. Total Payments to DMO (1)+(2)⁽³⁾ | 8,460.9 | 8,668.5 | 8,613.0 | 9,163.9 |

Notes

1. Cross reference to Table 3.1 and Table 3.4.
2. Cross reference to Table 3.1.
3. Cross reference to Table 6.3 in Section Two, DMO.

Further details in relation to the DMO can be found in Section Two.

DISCRETIONARY GRANTS

Discretionary grants are payments made to organisations or individuals at the discretion of the Minister for Defence. All Defence grants are paid from departmental rather than administered funds. Grant recipients must satisfy eligibility and reporting requirements, and may be subject to certain conditions in return for the grant.

Discretionary grants can be:

- payments made to an organisation or individual and include ad hoc grants that are made on a one-off basis, as well as grants renewed under continuing programs;
- grants in kind or services-in-kind provided in lieu of grant payments; and
- payments which organisations or individuals receive after satisfying eligibility and/or reporting requirements, and include awards, gifts, departmental (non-legislated) rebate schemes and non-reciprocal scholarships.

The Government requires Defence to report on all discretionary grant approvals. Table 2.13 provides information on grants which have been approved for 2006-07.

Table 2.13: Discretionary Grants

| | Total Grants 2006-07 |
|---|-----------------------------|
| | \$'000 |
| Army Military History Research Grants Scheme | 75 |
| Defence Family Support Funding Program | 1,146 |
| Grant to the Royal United Services Institute of Australia | 83 |
| Operation Aussies Home | 38 |
| Grant to the Livingstone Shire Council | 4,250 |
| Total | 5,592 |

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

The program provides funds for ADF families to undertake family support projects at the local level to assist in reducing the effects of mobility.

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:

- the institute's program 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.

OPERATION AUSSIES HOME

The grant provides funds to assist with the search for likely burial sites for two Australian soldiers killed in action during the Vietnam War.

GRANT TO THE LIVINGSTONE SHIRE COUNCIL

The grant provides funds to the Livingstone Shire Council for works on the access roads to the Shoalwater Bay Training Area to enable Defence to have unfettered access for heavy vehicle movement to and from the training area.

INDIGENOUS PROGRAMS

While Defence does not have 2006-07 Australian Government Indigenous Expenditure to report, a number of indigenous programs are funded from within the Defence budget. Details of the main programs are below.

ABORIGINAL AND TORRES STRAIT ISLANDER PROGRAM

The primary focus of the program is the recruitment, retention, career development and support of Indigenous Australians and Indigenous Defence employees through various initiatives and events.

ARMY COMMUNITY ASSISTANCE PROJECT

The purpose of this initiative is to assist in the delivery of housing, infrastructure, health services and training to remote Aboriginal communities throughout Australia.

AUSTRALIAN DEFENCE FORCE CADETS – INDIGENOUS PARTICIPATION PROGRAM

This program funds two Indigenous Liaison Officers, one in Darwin and one in Townsville, and a range of initiatives designed to breach the barriers to participation by Indigenous youth in the ADF Cadets, particularly in remote regions.

INDIGENOUS LIAISON OFFICERS AND REVIEW INTO INDIGENOUS HERITAGE ISSUES

Indigenous liaison officer positions have been established to develop and maintain links with local Indigenous communities.

SAVINGS AND EFFICIENCY MEASURES

Program of Administrative Savings

In the 2003-04 Budget, the Government agreed that Defence would absorb a range of cost pressures through a program of administrative savings. The five-year program is designed to deliver ongoing savings of \$200.0m per annum by 2007-08. At this stage, Defence expects to have found savings totalling \$162.4m by 30 June 2006 and is therefore ahead of schedule in achieving the savings targets. Measures have been put in place to ensure that \$175.5m in savings will be delivered by 30 June 2007. Savings measures associated with the next round of agency agreements, including substitution of Professional Service Providers with civilian staff and the business improvement project, should deliver the remaining savings by 30 June 2008. Details are shown in Table 2.14.

Table 2.14: Program of Administrative Savings Targets

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | Ongoing |
|------------------------------------|---------|---------|---------|---------|---------|---------|
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Savings target | 50.0 | 100.0 | 150.0 | 175.0 | 200.0 | 200.0 |
| Savings achieved / planned to date | 60.6 | 130.0 | 162.4 | 175.4 | 200.0 | 200.0 |

Administrative savings to date have been achieved by:

- planned reductions in the civilian workforce over a three-year period, in response to significant Australian Public Service workforce growth during 2002-03;
- reductions in non capability-related supplier expenses, including professional service providers;
- a 20 per cent reduction in non-operations related overseas travel;
- a ten per cent reduction in non-operations related domestic travel;
- renegotiations of the Australian Defence Force Academy agreement, resulting in cost savings;
- a reduction in non-operational overseas positions of 110 personnel programmed in 2003-04 and in the years thereafter - there has been an increase in the number of overseas personnel due to Government-endorsed initiatives, capital equipment projects and Defence regional engagement, which has been offset from elsewhere in Groups' budgets;
- removal from service of three P-3 Orion derivative training aircraft, following the introduction of the advanced flight simulator, resulting in operational savings which have been redirected to P-3C Orion aircraft logistics;

- the rationalisation of the civilian personnel administration centres from three to two locations;
- rationalisation of the former Public Affairs and Corporate Communication Division;
- introduction of PMKeyS Self Service, resulting in printing savings from the electronic distribution of civilian and military pay summaries;
- introduction of the Defence Travel Card for domestic and overseas business-related travel, including the Diners Club rebate, as part of the Defence Travel Reform;
- introduction of the Invoice Scanning and Imaging System, resulting in processing savings;
- closing Defence cash offices and centralising receipting, resulting in implementation of automated processes (Bill Pay and Phone Pay) and recovery of debt through salary;
- renegotiations of the Defence Comcover insurance premium;
- lease cost savings for commercial vehicles;
- business process improvements for the regional information, communication and technology function; and
- civilianisation of Navy and Army military positions.

Table 2.15 details the net savings achieved to date and planned, including transition and up front costs.

Table 2.15: Administrative Savings Achieved/Planned to Date

| Initiative | 2003-04 \$m | 2004-05 \$m | 2005-06 \$m | 2006-07 \$m | 2007-08 \$m |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|
| Reductions in civilian workforce | 9.5 | 28.4 | 46.5 | 46.5 | 46.5 |
| Reductions in non-capability related suppliers, including Professional Service Providers | 22.0 | 41.7 | 41.7 | 41.7 | 41.7 |
| Reductions in overseas travel | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 |
| Reductions in domestic travel | 11.5 | 11.5 | 11.5 | 11.5 | 11.5 |
| Renegotiation of the Australian Defence Force Academy agreement | 0.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Reductions in non-operational overseas positions | 4.8 | 13.4 | 19.2 | 20.4 | 20.3 |
| Removal from service of three P-3 derivative training aircraft | - | - | 5.5 | 5.5 | 4.0 |
| Rationalisation of civilian personnel administration centres | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Rationalisation of the former Public Affairs and Corporate Communication Division | 2.7 | 3.2 | 3.2 | 3.2 | 3.2 |
| PMKeyS self-service | - | 0.1 | 0.1 | 0.1 | 0.1 |
| Diners Club rebate ⁽¹⁾ | 0.5 | -0.2 | 0.6 | 0.7 | 0.0 |
| Travel Improvement Project (processing staff) | - | 0.7 | 2.0 | 2.0 | 2.0 |
| Invoice scanning and imaging system | - | 0.2 | 2.4 | 2.4 | 2.4 |
| Closure of Defence cash offices and centralising receipting | - | 0.3 | 0.3 | 0.3 | 0.3 |
| Reduction in Comcover insurance premium | - | 22.5 | 20.8 | 19.1 | 17.3 |
| Commercial Vehicles | - | - | 0.5 | 1.4 | 1.4 |
| Regional Information, Communication and Technology Market Testing | - | - | 1.5 | 2.3 | 2.3 |
| Civilianisation of Navy military positions | - | - | - | 0.4 | 0.4 |
| Civilianisation of Army military positions | - | - | - | 1.4 | 1.4 |
| 1. Subtotal Savings Achieved to Date | 60.6 | 132.3 | 166.5 | 169.4 | 165.3 |
| Travel Improvement Project (goods and services tax) | - | - | - | 3.0 | 5.0 |
| Mail and freight | - | - | - | 3.2 | 3.2 |
| Strategic supplier arrangements (office requisites) | - | - | - | 1.5 | 1.5 |
| Rationalisation of business equipment | - | - | - | 0.6 | 0.6 |
| Rationalisation of resource/paper management | - | - | - | 1.5 | 4.8 |
| Rationalisation of military personnel administration centres | - | - | - | - | 1.3 |
| Further rationalisation of civilian personnel administration centres | - | - | - | - | 0.7 |
| Conversion of Professional Service Providers to civilians | - | - | - | 17.5 | 20.2 |
| 2. Subtotal Savings Planned to Date | 0.0 | 0.0 | 0.0 | 27.3 | 37.2 |
| Regional Information, Communication and Technology Market Testing transition costs | - | -2.3 | -3.3 | - | - |
| Business Improvement Project transition costs | - | - | -0.8 | -15.0 | - |
| Business Centre set up and lease costs (in the vicinity of RAAF Williamtown) | - | - | - | -6.3 | -2.5 |
| 3. Subtotal Transition Costs | 0.0 | -2.3 | -4.1 | -21.3 | -2.5 |
| 4. Net Savings (1+2+3) | 60.6 | 130.0 | 162.4 | 175.4 | 200.0 |

Savings achieved and planned are being used to offset the unavoidable cost pressures shown in Table 2.16 to ensure cuts to capability are not required to absorb these costs in the longer term.

Table 2.16: Cost Pressures Offset by Administrative Savings

| | 2003-04 \$m | 2004-05 \$m | 2005-06 \$m | 2006-07 \$m | 2007-08 \$m |
|--|----------------|----------------|----------------|----------------|----------------|
| Establishment of the Chief Information Office | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 |
| Comcare premium increases | 9.3 | 15.1 | 15.3 | 15.1 | 15.1 |
| ComSuper administration charge | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 |
| Additional legal services and compensation costs | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Establishment of the Defence Service Call Centre (Cooma, New South Wales) | 9.5 | 9.5 | 9.5 | 9.5 | 9.5 |
| Contract costs not able to be funded from DRP savings including DIDS Warehousing Manpower recruitment contract | 80.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Portfolio contribution to ADF service allowance increase | 29.8 | 29.8 | 29.8 | 29.8 | 29.8 |
| Defence Force Review Tribunal allowance increases | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 |
| ADF remuneration reform project costs | 13.2 | 13.2 | 13.2 | 13.2 | 13.2 |
| Increases in overseas leases costs | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| P-3 Orion logistic shortfalls | - | - | 5.5 | 5.5 | 4.0 |
| Changes in Commonwealth Superannuation Scheme/Public Service Superannuation contribution rates | - | 7.2 | 7.2 | 7.2 | 7.2 |
| Department of Foreign Affairs and Trade common services charges | - | 1.7 | 1.7 | 1.7 | 1.7 |
| Higher ComSuper user charges | - | 2.4 | 2.4 | 2.4 | 2.4 |
| Higher Comcare user charges | - | 1.5 | 1.5 | 1.5 | 1.5 |
| Total Cost Pressures Requiring Funding | 165.4 | 204.0 | 209.7 | 209.5 | 208.0 |
| Savings used as offsets to date | 60.6 | 130.0 | 162.4 | 175.4 | 200.0 |
| Absorbed Elsewhere in the Defence Budget or From Future Savings | 104.8 | 74.0 | 47.3 | 34.1 | 8.0 |

Other Savings and Efficiencies

In addition to the Program of Administrative Savings under which Defence is able to retain the savings, Defence has returned \$826.4m to the Budget over the period 2005-06 to 2009-10 as detailed in Table 2.17.

Table 2.17: Savings Returned to the Budget 2005-06 to 2009-10

| | 2005-06 \$m | 2006-07 \$m | 2007-08 \$m | 2008-09 \$m | 2009-10 \$m |
|--|----------------|----------------|----------------|----------------|----------------|
| 2003 Defence Capability Review | 80.0 | 73.9 | 85.3 | 76.4 | 99.2 |
| Administrative Overheads | 0.0 | 70.0 | 60.0 | 12.0 | 0.0 |
| Efficiency Dividend | 3.4 | 11.9 | 25.0 | 39.0 | 55.5 |
| Rationalisation of ADF Command and Control Structure | 0.0 | 5.9 | 12.7 | 20.5 | 31.0 |
| Broadening of the Efficiency Dividend | 0.0 | 4.5 | 11.2 | 20.1 | 29.0 |
| Total | 83.4 | 166.2 | 194.2 | 167.9 | 214.7 |

PURCHASER-PROVIDER ARRANGEMENTS

Defence Materiel Organisation

See Section Two – Defence Materiel Organisation (Chapter Two – Resourcing) for further details on the purchaser-provider arrangement between Defence and the DMO.

Defence Housing Authority

OVERVIEW

Defence and the Defence Housing Authority (DHA) have two formal agreements: the Services Agreement for Housing and Related Requirements (the Services Agreement) and the Relocation Services Agreement. The agreements formalise the relationship between Defence as purchaser and the DHA as provider of housing and related services. The services agreement is currently the subject of a mid-term review. The planned implementation date for any changes stemming from the review is 1 July 2006.

CONTROL ARRANGEMENTS

DHA 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 Roxley McLennan, AM with Air Vice-Marshal John Blackburn, AM as an ADF representative.

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

| | |
|---|----------------------------------|
| Chairman | The Hon. P V Jones, AM |
| Acting Managing Director | Mr M Del Gigante |
| Commercial Director | The Hon. W L Lange |
| Commercial Director | Mr W D Bowness |
| Commercial Director | Ms S A Chaplain |
| Commercial Director | Mr W L Stokes |
| ADF representative | Major General M Evans, DSC, AM |
| ADF representative | Rear Admiral M Hancock, RAN |
| ADF representative | Major General I Gordon, AO, AM |
| ADF representative | Air Vice-Marshal J Blackburn, AM |
| Department of Defence representative | Dr R Neumann |
| Defence Families Australia representative | Mrs M F Greet |

REVIEW OF GOVERNANCE ARRANGEMENTS

On 7 November 2005, the Government agreed to propose a number of amendments to the *Defence Housing Authority Act 1987* and to the governance arrangements for DHA. Work is proceeding with the proposed amendments being introduced to the Parliament during the Autumn 2006 sitting. The proposed amendments include:

- allowing DHA to offer housing and housing-related services to other Commonwealth agencies;
- allowing DHA to offer additional services that are ancillary to housing and housing-related services to both Defence and other Commonwealth agencies;
- reducing the size of the DHA board to provide a more commercially focused structure; and
- changing DHA's name to Defence Housing Australia, to better reflect the commercial environment in which DHA now operates.

RESOURCING

The 2006-07 estimate for the purchase of services from DHA is \$381.2m, compared with the estimate of \$390.3m in the *Portfolio Additional Estimates Statements 2005-06*, a decrease of \$9.1m. This covers the provision of housing and relocation services and the Defence Home Loan scheme for ADF members. The major reason for the variation in the cost of services is the reduced requirement for the payment of annuities.

Also included in the 2006-07 estimate is funding for a trial in Darwin for Members without Dependents Choice Accommodation. The estimated expenditure for this trial is \$2.1m, with funding to be met by expected savings in Members without Dependents rent assistance.

Department of Foreign Affairs and Trade

SERVICE-LEVEL AGREEMENT WITH STRATEGY GROUP

Defence maintains a service-level agreement with the Department of Foreign Affairs and Trade (DFAT) for the management services and a separate memorandum of understanding with the department for the provision of information and communication technology services. The service-level agreement with DFAT is for the provision of management services at DFAT-managed overseas posts. The agreement is intended to promote efficient and effective Australian Government business overseas by avoiding unnecessary duplication of common services at overseas posts. An agreed fee is charged for these services.

The services provided to Defence under the agreement include financial management and office services, human resource management and property management services for Australian-based and program support staff engaged at overseas posts.

In 2006-07, the expected cost to Defence under the current three-year agreement will be in the order of \$4.4m.

MEMORANDUM OF UNDERSTANDING WITH CORPORATE SERVICES AND INFRASTRUCTURE GROUP

The memorandum of understanding with DFAT is for the provision of information and communication technology services to Defence personnel at DFAT-managed overseas posts. A scheduled fee is charged for these services.

The services provided to Defence under the memorandum of understanding are:

- desktop office products on DFAT local area networks at the classified and unclassified levels, facilitating e-mails and cablegrams being communicated to the appropriate Defence networks in Australia; and
- telephone exchange services, including the provision of telephone handsets.

These services are provided in 30 countries to approximately 150 Defence personnel and locally engaged staff in overseas posts. The information and communications technology infrastructure used to provide these services is maintained and supported by DFAT.

The memorandum of understanding was re-negotiated in November 2004. The cost to Defence in 2006-07, including GST, under the current three-year agreement is expected to be approximately \$1.1m.

Comcare

OVERVIEW

Defence pays Comcare an annual workers compensation premium to meet the cost of workers compensation claims for civilian personnel who suffer a work-related injury or illness during the year and the cost of managing those claims. The premium payable for 2006-07 is estimated at \$15.1m.

Defence pays Comcare an annual regulatory contribution to fund costs incurred by Comcare and the Safety, Rehabilitation and Compensation Commission to conduct regulatory functions under the *Safety, Rehabilitation and Compensation Act 1988* and the *Occupational Health and Safety (Commonwealth Employment) Act 1991*. The regulatory contribution for 2006-07 for civilian and ADF personnel is estimated at \$4.5m.

CONTROL ARRANGEMENTS

Incidence and severity of compensation claims, including time off work, are the primary drivers of the premium. Reducing work-related injury and illness and associated time off work will, over time, have the most influence in reducing the premium payable to Comcare.

Defence is well advanced in the implementation of the Defence Civilian Injury/Illness Prevention and Management System which commenced in 2004 as an initiative of the *Defence Occupational Health and Safety Strategic Plan 2004-06*. This strategic management systems approach, being progressively rolled out across Defence, is aimed at reducing the incidence and severity of work-related injury and illness. One of the initiatives for 2006-07 is an education and awareness program to support managers and supervisors in improving injury prevention and absence management outcomes.

ComSuper

OVERVIEW

Defence is required to pay superannuation administration fees to Commonwealth Superannuation Administration (ComSuper). Defence pays ComSuper a fee for each current or separated Defence member or employee who is a contributing, deferred benefit, or pensioner member of the Military Superannuation and Benefits Scheme, the Defence Force Retirement and Death Benefits Scheme, the Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme or the Public Sector Superannuation Accumulation Plan.

CONTROL ARRANGEMENTS

A service-level agreement with ComSuper, the Military Superannuation and Benefits Board Executive and the Defence Force Retirement and Death Benefits Authority commenced on 1 July 2005 and expires on 30 June 2007. The agreement identifies the military superannuation administration services to be provided by ComSuper and the fee Defence will pay. ComSuper's performance under the terms of the agreement is reviewed regularly by the Military Superannuation and Benefits Board, the Defence Force Retirement and Death Benefits Authority and Defence.

The Department of Finance and Administration is responsible for negotiating the Commonwealth-wide superannuation administration services provided by ComSuper for civilians.

REVIEW OF GOVERNANCE ARRANGEMENTS

Under the Government-agreed principles of the Review of Corporate Governance of Statutory Authorities and Office Holders conducted by Mr John Uhrig AC (Uhrig Review), Defence has reviewed the governance arrangements of the Military Superannuation and Benefits Board and the Defence Force Retirement and Death Benefits Authority.

The review recommended some changes to legislative and governance arrangements, which are currently being considered by Government.

The Government is also currently examining its future role in the administration of superannuation for Australian Government employees. The outcome of this examination may have implications for Defence, the Military Superannuation and Benefits Board, the Defence Force Retirement and Death Benefits Authority and ComSuper.

RESOURCING

The estimated cost to Defence in 2006-07 for the purchase of services from ComSuper is \$21.6m. This includes an amount of \$0.8m that, under the service-level agreement negotiated price, is transferred to the Military Superannuation and Benefits Board Executive for non-investment related administrative costs.

DEFENCE

CHAPTER THREE

CAPITAL INVESTMENT

PROGRAM

OVERVIEW

DEFENCE CAPABILITY PLAN

**THE APPROVED MAJOR CAPITAL EQUIPMENT
PROGRAM**

CAPITAL FACILITIES PROJECTS

OTHER CAPITAL PURCHASES

CAPITAL RECEIPTS

OVERVIEW

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.

As well as capital expenditure which is reported in Defence's Capital Budget Statement (Table 7.5 in Chapter Seven – Budgeted Financial Statements), the Capital Investment Program includes elements of the operating budget where these funds relate to the development, progression and acquisition of capital equipment projects. Under the Australian Accounting Standards, Defence is required to expense certain investment costs such as research and development, project studies, design work, specialist and professional advice and project office overheads in the Statement of Income and Expenses, rather than capitalise them in the balance sheet.

As a consequence, and to make all investment expenditure transparent, both the capital and operating elements of the investment program are presented here for completeness. The investment program for 2006-07 totals \$5,731.0m, including \$645.8m in operating funds, as summarised in Table 3.1.

Table 3.1: 2006-07 Capital Investment Program Incorporating Forward Estimates

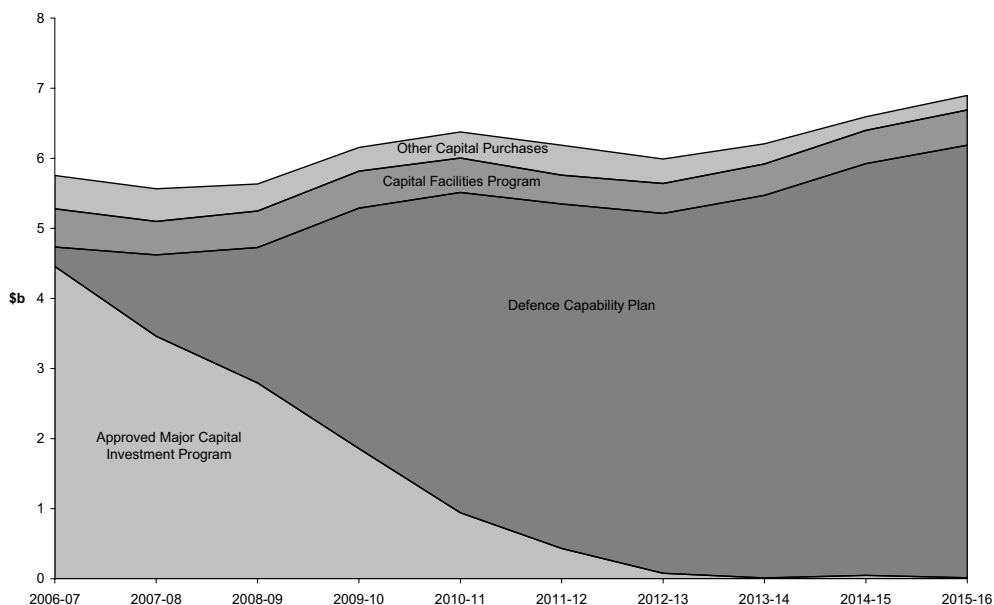
| Group/Item Description | Estimated Actual | Budget Estimate | Variation 2005-06 to | Forward Estimates | Forward Estimates | Forward Estimates |
|---|------------------|-----------------|----------------------|-------------------|-------------------|-------------------|
| | 2005-06 \$m | 2006-07 \$m | 2006-07 \$m | 2007-08 \$m | 2008-09 \$m | 2009-10 \$m |
| Capital Operating | 0.0 | 155.6 | 155.6 | 881.4 | 1,669.0 | 2,973.1 |
| | 14.4 | 121.8 | 107.4 | 278.9 | 265.4 | 459.3 |
| Sub total Defence Capability Plan⁽¹⁾ | 14.4 | 277.4 | 263.0 | 1,160.3 | 1,934.4 | 3,432.4 |
| Capital | 2,812.4 | 3,965.8 | 1,153.4 | 3,153.7 | 2,582.6 | 1,728.7 |
| Operating | 526.7 | 491.8 | -34.9 | 308.5 | 210.1 | 127.7 |
| Sub total Approved Major Capital Program⁽²⁾ | 3,339.1 | 4,457.6 | 1,118.5 | 3,462.2 | 2,792.7 | 1,856.4 |
| Capital | 305.3 | 459.1 | 153.8 | 428.9 | 382.7 | 335.4 |
| Operating | 41.3 | 32.2 | -9.1 | 33.9 | 32.2 | 32.8 |
| Sub total Capital Facilities⁽³⁾ | 346.6 | 491.3 | 144.7 | 462.8 | 414.9 | 368.2 |
| Other Capital | 788.7 | 527.9 | -260.8 | 479.4 | 491.8 | 499.5 |
| Total Capital Component | 3,906.4 | 5,108.4 | 1,202.0 | 4,943.4 | 5,126.1 | 5,536.7 |
| Total Operating Component | 582.4 | 645.8 | 63.4 | 621.3 | 507.7 | 619.8 |
| Total Capital Investment Program | 4,488.8 | 5,754.2 | 1,265.4 | 5,564.7 | 5,633.8 | 6,156.5 |
| Net Capital Receipts⁽⁴⁾ | -24.9 | -23.2 | 1.7 | -22.5 | -21.8 | -4.6 |
| Total Capital | 4,463.9 | 5,731.0 | 1,267.1 | 5,542.2 | 5,612.0 | 6,151.9 |

Notes

1. See Table 3.2 and Table 3.3 for Major Defence Capability Projects to be considered in 2006-07.
2. Does not include projects recently approved by Government. See further details at Table 3.4.
3. See further details at Table 3.5.
4. See further details at Table 3.10.

Including the three per cent increase in Defence Capability Plan funding beyond 2010-11 which was agreed as part of the 2006-07 Budget, and other new measures announced in the Budget, including the acquisition of C-17 Heavy Lift aircraft, Defence is planning to spend \$61 billion over ten years on the Investment Program as depicted in Chart 3.1. Expenditure on investment will grow from \$4.5 billion in 2005-06 to \$6.9 billion by 2015-16, representing an increase of \$2.4 billion or 53 per cent in nominal terms.

Chart 3.1: Defence Capital Investment Program 2006-07 to 2015-16



DEFENCE CAPABILITY PLAN

The Defence Capability Plan is a costed, detailed development plan for Australia's military capabilities over a ten-year period. The plan is reviewed regularly to take account of changing strategic circumstances, new technologies and changed priorities, in the context of the overall Defence Budget. The plan sets out the proposed investment in new equipment and was reviewed and revised and as part of the 2006-07 Budget, having regard for the Defence Update 2005. A public version of the *Defence Capability Plan 2006-16* is to be released in June 2006.

Since the Defence White Paper was announced in 2000, the Government has approved around 150 major projects or phases of projects with an all-up cost of approximately \$26 billion. Further projects will be considered by the Government in 2006-07.

Tables 3.2 and 3.3 provide details of the projects to be considered in 2006-07, against which Defence is planning to spend \$277.4m in the coming financial year.

Table 3.2: Defence Capability Plan Projects to be Considered for Second Pass Approval in 2006-07⁽¹⁾⁽²⁾

| Project Number | Project Title |
|--|--|
| Maritime Forces Capability Goal | |
| AIR 5276 Phase 8B | AP-3C Electronic Support Measure - Acquisition |
| AIR 5276 CAP 1 | AP-3C Capability Assurance Program |
| JP 2048 Phases 4A/4B | Amphibious Deployment and Sustainment ⁽³⁾ |
| SEA 1428 Phase 4 | Evolved Seasparrow Missiles |
| SEA 4000 Phase 3 | Air Warfare Destroyer |
| Air Combat Capability Goal | |
| AIR 5376 Phase 2.3C | F/A-18 Electronic Warfare Self Protection – Jammers ⁽³⁾ |
| Land Forces Capability Goal | |
| LAND 58 Phase 3 | Weapon Locating Radar Life of Type Extension |
| LAND 121 Phase 3A | Overlander-Field Vehicles & Trailers |
| LAND 121 Phase 3B | Overlander-Field Vehicles & Trailers |
| LAND 125 Phase 3 | Soldier Enhancement Version 2 |
| Networked Information Capability Goal | |
| JP 126 Phase 2 | Joint Theatre Distribution System |
| JP 2030 Phase 8 | ADF Joint Command Support Environment |
| JP 2077 Phase 2B | Improved Logistics Information Systems |
| JP 2089 Phase 2 | Tactical Information Exchange Domain (Data Links) |
| JP 2090 Phase 1C | Combined Information Environment |

Notes

1. Capability and Technology Demonstrator projects, Project Development activities and some sensitive projects are not included in the list.
2. Defence will only progress these projects to Government approval if quality decision data can be provided (as required by the *Defence Procurement Review 2003* (the Kinnaid Review)).

3. These projects were listed for approval in the *Portfolio Budget Statements 2005-06* (p. 70). With the exception of AIR 5376 Phase 2.3C, these projects obtained first-pass approval and will be considered for second-pass approval in this period.

Table 3.3: Significant DCP Projects to be Considered for First Pass Approval in 2006-07⁽¹⁾⁽²⁾

| Project Number | Project Title |
|--|--|
| Maritime Forces Capability Goal | |
| AIR 9000 Phase 3 | Seahawk Mid-life Upgrade and Life Extension |
| AIR 9000 Phase 7A | Navy Helicopter Training System |
| SEA 1439 Phase 5B.2A | Collins Continuous Improvement Program |
| Air Combat Capability Goal | |
| AIR 6000 Phase 2A/2B | New Aerospace Combat Capability |
| Land Forces Capability Goal | |
| AIR 8000 Phase 1 | C-130H Refurbishment/ Replacement |
| AIR 8000 Phase 2 | Battlefield Airlifter |
| LAND 146 Phase 2 | Combat Identification for Land Forces |
| LAND 53 Phase 1BR | NINOX - Night Fighting Equipment Replacement |
| Networked Information Capability Goal | |
| JP 5408 Phase 3 | ADF Navigation Warfare Capability |
| JP 2077 Phase 2D | Improved Logistics Information Systems |
| Strike Capability Goal | |
| JP 2097 Phase 1 | REDFIN - Enhancements to Special Operations Capability |
| Across All Capability Goals | |
| JP 2085 Phase 2 | Explosive Ordnance Warstock |

Notes

1. Project development activities and some sensitive projects are not included in the list.
2. Defence will only progress these projects to Government approval if quality decision data can be provided (as required by the *Defence Procurement Review 2003* (the Kinnaird review)).

THE APPROVED MAJOR CAPITAL EQUIPMENT PROGRAM

The approved major capital equipment program is comprised of those projects funded from the Defence Capability Plan and which, following approval, are transferred from the Defence Capability Plan to the Defence Materiel Organisation (DMO) for the acquisition phase. The Cabinet approval threshold is \$50m. Projects costing between \$8m and \$50m are approved jointly by the Minister for Defence and the Minister for Finance and Administration.

Funding for approved major capital equipment projects, including project management and overhead costs, is provided by Defence to the DMO under separate Materiel Acquisition Agreements for each project.

As an enabling organisation to Defence, the DMO contributes to Defence's outcomes and outputs. The DMO budget is detailed separately in the DMO's Chapter Three - Planned Outcome Performance, including an overview of the top 30 projects.

A summary of the total approved major capital equipment program, including the small elements managed by the Chief of Capability Development and the Defence Science and Technology Organisation, is shown in Table 3.4.

Table 3.4: The Approved Major Capital Equipment Program

| | 2006-07 Budget | 2007-08 | 2008-09 | 2009-10 |
|--|-------------------|--------------|--------------|--------------|
| | \$m | \$m | \$m | \$m |
| Top 30 Project Gross Plans | 3,978 | 3,053 | 2,477 | 1,810 |
| Other Projects Gross Plans | 876 | 710 | 475 | 245 |
| Sub-total Gross Capital Program | 4,854 | 3,763 | 2,952 | 2,055 |
| Programming Adjustment/Slippage | -426 | -314 | -161 | -200 |
| Subtotal DMO Managed Element | 4,428 | 3,449 | 2,791 | 1,855 |
| Capability Development Group | 12 | - | - | - |
| Defence Science and Technology Organisation | 17 | 13 | 2 | 1 |
| Other Defence Groups | 1 | - | - | - |
| Total Net Major Capital Program⁽¹⁾ | 4,458 | 3,462 | 2,793 | 1,856 |

Note

1. Cross references to Table 3.1.

CAPITAL FACILITIES PROJECTS

The capital facilities program comprises approved and unapproved major and medium projects.

Major capital facilities projects have expenditure over \$6m and are subject to Government approval and review by the Joint Statutory 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 Statutory Committee on Public Works. Projects under \$5m are approved by departmental delegates. Details of these projects are provided in this section.

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.

The 2006-07 Budget provides \$491.3m for major and medium capital facilities projects. The Major Capital Facilities Projects are detailed below, and the Medium Capital Facilities Projects can be found on page 76. Details are shown in Table 3.5 and information is also provided on the major and medium facilities projects foreshadowed for approval in 2006-07.

Table 3.5: The Major Capital Facilities Program

| | Estimated Actual 2005-06 \$m | Budget Estimate 2006-07 \$m | Variation 2005-06 to 2006-07 \$m | Forward Estimate 2007-08 \$m | Forward Estimates 2008-09 \$m | Forward Estimates 2009-10 \$m |
|--|---------------------------------------|--------------------------------------|---|---------------------------------------|--|--|
| Approved Capital Facilities Projects | 305.3 | 425.7 | 120.4 | 360.1 | 126.3 | 17.0 |
| Unapproved Capital Facilities Projects | - | 33.4 | 33.4 | 68.8 | 256.4 | 318.4 |
| Total Capital | 305.3 | 459.1 | 153.8 | 428.9 | 382.7 | 335.4 |
| Total Operating | 41.3 | 32.2 | -9.1 | 33.9 | 32.2 | 32.8 |
| Total Major Capital Facilities Program ⁽¹⁾ | 346.6 | 491.3 | 144.7 | 462.8 | 414.9 | 368.2 |

Note

1. Cross reference to Table 3.1.

APPROVED MAJOR CAPITAL FACILITIES PROJECTS

Table 3.6 provides details on progress and planned expenditure in 2006-07 for approved major capital facilities projects, which are those projects which cost over \$6m.

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 (1) | Estimated Cumulative Expenditure to 30 June 2006 | Budget Estimate 2006-07 |
|---|--|---|--|
| | \$m | \$m | \$m |
| NEW SOUTH WALES | | | |
| Hughes | | | |
| Holsworthy: | | | |
| Special Forces Training Facilities | 79.6 | 68.5 | 11.1 |
| Special Operations Working Accommodation and Base Redevelopment Stage 1 | 207.7 | 7.6 | 62.4 |
| 171 Aviation Squadron Relocation | 92.0 | 2.0 | 33.4 |
| Kingsford Smith | | | |
| Randwick: Disposal and Rationalisation – Interim works | 8.8 | 2.0 | 6.6 |
| Macquarie | | | |
| Richmond: RAAF Richmond Reinvestment | 35.0 | 31.8 | 1.0 |
| Parramatta | | | |
| Ermington: Pre-Disposal Site Works | 33.1 | 21.6 | 7.5 |
| Paterson | | | |
| Williamtown: RAAF Williamtown – Redevelopment Stage 1 and Airborne Early Warning and Control Works | 129.2 | 95.9 | 15.0 |
| Riverina | | | |
| RAAF Wagga: College Relocation ⁽²⁾ | 66.7 | 5.0 | 30.0 |
| Total New South Wales | 652.1 | 234.4 | 167 |
| VICTORIA | | | |
| Melbourne Ports | | | |
| Fishermans Bend: Relocation of Defence Science and Technology Organisation Platforms Sciences Laboratory ⁽³⁾ | 106.3 | 62.6 | 35.0 |
| Gippsland | | | |
| RAAF East Sale: College Relocation ⁽¹⁾ | 66.7 | 5.0 | 31.0 |
| Total Victoria | 172.9 | 67.6 | 66.0 |
| QUEENSLAND | | | |
| Blair | | | |
| Amberley: RAAF Amberley Redevelopment Stage 2 | 285.6 | 25.0 | 161.4 |
| Forde | | | |
| Canungra: Kokoda Barracks Redevelopment | 86.7 | 16.0 | 45.0 |
| Total Queensland | 372.3 | 41.0 | 206.4 |

| Program of Major Works (by State, Federal Electorate and Locality) | Total Estimated Expenditure | Estimated Cumulative Expenditure to 30 June 2006 | Budget Estimate 2006-07 |
|--|-----------------------------|--|-------------------------|
| SOUTH AUSTRALIA | | | |
| Wakefield | | | |
| Port Wakefield: Ordnance Breakdown Facility | 8.4 | 5.0 | 3.4 |
| Total South Australia | 8.4 | 5.0 | 3.4 |
| NORTHERN TERRITORY | | | |
| Lingiari | | | |
| Timber Creek: Bradshaw Field Training Area Infrastructure | 64.8 | 60.1 | 4.7 |
| Solomon | | | |
| Darwin: 1 st Aviation Regiment Relocation | 82.0 | 79.6 | 2.4 |
| Darwin: Darwin Naval Base – Patrol Boat Facilities | 19.2 | 3.4 | 13.9 |
| Total Northern Territory | 166.0 | 143.1 | 21.0 |
| Programming Adjustment / Slippage | - | - | -53.9 |
| TOTAL | 1,371.7 | 491.1 | 409.9 |

Notes

1. Figures may not add due to rounding.
2. The RAAF College Relocation Wagga / East Sale budget of \$133.4m covers both locations, i.e. RAAF East Sale and RAAF Wagga. The individual project budgets are anticipated budgets.
3. Defence Science and Technology Organisation Platforms Sciences Laboratory is now known as DSTO Melbourne.

New South Wales**Holsworthy – Special Forces Training Facilities**

This project provides specialised ranges and training facilities to support special forces units based at Holsworthy. Key elements scheduled for 2006-07 include completion of the majority of the ranges and supporting infrastructure. Completion of the project is scheduled for mid-2007.

This project contributes to Army and Special Operations capabilities.

Holsworthy – Special Operations Working Accommodation and Base Redevelopment Stage 1

This project provides facilities to support a full-time Commando capability; the Tactical Assault Group (East); the Incident Response Regiment; and Special Operations Command elements, along with the supporting upgrade of base infrastructure. Key elements scheduled for 2006-07 are civil works, building construction and base infrastructure upgrades. A contract for the major element of the works was let in April 2006 with completion scheduled for mid-2009.

This project contributes to Army and Special Operations capabilities.

Holsworthy – 171 Aviation Squadron Relocation

This project will relocate 171 Aviation Squadron from Townsville to Holsworthy. The project was approved by Parliament in February 2006. Key elements scheduled for 2006-07 include the delivery of interim facilities and commencing construction of permanent facilities. Construction is scheduled for completion by mid-2008.

This project contributes to Army and Special Operations capabilities.

Randwick – Disposal and Rationalisation – Interim Works

This project, which is related to the Defence property disposal program, will allow the disposal of surplus land at Randwick. A key element scheduled for 2006-07 is the development of a public environmental park. The negotiation for the scope of this work and its design was completed in 2005-06 and the construction will be undertaken in 2006-07. Preparation of a further segment of the property for disposal is being progressed. Revenue received from the sale of the property will be returned to consolidated revenue.

Richmond – RAAF Richmond Reinvestment

This project involves a limited capital reinvestment to address pressing infrastructure deficiencies. Key elements scheduled for 2006-07 include completion of the high voltage electrical reticulation and upgrade of the stormwater system. This project is scheduled for completion in late 2006.

This project contributes to Air Force capability.

Ermington – Pre-Disposal Site Works

This project involves preparing the Ermington site for disposal. Key elements scheduled for 2006-07 include the sale of Stage 2 as one 18 hectare lot. Formerly Stage 2 (five hectare lot) failed to sell due to poor market conditions. Stage 1 sales contract obligations were delayed due to finalisation of asset transfers. Completion of Stage 1 is scheduled for late 2006 and completion of Stage 2 works is scheduled for late in 2006-07.

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

This 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. A key element scheduled for 2006-07 is the ordnance loading apron. This project is scheduled for completion in mid-2007.

This project contributes to Air Force capability.

New South Wales and Victoria

RAAF College Relocation – East Sale and Wagga

This project will relocate the RAAF College from RAAF Williams (Point Cook) and RAAF Edinburgh to RAAF East Sale and RAAF Wagga. The project will provide working accommodation, training facilities, and living-in accommodation for college staff and students. Construction commenced in April 2006 and is expected to be completed in mid-2008.

This project contributes to Air Force capability.

Victoria

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

This project will relocate Defence Science and Technology Organisation functions from Maribyrnong to Fishermans Bend and includes the integration of common functions and the construction of enhanced research and laboratory facilities. Key elements scheduled for 2006-07 include the construction of a conference centre, continued fit-out of the Human Protection and Performance Division building and further work to the Maritime Platforms Division facilities.

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

Queensland

Amberley – RAAF Amberley Redevelopment Stage 2

This project will provide new facilities to support the relocation of 9th Force Support Battalion and the multi role tanker transport aircraft to RAAF Amberley and will include upgrading the base's trunk engineering services. The works to support the relocation of 9th Force Support Battalion include workshops, administration buildings, hardstands and vehicle shelters. The works for the multi-role tanker transport aircraft include construction of administration buildings, airfield pavement upgrades, maintenance facilities and the provision of hydrant refuelling. The engineering services works will include refurbishment and upgrading of the electrical reticulation, trunk communications, water, stormwater, and sewerage infrastructure. Construction commenced in March 2006 and the project has a revised target completion date of late 2007.

This project contributes to Army and Air Force capability.

Canungra – Kokoda Barracks Redevelopment

This project will provide upgraded training and mess facilities, working accommodation, and living-in accommodation for the Army training units located at Kokoda Barracks, Canungra. The project also includes the upgrading of infrastructure services. Construction commenced in December 2005 and the project has a target completion date of late 2007.

This project contributes to Army capability.

South Australia

Port Wakefield Ordnance Breakdown Facility

This project will provide a new facility for the breakdown and analysis of ammunition and ordnance. The project will deliver buildings and supporting infrastructure, with associated upgrades to security and range control facilities, and is expected to be completed by the end of 2006.

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

Northern Territory

Timber Creek – Bradshaw Field Training Area Infrastructure

This project will provide engineering services and infrastructure to allow the use of Bradshaw as a field training area for 1st Brigade. Civil works were completed in November 2005. Building works have commenced on a training force maintenance area, base camp, range control and caretaker facilities. Building works are due for completion in mid-2006.

This project contributes to Army capability.

Darwin – 1st Aviation Regiment Relocation

This project will provide new facilities for the 1st Aviation Regiment at Robertson Barracks in Darwin and includes purpose-built working, training and domestic accommodation facilities. Six of the seven construction packages are complete. The final package, consisting of the simulator building and military instruction block, is due for completion in September 2006. There have been minor delays to the completion date caused by changes in work sequencing.

This project contributes to Army capability.

Darwin – 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 commenced in early 2005 and is being completed in stages to allow for the continuing operation of the naval base and to support the staged introduction of the Armidale-class patrol boat into service. Due to delays in contracting opportunities and the building cycle, the revised project completion date is late 2007.

This project contributes to Navy capability.

APPROVED PROJECTS BEING DEVELOPED FOR PRIVATE FINANCING ARRANGEMENTS

New South Wales

Eden-Monaro – Headquarters Joint Operations Command (formerly Headquarters Australian Theatre)

The Headquarters Joint Operations Command Project will bring together the Chief of Joint Operations and strategic staff located in Canberra with the Sydney-based Deputy Chief of Joint Operations, joint staff and operations, plans, intelligence, logistics, personnel and other staffs of the environmental Commands into an integrated staff structure at a headquarters facility to be constructed approximately 11 kilometres south-west of Bungendore, New South Wales.

To date, Government and Parliamentary approval has been received for Defence to invite tenders to deliver the building, infrastructure and services components of the project under private financing arrangements, subject to value-for-money. In late 2005, the tenderers were invited to revise their tender responses to meet the reduction in staff required at the new headquarters flowing from the recent review of Australian Defence Force higher command and control arrangements.

Development approval under the *Environment Protection and Biodiversity Conservation Act 1999* has been obtained. The recommendation of the preferred tenderer will be considered by the Government in the second quarter of 2006, to be followed by contract finalisation, financial close and then commencement of the project.

The Headquarters will represent an investment at an estimated cost of \$339.2m (2006-07 outturned prices) in buildings, infrastructure, fit-out, land acquisition, and command, control, communications, computing and intelligence systems.

A traditional (or direct) procurement strategy will be used to acquire, install and maintain the command, control, communications, computing and intelligence systems.

This project contributes to Command of Operations capability.

Holsworthy – Project Single Living Environment and Accommodation Precinct (Single LEAP)

In the 2004-05 budget, the Government announced funding of \$113.2m over the following four financial years, and a commitment of ongoing funding thereafter, to remediate the worst of the permanent single members' living-in accommodation around Australia, potentially through public-private partnership arrangements. Defence is now seeking to engage a strategic partner(s) to deliver a whole-of-life accommodation service over a 25 to 30-year

contractual period. The highest priority sites for Phase 1 are Holsworthy, Amberley and Enoggera.

The Holsworthy project seeks to engage a strategic partner to provide a living-in accommodation service for 500 rooms at Holsworthy. Tenders for all Phase 1 sites have been invited to design, construct, maintain and operate the accommodation under private financing arrangements, subject to value-for-money being demonstrated. In 2006-07, the tender evaluation will be presented for the Government's approval of the preferred strategic partner for Phase 1. Contract signature and financial close is anticipated in February 2007, with occupation of the Holsworthy site by July 2008.

This project contributes to Army capability.

Queensland

Enoggera – Project Single Living Environment and Accommodation Precinct (Single LEAP)

The Enoggera project seeks to engage a strategic partner to provide a living-in accommodation service for 500 rooms at Enoggera. Contract signature and financial close is anticipated in February 2007, with occupation of the site by March 2009.

This project contributes to Army capability.

RAAF Amberley– Project Single Living Environment and Accommodation Precinct (Single LEAP)

The RAAF Amberley project seeks to engage a strategic partner to provide a living-in accommodation service for 295 rooms at RAAF Amberley. Contract signature and financial close is anticipated in February 2007, with occupation of the Amberley site by July 2008.

This project contributes to Army and Air Force capability.

STATUS OF MAJOR CAPITAL FACILITIES PROJECTS FORESHADOWED FOR GOVERNMENT AND JOINT STATUTORY COMMITTEE ON PUBLIC WORKS CONSIDERATION IN 2006-07

During 2006-07, Defence expects to present proposals to the Government and then to the Joint Statutory Committee on Public Works for a number of facilities projects. Table 3.7 provides details of the proposed major capital projects in development and expected for referral and consideration by the Joint Statutory Committee on Public Works in 2006-07.

Table 3.7: Proposed Major Capital Projects for Parliamentary Consideration in 2006-07

| Program of Major Works (by state, federal electorate and locality) | Indicative Referral Date | Indicative Hearing Date |
|---|-------------------------------------|------------------------------------|
| NEW SOUTH WALES | | |
| Hughes | | |
| Holsworthy: Phase 1 Single LEAP | March 2006 | August 2006 |
| VICTORIA | | |
| Jagajaga | | |
| Watsonia: Defence Force School of Signals | October 2006 | December 2006 |
| Bendigo | | |
| Bendigo: Defence Imagery and Geospatial Organisation Relocation | June 2006 | August 2006 |
| QUEENSLAND | | |
| Brisbane | | |
| Enoggera: Phase 1 Single LEAP | March 2006 | August 2006 |
| Enoggera: Tactical Unmanned Aerial Vehicle Facilities | March 2006 | July 2006 |
| Blair | | |
| Amberley: RAAF Amberley – Phase 1 Single LEAP | March 2006 | August 2006 |
| Capricornia | | |
| Shoalwater Bay Training Area – Facilities Upgrade | May 2006 | June/July 2006 |
| Herbert | | |
| Townsville: RAAF Townsville – Troop Lift Helicopter Facilities | May 2006 | July 2006 |
| Townsville: Lavarack Barracks – Redevelopment Stage 4 | September 2006 | October 2006 |
| Leichhardt | | |
| Cairns: HMAS Cairns Redevelopment | March 2006 | May 2006 |
| NORTHERN TERRITORY | | |
| Solomon | | |
| Darwin: RAAF Darwin Redevelopment Stage 2 | February 2007 | April 2007 |
| Darwin: Robertson Barracks Redevelopment (includes Land 907 and Hardened and Networked Army projects) | October 2006 | December 2006 |
| Lingiari | | |
| Katherine: RAAF Tindal Redevelopment Stage 5 | February 2007 | April 2007 |
| Katherine: RAAF Tindal Airborne Early Warning and Control Facilities | October 2006 | December 2006 |
| AUSTRALIAN CAPITAL TERRITORY | | |
| Fraser | | |
| HMAS Creswell Redevelopment | February 2007 | April 2007 |
| OTHER | | |
| MALAYSIA | | |
| RAAF Butterworth: ADF Headquarters Rationalisation | January 2007 | March 2007 |

New South Wales

Holsworthy – Phase 1 Project Single LEAP

This project will provide living-in accommodation service for 500 rooms at Holsworthy. In 2006-07 the tender evaluation will be presented for the Government's approval of the preferred strategic partner for Phase 1. Construction is expected to commence in early 2007 to be completed in mid-2008.

This project contributes to Army capability.

Victoria

Watsonia – Defence Force School of Signals

This project will provide new working accommodation, improved security arrangements and updated living-in accommodation for the Defence Force School of Signals at Simpson Barracks, Watsonia. The scope is being refined in a detailed business case to be presented for Government and Parliamentary approval in late-2006. Subject to approval, construction is expected to commence in early 2007 and be completed in 2009.

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

Bendigo – Defence Imagery and Geospatial Organisation Relocation

This project will provide new working accommodation at a relocated site to replace existing facilities. The scope is being refined in a detailed business case to be presented for Government and Parliamentary approval in mid-2006. Subject to Government approval, construction is expected to commence in early 2007 and be completed by end 2007.

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

Queensland

Enoggera – Phase 1 Project Single LEAP

This project will provide living-in accommodation service for 500 rooms at Enoggera. In 2006-07, the tender evaluation will be presented for the Government's approval of the preferred strategic partner for Phase 1. Construction is expected to commence in early 2007 and be completed by early 2009.

This project contributes to Army capability.

Enoggera – Tactical Unmanned Aerial Vehicle Facilities

This project will provide facilities to support the introduction of the Tactical Unmanned Aerial Vehicle capability and collocation of the 20th Surveillance and Target Acquisition Regiment at Enoggera. Subject to Government and Parliamentary approval, construction is expected to commence in late 2006 and be completed by late 2007.

This project contributes to Command of Operations, Army and Intelligence capabilities.

Amberley - RAAF Amberley – Phase 1 Project Single LEAP

This project will provide living-in accommodation for 295 rooms at RAAF Amberley. In 2006-07, the tender evaluation will be presented for Government approval of the preferred strategic partner for Phase 1. Construction is expected to commence in early 2007 and to be completed in mid-2008.

This project contributes to Army and Air Force capabilities.

Rockhampton – Shoalwater Bay Training Area Facilities Upgrade

This project will provide additional training facilities in the Shoalwater Bay Training Area. The proposed training facilities will improve opportunities to develop individual and collective combat skills. Subject to Government and Parliamentary approval, construction is expected to commence in late 2006 and be completed in early 2007.

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

Townsville – RAAF Townsville Troop Lift Helicopter Facilities

This project will provide a combination of new and refurbished facilities to support the introduction of the new troop lift helicopter at 5th Aviation Regiment. The new helicopter will be accommodated in the existing Regimental area and will require modifications to existing aircraft shelters, workshops and parts store, and the construction of a new training facility, mission planning facility and other support facilities. Subject to Government and Parliamentary approval, construction is expected to commence in the second half of 2006 and be completed early 2008.

This project contributes to Army capability.

Townsville – Lavarack Barracks Redevelopment Stage 4

This project will provide upgraded working accommodation for various Army elements located at the Barracks. The scope is still being refined in a detailed business case to be presented for Government and Parliamentary approval in mid-2006. Subject to Government approval, construction is expected to commence in the first half of 2007. The target completion date is December 2010.

This project contributes to Army capability.

Cairns – HMAS Cairns Redevelopment

This project will provide a combination of new and refurbished facilities to accommodate a full range of operational and support functions at HMAS Cairns including appropriate berthing space and shore services to accommodate all vessels to be home-ported at HMAS Cairns. The proposed facilities will also enable HMAS Cairns to provide support for all Navy vessels operating in Far North Queensland and the Armidale-class patrol boat as it is introduced into service. Subject to Government and Parliamentary clearance, construction is expected to commence in the second half of 2006 and be completed in 2009.

This project contributes to Navy capability.

Northern Territory

Darwin – RAAF Darwin Redevelopment Stage 2

This project will provide upgrades to existing facilities including fuel farms, workshops, fitness centre, airfield lighting and a new logistics headquarters. The scope is still being refined in a detailed business case to be presented for Government and Parliamentary approval in early 2007. Subject to approval, construction is expected to commence in 2008. The target completion date is late 2010.

This project contributes to Air Force capability.

Darwin – Robertson Barracks Redevelopment

This project comprises three individual project elements being the Robertson Barracks Redevelopment Project, Land 907 facilities project and a Hardened and Networked Army component. The Robertson Barracks Redevelopment will provide new and upgraded facilities for training, emergency response, working accommodation and equipment support. Project Land 907 will provide facilities to support the Land 907 replacement tank project which includes a simulator building and other support facilities. The Hardened and Networked Army project will provide additional living-in accommodation, working accommodation and other support facilities. The scope of the redevelopment project is being refined in a detailed business case to be presented for Government and Parliamentary approval in late 2006. Subject to approval, construction is expected to commence in mid-2007. The target completion date is late 2008.

This project contributes to Army capability.

Katherine – RAAF Tindal Redevelopment Stage 5

This project is an amalgamation of 22 projects to expand and upgrade existing facilities, provide new facilities and augment engineering infrastructure. Subject to approval, construction is expected to commence in mid-2008. The target completion date is 2010.

This project contributes to Air Force capability.

Katherine – RAAF Tindal Airborne Early Warning and Control Aircraft Facilities

This project will provide facilities and infrastructure at RAAF Tindal to support the introduction of the new airborne early warning and control capability. The scope of works includes new taxiways operational facilities and working accommodation. Subject to approval, construction is expected to commence in mid-2007. The target completion date is late 2008.

This project contributes to Air Force capability.

Australian Capital Territory

HMAS Creswell Redevelopment

This project will provide new and upgraded facilities for the training of Navy officers from initial entry and senior sailors in the areas of leadership, management and personal development. This redevelopment project will also provide improved facilities for the support of Navy fleet units, Army, Air Force and visiting units operating in the East Australian Exercise Area. Subject to approval, construction is expected to commence in mid-2007, with completion expected in late 2010.

This project contributes to Navy capability.

Malaysia

RAAF Butterworth – Australian Defence Force Headquarters Rationalisation

This project will provide new and refurbished facilities for ADF elements stationed at RAAF Butterworth, and those deployed and transiting through the base. Subject to approval, construction is expected to commence in mid-2007 and be complete by late 2011.

This project contributes to Army and Air Force capabilities.

OTHER MAJOR CAPITAL FACILITIES PROJECTS FORESHADOWED FOR 2006-07

Defence Site Platypus Contamination Remediation

The Government announced in 2004 that the site of the former HMAS Platypus in Neutral Bay, Sydney, New South Wales, will be transferred to the Sydney Harbour Federation Trust for conservation for future generations. Defence will make a contribution to the cost of remediating contamination at the site.

APPROVED MEDIUM CAPITAL FACILITIES PROJECTS

Table 3.8 provides details of expenditure in 2006-07 for medium capital facilities projects. Medium facilities projects are those expected to cost between \$250,000 and \$6m.

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

| Program of Medium Works (by State, Federal Electorate and Locality) | Total Estimated Expenditure | Estimated Cumulative Expenditure to 30 June 2006 | 2006-07 Budget Estimate |
|--|--|---|--|
| | \$'000 | \$'000 | \$'000 |
| NEW SOUTH WALES | | | |
| Hughes | | | |
| Holsworthy: Interim Special Forces Works | 5,500 | 2,540 | 300 |
| Lamia Barracks: Defence Police Training Centre | 4,960 | 4,000 | 960 |
| Macquarie | | | |
| Richmond: | | | |
| RAAF Richmond Fuel Farm Upgrade | 4,640 | 4,400 | 200 |
| RAAF Richmond Aircraft Shelters | 500 | 450 | 50 |
| North Sydney | | | |
| HMAS Waterhen: Relocation Mine Warfare and Clearance Divers Systems Program Office | 1,910 | 55 | 1,845 |
| Paterson | | | |
| Noise Attenuation Works: Salt Ash and Williamtown Public School | 900 | 350 | 500 |
| Total New South Wales | 18,410 | 11,795 | 3,855 |
| VICTORIA | | | |
| Corio | | | |
| Geelong: Construction of Army Multi-User Depot | 4,250 | 3000 | 1000 |
| McEwen | | | |
| Puckapunyal: | | | |
| Tank Replacement Facility | 1,720 | 1,200 | 500 |
| Regional Weapons Storage and Minor Repair Facility | 1,380 | 1,000 | 300 |
| Total Victoria | 7,350 | 5,200 | 1,800 |
| QUEENSLAND | | | |
| Herbert | | | |
| Lavarack Barracks: | | | |
| Communications and Information Systems Centre | 1,400 | 1,350 | 50 |
| Total Queensland | 1,400 | 1,350 | 50 |
| WESTERN AUSTRALIA | | | |
| Brand | | | |
| Garden Island: HMAS Stirling | | | |
| Guided Weapons In-Service Sustainment | 2,600 | 390 | 2,210 |
| Kalgoorlie | | | |
| Taylor Barracks – Trainee Accommodation | 1,755 | 125 | 1,630 |
| Total Western Australia | 4,355 | 515 | 3,840 |
| NORTHERN TERRITORY | | | |
| Lingiari | | | |
| Mount Bundy: Military Operations in Urban Terrain | 4,980 | 800 | 4,180 |
| Solomon | | | |
| Special Operations Forward Mounting Facility | 2,500 | 500 | 1,900 |
| Robertson Barracks – Advanced Gunnery Training Simulator Facility | 700 | 600 | 100 |
| Total Northern Territory | 8,180 | 1,900 | 6,180 |

| Program of Medium Works (by State, Federal Electorate and Locality) | Total Estimated Expenditure \$'000 | Estimated Cumulative Expenditure to 30 June 2006 \$'000 | 2006-07 Budget Estimate \$'000 |
|--|---|--|---|
| AUSTRALIAN CAPITAL TERRITORY | | | |
| Fraser | | | |
| Jervis Bay – Mary Creek Remediation | 1,100 | 380 | 50 |
| Total Australian Capital Territory | 1,100 | 380 | 50 |
| TOTAL | 40,795 | 21,140 | 15,775 |

PROPOSED MEDIUM CAPITAL PROJECTS FOR CONSIDERATION IN 2006-07

Table 3.9 lists new medium capital facilities projects (costing between \$250,000 and \$6m) foreshadowed for consideration in 2006-07.

Table 3.9: Proposed Medium Capital Projects for Consideration in 2006-07
Program of Medium Works (State, Federal Electorate and Locality)

| | | | |
|--|--|--|--|
| NEW SOUTH WALES | | | |
| Hughes | | | |
| Holsworthy: Childcare Centre | | | |
| Paterson | | | |
| RAAF Williamtown: | | | |
| Air Defence Ground Environment / Air Traffic Control System Program Office | | | |
| Clear Water Rinse Facilities | | | |
| VICTORIA | | | |
| McEwen | | | |
| Puckapunyal: Regional Training and Simulation Centre | | | |
| QUEENSLAND | | | |
| Herbert | | | |
| Lavarack Barracks: Land 144 Countermine Capability | | | |
| Groom | | | |
| Oakey: Helicopter-borne and Loadmaster Training Facility | | | |
| WESTERN AUSTRALIA | | | |
| Brand | | | |
| HMAS Stirling: | | | |
| Submarine Land Based Test Facility | | | |
| Anzac Ship Support Centre Expansion for Anti-Ship Missile Defence | | | |
| Navy Personnel and Training Centre (West) | | | |
| NORTHERN TERRITORY | | | |
| Lingiari | | | |
| RAAF Tindal: | | | |
| Airborne Early Warning and Control – Operations Facility | | | |
| Delamere Radar Facility | | | |
| Solomon | | | |
| Stokes Hill: Darwin Naval Fuel Installation – Rectification works | | | |
| RAAF Darwin: Fuel Equipment Maintenance Facility | | | |
| Robertson Barracks: Land 144 Countermine Capability | | | |

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 \$500,000 and \$20m. Minor projects costing between \$8m and \$20m are approved jointly by the Ministers for Defence and Finance and Administration. Projects costing below \$5m are approved by the Service Chiefs and Group Heads, or their nominated 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 capitalisation of tangible assets costing more than \$10,000. This includes plant and equipment, software and intangibles.

Defence plans to spend \$527.9m on other capital purchases in 2006-07, which is \$260.8m less than the projected result in 2005-06 (refer to Table 3.1). A substantial proportion of the variation relates to the one-time purchase of Repairable Items to recover backlogs in stockholdings and the one-off purchase of Repairable Items for operations in Iraq and Afghanistan. The remaining variation relates mainly to changes in the number, value and schedule across a wide range of minor projects.

CAPITAL RECEIPTS

Capital Receipts 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 and Other Plant and Equipment items which are retained by Defence. Details are shown in Table 3.10.

Table 3.10: Capital Receipts Budget

| Group/Item Description | Estimated Actual 2005-06 \$m | Budget Estimate 2006-07 \$m | Variation 2005-06 to 2006-07 \$m | Forward Estimates 2007-08 \$m | Forward Estimates 2008-09 \$m | Forward Estimates 2009-10 \$m |
|---|---------------------------------------|--------------------------------------|---|--|--|--|
| Property Sales | | | | | | |
| Proceeds from the sale of land and buildings | 76.9 | 32.4 | -44.5 | 117.1 | 64.8 | 2.2 |
| Less Capital withdrawal | 58.5 | 15.0 | -43.5 | 99.7 | 47.4 | 2.2 |
| Proceeds retained by Defence ⁽¹⁾ | 18.4 | 17.4 | -1.0 | 17.4 | 17.4 | - |
| Proceeds from sale of Specialist Military Equipment | | | | | | |
| Proceeds from sale of other property, plant and Other equipment | 6.5 | 5.8 | -0.7 | 5.1 | 4.4 | 4.6 |
| Net Capital Receipts⁽²⁾ | 24.9 | 23.2 | -1.7 | 22.5 | 21.8 | 4.6 |

Notes

1. Proceeds retained by Defence to fund the cost of preparing for sale and selling Defence property.
2. Cross-reference to Table 3.1.

The variation in the property sales program relates to the number, value and timing of property sales, following a review of the property sales program by the Government in the 2006-07 Budget.

DEFENCE

CHAPTER FOUR

PEOPLE

OVERVIEW

WORKFORCE TRENDS

WORKFORCE BUDGET SUMMARY

OVERVIEW

People are fundamental to Defence capability. The Defence White Paper, the Defence Update 2003, the Defence Update 2005 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. In particular, the Defence White Paper provided guidance on the need for Defence to take account of the changing demography. The people goal is to ensure that Defence has the right numbers of ADF and civilian personnel with the right skills and experience, to provide the capabilities we need to undertake complex military operations, to support operations adequately across a number of fields, and to administer the Defence organisation.

Priorities

Priorities in 2006-07 will include:

- continuing to mitigate workforce challenges associated with the current and future competitive employment environment and implement initiatives to further improve retention and recruitment, guided by the Defence Workforce Plan and the Defence People Plan, including:
 - developing the next iteration of the *Defence Strategic Workforce Plan 2007-17* (incorporating the Defence People Plan),
 - enhancing workforce capabilities by attracting, developing and retaining skilled personnel, particularly those within areas identified as having specialist skill shortages, ADF critical trade shortages and Reservists,
 - implementing agreed recommendations of the Ministerial-directed review of ADF retention and recruitment,
 - completing an independent evaluation of the current ADF recruiting capability, and
 - conducting research to develop tailored recruiting strategies to attract more indigenous Australians to Defence;
- continuing to implement improvements announced in the Government's response to the Senate Foreign Affairs, Defence and Trade References Committee Report on the *Effectiveness of Australia's Military Justice System*;
- continuing to implement the Australian Defence Medal initiative;
- continuing to implement initiatives from the Defence Civilian Injury Prevention and Absence Management Framework to reduce the incidence and severity of unscheduled absences in the civilian workforce;

- continuing remuneration reform in the ADF through:
 - implementing the new flexible salary structure for Officers, and
 - examining the feasibility of a new Other Ranks salary structure and a disability allowance framework;
- implementing agreed recommendations from the Review of ADF Reserve Remuneration;
- developing and implementing the next ADF Workplace Remuneration Arrangement and the ADF Star Ranks Remuneration Arrangement, which are due to commence in the second half of 2006;
- implementing the new *Defence Collective Agreement 2006-09*, which will replace the *Defence Employees' Certified Agreement 2004-2006*;
- promoting a strong partnership between the Defence and Department of Veterans' Affairs through:
 - implementing the Military Rehabilitation and Compensation Scheme, which is due to be fully implemented in the second half of 2006, and
 - continuing the LINKS project, with a particular focus on initiatives in the areas of records management and transition management services for ADF personnel leaving the services;
- continuing to develop an integrated occupational health and safety management system guided by the *Defence Occupational Health and Safety Strategic Plan 2004-06*, including:
 - developing the next iteration of the *Defence Occupational Health and Safety Strategic Plan – Reshaping 2007-09*,
 - establishing the Defence Centre for Occupational Health, which will support the prevention and treatment of occupational illness and disease, and
 - improving occupational health and safety management information systems and self-assessment tools;
- continuing to implement measures to further improve ADF health, including:
 - the Defence injury prevention program,
 - the ADF alcohol, tobacco and other drugs program,
 - the ADF suicide prevention program,
 - continuing health studies of personnel deployed on Operation Anode (Solomon Islands) and Operation Citadel (Timor-Leste),
 - the agreed recommendations of the review of Defence health services, and
 - HealthKEYS to allow the creation of electronic health records and assist in the management of ADF health;

- continuing to develop targeted education and training through:
 - ongoing implementation of the agreed outcomes of the Defence Business Skilling Review,
 - responding to the training needs identified by the Defence financial statements remediation plans,
 - undertaking a review of ADF joint education and training,
 - developing an integrated Defence Australian Public Service (APS) Learning and Development strategy,
 - expanding the suite of training modules available through flexible delivery, including eLearning, and
 - promoting the learning and growth of Defence leaders and managers through the Australian Defence College by providing education to military officers and officials from Australia and overseas throughout their careers;
- developing personnel policies for Defence, including:
 - providing an overarching policy framework to enable development of a long-term plan for the funding and delivery of housing and other living accommodation solutions for ADF members,
 - continuing to review the policy and entitlements for members with dependants (separated) to improve support to ADF personnel separated from their families due to service requirements, and
 - strengthening the performance management culture through training and educational material for managers, supervisors and staff, which introduces courses focused on managing underperformance and strengthening performance measures;
- supporting ADF members and their families through:
 - delivering employment assistance to partners of ADF members, including the trial of a CD-based resume preparation tool, and expanding the assistance provided to spouses based in remote or overseas posting locations,
 - expanding the Defence childcare program by increasing the number of corporate centres within the program and the number of priority positions available to Defence families in long day care and family day care settings,
 - implementing a new ‘ADF Emergency Support for Families Scheme’ to ensure greater support and practical assistance to families of ADF members serving away from home,
 - continuing sponsorship of school transition aide positions and resources within primary and secondary schools that support significant enrolments of mobile dependants of ADF members,

- ensuring support for ADF families which have a special needs dependant, including the sponsorship of respite care through the 'Circle of Friends' respite program,
- streamlining the access points for all ADF families who require advice and support through a toll-free advice and referral line, and
- enhancing the professional program of support and counselling to families which have a member who dies or is seriously injured in service;
- continuing improvements to Defence's human resources and payroll management system, including:
 - continued expansion of the employee self-service workflow functionality across Defence, including developing and implementing a work performance management tool,
 - implementing enhanced personnel and payroll services to Defence people through online internet access,
 - implementing from the corporate human resources application a business intelligence tool for improved human resources data extraction and management reporting, and
 - completing documentation to support the requirements for the software upgrade project and integration of pay systems;
- continuing to develop the ADF Cadets as a youth development program delivered in partnership by Defence and the community. Defence is committed to strengthening this partnership and developing Australia's youth through a range of programs designed to enhance the Cadet experience and facilitate the entry of interested and eligible Cadets into the ADF. These programs include:
 - designing a cadet-specific recruitment process and tailored career marketing information,
 - improving the care and control of minors through the delivery of a Youth Development Guide, a review of adult staff recruitment processes, continued implementation of a revised Cadet behaviour policy and child protection policies, and continued development of the training programs for the ADF Cadets,
 - implementing a revised military-like activities policy, including on firearms training, to enhance the Cadet experience, and
 - implementing a Cadet policy manual containing relevant tri-service Cadet policy and community engagement protocols.

WORKFORCE TRENDS

The ADF is currently about 1,500 below its authorised personnel targets. At the same time, there are about 2,000 ADF personnel overseas on operational deployment, or on international engagement tasks. These factors have contributed to workforce shortfalls in Defence's non-Service Groups. A number of recruitment and retention measures have been taken or are planned which will help recover ADF numbers. Significant resources are being applied through the Defence People Plan. Until military numbers recover, Defence is also ameliorating the impact of workforce shortfalls in non-Service Groups through a 'whole-of-workforce' approach, by temporarily increasing civilian numbers using non-ongoing staff in order to compensate for military workforce gaps, within the total workforce. This will result in temporary increases in the civilian workforce.

Despite the shortfalls in military numbers, Defence continues to meet its operational requirements and implement the White Paper program of 3 per cent real growth and this is continuing to place pressure on the total workforce. Chart 4.1 shows the trends in the total Defence workforce since 2000-01.

Chart 4.1: Trends in Average Strength for the Total Defence Workforce including Reserves 2000-01 to 2006-07

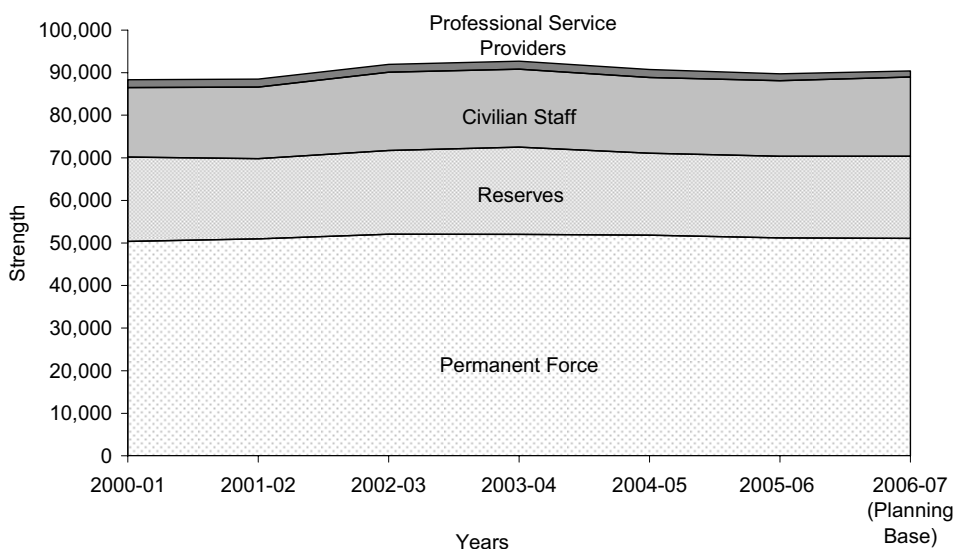
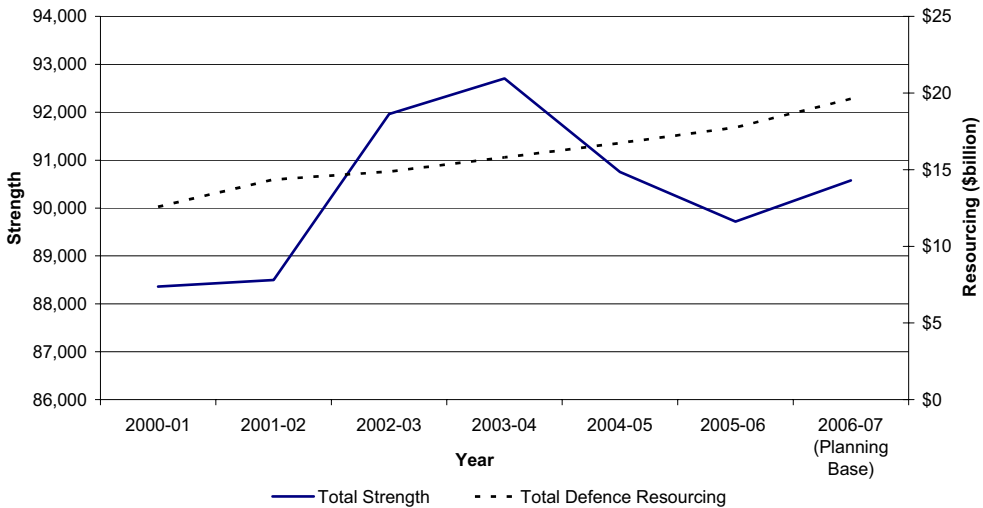


Chart 4.2 shows the total workforce numbers in relation to the increasing size of the Defence Budget.

Chart 4.2: Comparison of Total Defence Workforce Numbers and Total Defence Resourcing Levels 2000-2001 to 2006-2007

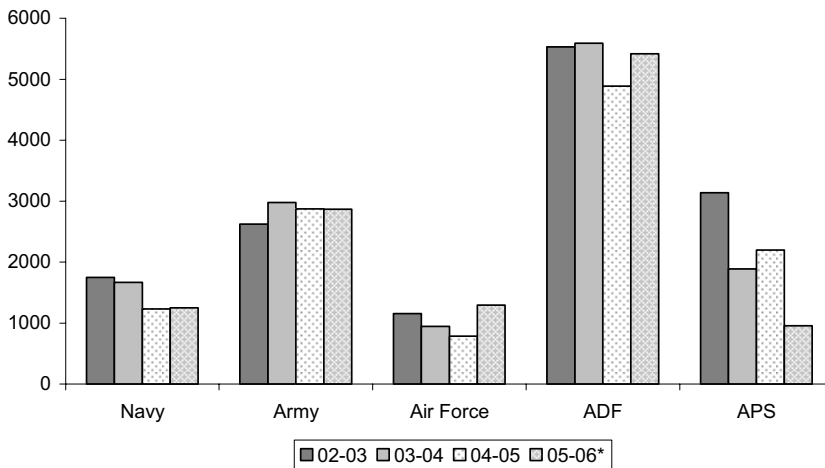


Note

1. The figures in this chart include the Defence Materiel Organisation (DMO).

Chart 4.3 shows the trend for enlistments by Service and APS for the period 2002-03 to 2005-06.

Chart 4.3: Enlistment Numbers by Service and APS 2002-03 to 2005-06⁽¹⁾⁽²⁾⁽³⁾

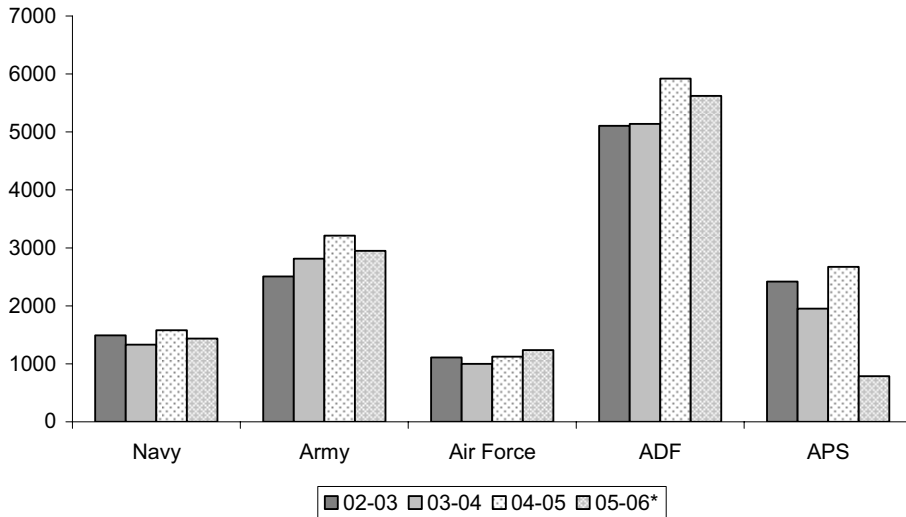


Notes

1. Figures in this chart show actual staff.
2. Enlistment figures for 2005-06 are an estimate only.
3. APS enlistment figures for 2005-06 exclude the DMO.

Chart 4.4 shows the trend for separation numbers by Service and APS for the period 2002-03 to 2005-06.

Chart 4.4: Separation Numbers by Service and APS 2002-03 to 2005-06⁽¹⁾⁽²⁾⁽³⁾

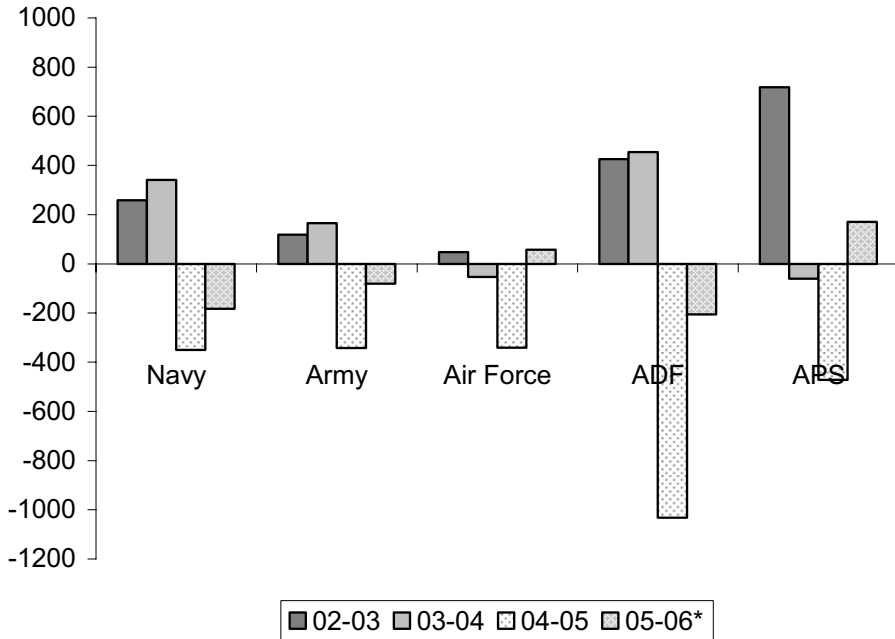


Notes

1. Figures in this chart show actual staff.
2. Enlistment figures for 2005-06 are an estimate only.
3. APS enlistment figures for 2005-06 exclude the DMO.

Chart 4.5 shows the change in permanent strength by Service and APS over the last four years. The figures for 2005-06 are an estimate only.

Chart 4.5: Change in Permanent Strength by Service and APS 2002-03 to 2005-06⁽¹⁾⁽²⁾⁽³⁾



Notes

1. Figures in this chart show actual staff.
2. Figures for 2005-06 are an estimate only.
3. APS figures for 2005-06 exclude the DMO.

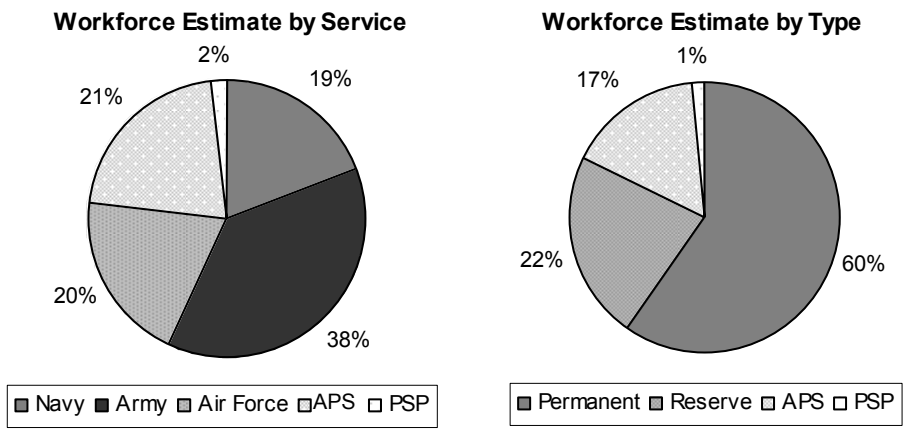
WORKFORCE BUDGET SUMMARY

The total Defence workforce is forecast to be 85,813 in 2006-07, comprising:

- Permanent Forces of
 - 12,784 Navy Personnel,
 - 25,220 Army Personnel, and
 - 13,249 Air Force Personnel;
- 19,250 Reserve Forces;
- 14,148 APS staff; and
- 1,162 Professional Service Providers (PSPs).

Chart 4.6 shows the composition of the workforce by Service and by type.

Chart 4.6: Defence Workforce – Budget Estimates by Service and Type



The total workforce is forecast to increase by 842 compared with the 2005-06 projected result of 84,971, as shown in Table 4.1.

Table 4.1: Defence Workforce

| | 2005-06 Estimated Actual | 2006-07 Budget Estimate | Variation | |
|---|--------------------------------|-------------------------------|-------------|-------------|
| | | | | % |
| Permanent Force⁽¹⁾⁽²⁾⁽⁴⁾ | | | | |
| Navy | 12,800 | 12,784 | -16 | -0.1 |
| Army | 25,259 | 25,220 | -39 | -0.2 |
| Air Force | 13,130 | 13,249 | 119 | 0.9 |
| Sub-total Permanent Force | 51,189 | 51,253 | 64 | 0.1 |
| Reserve Force⁽³⁾ | | | | |
| Navy | 1,850 | 1,850 | - | - |
| Army | 15,000 | 15,000 | - | - |
| Air Force | 2,300 | 2,400 | 100 | 4.3 |
| Sub-total Reserve Force | 19,150 | 19,250 | 100 | 0.5 |
| Sub-total military | 70,339 | 70,503 | 164 | 0.2 |
| Australian Public Service | | | | |
| Vice Chief of the Defence Force/Chief of Joint Operations | 898 | 891 | -7 | -0.8 |
| Navy | 714 | 750 | 36 | 5.0 |
| Army | 675 | 815 | 140 | 20.7 |
| Air Force | 871 | 903 | 32 | 3.7 |
| Corporate Services and Infrastructure Group | 3,868 | 4,009 | 141 | 3.6 |
| Defence Personnel Executive | 1,202 | 1,202 | - | - |
| Defence Science and Technology Organisation | 2,215 | 2,251 | 36 | 1.6 |
| Other Groups | 2,912 | 3,327 | 415 | 14.3 |
| Sub-total Australian Public Service⁽¹⁾ | 13,355 | 14,148 | 793 | 5.9 |
| Sub-total Professional Service Providers⁽⁵⁾ | 1,277 | 1,162 | -115 | -9.0 |
| Total workforce | 84,971 | 85,813 | 842 | 1.0 |

Notes

1. Numbers for the Permanent Forces and APS are based on average funded strengths and full-time equivalent respectively.
2. Numbers for the Permanent force includes Standby Reservists undertaking full-time service.
3. Numbers for Reserves represent numbers of Standby or Active Reservists who will undertake paid service during the financial year.
4. DMO workforce numbers are not included as they are required to be shown separately since that organisation was established as a prescribed agency on 1 July 2005.
5. PSPs are individuals under contract filling APS line positions.

ADF Permanent Force

The average funded strength of the permanent ADF for 2006-07 is estimated at 51,253, an overall increase of 64 from the 2005-06 estimated actual of 51,189. The Navy's numbers are planned to reduce by 16 following the rationalisation of the Command and Control structure, and the Air Force is planned to increase by 119 due to increases in recruitment during the year (+136), partially offset by savings in relation to the rationalisation of the Command and Control structure (-17). The Army's strength will reduce by 39 in 2006-07 compared with the 2005-06 projected result. The rationalisation of the Command and Control structure accounts for 29 of the decrease, and the civilianisation of Army positions accounts for a further 56. Alternatively, the Army's strength will grow by 24 in

2006-07 as a result of the Hardened and Networked Army initiative and there is a further small increase of 22 as the Army progressively overcomes the recruitment and retention difficulties experienced in the last couple of years. Recruitment and retention measures should help the Army's personnel numbers stabilise and then grow beyond 2006-07.

ADF Reserve Force

The estimated number of Reserves expected to undertake paid service during 2006-07 is 19,250, an increase of 100 from the 2005-06 estimated actual of 19,150. This number does not include Reservists undertaking full-time service, as they are included in the Permanent Force numbers (see notes 2 and 3 to Table 4.1). The increase is due to anticipated growth from the High Readiness Reserve initiatives in the Air Force.

Civilian Workforce

The APS average funded strength expressed as full-time equivalent average for 2006-07 is 14,148. This represents an increase of 793 from the 2005-06 estimated actual of 13,355, comprising:

- civilianisation of military positions (+199);
- temporary backfilling of vacant military positions (+253);
- recovery of APS numbers following recruitment and retention problems experienced in 2005-06 (+102);
- additional staff for new measures announced in the 2005-06 Budget including in relation to the Hardening and Networking Army initiative (+20) and intelligence and security measures (+13);
- additional staff to implement the outcomes of the Military Justice Inquiry (+27);
- further substitution of Professional Service Provider positions with more cost effective APS positions (+20); and
- additional staff required to undertake new functions across all Groups including financial remediation projects, financial controls framework and stocktaking activity (+159).

Professional Service Providers

In addition to military and civilian employees, Defence engages as part of its total workforce, a number of PSPs, who are people with specialist skills contracted to fill an APS position usually because of Defence's inability to recruit or retain civilian staff with these skills. In 2003-04, Defence set savings targets for PSP positions and introduced a total workforce management framework, which allowed Group Heads to substitute more costly PSPs with civilian staff, in order to grow Defence's civilian personnel skills base and obtain more cost effective outcomes.

The estimated number of PSPs for Defence for 2006-07 is 1,162, representing an overall decrease of 115 from the 2005-06 estimated actual of 1,277 due to outsourcing of IT support services function. Since 2003-04 Defence has reduced its PSP workforce from 1,880 to 1,162 including substituting 400 positions with more cost effective civilian staff.

Table 4.2 shows the breakdown of personnel by service and rank including the APS.

Table 4.2: Breakdown of Personnel Numbers by Service and Rank

| | 2005-06 Projected Result | 2006-07 Budget Estimate |
|------------------------------------|-----------------------------|----------------------------|
| NAVY⁽¹⁾ | | |
| Star-ranked officers | 44 | 40 |
| Senior officers ⁽²⁾ | 413 | 428 |
| Junior officers | 2,462 | 2,533 |
| Other ranks | 9,881 | 9,783 |
| Sub total: Permanent Forces | 12,800 | 12,784 |
| Reserves ⁽³⁾ | 1,850 | 1,850 |
| Total Navy | 14,650 | 14,634 |
| ARMY⁽¹⁾ | | |
| Star-ranked officers | 57 | 59 |
| Senior officers ⁽²⁾ | 646 | 688 |
| Junior officers | 4,744 | 4,796 |
| Other ranks | 19,812 | 19,677 |
| Sub total: Permanent Forces | 25,259 | 25,220 |
| Reserves ⁽³⁾ | 15,000 | 15,000 |
| Total Army | 40,259 | 40,220 |
| AIR FORCE⁽¹⁾ | | |
| Star-ranked officers | 38 | 37 |
| Senior officers ⁽²⁾ | 515 | 515 |
| Junior officers | 3,454 | 3,457 |
| Other ranks | 9,123 | 9,240 |
| Sub total: Permanent Forces | 13,130 | 13,249 |
| Reserve Forces ⁽³⁾ | 2,300 | 2,400 |
| Total Air Force | 15,430 | 15,649 |

| | 2005-06 Projected Result | 2006-07 Budget Estimate |
|---|-----------------------------|----------------------------|
| APS staffing⁽¹⁾⁽⁴⁾ | | |
| Senior executives | 103 | 103 |
| Senior officers ⁽²⁾ | 3375 | 3451 |
| Other APS staff | 9877 | 10,594 |
| Total APS staffing | 13,355 | 14,148 |
| Professional Service Providers ⁽⁵⁾ | 1277 | 1162 |
| Total Professional Service Providers | 1277 | 1162 |
| Total Workforce | 84,971 | 85,813 |

Notes

1. Permanent Forces and APS numbers are forecasts of the average strength for 2006-07. Reserve figures represent actual numbers of Standby or Active Reservists who render service. Numbers for the Permanent Forces, APS and PSPs exclude the DMO.
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 figures for Senior Executive Service include the Secretary of Defence.
5. PSPs are individuals under contract filling line positions.

Employee Expenses

The budget estimate for employee expenses in 2006-07 is \$6,609.0m, representing an increase of \$309.4m from the 2005-06 projected result of \$6,299.6m. Details are shown in Table 4.3.

Table 4.3: Employee Expenses

| | 2005-06 Projected Result | 2006-07 Budget Estimate | Variation ⁽¹⁾ | |
|--|--------------------------------|-------------------------------|--------------------------|------------|
| | \$m | \$m | \$m | % |
| Military Employee | | | | |
| Permanent Salary, Allowances, Superannuation and Leave | 4,165.6 | 4,329.8 | 164.2 | 3.9 |
| Housing | 416.5 | 424.9 | 8.4 | 2.0 |
| Health Services | 170.8 | 177.9 | 7.1 | 4.2 |
| Other Expenses including Fringe Benefits Tax | 297.2 | 298.5 | 1.3 | 0.4 |
| Reserves Salary and Allowances | 135.7 | 171.7 | 36.0 | 26.5 |
| Sub-total Military Employee Expenses | 5,185.8 | 5,402.8 | 217.0 | 4.2 |
| Civilian Employee | | | | |
| Salary, Allowances, Superannuation and Leave | 1,091.5 | 1,183.3 | 91.8 | 8.4 |
| Other Expenses including Fringe Benefits Tax | 22.3 | 22.9 | 0.6 | 2.7 |
| Sub-total Civilian Employee Expenses | 1,113.8 | 1,206.2 | 92.4 | 8.3 |
| Total Employee Expenses | 6,299.6 | 6,609.0 | 309.4 | 4.9 |

Note

1. 2006-07 Budget Estimate less 2005-06 Projected Result.

Military Employee Expenses

Compared with the 2005-06 projected result, military employees expenses increased by \$217.0m for the following reasons:

- an increase in salaries, allowances, superannuation and leave of \$164.2m due to:
 - provision for the part year effect in 2006-07 of the new *ADF Workplace Remuneration Arrangement 2006-09* (+\$95.7m),
 - the full year effect of the March 2006 1.5 per cent pay rise flowing from the *ADF Workplace Remuneration Arrangement 2004-06* (+\$37.6m),
 - a net increase in average funded strength of 102 (+\$10.2m),
 - an additional 24 personnel for the Hardened and Networked Army initiative included in the 2006-07 Budget (+\$1.5m),
 - variation in allocations for current operations including in Iraq (+\$32.6m),
 - other net variations (-\$7.8m), and
 - a reduction of 62 personnel as part of the rationalisation of the Australian Defence Force Command and Control Structure (-\$5.6m);
- an increase in Reserve Salaries and Allowances of \$36.0m due to new measures announced in the 2006-07 Budget in relation to Reserves Remuneration (+\$36.1m);
- an increase in military housing costs of \$8.4m due to changes in housing numbers and Defence Housing Authority rental charges (\$8.4m);
- an increase in health costs of \$7.1m due mainly to medical and professional fees with the Services being unable to fully fill their medical and health services positions (+\$7.1m); and
- an increase in fringe benefits tax costs reflecting the increase in housing costs (+\$1.3m).

Civilian Employee Expenses

Compared with the 2005-06 projected result, civilian employee expenses are budgeted to increase by \$92.4m for the following reasons:

- a net increase in salaries, allowances, superannuation and leave of \$91.8m due to:
 - provision for the new *Defence Collective Agreement 2006-09* including salary progression (+\$61m),
 - the full year effect of the January 2006 two per cent pay rise flowing from the *Defence Employees Certified Agreement 2004-06* (+\$9.4m),
 - temporary backfilling of vacant military positions (+253 full-time equivalent) (+\$20.5m),

- civilianisation of 199 military positions (\$16.1m),
- recovery of 102 civilian personnel numbers following recruitment and retention difficulties experienced in 2005-06 (\$8.3),
- other variations in personnel numbers across all Groups (\$8.8m),
- additional staffing as a result of 2006-07 Budget measures (+33 full-time equivalent) (+\$2.4m),
- a decrease in superannuation costs as a result of the introduction of the Public Sector Superannuation Accumulation Plan (- \$3.5m), and
- revisions in employee provisions associated with measures to reduce high leave balances and other net variations (-\$31.2m);
- a net increase in other expenses including an increase in the Comcare premium (+\$0.6m).

DEFENCE

CHAPTER FIVE

PLANNED OUTCOME

PERFORMANCE

DEFENCE OUTCOME AND OUTPUT STRUCTURE

COST OF DEFENCE OUTCOMES

Defence Outcomes – Budget Estimates

Cost Summary of Defence Outputs

Net Cost of Defence Outcomes

Group Contributions 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

Defence Cooperation

OUTCOME SIX – INTELLIGENCE

OUTCOME SEVEN – SUPERANNUATION AND HOUSING

SUPPORT SERVICES FOR CURRENT AND RETIRED

DEFENCE PERSONNEL

TABLE OF SIGNIFICANT VARIATIONS ACROSS DEFENCE
OUTCOMES

DEFENCE OUTCOME AND OUTPUT STRUCTURE

All Government agencies that receive appropriations from Parliament are required to report on the basis of the Outcomes and Outputs framework that was introduced along with accrual budgeting in 1999-2000. The framework recognises that government delivers benefits to the Australian community (Outcomes) primarily through administered items and agencies' goods and services (Outputs), which are delivered against specific performance benchmarks or targets. Planned Outcomes are defined as the results or impacts on the community or the environment that the Government intends to achieve. Appropriations by Parliament are made according to the purposes specified by government Outcomes. In turn, all agency Outputs must contribute - directly or indirectly - to the realisation of a specified Outcome.

The Government has seven Outcomes for Defence. Of these, there are six Departmental Outcomes, which focus on the delivery of military capabilities, and one Administered Outcome as set out in Table 5.a.

As well as providing details on each of Defence's seven Outcomes, particularly in relation to planned performance in 2006-07, Chapter Five provides the following additional detail:

- Chart 5.a that follows, shows the structure and the net cost to Government of each of Defence's Outcomes.
- Table 5.b shows the net cost to Government of Defence's 2006-07 Outputs, grouped by Outcome.
- Table 5.c shows the 2006-07 Income Statement by Defence Outcomes.
- Table 5.d shows the Movement in the Net Cost of Defence Outcomes since 2003-04.
- Table 5.e shows the Group Contributions to Defence Outcomes.
- Table 5.f provides an explanation of the Significant Variations Across Defence Outcomes.

Table 5.a: Defence Outcome and Output Structure

**OUTCOME ONE – Command of Operations in Defence of Australia and its Interests
(Commander Joint Operations)**

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
(Chief of Navy)**

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
(Chief of Army)**

OUTPUTS

- 3.1 Capability for Special Operations
- 3.2 Capability for Medium Combined Arms Operations
- 3.3 Capability for Light Combined Arms 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 Combined Arms Operations
- 3.10 Capability for Protective Operations

**OUTCOME FOUR – Air Force Capability for the Defence of Australia and its Interests
(Chief of Air Force)**

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
- 4.4 Capability for Airlift Operations

**OUTCOME FIVE – Strategic Policy for the Defence of Australia and its Interests
(Deputy Secretary Strategy)**

OUTPUTS

- 5.1 International Policy, Activities and Engagement
- 5.2 Strategic Policy and Military Strategy

**OUTCOME SIX – Intelligence for the Defence of Australia and its Interests
(Deputy Secretary Intelligence and Security)**

OUTPUT

- 6.1 Intelligence

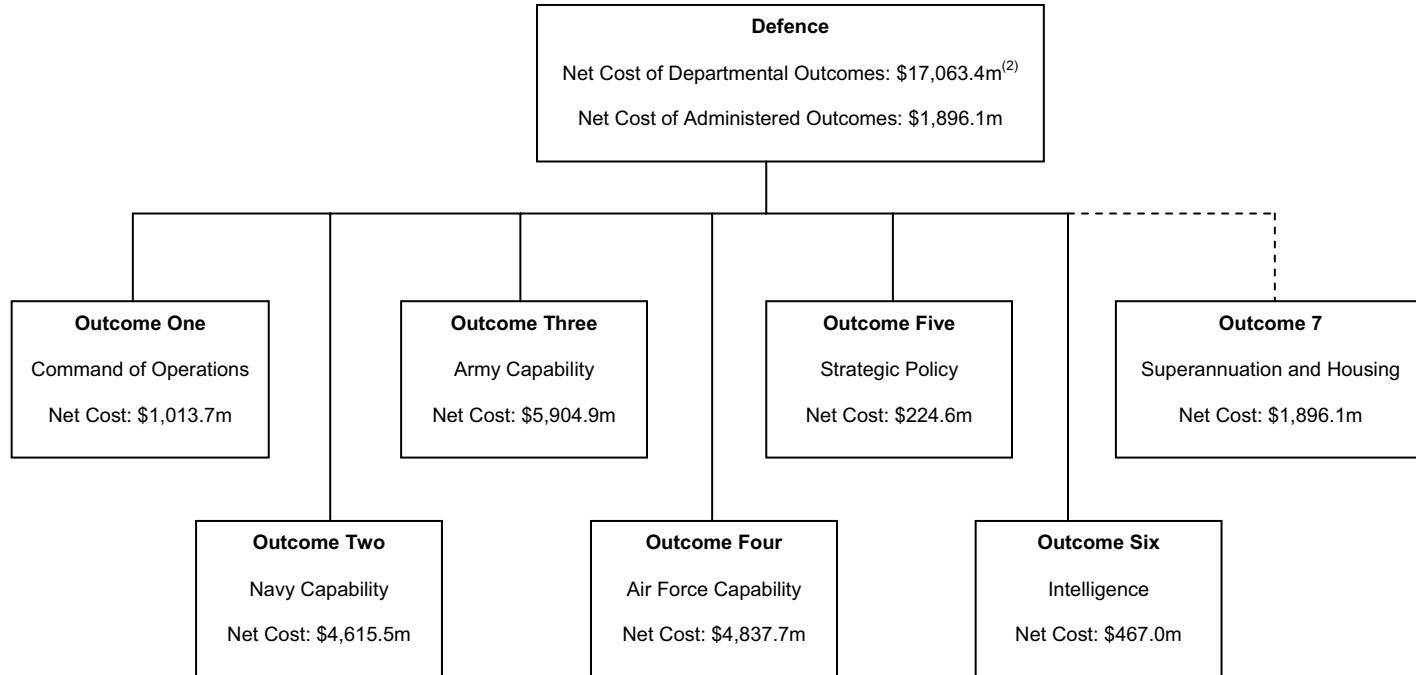
**OUTCOME SEVEN – Superannuation and Housing Support Services for Current and Retired
Defence Personnel (Head Defence Personnel Executive)**

OUTPUTS

- 7.1 Superannuation Support Services for Current and Retired Defence Personnel
- 7.2 Housing Assistance for Current Defence Personnel
- 7.3 Other Administered Revenues and Expenses

COST OF DEFENCE OUTCOMES

Chart 5a: Defence Outcomes – Budget Estimates⁽¹⁾



Notes

1. Net cost of Outcomes to Government excludes Own Source Revenue and Net Capital Receipts.
2. Cross reference to Serial 1 of Table 2.1 and Table 2.11.

Cost Summary of Defence Outputs

Table 5.b: Net Cost to Government of Defence's 2006-07 Outputs by Outcome

| Outcome/Output | Previous Estimate ⁽¹⁾ 2006-07 \$'000 | Budget Estimate 2006-07 \$'000 | Variation \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|---|--------------------------------------|---------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Outcome One – Command of Operations in Defence of Australia and its Interests | | | | | | |
| 1.1 – Command of Operations | 441,006 | 432,842 | -8,164 | 372,135 | 368,590 | 368,145 |
| 1.2 – Defence Force Military Operations and Exercises | 261,707 | 559,667 | 297,961 | 339,525 | 217,478 | 189,941 |
| 1.3 – Contributions to National Support Tasks | 21,251 | 21,188 | -63 | 20,769 | 22,345 | 22,591 |
| Sub-total Outcome One | 723,963 | 1,013,697 | 289,734 | 732,428 | 608,414 | 580,677 |
| Outcome Two – Navy Capability for the Defence of Australia and its Interests | | | | | | |
| 2.1 – Capability for Major Surface Combatant Operations | 1,567,312 | 1,572,470 | 5,158 | 1,569,700 | 1,591,411 | 1,644,047 |
| 2.2 – Capability for Naval Aviation Operations | 578,463 | 597,690 | 19,227 | 609,107 | 615,803 | 648,023 |
| 2.3 – Capability for Patrol Boat Operations | 282,707 | 310,642 | 27,935 | 373,598 | 381,676 | 406,682 |
| 2.4 – Capability for Submarine Operations | 721,530 | 724,138 | 2,608 | 666,848 | 642,555 | 643,164 |
| 2.5 – Capability for Afloat Support | 271,337 | 295,361 | 24,024 | 341,136 | 346,111 | 377,515 |
| 2.6 – Capability for Mine Warfare | 370,442 | 398,607 | 28,165 | 465,196 | 470,920 | 496,733 |
| 2.7 – Capability for Amphibious Lift | 395,223 | 422,430 | 27,207 | 491,555 | 499,752 | 547,870 |
| 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations | 266,022 | 294,180 | 28,158 | 375,425 | 381,419 | 397,446 |
| Sub-total Outcome Two | 4,453,037 | 4,615,517 | 162,480 | 4,892,564 | 4,929,648 | 5,161,480 |

| Outcome/Output | Previous Estimate ⁽¹⁾ 2006-07 \$'000 | Budget Estimate 2006-07 \$'000 | Variation \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|---|--|---|---------------------|--|--|--|
| Outcome Three – Army Capability for the Defence of Australia and its Interests | | | | | | |
| 3.1 – Capability for Special Operations | 530,178 | 534,256 | 4,078 | 546,548 | 552,288 | 572,480 |
| 3.2 – Capability for Medium Combined Arms Operations | 867,509 | 938,457 | 70,948 | 859,434 | 854,529 | 877,162 |
| 3.3 – Capability for Light Combined Arms Operations | 1,014,643 | 977,728 | -36,915 | 1,029,151 | 1,054,447 | 1,103,487 |
| 3.4 – Capability for Army Aviation Operations | 563,715 | 590,665 | 6,949 | 553,413 | 546,093 | 558,040 |
| 3.5 – Capability for Ground-Based Air Defence | 121,858 | 125,526 | 3,668 | 119,128 | 122,044 | 127,673 |
| 3.6 – Capability for Combat Support Operations | 409,567 | 439,935 | 30,368 | 453,857 | 462,329 | 482,033 |
| 3.7 – Capability for Regional Surveillance | 155,294 | 156,546 | 1,252 | 160,621 | 162,317 | 168,201 |
| 3.8 – Capability for Operational Logistic Support to Land Forces | 581,557 | 587,745 | 6,189 | 605,033 | 615,638 | 642,175 |
| 3.9 – Capability for Motorised Combined Arms Operations | 588,407 | 593,810 | 5,403 | 609,787 | 616,753 | 639,854 |
| 3.10 – Capability for Protective Operations | 950,177 | 980,216 | 30,039 | 1,032,930 | 1,039,754 | 1,071,064 |
| Sub-total Outcome Three | 5,782,906 | 5,904,884 | 121,978 | 5,969,903 | 6,026,192 | 6,242,169 |
| Outcome Four – Air Force Capability for the Defence of Australia and its Interests | | | | | | |
| 4.1 – Capability for Air Combat Operations | 1,536,286 | 1,593,252 | 56,965 | 1,722,226 | 1,697,258 | 1,725,212 |
| 4.2 – Capability for Combat Support of Air Operations | 958,524 | 954,466 | -4,057 | 984,101 | 1,011,548 | 1,025,196 |
| 4.3 – Capability for Surveillance and Response | 1,175,263 | 1,181,018 | 5,755 | 1,179,779 | 1,201,178 | 1,224,265 |
| 4.4 – Capability for Airlift Operations | 1,062,209 | 1,108,955 | 46,746 | 1,200,482 | 1,217,937 | 1,252,001 |
| Sub-total Outcome Four | 4,732,282 | 4,837,691 | 105,409 | 5,086,587 | 5,127,922 | 5,226,674 |
| Outcome Five – Strategic Policy for the Defence of Australia and its Interests | | | | | | |
| 5.1 – International Policy, Activities and Engagement | 162,079 | 179,237 | 17,158 | 200,126 | 209,797 | 226,791 |
| 5.2 – Strategic Policy and Military Strategy | 40,348 | 45,392 | 5,044 | 48,028 | 49,670 | 52,853 |
| Sub-total Outcome Five | 202,427 | 224,629 | 22,202 | 248,153 | 259,467 | 279,644 |

| Outcome/Output | Previous Estimate ⁽¹⁾ 2006-07 \$'000 | Budget Estimate 2006-07 \$'000 | Variation \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|--|---|---------------------|--|--|--|
| Outcome Six – Intelligence for the Defence of Australia and its Interests | | | | | | |
| 6.1 – Intelligence | 467,495 | 466,986 | -509 | 495,062 | 546,674 | 598,699 |
| Sub-total Outcome Six | 467,495 | 466,986 | -509 | 495,062 | 546,674 | 598,699 |
| Net Cost for Department Outcomes | 16,362,110 | 17,063,404 | 701,294 | 17,424,698 | 17,498,316 | 18,089,342 |
| Approved Allocated Profit/(Loss) | - | - | - | - | - | - |
| Departmental Appropriations from Government | 16,362,110 | 17,063,404 | 701,294 | 17,424,698 | 17,498,316 | 18,089,342 |
| Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel | | | | | | |
| 7.1 – Superannuation Support Services for Current and Retired Defence Personnel | 1,923,625 | 1,963,000 | 39,375 | 2,044,000 | 2,132,000 | 2,224,000 |
| 7.2 – Housing Assistance for Current Defence Personnel | -9,079 | -63,912 | -54,833 | -55,517 | -55,444 | -54,752 |
| 7.3 – Other Administered Expenses and Revenues | -2,500 | -3,000 | -500 | -3,000 | -3,000 | -3,000 |
| Net Cost of Administered Outcomes | 1,912,046 | 1,896,088 | -15,958 | 1,985,483 | 2,073,556 | 2,166,248 |
| Total Cost for Defence Outcomes | 18,274,156 | 18,959,492 | 685,336 | 19,410,181 | 19,571,872 | 20,255,590 |

Note

1. The Previous Estimates are consistent with the *Portfolio Additional Estimates Statements 2005-06*.

Table 5.c: 2006-07 Income Statement by Defence Outcome

| | Outcome 1 – Command of Operations | Outcome 2 – Navy Capabilities | Outcome 3 – Army Capabilities | Outcome 4 – Air Force Capabilities | Outcome 5 – Strategic Policy | Outcome 6 – Intelligence | Total Defence Departmental Outcome | Outcome 7 – Superannuation and Housing Support Services for Current and Retired Defence Personnel | Grand Total |
|--|---|-------------------------------------|-------------------------------------|--|------------------------------------|-----------------------------|--|--|-------------------|
| | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 |
| DEPARTMENTAL | | | | | | | | | |
| INCOME | | | | | | | | | |
| Revenue | | | | | | | | | |
| Goods and Services | -26,562 | -151,545 | -188,452 | -145,124 | -8,763 | -10,037 | -530,482 | - | -530,482 |
| Other Revenue | -2,548 | -20,886 | -22,216 | -18,168 | -920 | -925 | -65,663 | - | -65,663 |
| Total Revenue | -29,110 | -172,430 | -210,668 | -163,291 | -9,683 | -10,962 | -596,145 | - | -596,145 |
| Gains | | | | | | | | | |
| Reversals of previous asset write-downs | -7,663 | -21,896 | -34,047 | -134,109 | -1,033 | -1,253 | -200,000 | - | -200,000 |
| Net gains from sale of assets | - | - | - | - | - | - | - | - | - |
| Total Gains | -7,663 | -21,896 | -34,047 | -134,109 | -1,033 | -1,253 | -200,000 | - | -200,000 |
| Total Income | -36,773 | -194,326 | -244,715 | -297,400 | -10,716 | -12,215 | -796,145 | - | -796,145 |
| Operating Expenses | | | | | | | | | |
| Employees | 425,278 | 1,565,080 | 2,809,107 | 1,484,327 | 97,849 | 227,441 | 6,609,082 | - | 6,609,082 |
| Suppliers | 593,645 | 2,093,172 | 2,442,227 | 2,204,810 | 130,643 | 184,638 | 7,649,136 | - | 7,649,136 |
| Grants | 244 | 1,360 | 2,632 | 1,154 | 59 | 143 | 5,592 | - | 5,592 |
| Depreciation and Amortisation | 27,580 | 1,109,920 | 816,045 | 1,311,428 | 6,113 | 65,237 | 3,336,323 | - | 3,336,323 |
| Finance Cost | 896 | 5,070 | 9,540 | 4,074 | 241 | 590 | 20,412 | - | 20,412 |
| Write-down and impairment of assets | 2,900 | 35,260 | 69,919 | 125,299 | 468 | 1,155 | 235,000 | - | 235,000 |

| | Outcome 1 – Command of Operations | Outcome 2 – Navy Capabilities | Outcome 3 – Army Capabilities | Outcome 4 – Air Force Capabilities | Outcome 5 – Strategic Policy | Outcome 6 – Intelligence | Total Defence Departmental Outcome | Outcome 7 – Superannuation and Housing Support Services for Current and Retired Defence Personnel | Grand Total |
|---|---|-------------------------------------|-------------------------------------|--|------------------------------------|-----------------------------|--|--|---------------------------------|
| | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 | 2006-07 \$'000 |
| Net losses from sale of assets | - | - | - | - | - | - | - | - | - |
| Other expenses | -74 | -20 | 130 | 3,999 | -28 | -3 | 4,004 | - | 4,004 |
| Total Expenses | 1,050,470 | 4,809,843 | 6,149,599 | 5,135,091 | 235,345 | 479,201 | 17,859,549 | - | 17,859,549 |
| Net Cost of Defence Outcomes⁽¹⁾ | 1,013,697 | 4,615,517 | 5,904,884 | 4,837,691 | 224,629 | 466,986 | 17,063,404 | - | 17,063,404⁽²⁾ |
| ADMINISTERED | | | | | | | | | |
| Revenues | | | | | | | | -735,912 | -735,912 |
| Expenses | | | | | | | | 2,632,000 | 2,632,000 ⁽³⁾ |
| Net Cost of Administered Outcomes | | | | | | | | 1,896,088 | 1,896,088 |

Notes

1. Cross reference to Chart 5.a.
2. Cross Reference to Table 2.1 Serial 1.
3. Cross Reference to Table 2.1 Serial 8.

Net Cost of Defence Outcomes

Table 5.d: Movement in Defence's Outcome Costs Since 2003-04

| Outcomes | Actual Result ⁽¹⁾ | Actual Result ⁽²⁾ | Revised Estimate ⁽³⁾ | Budget Estimate |
|---|---------------------------------|---------------------------------|------------------------------------|--------------------|
| | 2003-04 \$'000 | 2004-05 \$'000 | 2005-06 \$'000 | 2006-07 \$'000 |
| DEPARTMENTAL OUTCOMES | | | | |
| Outcome One | | | | |
| Command of Operations | 740,181 | 1,052,493 | 1,104,472 | 1,013,697 |
| Outcome Two | | | | |
| Navy Capability | 4,177,449 | 4,633,845 | 4,393,997 | 4,615,517 |
| Outcome Three | | | | |
| Army Capability | 5,086,424 | 5,415,716 | 5,176,788 | 5,904,884 |
| Outcome Four | | | | |
| Air Force Capability | 4,500,663 | 4,812,925 | 4,682,379 | 4,837,691 |
| Outcome Five | | | | |
| Strategic Policy | 205,784 | 245,568 | 233,013 | 224,629 |
| Outcome Six | | | | |
| Intelligence | 457,460 | 458,982 | 494,291 | 466,986 |
| Total Cost for Defence Departmental Outcomes | 15,167,962 | 16,619,529 | 16,084,941 | 17,063,404 |
| Outcome Seven | | | | |
| Superannuation and Housing Support Services for Current and Retired Defence Personnel | 1,457,196 | 2,047,515 | 1,900,349 | 1,896,088 |
| Total Outcomes | 16,625,158 | 18,667,044 | 17,985,290 | 18,959,492 |

Notes

1. Actual Result 2003-04 reflects amounts disclosed in Table 2.3 of the *Defence Annual Report 2003-04* (p. 81).
2. Actual Result 2004-05 reflects amounts disclosed in Table 4.3 of the *Defence Annual Report 2004-05* (p. 146).
3. As published Table 5.a in the *Portfolio Additional Estimates Statements 2005-06* (pp.79-82).

Group Contributions to Defence Outcomes

Table 5.e: Group Contributions to Defence Outcomes 2006-07

| | Outcome 1 – Command of Operations \$'000 | Outcome 2 – Navy Capability \$'000 | Outcome 3 – Army Capability \$'000 | Outcome 4 – Air Force Capability \$'000 | Outcome 5 – Strategic Policy \$'000 | Outcome 6 – Intelligence \$'000 | Total Defence Outcomes \$'000 |
|---|---|---|---|--|--|---------------------------------------|--|
| Vice Chief of the Defence Force/ Chief of Joint Operations | 141,382 | 47,441 | 133,481 | 43,861 | 91 | 438 | 366,694 |
| Navy | - | 3,144,144 | - | - | - | 584 | 3,144,728 |
| Army | 130,019 | - | 3,313,070 | - | - | - | 3,443,089 |
| Air Force | 19,869 | 16,398 | 18,443 | 3,206,861 | 10,388 | 5,503 | 3,277,461 |
| Strategy | - | - | - | - | 127,439 | - | 127,439 |
| Intelligence and Security | 926 | 7,961 | 14,298 | 8,193 | 473 | 330,403 | 362,254 |
| Corporate Services and Infrastructure Group | 103,764 | 579,738 | 1,051,737 | 607,474 | 24,023 | 57,026 | 2,423,762 |
| Chief Capability Development | 5,079 | 11,493 | 11,875 | 13,919 | 3,061 | 2,385 | 47,811 |
| Chief Finance Officer | 17,514 | 78,538 | 158,202 | 77,485 | 3,398 | 5,174 | 340,311 |
| Chief Information Officer | 23,709 | 106,060 | 204,624 | 140,260 | 6,098 | 7,892 | 488,643 |
| Defence Personnel Executive | 20,262 | 138,895 | 262,430 | 156,243 | 11,040 | 11,132 | 600,002 |
| Defence Science and Technology Organisation | 38,686 | 81,047 | 56,122 | 106,502 | 22,779 | 23,452 | 328,590 |
| Secretary/Chief of the Defence Force | 1,032 | 9,733 | 9,705 | 9,197 | 783 | 1,111 | 31,561 |
| Inspector-General | 417 | 3,933 | 3,922 | 3,716 | 316 | 449 | 12,753 |
| Portfolio ⁽¹⁾ | 511,037 | 390,137 | 666,974 | 463,981 | 14,740 | 21,438 | 2,068,306 |
| Total Cost | 1,013,697 | 4,615,517 | 5,904,884 | 4,837,691 | 224,629 | 466,986 | 17,063,404 |

Note

- Funds are held at the portfolio level and then allocated to Defence Groups following the announcement of the Budget. This is to ensure that new measures are not disclosed prior to the Budget announcements. Funds are also held centrally for proposals that have yet to be approved and for the *ADF Workforce Remuneration Arrangement 2006-09* and *Defence Collective Agreement 2006-09*. Funds will be allocated to Groups when the proposals are approved and from the date of implementation of the pay increases. Funding for price and exchange rate fluctuations is also held centrally and will be allocated to Groups following the announcement of the Budget.

OUTCOME ONE – COMMAND OF OPERATIONS

Outcome One – Command of Operations in the 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 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 and they are conducted under the Chief of the Defence Force's command.

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 Operations Command. The maritime force, land forces and air force capabilities maintained by the three Services are assigned at the direction of the Chief of the Defence Force to provide joint forces. Joint force preparedness is developed in accordance with the Chief of the Defence Force's preparedness requirements and evaluated through an exercise program.

The Vice Chief of the Defence Force is appointed as the Chief of Joint Operations and is responsible to the Chief of the Defence Force for operational outcomes. Joint Operations Command consists of a headquarters, three environmental components (maritime, land and air), three specialist components (Special Operations, Joint Logistics and Joint Offshore Protection) 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. This organisation was reviewed late in 2005 and adjustments to command and control are planned for 2006-07 as an interim arrangement prior to establishment of the joint operational headquarters at Bungendore, in 2008.

PLANNED PERFORMANCE

ADF operations and activities that will contribute to the security of Australia's immediate neighbourhood in 2006-07 include:

- ongoing ADF contribution to the Government's strengthened assistance framework program in support of the Solomon Islands Government (Operation Anode), which is likely to reduce in scale as the security situation improves;
- activities in East Timor, where Operation Chiron is expected to conclude in May 2006, that could include further commitment, subject to Government consideration;
- the conduct of maritime surveillance patrols in the northern Indian Ocean and South China Sea (Operation Gateway); and
- the conduct of maritime surveillance patrols in the South-West Pacific (Operation Solania).

ADF operations that will support Australia's wider interests in 2006-07 include:

- an ADF contribution, under Operation Catalyst, to a whole-of-government effort to assist with the rehabilitation of Iraq;
- a continued ADF commitment, through Operation Slipper, to the United States-led operation against international terrorism;
- an ADF contribution to a Reconstruction Task Force in Afghanistan as an element of the International Security Assistance Force with North Atlantic Treaty Organisation countries, also through Operation Slipper;
- ADF contributions to United Nations and other peacekeeping and humanitarian operations, including Operations Azure, Paladin and Mazurka;
- Operation Valient is expected to conclude and to formally cease early in 2006-07; and
- Operation Pakistan Assist concluded in April 2006.

ADF peacetime national tasks that are expected to continue as regular or occasional tasks in 2006-07 include:

- operations to deter unauthorised boat arrivals, including air and surface patrols across the northern and western maritime approaches to Australia, currently through Operation Relex II;
- ongoing operations to provide surveillance and law enforcement support to Coastwatch in northern Australia, currently through Operation Cranberry;

- cyclical maritime surveillance operations in Australia's region, currently being provided through Operations Celesta, Estes, Mistral and Solania. These operations are a lesser priority than Operation Relex II and will be conducted when surveillance capabilities are available;
- ADF support to the Asian-Pacific Economic Conference in 2007, as Operation Deluge; and
- ADF support to the Commonwealth Games in Melbourne, as Operation Acolyte in 2006, concluded and formally ceased early in 2006.

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 – Strategic Policy). The ADF exercise program is inherently flexible and is likely to be adjusted to allow for strategic circumstances and participant availability during 2006-07. The ADF exercise program for 2006-07, 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 (within the Attorney-General's Department) may arise at short notice, such as the assistance provided under Operation Larry Assist in March 2006.

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 2006-07.

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

KEY RISKS AND LIMITATIONS

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 conclusion of Operations Pakistan Assist and Acolyte. This is partially offset by ongoing commitments under Operation Slipper and preparation for Operation Deluge.

Operational Preparedness

The ongoing operational commitment in 2005-06 and expectations for 2006-07 were considered in a review of the ADF exercise program. The requirement for flexibility and consideration of the requirements of allies and regional partners will continue to influence exercise outcomes and require ongoing assessment of critical preparedness issues.

Geographical Dispersion of Command Elements

A proposal has been developed to establish an interim Joint Operations Command prior to completion of the new headquarters. This will provide geographic concentration in two locations and allow development of the joint control centre concept as well as establishing an organisation to facilitate the move into Bungendore.

Logistic Support to Operations

The continued availability of national inventory and the post-operational remediation of mission essential equipment during a period of increased operational tempo are the key risks for logistic support to operations. Joint Logistics Command, in concert with the Defence Materiel Organisation, is managing this process, analysing risk areas and implementing mitigation strategies to manage the risk, especially where the available commercial capacity to repair and remediate equipment is finite.

Reduced High-End Exercise Participation

The ongoing high operational tempo, unavailability of allied and regional partners, and restricted availability of Australian high-end assets for scheduled joint and combined exercises continue to be a risk to effective training. Degradation of skills and reduced high-end interoperability with allies and regional partners may be a consequence of operational commitments.

STRATEGIC INITIATIVES

Concurrent Operations

Risk mitigation against the above concurrency issues is subject to ongoing strategic-level review of major operational commitments. The ADF contribution to operations will continue in accordance with the Government's direction. Reconstitution of capabilities will be prioritised to reinstate those capabilities eroded through concurrent demands.

Preparedness Reporting

The ADF preparedness reporting system is now well defined and provides monthly assessments of capability options for the ADF to meet the Government's operational objectives. The reporting system identifies deficiencies and indicates remediation priorities.

Logistic Support

The Joint Logistics Command is seeking to consolidate contractor support where appropriate, to enable coordinated contract management, consistency of service delivery and achieve management efficiencies. Initiatives to identify and reduce obsolete and non-essential slow moving stock, together with increased automation of stores processes, will progressively reduce the inventory size and permit more focused and precise stock management.

Reduced Exercise Participation

The Program of Major Service Activities has been comprehensively reviewed. Major exercise activity in 2006-07 will focus on the conduct of Exercise Talisman Sabre 07, a combined, bilateral high-end warfighting exercise with United States Forces. Retention of critical skills not currently exercised during operations remains a consideration of the revised exercise program for 2006-07.

Cost Summary of Outcome One

TOTAL BUDGETED COST TO THE GOVERNMENT

Table 5.1.1: Outcome One – Command of Operations

| | Previous Estimate ⁽¹⁾ 2006-07 \$'000 | Budget Estimate 2006-07 \$'000 | Variation ⁽²⁾ \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|--|---|------------------------------------|--|--|--|
| INCOME | | | | | | |
| Revenue | | | | | | |
| Goods and Services | -12,210 | -26,562 | -14,352 | -21,825 | -22,300 | -22,580 |
| Other Revenue ⁽³⁾ | -10,416 | -2,548 | 7,868 | -2,830 | -2,850 | -5,821 |
| Total Revenue | -22,626 | -29,110 | -6,484 | -24,655 | -25,150 | -28,402 |
| Gains | | | | | | |
| Reversals of previous asset write-downs | -614 | -7,663 | -7,049 | -10,618 | 8,072 | 8,072 |
| Net gains from sale of assets | - | - | - | - | - | - |
| Total Gains | -614 | -7,663 | -7,049 | -10,618 | 8,072 | 8,072 |
| Total Income | -23,240 | -36,773 | -13,533 | -35,273 | -17,078 | -20,329 |
| Operating Expenses | | | | | | |
| Employees | 343,676 | 425,278 | 81,603 | 354,849 | 331,339 | 333,240 |
| Suppliers | 370,699 | 593,645 | 222,946 | 381,620 | 265,389 | 238,875 |
| Grants | 237 | 244 | 7 | 56 | 56 | 56 |
| Depreciation and Amortisation | 29,874 | 27,580 | -2,294 | 27,390 | 27,286 | 27,397 |
| Finance Cost | 1,552 | 896 | -656 | 794 | 689 | 705 |
| Write-down and impairment of assets | 978 | 2,900 | 1,922 | 2,858 | 598 | 598 |
| Net losses from sale of assets | - | - | - | - | - | - |
| Other expenses | 186 | -74 | -261 | 135 | 136 | 136 |
| Total Expenses | 747,203 | 1,050,470 | 303,267 | 767,701 | 625,492 | 601,006 |
| Net Cost of Outcome One⁽⁴⁾ | 723,963 | 1,013,697 | 289,734 | 732,428 | 608,414 | 580,677 |

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 87).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Other revenues include interest and dividends.
4. Cross reference to Chart 5.a. and Table 5.b.

Table 5.1.2: Breakdown of Outcome One by Output

| | Previous Estimate ⁽¹⁾ 2006-07 \$'000 | Budget Estimate 2006-07 \$'000 | Variation ⁽²⁾ \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|---|---|--------------------------------------|------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Output 1.1 – Command of Operations | 441,006 | 432,842 | -8,164 | 372,135 | 368,590 | 368,145 |
| Output 1.2 – Defence Force Military Operations and Exercises | 261,707 | 559,667 | 297,961 | 339,525 | 217,478 | 189,941 |
| Output 1.3 – Contribution to National Support Tasks | 21,251 | 21,188 | -63 | 20,769 | 22,345 | 22,591 |
| Net Cost of Outcome One ⁽³⁾ | 723,963 | 1,013,697 | 289,734 | 732,428 | 608,414 | 580,677 |

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 88).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Cross reference to Table 5.1.1.

Output Structure for Outcome One

OUTPUT 1.1 – COMMAND OF OPERATIONS

The Chief of Joint Operations is responsible for the delivery of Outcome One - Command of Operations in defence of Australia and its interests. Through the Headquarters Joint Operations Command, the Chief of Joint Operations plans and conducts campaigns, operations, joint exercises and other activities as directed by 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

- Australian operational concepts are further 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.
- Development of ADF operational command arrangements introduced in 2004 and reviewed in 2005 will continue.

OUTPUT 1.2 – DEFENCE FORCE MILITARY OPERATIONS AND EXERCISES

The ADF is required to undertake a range of military operations at the Government’s 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 their stated objectives within Government guidance. • Forces identified for operational tasks maintain required preparedness levels. • ADF forces are effectively deployed and sustained. • The Program of Major Service Activities is reviewed and modified where required. • The major ADF exercise commitments for 2006-07 are met: <ul style="list-style-type: none"> – Exercise Bersama Padu 06 and Exercise Bersama Shield 07, exercises in conjunction with the Five Power Defence Arrangements, – Exercise Rimpac 06, to improve interoperability with Pacific rim forces in anti-submarine, anti-surface and anti-air warfare operations, and – Exercise Talisman Sabre 07, to exercise joint and combined forces in a short warning and power projection scenario. |

ADF Operations

Table 5.1.10 in Output 1.3 contains details of operations in support of peacetime national tasks.

Table 5.1.3: Contributing to the Security of the Immediate Neighbourhood

| Operation | Objective |
|--|---|
| Anode Commenced July 2003 Forces: ADF | To support the coalition police forces in maintaining the rule of law in Solomon Islands. |

| Operation | Objective |
|---|--|
| Chiron Commenced May 2005 Forces: ADF | To support the United Nations Mandate and Australia's national interests by contributing military and advisers to assist in the development of Timor-Leste's security and stability. Chiron is the follow-on mission to Operation Spire, whose mandate expired on 20 May 2005. |
| Gateway Commenced 1981 Forces: Air Force | To conduct northern Indian Ocean and South China Sea maritime surveillance patrols. |

Table 5.1.4: Supporting Wider Interests

| Operation | Objective |
|---|---|
| Azure Commenced 2005 Forces: ADF | ADF contribution to the United Nations Mission in Sudan. |
| Catalyst Commenced 2003 Forces: ADF | ADF contribution in support of the rehabilitation of Iraq. |
| Mazurka Commenced 1982 Forces: ADF | To provide personnel to the Multinational Force and observers to monitor the security arrangements in the Sinai. |
| Pakistan Assist Commenced Nov 2005 Forces: ADF | To provide assistance to the victims of the Pakistan earthquake. |
| 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. |
| 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. |
| Valient Commenced 2004 Forces: Army | To provide equipment and training to the Republic of Fiji Military Forces supporting their assistance to the United Nations Assistance Mission in Iraq. |

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; and
- 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 2006-07 and these will be reported in the *Portfolio Additional Estimates Statements 2006-07*.

Table 5.1.5: ADF Joint Exercises

| Exercise | Australian Forces | Objective |
|--------------------------------|---|--|
| ASWEX 06 November 2006 | Navy and Air Force | To practise collective ADF anti-submarine warfare concepts, tactics and procedures. |
| Sea Lion 06 October 2006 | Navy, Army and Air Force | To plan and conduct a basic amphibious operation in a non-hostile environment and is an enabling exercise for Swift Eagle. |
| Swift Eagle 06 October 2006 | Navy, Army Air Force and Special Forces | To practise entry by air and sea and conduct a non-combatant evacuation operation in a medium intensity ground scenario. |

Table 5.1.6: Combined ADF/United States Exercises

| Exercise | Australian Forces | Objective |
|--------------------------------------|--|---|
| Talisman Sabre 07 May–July 2007 | Navy, Army, Air Force and Special Forces | To exercise joint and combined forces in a short warning and power projection scenario and conduct a live fire and manoeuvre field training exercise. |
| Vigilant Pacific 06 November 2006 | Navy, Army and Air Force | To test, evaluate and refine combined human intelligence and counter-intelligence staff functions and operations in support of a combined task force. |
| Lungfish 06 August 2006 | Navy and Air Force | To practise combined anti-submarine warfare. |
| Cope Thunder July–August 2006 | Air Force | To practise and develop interoperable staff procedures in a United States Air Defence Headquarters. |
| Blue Flag 06 July–August 2006 | Air Force | To practise contributing to a coalition air operations centre. |
| Extendex 06-2 October 2006 | Air Force | To practise combined anti-submarine warfare operations. |
| Air Warrior II 06-1 October 2006 | Air Force | To train Air Lift Group for short notice tactical and similar combat airlift exercises. |
| Gold Eagle 06 June–July 2006 | Army | To develop interoperability between the Australian Army and United States Marine Corps. |
| Tamex 06-3 August 2006 | Navy and Air Force | To practise combined anti-submarine surveillance / anti-submarine warfare operations with a Royal Australian Navy submarine. |

Table 5.1.7: Combined ADF/Five Power Defence Arrangement Exercises

| Exercise | Australian Forces | Participating Countries | Objective |
|-------------------------------------|--------------------------|--|---|
| Bersama Padu 06 September 2006 | Navy, Army and Air Force | Australia, New Zealand, United Kingdom, Malaysia and Singapore | To practise and develop operational procedures and tactics with Five Power Defence Arrangements units in a joint/combined maritime exercise. |
| Bersama Shield 07 April–May 2007 | Navy and Air Force | Australia, New Zealand, United Kingdom, Malaysia and Singapore | To exercise assigned Five Power Defence Arrangements forces in the conduct of joint and combined operations in a multi-threat scenario for the defence of Malaysia and Singapore. |
| Suman Warrior 06 July 2006 | Army | Australia, New Zealand, United Kingdom, Malaysia and Singapore | To exercise elements of the Five Power Defence Arrangements armies in combined land operations. |

Table 5.1.8: Combined ADF/New Zealand Exercises

| Activity; Dates | Australian Forces | Objective |
|--|--|---|
| PWO Assessment Week 06-1 July 2006 | Navy and Air Force | Sea assessment week is the final phase in training for Principal Warfare Officer students and aims to ensure that students are able to act as Defence Watch Principal Warfare Officers at sea. |
| PWO Assessment Week 06-2 November–December 2006 | Navy and Air Force | Sea assessment week is the final phase in training for Principal Warfare Officer students and aims to ensure that students are able to act as Defence Watch Principal Warfare Officers at sea. |
| Tasmanex 07 February 2006 | Navy and Air Force | To elevate closer defence relations between Australia and New Zealand and to initiate closer defence relations with France. |
| Joint Kiwi 06 October 2006 | Navy, Army, Air Force and Special Forces | To exercise a deployed national Joint Force Commander, his staff and assigned force elements in the command, planning, control and conduct of a medium-level combat operation, conducted in the context of a joint ADF contribution to a New Zealand Defence Force-led coalition. |

Table 5.1.9: Other Combined Exercises

| Exercise | Australian Forces | Participating Countries | Objective |
|---------------------------------|--------------------------|--------------------------------|--|
| Singaroo 06 July–August 2006 | Navy and Air Force | Singapore | To improve the interoperability of the Royal Australian Navy and Royal Singapore Navy in all facets of naval warfare in order to undertake effective maritime combined and coalition operations. |

| Exercise | Australian Forces | Participating Countries | Objective |
|--|--------------------------|--|---|
| AusThai 06 August 2006 includes Taa Nok Insii 06-1 | Navy | Thailand | To progress basic interoperability in aspects of maritime warfare common to the Royal Australian Navy and Royal Thai Navy. |
| Lumbas 06 October 2006 | Navy | Philippines | To develop interoperability in coordinated or combined maritime patrol and surveillance operations. |
| Chief Series 06 May–July 2006 | Army | South West Pacific Countries | To enhance bilateral relations with selected South-West Pacific countries through engineering construction activities. |
| Kartika Exchange 06 June–July 2006 | Army | Indonesia | To broaden the experience and professional knowledge of selected personnel of the ADF and Indonesian armed forces through mutual exchange. |
| Harimau Exchange 06 June–July 2006 | Army | Malaysia | To broaden the experience and professional knowledge of selected personnel of the ADF and Malaysian armed forces through mutual exchange. |
| Rimpac 06 June–July 2006 | Navy and Air Force | United States, Japan, United Kingdom, Republic of Korea, Canada and Peru | To improve interoperability with Pacific rim forces in anti-submarine, anti-surface and anti-air warfare operations. |
| Southern Tiger 06 July 2006 | Army | Malaysia | To enhance interoperability between the Australian and Malaysian armies at the tactical level. |
| Temple Jade 06 July–August 2006 | Army | Thailand | To enhance interoperability between the Australian Army and the Royal Thai Army sub-units at the tactical level. |
| Mallee Bull 06 August–September 2006 | Army | Brunei | To broaden the experience and professional knowledge of selected personnel of the ADF and Brunei armed forces through mutual exchange. |
| Pirap Jabiru 06 August 2006 | Navy, Army and Air Force | Thailand | To develop Royal Thai Air Force and ADF understanding of the considerations in planning combined multi-dimensional peace operations at the strategic level. |
| Puk Puk 06 August–September 2006 | Army and Air Force | Papua New Guinea | To engage with the Papua New Guinea Defence Force Engineer Battalion for the purpose of promoting engineering interoperability. |
| Star Leopard 06 September 2006 | Special Forces | Brunei | To develop and maintain contact and rapport with Brunei Special Forces. |

| Exercise | Australian Forces | Participating Countries | Objective |
|--|--------------------------|---|---|
| Rainbow Serpent 06 September–October 2006 | Army | United States, United Kingdom, and Canada | To exercise the ability of the United States, United Kingdom, Canada and Australia forces to lead and participate in coalition operations with emphasis on command, control and planning. |
| Helicon Luk 06 October 2006 | Army | Papua New Guinea | To train/qualify aircrew in high density altitude training operations. |
| Haringaroo 2/06 October 2006 | Army | Malaysia | To enhance interoperability between the Australian Army and the Malaysian Armed Forces sub-units at the tactical level. |
| Wantok Warrior 06 October–November 2006 | Army | Papua New Guinea | To develop interoperability between the Australian Army and the Papua New Guinea Defence Force. |
| Haringaroo 3/06 November–December 2006 | Army | Malaysia | To enhance interoperability between the Australian Army and the Malaysian Armed Forces sub-units at the tactical level. |
| Neptune Warrior 05-2 June–July 2006 | Air Force | Canada, France, New Zealand, United Kingdom, United States, Germany, Netherlands, Italy, Norway | To conduct advanced theatre- level maritime patrol reconnaissance aircraft training in maritime operations with a multinational task force. |
| Pitch Black 06 July–August 2006 | Navy Army and Air Force | United States, Singapore and Thailand | 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. |
| Joint Tactical Fleet Exercise 06 October 2006 | Air Force | United States and Canada | To provide theatre-level maritime patrol reconnaissance aircraft training, primarily in United States battle group support and under sea warfare / surface warfare operations, while participating in work-up training and assessment for a carrier battle group or expeditionary surface group in a combined exercise environment. |
| Long Look 06 April–August 2006 | Navy, Army and Air Force | United Kingdom and New Zealand | To broaden the experience and professional knowledge of selected personnel of the ADF and United Kingdom armed forces through mutual exchange. |

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 Government may also require the ADF to support significant international events being conducted in Australia.

The ADF also contributes to the Coastwatch civil surveillance program and Joint Offshore Protection Command tasking, providing maritime surveillance assets that are tasked routinely in accordance with the Government's direction. These arrangements are subject to review following changes in command and control arrangements and commencement of the phased introduction of the Armidale-class patrol boats.

Peacetime national tasks undertaken by the ADF may include the security of Australia's borders from illegal immigration and fishing, 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:
 - 250 flying hours by P-3 Orion surveillance aircraft;
 - 1,800 patrol boats days; and
 - 240 Regional Force Surveillance Unit patrol 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 5.1.3 in Output 1.2 contains details of operations contributing to the security of the immediate neighbourhood and Table 5.1.4 in Output 1.2 contains details of operations supporting wider interests.

Table 5.1.10: Peacetime National Tasks

| Operation | Objective |
|--|---|
| Acolyte Commenced 2005 Forces: ADF | To support the 2006 Melbourne Commonwealth Games. |
| Celesta Commenced 2001 Forces: ADF | To support the Australian Fisheries Management Authority, when appropriate, in enforcing Australia's exclusive economic zone in the Southern Ocean. |
| Cranberry Commenced 1997 Forces: ADF | To conduct surveillance in northern Australia. |
| Deluge Commenced 2005 Forces: ADF | To support the Asian-Pacific Economic Conference in 2007. |
| Estes Commenced 1980 Forces: Navy | To conduct surface patrols in Bass Strait. |
| 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. |
| 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. |

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 ADF's capacity to defend Australia, contribute to regional security, support global interests, shape the strategic environment and protect national interests. This is done by providing maritime patrol and response, interdiction and strategic strike, protection of shipping and offshore territories and resources, maritime intelligence collection and evaluation, hydrographic and oceanographic operations, combat search and rescue, and escort duties. Peacetime activities include maritime surveillance and response within Australia's offshore maritime zones, hydrographic, oceanographic and meteorological support operations, humanitarian assistance, and maritime search and rescue.

PLANNED PERFORMANCE

In 2006-07, the Navy expects to continue supporting the ADF's involvement in the global war against terrorism and national tasks. Sufficient maritime combatant forces will be maintained to deploy on operations as required in military preparedness directives. The Navy will also continue to 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 remain the Navy's highest priority for capability development, followed by undersea and littoral warfare capabilities. The reinvigoration of the patrol boat force will continue with 12 of the 14 Armidale-class patrol boats and 15 of the 18 crews being brought into service by the end of June 2007. HMAS *Sirius*, an environmentally compliant, double

hulled tanker, will be commissioned into the Navy in September 2006 replacing the oil tanker HMAS *Westralia*.

The early momentum of the major personnel retention initiative, 'Sea Change' program, will be sustained with a continued focus on improving individual choice and better management of people's careers. The program will continue to transform the way junior people, in particular, are managed in the Navy.

KEY RISKS AND LIMITATIONS

Personnel

Planned new capability will require an expansion of the Navy's workforce by 2015. The national climate of strong employment rates and economic growth will challenge the Navy in achieving this expansion.

Shortages in a number of employment workgroups, particularly technical categories, continue to be a risk to navy capability. The national technical skill shortage will continue to impact further upon the Navy's ability to attract suitable candidates for these positions. Many short-term retention measures were implemented during 2005-06, to be supported in time by longer-term measures.

Separation rates have stabilised at around 11 per cent, slightly below the ten-year average of 12 per cent. Any increase in separation rates will increase the risk in maintaining the Navy's long-term workforce structure.

Logistic Support

The ongoing sustainment of the Navy's existing force structure is dependent on appropriate levels of logistic support across the outputs. The elements most at risk are the Anzac-class frigates, the aviation force and the Collins-class submarines, but additional logistic funds have been provided in previous budgets to remediate these risks.

Support to Operations

The Navy's ongoing commitment to overseas operations and humanitarian assistance and disaster relief activities, combined with the major upgrade of a number of major fleet units and the increased effort to prevent illegal activity in northern waters has challenged the Navy's ability to maintain high-end warfighting skills.

Air Warfare Capability

The ageing primary air warfare system of the surface combatant force remains suitable for a range of operations, but the ability to provide long-range air warfare protection for ADF forces in higher level contingencies is limited. This risk will remain until the introduction of the Air Warfare Destroyer from 2013.

The delivery of new short-range missiles for both frigate classes is an important early milestone in redressing the anti-ship missile defence deficiencies of the surface combatant force.

Submarine

The overall submarine capability continues to improve. 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. Retention of submariners and the management of logistic requirements to maintain the submarine capability remain a challenge.

Undersea Warfare

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 improved over time with capability enhancements to Seahawk helicopters, guided missile frigates, the Collins-class submarines, and the introduction of new lightweight torpedoes.

Environmental Assessment

The Navy's ability to provide robust, high-fidelity environmental information and predictions at short notice in support of littoral operations, for joint, combined or coalition operations is constrained.

Force Protection

The security environment in which maritime forces are required to operate has changed and represents an emerging risk to the protection of maritime forces. The increased incidence of violent activity from non-state entities using unconventional and improvised methods of attack has increased the level of threat for maritime units when underway and when alongside in harbour.

Aviation

Lengthy delays and uncertainty in the level of operational capability that will be delivered by the Super Seasprite helicopter has the potential to reduce aviation capability and the effectiveness of the Anzac-class frigate/helicopter combination. Seahawk helicopters are carrying an additional tasking burden until the Super Seasprite helicopters become operational.

RISK MITIGATION

Personnel

The Navy will continue to focus heavily on personnel retention strategies. Separation rates for most critical skill groups are decreasing. Short-term financial retention incentives approved for engineering officers and technical sailors has had some positive effect on retention of these specialisations. The Navy will strive to provide a preferred working environment through a range of innovative policies, including alternative crewing of some vessels, shorter training pipelines, fly-in/fly-out options for some crews, and more attractive employment experiences. The Navy is undertaking a concentrated effort to better engage the Australian public through a community engagement strategy. The strategy aims to better inform the public of what the Navy does and how it supports our national interests. The Navy expects that in time these initiatives will make the Navy more attractive as an employer. Initiatives already in place to target segments of the workforce that are difficult to recruit, including seaman officers, aviators, engineers, doctors and technicians, will be monitored and further initiatives pursued.

Logistic Support

The Materiel Sustainment Agreement between the Navy and the Defence Materiel Organisation (DMO) provides greater transparency of the expenditure of funding by the DMO and has enhanced the identification of appropriate logistic support levels, including shortfalls across the outputs, and informed the development of mitigation strategies including additional funding bids through the Defence Management and Finance Plan process. In addition, the new reporting framework that measures DMO's performance allows the Navy to closely monitor the sustainment activities.

Support to Operations

The Navy will continue to support ongoing operations and peacetime national tasks, such as Operations Catalyst, Slipper, Cranberry and Relex II, and meet preparedness requirements for other contingencies.

The Navy will exploit opportunities to provide concentrated training to maintain high-end warfighting skills. This will enhance mission preparation for major exercises, such as Exercise Talisman Sabre 07, and maintain high-end warfighting skills to meet preparedness requirements for current and future operations.

The 'Sea Change' program, aimed at improving personnel retention, will continue. Improving retention will increase the Navy's overall capability as experience levels rise and personnel turnover reduces.

The Fleet Activity Management Tool is part of the Navy's capability costing system and was accepted into service in 2005-06. The tool will continue to assist in the capture of costs associated with operations and reconstitution periods, as part of a Defence-wide effort to better understand the costs of maintaining various levels of capability. This will, in time, provide options and efficiencies in meeting the preparedness requirements directed by the Chief of the Defence Force.

Air Warfare Capability

The Navy is introducing more capable sensor and weapon systems for both the Anzac-class and Adelaide-class frigates. The upgrade programs will enhance the air warfare effectiveness of these units leading up to the planned introduction of the Air Warfare Destroyer from 2013. The delivery of the SM-2 standard area air defence missile in the Adelaide-class frigates is planned for 2009.

Submarine

Submarine capability enhancements will offer major improvements to warfighting capabilities, through continued development of the combat system, improved communications, sonar integration, and the introduction into service of a new heavyweight torpedo. Personnel risks and limitations will be mitigated through workforce sustainment plans and initiatives, including lateral recruiting and others within the Navy's 'Sea Change' program. Submarine logistic support will continue to be managed with the DMO, with a particular emphasis being placed on the delivery of the through-life support agreement.

Undersea Warfare

Undersea warfare capability will be maintained through a number of capability enhancements. A partial Seahawk helicopter sensor upgrade, which commenced in 2005-06, will continue in 2006-07 and be followed by a further mid-life upgrade from 2010-12 of sensors, communications, avionics, and airframe that will enhance the Seahawk's effectiveness in undersea warfare. The delivery of upgraded Adelaide-class frigates with torpedo defence systems and the continued planned phasing into service of new lightweight torpedos will enhance the effectiveness of surface and air anti-submarine assets. The ongoing combat system, sonar, communications, and weapon improvements to the Collins-class submarines will increase their anti-submarine capability.

Environmental Assessment

The Defence and Industry Rapid Prototyping, Development and Evaluation program will shape the development of an enhanced deployable rapid environmental assessment capability. This enhanced environmental assessment

capability will be supported by higher fidelity environmental models optimised for the littoral environment.

Force Protection

Acquisition of additional close range weapons systems will mitigate risks specifically identified for Operation Catalyst in force protection and ship self-defence capabilities against asymmetric threats in littoral waters. Additional risk mitigation measures may include enhanced intelligence as well as acquisition of advanced sensors and protective systems.

Aviation

‘Interim release’ of the Super Seasprite helicopters for training purposes will maintain core aviation skills. In lieu of Super Seasprite helicopters, Seahawk helicopters will be deployed to Anzac-class frigates to maintain capability in units on high priority operational tasking. Airworthiness issues with the Super Seasprites will be intensively managed to achieve ‘operational release’ and deployment to sea as soon as practical.

Cost Summary of Outcome Two

TOTAL BUDGETED COST TO THE GOVERNMENT

Table 5.2.1: Outcome Two – Navy Capability for the Defence of Australia and its Interests

| | Previous Estimate ⁽¹⁾ 2006-07 \$'000 | Budget Estimate 2006-07 \$'000 | Variation ⁽²⁾ \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|--|---|------------------------------------|--|--|--|
| INCOME | | | | | | |
| Revenue | | | | | | |
| Goods and Services | -76,451 | -151,545 | -75,094 | -156,055 | -158,443 | -163,565 |
| Other Revenue ⁽³⁾ | -56,103 | -20,886 | 35,217 | -20,635 | -20,495 | -23,707 |
| Total Revenue | -132,554 | -172,430 | -39,876 | -176,691 | -178,939 | -187,273 |
| Gains | | | | | | |
| Reversals of previous asset write-downs | -13,738 | -21,896 | -8,158 | -18,895 | 2,895 | 2,895 |
| Net gains from sale of assets | - | - | - | - | - | - |
| Total Gains | -13,738 | -21,896 | -8,158 | -18,895 | 2,895 | 2,895 |
| Total Income | -146,292 | -194,326 | -48,034 | -195,585 | -176,043 | -184,377 |
| Operating Expenses | | | | | | |
| Employees | 1,553,360 | 1,565,080 | 11,720 | 1,651,463 | 1,756,736 | 1,898,467 |
| Suppliers | 1,913,253 | 2,093,172 | 179,919 | 2,244,731 | 2,187,098 | 2,283,395 |
| Grants | 1,272 | 1,360 | 88 | 295 | 295 | 295 |
| Depreciation and Amortisation | 1,101,903 | 1,109,920 | 8,017 | 1,155,404 | 1,142,704 | 1,144,723 |
| Finance Cost | 8,043 | 5,070 | -2,973 | 5,261 | 5,442 | 5,560 |
| Write-down and impairment of assets | 20,633 | 35,260 | 14,627 | 30,642 | 13,062 | 13,062 |
| Net losses from sale of assets | - | - | - | - | - | - |
| Other expenses | 864 | -20 | -883 | 354 | 355 | 355 |
| Total Expenses | 4,599,328 | 4,809,843 | 210,515 | 5,088,150 | 5,105,691 | 5,345,857 |
| Net Cost of Outcome Two⁽⁴⁾ | 4,453,037 | 4,615,517 | 162,480 | 4,892,564 | 4,929,648 | 5,161,480 |

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 91)
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Other revenues include interest and dividends.
4. Cross reference to Chart 5.a and Table 5.b.

Table 5.2.2: Breakdown of Outcome Two by Output

| | Previous Estimate ⁽¹⁾ 2006-07 \$'000 | Budget Estimate 2006-07 \$'000 | Variation ⁽²⁾ \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|---|--------------------------------------|------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Output 2.1 – Capability for Major Surface Combatant Operations | 1,567,312 | 1,572,470 | 5,158 | 1,569,700 | 1,591,411 | 1,644,047 |
| Output 2.2 – Capability for Naval Aviation Operations | 578,463 | 597,690 | 19,227 | 609,107 | 615,803 | 648,023 |
| Output 2.3 – Capability for Patrol Boat Operations | 282,707 | 310,642 | 27,935 | 373,598 | 381,676 | 406,682 |
| Output 2.4 – Capability for Submarine Operations | 721,530 | 724,138 | 2,608 | 666,848 | 642,555 | 643,164 |
| Output 2.5 – Capability for Afloat Support | 271,337 | 295,361 | 24,024 | 341,136 | 346,111 | 377,515 |
| Output 2.6 – Capability for Mine Warfare | 370,442 | 398,607 | 28,165 | 465,196 | 470,920 | 496,733 |
| Output 2.7 – Capability for Amphibious Lift | 395,223 | 422,430 | 27,207 | 491,555 | 499,752 | 547,870 |
| Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations | 266,022 | 294,180 | 28,158 | 375,425 | 381,419 | 397,446 |
| Net Cost of Outcome Two⁽³⁾ | 4,453,037 | 4,615,517 | 162,480 | 4,892,564 | 4,929,648 | 5,161,480 |

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 92).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Cross reference to Table 5.2.1.

Output Structure for Outcome Two

OUTPUT 2.1 – CAPABILITY FOR MAJOR SURFACE COMBATANT OPERATIONS

The major surface combatant force consists of 13 frigates comprising five Adelaide-class guided missile frigates (FFGs) and eight Anzac-class frigates (the eighth frigate, HMAS *Perth*, is planned to be commissioned in August 2006). The surface combatants possess combat capabilities in all three primary warfare areas (air, surface and undersea) and can also provide limited combined and joint ADF command and control facilities for ADF operations. 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 activity at all levels. Their flexibility and versatility, particularly with an aviation flight embarked, make them a first resort in contingencies throughout the broad spectrum of maritime operations.

The Government decided after the 2003 Defence Capability Review, to withdraw two Adelaide-class frigates from service. HMAS *Canberra* was decommissioned on

12 November 2005. To provide continuity and flexibility to meet operational regional engagement and security through the conduct of port visits and exercises with regional nations and training requirements, HMAS *Adelaide* will now be withdrawn from service no later than the end of 2007.

The FFG Upgrade Implementation project is continuing and will ensure Adelaide-class frigate survivability in the increasingly sophisticated maritime warfare environment. This rolling program commenced in late 2003 and is now due for completion in 2009. HMAS *Melbourne* will complete an upgrade in early 2007 with HMAS *Darwin* commencing upgrade in January 2007.

Work will continue on the provision of an Air Warfare Destroyer capability from 2013 to be delivered by Project Sea 4000.

| 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 a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. | | |
| Vessel Type | Number | Budget Estimate |
| Adelaide-class frigates | 5 | 918 URD ⁽¹⁾ |
| Anzac-class frigates | 8 | 1,983 URD |

Note

1. Unit Ready Days (URD) are the number of days that a force element is available for tasking, by the Maritime Commander, either outside of major maintenance and within planned readiness requirements or in accordance with contracted availability (see *Glossary* for further explanation).

OUTPUT 2.2 – CAPABILITY FOR NAVAL AVIATION OPERATIONS

The naval aviation force comprises 16 Seahawk helicopters, six Sea King helicopters and 13 Squirrel helicopters. The force is being enhanced by the introduction of 11 Super Seasprite helicopters. The introduction of the Super Seasprite helicopters to operational service has been delayed by the need to resolve a system problem identified during the flight test program. Super Seasprite helicopters with full mission capability are planned to begin deployment to sea in early 2008. 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 maritime surface warfare (ship 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.

Naval aviation is dependent on the Air Force for the initial training of aviation technicians and general flying training for officer aircrew. Initial helicopter aircrew training is conducted by the Navy using the Squirrel helicopters. The Squirrel has already served past its originally planned withdrawal date. A proposal to replace the Squirrel with a training system that satisfies Navy helicopter aircrew training needs is being progressed as part of Project AIR 9000. The new training system will, in time, become a joint Navy and Army Helicopter Aircrew Training System. Naval aviation also manages the operation of the Kalkara aerial target system, which supports fleet and Air Force training. An extension of the contract which supports the Kalkara is being negotiated to maintain the aerial target system for a further three years until the Joint Project 66, Replacement for Air Defence Targets, can fulfil the ADF aerial target system function.

| 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 a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. | | |
| Aircraft | Number | Flying Hours |
| Seahawks | 16 | 3,300 ⁽¹⁾ |
| Sea Kings | 6 | 1,600 |
| Squirrels | 13 ⁽²⁾ | 4,000 |
| Super Seasprites | 11 ⁽³⁾ | 1,800 ⁽⁴⁾ |
| Kalkaras | 10 | Up to 39 presentations ⁽⁵⁾ |

Notes

1. During 2006-07, on average, a quarter of the Seahawk fleet will be undergoing major modifications at any one time. The planned flying hours is reduced while the aircraft are not available. Directed operations will be maintained during the period of reduced flying.
2. Twelve aircraft are operated, the thirteenth aircraft is held for attrition purposes.
3. The eleventh Super Seasprite is expected to be delivered in March 2007.
4. The anticipated hours for Super Seasprite for 2006-07 may vary based on project progression.
5. 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 in training or system testing exercises.

OUTPUT 2.3 – CAPABILITY FOR PATROL BOAT OPERATIONS

During 2006-07, the patrol boat force will consist of a combination of Fremantle-class and newly constructed Armidale-class patrol boats. By April 2007, all of the Fremantle-class will have been decommissioned and, by the end of June 2007, 12 Armidale-class patrol boats will have been brought into service, along with 15 out of a total of 18 trained crews. The combination of crews and hulls establishes a multi-crewing patrol system, which will result in an overall increase in operational availability for the force.

The patrol boat force makes a large and effective contribution to the civil surveillance program (managed by Coastwatch), to Joint Offshore Protection Command tasking and to the protection of Australia’s sovereignty, through the provision of a patrol, response and surveillance capability in Australia’s maritime approaches. It is augmented by other force element group units to provide additional capability as threats dictate. Patrol boats contribute to regional engagement and security through the conduct of port visits and exercises with regional nations.

An additional two Armidale-class patrol boats and three crews are planned to be delivered in 2007-08 to enable the Navy to maintain a security presence in the North-West Shelf area as part of the Government’s maritime security policy. Units based in Darwin, Northern Territory, and forward-deployed for these patrols will be supported out of Dampier, Western Australia.

Construction of a new standby crew support facility on the grounds of HMAS Coonawarra in Darwin, Northern Territory, is due to be completed in 2006-07.

| 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 a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. | | |
| Vessel Type | Number | Budget Estimate |
| Fremantle-class patrol boats | 8 ⁽¹⁾ | 1,232 URD |
| Armidale-class patrol boats | 5 ⁽²⁾ | 1,911 URD ⁽³⁾ |

Notes

1. The remaining eight Fremantle-class patrol boats will be progressively decommissioned during 2006-07.
2. The number of Armidale-class patrol boats will increase from five to 12 during 2006-07 and the 12 vessels will have 15 out of a planned total of 18 fully trained crews. Multi-crewing will be used to enhance availability of the vessels.
3. The current Armidale-class patrol boat contract with Defence Maritime Services allows the Government to purchase up to an additional 600 days of patrol boat availability to meet emerging requirements.

OUTPUT 2.4 – CAPABILITY FOR SUBMARINE OPERATIONS

The Navy has six Collins-class submarines. Two of the six submarines have been enhanced to provide a higher level of capability. Projects are in place to progressively enhance the combat capability of all six submarines including weapons, sensors and communication systems upgrades.

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 contribute to regional engagement and security through the conduct of port visits and

exercises with regional nations. 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 | | |
|--|------------------|------------------------|
| <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 a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. | | |
| Vessel Type | Number | Budget Estimate |
| Submarines | 6 ⁽¹⁾ | 1,265 URD |

Note

1. HMAS *Dechaineux* will remain in full-cycle docking for all of 2006-07.

OUTPUT 2.5 – CAPABILITY FOR AFLOAT SUPPORT

This output provides a capability for afloat support consisting of an oil tanker and a replenishment ship. This capability has a major role in the provision of afloat tactical logistics, particularly underway 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 through the provision of logistic support contributes significantly to the performance of Output 2.1 Capability for Major Surface Combatant Operations and Output 2.7 Capability for Amphibious Lift. The afloat support units provide important logistic support to operations and exercises and contribute to Defence international engagement through these activities. Project SEA 1654 will deliver the environmentally compliant, double-hulled, HMAS *Sirius* into the Navy in September 2006, and the concurrent decommissioning of HMAS *Westralia*. HMAS *Westralia* will be maintained by the Navy in a state of extended readiness until HMAS *Sirius* is operational. This will ensure continuity in capability.

| 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 a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. | | |

| Vessel Type | Number | Budget Estimate |
|--------------------|------------------|------------------------|
| Oil tanker | 1 ⁽¹⁾ | 321 URD |
| Replenishment ship | 1 | 190 URD ⁽²⁾ |

Notes

1. HMAS *Sirius* will commission, and HMAS *Westralia* will decommission, in September 2006.
2. HMAS *Success* is scheduled to undergo a refit in January – June 2007.

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 diving 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. The minesweeper auxiliaries deliver a limited influence mine and moored minesweeping capability. Clearance diving teams support the full spectrum of mine warfare and clearance diving operations, including explosive ordnance and improvised explosive device disposal. The two coastal mine hunters that were planned to be put into extended readiness will be reactivated in 2006-07 and re-rolled for surveillance and patrolling of Australia's maritime approaches.

| 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 a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. | | |
| Vessel Type | Number | Budget Estimate |
| Coastal mine hunters | 6 | 1,243 URD ⁽¹⁾ |
| Auxiliary minesweepers | 2 | 730 URD |
| Clearance diving teams | 2 | 730 URD |

Note

1. The URD target for the reactivated coastal mine hunters is yet to be determined and is not included in this estimate.

OUTPUT 2.7 – CAPABILITY FOR AMPHIBIOUS LIFT

The Output provides capability for amphibious lift consisting 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 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, and humanitarian assistance and peace support operations. The ships' inherent capability for command and control, communications, helicopter operations and medical support facilities make them extremely versatile. This capability is a key contributor to the ADF joint amphibious capability.

| 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 a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. | | |
| Vessel Type | Number | Budget Estimate |
| Heavy landing ship | 1 | 365 URD |
| Amphibious landing ships | 2 | 674 URD |
| Heavy landing craft | 6 | 1,917 URD |

OUTPUT 2.8 – CAPABILITY FOR HYDROGRAPHIC, METEOROLOGICAL AND OCEANOGRAPHIC OPERATIONS

The hydrographic survey force comprises two Leeuwin-class hydrographic ships, four Paluma-class survey motor launches, a laser airborne depth-sounder aircraft and a deployable geospatial support team, all supported by the Australian Hydrographic Office in Wollongong, New South Wales.

The Hydrographic, Meteorological and Oceanographic Force Element Group maintains a capability for hydrographic operations, nautical charting and provision of meteorological and oceanographic support to the ADF. The Group's nautical products assist maritime trade, border protection and contribute to maritime safety and environmental protection. Additionally, the group meets Australia's national obligations for provision of hydrographic services under the terms of the *United Nations Safety of Life at Sea (SOLAS) Convention 1974* (as amended) and the *Navigation Act 1912*.

Oceanographic operations are conducted by the Operational Meteorological and Oceanographic Centre, the Defence Oceanographic Data Centre, the Fleet Weather and Oceanographic Centre in Sydney, and the Naval Air Station Weather and Oceanographic Centre in Nowra, New South Wales.

| 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 a level of training that maintains core skills and professional standards to conduct survey tasking, produce navigational information and provision of oceanographic and meteorological support. • Achieve mission capability for assigned tasks. • Achieve <i>HydrOcscheme 2005-08</i> data and surveying tasking requirements to meet national hydrographic surveying and charting obligations. |

| Vessel/Aircraft/Unit/Chart Production | Number | Budget Estimate |
|---|--------|---|
| Hydrographic ships | 2 | 730 URD |
| Survey motor launches | 4 | 1,318 URD |
| Laser airborne depth sounder aircraft ⁽¹⁾ | 1 | 850 hours |
| Deployable geospatial support team | 1 | Availability 365 days; planned deployments 188 days |
| Australian Hydrographic Office | 1 | Availability 365 days; chart production 249 days |
| Fleet Weather and Oceanographic Centre ⁽²⁾ | 1 | Availability 365 days |
| Naval Air Station Weather and Oceanographic Centre | 1 | Availability 240 days |
| Mobile meteorological and oceanographic teams ⁽³⁾ | 1 | Availability 730 days; planned deployments 308 days |
| Navigation Chart Production ⁽⁴⁾ : New charts/editions Electronic navigational chart cells | | 68 167 ⁽⁵⁾ |
| Defence Support ⁽⁴⁾ : New charts/editions Military Geographic Information Foundation Datasets | | 35 6 |
| Oceanographic database production: Web Enabled Datasets ⁽⁶⁾ | | 6 |

Notes

1. An upgrade to the laser airborne depth sounder aircraft is anticipated to commence in mid-2007.
2. The Fleet Weather and Oceanographic Centre is available 24 hours per day.
3. Mobile meteorological and oceanographic teams are sub-sections of the Operational Meteorological and Oceanographic Centre.
4. Chart production has been divided into navigational and Defence specific components. The navigational components were formerly 'new charts/editions' and 'electronic navigational chart cells' and the Defence component was formerly 'new charts/diagrams for Navy use only'. The Defence component now includes support to the wider ADF community and the inclusion of 'military geographic information foundation datasets' represents new products as a result of emerging technology. The environmental brief production targets introduced in 2005-06 are no longer considered a meaningful performance target and will no longer be reported.
5. Targets reflect additional planned capacity due to out-sourcing funded under the Accelerated Electronic Navigational Charts Project.
6. Web enabled datasets was formerly 'complete database updates'. The name change represents new products as a result of emerging technology.

OUTCOME THREE – ARMY CAPABILITY

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

- Output 3.1 Capability for Special Operations
- Output 3.2 Capability for Medium Combined Arms Operations
- Output 3.3 Capability for Light Combined Arms 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 Combined Arms Operations
- Output 3.10 Capability for Protective Operations

The Army contributes to the achievement of the Government's defence objectives through the provision of capabilities for land and special operations. 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 provides capabilities that centre around special forces; light, medium and motorised combined arms operations; 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;
- 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 liaison;
- counter-terrorism operations to defeat terrorism throughout the entire threat spectrum, including protection from terrorist acts, offensive measures taken to prevent, deter and respond to terrorism, and providing 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 2006–07 by balancing the requirements to support operations with the need to meet extant preparedness requirements and to develop the Army's core capabilities.

Support to Operations

In 2006–07, the Army's first priority will be to continue to support forces and individuals deployed on operations. These include forces and individuals deployed to the Middle East Area of Operations, Israel, Sudan, Syria, Lebanon, Egypt, East Timor and the Solomon Islands.

Meeting Preparedness Requirements

The Army will continue to provide ready forces as directed by the Government, including nine combined arms battlegroups to provide depth, sustainability, utility and flexibility at 90 days readiness or less with supporting combat support and combat service support elements. The Army has developed seven company-sized Reserve Response Forces to enhance the Army's domestic security response capability. The Army is continuing the development of a High Readiness Reserve capability that will provide specified individual and collective capabilities to support, sustain and reinforce the Army's operational forces. Meeting preparedness requirements will be the Army's primary performance measure.

Developing the Army's Core Capabilities

The Army will continue to enhance its ability to sustain a brigade-sized taskforce offshore for extended periods and a battalion-sized battlegroup for short-notice contingency operations. In particular, the development of the Army's core capabilities in 2006–07 will focus on transitioning to a Hardened and Networked Army to enhance its ability to generate adequate combat weight, support deployed forces, and contribute to domestic security.

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

- taking delivery of the first Abrams M1A1 main battle tank prior to their formal introduction into service in 2007;
- continued delivery of the Bushmaster infantry mobility vehicle into service;
- delivery of additional Javelin direct fire guided weapons;
- continuing procurement activities for the MRH-90 helicopter to provide additional troop lift;
- implementing the operational capability of the Army's armed reconnaissance helicopters;
- continuing the upgrade of the M113 armoured personnel carrier fleet for delivery commencing in late 2006; and
- developing project proposals to further advance the Army's combat capabilities into the future.

The Army will continue to develop its network centric warfare capability through:

- commencing the first phase of a multiphase project aimed at enhancing land force communications by the introduction of a fleet of digital combat net radios;
- developing an Army sustainment model designed to ensure a battalion-sized battlegroup and a brigade-sized taskforce can be deployed continually; and
- developing proposals for projects to further enhance the Army's mobility and close combat capabilities into the future.

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 situational awareness through the delivery of:

- additional ground surveillance radar, thermal imagery and unattended ground sensors; and
- a tactical unmanned aerial vehicle for land forces in 2009.

KEY RISKS AND LIMITATIONS

The Army will seek to achieve its planned performance through the mitigation of key risks identified in the Defence Management and Finance Plan, Defence's classified internal planning document, including the remediation of personnel and logistic deficiencies within the Army.

Personnel

To support the introduction of new capabilities while maintaining preparedness requirements, the Army's average paid strength for the year is forecast at 25,220 for 2006-07, and is projected to grow to 27,837 by 2015-16. Recruiting and retention is becoming more challenging. Some ranks and trades, such as health services, engineers, technicians and linguists, remain a concern.

Logistic Support

The Army has experienced logistic challenges over recent years with some ammunition shortages and difficulties in maintaining 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.

Infrastructure

The construction industry has experienced strong growth in the past few years resulting in real cost increases. This has created challenges to the delivery of the Army's infrastructure requirements.

Introducing New Capabilities

New Army capabilities are delivered through a combination of major and minor capital procurement projects that either replace or enhance existing capabilities or introduce new capabilities. The Australian National Audit Office Audit Report No. 25 2004-05 highlighted the need for the Army to maintain a strong focus on the successful integration of capabilities due for delivery through the Defence Capability Plan. The Army is developing a process for capability acceptance and operational release, which will operate in accordance with the Joint 'Acceptance into Service' process once it has been confirmed by the Capability Development Group in 2006.

RISK MITIGATION

Personnel

The development of an Army Sustainment Model will help the Army identify and develop its personnel for operations. The Army Capability Implementation Plan and Army Personnel Establishment Plan will help the Army to manage its personnel requirements to enable timely recruitment and training, and to build new capabilities as specified in the Defence White Paper. The Army continues to pursue initiatives to improve recruiting and retention, and to remediate critical workforce areas. The Army is addressing the requirements of the future complex operating environment through the 'Soldier of the Twenty-First Century' initiative.

Logistic Support

The Army continues to develop the Army equipment establishment plan that will inform the Army's equipment planning process and set the priorities for equipping the Army. The Army is also benefiting from additional funding in support of logistic shortfalls for the general service B vehicles and explosive ordnance.

Infrastructure

The Army is working with other Defence Groups to develop strategies to relieve the pressures on capability delivery associated with infrastructure. Recent initiatives have included the development of strategic planning guidance for the Army's future use of the Defence estate and other estate planning initiatives. The Army is embarking upon a strategic review of training areas within Australia in order to identify Army's capability needs for training areas and advance their continued development.

Introducing New Capabilities

The Army has identified the issues that affect the successful introduction of a new or enhanced capability into service. Generically these are titled the 'Fundamental Inputs to Capability' and the Army seeks to ensure that the development of facilities, training and personnel are considered along with capital equipment. To ensure the timely consideration of these issues, the Army holds a number of reviews at various stages of each project's life-cycle to synchronise these issues and prepare the way for successful introduction of the capability. In 2005-06, the Army held 13 reviews and plans to conduct 15 reviews in 2006-07. Additionally, the Army is continuing to develop a formalised system for acceptance of new capabilities into service. The process will be based on an operational evaluation of the delivered capability prior to operational release by the Chief of Army.

Cost Summary for Outcome Three

TOTAL BUDGETED COST TO THE GOVERNMENT

Table 5.3.1: Outcome Three – Army Capability for the Defence of Australia and its Interests

| | Previous Estimate ⁽¹⁾ 2006-07 \$'000 | Budget Estimate 2006-07 \$'000 | Variation ⁽²⁾ \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|---|--------------------------------------|------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| INCOME | | | | | | |
| Revenue | | | | | | |
| Goods and Services | -101,204 | -188,452 | -87,248 | -193,972 | -198,668 | -201,784 |
| Other Revenue ⁽³⁾ | -86,617 | -22,216 | 64,400 | -21,604 | -21,537 | -26,996 |
| Total Revenue | -187,821 | -210,668 | -22,847 | -215,576 | -220,206 | -228,779 |
| Gains | | | | | | |
| Reversals of previous asset write-downs | -20,854 | -34,047 | -13,194 | -29,849 | 5,491 | 5,491 |
| Net gains from sale of assets | - | - | - | - | - | - |
| Total Gains | -20,854 | -34,047 | -13,194 | -29,849 | 5,491 | 5,491 |
| Total Income | -208,674 | -244,715 | -36,041 | -245,425 | -214,715 | -223,289 |
| Operating Expenses | | | | | | |
| Employees | 2,861,332 | 2,809,107 | -52,226 | 2,819,326 | 2,932,966 | 3,080,385 |
| Suppliers | 2,252,124 | 2,442,227 | 190,103 | 2,471,475 | 2,438,318 | 2,552,304 |
| Grants | 2,436 | 2,632 | 196 | 628 | 628 | 628 |
| Depreciation and Amortisation | 827,079 | 816,045 | -11,035 | 847,943 | 838,761 | 801,679 |
| Finance Cost | 15,065 | 9,540 | -5,525 | 10,086 | 10,613 | 10,840 |
| Write-down and impairment of assets | 31,430 | 69,919 | 38,489 | 65,323 | 19,073 | 19,073 |
| Net losses from sale of assets | - | - | - | - | - | - |
| Other expenses | 2,114 | 130 | -1,984 | 547 | 548 | 548 |
| Total Expenses | 5,991,580 | 6,149,599 | 158,019 | 6,215,328 | 6,240,907 | 6,465,457 |
| Net Cost of Outcome Three⁽⁴⁾ | 5,782,906 | 5,904,884 | 121,978 | 5,969,903 | 6,026,192 | 6,242,169 |

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 96).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Other revenues include interest and dividends.
4. Cross reference to Chart 5.a and Table 5.b.

Table 5.3.2: Breakdown of Outcome Three by Output

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|--|-------------------------------------|--------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2006-07 | 2006-07 | | 2007-08 | 2008-09 | 2009-10 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Output 3.1 – Capability for Special Operations | 530,178 | 534,256 | 4,078 | 546,548 | 552,288 | 572,480 |
| Output 3.2 – Capability for Medium Combined Arms Operations | 867,509 | 938,457 | 70,948 | 859,434 | 854,529 | 877,162 |
| Output 3.3 – Capability for Light Combined Arms Operations | 1,014,643 | 977,728 | -36,915 | 1,029,151 | 1,054,447 | 1,103,487 |
| Output 3.4 – Capability for Army Aviation Operations | 563,715 | 570,665 | 6,949 | 553,413 | 546,093 | 558,040 |
| Output 3.5 – Capability for Ground-Based Air Defence | 121,858 | 125,526 | 3,668 | 119,128 | 122,044 | 127,673 |
| Output 3.6 – Capability for Combat Support Operations | 409,567 | 439,935 | 30,368 | 453,857 | 462,329 | 482,033 |
| Output 3.7 – Capability for Regional Surveillance | 155,294 | 156,546 | 1,252 | 160,621 | 162,317 | 168,201 |
| Output 3.8 – Capability for Operational Logistic Support to Land Forces | 581,557 | 587,745 | 6,189 | 605,033 | 615,638 | 642,175 |
| Output 3.9 – Capability for Motorised Combined Arms Operations | 588,407 | 593,810 | 5,403 | 609,787 | 616,753 | 639,854 |
| Output 3.10 – Capability for Protective Operations | 950,177 | 980,216 | 30,039 | 1,032,930 | 1,039,754 | 1,071,064 |
| Net Cost of Outcome Three⁽³⁾ | 5,782,906 | 5,904,884 | 121,978 | 5,969,903 | 6,026,192 | 6,242,169 |

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 97).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Cross reference to Table 5.3.1.

Output Structure for Outcome Three

OUTPUT 3.1 – CAPABILITY FOR SPECIAL OPERATIONS

Output 3.1 provides Special Operations Task Groups, task organised to provide high readiness forces capable of conducting special reconnaissance, offensive strike, domestic security, counter terrorism and offshore recovery operations. Force elements include the Defence chemical, biological, radiological, nuclear and explosives capability and possess integral strategic secure communications and logistics capability.

Output 3.1 also provides a deployable component headquarters, a Special Forces Training Centre, and specialist capabilities that reside in the Special Air Service Regiment, the Commando Units and the Incident Response Regiment.

| 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 a level of training that maintains core skills and professional standards across all warfare (and counter-terrorist) areas. |

OUTPUT 3.2 – CAPABILITY FOR MEDIUM COMBINED ARMS OPERATIONS

Output 3.2 provides combined arms teams based on armoured, mechanised and cavalry forces with integral command and control, communications, offensive support, combat engineer support, and combat service support. The medium combined arms teams incorporate additional manoeuvre force elements from other outputs to tailor force packages as required.

Output 3.2 is based on 1st Brigade which provides a deployable formation headquarters and a Medium Battle Group.

| 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 notice.• Achieve a level of training that maintains core skills and professional standards across all warfare areas. |

OUTPUT 3.3 – CAPABILITY FOR LIGHT COMBINED ARMS OPERATIONS

Output 3.3 provides combined arms teams based on light infantry forces with integral command and control, communications, offensive support, combat engineer support, and combat service support. The light combined arms teams incorporate additional manoeuvre force elements from other outputs to tailor force packages as required. The light combined arms teams are rapidly deployable by ground, air and sea tactical and strategic lift.

Output 3.3 is based on 3rd Brigade which provides a deployable formation headquarters, an Airborne Battle Group and a Light Battle Group.

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 three battalion-sized groups within 90 days readiness notice.
- Achieve a level of training that maintains core skills and professional standards across all warfare areas.

OUTPUT 3.4 – CAPABILITY FOR ARMY AVIATION OPERATIONS

Output 3.4 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.

Output 3.4 is based on 16th Brigade (Aviation) and consists of:

- two aviation regiments;
- one independent (Black Hawk) aviation squadron; and
- one independent fixed wing squadron.

The forecast flying hours for 2006-07 are as follows:

Table 5.3.3: Army Aviation Aircraft

| Aircraft | Number | Flying Hours 2006-07 |
|--|--------|----------------------|
| CH-47D Chinook | 6 | 1,270 |
| S-70A9 Black Hawk | 35 | 7,500 |
| B-206 Kiowa | 41 | 10,310 |
| UH-1H Iroquois | 25 | 4,090 |
| Armed Reconnaissance Helicopter Tiger ⁽¹⁾ | 9 | 1,010 |
| B200 King Air | - | - |
| DHC-6 Twin Otter | - | - |
| B300 King Air 350 | 3 | 2000 |

Note

1. There will be 9 aircraft at the beginning of the financial year and a further 6 are expected to be delivered during 2006-07.

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

OUTPUT 3.5 – CAPABILITY FOR GROUND-BASED AIR DEFENCE

Output 3.5 provides ground based air defence support to light and medium combined arms teams and joint operations requiring point air defence.

Output 3.5 is based on 16th Air Defence Regiment, which is based in Adelaide.

| |
|----------------------------|
| 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.• Achieve a level of training that maintains core skills and professional standards across all warfare areas. |
|---|

OUTPUT 3.6 – CAPABILITY FOR COMBAT SUPPORT OPERATIONS

Output 3.6 provides force-level surveillance and target acquisition, electronic warfare, military police, intelligence, force-level construction engineer support, and support to other Army outputs.

Output 3.6 is based upon 20th Surveillance Target Acquisition Regiment, 7th Signal Regiment, 1st Intelligence Battalion, 1st Military Police Battalion and 6th Engineer Support Regiment.

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

OUTPUT 3.7 – CAPABILITY FOR REGIONAL SURVEILLANCE

Output 3.7 provides mobile surveillance and reconnaissance forces developed and based in specific regions of northern Australia supporting the national surveillance effort.

The capability is maintained using predominantly Army Reserve personnel drawn from local communities and the indigenous population throughout

northern Australia. The capability consists of three regionally-based battalion-sized units based in Karratha, Darwin and Cairns.

Output 3.7 is based upon Norforce, the 51st Far North Queensland Regiment and the Pilbara Regiment.

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

OUTPUT 3.8 – CAPABILITY FOR OPERATIONAL LOGISTIC SUPPORT TO LAND FORCES

Output 3.8 provides operational-level combat service support forces with integral command and control, communications, supply chain management and distribution capabilities. The Output includes water and beach operations capabilities, air dispatch and parachute rigging capabilities, health and psychological support capabilities, deployed personnel support and force preparation capabilities.

Output 3.8 is based upon the Logistic Support Force and is responsible for the provision of a deployable formation headquarters, a Force Support Group, a Contingency Force Support Battalion, and a number of tailored force support entities for smaller 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 a level of training that maintains core skills and professional standards across all warfare areas. |

OUTPUT 3.9 – CAPABILITY FOR MOTORISED COMBINED ARMS OPERATIONS

Output 3.9 provides combined arms teams based on light infantry forces with integral wheeled mobility, command and control, communications, offensive support, combat engineer support, and combat service support. The motorised combined arms teams incorporate additional manoeuvre force elements from other outputs to tailor force packages as required.

Output 3.9 is based on 7th Brigade which provides a deployable Land Component Headquarters, a formation command and control capability for domestic security tasks, and a Motorised Battle Group.

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

OUTPUT 3.10 – CAPABILITY FOR PROTECTIVE OPERATIONS

Output 3.10 provides Army Reserve combined arms teams based on light infantry forces with integral command and control, communications, and combat service support. The combined arms teams form the basis of the Force Protection Company Groups on a reduced readiness notice as part of the High Readiness Reserve. The output also provides Reserve Response Forces on a reduced readiness notice for domestic security and support tasks, reinforcements for deployed regular units, and a mobilisation base for subsequent rotations in the event of a protracted operation.

Output 3.10 is predominantly based on Reserve brigades located throughout Australia.

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 across all warfare areas.

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 Airlift Operations

The Air Force applies air and space power to protect Australia and its national interests by providing a unique combination of flexibility, reach, precision and speed of response. The Air Force is a balanced, networked deployable force that conducts air and surface operations focusing on air combat, combat support of air operations, surveillance and response, and airlift. The Air Force's capabilities can be deployed globally and rapidly to achieve the ADF's key tasks of defending Australia, contributing to the security of our region and supporting Australia's wider interests through participation in coalition operations and disaster responses. In particular, the Air Force's air combat capability is essential for securing control of the air, a prerequisite for most other ADF operations.

The Air Force's fundamental capabilities enable the conduct of offensive and defensive counter air operations, land and maritime strike operations and offensive air support. Airlift enables quick deployment of forces over large distances and sustainment once deployed. Information operations through networked systems enable rapid dissemination of information. Australian and global communities also benefit directly from the Air Force's contribution to search and rescue operations, disaster relief, humanitarian assistance and other protective functions.

PLANNED PERFORMANCE

The Air Force will continue to provide support to the Government's border control initiatives including providing additional surge surveillance and response capabilities if required. During 2006-07, the Air Force will continue to support the war against terrorism, conduct operational deployments as directed by the Government and be prepared to provide rapid disaster response. In particular, the Air Force will:

- support Operations Catalyst and Slipper through P-3 Orion surveillance activities, C-130 transport support and expeditionary combat support elements;

- support Operation Relex II with P-3 Orion surveillance of Australia's northern border approaches;
- introduce new capabilities including the Wedgetail airborne early warning and control aircraft and Boeing C-17 Globemaster III aircraft;
- refine workforce structures in light of these new capabilities;
- support humanitarian assistance operations; and
- prepare for the 2007 Asia-Pacific Economic Cooperation Leaders' Meeting in Sydney.

As part of the Air Force's enduring goal of achieving and maintaining a modern, networked force, the F-111 capability will be withdrawn from service from 2010 to provide the necessary resources to transition to the replacement capability. In the interim period between the withdrawal of the F-111 and the introduction of the new air combat capability, the strike role will be transferred to the F/A-18 Hornet and, to a lesser degree, the P-3 Orion fleet. This role transfer will depend on:

- upgrading and refurbishing the F/A-18 Hornet aircraft;
- introducing the A330 medium range, multi-role tanker transport aircraft;
- introducing the Wedgetail airborne early warning and control aircraft;
- acquiring the AGM-158 Joint Air-to-Surface Standoff Missile for the F/A-18 Hornet; and
- acquiring improved short-range, day and night, all-weather precision guided weapons.

A risk mitigation strategy to delay the withdrawal of the F-111 to 2012 is in place in the event of delays to the above projects to ensure there is no strike capability gap.

The Air Force will introduce up to four new Boeing C-17 Globemaster III aircraft and associated equipment from 2006 to provide the ADF with a heavy airlift capability. The demanding pace of operations and disaster relief in recent times has demonstrated a need for a rapid global airlift capability that is capable of deploying troops, all combat vehicles, heavy equipment and all helicopters including the CH-47 Chinook helicopters.

The Air Force has maintained a healthy personnel retention rate despite external market pressures. Recruiting has been relatively successful but the challenge will increase due to demographic changes and increasing competition for the available talent. The focus in 2006-07 will be on redesigning and rebalancing the workforce to achieve required outcomes with available resources, in preparation for future capability requirements and maintaining operational tempo. Reviews

of the technical, non-pilot and aerospace engineering officer elements of the workforce will continue with a particular focus on the requirements of the many new capabilities due for introduction over the coming decade. Following the recent Defence Force Remuneration Tribunal approval of the Remuneration Reform Program, the Air Force has commenced preparing submissions for the Defence Force Remuneration Tribunal in relation to Air Traffic Control Officers and Aerospace Engineering Officers, whose retention in an increasingly competitive external market is critical.

KEY RISKS AND LIMITATIONS

Personnel

Both retention and recruitment remain healthy when compared to long-term trends. However, recruiting for niche skills or fully qualified personnel remains problematic. While retention overall is satisfactory, the Air Force will have some difficulty competing with the increasing external pressures for highly qualified specialists, particularly in the health and technology areas. The labour market for young people will remain highly competitive due to generational changes and changes in participation rates and lifestyles with increasing demand and competition for talented people.

Regional Capability Edge

Aerospace combat capability within Australia's region continues to develop. To maintain a qualitative edge, the Air Force will continue to evolve a network-enabled force that is initially centered around the upgraded F/A-18 with enhanced weapons, supported by the Wedgetail airborne early warning and control aircraft, A330 multi-role tanker transport aircraft and associated communications and information technology. The capability of this force will be substantially increased with the introduction in 2012 of the fifth generation new air combat capability, which is expected to be the F-35. A high-level group comprising representatives from the Air Force, DMO, Capability Development Group and the Defence Science and Technology Organisation has been tasked with close oversight and managing the risks associated with this transition.

Enabling Support

The delivery of Air Force capabilities continues to be dependent on the support of the DMO, Defence Science and Technology Organisation and the infrastructure and personnel services provided by the Corporate Services and Infrastructure Group and the Defence Personnel Executive.

RISK MITIGATION

Personnel

The Air Force must maximise the capability output from its current workforce. An organisational rebalance and reshape activity will identify the priority areas for personnel resources both now and for future capability requirements. Capability reviews for technical, aircrew and engineering personnel will support reshaping decisions. External recruiting will be supplemented by greater use of internal recruiting and re-training of the existing workforce to match the personnel capability required from the introduction of new capabilities and systems. The Air Force will focus on a more flexible application of non-remuneration personnel policy initiatives to retain our professional and experienced staff. While the younger generation is reported to be less attracted by the concept of a job for life, the Air Force will focus on attractions such as teamwork in a values-based framework, new technology, the ability to gain new skills, and jobs that make a difference. The Air Force will also seek to influence decisions that will offer greater choice in conditions of service and career structures. The Air Force will also engage with the younger generation in better explaining the opportunities that the Air Force and the wider ADF have to offer. In some cases, threats to the retention of specific groups of personnel critical to capability will be targeted through short-term financial or other incentives. In responding to the Government's policy to expand the role of the Reserves to contribute to the sustainability of combat force operations in addition to the traditional role of substituting for temporary shortfalls in permanent force personnel, the Air Force will establish a High Readiness Reserve category.

Regional Capability Edge

Over the next decade, the Air Force will maintain the desired regional capability edge with the development of a networked Air Force that will enhance the combat effect of individual platforms and capabilities through the synergistic effects of the total system. The final capability will be based on the new air combat capability, expected to be fifth generation stealth Joint Strike Fighter, armed with modern, precision weapons. This capability will be supported by other combat and surveillance platforms, such as airborne early warning and control and air-to-air refuelling aircraft, and operate within an enhanced surveillance, communications and information network.

Enabling Support

The Air Force will continue to work closely with all Defence Groups to ensure the appropriate level of support is available when and where required. In particular, the Air Force will further develop its relationship with the DMO, refining the agreements to ensure they clearly set out the level of support sought and the performance measures which will be applied.

Cost Summary for Outcome Four

TOTAL BUDGETED PRICE TO THE GOVERNMENT

Table 5.4.1: Outcome Four – Air Force Capability for the Defence of Australia and its Interests

| | Previous Estimate ⁽¹⁾ 2006-07 \$'000 | Budget Estimate 2006-07 \$'000 | Variation ⁽²⁾ \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|---|---|--------------------------------------|------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| INCOME | | | | | | |
| Revenue | | | | | | |
| Goods and Services | -60,205 | -145,124 | -84,918 | -145,765 | -148,363 | -152,084 |
| Other Revenue ⁽³⁾ | -61,138 | -18,168 | 42,970 | -18,001 | -17,876 | -20,548 |
| Total Revenue | -121,343 | -163,291 | -41,948 | -163,766 | -166,239 | -172,632 |
| Gains | | | | | | |
| Reversals of previous asset write-downs | -37,250 | -134,109 | -96,859 | -137,305 | -119,095 | -119,095 |
| Net gains from sale of assets | - | - | - | - | - | - |
| Total Gains | -37,250 | -134,109 | -96,859 | -137,305 | -119,095 | -119,095 |
| Total Income | -158,593 | -297,400 | -138,807 | -301,071 | -285,334 | -291,727 |
| Operating Expenses | | | | | | |
| Employees | 1,472,069 | 1,484,327 | 12,258 | 1,573,094 | 1,662,054 | 1,792,285 |
| Suppliers | 2,049,184 | 2,204,810 | 155,626 | 2,381,533 | 2,302,564 | 2,385,098 |
| Grants | 1,067 | 1,154 | 87 | 298 | 298 | 298 |
| Depreciation and Amortisation | 1,306,501 | 1,311,428 | 4,927 | 1,299,002 | 1,346,683 | 1,238,976 |
| Finance Cost | 6,942 | 4,074 | -2,868 | 4,026 | 3,969 | 4,057 |
| Write-down and impairment of assets | 54,418 | 125,299 | 70,881 | 129,317 | 97,297 | 97,297 |
| Net losses from sale of assets | - | - | - | - | - | - |
| Other expenses | 694 | 3,999 | 3,304 | 387 | 389 | 389 |
| Total Expenses | 4,890,875 | 5,135,091 | 244,216 | 5,387,658 | 5,413,256 | 5,518,401 |
| Net Cost of Outcome Four⁽⁴⁾ | 4,732,282 | 4,837,691 | 105,409 | 5,086,587 | 5,127,922 | 5,226,674 |

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 100).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Other revenues include interest and dividends.
4. Cross reference to Chart 5.a and Table 5.b.

Table 5.4.2: Breakdown of Outcome Four by Output

| | Previous Estimate ⁽¹⁾ 2006-07 \$'000 | Budget Estimate 2006-07 \$'000 | Variation ⁽²⁾ \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|---|--------------------------------------|------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Output 4.1 – Capability for Air Combat Operations | 1,536,286 | 1,593,252 | 56,965 | 1,722,226 | 1,697,258 | 1,725,212 |
| Output 4.2 – Capability for Combat Support of Air Operations | 958,524 | 954,466 | -4,057 | 984,101 | 1,011,548 | 1,025,196 |
| Output 4.3 – Capability for Surveillance and Response Operations | 1,175,263 | 1,181,018 | 5,755 | 1,179,779 | 1,201,178 | 1,224,265 |
| Output 4.4 – Capability for Airlift Operations | 1,062,209 | 1,108,955 | 46,746 | 1,200,482 | 1,217,937 | 1,252,001 |
| Net Cost of Outcome Four⁽³⁾ | 4,732,282 | 4,837,691 | 105,409 | 5,086,587 | 5,127,922 | 5,226,674 |

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 101).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Cross reference to Table 5.4.1.

Output Structure for Outcome Four

OUTPUT 4.1 – CAPABILITY FOR AIR COMBAT OPERATIONS

The Air Combat Group provides the ADF's air combat capability and includes three squadrons of F/A-18 Hornet and one squadron of F-111 aircraft, crews, weapon systems and support infrastructure to deliver required capability to support air control, maritime and land strike, offensive air support for land and maritime operations and limited reconnaissance roles. The Hawk Lead-in fighter and PC-9 aircraft also contribute to this capability.

The ongoing upgrade of the F/A-18 Hornet fleet and acquisition of six airborne early warning and control and five multi-role tanker transport aircraft will ensure that Australia retains an effective air control capability until the introduction of the new air combat capability.

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 levels of training that maintains core skill and professional standards across all assigned warfare areas.
- Maintain upgrade and refurbishment of the F/A-18 Hornet aircraft.

| Aircraft | Number | Flying Hours 2006-07 |
|--|--------------------------------|----------------------|
| F/A-18 Hornet | 71 (55 F/A-18A and 16 F/A-18B) | 13,000 |
| F-111 | 26 ⁽¹⁾ | 3,800 |
| Hawk Lead-in Fighter | 33 | 8,000 |
| PC-9 Forward Air Control training aircraft | 4 | 1,030 |

Note

1. An additional seven F-111G aircraft are in storage and a further two F-111G have been broken down for spares.

OUTPUT 4.2 – CAPABILITY FOR COMBAT SUPPORT OF AIR OPERATIONS

Combat support of air operations is provided by the Combat Support Group and is primarily concerned with the provision and maintenance of air base infrastructure and services essential for the mounting of air operations both in Australia and overseas during contingencies.

Air Force fixed bases will continue to be supported by a mixture of regular Air Force personnel working in conjunction with civilian provider groups. The three bare bases in the north of Australia will, if required, be activated and run by regular Air Force personnel drawn from the three Expeditionary Combat Support Squadrons.

Contingency air bases used for expeditionary operations, will be activated and run by regular Air Force personnel as part of a joint or coalition force when required. These personnel will be drawn initially from the on-line Expeditionary Combat Support Squadron with personnel for long-term sustainment being drawn from all Combat Support Group personnel.

| 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 a level of training that maintains core skills and professional standards in conjunction with Defence Support Group and the DMO across all operations. • Provide the level of preparedness required based on a force structure of: <ul style="list-style-type: none"> – one combat support wing, – one expeditionary combat support wing, – one airfield defence wing, and – one health services wing. |

OUTPUT 4.3 – CAPABILITY FOR SURVEILLANCE AND RESPONSE OPERATIONS

The Air Force’s capability for surveillance and response operations is provided through the Surveillance and Response Group. The group maintains aircraft, personnel, sensors and battlespace management elements to deliver a wide range of intelligence, surveillance and reconnaissance capabilities including the systems and infrastructure necessary to exploit the force multiplier effects of network centric warfare operations. In addition, the P-3 Orion is capable of conducting maritime strike and anti-submarine warfare 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. • Finalise plans for the introduction of the Wedgetail airborne early warning and control aircraft into operational service in 2007-08. • Complete the integration of the TPS-77 radar into the air defence surveillance system. | | |
| Aircraft | Number | Flying Hours 2006-07 |
| P-3 Orion | 19 | 8,200 |
| Wedgetail airborne early warning and control aircraft | Up to 2 | 690 ⁽¹⁾ |

Note

1. Up to two Wedgetail airborne early warning and control aircraft will be received in 2006-07. Flying hours undertaken in 2007 will be in preparation for acceptance of the aircraft into operational service in 2007-08.

OUTPUT 4.4 – CAPABILITY FOR AIRLIFT OPERATIONS

Air Lift Group provides airlift to enable rapid mobility of personnel and cargo to, from and within, a battlefield or area of operation. The group maintains aircraft, crews and weapons systems at a level of required capability to achieve air logistic support, airborne operations, aeromedical evacuation, special operations, search and survivor assistance, special purpose flights, air-to-air refuelling, navigator training and surveillance operations.

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 levels of training that maintain core skills and professional standards across all assigned warfare areas.
- Introduce the Boeing C-17 Globemaster III aircraft into service.
- Maintain planning for the transition of the air-to-air refuelling capability in 2007-09.

| Aircraft | Number | Flying Hours 2006-07 |
|------------------|------------------------------|-----------------------------|
| C-130 Hercules | 24 (12 C-130H and 12 C-130J) | 10,000 |
| C-17 Globemaster | Up to 2 | 750 |
| B707 | 4 | 1,100 |
| DHC-4 Caribou | 14 | 4,100 |
| B737 BBJ | 2 | 1,214 |
| CL604 Challenger | 3 | 2,403 |

OUTCOME FIVE – STRATEGIC POLICY

Outcome Five – Strategic Policy for the Defence of Australia and its Interests

Output 5.1 International Policy, Activities and Engagement

Output 5.2 Strategic Policy and Military Strategy

Strategy Group provides strategic guidance, policy advice and military strategy to enable the Government to make sound judgements on, and respond to, changes in Australia's strategic environment. This includes managing international defence relationships and expanding Australia's counter-proliferation efforts. The work of the Group also supports operations, exercises and the development of future Defence capability.

Strategy Group advances Australia's relationships with overseas defence partners and allies through Defence Attaches and liaison officers overseas and by working with foreign defence representatives in Australia. The Group manages the Defence Cooperation Program, which provides military assistance in our region.

PLANNED PERFORMANCE

Strategy Group's principal objectives for 2006-07 are to:

- monitor the external environment and ensure the currency of strategic planning;
- enhance the United States alliance and improve access to United States technology;
- continue to enhance regional defence cooperation;
- strengthen defence export controls; and
- invest in and develop Defence's strategic policy workforce.

KEY RISKS AND LIMITATIONS

The key risks and limitations to the Group achieving these objectives are:

- failure to detect changes in Australia's strategic environment, both generally and with respect to specific potential crises;
- failure to act in a timely manner to changes in Australia's strategic environment;

- an inadequate policy response to any changes in Australia’s strategic environment; and
- external factors affecting the achievement of Defence Cooperation Program objectives in regional countries.

RISK MITIGATION

To varying degrees, these risks and limitations will be mitigated by:

- continuously monitoring the strategic environment to enable the shaping of appropriate policies;
- continuing the development of Defence’s international relationships;
- developing staff skills and ensuring personnel management practices focus on balancing competing priorities; and
- ensuring alignment between Defence’s policy and its operational objectives.

Cost Summary for Outcome Five

TOTAL BUDGETED PRICE TO THE GOVERNMENT

Table 5.5.1: Outcome Five – Strategic Policy

| | Previous Estimate ⁽¹⁾ 2006-07 \$'000 | Budget Estimate 2006-07 \$'000 | Variation ⁽²⁾ \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|---|---|--------------------------------------|------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| INCOME | | | | | | |
| Revenue | | | | | | |
| Goods and Services | -3,267 | -8,763 | -5,496 | -9,114 | -8,989 | -8,891 |
| Other Revenue ⁽³⁾ | -8,533 | -920 | 7,613 | -959 | -963 | -1,396 |
| Total Revenue | -11,800 | -9,683 | 2,117 | -10,073 | -9,953 | -10,286 |
| Gains | | | | | | |
| Reversals of previous asset write-downs | -18 | -1,033 | -1,014 | -1,506 | 1,194 | 1,194 |
| Net gains from sale of assets | - | - | - | - | - | - |
| Total Gains | -18 | -1,033 | -1,014 | -1,506 | 1,194 | 1,194 |
| Total Income | -11,819 | -10,716 | 1,103 | -11,579 | -8,759 | -9,093 |
| Operating Expenses | | | | | | |
| Employees | 91,684 | 97,849 | 6,165 | 105,051 | 112,519 | 125,054 |
| Suppliers | 115,767 | 130,643 | 14,877 | 147,916 | 149,528 | 157,521 |
| Grants | 58 | 59 | 1 | 8 | 8 | 8 |
| Depreciation and Amortisation | 6,323 | 6,113 | -210 | 6,057 | 6,123 | 6,103 |
| Finance Cost | 358 | 241 | -117 | 129 | 17 | 18 |
| Write-down and impairment of assets | 15 | 468 | 452 | 535 | -5 | -5 |
| Net losses from sale of assets | - | - | - | - | - | - |
| Other expenses | 41 | -28 | -69 | 36 | 36 | 36 |
| Total Expenses | 214,246 | 235,345 | 21,099 | 259,733 | 268,226 | 288,737 |
| Net Cost of Outcome Five⁽⁴⁾ | 202,427 | 224,629 | 22,202 | 248,153 | 259,467 | 279,644 |

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 103).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Other revenues include interest and dividends.
4. Cross reference to Chart 5.a and Table 5.b.

Table 5.5.2: Breakdown of Outcome Five by Output

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|---|----------------------------------|-----------------|--------------------------|------------------|------------------|------------------|
| | 2006-07 | 2006-07 | | 2007-08 | 2008-09 | 2009-10 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Output 5.1 – International Policy, Activities and Engagement | 162,079 | 179,237 | 17,158 | 200,126 | 209,797 | 226,791 |
| Output 5.2 – Strategic Policy and Military Strategy | 40,348 | 45,392 | 5,044 | 48,028 | 49,670 | 52,853 |
| Net Cost of Outcome Five⁽³⁾ | 202,427 | 224,629 | 22,202 | 248,153 | 259,467 | 279,644 |

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 104).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Cross reference to Table 5.5.1.

Output Structure for Outcome Five

OUTPUT 5.1 – INTERNATIONAL POLICY, ACTIVITIES AND ENGAGEMENT

This output provides 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 security issues as they arise. It also applies strategic policy guidance to assist the development of recommendations to the Government on international engagement activities and initiatives.

Performance Targets

- Provide the Government with comprehensive and timely policy advice on current and emerging international Defence issues.
- Manage Defence's international engagement activities to support Australia's efforts to promote regional and global security.
- Ensure Defence's overseas representatives contribute to the effective management of Australia's defence interests in the context of overall bilateral relationships.
- Achieve the Defence Cooperation Program.

OUTPUT 5.2 – STRATEGIC POLICY AND MILITARY STRATEGY

This output provides input into the development of Defence strategic reviews and updates; policy advice on national, defence and military strategy; guidance for the development of long-term defence capability; defence aspects of non-proliferation and arms control; and advice and management of export controls for defence and dual use items.

Performance Targets

- Provide the Government and Defence with comprehensive and timely strategic policy advice on current and emerging strategic issues in the international, national and domestic environment that affect Defence.
- Provide comprehensive and timely advice to the Government and Defence on military strategy and future military concepts that reflect the changing strategic environment.
- Provide comprehensive and timely advice to the Government and Defence on proliferation issues and administer counter-proliferation and export control activities as required by legislation.
- Provide the Government and Defence with improved policy input to the whole-of-government domestic security and counter-terrorism programs.
- Develop and enhance Defence's policy workforce.

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 objectives are enhanced through assistance to regional security forces in the areas of strategic planning, education and training, command and control, infrastructure, counter-terrorism, communications and logistic support. A key element of the Defence Cooperation Program is the Pacific patrol boat program, through which ongoing support is provided to the participating 12 nations, to whom Australia has provided 22 vessels. The program is designed to help Pacific island countries improve their ability to independently police their maritime zones.

Through assisting the development of professional and sustainable Defence Forces in the region, the Defence Cooperation Program is improving the ability of regional countries to contribute to national and regional security objectives. Two important areas of focus are the development of the East Timor Defence Force and the Papua New Guinea Defence Reform Program. Australian assistance includes ADF advisers, a range of training initiatives and bilateral exercises, capacity building initiatives, and equipment and infrastructure projects.

A breakdown of the \$77.963m allocated to the program in 2006-07 is shown in Table 5.5.3.

Table 5.5.3: Defence Cooperation Funding

| | Estimated Actual 2005-06 \$m | Budget Estimate 2006-07 \$m |
|--|------------------------------------|-----------------------------------|
| Papua New Guinea⁽¹⁾ | 17.795 | 16.346 |
| South Pacific | | |
| Timor-Leste | 6.749 | 5.828 |
| Vanuatu | 1.508 | 1.808 |
| Solomon Islands | 2.220 | 3.131 |
| Tonga | 1.442 | 1.604 |
| Western Samoa | 2.300 | 0.726 |
| Cook Islands | 0.322 | 0.358 |
| Fiji | 4.600 | 4.416 |
| Marshall Islands | 0.819 | 0.792 |
| Federated States of Micronesia | 0.867 | 0.910 |
| Tuvalu | 0.719 | 0.755 |
| Kiribati | 0.615 | 0.665 |
| Palau | 0.748 | 0.981 |
| Multilateral General Assistance ⁽²⁾ | 11.500 | 13.564 |
| Subtotal | 34.409 | 35.538 |
| South-East Asia | | |
| Singapore | 0.205 | 0.285 |
| Philippines | 3.000 | 2.344 |
| Thailand | 2.916 | 3.185 |
| Malaysia | 4.348 | 4.665 |
| Indonesia | 4.800 | 5.064 |
| Vietnam | 1.622 | 2.259 |
| Cambodia and Laos | 1.078 | 1.109 |
| Brunei | 0.036 | 0.039 |
| Subtotal | 18.005 | 18.950 |
| Other regional activities | 6.891 | 7.129 |
| Total | 77.100 | 77.963 |

Notes

1. Includes funding for the second tranche of the Papua New Guinea Defence Force reform program of \$5.645m in 2005-06 and \$4.225m in 2006-07.
2. Predominantly relates to support of the Pacific patrol boat program, 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 collects and produces intelligence, undertakes analysis and develops assessments to support the planning and conduct of ADF operations, Defence policy making and planning, capability development, and wider Government decision-making.

Defence's intelligence functions include:

- maintenance of intelligence capabilities, including skilled 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 and counter-proliferation efforts.

Significant progress has been made by the Defence intelligence agencies in implementing the recommendations of the 2004 Flood Report *Inquiry into Australian Intelligence Agencies*. Defence had the lead on three and provided input to 13 of the 23 recommendations made in the Flood Report. The recommended legislative changes have been enacted, and the *Intelligence Services Act 2001* amendment of 2005 now outlines the Defence Imagery and Geospatial Organisation's roles, functions and ministerial accountabilities on a legislative basis. The Defence Intelligence Organisation has also been included in the amendment to the extent that its activities are now able to be scrutinised by the Parliamentary Joint Committee on Intelligence and Security.

In relation to the 13 other recommendations, the Defence intelligence agencies have worked to develop a comprehensive customer engagement strategy with the Defence Imagery and Geospatial Organisation, promulgate a revised mandate for Defence Intelligence Organisation, establish the Foreign Intelligence

Coordination Committee and to enact legislative amendments to bring the Defence Imagery and Geospatial Organisation under the *Intelligence Services Act 2001* and extend the mandates of both the Parliamentary Joint Committee on Intelligence and Security and the Inspector-General of Intelligence and Security.

PLANNED PERFORMANCE

The collection and production of intelligence is critical to Australia's strategic position in a complex and rapidly changing international political and security environment. Defence intelligence is focused on the following key performance areas:

- producing quality intelligence and products to inform Government policy and planning and to underpin the development of future ADF capability;
- providing responsive and comprehensive intelligence support for the planning and conduct of ADF operations;
- providing, in conjunction with the wider Australian Intelligence Community, support to whole-of-government initiatives to address trans-national crimes including terrorism, proliferation, the illegal exploitation of our natural resources, and the illegal trafficking of people, arms and illicit drugs; and
- developing a strong and adaptable intelligence capability through the recruitment and retention of highly competent, professional staff, the exploitation of new technology, and the strengthening of the mutually beneficial intelligence relationship with the United States and with other international intelligence partners.

Work on the implementation of the Flood Report recommendations will be ongoing throughout 2006-07. Of the Defence-led recommendations, only minor action remains outstanding. These relate to the upgrade of the Defence Intelligence Organisation's desktop environment, the review of ADF command and control arrangements and the shortfall of ADF staffing levels. In addition, an ongoing review of language skills is being undertaken both within Defence and the wider Australian Intelligence Community, to ensure efficient use of existing linguist resources.

KEY RISKS AND LIMITATIONS

Defence's ability to preserve its capability edge in intelligence collection, production 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.

The environment in which Defence operates is dynamic and demands that key intelligence priorities, requirements and capabilities be reviewed regularly.

RISK MITIGATION

Strategies have been developed to mitigate these risks. These include carefully targeted capital investment programs, strengthening agency partnerships, an increased customer focus, the implementation of a security renewal agenda, and development of business continuity plans. Given the reliance on experienced personnel, Defence has increased and broadened its recruitment strategies through programs such as indigenous cadets, targeted university recruitment drives, participation in the Australian Intelligence Community careers road show and greater incentives for staff with specific language and technical talents. Detailed personnel development programs have also been implemented.

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 collection and imagery intelligence capabilities, enhanced geospatial information systems and improved intelligence processing and dissemination systems. These initiatives will assist in meeting increased requirements for intelligence support.

Performance Targets

- Provide quality intelligence products and services.
- Ensure effective and sustainable intelligence support for the planning and conduct of ADF operations and for decision makers.
- Maintain and develop first-rate defence intelligence and geospatial information capabilities.
- Maintain the knowledge edge by exploiting new technology.
- Strengthen the intelligence contribution to the United States alliance, and to relationships with other intelligence partners.
- Improve investment and capability planning, accountability and resource and security management.
- Develop motivated, adaptable and skilled teams of highly competent professionals.

Cost Summary for Outcome Six

TOTAL BUDGETED PRICE TO THE GOVERNMENT

Table 5.6.1: Outcome Six – Intelligence

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|--|----------------------------------|-----------------|--------------------------|------------------|------------------|------------------|
| | 2006-07 | 2006-07 | | 2007-08 | 2008-09 | 2009-10 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| INCOME | | | | | | |
| Revenue | | | | | | |
| Goods and Services | -4,793 | -10,037 | -5,244 | -10,242 | -10,487 | -10,502 |
| Other Revenue ⁽³⁾ | -5,270 | -925 | 4,344 | -929 | -935 | -1,458 |
| Total Revenue | -10,062 | -10,962 | -900 | -11,172 | -11,422 | -11,960 |
| Gains | | | | | | |
| Reversals of previous asset write-downs | -26 | -1,253 | -1,226 | -1,826 | 1,444 | 1,444 |
| Net gains from sale of assets | - | - | - | - | - | - |
| Total Gains | -26 | -1,253 | -1,226 | -1,826 | 1,444 | 1,444 |
| Total Income | -10,089 | -12,215 | -2,126 | -12,998 | -9,979 | -10,517 |
| Operating Expenses | | | | | | |
| Employees | 227,571 | 227,441 | -129 | 238,622 | 243,841 | 258,083 |
| Suppliers | 184,357 | 184,638 | 281 | 193,750 | 239,433 | 255,292 |
| Grants | 131 | 143 | 12 | 20 | 20 | 20 |
| Depreciation and Amortisation | 64,642 | 65,237 | 595 | 73,799 | 72,929 | 95,380 |
| Finance Cost | 756 | 590 | -166 | 503 | 414 | 424 |
| Write-down and impairment of assets | 26 | 1,155 | 1,128 | 1,324 | -26 | -26 |
| Net losses from sale of assets | - | - | - | - | - | - |
| Other expenses | 101 | -3 | -104 | 42 | 42 | 42 |
| Total Expenses | 477,584 | 479,201 | 1,617 | 508,060 | 556,652 | 609,216 |
| Net Cost of Outcome Six⁽⁴⁾ | 467,495 | 466,986 | -509 | 495,062 | 546,674 | 598,699 |

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 105).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Other revenues include interest and dividends.
4. Cross reference to Chart 5.a and Table 5.b.

Table 5.6.2: Breakdown of Outcome Six by Output

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|--|----------------------------------|-----------------|--------------------------|------------------|------------------|------------------|
| | 2006-07 | 2006-07 | | 2007-08 | 2008-09 | 2009-10 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Output 6.1 – Intelligence | 467,495 | 466,986 | -509 | 495,062 | 546,674 | 598,699 |
| Net Cost of Outcome Six⁽³⁾ | 467,495 | 466,986 | -509 | 495,062 | 546,674 | 598,699 |

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 106).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Cross reference to Table 5.6.1.

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 Support Services for Current and Retired Defence Personnel

Output 7.2 Housing Assistance for Current Defence Personnel

Output 7.3 Other Administered Revenues and Expenses

Administered Activities

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.

The outcome delivers three outputs, as described below.

Output 7.1 – Superannuation Support Services for Current and Retired Defence Personnel, provides for the administered costs associated with superannuation services provided to current and retired Defence personnel under the Defence Force Retirement and Death Benefits Scheme and the Military Superannuation and Benefits Scheme. These schemes are managed on Defence’s behalf by ComSuper.

Output 7.2 – Housing Assistance for Current Defence Personnel, deals with the administered costs associated with housing assistance. This output covers dividends received from the Defence Housing Authority (DHA), the Defence housing subsidy payments, and any other administered items relating to military personnel housing assistance that may occur.

In 2006-07, Defence and the DHA will complete the seventh year of a 10-year agreement for the delivery of housing services to ADF members. The overall aim of the DHA is to provide a single point for housing and re-location services to ADF members and their families including housing assistance provided for current and retired Defence personnel under the Defence Home Owner Scheme. This scheme provides a subsidy of the interest payable on a home loan for

members of the ADF and is covered by the *Defence Force (Home Loans Assistance) Act 1990*.

Output 7.3 – Other Administered Revenues and Expenses, includes interest received on official bank accounts maintained by Defence to support its activities, interest received from the United States Government on foreign military sales advances, United Nations revenues and receivables, and associated net foreign exchange losses and gains.

Cost Summary for Outcome Seven

TOTAL BUDGETED PRICE TO THE GOVERNMENT

Table 5.7.1: Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|---------------------------------------|----------------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2006-07 | 2006-07 | | 2007-08 | 2008-09 | 2009-10 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Administered Revenues | | | | | | |
| Revenue | | | | | | |
| Non-taxation | | | | | | |
| Goods and Services | - | - | - | - | - | - |
| Interest | -2,500 | -3,000 | -500 | -3,000 | -3,000 | -3,000 |
| Dividends | -19,079 | -73,912 | -54,833 | -65,517 | -65,444 | -64,752 |
| Military superannuation contributions | -682,475 | -659,000 | 23,475 | -659,000 | -659,000 | -659,000 |
| Total Non-taxation | -704,054 | -735,912 | -31,858 | -727,517 | -727,444 | -726,752 |
| Total Administered Revenues | -704,054 | -735,912 | -31,858 | -727,517 | -727,444 | -726,752 |
| Administered Expenses | | | | | | |
| Housing subsidies | 10,000 | 10,000 | - | 10,000 | 10,000 | 10,000 |
| Retention benefits | 30,100 | 46,000 | 15,900 | 46,000 | 46,000 | 46,000 |
| Military Superannuation benefits | 2,576,000 | 2,576,000 | - | 2,657,000 | 2,745,000 | 2,837,000 |
| Total Administered Expenses | 2,616,100 | 2,632,000 | 15,900 | 2,713,000 | 2,801,000 | 2,893,000 |
| Net Cost of Outcome Seven | 1,912,046 | 1,896,088 | 15,958 | 1,985,483 | 2,073,556 | 2,166,248 |

Note

- As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 108).
- The variation figures are the difference between the Previous Estimate and the Budget Estimates.

Table 5.7.2: Breakdown of Outcome Seven by Output

| | Previous Estimate ⁽¹⁾ 2006-07 \$'000 | Budget Estimate 2006-07 \$'000 | Variation ⁽²⁾ \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|---|--|---|------------------------------------|--|--|--|
| Output 7.1 – Superannuation Support Services for Current and Retired Defence Personnel | 1,923,625 | 1,963,000 | 39,375 | 2,044,000 | 2,132,000 | 2,224,000 |
| Output 7.2 – Housing Assistance for Current and Retired Defence Personnel | -9,079 | -63,912 | -54,833 | -55,517 | -55,444 | -54,752 |
| Output 7.3 – Other Administered Revenues and Expenses | -2,500 | -3,000 | -500 | -3,000 | -3,000 | -3,000 |
| Net Cost of Outcome Seven | 1,912,046 | 1,896,088 | -15,958 | 1,985,483 | 2,073,556 | 2,166,248 |

Note

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 109).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimates.

SIGNIFICANT VARIATIONS

Revenues administered on behalf of the Government will increase by \$31.9m mainly due to:

- increased housing dividends representing the updated estimate of Dividend that Defence is expecting to receive from DHA (+\$54.8m); and
- revised military superannuation contributions to more accurately reflect estimates, including for lower than expected ADF employee numbers (-\$23.5m).

Expenses administered on behalf of the Government will increase by \$15.9m from \$2,616.1m to \$2,632.0m at budget time 2006-07. This represents an increase of 0.6 per cent. This variation is due to Retention Benefits estimate adjustment to better reflect the expected level of take up of the benefit in 2006-07 based on updated projections (+\$15.9m).

TABLE OF EXPLANATIONS OF SIGNIFICANT VARIATIONS ACROSS DEFENCE OUTCOMES

Table 5f: Explanation of Significant Variations Across Defence Outcomes⁽¹⁾

| Explanation of Variations | Outcome \$m | | | | | | Total |
|--|-------------|-------------|--------------|-------------|------------|-------------|-------------|
| | One | Two | Three | Four | Five | Six | |
| Employees | | | | | | | |
| Funding for a continuation of operations in Iraq | 105.3 | - | - | - | - | - | 105.3 |
| An increase in reserve salaries and allowances due to new measures announced in the 2006-07 Budget in relation to Reserves Remuneration | - | 4.0 | 21.6 | 10.5 | - | - | 36.1 |
| A reduction in military employee numbers and changes in rank profile and per capita rates | -2.5 | -11.0 | -64.3 | -2.0 | -0.7 | -1.5 | -82.0 |
| Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns | -21.2 | 18.7 | -9.5 | 3.8 | 6.9 | 1.4 | - |
| Variation Employees | 81.6 | 11.7 | -52.2 | 12.3 | 6.2 | -0.1 | 59.4 |
| Suppliers | | | | | | | |
| Increase for a continuation of operations in Iraq | 159.1 | - | - | - | - | - | 159.1 |
| Increased inventory consumption as a result of increased fuel prices and changes in purchasing and consumption patterns | - | 45.4 | 47.7 | 46.8 | - | - | 140.0 |
| Defence Capability Plan funding brought forward from beyond the forward estimates | 5.4 | 29.5 | 31.0 | 30.4 | 2.0 | 4.3 | 102.6 |
| Additional expenditure associated with work undertaken under the Defence Integrated Distribution System contract on behalf of the Defence Materiel Organisation, not included in previous cost estimates | 4.3 | 23.6 | 24.8 | 24.3 | 1.6 | 3.5 | 82.0 |
| Revision to price parameters reflecting a net increase in the forecast non-farm gross domestic product deflator of approximately 0.6 per cent in 2006-07 | 3.9 | 21.4 | 22.5 | 22.1 | 1.4 | 3.1 | 74.5 |
| Funding for Operation Slipper | 71.2 | - | - | - | - | - | 71.2 |
| A higher proportion of property, plant and equipment expenditure classified as operating rather than capital | 2.4 | 13.2 | 13.9 | 13.7 | 0.9 | 1.9 | 46.1 |

| Explanation of Variations | Outcome \$m | | | | | | |
|--|--------------|--------------|--------------|--------------|-------------|------------|--------------|
| | One | Two | Three | Four | Five | Six | Total |
| Additional expenses for project related work undertaken by the Defence Science and Technology Organisation on behalf of the Defence Materiel Organisation | 1.3 | 7.2 | 7.5 | 7.4 | 0.5 | 1.1 | 25.0 |
| Increased patrol of maritime approaches | - | 23.5 | - | - | - | - | 23.5 |
| Funding for the Hardened and Networked Army initiative (operating component) | - | - | 21.2 | - | - | - | 21.2 |
| Additional funding for logistics sustainment of the Naval Aviation fleet | - | 19.3 | - | - | - | - | 19.3 |
| Disposals costs associated with the 2006-07 Property Disposal Program | 0.9 | 5.0 | 5.3 | 5.2 | 0.3 | 0.7 | 17.4 |
| Continuation of Operation Relex II beyond 30 June 2006 (operating component) | 9.7 | - | - | - | - | - | 9.7 |
| Purchase of Boeing C-17 Globemaster III aircraft to enhance Defence's heavy airlift capability (operating component) | - | - | - | 6.2 | - | - | 6.2 |
| Defence's contribution to Australian Fisheries and Maritime Surveillance | 5.0 | - | - | - | - | - | 5.0 |
| Increased funding associated with changes in intelligence priorities | - | - | - | - | - | 0.6 | 0.6 |
| Enhancements to the connectivity of the Australian Intelligence Community | - | - | - | - | - | 0.3 | 0.3 |
| Reclassification of funding to Grants | - | -0.1 | -0.2 | -0.1 | - | - | -0.4 |
| Broadening of the Efficiency Dividend | -0.2 | -1.3 | -1.4 | -1.3 | -0.1 | -0.2 | -4.5 |
| Reduced expenditure due to savings achieved in a communications project | - | - | - | - | - | -35.0 | -35.0 |
| Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns | -40.1 | -6.8 | 17.8 | 1.0 | 8.3 | 19.9 | - |
| Variation Suppliers | 222.9 | 179.9 | 190.1 | 155.6 | 14.9 | 0.3 | 763.8 |
| Grants | | | | | | | |
| Variation in grant funding of \$0.4m due to timing issues associated with the grant to be provided to the Livingstone Shire Council and a new grant to support the Operation Aussie Home Initiative. | - | 0.1 | 0.2 | 0.1 | - | - | 0.4 |
| Variation Grants | - | 0.1 | 0.2 | 0.1 | - | - | 0.4 |

| Explanation of Variations | Outcome \$m | | | | | | |
|---|-------------|--------------|--------------|--------------|-------------|-------------|---------------|
| | One | Two | Three | Four | Five | Six | Total |
| Finance Costs | | | | | | | |
| Decreased finance costs following buy-out in 2005-06 of Defence Housing Authority annuities | -0.7 | -3.0 | -5.5 | -2.9 | -0.1 | -0.2 | -12.3 |
| Variation Finance Costs | -0.7 | -3.0 | -5.5 | -2.9 | -0.1 | -0.2 | -12.3 |
| Write Down of Assets and Impairment of Assets | | | | | | | |
| Increased write-down of assets and impairment of assets as a result of planned stock-taking and audit remediation activities | 1.9 | 14.6 | 38.5 | 70.9 | 0.5 | 1.1 | 127.5 |
| Variation Write Down of Assts and Impairment of Assets | 1.9 | 14.6 | 38.5 | 70.9 | 0.5 | 1.1 | 127.5 |
| Revenue from Sale of Goods and Services | | | | | | | |
| Reclassification from Other Revenue for military employee revenue received from the Defence Materiel Organisation | 1.5 | -42.0 | -59.4 | -59.8 | -5.4 | 1.4 | -163.8 |
| Additional revenue received from the Defence Materiel Organisation associated with the Defence Integrated Distribution System contract and additional maintenance revenue, which had not been included in the original cost estimates | 0.7 | -21.0 | -29.7 | -33.5 | 0.8 | 0.7 | -82.0 |
| Additional revenue received from the Defence Materiel Organisation for project related work undertaken by the Defence Science and Technology Organisation | 0.2 | -6.4 | -9.1 | -10.2 | 0.2 | 0.2 | -25.0 |
| Revision to the price parameter estimates reflecting a net increase in the forecast non-farm gross domestic product deflator of approximately 0.6 per cent in 2006-07 | - | -0.4 | -0.6 | -0.7 | - | - | -1.6 |
| Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns | -11.8 | -7.7 | 9.0 | 19.2 | -1.1 | -7.6 | - |
| Variation Sale of Goods and Services | -9.4 | -77.6 | -89.7 | -84.9 | -5.5 | -5.2 | -272.4 |

Table of Significant Variations

| Explanation of Variations | Outcome \$m | | | | | | |
|---|-------------|-------------|--------------|--------------|-------------|-------------|---------------|
| | One | Two | Three | Four | Five | Six | Total |
| Other Revenue | | | | | | | |
| Decreased other revenue primarily as a result of a realignment of military employee revenue received from the Defence Materiel Organisation to Sale of Goods and Services | 8.7 | 39.1 | 69.3 | 37.5 | 2.4 | 5.4 | 162.4 |
| Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other minor variations | -0.8 | -3.8 | -4.9 | 5.5 | 5.2 | -1.1 | - |
| Variation Other Revenue | 7.9 | 35.2 | 64.4 | 43.0 | 7.6 | 4.3 | 162.4 |
| Reversals of Previous Asset Write Downs | | | | | | | |
| Increased write-downs as a result of planned stock-taking and audit remediation activities | -7.0 | -8.2 | -13.2 | -96.9 | -1.0 | -1.2 | -127.5 |
| Variation Reversals of Previous Asset Write Downs | -7.0 | -8.2 | -13.2 | -96.9 | -1.0 | -1.2 | -127.5 |

Note

1. Cross reference to Table 2.6 and pages 30-33 in Defence Chapter Two – Resourcing.

DEFENCE

CHAPTER SIX

MANAGEMENT REFORMS

AND EFFICIENCIES

**CAPABILITY DEVELOPMENT AND ACQUISITION
REFORMS**

DEFENCE INFORMATION ENVIRONMENT REFORMS

**FINANCIAL REFORMS INCLUDING FINANCIAL
STATEMENTS REMEDIATION PLANS**

DELIVERING INTERNAL SERVICES

OTHER MANAGEMENT REFORMS

Review of Defence Health Services

Education and Training

PORTFOLIO EVALUATIONS

CAPABILITY DEVELOPMENT AND ACQUISITION REFORM

Implementation by Defence and the Defence Materiel Organisation (DMO) of the recommendations of the *Defence Procurement Review 2003* (the Kinnaird review) is about 80 per cent complete. The following work is scheduled to continue the implementation:

- in relation to the annual provision of information which allows the Government to assess the consequences of strategic decisions for Defence capability (Recommendation 1), mature processes are expected to be in place by December 2006;
- in relation to strengthening the two-pass process for considering new materiel capabilities (Recommendation 3), the new processes will continue to be embedded and improvements will be sought in the consistency of information provided to support decision-making. The refined capability development processes are set out in the recently published Defence Capability Development Manual 2006. The initiatives planned for 2006-07 include:
 - improving cost and schedule estimation. A coaching and support team within a centre of excellence has been established and they continue to develop improved training, tools and processes to help project teams develop the fundamental data under-pinning capability business cases,
 - integration of capability development activities will be supported by the development and publishing of Capability Roadmaps. A number of these are under development during 2006-07 and where appropriate, unclassified versions will be published,
 - evaluating the trial results of the Rapid Prototyping Development and Evaluation program. The program aims to improve networked operational capabilities by accelerating change through Defence and Industry collaboration to solve operational problems,
 - continuation of embedding of DMO personnel in the Capability Development Group to provide immediate and close support to capability developers, and
 - engaging industry through the Rapid Prototyping Development and Evaluation program, critical industry studies and the Capability Development Advisory Forum,
- the Defence Procurement Advisory Board (Recommendation 5) will continue until at least March 2007;
- the purchaser-provider arrangements which are at the heart of the more business-like relationship between Defence and DMO (Recommendation 6)

will be improved to ensure, in terms of acquisition of new capabilities, the timely development of agreements between the two agencies and, in terms of sustainment of existing capabilities, the development of more robust performance measures and reporting; and

- the effectiveness of the policy on military staffing within DMO is scheduled for review in 2006.

DEFENCE INFORMATION ENVIRONMENT REFORMS

The Chief Information Officer Group manages the Defence information environment, ensuring proper coordination of all initiatives that contribute to, or depend on, the Defence information infrastructure. The Group is accountable for planning and delivering secure, dependable and integrated information infrastructure to support business and military operations.

The Group's structure incorporates the following elements:

- Information Capability Management Division, responsible for delivering the Defence information environment as a global end-to-end capability including the provision of satellite communications, electromagnetic spectrum and networks to support military operations. The head of the Division is the principal strategic adviser to the Chief of the Defence Force and Chief of Joint Operations on communications and information systems and the electromagnetic spectrum;
- Information Systems Division, responsible for the development of the major Defence networks and most enterprise applications that support Defence management processes. The Defence information architect provides support for all other information infrastructure development affecting Defence's major networks; and
- Business Management Branch, providing portfolio-level resource and contract management services for the Defence information environment, and provides governance and financial management services to the Group.

Initiatives for 2006-07

During 2006-07, the Chief Information Officer Group will continue to reform and strengthen its relationship with industry. Technical controls are being improved to support simplification and optimisation of information infrastructure development and service delivery, to ensure best value-for-money from Defence's investment in its information environment. Strategic planning for the Defence information environment is being aligned with broader strategic planning and force development processes. Improvements in customer satisfaction are being pursued through closer alignment of information systems service delivery functions of the Chief Information Officer Group and Corporate Services and Infrastructure Group.

CONSOLIDATION OF THE GROUP

The Chief Information Officer Group will continue to mature the structures and processes needed to realise the benefits of bringing together Defence's information management in to a single Group. In particular, the Group will:

- complete the integration of personnel and financial management systems, applications development and support resources transferred from the Defence Personnel Executive and Chief Finance Officer Groups;
- undertake a program of restructuring and business transformation of the Information Systems Division to provide the skills and capacity to meet Defence's demands for expansion of information systems capability;
- build on existing Group, portfolio and whole-of-government information technology workforce skilling and development programs; and
- implement the maturing group Quality Management System to continue to improve process clarity, efficiency and discipline, and ability to demonstrate process compliance.

DELIVERING BEST VALUE FROM DEFENCE INVESTMENT IN THE DEFENCE INFORMATION ENVIRONMENT

The Chief Information Officer Group will further strengthen governance arrangements across Defence to ensure investment in the information environment accords with Defence plans and priorities, including:

- continuing a program of rationalisation of the number of applications in use in the Defence information environment;
- refining methods of routinely reporting on Defence information environment investment and expenditure; and
- continuing the upgrade of core enterprise resource planning applications while implementing enterprise business technology to support improved process integration and data quality.

ALIGNMENT OF DEFENCE AND DEFENCE INFORMATION ENVIRONMENT PLANS

The information environment supports the business needs of Defence Groups and Services and therefore its plans must be linked to those of the business owners.

Specific initiatives for 2006-07 include:

- completing the initial set of Defence information environment strategic planning products, contributing to the revised Defence strategic planning framework, and maturing the Chief Information Officer Group interface to Defence's capability development process.
- improving the connection between Defence business, information and communications technologies planning through the Defence Enterprise

Systems Steering Group and Information Capability Investment Committee;
and

- improving long-term planning processes to ensure that the future capacity expectations of the Defence information infrastructure will be met by the assigned resources.

IMPROVE CUSTOMER SATISFACTION

The Chief Information Officer Group will continue to engage with Defence customers and stakeholders so that resource limitations are recognised and the work that the Group undertakes is delivered to agreed standards and within budget and schedule.

Specific initiatives for 2006-07 include:

- consolidating the arrangements for recently outsourced information technology support services;
- improving the clarity of technical controls applying across all agencies involved in management of Defence's information infrastructure;
- deliver active end-to-end measurement capability in terms of the customer experience of application availability, responsiveness and reliability; and
- develop formal processes and performance agreements with the Corporate Services and Infrastructure Group to ensure properly coordinated end-to-end delivery performance.

FINANCIAL REFORMS INCLUDING FINANCIAL STATEMENTS REMEDIATION PLANS

Defence continues to progress a range of improvements to its financial management and business systems and processes, although more work is still required. Defence is currently working through 95 Australian National Audit Office 2003-04 audit findings, and 46 Australian National Audit Office 2004-05 audit findings, some of which are under negotiation between Defence and the Australian National Audit Office.

Important initiatives that have been established include the:

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

Defence has resolved 38 of the 95 2003-04 audit findings and two of the 2004-05 audit findings in 2004-05, but enduring improvements may take some years.

Progress against the Financial Statements Remediation Plans is detailed in Table 6.1.

Table 6.1: Status of Financial Statements Remediation Plans

| Remediation Plan | Activity | Major Outcomes |
|--|---|---|
| <p>G1: Financial Reporting Framework</p> <p>The Defence financial management system has been subject to many Australian National Audit Office findings over a period of years. The aim of this remediation activity is to provide a best practice financial management framework for Defence. For each of the key Balance Sheet elements the framework will comprise the key policies, processes, skilling requirements, risk assessments, controls identification and procedures against which ongoing conformance monitoring and performance assessment will be undertaken. An ongoing maintenance and monitoring regime will be instituted to ensure that the framework remains current into the future.</p> <p>Accountable officer: Chief Finance Officer</p> | <p>Document, prioritise and commence remediation of the known control deficiencies and issues identified by:</p> <ol style="list-style-type: none"> management; internal audit; and external audit. <p>Develop and implement financial management training tailored to the business needs of Defence.</p> <p>Implement a robust financial risk management regime in Defence.</p> | <p>Achieved in 2005-06:</p> <ol style="list-style-type: none"> identified gaps in existing policies, processes and procedures; financial training courses developed and introduced for: <ol style="list-style-type: none"> Senior Leadership Group, senior officers, induction training, and Modernised Enterprise Systems training; development of financial management modules aligned to Certificate and Diploma qualifications commenced; and e-learning module for financial delegations training developed. <p>Planned for 2006-07:</p> <ol style="list-style-type: none"> identify and document the key financial controls required in each of the key Balance Sheet areas; develop a financial risk management system across Defence; delivery of financial management modules aligned to Certificate and Diploma qualifications; complete modernisation of Enterprise Systems training; expand financial management induction training; and remediate remaining financial reporting framework audit findings. |

| Remediation Plan | Activity | Major Outcomes |
|--|---|---|
| <p>G2: Improving the Australian National Audit Office Annual Audit Process</p> <p>Having clear agreement with the Australian National Audit Office on timelines, methodologies and expectations of deliverables from both parties is crucial to the finalisation of the annual financial statements.</p> <p>Accountable officer: First Assistant Secretary Financial Services</p> | <p>Establish an accountable officer to manage audit activities between Defence and the Australian National Audit Office. Key tasks include:</p> <ul style="list-style-type: none"> a. established Defence Audit Liaison Officers to facilitate the efficient and effective management of the audit; b. producing position papers on audit issues; and c. established comprehensive procedures for quality assurance and clearing audit findings. | <p>Achieved in 2005-06:</p> <ul style="list-style-type: none"> a. cleared 38 Australian National Audit Office findings from 2003-04 and earlier; b. commenced remediation of 2004-05 audit findings; c. cleared two 2004-05 audit findings; and d. developed further improvements in the relationship between Defence and the Australian National Audit Office. <p>Planned for 2006-07:</p> <ul style="list-style-type: none"> a. maintain a successful working relationship between Defence and the Australian National Audit Office; and b. this Plan is to be ongoing. |

| Remediation Plan | Activity | Major Outcomes |
|---|---|--|
| <p>G3: Financial Management and Systems Training – Financial and Business Management</p> <p>A consistent theme in the Australian National Audit Office audit findings is the requirement for enhanced skills in the execution of financial management procedures and adherence to approved procedures in the use of Defence corporate information technology systems. The Australian National Audit Office makes some targeted recommendations with regard to enhanced training to address the lack of knowledge in accounting, financial and business management (ROMAN), transactor knowledge (PMKeyS), and the Standard Defence Supply System (SDSS). These are complemented by a number of other observations about failures in the application of policy and procedures.</p> <p>Accountable officers: Chief Finance Officer and Director-General Defence Education and Training Development</p> | <p>Develop, conduct and deliver business capability workshops to improve officers' underpinning knowledge and skills:</p> <ol style="list-style-type: none"> accrual accounting; Diploma of Government (Financial Management); Graduate Certificate in Professional Management (Finance); and financial management for Senior Executive Service and Executive Level 2 officers and ADF equivalents. | <p>Achieved 2005-06:</p> <ol style="list-style-type: none"> developed stronger links between training and systems access (PMKeyS Assessment Strategy 30 December 2005) modularised training delivery (PMKeyS training for both Civilian and ADF December 2005) established Key Performance Indicator and metrics for measuring and analysing training effectiveness. Initial ROMAN course evaluation completed October 2005. PMKeyS course evaluations commenced January 2006. These evaluations are the first components of a three year rolling evaluation program; financial management training introduced for Executive Level 2 officers and military equivalents; and implemented induction level financial courses. <p>Planned for 2006-07</p> <ol style="list-style-type: none"> develop stronger links between training and systems access. PMKeyS 'no assessment no access' policy to be introduced 1 July 2006; and modularise training delivery, ROMAN modularisation completed by December 2006. |

| Remediation Plan | Activity | Major Outcomes |
|--|--|---|
| <p>S1: Stores Record Accuracy</p> <p>Defence 'self-qualified' stock quantities relating to general stores inventory and repairable items in 2003-04, and again in 2004-05 following adverse stocktake results.</p> <p>The Australian National Audit Office noted material weaknesses in the internal controls over stocktaking, failure to accurately record and report physical asset quantities, and inadequate system controls to safeguard the accuracy of data. This resulted in a significant range of uncertainty around general stores inventory and repairable items balances.</p> <p>During the 2003-04 systems audit of the SDSS, the Australian National Audit Office indicated that the control and compliance mechanisms were not adequate and therefore do not provide assurance about the data in the system.</p> <p>Accountable officer: Commander Joint Logistics</p> | <p>Remediate the general stores inventory and repairable items qualification by:</p> <ol style="list-style-type: none"> correcting errors in stores record quantities in the SDSS; promulgating and ensuring compliance with stocktaking policy to improve stocktaking practices and reporting; implementation of stronger controls in SDSS; and establishing a sustainable compliance and assurance framework across Defence. | <p>Achieved in 2005-06:</p> <ol style="list-style-type: none"> completed 100 per cent stocktakes at major warehouse sites; enduring cyclic stocktake program in place across Defence; improved reporting to the Defence Audit Committee; requirements for enhanced stocktaking capability in SDSS identified; compliance and assurance framework across Defence agreed; increased accuracy around repairable items and general stores inventory; and progressively implemented stronger IT controls (SDSS IT Controls Framework). <p>Planned for 2006-07:</p> <ol style="list-style-type: none"> implement agreed Compliance and Assurance framework across Defence; sustain and improve IT controls and process compliance; establish a Director General Logistics Assurance capability; achieve further improvements in accuracy; prepare Remediation Plan (S1) closure plan; and completion expected for June 2008. |

| Remediation Plan | Activity | Major Outcomes |
|--|---|--|
| <p>S2: General Stores Inventory Pricing and Accounting</p> <p>The 2003-04 Financial Statements had a limitation of scope qualification of approximately \$2,026m with regard to uncertainty around the general stores inventory balance. The reported uncertainty was reduced to \$1.294 billion in 2004-05 as a result of increases to the provision for obsolescence.</p> <p>An issue was Defence's inability to produce, in a timely manner, invoice and contract documentation to validate the recorded prices in the SDSS. The concerns of the Australian National Audit Office also included the lack of accounting policy in place to ensure the correct treatment of general stores inventory.</p> <p>Inventory pricing issues have been assessed in light of the Australian Equivalent to International Financial Reporting Standards. The implementation of an even more onerous reporting requirement places greater long-term uncertainty across resolution of inventory pricing issues.</p> <p>Accountable officer: Chief Finance Officer, Defence Materiel Organisation</p> | <p>Remediate the general stores inventory pricing and accounting qualification by:</p> <ol style="list-style-type: none"> developing a statistical model to validate legacy (pre-1997) priced items; implementing an exception reporting regime to provide quality assurance; establishing policies and procedures for inventory pricing controls on the SDSS; and establishing policy to ensure the correct treatment of general stores inventory. | <p>Achieved in 2005-06:</p> <ol style="list-style-type: none"> completed major price stratification task. Results identified a range of legacy pricing issues whereby adequate confidence levels were not achieved across certain prices. The stratification work also determined that reliable pricing surrogates were not available to validate or error correct existing legacy prices. Further options were canvassed but were deemed highly resource intensive with no assurance as to an auditable outcome being achieved; completed review of Australian Equivalent to International Financial Reporting Standards (AEIFRS) to determine system and data retention impacts for multiple pricing records. Clarification of the standard was sought from the Australian Accounting Standards Board (AASB); commenced development of the financial framework requirements for inclusion in a replacement logistics system; action is in hand with respect to system controls within the SDSS to improve internal controls over new price information; and refined the detective and management reporting regime that had been introduced to provide a basis for quality assurance reviews of in-year inventory prices. |

| Remediation Plan | Activity | Major Outcomes |
|--|----------|--|
| S2: General Stores Inventory Pricing and Accounting (continued) | | <p data-bbox="1191 344 1405 364">Planned for 2006-07:</p> <ul style="list-style-type: none"> <li data-bbox="1191 373 1704 768">a. the overarching objectives and go forward activity for S2 is under review, to confirm a number of fundamental aspects for inventory accounting including: <ul style="list-style-type: none"> <li data-bbox="1233 475 1629 522">i. confirmation of what items classify as inventory; <li data-bbox="1233 525 1629 572">ii. agree how AEIFRS accounting will be implemented; <li data-bbox="1233 575 1686 595">iii. complete the inventory controls framework; <li data-bbox="1233 598 1704 669">iv. introduce an AEIFRS compliant replacement logistics system beyond 2006-07; and <li data-bbox="1233 672 1704 768">v. continue to monitor and improve business process compliance and system control programs, including pricing aspects, as part of normal ongoing business processes. |

| Remediation Plan | Activity | Major Outcomes |
|--|--|--|
| <p>S3: Supply Customer Accounts</p> <p>A supply customer account is a location indicator within the SDSS used to track and manage assets and accountable inventory moving through the supply chain, predominantly outside a warehouse structure.</p> <p>The 2003-04 financial statements had a limitation of scope qualification with regard to the uncertainty around the repairable items balance, of which supply customer accounts are a subset of \$2.857 billion which was reduced to \$2.722 billion in 2004-05. The Australian National Audit Office concerns rested with the controls and management of supply customer accounts, including repairable items, and adherence to stocktake procedures.</p> <p>Accountable officer: Commander Joint Logistics</p> | <p>Remediate the supply customer account element of the repairable item quantities qualification by:</p> <ol style="list-style-type: none"> allocating all supply customer accounts an accountable owner; ensuring all supply customer account balances on the SDSS are correct; and improving business processes and controls for supply customer accounts. <p>Note: These include improvements to data creation, maintenance and reporting to ensure accurate quantity, ownership and location details are entered and maintained for all supply customer accounts on the SDSS.</p> | <p>Achieved in 2005-06:</p> <ol style="list-style-type: none"> accountable owners identified for all supply customer accounts; stocktakes completed; enduring cyclic stocktake program in place across Defence. Revised the repair vendor supply customer accounts arrangements to improve management and control between repair vendors and system program offices; increased controls and compliance around Supply Customer Accounts; and established an agreed process for verification of items in Supply Customer Accounts held by contractors. <p>Planned for 2006-07:</p> <ol style="list-style-type: none"> close the Remediation Plan S3; achieve Australian National Audit Office agreement to Closure package; and sustain improved business process, IT controls and compliance around Supply Customer Accounts. |

| Remediation Plan | Activity | Major Outcomes |
|--|--|--|
| <p>S4: Explosive Ordnance</p> <p>The 2003-04 financial statements had a limitation of scope qualification of \$845m relating to uncertainty around Explosive Ordnance pricing, which was reduced in 2004-05 to \$309m. At issue was Defence's inability to produce, in a timely manner, invoice and contract documentation to validate the Explosive Ordnance inventory prices recorded in the Explosive Ordnance procurement management system, Computer System Armaments (COMSARM). However for 2004-05, \$147m of the \$309m qualification is under negotiation with the Australian National Audit Office as documentation was available.</p> <p>The remainder of the qualification predominantly relates to direct purchase items and items acquired as part of asset under construction contracts between 1982-2000.</p> | <p>Remediate the Explosive Ordnance inventory pricing qualification by:</p> <ol style="list-style-type: none"> sourcing (where possible) original documentation to substantiate Explosive Ordnance inventory prices; developing tools to substantiate Explosive Ordnance inventory values when appropriate supporting documentation cannot be located to support prices; and improving and integrating Explosive Ordnance inventory accounting and systems management processes. These changes are designed to confirm the accuracy of asset values and enable adherence to financial management standards. | <p>Achieved in 2005-06:</p> <ol style="list-style-type: none"> continued remediation of the remainder of the \$309m Explosive Ordnance inventory pricing qualification; upgraded and conducted validation of the COMSARM Explosive Ordnance management system Graphical User Interface; commenced development of policy and methodologies related to the new Explosive Ordnance provision for obsolescence qualification; produced audit closure packages for nine of the remaining twelve findings including all outstanding COMSARM system findings; and commenced development of methodologies and implementation strategies to ensure COMSARM system compliance with AEIFRS. |
| <p>Accountable Officer: Head Electronic and Weapon Systems Division, Defence Materiel Organisation</p> | | |

| Remediation Plan | Activity | Major Outcomes |
|---|----------|--|
| S4: Explosive Ordnance (continued) | | <p data-bbox="1191 341 1397 364">Planned for 2006-07</p> <ul style="list-style-type: none"> <li data-bbox="1191 373 1658 467">a. continue remediation action on Explosive Ordnance unsupported pricing, provision for obsolescence and assets under construction audit findings; <li data-bbox="1191 477 1696 571">b. CFO Defence to take up the appropriate accounting treatment of the balance of the price unsupported Explosive Ordnance assets with the Australian National Audit Office; and <li data-bbox="1191 580 1595 651">c. continue the improvement in Explosive Ordnance inventory processing and reconciliation policies and procedures. <p data-bbox="1191 661 1696 857">Note: The target date for completing Remediation Plan S4 is uncertain as the audit findings relating to Explosive Ordnance price uncertainty and provision for obsolescence is likely to remain open for the foreseeable future. Development of the integrated management and accounting process to address Explosive Ordnance asset under construction issues is likely to take several years.</p> |

| Remediation Plan | Activity | Major Outcomes |
|--|--|--|
| <p data-bbox="198 444 483 465">S5: Military Leave Records</p> <p data-bbox="198 475 687 619">The 2003-04 financial statements had a limitation of scope for military leave provisions because insufficient supporting documentation was available for leave records and, where documentation was available, unacceptable error rates existed in the recording of leave transactions.</p> <p data-bbox="198 630 630 700">Military long service leave was unqualified in 2004-05. Defence 'self qualified' all other components of military leave for 2004-05.</p> <p data-bbox="198 740 643 787">Accountable officer: Head Defence Personnel Executive</p> | <p data-bbox="715 475 1130 495">Substantiate the military leave balances by:</p> <ul style="list-style-type: none"> <li data-bbox="715 506 1106 553">a. relying on controls where possible to validate balances; and <li data-bbox="715 564 1153 655">b. undertaking substantive testing involving sampling of individual leave balances and analysis of long term personnel and leave balance trends. | <p data-bbox="1191 475 1405 495">Achieved in 2005-06:</p> <ul style="list-style-type: none"> <li data-bbox="1191 506 1686 553">a. provided a basis on which Defence can obtain unqualified leave balances financial statements. <p data-bbox="1191 564 1405 584">Planned for 2006-07:</p> <ul style="list-style-type: none"> <li data-bbox="1191 595 1667 686">a. continue implementation of Defence military leave remediation plans which will be refined through outcomes from sampling and controls review; and <li data-bbox="1191 697 1586 716">b. have fully unqualified leave balances. |

| Remediation Plan | Activity | Major Outcomes |
|---|---|--|
| <p>S6: Civilian Leave Records</p> <p>The 2003-04 financial statements had a limitation of scope for civilian leave provisions because insufficient supporting documentation was available for leave records and, where documentation was available, unacceptable error rates existed in the recording of leave transactions. Defence 'self qualified' civilian annual and long service leave for 2004-05.</p> <p>Accountable Officer: Head Defence Personnel Executive</p> | <p>Substantiate the civilian leave balances by:</p> <ol style="list-style-type: none"> a. relying on controls where possible to validate balances; and b. undertaking substantive testing involving sampling of individual leave balances and analysis of long term personnel and leave balance trends. | <p>Achieved in 2005-06:</p> <ol style="list-style-type: none"> a. provided a basis on which Defence can obtain unqualified leave balances financial statements. <p>Planned for 2006-07:</p> <ol style="list-style-type: none"> a. continue implementation of Defence civilian leave remediation plans which will be refined through outcomes from sampling and controls review; and b. have fully unqualified leave balances. |

| Remediation Plan | Activity | Major Outcomes |
|--|---|--|
| <p>S7: Executive Remuneration</p> <p>The Executive Remuneration Note, containing information pertaining to civilian and military leave provisions, could not be reliably certified because of the concerns over military and civilian leave provisions.</p> <p>Defence continues to focus on improving the accuracy of leave records for the Senior Executive Service and military equivalents by reviewing source documentation. Due to concerns with supporting documentation and unacceptable error rates in overall leave records for both military and civilians, Defence self-qualified the Executive Remuneration Note for 2004-05.</p> <p>Accountable officer: Head Defence Personnel Executive</p> | <p>Remediate the Executive Remuneration Note qualification by:</p> <ol style="list-style-type: none"> a. conducting a 100 per cent audit of all Senior Executive Service and military equivalents leave records for 2005-06; and b. continuing to implement reporting for Executive Remuneration that includes applying quality assurance to business processes, record keeping strategies, reporting structures, relevant policy foundations and training initiatives, and a controls framework. | <p>Achieved in 2005-06:</p> <ol style="list-style-type: none"> a. completed a 100 per cent audit of all Senior Executive Service and military equivalents leave records for 2005-06. <p>Planned for 2006-07:</p> <ol style="list-style-type: none"> a. finalise audit finding. |

| Remediation Plan | Activity | Major Outcomes |
|---|--|--|
| <p>S8: Property Valuations</p> <p>The Australian National Audit Office issued a 'limitation of scope' for land, buildings and infrastructure and other plant and equipment as significant flaws were identified in associated project management, reporting practices and management review functions. The requirements to be met by the Australian Valuation Office were not fully and adequately documented and Defence was considered to have misinterpreted the results of revaluations and incorrectly applied depreciation. A particular consequence has been the misapplication of remaining useful life data provided by the independent valuer. This affected both the valuation adopted by Defence and the reported depreciation expense.</p> <p>For 2004-05 uncertainty existed in relation to the measurement of certain assets with a reported book value of \$103m, reduced from \$1.228 billion in 2003-04.</p> <p>Accountable officer: Deputy Secretary Corporate Services</p> | <p>Remediate the land, buildings and infrastructure and other plant and equipment qualification by:</p> <ol style="list-style-type: none"> revising the Australian Valuation Office engagement letter to clarify valuation policy, procedures and outcomes; contracting the Australian Valuation Office to revalue all land, buildings and infrastructure and other plant and equipment assets to fair value in accordance with policy guidance; undertaking quality assurance on Australian Valuation Office site reports to ensure completeness; entering revaluation data into the financial system (ROMAN) and completing revised depreciation calculations; engaging a valuation contractor for the next three year cycle, i.e. 2005-06 to 2007-08; and fully documenting the revaluation process in Corporate Services Asset Management and Accounting Manual. | <p>Achieved in 2005-06:</p> <ol style="list-style-type: none"> completed the depreciation calculations; completed other plant and equipment valuations for Chief Information Officer and undertake quality assurance of valuation data and load the data into the financial system (ROMAN); finalised tender evaluation and engaged valuation contractor for the next three year cycle (ie 2005-06 to 2007-08); and planned completion for June 2006. <p>Planned for 2006-07</p> <ol style="list-style-type: none"> continue revaluation program in accordance with Defence Instructions. |

| Remediation Plan | Activity | Major Outcomes |
|--|---|---|
| <p>S9: Preventing the Escalation of Category A and B Findings</p> | <p>Prevent the escalation of Category B and C findings by:</p> <ol style="list-style-type: none"> a. assigning responsibility across Defence for remediation of audit findings not already allocated to a remediation plan; b. establishing a project-based management system for tracking and managing resolution of these Australian National Audit Office audit findings; c. undertaking progressive and final quality assurance of the remediation outcomes; and d. reporting to the Financial Statements Project Board and Defence Audit Committee on detailed progress. | <p>Achieved in 2005-06:</p> <ol style="list-style-type: none"> a. 39 audit findings completed and forwarded to Australian National Audit Office for clearance. <p>Planned for 2006-07:</p> <ol style="list-style-type: none"> a. finalise remediation of the remaining 2003-04 audit findings; b. finalise remediation of the remaining 2004-05 audit findings; c. implement strategy for remediating 2005-06 audit findings; and d. continue to actively review and remediate audit issues as they arise. |
| <p>The 2003-04 Financial Statement Closing Audit Report identified 95 findings that required resolution. The 57 audit findings not allocated to a General or Specific Remediation Plan were grouped under Remediation Plan S9 to ensure each finding is remediated. Any audit findings that are not resolved could escalate from Categories B and C to the most serious category, Category A. Defence has recognised the clear need to improve the outcome, focus and management of the implementation of solutions to Australian National Audit Office findings.</p> <p>The audit findings from 2004-05 Financial Statement Audit Report are under consideration by Defence and the position on the findings is being determined.</p> | | |
| <p>Accountable officer: First Assistant Secretary Financial Services</p> | | |

| Remediation Plan | Activity | Major Outcomes |
|---|---|--|
| <p>S10: Stock Holding Controls</p> <p>Items first found are items of either asset or inventory that do not have a corresponding record on any Defence register. Where a check of stock holdings shows that the Defence register record varies from the physical quantity, an investigation into the discrepancy will be required and the outcome may be an adjustment to the Defence Register record, and/or a corresponding financial adjustment.</p> <p>While it is accepted that the normal stock adjustment process will require a certain level of adjustment activity, current levels of adjustment are considered too high and indicate poor adherence to currently approved business processes.</p> <p>Accountable officer: Chief Operating Officer, Defence Materiel Organisation</p> | <p>Improve stock holding controls by:</p> <ol style="list-style-type: none"> a. preventing or reducing the instance of items first found and write-offs; and b. accounting for and monitoring those instances first found and write-offs considered legitimate or expected. <p>Note: The remediation activities will focus on preventing errant transactions on the SDSS through improvements in policy, procedure and system process, and the introduction of investigative reporting to measure compliance.</p> | <p>Achieved in 2005-06:</p> <ol style="list-style-type: none"> a. completed all S10 remediation activities; b. revised and promulgated supply chain policy and procedures relating to lost or damaged items and item tracking; c. strengthened segregation of duties and other controls relating to stock adjustments; d. enhanced controls, monitoring and reporting relating to item tracking, repairable items and receipting discrepancies; and e. closed out the Remediation Plan as internal controls are effective. |

| Remediation Plan | Activity | Major Outcomes |
|---|--|--|
| <p>S11: SDSS Items Not-in-Catalogue</p> <p>Defence is investigating the extent to which items may have been incorrectly accounted for in the Balance Sheet. This may occur when an item is purchased via the ROMAN financial system or through the Defence Purchasing Card (DPC) and then not recorded and managed on the SDSS. Such items are managed and tracked locally with no central visibility. This may lead to the incorrect recording and treatment of an item's value.</p> <p>Accountable officer: Chief Operating Officer, Defence Materiel Organisation</p> | <p>Address the potential Not-in-Catalogue issues as they may affect the financial statements by putting in place measures to prevent and remediate Not-In-Catalogue items. The activities include:</p> <ol style="list-style-type: none"> a. clarifying and simplifying policy directives to better support effective item identification, purchasing and management process, and driving revised processes and procedures to the future incidence of Not-In-Catalogue; b. developing a 'self remediation' methodology for use by units across Defence to ensure financial reconciliation of Not-In-Catalogue items and to transition them into the SDSS. The self-remediation methodology incorporates remediation processes, tools and SDSS functionality enhancements; c. developing and implementing an enhanced compliance monitoring and reporting regime to assist with adherence to new policy and process pertaining to appropriate item identification in SDSS; and | <p>Achieved in 2005-06:</p> <p>Prevention of Not-In-Catalogue:</p> <ol style="list-style-type: none"> a. published new and revised policies supporting S11; b. developed processes and procedures to support updated policies, including the process for assignment of ADF logistics managers; c. trained users in prevention and remediation processes and remediation tools; and d. developed and implemented a compliance monitoring framework to support the appropriate level of item identification in SDSS and to tie in with the SDSS compliance monitoring framework. <p>Remediation of existing Not-In-Catalogue:</p> <ol style="list-style-type: none"> a. identification of the magnitude of Not-In-Catalogue across Defence to enable groups to establish their Not-In-Catalogue remediation priorities; b. developed and implemented a Not-In-Catalogue remediation methodology for use across all sites; c. developed remediation tools to assist Units to conduct their Not-In-Catalogue remediation; and d. established a progress reporting regime. |

| Remediation Plan | Activity | Major Outcomes |
|---|---|--|
| S11: SDSS Items Not-in-Catalogue (continued) | <ul style="list-style-type: none"> d. establishing a change management structure to introduce the changes to processes and procedures across Defence, which includes coordination of training, compliance monitoring and communications. | <p>Planned for 2006-07:</p> <ul style="list-style-type: none"> a. financial reconciliation of Not-In-Catalogue; b. significant progress in bringing all Not-In-Catalogue into the logistics management system; c. continuing communications, training of users, reporting and compliance monitoring, to seek to prevent any new Not-In-Catalogue; and close out Remediation Plan as internal controls are effective. |

| Remediation Plan | Activity | Major Outcomes |
|---|--|---|
| <p>S12: Provisions for Contaminated or Potentially Contaminated Land, Buildings and Infrastructure</p> | <p>Remediate the provision for the land decontamination qualification by:</p> <ol style="list-style-type: none"> ensuring accounting policies reflect current reporting requirements; ensuring that sufficient and appropriate policies, procedures and practices are formalised and implemented for the identification of contaminated land, valuation of required decontamination and review of procedures undertaken and assessments made; and obtaining a clear understanding from the Australian Valuation Office regarding matters included in valuation assessments. | <p>Achieved in 2005-06:</p> <ol style="list-style-type: none"> assessment of outcomes of Australian Capital Territory /Southern New South Wales pilot study; summarised costs and created provisions in the financial statements for Australian Capital Territory /Southern New South Wales Defence owned and operated sites; developed final Remediation Plan including implementation timetable; assessments of legal and/or constructive obligations across the Contaminated Sites Register completed; and site assessments for costings commenced. <p>Planned for 2006-07</p> <ol style="list-style-type: none"> summarise costs and create provisions in the financial statements for Australian Capital Territory /Southern New South Wales leased properties. <p>Beyond 2006-07</p> <ol style="list-style-type: none"> continue Remediation Plan until entire Defence estate has been assessed. This is planned for completion in 2009-10. |
| <p>Accountable officer: Deputy Secretary Corporate Services</p> | | |

| Remediation Plan | Activity | Major Outcomes |
|---|--|--|
| <p>S13: Commitments and Accounting for Leases</p> <p>In 2003-04, the Australian National Audit Office reported a Category A finding on the identification and recording of leases and commitments. Issues included the recognition criteria applied to reported commitments and completeness, accuracy and classification of recorded leases. In 2004-05, the Australian National Audit Office also recommended improvements in the quality assurance process for preparing the Schedule of Commitments.</p> <p>Accountable officer: Chief Finance Officer</p> | <p>Remediate the audit finding issued for Commitments and Accounting for Leases carried forward from 2002-03 by:</p> <ul style="list-style-type: none"> a. ensuring that the Schedule of Commitments accurately reports Commitments in line with accounting standards; b. ensuring that Defence quality assurance processes are fully documented and that the Schedule of Commitments can be mapped to that quality assurance process; and c. establishing a lease register that identifies cash flows, revenues, expenses, liabilities, receivables and commitments. | <p>Achieved in 2005-06:</p> <ul style="list-style-type: none"> a. improvement in completeness and accuracy of lease register; b. remediation plan updated to reflect 2004-05 Australian National Audit Office audit findings with a greater focus on quality assurance; and c. improved accuracy of the Schedule of Commitments. <p>Planned for 2006-07</p> <ul style="list-style-type: none"> a. complete remediation of 2003-04 and 2004-05 findings for leases. |

DELIVERING INTERNAL SERVICES

The Corporate Services and Infrastructure Group delivers services to support the working and living environments of Defence personnel. With representatives at every Defence site around the country, Corporate Services and Infrastructure Group provides essential services and support to more than 90,000 people.

The Group comprises three divisions and a Corporate Management Branch:

- National Operations Division provides a range of base, administrative, personnel and other corporate services to Defence, manages major contracts for the provision of facilities maintenance and garrison support and manages the agreements with the Defence Housing Authority;
- Infrastructure Division is responsible for the development of the Defence estate, including major and medium capital facilities construction projects, property disposals, and environment and heritage policy;
- Defence Legal Division is responsible for the provision of legal advice and other legal services to the Minister, ADF, and Defence; and
- Corporate Management Branch is responsible for a range of Group financial and personnel management activities, as well as corporate governance and corporate communication for the Group.

Initiatives for 2006-07

Over the past two decades, Defence reforms have focused on achieving greater efficiency in the provision of support services and transferring the savings to 'sharp end' combat and combat-related functions. These efficiencies have been achieved by market-testing and outsourcing a wide range of services, and by centralising and standardising those that need to be delivered internally.

The Corporate Services and Infrastructure Group's initiatives for 2006-07 continue this approach as well as managing and maintaining the Defence estate and developing the capability of the organisation's workforce. Specific initiatives during 2006-07 include progressing a range of business improvement projects and strengthening organisational links with Corporate Services and Infrastructure Group's customers.

MANAGEMENT OF DEFENCE INFRASTRUCTURE

The Corporate Services and Infrastructure Group is responsible for developing and managing the Defence estate, which comprises approximately three million hectares of land plus buildings and facilities valued at around \$15.6 billion (as at 30 June 2005).

During 2006-07, the Group will continue to strengthen its management of Defence infrastructure by:

- upgrading training ranges to ensure a safe, sustainable and technologically advanced capability to support ADF preparedness requirements;
- prioritising the Major Capital Facilities program to better support ADF capability requirements;
- routinely considering options for delivering Major Capital Facilities through public-private partnerships;
- disposing of surplus Defence properties; and
- consolidating units into fewer, larger, functionally aligned and sustainable multi-user bases, clustered with industry to maximise the effectiveness of support to the ADF, and in areas which provide better employment and educational opportunities for families.

ENVIRONMENTAL AND ESTATE SUSTAINABILITY

Defence is committed to implementing environmental best practice, the principles of sustainable development and natural resource conservation. The Corporate Services and Infrastructure Group will continue to contribute toward meeting Defence's environment and heritage commitments by integrating environmental best practice into Defence activities, operations, products and services through the Defence Environmental Management System.

Major initiatives during 2006-07 include:

- progressing the implementation of the *Defence Environmental Strategic Plan 2006-2009* as a key element of the Defence Environmental Management System;
- continuing to progress the implementation of the Defence Heritage Strategy and ongoing development of the Defence Heritage Management System including:
 - the development of heritage management plans for Defence sites and an audit of their implementation to ascertain their level of use and effectiveness,
 - the commencement of the second phase of the 10-year program of heritage assessments, 'Recognising Our Heritage' and updating the Defence heritage register,
 - the continued implementation of the 'Discover Defence Heritage' (formerly 'Opening the Doors') initiative, and
 - the development and promulgation of the Defence Heritage Toolkit;

- continuing to implement Defence’s contamination management and pollution prevention strategies to address its legacy of contaminated sites, including an ongoing program to assess contamination and undertake remediation work;
- considering environmental impacts through the conduct of environmental impact assessments for Defence capabilities, facilities projects and training exercises;
- reviewing and refining national policies for bushfire management, overabundant species management and developing a soil conservation policy;
- finalising the development of the Defence Water Management Strategy and Waste Minimisation Strategy;
- developing and implementing a sustainability management framework to define, measure, monitor and report on the sustainability of Defence bases, training areas and ranges; and
- progressing the development of strategic approaches to environmental management issues with the Department of the Environment and Heritage.

BUSINESS IMPROVEMENT

The Corporate Services and Infrastructure Group will continue to implement business improvement initiatives aimed at taking best advantage of current and emerging technology, improving management arrangements and reducing personnel and overhead costs. Outcomes for 2006-07 against key projects are outlined in Table 6.2.

Table 6.2: Corporate Services and Infrastructure Group Business Improvement Program Outcomes for 2006-07

| Project Name | Project Description | Key Outcomes 2006-07 |
|---|---|--|
| Travel Improvement Project | This project is responsible for the development and implementation of the Defence Travel Model to provide a single, simple to use, end to end solution for official business travel. | <ul style="list-style-type: none"> • Finalisation of Phase 1 (business travel) implementation |
| Purchasing and Payment of Accounts – Phase 3 Invoicing Scanning and Imaging System | This project is responsible for improving the payment process and introducing technology enhancements through centralisation of the accounts payable function and application of data imaging technology to processing. | <ul style="list-style-type: none"> • Finalisation of the transition of all accounts processing to the accounts processing centres |

| Project Name | Project Description | Key Outcomes 2006-07 |
|---|--|---|
| <p>Civilian Personnel Administration Centre (CPAC)</p> <p>Military Personnel Administration Centre (MPAC)</p> | <p>This project is responsible for the analysis and rationalisation of civilian personnel administration centres (currently done by CPACs in Sydney and Melbourne). The end state will relocate all civilian personnel administration processing to the business centre at RAAF Base Williamtown.</p> <p>This project is responsible for the analysis and rationalisation of all processing of military personnel administration centres (MPAC, Overseas Administration Centre & Defence Force Pay Accounting Centre). The end state will relocate all military personnel administration processing to the business centre at RAAF Base Williamtown.</p> | <ul style="list-style-type: none"> • Coordination of the business centre acquisition • Development of future processes and structures • Analysis and review of CPAC/MPAC workflows • Implementation of a training regime in current centres • Interim consolidation of MPACs and some services (Navy leave processing and Reserve pay) |
| <p>Records Improvement Project</p> | <p>This project is responsible for ensuring effective record management within Defence.</p> | <ul style="list-style-type: none"> • Development of a digitisation strategy for agreed Service/Health records • Introduction of a Service Level Agreement between Defence and the Department of Veterans Affairs • Development and implementation of consistent practices across all repositories |
| <p>Mail & Freight Improvement Project</p> | <p>This project is responsible for the implementation and management of a range of reforms to Corporate Services and Infrastructure Group management and provision of mail and freight services.</p> | <ul style="list-style-type: none"> • National contract for courier services signed and implemented • Agreed product description and service levels • Ongoing customer education in cost effective use of mail system |
| <p>Regional Information and Communication Technology Market Testing</p> | <p>This project is responsible for the market testing of all information and communication technology service delivery and identifying business improvement opportunities.</p> | <ul style="list-style-type: none"> • Finalisation of the tender evaluation process • Identification of a preferred tenderer • Commencement of contract negotiations |

STRATEGIC PLANNING

The Corporate Services and Infrastructure Group will continue to improve its strategic planning capability and establish more robust links within the broader Defence planning domain. This will be achieved by continuing to strengthen ties with Capability Development Group, the DMO and relevant committees.

The Corporate Services and Infrastructure Group will continue to make improvements to processes to deliver capital works to support capability and meet Government priorities. Key matters include ensuring there is appropriate funding allocated to capital works and integrating facilities planning with specialist military equipment planning. Improvement to Corporate Services and Infrastructure Group planning mechanisms will also be a focus in 2006-07, with an emphasis on improving strategic guidance to capital works program managers and regional managers through national office and regional planning networks.

CUSTOMER ENGAGEMENT

Corporate Services and Infrastructure Group engages regularly with other Defence Groups and Services to ensure support provided achieves the best effect. Relationships will continue to be strengthened with the Navy, Army, Air Force, Defence Science and Technology Organisation, DMO and other Defence Groups through regular business partnering forums and ongoing engagement at the working level. An ongoing focus will be to link the delivery of Corporate Services and Infrastructure Group product lines to military capability.

Customer engagement will also continue to be strengthened through the implementation of a robust performance reporting system through which Corporate Services and Infrastructure Group customers can rate the effectiveness of service delivery and any related impacts on capability. This will further improve the Group's understanding of, and our ability to respond to, customers' requirements.

INDUSTRY ENGAGEMENT

A large proportion of the products and services for which Corporate Services and Infrastructure Group is responsible are delivered by industry. The Group places high importance on managing relationships with industry in an open and transparent way.

Products and services totalling over \$2 billion are expected to be delivered under contract in 2006-07. Table 6.3 shows the majority of estimated expenditure on products and services expected to be delivered under contracts in 2006-07.

Table 6.3: Estimated Expenditure on Products and Services Contracts Managed by Corporate Services and Infrastructure Group 2006-07

| Service | Value \$m |
|--|--------------|
| Infrastructure investment including training range upgrades | 568 |
| Information technology and telecommunication services and products | 12 |
| Garrison support | 364 |
| Housing and relocations services | 527 |
| Facilities operations | 348 |
| Travel services | 156 |
| Property services | 116 |
| Utilities | 121 |
| Total | 2,212 |

Maintenance of the Defence Estate

The Defence estate is unique in its diversity. It includes airfields, ports, broad acre training areas and firing ranges, storage and workshop facilities (including munitions storage), research laboratories, equipment maintenance facilities, office buildings, educational facilities, residential accommodation and recreational facilities. Many of these structures can be found on a single base or establishment.

The Estate Upkeep-Facilities Operations component of the Defence budget provides for the ongoing maintenance of the estate. In recent years, funding of around \$230m per annum has been provided for routine facilities maintenance including:

- maintenance of fixed plant and equipment;
- repair of faults and breakdowns;
- environmental management programs and works;
- planned maintenance and minor capital facilities projects;
- fees for comprehensive maintenance service contractors; and
- related activities.

In the 2004-05 Budget, Defence redirected \$100m from within its budget and the Government announced an additional \$300m over three years from 2005-06 in recognition of the importance of facilities maintenance. This supplementary funding, bringing the annual baseline for estate upkeep to \$333m, has enabled more effective maintenance for facilities supporting key capabilities.

Additional allocations to meet requirements for asbestos remediation works, living-in accommodation refurbishment, the maintenance of newly constructed facilities, the maintenance of Government facilities provided to the Defence Integrated Distribution System contractor and the capital element of

maintenance projects, bring the total 2006-07 Facilities Operations budget to \$381.8m.

Works delivered in the Facilities Operations program will include:

- maintaining Defence airfields;
- removing dangerous asbestos;
- upgrading and maintaining Defence fuel farms and bulk fuel storage facilities;
- improving the condition of Cadet facilities;
- ensuring that power supplies to critical Defence facilities can be maintained in emergencies;
- improving security and upgrading counter-terrorist training facilities;
- maintaining Defence training areas;
- ensuring the environmental sustainability of the estate and the continued provision of safe working and living environments; and
- maintaining wharves and other maritime structures.

Table 6.4 shows the programming of the Facilities Operations budget for 2006-07.

Table 6.4: Forecast Facilities Operations Program by Work Type for 2006-07

| Work Type | 2006-07 \$m |
|--|----------------|
| Maintaining air fields | 25.7 |
| Asbestos remediation | 20.8 |
| Infrastructure works ⁽¹⁾ | 29.7 |
| Bulk fuel installations | 5.9 |
| Environmental and heritage works | 24.7 |
| Training areas and facilities | 11.7 |
| Working accommodation ⁽²⁾ | 49.9 |
| Living in accommodation | 11.3 |
| Maritime structures | 4.5 |
| Reactive maintenance | 65.7 |
| Contractual commitments ⁽³⁾ | 132.0 |
| Total | 381.8 |

Notes

1. Infrastructure works includes the maintenance of supporting infrastructure, such as roads, water supply, drains and sewerage, and electrical reticulation.
2. Working accommodation includes facilities such as office accommodation, Reserve and Cadet depots, workshops, warehousing and aircraft hangars.
3. Contractual commitments include scheduled maintenance, specialist planning advice, project management and commitments for the maintenance of shared facilities.

OTHER MANAGEMENT REFORMS

Review of Defence Health Services

A review was commissioned in late 2003 to evaluate the capability of the Defence Health Services to meet the Defence need for health services in the short to medium-term.

The review, conducted by Major General Stevens, AO (Retired), was completed in early 2004. As recommended by the review, Defence has established a Defence Health Services Division, comprising the Health Services Branch and Strategic Health Policy and Plans Branch. A further recommendation has seen the establishment of the Defence Health Services Review Committee to consider strategic health service issues.

Specific health service initiatives planned for 2006-07 include:

- improving the recruitment, retention and management of ADF health service personnel;
- reviewing the readiness requirements and system of health assessments for ADF personnel;
- implementing the ADF Rehabilitation Program;
- consolidating the ADF Mental Health Strategy, including the following programs:
 - Alcohol, Tobacco and Other Drugs,
 - Suicide Prevention, and
 - Critical Incident and Mental Health Support; and
- reviewing the current deployable health force structure against strategic requirements.

Defence is also examining the current and future costs of health care to the ADF. One of the objectives is to provide a model and methodology that can be used to review and cost future alternative health care standards and methods of delivery. The results of the review into current health care costs are expected to be considered by the Chiefs of Service Committee in the second half of 2006.

Education and Training

REVIEW OF ADF JOINT EDUCATION AND TRAINING

In order to provide the capabilities Defence needs to undertake complex and networked military operations, Defence has recognised the need to achieve greater synergies between single Service and joint education and training.

Defence plans to conduct a review of ADF joint education and training, commencing in the second half of 2006. It is anticipated that the findings of the review will be presented to the Chiefs of Service Committee in early 2007.

FINANCIAL MANAGEMENT AND BUSINESS TRAINING

As part of its broad reform agenda of addressing financial management deficiencies, Defence is producing training that meets its business needs today and into the future. Priority is on building job-ready Defence people while providing opportunities to them to prepare themselves for future roles and to develop their professional skills. The training will also provide a pathway for non professional staff to pursue a career in financial management and gain recognised qualifications through alignment with Vocational Technical Education competency standards.

Key initiatives during 2006-07 will be the:

- continuous updating of ROMAN (financial information system) training, in particular the development and deployment of skills testing user certification;
- delivery of Certificate IV and Diploma-level financial management courses designed to meet national competency standards as well as Defence's business needs;
- greater use of e-learning, web-based help functions and direct on-line linkages to policy, procedures, guidelines and manuals;
- use of more adult/learner-centred style with an emphasis on scenario driven exercise activity that more closely matches the working environment;
- provision of development opportunities for finance professionals through better linkages with professional associations;
- development of clear career development 'pathways' to allow managers and staff to meet immediate skilling needs as well as plan for their future in Defence; and
- continuation of Senior Leadership Group and Senior Officer equivalent training in financial management.

DEFENCE AUSTRALIAN PUBLIC SERVICE LEARNING AND DEVELOPMENT STRATEGY

Defence provides a wide range of business, administrative, and specialist technical training and development for its APS personnel. To improve the efficiency, cohesion and alignment of this training with departmental priorities,

Defence is actively pursuing the development of an integrated APS learning and development strategy, which will provide:

- a statement of responsibilities, principles and organisational commitment;
- common competencies that Defence expects of all its APS personnel, structured in a through-career learning and development map;
- direction, guidance and resources to enable APS personnel to identify their own learning and development requirements;
- more integrated and accessible training and development programs to support through-career learning requirements;
- improved recording of job position skill requirements, and training completed by employees, for better visibility of the capability of the APS workforce; and
- direction on the evaluation and reporting of APS workforce capability.

A draft of the strategy, including a common competency framework and through-career learning and development map, is expected to be completed by the end of 2006. Where necessary, additional integrated training and development programs will be developed and implemented from mid-2006, and continued throughout 2007. Enhanced recording and reporting arrangements will be implemented by mid-2007.

PORTFOLIO EVALUATIONS

Portfolio evaluations endorsed by the Defence Audit Committee and submitted for endorsement to the Defence Committee for calendar year 2006 are:

- ADF safety systems;
- the effectiveness of Defence record keeping; and
- contract management outside of the DMO.

Following a review of priorities, the foreshadowed topic 'the effectiveness of national health support' was replaced in the 2006 schedule by contract management outside of the DMO.

Portfolio evaluations agreed in principle by the Defence Audit Committee and submitted to the Defence Committee for agreement in principle for calendar year 2007 are:

- the policy, practice, relationship and effectiveness of the Reserves;
- the effectiveness of Defence's approach to occupational health and safety;
and
- the effectiveness of national health support.

Results from portfolio evaluations completed in 2006-07 will be included in the Defence annual report.

DEFENCE

CHAPTER SEVEN

BUDGETED FINANCIAL STATEMENTS

BUDGETED FINANCIAL STATEMENTS

Methods of Presenting the Defence Budget

Budgeted Departmental Income Statement

Budgeted Departmental Balance Sheet

Budgeted Departmental Statement of Cash Flows

Departmental Statement of Changes in
Equity - Summary of Movement (Budget Year
2006-07)

Departmental Capital Budget Statement

Non-Financial Assets – Summary of Movement

Schedule of Budgeted Revenues and Expenses
Administered on Behalf of Government

Schedule of Budgeted Assets and Liabilities
Administered on Behalf of Government

Schedule of Budgeted Administered Cash Flows

Notes to the Budgeted Financial Statements

Methods of Presenting the Defence Budget

There are three main ways of presenting the Defence budget. All three methods are consistent and are used for different purposes. The Defence budget is presented below in each of the three ways.

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 Defence's 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.

| | 2006-07 \$'000 | Reference |
|--|---------------------------|---------------------|
| Appropriation from Government for price of outputs | 17,063,404 | Table 2.1, Serial 1 |
| Appropriation for equity injection | 1,937,879 | Table 2.1, Serial 2 |
| Own-source revenue | 594,645 | Table 2.1, Serial 4 |
| Net capital receipts | 23,192 | Table 2.1, Serial 5 |
| Total Department Resourcing | 19,619,120 | Table 2.1, Serial 7 |

Method 1 is commonly used to measure movements in Defence's funding allocations against the previously agreed budget and forward estimates allocations. It is used in presenting the 2000 Defence White Paper commitment, and to compare methods in Defence funding since then.

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 terms of underlying cash impact. 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 \$17,409 million is used in the Treasury budget overview and the Treasurer's budget speech and is derived as follows:

| | 2006-07 \$m | Reference |
|--|----------------|----------------------|
| Underlying cash baseline | 16,111 | |
| Heavy airlift – acquisition component | 792 | Table 2.3, serial 15 |
| Hardened and Networked Army – Phase 2 | 24 | Table 2.3, serial 1 |
| Operation Catalyst - Contribution to Multinational Force | 310 | Table 2.3, serial 3 |
| Operation Slipper – Reconstruction Task Force to Afghanistan | 92 | Table 2.3, serial 4 |
| Reserve Remuneration Review | 36 | Table 2.3, serial 5 |
| Naval Aviation Logistics Funding | 26 | Table 2.3, serial 6 |
| Enhancement of Australia's Fisheries and maritime surveillance | 5 | Table 2.3, serial 12 |
| Rationalisation of the ADF Command and Control structure | -6 | Table 2.3, serial 13 |
| Broadening the Efficiency Dividend | -4 | Table 2.3, serial 16 |
| Coastal Surveillance – Increased Patrolling of Maritime Approaches | 24 | Table 2.3, serial 17 |
| Total Defence Funding⁽¹⁾ | 17,409 | |

Note

1. This is an underlying cash figure provided 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:

| | 2006-07 \$m | Reference |
|---|----------------|---|
| Defence AAS expenses ⁽¹⁾ | 17,860 | Table 7.1 |
| DMO AAS expenses | 8,749 | Table |
| Administered expenses | 56 | Table 5.7.1, retention benefits + housing subsidies |
| Investment in specialist military equipment | 4,623 | Table 7.6 |
| Specialist military equipment depreciation | -2,686 | Table 7.6 |
| Intra-Government transfers | -10,495 | Department of Finance and Administration |
| write down of non-financial assets | -235. | Table 7.1 |
| Total Defence Function Expense | 17,871 | Statement 6, Budget Paper No. 1 |

Note

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

Table 7.1: Budgeted Departmental Income Statement⁽¹⁾

| 2005-06 Estimated Actual \$'000 | | 2006-07 Previous Estimate \$'000 | 2006-07 Budget Estimate \$'000 | Variation % | 2007-08 Forward Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 |
|--|--|---|---|----------------|--|--|--|
| INCOME | | | | | | | |
| Revenue | | | | | | | |
| 16,133,541 | Revenue from Government | 16,362,110 | 17,063,404 | 4.3 | 17,424,698 | 17,498,316 | 18,089,342 |
| 535,361 | Goods and services | 258,130 | 530,482 | 105.5 | 536,974 | 547,251 | 559,406 |
| - | Interest | - | - | - | - | - | - |
| 87,891 | Other Revenue | 228,076 | 65,663 | -71.2 | 64,958 | 64,657 | 79,926 |
| 16,756,793 | Total Revenue | 16,848,316 | 17,659,549 | 4.8 | 18,026,630 | 18,110,224 | 18,728,674 |
| Gains | | | | | | | |
| - | Net gain on foreign exchange | - | - | - | - | - | - |
| 250,000 | Reversals of previous asset write-downs | 72,500 | 200,000 | 175.9 | 200,000 | 100,000 | 100,000 |
| - | Net gains on sale of assets | - | - | - | - | - | - |
| 250,000 | Total Gains | 72,500 | 200,000 | 175.9 | 200,000 | 100,000 | 100,000 |
| 17,006,793 | Total Revenues | 16,920,816 | 17,859,549 | 5.5 | 18,226,630 | 18,210,224 | 18,828,674 |
| EXPENSES | | | | | | | |
| 6,299,616 | Employees | 6,549,692 | 6,609,082 | 0.9 | 6,742,406 | 7,039,455 | 7,487,515 |
| 7,003,260 | Suppliers | 6,885,384 | 7,649,136 | 11.1 | 7,821,025 | 7,582,329 | 7,872,486 |
| 6,675 | Grants | 5,201 | 5,592 | 7.5 | 1,304 | 1,304 | 1,304 |
| 3,145,023 | Depreciation and amortisation | 3,336,323 | 3,336,323 | - | 3,409,595 | 3,434,486 | 3,314,258 |
| 18,163 | Finance Cost | 32,716 | 20,412 | -37.6 | 20,799 | 21,144 | 21,605 |
| 514,056 | Write-down of and impairment of assets | 107,500 | 235,000 | 118.6 | 230,000 | 130,000 | 130,000 |
| - | Net losses on sale of assets | - | - | - | - | - | - |
| 20,000 | Other | 4,000 | 4,004 | 0.1 | 1,501 | 1,506 | 1,506 |
| 17,006,793 | Total Expenses | 16,920,816 | 17,859,549 | 5.5 | 18,226,630 | 18,210,244 | 18,828,674 |
| - | Net operating result | - | - | - | - | - | - |
| EQUITY INTEREST | | | | | | | |
| 35,743,047 | Accumulated surpluses at 1 July | 35,581,258 | 35,571,664 | 0.0 | 35,683,234 | 35,800,944 | 35,800,944 |
| 35,571,664 | Total available for appropriation | 35,692,828 | 35,683,234 | 0.0 | 35,800,944 | 35,800,944 | 35,800,944 |
| - | Change in accounting policy | - | - | - | - | - | - |
| - | Capital withdrawal | - | - | - | - | - | - |
| 35,571,664 | Accumulated surpluses as at 30 June | 35,692,828 | 35,683,234 | 0.0 | 35,800,944 | 35,800,944 | 35,800,944 |

Note

1. Cross-reference to Table 2.6 in Chapter Two – Resourcing.

Table 7.2: Budgeted Departmental Balance Sheet⁽¹⁾

| 2005-06 Estimated Actual \$'000 | | 2006-07 Previous Estimate \$'000 | 2006-07 Budget Estimate \$'000 | Variation \$'000 | 2007-08 Forward Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 |
|--|--|---|---|---------------------|--|--|--|
| ASSETS | | | | | | | |
| Financial assets: | | | | | | | |
| 161,249 | Cash | 161,249 | 161,249 | - | 161,249 | 161,249 | 161,249 |
| 499,094 | Appropriation receivable | 438,251 | 455,451 | 3.9 | 405,451 | 350,451 | 290,451 |
| 256,235 | Other receivables | 256,235 | 256,235 | - | 256,235 | 256,235 | 256,235 |
| 916,578 | Total financial assets | 855,735 | 872,935 | 2.0 | 822,935 | 767,935 | 707,935 |
| Non-financial assets: | | | | | | | |
| 10,945,697 | Land and buildings Infrastructure, plant and equipment | 10,906,161 | 10,982,127 | 0.7 | 10,856,956 | 11,182,520 | 11,264,079 |
| 36,450,883 | Intangibles | 29,578,070 | 38,216,881 | 29.2 | 39,727,201 | 41,312,320 | 43,419,964 |
| 309,774 | Heritage and cultural | 306,148 | 306,210 | 0.0 | 302,646 | 299,082 | 295,518 |
| 800,459 | Inventories | 800,459 | 800,459 | - | 800,459 | 800,459 | 800,459 |
| 3,738,313 | Other | 4,150,815 | 4,169,043 | 0.4 | 4,384,941 | 4,717,275 | 5,003,035 |
| 489,816 | | 8,604,028 | 289,816 | -96.6 | 289,816 | 289,816 | 289,816 |
| 52,734,942 | Total non-financial assets | 54,345,681 | 54,764,536 | 0.8 | 56,362,019 | 58,601,472 | 61,072,871 |
| 53,651,520 | Total assets | 55,201,416 | 55,637,471 | 0.8 | 57,184,954 | 59,369,407 | 61,780,806 |
| LIABILITIES | | | | | | | |
| Debt: | | | | | | | |
| 243,710 | Leases | 228,290 | 228,990 | - | 211,930 | 490,230 | 452,890 |
| 2,631 | Other interest bearing liabilities | 2,631 | 2,631 | - | 2,631 | 2,631 | 2,631 |
| 246,341 | Total debt | 230,921 | 230,921 | - | 214,561 | 492,861 | 455,521 |
| Provisions and payables | | | | | | | |
| 1,550,302 | Employees | 1,532,896 | 1,493,890 | -2.5 | 1,427,945 | 1,477,763 | 1,525,726 |
| 584,885 | Suppliers | 608,219 | 608,219 | - | 631,553 | 654,887 | 678,221 |
| 527,606 | Other | 527,606 | 527,606 | - | 527,606 | 527,606 | 527,606 |
| 2,662,793 | Total provisions and payables | 2,668,721 | 2,629,715 | -1.5 | 2,587,104 | 2,660,256 | 2,731,553 |
| 2,909,134 | Total liabilities | 2,899,642 | 2,860,636 | -1.3 | 2,801,665 | 3,153,117 | 3,187,074 |
| 50,742,386 | Net assets | 52,301,774 | 52,776,835 | 0.9 | 54,383,289 | 56,216,290 | 58,593,732 |
| EQUITY | | | | | | | |
| 4,559,862 | Contributed equity | 5,998,086 | 6,482,741 | 8.1 | 7,971,485 | 9,804,486 | 12,181,928 |
| 10,610,860 | Reserves | 10,610,860 | 10,610,860 | - | 10,610,860 | 10,610,860 | 10,610,860 |
| 35,571,664 | Retained surpluses or accumulated deficits | 35,692,828 | 35,683,234 | 0.0 | 35,800,944 | 35,800,944 | 35,800,944 |
| 50,742,386 | Total equity | 52,301,774 | 52,776,835 | 0.9 | 54,383,289 | 56,216,290 | 58,593,732 |
| Represented by: | | | | | | | |
| 788,677 | Current assets | 811,296 | 817,871 | 0.8 | 840,599 | 872,730 | 908,178 |
| 52,862,843 | Non-current assets | 54,390,120 | 54,819,600 | 0.8 | 56,344,355 | 58,496,677 | 60,872,628 |
| 1,707,087 | Current liabilities | 1,701,517 | 1,678,628 | -1.3 | 1,644,024 | 1,676,798 | 1,707,932 |
| 1,202,047 | Non-current liabilities | 1,198,125 | 1,182,008 | -1.3 | 1,157,641 | 1,476,319 | 1,479,142 |

Note

1. Cross-reference to Table 2.7 in Chapter Two – Resourcing.

Table 7.3: Budgeted Departmental Statement of Cash Flows⁽¹⁾

| 2005-06 Estimated Actual \$'000 | | 2006-07 Previous Estimate \$'000 | 2006-07 Budget Estimate \$'000 | Variation % | 2007-08 Forward Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 |
|--|--|---|---|----------------|--|--|--|
| OPERATING ACTIVITIES | | | | | | | |
| 16,133,541 | Appropriations from Government | 16,362,110 | 17,063,404 | 4.3 | 17,424,698 | 17,498,316 | 18,089,342 |
| 545,339 | Sales of goods and services | 268,234 | 540,586 | 101.5 | 547,278 | 557,735 | 570,047 |
| - | Interest | - | - | - | - | - | - |
| 287,007 | Net GST refund | 296,921 | 296,291 | - | 314,384 | 316,168 | 381,329 |
| 86,391 | Other | 226,576 | 64,163 | -71.7 | 63,458 | 63,157 | 78,426 |
| 86,445 | Cash transfer from Official Public Account (receivables) | 43,643 | 43,463 | - | 50,000 | 55,000 | 60,000 |
| 17,138,723 | Total cash received | 17,197,484 | 18,008,717 | 4.7 | 18,399,818 | 18,490,376 | 19,179,144 |
| 6,235,874 | Employees | 6,494,534 | 6,553,924 | 0.9 | 6,690,641 | 6,989,637 | 7,439,552 |
| 6,620,785 | Suppliers | 6,347,578 | 7,022,330 | 10.6 | 7,122,136 | 6,874,288 | 7,212,366 |
| 6,675 | Grants | 5,201 | 5,592 | 7.5 | 1,304 | 1,304 | 1,304 |
| 20,324 | Finance Costs | 32,716 | 20,412 | -37.6 | 20,799 | 21,144 | 21,605 |
| - | Inventory | - | - | - | - | - | - |
| 20,000 | Other | 4,000 | 4,004 | 0.1 | 1,501 | 1,506 | 1,506 |
| 87,200 | Cash transfer to Official Public Account (receivables) | - | - | - | - | - | - |
| 12,990,858 | Total cash used | 12,884,029 | 13,606,262 | 5.6 | 13,836,381 | 13,887,879 | 14,676,333 |
| 4,147,865 | NET CASH FROM/(TO) OPERATING ACTIVITIES | 4,313,455 | 4,402,455 | 2.1 | 4,563,437 | 4,602,497 | 4,502,811 |
| INVESTING ACTIVITIES | | | | | | | |
| Cash received: | | | | | | | |
| 83,363 | Proceeds from sales of property, plant and equipment | 5,792 | 38,192 | 559.4 | 122,208 | 69,210 | 6,799 |
| 83,363 | Total cash received | 5,792 | 38,192 | 559.4 | 122,208 | 69,210 | 6,799 |
| Cash used: | | | | | | | |
| 3,420,757 | Purchase of specialist military equipment | 3,969,944 | 4,522,933 | 13.9 | 4,370,480 | 4,409,902 | 4,769,820 |
| 485,608 | Purchase of property, plant and equipment | 466,708 | 585,446 | 25.4 | 572,908 | 716,213 | 766,876 |
| 1,198,499 | Inventory purchases | 1,236,199 | 1,239,727 | 0.3 | 1,214,641 | 1,342,193 | 1,313,016 |
| 5,104,864 | Total cash used | 5,672,851 | 6,348,106 | 11.9 | 6,158,029 | 6,468,308 | 6,849,712 |
| -5,021,501 | NET CASH FROM/(TO) INVESTING ACTIVITIES | -5,667,059 | -6,309,914 | 11.3 | -6,035,821 | -6,399,098 | -6,842,913 |
| FINANCING ACTIVITIES | | | | | | | |
| Cash received: | | | | | | | |
| 972,080 | Equity appropriation | 1,369,024 | 1,937,879 | 41.6 | 1,588,444 | 1,880,401 | 2,379,642 |
| 972,080 | Total cash received | 1,369,024 | 1,937,879 | 41.6 | 1,588,444 | 1,880,401 | 2,379,642 |

| 2005-06 Estimated Actual \$'000 | | 2006-07 Previous Estimate \$'000 | 2006-07 Budget Estimate \$'000 | Variation % | 2007-08 Forward Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 |
|--|--|---|---|----------------|--|--|--|
| | Cash used: | | | | | | |
| 14,480 | Repayments of debt | 15,420 | 15,420 | - | 16,360 | 36,400 | 37,340 |
| - | Capital use charge | - | - | - | - | - | - |
| 176,964 | Capital withdrawal | - | 15,000 | | 99,700 | 47,400 | 2,200 |
| 191,444 | Total cash used | 15,420 | 30,420 | 97.3 | 116,060 | 83,800 | 39,540 |
| 780,636 | NET CASH FROM/(TO) FINANCING ACTIVITIES | 1,353,604 | 1,907,459 | 40.9 | 1,472,384 | 1,796,601 | 2,340,102 |
| -93,000 | Net increase/(decrease) in cash held | | | | | | |
| 254,425 | Cash at 1 July | 161,249 | 161,249 | - | 161,249 | 161,249 | 161,249 |
| -176 | Other Movements | | | | | | |
| 161,249 | CASH AT 30 JUNE | 161,249 | 161,249 | - | 161,249 | 161,249 | 161,249 |

Note

1. Cross-reference to Table 2.8 in Chapter Two – Resourcing.

Table 7.4: Departmental Statement of Changes in Equity – Summary of Movement (Budget Year 2006-07)

| | Accumulated results \$'000 | Asset revaluation reserve \$'000 | Other reserves \$'000 | Contributed equity/capital \$'000 | Total Equity \$'000 |
|--|----------------------------------|---|-----------------------------|---|---------------------------|
| Opening balance as at 1 July 2006 | | | | | |
| Balance carried forward from previous period | 35,571,664 | 10,610,860 | - | 4,559,862 | 50,742,386 |
| Adjustment for changes in accounting policies | 111,570 | - | - | - | 111,570 |
| Adjusted opening balance | - | - | - | - | - |
| Income and expense | | | | | |
| Income and expenses recognised directly in equity | - | - | - | - | - |
| Gain/loss on revaluation of property | - | - | - | - | - |
| Sub-total income and expense | - | - | - | - | - |
| Net operating result | - | - | - | - | - |
| Total income and expenses recognised directly in equity | 35,683,234 | 10,610,860 | - | 4,559,862 | 50,853,956 |
| Transactions with owners | - | - | - | - | - |
| Distribution to owners | - | - | - | -15,000 | -15,000 |
| Returns to capital | - | - | - | - | - |
| Dividends | - | - | - | - | - |
| Returns on capital | - | - | - | - | - |
| Restructuring | - | - | - | - | - |
| Other | - | - | - | - | - |
| Contribution by owners | - | - | - | - | - |
| Appropriation (equity injection) | - | - | - | 1,937,879 | 1,937,879 |
| Other | - | - | - | - | - |
| Restructuring | - | - | - | - | - |
| Sub-total transaction with owners | - | - | - | 1,922,879 | 1,922,879 |
| Transfers between equity components | - | - | - | - | - |
| Closing balance as at 30 June 2007 | 35,683,234 | 10,610,860 | - | 6,482,741 | 52,776,835 |

Table 7.5: Departmental Capital Budget Statement

| 2005-06 Estimated Actual \$'000 | | 2006-07 Previous Estimate \$'000 | 2006-07 Budget Estimate \$'000 | Variation % | 2007-08 Forward Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 |
|--|---|---|---|----------------|--|--|--|
| CAPITAL EXPENDITURE | | | | | | | |
| 3,420,757 | Purchase of specialist military equipment | 3,969,944 | 4,522,933 | 13.9 | 4,370,480 | 4,409,902 | 4,769,820 |
| 485,608 | Purchase of property, plant and equipment | 466,708 | 585,446 | 25.4 | 572,908 | 716,213 | 766,876 |
| 3,906,365 | Total capital payments | 4,436,652 | 5,108,379 | 15.1 | 4,943,388 | 5,126,115 | 5,536,696 |
| Funded from: | | | | | | | |
| 972,080 | Equity injection | 1,369,024 | 1,937,879 | 41.6 | 1,588,444 | 1,880,401 | 2,379,642 |
| 2,909,422 | Operating receipts | 3,061,836 | 3,147,308 | 2.8 | 3,332,436 | 3,223,904 | 3,152,455 |
| 24,863 | Net capital receipts | 5,792 | 23,192 | 300.4 | 22,508 | 21,810 | 4,599 |
| 3,906,365 | Total capital funding | 4,436,652 | 5,108,379 | 15.1 | 4,943,388 | 5,126,115 | 5,536,696 |
| CAPITAL RECEIPTS | | | | | | | |
| | Proceeds from the sale of specialist military equipment | | | | | | |
| 83,363 | Proceeds from sales of property, plant and equipment | 5,792 | 38,192 | 559.4 | 122,208 | 69,210 | 6,799 |
| -58,500 | Other capital receipts Less: capital withdrawal | 0 | -15,000 | | -99,700 | -47,400 | -2,200 |
| 24,863 | NET CAPITAL RECEIPTS | 5,792 | 23,192 | 300.4 | 22,508 | 21,810 | 4,599 |

Table 7.6: Non-financial Assets – Summary of Movement

| Revised Budget Year 2006-07 | Land | Buildings | Other IP&E | 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 2006 | 3,864,390 | 10,613,559 | 8,543,145 | 59,187,771 | 420,254 | 122,698 | 800,459 | 82,751,817 |
| Gross value – additions | - | 336,042 | 247,554 | 4,622,933 | - | 1,850 | - | 5,208,379 |
| Gross value – revaluations | - | - | - | - | - | - | - | - |
| Gross value – disposals | - | -32,400 | -5,792 | - | - | - | - | -38,192 |
| Gross value – write offs | - | - | -57,500 | -177,500 | - | - | - | -235,000 |
| Gross value – adjustments | - | - | - | - | - | - | - | - |
| Gross value – other movements | - | - | - | 200,000 | - | - | - | 200,000 |
| Gross value –as at 30 June 2007 | 3,864,390 | 10,917,201 | 8,727,407 | 63,833,204 | 420,254 | 124,548 | 800,459 | 88,687,463 |
| ACCUMULATED DEPRECIATION/AMORTISATION | | | | | | | | |
| Accumulated depreciation/amortisation as at 30 June 2006 | - | 3,532,252 | 3,529,125 | 27,750,908 | 157,239 | 75,939 | - | 35,045,463 |
| Depreciation/amortisation on assets held at beginning of the year | - | 267,212 | 377,246 | 2,686,451 | 3,842 | 1,572 | - | 3,336,323 |
| Accumulated depreciation/amortisation on assets disposed through year | - | - | - | - | - | - | - | - |
| Accumulated depreciation/amortisation as at 30 June 2007 | - | 3,799,464 | 3,906,371 | 30,437,359 | 161,081 | 77,511 | - | 38,381,786 |
| Net book value 30 June 2007 | 3,864,390 | 7,117,737 | 4,821,036 | 33,395,845 | 259,173 | 47,037 | 800,459 | 50,305,677 |

Table 7.7: Schedule of Budgeted Revenues and Expenses Administered on Behalf of Government

| 2005-06 Estimated Actual \$'000 | | 2006-07 Previous Estimate \$'000 | 2006-07 Budget Estimate \$'000 | Variation % | 2007-08 Forward Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 |
|--|--|---|---|----------------|--|--|--|
| | Income administered on behalf of Government | | | | | | |
| 70,060 | Interest and dividends | 21,579 | 76,912 | 256.4 | 68,517 | 68,444 | 67,752 |
| 660,500 | Other | 682,475 | 659,000 | -3.4 | 659,000 | 659,000 | 659,000 |
| 730,560 | Total income administered on behalf of Government | 704,054 | 735,912 | 4.5 | 727,517 | 727,444 | 726,752 |
| | Expenses administered on behalf of Government | | | | | | |
| 2,608,000 | Military benefits | 2,606,100 | 2,622,000 | 0.6 | 2,703,000 | 2,791,000 | 2,883,000 |
| 10,000 | Subsidies | 10,000 | 10,000 | - | 10,000 | 10,000 | 10,000 |
| | Other | | | | | | |
| 2,618,000 | Total expenses administered on behalf of Government | 2,616,100 | 2,632,000 | 0.6 | 2,713,000 | 2,801,000 | 2,893,000 |

Table 7.8: Schedule of Budgeted Assets and Liabilities Administered on Behalf of Government

| 2005-06 Estimated Actual \$'000 | | 2006-07 Previous Estimate \$'000 | 2006-07 Budget Estimate \$'000 | Variation % | 2007-08 Forward Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 |
|---|-------------------------------------|---|---|----------------|--|--|--|
| Assets administered on behalf of Government | | | | | | | |
| Financial Assets | | | | | | | |
| - | Cash | - | - | - | - | - | - |
| 3,215 | Other Receivable | 3,225 | 3,215 | -0.3 | 3,215 | 3,215 | 3,215 |
| | Appropriation | | | | | | |
| 31,551,000 | Receivable | 32,632,990 | 32,638,000 | 0.0 | 33,760,000 | 34,928,000 | 36,156,000 |
| 1,258,883 | Investments | 1,258,883 | 1,258,883 | - | 1,258,883 | 1,258,883 | 1,258,883 |
| 32,813,098 | Total Financial Assets | 33,895,008 | 33,900,098 | 0.0 | 35,022,098 | 36,190,098 | 37,418,098 |
| 84,632 | Non-financial assets | 89,632 | 84,632 | -5.6 | 84,632 | 84,632 | 84,632 |
| 32,897,730 | Total assets | 33,984,730 | 33,984,730 | - | 35,106,730 | 36,274,730 | 37,502,730 |
| Liabilities administered on behalf of Government | | | | | | | |
| 31,551,000 | Military benefits | 32,638,000 | 32,638,000 | - | 33,760,000 | 34,928,000 | 36,156,000 |
| 9,883 | Other | 9,883 | 9,883 | - | 9,883 | 9,883 | 9,883 |
| 31,560,883 | Total liabilities | 32,647,883 | 32,647,883 | - | 33,769,883 | 34,937,883 | 36,165,883 |
| EQUITY | | | | | | | |
| (3,418) | Accumulated results | (3,418) | (3,418) | - | (3,418) | (3,418) | (3,418) |
| 1,258,883 | Reserves | 1,258,883 | 1,258,883 | - | 1,258,883 | 1,258,883 | 1,258,883 |
| 81,382 | Capital | 81,382 | 81,382 | - | 81,382 | 81,382 | 81,382 |
| 1,336,847 | Total Equity | 1,336,847 | 1,336,847 | - | 1,336,847 | 1,336,847 | 1,336,847 |
| 32,897,730 | Total Equity and Liabilities | 33,984,730 | 33,984,730 | - | 35,106,730 | 36,274,730 | 37,502,730 |
| Represented by: | | | | | | | |
| 87,847 | Current assets | 92,857 | 87,857 | -5.4 | 87,857 | 87,857 | 87,857 |
| 32,809,883 | Non-current assets | 33,891,873 | 33,896,873 | 0.0 | 35,018,873 | 36,186,873 | 37,414,873 |
| 1,401,263 | Current liabilities | 1,456,493 | 1,456,493 | - | 1,506,548 | 1,558,655 | 1,613,439 |
| 30,154,620 | Non-current liabilities | 31,191,390 | 31,191,390 | - | 32,263,335 | 33,379,228 | 34,552,444 |

Table 7.9: Schedule of Budgeted Administered Cash Flows

| 2005-06 Estimated Actual ‘000 | | 2006-07 Previous Estimate \$'000 | 2006-07 Budget Estimate \$'000 | Variation % | 2007-08 Forward Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 |
|--|--|---|---|----------------|--|--|--|
| OPERATING ACTIVITIES | | | | | | | |
| Cash received: | | | | | | | |
| 1,506,000 | Cash from the Official Public Account | 1,529,100 | 1,545,000 | 1.0 | 1,591,000 | 1,633,000 | 1,665,000 |
| 70,060 | Interest and dividends | 21,579 | 76,912 | 256.4 | 68,517 | 68,444 | 67,752 |
| 660,500 | Other | 682,475 | 659,000 | -3.4 | 659,000 | 659,000 | 659,000 |
| 2,236,560 | Total cash received | 2,223,154 | 2,280,912 | 2.1 | 2,318,517 | 2,360,444 | 2,391,752 |
| Cash used: | | | | | | | |
| 1,496,000 | Military benefits | 1,519,100 | 1,535,000 | 1.0 | 1,581,000 | 1,623,000 | 1,655,000 |
| 10,000 | Subsidies | 10,000 | 10,000 | - | 10,000 | 10,000 | 10,000 |
| 730,560 | Cash to the Official Public Account Other | 704,054 | 735,912 | 4.5 | 727,517 | 727,444 | 726,752 |
| 2,236,560 | Total cash used | 2,233,154 | 2,280,912 | 2.1 | 2,318,517 | 2,360,444 | 2,391,752 |
| | Net cash from/(to) | | | | | | |
| | - operating activities | - | - | - | - | - | - |
| | Net (decrease)/increase | | | | | | |
| | - in cash held: | - | - | - | - | - | - |
| | Cash at the beginning of the reporting period | - | - | - | - | - | - |
| | Cash at the end of the | | | | | | |
| | - reporting period | - | - | - | - | - | - |

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 2006-07 budget year, and each of the following forward years from 2007-08 to 2009-10.

Budgeted Income statement, Balance sheet 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.

Budgeted financial estimates are provided for both departmental and administered financial items. Departmental, or controlled, financial statements are those statements which include revenues, expenses, assets and liabilities over which Defence has discretion, responsibility and authority. Departmental financial statements represent the financial performance of Defence in delivering its outcomes.

Administered financial estimates include revenues, expenses, assets and liabilities that Defence administers on behalf of the Government, but over which Defence does not have management control. These typically include military superannuation benefits.

1.2 Comparative figures and variations

In recognition of the budget development and scrutiny process, variations identified in the budgeted financial statements are between the previous estimate for 2006-07 as provided in the *Portfolio Additional Estimates Statements 2005-06* and the budget estimate for 2006-07, unless otherwise noted. The estimated actual for 2005-06 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' are used interchangeably.

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

- departmental price of outcomes appropriations (representing the Government's funding for outcomes from agencies);
- departmental capital appropriations (representing investments by the Government for either additional equity in or loans to 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 and territory governments).

1.6 Basis of Accounting

The Budgeted statements have been prepared in accordance with:

- Finance Minister's Orders, being the Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 1 July 2005);
- Applicable Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB); and
- Consensus Views of the Urgent Issues Group.

The Budgeted Income statement and Balance sheet 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 Income statement 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 Item 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 Australian Accounting Standards Board has issued replacement Australian Standards to apply from 1 July 2005. The new standards are the Australian Equivalents to International Financial Reporting Standards (AEIFRS). The changes in accounting policies under AEIFRS are applied retrospectively as if the new policy had always applied, except in relation to the exemptions available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards.

Changes in specific accounting policy have been identified in this note under their appropriate headings.

1.8 Revenue

Revenues from the Australian Government

Departmental outputs appropriation for the year 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.

Defence operates on a just in time draw-down basis that has resulted in undrawn appropriations at year end being reflected as a receivable. This receivable is available for draw-down to meet future obligations.

Other Revenue

Revenue from the sale of goods is recognised upon delivery of the goods to the customer. Revenue is recognised from services at the time the service is provided. Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

Receivables

Receivables for goods and services expected to be settled within 12 months of the reporting date are recognised at the nominal amounts, less any provision for doubtful debts. Receivables expected to be settled more than 12 months after the end of the reporting date are measured at their net present value. The collectability of receivables is assessed periodically with provision being made for impairment.

1.9 Transactions with the Australian Government

Equity Injection

Equity injection represents an additional contribution to Defence by the Australian Government, which is over and above the revenue from the Government for the price of outcomes. Equity injections are used entirely to fund capital expenditure and are recognised directly into equity in that period.

Other Distributions to Owners including Repayments of Appropriations

The Finance Minister's Orders require that distributions to owners be debited to Equity, unless in the nature of a dividend.

1.10 Employee Benefits

Defence's workforce comprises two employment components: Australian Public Service (APS, i.e. civilians) and Australian Defence Force (ADF, i.e. military) personnel. Employee benefits for each workforce component are based on the relevant employment agreements and legislation.

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including non-monetary benefits), annual leave and sick leave expected to be settled within 12 months of the reporting date are measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability. Employee benefits expected to be settled more than 12 months after the end of the reporting date are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

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 liability for annual leave for APS and ADF employees reflects the value of total annual leave entitlements of all such employees and is recognised at the nominal amount or discounted to the present value for non-current amounts.

Separation and Redundancy

Provision is made for separation and redundancy benefit payments. Defence has developed a detailed formal plan for the terminations and has informed those affected that the terminations will be carried out.

Superannuation

Permanently-appointed APS employees and Defence contribute to the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the PSS Accumulation Plan and other superannuation schemes held outside the Commonwealth. The liability for staff CSS, PSS and the PSS Accumulation Plan superannuation benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

Defence makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the department's employees.

The Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation Benefits Scheme (MSBS) are defined benefit superannuation plans for ADF members. ADF employer superannuation contributions, pension payments, DFRDB member contributions and the provision for unfunded superannuation are reflected in the Schedule of Administered Items.

Superannuation on-costs have been added to the provisions for annual leave and long-service leave in respect of both APS and ADF employees.

1.11 Asbestos-related Disease Exposure

The responsibility for the administration of common law claims in relation to Asbestos Related Disease Exposure was transferred from the Department of Defence to Comcare, with effect from 1 July 2005. An amount has been recognised in the department's financial statements in respect of Defence's estimated liability for the military personnel component of Asbestos Related Disease Exposure.

1.12 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 and recognised at the lower of the fair value of the leased asset and the present value of minimum lease payments at the commencement of the lease term. A liability is recognised at the same time for the same amount.

Non-current assets acquired under a finance lease are depreciated/amortised over the useful life of the asset. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets.

Lease incentives taking the form of 'free' leasehold improvements and rent holidays are recognised as liabilities. These liabilities are reduced by allocating lease payments between rental expense and reduction of the liability

1.13 Bad and Doubtful Debts

The provision for bad and doubtful debts is based on an analysis of the expected realisation of outstanding debts. Bad debts are written-off as they are identified. No provision is made for the Australian Government or Foreign Government debtors as they are deemed to be collectable.

1.14 Borrowing Costs

Borrowing costs are expensed as incurred.

1.15 Cash

Cash means notes and coins held, as well as any deposits held at call with a bank or financial institution. Cash is measured at the nominal amount.

1.16 Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. With the exception of specialist military equipment and Intangible assets (where no active market exists), 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.

1.17 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 Balance Sheet where they meet the capitalisation threshold.

Individual items will be capitalised where the individual value is equal to or exceeds \$2,000. Grouped Specialist Military Equipment assets will be capitalised for items of homogenous nature within a single class where the individual item values equal or exceed \$1 and the class group value equals or exceeds \$50,000.

Revaluations

Land, buildings, plant and equipment are measured and disclosed at fair value.

The carrying value of non-current assets have been assessed at 30 June 2006 by independent qualified experts or management. The fair value of non-current assets not subject to an external valuation in any given year are reviewed by management and the carrying amounts adjusted where they are materially different from fair value as determined by management.

With the exception of Specialist Military Equipment, Assets Under Construction, and Intangibles, from 1 July 2004 Defence moved to a 5-year external revaluation cycle.

In accordance with the Finance Minister's Orders, Specialist Military Equipment is carried at deemed or actual cost.

Assets Under Construction are not revalued but are carried 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.

Depreciation and Amortisation

Non-current assets having limited useful lives are systematically depreciated/amortised over their estimated useful lives in a manner that reflects the consumption of their service potential on a straight-line basis.

Heritage assets are generally anticipated to have very long and indeterminable useful lives. The service potential of heritage and cultural assets has not in any material sense been consumed during the reporting period.

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

Decontamination and Restoration Costs

Where a legal or constructive obligation exists to restore an asset back to its original condition, the net present value of estimated restoration costs are capitalised and added to the cost of the underlying asset and depreciated over the asset's useful life. As such, a corresponding provision is recognised for the restoration obligation costs. When discounting is used, the carrying amount of the provision is adjusted to reflect the unwinding of the discount and this is recognised as a finance expense.

Decontamination costs associated with properties listed for disposal are recognised as a provision separate to the valuation of the property. This provision offsets against the overall value of the property. The decontamination costs are determined on the basis of remediation surveys and technical assessments. When decontamination costs are recognised, the corresponding entry is an expense of the period of recognition. The cost of decontamination work carried out is cleared against the provision.

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.

Impairment of Non-Current Assets

Non-current assets carried at cost or fair value, which are not held to generate net cash inflows, are assessed for indications of impairment. Where indications of impairment exist, the recoverable amount of the asset is estimated and compared to the asset's carrying amount. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to the recoverable amount and the reduction is to be shown as an impairment loss expense.

1.18 Inventory

Defence's inventory is for its own consumption and it does not ordinarily hold inventory for sale. If sales are made they represent disposal of inventory surplus to requirements and minor fuel sales.

Inventories held for distribution are measured at the lower of cost and current replacement cost. The cost of inventories are to be assigned using the weighted average cost formula (In 2004-05 inventory no longer required was valued at net realisable value).

Defence has implemented a policy to identify and provide for potential excess stocks.

Costs incurred in bringing each item of inventory (primarily explosive ordnance and general stores) to its present location and condition that are capable of being allocated on a reasonable basis are assigned on a weighted average cost basis.

1.19 Intangibles

Defence's intangibles primarily comprise externally acquired and internally-developed computer software for internal use. Intangibles with gross values greater than \$150,000 are capitalised.

Acquired intellectual property may form part of the acquisition of particular tangible assets and in such cases is reflected in the value reported for Property, Plant and Equipment in the Budgeted Balance Sheet.

Defence carries intangible assets at cost or, where an active market exists, at fair value (in 2004-05 intangibles were held at cost).

The service potential of non-current intangible assets is reviewed annually. If an intangible asset is regarded as being impaired, the asset is written down to reflect its remaining service potential. Intangible assets are assessed annually for impairment.

Intangibles are amortised on a straight-line basis over their anticipated useful life.

1.20 Investments

Investments held on behalf of the Australian Government are included as administered assets and are brought to account as the value of the Australian Government'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.

1.21 Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate on the date of transaction. Foreign currency receivables and payables are translated at the exchange rate current as at the balance date.

1.22 Taxation

Defence's activities are exempt from all forms of taxation except fringe benefits tax and the goods and services tax (GST).

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

- where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- for receivables and payables (which are shown inclusive of GST in the Budgeted Income statement).

1.23 Insurance

Defence has insured for key insurable risks, excluding workers compensation, through the Government's insurable risk managed fund, called 'Comcover'. Workers compensation is through Comcare.

1.24 Schedule of Budgeted Administered Activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the Schedules of Administered Items and related notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application to the greatest extent possible of Australian Accounting Standards, Accounting Interpretations and Urgent Issues Group Consensus Views.

Revenue collected by Defence, for use by the Australian Government rather than Defence, is Administered Revenue. Collections are transferred to the Official Public Account maintained by the Department of Finance and Administration. Conversely, cash is drawn down from the Official Public Account to make payments under Parliamentary appropriations on behalf of the Australian Government. These transfers to and from the Official Public Account are reported as adjustments to the administered cash held by Defence on behalf of the Government and reported as such in the Budgeted Statement of Cash Flows in the Schedule of Administered Items and in the Administered Reconciliation Table. Thus the Budgeted Schedule of Administered Items largely reflects the Australian Government's transactions, through Defence, with parties outside the Australian Government.

Administered Revenue

All administered revenues are revenues relating to the core operating activities performed by Defence on behalf of the Australian Government. Administered revenues mainly comprise military superannuation contributions, payments received from the United Nations and foreign governments, bank interest 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 Australian Government. Administered expenses mainly comprise unfunded military superannuation benefits, ADF housing subsidies and ADF retention benefits.

Administered Investments

Defence reports the Australian Government's capital investment in the Defence Housing Authority. It is measured at fair value and is subject to impairment.

Military Retention Benefits

Certain categories of ADF personnel who are members of the Military Superannuation Benefits Scheme and have had 15-years of service receive retention benefits as an incentive for continued service. Retention benefit payments are initially recorded as prepayments and written down over the period of service.

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 Budgeted Schedules of Administered Items.

The DFRDB is a fully unfunded scheme but the MSBS is a partly-funded scheme. MSBS member contributions are paid into the MSBS fund that is controlled by the MSBS Board and are therefore not reflected in the Budgeted Schedules of Administered Items. The Australian Government on behalf of the MSBS Fund makes funded benefit payments to members of the scheme and the Australian Government is reimbursed by the MSBS fund for these payments.

The Australian Government Actuary estimates the unfunded provisions and expected future cash flows as at 30 June each year. These estimates are reflected in the Budgeted Schedules of Administered Items. The Australian Government Actuary completes a full review of the unfunded liabilities (a long-term cost report) every three years.

NOTE 2 – SUMMARY OF ESTIMATED SPECIAL ACCOUNT BALANCES

Table 7.10: Summary of Estimated Special Account Balances⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

| | Opening Balance | Receipts | Payments | Adjustments | Closing Balance |
|---|---------------------------------|--------------------------------|---------------------------------|----------------|--------------------------------|
| | 2006-07 | 2006-07 | 2006-07 | 2006-07 | 2006-07 |
| | <i>2005-06</i> | <i>2005-06</i> | <i>2005-06</i> | <i>2005-06</i> | <i>2005-06</i> |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Services for Other Governments and Non-Agency Bodies – Financial Management and Accountability Act 1997 ⁽⁵⁾⁽⁶⁾ | 29,120 <i>155,428</i> | 35,497 <i>30,209</i> | 37,660 <i>156,517</i> | - - | 26,957 <i>29,120</i> |
| Defence Endowments – Financial Management and Accountability Act 1997 | 289 <i>285</i> | 40 <i>26</i> | 37 <i>22</i> | - - | 292 <i>289</i> |
| Fedorczenko Legacy Fund – Financial Management and Accountability Act 1997 | 156 <i>154</i> | 8 <i>6</i> | 5 <i>4</i> | - - | 159 <i>156</i> |
| Other Trust Monies – Financial Management and Accountability Act 1997 | 288 <i>7,793</i> | 1,889 <i>2,429</i> | 1,902 <i>9,935</i> | - - | 275 <i>287</i> |
| Young Endeavour Youth Program – Financial Management and Accountability Act 1997 | 847 <i>827</i> | 792 <i>784</i> | 700 <i>764</i> | - - | 939 <i>847</i> |
| Total Special Accounts | 30,700 <i>164,487</i> | 38,226 <i>33,454</i> | 40,304 <i>167,242</i> | - - | 28,622 <i>30,699</i> |

Notes

1. 2006-07 revised estimates in bold.
2. 2005-06 estimates in italics.
3. The 2005-06 figures above include approximately \$6,000 for interest earned on the Official Public Account.
4. The 2006-07 figures above include approximately \$30,000 for interest earned on the Official Public Account.
5. The Services for Other Governments balance includes money relating to Comcare.
6. With the prescription of DMO on 1 July 2005 Defence has transferred \$125,909,667.45 from Services for Other Governments and Non-Agency Bodies.

SECTION TWO

DEFENCE MATERIEL

ORGANISATION

CHAPTER ONE - OVERVIEW

Overview of the 2006-07 Budget

Organisational Structure

CHAPTER TWO - RESOURCING

CHAPTER THREE - PLANNED OUTCOME PERFORMANCE

Summary of Outputs

Appropriations and Resourcing for the Defence Materiel Organisation Outcome

Performance and Evaluation Information for the Defence Materiel Organisation Outcome

CHAPTER FOUR - GOVERNANCE AND MATERIEL REFORM

Materiel Reform

Priorities and Initiatives for 2006-07

CHAPTER FIVE - PEOPLE

Workforce Summary

CHAPTER SIX - BUDGETED FINANCIAL STATEMENTS

Analysis of Budgeted Financial Statements

CHAPTER ONE

OVERVIEW

The Defence Materiel Organisation (DMO) is a service delivery agency responsible for equipping and sustaining the ADF through the acquisition of capital equipment assets and the sustainment of these assets.

The DMO's vision is to become Australia's premier program management and engineering services organisation, delivering projects and materiel support on time, on budget, and to the required quality, capability and safety. Its business is principally driven by the Defence policies and objectives set by the Australian Government and the operational requirements of the ADF.

The DMO has a single Outcome and three Outputs. As an organisation providing critical services to Defence, the DMO will continue to contribute to a number of Defence Outcomes and Outputs.

Table 1.1: DMO Outcome and Outputs

| Outcome | Description | Outputs |
|---|--|---|
| Outcome One – Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel | This Outcome encapsulates the entire business of the DMO: the activities it undertakes for Defence in acquisition and sustainment of materiel; the advice it provides on contracting policy and industry policy; as well as the work it performs to meet the Government's reporting and governance requirements. | Output 1.1 Management of Capability Acquisition Output 1.2 Capability Sustainment Output 1.3 Policy Advice and Management Services |

Overview of 2006-07 Budget

The 2006-07 DMO budget totals almost \$8.8 billion in departmental funding. This is approximately \$1.6 billion higher than the projected result for 2005-06 and represents an increase of over \$1.3 billion when compared to the Forward Estimates published in the *Portfolio Additional Estimates Statements 2005-06*.

The increase in the DMO budget for 2006-07 reflects almost \$1.0 billion of new budget measures including the acquisition of the C-17 heavy airlift aircraft (\$792m), adjustments to the Defence Capability Plan (DCP) funding (reprogramming of the DCP less funding for Headquarters Joint Operations Command) (\$124m), additional funding for stabilisation and reconstruction activities in Iraq and Afghanistan and surveillance of Australia's northern approaches (\$91m), funding for sustainment of the naval aviation fleet (\$26m) and reactivation of two Huon-class coastal mine hunters (\$23m).

Additional funding has also been provided to modernise the propellant manufacturing capability at the Mulwala explosives and propellant facility (\$19m), and for minor acquisition projects, and for increases in indexation and variations in foreign exchange rates. The DMO expects to receive additional funding from foreign governments for goods and services (\$30m).

In a parallel theme, one of the main challenges confronting the DMO in 2006-07 and beyond continues to be the competitive employment market. Skills shortages and an ageing workforce need to be addressed. This budget includes provision for further professionalisation of the workforce, enhanced remuneration initiatives and \$10m has been allocated in support of the Skilling Australian Defence Industry program.

RISK ENVIRONMENT

The DMO is engaged in a complex, high-risk enterprise of acquiring, modifying and sustaining high technology capability. In many cases this involves innovative and leading-edge technology and highly complex systems integration with an inherent high level of risk.

The DMO operates Australia-wide, in numerous overseas locations, and in direct support of ADF operations world-wide. Its business may be affected by the actions and decisions of various domestic and international companies and governments. The vast majority of projects are conducted by industry, often including a mix of domestic and international technology.

To maximise the effectiveness of its investment in Defence, the Government expects that the DMO will deliver and sustain the required capability at an optimum cost and to tight schedules.

The Government and Defence also expect the DMO to identify and mitigate the high levels of risk. The impact of failing to address risk has the potential to increase acquisition and sustainment costs, and delay scheduled delivery. Inaction would impact directly on the Defence Capability Plan with the consequence leading to the allocation of additional contingency funds, delayed starts for new projects, and unnecessary overlaps in the retirement of old platforms and the introduction of new platforms.

The DMO's task is to minimise such shortfalls, by engaging early to identify problems and effectively manage risk related issues as they arise.

MAJOR CHALLENGES FOR 2006-07

The major challenges facing the DMO in 2006-07 are:

- continued improvement in the delivery of acquisition and sustainment requirements, to meet the operational demands of the ADF;
- the continued implementation of a major change program, to make the DMO more outcome-focused and business-like;
- through a careful mix of competitive tendering and appropriately negotiated and sound contracting, strengthening the partnership with Australian industry. This will enhance the national skills base and build industry's capacity to support Defence; and
- enhancing the depth and breadth of skills and expertise in the DMO workforce.

Organisational Structure

The DMO is structured into 12 Divisions which are categorised as domain, major programs or operations (as shown in the DMO Organisational Chart on p. 249). Within the DMO:

- the term 'Domain' is used to describe the section of the organisation responsible for the acquisition and sustainment of ADF equipment in a specific environment (maritime, land, aerospace, and electronic and weapon). System Program Offices exist within each domain and are the focal point for procurement, delivery and sustainment of equipment.
- 'Major Programs' is used to describe a grouping of the DMO activities associated with the acquisition of high value, high profile capabilities of strategic significance to the nation. Major Programs have been established for the following high profile projects: Joint Strike Fighter, Air Warfare Destroyer, Amphibious Ships and Land Vehicle Systems.
- the remaining Divisions are described as 'Operations' and are responsible for contracting services, information technology, strategic communications, corporate governance, human resource management, financial services, and strengthening relations with industry.

Structural, management and cultural change over the past two years have seen the DMO become a more performance and outcome driven, business-like organisation.

While the DMO remains within the Defence portfolio, the term 'Defence' and 'DMO' are used separately in the following chapters to distinguish the DMO from what might be called 'the rest of Defence'.

Senior Executive Changes

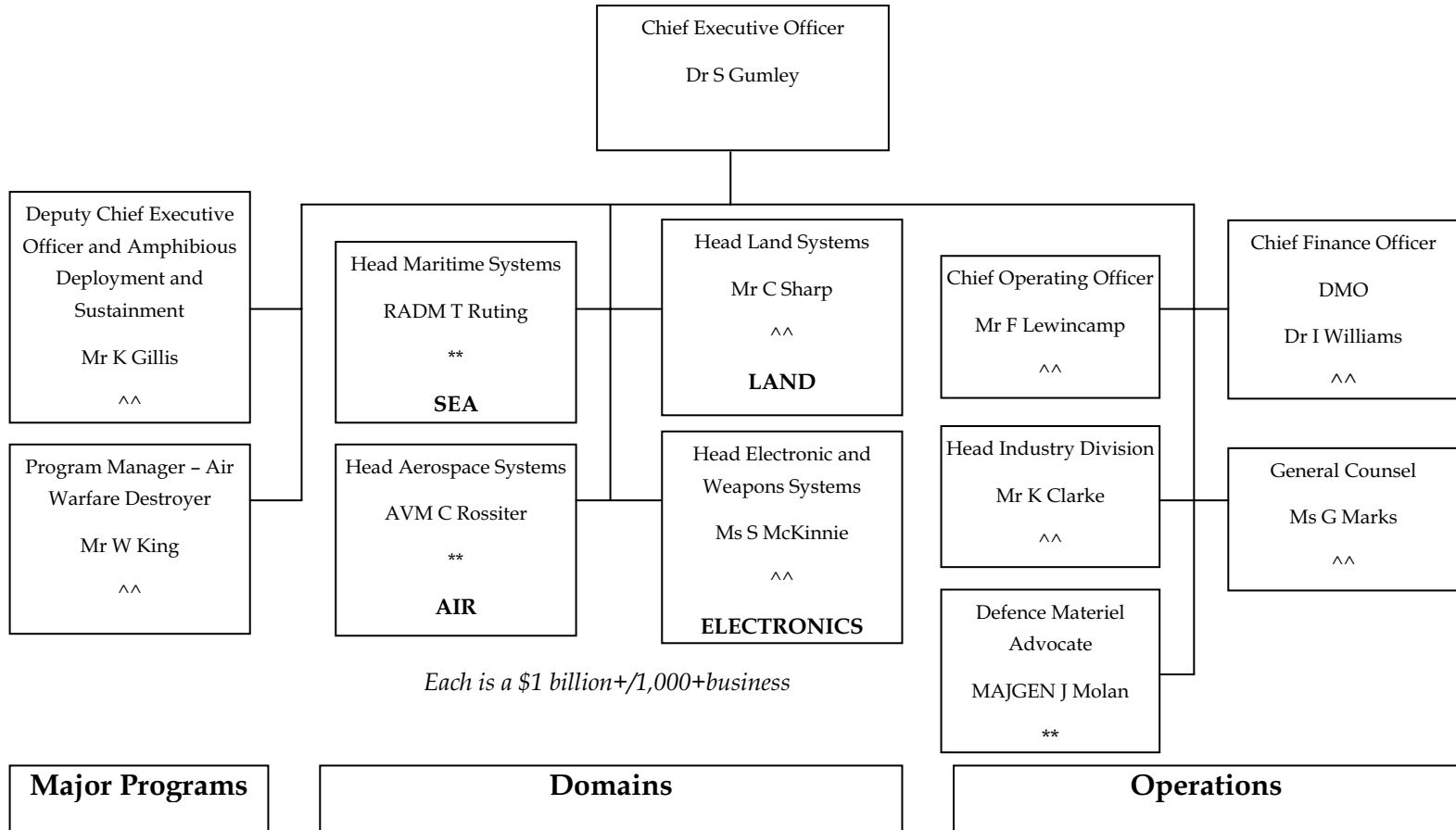
Mr Kim Gillis was appointed Acting Deputy Chief Executive Officer on 18 April 2006.

Mr Kerry Clarke commenced as Head Industry Division on 8 May 2006.

ORGANISATIONAL CHART

The following chart depicts the organisational structure of the DMO, as at 9 May 2006.

Chart 1.1: Defence Materiel Organisation Organisational Chart



** - Military 2-star position

^^ - Civilian SES Band 2

CHAPTER TWO

RESOURCING

Total resourcing available to the DMO in 2006-07 is \$8,783.2m, with the majority being revenue from Defence estimated at \$8,669.6m. This covers the procurement of capital equipment (\$5,017.6m) and the sustainment of existing capability (\$3,652.0m). As part of its direct appropriation from the Parliament (\$45.5m), the DMO will deliver procurement and industry policy and advice to other elements of the Defence Portfolio and the Government. The remainder of the resourcing is primarily comprised of \$34.4m of revenue from sale of assets and \$33.8m of revenue for other goods and services. The total level of resourcing of \$8,783.2m represents an increase of \$1,623.6m compared with the projected result in 2005-06.

In comparison to the 2006-07 estimates contained in the *Portfolio Additional Estimates Statements 2005-06*, there has been an increase in the DMO's revenue of \$1,327m as a result of:

- a net increase in commissioned work required by Defence, including:
- the acquisition of the C-17 heavy lift aircraft (+\$792m);
- adjustments to Defence Capability Plan funding (+\$124m);
- provision for the net personnel and operating costs associated with the introduction into service of new equipment (+\$125m);
- additional funding from Defence to support operations (+\$91m);
- additional logistic funding for naval aviation (+\$26m);
- reactivation of two Huon-class coastal mine hunters (+\$23m)
- funding from Defence to modernise the Mulwala explosives and propellant facility (+\$19m);
- an increase in funding for minor acquisition projects (+\$8m);
- the application of indexation and foreign exchange parameter updates for acquisition and sustainment activity (+\$104m); and
- an increase in funding received from foreign governments for collaborative project (+\$30m).

Method of Presenting the DMO Budget

The presentation method of the DMO budget is consistent with the Australian Equivalent of the International Accounting Standards (accrual basis). The

method includes total funding appropriated by the Government to the DMO, revenue from Defence, and the DMO's own-source revenue.

Appropriation and Other Resources

Outputs 1.1 and 1.2 will be funded by payments from Defence for services provided, as set out in the Materiel Acquisition Agreements and Materiel Sustainment Agreements. Accordingly, Defence's appropriation includes the cost of the DMO's Outputs 1.1 and 1.2. Funding for these Outputs represents 98.7 per cent of the DMO's funding requirements.

The direct appropriation for the DMO in the 2006-07 Budget is \$45.5m. The DMO also receives a small amount of funding from other government agencies for goods and services provided to them.

The following Table 2.1 provides details of total cash receipts from all origins for 2006-07, including direct appropriations, cash receipts from Defence, DMO's own source receipts, but excluding GST, DMO's cash already at bank, and those funds retained from 2005-06.

Table 2.1: Appropriations and Other Resources 2006-07

| Outcome | Appropriation Bill No. 1 \$'000 | Appropriation Bill No. 2 \$'000 | Special Appropriation \$'000 | Receipts ⁽¹⁾ \$'000 | Total \$'000 |
|--|---------------------------------------|---------------------------------------|------------------------------------|-----------------------------------|------------------|
| Outcome 1: Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel | 45,469 | - | - | 8,527,636 | 8,573,105 |
| TOTAL | 45,469 | - | - | 8,527,636 | 8,573,105 |

Note

1. Departmental receipts from other sources (that is other than appropriation amounts) that are available to be used, including resources through Defence's Appropriation Bill No. 1.

2006-07 Budget Measures

There are no DMO-specific budget measures, although some of Defence's new budget measures will impact on the DMO. DMO revenue expected for the new Defence budget measures are shown in Table 2.2. Refer to Defence's Chapter Two – Resourcing and Budget Paper No.2 for further details on the new Defence budget measures listed in the following table.

Table 2.2: Summary of the DMO Resourcing from New Defence Budget Measures

| Defence Budget Measure with the DMO Funding Component | Budget 2006-07 | Forward Estimate 2007-08 | Forward Estimate 2008-09 | Forward Estimate 2009-10 |
|---|-----------------------|---------------------------------|---------------------------------|---------------------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Defence capability - heavy airlift | 792,277 | 517,621 | 318,474 | 121,193 |
| Bring forward of Defence Capability Plan funding | 153,900 | 206,800 | 52,100 | 212,200 |
| Mulwala redevelopment project | - | - | 61,000 | 29,100 |
| National security - defence communications project | -35,000 | -31,000 | 14,000 | 19,000 |
| Logistics – additional funding for naval aviation | 26,200 | - | - | - |
| Iraq – funding for stabilisation and reconstruction activities | 72,421 | 45,338 | 15,610 | - |
| Afghanistan – contributing to a Provincial Reconstruction Team | 9,280 | 9,280 | 8,000 | - |
| Coastal surveillance – continuation | 9,793 | - | - | - |
| Hardened and Networked Army – phase 2 | 102 | 310 | 416 | 530 |
| Defence Headquarters Joint Operations Command – delivering through a public private partnership | -29,620 | -73,810 | -60,660 | -18,910 |
| Coastal surveillance – increased patrolling of maritime approaches | 23,271 | 23,511 | 23,686 | 24,066 |

Other Resources Available to be Used

The principal source of resources is payment by Defence for the DMO's acquisition and sustainment services (see Table 2.3). A small proportion comes from the sale of commercial vehicles no longer required by Defence and the DMO.

The significant differences between Table 2.1 'Appropriations and Other Resources 2006-07' and Table 2.3 'Other Resources Available to be Used' relate mainly to the planned expenditure of \$200m of 2005-06 funding that was retained by the DMO to meet its commitments that, because of timing issues, will now occur in 2006-07.

Table 2.3: Other Resources Available to be Used⁽¹⁾

| | Estimated Resources 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 |
|--|---|--------------------------------------|
| Departmental resources | | |
| DMO Special Account | 7,113,914 | 8,736,258 |
| Total departmental other resources available to be used | 7,113,914 | 8,736,258 |

Note

1. This table is a revenue view. Resources received free of charge from the Australian National Audit Office (\$1.5m), and GST (\$648.7m in 2005-06 and \$551.5m in 2006-07) are not included in this table. Departmental other receipts are disclosed in Table 6.3 - Budgeted Departmental Statement of Cash Flows.

Special Accounts

The DMO has two special accounts:

- Defence Materiel Special Account; and
- Other Trust Monies Special Account.

The Defence Materiel Special Account is the main operating account from which most business activities are conducted. The Other Trust Monies Special Account holds any other public money on trust. Table 2.4 details the cash based estimates of the two Special Account flows and balances, including GST flows.

Table 2.4: Estimates of Special Account Flows and Balances

| | | Opening Balance 2006-07 \$'000 | Credits 2006-07 \$'000 | Debits 2006-07 \$'000 | Adjustments 2006-07 \$'000 | Closing Balance 2006-07 \$'000 |
|---|----------------|---|------------------------------|-----------------------------|----------------------------------|---|
| | Outcome | | | | | |
| DMO Special Account ⁽¹⁾ | 1 | 510,446 | 9,124,583 | 9,475,583 | - | 159,446 |
| | | - | 8,190,036 | 7,679,590 | - | 510,446 |
| DMO Other Trust Monies Special Account ⁽²⁾ | 1 | - | 2,163 | 2,163 | - | - |
| | | - | 1,959 | 1,959 | - | - |
| Total special accounts 2006-07 Budget estimate | | 510,446 | 9,126,746 | 9,477,746 | - | 159,446 |
| Total special accounts | | | | | | |
| 2005-06 estimate actual | 1 | - | 8,191,995 | 7,681,549 | - | 510,446 |

Notes

1. The DMO Special Account is established under Section 20 of the *FMA Act*.
 2. The DMO Other Trust Monies Special Account is established under Section 20 of the *FMA Act*.

Purchaser-Provider Arrangements

Two principal purchaser-provider arrangements have been established to support the new relationship with Defence following the prescription of the DMO: Materiel Acquisition Agreements and Materiel Sustainment Agreements.

Materiel Acquisition Agreements cover the DMO's acquisition services to Defence for both major and minor capital equipment. Agreements are between the Chief of the Capability Development Group, on behalf of Defence, and the CEO DMO for major capital equipment; and between the relevant Capability Managers, on behalf of Defence, and the CEO DMO for minor capital projects.

Materiel Sustainment Agreements are between the Capability Managers and the CEO DMO. These agreements will cover the sustainment of current capability, including services such as repairs and maintenance, and the purchase of fuel and explosive ordnance. The DMO reports to the Defence Committee on its performance in relation to these agreements on a regular basis.

Other purchaser-provider arrangements between the DMO and Defence are Shared Services Agreements and Defence Services Agreements. Shared Services Agreements cover a broad range of services provided by Defence to the DMO and vice versa. Services covered by Shared Services Agreements include payroll, accommodation and banking services provided by Defence, and contracting policy and advice provided by the DMO. Defence Services Agreements are generated for ongoing significant purchasing arrangements only by Defence on behalf of the DMO.

CHAPTER THREE

PLANNED OUTCOME PERFORMANCE

This chapter explains how the resources identified in Chapter 2 – Resourcing will be used to deliver the Outputs that contribute to the DMO Outcome.

Summary of Outputs

OUTPUT 1.1 – MANAGEMENT OF CAPABILITY ACQUISITION

This output delivers specialist military and associated equipment to Defence. It encompasses all of the DMO's activities in support of the acquisition process, including all pre-approval activities as well as the acquisition process for major and minor capital investments. Output 1.1 will represent 57 per cent of the DMO's expenditure in 2006-07.

The price of Output 1.1 provides for estimated expenditure on specialist military equipment and the DMO's costs in delivering acquisition services.

OUTPUT 1.2 – CAPABILITY SUSTAINMENT

This output delivers the sustainment of specialist military and associated equipment to Defence. It includes the maintenance of equipment and purchasing of inventory, such as explosive ordnance, fuel, stores and spare parts. Output 1.2 will represent 42 per cent of the DMO's expenditure in 2006-07.

The price of Output 1.2 provides for estimated expenditure on maintenance and inventory purchases and the DMO's costs in delivering sustainment services.

OUTPUT 1.3 – POLICY ADVICE AND MANAGEMENT SERVICES

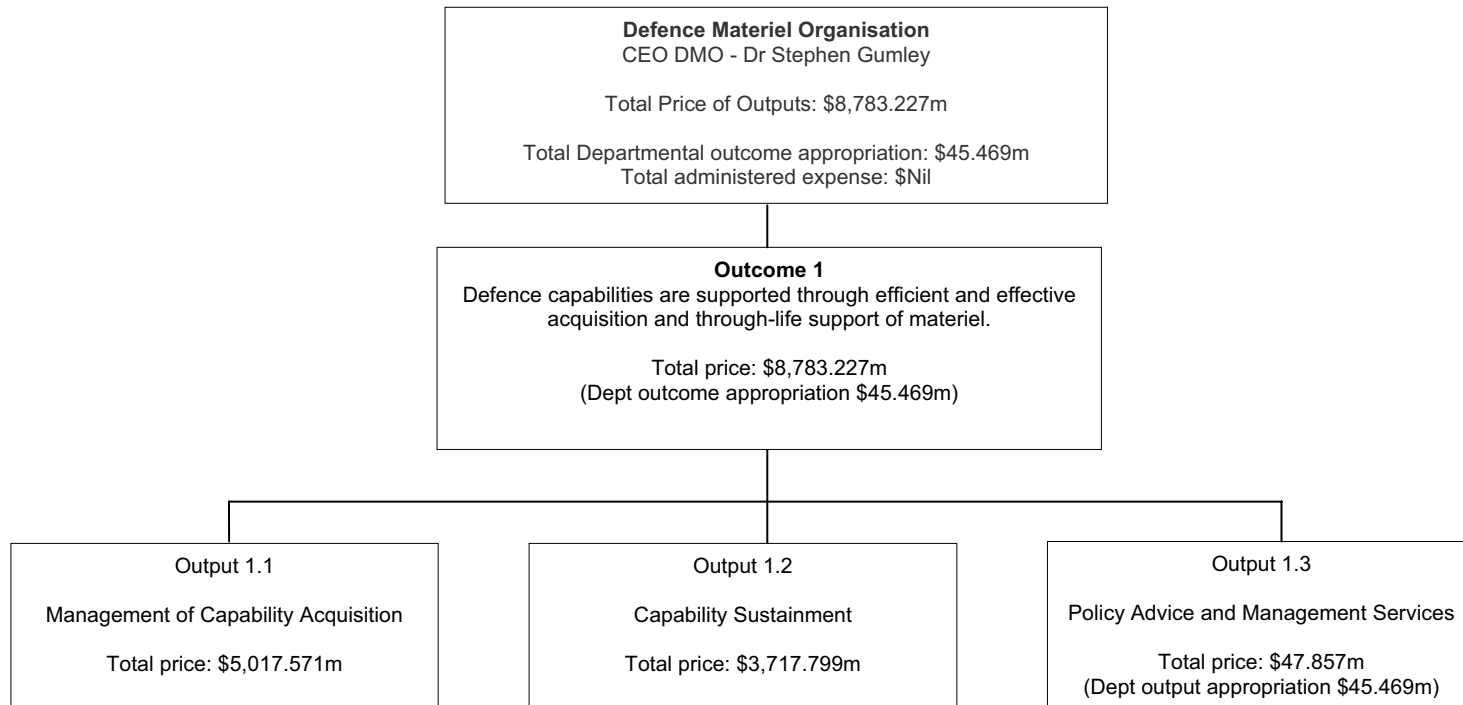
This output delivers procurement and industry policy and advice to both the Defence Portfolio and the Government, and those corporate functions in support of the organisation's business.

This output will represent less than one per cent of the DMO's expenditure in 2006-07.

The relationship between activities of the DMO and its outcome is summarised in Chart 3.1 in terms of accrual-based prices rather than cash received from Defence and the Government.

Chart 3.1: Contributions to Outcome and Outputs

(There has been no change to the DMO Output structure from the *Portfolio Budget Statements 2005-06*)



Appropriations and Resourcing for the DMO Outcome

RESOURCING BY OUTPUT

Table 3.1 below shows how the 2006-07 Budget appropriations translate to total resourcing for DMO's Outcome, including revenue from the Government (appropriation), revenue from other sources (Departmental) and the total price of the outputs. Figure 3.2 displays this information pictorially.

The DMO's budget and forward estimates include funding required to support approved activities as well as an estimate of the DMO's share of planned future activities associated with the Defence Capability Plan. The funding requirement for Output 1.3 is steady across the forward estimates in real terms.

Table 3.1: Total Resources for Outcome

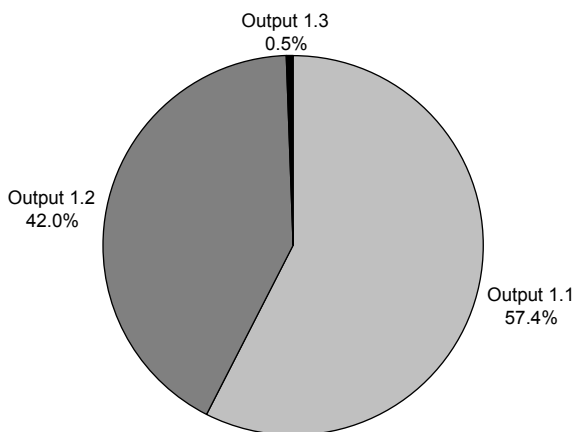
| | Estimated Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 |
|---|--|---|
| | - | - |
| Departmental appropriations | | |
| Output 1.3 (to DMO special account) ⁽¹⁾ | 44,257 | 45,469 |
| Subtotal Output 1.3 | 44,257 | 45,469 |
| Total revenue from Government (appropriations) | 44,257 | 45,469 |
| Contributing to price of departmental outputs | 0.6% | 0.5% |
| Revenue from other sources | | |
| Output 1.1 Capability Acquisition (to DMO Special Account) | | |
| Revenue from Defence | 3,693,585 | 5,017,571 |
| Revenue from external sources | - | - |
| Subtotal Output 1.1 | 3,693,585 | 5,017,571 |
| Output 1.2 Capability Sustainment (to DMO Special Account) | | |
| Revenue from Defence | 3,363,214 | 3,652,016 |
| Revenue from external sources | 56,249 | 65,783 |
| Subtotal Output 1.2 | 3,419,463 | 3,717,799 |
| Output 1.3 Policy Advice and Management Services (to DMO Special Account) | | |
| Revenue from Defence | - | - |
| Revenue from external sources | 2,366 | 2,388 |
| Subtotal Output 1.3 | 2,366 | 2,388 |
| Total revenue from other sources | 7,115,414 | 8,737,758 |
| Total price from departmental outputs | 7,159,671 | 8,783,227 |

| | Estimated Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 |
|--|--|---|
| (Total revenue from Government and from other sources and goods received free of charge) | | |
| From Special Account (estimated payments from special account balances) | | |
| DMO Special Account ⁽²⁾ | 7,681,549 | 9,477,746 |
| Total departmental Special Account outflows | 7,681,549 | 9,477,746 |
| Total estimated resourcing for Outcome 1 | 7,159,671 | 8,783,227 |
| (Total price of outputs and administered appropriations) | | |

Notes

1. The direct appropriation can only be credited to the DMO Special Account and expended in accordance with the purpose of the Special Account.
2. Special Account outflows are shown in the debits column of the Special Account table in Table 2.4 and include GST of \$551m. The estimated payments from Special Account balances are provided by way of note only and do not form part of the total estimated resourcing.

Chart 3.2: Total Resources by Output



Performance and Evaluation Information for the DMO Outcome

The DMO has three major outputs. Each of these outputs, which have performance targets, are listed in Table 3.2.

Table 3.2 Performance Information for Outputs

| Output | Performance Indicator | Planned evaluation of performance |
|--|--|---|
| Output 1.1 Management of Capability Acquisition | Project scope, schedule and budget criteria, as agreed between the CEO DMO and the Defence 'customer', and expressed in the Materiel Acquisition Agreements. | Delivery of major and minor capital equipment projects against the Materiel Acquisition Agreement scope, schedule and budget criteria. |
| Output 1.2 Capability Sustainment | Performance targets agreed between the DMO and Capability Managers, consistent with enabling the ADF to deliver its operations and capability preparedness requirements as directed by the Government. | Deliver quality, timely and cost effective maintenance, repair, and supply services to the levels and standards agreed by Defence including support to on-going operations. |
| Output 1.3 Policy Advice and Management Services | Deliver quality policy advice and management services | DMO will continue to evaluate the delivery and quality of advice and services as well as drive the materiel reform agenda through the Change Program initiatives. |

PERFORMANCE TARGET FOR OUTPUT 1.1 – MANAGEMENT OF CAPABILITY ACQUISITION

A separate Materiel Acquisition Agreement between the Defence 'customer' and the CEO DMO covers each capability project. Each agreement specifies the project in terms of the scope to be delivered, the schedule for delivery and the budget that is available. The scope description is a reference to underlying capability specifications and key measures of capability effectiveness as selected by the customer. Schedule description is the key milestones covering start-up activities, the contract and in-service activities. Budget information is estimates of percentage spent at each schedule milestone, current expenditure program and current assessment of the adequacy of the available contingency budget. Monthly reports against all Materiel Acquisition Agreements are provided to a specification agreed with the Defence customer.

Planned resource use for Output 1.1 is \$5,017.6m in 2006-07.

APPROVED MAJOR CAPITAL EQUIPMENT PROJECTS

The DMO manages the part of the Defence investment program that focuses on approved major capital equipment projects. The DMO will manage some 210 approved major capital equipment projects during 2006-07.

Table 3.3 lists the top 30 Government approved projects ranked by forecast expenditure in 2006-07. Schedules for delivery of the capability are included in the descriptions of the top 30 projects.

Acquisition Projects Not Included in the Top 30 – Current Status

Table 3.4 provides an update on the status of major projects reported in the *Portfolio Budget Statement 2005-06* and *Portfolio Additional Estimates Statement 2005-06* that have now dropped below the top 30 forecast expenditure threshold.

Table 3.5 provides an update on the financial status of projects included in statutory reports over the previous three financial years – 2004-05, 2003-04 and 2002-03. The planned expenditure for these projects or their completed status during 2006-07 places them outside the top 30.

Table 3.3: Top 30 Projects by Forecast 2006-07 Expenditure

| | Project Number | Approved Project Expenditure | Estimated Cumulative Expenditure to 30 June 2006 | 2006-07 Budget Estimate ⁽¹⁾ |
|--|-----------------|------------------------------|--|--|
| | | \$m | \$m | \$m |
| Aerospace | | | | |
| Heavy Airlift ⁽²⁾ | AIR 8000 Ph 3 | 2,233 | 5 | 795 |
| Armed Reconnaissance Helicopter | AIR 87 Ph2 | 1,962 | 1,149 | 312 |
| F/A-18 Hornet Upgrade | AIR 5376 Ph2 | 1,503 | 939 | 210 |
| Additional Trooplift Helicopter | AIR 9000 Ph2 | 1,012 | 269 | 183 |
| ADF Air Refuelling Capability | AIR 5402 | 1,761 | 392 | 167 |
| Anzac Ship Helicopter | SEA 1411 Ph1 | 1,006 | 935 | 64 |
| F/A-18 Hornet Upgrade – Structural Refurbishment | AIR 5376 Ph3.2 | 177 | 38 | 53 |
| F/A-18 Hornet Upgrade – Target Designation System | AIR 5376 Ph2.4 | 147 | 23 | 50 |
| Airborne Early Warning and Control | | | | |
| Airborne Early Warning and Control | AIR 5077 Ph3 | 3,530 | 2,463 | 439 |
| Air Warfare Destroyer | | | | |
| Aegis Combat System | SEA 4000 Ph 3.1 | 1,329 | 20 | 219 |
| Air Warfare Destroyer Design Activity | SEA 4000 Ph2 | 474 | 74 | 141 |
| Maritime | | | | |
| Armidale-class Patrol Boat | SEA 1444 Ph1 | 548 | 253 | 182 |
| SM-1 Missile Replacement | SEA 1390 Ph4B | 599 | 11 | 96 |
| Anzac Ship Project | SEA 1348 Ph2 | 5,372 | 5,214 | 87 |
| FFG Upgrade Implementation | SEA 1390 Ph2 | 1,480 | 1,008 | 74 |
| Anti-Ship Missile Defence | SEA 1448 Ph2A | 342 | 44 | 63 |
| New Heavyweight Torpedo | SEA 1429 Ph2 | 430 | 175 | 51 |
| Collins Replacement Combat System | SEA 1439 Ph4A | 448 | 309 | 47 |
| Collins-class Reliability and Sustainability Improvements | SEA 1439 Ph3 | 375 | 186 | 35 |
| Land | | | | |
| Tank Replacement Project | LAND 907 Ph1 | 557 | 305 | 157 |
| Upgrade of M113 Armoured Vehicles | LAND 106 | 594 | 199 | 118 |
| Bushranger Infantry Mobility Vehicles | LAND 116 Ph3 | 356 | 182 | 86 |
| Electronic and Weapons Systems | | | | |
| Electronic Warfare Self Protection for Selected ADF Aircraft | AIR 5416 Ph2 | 295 | 89 | 62 |
| Lightweight Torpedo Replacement | JP 2070 Ph3 | 269 | 32 | 54 |

| | Project Number | Approved Project Expenditure | Estimated Cumulative Expenditure to 30 June 2006 | 2006-07 Budget Estimate ⁽¹⁾ |
|--|------------------|------------------------------|--|--|
| | | \$m | \$m | \$m |
| Explosive Ordnance Reserve Stocks | JP 2085 Ph1B | 207 | 76 | 49 |
| Jindalee Operational Radar Network | JP 2025 Ph3/4 | 1,245 | 1,180 | 45 |
| Lightweight Torpedo Replacement | JP 2070 Ph2 | 321 | 143 | 45 |
| New Air Defence Command and Control Systems for 2CRU/3CRU | AIR 5333 | 253 | 91 | 32 |
| Amphibious Vessels | | | | |
| Maritime Operations Support Capability | SEA 1654 Ph2A | 143 | 102 | 32 |
| New Air Combat Capability | | | | |
| New Air Combat Capability | AIR 6000 JSF SDD | 213 | 148 | 30 |
| TOTAL TOP 30 APPROVED PROJECT ESTIMATE | | 29,181 | 16,054 | 3,978 |
| Other Approved Project Estimate | | 26,008 | 22,150 | 876 |
| Projects Planned for Government Consideration | | | | 229 |
| Total Program Estimate for Major Capital | | 55,189 | 38,204 | 5,083 |
| Provision for Expenses that may fall due after 30 June 2007 | | | | -426 |
| Total Funds Available | | - | - | 4,657 |

Notes

1. The 2006-07 budget estimate figures include indexation and foreign exchange.
2. Project approved but funds transfer subject to finalisation of inter-agency Materiel Acquisition Agreements.

AIR 8000 Ph3 Heavy Airlift Capability

Prime Contractor: The Boeing Company under a Foreign Military Sales arrangement with the United States Government.

Up to four Boeing C-17 Globemaster III heavy lift aircraft will be acquired to give the ADF a new responsive global airlift capability. The C-17 aircraft will significantly enhance the ADF's ability to support national and international operations and major disaster rescue and relief efforts and has the load capacity and range to rapidly deploy combat and support vehicles.

The acquisition of the C-17 aircraft under Project Air 8000 Phase 3 is being expedited due to the pressing need for this capability to support ADF operations. This accelerated schedule for the acquisition is possible due to the 'off-the shelf' nature of the acquisition.

First and Second-Pass approvals were granted on 1 March 2006. The first C-17 aircraft is scheduled for delivery in December 2006, with follow-on deliveries in 2007-08. A Foreign Military Sales (FMS) Case has been signed with the US Government to provide initial RAAF C-17 aircrew and maintenance training

commencing in second quarter of 2006. A further FMS Case is envisaged to be signed in May 2006 for the delivery of C-17 aircraft and associated support.

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 Government signed a 15-year support contract that commenced at in-service date when the first two armed reconnaissance helicopters were delivered on time on 15 December 2004.

A total of seven armed reconnaissance helicopters will be delivered by 30 June 2006 in variance to the contracted requirement of ten aircraft. Acceptance of another six is expected from the Australian production line at the Australian Aerospace facility in Brisbane during 2006-07. Limited ground crew and maintenance technician training has commenced in Australia; however, aircrew training and delivery of training devices has fallen behind schedule.

Final delivery of the armed reconnaissance helicopters will still occur by December 2008, however, the training delays will have impact on achievement of original budget milestones.

The budget estimate reflects a mixture of aircraft and non-aircraft deliverables.

This project contributes to Army capability.

AIR 5376 Ph2 F/A-18 Hornet Upgrade

Prime Contractors: Boeing (United States) – Aircraft Cockpit Upgrade;
Raytheon Australia – Hornet Aircrew Training System

This project seeks to upgrade the F/A-18 Hornet 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 aircraft cockpit upgrade includes colour cockpit displays, a digital moving map, a helmet-mounted cueing system for the advanced short-range air-to-air missile and improved data links. The radar upgrade has been completed. The electronic warfare aspects address radar warning receiver, jamming and counter-measures dispensing. A new Hornet Aircrew Training System is also being procured. Flight testing of the pilot situational awareness modifications, including the cockpit display was completed in late 2005 and Service Release was provided in early 2006. Modification of the remaining fleet aircraft has now commenced and will continue throughout 2006-07.

The schedule for 2006-07 includes Second Pass approval of the electronic warfare jammer and contract negotiation for the provision of the radar warning receiver. The supplementary counter-measures dispensing system has been selected and the procurement contract is expected to be signed in mid 2006. The technical integration design has been contracted and delivery of modification kits will begin in late 2006. Three Tactical Operational Flight Trainers will be delivered during 2006-07 as part of the new Hornet Aircrew Training System.

This project contributes to Air Force capability.

AIR 9000 Ph2 Additional Trooplift Helicopter

Prime Contractor: Australian Aerospace

On 31 August 2004, the Prime Minister and the Minister for Defence announced that the MRH 90 had been selected as the preferred platform for the ADF's additional troop lift squadron under Phase 2 of the AIR 9000 program. AIR 9000 Phase 2 will acquire 12 helicopters, the associated equipment and establish the in-service support contract. The new helicopters will be located in Townsville. The first delivery is expected in late 2007, with all 12 aircraft delivered by end 2009.

The acquisition contract was signed on 2 June 2005. The sustainment contract was signed 29 July 2005. A Program Agreement was also signed 29 July 2005. In 2006, production will continue on the MRH 90 helicopters at the Eurocopter facilities in Marignane, France. The Aircraft Detailed Design Review was completed in March 2006 and the Test Readiness Review will be conducted during 2006-07. Maintainer training and conversion training for Test Pilot and Flight Test Engineer will commence mid 2007.

This project contributes to Army capability.

AIR 5402 ADF Air Refuelling Capability

Prime Contractor: EADS CASA (acquisition) and through-life support (contract under negotiation)

The project seeks to provide five new generation Airbus A330 multi-role tanker transport (MRTT) aircraft, together with through-life support services including engineering, maintenance, spares management, technical data, software and training support for the new fleet.

The prime contractor, EADS CASA, continues to demonstrate strong commitment to the success of Air 5402 as the lead customer of the A330 MRTT aircraft.

A through-life support contract is being negotiated and expected to be achieved in 2006. As all activities to develop and stand-up the support system are conducted under the acquisition contract, delay in finalising the through-life support contract will not impact introduction into service of the new tankers.

Expenditure during 2006-07 is programed against payment milestones and earned value in relation to the conversion of the first aircraft to the air-to-air refuelling configuration and completion of the test readiness review in preparation for ground and flight testing later in 2007.

The initial in-service date (comprising two aircraft, completion of qualification testing and issue of the military airworthiness certificate) is planned for late 2009.

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.

Nine helicopters have been delivered in an interim training configuration. Of the remaining two aircraft, one is in short term preservation in Australia and one remains in the United States for ongoing flight-testing. These aircraft will be delivered in 2006-07 once the software testing is completed and remaining type certification issues are addressed. During 2006-07, integration of the full capability software is scheduled to be completed and the type certification program will be progressed.

The estimate reflects reprogramming due to slippage of the first full capability helicopter from late in 2005-06 to early in 2006-07.

This project contributes to Navy capability.

AIR 5376 Ph3.2B F/A-18 Hornet Upgrade – Structural Refurbishment Program

Prime Contractors:

- (1) L-3 Communications MAS Inc (Canada) – for Non-Recurring Engineering/Modification Development
- (2) Boeing Australia Limited (on behalf of the Hornet Industry Coalition) – for SRP1 Delta Production Installation program
- (3) SRP2 Production Installation Program – Contractor responsibilities yet to be confirmed.

Phase 3.2B is the second stage of a multi-stage structural refurbishment program (SRP) for the Royal Australian Air Force F/A-18 Hornet fleet. The program is aimed at restoring sufficient structural fatigue life to aircraft to ensure the fleet achieves the planned withdrawal date. The project is not subject to Initial Operational Capability or Full Operational Capability dates and its objective is

to induct aircraft for the respective modification programs prior to the aircraft reaching structural fatigue life limits.

Phase 3.2 is currently approved to develop and install SRP2 modifications on 15 aircraft and comprises the major centre barrel replacement and some discrete structural modifications. The remaining aircraft will receive a smaller package of SRP1 Delta modifications.

SRP1 Delta program commenced low rate initial production stage on 16 January 2006, with full rate production scheduled to commence in July 2006 in conjunction with the AIR 5376 Phase 3.1 SRP1 program. The combined program SRP1/SRP1 Delta program is expected to be completed by May 2009.

The major program under Phase 3.2B (the SRP2) is at modification development/ prototype stage with prototype modification installation due to commence in early May 2006. Following successful prototyping the SRP2 low rate initial production program will commence in October 2007.

Phase 3.2B is currently being reviewed, with an increased scope proposed to address additional SRP2 requirements associated with a possible extension of the Hornet planned withdrawal date. Second Pass Approval of the re-scoped Phase 3.2B is scheduled for Government consideration in the Third Quarter 2006.

This project contributes to Air Force capability.

AIR 5376 Ph2.4 F/A-18 Hornet Upgrade – Target Designation System

Prime Contractor: Northrop Grumman (United States)

Phase 2.4 will procure a non-developmental, self-contained, targeting and laser designation system to replace the current NITE Hawk Forward Looking Infra Red (FLIR) pod on the Royal Australian Air Force F/A-18 Hornet. The replacement system will improve the detection, identification, precision targeting and damage assessment phases of F/A-18 strike and offensive air support operations.

Northrop Grumman was announced as the preferred tenderer in September 2005. Contract signature occurred in October 2005. Thirty-seven LITENING AT target designation systems will be procured, plus spares and associated support equipment.

LITENING AT system deliveries are scheduled to commence in October 2006. Integration and Evaluation testing is scheduled for December 2006. Initial Operational Capability is scheduled to be achieved by no later than June 2007 and Full Operational Capability by no later than February 2008.

This project contributes to Air Force capability.

AIR 5077 Ph3 Airborne Early Warning and Control

Prime Contractor: The Boeing Company (United States)

Boeing Australia Ltd commenced modification of the third aircraft at RAAF Amberley in January 2006. The Operational Flight Trainer and initial Operational Mission Simulator will be delivered at the end of May 2006 and crew training will commence at RAAF Williamtown in July 2006. The first of the facilities to be constructed at RAAF Tindal, the Operations Building, will be completed in December 2006. The first element of the Mission Support System will be delivered in January 2007.

Under the schedule replan resulting from the prolonged strike action against Boeing in the USA in 2005, the aircraft test and evaluation program is planned for completion in April 2007 with the first two aircraft to be delivered in May 2007 and the third in June 2007.

The planned in-service date of December 2007 will still be achieved.

This project contributes to Air Force capability.

SEA 4000 Air Warfare Destroyer Program – Ph3.1

Prime Contractor: Lockheed Martin through Foreign Military Sales with United States Government.

The SEA4000 Air Warfare Destroyer (AWD) Program, currently Australia's largest and most technically complex Defence project, will acquire three Area Air Warfare capable Destroyers for the Australian Defence Force (ADF). At the core of the AWD capability is the AEGIS Combat System. AEGIS will provide the ADF with an unsurpassed Area Air Warfare capability previously unavailable to the ADF, which will allow the AWD's to significantly influence the airspace around it by providing the central platform to the ADF's layered joint Air and Missile Defence Capability.

The Government approved the early procurement of the AEGIS Combat System in December 2005. Phase 3.1 of the SEA4000 Program will procure the AEGIS Combat System for integration on either the Gibbs & Cox or Navantia design options, pending final Government Approval at 2nd Pass in mid 2007. The AWD Program remains on schedule with delivery of the first of the three new ships planned for 2013.

This project contributes to Navy Capability.

SEA 4000 Ph2 Air Warfare Destroyer Design Activity

Prime Contractor: Phase 2 Design Agreements and Not-to-Exceed Contracts are in place between the Commonwealth and each of the Prime Contractors; ASC Pty Ltd, Raytheon Australia, Gibbs&Cox and Navantia.

The SEA4000 Air Warfare Destroyer (AWD) Program, currently Australia's largest and most technically complex Defence project, will acquire three Area Air Warfare capable Destroyers with complete support systems for the ADF. The capability provided by the AWD's will form a critical element of the ADF's layered joint Air and Missile Defence Capability.

Ph2 of the SEA4000 Program will develop an 'Evolved' Gibbs & Cox design, based on the Arleigh Burke Class Destroyer, and an Australianised 'Existing' Navantia F100 design. Both designs will be fully costed for build in Australia and the results presented to Government for 2nd Pass consideration and Approval in mid 2007.

This project contributes to Navy capability.

SEA 1444 Ph1 Armidale-class Patrol Boat

Prime Contractor: Defence Maritime Services

This project will deliver a total of 14 Armidale-class patrol boats and provide 15 years in service support to replace the ageing Fremantle-class patrol boats. The contract will provide a 14-boat capability of 3,000 available days per year for Coastwatch and ADF support to operations, plus a surge capacity of up to 600 additional available days per year. The two additional patrol boats will be built after the initially contracted 12 boats, with delivery commencing in mid-2007.

Boats 07 to 12 are scheduled for delivery during 2006-07 with boats 13-14 scheduled for delivery 2007-08. This project will also deliver upgraded wharf facilities in Darwin and Cairns with transfer of facilities' funding occurring during 2006-07 and 2007-08.

This project contributes to Navy capability.

SEA 1390 Ph4B Standard Missile-1 (SM-1) Replacement

Prime Contractor: DMO is the Procurement Coordinator, supported by United States Department of Defense under Foreign Military Sales case and selected commercial contracts.

SEA 1390 Phase 4B was approved by the Government on 12 July 2004 and provides for the integration of the SM-2 missile into four Adelaide-class guided missile frigates (FFGs), delivery of missiles with mid-course guidance capability, and acquisition of initial ship outfit and inventory stock missiles.

The acquisition of the SM-2 capability will be achieved through a mix of United States commercial and Foreign Military Sales case for the delivery of equipment hardware, software development, integration, equipment installation and system testing. Commercial contracts are established for development work required for the guided missile launching system and onboard training and land based simulation systems. These contracts deliver the preliminary design

materials with cost and schedule data for their respective planned procurements.

Foreign military sales procurement is established for the required number of Inertial Navigational System equipment and logistics support and SM-2 Block IIIA Tactical and Telemeter Missiles and Support. Missile delivery is scheduled to meet the required in service date for the lead ship of 2009. System design and integration work is being progressed under similar arrangements and remains work in progress.

A commercial contract for the fire control system to produce the preliminary design materials and cost and schedule for the planned Procurement of SM-2 Upgrades to the MK-92 Fire Control System solid state Continuous Wave Illuminator transmitter equipment is being progressed. The preliminary design review is now anticipated in third quarter of 2006 and the critical design review for late 2006.

This project contributes to Navy capability.

SEA 1348 Ph2 Anzac Ship Project

Prime Contractor: Tenix

This project involves the 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. Nine ships have been delivered and are in-service with the Royal Australian Navy and the Royal New Zealand Navy. Ship 10 (*Perth*) is the final ship planned for delivery in mid 2006. On-going delivery of spares, documentation and other Integrated Logistics Support deliverables are expected during 2006-07.

This project contributes to Navy capability.

SEA 1390 Ph 2 FFG Upgrade Implementation

Prime Contractor: ADI Limited

This project seeks to regain a comparative regional capability for Adelaide-class guided missile frigates (FFGs) and ensure their through-life capability remains effective and supportable. The upgrade will improve the anti-ship missile defence and air surveillance capabilities of the ships.

Contractor hand back of the lead ship (HMAS *Sydney*) is expected by the end of April 2006. This will be with known functionality and documented deficiencies to contracted capability, with a program to correct these leading up to December 2006, when Contractor delivery is anticipated.

HMAS *Sydney's* sea trials have generally demonstrated promising single system performance. The Contractor is still obliged to demonstrate integrated systems performance prior to delivery. Commonwealth handover of HMAS *Melbourne*

to ADI to commence the combined maintenance and upgrade occurred in late February 2006. ADI currently estimates that *Melbourne's* upgrade will take approximately 70 weeks.

The commencement and completion dates of the other two remaining ships are subject to negotiation with Navy and ADI, and take into account Navy's operational requirements and ADI's industrial capacity to meet project completion now anticipated to be in 2009.

The Defence Capability Plan decision to remove the two oldest guided missile frigates from service has been implemented with HMAS *Canberra* decommissioning in November 2005 and operational life for HMAS *Adelaide* now extended to no later than end of 2007. These two ships are no longer being considered for upgrade under this project. The formal contract change to reduce the contract scope to four ships is well advanced.

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 deliver an initial Anti-Ship Missile Defence (ASMD) operational capability, providing a level of self defence against modern anti-ship missiles for the Anzac-class frigates. It will also progress a Preliminary Phased Array Program to mitigate risk, and inform the design and development of a phased array architecture for incorporation into project SEA 1448 Phase 2B which will complete the ASMD capability.

Phase 2A will upgrade the Combat Management System and Fire Control System. It will also install an Infra Red Search and Track capability, which provides improved detection of low-level aircraft and anti-ship missiles when the ship is close to land. Initial Operational Capability delivery into the first Anzac-class ship is planned for 2009 which accommodates a combined Phase 2A and Phase 2B schedule.

Project SEA 1448 Phase 2B completes the ASMD capability by introducing Australian phased array technology which delivers multiple channels of fire, enabling more than one weapon to be controlled in flight at one time. This will support multiple engagements against incoming missile threats. After delivery of the combined Phase 2A and Phase 2B Initial Operational Capability in 2009, the remaining ships will be upgraded progressively over the period 2010 to 2013.

This project contributes to Navy capability.

SEA 1429 Ph2

New Heavyweight Torpedo

Prime Contractor: United States Department of Defense under a memorandum of understanding, 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 which is currently in service with the Royal Australian Navy. The Government approved the heavyweight torpedo project and Defence signed the memorandum of understanding with the United States Navy in March 2003.

The project scope includes the acquisition of the weapons; associated logistic support, weapon system interface equipment; operational support; analysis and test equipment, and transition into service. Development and production of torpedoes has commenced and will continue during 2006-07. The first batch of new weapons arrives in Australia in late 2006.

Under the Through Life Support Agreement, ASC Pty Ltd is currently performing physical modifications for the integration of the torpedo into HMAS *Waller* during 2006-07. Test and evaluation of the modifications to HMAS *Waller* is scheduled to commence in early 2007. Modification to HMAS *Dechaineux* by ASC Pty Ltd is expected to commence in mid-2006 after the boat enters its scheduled full-cycle docking.

This project contributes to Navy capability.

SEA 1439 Ph4A

Collins Replacement Combat System

Prime Contractors: United States Department of Defense under a foreign military sales case and an armaments cooperative project. Australian contractors: Raytheon Australia, Thales, Sonartech Atlas, Cerulean Solutions, Acoustic Technologies and ASC Pty Ltd.

This project will provide a replacement combat system for the Collins-class submarines, and contribute to the development of the submarine's full capability in conjunction with other project phases that will implement a program of modifications and enhancements to the submarine platform. Contracts will be established progressively to install the combat system in each of the submarines by the end of the decade.

Installation of the first replacement combat system is progressing in HMAS *Waller* during full-cycle docking scheduled for completion in early 2007. Sea trials for the system are to be completed in 2007 during post-docking sea trials. The second replacement combat system will be installed in HMAS *Dechaineux* during its full-cycle docking commencing in mid-2006.

This project contributes to Navy capability.

SEA 1439 Ph3

Collins-class Reliability and Sustainability Improvements

Prime Contractor: ASC Pty Ltd

This project will provide reliability and sustainability improvements to the Collins-class submarines by the ongoing implementation of the McIntosh/Prescott Report recommendations. Deficiencies in the submarine support infrastructure will also be addressed.

A number of modifications were incorporated into the last three submarines during build and the first two submarines during their full cycle dockings. Modifications are being incorporated into the third submarine, HMAS *Waller*, during its full-cycle docking which is scheduled to complete in early 2007.

This project contributes to Navy capability.

LAND 907 Ph1

Tank Replacement Project

Prime Contractor: United States Foreign Military Sales Program.

This project will replace the Leopard tank fleet with a modern, survivable and interoperable tank capability that will be supportable until at least 2020. The project scope includes 59 M1A1 Abrams main battle tanks, seven M88A2 Hercules recovery vehicles, simulators, tank transporters and fuel trucks, support equipment and spares, training ammunition, facilities and initial training.

The new tanks will be operated by the present Leopard units: 1st Armoured Regiment in Darwin, Northern Territory, the School of Armour in Puckapunyal, Victoria and the Army Logistic Training Centre in Bandiana, Victoria.

The project is ahead of schedule to meet the required initial in-service date of one squadron by December 2007. Deliveries to support this will commence in October 2006, with training of the first squadron group scheduled from January 2007.

During 2006-07, all the prime equipment, comprising the tanks, recovery vehicles, simulators, tank transporters and fuel trucks, should be delivered into Australia. Initial training of tank crews and maintainers should be complete.

This project contributes to Army capability.

LAND 106

Upgrade of M113 Armoured Vehicles

Prime Contractor: Tenix

This project will provide a major upgrade of 350 M113 armoured vehicles, to improve armour, mobility and firepower.

Early progress was good, but the need to resolve a number of problems identified in initial vehicle testing has delayed vehicle development, placing

pressure on the project schedule. Vehicle testing by Defence resumed following vehicle modifications by Tenix. Most vehicle testing has been proceeding satisfactorily; however, final reliability testing has identified a failure of the brake system which is now being investigated.

The contractor is planning to commence full production in 2006 and meet the key date of an initial capability in service by December 2006. However, due to the earlier technical problems, and the recent brake failure, achievement of the contracted schedule involves very high risk.

Key achievements during 2006-07 should include commencement of vehicle production, commencement of initial crew and maintainer training, and purchase of initial spare parts and special tools and test equipment, needed for the initial capability.

This project contributes to Army capability.

LAND 116 Ph3 Bushranger Infantry Mobility Vehicles

Prime Contractor: ADI Limited

Project Bushranger will acquire 299 infantry mobility vehicles from ADI to enhance the mobility of the Army. The infantry mobility family of vehicles will consist of six variants: troop, command, assault pioneer, mortar, direct fire weapon and ambulance. The Air Force Airfield Defence Guards will employ 12 of the troop variants.

Full Design Acceptance was achieved in March 2006. ADI is currently in full production with all the troop variants scheduled to be delivered by late May 2006 with delivery of the command variant commencing in July 2006. Other variants will follow with the final delivery of the last variant, ambulance, scheduled to occur in July 2007. The capability will be fully delivered with this variant.

This project contributes to Army and Air Force capability.

AIR 5416 Ph2 Electronic Warfare Self Protection for Selected ADF Aircraft

Prime Contractors: Phase 2A - BAE Systems; Phase 2B - Tenix Defence

Phase 2A - The CH-47D (Chinook) aircraft's Architectural Design Review is programed for July 2006, with the detailed design expected to be completed by April 2007. The modification of the first Chinook aircraft will commence in May 2007. The completion of the Black Hawk aircraft's detailed design is programed for January 2007 with the modification of the first aircraft expected to commence in February 2007.

Phase 2B - Following the induction of the first prototype C-130H aircraft in March 2005 and the second kit proof C-130H aircraft in April 2005, both aircraft

are scheduled to be returned to the Air Force in the first half of 2006. The schedule for the full modification program for all 12 C-130H aircraft will see the final aircraft returned to the Air Force by mid 2008.

This project contributes to Air Force capability.

JP 2070 Ph2 and Ph3 Lightweight Torpedo Replacement

Alliance Agreement: Commonwealth of Australia, EuroTorp and Thales

Phase 2 of this project will introduce the EuroTorp MU90 lightweight torpedo into ADF service to replace the United States Navy Mk 46 lightweight torpedo. The weapon is to be integrated into the Anzac and Adelaide-class guided missile frigates, the Super Seasprite and Seahawk helicopters and the P-3 Orion maritime patrol aircraft. Phase 2 will acquire an initial stock of weapons, integrate the weapon into all platforms, establish a local weapon assembly facility and local in-service support and operator and maintainer training capabilities.

The weapon is being acquired under an alliance agreement between the Commonwealth, EuroTorp and Thales. The initial batch of MU90 torpedoes for test and evaluation are to be delivered in the second half of 2006.

Integration with Anzac-class frigates is expected to be completed towards the end of 2006, other frigates in early 2008, depending on ship maintenance schedules and fleet activity schedules. The integration contract for the P-3 Orion aircraft and helicopters remains to be determined.

Contract signature for the procurement of additional weapons under Phase 3 was signed on 31 August 2005.

This project contributes to Navy and Air Force capabilities.

JP 2085 Ph1B Explosive Ordnance Reserve Stocks

Contractors: Multiple purchase contracts with Australian and overseas munitions suppliers.

Joint Project 2085 Phase 1B covers progressive acquisition from 2005 to 2008 of a range of explosive ordnance items to increase Defence's reserve stock holdings. Overall, the project will procure quantities of around 120 different items of explosive ordnance covering anti-armour ammunition, medium and field artillery, Army artillery ammunition, mortar ammunition, demolition stores, pyrotechnics, bombs and Navy shells.

During 2006-07 new contracts are planned to be awarded for procurement of a number of items, including Precision Guided Munitions for Army 155 mm artillery and Mk 83 Bombs for Air Force. Deliveries against current contracts of Bolide short range air defence missiles, 81mm mortars, and Mk82/Mk 84 Bombs are also expected during the period.

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

JP 2025 Ph3 and Ph4 Jindalee Operational Radar Network

Prime Contractor: RLM Management

The Jindalee Operational Radar Network (JORN) consists of the network control centre at RAAF Edinburgh near Adelaide, South Australia and two over-the-horizon radars: one near Longreach, Queensland and the other near Laverton, Western Australia. The previously existing Jindalee radar system near Alice Springs, Northern Territory has also been incorporated to form a three radar network that is centrally controlled from RAAF Edinburgh. With the successful delivery of the Jindalee Operational Radar Network in 2003 having resulted in a major enhancement of national surveillance capability, the project's acquisition component is essentially completed.

The remaining project work focuses on maintenance and support activities and engineering services that provide both facility sustainment and higher-end technical upkeep of the network's assets. The Auditor – General Audit report No 24 2005-06 concluded that the Project has achieved its major objectives and JORN is being effectively maintained and operating within its design parameters.

The major outcome for 2006-2007, will be the transition to new support contracts for support of JORN.

The project contributes to Air Force capability.

AIR 5333 New Air Defence Command and Control Systems for 2CRU/3CRU

Prime Contractor: Boeing Australia Ltd

AIR5333 is major project that will replace the Air Defence Command and Control systems at Nos. 2 and 3 Control and Reporting Units located at RAAF Base Tindal (NT) and RAAF Base Williamtown (NSW) – in facilities known as Northern Region Operations Centre (NORTHROC) and Eastern Region Operations Centre (EASTROC) respectively. It will also design and deliver an integrated ADF Air Defence System communications network as well as provide facilities and transportable equipment to support deployed/remote network operations.

Major outcomes expected in 2006-07 are the completion of the project's Critical Design Review early in the financial year and commencement of the test and integration phase of the project.

The project contributes to Air Force capability.

SEA 1654 Ph2A Maritime Operations Support Capability

Prime Contractor: Tenix Defence Pty Ltd

This project seeks to replace the Navy's existing afloat support capability (HMA Ships *Westralia* and *Success*). Planned withdrawal dates for the ships are 2006

that will provide the means for acquisition, support and ongoing development of the aircraft. Formal negotiations for this agreement are scheduled to conclude in June 2006, with signature planned December 2006.

In conjunction with the first-pass submission, Defence will be seeking funding approval for the period from 2006 to second pass approval in 2008. The subsequent acquisition stage of the project will be conducted in a number of phases and will acquire the aircraft and associated systems, and transition the capability into service.

This project contributes to Air Force capability.

Minor Capital Investment Programs

Minor Capital projects deliver capability to meet emerging enhancement, replacement or new requirements of relatively low values and are funded from allocations outside the Defence Capability Plan. There are five Defence Minor Capital Investment Programs, from which Capability Managers allocate funds through Materiel Acquisition Agreements as described in Chapter 2. There are currently approximately 200 such Minor projects with an average value of around \$6m.

Planned resource use for the DMO Minor Capital Investment Program is \$153.0m in 2006-07.

PERFORMANCE TARGET FOR OUTPUT 1.2 – CAPABILITY SUSTAINMENT

Sustainment involves the provision of in-service support for specialist military equipment, including platforms, fleets and systems operated by Defence. Typical services include repair and maintenance, engineering, supply, configuration management and disposal action. The level of DMO's service provision is linked to the level of capability preparedness directed by the Chief of the Defence Force, which in turn, is determined by the Government's funded requirements for the level of Defence capability.

The DMO's sustainment services to Defence, and the price the DMO receives for these services, are formalised in Materiel Sustainment Agreements between the DMO and Defence Capability Managers. Sustainment agreements are based around the DMO sustainment products, which have been defined by each of the Systems Divisions to reflect the output of their sustainment activity.

Products have been designed around key platforms, systems or fleets supported by the DMO. For example, key products include sustainment of F/A-18 Hornet aircraft, provision of explosive ordnance, sustainment of Collins-class submarines, sustainment of navigation warfare systems, and supply of ADF clothing.

Planned resource use for Output 1.2 is \$3,652.0m in 2006-07.

Planned resource use for Output 1.2 is \$3,652.0m in 2006-07.

Maritime Systems

The sustainment of maritime materiel is managed by ten System Program Offices located proximate to the ship classes supported and generally aligned with the Navy Defence outputs.

All depot-level maintenance is contracted out. In-service support management is conducted by a variety of arrangements varying from Integrated Logistics Support and maintenance through a single prime contractor, to the System Program Office acting as the prime with separate contract and in-house support. The Logistic Support Agency – Navy provides the majority of inventory and repairable item management for most classes (except the hydrographic ships, the Armidale-class patrol boats and the Huon-class coastal mine hunter vessels).

The major challenges for sustainment during 2006-07 include:

- continued management of the obsolescence of equipment and repair parts for most classes;
- ongoing management of the Collins-class maintenance regime, particularly full-cycle dockings, to incorporate replacement combat system and new heavyweight torpedo implementation; and
- the introduction into service of HMAS *Sirius* (to replace HMAS *Westralia*) and implementation of the *Sirius* In-Service Support contract.

During 2006-07, new integrated materiel support contracts are expected to be negotiated and in place for the Leeuwin-class hydrographic ships and Huon-class coastal mine hunters. From 2006-07 Anzac-class sustainment will be delivered as part of the new Anzac Ships Materiel Support Program Alliance. A further six Armidale-class patrol boats are expected to enter service. These patrol boats will be supported by the prime contractor Defence Maritime Services, with eight vessels operated and supported from Darwin and four from Cairns.

Land Systems

Sustainment involves the management and provision of services and products needed to meet the capability, preparedness and performance requirements of a materiel system. Typical services include maintenance, engineering, supply, configuration management and disposal action. Common products include spares, technical data, support and test equipment, training equipment and materials.

The sustainment of land systems is managed by eight System Program Offices. Land materiel product lines span a diverse range of equipment, including: armoured vehicles; B vehicles fleets; weapon and complex electronic systems;

deployable medical and dental equipment; tentage and stores; uniforms and consumable stores such as combat rations.

The major challenges for sustainment during 2006-07 include:

- the continued focus on the provision of high-quality support to ADF force elements deployed in operational theatres; and
- ongoing work on issues such as obsolescence management.

The DMO's sustainment of land systems is reliant on some heavy maintenance of land equipment, supply chain warehousing, and distribution operations, delivered through Joint Logistic Command in Defence.

Aerospace Systems

Sustainment of aerospace systems is managed in seven System Program Offices. This support covers fixed and rotary wing assets as well as a range of aircraft simulators to support flying and maintenance training.

Major challenges for sustainment during 2006-07 include:

- negotiation and implementation of contracts with performance-based logistics contracts for the C-130 Hercules and P-3 Orion aircraft engines, elements of sustainment support of the P-3 Orion aircraft, PC-9/ A Pilatus and the next five years of through-life support arrangements for the A-27 Lead-in Fighter (Hawk aircraft); and
- logistics support for F/ A-18 Hornet, C-130J and C-130H Hercules, P-3 Orion, PC-9/ A Pilatus, Seahawk, Sea King, Super Seasprite and Black Hawk weapon systems.

Implementation of the support philosophies outlined in the Australian Defence Aerospace Sector Strategic Plan will continue to be a focus of activity. The plan, endorsed by the Government in June 2004, focuses on delivering an outcome-based and incentivised contracting framework for enhanced sustainment support of Defence aviation capabilities.

Electronic and Weapons Systems

The sustainment of electronic and weapons systems are managed in 19 System Program and System Support Offices. These cover command and control systems, communications, airspace surveillance and control systems and their supporting radars, electronic warfare systems, guided weapons and explosive ordnance of all types.

Major challenges for sustainment during 2006-07 include:

- assess and redistribute any resource savings to higher priority sustainment areas as a result of the consolidation of heavy grade repair, engineering and supply support of selected single channel radio systems equipment. This

initiative to rationalise the existing in-service support of the ADF's inventory of combat net radios and ancillaries will be completed in 2006 and support arrangements will be streamlined into one contract;

- consolidation of sustainment of tactical electronic warfare materiel, for all three Services – in anticipation of new systems being introduced;
- support to command support systems has been centralised and efficiencies from standardising hardware platforms for deployable networks are being realised. The logistic management of these systems is improving which is allowing more effective support to military operations;
- an in-service support contract for the Nulka system was signed with BAE Systems Australia in December 2005 for an initial period of three years with an option to extend for a further three years;
- introduction into service of a number of new guided weapons, including the Javelin anti-armour missiles, the heavyweight torpedo and Hellfire missiles. Other new types of ammunition will start to be procured in anticipation of the delivery of the Abrams M1A1 main battle tank and rockets for the Armed Reconnaissance Helicopter. The Sparrow and Seasparrow missiles will be formally withdrawn from service late 2006;
- commencement of in-service support arrangements for the Australian Defence Air Traffic System and Tactical Air Defence Radar Systems that were introduced into service in late 2005-06. In addition, a significant upgrade to the Air Force's ground-based Link 11 tactical data link system will be fielded; and
- the Maritime Advanced Satellite Terrestrial Infrastructure System (MASTIS) Through Life Support contract commenced on the 14 March 2006, supporting terminals being delivered in 2006 through 2007. Under JP2008 3E Satellite Compact Transmit Receive Suites will also be delivered in 2006-07 with through life support arrangements in place from May 2005 with the successful delivery of the first units.

Chief Operating Officer Division

The sustainment of logistics information systems includes support for the Standard Distribution and Supply System (SDSS), the Computer Aided Maintenance Management (CAMM2) system and a number of smaller logistics information systems.

The major challenge for sustainment of logistics information systems in 2006-07 will be the implementation and operation of a formal IT control framework designed to ensure that users operate and manage SDSS in a manner that achieves the highest possible level of data accuracy in financial reporting. This will be complemented by ongoing refinement of system operations to ensure user compliance is optimised.

PERFORMANCE TARGET FOR OUTPUT 1.3 – POLICY ADVICE AND MANAGEMENT SERVICES

The DMO's departmental appropriation is \$45.5m, which funds Output 1.3. This represents less than one per cent of the DMO's total funding. Defence will provide the vast majority of the DMO's resources, in accordance with the prices set out in the Materiel Acquisition Agreements and the Materiel Sustainment Agreements.

Performance targets for Output 1.3 are the quality and timely provision of:

- contracting and procurement policy advice for Defence and the DMO, and quality contracting advice to the rest of Defence;
- industry policy and advice to both the Defence Portfolio and the Government; and
- corporate governance and reporting to meet the Government's requirements.

Planned resource use for Output 1.3 is \$47.9m in 2006-07.

Table 3.4: Current Status of Previously Reported Top 30 Projects (Portfolio Budget Statements 2005-06 and Portfolio Additional Estimates Statements 2005-06)⁽¹⁾

| Title | Project Number | Approved Project Expenditure \$m | Cumulative Expenditure to 30 June 2006 \$m | 2006-07 Expenditure Estimate \$m | Status Report |
|---|----------------|-------------------------------------|---|-------------------------------------|---|
| LAND | | | | | |
| General Service Field Vehicles - Overlander | LAND 121 PH 2 | 89 | 46 | 12 | Key outcomes for the period 2006 - 2007 will be: the installation of an In-Cabin Noise Reduction system for the Mack Truck fleet to satisfy Occupational Health and Safety requirements, the delivery of roll over protective structures, effective seat and seatbelt systems and personnel/cargo segregation systems for 135 Unimog and 26 Mack Gun Tractors and the completion of pre-production activities and Design Acceptance of a personnel/cargo restraint and segregation system and a roll over protection system into the Land Rover 110 4x4 for the Regional Force Surveillance Vehicle as part of the Land Rover 110 4x4 Safety Improvement. |
| Australian Light Armoured Vehicle | LAND 112 Ph3 | 678 | 567 | 21 | All 144 Phase 3 vehicles and 59 weapon stations have been delivered, and 61 of the 113 upgraded Phase 2 vehicles have been completed. Key outcomes for 2006-2007 will be the completion of the remaining 52 Phase 2 vehicles and delivery of nine Crew Procedural Trainers. The surveillance suite prototype will have completed the test and evaluation phase prior to prototype acceptance. |

| Title | Project Number | Approved Project Expenditure \$m | Cumulative Expenditure to 30 June 2006 \$m | 2006-07 Expenditure Estimate \$m | Status Report |
|---|----------------|-------------------------------------|---|-------------------------------------|--|
| AEROSPACE | | | | | |
| Strategic Airlift Capability | AIR 5216 Ph1 | 1,045 | 1,013 | 18 | Activities in progress in 2006-07 include continuing investment in full-scale fatigue testing, installation of an operational loads management system, and incorporation of the Block 5.4 software build which is designed to correct a number of deficiencies, errors, latent defects and warranty problems in the software. |
| ELECTRONIC AND WEAPON SYSTEMS | | | | | |
| High Frequency Modernisation – Remainder of the network | JP 2043 Ph3A | 616 | 330 | 29 | The Detailed Design Review for the Fixed Network Final System is scheduled to be completed by September 2006. |
| MILSATCOM Ground Infrastructure | JP 2008 Ph3E | 149 | 119 | 15 | Defence is the prime systems integrator for the overall JP 2008 Phase 3E requirements, which includes (in addition to the maritime terminals and land terminals) broadcast software and a primary injection facility. The primary injection facility has been approved for installation into the Defence Network Operations Centre and installation will be conducted in April 2006. The initial delivery of broadcast software from Ebor Computing was delivered in June 2005 and a contract was signed in September 2005 for the delivery of the mature Theatre Broadcast Software. |

Note

1. These projects previously were in Top 30, now are outside Top 30 because of low spend.

Table 3.5: Previously Reported Top 30 Projects (Financial Years 2004-05, 2003-04 and 2002-03)

| Title | Project Number | Approved Project Expenditure \$m | Cumulative Expenditure to 30 June 2006 \$m | 2006-07 Expenditure Estimate \$m |
|--|------------------------------------|-------------------------------------|---|-------------------------------------|
| Aerospace | | | | |
| F/A-18 Hornet Upgrade | AIR 5376 Ph 1 | 290 | 283 | 0 |
| P-3C Update Implementation | AIR 5276 Ph 2 | 907 | 848 | 18 |
| F/A-18 Hornet Structural Refurbishment Program – Stage 1 | AIR 5376 Ph 3.1 | 123 | 80 | 24 |
| Lead-in Fighter Capability | AIR 5367 Ph 1 | 1,023 | 1,003 | 11 |
| Maritime | | | | |
| Underwater and Surface Warfighting Upgrade Program | SEA 1348 Ph 3 | 158 | 131 | 10 |
| Mine Hunter Coastal Acquisition | SEA 1555 Ph 2 | 1,248 | 1,149 | 9 |
| Evolved SeaSparrow Missile (ESSM) | SEA 1428 Ph 2A SEA 1428 Ph 2B/3 | 354 275 | 348 243 | 2 1 |
| Collins-class Submarine Augmentation | SEA 1446 Ph 1 | 234 | 202 | 4 |
| New Submarine Project | SEA 1114 Ph 3 | 5,123 | 5,073 | 10 |
| Amphibious Watercraft Project | JP 2048 Ph 1A JP 2048 Ph 4A/4B | 59 38 | 38 19 | 1 9 |
| Land | | | | |
| Direct Fire Guided Weapon | LAND 40 | 148 | 92 | 20 |
| Ground Surveillance Radar | LAND 53 Ph 1E | 84 | 77 | 5 |
| Electronic and Weapons Systems | | | | |
| Air-to-Surface Stand-off Weapon Capability | AIR 5398 Ph 1 | 443 | 379 | 9 |
| Air-to-Air Weapons Capability | AIR 5400 Ph 1 | 314 | 285 | 40 |
| Air-to-Air Follow-on Buy | AIR 5400 Ph 3 | 177 | 142 | 70 |
| MILSATCOM – Military Satellite Payload | JP 2008 Ph 3D | 347 | 339 | 0 |
| Tactical Air Defence Radar Systems | AIR 5375 Ph 1 | 208 | 168 | 5 |
| E-Defence Project | JP 2054 Ph 1 | 116 | 56 | 1 |

CHAPTER FOUR

GOVERNANCE AND MATERIEL REFORM

The Defence Materiel Organisation achieved prescribed agency status on 1 July 2005.

The DMO will continue to be involved in Defence's planning and governance arrangements, notably through the Defence Committee and the Defence capability and budgeting processes. Many of its interactions and relationships with other parts of Defence have been formalised through agreements.

The DMO and Capability Development Group continue to work closely and cooperatively to strengthen and improve the capability development and assessment process before projects are progressed to the DMO.

In 2006-07, the DMO's governance will focus on the key areas of: Planning, Stewardship, Performance Management, Assurance, Reporting and Audit activities.

During 2006-07, the DMO Leadership Group will continue to use the Business Plan Review (BPR) to communicate with the DMO staff around Australia about the DMO's objectives, priorities and key activities.

The DMO has implemented a new Enterprise Risk Assessment and Management Plan, and revised its Fraud Control Plan. Further development is underway to strengthen the risk management system at the Enterprise, Division and Project levels, and to embed the appropriate risk management culture in the DMO.

The DMO reports monthly to the Defence Committee on the performance of its major acquisition projects and sustainment activities. The Acquisition and Sustainment Overview Report is a key tool in the DMO's progress in the delivery of Defence capability. This report is also provided to the Procurement Advisory Board and senior Ministers.

In November 2001, the DMO initiated a Materiel Governance Board function to provide independent advice and assurance to the DMO management of acquisition and sustainment activities. On 1 February 2006, the eight Governance Boards were replaced by five Materiel Assurance Boards, each aligned closely to a Domain Division. Each board will provide advice and assurance on acquisition, sustainment and management activities.

A Materiel Audit Committee (MAC) was established in July 2005, in recognition of the DMO's independent accountability under the *Financial Management and Accountability Act 1997*.

Some internal audit services are provided to the DMO by Defence, under a Shared Services Agreement. During 2006-07, the DMO will also appoint its own internal auditor to undertake additional work at the request of the CEO DMO or the Materiel Audit Committee.

Materiel Reform

The CEO DMO's six key themes to implement organisational change are:

- **Professionalise** our workforce and encourage lifelong learning;
- **Reprioritise** our work so that effort is concentrated on the high-priority activities;
- **Standardise** our corporate business practices, including reporting, planning, finance, quality and knowledge management;
- **Benchmark** ourselves against national and international best practice and use these practices to improve the way we do business;
- **Improve industry relations** through open and honest dialogue and rewarding good performance; and
- **Lead reform in Defence** by developing and implementing successful reform in the DMO, which may facilitate change in Defence.

Priorities and Initiatives for 2006-07

PROFESSIONALISE

- Developing and implementing Certification Programs to address the professionalisation of project directors, project managers, engineering and technical officers, lawyers, accountants, commercial and business managers, procurement and contracting and logistics.
- The Corporate Institute will deliver strategic education and training programs, including project management, logistics and postgraduate programs.
- Continuing Business Acumen training to develop staff in business and commercial skills.
- Continuing Leadership Programs.
- Continuing the DMO Project Management Training and Project Management Coaching.

REPRIORITISE

- Managing the DMO personnel, including military staffing, APS staff and professional service providers as an integrated workforce.
- More effective management of contractors, consultants and professional service providers.
- Rationalise the use of standing offer panels with the single DMO Support Services Panel, for engineering and other project support services.

STANDARDISE

- Implement standardised corporate reporting across the DMO.
- Implement the outcomes of the Procurement Improvement Program's review of procurement and contracting material.
- Continuing the rollout of the DMO's corporate branding to build consistency in all our communications.
- Continue the development and rollout of standardised business tools and applications.

BENCHMARK

- Enhance corporate performance reporting, using strategic Critical Success Factors.
- Monitor the DMO's cost and schedule performance against industry better practice.

IMPROVE RELATIONS WITH INDUSTRY

- Further develop the Skilling Australia's Defence Industry program.
- Monitor utility and access to the Defence Small Business Access facility.
- Develop clearer industry understanding of the DMO contractor performance management systems.
- Promote the DMO initiatives more broadly into industry.

LEAD REFORM IN DEFENCE

- Establish Project Management positions within Capability Development Group.
- Continue to work with Defence to develop an innovative and flexible *Defence Collective Agreement 2006-09* that is consistent with the DMO's strategic direction.
- Enhance recruitment and retention strategies to target key skills and competencies.

CHAPTER FIVE

PEOPLE

The Defence Materiel Organisation's (DMO) large, stable and experienced workforce has been built over many years. As a prescribed agency with the vision of becoming the premier project management and engineering services organisation, the DMO's primary people related goals for 2006-07 are to:

- upskill the people capability to meet new and evolving skilling needs;
- maintain and build upon our 'employer of choice' status in a competitive environment; and
- develop skilled personnel to take up senior roles in critical skilling areas as the DMO faces skilling shortages and an ageing workforce.

PRIORITIES

Priorities in 2006-07 include:

- manage the implementation of changes in employment conditions included in the *Defence Collective Agreement 2006-09*;
- continuing to establish industry-recognised programs to professionalise the workforce across key job families: project management, engineering and technical, commercial and business, and logistics; and
- continued implementation of a professional framework for project managers that incorporates independent assessment against industry standards and the Australian Qualifications Framework, assessment of knowledge and experience, and performance assessment.

Workforce Summary

The overall DMO workforce is forecast to increase by 369 in 2006-07 from the 2005-06 projected result of 6,460, as a consequence of the significant increase in funds under management.

As the DMO is a prescribed agency, its Australian Public Service (APS) and Professional Service Providers (PSP) workforce information has been excluded from Defence. However as military personnel are provided to the DMO under a 'fee for service' model, they are reported in both the DMO and Defence working numbers.

Table 5.1 shows the breakdown of personnel numbers by Service (APS, PSP, ADF Permanent and Reserves), and rank.

Table 5.1: Breakdown of Personnel Numbers by Service and Rank ⁽¹⁾

| | 2005-06 | 2005-06 | 2006-07 | Variation from | |
|---|----------------------|---------------------|--------------------|----------------|------------|
| | Revised Estimates | Projected Result | Budget Estimate | - | % |
| APS | | | | | |
| Senior Executives | 30 | 30 | 30 | 0 | 0.0 |
| Senior Officers ⁽²⁾ | 1,036 | 1,131 | 1,140 | 9 | 1% |
| Other APS Staff | 3,342 | 3,265 | 3,450 | 185 | 6% |
| Sub-total : APS | 4,408 | 4,426 | 4,620 | 194 | 4% |
| PSP Workforce ⁽³⁾ | 338 | 374 | 374 | 0 | 0% |
| Sub-total Civilian Workforce⁽⁴⁾ | 4,746 | 4,800 | 4,994 | 194 | 4% |
| NAVY | | | | | |
| Star Ranked Officers | 5 | 6 | 6 | 0 | 0% |
| Senior Officers ⁽²⁾ | 49 | 49 | 49 | 0 | 0% |
| Junior Officers | 141 | 108 | 141 | 33 | 30% |
| Other Ranks | 156 | 136 | 156 | 20 | 15% |
| Sub-total: Permanent Navy | 351 | 299 | 352 | 53 | 18% |
| Reserve Forces ⁽⁵⁾ | 49 | 49 | 56 | 7 | 14% |
| Sub-total Navy | 400 | 348 | 408 | 60 | 17% |
| ARMY | | | | | |
| Star Ranked Officers | 5 | 5 | 7 | 2 | 40% |
| Senior Officers ⁽²⁾ | 45 | 42 | 44 | 2 | 5% |
| Junior Officers | 218 | 189 | 218 | 29 | 15% |
| Other Ranks | 217 | 188 | 215 | 27 | 14% |
| Sub-total: Permanent Army | 485 | 424 | 484 | 60 | 14% |
| Reserve Forces ⁽⁵⁾ | 54 | 54 | 59 | 5 | 9% |
| Sub-total Army | 539 | 478 | 543 | 65 | 14% |
| AIR FORCE | | | | | |
| Star Ranked Officers | 6 | 6 | 6 | 0 | 0% |
| Senior Officers ⁽²⁾ | 72 | 72 | 74 | 2 | 3% |
| Junior Officers | 403 | 384 | 413 | 29 | 8% |
| Other Ranks | 346 | 333 | 348 | 15 | 5% |
| Sub-total: Permanent Air Force | 827 | 795 | 841 | 46 | 6% |
| Reserve Forces ⁽⁵⁾ | 39 | 39 | 43 | 4 | 10% |
| Sub-total Air Force | 866 | 834 | 884 | 50 | 6% |
| Sub-total AFS (Military) Workforce⁽⁶⁾ | 1,663 | 1,518 | 1,677 | 159 | 10% |
| Sub-total Reserve Workforce | 142 | 142 | 158 | 16 | 11% |
| Total DMO Workforce | 6,551 | 6,460 | 6,829 | 369 | 6% |

Notes

1. Reflects the APS, PSP, ADF permanent and reserve forces for 2006-07. Numbers for the ADF Permanent Force (include Standby Reservists undertaking full-time service) and APS/PSP is based on average funded strengths (AFS) and full-time equivalent (FTE) respectively.
2. Senior Officers are of Colonel or Lieutenant Colonel rank equivalent and substantive APS EL 1 and 2.
3. PSPs are individuals under contract filling line positions.
4. The APS and PSP numbers are excluded from Defence workforce budget estimates.
5. ADF Reserve figures represent estimated actual numbers of standby or active Reservists who rendered service during 2005-06 and the DMO ADF Reservist bids for 2006-07.
6. The military workforce numbers are included in Defence's estimated military numbers, as they are supplied to DMO under a 'fee for service' model.

CIVILIAN WORKFORCE

APS Workforce

The estimated APS full-time equivalent average (FTE-A) funded strength for 2006-07 is 4,620, which is an increase of 194 from the 2005-06 projected result. This increase reflects a 4 per cent growth in APS personnel numbers associated with the 23 per cent (\$1.6b) increase in funds under management for 2006-07 and the use of alternative labour to meet the shortfall in ADF permanent workforce average funded strength (AFS) provided by Defence. APS personnel represent 68 per cent of the total DMO workforce.

PSP Workforce

The estimated PSP FTE-A funded strength for 2006-07 is not forecast to increase from the projected result. PSP personnel represent 5 per cent of the total DMO workforce.

MILITARY WORKFORCE

ADF Permanent Force

The estimated ADF permanent average funded strength (AFS) for 2006-07 is 1,677 which is an increase of 159 from the 2005-06 projected result. This is an increase of over 10 per cent and re-aligns the estimate with the approved budgeted AFS to be provided by Defence to the DMO for 2006-07. ADF permanent personnel represent 25 per cent of the total DMO workforce.

ADF Reserve Force

The estimated size of the Reserve Force employed within the DMO for 2006-07 is 158, which is an increase of 16 personnel from the 2005-06 projected result. This figure represents the active component of the Reserve element that is expected to undertake paid service during 2006-07. These figures do not include Reservists undertaking full-time service, as they are included in the Permanent Force numbers (see Note 5 to Table 5.1). ADF reserve force represents 2 per cent of the total DMO workforce.

CHAPTER SIX

BUDGETED FINANCIAL STATEMENTS

The DMO's 2006-07 budget and forward estimates incorporate funding required to support approved activities including future activities associated with the Defence Capability Plan.

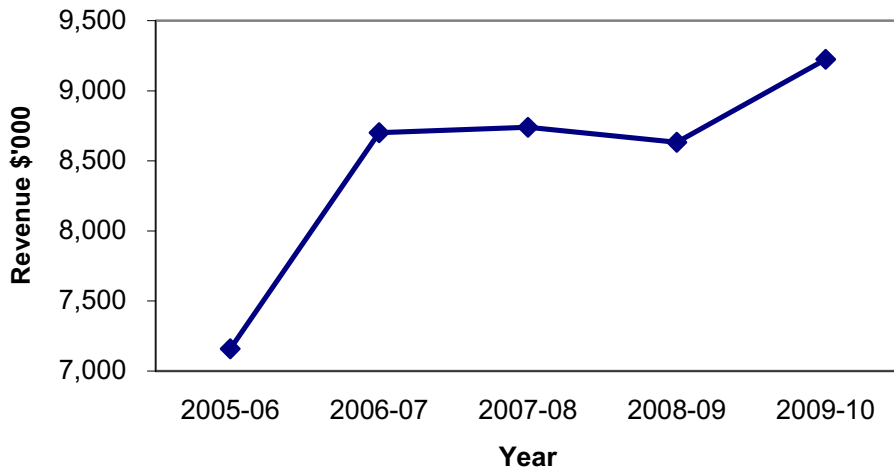
Income Statement

The DMO is budgeting for a break-even operating result for 2006-07, with total revenue and expenses of \$8,783.2m. Of this amount, the DMO will earn \$8,669.6m (98.7 per cent) from Defence, \$45.5m (0.5 per cent) through direct appropriation, \$38.1m (0.4 per cent) from own sources and \$30.0m (0.3 per cent) from foreign governments.

DMO's suppliers expenses are expected to increase in line with revenue. DMO will retain funding to meet its commitments that, because of timing issues, will now occur in 2006-07.

The price received from Defence for the delivery of Outputs 1.1 and 1.2 is recorded as revenue to the extent that the DMO delivers goods and services to Defence during the year. Amounts received for goods and services not yet delivered to Defence are recorded as a liability (unearned revenue within Payables - Other) in the DMO financial statements.

The trend in total agency revenue across the budget and forward estimate years is illustrated in Chart 6.1.

Chart 6.1: Revenue by Budget Year and Forward Estimate Years

Balance Sheet

In comparing the 2006-07 budget estimates with the estimated 2005-06 actual result, there are a number of changes to DMO's balance sheet. These include:

- a decrease to the receivables (-\$326m) resulting from the provision of goods and services originally planned for delivery in 2005-06 (with a corresponding reduction in payables) and additional expenditure related to fuel purchases; and
- other adjustments such as a reduction in intangibles (-\$23m), an increase in employee provision (+\$1.5m), and a reduction in creditors.

Statement of Cash Flows

The net increase in cash received from operating and investing activities is \$1,306m and the net increase in cash used of \$1,336m from 2005-06 estimated actual is mainly a result of movements in 'Operating Activities'.

The net increase in 'Operating Activities' - Cash Received' (+\$1,305m) is mainly due to:

- a net increase in Goods and Services' (+\$1,224m);
- retention of 2005-06 funding (+\$321m) to meet commitments that, because of timing issues, will now occur in 2006-07;
- a reduction in funding from foreign governments (-\$144m);
- a decrease in 'GST Input Credit Receipts' (-\$97m); and

The net increase in 'Operating Activities – Cash Used' (+\$1,358m) is due to:

- a net increase in 'Suppliers' (+\$1,917m);
- expenditure of cash held in the Official Public Account in 2005-06 for work still to be performed (-\$200m) and payable liabilities (-\$151m) and carry forward of funding from foreign governments (-\$119m);
- a reduction in 'GST Payments to Suppliers' (-\$97m); and
- an increase in 'Employees' (+\$8m).

Table 6.1: Budgeted Departmental Income Statement (for the period ended 30 June)

| | Estimated Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|---|--|---|--|--|--|
| INCOME | | | | | |
| Revenue | | | | | |
| Revenues from Government | 44,257 | 45,469 | 45,859 | 46,087 | 46,963 |
| Goods and services | 7,023,227 | 8,669,587 | 8,685,168 | 8,626,627 | 9,174,773 |
| Other | 57,115 | 32,260 | 32,278 | 32,300 | 32,345 |
| Total revenue | 7,124,599 | 8,747,316 | 8,763,305 | 8,705,014 | 9,254,081 |
| Gains | | | | | |
| Net gains from sale of assets | 33,572 | 34,411 | 34,686 | 35,032 | 35,699 |
| Other | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Total gains | 35,072 | 35,911 | 36,186 | 36,532 | 37,199 |
| Total income | 7,159,671 | 8,783,227 | 8,799,491 | 8,741,546 | 9,291,280 |
| EXPENSE | | | | | |
| Employees | 354,266 | 362,075 | 362,965 | 358,368 | 363,590 |
| Suppliers | 6,698,844 | 8,313,752 | 8,330,809 | 8,286,315 | 8,830,160 |
| Depreciation and amortisation | 72,989 | 72,989 | 71,031 | 61,831 | 61,831 |
| Write-down of assets and impairment of assets | - | - | - | - | - |
| Net losses from sale of assets | 33,572 | 34,411 | 34,686 | 35,032 | 35,699 |
| Net foreign exchange losses | - | - | - | - | - |
| Other | - | - | - | - | - |
| Total expenses | 7,159,671 | 8,783,227 | 8,799,491 | 8,741,546 | 9,291,280 |

Table 6.2: Budgeted Departmental Balance Sheet (as at 30 June)

| | Estimated Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|--|---|--|--|--|
| ASSETS | | | | | |
| Financial assets | | | | | |
| Cash | 30,176 | 30,176 | 30,176 | 30,176 | 30,176 |
| Receivables | 607,874 | 281,746 | 306,512 | 320,459 | 332,635 |
| Total financial assets | 638,050 | 311,922 | 336,688 | 350,635 | 362,811 |
| Non-financial assets | | | | | |
| Land and buildings | - | - | - | - | - |
| Infrastructure, plant and equipment | 240,525 | 256,775 | 264,849 | 265,193 | 266,485 |
| Investment properties | - | - | - | - | - |
| Heritage and cultural assets | - | - | - | - | - |
| Inventories | - | - | - | - | - |
| Intangibles | 77,562 | 54,228 | 32,852 | 20,676 | 8,500 |
| Biological assets | - | - | - | - | - |
| Assets held for sale | - | - | - | - | - |
| Other | 602,663 | 602,663 | 602,663 | 602,663 | 602,663 |
| Total non-financial assets | 920,750 | 913,666 | 900,364 | 888,532 | 877,648 |
| Total assets | 1,558,800 | 1,225,588 | 1,237,052 | 1,239,167 | 1,240,459 |
| LIABILITIES | | | | | |
| Provisions | | | | | |
| Employees | 116,826 | 118,364 | 121,754 | 123,525 | 123,525 |
| Other | - | - | - | - | - |
| Total provisions | 116,826 | 118,364 | 121,754 | 123,525 | 123,525 |
| Payables | | | | | |
| Suppliers | 774,805 | 623,805 | 623,805 | 623,805 | 623,805 |
| Other | 359,102 | 175,352 | 183,426 | 183,770 | 185,062 |
| Total payables | 1,133,907 | 799,157 | 807,231 | 807,575 | 808,867 |
| Liabilities included in disposal groups held for sale | - | - | - | - | - |
| Total liabilities | 1,250,733 | 917,521 | 928,985 | 931,100 | 932,392 |
| EQUITY | | | | | |
| Parent entity interest | | | | | |
| Contributed equity | 308,067 | 308,067 | 308,067 | 308,067 | 308,067 |
| Retained surpluses or accumulated deficits | - | - | - | - | - |
| Total parent entity interest | 308,067 | 308,067 | 308,067 | 308,067 | 308,067 |
| Total equity | 308,067 | 308,067 | 308,067 | 308,067 | 308,067 |
| Current assets | 1,240,591 | 914,529 | 939,290 | 953,234 | 965,407 |
| Non-current assets | 318,209 | 311,059 | 297,762 | 285,933 | 275,052 |
| Current liabilities | 1,194,388 | 860,434 | 870,263 | 871,524 | 872,816 |
| Non-current liabilities | 56,345 | 57,087 | 58,722 | 59,576 | 59,576 |

Table 6.3: Budgeted Departmental Statement of Cash Flows (for the period ended 30 June)

| | Estimated Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|--|---|--|--|--|
| OPERATING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Goods and services | 7,237,087 | 8,460,965 | 8,668,476 | 8,613,024 | 9,163,889 |
| Appropriations | 44,257 | 45,469 | 45,859 | 46,087 | 46,963 |
| GST Input Credit Receipts | 648,735 | 551,478 | 476,326 | 468,225 | 498,556 |
| Cash from Official Public Account | 30,176 | 351,000 | - | - | - |
| Other | 176,115 | 32,260 | 32,278 | 32,300 | 32,345 |
| Total cash received | 8,136,370 | 9,441,172 | 9,222,939 | 9,159,636 | 9,741,753 |
| Cash used | | | | | |
| Employees | 353,032 | 360,537 | 359,575 | 356,597 | 363,590 |
| Suppliers | 6,545,956 | 8,463,252 | 8,329,309 | 8,284,815 | 8,828,660 |
| GST Input Credit Receipts | 648,735 | 551,478 | 476,326 | 468,225 | 498,556 |
| Cash to Official Public Account | 470,000 | - | - | - | - |
| Other | - | - | - | - | - |
| Total cash used | 8,017,723 | 9,375,267 | 9,165,210 | 9,109,637 | 9,690,806 |
| Net cash from or (used by) operating activities | 118,647 | 65,905 | 57,729 | 49,999 | 50,947 |
| INVESTING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Proceeds from sales of property, plant and equipment | 33,572 | 34,411 | 34,686 | 35,032 | 35,699 |
| Total cash received | 33,572 | 34,411 | 34,686 | 35,032 | 35,699 |
| Cash used | | | | | |
| Purchase of property, plant and equipment | 122,043 | 100,316 | 92,415 | 85,031 | 86,646 |
| Other | - | - | - | - | - |
| Total cash used | 122,043 | 100,316 | 92,415 | 85,031 | 86,646 |
| Net cash from or (used by) investing activities | -88,471 | -65,905 | -57,729 | -49,999 | -50,947 |
| FINANCING ACTIVITIES | | | | | |
| Total cash received | - | - | - | - | - |
| Total cash used | - | - | - | - | - |
| Net cash from or (used by) financing activities | - | - | - | - | - |
| Net increase or (decrease) in cash held | 30,176 | - | - | - | - |
| Cash at the beginning of the reporting period | - | 30,176 | 30,176 | 30,176 | 30,176 |
| Cash at the end of the reporting period | 30,176 | 30,176 | 30,176 | 30,176 | 30,176 |

Table 6.4: Departmental Capital Budget Statement

| | Estimated Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|---|--|---|--|--|--|
| CAPITAL APPROPRIATIONS | | | | | |
| Total loans | - | - | - | - | - |
| Total capital appropriations | - | - | - | - | - |
| PURCHASE OF NON-FINANCIAL ASSETS | | | | | |
| Funded internally by Departmental resources | 122,043 | 100,316 | 92,415 | 85,031 | 86,646 |
| Total | 122,043 | 100,316 | 92,415 | 85,031 | 86,646 |

Table 6.5: Departmental Property, Plants, Equipment and Intangibles — Summary of Movement (Budget year 2006-07)

| | Land | Investment Property | Buildings | Specialist Military Equipment | Other infrastructure, plant and equipment | Heritage and cultural assets | Computer software | Other intangibles | Total |
|---|--------|------------------------|-----------|-------------------------------------|--|---------------------------------------|----------------------|----------------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| As at 1 July 2006 | | | | | | | | | |
| Gross book value | - | - | - | - | 261,586 | - | 96,201 | 117,510 | 475,297 |
| Accumulated depreciation | - | - | - | - | 21,061 | - | 75,843 | 60,306 | 157,210 |
| Opening net book value | - | - | - | - | 240,525 | - | 20,358 | 57,204 | 318,087 |
| Additions: | - | - | - | - | - | - | - | - | - |
| by purchase | - | - | - | - | 100,316 | - | - | - | 100,316 |
| Depreciation/amortisation expense | - | - | - | - | 49,655 | - | 11,158 | 12,176 | 72,989 |
| Disposals: | - | - | - | - | - | - | - | - | - |
| other disposals | - | - | - | - | 34,411 | - | - | - | 34,411 |
| As at 30 June 2007 | | | | | | | | | |
| Gross book value | - | - | - | - | 300,372 | - | 96,201 | 117,510 | 514,083 |
| Accumulated depreciation | - | - | - | - | 43,597 | - | 87,001 | 72,482 | 203,080 |
| Estimated closing net book value | - | - | - | - | 256,775 | - | 9,200 | 45,028 | 311,003 |

Notes to the Budgeted Financial Statements

BUDGETED FINANCIAL STATEMENTS

The budgeted financial statements income, balance sheet, cash flows and a budgeted capital statement show the revenues, expenses, assets and liabilities of the DMO. These budgeted statements contain estimates prepared in accordance with the requirements of the Government's financial budgeting and reporting framework and reflect the planned financial performance of the DMO in delivering its outputs to Defence.

Unless otherwise stated, the convention used in these budgeted financial statement is to round amounts to the nearest \$'000.

DEPARTMENTAL REVENUE

Appropriation Revenue from the Government for Output 1.3 is recognised to the extent that it will be received into the Agency's bank account.

Revenue is recognised for the delivery of Outputs 1.1 and 1.2 on the basis of the delivery of goods and services to Defence in the budget year. The DMO will record a liability to the extent that Defence has provided funds and the DMO has not delivered goods and services, for example, inventory purchased but not issued.

Revenue from other sources represents sales to non-Defence organisations for goods and services and is recognised at the time that it is imposed on customers.

DEPARTMENTAL EXPENSES

Employees

Employees include payments and net increases in entitlements to civilian employees for services rendered in the financial year. The DMO pays a fee for service to Defence for the use of military personnel. This fee is reported as part of suppliers expenses.

Suppliers

This includes payments to suppliers for goods and services used in providing Agency outputs and cost of sales expenses associated with the delivery of goods and services to Defence. The 2006-07 suppliers expense estimate includes an amount of \$166.7m to cover the fee for service for the provision to the DMO of military personnel.

Depreciation and Amortisation

Items of property, plant and equipment and intangible assets are depreciated to their estimated residual values over their estimated useful lives. In all cases, the 'straight-line' method of depreciation is used.

Departmental Assets–Financial Assets

The primary financial assets are cash and receivables.

Departmental Non–Financial Assets

This includes infrastructure, plant and equipment and intangibles, which are used in the production of outputs. This includes the Defence commercial vehicle fleet. The reported value represents the purchase price paid less depreciation incurred to date in using the asset.

Departmental Liabilities – Provisions

Provision has been made for the Agency's liability for employee entitlements, arising from services rendered by employees. This liability includes unpaid annual leave and long service leave.

Departmental Liabilities – Payables

Payables include unpaid suppliers and an unearned revenue liability associated with goods and services awaiting delivery to Defence.

SECTION THREE

DEFENCE HOUSING AUTHORITY

OVERVIEW

Mission

Overview

Outcome and Output Information

BUDGETED FINANCIAL STATEMENTS

Budgeted Income Statement

Budgeted Balance Sheet

Statement of Cash Flows

Capital Budget Statement

Non-Financial Assets - Summary of Movement

OVERVIEW

Mission

To deliver total housing and relocation services that meet Defence operational and client needs through a strong customer and business focus.

Overview

The Defence Housing Authority was established in 1988 under the *Defence Housing Authority Act 1987*. The Authority's 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 lies within the Defence Portfolio. As a Government Business Enterprise it has two shareholder Ministers – the Minister for Defence and the Special Minister of State.

The composition of the Board of Directors of the Authority is governed by legislation. The Board comprises five commercial directors, five representatives from Defence, a spouse of a member of the ADF and the Managing Director of the Authority. A list of the Board members can be found in the purchaser-provider section in Defence's Chapter Two – Resourcing.

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. This means that the Authority has a target rate of return and a requirement to pay annual dividends and tax equivalent payments.

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 now confirms that satisfaction with housing influences members with dependants to stay and, generally, members with dependants are very satisfied with the quality of the Authority's houses. From Defence exit survey data, housing issues for members with dependants do not rate highly as a factor that influenced a member's decision to separate.

The Authority provides a coordinated service for members with dependants' 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), with the latter also being carried out for members without dependants. There are currently over 18,000 ADF families being housed by the Authority in Service residences or through rent allowance arrangements.

The Authority provides homes in all states and territories of Australia for the housing of members with dependants. Of these properties, approximately 2,000 are located on Defence bases. The Authority employs around 695 staff located in eight major regional offices and 18 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 has been relocating and paying rent allowance to ADF members without dependants and in 2006-07 it will make payments to 9,300 members. The Board has resolved to build on those services by providing accommodation for members without dependants. As a start, the Authority has commenced a pilot program for Defence to provide accommodation for members without dependants in Darwin. The pilot program has twelve out of eighteen months to go.

Defence has short listed a consortium involving the Authority to submit a tender for its Single LEAP Project Stage One. Defence is looking for a strategic partner for planning, development, construction, maintenance and operations to provide over 1,500 members without dependants rooms at Holsworthy, Enoggera and RAAF Amberley. The Authority will be an equity partner in the consortium and will provide room booking services. The Authority's consortium will submit its tender to Defence in May 2006.

The slowness in the residential property investment markets in Sydney, Canberra and some other parts of Australia has put financing pressure on the Defence Housing Authority to meet its capital program. The Authority plans to acquire or construct 1,000 new properties during 2006-07, principally to replace old stock and those properties where the lease is expiring and is not to be renewed. The estimated cost of this program is around \$470m. During 2006-07, the Authority's sales program is planned to generate \$400m; this includes sale and leaseback of properties to individual and institutional investors and the disposal of properties that are no longer required.

The Board has approved the use of rent floors and the selective use of increased yields to improve sales performance for its sale and leaseback program for individual investors. Further, the Authority has now signed its first contract with a major financial institution for the sale and leaseback of properties. The Authority is planning further sales on this basis over the next five years.

The Government has agreed to increase the Authority's borrowing facility to \$550m, up from \$425m. Depending on the period of slowness in the residential investment markets, the Authority may need to request approval for higher borrowings in the future. The Board has also requested approval for more flexible borrowing arrangements. It is expected that the Authority and the Department of Finance and Administration will sign a new Loan Agreement in May 2006.

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: | 16,757 houses by 30 June 2007. |
| Price: | Average rental cost to Defence is estimated to be \$376 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 Defence for rent and housing-related services.

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. The Agreement is currently being renegotiated. A new Services Agreement will be signed by May 2006 and will include simplified pricing and a change in risk sharing between the Authority and Defence.

A Relocation Services Agreement between the Authority and Defence was signed on 20 December 2002. This eight-year agreement covers the provision of allocation and relocation services. More details on the purchaser-provider arrangements are provided in Defence's Chapter Two – Resourcing.

BUDGETED FINANCIAL STATEMENTS

The following budgeted financial statements for the Defence Housing Authority are presented in this section.

Budgeted Income Statement

This statement provides the expected financial results for the Defence Housing Authority by identifying full accrual expenses and revenues.

Budgeted Balance Sheet

Shows the financial position of the Defence Housing Authority. It enables decision makers to track the management of the Authority's assets and liabilities.

Statement of Cash Flows

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. Note that the Defence Housing Authority adopted inventories accounting in 2004-05 for those houses acquired/constructed for sale and leaseback. Capital outlays on Sale and Leaseback stock is shown in Operating Activities in the Statement of Cash Flows.

Non-Financial Assets – Summary of Movement

This statement shows only the budget year 2006-07.

Table 1: Budgeted Income Statement

| | Projected Results 2005-06 \$'000 | Forward Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|---|--|--|--|--|
| REVENUE | | | | | |
| Revenue from ordinary activities | | | | | |
| Goods and services | 768,677 | 805,217 | 857,091 | 913,233 | 943,880 |
| Interest | 10,000 | 5,359 | 2,441 | 2,257 | 2,085 |
| Net gain from sale of assets | 1,237 | 840 | 850 | 715 | 842 |
| Revenues from ordinary activities | 779,914 | 811,416 | 860,382 | 916,205 | 946,807 |
| EXPENSE | | | | | |
| Employees | 45,285 | 46,870 | 48,510 | 50,209 | 51,965 |
| Suppliers | 643,668 | 671,195 | 716,702 | 765,445 | 794,385 |
| Depreciation and amortisation | 12,151 | 12,789 | 13,193 | 13,448 | 13,552 |
| Expenses from ordinary activities (excluding borrowing costs expense) | 701,104 | 730,854 | 778,405 | 829,102 | 859,902 |
| Borrowing costs expense | 24,375 | 24,150 | 27,150 | 29,850 | 31,650 |
| Operating profit before Income Tax from ordinary activities | 54,435 | 56,412 | 54,827 | 57,253 | 55,255 |
| Income Tax Expense | - | - | - | - | - |
| Net surplus or deficit attributable to the Commonwealth | 54,435 | 56,412 | 54,827 | 57,253 | 55,255 |
| Net credit (debit) to asset revaluation reserve | 6,932 | 6,554 | 6,205 | 5,857 | 5,480 |
| Total revenues, expenses and valuation adjustments attributable to the Commonwealth and recognised directly in equity | 61,367 | 62,966 | 61,032 | 63,110 | 60,735 |

Table 2: Budgeted Balance Sheet

| | Projected Results 2005-06 \$'000 | Forward Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--------------------------------------|---|--|--|--|--|
| ASSETS | | | | | |
| Financial assets | | | | | |
| Cash | 205,289 | 45,393 | 45,008 | 42,616 | 40,712 |
| Receivables | 147,023 | 135,196 | 128,917 | 126,194 | 122,965 |
| Accrued Revenue | 15,246 | 15,718 | 15,708 | 15,940 | 16,279 |
| Other Financial Assets | 14,911 | 15,545 | 16,269 | 16,525 | 16,991 |
| Total financial assets | 382,469 | 211,852 | 205,902 | 201,275 | 196,947 |
| Non-financial assets | | | | | |
| Land and buildings | 756,965 | 714,482 | 678,711 | 636,614 | 594,517 |
| Infrastructure, plant and equipment | 26,176 | 29,941 | 32,953 | 35,362 | 37,290 |
| Inventories | 768,267 | 1,029,051 | 1,120,185 | 1,204,193 | 1,264,047 |
| Assets Held for Sale | 62,120 | 62,603 | 55,892 | 62,217 | 62,217 |
| Total non-financial assets | 1,613,528 | 1,836,077 | 1,887,741 | 1,938,386 | 1,958,071 |
| Total Assets | 1,995,997 | 2,047,929 | 2,093,643 | 2,139,661 | 2,155,018 |
| LIABILITIES | | | | | |
| Interest bearing liabilities | | | | | |
| Loans | 375,000 | 430,000 | 475,000 | 520,000 | 535,000 |
| Provisions | | | | | |
| Employees | 7,383 | 7,641 | 7,909 | 8,186 | 8,472 |
| Trade Creditors | | | | | |
| Provision | 62,266 | 65,309 | 68,047 | 69,001 | 70,941 |
| Other Payables & Accrued Expenses | 57,004 | 60,889 | 63,099 | 65,239 | 67,204 |
| Total Payables and Provisions | 132,755 | 140,633 | 145,832 | 149,184 | 153,558 |
| Total liabilities | 507,755 | 570,633 | 620,832 | 669,184 | 688,558 |
| Equity | | | | | |
| Contributed equity | 249,148 | 249,148 | 249,148 | 249,148 | 249,148 |
| Reserves | 1,114,134 | 1,120,688 | 1,126,893 | 1,132,750 | 1,138,230 |
| Total accumulated results | 124,960 | 107,460 | 96,770 | 88,579 | 79,082 |
| Total equity | 1,488,242 | 1,477,296 | 1,472,811 | 1,470,477 | 1,466,460 |
| Total liabilities and equity | 1,995,997 | 2,047,929 | 2,093,643 | 2,139,661 | 2,155,018 |

Table 3: Statement of Cash Flows

| | Projected Results 2005-06 \$'000 | Forward Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|---|--|--|--|--|
| OPERATING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Goods and services | 768,677 | 805,217 | 857,091 | 913,233 | 943,880 |
| Interest | 10,000 | 5,359 | 2,441 | 2,257 | 2,085 |
| GST Input | 3,331 | 3,503 | 3,663 | 3,819 | 3,174 |
| GST Receipts | 31,276 | 32,894 | 34,396 | 35,856 | 29,803 |
| Other | 9,838 | 6,649 | 3,364 | 1,529 | 3,020 |
| Total cash received | 823,122 | 853,622 | 900,955 | 956,694 | 981,962 |
| Cash used | | | | | |
| Employees | 45,285 | 46,870 | 48,510 | 50,208 | 51,965 |
| Payment to Suppliers | 792,602 | 931,983 | 807,831 | 849,453 | 854,242 |
| GST Payments to Suppliers | 34,607 | 36,397 | 38,059 | 39,675 | 32,977 |
| Interest | 24,375 | 24,150 | 27,150 | 29,850 | 31,650 |
| Total cash used | 896,869 | 1,039,400 | 921,550 | 969,186 | 970,834 |
| Net cash from/(used by) operating activities | -73,747 | -185,778 | -20,596 | -12,492 | 11,128 |
| INVESTING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Proceeds from sales of property, plant and equipment | 132,410 | 54,794 | 50,727 | 40,544 | 46,720 |
| Total cash received | 132,410 | 54,794 | 50,727 | 40,544 | 46,720 |
| Cash used | | | | | |
| Purchase of property, plant and equipment | 13,100 | 10,000 | 10,000 | 10,000 | 10,000 |
| Total cash used | 13,100 | 10,000 | 10,000 | 10,000 | 10,000 |
| Net cash from (used by) investing activities | 119,310 | 44,794 | 40,727 | 30,544 | 36,720 |
| FINANCING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Proceeds from loans | - | 55,000 | 45,000 | 45,000 | 15,000 |
| Proceeds from other activities | - | - | - | - | - |
| Total cash received | - | 55,000 | 45,000 | 45,000 | 15,000 |
| Cash used | | | | | |
| Repayment of loans | 67,060 | 73,912 | 65,517 | 65,444 | 64,752 |
| Dividends paid | - | - | - | - | - |
| Repayment of other activities | - | - | - | - | - |
| Total cash used | 67,060 | 73,912 | 65,517 | 65,444 | 64,752 |
| Net cash from/(used by) financing activities | -67,060 | -18,912 | -20,517 | -20,444 | -49,752 |
| Net increase/(decrease) in cash held | -21,497 | -159,896 | -385 | -2,392 | -1,904 |
| Cash at the beginning of the reporting period | 226,768 | 205,289 | 45,393 | 45,008 | 42,616 |
| Cash at the end of the reporting period | 205,289 | 45,393 | 45,008 | 42,616 | 40,712 |

Table 4: Capital Budget Statement⁽¹⁾

| | Projected Results 2005-06 \$'000 | Forward Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|---|--|--|--|--|
| CAPITAL APPROPRIATIONS | | | | | |
| Total loans | - | 55,000 | 45,000 | 45,000 | 15,000 |
| Total | - | 55,000 | 45,000 | 45,000 | 15,000 |
| PURCHASE OF NON CURRENT ASSETS | | | | | |
| Funded internally by Departmental resources | 13,100 | 10,000 | 10,000 | 10,000 | 10,000 |
| TOTAL | 13,100 | 10,000 | 10,000 | 10,000 | 10,000 |

Note

1. Table 4 shows purchases of property, plant and equipment and includes housing stock intended to be kept as Defence Housing Authority core stock. Sale and Leaseback housing stock is now recorded as Inventory. Cost of acquisition/construction of Inventory is shown in Operating activities in the Statement of Cash Flows. Previously, costs of acquisition/construction of all housing stock, whether intended for sale or to be kept as core stock, was shown as Investing Activities.

Table 5: Non-Financial Assets – Summary of Movement (Budget Year 2006-07)

| | Land \$'000 | Buildings \$'000 | Total Land and Buildings \$'000 | Other infrastructure plant and equipment \$'000 | Total \$'000 |
|--|----------------|---------------------|--|---|-----------------|
| Gross Value as at 1 July 2005 | 441,142 | 355,323 | 796,465 | 34,779 | 831,244 |
| Additions | 600 | 1900 | 2,500 | 10,600 | 10,600 |
| Disposals | 51,515 | 42,148 | 93,663 | - | - |
| Revaluation increments | - | - | - | - | - |
| Transfers to Assets Held for Sale | -28,287 | -23,376 | -51,663 | - | -42,000 |
| Gross value 30 June 2006 | 418,514 | 338,451 | 756,965 | 45,379 | 799,843 |
| Accumulated Depreciation as at 1 July 2005 | - | - | - | 13,984 | 13,984 |
| Charge for the reporting period | - | 6932 | 6932 | 5219 | 12,151 |
| Disposals | - | - | - | - | - |
| Revaluations | - | -6932 | -6932 | - | -6932 |
| Accumulated Depreciation as at 30 June 2006 | - | - | - | 19,203 | 19,203 |
| Net Book Value as at 30 June 2006 | 418,514 | 338,451 | 754,464 | 26,176 | 783,141 |

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Defence Materiel Organisation

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GLOSSARY

| | |
|----------------------------------|---|
| Accrual accounting | The system of accounting where items are brought to account and included in the financial statements as they are earned or incurred, rather than as they are received and paid. |
| Accumulated depreciation | The aggregate depreciation recorded for a particular depreciating asset. |
| Additional estimates | Where amounts appropriated at Budget time are required to change, Parliament may make adjustments to portfolios through the Additional Estimates Acts. |
| Administered items | Expenses, revenues, assets or liabilities managed by agencies on behalf of the Commonwealth. Agencies do not control administered items. Administered expenses include grants, subsidies and benefits. In many cases, administered expenses fund the delivery of third party outputs. |
| Amortisation | A term used interchangeably with depreciation, except that it applies to a non-current physical asset under finance lease, or a non-current intangible asset, over its limited useful life. |
| Appropriation | An authorisation by Parliament to spend money from the Consolidated Revenue Fund (the principal working fund of the Commonwealth) for a particular purpose. |
| Annual appropriation | Two Appropriation Bills are introduced into Parliament in May and comprise the Budget for the financial year beginning 1 July. Further Bills are introduced later in the financial year as part of the additional estimates. |
| Assets | Future economic benefits controlled by Defence as a result of past transactions or other past events. Assets are initially recognised at the cost of acquisition. Non-financial assets are subject to ongoing revaluation assessment. |
| Assets under construction | Assets under construction by Defence for Defence, or for the use of another entity according to a construction contract where Defence controls the asset until completion, or assets under construction or otherwise being made ready by another entity for use by Defence. |
| Average funded strength | A budgetary measure used to count the average number of ADF members paid on a full-time equivalent basis during a financial year. |

| | |
|--|--|
| Budget Estimates and Framework Review | The term used to describe the recommendations agreed by the Government in May 2002 following a thorough assessment of the budget estimates and advice system. The review outcomes are designed to improve the accuracy, responsiveness and effectiveness of the Government's budget estimates and framework system. It also provides agencies with methods to improve financial management and reporting within their own organisations. |
| Capability | The combination of military equipment, personnel, logistics support, training, resources, etc. that provides Defence with the ability to achieve its operational aims. |
| Capability Manager | A Capability Manager is responsible for raising, training and sustaining in-service capabilities through the coordination of fundamental inputs to capability. Capability Managers include the Service Chiefs, the Chief of Joint Operations and the Chief Information Officer. |
| Capital budget | All proposed capital expenditure funded by appropriation for outcomes, by equity injections or loans and/or appropriations for administered capital, or by other sources. |
| Capital expenditure | Expenditure by an agency on capital projects, for example purchasing a building. |
| Combined exercise | An exercise or activity involving one or more Services of the ADF with the forces of other countries. |
| Consolidated Revenue Fund | Section 81 of the Constitution stipulates that all revenue raised or money received by the Commonwealth forms the one consolidated revenue fund. The fund is not a bank account. The Official Public Account reflects most of the operations of the fund. |
| Defence Capability Plan | The Defence Capability Plan is a costed, detailed development plan for Australia's military capabilities over a ten-year period. The plan is reviewed regularly to take account of changing strategic circumstances, new technologies and changed priorities, in the context of the overall Defence budget. |

| | |
|--|---|
| Defence Management and Finance Plan | The Defence Management and Finance Plan provides Ministers and central agencies with a clear oversight of Defence planning and financing strategies. It describes the strategies agreed through the <i>2000 Defence White Paper</i> and subsequent Strategic Review papers. As a compendium of information attached to Defence's annual Portfolio Budget Submission, it is intended to help Ministers make informed strategic and budgetary decisions on Defence, by bringing into one document the expected financial position of the portfolio taking into account existing commitments and proposed new investments. The Plan also provides the Government with the information necessary to ensure that its investment in Defence is both affordable and sustainable. |
| Defence Procurement Review | An independent review initiated by the Government in December 2002 to examine the procurement process for major acquisitions in Defence. The review was led by Mr Malcolm Kinnaird and is also known as the Kinnaird Review. |
| Departmental items | Assets, liabilities, revenues and expenses that are controlled by the agency in providing its outputs. Departmental items would generally include computers, plant and equipment assets used by agencies in providing goods and services and most employee expenses, supplier costs and other administrative expenses incurred. |
| Depreciation | Apportionment of an asset's capital value as an expense over its estimated useful life to take account of normal usage, obsolescence, or the passage of time. |
| Effectiveness indicators | Measures the joint or independent contribution of outputs and administered items to the achievement of their specified outcome. |
| Efficiency indicators | Measures the adequacy of an agency's management of its outputs (and where applicable, administered items). Includes Price, Quality and Quantity indicators. The interrelationship between the three efficiency indicators of any one output should be considered when judging efficiency. |
| Employee | Any Australian Public Service officer of Defence or serving Defence Force member who receives a salary or wage, along with other benefits, for the provision of services whether on a full-time, part-time, permanent, casual or temporary basis |

| | |
|---|--|
| Employee expenses | Include, but are not limited to, benefits provided to employees in the form of salaries and wages, performance pay, senior officers' allowances, leave, and superannuation, but does not include amounts paid or owed to employees as reimbursement of out-of-pocket expenses. |
| Equity or net assets | Residual interest in the assets of an entity after deduction of its liabilities. |
| Equity injection | An additional contribution, over and above the cost of outputs. Equity injections form part of the Commonwealth's investment in Defence. |
| Expense | Total value of all of the resources consumed in producing goods and services or the loss of future economic benefits in the form of reductions in assets or increases in liabilities of an entity. |
| Fair value | The amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The fair value can be affected by the conditions of the sale, market conditions and the intentions of the asset holder. |
| Force element | A component of a unit, a unit or an association of units having common prime objectives and activities. |
| Force element group | A grouping of force elements with an appropriate command and control structure for a specified role or roles (eg the Navy Submarine Group). |
| Force element product costing tool | A methodology that provides all Defence Groups with a consistent framework to cost their internal products or services and identify how these contribute to the costs of operating a force element. |
| Group | A high-level organisational grouping of functions and activities used by the Defence Executive as its primary management grouping (eg the Capability Development Group). |

| | |
|--|---|
| Infrastructure | Items owned, leased or otherwise under the control of Defence in support of activities on land and within buildings. Infrastructure includes items such as runways, roads, car parks, parade grounds, ovals, lighting, water, sewerage and other general service related items. It does not include land upon which, or within which, it is constructed or those fixed items integral to, and under, buildings. |
| Interoperability | The ability of systems, units or forces to provide the services to, and accept services from, other systems, units or forces and to use the services so exchanged to enable them to operate effectively together. |
| Inventory | Inventory is comprised of consumable stores and supplies, fuel and explosive ordnance used in the delivery of Defence services. These are items which are consumed in normal use, lose their identity during periods of use by incorporation into, or attachment upon, another assembly, as a result of wear and tear, cannot be reconditioned because their design does not make it possible or their specific values do not justify it. |
| Joint exercise | An exercise involving two or more Services of the ADF. |
| Liabilities | Sacrifices of future economic benefits that Defence is presently obliged to make to other entities as a result of past transactions or other past events. |
| Materiel Acquisition Agreements | Materiel Acquisition Agreements will cover the Defence Materiel Organisation's acquisition services to Defence for both major and minor capital equipment. |
| Materiel Sustainment Agreements | Materiel Sustainment Agreements will be between the Capability Managers and the Chief Executive Officer of the Defence Materiel Organisation. These agreements will cover the sustainment of current capability, including services such as repairs, maintenance, fuel and explosive ordnance. |
| Net assets | See <i>Equity</i> |
| Operating result | Equals revenue less expense. |
| Other property, plant and equipment | This comprises the following sub-classes; administrative assets, commercial vehicles, general military assets, heritage assets and other (includes all items not specific to one of the classes or sub-classes referred to above and can include testing equipment and non-specific non-rotable spares). |

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| Outcomes | The results that the Government seeks from Defence, and are achieved by the successful delivery of its outputs, to the standards set in the Portfolio Budget Statements. For more information, see Defence's Chapter Five – Planned Outcome Performance. |
| Output | The product or service produced by Defence on behalf of government for external organisations or individuals. For more information, see Defence's Chapter Five – Planned Outcome Performance. |
| Output groups | A logical aggregation of agency outputs, where useful, and based either on homogeneity, type of product, business line or beneficiary target group. Aggregation of outputs may also be needed for the provision of adequate information for performance monitoring, or based on a materiality test. |
| Outturned prices | Estimates adjusted to incorporate the expected rate of inflation. |
| Price | One of the three key efficiency indicators. The amount the government or the community pays for the delivery of agreed outputs. |
| Purchaser-provider arrangements | Arrangements under which the outputs of one agency are purchased by another agency to contribute to outcomes. Purchaser-provider arrangements can occur between Commonwealth agencies and state/territory government or private sector bodies. |
| Quality | One of the three key efficiency indicators. Relates to the characteristics by which customers or stakeholders judge an organisation, product or service. Assessment of quality involves use of information gathered from interested parties to identify differences between user's expectations and experiences. |
| Quantity | One of the three key efficiency indicators. Examples include: the size of an output; count or volume measures; how many or how much. |
| Readiness | The readiness of forces to be committed to operations within a specified time, dependent on the availability and proficiency of personnel, equipment, facilities and consumables. |

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| Receivables | Amounts payable to Defence, including debtors, bills of exchange and promissory notes, loans to other governments and other entities, interest accrued but not yet received, and advances to Defence employees and other entities that are to be returned or acquitted. |
| 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. |
| Special account | Balances existing within the Consolidated Revenue Fund, that are supported by standing appropriations (<i>Financial Management and Accountability Act 1997</i> , ss.20 and 21). Special accounts allow money in the Consolidated Revenue Fund to be acknowledged as set-aside (hypothecated) for a particular purpose. Amounts credited to a Special Account may only be spent for the purposes of the Special Account. Special Accounts can only be established by a written determination of the Finance Minister (s.20 of the <i>Financial Management and Accountability Act 1997</i>) or through an Act of Parliament (referred to in s.21 of the <i>Financial Management and Accountability Act 1997</i>). |
| Special Appropriations (including Standing Appropriations) | <p>An amount of money appropriated by a particular Act of Parliament for a specific purpose and number of years. For special appropriations the authority to withdraw funds from the Consolidated Revenue Fund does not generally cease at the end of the financial year.</p> <p>Standing appropriations are a sub-category consisting of ongoing special appropriations – the amount appropriated will depend on circumstances specified in the legislation.</p> |
| Specialist military equipment | Items of a specific military nature and that are not available through the normal external market in their current form to other than government military purchasers. It includes the prime military equipment plus the direct support items associated with the equipment. |

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| Unit ready days | The number of days that a force element is available for tasking, by the Maritime commander, either outside of major maintenance and within planned readiness requirements, or in accordance with contracted availability. 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 associated pre-workup (preparations for initial operational training) or based on the total number of days the force element is contracted to be available to Defence. Contracted availability applies to the Armidale-class patrol boats and may apply to other classes in the future. |
| Weighted average cost | An inventory valuation method which considers the fluctuating prices and quantities of acquired goods in computing of the cost of inventory. The weighted average method takes the prices of units at the beginning inventory and the varying prices of purchases made and are weighted by the number of units to determine the weighted average cost per unit. It may be computed as the weighted average cost of all available goods present in a given period, or as a weighted moving average cost adjusted when new goods are delivered. |
| Write-offs | The recording in the accounting records of irrecoverable or uneconomic to recover debts. |
| Write-downs | The reduction in the value of assets. |

ACRONYMS AND ABBREVIATIONS

A

| | |
|--------|---|
| AASB | Australian Accounting Standards Board |
| ADF | Australian Defence Force |
| AEIFRS | Australian Equivalents to International Financial Reporting Standards |
| AFS | Average Funded Strength |
| APS | Australian Public Service |

C

| | |
|---------|--|
| CEO DMO | Chief Executive Officer of the Defence Materiel Organisation |
| CSS | Commonwealth Superannuation Scheme |

D

| | |
|-------|--|
| DFAT | Department of Foreign Affairs and Trade |
| DFRDB | Defence Force Retirement and Death Benefits Scheme |
| DHA | Defence Housing Authority |
| DMO | Defence Materiel Organisation |

F

| | |
|-----|------------------------|
| FFG | Guided Missile Frigate |
|-----|------------------------|

G

| | |
|-----|------------------------|
| GDP | Gross Domestic Product |
| GST | Goods and Services Tax |

H

| | |
|------|-------------------------------|
| HMAS | Her Majesty's Australian Ship |
|------|-------------------------------|

M

| | |
|------|---|
| MSBS | Military Superannuation Benefits Scheme |
|------|---|

P

| | |
|-----|-------------------------------|
| PSP | Professional Service Provider |
|-----|-------------------------------|

R

RAAF Royal Australian Air Force

RAN Royal Australian Navy

RAR Royal Australian Regiment

U

UN United Nations

URD Unit Ready Days

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