



PORTFOLIO BUDGET STATEMENTS 2007-08

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

**BUDGET INITIATIVES AND EXPLANATIONS
OF APPROPRIATIONS SPECIFIED BY OUTCOMES AND OUTPUTS
2007-08**

BUDGET RELATED PAPER NOs. 1.4A and 1.4C

2007-08 BUDGET PAPERS

Budget Speech

- No. 1 Budget Strategy and Outlook 2007-08
Contains information on the economic and financial outlook, together with information on the fiscal strategy.

- No. 2 Budget Measures 2007-08
Provides a comprehensive statement on the budget expense, revenue and capital measures in the 2007-08 Budget.

- No. 3 Federal Financial Relations 2007-08
Provides information on the Australian Government's financial relations with the States, Territories and local government.

- No. 4 Agency Resourcing 2007-08
Contains information on resourcing for Australian Government agencies (including the Appropriation Bills Nos. 1 and 2 and the Appropriation (Parliamentary Departments) Bill No. 1).

2007-08 BUDGET RELATED PAPERS

- No. 1 Portfolio Budget Statements
Detailed information on the expected financial position of each Australian Government agency for 2007-08.

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MINISTER FOR DEFENCE
THE HON DR BRENDAN NELSON MP

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

02 MAY 2007

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

Dear Mr President and Mr Speaker

I hereby submit Portfolio Budget Statements in support of the 2007-08 Budget for the Department of Defence, the Defence Materiel Organisation and Defence Housing Australia.

These statements have been developed, and are submitted to the Parliament, as a statement on 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

A handwritten signature in black ink, appearing to read 'Brendan Nelson', with a large, stylized flourish extending downwards and to the left.

BRENDAN NELSON

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USER GUIDE TO THE PORTFOLIO BUDGET STATEMENTS

Purpose of the Portfolio Budget Statements

The purpose of the 2007-08 Portfolio Budget Statements 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 acts, special appropriations (including standing appropriations and 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 2007-08 (or Appropriation Bill [Parliamentary Departments] No. 1 2007-08 for the parliamentary departments). In this sense the Portfolio Budget Statements are Budget related papers and are declared by the Appropriation Acts to be 'relevant documents' to the interpretation of the Acts 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 and accordingly, these entities are not reported in the Portfolio Budget Statements.

Structure of 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 2007-08, 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 2007-08, medium and major capital facilities projects, other capital purchases and capital receipts. |
| Chapter Four — People | This chapter provides a summary of personnel initiatives for 2007-08 and a summary of Defence's workforce. |
| Chapter Five — Planned Outcome Performance | A brief overview of Defence's outcomes and outputs for 2007-08. 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 2007-08, designed to ensure sustainable delivery of outcomes. |
| Chapter Seven — Budgeted Financial Statements | Defence's budgeted financial statements, in accrual format, covering 2007-08, 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 2007-08, 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 2007-08 and a summary of the DMO's workforce. |
| Chapter Six — Budgeted Financial Statements | The DMO's budgeted financial statements, in accrual format, covering 2007-08 and three out-years. |
| SECTION THREE: DEFENCE HOUSING AUSTRALIA | |
| | An overview of Defence Housing Australia (DHA), including performance forecasts for 2007-08, DHA's outcome and output, and its 2007-08 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 2007-08*. The Portfolio Budget Statements include Budget appropriations for this Budget in each agency's Table 2.2, 2007-08 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

Revenues, expenses, assets and liabilities 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

Revenues, expenses, assets and liabilities that are managed by an agency or authority on behalf of the Government according to set the Government's 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 2007-08*.

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 2007-08 Budget year and each of the forward years from 2008-09 to 2010-11. The statements also include the estimated actual for 2006-07 for comparative purposes.

The schedules included in the budgeted financial statements for 2007-08 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 | Purpose |
|--|---|
| 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 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

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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

SECTION ONE

DEPARTMENT OF DEFENCE

CHAPTER ONE - OVERVIEW

CHAPTER TWO - RESOURCING

CHAPTER THREE - CAPITAL INVESTMENT PROGRAM

CHAPTER FOUR - PEOPLE

CHAPTER FIVE - PLANNED OUTCOME PERFORMANCE

**CHAPTER SIX - MANAGEMENT REFORMS AND
EFFICIENCIES**

**CHAPTER SEVEN - BUDGETED FINANCIAL
STATEMENTS**

DEFENCE

CHAPTER ONE

OVERVIEW

OVERVIEW

FORCE STRUCTURE

OVERVIEW OF THE 2007-08 BUDGET

FINANCIAL STATEMENTS AND MANAGEMENT
IMPROVEMENT

ORGANISATIONAL STRUCTURE

OVERVIEW

STRATEGIC ENVIRONMENT

The current security environment has proved as complex and challenging as predicted in the 2000 Defence White Paper and the 2003 and 2005 Defence Updates. Australia's strategic environment is characterised by the impacts of globalisation, the challenges of supporting regional nations at risk, threats of terrorism, the proliferation of weapons of mass destruction, and the maturing relationships between the major powers in the Asia-Pacific region. Countering the threats of terrorism and the proliferation of weapons of mass destruction, and supporting regional states in difficulty remain the Government's highest operational defence priorities.

OPERATIONAL TEMPO

The Australian Defence Force's (ADF's) operational tempo remains high, with around 4,000 personnel currently serving on operations within Australia, the region and around the world. As noted in the 2005 Defence Update, the tempo of operations is likely to continue and this places significant demands on the ADF in terms of preparedness, sustainability and capabilities. Defence continues to plan and structure for its primary role in the defence of Australia and its interests and maintains the capacity to support current commitments and provide response options to the Government to meet the range of potential future domestic, regional and global scenarios. This includes working collaboratively with our neighbours and the broader international defence community and contributing to coalition operations in support of Australia's national interests.

DEFENCE PLANNING

Defence manages the challenges of the complex strategic environment and current operational tempo through the Defence Strategic Planning framework. The framework enables Defence to assess the strategic environment, identify and direct appropriate responses, and recommend supporting resources, capability developments or preparedness requirements. The framework consists of classified and unclassified documents that are revised periodically to ensure quality advice and direction is available to guide Defence activities.

DEFENCE MANAGEMENT REFORMS

The Defence Management Review presented its findings to the Minister for Defence in April 2007. It acknowledged the successes Defence has had over the last decade and the significant reforms that have been undertaken in an unprecedented period of high operational activity. It also identified areas where performance could be improved.

The review provides Defence with a platform to take forward the important reforms required to effectively position the organisation for the successful conduct of operations into the future. A number of new initiatives will be implemented to address the review's recommendations that will build on the existing program of reforms and strengthen the organisation's capacity in four key areas: accountability and governance; supporting our Minister and the Government; people management; and business system reform. Well planned and coordinated implementation of these initiatives will be a key area of focus for Defence in 2007-08.

FORCE STRUCTURE

Defence maintains a force structure to meet the strategic tasks outlined in the 2000 Defence White Paper and the 2003 and 2005 Defence Updates. 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 at the end of 2007) and eight Anzac-class frigates;
- a naval aviation force comprising 16 Seahawk naval combatant helicopters, six Sea King maritime support helicopters and 13 Squirrel naval training helicopters. The Sea King helicopters are due to be progressively replaced by MRH90 helicopters from 2010. 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. While the Super Seasprite helicopter is scheduled for initial operating capability in 2011 the Government will make a final decision on its future sometime later this year;
- Armidale-class patrol boats to provide patrol, and response capability in Australia's maritime approaches. The Fremantle-class patrol boats have been progressively withdrawn from service as more Armidale-class patrol boats have been introduced. The last of the Fremantle-class patrol boats will be retired by mid-2007, by which time 12 Armidale-class patrol boats will be in service. An additional two Armidale-class patrol boats will be delivered by 2008;

- 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 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 Operations Logistics Squadron;
- as part of implementing Stage 1 of the Enhanced Land Force initiative, an additional infantry battalion was raised in December 2006. In 2007, infantry battalion growth is to occur and support capabilities are being raised. Under Stage 2, funding for a second infantry battalion and supporting capabilities are likely to be considered by the Government in late 2007 or early 2008;
- an air combat force consisting of three F/A-18 squadrons and two F-111 squadrons (to be retired from service in 2010), supported by a training wing comprising four units;
- an airlift and air-to-air refuelling force that operates one heavy airlift squadron operating four Boeing C-17 Globemaster III aircraft by 2008, one C-130 Hercules airlift squadron, one squadron each of DHC-4, B-707, and Special Purpose Aircraft (B-737 BBJ and CL-604 Challenger) supported by a training squadron;
- a combat support group consisting of two expeditionary combat support wings that provide the essential air base combat support required to conduct deployed air operations on bare bases and in low infrastructure conditions, and a health support wing;

- a maritime patrol force comprising two front line P-3 Orion squadrons and one conversion unit. The Wedgetail airborne early warning and control aircraft which will enter service from late 2009;
- a battlespace management force consisting of a command and control capability for air operations, wide-area surveillance system (Jindalee Operational Radar Network) monitoring Australia's northern approaches, and a range of ground radars and other supporting elements;
- a training group consisting of an air training wing that conducts specialist and *ab-initio* training for aircrew, and a ground training wing that includes a school of technical training, a post-graduate college and other training units; and
- diverse capabilities for intelligence collection and analysis.

The major combat elements are being integrated through a robust communications network and 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.

OVERVIEW OF THE 2007-08 BUDGET

The Government has allocated Defence an additional \$14.0 billion over 10 financial years in new budget measures comprising:

- A package of recruitment and retention measures that are designed to increase recruitment intakes and reduce military separation rates (\$2.1 billion).
- An additional \$1,278m for Defence operations comprising:
 - \$703m over three years (including \$32.4m for the reimbursement of costs incurred in 2006-07) to expand Australia's commitment to operations in Afghanistan, including the redeployment of Special Forces and other enabling support elements including a mobile control and reporting unit, and the redeployment of Chinook helicopter support;
 - \$389.4m over three financial years to maintain a deployment of about 1,575 ADF personnel;
 - \$134.8m over two years to maintain the present ADF force level commitment to Timor-Leste to assist in the restoration of stability and security; and

- \$51.6m over four years for the continued surveillance of Australia’s northern approaches as part of Operation Resolute.
- A strengthening of Australia’s Defence intelligence and security capabilities to better protect Australia and advance its national interests (\$382.2m).
- The acquisition of 24 F/A-18F Block II Super Hornet multi role aircraft to ensure that Australia maintains its air combat capability edge during its transition to the F-35 Joint Strike Fighters over the next decade (around \$6 billion over 10 years).
- Additional logistics sustainment funding to ensure that the ADF continues to be well prepared and able to respond to contingencies (\$1.8 billion).
- The personnel and operating costs of the four C-17 heavy lift airlift that the Government agreed to acquire in the 2006-07 Budget (\$1.3 billion).
- Investment in security measures to protect Defence personnel, key assets, facilities and infrastructure at Defence bases (\$135.4m).
- Additional funding to ensure that Defence Housing Australia meets competitive neutrality requirements with this measure budget-neutral at the whole-of-government level (\$953.8m).
- A contribution of \$20.5m to help establish the Jezzine Barracks Community Trust.

This is the seventh consecutive budget in which the Government has met or exceeded its Defence White Paper funding commitment. The current status of the White Paper funding commitment is detailed in Chapter Two – Resourcing.

A number of budget adjustments have also been agreed by Government including the reprogramming of the capital investment program, and price and exchange rate variations. These total \$4.111 billion over 10 years and together with the \$14.043 billion provided in new budget measures, means that an additional \$18.154 billion has been added to Defence’s budget allocations over the next 10 years. These are detailed in Table 1.1.

Excluding the administered appropriations of \$2,802m, Defence’s total Departmental funding for 2007-08 is \$21,999m, which is 9.3 per cent of Australian Government outlays and 2 per cent of Gross Domestic Product (GDP). Further details on budget allocations are contained in Chapter Two – Resourcing.

Table 1.1: Additional Funding Provided to Defence in the 2007-08 Budget (Pre-ERC Outturned Prices)

| | 2007-08 (\$m) | 2008-09 (\$m) | 2009-10 (\$m) | 2010-11 (\$m) | Total FE (\$m) | 2011-12 (\$m) | 2012-13 (\$m) | 2013-14 (\$m) | 2014-15 (\$m) | 2015-16 (\$m) | 2016-17 (\$m) | TOTAL (\$m) |
|--|------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|
| Remuneration Structure Reform | - | 59.7 | 60.6 | 61.9 | 182.2 | 63.3 | 64.7 | 66.3 | 67.8 | 69.4 | 71.7 | 585.4 |
| Defence Home Ownership Assistance Scheme | - | 40.9 | 52.9 | 64.7 | 158.6 | 77.5 | 97.2 | 134.8 | 140.2 | 130.4 | 125.2 | 863.8 |
| Royal Australian Navy Sea Change | 1.9 | 8.6 | 8.7 | 8.9 | 28.1 | 9.2 | 9.4 | 9.6 | 9.8 | 10.1 | 10.3 | 86.5 |
| Marketing and Service Branding | 24.6 | 26.6 | 26.8 | 27.5 | 105.5 | 19.3 | 19.7 | 20.2 | 20.6 | 21.0 | 21.6 | 227.8 |
| Defence Apprenticeships | 5.0 | 6.7 | 6.8 | 7.0 | 25.5 | 7.2 | 7.3 | 7.5 | 7.6 | 7.8 | 8.0 | 71.0 |
| Medical Officer Professional Development | 0.6 | 0.9 | 1.0 | 1.1 | 3.6 | 1.3 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 | 12.1 |
| Expanding Cadets | 10.0 | 10.0 | 10.0 | 10.0 | 40.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 100.0 |
| Reform of Defence Force Recruiting: Transition Service and Financial Advice Scheme | 4.4 | 12.2 | 12.5 | 12.7 | 41.9 | 13.0 | 13.3 | 13.6 | 13.9 | 14.3 | 14.6 | 124.6 |
| 1. Sub-Total Australian Defence Force Retention and Recruitment - further initiatives | 46.5 | 165.8 | 179.2 | 193.9 | 585.3 | 200.8 | 223.0 | 263.4 | 271.4 | 264.3 | 262.8 | 2,071.1 |
| Afghanistan - Australian Defence Force deployments | 447.9 | 191.8 | 30.9 | - | 670.5 | - | - | - | - | - | - | 670.5 |
| Afghanistan - Australian Defence Force deployments (reimbursement costs incurred in 2006-07 for expansion) | 32.4 | - | - | - | 32.4 | - | - | - | - | - | - | 32.4 |
| Iraq - continued funding for stabilisation and reconstruction activities | 301.7 | 59.7 | 28.1 | - | 389.4 | - | - | - | - | - | - | 389.4 |
| East Timor - continued funding to help restore peace and stability | 107.7 | 27.1 | - | - | 134.8 | - | - | - | - | - | - | 134.8 |
| Coastal surveillance - continuation | 12.6 | 12.8 | 13.0 | 13.3 | 51.6 | - | - | - | - | - | - | 51.6 |
| 2. Sub-Total Operations Funding | 902.3 | 291.3 | 71.9 | 13.3 | 1,278.8 | - | - | - | - | - | - | 1,278.8 |
| Strengthening National Security - improved Defence intelligence capability | 17.9 | 26.8 | 30.0 | 31.8 | 106.5 | 31.6 | 32.3 | 33.0 | 33.8 | 34.6 | 35.4 | 307.2 |
| Strengthening National Security - reducing national e-security risk | 7.0 | 6.2 | 5.7 | 8.1 | 27.0 | 7.1 | 7.8 | 8.2 | 7.7 | 8.3 | 8.8 | 75.0 |
| 3. Sub-Total Intelligence Funding | 24.9 | 33.0 | 35.7 | 39.9 | 133.5 | 38.7 | 40.1 | 41.3 | 41.5 | 42.9 | 44.2 | 382.2 |
| Air combat capability - acquisition of Super Hornets | 621.0 | 990.7 | 1,286.7 | 1,072.1 | 3,970.5 | 612.8 | 383.0 | 280.2 | 282.5 | 271.1 | 274.7 | 6,074.8 |
| Logistics - additional funding | 107.9 | 291.3 | 236.2 | 243.3 | 878.6 | 211.8 | 195.2 | 175.2 | 136.4 | 87.8 | 114.9 | 1,800.0 |
| C-17 heavy airlift - personnel and operating funding ⁽¹⁾ | - | 73.8 | 111.9 | 132.7 | 318.3 | 151.0 | 157.3 | 169.0 | 172.9 | 177.4 | 180.9 | 1,326.9 |

| | 2007-08 (\$m) | 2008-09 (\$m) | 2009-10 (\$m) | 2010-11 (\$m) | Total FE (\$m) | 2011-12 (\$m) | 2012-13 (\$m) | 2013-14 (\$m) | 2014-15 (\$m) | 2015-16 (\$m) | 2016-17 (\$m) | TOTAL (\$m) |
|---|------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----------------|
| Strengthening National Security - enhanced protective security | 33.1 | 33.5 | 34.0 | 34.8 | 135.4 | - | - | - | - | - | - | 135.4 |
| Defence housing - supplementation for competitive neutrality policy | 87.4 | 88.5 | 89.7 | 91.7 | 357.3 | 93.8 | 96.0 | 98.2 | 100.5 | 102.8 | 105.2 | 953.8 |
| Jezzine Barracks - gift to the Townsville City Council | 20.5 | - | - | - | 20.5 | - | - | - | - | - | - | 20.5 |
| 4. Sub-Total Other Budget Measures | 869.8 | 1,477.8 | 1,758.4 | 1,574.6 | 5,680.7 | 1,069.6 | 831.5 | 722.6 | 692.2 | 639.1 | 675.7 | 10,311.4 |
| Total Defence 2007-08 Budget Outcome (1+2+3+4) | 1,843.5 | 1,967.9 | 2,045.3 | 1,821.6 | 7,678.3 | 1,309.0 | 1,094.6 | 1,027.3 | 1,005.2 | 946.4 | 982.7 | 14,043.5 |
| Reprogramming of approved capital investment program | -615.0 | - | 631.0 | - | 16.1 | - | - | - | - | - | - | 16.1 |
| Further reprogramming of the approved capital investment program | -378.0 | -230.0 | -559.3 | 37.8 | -1,129.4 | 193.3 | 542.7 | 382.1 | - | - | 120.3 | 109.0 |
| Update of price indexation | 380.0 | 419.1 | 458.6 | 516.9 | 1,774.6 | 567.8 | 625.8 | 697.0 | 787.7 | 880.7 | 655.0 | 5,988.7 |
| Foreign exchange movements | -78.6 | -102.2 | -110.3 | -107.9 | -399.0 | -116.8 | -124.0 | -150.5 | -153.4 | -168.6 | -118.3 | -1,230.7 |
| Transfer from Department of Foreign Affairs and Trade for relocation of overseas missions | 0.025 | - | - | - | 0.025 | - | - | - | - | - | - | 0.025 |
| Transfer to Department of Veterans' Affairs for F-111 Deseal/Reseal health costs | -0.8 | -0.7 | -0.4 | -0.4 | -2.2 | - | - | - | - | - | - | -2.2 |
| Transfer to Defence Materiel Organisation for Skilling Australia's Defence Industry | -20.5 | -20.8 | -21.0 | -21.5 | -83.8 | -22.0 | -22.5 | -23.0 | -23.6 | -24.1 | - | -199.1 |
| Transfer to Defence Materiel Organisation for Defence Industry Policy | -26.3 | -25.7 | -24.7 | -21.3 | -98.1 | -21.3 | -10.5 | -10.6 | -7.3 | -7.5 | -8.4 | -163.7 |
| Special Account interest | 0.028 | - | - | - | 0.028 | - | - | - | - | - | - | 0.028 |
| Reimbursement of 2006-07 operations expenditure - Afghanistan | 27.3 | - | - | - | 27.3 | - | - | - | - | - | - | 27.3 |
| Reimbursement of 2006-07 operations expenditure - Iraq | 4.4 | - | - | - | 4.4 | - | - | - | - | - | - | 4.4 |
| Adjustment to funding beyond 2010-11 to correct error in original calculations | - | - | - | - | - | -90.2 | -83.0 | -83.2 | -83.2 | -83.2 | - | -422.8 |
| 5. Sub-Total Other Budget Adjustments | -707.4 | 39.8 | 373.9 | 403.6 | 93.9 | 510.8 | 928.5 | 811.8 | 520.2 | 597.3 | 648.7 | 4,111.1 |
| Total variation to Defence funding | 1,136.1 | 2,007.7 | 2,419.2 | 2,225.3 | 7,772.2 | 1,819.8 | 2,023.1 | 1,839.1 | 1,525.4 | 1,543.7 | 1,631.4 | 18,154.6 |

Note.

- Defence will contribute \$103m from existing funding to this measure over the Budget and Forward Estimates period.

FINANCIAL STATEMENTS AND MANAGEMENT IMPROVEMENT

In 2007-08, Defence will continue the reform of its financial statements and management processes to ensure that the Government receives the optimal Defence capability for its investment in Defence. The reform agenda will focus on further improvement to Defence's financial statements, to build on the 'except for' audit opinion achieved in 2005-06, and the continued implementation of a rigorous system of financial controls. Further details on the financial statements and management reform agenda are included in Chapter Six – Management Reforms and Efficiencies.

ORGANISATIONAL STRUCTURE

Senior Executive Changes

Mr Nick Warner commenced as Secretary of Defence on 4 December 2006 (as reported in the *Portfolio Additional Estimates Statements 2006-07*).

Mr Stephen Merchant was appointed to the position of Deputy Secretary Intelligence and Security on 22 February 2007.

On 26 January 2007, Major General Grant Cavenagh replaced Air Vice-Marshal Christopher Spence as the Commander Joint Logistics.

Organisational Structure Changes

A review focusing on organisational efficiency and effectiveness across the Defence organisation was conducted in 2006-07. A number of changes to the organisational structure are being made in order to implement the recommendations of this review.

These include:

- The creation of a strategic HR function headed by an SES Band 3-level officer to be focused on policy, planning and evaluation to support better decision-making.
- The appointment of an expert Chief Information Officer (CIO) as the SES Band 3-level officer to drive a substantial information technology reform agenda.

- The establishment of a Policy, Governance and Coordination function led by a new SES Band 3-level officer. This organisation will support the Secretary and the Chief of the Defence Force in delivering high quality policy advice, driving organisational reform and exercising strategic leadership.

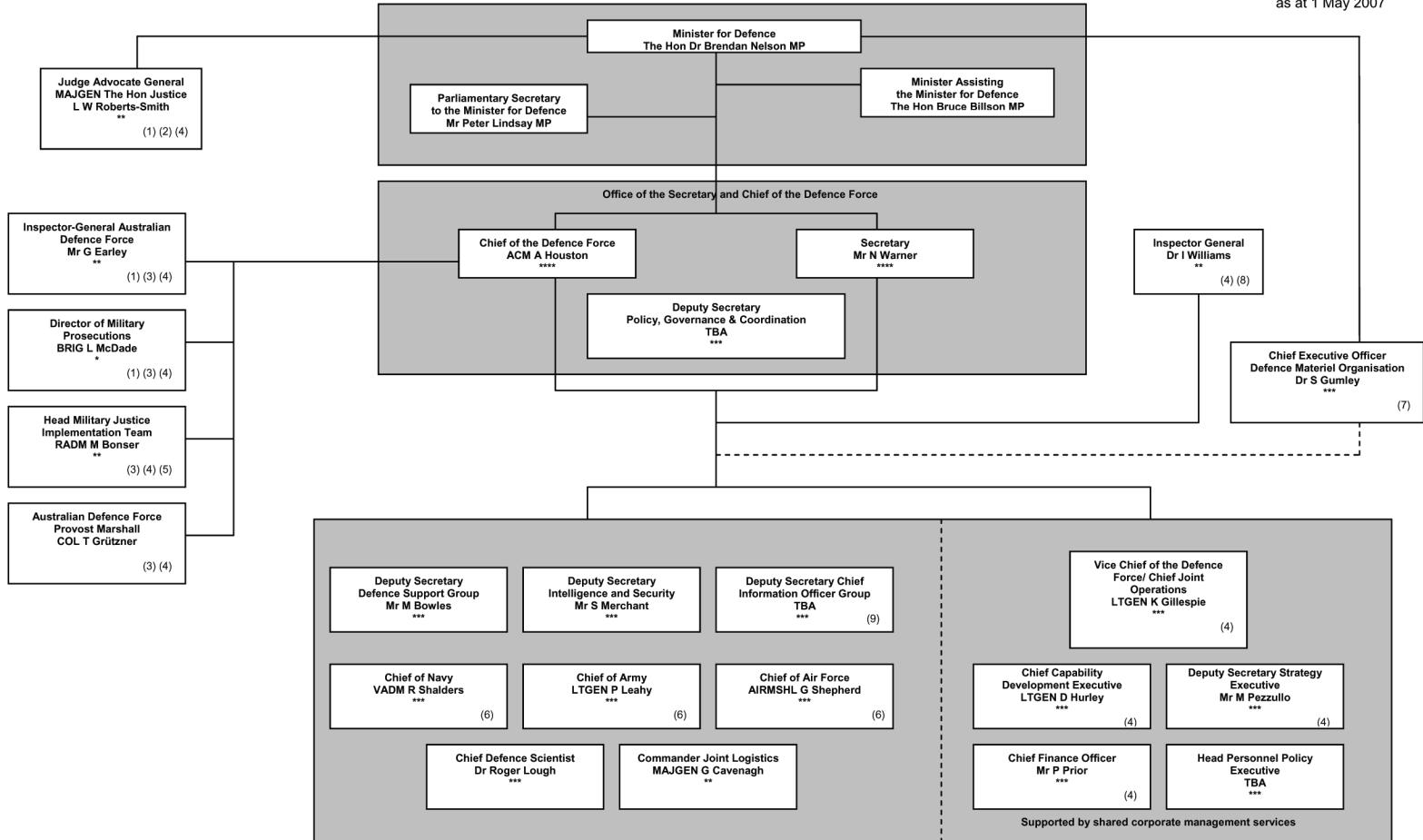
Further detail on the Defence Management Review can be found in Chapter Six – Management Reforms and Efficiencies.

Organisational Structure

Figure 1.1 depicts the structure of the organisation as at 1 May 2007.

Figure 1.1 –Structure of the Organisation as at 1 May 2007

as at 1 May 2007



(1) Statutory appointment.
 (2) The Judge Advocate General reports directly to the Minister for Defence in accordance with Section 196A of the Defence Force Discipline Act 1982.
 (3) Directly responsible to the Chief of the Defence Force.
 (4) Supported by shared corporate management services.
 (5) Position will exist to end of 2007.
 (6) Section 9(3) of the Defence Act, 1903 requires the Service Chiefs to advise the Minister on matters relating to their command.

(7) 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.
 (8) The Inspector-General reports directly to the Secretary and Chief of the Defence Force.
 (9) New position

Changes to the Defence Outcome and Output Structure

As part of a whole-of-government review into agencies' outcomes, the Minister for Finance and Administration recently approved revisions to the outcome and output structure within Defence. The new outcome structure for Defence (see Figure 1.2) is intended to better reflect the Government's Defence policy objectives and what Defence actually delivers to the Government and the community. Defence intends to report against this structure in its *Portfolio Additional Estimates Statements 2007-08*.

Under the new structure, Defence will report against the following three departmental outcomes:

- Outcome 1: Australia's national interests are protected and advanced through the provision of military capabilities and the promotion of security and stability;
- Outcome 2: Military operations and other tasks directed by the Government to achieve the desired results; and
- Outcome 3: Defence's support to the Australian community and civilian authorities to achieve the desired results.

This new framework will provide Defence with the opportunity to align its outcomes and outputs with recent organisational changes. As well as improving accountability, the new structure will provide an opportunity for Defence to simplify its budgeting processes and address related audit issues, while at the same time providing a greater level of transparency to the Government.

Figure 1.2 –Revised Defence Outcome and Output Structure (as at 1 July 2007)

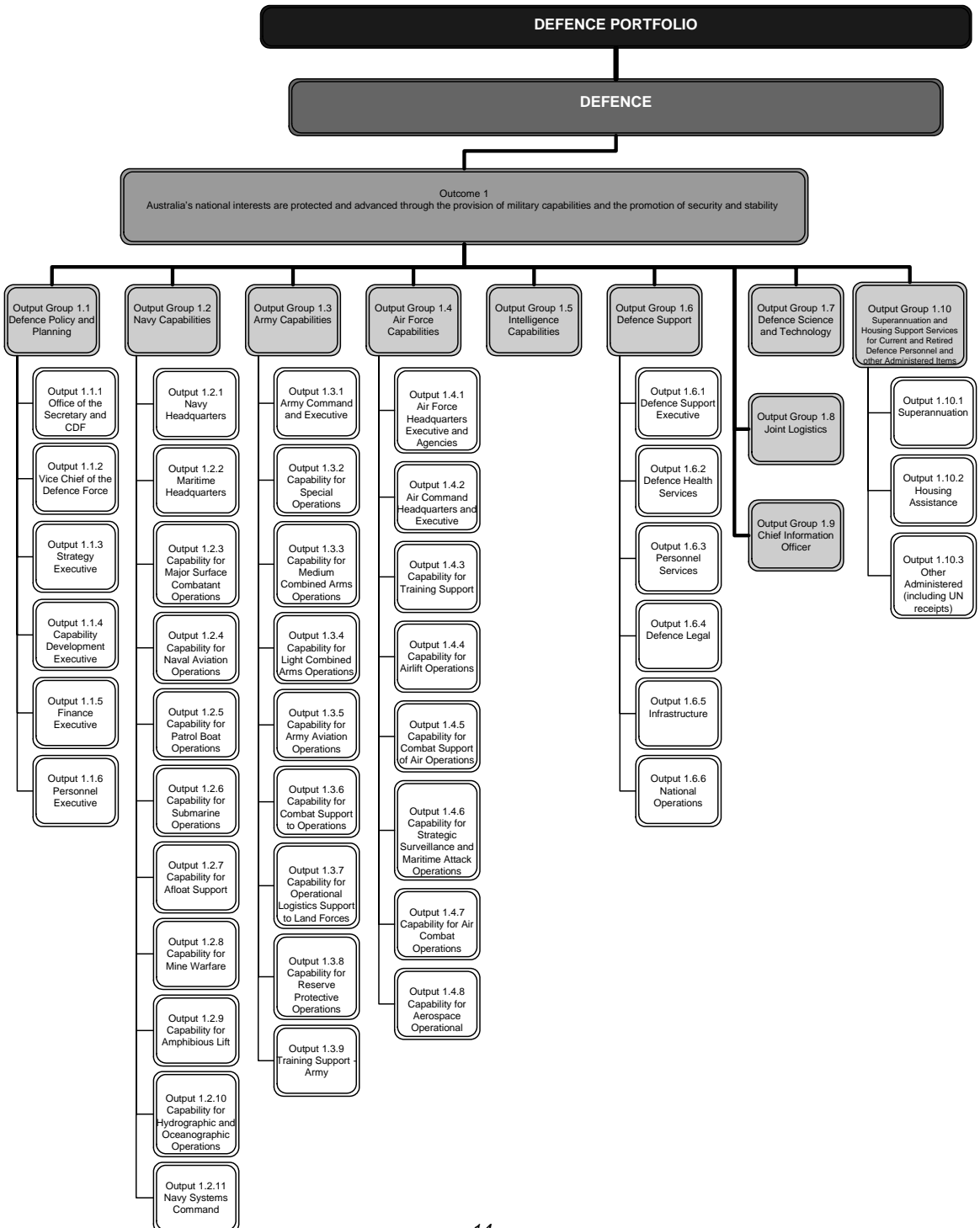
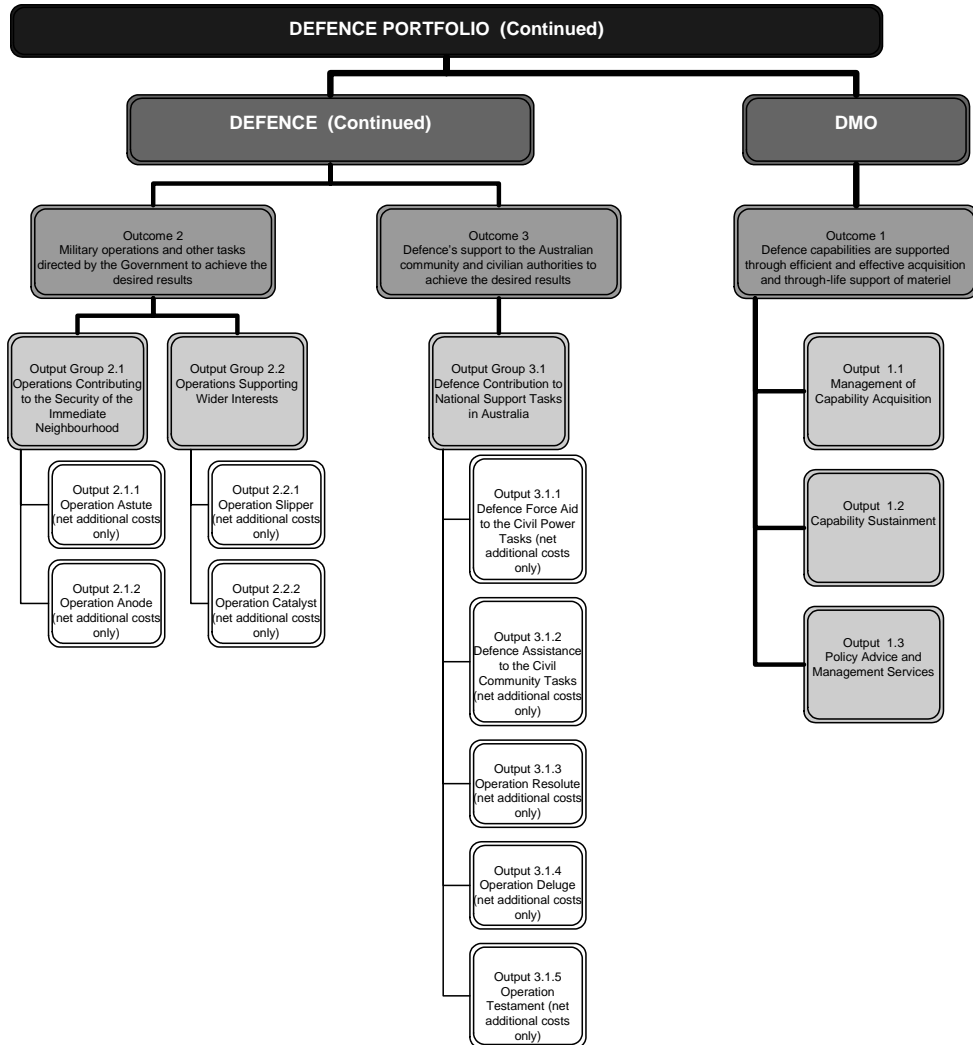


Figure 1.2 –Revised Defence Outcome and Output Structure (as at 1 July 2007)

(Continued from previous page)



DEFENCE CHAPTER TWO RESOURCING

2007-08 BUDGET SUMMARY

OTHER RESOURCES AVAILABLE TO BE USED

2007-08 BUDGET MEASURES

STATUS OF DEFENCE WHITE PAPER FUNDING

FUNDING FOR OPERATIONS

2007-08 FINANCIAL STATEMENTS

INDIGENOUS PROGRAMS

SAVINGS AND EFFICIENCY MEASURES

COST RECOVERY ARRANGEMENTS

PURCHASER-PROVIDER ARRANGEMENTS

2007-08 BUDGET SUMMARY

Defence has budgeted to receive \$24.802 billion in total resourcing in 2007-08 comprising \$21.999 billion for departmental funding and \$2.802 billion for administered appropriations. Total Defence resourcing is summarised in Table 2.1.

Departmental funding (serial 7 of Table 2.1) is the most common way of presenting the Defence budget and 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 – Budgeted Financial Statements.

In 2007-08, total departmental funding of \$21,999.1m is provided from the following four sources:

- revenue from the Government for Defence outcomes (\$19,170.1m);
- an equity injection (\$2,062.8m);
- own-source revenue (\$709.2m); and
- net capital receipts (\$56.9m).

The total level of departmental funding for 2007-08 of \$21.999 billion is an increase of \$1,197.3m or 5.8 per cent from the previous estimate published in the *Portfolio Additional Estimates Statements 2006-07*. The increase provides for:

- \$1,843.5m for new budget measures;
- -\$707.4m for other budget adjustments including re-programming of the capital investment program; and
- \$61.2m for additional own-source revenue.

The 2007-08 Defence budget of \$21,999.1m is 10.6 per cent more than the forecast outcome for 2006-07 of \$19,898.6m, and represents 2 per cent of GDP.

Table 2.1: Total Defence Resourcing

| Serial No | 2006-07 | | 2007-08 | 2007-08 | Variation | | 2008-09 | 2009-10 | 2010-11 | |
|---------------------|---------------------------|--|----------------------------------|-------------------|------------------|------------|-------------------|-------------------|-------------------|--|
| | Estimated Actual | | Previous Estimate ⁽¹⁾ | Budget Estimate | \$'000 | % | Forward Estimate | Forward Estimate | Forward Estimate | |
| | \$'000 | | \$'000 | \$'000 | \$'000 | | \$'000 | \$'000 | \$'000 | |
| Departmental | | | | | | | | | | |
| 1 | 17,157,664 ⁽²⁾ | Revenue from Government for Outcomes | 17,885,333 | 19,170,126 | 1,284,793 | 7.2 | 19,065,666 | 19,286,597 | 19,707,273 | |
| 2 | 1,998,277 | Equity Injection | 2,211,529 | 2,062,804 | -148,725 | -6.7 | 3,403,841 | 4,430,996 | 4,550,650 | |
| 3 | 19,155,941 | Total Revenue from Government (1+2) | 20,096,862 | 21,232,930 | 1,136,068 | 5.7 | 22,469,507 | 23,717,593 | 24,257,923 | |
| 4 | 685,050 | Own-Source Revenue ⁽³⁾ | 648,042 | 709,226 | 61,184 | 9.4 | 726,150 | 742,979 | 763,998 | |
| 5 | 57,603 | Net Capital Receipts | 56,919 | 56,919 | - | - | 56,221 | 39,011 | 37,658 | |
| 6 | 742,653 | Sub Total (4+5) | 704,961 | 766,145 | 61,184 | 8.7 | 782,371 | 781,990 | 801,656 | |
| 7 | 19,898,594 | Total Departmental Funding (3+6) | 20,801,823 | 21,999,075 | 1,197,252 | 5.8 | 23,251,878 | 24,499,583 | 25,059,579 | |
| Administered | | | | | | | | | | |
| 8 | 2,817,000 | Administered appropriations | 2,842,000 | 2,802,468 | -39,532 | -1.4 | 2,935,854 | 3,042,915 | 3,159,693 | |
| 9 | 22,715,594 | Total Defence Resourcing (7+8) | 23,643,823 | 24,801,543 | 1,157,720 | 4.9 | 26,187,732 | 27,542,498 | 28,219,272 | |

Notes

- As reported in the *Portfolio Additional Estimates Statements 2006-07* (p. 17).
- Excludes \$63.998m in accrued appropriation revenue.
- 'Own-source revenue' excludes revenue from 'assets now recognised', 'net gains from sales of assets' and other gains.

OTHER RESOURCES AVAILABLE TO BE USED

Serials 4 and 5 of Table 2.1 show the resources obtained by Defence for provision of goods and services, and from the sale of assets. These resources are approved for retention and use by Defence in accordance with the 'Section 31 Agreement' between the Minister for Defence and Minister for Finance and Administration.

In 2007-08, the principle sources of 'Section 31 receipts' for Defence will be:

- receipts from the DMO for the employment of ADF personnel in the DMO and other services provided to DMO;
- contributions from ADF members for the subsidised housing provided to them;
- payments from ADF members for rations and quarters;
- recovery of fuel sales to foreign governments;
- sale of assets including commercial vehicles; and
- retained proceeds from the sale of other property, plant and equipment assets.

2007-08 BUDGET MEASURES

Defence's budget will be increased by \$1.8 billion in 2007-08 and \$7.7 billion over the Budget and Forward Estimates period for new budget measures agreed by the Government in the context of the 2007-08 Budget. These budget measures include:

- a package of recruitment and retention initiatives that are designed to increase recruitment intakes and reduce military separation rates (\$585.3m);
- an additional \$1,278.8m for Defence operations including \$32.4m in reimbursements for costs incurred in 2006-07 comprising:
 - \$703.0m over three years (including \$32.4m reimbursed for costs incurred in 2006-07) to expand Australia's commitment to operations in Afghanistan, including the redeployment of Special Forces and other enabling support elements including a mobile control and reporting unit, and the redeployment of Chinook helicopter support;
 - \$389.4m over three financial years to maintain a deployment of about 1,500 ADF personnel in Iraq;
 - \$134.8m over two years to maintain the present ADF force level commitment to Timor-Leste to assist in the restoration of stability and security; and
 - \$51.6m over four years for the continued surveillance of Australia's northern approaches as part of Operation Resolute;

- a strengthening of Australia's Defence intelligence and security capabilities (\$133.5m);
- the acquisition of 24 F/A-18F Block II Super Hornet multi role aircraft to ensure that Australia maintains its air combat capability edge during its transition to the F-35 Joint Strike Fighters over the next decade (\$3,970.5m);
- additional logistics sustainment funding to ensure that the Australian Defence Force (ADF) is well prepared and able to respond to contingencies now and in the future (\$878.6m);
- the personnel and operating costs of the four C-17 heavy airlift that the Government agreed to acquire in the 2006-07 Budget (\$318.3m);
- investment in security measures to protect Defence personnel, key assets, facilities and infrastructure at Defence bases (\$135.4m);
- additional funding to ensure that Defence Housing Australia meets competitive neutrality requirements. This measure is budget-neutral at the whole-of-government level (\$357.3m); and
- the gifting of Jezzine Barracks to the Townsville City Council and the provision of funding to enable its development for community use and heritage protection (\$20.5m).

Explanations of all new budget measures are contained in *Budget Paper No.2 Budget Measures 2007-08*. Funding for the new budget measures over the forward estimates period is shown in Table 2.2 below.

Table 2.2: Summary of New Budget Measures in the 2007-08 Budget

| New funding measures | Defence Outcome | 2007-08 Budget Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | 2010-11 Forward Estimate \$'000 | Total \$'000 |
|---|-----------------|-----------------------------------|------------------------------------|------------------------------------|------------------------------------|-----------------|
| Australian Defence Force Retention and Recruitment - further initiatives | | | | | | |
| Remuneration Structure Reform | Various | - | 59,700 | 60,600 | 61,900 | 182,200 |
| Defence Home Ownership Assistance Scheme ⁽¹⁾ | 7 | - | 40,927 | 52,889 | 64,743 | 158,559 |
| Reform of Defence Force Recruiting | Various | 4,429 | 12,248 | 12,468 | 12,724 | 41,869 |
| Marketing and Branding Services | Various | 24,553 | 26,614 | 26,796 | 27,490 | 105,453 |
| Defence Apprenticeships | Various | 5,008 | 6,712 | 6,791 | 7,032 | 25,543 |
| Expanding Cadets | Various | 10,000 | 10,000 | 10,000 | 10,000 | 40,000 |
| Royal Australian Navy Sea Change | Various | 1,875 | 8,648 | 8,684 | 8,861 | 28,068 |
| Medical Officer Professional Development | Various | 604 | 909 | 1,013 | 1,117 | 3,643 |

| New funding measures | Defence Outcome | 2007-08 Budget Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | 2010-11 Forward Estimate \$'000 | Total \$'000 |
|--|------------------------|---|--|--|--|-------------------------|
| Sub-total Australian Defence Force Retention and Recruitment - further initiatives | | 46,469 | 165,758 | 179,241 | 193,867 | 585,335 |
| Operation measures | | | | | | |
| Afghanistan - Australian Defence Force deployments | 1 | 447,886 | 191,760 | 30,865 | - | 670,511 |
| Afghanistan - Australian Defence Force deployments (reimbursement costs incurred in 2006-07 for expansion) | 1 | 32,448 | - | - | - | 32,448 |
| Iraq - continued funding for stabilisation and reconstruction activities | 1 | 301,661 | 59,673 | 28,099 | - | 389,433 |
| East Timor - continued funding to help restore peace and stability | 1 | 107,723 | 27,100 | - | - | 134,823 |
| Coastal surveillance - continuation | 1 | 12,602 | 12,791 | 12,957 | 13,255 | 51,605 |
| Sub-total Operations measures | | 902,320 | 291,324 | 71,921 | 13,255 | 1,278,820 |
| Intelligence measures | | | | | | |
| Strengthening National Security - improved Defence intelligence capability | 6 | 17,908 | 26,826 | 29,956 | 31,840 | 106,530 |
| Strengthening National Security - reducing national e-security risk | 6 | 6,963 | 6,192 | 5,749 | 8,053 | 26,957 |
| Sub-total Intelligence measures | | 24,871 | 33,018 | 35,705 | 39,893 | 133,487 |
| Other budget measures | | | | | | |
| Air combat capability - acquisition of Super Hornets | 4 | 621,000 | 990,700 | 1,286,700 | 1,072,100 | 3,970,500 |
| Logistics - additional funding | Various | 107,851 | 291,301 | 236,150 | 243,330 | 878,632 |
| C-17 heavy airlift - personnel and operating funding ⁽²⁾ | 4 | - | 73,784 | 111,858 | 132,660 | 318,302 |
| Strengthening National Security - enhanced protective security | Various | 33,100 | 33,500 | 34,000 | 34,800 | 135,400 |
| Defence housing - supplementation for competitive neutrality policy | Various | 87,390 | 88,526 | 89,677 | 91,739 | 357,332 |

| New funding measures | Defence Outcome | 2007-08 Budget Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | 2010-11 Forward Estimate \$'000 | Total \$'000 |
|--|------------------------|---------------------------------------|--|--|--|---------------------|
| Jezzine Barracks - gift to the Townsville City Council | Various | 20,500 | - | - | - | 20,500 |
| Sub-total other measures | | 869,841 | 1,477,811 | 1,758,385 | 1,574,629 | 5,680,666 |
| Total New Funding Measures | | 1,843,501 | 1,967,911 | 2,045,252 | 1,821,644 | 7,678,308 |

Note

1. This budget measure is funded through administered appropriations and therefore does not appear in Table 2.3.
2. Defence will contribute \$103m from existing funding to this measure over the Budget and Forward Estimates period.

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.

REPROGRAMMING OF THE CAPITAL INVESTMENT PROGRAM

Due to industry capacity issues and schedule slippage in a number of major capital equipment projects, an amount of \$1,113.3m has been reprogrammed from the Budget and Forward Estimates into later years. These funds are not foregone, but have been moved to reflect revised project schedules and projections of industry's capacity to deliver the expanding capital program.

UPDATE OF PRICE INDEXATION

The Defence budget is price updated at each budget milestone to reflect movements in the non-farm GDP deflator. As a result, funding to Defence for price movements has been increased by \$380.0m in 2007-08 and an additional \$1.4 billion has been provided over the forward estimates years (2008-09 to 2010-11).

FOREIGN EXCHANGE MOVEMENTS

Under the no-win/no-loss arrangements, Defence is required to return to the Government any surplus foreign exchange supplementation for an appreciation of the Australian dollar relative to other currencies. Conversely, where the Australian dollar depreciates relative to other currencies, Defence is supplemented under these arrangements. Taking into account movements in exchange rates since the 2006-07 Additional Estimates, Defence is required to return \$78.6m to the Budget in 2007-08 and a further \$320m over the forward estimates period.

TRANSFER FROM DEPARTMENT OF FOREIGN AFFAIRS AND TRADE FOR RELOCATION OF OVERSEAS MISSIONS

As part of this estimates update, \$0.025m in appropriation funding and \$0.243m in equity has been transferred from the Department of Foreign Affairs and Trade to Defence for 2007-08 for the relocation of overseas missions for security purposes.

TRANSFER TO DEPARTMENT OF VETERANS' AFFAIRS FOR F-111 DESEAL/RESEAL HEALTH COSTS

As part of this estimates update, Defence has transferred to the Department of Veterans' Affairs a total of \$2.2m over the Budget and Forward Estimates period for the on-going health management of former ADF members who have medical conditions arising from the F-111 Deseal/Reseal activity.

TRANSFER TO DEFENCE MATERIEL ORGANISATION FOR 'DEFENCE INDUSTRY POLICY'

In accordance with Government direction, Defence has transferred \$98.1m to the Defence Materiel Organisation's direct appropriation over the Budget and Forward Estimates period to enable that organisation to implement the outcomes of the Government's Defence Industry Policy Review.

TRANSFER TO DEFENCE MATERIEL ORGANISATION FOR 'SKILLING AUSTRALIA'S DEFENCE INDUSTRY'

Defence has transferred \$83.8m to the Defence Materiel Organisation's direct appropriation over the Budget and Forward Estimates period to enable that organisation to implement the Skilling Australia's Defence Industry initiative.

REIMBURSEMENT OF 2006-07 OPERATIONS EXPENDITURE

In the 2007-08 Budget, Defence will be reimbursed \$31.7m for costs incurred on operations in 2006-07 including:

- \$10.3m for the payment of the International Campaign Allowance to ADF members serving in Afghanistan;
- \$17.0m for the increased number of ADF personnel deployed to Afghanistan; and
- \$4.4 m for the increased number of ADF personnel deployed to Iraq.

SPECIAL ACCOUNT INTEREST

During 2005-06, Commonwealth agencies were instructed to move funds held in bank accounts outside of the Commonwealth to the Official Public Account. Under these new arrangements, agencies are appropriated an amount equivalent to the notional interest payable on the funds held in the Official

Public Account. Defence's budget in 2007-08 will be increased by \$0.028m for notional interest payments, to give effect to this decision.

Movement in Funding Provided by the Government for Departmental Appropriations

Table 2.3 below shows the movement in total revenue provided by the Government to Defence (refer serial 3 of Table 2.1), from that published in the *Portfolio Additional Estimates Statements 2006-07*.

Table 2.3: Movement in Defence Revenue Provided by the Government since the 2006-07 Additional Estimates ⁽¹⁾⁽²⁾

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|--|-----------------|-----------------|-----------------|-----------------|
| | \$m | \$m | \$m | \$m |
| Published in the <i>Portfolio Additional Estimates Statements 2006-07</i> (refer serial 3 of Table 2.1) | 20,096.9 | 20,502.7 | 21,351.3 | 22,097.4 |
| New budget measures funded through departmental appropriations ⁽³⁾ | 1,843.5 | 1,927.0 | 1,992.4 | 1,756.9 |
| Budget adjustments: | | | | |
| Reprogramming of the approved capital investment program | -615.0 | - | 631.0 | - |
| Further reprogramming of capital investment program | -378.0 | -230.0 | -559.3 | 37.8 |
| Update of price indexation | 380.0 | 419.1 | 458.6 | 516.9 |
| Foreign exchange movements | -78.6 | -102.2 | -110.3 | -107.9 |
| Transfer from Department of Foreign Affairs and Trade for relocation of overseas missions | 0.025 | - | - | - |
| Transfer to Department of Veterans' Affairs for F-111 Deseal/Reseal health costs | -0.8 | -0.7 | -0.4 | -0.4 |
| Transfer to Defence Materiel Organisation for Skilling Australia's Defence Industry | -20.5 | -20.8 | -21.0 | -21.5 |
| Transfer to Defence Materiel Organisation for Defence Industry Policy | -26.3 | -25.7 | -24.7 | -21.3 |
| Reimbursement of 2006-07 operations expenditure | 31.7 | - | - | - |
| Special Account interest ⁽⁴⁾ | 0.028 | - | - | - |
| Published in the <i>Portfolio Budget Statements 2007-08</i> (refer serial 3 of Table 2.1) | 21,232.9 | 22,469.5 | 23,717.6 | 24,257.9 |

Notes

1. Revenue from Government is the sum of Revenue for Outcomes and the Equity Injection.
2. The funding baseline at each published budget milestone reflects the Forward Estimates at that time.
3. Excludes funding for the new Defence Home Ownership Assistance Scheme which is funded through a special appropriation. This explains the difference between this line and the Budget measures in Table 2.2.
4. The amount appropriated is \$28,000. It is only to be credited to Special Accounts entitled to receive funds appropriated for interest equivalent supplementation.

STATUS OF DEFENCE WHITE PAPER FUNDING

In *Defence 2000: Our Future Defence Force* (the Defence White Paper), the Government committed to increase Defence spending by an average of three per cent real growth a year from 2000-01 to 2010-11. In the 2006-07 Budget, the Government decided to continue the three per cent growth per annum commitment for a further five years until 2015-16. The allocation of these funds was detailed in the *Portfolio Budget Statements 2006-07* (Table 1.2 at page 6).

Defence's departmental funding in 2007-08 and beyond continues to be based primarily on the allocations approved by the Government in the context of the 2000 Defence White Paper and the 2006-07 Budget decision. The additional funding commitment over the initial period 2001-01 to 2010-11 totals \$29.4 billion (outturned 2007-08 Budget prices) over 11 years 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 the time (\$20.4 billion);
- provision for the through-life support costs of the capability enhancements in the Defence Capability Plan (\$3.0 billion);
- provision for two per cent per capita growth in personnel costs from 2004-05 onwards, reflecting the cost of maintaining a highly skilled workforce in a sustainable way (\$5.0 billion); and
- funding of a number of baseline cost pressures, including offsetting some of these through administrative savings (\$1.0 billion).

Table 2.4 shows the current status of the original Defence White Paper funding.

Table 2.4: Current White Paper Funding Allocations (2007-08 Budget Prices, Outturned)

| | 01-02 | 02-03 | 03-04 | 04-05 | 05-06 | 06-07 | 07-08 | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 | 13-14 | 14-15 | 15-16 | 16-17 | Total |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| A Major Capital Investment | | | | | | | | | | | | | | | | | |
| Original White Paper Allocation | 510 | 1,051 | 1,506 | 1,552 | 1,722 | 2,350 | 2,507 | 2,375 | 2,887 | 3,551 | - | - | - | - | - | - | 20,010 |
| \$200m underspend in 2002-03 reprogrammed 2008-09 | - | -200 | - | - | - | - | - | 233 | - | - | - | - | - | - | - | - | 33 |
| \$642m slippage 15-20 per cent | - | - | -212 | -201 | -146 | -95 | - | 190 | 294 | 171 | 111 | - | - | - | - | - | 112 |
| \$500m underspend in 2003-04 | - | - | -500 | - | - | - | - | 174 | 178 | 181 | 62 | - | - | - | - | - | 95 |
| \$170m bring forward for AEW&C payment | - | - | 170 | - | - | - | - | -199 | - | - | - | - | - | - | - | - | -29 |
| DCP reprogramming agreed in 2004-05 PBS | - | - | - | -75 | -314 | -393 | -143 | - | 209 | 142 | 202 | 314 | 225 | - | - | - | 167 |
| DCP reprogramming agreed in 2005-06 PBS | - | - | - | - | 300 | - | - | - | -109 | -111 | -115 | - | - | - | - | - | -35 |
| DCP reprogramming agreed in 2006-07 PBS | - | - | - | - | - | 156 | 215 | 54 | 218 | - | - | -351 | -358 | - | - | - | -66 |
| DCP reprogramming agreed in 2006-07 PAES | - | - | - | - | - | -390 | 114 | 294 | - | - | - | - | - | - | - | - | 18 |
| DCP reprogramming agreed in 2007-08 Pre-ERC | - | - | - | - | - | - | -622 | - | 636 | - | - | - | - | - | - | - | 14 |
| DCP reprogramming agreed in 2007-08 PBS | - | - | - | - | - | - | -382 | -232 | -564 | 38 | 194 | 545 | 384 | - | - | 120 | 104 |

| | 01-02 | 02-03 | 03-04 | 04-05 | 05-06 | 06-07 | 07-08 | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 | 13-14 | 14-15 | 15-16 | 16-17 | Total |
|----------|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| B | Sub-Total Capital Reprogramming | | | | | | | | | | | | | | | | |
| | - | -200 | -542 | -276 | -160 | -722 | -818 | 515 | 862 | 421 | 454 | 508 | 251 | - | - | 120 | 413 |
| C | Revised Major Capital Investment Allocation (A+B) | | | | | | | | | | | | | | | | |
| | 510 | 851 | 964 | 1,276 | 1,562 | 1,628 | 1,688 | 2,889 | 3,749 | 3,972 | 454 | 508 | 251 | - | - | 120 | 20,423 |
| | Through-life Support Costs for New Equipment | | | | | | | | | | | | | | | | |
| | Original allocation | | | | | | | | | | | | | | | | |
| | - | - | - | 195 | 242 | 299 | 447 | 530 | 621 | 663 | - | - | - | - | - | - | 2,997 |
| | Reprogramming | | | | | | | | | | | | | | | | |
| | - | 8 | 21 | -134 | -64 | -5 | - | 13 | 87 | 79 | - | - | - | - | - | - | 5 |
| | Contribution to C-17 Operating Costs | | | | | | | | | | | | | | | | |
| | - | - | - | - | - | - | -62 | -31 | -11 | - | - | - | - | - | - | - | -104 |
| | C-17 Operating Costs (in part) | | | | | | | | | | | | | | | | |
| | - | - | - | - | - | - | 62 | 31 | 11 | - | - | - | - | - | - | - | 104 |
| D | Revised Through-Life Support Allocation | | | | | | | | | | | | | | | | |
| | - | 8 | 21 | 61 | 178 | 294 | 447 | 543 | 708 | 742 | - | - | - | - | - | - | 3,002 |
| E | 2 per cent Real Growth in Personnel Costs | | | | | | | | | | | | | | | | |
| | - | - | - | 238 | 380 | 531 | 694 | 852 | 1,014 | 1,242 | - | - | - | - | - | - | 4,951 |
| F | Operating Baseline Adjustment | | | | | | | | | | | | | | | | |
| | - | - | - | 117 | 135 | 146 | 153 | 157 | 163 | 165 | - | - | - | - | - | - | 1,036 |
| G | Total (C+D+E+F) | | | | | | | | | | | | | | | | |
| | 510 | 859 | 985 | 1,692 | 2,255 | 2,599 | 2,983 | 4,441 | 5,634 | 6,121 | 454 | 508 | 251 | - | - | 120 | 29,413 |

The allocation of the additional funds provided by Government in the 2006-07 Budget, to continue the three per cent real increase in Defence funding beyond 2010-11 for a further five years is shown in Table 2.5.

Table 2.5: Allocation of Additional Funding Beyond 2010-11 (2007-08 Budget Prices, Outturned)

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | Total |
|---|------------|--------------|--------------|--------------|--------------|---------------|
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Personnel Costs | 150 | 341 | 537 | 740 | 910 | 2,678 |
| Living-In Accommodation | 49 | 102 | 160 | 221 | 288 | 819 |
| Defence Capability Plan | 256 | 379 | 546 | 498 | 677 | 2,356 |
| Major Capital Facilities Program | 17 | 35 | 54 | 74 | 94 | 275 |
| Other Capital Purchases | 4 | 8 | 13 | 17 | 23 | 65 |
| Operating Costs including for New Equipment | 50 | 194 | 398 | 853 | 1,150 | 2,646 |
| Logistics Sustainment | 62 | 127 | 193 | 264 | 336 | 982 |
| Facilities Operating Costs/Estate Upkeep | 76 | 180 | 204 | 217 | 226 | 904 |
| Total Allocation | 665 | 1,367 | 2,106 | 2,883 | 3,705 | 10,725 |

FUNDING FOR OPERATIONS

The ADF is involved in a number of deployments around the world, including United Nations peacekeeping and regional assistance missions, and border protection and domestic security operations. In the 2007-08 Budget, the Government has allocated an additional \$1,278.8m over five financial years for operations in Iraq (\$389.4m), Afghanistan (\$703.0m – including \$32.4m for costs that will be incurred in 2006-07), Timor-Leste (\$134.8m) and protecting Australia's offshore maritime areas – Operation Resolute (\$51.6m). It has also reimbursed Defence \$31.7m for costs incurred on Operation Slipper and Operation Catalyst in 2006-07. Details are shown in Table 2.6.

Table 2.6: New Funding Provided for Current Operations in the 2007-08 Budget

| Operation | 2007-08 Budget Estimate \$m | 2008-09 Forward Estimate \$m | 2009-10 Forward Estimate \$m | 2010-11 Forward Estimate \$m | Total \$m |
|---|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|----------------|
| Continuation of Operations in Iraq | 301.7 | 59.7 | 28.1 | - | 389.4 |
| Expansion of Operations in Afghanistan to 30 September 2008 | 480.3 | 191.8 | 30.9 | - | 703.0 |
| Continuation of Operations in Timor-Leste to 30 June 2008 | 107.7 | 27.1 | - | - | 134.8 |
| Coastal Surveillance (Operation RESOLUTE) | 12.6 | 12.8 | 13.0 | 13.3 | 51.6 |
| Sub-Total New Measures | 902.3 | 291.3 | 71.9 | 13.3 | 1,278.8 |
| Operation Slipper/Catalyst ⁽¹⁾ | 31.7 | - | - | - | - |
| Total Funding | 934.0 | 291.3 | 71.9 | 13.3 | 1,310.5 |

Note

1. This is to reimburse Defence for costs incurred on Operation Slipper (\$27.3m) and Operation Catalyst (\$4.4m) in 2006-07 relating to the current deployments, not the expansion and continuation of these operations.

Together with funds already approved in prior budgets, a total of \$1,556.6m is planned to be spent on all operations in the Budget and Forward Estimates, including \$1,131.1m in 2007-08 as shown in Table 2.7 below. This excludes the \$32.4m to be spent in 2006-07 on the expansion of Operation Slipper, but which is funded in 2007-08.

Table 2.7: Revised Expenditure Forecasts for Current Operations (2007-08 Budget and Forward Estimates)

| Operation | 2007-08 Budget Estimate \$m | 2008-09 Forward Estimate \$m | 2009-10 Forward Estimate \$m | 2010-11 Forward Estimate \$m | Total \$m |
|--|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|--------------|
| Operations in Iraq to 30 June 2007 | 71.4 | 15.6 | | | 87.0 |
| Continuation of Operations in Iraq | 301.7 | 59.7 | 28.1 | | 389.4 |
| Sub-total Iraq | 373.1 | 75.3 | 28.1 | 0.0 | 476.5 |
| Operations in Afghanistan to 30 September 2008 | 127.4 | 33.2 | | | 160.6 |
| Expansion of Operations in Afghanistan to 30 September 2008 | 447.9 | 191.8 | 30.9 | | 670.6 |
| Sub-total Afghanistan (Operation SLIPPER) | 575.3 | 225.0 | 30.9 | 0.0 | 831.2 |
| Operations in Timor-Leste (Operation ASTUTE) to 30 June 2007 | 45.1 | | | | 45.1 |
| Continuation of Operations in Timor-Leste to 30 June 2008 | 107.7 | 27.1 | | | 134.8 |
| Sub-total Timor-Leste (Operation ASTUTE) | 152.8 | 27.1 | 0.0 | 0.0 | 179.9 |

| Operation | 2007-08 | 2008-09 | 2009-10 | 2010-11 | Total |
|--|-----------------|------------------|------------------|------------------|----------------|
| | Budget Estimate | Forward Estimate | Forward Estimate | Forward Estimate | |
| | \$m | \$m | \$m | \$m | \$m |
| Operation in Solomon Islands (Operation ANODE) | 6.0 | | | | 6.0 |
| Coastal Surveillance (Operation RESOLUTE) | 12.6 | 12.8 | 13.0 | 13.3 | 51.6 |
| APEC 2007 (Operation DELUGE) | 11.3 | | | | 11.3 |
| Total | 1,131.1 | 340.2 | 72.0 | 13.3 | 1,556.6 |

Operation in Iraq (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. With the continued support of the Government of Iraq, the Government has approved the continuation of Operation Catalyst that will involve approximately 1,575 deployed personnel, including the additional Army trainers deployed to the area of operation. The Government has allocated an additional \$389.4m over three financial years to fund the continuation of the operation, covering 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, including enabling support for these forces.

Included in the funding is provision for a Task Group, based at Tallil Air Base from which a security overwatch role is undertaken for the Southern Iraqi provinces of Al Muthanna and Dhi Qar as part of a larger Coalition Force.

All up, including funding approved in prior years, Defence plans to spend \$373.1m on Operation Catalyst in 2007-08.

Operations in Afghanistan (Operation Slipper)

Operation Slipper is the ADF's contribution to the international coalition against terrorism. The Government has allocated an additional \$703.0m (including \$32.4m for 2006-07) over four financial years, including \$480.3m in 2007-08 to fund Operation Slipper. The additional allocation is for the expansion of Operation Slipper until September 2008. The expansion includes the redeployment of Special Forces and other enabling support elements including two Chinook helicopters (from early 2008). A mobile control and reporting unit will also be deployed for one year.

Ongoing funding has previously been approved for the Reconstruction Task Force (RTF) which is Australia's contribution to the Netherlands-led Provincial Reconstruction Team (PRT) in Afghanistan's Oruzgan Province. The RTF has a clearly defined role to work on reconstruction and improvement of provincial infrastructure (schools, hospitals, bridges, culverts etc) and community based projects to assist the Afghan Government to achieve a stable and secure future

for its people. The RTF will also provide trade training to the local population and military engineering training to the Afghan National Army to ensure the benefits of the deployment remain after our personnel have returned home.

Excluding the \$32.4m which Defence will spend in 2006-07 but will be reimbursed in 2007-08, a total of \$575.3m is to be spent on Operation Slipper in 2007-08.

Operations in Timor-Leste (Operation Astute)

Operation Astute is the Australian Government's response to a request from the Government of Timor-Leste to assist in the restoration of stability, security and confidence to their country. The Government has extended the ADF deployment to June 2008 and has allocated an additional \$134.8m over two financial years for this operation. All together, including funding approved in prior years, Defence will spend \$152.8m on Operation Astute in 2007-08.

Operations in the Solomon Islands (Operation Anode)

Operation Anode is the ADF's contribution to the Regional Assistance Mission to the Solomon Islands. The Government has previously allocated \$6.0m in 2007-08 for the continuation of an ADF presence until March 2008. The ADF presence includes infantry soldiers who are providing support to the police patrolling program and headquarters and support staff coordinating the military support effort.

Coastal Surveillance Operations (Operation Resolute)

Operation Resolute is the ADF's on-going contribution to Australian whole-of-government efforts to protect Australia's offshore maritime areas. It consolidates previous ADF operations including Operation Relex II (focusing on unauthorised arrivals) and Operation Cranberry (illegal fishing and smuggling). The Government has allocated an additional \$51.6m over four financial years including \$12.6m in 2007-08 to continue Operation Resolute.

Operations for APEC Forum (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 previously allocated \$19.7m over two financial years for Operation Deluge with \$11.3m allocated in 2007-08.

Minor Operations

The ADF also participates in a number of minor United Nations 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 Expenditure on all Operations since 1999-2000

Table 2.8 provides a summary of the actual and planned expenditure on the net additional cost of all operations since 1999-2000 when the ADF originally deployed to Timor-Leste. The figures reflect actual and planned expenditure over the period 1999-2000 to 2010-11. Overall, Defence has or is planning to spend \$7,644.8m on the net additional costs of operations for which the Government has provided supplementary funding of \$7,635.0m. Defence has absorbed \$0.7m of this amount from within its budget, and the Department of Foreign Affairs and Trade has reimbursed Defence \$9.1m through the aid budget for Operation Pakistan Assist.

Table 2.8: Actual and Planned Expenditure on Operations from 1999-00 to 2010-11

| Operation | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | Total |
|--|---------------|---------------|---------------|----------------|---------------|---------------|---------------|-------------------------------|-----------------|------------------|------------------|------------------|----------------|
| | Actual Result | Actual Result | Actual Result | Actual Result | Actual Result | Actual Result | Actual Result | Revised Estimate ^g | Budget Estimate | Forward Estimate | Forward Estimate | Forward Estimate | |
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$M | \$m |
| Operations in Timor-Leste ⁽¹⁾ | 598.1 | 798.5 | 632.9 | 579.3 | 554.0 | 27.4 | 23.9 | 120.8 | 152.8 | 27.1 | - | - | 3,514.8 |
| Operation Bel Isi | - | 20.0 | 10.1 | 14.6 | 3.0 | - | - | - | - | - | - | - | 47.7 |
| Operation Slipper ⁽²⁾ | - | - | 320.0 | 176.0 | -5.0 | - | 91.0 | 243.2 | 575.3 | 225.0 | 30.9 | - | 1,656.4 |
| Operation Resolute ⁽³⁾ | - | - | 22.2 | 27.8 | 15.9 | 11.9 | 9.8 | 12.1 | 12.6 | 12.8 | 13.0 | 13.3 | 151.5 |
| Operations in Iraq | - | - | - | 285.3 | 240.6 | 284.9 | 351.4 | 402.2 | 373.1 | 75.3 | 28.1 | - | 2,040.9 |
| Operation Anode | - | - | - | - | 90.4 | 27.6 | 12.9 | 11.1 | 6.0 | - | - | - | 148.0 |
| Operation Sumatra Assist | - | - | - | - | - | 37.0 | 7.5 | - | - | - | - | - | 44.5 |
| Operation Acolyte | - | - | - | - | - | 0.1 | 10.4 | 1.0 | - | - | - | - | 11.5 |
| Operation Deluge | - | - | - | - | - | - | - | 8.4 | 11.3 | - | - | - | 19.7 |
| Operation Pakistan Assist ⁽⁴⁾ | - | - | - | - | - | - | 9.8 | - | - | - | - | - | 9.8 |
| Total Net Additional Costs | 598.1 | 818.5 | 985.2 | 1,083.0 | 898.9 | 388.9 | 516.7 | 798.8 | 1,131.1 | 340.2 | 72.0 | 13.3 | 7,644.8 |
| Sources of Funding for Operations | | | | | | | | | | | | | |
| Government Supplementation | 598.1 | 818.5 | 985.2 | 1,083.0 | 898.9 | 388.9 | 506.9 | 798.8 | 1,131.1 | 340.2 | 72.0 | 13.3 | 7,635.0 |
| Department of Foreign Affairs and Trade | | | | | | | 9.1 | | | | | | 9.1 |
| Department of Defence (Absorbed) | | | | | | | 0.7 | | | | | | 0.7 |
| Total Cost | 598.1 | 818.5 | 985.2 | 1,083.0 | 898.9 | 388.9 | 516.7 | 798.8 | 1,131.1 | 340.2 | 72.0 | 13.3 | 7,644.8 |

Notes

1. Includes force generation funding from 1999-00 to 2003-04, with an ongoing amount of \$448.9m included in Defence's funding base from 2004-05.
2. The amount in 2007-08 excludes the \$32.4m in costs incurred in 2006-07 but which will be reimbursed in 2007-08 (this figure is included in the 2006-07 revised estimates).
3. Previously Operations Relex and Relex II.
4. Defence was reimbursed \$9.1m for the net additional cost of the operation by the Department of Foreign Affairs and Trade through the existing aid budget.
5. The Revised Estimates for 2006-07 represents the \$766.4m set out in the *Portfolio Additional Estimates Statements 2006-07* (Table 2.4.), with an additional \$32.4m for the expansion of Operation Slipper.

2007-08 FINANCIAL STATEMENTS

Income Statement

Defence is budgeting to receive \$20,087.1m in income in 2007-08 and plans to have expenses of the same amount resulting in a balanced operating result in 2007-08 which is consistent with the planned operating result at the time of the *Portfolio Additional Estimates Statements 2006-07*. Since then, total income and expenses have increased by \$1,346.0m and the reasons for the variation are explained below. Details are shown in Table 2.9 below.

Table 2.9: Variation in Planned Income Statement 2007-08

| | 2007-08 | 2007-08 | Variation | |
|---|-------------------|-------------------|------------------|------------|
| | Previous Estimate | Budget Estimate | \$'000 | % |
| | \$'000 | \$'000 | \$'000 | % |
| INCOME | | | | |
| Revenue | | | | |
| Revenue from Government for outcomes ⁽¹⁾ | 17,885,333 | 19,170,126 | 1,284,793 | 7.2 |
| Goods and services ⁽²⁾ | 583,234 | 643,206 | 59,972 | 10.3 |
| Other revenue ⁽²⁾ | 66,308 | 66,020 | -288 | -0.4 |
| Total revenue | 18,534,875 | 19,879,352 | 1,344,477 | 7.3 |
| Gains | | | | |
| Assets now recognised | 200,000 | 200,000 | - | - |
| Other gains | 6,200 | 7,700 | 1,500 | 24.2 |
| Total gains | 206,200 | 207,700 | 1,500 | 0.7 |
| Total income | 18,741,075 | 20,087,052 | 1,345,977 | 7.2 |
| EXPENSES | | | | |
| Employees | | | | |
| <i>Military</i> | 5,705,528 | 6,021,320 | 315,792 | 5.5 |
| <i>Civilian</i> | 1,265,919 | 1,283,308 | 17,389 | 1.4 |
| Sub-total Employees | 6,971,447 | 7,304,628 | 333,181 | 4.8 |
| Suppliers | 8,103,798 | 9,111,987 | 1,008,189 | 12.4 |
| Grants | 3,904 | 4,395 | 491 | 12.6 |
| Depreciation and amortisation | 3,409,595 | 3,409,595 | - | - |
| Finance costs | 20,799 | 25,574 | 4,775 | 23.0 |
| Write-down of assets and impairment of assets | 230,000 | 230,000 | - | - |
| Other expenses | 1,532 | 873 | -659 | -43.0 |
| Total expenses | 18,741,075 | 20,087,052 | 1,345,977 | 7.2 |
| Operating result | - | - | - | - |

Notes

1. Cross-reference to Serial 1 in Table 2.1.
2. These two amounts total \$709.2m and cross-reference to Serial 4 in Table 2.1.

INCOME (+\$1,346.0 M)

Income is forecast to increase by \$1,346.0m due to:

- increased Revenue from Government of \$1,284.8m due to:
 - additional funding provided by Government for the following budget measures (\$1,077.9m - this amount excludes the capital element of the new budget measures which is provided as part of the equity injection which is not recognised in the Income Statement):
 - Australian Defence Force Retention and Recruitment - further initiatives (\$46.5m),
 - Afghanistan - Australian Defence Force deployments (\$403.0m),
 - Iraq - continued funding for stabilisation and reconstruction activities (\$283.6m);
 - East Timor - continued funding to help restore peace and stability (\$107.7m),
 - Coastal surveillance - continuation (Operation Resolute) (\$8.8m),
 - Strengthening National Security - improved Defence intelligence capability (\$9.6m),
 - Strengthening National Security - reducing national e-security risk (\$3.6m),
 - Air combat capability - acquisition of Super Hornets (\$48.4m);
 - Logistics - additional funding (\$25.7m),
 - Strengthening National Security - enhanced protective security (Operation Safebase) (\$33.1m),
 - Defence Housing - supplementation for competitive neutrality policy (\$87.4m), and
 - Jezzine Barracks - gift to the Townsville City Council (\$20.5m);
 - other budget adjustments (\$206.9m) including:
 - a revision to the price parameters used in the 2007-08 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$254.5m),
 - the transfer of funding from the Department of Foreign Affairs and Trade for the relocation of overseas missions for security purposes (\$0.025m),
 - the transfer of funding to the Department of Veterans' Affairs for the health care of former ADF members associated with the F-111 Deseal/Reseal (-\$0.8m),
 - the transfer of funding to the Defence Materiel Organisation to enable it to implement the Skilling Australia's Defence Industry initiative (-\$20.5m),

- the transfer of funding to the Defence Materiel Organisation to enable it to implement the Government-agreed recommendations of the Defence Industry Policy Review (-\$26.3m), and
- Special Account Interest (\$0.028m);
- an increase in Revenue from Sale of Goods and Services of \$60.0m due to:
 - an increase in revenues due to price increases flowing from the revision to the price parameters used in the 2007-08 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$10.9m), and
 - an increase in the revenues from fuel sales and other revenue items (\$49.1m);
- a decrease in Other Revenues of \$0.3m due to:
 - reclassification of Resources Received Free of Charge from Revenue to Gains as a result of the move to AEIFRS accounting standards (-\$1.5m), and
 - an increase in revenues due to price increases flowing from the revision to the price parameters used in the 2007-08 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$1.2m); and
- an increase in Other Gains of \$1.5m due to reclassification of Resources Received Free of Charge from Revenue to Gains as a result of the move to AEIFRS accounting standards (\$1.5m).

EXPENSES (+1,346.0M)

Expenses are forecast to increase by \$1,346.0m due to:

- an increase in Employee Expenses of \$333.2m (explanations are provided in Chapter Four – People);
- an increase in Supplier Expenses of \$1,008.2m due to:
 - implementation of the following Budget measures:
 - Australian Defence Force Retention and Recruitment - further initiatives (\$45.4m),
 - Afghanistan - Australian Defence Force deployments (\$337.8m),
 - Iraq - continued funding for stabilisation and reconstruction activities (\$173.9m),
 - East Timor - continued funding to help restore peace and stability (\$68.7m),
 - Coastal surveillance - continuation (Operation Resolute) (\$8.8m),
 - Strengthening National Security - improved Defence intelligence capability (\$6.4m),
 - Strengthening National Security – reducing national e-security risk (\$2.4m),
 - Air combat capability - acquisition of Super Hornets (\$48.4m),

- Logistics - additional funding (\$25.7m),
- Strengthening National Security - enhanced protective security (Operation Safebase) (\$33.1m), and
- Jezzine Barracks - gift to the Townsville City Council (\$20.5m);
- an increase due to price increases flowing from the revision to the price parameters used in the 2007-08 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$134.6m),
- the relocation of overseas missions in conjunction with the Department of Foreign Affairs and Trade for security purposes (\$0.025m),
- the transfer of funding to the Department of Veterans' Affairs for the health care of former ADF members associated with F-111 Deseal/Reseal (-\$0.8m),
- the transfer of funding to the DMO's direct appropriation to enable it to implement the Skilling Australia's Defence Industry initiative (-\$20.5m),
- the transfer of funding to the DMO's direct appropriation to enable it to implement the Government-agreed recommendations of the Defence Industry Policy Review (-\$26.3m),
- purchases of fuel and other stores provided to other organisations (offset by an increase in revenue) (\$49.1m),
- increase in sustainment service fee payment to the DMO (\$30.0m),
- increase for Information, Communication, Technology (ICT) upgrades (\$40.0m),
- implementation of the Logistics Assurance Framework (\$4.5m),
- recovery of Australian Submarine Rescue Vehicle Remora (\$20.0m), and
- other net variations (\$6.6m);
- an increase in Grants of \$0.5m due to:
 - a grant to the Submarine Institute of Australia for the search and archaeological assessment of the HMAS AE1 submarine wreck (\$0.3m), and
 - other minor variations (\$0.2m);
- a net increase in Finance Charges of \$4.8m;
- a decrease in Other Expenses of \$0.7m due to:
 - Special Account Interest (\$0.030m), and
 - other minor variations (-\$0.7m).

Balance Sheet

Compared with the previous estimates for 2007-08 published in the *Portfolio Additional Estimates Statements 2006-07*, Defence's net asset value is estimated to decrease by \$135.1m or 0.2 per cent. Details are shown in Table 2.10 below and the reasons for the variation are detailed below.

Table 2.10: Variation in Planned Balance Sheet 2007-08

| | 2007-08 Previous Estimate \$'000 | 2007-08 Budget Estimate \$'000 | Variation | |
|--|---|---|-----------------|-------------|
| | | | \$'000 | % |
| ASSETS | | | | |
| Financial assets | | | | |
| Cash | 36,221 | 36,221 | - | - |
| Appropriation receivable | 213,802 | 213,802 | - | - |
| Other receivables | 163,479 | 163,479 | - | - |
| Other financial assets | 49,270 | 49,270 | - | - |
| Total financial assets | 462,772 | 462,772 | - | - |
| Non-financial assets | | | | |
| Land and buildings | 11,446,975 | 11,579,831 | 132,856 | 1.2 |
| Infrastructure, plant and equipment | 41,420,555 | 41,349,798 | -70,757 | -0.2 |
| Intangibles | 284,328 | 284,509 | 181 | 0.1 |
| Heritage and cultural | 723,572 | 723,572 | - | - |
| Inventories | 4,483,821 | 4,286,486 | -197,335 | -4.4 |
| Other | 216,363 | 216,363 | - | - |
| Assets held for sale | 325,061 | 325,061 | - | - |
| Total non-financial assets | 58,900,675 | 58,765,620 | -135,055 | -0.2 |
| Total assets | 59,363,447 | 59,228,392 | -135,055 | -0.2 |
| LIABILITIES | | | | |
| Debt | | | | |
| Leases | 291,729 | 291,729 | - | - |
| Other interest bearing liabilities | 2,404 | 2,404 | - | - |
| Total debt | 294,133 | 294,133 | - | - |
| Provisions and payables | | | | |
| Employees | 1,596,780 | 1,596,780 | - | - |
| Suppliers | 743,275 | 743,275 | - | - |
| Other | 695,855 | 695,855 | - | - |
| Total provisions and payables | 3,035,910 | 3,035,910 | - | - |
| Total liabilities | 3,330,043 | 3,330,043 | - | - |
| NET ASSETS | 56,033,404 | 55,898,349 | -135,055 | -0.2 |
| EQUITY | | | | |
| Contributed equity | 9,021,025 | 8,885,969 | -135,056 | -1.5 |
| Reserves | 11,157,841 | 11,157,842 | 1 | - |
| Retained surpluses or accumulated deficits | 35,854,538 | 35,854,538 | - | - |
| Total equity | 56,033,404 | 55,898,349 | -135,055 | -0.2 |

ASSETS (-\$135.1M)

Total assets are estimated to be \$59.2 billion at 30 June 2008. This is \$135.1m or 0.2 per cent less than the estimate published in the *Portfolio Additional Estimates Statements 2006-07*.

The budgeted value of Land and Building assets will increase by \$132.9m due to:

- recategorisation of planned purchases from Other Infrastructure, Plant and Equipment (\$92.8m);
- transfer of projects from the Defence Capability Plan to the Major Capital Facilities Program (\$50.6m);
- higher than planned expenditure on capital facilities in 2006-07 (\$17.5m); and
- reprogramming of the Major Capital Facilities funds from 2007-08 to later years (-\$28.0m).

The budgeted value of Infrastructure, Plant and Equipment assets will decrease by \$70.8m due to:

- a decrease in Other Plant and Equipment of \$31.7m due to:
 - planned purchases associated with the following budget measures:
 - Strengthening National Security - improved Defence intelligence capability (\$8.3m), and
 - Strengthening National Security - reducing national e-security risk (\$3.4m);
 - an increase in the value of planned purchases due to price rises reflecting the revision to the price parameters used in the 2007-08 Budget following a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$17.4m),
 - capital expenditure associated with the relocation of overseas missions in conjunction with the Department of Foreign Affairs and Trade (\$0.2m),
 - recategorisation of planned purchases to Land and Buildings (-\$92.8m),
 - a reduction in the estimate of the value of planned purchases for 2006-07 (-\$45.8m), and
 - a reduction in planned disposals as part of the Property Disposals Program (\$77.4m);
- a decrease in the estimate for Specialist Military Equipment assets of \$39.1m due to:
 - planned purchases associated with the following budget measures:
 - Afghanistan - Australian Defence Force deployments (\$45.1m),
 - Iraq - continued funding for stabilisation and reconstruction activities (\$18.1m),
 - Coastal surveillance - continuation (Operation Resolute) (\$3.8m),

- Air combat capability - acquisition of Super Hornets (\$572.6m); and
- Logistics - additional funding (\$11.4m).
- reprogramming of the Approved Major Capital Investment Program due to industry capacity issues and slippage of approved projects (-\$615.0m),
- reprogramming of the Approved Major Capital Investment Program following a review of the estimates in the 2007-08 Budget to reflect industry capacity issues and reprogramming of project schedules (-\$350.0m),
- a decrease in the value of planned purchases due to movements in currency foreign exchange rates favourable to the Australian dollar (-\$78.6m),
- transfer of projects from the Defence Capability Plan to the Major Capital Facilities Program (-\$50.6m),
- an increase in the value of planned purchases due to price rises reflecting the revision to the price parameters used in the 2007-08 Budget following a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$98.9m),
- recategorisation of planned purchases from Inventory to reflect correct accounting treatment (\$227.8m), and
- an increase in the estimate of the value of planned purchases in 2006-07 including the recategorisation of planned purchases from Other Plant and Equipment to Specialist Military Equipment (\$77.6m).

The budgeted value of Intangible assets will increase by \$0.2m due to an increase in the value of planned purchases in 2006-07 and 2007-08.

The budgeted value of Inventory assets will decrease by \$197.3m due to:

- additional purchases associated with the logistics sustainment budget measure and other variations (\$21.4m);
- an increase in the value of planned purchases due to price rises reflecting the revision to the price parameters used in the 2007-08 Budget following a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$9.1m); and
- recategorisation of planned purchases to Specialist Military Equipment (-\$227.8m) to reflect the correct accounting treatment for these items.

EQUITY

Contributed equity is the amount that the Government as owner has invested in Defence. Restructuring activities, equity appropriations and returns made by Defence to the Official Public Account are included in the calculation of contributed equity.

Reserves represent the Asset Revaluation Reserves of Defence and are affected by asset revaluation activities undertaken during the year.

Retained surpluses or accumulated deficits represent the cumulative surpluses or deficits of Defence. Defence is not forecasting an operating surplus or deficit in 2007-08.

Equity is estimated to be \$55.9 billion at 30 June 2008. This represents a decrease of \$135.1m or 0.2 per cent from the estimate published in the *Portfolio Additional Estimates 2006-07* due to:

- a net reduction in the planned Equity Injection appropriation of \$212.7m due to:
 - reprogramming of the Approved Major Capital Investment Program due to industry capacity issues and slippage of approved projects (-\$615.0m),
 - reprogramming of the Approved Major Capital Investment Program following a review of the estimates in the 2007-08 Budget to reflect industry capacity issues and reprogramming of project schedules (-\$350.0m),
 - reprogramming of the Major Capital Facilities funds from 2007-08 to later years (-\$28.0m),
 - a decrease in the value of planned specialist military equipment purchases due to movements in currency foreign exchange rates favourable to the Australian dollar (-\$78.6m),
 - increased equity injection for the following budget measures:
 - Air combat capability - acquisition of Super Hornets (\$572.6m),
 - Logistics - additional funding (\$82.1m),
 - Strengthening National Security - improved Defence intelligence capability (\$8.3m),
 - Strengthening National Security - reducing national e-security risk (\$3.4m),
 - Iraq - continued funding for stabilisation and reconstruction activities (\$18.1m),
 - Coastal surveillance - continuation (Operation Resolute) (\$3.8m), and
 - Afghanistan - Australian Defence Force deployments (\$45.1m);

- a revision to the price parameters used in the 2007-08 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$125.4m), and
- a transfer of Contributed Equity from the Department of Foreign Affairs and Trade for the relocation of overseas missions (\$0.2m); and
- a reduction in the planned return of Contributed Equity to Government due to lower that planned disposals through the Property Disposals Program (\$77.4m).

Cash Flows

Defence is budgeting to receive \$22,494.3m in cash from all sources in 2007-08 and to spend that amount including returns to the Official Public Account. This represents an increase of \$1,120.1m or 5.2 per cent compared with the previous estimate. Defence is forecasting no movement in its opening cash balance of \$36.2m. Table 2.11 shows details of planned cash receipts and payments.

Table 2.11: Variation in Planned Cash Flows 2007-08

| | 2007-08 | 2007-08 | Variation | |
|--|-------------------|-----------------------|------------------|------------|
| | Previous Estimate | Budget Estimate | \$000 | % |
| | \$000 | \$000 | \$000 | % |
| CASH RECEIPTS | | | | |
| Appropriations from Government | 17,885,333 | 19,170,126 | 1,284,793 | 7.2 |
| Sales of goods and services | 583,234 | 643,206 | 59,972 | 10.3 |
| GST refund | 422,724 | 422,723 | -1 | 0 |
| Other revenue | 64,808 | 66,020 | 1,212 | 1.2 |
| Draw-down from Appropriation Receivable | 50,000 | 50,243 | 243 | 0.5 |
| Proceeds from sales of property, plant and equipment | 156,619 | 79,194 | -77,425 | -49.4 |
| Equity appropriation | 2,211,529 | 2,062,804 | -148,725 | -6.7 |
| Total cash receipts | 21,374,247 | 22,494,316 | 1,120,069 | 5.2 |
| CASH PAYMENTS | | | | |
| Employees | 6,856,910 | 7,190,091 | 333,181 | 4.9 |
| Suppliers | 7,408,978 | 8,417,167 | 1,008,189 | 13.6 |
| Grants | 3,904 | 4,395 | 491 | 12.6 |
| Finance costs | 20,799 | 25,574 | 4,775 | 23.0 |
| Other | 1,532 | 873 | -659 | -43.0 |
| Cash transfer to the Official Public Account | - | 64,174 ⁽¹⁾ | 64,174 | - |
| Purchase of specialist military equipment | 4,731,076 | 4,614,166 | -116,910 | -2.5 |
| Purchase of inventory | 1,334,270 | 1,186,354 | -147,916 | -11.1 |
| Purchase of property, plant and equipment | 900,717 | 952,887 | 52,170 | 5.8 |
| Repayments of debt | 16,360 | 16,360 | - | - |
| Capital withdrawal | 99,700 | 22,275 | -77,425 | -77.7 |
| Total cash payments | 21,374,247 | 22,494,316 | 1,120,069 | 5.2 |
| Net increase/(decrease) in cash held | - | - | - | - |
| Cash at 1 July 2007 | 36,221 | 36,221 | - | - |
| Cash at 30 June 2008 | 36,221 | 36,221 | - | - |

Note

1. Reimbursement of the Appropriation Receivable for operations expenditure in 2006-07, which will be appropriated in 2007-08.

USE OF CASH RESERVES

Defence has progressively reduced the level of funds held in the Appropriation Receivable in recent years as shown in Table 2.12.

Table 2.12: Rundown in Appropriation Receivable 2007-08

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|---------|---------|---------|---------|---------|---------|
| | Actual | Actual | Actual | Actual | Planned | Planned |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| End of year Appropriation Receivable | 870,201 | 537,660 | 538,609 | 348,614 | 199,628 | 213,802 |

The planned movements in the Appropriation Receivable are shown in Table 2.13 below.

Table 2.13: Movements in Defence's Appropriation Receivable

| 2006-07 Planned result \$'000 | | 2007-08 Previous Estimate \$'000 | 2007-08 Budget Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | 2010-11 Forward Estimate \$'000 |
|--|--|---|---|--|--|--|
| 348,614 | Opening balance of Appropriation Receivable | 263,802 | 199,628 | 213,802 | 158,802 | 98,802 |
| -43,643 | Cash used to reduce employee liabilities | -50,000 | -50,000 | -55,000 | -60,000 | 65,000 |
| -17,200 | Operation Slipper 2005-06 rephasing | | | | | |
| -38,916 | Carry forward of Operation Catalyst funds to 2006-07 | | | | | |
| -3,653 | Carry forward of Operation Slipper funds to 2006-07 | | | | | |
| 18,600 | Reimbursement for expenditure in 2005-06 for Operation Astute | | | | | |
| -10,294 | Operation Slipper 2006-07 expenditure for International Campaign Allowance | | 10,294 | | | |
| -17,044 | Operation Slipper 2006-07 expenditure for increased deployed ADF numbers | | 17,044 | | | |
| -4,388 | Operation Catalyst 2006-07 expenditure for increased deployed ADF numbers | | 4,388 | | | |
| -32,448 | Operation Slipper 2006-07 expenditure for expansion of ADF deployment | | 32,448 | | | |
| | Relocation of overseas missions: <i>transfer from DFAT</i> | | 243 | | | |
| | <i>drawdown</i> | | -243 | | | |
| 199,628 | Closing balance of Appropriation Receivable | 213,802 | 213,802 | 158,802 | 98,802 | 163,802 |

In 2007-08, Defence will drawdown \$50.0m from the Appropriation Receivable to contribute to employee liabilities. It will also be reimbursed \$64.2m of operations expenditure incurred in 2006-07 on Operations Slipper and Catalyst including \$32.4m on the expansion of Operation Slipper.

APPROPRIATIONS

Including \$2,802m in administered appropriations (refer serial 8 in Table 2.1), Defence's total appropriations are estimated to be \$24,801.6m in 2007-08. Departmental appropriations will be \$21,232.9m (refer serial 3 in Table 2.1) comprising \$19,170.1m for departmental outcomes and \$2,062.8m for the equity injection. Explanations for variations to the estimates for appropriation for outcomes are contained in Chapter Five – Planned Outcome Performance.

Defence's administered appropriations for Outcome Seven are standing appropriations enabled by Part XII, s.125 (3) of the *Defence Force Retirements and Death Benefits Act, 1973*, Part V, s.17 of the *Military Superannuation and Benefits Act, 1991* and Part IV, s.38 of the *Defence Force (Home Loan Assistance) Act, 1990*. Explanations for the variations in planned appropriations and other revenue for administered items are in Chapter Five – Planned Outcome Performance under Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel.

Table 2.14: Appropriations and Other Resources to Defence in 2007-08

| | Departmental | | | | Administered | | | | Total | |
|--|----------------------------|----------------------------|--------------------------|----------------|----------------------------|----------------------------|----------------|--------------------------|-------|-------------------|
| | Appropriation Bill No.1 | Appropriation Bill No.2 | Special Appropriation | Receipts | Appropriation Bill No.1 | Appropriation Bill No.2 | | Special Appropriation | | Receipts |
| | \$000 | \$000 | \$000 | \$000 | \$000 | SPP \$000 | Other \$000 | \$000 | | \$000 |
| Outcome 1: Command of operations | 1,576,590 | | | 43,496 | | | | | | 1,620,086 |
| Outcome 2: Navy capability | 5,012,665 | | | 210,827 | | | | | | 5,223,492 |
| Outcome 3: Army capability | 6,393,005 | | | 282,579 | | | | | | 6,675,584 |
| Outcome 4: Air Force capability | 5,325,120 | | | 201,201 | | | | | | 5,526,321 |
| Outcome 5: Strategic policy | 303,430 | | | 13,169 | | | | | | 316,599 |
| Outcome 6: Intelligence | 559,316 | | | 14,873 | | | | | | 574,189 |
| Outcome 7: Superannuation and housing support services for current and retired Defence personnel | | | | | | | | 2,802,468 | | 2,802,468 |
| Equity injection | | 1,998,630 | | | | | | | | 1,998,630 |
| Loans | | | | | | | | | | |
| Previous years' outputs | | 64,174 | | | | | | | | 64,174 |
| Administered assets and liabilities | | | | | | | | | | |
| Special capital appropriation | | | | | | | | | | |
| Total | 19,170,126 | 2,062,804 | 0 | 766,145 | | | | 2,802,468 | | 24,801,543 |

PAYMENTS TO THE DEFENCE MATERIEL ORGANISATION

The Defence Materiel Organisation (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 \$9.442 billion in 2007-08 for the procurement of capital equipment (\$4.820 billion) and the sustainment of equipment (\$4.622 billion). 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 including Professional Service Providers and associated overheads. Payments for sustainment of existing assets is provided under a suite of Materiel Sustainment Agreements (one agreement with each Capability Manager covering approximately 100 individual products), together with an associated service fee which covers systems program office staffing costs and associated overheads.

Figure 2.1 provides a summary of the planned payments to the DMO over the Forward Estimates period showing a breakdown between approved activities and activities awaiting approval. In summary, Defence plans to pay the DMO \$9.442 billion in 2007-08 as detailed in Table 2.15.

Figure 2.1: Total Planned Payments to the DMO for 2007-08 and the Forward Estimates

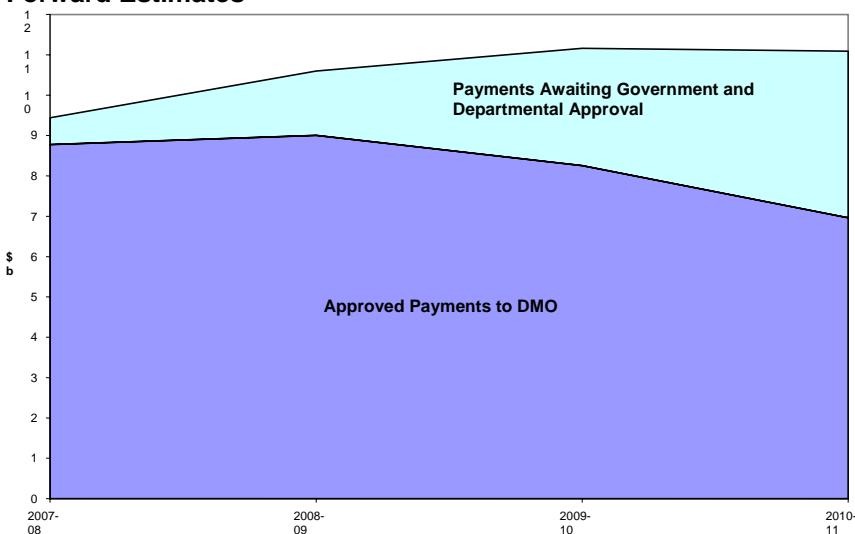


Table 2.15 Total Payments to the DMO in 2007-08 and the Forward Estimates

| Group/Item Description | 2007-08 Budget Estimate \$m | 2008-09 Forward Estimate \$m | 2009-10 Forward Estimate \$m | 2010-11 Forward Estimate \$m |
|--|--|---|---|---|
| a. Major Capital Projects | 4,295.6 | 5,566.9 | 6,135.2 | 5,973.2 |
| b. Acquisition Service Fee | 348.0 | 375.3 | 397.1 | 405.9 |
| 1. Sub Total Major Capital Investment Projects | 4,643.6 | 5,942.2 | 6,532.3 | 6,379.1 |
| c. Navy Minor Projects | 33.5 | 31.0 | 31.8 | 31.5 |
| d. Army Minor Projects | 62.2 | 68.2 | 70.4 | 71.4 |
| e. Air Force Minor Projects | 47.1 | 43.0 | 43.0 | 43.0 |
| f. Chief Information Officer Minor Projects | 12.9 | 13.0 | 13.6 | 13.9 |
| g. Joint Logistics Minor Projects | 20.8 | 20.9 | 21.2 | 21.7 |
| 2. Sub Total Minor Projects (c+d+e+f+g) ⁽¹⁾ | 176.5 | 176.1 | 180.0 | 181.5 |
| 3. Total Acquisition (DMO Output 1) (1+2) | 4,820.1 | 6,118.3 | 6,712.3 | 6,560.6 |
| h. Enhanced Land Force Sustainment Element | 100.8 | 33.8 | 19.3 | 44.3 |
| i. Navy Sustainment | 1,330.3 | 1,222.1 | 1,191.7 | 1,217.4 |
| j. Army Sustainment | 1,273.2 | 1,059.4 | 902.1 | 875.8 |
| k. Air Force Sustainment | 1,099.4 | 1,010.2 | 988.2 | 931.6 |
| l. Chief Information Officer Sustainment | 43.1 | 40.7 | 44.2 | 46.1 |
| m. Operating costs for DCP (NPOC) | 175.4 | 274.6 | 445.5 | 496.9 |
| n. Super Hornets (Operating Costs) | 42.5 | 59.4 | 120.7 | 159.2 |
| o. Operating Costs for the C-17s | 54.7 | 92.5 | 101.2 | 107.3 |
| p. Additional funding for Lead In Fighter | 29.0 | 23.6 | 25.1 | 28.0 |
| q. Logistics Supplementation (new Budget Measure) | 109.1 | 294.1 | 238.0 | 245.0 |
| 4. Sub Total Sustainment Products (h+i+j+k+l+m+n+o+p+q) | 4,257.5 | 4,110.4 | 4,076.0 | 4,151.6 |
| 5. Sustainment Service Fee | 364.0 | 370.2 | 374.3 | 382.6 |
| 6. Total Sustainment (DMO Output 2) (4+5) | 4,621.5 | 4,480.6 | 4,450.3 | 4,534.2 |
| 7. Total Planned Payments to DMO (3+6)⁽²⁾ | 9,441.6 | 10,598.9 | 11,162.6 | 11,094.8 |

Notes

1. Cross reference to Table 3.10
2. Cross reference to Section Two, Defence Material Organisation, and Table 6.3.

Of the total planned payment to the DMO in 2007-08 of \$9.442 billion, an initial payment of \$8.775 billion is planned for approved projects and activities as set out in Table 2.16 below. A further \$667m is expected to be paid to the DMO during the course of the year as new projects are approved by Government or departmental delegates and for the personnel and operating costs of new and enhanced equipment as they enter service. Details are provided in Table 2.17.

Table 2.16: Planned Payments to the DMO for Approved Projects and Activities in 2007-08 and the Forward Estimates

| Group/Item Description | 2007-08 Budget Estimate \$m | 2008-09 Forward Estimate \$m | 2009-10 Forward Estimate \$m | 2010-11 Forward Estimate \$m |
|--|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| a. Major Capital Projects | 3,858.3 | 4,340.6 | 3,799.0 | 2,500.4 |
| b. Acquisition Service Fee ⁽¹⁾ | 348.0 | 375.3 | 397.1 | 405.9 |
| 1. Sub Total Major Capital Equipment Projects (a + b) ⁽²⁾ | 4,206.3 | 4,715.9 | 4,196.1 | 2,906.3 |
| c. Navy Minor Projects | 25.0 | 16.9 | 9.2 | 0.8 |
| d. Army Minor Projects | 30.0 | 27.1 | 11.5 | 4.9 |
| e. Air Force Minor Projects | 46.2 | 25.7 | 20.2 | 10.7 |
| f. Chief Information Officer Minor Projects | 2.4 | 1.4 | 0.0 | 0.0 |
| g. Joint Logistics Minor Projects | 18.9 | 10.4 | 13.9 | 1.9 |
| 2. Sub Total Approved Minor Projects (c + d + e + f + g) ⁽³⁾ | 122.5 | 81.5 | 54.8 | 18.3 |
| 3. Sub Total Acquisition (DMO Output 1) | 4,328.8 | 4,797.4 | 4,250.9 | 2,924.6 |
| h. Enhanced Land Force Sustainment Element | 100.8 | 33.8 | 19.3 | 44.3 |
| i. Navy Sustainment | 1,330.3 | 1,222.1 | 1,191.7 | 1,217.4 |
| j. Army Sustainment | 1,273.2 | 1,059.4 | 902.1 | 875.8 |
| k. Air Force Sustainment | 1,099.4 | 1,010.2 | 988.2 | 931.6 |
| l. Chief Information Officer Sustainment | 43.1 | 40.7 | 44.2 | 46.1 |
| m. Super Hornets (Operating Costs) | 42.5 | 59.4 | 120.7 | 159.2 |
| n. Operating Costs for the C-17s | 54.7 | 92.5 | 101.2 | 107.3 |
| o. Additional funding for Lead In Fighter | 29.0 | 23.6 | 25.1 | 28.0 |
| p. Logistics Supplementation (new Budget Measure) | 109.1 | 294.1 | 238.0 | 245.0 |
| 4. Sub Total Sustainment Payments (h+i+j+k+l+m+n+o+p) | 4,082.1 | 3,835.8 | 3,630.5 | 3,654.7 |
| 5. Sustainment Service Fee | 364.0 | 370.2 | 374.3 | 382.6 |
| 6. Sub Total Sustainment (DMO Output 2) (4+5) | 4,446.1 | 4,206.0 | 4,004.8 | 4,037.3 |
| 7. Total Approved Projects and Activities (3+6) | 8,774.9 | 9,003.4 | 8,255.7 | 6,961.9 |

Notes

1. The DMO Service Fee is funded on the basis that the projects awaiting Government approval, the values of which are set out in Table 2.17, will be approved and transferred to the DMO. This ensures that DMO can plan its workforce requirements for future years, so that it is in a position to form project teams to manage projects as they are approved by Government.
2. Cross reference to Table 3.6.
3. Cross reference to Table 3.10.

Table 2.17: Payments Awaiting Government Approval for Projects and Activities in 2007-08 and the Forward Estimate

| Group/Item Description | 2007-08 Budget Estimate \$m | 2008-09 Forward Estimate \$m | 2009-10 Forward Estimate \$m | 2010-11 Forward Estimate \$m |
|---|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| 1. Major Capital Equipment Projects awaiting Government approval ⁽¹⁾ | 437.3 | 1,226.3 | 2,336.2 | 3,472.8 |
| a. Navy Minor Projects | 8.5 | 14.1 | 22.6 | 30.7 |
| b. Army Minor Projects | 32.2 | 41.1 | 58.9 | 66.5 |
| c. Air Force Minor Projects | 0.9 | 17.3 | 22.8 | 32.3 |
| d. Chief Information Officer Minor Projects | 10.5 | 11.6 | 13.6 | 13.9 |
| e. Joint Logistics Minor Projects | 1.9 | 10.5 | 7.3 | 19.8 |
| 2. Sub Total Unapproved Minor Projects (a + b + c + d + e) | 54.0 | 94.6 | 125.2 | 163.2 |
| 3. Sub Total Acquisition (DMO Output 1) (1+2) | 491.3 | 1,320.9 | 2,461.4 | 3,636.0 |
| 4. NPOC costs for New and Enhanced Equipment | 175.4 | 274.6 | 445.5 | 496.9 |
| 5. Total for Unapproved Projects and Activities (3+4) | 666.7 | 1,595.5 | 2,906.9 | 4,132.9 |

Note

1. Cross reference to Table 3.3.

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 that 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. In 2007-08 Defence plans to spend \$4.395m on grants which have been approved by the Minister for Defence. Table 2.18 provides details.

Table 2.18: Discretionary Grants

| 2006-07 | | 2007-08 |
|------------------|---|-----------------|
| Estimated | | Budget |
| Actual | | Estimate |
| \$'000 | | \$'000 |
| 75 | Army Military History Research Grants Scheme | 75 |
| 1,146 | Defence Family Support Funding Program | 1,346 |
| 83 | Grant to the Royal United Services Institute of Australia | 86 |
| 100 | Submarine Institute of Australia for HMA Submarine AE2 | 288 |
| 1,650 | Grant to the Livingstone Shire Council | 2,600 |
| | Grant to Sherwood-Indooroopilly RSL Sub Branch for Airforce | |
| 31 | Cadets Training Room | - |
| 38 | Operation Aussies Home | - |
| 3,123 | Total | 4,395 |

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 on Defence families.

Grant to the Royal United Services Institute of Australia

The grant provides assistance to the Royal United Services Institute of Australia in promoting the discussion of national security and defence matters, and improving public awareness and understanding of such matters through:

- 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.

Submarine Institute of Australia for HMA Submarine AE2

The grant provides funds to the Submarine Institute of Australia including mission rehearsal training dives as well as the Maritime Archaeological assessment on the World War 1 HMA Submarine AE2 located in the sea off Turkey. This grant was approved after the publication of the *Portfolio Additional Estimates Statements 2006-07* and is included here for completeness.

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.

Grant to Sherwood-Indooroopilly RSL Sub Branch for Air Force Cadets Training Room

The grant provided funds to the Sherwood-Indooroopilly RSL Sub Branch to assist with the fit out of classrooms for use by 218 Squadron Australian Air Force Cadets. This grant was approved after the publication of the *Portfolio Additional Estimates Statements 2006-07* and is included here for completeness.

Operation Aussies Home

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

INDIGENOUS PROGRAMS

ABORIGINAL AND TORRES STRAIT ISLANDER PROGRAM

The primary focus of the Aboriginal and Torres Strait Islander Program (ATSIP) is the recruitment, career development, support and retention of Indigenous Australians through various Australian Public Service (APS) and Defence-specific programmes. It includes strategic initiatives such as centralised funding for cross-cultural awareness training.

ARMY ABORIGINAL COMMUNITY ASSISTANCE PROGRAM

The Army Aboriginal Community Assistance Program (AACAP) initiative's purpose is to form a partnership 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

The Indigenous Participation Program (IPP) funds two Indigenous Liaison Officers, one in Darwin and one in Townsville, as well as a range of initiatives designed to address the under-representation of Indigenous youth in the ADF Cadets. The primary focus of the IPP is to identify and remove the barriers to Indigenous participation within the ADF Cadets by developing culturally appropriate strategies applicable to each community/region and cadet organisation.

INDIGENOUS RECRUITMENT AND RETENTION STRATEGY

Fairness and Resolution Branch and Defence Force Recruitment are developing an Indigenous Recruitment and Retention Strategy to increase the participation rates of Indigenous Australians in both the ADF and APS. The strategy is aligned with the *ADF Recruiting Strategic Plan 2005-2010* and the *Defence Strategic Workforce Plan 2007-2017* and is due to be completed by the end of 2007.

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 will reach maturity in 2007-08, and deliver ongoing savings of \$205.8m per annum. Over the course of the five years (including 2007-08) Defence has exceeded the target in each year to a total of \$38.8m. This has allowed additional funds to be redirected within Defence to allow additional unavoidable costs pressures to be met without requiring cuts to capability. Details are shown in Table 2.19 below.

Table 2.19: Program of Administrative Savings Targets

| | 2003-04 \$m | 2004-05 \$m | 2005-06 \$m | 2006-07 \$m | 2007-08 \$m | Ongoing \$m |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Savings target | 50.0 | 100.0 | 150.0 | 175.0 | 200.0 | 200.0 |
| Savings achieved/ planned to date | 60.6 | 125.5 | 169.1 | 153.2 | 205.8 | 205.8 |

Administrative savings to date have been achieved by:

- reductions in the number of civilian staff working in administrative areas;
- reductions in non-capability-related supplier expenses, including Professional Service Providers;
- a reduction in non-operations related overseas travel;
- a 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 (where savings have not yet been received, administration budgets have been reduced to compensate);
- 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-3 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 Market Testing function;
- civilianisation of Navy and Army military positions;
- savings in goods and services tax associated with the implementation of the Defence Travel Card;
- implementation of a national Defence contract for courier services for mail and freight;

- implementation of a new standing offer for office requisites and janitorial products, savings predominantly in toner cartridges;
- rationalisation of resource/paper management;
- rationalisation of military personnel administration centres;
- further rationalisation of civilian personnel administration centres; and
- conversion of Professional Service Providers to civilians.

Table 2.20 details the net savings achieved to date and those planned in 2007-08, including transition and upfront costs.

Table 2.20 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 (PSP) | 22.0 | 41.7 | 41.7 | 41.7 | 41.7 |
| Reductions in overseas travel | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 |
| Reductions in domestic travel | 11.5 | 11.5 | 11.5 | 11.5 | 11.5 |
| Renegotiation of the Australian Defence Force Academy agreement | 0.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Reductions in non-operational overseas positions | 4.8 | 13.4 | 19.2 | 20.4 | 20.3 |
| Removal from Service of three P-3 derivative training aircraft | - | - | 5.5 | 5.5 | 4.0 |
| Rationalisation of civilian personnel administration centres | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Rationalisation of the former Public Affairs and Corporate Communication Division | 2.7 | 3.2 | 3.2 | 3.2 | 3.2 |
| PMKeyS Self Service | - | 0.1 | 0.1 | 0.1 | 0.1 |
| Diners club rebate | 0.5 | -0.2 | 0.4 | 0.7 | - |
| Defence 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 |
| Defence Travel Card. Business Improvement Projects | - | 0.2 | 7.0 | 7.0 | 7.0 |

| Initiative | 2003-04 \$m | 2004-05 \$m | 2005-06 \$m | 2006-07 \$m | 2007-08 \$m |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|
| 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 |
| Substitution of more costly PSP positions with civilians | - | - | - | 17.5 | 20.2 |
| 1. Sub Total Savings Programmed | 60.6 | 132.6 | 173.2 | 203.8 | 209.7 |
| Defence Support Group transition Staff | - | -2.5 | - | - | - |
| Regional Information, Communication and Technology Market Testing transition costs | - | -2.3 | -3.3 | - | - |
| Business Improvement Project transition costs | - | -2.3 | -0.8 | -17.5 | - |
| Business centre set up and lease costs (in the vicinity of RAAF Base Williamtown) | - | - | - | -2.5 | -3.9 |
| 2. Sub Total Transition Costs | 0.0 | -7.1 | -4.1 | -20.0 | -3.9 |
| 3. Net Savings | 60.6 | 125.5 | 169.1 | 153.2 | 205.8 |

Other Savings and Efficiencies

In addition to the Program of Administrative Savings under which Defence is able to retain the savings, Defence has returned \$551.7m to the Budget over the period 2005-06 to 2010-11 in savings measures as detailed in Table 2.21.

Table 2.21 Savings Returned to the Budget 2005-06 to 2010-11

| | 2005-06 \$m | 2006-07 \$m | 2007-08 \$m | 2008-07 \$m | 2009-10 \$m | 2010-11 \$m | Total \$m |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|----------------------|
| Administrative Overheads | - | 70.0 | 60.0 | 12.0 | - | - | 142.0 |
| Efficiency Dividend (initial tranche) | 3.4 | 11.9 | 25.0 | 39.0 | 55.5 | 71.1 | 205.9 |
| Rationalisation of ADF Command and Control Structure | - | 5.9 | 12.7 | 20.5 | 31.0 | 31.0 | 101.1 |
| Broadening of the Efficiency Dividend | - | 4.5 | 11.2 | 20.1 | 29.0 | 37.9 | 102.7 |
| Total Savings Returned to the Budget | 3.4 | 92.3 | 108.9 | 91.6 | 115.5 | 140.0 | 551.7 |

COST RECOVERY ARRANGEMENTS

Details of the Department of Defence's cost recovery activities are provided below in the summary of Defence's Cost Recovery Impact Statement.

COST RECOVERY IMPACT STATEMENTS - SUMMARY

DEFENCE COST RECOVERY POLICY

Chief Executive Instruction 7.1 - Charging and Cost Recovery

The Department of Defence has had a full cost recovery policy since at least 1991. Current Defence cost recovery policy is contained in *Chief Executive Instruction 7.1 - Charging and Cost Recovery*. This instruction contains the following charging principles:

- Defence charging principles are based on the Government's policy that the full cost of the provision of goods and services is recoverable, except under special circumstances.
- In accordance with this policy, Defence applies the 'user pays' principle which involves charging for goods or services provided to other agencies, or to members of the public. The principle also applies to Defence personnel (civilian, ADF and contractors) undertaking activities not related to Defence business.

Defence considers that these principles are consistent with the costing policy as set out in the Australian Government Cost Recovery Guidelines July 2005.

COSTING AND CHARGING PROCEDURES

The *Defence Costing Manual - Charging and Cost Recovery* contains costing tables for each Service rank and civilian classification. The tables show the full cost of personnel. The costing rates in these tables are used for identifying the full cost of activities and also for full cost recovery. These rates take account of all the direct and indirect costs of personnel.

This manual also contains a range of rates for ships, aircraft, vehicles, etc. Methodologies are also provided to enable the calculation of full cost rates for the hire of equipment and facilities, and charges for training courses.

COST RECOVERY WITHIN DEFENCE

Although Defence has a full cost recovery policy, only approximately 8 per cent of its cost recovery revenue is received from non-government sources and subject to reporting in this Cost Recovery Impact Statement (CRIS). The remaining 92 per cent is received from intra- and inter-government sources (including foreign governments) and other sources not subject to reporting. Where intra- and inter-governmental charging occurs cost recovery guidelines are followed to the greatest possible extent.

FORECAST REVENUE

As cost recovery from non-government sources is largely ad hoc in nature and a very small percentage of Defence revenue it is not possible to forecast expected revenue in a meaningful way.

Revenue within the Scope of the CRIS Review

DEFENCE ASSISTANCE TO THE CIVIL COMMUNITY

The Defence Assistance to the Civil Community (DACC) policy and procedures are set out in an instruction issued pursuant to the *Defence Act 1903* and entitled *Defence Instruction (General) – OPS 05-1*. Under this policy Defence provides a range of assistance to the Civil Community is broadly divided into emergency and non-emergency. The emergency assistance is sub-divided into immediate assistance where cost recovery is not obtained, and longer-term assistance where cost recovery is fully pursued. Non-emergency assistance is provided on a cost recovery basis, although cost waivers are sometimes given where there is a justifiable basis for the waiver. Where cost recovery is pursued the full cost of providing the service is recovered.

Non-emergency DACC tasks are costed on a full cost basis using rates and methods contained in the *Defence Costing Manual – Charging and Cost Recovery*. Non emergency assistance of a minor nature is provided to community and charity groups without cost recovery.

The charge for each DACC activity for which cost recovery is obtained is built up from the standard personnel and other rates contained in the *Defence Costing Manual – Charging and Cost Recovery*, which have been calculated in accordance with the Defence policy of full cost recovery and the Government's cost recovery policy.

SALE OF CHARTS AND MAPS

Revenue received in 2005-06 was \$3.454m. The bulk of this amount (\$3.192m) came from the sale of products produced by the Royal Australian Navy (RAN) Australian Hydrographic Office. The sales total for the AHO in 2005-06 comprised:

- Australian Manuscript and Digital Products: \$2.383m; and
- Royalties and Data Licensing and Non-Australian Products: \$0.809m.

At least 25 per cent of the Australian Hydrographic Office revenue is excluded from the scope of the CRIS because it is receipts from royalties (\$0.809m).

The Australian Hydrographic Office does not employ full cost recovery because of the Government's policy relating to the community service or 'public good'

nature of AHO products. A prime function of the Hydrographic Service is to discharge the Government's responsibility of providing for the 'public good' navigational aids to non-Defence entities.

CASUAL MEALS IN SERVICE MESSES

Service messes are provided principally for Service Personnel. In certain circumstances non-Defence civilians and overseas Defence personnel are permitted to have casual meals in service messes when visiting or working at a base. Approximately \$3m was received from casual meals purchased in Defence messes. The rates for casual meals are contained in the *Defence Costing Manual - Charging and Cost Recovery* and are based on the full costs of meals in representative messes updated for price movement using the consumer price index.

REVENUE FROM SALE OF FUEL TO NON-DEFENCE ENTITIES

Revenue received in 2005-06: \$2.349m

Fuel is primarily held for the ADF use, rather than for sale; and is only sold on occasion. This item is mainly for the sale of fuel from bulk tanks at ADF establishments. The costs recovered are in accordance with the Defence Costing Manual - Charging and Cost Recovery, using standard rates, and includes excise, GST and appropriate on-costs.

ONGOING MONITORING

Defence Costing Manual - Charging and Cost Recovery: The policy and manual were reviewed in 2006. Costing data will be updated on an annual basis for such things as salary increases and price increases. The next major review will be conducted in five years time, unless required earlier by any changes in government or departmental policy. Where appropriate, stakeholders will be consulted.

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 Australia

OVERVIEW

Defence and Defence Housing Australia (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 DHA as provider of housing and related services. The Services Agreement has been reviewed with the new agreement signed on 30 June 2006 and implemented on 1 July 2006. Under this agreement, DHA is to provide suitable housing for Defence members to meet the operational needs of Defence. Defence expects DHA to provide appropriate numbers of houses in suitable locations in accordance with Defence policy. The Relocation Services Agreement was reviewed in 2006 with an amended agreement signed on 1 October 2006. Under this agreement, DHA coordinates and administers domestic relocations.

CONTROL ARRANGEMENTS

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

The *Defence Housing Authority Amendment Act 2006* enables DHA to expand the scope of its operations to provide services that are ancillary to housing and housing-related services to both Defence and other Australian Government agencies as defined in the *Financial Management and Accountability Act 1997*.

The *Defence Housing Authority Amendment Act 2006* took effect on 23 November 2006. From that date the name of the organisation changed to Defence Housing Australia and a smaller, streamlined, more commercially focused board with a greater freedom to act commenced operation.

The DHA Board members are:

| | |
|--------------------------------|------------------------|
| Chairman | The Hon P V Jones AM |
| Managing Director | Mr Michael Del Gigante |
| Commercial Director | The Hon. WL Lange |
| Commercial Director | Mr WD Bowness |
| Commercial Director | Ms S A Chaplain |
| Commercial Director | Mr W L Stokes |
| Finance Nominee | Mr G Potts |
| Nominee Secretary of Defence | Mr Peter Sharp |
| Nominee Chief of Defence Force | AVM Gary Beck (rtd) |

DHA has established an Advisory Committee comprising of:

| | |
|---|------------------------|
| Chairman | AVM Gary Beck (rtd) |
| DHA Nominee | Mr Michael Del Gigante |
| DCN | RADM RH Crane |
| DCA | MAJGEN J Cantwell |
| DCAF | AVM JN Blackburn |
| Convenor of Defence Families Australia | Mrs Nicole Quinn |

RESOURCING

The 2007-08 estimate for the purchase of services from DHA is \$398.9m, compared with the estimate of \$399.8m in the *Portfolio Additional Estimates Statements 2006-07*, a decrease of around \$1m. DHA provides housing and relocation services and manages the Defence Home Owner Scheme for ADF members. The variations in the cost of services are due to: a reduction in the estimated expenditure in the Defence Home Owner Scheme; heritage upgrade project; and the completion of the members without dependents choice accommodation trial. These decreases are offset in part by increases in housing and relocations services.

Department of Foreign Affairs and Trade

Defence maintains a service-level agreement with the DFAT for management services and a separate memorandum of understanding with DFAT 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 2007-08, the expected cost to Defence will be in the order of \$4.1m.

Comcare

OVERVIEW

Defence pays to 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 2007-08 is estimated at \$18.4m.

The increase in the premium estimate reflects an estimated 10.8 per cent increase in the civilian payroll, together with an anticipated negative development of civilian compensation claims for the years 2003, 2004 and 2005.

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 2007-08 for civilian and ADF personnel is estimated at \$5.1m.

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 under the *Defence Occupational Health and Safety Strategic Plan 2004-2006*. This strategic management systems approach, being progressively rolled out to Defence Groups, is aimed at reducing the incidence and severity of work-related injury and illness. In 2007-08, the focus will be on the review and evaluation of the system which will be in its fourth year of implementation.

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 any of the following: the Military Superannuation and Benefits Scheme; the Defence Force Retirement and Death Benefits Scheme; the Commonwealth Superannuation Scheme; the Public Sector Superannuation Scheme; and the Public Sector Superannuation Accumulation Plan.

CONTROL ARRANGEMENTS

A service-level agreement with ComSuper, the Military Superannuation and Benefits (MSB) Board Executive and the Defence Force Retirement and Death Benefits (DFRDB) 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. Defence is in the process of negotiating another service level agreement and is planning to have the new agreement in place by 1 July 2007. ComSuper's performance under the terms of the agreement is reviewed regularly by the MSB Board, the DFRDB 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 MSB Board and the DFRDB Authority.

The review has recommended to the Minister for Defence some changes to legislative and governance arrangements. Changes to the governance arrangements of the MSB Board of Trustees No 1 have been implemented.

RESOURCING

The estimated cost to Defence in 2007-08 for the purchase of services from ComSuper is \$22.929m. This includes an amount of \$0.990m that, under the service level agreement negotiated price, is transferred to the MSB Board Executive for non-investment related administrative costs.

DEFENCE

CHAPTER THREE

CAPITAL INVESTMENT

PROGRAM

OVERVIEW

UNAPPROVED MAJOR CAPITAL EQUIPMENT PROGRAM

THE APPROVED MAJOR CAPITAL EQUIPMENT PROGRAM

CAPITAL FACILITIES PROJECTS

OTHER CAPITAL PURCHASES

CAPITAL RECEIPTS

OVERVIEW

The Capital Investment Program is comprised of four elements as follows:

- the Major Capital Equipment Program which is commonly referred to as the Defence Capability Plan comprising:
 - the Unapproved Major Capital Equipment Program which is managed by the Chief of the Capability Development Executive; and,
 - the Approved Major Capital Equipment Program which is managed by the Chief Executive Officer of the Defence Materiel Organisation;
- the Capital Facilities Program which is managed by the Deputy Secretary Defence Support Group;
- Other Capital Purchases which are managed by the Service Chiefs and Groups Heads across the Organisation; and
- Capital Receipts which are managed by the Service Chiefs and Groups Heads across the Organisation.

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 2007-08 totals \$6,162.9m, including \$652.8m in operating funds. Defence plans to spend \$30.416 billion on Capital Investment in the Budget and Forward Estimates period; as summarised in Table 3.1.

Table 3.1: 2007-08 Capital Investment Program Incorporating Forward Estimate

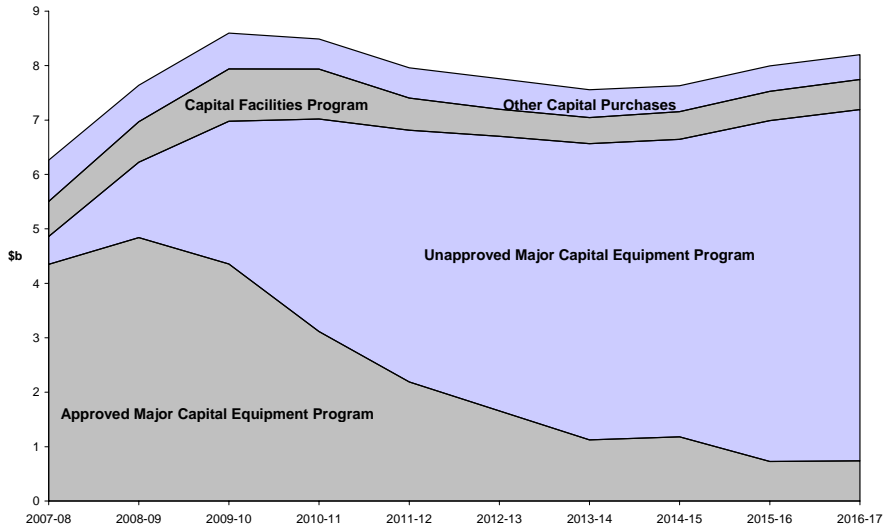
| Group/Item Description | Budget Estimate | Forward Estimates | Forward Estimate | Forward Estimate | Total |
|--|-----------------|-------------------|------------------|------------------|-----------------|
| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | |
| | \$m | \$m | \$m | \$m | |
| Capital | 467.2 | 1,320.1 | 2,314.7 | 3,648.4 | 7,750.4 |
| Operating | 45.3 | 61.6 | 301.5 | 250.4 | 658.8 |
| Unapproved Major Capital Equipment Program ⁽¹⁾ | 512.5 | 1,381.7 | 2,616.2 | 3,898.8 | 8,409.2 |
| Capital | 3,790.4 | 4,258.8 | 3,962.9 | 2,776.5 | 14,788.6 |
| Operating | 504.5 | 500.4 | 265.0 | 195.6 | 1,465.5 |
| Approved Major Capital Equipment Program ⁽²⁾ | 4,294.9 | 4,759.2 | 4,227.9 | 2,972.1 | 16,254.1 |
| Sub total Major Capital Equipment | 4,807.4 | 6,140.9 | 6,844.1 | 6,870.9 | 24,663.3 |
| Capital | 540.6 | 673.6 | 916.2 | 870.8 | 3,001.2 |
| Operating | 103.0 | 72.2 | 44.8 | 48.5 | 268.5 |
| Sub total Capital Facilities ⁽³⁾ | 643.6 | 745.8 | 961.0 | 919.3 | 3,269.7 |
| Other Capital ⁽⁴⁾ | 768.8 | 694.0 | 671.9 | 537.7 | 2,672.4 |
| Total Capital Component ⁽⁵⁾ | 5,567.0 | 6,946.5 | 7,865.7 | 7,833.4 | 28,212.6 |
| Total Operating Component | 652.8 | 634.2 | 611.3 | 494.5 | 2,392.8 |
| Total Capital Investment Program | 6,219.8 | 7,580.7 | 8,477.0 | 8,327.9 | 30,605.4 |
| Net Capital Receipts ⁽⁶⁾ | -56.9 | -56.2 | -39.0 | -37.7 | -189.8 |
| Total Capital | 6,162.9 | 7,524.5 | 8,438.0 | 8,290.2 | 30,415.6 |

Notes

1. See further details at Table 3.3.
2. See further details at Table 3.6.
3. See further details at Table 3.7.
4. See further details at Table 3.13.
5. Cross-reference to Table 7.5.
6. See further details at Table 3.14.

Including the acquisition of the Super Hornet aircraft and additional equipment for the Enhanced Land Force, Defence is planning to spend \$76.4 billion over ten years on the Investment Program as depicted in Figure 3.1. Investment expenditure is expected to grow from \$6.163 billion in 2007-08 to \$8.012 billion by 2016-17. The higher level of expenditure in the period 2008-09 to 2010-11 reflects major payments on the Super Hornet aircraft, capital projects for the Enhanced Land Force and slipped expenditure on the AEW&C aircraft and M-113 Upgrade projects. It also reflects increased White Paper allocations in these years including funds reprogrammed from prior years.

Figure 3.1: Defence Capital Investment Program 2007-08 to 2016-17



The expenditure profile for the Major Capital Investment Program was reviewed by Government in finalising the 2007-08 Budget and Forward Estimates. Due to industry capacity issues and slippage in some major capital equipment projects, the Government decided to reprogram \$1.140 billion over the Forward Estimates to reflect revised expected patterns of expenditure based on current project schedules. These funds have not been forgone; they have been retained and reprogrammed to later years. The amounts involved are shown in Table 3.2 below.

Table 3.2: Capital Reprogramming (2007-08 Budget prices)

| | Budget Estimate 2007-08 | Forward Estimate 2008-09 | Forward Estimate 2009-10 | Forward Estimate 2010-11 | Total |
|--|-------------------------|--------------------------|--------------------------|--------------------------|---------------|
| | \$m | \$m | \$m | \$m | \$m |
| Unapproved Major Capital Equipment Program | - | -102 | -310 | -106 | -518 |
| Approved Major Capital Equipment Program | -354 | -149 | -263 | 144 | -622 |
| Major Capital Facilities ⁽¹⁾ | -28 | 19 | 9 | - | 0 |
| Total Reprogramming | -382 | -232 | -564 | 38 | -1,140 |

Note

1. Relates to facilities for the Enhanced Land Force.

UNAPPROVED MAJOR CAPITAL EQUIPMENT PROGRAM

The Unapproved Major Capital Equipment Program 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, reviewed and revised as part of the 2007-08 Budget.

Table 3.3 provides a summary of funding for the Unapproved Major Capital Equipment Program in 2007-08 and the Forward Estimates. In summary, Defence plans to spend \$8.409 billion on new projects yet to be approved by Government over the four year period.

Table 3.3: The Unapproved Major Capital Equipment Program

| Group/Item Description | Budget Estimate 2007-08 \$m | Forward Estimate 2008-09 \$m | Forward Estimate 2009-10 \$m | Forward Estimate 2010-11 \$m | Total \$m |
|---|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|----------------|
| Planned payment to DMO for projects awaiting Government Approval ⁽¹⁾ | 437.3 | 1,226.3 | 2,336.2 | 3,472.9 | 7,472.7 |
| Chief Information Officer Group | 5.1 | 27.6 | 52.3 | 39.0 | 124.0 |
| Defence Support Group | 25.6 | 96.7 | 183.1 | 350.9 | 656.4 |
| Other Defence Groups | 44.4 | 31.1 | 44.6 | 36.0 | 156.1 |
| Total Unapproved Major Capital Equipment Program⁽²⁾ | 512.5 | 1,381.7 | 2,616.2 | 3,898.8 | 8,409.2 |

Notes

1. Cross reference to Table 2.17.
2. Cross reference to Table 3.1.

Since the Defence White Paper was announced in 2000, the Government has approved about 177 major projects or phases of projects with an all-up cost of around \$29.8 billion. Further projects will be considered by the Government in 2007-08.

Tables 3.4 and 3.5 provide details of the projects to be considered in 2007-08, against which Defence is planning to spend \$512.5m in the coming financial year.

Following approval, projects funds are transferred from the Unapproved Major Capital Equipment Program to the Defence Material Organisation and Defence Groups for their acquisition phase.

Table 3.4: Unapproved Major Capital Equipment Program Projects to be Considered for Second Pass Approval in 2007-08⁽¹⁾⁽²⁾

| Project Number | Project Title |
|--|---|
| Maritime Forces Capability Goal | |
| JP 2048 Phase 4A/4B | Amphibious Ships ⁽³⁾ |
| AIR 5276 Phase CAP 1 | AP-3C Capability Assurance Program ⁽⁴⁾ |
| SEA 4000 Phase 3 | Air Warfare Destroyer ⁽³⁾ |
| Air Combat Capability Goal | |
| AIR 5440 Phase 1 | C-130J Block Upgrade Program 7 ⁽⁵⁾ |
| Land Forces Capability Goal | |
| LAND 144 Phase 1 | Counter Mine Capability |
| LAND 125 Phase 3 | Soldier Enhancement Version 2 ⁽³⁾ |
| LAND 40 Phase 2 | Direct Fire Support Weapon |
| Networked Information Capability Goal | |
| LAND 75 Phase 3.4 | Battlefield Command Support System |
| JP 2044 Phase 3A.1 | Project Eagle Eye |
| JP 2089 Phase 2 | Tactical Information Exchange Domain (Data Links) |
| Across All Capability Goals | |
| JP 2085 Phase 2/3 | Explosive Ordnance Warstock |

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 requested by the Defence Procurement Review 2003 (the Kinnaird Review).
3. These projects were listed for approval in the *Portfolio Budget Statements 2006-07*.
4. This project was listed for second-pass approval in the *Portfolio Budget Statements 2006-07*. In that period it received first-pass and a partial second-pass approval, with the remainder to be approved in this period.
5. This is a new project not listed in the public Defence Capability Plan 2006-2016.

Table 3.5: Significant Unapproved Major Capital Equipment Projects to be Considered for First Pass Approval in 2007-08⁽¹⁾⁽²⁾

| Project Number | Project Title |
|--|---|
| Maritime Forces Capability Goal | |
| AIR 7000 Phase 1B | Multi-mission Unmanned Aerial Vehicle (MUAV) ⁽³⁾ |
| AIR 9000 Phase 3 | Seahawk Mid-life Upgrade and Life Extension ⁽⁴⁾ |
| JP 2048 Phase 3 | Amphibious Watercraft Replacement |
| SEA 1439 Phase 6 | Collins Sonar Replacement |
| Air Combat Capability Goal | |
| AIR 5428 Phase 1 | Pilot Training System |
| Land Forces Capability Goal | |
| AIR 8000 Phase 1 | C-130H Refurbishment/ Replacement ⁽⁴⁾ |
| AIR 8000 Phase 2 | Battlefield Airlifter ⁽⁴⁾ |
| AIR 9000 Phase 5B | Chinook Mid Life Upgrade |
| LAND 125 Phase 4 | Soldier Enhancement Version 3 |
| Networked Information Capability Goal | |
| JP 2008 Phase 4 | Military Satellite Capability |
| JP 2072 Phase 2 | Battlespace Communications Systems (Land) |
| SEA 1442 Phase 4 | Maritime Communications Modernisation |
| Strike Capability Goal | |
| JP 2097 Phase 1B | REDFIN – Enhancements to Special Operations Capability ⁽⁵⁾ |
| Across All Capability Goals | |
| DEF 224 Phase 3 | Force Level Electronic Warfare |
| SEA 1448 Phase 4A/4B | ANZAC Air Search and Further Capability Enhancements |

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 Kinnaird quality data can be provided.
3. This project has already received first-pass approval and is undertaking a partial (Intermediate-Pass) approval.
4. These projects were listed for approval in the *Portfolio Budget Statements 2006-07*.
5. This project was listed in the *Portfolio Budget Statements 2006-07* and has received a partial second-pass approval for Phase 1A.

THE APPROVED MAJOR CAPITAL EQUIPMENT PROGRAM

The approved major capital equipment program is comprised of those projects, usually costing \$20m or more, which are funded from the Unapproved Major Capital Equipment Program and which, following approval, are transferred from the Unapproved Major Capital Equipment Program to the Defence Materiel Organisation (DMO) for the acquisition phase. The Cabinet approval threshold is \$50m and above. 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 elements managed by the Chief Information Officer, the Chief of the Defence Science and Technology Organisation, and other Defence Groups, is shown in Table 3.6.

Table 3.6: The Approved Major Capital Equipment Program

| Group/Item Description | 2007-08 | 2008-09 | 2009-10 | 2010-11 | Total |
|---|------------------------|-------------------------|-------------------------|-------------------------|---------------|
| | Budget Estimate \$m | Forward Estimate \$m | Forward Estimate \$m | Forward Estimate \$m | |
| Top 30 Project Gross Plans | 2,847 | 3,252 | 2,671 | 1,485 | 10,255 |
| Other Projects Gross Plans | 859 | 619 | 201 | 45 | 1,724 |
| Subtotal Gross Capital Program | 3,706 | 3,871 | 2,872 | 1,530 | 11,979 |
| Slippage / Add Back ⁽¹⁾ | -543 | -488 | -190 | 165 | -1,055 |
| Subtotal Net Capital Program | 3,163 | 3,383 | 2,682 | 1,695 | 10,924 |
| Bridging Air Combat Capability Funding | 572 | 926 | 1,114 | 803 | 3,414 |
| Enhanced Land Force | 123 | 32 | 3 | 2 | 160 |
| Service Fee | 348 | 375 | 397 | 406 | 1,526 |
| Subtotal DMO Managed Element⁽²⁾ | 4,206 | 4,716 | 4,196 | 2,906 | 16,024 |
| Chief Information Officer | 43 | 28 | 27 | 63 | 161 |
| Australian Defence Headquarters | 10 | 3 | 1 | 1 | 15 |
| Defence Science and Technology Organisation | 36 | 12 | 4 | 2 | 54 |
| Total Net Approved Major Capital Program⁽³⁾ | 4,295 | 4,759 | 4,228 | 2,972 | 16,254 |

Notes

1. The Approved Major Capital Equipment Program has been slippage by about 15 per cent in 2007-08 to reflect historical slippage patterns.
2. Cross reference to Table 2.16.
3. 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 \$15m and are subject to Government approval and review by the Joint Statutory Committee on Public Works (PWC). Medium facilities projects have expenditure between \$250,000 and \$15m. Projects between \$5m and \$15m are subject to Government approval, but are not reviewed by the PWC. 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 Unapproved Major Capital Equipment Program, sustain current capability requirements, support other Government initiatives, meet legislative obligations and assist initiatives that support Defence personnel. 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 2007-08 Budget provides \$643.6m for major and medium capital facilities projects. Defence plans to spend \$3.270 billion on Capital Facilities in the Budget

and Forward Estimates period. An overview is shown in Table 3.7 and additional information is also provided on the major and medium facilities projects foreshadowed for approval in 2007-08. The Capital Facilities Program continues to grow reflecting reinvestment in the estate and the construction of new facilities for equipment being acquired through the Unapproved Major Capital Equipment Program, and new initiatives including the Hardened and Networked Army and the Enhanced Land Force.

Table 3.7: Major Capital Facilities Program for 2007-08 and the Forward Estimate

| | Budget Estimate 2007-08 \$m | Forward Estimate 2008-09 \$m | Forward Estimate 2009-10 \$m | Forward Estimate 2010-11 \$m | Total \$m |
|--|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|----------------|
| Approved Capital Facilities Projects | 467.0 | 238.5 | 59.7 | 13.0 | 778.2 |
| Unapproved Capital Facilities Projects | 32.0 | 303.4 | 662.6 | 666.5 | 1,664.5 |
| Total Capital | 499.0 | 541.9 | 722.3 | 679.5 | 2,442.7 |
| Total Operating | 96.5 | 71.6 | 44.8 | 45.8 | 258.7 |
| Total Major Capital Facilities Program | 595.5 | 613.5 | 767.1 | 725.3 | 2,701.4 |
| Hardened and Networked Army – Phase 2 Facilities ⁽¹⁾ | 41.7 | 125.6 | 167.1 | 165.2 | 499.6 |
| Super Hornets Facilities ⁽¹⁾ | 6.4 | 6.7 | 26.8 | 28.8 | 68.7 |
| Total Facilities Program ⁽²⁾ | 643.6 | 745.8 | 961.0 | 919.3 | 3,269.7 |

Notes

1. These projects will be transferred to the Major Capital Facilities Program in the Defence Support Group after 2nd pass Government approval. The capital and operating amounts for Capital Facilities in Table 3.1 include these projects.
2. Cross reference to Table 3.1.

APPROVED MAJOR CAPITAL FACILITIES PROJECTS

Table 3.8 provides details on progress and planned expenditure in 2007-08 for approved major capital facilities projects, which are those projects that cost over \$15m.

Table 3.8: Approved Major Capital Facilities Projects (by State and Federal Electorate)

| | Total Estimated Expenditure \$m | Estimated Cumulative Expenditure to 30 June 2007 \$m | 2007-08 Budget Estimate \$m |
|---|---------------------------------------|--|-----------------------------------|
| NEW SOUTH WALES | | | |
| Eden-Monaro | | | |
| Headquarters Joint Operations Command: Command, Control, Communications, Computing and Intelligence Systems. | 80.9 | 9.2 | 43.8 |
| Hughes | | | |
| Holsworthy: Special Forces Training Facilities | 94.0 | 83.9 | 9.1 |
| Special Operations Working Accommodation and Base Redevelopment Stage 1 | 207.7 | 100.5 | 53.5 |
| 171 Aviation Squadron Relocation | 92.0 | 30.2 | 46.0 |
| Parramatta | | | |
| Ermington: Pre- Disposal Site Works | 33.1 | 25.9 | 7.2 |
| Paterson | | | |
| Williamstown: RAAF Williamstown Redevelopment Stage 1 and Airborne Early Warning and Control Works | 129.2 | 115.5 | 13.7 |
| Riverina | | | |
| RAAF Wagga: College Relocation ⁽¹⁾ | | 36.3 | 25.0 |
| Total New South Wales | 636.9 | 401.5 | 198.3 |
| VICTORIA | | | |
| Gippsland | | | |
| RAAF East Sale: College Relocation | 133.4 ⁽¹⁾ | 35.5 | 25.0 |
| Total Victoria | 133.4 | 35.5 | 25.0 |

| | Total Estimated Expenditure \$m | Estimated Cumulative Expenditure to 30 June 2007 \$m | 2007-08 Budget Estimate \$m |
|--|---------------------------------------|--|-----------------------------------|
| QUEENSLAND | | | |
| Blair | | | |
| Amberley: RAAF Amberley | | | |
| Redevelopment Stage 2 | 285.6 | 182.9 | 63.0 |
| Brisbane | | | |
| Enoggera: | | | |
| Tactical Unmanned Aerial Vehicle Facilities | 17.5 | 7.0 | 7.5 |
| Forde | | | |
| Canungra: | | | |
| Kokoda Barracks Redevelopment | 86.7 | 62.2 | 19.5 |
| Leichhardt | | | |
| Cairns: HMAS Cairns Redevelopment | 76.3 | 15.0 | 45.0 |
| Herbert | | | |
| Townsville: RAAF Townsville | | | |
| Troop Lift Helicopter Facilities | 20.0 | 4.9 | 14.4 |
| Total Queensland | 486.1 | 272.0 | 149.4 |
| NORTHERN TERRITORY | | | |
| Lingiari | | | |
| Timber Creek: | | | |
| Bradshaw Field Training Area Infrastructure | 64.8 | 64.3 | 0.5 |
| Solomon | | | |
| Darwin: | | | |
| Darwin Naval Base – Patrol Boat Facilities | 19.2 | 11.4 | 3.5 |
| Total Northern Territory | 84.0 | 75.7 | 4.0 |
| TOTAL | 1,340.4 | 784.7 | 376.7 |

Note

1. The RAAF College Relocation Wagga / East Sale budget of \$133.4m addresses both locations i.e. RAAF Wagga and RAAF East Sale.

New South Wales

Headquarters Joint Operations Command – Provision of Command, Control, Communications, Computing and Intelligence Systems

This project is designed to equip the new Headquarters Joint Operations Command facility near Bungendore NSW (being provided under private financing arrangements) with the command, control, communications, computing and intelligence systems necessary for effective command and control of ADF operations. Key elements scheduled for 2007-08 include detailed design and test readiness reviews.

This project contributes to Command of Operations capability.

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 completion in 2007-08, include the final fit out of the ranges with specialised target systems. Completion is scheduled for mid-2008.

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 Special Operations Command elements including the Tactical Assault Group (East) and the Incident Response Regiment. It also includes an upgrade of the base infrastructure. Major contracts for construction have been awarded and the works will be delivered progressively from mid-2007. Key elements scheduled for 2007-08 include working accommodation and supporting base infrastructure upgrades. Completion is scheduled for mid-2009.

This project contributes to Army and Special Operations capabilities.

Holsworthy – 171 Aviation Squadron Relocation

This project provides facilities to support the 171 Aviation Squadron. The Squadron relocated from Townsville into interim facilities at Holsworthy in December 2006 and a contract for construction of permanent facilities has been awarded. Key elements scheduled for 2007-08 include permanent working accommodation and supporting infrastructure. Completion is scheduled for mid-2008.

This project contributes to Army and Special Operations capabilities.

Ermington – Pre-Disposal Site Works

This project involves preparing the former Naval Stores site at Ermington for disposal. Key elements scheduled for 2007-08 include completing the second and final stage of the infrastructure works. Completion of the infrastructure works is scheduled for late 2007.

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

This project has provided a major upgrade to the base infrastructure including pavements, the fuel farm, refuelling reticulation system, high voltage electrical reticulation system, sewerage farm, a new Central Emergency Power Station and airfield lighting systems. The project also included the construction of a new headquarters building, hangar and working accommodation for the airborne early warning and control capability. These works have been completed. The remaining project element, construction of an Ordnance Loading Complex, will commence in mid-2007, with completion anticipated by mid-2008.

This project contributes to Air Force capability.

New South Wales and Victoria

RAAF College Relocation – RAAF Wagga and RAAF East Sale

This project relocates the RAAF College from RAAF Williams (Point Cook) and RAAF Base 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 is on schedule for completion of all facilities in mid 2008.

This project contributes to Air Force capability.

Queensland

Amberley – RAAF Base Amberley Redevelopment Stage 2

This project provides new facilities to support the relocation of 9th Force Support Battalion and the Multi Role Tanker Transport 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. All key facilities are expected to be completed in late 2007.

This project contributes to Army and Air Force capability.

Enoggera – Tactical Unmanned Aerial Vehicle Facilities

This project provides facilities to support the introduction of the tactical unmanned aerial vehicle capability and collocation of the Regimental Headquarters at Enoggera. Construction commenced in late 2006 and completion of all facilities is scheduled for early 2008.

This project contributes to Defence Operations, Army and Intelligence capabilities.

Canungra – Kokoda Barracks Redevelopment

This project provides 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 is scheduled for completion in late 2007.

This project contributes to Army capability.

Cairns – HMAS Cairns Redevelopment

This project provides 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. 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. Key elements scheduled for 2007-08 include completion of the new central building which will accommodate various command and support functions. Construction commenced in early 2007 and completion is scheduled for 2009.

This project contributes to Navy capability.

Townsville – RAAF Townsville Troop Lift Helicopter Facilities

This project provides a combination of new and refurbished facilities to support the introduction of the new troop lift helicopter at the 5th Aviation Regiment. The new helicopter will be accommodated in the existing Regimental area. This 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. Construction commenced in early 2007. All facilities are scheduled for completion in early 2008.

This project contributes to Army capability.

Northern Territory

Timber Creek – Bradshaw Field Training Area Infrastructure

This project provides engineering services and infrastructure to allow the use of Bradshaw as a field training area for the 1st Brigade. Works include roads, training force maintenance area, base camp, range control and caretaker facilities. The work is scheduled for completion by late 2007.

This project contributes to Army capability.

Darwin - Darwin Naval Base Patrol Boat Facilities

This project provides 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 continued operation of the naval base and to support the staged introduction into service of the Armidale-class patrol boat. The project is scheduled for completion in late 2007.

This project contributes to Navy capability.

STATUS OF MAJOR PROJECTS FORESHADOWED FOR GOVERNMENT AND PARLIAMENTARY JOINT STATUTORY COMMITTEE ON PUBLIC WORKS CONSIDERATION IN 2007-08

During 2007-08, Defence expects to present a number of facilities proposals to the Government and the Parliamentary Joint Statutory Committee on Public Works. Table 3.9 provides details of the proposed major capital projects expected to be referred to the Parliamentary Joint Statutory Committee on Public Works in 2007-08.

Table 3.9: Program of Major Works (by state, federal electorate and locality)

| | Indicative Referral Date | Indicative Hearing Date ⁽¹⁾ | Current Status |
|--|--------------------------|--|----------------|
| New South Wales | | | |
| Gilmore | | | |
| Nowra: HMAS Albatross – Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| Kingsford Smith | | | |
| Randwick: Randwick Barracks – Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| Riverina | | | |
| Wagga Wagga: RAAF Base Wagga – Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| Kapooka: Blamey Barracks – Phase 2 Single LEAP | March 2007 | May 2007 | In development |

| | Indicative Referral Date | Indicative Hearing Date ⁽¹⁾ | Current Status |
|--|--------------------------|--|----------------------------|
| VICTORIA | | | |
| Indi | | | |
| Bandiana: Joint Logistics Unit Victoria – Warehousing | April 2008 | July 2008 | In development |
| Albury/Wodonga: Bandiana South - Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| Jagajaga | | | |
| Watsonia: Defence Force School of Signals | | | Hearing held February 2007 |
| Watsonia: Simpson Barracks - Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| Lalor | | | |
| Laverton: RAAF Base Williams - Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| McEwen | | | |
| Monegeetta: Land Engineering Agency Test Services Relocation | June 2007 | September 2007 | In development |
| Puckapunyal: Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| QUEENSLAND | | | |
| Blair | | | |
| Amberley: RAAF Amberley – Redevelopment Stage 3 | May 2007 | August 2007 | In development |
| Brisbane | | | |
| Enoggera: Base Redevelopment Stage 1 | October 2007 | February 2008 | In development |
| Herbert | | | |
| Townsville: Lavarack Barracks - Redevelopment Stage 4 | | April 2007 | Hearing Held April 2007 |
| Townsville: Lavarack Barracks - Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| SOUTH AUSTRALIA | | | |
| Wakefield | | | |
| Edinburgh Defence Precinct: Hardened and Networked Army Facilities | October 2008 | February 2008 | In development |
| Edinburgh: RAAF Edinburgh Redevelopment Stage 2 | June 2008 | August 2008 | In development |
| Edinburgh: RAAF Base Edinburgh - Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| WESTERN AUSTRALIA | | | |
| Brand | | | |
| Garden Island: HMAS Stirling - Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| Curtin | | | |
| Swanbourne: Campbell Barracks - Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| Pearce | | | |
| RAAF Pearce Redevelopment Stage 1 | May 2007 | August 2007 | In development |
| RAAF Pearce - Phase 2 Single LEAP | March 2007 | May 2007 | In development |

| | Indicative Referral Date | Indicative Hearing Date⁽¹⁾ | Current Status |
|---|---------------------------------|--|-----------------------|
| NORTHERN TERRITORY | | | |
| Solomon | | | |
| Darwin: RAAF Darwin Redevelopment Stage 2 | August 2007 | October 2007 | In development |
| Darwin: Robertson Barracks Redevelopment (includes Land 907 and Hardened and Networked Army projects) | June 2007 | September 2007 | In development |
| Darwin: Robertson Barracks - Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| Darwin: HMAS Coonawarra (Larrakeyah Barracks) - Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| Lingiari | | | |
| Katherine: RAAF Tindal Redevelopment Stage 5 | September 2007 | February 2008 | In development |
| Katherine: RAAF Tindal Airborne Early Warning and Control Facilities | June 2007 | September 2007 | In development |
| AUSTRALIAN CAPITAL TERRITORY | | | |
| Fraser | | | |
| HMAS Creswell Redevelopment | June 2007 | September 2007 | In development |
| Duntroon: Royal Military College - Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| Duntroon: Australian Defence Force Academy - Phase 2 Single LEAP | March 2007 | May 2007 | In development |
| VARIOUS LOCATIONS | | | |
| Permanent Facilities for the Heavy Air Lift Capability | May 2007 | August 2007 | In development |
| Multi Role Helicopter Facilities | June 2007 | September 2007 | In development |
| Enhanced Land Force – Stage 1 | May 2008 | July 2008 | In development |
| MALAYSIA | | | |
| RMAF Butterworth Australian Defence Force Facilities Rationalisation | May 2007 | June 2007 | In development |

Note

1. Hearing date will be subject to the Committee consideration and agreement.

Victoria**Bandiana – Joint Logistics Unit Victoria Warehousing**

This project will provide new and upgraded warehousing, storage and ancillary support facilities at Bandiana. The scope is being refined in a detailed business case. Subject to government approval and parliamentary clearance, construction is expected to commence in late 2008 and be completed in 2010.

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. Subject to parliamentary clearance, construction is expected to commence in early 2008 and be completed in 2010.

Monegeetta – Land Engineering Agency Test Services Relocation

This project will relocate existing land materiel test and evaluation functions currently conducted at Maribyrnong, to new facilities at Monegeetta. The Government approved the project in February 2007. Subject to parliamentary clearance, construction is expected to commence in late 2008 and be completed in 2010.

Queensland

Amberley – RAAF Amberley Redevelopment Stage 3

This project will provide new trainee living-in accommodation and messing facilities, physical fitness facilities, office, medical and working accommodation, consolidation of maintenance facilities, construction of a new fuel farm and a base security upgrade. Subject to government approval and parliamentary clearance in 2007, construction is expected to start in early 2008, with key facilities being completed progressively from 2010 through to late 2011.

Enoggera – Base Redevelopment Stage 1

This project will provide refurbished working accommodation for Headquarters 7th Brigade, address shortcomings in base engineering services infrastructure, and rationalise and modernise existing catering and messing facilities. The scope is being refined in a detailed business case. The project is expected to be presented to the Government for approval in mid-2007. Subject to government approval and parliamentary clearance, construction is expected to commence in late 2008 and be completed in 2009.

Townsville – Lavarack Barracks Redevelopment Stage 4

This project will provide upgraded working accommodation for various Army elements located at the Barracks. The project was approved by the Government in February 2007 and has been referred to the Parliamentary Standing Committee on Public Works. Subject to parliamentary clearance, construction is expected to commence in late 2007. The target completion date is mid-2011.

South Australia

Edinburgh Defence Precinct – Hardened and Networked Army Facilities

This project will provide facilities and infrastructure to support the establishment of a mechanised battle group in the Edinburgh Defence Precinct. Some additional infrastructure will also be provided at Murray Bridge and in the Cultana training area. The scope is being refined in a detailed business case, expected to be presented to the Government in mid-2007. Subject to requisite approvals and parliamentary clearance, construction is expected to commence in late 2008. While the project is not planned to be complete until 2012, progressive occupation of facilities is expected to start in December 2010.

Edinburgh – RAAF Edinburgh Redevelopment Stage 2

This project will provide new working accommodation and upgrades to engineering services. The scope is being defined in a detailed business case expected to be presented to the Government in mid-2008. Subject to government approval and parliamentary clearance, construction is expected to commence in early 2009 with completion expected late 2010.

Western Australia

Pearce – RAAF Pearce Redevelopment Stage 1

This project will provide new and refurbished operational, training, domestic support and aircraft maintenance facilities, improvements and upgrading of engineering services and demolition of redundant facilities. Subject to government approval and parliamentary clearance, construction is anticipated to commence in late 2007, with completion expected in mid-2011.

Northern Territory

Darwin - RAAF Darwin Redevelopment Stage 2

This project will upgrade existing facilities including fuel farms, workshops, fitness centre, airfield lighting and construct a new logistics headquarters. The scope is being refined in a detailed business case. Subject to government approval and parliamentary clearance, construction is expected to commence in late 2008, with completion expected in late 2010.

Darwin - Robertson Barracks Redevelopment

This project comprises three individual project elements: the Robertson Barracks Redevelopment project; Land 907 facilities project; and the Hardened and Networked Army facilities project. The Robertson Barracks Redevelopment will provide new and upgraded facilities for training, emergency response, working accommodation and equipment support. The Land 907 facilities project will provide parking and working accommodation for heavy tank transport vehicles and other tank support services. The Hardened and Networked Army project will provide additional living-in accommodation, working accommodation and other support facilities. Subject to government approval and parliamentary clearance, construction is expected to commence in late 2008, with completion expected in early 2011.

Katherine – RAAF Tindal - Redevelopment Stage 5

This project comprises 23 separate elements to expand and upgrade existing working accommodation, construct new working accommodation and to augment electrical and water supply infrastructure. Subject to government approval and parliamentary clearance, construction is expected to commence in late 2008 with completion expected in early 2011.

Katherine – RAAF Tindal Airborne Early Warning and Control Facilities

This project will provide facilities and infrastructure at RAAF Tindal to support the introduction of the new airborne early warning and control aircraft. The scope of work includes new taxiways, operational facilities and working accommodation. Subject to parliamentary clearance, construction is expected to commence in mid to late 2008, with completion expected in late 2010.

Australian Capital Territory

HMAS Creswell Redevelopment

This project will provide new and upgraded facilities for the training of Navy officers upon initial entry and senior sailors in the areas of leadership, management and personal development. The scope includes upgrades of engineering services and infrastructure, new and refurbished classrooms, office and living-in accommodation and specialised training facilities. Subject to government approval and parliamentary clearance, construction is expected to commence in early 2008, with completion expected by 2011.

Various Locations

Permanent Facilities for the Heavy Air Lift Capability

This project will provide new facilities for the introduction into service of the C-17 aircraft. The scope of the project will include a headquarters, maintenance facilities, air movements and cargo facilities, a simulator, warehousing and support facilities and airfield pavement works at the Amberley home base. The upgrading of airfield pavements, movements and cargo facilities and supporting infrastructure at a number of other bases will also be included. Subject to government approval and parliamentary clearance, construction is expected to commence in mid-2008 and be complete by late 2010.

Multi Role Helicopter Facilities

This project will provide a range of helicopter shelters, maintenance and operational facilities, simulator buildings and deeper maintenance facilities to support the introduction of the Multi Role Helicopter aircraft. The project will involve a mix of new facilities, refurbishment and adaptive reuse of existing facilities. The proposed facilities and infrastructure will be located at RAAF Base Townsville, the Army Aviation Centre (Oakey), HMAS Albatross (Nowra), and Gallipoli Barracks, Enoggera (Brisbane). Subject to parliamentary clearance, construction is expected to commence in mid to late 2008 and be complete by late 2010.

Enhanced Land Force – Facilities Stage 1

Enhanced Land Force Stage 1 will provide temporary facilities in Adelaide for Army capabilities with permanent facilities being provided by the Hardened and Networked Army project. This project will also provide permanent facilities in Townsville at Lavarack Barracks for the 3rd Battalion and in South East Queensland to several enabling elements supporting the 3rd Battalion. Subject to parliamentary clearance, construction is expected to commence in late 2008 and be complete in late 2010.

Malaysia

RMAF Butterworth – Australian Defence Force Facilities Rationalisation

The project will provide three new headquarters buildings, a combined armoury, a sewerage treatment plant, and will refurbish some other existing support facilities. Subject to parliamentary clearance, construction is expected to commence in early 2008 and be complete by late 2010.

APPROVED PROJECT UNDER PRIVATE FINANCING ARRANGEMENTS

Eden-Monaro – Headquarters Joint Operations Command

The Headquarters Joint Operations Command Project will amalgamate the Chief of Joint Operations and strategic staff, located in Canberra, and staff from the Sydney-based Deputy Chief of Joint Operations and associated Commands, into an integrated staff structure at a headquarters facility being constructed approximately 11 kilometres south-west of Bungendore, New South Wales.

Development approval under the Environment Protection and Biodiversity Conservation Act 1999 has been obtained and all land for the project has now been acquired under the provisions of the Lands Acquisition Act 1989.

A contract to design, build, maintain and operate the facility has been let for a 30 year term under private financing arrangements. Construction activity commenced in late 2006 and is to be complete in July 2008, followed by the installation by Defence of the command, control, communications, computing and intelligence systems being acquired using a traditional (or direct) procurement strategy. Defence staff are planned to move into the facility in late 2008.

The Headquarters represents an investment of approximately \$339.2m in buildings, infrastructure, fit-out, land acquisition, and command, control, communications, computing and intelligence systems.

This project contributes to Command of Operations capability.

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. The Minister for Defence announced in October 2006, the selection of Plenary Living as the Commonwealth's preferred strategic partner for the delivery of the 1,395 units under Phase 1 of the project.

Holsworthy – Single LEAP

This component will provide living-in accommodation of 600 rooms. Construction commenced in February 2007 and is scheduled for completion in mid-2008.

This project contributes to Army capability.

Enoggera – Single LEAP

This component will provide living-in accommodation of 500 rooms. Construction is expected to commence in May 2007 with a scheduled completion by early 2009.

This project contributes to Army capability.

RAAF Amberley – Single LEAP

This component will provide living-in accommodation of 295 rooms. Construction is expected to commence in April 2007 with a scheduled completion in mid-2008.

This project contributes to Army and Air Force capability.

APPROVED PROJECT BEING DEVELOPED FOR PRIVATE FINANCING ARRANGEMENTS

Single Living Environment and Accommodation Precinct (Single LEAP) Project

Table 3.10 provides details of 17 elements of Phase 2 the Single LEAP Project which, subject to the consideration of the Joint Statutory Committee on Public Works, is anticipated Defence will seek Government approval of a preferred Strategic Partner for Phase 2 of Single LEAP around mid-2008.

Table 3.10: Element of Single LEAP (by State, Federal Electorate and Locality)

| | Details | Capability contributed |
|---|--|--------------------------|
| NEW SOUTH WALES | | |
| Gilmore | | |
| Nowra – HMAS Albatross - Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Naval personnel at HMAS Albatross. | Navy capability |
| Kingsford Smith | | |
| Randwick – Randwick Barracks - Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Naval and Army personnel at Randwick Barracks. | Navy and Army capability |
| Riverina | | |
| Wagga Wagga – RAAF Wagga - Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Royal Australian Air Force personnel at RAAF Base Wagga. | Air Force capability |
| Kapooka – Blamey Barracks - Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Australian Regular Army personnel at Blamey Barracks, Kapooka. | Army capability |
| VICTORIA | | |
| Indi | | |
| Albury/Wodonga – Bandiana South - Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Australian Regular Army personnel at Bandiana South in the Albury/Wodonga Military Area. | Army capability. |
| Jagajaga | | |
| Watsonia – Simpson Barracks - Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Australian Regular Army personnel at Simpson Barracks, Watsonia. | Army capability |
| Lalor | | |
| Laverton – RAAF Williams - Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Royal Australian Air Force personnel at RAAF Base Williams. | Air Force capability. |
| McEwen | | |
| Puckapunyal – Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Australian Regular Army personnel at Puckapunyal. | Army capability |
| QUEENSLAND | | |
| Herbert | | |
| Townsville – Lavarack Barracks - Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Australian Regular Army personnel at Lavarack Barracks, Townsville. | Army capability |

| | Details | Capability contributed |
|--|---|--------------------------------|
| SOUTH AUSTRALIA | | |
| Wakefield | | |
| Edinburgh - RAAF Base Edinburgh – Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Royal Australian Air Force and Army personnel at RAAF Base Edinburgh. | Air Force and Army capability. |
| WESTERN AUSTRALIA | | |
| Brand | | |
| Garden Island – HMAS Stirling - Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Naval personnel at HMAS Stirling. | Navy capability |
| Curtin | | |
| Swanbourne – Campbell Barracks - Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Australian Regular Army personnel at Campbell Barracks, Swanbourne. | Army capability |
| Pearce | | |
| RAAF Pearce - Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Royal Australian Air Force personnel at RAAF Pearce. | Air Force capability |
| NORTHERN TERRITORY | | |
| Solomon | | |
| Darwin – Robertson Barracks - Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Australian Regular Army personnel at Robertson Barracks. | Army capability |
| Darwin - HMAS Coonawarra – Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Naval personnel at HMAS Coonawarra (Larrakeyah). | Navy capability |
| AUSTRALIAN CAPITAL TERRITORY | | |
| Fraser | | |
| Duntroon - Royal Military College – Phase 2 Project Single LEAP | This will provide a living-in accommodation service for Staff Cadets attending the Duntroon Royal Military College in Canberra. | Army capability |
| Duntroon - Australian Defence Force Academy – Phase 2 Project Single LEAP | This will provide a living-in accommodation service for personnel attending the Australian Defence Force Academy in Canberra. | Navy, Army and RAAF capability |

OTHER MAJOR CAPITAL FACILITIES PROJECTS FORESHADOWED FOR 2007-08

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 fund the cost of remediating contamination at the site.

APPROVED MEDIUM CAPITAL FACILITIES PROJECTS

Medium capital facilities projects are defined as those projects having expenditure between \$250,000 and \$15m.

Table 3.11 provides details of revised estimated expenditure in 2007-08 for medium facilities projects.

Table 3.11: Approved Medium Capital Facilities (by State and Federal Electorate)

| | Total Estimated Expenditure \$'000 | Estimated Cumulative Expenditure to 30 June 2007 \$'000 | 2007-08 Budget Estimate \$'000 |
|---|---|---|--------------------------------------|
| NEW SOUTH WALES | | | |
| Kingsford Smith | | | |
| Randwick: | | | |
| Disposal and Rationalisation – Interim Works ⁽¹⁾ | 8,800 | 4,600 | 3,700 |
| Paterson | | | |
| RAAF Williamtown: | | | |
| Aircraft Clear Water Rinse Facility | 5,578 | 1,100 | 4,478 |
| Riverina | | | |
| Kapooka: | | | |
| Marksmanship Training Range | 4,025 | 1,800 | 2,100 |
| Total New South Wales | 18,403 | 7,500 | 10,278 |
| VICTORIA | | | |
| Bendigo | | | |
| Bendigo: | | | |
| Defence Imagery and Geospatial Organisation Relocation ⁽²⁾ | 10,700 | 3,000 | 7,600 |
| Flinders | | | |
| HMAS Cerberus: | | | |
| Small Arms Training Section Redevelopment | 14,432 | - | 12,000 |
| Indi | | | |
| Graytown: | | | |
| Proof and Experimental Establishment Upgrade | 4,680 | 1,800 | 2,000 |

| | Total Estimated Expenditure \$'000 | Estimated Cumulative Expenditure to 30 June 2007 \$'000 | 2007-08 Budget Estimate \$'000 |
|---|---|---|--------------------------------------|
| JagaJaga | | | |
| Watsonia: | | | |
| Land Warfare Centre (formerly Regional Training Centre) | 5,813 | 2,638 | 2,400 |
| Total Victoria | 35,625 | 7,438 | 24,000 |
| QUEENSLAND | | | |
| Capricornia | | | |
| Rockhampton: | | | |
| Western Street Depot Redevelopment | 11,700 | - | 7,500 |
| Herbert | | | |
| Lavarack Barracks: | | | |
| 11th Brigade Relocation | 7,400 | 2,000 | 5,000 |
| Total Queensland | 19,100 | 2,000 | 12,500 |
| SOUTH AUSTRALIA | | | |
| Wakefield | | | |
| RAAF Edinburgh: 87 Squadron Interim Facilities | 4,450 | 2,450 | 2,000 |
| Total South Australia | 4,450 | 2,450 | 2,000 |
| WESTERN AUSTRALIA | | | |
| Brand | | | |
| HMAS Stirling Collins Submarine Intensive Support Facility | 3,900 | - | 3,900 |
| Kalgoorlie | | | |
| Karatha: | | | |
| Infrastructure for North West Shelf Forward Based Armidale Patrol Boats | 4,000 | 1,000 | 2,000 |
| Total Western Australia | 7,900 | 1,000 | 5,900 |
| NORTHERN TERRITORY | | | |
| Lingiari | | | |
| Katherine: | | | |
| RAAF Tindal - Airborne Early Warning and Control Operations Facility | 4,950 | - | 4,600 |
| Solomon | | | |
| RAAF Darwin: | | | |
| Fuel Equipment Maintenance Section | 4,528 | 500 | 3,800 |
| Special Operations Forward Mounting Facility | 2,500 | 200 | 2,221 |
| Total Northern Territory | 11,978 | 700 | 10,621 |
| TOTAL | 97,456 | 21,088 | 65,299 |

Notes

1. This project was reported as a major project in previous Portfolio Budget Statements/Portfolio Additional Estimates Statements.
2. The budget for the facilities is \$10.7m. An additional \$0.6m will be provided for specialised fitout.

PROPOSED MEDIUM CAPITAL PROJECTS FOR CONSIDERATION IN 2007-08

Table 3.12 lists new medium capital facilities projects (costing between \$0.25m, and \$15m) foreshadowed for consideration in 2007-08.

Table 3.12: Proposed Medium Capital Projects for Consideration in 2007-08

Program of Medium Works (State, Federal Electorate and Locality)

NEW SOUTH WALES

Gilmore
Beecroft Range: Air Defence Targets Capability Facilities
Lindsay
Orchard Hills
Joint Logistic Command/Guided Weapons Explosive Ordnance Entry and Support Facilities Redevelopment
Hunter
Singleton
School of Infantry: Urban Operations Training Facility

VICTORIA

Flinders
West Head Gunnery Range Redevelopment
Indi
Bandiana: Supply Wing Army Logistics Training Centre Upgrade
McEwen
Puckapunyal: Regional Training Centre

QUEENSLAND

Groom
Oakey: Loadmaster and Heliborne Training Facility

SOUTH AUSTRALIA

Wakefield
Port Wakefield:
Replacement Explosive Storehouses
Battery Firing Facility
Salisbury: Edinburgh Defence Precinct:
Counter Mine Facility
Weapons System Division Refurbishment
Combat and Missions Systems Research Centre

WESTERN AUSTRALIA

Brand
Garden Island: HMAS Stirling
Naval Personnel and Training Centre West and Royal Australian Navy School of Survivability and Ship Safety (West)
Pearce

Bindoon Training Range: Access Control Works

NORTHERN TERRITORY

Solomon

Darwin:

Naval Fuel Installation

Wharf - Upgrade Bulk Fuel Transfer Services

Shoal Bay Receiving Station

AUSTRALIAN CAPITAL TERRITORY

Fraser

1 Joint Public Affairs Unit Facility

VARIOUS LOCATIONS

Follow-on Stand-off Weapon Facilities (AIR 5418)

Countermine Capability Facilities (Land 144)

RAAF Rifle Ranges (Richmond, Williamstown and Darwin)

Weapons Training Simulation System Facilities

OTHER CAPITAL PURCHASES

Other capital purchases consist of Minor Capital Equipment projects, purchase of repairable items and Other Plant and Equipment which 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 \$0.5m 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. After approval, funding for minor projects is transferred to the Defence Materiel Organisation for the acquisition phase.

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 and intangible assets. Tangible assets include plant and equipment items costing more than \$2,000 and intangible items including software costing more than \$150,000.

Defence plans to spend \$768.8m on other capital purchases in 2007-08. It plans to spend \$2,672.4m over the Budget and Forward Estimates period. Details are provided in Table 3.13 below. The higher level of expenditure on Repairable Items in 2007-08 reflects purchases of equipment for operations, and a continuation of programs to recover backlogs in Repairable Items funded through increased logistics sustainment funding.

Table 3.13: Other Capital Purchases

| Group/Item Description | Budget | Forward | Forward | Forward | Total |
|---|--------------|--------------|--------------|--------------|----------------|
| | Estimate | Estimate | Estimate | Estimate | |
| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | |
| | \$m | \$m | \$m | \$m | \$m |
| DMO Managed Minor Projects ⁽¹⁾ | 176.5 | 176.1 | 180.0 | 181.5 | 714.1 |
| Defence Managed Minor Projects | 5.0 | 11.6 | 15.6 | 20.7 | 52.9 |
| Subtotal Minor Capital | 181.5 | 187.7 | 195.6 | 202.2 | 767.0 |
| Repairable Items | 246.6 | 138.5 | 166.6 | 83.1 | 634.8 |
| Other Plant and Equipment | 340.7 | 367.8 | 309.7 | 252.4 | 1,270.6 |
| Total Other Capital⁽²⁾ | 768.8 | 694.0 | 671.9 | 537.7 | 2,672.4 |

Notes

1. Cross reference to Table 2.14.
2. Cross reference to Table 3.1.

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 under *FMA Act* Section 31 agreement arrangements. Details are shown in Table 3.14.

Table 3.14: Capital Receipts Budget

| Group/Item Description | Budget | Forward | Forward | Forward | Total |
|---|-------------|-------------|-------------|-------------|--------------|
| | Estimate | Estimate | Estimate | Estimate | |
| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | |
| | \$m | \$m | \$m | \$m | \$m |
| Property Sales | | | | | |
| Proceeds from the sale of land and buildings | 39.7 | 101.3 | 4.7 | - | 145.7 |
| Less Capital withdrawal to Government | 22.3 | 83.9 | 4.7 | - | 110.9 |
| Proceeds retained by Defence ⁽¹⁾ | 17.4 | 17.4 | 0.0 | - | 34.8 |
| Proceeds from sale of Specialist Military Equipment | - | - | - | - | 0.0 |
| Proceeds from sale of other property, plant and Other Equipment | 39.5 | 38.8 | 39.0 | 37.7 | 155.0 |
| Net Capital Receipts⁽²⁾ | 56.9 | 56.2 | 39.0 | 37.7 | 189.8 |

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.

Variations to the property sales program relate to the number, value and timing of property sales and activities associated with preparing and selling potentially surplus Defence property. Defence anticipates that a number of additional properties will be identified for possible disposal in 2009-10 and 2010-11, but these, if agreed by Government, will be included in subsequent disposals programs (a new three year property disposals program is agreed by Government at each Budget).

DEFENCE

CHAPTER FOUR

PEOPLE

OVERVIEW

WORKFORCE TRENDS

WORKFORCE SUMMARY

OVERVIEW

People are fundamental to Defence capability. The Defence White Paper, the Defence Update of 2003 and 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 operations) 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.

In 2006, the Government endorsed plans to further increase the size of the ADF. This is a significant challenge facing Defence. Achieving planned growth in the context of sustained contracting domestic labour supply and mounting competition for skilled workers requires coordinated effort within Defence. The 2007-08 People priorities reflect the importance of civilian and military workforce issues across the Defence organisation.

People Priorities for 2007-08

Addressing Future Workforce Challenges

Defence will implement the first phase of a new ADF Recruitment and Retention Strategy to reduce separation rates and increase recruitment intakes in order to increase the ADF to about 57,000 in 10 years time. The Recruitment and Retention Strategy includes the following themes:

- maintaining the ADF as an employer of choice through initiatives to provide contemporary rewards in a competitive market place, and valuing our people through flexibility and choice,
- streamlining the ADF recruitment process through the implementation of the new Defence Force Recruiting capability,
- increasing the number of people who want to join the ADF,
- creating more pathways to ADF careers, and
- providing mechanisms to evaluate and adjust policies and programs.

The four initial recruitment and retention initiatives approved by the Prime Minister in December 2006 are:

- Reform Defence Force Recruiting (\$371m)
 - Streamlining the ADF recruitment process through the implementation of the new Defence Force Recruiting capability.
- Retention bonuses and allowances for personnel in critical positions or employment areas, with key skill sets (\$226m)
 - Targeted retention bonuses and allowances will be used as a short-term measure while other major initiatives are developed and implemented. Bonus and allowance types include:
 - retention bonuses for selected Navy and Army employment and rank groups who hold high-value skills and experience,
 - an initial one-year retention bonus, followed by a completion bonus for three years of additional service for military ranks critical to Army workforce growth,
 - retention bonuses to encourage current serving members to transfer to technical trade employment groups critical to Army workforce expansion, and
 - an allowance to encourage selected personnel to undertake military instructor and recruit training instructor postings and recognise the critical roles they play in delivering world-class military training.
- A military gap year scheme (\$306m)
 - Scheduled to commence in 2008, this scheme aims to offer about 1,000 Australian youths aged 17-24 years of age who have completed Year 12 (or equivalent) in the previous two years an opportunity to experience military training and lifestyle in the Navy, Army or Air Force for up to 12 months.
- A review of seagoing and submarine allowances
 - Over \$100m has been earmarked for Navy Seagoing and Submarine Service Allowances, subject to independent Defence Force Remuneration Tribunal consideration.

The further eight recruitment and retention initiatives agreed as part of this budget are:

- A modern and more flexible pay structure for other ranks (\$585m)
 - Defence will implement essential structural reform to the pay structures for non-officer ranks to introduce a much simpler, balanced and flexible framework.

- Enhanced assistance through a new Defence Home Ownership Assistance Scheme (\$864m)
 - This scheme is aimed at encouraging home ownership and provide for higher benefits as members serve on for longer periods. The new housing assistance scheme will be introduced, pitched at a level that reflects current prices. The scheme will increase entitlements over the years, respond to changes in the housing market, and offer flexible choice of mortgage providers.
- Further reforms to the Defence Force recruiting function (\$125m)
 - Implementation of a transition service to provide professional advice to those considering re-enlistment, lateral recruitment and leaving, and
 - Provision of access to independent advice to enable members to make considered financial decisions.
- Marketing and branding the Navy, Army and Air Force as employers of choice (\$228m)
 - Further Service branding initiatives will also be undertaken to increase community awareness of the ADF and its people, and
 - Additional funding will enable Defence to conduct more aggressive marketing campaigns that will achieve greater reach and penetration into the community and expand the ADF's recruiting base.
- The introduction of a new Defence Apprenticeship scheme (\$71m)
 - Two new initiatives will increase the number of technical training entrants each year and overcome existing technical trades recruiting shortfalls:
 - The introduction of a Candidate Referral Program to identify high school students (17 yrs +) for direct entry into ADF trade training, and
 - A Defence Apprenticeship Sponsorship Program to provide opportunities for more school leavers to undertake sponsored trade training.
- An expansion and enhancement of the Defence Force Cadet scheme (\$100m)
 - Further funding of \$10m per annum will be provided to deliver both an increase in the number of Cadets and an improvement in the overall program.
- Further investment in the Royal Australian Navy's Sea Change program (\$87m)
 - Submariners will now have access to the deployment allowance.
- Investment in the professional development of Defence medical officers (\$12m)

- Additional funding will be provided to assist uniformed medical officers in developing and maintaining their ongoing liability for professional development.

We will be working to mitigate challenges associated with the current and future competitive employment environment and implementing initiatives to further improve recruitment and retention, including:

- enhancing workforce capabilities by attracting, developing and retaining skilled personnel, particularly those within areas identified as having specialist skill shortages, ADF critical trade shortages, Reservists and critical APS workgroups, and
- conducting research to develop tailored recruiting strategies to attract more Indigenous Australians to the Defence organisation.

Conserving the Workforce

Defence will continue remuneration reform in the ADF through:

- implementing the new flexible salary structure for non-officer ranks, and
- further population of the new flexible officer salary structure.

We will develop personnel policies for Defence, including:

- implementing the lead elements of a policy framework to enable the long-term funding and delivery of housing and other accommodation solutions for ADF members, including the new housing classification policy for members with dependants,
- continuing development of family stability initiatives including Members with Dependants Unaccompanied, education assistance and conditions of service for members with shared parental responsibility,
- strengthening the performance management culture through continued implementation of the Performance Feedback Assessment and Development Scheme, introduction of e-performance and improved training for supervisors in areas such as managing underperformance.

We will continue to implement, promote and evaluate policies and embed cultural change and related productivity initiatives arising from the *Defence Collective Agreement 2006-09*.

Supporting ADF Members and Their Families

Defence will continue 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.

We are streamlining and improving the complaint handling and resolution process.

We will conserve the workforce through enhanced support to the Defence family:

- conducting a DCO Strategic Review to guide the development and provision of enhanced family support programs and services,
- streamlining the delivery of 24/7 crisis response and advice services to commanders, personnel and families, and
- improving service delivery in response to bereavements and serious casualties.

We are undertaking an independent Review of Military Superannuation Arrangements with presentation of a formal report to the Government.

We are supporting the trial of electronic voting for selected personnel deployed overseas.

Targeted Education and Training

We continue to develop targeted education and training through:

- ongoing implementation of the agreed outcomes of the Defence Business Skilling Review,
- an integrated Defence Australian Public Service 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.

Improving ADF Health

Defence will 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),
- implementing agreed recommendations of the review of Defence health services, and
- the continued enhancement of Defence's health information systems.

Health Services Initiatives

Specific health services initiatives planned for 2007-08 include:

- continuing to focus on psychological issues that underpin organisational effectiveness, performance enhancement and psychological resilience to ensure ADF members are physically and mentally fit with the appropriate aptitude to perform specific roles;
- continuing the ADF Mental Health Strategy with its focus on prevention and evidence-based treatment to maximise retention and enhance the quality of life for ADF personnel; and
- continuing formal health reviews for significant overseas deployments to provide a systematic, prospective and ongoing means of assessing and understanding the health effects (positive and negative) of deployment on ADF personnel. In 2007-08, studies will involve personnel deployed to Timor-Leste, Bougainville, the Solomon Islands and the Middle East Area of Operations.

Occupational Health, Safety and Compensation

We are continuing to develop an integrated occupational health and safety management system guided by the *Defence Occupational Strategy 2007-2012*, including:

- developing an implementation plan and supporting the Services' and Groups' implementation of initiatives,
- reviewing and updating policies and practices,
- promoting strong leadership and an active Occupational Health and Safety culture through education, awareness and recognition programs, and
- improving management information systems and self-assessment tools.

We will continue 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.

We are promoting a strong partnership between the Department of Defence and Department of Veterans' Affairs through:

- continuing to implement the Military Rehabilitation and Compensation Scheme, 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.

Improvements to Defence's Human Resources and Payroll Management Information Systems

Defence will improve human resources and payroll management information systems by:

- progressing the development of Defence's human resource information management systems,
- continuing expansion of the employee self-service functions available to Defence personnel, including improving work performance management and use of online internet access,
- implementing reporting software that delivers improved human resources data extraction and management reporting, and
- implementing enhanced Australian Public Service employee recruitment services to Defence through the implementation of an e-recruitment software solution.

Personnel Services Initiatives

In 2007-08, Defence will:

- continue to improve Defence Honours and Awards business processes and practices to ensure ongoing timeliness of action and response including:
 - continuing to promote and implement the Australian Defence Medal initiative, and
 - further developments to the Defence medals website <http://www.defence.gov.au/medals/> for easier access and wider usage for the serving and ex-serving communities; and
- implement the new housing classification policy to come into effect from 1 July 2007;
- continue development of the ADF Financial Services Consumer Council services to ensure members and their families are financially aware consumers by offering regular financial education;
- provide support to the Forces Advisory Council on Entertainment to promote the morale and well being of deployed ADF personnel;
- implement the rationalisation and integration of the civilian and military personnel administration functions including the transition to a new single business centre located at Raymond Terrace, NSW;
- continue to enhance and improve the delivery of targeted education and training to Defence people, including expanding the suite of training modules available through flexible learning; and
- continue to attract and retain high quality people through the marketing and management of the Defence Graduate and Executive Development Programs.

Cadets

Defence is delivering an improved youth development outcome for ADF Cadets 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:

- overhauling cadet and cadet staff training programs to ensure an exciting and engaging program with modern delivery methods and the capacity to articulate skills into qualifications which are meaningful to the broader community,
- conducting cadet careers information presentations and provide Cadets with preferred customer' status, including access to tailored career marketing information,
- piloting and evaluation of the CADETLiFe mental health resilience program,
- implementing a revised firearms training policy to improve access by Cadets to firearms training and trialling a portable firearms training simulator in Tasmania,
- implementing the human resource module of the CadetNet Online Administration System commencing with Navy Cadets and progressively roll out broadband access to all Cadet units,
- distributing a Youth Development Guide and supporting training materials to enhance cadet staff skills in understanding and working with youth, particularly in remote Indigenous communities in the north of Australia, and
- continuing to expand access to Indigenous youth to Cadets, continuing the development and promulgation of tri-Service cadet policy to enhance effectiveness of the cadet programs.

WORKFORCE TRENDS

Defence has an integrated workforce comprising a unique mix of full-time and part-time uniformed personnel from the three single Services, civilian APS employees, and contracted Professional Service Providers (PSPs). All of the significant outputs and capabilities generated by Defence arise from the action and interaction of these distinct workforce segments.

Defence's workforce composition is shown in Figure 4.4.

Policy on the broad size of the ADF workforce was set out in the 2000 Defence White Paper which indicated that the ADF would need to increase to around 54,000 by 2010 to meet Defence planning objectives. At the time, the proposed strength targets were considered easily within reach. It was also around this time that separation rates across the three Services were coming down from

their historic 2000-01 peaks, which had seen the overall ADF separation rate reach 14 per cent.

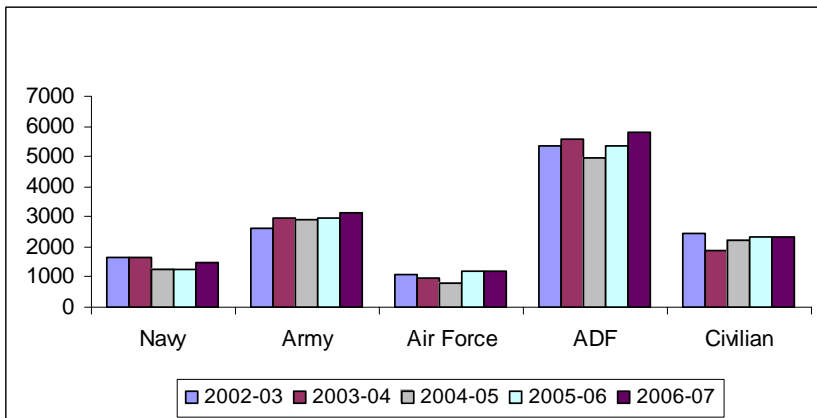
In 2006, the Government announced plans to establish two additional Army battalions over the decade. These growth plans mean personnel targets rise substantially over the decade 2007–2017. Increases of such a nature are a challenge and Defence is working to meet the workforce demand through reallocation of staff and increased effort towards retention, recruitment and development of current personnel.

Considerable resources have been invested in improving ADF recruitment and retention to recover ADF numbers and achieve planned growth. Defence is reporting biannually to the Government on the progress and effectiveness of new recruitment and retention measures being introduced.

Until military numbers recover, Defence is ameliorating the impact of current 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 shortfalls, resulting 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 three per cent real growth, the Hardened and Networked Army and Enhanced Land Force initiatives and other workforce requirements.

Figure 4.1 shows the trend for enlistments by Service and APS for the period 2002-03 to 2006-07.

Figure 4.1: Enlistment Numbers by Service and APS 2002-03 to 2006-07⁽¹⁾⁽²⁾⁽³⁾

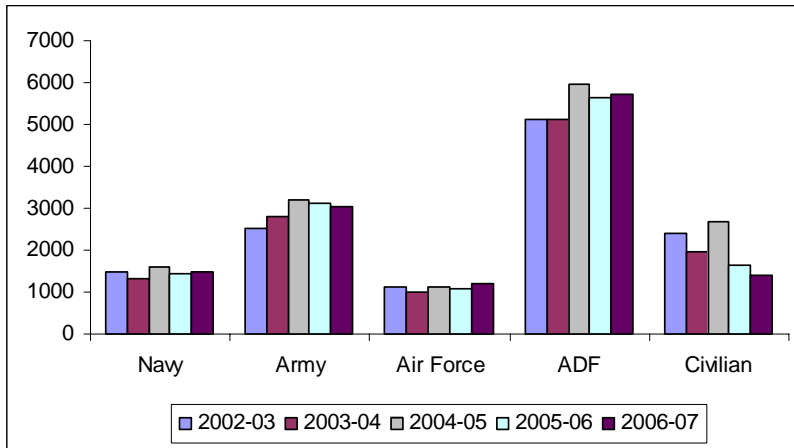


Notes

1. Figures in this figure show actual staff.
2. Enlistment figures for 2006-07 are an estimate only of EOY outcome.
3. APS enlistment figures for 2005-06 and 2006-07 exclude the DMO.

Figure 4.2 shows the trend for separation numbers by Service and APS for the period 2002-03 to 2006-07.

Figure 4.2: Separation Numbers by Service and APS 2002-03 to 2006-07⁽¹⁾⁽²⁾⁽³⁾

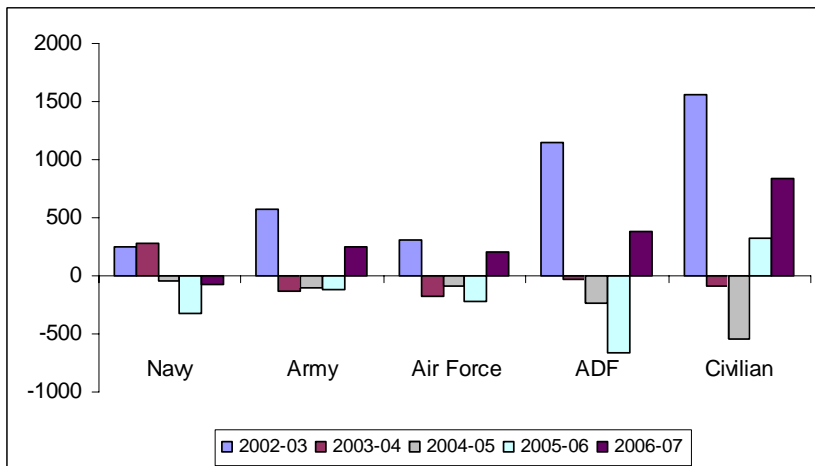


Notes

1. Figures in this figure show actual staff.
2. Separation figures for 2006-07 are an estimate only of EOY outcome.
3. APS separation figures for 2005-06 and 2006-07 exclude the DMO.

Figure 4.3 shows the change in permanent strength by Service and APS over the last five years.

Figure 4.3: Change in Permanent Strength by Service and APS 2002-03 to 2006-07⁽¹⁾⁽²⁾⁽³⁾



Notes

1. Figures in this figure show actual average funded strength.
2. Figures for 2006-07 are an estimate only.
3. Figures for 2005-06 and 2006-07 exclude the DMO.

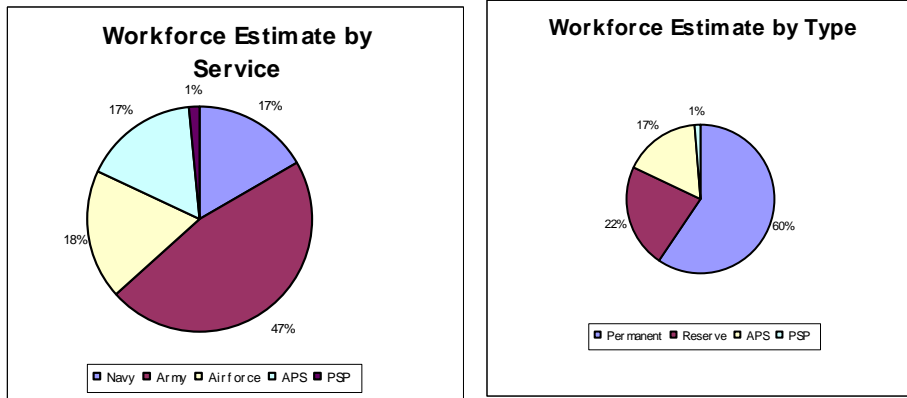
WORKFORCE SUMMARY

The total Defence workforce, excluding the DMO, is forecast to be 87,864 in 2007-08, comprising:

- Permanent Forces of:
 - 12,899 Navy Personnel,
 - 26,126 Army Personnel, and
 - 13,480 Air Force Personnel;
- 19,530 Reserve Forces;
- 14,658 APS staff; and
- 1,171 Professional Service Providers.

Figure 4.4 shows the composition of the workforce by Service and by type.

Figure 4.4: Defence Workforce – Budget Estimates by Service and Type



The total planned strength of the Defence workforce, excluding DMO, which is shown separately in Section Two – Defence Materiel Organisation, is shown in Table 4.1 below. The planned strength of the total workforce in 2007-08 is 87,864 or 1,161 more than the forecast strength for 2006-07 including ADF permanent forces (+1,029) and civilian APS staff (+158). At this stage the figures have yet to include the proposed civilianisation of a further 300 military positions, as the determination of the actual positions by Service has yet to be agreed. The numbers have also yet to be increased for the personnel associated with the 2006-07 Budget measure Enhancing the Reserves, as these have yet to be finalised. This adjustment will be reflected in the 2007-08 Additional Estimates, but will be neutral in terms of total numbers.

Table 4.1: Planned Workforce Allocation for the 2007-08 Budget and Forward Estimates

| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|--|---------------|---------------|---------------|---------------|---------------|
| Navy | 12,700 | 12,899 | 13,219 | 13,659 | 13,743 |
| Army | 25,486 | 26,126 | 26,978 | 27,458 | 27,826 |
| Air Force | 13,290 | 13,480 | 13,976 | 14,104 | 14,131 |
| 1. Sub-total Permanent Force | 51,476 | 52,505 | 54,173 | 55,221 | 55,700 |
| Navy | 1,850 | 1,900 | 1,950 | 1,950 | 1,950 |
| Army | 14,600 | 14,600 | 14,600 | 14,600 | 14,600 |
| Air Force | 2,100 | 1,700 | 1,700 | 1,700 | 1,700 |
| 2. Sub-total Active Reserve Force | 18,550 | 18,200 | 18,250 | 18,250 | 18,250 |
| Navy | - | - | - | - | - |
| Army | 400 | 530 | 720 | 1,080 | 1,360 |
| Air Force | 600 | 800 | 900 | 1,000 | 1,100 |
| 3. Sub-total High Readiness Reserve Force | 1,000 | 1,330 | 1,620 | 2,080 | 2,460 |
| ADHQ | 1,475 | 1,487 | 1,483 | 1,441 | 1,441 |
| Navy | 779 | 858 | 858 | 838 | 838 |
| Army | 770 | 897 | 916 | 884 | 896 |
| Air Force | 906 | 916 | 915 | 903 | 903 |
| DSG | 4,760 | 4,600 | 4,541 | 4,557 | 4,568 |
| DSTO | 2,420 | 2,327 | 2,367 | 2,375 | 2,381 |
| Other Groups | 3,390 | 3,573 | 3,561 | 3,632 | 3,623 |
| 4. Sub-total Australian Public Service | 14,500 | 14,658 | 14,641 | 14,630 | 14,650 |
| 5. Total Professional Service Providers | 1,177 | 1,171 | 1,171 | 1,171 | 1,169 |
| 6. Total Workforce Strength (1+2+3+4+5) | 86,703 | 87,864 | 89,855 | 91,352 | 92,229 |

Over the next four years the total workforce is funded to grow by 5,526 from the revised forecast of 86,703 for 2006-07 to 92,229 in 2010-11.

ADF PERMANENT FORCE

The revised forecast for the average funded strength of the permanent ADF for 2007-08 is 52,505 or 1,029 more than 2006-07 revised forecast of 51,476. The reasons for this increase are detailed in Table 4.2 below.

Table 4.2: Variation in Average Funded Strength from the 2006-07 (Forecast) and 2007-08 (Planned)

| Serial No. | | Comprising | | | |
|------------|--|------------|--------|--------|-----------|
| | | Total | Navy | Army | Air Force |
| 1 | <i>2006-07 Estimated Actual</i> | 51,476 | 12,700 | 25,486 | 13,290 |
| | 2006-07 Budget Measures | | | | |
| | Rationalisation of the Command and Control Structure | -49 | -11 | -28 | -10 |
| | Hardened and Networked Army Phase 2 | 24 | - | 24 | - |
| | Enhanced Land Force Stage 1 | 235 | - | 181 | 54 |
| | ADF Recruitment and Retention Initiative - GAP Year Participants | 350 | 50 | 200 | 100 |
| | ADF Recruitment and Retention Initiative - GAP Year Scheme Support Staff | 12 | - | - | 12 |
| | Other Budget Adjustments | | | | |
| | Variation to meet authorised White Paper funding strength | 476 | 158 | 281 | 37 |
| | Other variations including civilianisation of military positions | -19 | 2 | -18 | -3 |
| 2 | Budget 2007-08 Position | 52,505 | 12,899 | 26,126 | 13,480 |
| 3 | Variation from 2006-07 Estimated Actual Baseline (2)-(3) | 1,029 | 199 | 640 | 190 |

ADF RESERVE FORCE

The estimate for the Reserve Force in 2007-08 is 19,530 comprising Active Reserves of 18,200 and High Readiness Reserves of 1,330. This is 20 less than the revised estimates for 2006-07. Over the next four years, the Reserve numbers are forecast to increase by 1,160 from the revised forecast of 19,550 in 2006-07 to 20,710 by 2010-11 as Defence progressively stands up the High Readiness Reserves as shown in Table 4.3.

Table 4.3: Planned Strength of the Reserve Force

| | 2006-07 Forecast | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|-------------------------|---------------------|---------------|---------------|---------------|---------------|
| Active Reserves | 18,550 | 18,200 | 18,250 | 18,250 | 18,250 |
| High Readiness Reserves | 1,000 | 1,330 | 1,620 | 2,080 | 2,460 |
| Total Reserves | 19,550 | 19,530 | 19,870 | 20,330 | 20,710 |

CIVILIAN WORKFORCE

The Australian Public Service full-time equivalent position 2007-08 has increased by 158 from the 2006-07 estimated actual of 14,500. The variation is detailed in Table 4.4 below.

Table 4.4: Movement in Full Time Equivalent Strength from the 2006-07 Estimated Actual

| Serial No. | 2006-07 Estimated Actual | 14,500 |
|------------|--|---------------|
| | 2006-07 Budget Measures | |
| 1 | Hardened and Networked Army Phase 2 | 20 |
| 2 | Enhanced Land Force Stage 1 | 8 |
| 3 | ADF Recruitment and Retention Initiatives | 78 |
| | 2007-08 Budget Measures | |
| 4 | Strengthening National Security - improved Defence intelligence capability | 30 |
| 5 | Strengthening National Security - reducing national e-security risk | 14 |
| | Other Budget Adjustments | |
| 6 | Management of Defence Information Environment | 35 |
| 7 | Increase in DSTO's staff for work relating to hypersonics, management of the Defence Capability Plan; Capability Technology Development and Counter Terrorism | 40 |
| 8 | Increase in staff for financial management, financial controls, compliance and logistics assurance | 32 |
| 9 | Enhancing DIO's Intelligence capability | 10 |
| 10 | Increase in intelligence related liaison positions in the US as a result of the Byrne Review | 13 |
| 11 | Substitution of Professional Service Provider positions with more cost effective civilian staff | 11 |
| 12 | Increase in staff for garrison support and other support functions | 11 |
| 13 | Increase in staff for the Counter Improvised Explosive Task Force | 10 |
| 14 | Management of the expanding capital facilities program | 10 |
| 15 | Reduction in the number of military positions to be temporarily backfilled compared with 2006-07 | -67 |
| 16 | Other variations including better recruitment and retention outcomes in 2006-07 than originally anticipated, resulting in a higher budget forecast outcome for 2006-07 | -97 |
| | Sub-total Variations (Sum of 1 to 16) | 158 |
| | Total 2007-08 Budget | 14,658 |

Table 4.5 shows the breakdown of personnel by service and rank including the APS.

Table 4.5: Breakdown of Personnel Numbers by Service and Rank

| | 2006-07 Projected Result | 2007-08 Budget Estimate |
|---|-----------------------------|----------------------------|
| NAVY⁽¹⁾ | | |
| Star-ranked officers | 46 | 46 |
| Senior officers ⁽²⁾ | 467 | 470 |
| Junior officers | 2,205 | 2,237 |
| Other ranks | 9,982 | 10,146 |
| Sub total: Permanent Forces | 12,700 | 12,899 |
| Reserves ⁽³⁾ | 1,850 | 1,900 |
| Total Navy | 14,550 | 14,799 |
| ARMY⁽¹⁾ | | |
| Star-ranked officers | 65 | 66 |
| Senior officers ⁽²⁾ | 693 | 699 |
| Junior officers | 4,901 | 4,992 |
| Other ranks | 19,827 | 20,369 |
| Sub total: Permanent Forces | 25,486 | 26,126 |
| Reserves ⁽³⁾ | 15,000 | 15,130 |
| Total Army | 40,486 | 41,256 |
| AIR FORCE⁽¹⁾ | | |
| Star-ranked officers | 40 | 39 |
| Senior officers ⁽²⁾ | 533 | 538 |
| Junior officers | 3,541 | 3,619 |
| Other ranks | 9,176 | 9,284 |
| Sub total: Permanent Forces | 13,290 | 13,480 |
| Reserve Forces ⁽³⁾ | 2,700 | 2,500 |
| Total Air Force | 15,990 | 15,980 |
| APS staffing⁽¹⁾⁽⁴⁾ | | |
| Senior executives | 107 | 108 |
| Senior officers ⁽²⁾ | 3,612 | 3,710 |
| Other APS staff | 10,781 | 10,840 |
| Total APS staffing | 14,500 | 14,658 |
| Professional Service Providers ⁽⁵⁾ | 1,177 | 1,171 |
| Total Professional Service Providers | 1,177 | 1,171 |
| Total Workforce | 86,703 | 87,864 |

Notes

1. Permanent Forces and APS numbers are forecasts of the average strength for 2007-08. Numbers for the APS and PSPs excludes the DMO.
2. Senior Officers are of Colonel or Lieutenant Colonel rank equivalent and substantive APS Executive Level 1 and 2.
3. Reserve figures represent the actual numbers of General, Active and High Readiness Reservists who render service. Reservists on full-time service are reported in the Permanent Force.
4. The figures for Senior Executive Service include the Secretary of Defence.
5. Professional Service Providers are individuals under contract filling line positions.

EMPLOYEE EXPENSES

The estimates for employee expenses in 2007-08 and the Forward Estimates compared with the revised forecast for 2006-07 are shown in Table 4.6 below.

Table 4.6: Employee Expenses for the 2007-08 Budget and Forward Estimates

| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|--|----------------|----------------|----------------|----------------|----------------|
| | \$m | \$m | \$m | \$m | \$m |
| Military Employee | | | | | |
| Permanent Salary, Allowances, Superannuation and Leave | 4,483.9 | 4,897.0 | 5,155.1 | 5,443.0 | 5,816.1 |
| Housing | 428.5 | 453.3 | 467.7 | 487.7 | 500.1 |
| Health Services | 192.8 | 199.3 | 219.6 | 241.1 | 267.4 |
| Fringe Benefits Tax | 276.6 | 285.3 | 291.0 | 305.1 | 340.2 |
| Reserves Salary and Allowances | 167.7 | 186.4 | 192.1 | 197.7 | 197.3 |
| Sub-total Military Employee Expenses | 5,549.5 | 6,021.3 | 6,325.4 | 6,674.7 | 7,121.1 |
| Civilian Employee | | | | | |
| Salary, Allowances, Superannuation and Leave | 1,185.0 | 1,277.1 | 1,323.5 | 1,429.4 | 1,537.6 |
| Other Expenses including Fringe Benefits Tax | 5.9 | 6.2 | 6.3 | 6.6 | 7.3 |
| Sub-total Civilian Employee Expenses | 1,190.9 | 1,283.3 | 1,329.8 | 1,436.0 | 1,544.9 |
| Total Employees | 6,740.4 | 7,304.6 | 7,655.2 | 8,110.7 | 8,666.0 |

MILITARY EMPLOYMENT EXPENSES

Military employee expenses have increased by \$315.8m in 2007-08 compared with the allocation at the time of the 2006-07 Additional Estimates as detailed in Table 4.7 below.

Table 4.7: Movement in Military Employment Expenses since the 2006-07 Additional Estimates

| Serial No | | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|-----------|---|----------------|----------------|----------------|----------------|
| | | \$m | \$m | \$m | \$m |
| 1 | Portfolio Additional Estimates 2006-07 Baseline | 5,705.5 | 6,001.9 | 6,331.3 | 6,735.9 |
| | 2007-08 Budget Measures | | | | |
| 2 | Australian Defence Force Retention and Recruitment – further initiatives: | | | | |
| | Remuneration Structure Reform | 0.0 | 60.3 | 61.1 | 62.3 |
| 3 | Navy Sea Change Initiatives | 1.1 | 1.1 | 1.1 | 1.2 |
| 4 | Air combat capability - acquisition of Super Hornets | 0.0 | 0.0 | 8.6 | 31.4 |
| 5 | Iraq - continued funding for stabilisation and reconstruction activities | 109.7 | 9.8 | 0.0 | 0.0 |
| 6 | East Timor - continued funding to help restore peace and stability | 39.0 | 0.0 | 0.0 | 0.0 |
| 7 | Afghanistan - Australian Defence Force deployments | 64.5 | 32.9 | | |
| 8 | Defence housing - supplementation for competitive neutrality policy | 87.4 | 88.5 | 89.7 | 91.7 |

| Serial No. | | 2007-08 \$m | 2008-09 \$m | 2009-10 \$m | 2010-11 \$m |
|------------|---|----------------|----------------|----------------|----------------|
| 9 | C-17 heavy airlift - personnel and operating funding | - | 6.4 | 9.5 | 9.7 |
| | Other Budget Adjustments | | | | |
| 10 | Re-categorisation from Suppliers expenses for Defence Injury Prevention Program | -1.2 | -1.0 | 0.0 | 0.0 |
| 11 | New Army Military Instructors Allowance re-categorisation from Suppliers expenses | 1.8 | 2.9 | 1.9 | 2.9 |
| 12 | Operation Deluge associated with Asia Pacific Economic Cooperation meeting | 3.0 | 0.0 | 0.0 | 0.0 |
| 13 | Civilianisation of 65 positions in Army | 0.0 | 0.0 | -0.3 | -4.8 |
| 14 | Re-categorisation of Employees from Suppliers for the salaries for the Military Gap Year participants | 0.0 | 38.1 | 38.5 | 39.3 |
| 15 | Navy Reserve Capability Enhancement Program | 1.3 | 1.8 | 1.8 | 0.0 |
| 16 | 2007-08 price increases and other variations | 9.1 | 82.6 | 131.4 | 151.5 |
| 17 | Total Variations (sum 2 to 16) | 315.8 | 323.4 | 343.4 | 385.2 |
| 18 | Revised 2007-08 and Forward Estimates | 6,021.3 | 6,325.4 | 6,674.7 | 7,121.1 |

CIVILIAN EMPLOYEE EXPENSES

Civilian employee expenses have increased by \$17.4m in 2007-08 compared with the allocation at the time of the 2006-07 Additional Estimates as detailed in Table 4.8 below.

Table 4.8: Movement in Civilian Employee Expenses since the 2006-07 Additional Estimates

| Serial No. | | 2007-08 \$m | 2008-09 \$m | 2009-10 \$m | 2010-11 \$m |
|------------|---|----------------|----------------|----------------|----------------|
| | 2006-07 Portfolio Additional Estimates Statements Baseline | 1,265.9 | 1,291.9 | 1,370.8 | 1,425.4 |
| | 2007-08 Budget Measures | | | | |
| 1 | Strengthening National Security - improved Defence intelligence capability | 3.2 | 7.8 | 15.4 | 20.5 |
| 2 | Strengthening National Security - reducing national e-security risk | 1.2 | 2.4 | 3.7 | 5.1 |
| 3 | Afghanistan - Australian Defence Force deployments - increase in staff to support financial management and reporting requirements | 0.7 | 0.7 | - | - |
| 4 | C-17 heavy airlift - personnel and operating funding | - | 0.8 | 0.8 | 0.8 |
| | Other Budget Adjustments | | | | |
| 5 | Civilianisation of military positions | 4.3 | 4.7 | 4.7 | 4.7 |
| 6 | Staff for the Counter Improvised Explosive Devices Task Force | 1.1 | 1.1 | 1.1 | 1.1 |
| 7 | Increase in staff to manage the expanding capital facilities program | 0.8 | 1.6 | 2.0 | 2.0 |

| Sect/No. | | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|-----------|---|----------------|----------------|----------------|----------------|
| | | \$m | \$m | \$m | \$m |
| 8 | Increase in staff required to address workforce pressures in the garrison support and other support functions | 0.9 | 1.6 | 4.0 | 5.1 |
| 9 | Increase in Defence Legal staff to manage the legal panel, senate inquiries into military justice, defective administration and freedom of information legislation | 0.8 | 1.2 | 1.6 | 1.6 |
| 10 | Enhancing DIO's capability | 0.8 | 1.6 | 2.3 | 2.3 |
| 11 | Increase in staff for intelligence related liaison positions in the US as a result of the Byrne Review | 1.0 | 1.0 | 1.0 | 1.0 |
| 12 | Increase in funding to manage the Defence Information Environment | 5.9 | 5.9 | 5.9 | 5.9 |
| 13 | Increase in staff for work relating to systems accounting, remediation project office, financial reporting and accounting policy, procurement policy, costing and technical advice, inventory remediation, asset and liability management | 1.2 | 2.0 | 2.7 | 3.4 |
| 14 | Increase in staff to support logistics assurance | 1.3 | 1.3 | - | - |
| 15 | 2007-08 price increases and other variations | -5.8 | 4.2 | 20.0 | 66.0 |
| 16 | Total Variation (sum of 1 to 15) | 17.4 | 37.9 | 65.2 | 119.5 |
| 17 | Revised Estimate for 2007-08 and Forward Estimates | 1,283.3 | 1,329.8 | 1,436.0 | 1,544.9 |

RECRUITMENT AND RETENTION FUNDING

An additional \$1,016m was allocated over 11 years in the 2006-07 Additional Estimates towards stabilising, growing and maintaining the Defence Force. This was the first phase of a major overhaul of ADF recruitment and retention strategies. In addition, a further \$2,071m has been allocated over 10 years in the 2007-08 Budget for a further eight recruitment and retention measures, and these have been explained earlier in the document. All up, the Government has allocated \$3,087m over 11 years for recruitment and retention measures as detailed in Table 4.9.

Table 4.9: Additional Funding Provided by the Government for Recruitment and Retention

| Recruitment and Retention Measures | 06-07 (\$m) | 07-08 (\$m) | 08-09 (\$m) | 09-10 (\$m) | 10-11 (\$m) | 11-12 (\$m) | 12-13 (\$m) | 13-14 (\$m) | 14-15 (\$m) | 15-16 (\$m) | 16-17 (\$m) | TOTAL (\$m) |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Retention Bonuses and Allowances | 49.6 | 38.3 | 31.6 | 19.3 | 65.0 | 22.5 | - | - | - | - | - | 226.4 |
| Navy Sea Change | - | 17.3 | 23.3 | 23.5 | 24.0 | 24.5 | - | - | - | - | - | 112.5 |
| Reform of Defence Force Recruiting | - | 26.5 | 35.6 | 36.0 | 36.7 | 37.5 | 38.2 | 39.0 | 39.7 | 40.5 | 41.4 | 371.1 |
| Military Gap Year Scheme | - | - | 8.2 | 18.2 | 19.7 | 40.9 | 41.8 | 42.8 | 43.8 | 44.9 | 46.0 | 306.3 |
| 1. Sub-Total Approved by Government in the 2006-07 Additional Estimates | 49.6 | 82.1 | 98.8 | 97.1 | 145.4 | 125.3 | 80.0 | 81.8 | 83.5 | 85.5 | 87.3 | 1,016.3 |
| Remuneration Structure Reform | - | - | 59.7 | 60.6 | 61.9 | 63.3 | 64.7 | 66.3 | 67.8 | 69.4 | 71.7 | 585.4 |
| Defence Home Ownership Assistance Scheme | - | - | 40.9 | 52.9 | 64.7 | 77.5 | 97.2 | 134.8 | 140.2 | 130.4 | 125.2 | 863.8 |
| Reform of Defence Force Recruiting | - | 4.4 | 12.2 | 12.5 | 12.7 | 13.0 | 13.3 | 13.6 | 14.0 | 14.2 | 14.6 | 124.5 |
| Marketing and Service Branding | - | 24.6 | 26.6 | 26.8 | 27.5 | 19.3 | 19.7 | 20.2 | 20.6 | 21.0 | 21.6 | 227.8 |
| Defence Apprenticeships | - | 5.0 | 6.7 | 6.8 | 7.0 | 7.1 | 7.4 | 7.5 | 7.6 | 7.8 | 8.1 | 71.0 |
| Expanding Cadets | - | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 100.0 |
| Royal Australian Navy Sea Change | - | 1.9 | 8.6 | 8.7 | 8.9 | 9.2 | 9.4 | 9.6 | 9.8 | 10.1 | 10.3 | 86.5 |
| Medical Officer Professional Development | - | 0.6 | 0.9 | 1.0 | 1.1 | 1.3 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 | 12.1 |
| 2. Sub-Total Approved by Government in the 2007-08 Budget | - | 46.5 | 165.6 | 179.3 | 193.9 | 200.7 | 223.0 | 263.4 | 271.4 | 264.4 | 262.9 | 2,071.1 |
| 3. Total Funding to Recruitment and Retention Measures (1+2) | 49.6 | 128.6 | 264.3 | 276.3 | 339.3 | 326.0 | 303.1 | 345.2 | 354.9 | 349.9 | 350.2 | 3,087.4 |

DEFENCE
CHAPTER FIVE
PLANNED OUTCOME
PERFORMANCE

DEFENCE OUTCOME AND OUTPUT STRUCTURE

OUTCOME ONE – COMMAND OF OPERATIONS

OUTCOME TWO – NAVY CAPABILITY

OUTCOME THREE – ARMY CAPABILITY

OUTCOME FOUR – AIR FORCE CAPABILITY

OUTCOME FIVE – STRATEGIC POLICY

OUTCOME SIX – INTELLIGENCE

**OUTCOME SEVEN – SUPERANNUATION AND HOUSING
SUPPORT SERVICES**

TABLE OF EXPLANATIONS OF SIGNIFICANT VARIATIONS

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 the 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 2007-08, Chapter Five provides the following additional detail:

- Table 5.a shows the Defence Outcome and Output Structure;
- Figure 5.a shows the structure and the net cost to the Government of each of Defence's Outcomes;
- Table 5.b shows the net cost to the Government of Defence's 2007-08 Outputs, grouped by Outcome;
- Table 5.c shows the list of Defence outcomes by income and expense item;
- 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; and
- 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

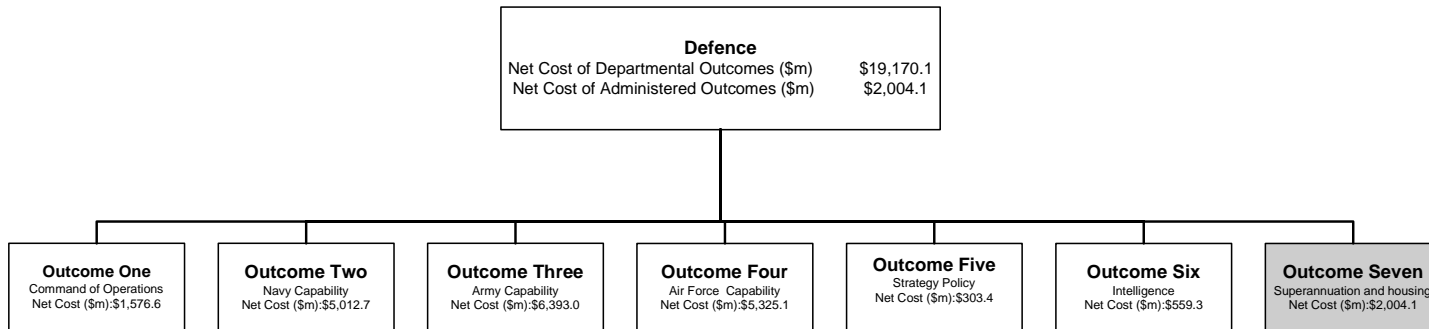
**OUTCOME SEVEN – Superannuation and Housing Support Services for Current and Retired
Defence Personnel (Head Personnel Executive)**

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

Figure 5.a: Defence Outcomes – 2007-08 Budget Estimates



Notes

1. The net cost of Defence's six departmental outcomes to the Government excludes the equity injection from Government and the figure of \$19,170.1m is cross-referenced to Serial 1 of Table 2.1.
2. The net cost of outcome seven equals total administered income less total administered expenses.

COST SUMMARY OF DEFENCE OUTCOMES AND OUTPUTS

Table 5.b: Net Cost to Government of Defence's 2007-08 Outputs by Outcome

| Outcome/Output | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|---|----------------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| OUTCOME 1. COMMAND OF OPERATIONS IN DEFENCE OF AUSTRALIA AND ITS INTERESTS | | | | | | |
| 1.1 Command of Operations | 420,361 | 426,503 | 6,142 | 462,395 | 492,214 | 428,453 |
| 1.2 Defence Force Military Operations and Exercises | 322,412 | 1,130,212 | 807,800 | 498,355 | 268,157 | 205,964 |
| 1.3 Contribution to National Support Tasks | 19,590 | 19,876 | 286 | 21,905 | 21,892 | 17,195 |
| Total for Outcome 1 | 762,362 | 1,576,590 | 814,228 | 982,656 | 782,264 | 651,612 |
| OUTCOME 2. NAVY CAPABILITY FOR THE DEFENCE OF AUSTRALIA AND ITS INTERESTS | | | | | | |
| 2.1 Capability for Major Surface Combatant Operations | 1,868,273 | 1,902,220 | 33,947 | 1,919,918 | 1,943,673 | 2,138,124 |
| 2.2 Capability for Naval Aviation Operations | 625,414 | 641,202 | 15,787 | 654,145 | 672,546 | 683,415 |
| 2.3 Capability for Patrol Boat Operations | 266,838 | 277,386 | 10,548 | 297,770 | 317,063 | 357,363 |
| 2.4 Capability for Submarine Operations | 797,455 | 815,756 | 18,301 | 798,068 | 788,972 | 766,479 |
| 2.5 Capability for Afloat Support | 253,643 | 263,997 | 10,355 | 283,394 | 309,952 | 393,559 |
| 2.6 Capability for Mine Warfare | 375,379 | 387,512 | 12,134 | 406,097 | 424,423 | 515,061 |
| 2.7 Capability for Amphibious Lift | 412,081 | 424,751 | 12,670 | 444,680 | 482,339 | 422,934 |
| 2.8 Capability Hydrographic - Meteorological and Oceanographic Operations | 288,970 | 299,841 | 10,871 | 335,569 | 346,004 | 317,063 |
| Total for Outcome 2 | 4,888,053 | 5,012,665 | 124,613 | 5,139,641 | 5,284,970 | 5,593,999 |
| OUTCOME 3. ARMY CAPABILITY FOR THE DEFENCE OF AUSTRALIA AND ITS INTERESTS | | | | | | |
| 3.1 Capability for Special Operations | 567,484 | 581,018 | 13,534 | 588,359 | 598,442 | 642,444 |
| 3.2 Capability for Medium Combined Arms Operations | 1,094,477 | 1,115,711 | 21,234 | 1,088,022 | 1,094,462 | 1,058,020 |
| 3.3 Capability for Light Combined Arms Operations | 1,028,258 | 1,048,525 | 20,267 | 1,059,283 | 1,083,995 | 1,010,024 |
| 3.4 Capability for Army Aviation Operations | 573,100 | 586,716 | 13,616 | 593,551 | 601,137 | 581,666 |

| Outcome/Output | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|---|----------------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| 3.5 Capability for Ground Based Air Defence | 119,123 | 126,106 | 6,983 | 135,812 | 138,699 | 123,572 |
| 3.6 Capability for Combat Support Operations | 445,254 | 457,002 | 11,748 | 468,086 | 478,729 | 460,039 |
| 3.7 Capability for Regional Surveillance | 156,512 | 164,041 | 7,529 | 173,827 | 176,485 | 202,995 |
| 3.8 Capability for Operational Logistic Support to Land Forces | 590,618 | 604,490 | 13,872 | 615,759 | 630,060 | 580,354 |
| 3.9 Capability for Motorised Combined Arms Operations | 605,920 | 620,015 | 14,096 | 628,674 | 641,568 | 681,945 |
| 3.10 Capability for Protective Operations | 1,068,526 | 1,089,381 | 20,855 | 1,090,817 | 1,099,070 | 1,258,241 |
| Total for Outcome 3 | 6,249,270 | 6,393,005 | 143,735 | 6,442,191 | 6,542,647 | 6,599,300 |
| OUTCOME 4. AIR FORCE CAPABILITY FOR THE DEFENCE OF AUSTRALIA ITS INTERESTS | | | | | | |
| 4.1 Capability for Air Combat Operations | 1,755,268 | 1,842,613 | 87,345 | 1,875,248 | 1,979,293 | 2,118,097 |
| 4.2 Capability for Combat Support of Air Operations | 994,746 | 1,022,579 | 27,832 | 1,067,122 | 1,070,482 | 1,043,328 |
| 4.3 Capability for Surveillance and Response Operations | 1,263,431 | 1,295,189 | 31,758 | 1,334,368 | 1,340,164 | 1,406,143 |
| 4.4 Capability for Air Lift Operations | 1,134,859 | 1,164,739 | 29,880 | 1,323,979 | 1,269,330 | 1,174,265 |
| Total for Outcome 4 | 5,148,305 | 5,325,120 | 176,815 | 5,600,717 | 5,659,270 | 5,741,833 |
| OUTCOME 5. STRATEGIC POLICY FOR THE DEFENCE OF AUSTRALIA ITS INTERESTS | | | | | | |
| 5.1 International Policy, Activities and Engagement | 220,168 | 223,410 | 3,242 | 234,904 | 258,647 | 298,239 |
| 5.2 Strategic Policy and Military Strategy | 78,868 | 80,020 | 1,152 | 83,390 | 99,025 | 70,867 |
| Total for Outcome 5 | 299,036 | 303,430 | 4,394 | 318,293 | 357,672 | 369,106 |
| OUTCOME 6. INTELLIGENCE FOR THE DEFENCE OF AUSTRALIA AND ITS INTERESTS | | | | | | |
| 6.1 Intelligence | 538,307 | 559,316 | 21,009 | 582,168 | 659,774 | 751,424 |
| Total for Outcome 6 | 538,307 | 559,316 | 21,009 | 582,168 | 659,774 | 751,424 |
| NET COST FOR DEFENCE DEPARTMENTAL OUTCOMES | | | | | | |
| | 17,885,333 | 19,170,126 | 1,284,794 | 19,065,666 | 19,286,597 | 19,707,273 |
| Approved Allocated Profit/(Loss) | | | | | | |
| DEPARTMENTAL APPROPRIATIONS FROM GOVERNMENT (see also Serial 1 in Table 2.1) | | | | | | |
| | 17,885,333 | 19,170,126 | 1,284,794 | 19,065,666 | 19,286,597 | 19,707,273 |

| Outcome/Output | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|---|----------------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| OUTCOME 7. SUPERANNUATION AND HOUSING SUPPORT SERVICES FOR CURRENT AND RETIRED DEFENCE PERSONNEL | | | | | | |
| 7.1 Superannuation support Services for Current and Retired Defence Personnel | 2,059,000 | 2,069,468 | 10,468 | 2,113,216 | 2,171,251 | 2,268,269 |
| 7.2 Housing Assistance for Current Defence Personnel | -64,500 | -64,500 | - | -2,173 | 9,389 | 21,243 |
| 7.3 Other Administered Revenues and Expenses | -4,170 | -868 | 3,302 | -179 | -179 | -179 |
| NET COST OF ADMINISTERED OUTCOMES⁽³⁾ | 1,990,330 | 2,004,100 | 13,770 | 2,110,864 | 2,180,461 | 2,289,333 |
| TOTAL COST FOR DEFENCE OUTCOMES | 19,875,663 | 21,174,226 | 1,298,564 | 21,176,529 | 21,467,058 | 21,996,606 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (pp. 78-80).
2. Variation figures are the difference between Previous Estimate and Budget Estimate.
3. This line is comprised of administered expenses, less administered revenue. Using 2007-08 as an example, the \$2,004.1m is comprised of administered expenses, which is \$2,802.5m (see Serial 8, Table 2.1), less the administered revenue of \$798.4m (see Table 5.c).

Table 5.c: Overall Cost to Government of Defence Outcomes (Departmental and Administered)

| | Outcome 1- Command of Operations | Outcome 2- Navy Capabilities | Outcome 3- Army Capabilities | Outcome 4- Air Force Capabilities | Outcome 5- Strategic Policy | Outcome 6- Intelligence | Total Defence Departmental Outcome | Outcome 7- Superannuation and Housing Support Services for Current and Retired Defence Personnel | Grand Total |
|---|--|------------------------------------|------------------------------------|---|-----------------------------------|----------------------------|--|---|------------------|
| | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 |
| DEPARTMENTAL INCOME | | | | | | | | | |
| Revenues | | | | | | | | | |
| Goods and services | 37,158 | 176,522 | 233,257 | 171,548 | 11,748 | 12,973 | 643,206 | | 643,206 |
| Other revenue | 3,890 | 18,767 | 29,458 | 13,260 | 453 | 192 | 66,020 | | 66,020 |
| Total Revenue | 41,048 | 195,289 | 262,715 | 184,808 | 12,200 | 13,165 | 709,226 | - | 709,226 |
| Gains | | | | | | | | | |
| Reversals of previous asset write-downs | 10,319 | 18,974 | 29,963 | 137,407 | 1,509 | 1,828 | 200,000 | | 200,000 |
| Net gains from sale of assets | - | - | - | - | - | - | - | | 0 |
| Other gains | 1,223 | 1,761 | 2,715 | 1,561 | 192 | 248 | 7,700 | | 7,700 |
| Total Gains | 11,542 | 20,735 | 32,678 | 138,968 | 1,701 | 2,076 | 207,700 | - | 207,700 |
| Total Income | 52,589 | 216,025 | 295,393 | 323,776 | 13,902 | 15,241 | 916,926 | - | 916,926 |
| Expenses | | | | | | | | | |
| Employees | 713,511 | 1,736,555 | 2,840,746 | 1,631,054 | 109,774 | 272,987 | 7,304,628 | | 7,304,628 |
| Suppliers | 883,473 | 2,283,441 | 2,884,746 | 2,639,336 | 200,253 | 220,737 | 9,111,987 | | 9,111,987 |
| Grants | 202 | 1,048 | 2,112 | 883 | 38 | 112 | 4,395 | | 4,395 |
| Depreciation and amortisation | 28,999 | 1,170,356 | 883,115 | 1,241,319 | 6,752 | 79,054 | 3,409,595 | | 3,409,595 |
| Finance cost | 719 | 7,144 | 11,294 | 5,918 | 61 | 438 | 25,574 | | 25,574 |
| Write-down of assets and impairment of assets | 2,213 | 30,178 | 66,279 | 129,657 | 449 | 1,224 | 230,000 | | 230,000 |

| | 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 |
|--|--|------------------------------------|------------------------------------|---|-----------------------------------|----------------------------|--|---|-------------------|
| | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 | 2007-08 \$000 |
| Net losses from sale of assets | - | - | - | - | - | - | - | - | - |
| Other expenses | 62 | -33 | 106 | 728 | 5 | 4 | 873 | - | 873 |
| Total Expenses | 1,629,180 | 5,228,690 | 6,688,399 | 5,648,896 | 317,332 | 574,556 | 20,087,052 | - | 20,087,052 |
| Net Cost to Defence Departmental Outcomes⁽¹⁾ | 1,576,590 | 5,012,665 | 6,393,005 | 5,325,120 | 303,430 | 559,316 | 19,170,126 | - | 19,170,126 |
| ADMINISTERED | | | | | | | | | |
| Revenues | | | | | | | | 798,368 | 798,368 |
| Expenses | | | | | | | | 2,802,468 | 2,802,468 |
| Net Cost to Defence Administered Outcomes | | | | | | | | 2,004,100 | 2,004,100 |

Note

1. The net cost of Departmental outcomes represents the total expenses as per the Income Statement of Table 2.9 less own source revenue and net gains (also from Table 2.9). The net cost of outcomes excludes the Equity Injection and Net Capital Receipts, which form part of the Capital Budget Statement (see Table 7.5).

Net Cost of Defence Outcomes

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

| Outcomes | Actual Result ⁽¹⁾ 2003-04 \$'000 | Actual Result ⁽²⁾ 2004-05 \$'000 | Actual Result ⁽³⁾ 2005-06 \$'000 | Revised Estimate ⁽⁴⁾ 2006-07 \$,000 | Budget Estimate 2007-08 \$'000 |
|---|---|---|---|--|--------------------------------------|
| DEPARTMENTAL OUTCOMES | | | | | |
| Outcome One | | | | | |
| Command of Operations | 740,181 | 1,052,493 | 975,885 | 1,133,755 | 1,576,590 |
| Outcome Two | | | | | |
| Navy Capability | 4,177,449 | 4,633,845 | 4,711,044 | 4,686,361 | 5,012,665 |
| Outcome Three | | | | | |
| Army Capability | 5,086,424 | 5,415,716 | 5,177,177 | 6,034,963 | 6,393,005 |
| Outcome Four | | | | | |
| Air Force Capability | 4,500,663 | 4,812,925 | 4,600,266 | 4,553,025 | 5,325,120 |
| Outcome Five | | | | | |
| Strategic Policy | 205,784 | 245,568 | 236,248 | 233,487 | 303,430 |
| Outcome Six | | | | | |
| Intelligence | 457,460 | 458,982 | 508,255 | 516,073 | 559,316 |
| Total Cost for Defence Departmental Outcomes | 15,167,962 | 16,619,529 | 16,208,876 | 17,157,664 | 19,170,126 |
| Outcome Seven | | | | | |
| Superannuation and Housing support Services for Current and Retired Defence Personnel | 1,457,196 | 2,047,515 | 2,024,646 | 1,981,197 | 2,004,100 |
| Total Outcomes | 16,625,158 | 18,667,044 | 18,233,522 | 19,138,861 | 21,174,226 |

Notes

1. Actual Result 2003-04 reflects amounts disclosed in the *Defence Annual Report 2003-04* (p.81).
2. Actual Result 2004-05 reflects amounts disclosed in the *Defence Annual Report 2004-05* (p.146).
3. Actual Result 2005-06 reflects amounts disclosed in the *Defence Annual Report 2005-06* (p.84).
4. Revised Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.78-80).

Group Contributions to Defence Outcomes

Table 5.e: Group Contribution to Defence Outcomes

| | Outcome 1: Command of Operations | Outcome 2: Navy Capability | Outcome 3: Army Capability | Outcome 4: Air Force Capability | Outcome 5: Strategic Policy | Outcome 6: Intelligence | Total Defence Outcomes |
|---|---|----------------------------------|----------------------------------|---------------------------------------|-----------------------------------|----------------------------|------------------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Navy | - | 2,656,103 | - | - | - | - | 2,656,103 |
| Army | - | - | 3,749,717 | - | - | - | 3,749,717 |
| Air Force | - | - | - | 2,988,413 | - | - | 2,988,413 |
| Defence Executives | 243,162 | 177,547 | 343,576 | 186,236 | 222,959 | 37,805 | 1,211,286 |
| Intelligence and Security Defence Science and Technology Organisation | - | - | - | - | - | 430,805 | 430,805 |
| Chief Information Officer | 44,715 | 95,236 | 64,650 | 123,743 | 25,909 | 27,204 | 381,456 |
| Chief Information Officer | 10,714 | 137,198 | 284,654 | 181,438 | 7,889 | 10,208 | 632,101 |
| Defence Support Group | 164,758 | 831,713 | 919,737 | 840,870 | 21,260 | 40,644 | 2,818,982 |
| Joint Logistics Group | 3,193 | 32,266 | 183,952 | 38,553 | - | - | 257,964 |
| Provisional Allocation/Payments to DMO ⁽¹⁾ | 1,110,048 | 1,082,602 | 846,719 | 965,867 | 25,415 | 12,649 | 4,043,299 |
| Net Cost by Outcome | 1,576,590 | 5,012,665 | 6,393,005 | 5,325,120 | 303,430 | 559,316 | 19,170,126 |

Note

1. Provisional allocations and payments to the DMO (the operating element) are held at the portfolio level and then allocated to Defence Groups and the DMO when implementation milestones are reached. Funds are also held centrally for the proposals that have yet to be approved and for pay increases that can be expected in the future. Funds are allocated to Groups when the proposals are approved and from the date of implementation of the pay increases.

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.

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 combined to provide joint forces. Joint force preparedness is developed in accordance with ADF preparedness requirements. These requirements are evaluated through an exercise program and have been validated through outcomes from many joint operations.

The Vice Chief of the Defence Force is appointed as the Chief of Joint Operations. Joint Operations Command consists of a headquarters, two specialist components (Special Operations and Border Protection) and direct command units which provide functional support in the areas of joint training and northern operations. The form and function of Joint Operations Command was reviewed in late 2005. The current structure represents the first phase of adjustments to command and control arrangements stemming from this review. The revised form and function changes commenced in January 2007 and will be implemented progressively until the occupation of the new joint operational headquarters at Bungendore in late 2008.

PLANNED PERFORMANCE

The ADF's operations and activities that will contribute to the security of our immediate neighbourhood during 2007-08 include:

- activities in Timor-Leste, where Operations Astute and Tower provide support to the Timor-Leste Government, the UN police-led operation and the United Nations Integrated Mission in Timor-Leste (UNMIT);
- the conduct of maritime surveillance patrols in the northern Indian Ocean and South China Sea (Operation Gateway);
- the conduct of maritime surveillance patrols in the South-West Pacific (Operation Solania); and
- ongoing ADF contribution to the Australian Government's strengthened assistance framework program in support of the Solomon Islands Government (Operation Anode).

The ADF's operations that will support Australia's wider interests during 2007-08 include:

- an ADF contribution, under Operation Catalyst, to an Australian 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 Provincial Reconstruction Team in Afghanistan, through Operation Slipper, as an element of the International Security Assistance Force with North Atlantic Treaty Organisation countries; and
- the ADF's contributions to United Nations and other peacekeeping and humanitarian operations, including Operations Azure in the Sudan, Paladin in the Lebanon and Syria, and Mazurka in the Sinai, Egypt.

The ADF's peacetime national tasks that are expected to continue as regular or occasional tasks in 2007-08 include:

- operations to provide surveillance and law enforcement support in northern Australia and deter unauthorised boat arrivals, including air and surface patrols across the northern and western maritime approaches to Australia (Operation Resolute);
- cyclical maritime surveillance operations in Australia's region, currently being provided through Operation Solania. This operation is a lesser priority than Operation Resolute and will be conducted when surveillance capabilities are available;
- the ADFs' support to the Asia-Pacific Economic Conference in 2007 (Operation Deluge); and

- planning for the ADF's support, as part of the whole-of-government approach, to the Catholic youth festival and Papal visit to Sydney in July 2008 (Operation Testament).

The ADF's 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 2007-08. The ADF exercise program for 2007-08, detailing planning dates and exercise objectives, is included in later tables.

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

Non-emergency assistance and non-emergency law enforcement, excluding the use of force, is also likely to conform to 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 2007-08.

The ADF's support to national search and rescue authorities, when and as required, will continue under current arrangements and 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 for 2007-08 is uncertain, but domestic commitments are likely to decrease with the conclusion of Operation Deluge (support to APEC) in late 2007.

Operational Preparedness and Exercise Participation

The ongoing operational commitment in 2006-07 and expectations for 2007-08 have been 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.

The ongoing high operational tempo, commitments by allies and regional partners, and restricted availability of assets for scheduled joint and combined exercises continue to be a risk to high-end joint and combined training. The risk will be carefully managed to ensure that an adequate reservoir of high end skill is maintained should strategic circumstances change.

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 Group, 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.

STRATEGIC INITIATIVES

Concurrent Operations

Risk mitigation against the above concurrency issues is subject to ongoing strategic-level review and management of major operational commitments. The ADF contribution to operations will be carefully managed and 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 assessment of capability options for the ADF to meet the Government's

operational objectives. The reporting system identifies deficiencies and indicates remediation priorities. The reporting system allows the Chief of the Defence Force and his senior commanders to apply appropriate risk management principles to command of the ADF during times of high operational tempo.

Cost Summary of Outcome One

TOTAL BUDGETED COST TO THE GOVERNMENT

Table 5.1.1: Outcome One - Command of Operations in Defence of Australia and its Interests

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|---|----------------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| INCOME | | | | | | |
| Revenues | | | | | | |
| Goods and services | 34,601 | 37,158 | 2,556 | 36,465 | 35,005 | 49,841 |
| Other revenue | 3,902 | 3,890 | -12 | 3,620 | 8,010 | 4,155 |
| Total Revenue | 38,504 | 41,048 | 2,544 | 40,085 | 43,015 | 53,996 |
| Gains | | | | | | |
| Reversals of previous asset write-downs | 10,319 | 10,319 | - | -8,371 | -8,371 | 81 |
| Net gains from sale of assets | - | - | - | - | - | - |
| Other Gains | 1,159 | 1,223 | 64 | 1,223 | 1,223 | 878 |
| Total Gains | 11,478 | 11,542 | 64 | -7,148 | -7,148 | 959 |
| Total Income | 49,981 | 52,589 | 2,608 | 32,937 | 35,867 | 54,955 |
| Expenses | | | | | | |
| Employees | 498,456 | 713,511 | 215,055 | 564,109 | 543,200 | 369,870 |
| Suppliers | 281,889 | 883,473 | 601,584 | 421,788 | 245,635 | 300,094 |
| Grants | 181 | 202 | 21 | 75 | 75 | 64 |
| Depreciation and amortisation | 28,999 | 28,999 | - | 28,788 | 28,364 | 33,117 |
| Finance cost | 516 | 719 | 204 | 818 | 844 | 2,414 |
| Write-down of assets and impairment of assets | 2,213 | 2,213 | - | -47 | -47 | 97 |
| Net losses from sale of assets | - | - | - | - | - | - |
| Other expenses | 90 | 62 | -28 | 61 | 60 | 912 |
| Total Expenses | 812,343 | 1,629,180 | 816,836 | 1,015,592 | 818,130 | 706,567 |
| Net Cost of Outcome | | | | | | |
| 1: Command Of Operations | | | | | | |
| | 762,362 | 1,576,590 | 814,228 | 982,656 | 782,264 | 651,612 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.85).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate

Table 5.1.2: Breakdown of Outcome One by Output

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|--|----------------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| Output 1.1 - Command of Operations | 420,361 | 426,503 | 6,142 | 462,395 | 492,214 | 428,453 |
| Output 1.2 - Defence Force Military Operations and Exercises | 322,412 | 1,130,212 | 807,800 | 498,355 | 268,157 | 205,964 |
| Output 1.3 - Contribution to National Support Tasks | 19,590 | 19,876 | 286 | 21,905 | 21,892 | 17,195 |
| Net Cost of Outcome One | 762,362 | 1,576,590 | 814,228 | 982,656 | 782,264 | 651,612 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p. 86).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate

OUTPUT 1.1 – COMMAND OF OPERATIONS

The Chief of Joint Operations is responsible to the Chief of the Defence Force for the delivery of Outcome One – Command of Operations in defence of Australia and its interests. Through 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 arrangements supported by timely and reliable communications and information systems.

Effective conduct of operations is also reliant on the 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.
- The Joint Operations Command transitional structure implemented in early 2007 will be evaluated and refined.

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.

The ADF’s 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 the Government’s 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 2007-08 are met: <ul style="list-style-type: none"> – Exercise Suman Protector and Exercise Bersama Shield 08, exercises in conjunction with the Five Power Defence Arrangements; – Exercise Pitch Black 08, to test the ADF in the planning, tasking and execution of offensive air operations within a coalition environment; 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: Peacetime National Tasks 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 |
|--|--|
| Gateway Commenced 1981 | To conduct northern Indian Ocean and South China Sea maritime surveillance patrols. |
| Anode Commenced July 2003 | To support the coalition police forces in maintaining the rule of law in Solomon Islands. |
| Astute Commenced 2006 | To support the Timor-Leste government, the UN Integrated Mission, to restore order in Timor-Leste and facilitate the evacuation of Australian and other approved foreign nationals. |
| Tower (previously Chiron) Commenced 2006 | To contribute to the United Nations Integrated Mission in Timor-Leste (UNMIT) Headquarters. Previously known as Operation Chiron, but renamed following new United Nations mandate of 25 October 2006. |
| Quickstep Commenced 2006 | To be ready to take appropriate measures to ensure the safety of Australians, if required, in the South West Pacific. |

Table 5.1.4: Supporting Wider Interests

| Operation | Objective |
|------------------------------------|---|
| Paladin Commenced 1956 | 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. |
| Mazurka Commenced 1982 | To provide personnel to the Multinational Force and Observers to monitor the security arrangements in the Sinai. |
| Slipper Commenced 2001 | To contribute to the United States-led operation against international terrorism and to the Multinational Maritime Interception Force in the Persian Gulf. |
| Catalyst Commenced 2003 | ADF contribution in support of the rehabilitation of Iraq. |
| Azure Commenced 2005 | ADF contribution to the UN Mission in Sudan. |
| Palate II Commenced 2005 | To provide a Military Liaison Officer to the United Nations Assistance Mission in Afghanistan. |

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 2007-08 and these will be reported in the *Portfolio Additional Estimates Statements 2007-08*.

Table 5.1.5: ADF Joint Exercises

| Exercise | Australian Forces | Objective |
|--------------------------------------|-------------------|--|
| Sea Lion 07 September 2007 | ADF | To train and maintain basic joint amphibious skills as part of an Amphibious Task Group or when working with an Landing Platform Amphibious or Landing Ship Heavy. |
| ASWEX 07 November 2007 | ADF | To practise collective ADF anti-submarine warfare concepts, tactics and procedures. |
| Sea Eagle 07 November 2007 | ADF | To plan and conduct a basic amphibious assault in a non-hostile environment. |

Table 5.1.6: Combined ADF/United States Exercises

| Exercise | Australian Forces | Objective |
|---|-------------------|---|
| Airlift Rodeo July 2007 | Air Force | To conduct actions to deploy, shift, regroup, or move joint or multinational operational formations within combined forces area of operations |
| Comptuex 07-4 September 2007 | Air Force | ADF will deploy two maritime patrol aircraft to Naval Air Station North Island in San Diego to participate in a US Battle Group work-up activity involving conventional maritime warfare. |
| UNC (REAR) Engagement 07-2 October 2007 | Air Force, Navy | Combined maritime patrol aircraft anti-submarine warfare/anti-submarine surveillance exercise. |
| Tamex 07-2 October 2007 | Navy, Air Force | Combined basic maritime patrol aircraft anti-submarine warfare/anti-submarine surveillance exercise. |
| Tamex 07-3 December 2007 | Navy, Air Force | Combined basic maritime patrol aircraft anti-submarine warfare/anti-submarine surveillance exercise. |
| Night Eagle December 2007 | Army | A patrol/troop exercise in Fort Bragg with Tier 1 Special Forces. Training will consist of counter terrorism and special recovery operations skill sets. |

Table 5.1.7: Combined ADF/Five Power Defence Arrangement Exercises

| Exercise | Australian Forces | Participating Countries | Objective |
|--|--------------------------|--|---|
| Rifle Company Butterworth Rotation 78 May- August 2007 | Army | Malaysia | An Australian Army infantry company, Rifle Company Butterworth deployment on a three-monthly rotational basis from Australia, Conduct training and participate in exercises. |
| Mastex 07 August 2007 | Navy | Malaysia | Maritime exercise with Malaysia focusing on interoperability at the fleet level. |
| Suman Protector 07 August-September 2007 | ADF | Malaysia, New Zealand, Singapore, United Kingdom | A Five Power Defence Arrangements Command Post Exercise exercising a Combined and Joint Task Force Headquarters. |
| Southern Tiger 07 September 2007 | Army | Malaysia | A Malaysian company attachment to an Australian Battalion. |
| Bersama Shield 08 April 2008 | ADF | Malaysia, New Zealand, Singapore, United Kingdom | To exercise assigned Five Power Defence Arrangements forces in the conduct of joint and combines operations in a multi-threat scenario for the defence of Malaysia and Singapore, so as to enhance interoperability and strengthen the relationship between those forces. |

Table 5.1.8: Combined ADF/New Zealand Exercises

| Activity; Dates | Australian Forces | Objective |
|--|--------------------------|--|
| ASWEX 07 November 2007 | Navy | A RAN fleet concentration period in which New Zealand maritime forces participate. |
| Night Kiwi 07 November 2007 | Army | A bilateral military exercise with New Zealand Special Forces. |
| Joint Kiwi 07 March – May 2008 | ADF | To conduct an exercise that tests the planning and execution of operational and tactical level training activities within a coalition joint force and interagency structure. |

Table 5.1.9: Other Combined Exercises

| Exercise | Australian Forces | Participating Countries | Objective |
|--|--------------------------|---|---|
| Empire Challenge 07 July 2007 | ADF | Canada, United Kingdom, United States | Multi-national intelligence, surveillance and reconnaissance interoperability exercise. |
| Albatross Ausindo 07 July 2007 | Air Force | Indonesia | The ADF will conduct a mutual surveillance activity with the Indonesian Air Force in an area between Australia and Indonesia. |
| Kakadu VIII/07 July 2007 | Navy | Brunei, India, Indonesia, Malaysia, New Zealand, Philippines, Papua New Guinea, Singapore, Thailand | Command Post Exercise and Senior Officer Seminar. |
| Dawn Caracha Bilateral July- August 2007 | Army | Philippines | To conduct Special Reconnaissance training in support of counter terrorism operations. Training will focus on command group, weapon handling and safety, ranges, surveillance and tracking. |
| Dawn Panther 07 July- August 2007 | Army | Thailand | Special Forces Training Assistance Team will instruct in counter terrorism related skills. |
| Dawn Komodo July – August 2007 | Army | Indonesia | Special Forces Troop to deploy to Indonesia for combined counter terrorism training which will focus on Command Group, close quarter battle training, weapon handling and safety, ranges, and culminate in three-day field training exercise. |
| Haringaroo 07 July and September 2007 | Army | Malaysia | The aim is to enhance interoperability between the Australian Army and the Malaysian Armed Forces sub-units at the tactical level. |
| Night Leopard August 2007 | Army | Brunei | Commando Platoon to conduct parachuting, weapons and offensive operations training, culminating in a direct action task. |

| Exercise | Australian Forces | Participating Countries | Objective |
|---|--------------------------|---|--|
| Pacific Air Rally August 2007 | Air Force | Bangladesh, Brunei, Canada, India, Indonesia, Japan, Laos, Malaysia, Mongolia, Philippines, Papua New Guinea, Republic of Korea, Singapore, Thailand, United States, Vietnam, Russia, Sri Lanka | A United States Pacific Airforce coordinated activity. It is an airlift exercise to engage Pacific rim nations to aid development of airlift support. |
| Wantok Warrior 07 October-November 2007 | Army | Papua New Guinea | Annual Land Exercise with Papua New Guinea Defence Forces. |
| Longreach 07 October – November 2007 | Army | Papua New Guinea, Tonga | Familiarise Deployable Joint Force Headquarters key personnel with selected regional locations. Conduct engagement with Tonga and Fiji at the individual and collective level. Impart Australian operational planning techniques to Tonga and Fiji. Practise contingency, operational and combined planning procedures in conducting humanitarian assistance/disaster relief missions. |
| Equateur 07 October 2007 | Navy, Army | France, New Zealand, Tonga | A biennial French Armed Forces-New Caledonia combined and joint exercise to plan a non-combatant evacuation operation, and support the planning of Exercise Croix du Sud. |
| Bridge Lion 07 November – December 2007 | Army | Singapore | Incident Response Regiment to practise chemical biological radiological defence / response with Singaporean Armed Forces. |
| Rajawali Ausindo 07 November 2007 | Air Force | Indonesia | Indonesian Air Force/ RAAF bilateral airlift training exercise to promote friendship and cooperation and airlift interoperability. |
| Night Buraq 07 November 2007 | Army | United Arab Emirates | Commando Platoon-size green roles and counter terrorism exercise with United Arab Emirates Special Operations Command. |
| Pacific Reach 07 November-December 2007 | Navy | Japan, Republic of Korea, Singapore, United States | A multi-national exercise that aims to test and evaluate the effectiveness of participating nations' submarine escape and rescue vehicles, systems and organisations. |

| Exercise | Australian Forces | Participating Countries | Objective |
|--|-------------------|---|--|
| Thai Boomerang 08 March – April 2008 | Air Force | Thailand | Conduct bilateral training with the Royal Thai Air Force, prior to Exercise Bersama Shield 08. |
| Pitch Black 08 June 2008 | Air Force | France, Singapore, Thailand, United Kingdom | 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. |

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 Border 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 the Australian coastline from illegal immigration, smuggling, quarantine evasion and other intrusions to Australian sovereignty, counter-terrorism responses, search and rescue and natural disaster relief.

| Performance Targets |
|---|
| <ul style="list-style-type: none"> • The ADF contribution to peacetime national tasks meets the Government directives. • Forces identified to provide Defence Assistance to the Civil Community, Defence Force Aid to Civilian 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. • The ADF and Customs effectively manage the civil maritime surveillance and response program through Border Protection Command⁽¹⁾ |

- 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 Force Aid to Civilian Authorities are effectively managed and reported.

Note

1. The Customs component of the program is reported at Output Four of the Customs section of the Attorney-General's Portfolio Budget Statements.

ADF Operations

Table 5.1.3 in Output 1.2 contains details of operations contributing to the security of the immediate neighbourhood and operations supporting wider interests.

Table 5.1.10: Peacetime National Tasks

| Operation | Objective |
|---|---|
| Solania Commenced 1988 | To conduct South-West Pacific maritime surveillance patrols. |
| Resolute Commenced 17 July 2006 | To contribute to the whole-of-government effort to protect Australia's Exclusive Economic Zone. |
| Deluge Commenced March 2007 | To support the Asia-Pacific Economic Conference in 2007. |
| Testament Planning | To support, as part of the whole-of-government approach, the conduct of the Catholic youth festival and Papal visit to Sydney in July 2008. |

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 Operation

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 2007-08, the Navy will continue to support 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, anti-ship missile defence and amphibious lift are the Navy's highest priorities for capability development, followed by undersea and littoral warfare capabilities. The reinvigoration of the patrol boat force will continue with all of the Armidale-class patrol boats being brought into service and full flexible crewing established by the end of June 2008.

KEY RISKS AND LIMITATIONS

Personnel

The Navy is embarked on a capability program that will require an expansion of the Navy's workforce by 2015. Affecting this change is an environment of increasing pressure to make efficient use of resources, rising personnel costs, increasing operational commitments, competition from commercial interests for the best talent, and a changing demographic and social climate that will challenge delivery and maintenance of the workforce.

The Navy's workforce is currently below its target strength by approximately 1,000 trained personnel. Shortages continue in several employment workgroups, particularly technical categories. This poses considerable risk to Navy capability. The national skill shortage will continue to affect the Navy's ability to attract suitable candidates for technical trade positions. Sustained strong retention and recruitment trends are the key elements to building the Navy's long-term workforce structure. Many retention measures were put in place during 2006-07, to be supported in time by longer-term measures being addressed through the 'Sea Change' program and other recruitment and retention measures.

Support to Operations

The Navy's ongoing commitment to domestic and overseas operations, combined with the major upgrade of a number of major fleet units, continues to challenge 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 medium-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. 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 Capability

The capability of the Collins-class submarine systems 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 remains a significant challenge.

Undersea Warfare Capability

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, Adelaide-class 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 limited.

Force Protection

The security environment in which maritime forces are required to operate has changed and represents a 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 under way 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 affected aviation capability and the effectiveness of the Anzac-class frigate/helicopter combination. Seahawk helicopters are carrying an additional tasking burden until the government makes a final decision on the future of the Super Seasprite helicopters later this year.

RISK MITIGATION

Personnel

The Navy has in place systems to identify the workforce size and shape required to support future capability. The crucial factor in achieving a sustainable workforce is improving the balance between recruitment and separation rates, which has been one of the most difficult challenges of recent times. Short-term financial retention initiatives have been approved for engineering officers, technical sailors, seaman officers, warfare sailors, aviation officers and aircrewmembers. Work is also being undertaken to better identify potential capability delivery constraints caused by workforce shortfalls.

The Navy will benefit from the ADF Retention and Recruitment Implementation Plan, which expands the range of short-term retention and recruitment initiatives to be introduced across the three Services. These initiatives are intended to encourage more people to choose a career in the ADF and provide more incentives for existing members to remain in the services.

The Navy Workforce Planning and Renewal Project has been established to complement current and future long-term workforce sustainability initiatives, but deficiencies in some elements are projected to carry forward for many years. The Navy is also working closely with Defence Force Recruiting to meet the Navy's Five Year Recruiting Directive and lift the Navy's profile in the community.

Support to Operations

The Navy will continue to support ongoing operations and peacetime national tasks and to meet preparedness requirements for other contingencies.

The Navy will exploit opportunities to provide concentrated training to maintain high-end warfighting skills to meet preparedness requirements for current and future operations.

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. The delivery of the SM-2 area air defence missile in the Adelaide-class frigates is planned for 2009.

Submarine Capability

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 within the Navy's 'Sea Change' program.

Undersea Warfare Capability

Undersea warfare capability will be maintained through a number of improvements. A partial Seahawk helicopter sensor upgrade, completed in 2006-07, will be followed by a further mid-life upgrade of sensors, communications, avionics, and airframe from 2010-2012 that will boost 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 increase 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.

Force Protection

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

Aviation

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. A government decision on the future of the Super Seasprite will be made later this year.

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⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|---|----------------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| INCOME | | | | | | |
| Revenues | | | | | | |
| Goods and services | 160,132 | 176,522 | 16,390 | 181,224 | 183,098 | 147,424 |
| Other revenue | 18,846 | 18,767 | -79 | 18,808 | 20,086 | 12,448 |
| Total Revenue | 178,978 | 195,289 | 16,312 | 200,032 | 203,184 | 159,872 |
| Gains | | | | | | |
| Reversals of previous asset write-downs | 18,974 | 18,974 | - | -2,816 | -2,816 | 4,900 |
| Net gains from sale of assets | - | - | - | - | - | - |
| Other Gains | 1,351 | 1,761 | 410 | 1,761 | 1,761 | 1,541 |
| Total Gains | 20,325 | 20,735 | 410 | -1,055 | -1,055 | 6,441 |
| Total Income | 199,303 | 216,025 | 16,722 | 198,977 | 202,129 | 166,313 |
| Expenses | | | | | | |
| Employees | 1,699,862 | 1,736,555 | 36,693 | 1,907,097 | 2,053,928 | 2,061,149 |
| Suppliers | 2,180,059 | 2,283,441 | 103,382 | 2,249,005 | 2,243,995 | 2,515,325 |
| Grants | 914 | 1,048 | 134 | 300 | 300 | 335 |
| Depreciation and amortisation | 1,170,356 | 1,170,356 | - | 1,157,691 | 1,160,641 | 1,158,214 |
| Finance cost | 5,839 | 7,144 | 1,305 | 11,961 | 15,667 | 11,754 |
| Write-down of assets and impairment of assets | 30,178 | 30,178 | - | 12,598 | 12,598 | 13,534 |
| Net losses from sale of assets | - | - | - | - | - | - |
| Other expenses | 147 | -33 | -180 | -33 | -30 | - |
| Total Expenses | 5,087,355 | 5,228,690 | 141,334 | 5,338,618 | 5,487,099 | 5,760,312 |
| Net Cost of Outcome 2: Navy Capability | 4,888,053 | 5,012,665 | 124,613 | 5,139,641 | 5,284,970 | 5,593,999 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.91).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

Table 5.2.2: Breakdown of Outcome Two by Output

| | Previous Estimate ¹⁾ | Budget Estimate | Variation ²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|--|---------------------------------|------------------|-------------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| Output 2.1 Capability for Major Surface Combatant Operations | 1,868,273 | 1,902,220 | 33,947 | 1,919,918 | 1,943,673 | 2,138,124 |
| Output 2.2 – Capability for Naval Aviation Operations | 625,414 | 641,202 | 15,787 | 654,145 | 672,546 | 683,415 |
| Output 2.3 Capability for Patrol Boat Operations | 266,838 | 277,386 | 10,548 | 297,770 | 317,063 | 357,363 |
| Output 2.4 Capability for Submarine Operations | 797,455 | 815,756 | 18,301 | 798,068 | 788,972 | 766,479 |
| Output 2.5 Capability for Afloat Support | 253,643 | 263,997 | 10,355 | 283,394 | 309,952 | 393,559 |
| Output 2.6 Capability for Mine Warfare | 375,379 | 387,512 | 12,134 | 406,097 | 424,423 | 515,061 |
| Output 2.7 – Capability for Amphibious Lift | 412,081 | 424,751 | 12,670 | 444,680 | 482,339 | 422,934 |
| Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations | 288,970 | 299,841 | 10,871 | 335,569 | 346,004 | 317,063 |
| Net Cost of Outcome Two | 4,888,053 | 5,012,665 | 124,613 | 5,139,641 | 5,284,970 | 5,593,999 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p. 92).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

Output Structure for Outcome Two

OUTPUT 2.1 – CAPABILITY FOR MAJOR SURFACE COMBATANT OPERATIONS

The major surface combatant force comprises five Adelaide-class guided missile frigates and eight Anzac-class frigates. 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. HMAS *Adelaide* will remain in service until the end of 2007 to provide the Navy with the continuity and flexibility to meet operational commitments, regional engagement obligations through the conduct of port visits and exercises with regional nations, and training for surface combatant fleet skills.

The FFG Upgrade Implementation project for four Adelaide-class guided missile frigates 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 due for completion in 2009.

The Anzac-class frigates are progressively undergoing capability enhancements including Harpoon missile, mine and obstacle avoidance sonar upgrades, as well as crew accommodation improvements.

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

The Anzac ship fleet will benefit from the allocation of additional logistics sustainment funding.

| 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 ⁽¹⁾ | 1,028 URD ⁽²⁾ |
| Anzac-class frigates | 8 | 2,344 URD ⁽³⁾ |

Notes

1. Five Adelaide-class frigates decreasing to four when HMAS Adelaide is withdrawn from operational service at the end of 2007.
2. Unit Ready Days (URD) are the number of days that a force element is available for tasking by the Fleet Commander outside of major maintenance and within planned readiness requirements or in accordance with contracted availability (see Glossary for further explanations).
3. Based on a revised average of 293 URD per ship over the 10-year *Defence Management and Financial Plan*.

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 introduction of the 11 Super Seasprite helicopters to operational service has been delayed by the need to resolve a flight control system problem identified during the flight test program.

Organic frigate-based naval aviation assets are part of, and extend substantially, the sensor and weapons systems of the parent ship. Embarked helicopters 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 utility support is the primary role of the Sea King helicopters, although all naval aviation assets can contribute.

Naval aviation relies 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 the Navy's and the Army's helicopter aircrew training needs is being progressed as part of Project AIR 9000. Naval aviation also manages the operation of the Kalkara aerial target system, which supports fleet and Air Force training. The Kalkara support contract is due to expire early in 2008 coinciding with the withdrawal from service of the system. Joint Project 66, Replacement for Air Defence Targets, under the Air Force's management, will provide the future unmanned aerial target systems.

The naval aviation capability will benefit from the allocation of additional logistics sustainment funding.

| 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 |
| Seahawks | 16 | 2,800 ⁽¹⁾ |
| Sea Kings | 6 | 1,600 |
| Squirrels | 13 ⁽²⁾ | 4,000 |
| Super Seasprites | 11 ⁽³⁾ | 200 ⁽⁴⁾ |
| Kalkaras | 5 ⁽⁵⁾ | Up to 39 presentations ⁽⁶⁾ |

Notes

1. During 2007-08, on average, a quarter of the Seahawk fleet will be undergoing major modifications at any one time. The planned flying hours have been 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 remains in the United States for proving and testing.
4. Super Seasprites are restricted from flying at the time of reporting, however it is estimated 200 hours would be needed for the resumption of test flying.
5. Four Kalkaras were expended in missile firings during 2006-07.
6. 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

By July 2007, all Fremantle-class patrol boats will have been decommissioned and 12 out of 14 newly constructed Armidale-class patrol boats will have been delivered. All new boats will be commissioned before the end of the first quarter of 2008 and multi-crewing, using 21 crews, will also have been established following completion of work-up training. The multi-crewing system will result in an overall increase in operational availability for the force while reducing operational tempo for patrol boat personnel.

Construction of a new crew support facility in Darwin at HMAS Coonawarra is expected to be completed in late 2007. This facility will provide an administrative and logistic base for five of the 15 Darwin-based crews not allocated at any given time to the 10 boats home-ported in Darwin. Similar facilities are being provided as part of the HMAS Cairns base redevelopment project to support the six crews and four boats to be home-ported in Cairns. Construction of a logistic support office at Taylor Barracks in Karratha was completed in April 2007 and cargo wharf modifications at Dampier are expected to be completed during 2007-08. These will enable Darwin-based Armidale-class patrol boats to commence forward-deployed North West Shelf security patrols.

The patrol boat force continues to make a large and effective contribution to the Civil Surveillance Program (managed by Coastwatch), to Border Protection Command tasking, and to the protection of Australia's sovereignty through the provision of a patrol and response capability in Australia's maritime approaches. Patrol boats also contribute to regional engagement and national security through the conduct of operations, port visits and exercises with regional nations.

| 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 |
| Armidale-class patrol boats | 9 ⁽¹⁾ | 3,227 URD ^{(2) (3)} |

Notes

1. The number of commissioned Armidale-class patrol boats will increase from nine to 14 by the end of 2007-08 with the corresponding number of mission-ready crews increasing from 13 to 21.
2. The target in the mature multi-crewed force structure beyond late 2007-08 is 3,500 days of annual contracted availability.
3. The current Armidale-class patrol boat contract with Defence Maritime Services allows the Government to purchase up to an additional 600 days of availability annually to meet emerging requirements.

OUTPUT 2.4 – CAPABILITY FOR SUBMARINE OPERATIONS

The Navy has six Collins-class submarines. HMAS *Waller* will complete its full cycle docking in June 2007 with the first replacement combat system and the new advanced capability torpedo. Other projects are in place to progressively enhance the combat capability of all six submarines including weapons, sensors, Special Forces improvements and communication system 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 fleet will benefit from the allocation of additional logistics sustainment funding.

| 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 | 1,004 URD ⁽¹⁾⁽²⁾⁽³⁾ |

Notes

1. HMAS *Sheean* entered full cycle docking nine months early and will remain in full cycle docking for all of 2007-08.
2. HMAS *Dechaineux* will remain in full cycle docking for all of 2007 with expected completion in late 2008.
3. HMAS *Farncomb* will be in mid-cycle docking at the commencement of 2007-08 with expected completion in mid-2008.

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 under way replenishment. It also has the capacity for logistic support to land forces and utility in a range of peacetime national tasks. The afloat support capability, 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. It also provides important logistics support to operations and exercises, contributing to Defence international engagements through these activities.

| 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 | 366 URD |
| Replenishment Ship | 1 | 227 URD ⁽¹⁾ |

Note

1. HMAS *Success* is scheduled for refit in the second half of 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, and surveillance and patrolling of Australia’s maritime approaches. Two auxiliary minesweepers provide route survey support and mine warfare training. Clearance diving teams support the full spectrum of mine warfare missions and also provide capability for explosive ordnance disposal.

| 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 | 2,085 URD |
| Auxiliary minesweepers | 2 | 732 URD |
| Clearance diving teams | 2 | 732 URD |

OUTPUT 2.7 – CAPABILITY FOR AMPHIBIOUS LIFT

This output provides capability for amphibious lift consisting of two amphibious landing ships, a heavy landing ship, and six heavy landing craft. 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, 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 | 366 URD |
| Amphibious landing ships | 2 | 605 URD ⁽¹⁾ |
| Heavy landing craft | 6 | 2,066 URD ⁽²⁾ |

Notes

1. HMAS *Manoora* will be docked between August and November 2007. HMAS *Kanimbla* will commence a docking in late 2007-08 that runs into 2008-09.
2. HMA Ships *Betano*, *Labuan* and *Tarakan* all have scheduled dockings in 2007-08.

OUTPUT 2.8 – CAPABILITY FOR HYDROGRAPHIC, METEOROLOGICAL AND OCEANOGRAPHIC OPERATIONS

This output provides the Navy's capability for hydrographic operations, nautical charting and provision of meteorological and oceanographic support to the ADF. The Output's nautical products enable the maritime trade industry and border protection of Australia's Exclusive Economic Zone while contributing 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*.

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

Oceanographic support is conducted by the Operational Meteorological and Oceanographic Centre, the Defence Oceanographic Data Centre, and the Naval Air Station Weather and Oceanographic Centre at 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 HydrOcscheme 2006-2009 data and surveying tasking requirements to meet national hydrographic surveying and charting obligations. | | |
| Type | Number | Budget Estimate |
| Hydrographic ships | 2 | 732 URD |
| Survey motor launches | 4 | 1,184 URD ⁽¹⁾ |
| Laser airborne depth sounder aircraft | 1 | 664 hours ⁽²⁾ |
| Deployable geospatial support team | 1 | 366 URD ⁽³⁾ |
| Chart Production Office ⁽⁴⁾ | 1 | 249 URD ⁽³⁾ |
| Naval Air Station Weather and Oceanographic Centre | 1 | 240 URD ⁽³⁾ |
| Mobile Meteorological and Oceanographic Teams | 1 | 732 URD ⁽³⁾ |
| Navigational Chart Production: <ul style="list-style-type: none"> • New charts/editions • Electronic navigational chart cells | | 50 200 |
| Defence Support: <ul style="list-style-type: none"> • New Military Geographic Information (MGI) products/editions • MGI Foundation Datasets | | 12 6 |
| Oceanographic database production: <ul style="list-style-type: none"> • Web Enabled Datasets | | 4 |

Notes

1. HMA Ships *Paluma* and *Mermaid* undergo mandatory post-refit operational testing during July and August 2007, and *Shepparton* and *Benalla* undergo an extended maintenance period from August to November 2007.
2. Laser Airborne Depth Sounder will undergo survey system upgrade in the second-half of 2007.
3. Previously reported as availability days. Now reported as URD to align with other Navy force elements.
4. Previously referred to as the Australian Hydrographic Office.

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 affairs;

- 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 2007-08 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 2007-08, 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, Timor-Leste and 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 with supporting combat support and combat service support elements. The Army has developed six company-sized Reserve Response Forces to enhance the Army's domestic security response capability. The Army is also developing 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 increase its ability to sustain a brigade group offshore for extended periods and a battalion group for short-notice contingency operations. In particular, the development of the Army's core capabilities in 2007-08 will focus on adoption of the Hardened and Networked Army and the Enhanced Land Force initiatives, to improve its ability to generate adequate combat weight, support deployed forces, and contribute to domestic security.

The Army, in consultation with Chief of Capability Development Executive and the DMO, will continue to develop its combat weight through improvements in the mobility, firepower and protection of existing force elements by:

- continuing to raise a second mechanised Battle Group based on 7th Battalion RAR;
- continuing to develop 1st Armoured Regiment capability with the introduction into service of the Abrams tank;
- continued delivery of the Bushmaster infantry mobility vehicle into service;
- introduction into service 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 M-113 armoured personnel carrier fleet;
- commencing procurement activities to support a detailed second pass proposal to the Government for the acquisition of protected self-propelled and lightweight towed 155mm artillery systems;
- developing a detailed second pass proposal to the Government supporting a further phase of the soldier modernisation project (concentrating on C4I, lethality and survivability) for submission in 2007;
- submitting a first pass proposal to the Government for the acquisition of an enhanced direct fire support system for the close combat force;
- submitting a first pass proposal to the Government for the acquisition of an improved counter landmine capability;
- providing a boosted Explosive Ordnance and Improvised Explosive Device disposal capability.

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 through the introduction of a fleet of digital combat net radios;
- supporting Capability Development Executive (CDE) in developing a detailed second pass proposal to the Government for the adoption of a vehicle-based Battle Management System;
- supporting CDE in developing (as part of the soldier modernisation project) a detailed second pass proposal to the Government supporting the introduction of a Dismounted Battle Management System for close combatants for submission in June 2008;
- developing an Army sustainment model designed to ensure that a brigade and battalion groups can be deployed continually; and

- developing a detailed second pass proposal to the Government to replace the field vehicle and trailer capability for submission in mid-2007.

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 continues to develop and better its capability to maintain situational awareness through:

- the development of a tactical unmanned aerial vehicle capability;
- the introduction into service of an improved ground surveillance radar in 2007;
- the development of unmanned ground sensors;
- the introduction into service of an improved thermal imagery capability in 2007; and
- the delivery of a life-of-type extension to weapon locating radars.

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, 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 to be 25,926 for 2007-08, and is projected to grow to 29,958 by 2016-17. Although total recruiting figures have been good in 2006-07, these figures are not balanced across all trades. For example, while recruiting has been successful for some trades such as infantry, other trades such as health services, engineers, technicians and linguists remain problematic. The separation rate of officers is at an historic low of eight per cent although the soldier separation rates sit at 12 per cent.

Logistic Support

The Army has experienced logistic challenges over the past year with some ammunition shortages and difficulties in maintaining the general service vehicle fleet. Remediation plans, including increases in ammunition holdings, better maintenance programs for key Army fleets, and the replacement of a range of ageing equipment, will continue. These are being addressed through the allocation of additional logistics sustainment funds.

Infrastructure

Strong growth in the construction industry over the past few years continues to result in real cost increases. This, coupled with increases in Defence's external statutory compliance requirements, 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 improve existing capabilities or introduce new capabilities. ANAO *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 CDE in 2007.

RISK MITIGATION

The Army is developing an Army Force Structure Plan 2009-2016 to ensure it can concurrently meet ongoing operational responsibilities while increasing in size to 30,515 as well as effectively incorporating new and replacement capabilities.

Personnel

The Army has recently implemented a series of new retention initiatives to address the shortfalls in Corporals, Sergeants, Captains and Majors. Further initiatives have also been adopted to improve internal trade transfers and retention. It will be at least 12 months before the success of the retention initiatives can be measured. Recruiting targets have been increased to 3,500 for the Australian Regular Army for 2007-08. This target will be in place for five years and if the target is achieved each year, it will remediate the asset liability gap, place the Army on the growth path for the implementation of the Hardened and Networked Army and the Enhanced Land Force and allow it to reduce its intake to 3,000 after five years to sustain the force. Other recruitment and retention initiatives announced in the budget will also reduce personnel risks.

Logistic Support

The Army continues to develop its equipment establishment plan to inform its planning process and set the priorities for equipping the Army. It is also benefiting in the short-term from additional funding in support of logistic shortfalls for the general service B-vehicles, explosive ordnance, Black Hawk helicopters, Army surveillance and battlefield command support systems.

Infrastructure

The Army is working with other Defence Groups to develop strategies to relieve the pressures on capability delivery associated with infrastructure. The development of strategic planning guidance for the Army's future use of the Defence estate and other estate planning initiatives is producing cost effective outcomes. The Army's strategic review of training areas within Australia in order to identify its capability needs and advance development is ongoing, with reviews of ranges in three regions being completed.

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⁾ 2007-08 \$,000 | Budget Estimate 2007-08 \$,000 | Variation ²⁾ \$,000 | Forward Estimate 2008-09 \$,000 | Forward Estimate 2009-10 \$,000 | Forward Estimate 2010-11 \$,000 |
|---|--|--------------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| INCOME | | | | | | |
| Revenues | | | | | | |
| Goods and services | 212,303 | 233,257 | 20,955 | 240,718 | 240,933 | 279,532 |
| Other revenue | 29,559 | 29,458 | -101 | 29,289 | 37,277 | 37,993 |
| Total Revenue | 241,861 | 262,715 | 20,854 | 270,008 | 278,210 | 317,525 |
| Gains | | | | | | |
| Reversals of previous asset write-downs | 29,963 | 29,963 | - | -5,377 | -5,377 | 7,346 |
| Net gains from sale of assets | - | - | - | - | - | 0 |
| Other Gains | 2,191 | 2,715 | 524 | 2,715 | 2,715 | 1,578 |
| Total Gains | 32,154 | 32,678 | 524 | -2,662 | -2,662 | 8,924 |
| Total Income | 274,015 | 295,393 | 21,378 | 267,346 | 275,548 | 326,450 |
| Expenses | | | | | | |
| Employees | 2,802,049 | 2,840,746 | 38,697 | 2,991,045 | 3,156,462 | 3,763,614 |
| Suppliers | 2,759,940 | 2,884,746 | 124,806 | 2,807,378 | 2,785,324 | 2,332,814 |
| Grants | 1,941 | 2,112 | 172 | 832 | 832 | 734 |
| Depreciation and amortisation | 883,115 | 883,115 | - | 873,392 | 834,826 | 789,485 |
| Finance cost | 9,626 | 11,294 | 1,668 | 16,755 | 20,611 | 18,491 |
| Write-down of assets and impairment of assets | 66,279 | 66,279 | - | 20,029 | 20,029 | 20,612 |
| Net losses from sale of assets | - | - | - | - | - | - |
| Other expenses | 336 | 106 | -230 | 106 | 110 | - |
| Total Expenses | 6,523,286 | 6,688,399 | 165,113 | 6,709,537 | 6,818,195 | 6,925,750 |
| Net Cost of Outcome 3: | | | | | | |
| Army Capability | 6,249,270 | 6,393,005 | 143,735 | 6,442,191 | 6,542,647 | 6,599,300 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.95).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

Table 5.3.2: Breakdown of Outcome Three by Output

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|---|----------------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| Output 3.1 Capability for Special Operations | 567,484 | 581,018 | 13,534 | 588,359 | 598,442 | 642,444 |
| Output 3.2 – Capability for Medium Combined Arms Operations | 1,094,477 | 1,115,711 | 21,234 | 1,088,022 | 1,094,462 | 1,058,020 |
| Output 3.3 Capability for Light Combined Arms Operations | 1,028,258 | 1,048,525 | 20,267 | 1,059,283 | 1,083,995 | 1,010,024 |
| Output 3.4 Capability for Army Aviation Operations | 573,100 | 586,716 | 13,616 | 593,551 | 601,137 | 581,666 |
| Output 3.5 Capability for Ground Based Air Defence | 119,123 | 126,106 | 6,983 | 135,812 | 138,699 | 123,572 |
| Output 3.6 Capability for Combat Support Operations | 445,254 | 457,002 | 11,748 | 468,086 | 478,729 | 460,039 |
| Output 3.7 – Capability for Regional Surveillance | 156,512 | 164,041 | 7,529 | 173,827 | 176,485 | 202,995 |
| Output 3.8 – Capability for Operational Logistic Support to Land Forces | 590,618 | 604,490 | 13,872 | 615,759 | 630,060 | 580,354 |
| Output 3.9 – Capability for Motorised Combined Arms Operations | 605,920 | 620,015 | 14,096 | 628,674 | 641,568 | 681,945 |
| Output 3.10 – Capability for Protective Operations | 1,068,526 | 1,089,381 | 20,855 | 1,090,817 | 1,099,070 | 1,258,241 |
| Net Cost of Outcome Three | 6,249,270 | 6,393,005 | 143,735 | 6,442,191 | 6,542,647 | 6,599,300 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p. 96).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

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 counter terrorism and offshore recovery operations. Force elements include the Defence Chemical, Biological, Radiological, Nuclear and

Explosive capability and possess integral strategic secure communications and logistics capability.

Output 3.1 also provides a deployable component HQ, 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 |
|--|
| <ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months including the provision of three battalion-sized groups within 90 days readiness 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 2007-08 are shown in Table 5.3.3.

The Army aviation capability will benefit from the increase in logistic support funding for the Black Hawk helicopters.

Table 5.3.3: Army Aviation Aircraft

| Aircraft | Number | Flying Hours 2007–08 |
|---------------------------------------|---------------|-----------------------------|
| CH-47D Chinook | 6 | 1,270 |
| S-70A9 Black Hawk | 34 | 7,500 |
| B-206 Kiowa | 41 | 10,000 |
| UH-1H Iroquois | 25 | 500 |
| Armed Reconnaissance Helicopter Tiger | 14 | 5,500 |
| MRH-90 Multi-role Helicopter | 2 | 200 |
| B300 King Air 350 | 3 | 2,000 |

| 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 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.• 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 on 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, 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 provides 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. These combined arms teams form the basis of High Readiness Reserve Combat Teams on a reduced readiness notice. 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 based on predominantly 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 capabilities to protect Australia and its national interests by providing a unique combination of flexibility, reach, precision and speed of response. The Air Force's vision is to be a balanced, networked, expeditionary 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 follow-on sustainment. Information operations provide better situational awareness which increases the effectiveness of our command and control systems. Australian and regional communities also benefit directly from the Air Force's contribution to search and rescue operations, disaster relief, humanitarian assistance and other protective functions.

The Air Force is undergoing the largest upgrade of capabilities since WWII which when combined with the ongoing high operational tempo, is placing considerable pressure on our limited workforce. The Air Force is developing strategies to increase the workforce and manage the high level of transition effort that will occur over the next decade.

PLANNED PERFORMANCE

The Air Force will continue to provide support to the Government's border control initiatives including the ability to provide a surge capacity for surveillance and response capabilities. During 2007-08, the Air Force will continue to support the war against terrorism, conduct operational deployments as directed by the Government and provide rapid disaster response when necessary. 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; and other capabilities as directed by the Government;
- Operation Resolute with P-3 Orion surveillance of Australia's northern border approaches;
- humanitarian assistance operations;
- Operation Deluge during the 2007 Asia-Pacific Economic Cooperation Leaders' Meeting in Sydney;
- Operation Testament in preparation for the Catholic youth festival and Papal visit to Sydney in 2008; and
- the introduction of new capabilities including the Boeing C-17 Globemaster III aircraft.

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 in 2010 with the strike role transitioning to a fleet of 24 F/A-18F Block II Super Hornet multi-role aircraft and the upgraded F/A-18A/B Hornet. The introduction of the KC-30B multi-role tanker transport aircraft, and the Wedgetail airborne early warning and control aircraft in early 2009, the acquisition of the AGM-158 Joint Air-to-Surface Stand-off Missile for the F/A-18A/B fleet, and improved short-range, day and night, all-weather precision guided weapons will ensure that the Air Force maintains its capability edge.

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. This is being addressed through the continued introduction of four new Boeing C-17 Globemaster III aircraft and associated equipment in 2007-08 to provide the ADF with a heavy oversized airlift capability.

Air Force recruitment and retention continues to be strong but recruitment in a few key specialised areas is problematic due to strong competition in the labour market. The Air Force will continue to be proactive during 2007-08 in identifying opportunities and developing strategies to attract and retain personnel and increase our workforce to operate and support future capability requirements. The Air Force is developing innovative personnel structures to better meet the future war fighting environment and match the aspirations of the workforce in the 2015-2020 period and beyond.

KEY RISKS AND LIMITATIONS

Personnel

Overall retention and recruitment remain sound when compared to long-term rates. The tight external labour market is creating further competition for talented young people in the Air Force target demographic. While retention overall is satisfactory, substantial remuneration packages are being offered by industry thereby increasing pressure on qualified specialists in the health, technology and engineering employment areas. A continuing trend is that the average length of service in the Air Force is reducing in some employment groups.

Transition to New Capabilities

The high number of new equipment deliveries and upgrades over the coming decade will require careful management to ensure that current capabilities are maintained during transition for the required levels of preparedness. This will require continuing modest growth in the Air Force workforce.

RISK MITIGATION

Personnel

The Air Force is identifying the priority areas for personnel resources to meet future capability requirements. In particular, the Air Force is identifying competencies required in the workforce that will promote future capabilities. Significant changes are being made to employment groups to move away from traditional groupings towards broader multi-skilled categories. The flexibilities inherent in the new groups will provide attractive careers that lead to senior warfighting roles. The Air Force will work more closely with the Defence Force Recruiting organisation to gain greater market presence, particularly in schools and tertiary institutions. Opportunities to selectively recruit from overseas defence forces in the UK, USA, and Canada will continue to be pursued to laterally recruit experienced personnel. The Air Force is expanding opportunities for current personnel to gain skills and knowledge through education and re-training, leading to the new career paths needed for new capabilities within the service. The Air Force will continue to focus on more flexible applications of non-remuneration personnel policy initiatives to retain our professional and experienced staff. The Air Force Personnel Strategy maintains the principle of 'partnering with our people to balance their needs with those of the Air Force'. The strategy includes initiatives to provide multiple entry points to career streams, recognition of both professional qualifications and experience in providing combat capability, a porous boundary between officers and other ranks in the same career stream and the recognition of broader competencies for promotion. The Air Force will continue to offer greater choice

in conditions of service and career structures. In responding to the Government's policy to expand the role of the Reserves to support combat force operations, the Air Force has established a High Readiness Reserve category and restructured the reserve workforce to facilitate far greater integration with the permanent workforce.

Transition to New Capabilities

Over the next decade, the Air Force will continue to evolve into a fully networked force balancing Australia's current and longer term strategic air power needs. The Air Force will capitalise on persistent surveillance and reconnaissance platforms, adaptive command and control systems and fully networked operational and support systems. The transition to future capabilities will be managed through a carefully orchestrated workforce plan to ensure we have the right people in the right jobs to operate the new technology capabilities. The acquisition of 24 F/A-18F Block II Super Hornet aircraft and fifth-generation stealth F-35 Joint Strike Fighters armed with modern precision weapons are examples of how the Air Force will increase effectiveness and efficiency through agile, responsive and flexible systems. These capabilities will be supported by other combat and surveillance capabilities, such as airborne early warning and control and air-to-air refuelling aircraft. This will ensure that the Air Force is well placed to maintain its regional capability edge during transition to the new combat capability, and contribute to a national effects-based approach to operations.

Logistics Sustainment

Risks to the logistics sustainment of the force-in-being are being addressed through improved logistic management practices and the allocation of additional logistics sustainment funds.

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⁾ | Budget Estimate | Variation ²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|---|---------------------------------|------------------|-------------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| INCOME | | | | | | |
| Revenues | | | | | | |
| Goods and services | 154,285 | 171,548 | 17,263 | 176,611 | 177,502 | 201,325 |
| Other revenue | 13,343 | 13,260 | -83 | 13,432 | 13,671 | 23,921 |
| Total Revenue | 167,628 | 184,808 | 17,180 | 190,043 | 191,173 | 225,246 |
| Gains | | | | | | |
| Reversals of previous asset write-downs | 137,407 | 137,407 | - | 119,197 | 119,197 | 87,607 |
| Net gains from sale of assets | - | - | - | - | - | - |
| Other Gains | 1,129 | 1,561 | 432 | 1,561 | 1,561 | 1,862 |
| Total Gains | 138,536 | 138,968 | 432 | 120,758 | 120,758 | 89,469 |
| Total Income | 306,164 | 323,776 | 17,612 | 310,801 | 311,931 | 314,715 |
| Expenses | | | | | | |
| Employees | 1,593,978 | 1,631,054 | 37,076 | 1,778,231 | 1,901,721 | 2,106,586 |
| Suppliers | 2,483,311 | 2,639,336 | 156,025 | 2,734,123 | 2,772,312 | 2,700,135 |
| Grants | 742 | 883 | 141 | 280 | 280 | 345 |
| Depreciation and amortisation | 1,241,319 | 1,241,319 | - | 1,289,820 | 1,184,149 | 1,141,550 |
| Finance cost | 4,543 | 5,918 | 1,374 | 10,688 | 14,359 | 12,230 |
| Write-down of assets and impairment of assets | 129,657 | 129,657 | - | 97,637 | 97,637 | 95,703 |
| Net losses from sale of assets | - | - | - | - | - | - |
| Other expenses | 918 | 728 | -190 | 739 | 743 | - |
| Total Expenses | 5,454,469 | 5,648,896 | 194,427 | 5,911,518 | 5,971,201 | 6,056,548 |
| Net Cost of Outcome | | | | | | |
| 4: Air Force Capability | 5,148,305 | 5,325,120 | 176,815 | 5,600,717 | 5,659,270 | 5,741,833 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.98).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate

Table 5.4.2: Breakdown of Outcome Four by Output

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|--|----------------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| Output 4.1 – Capability for Air Combat Operations | 1,755,268 | 1,842,613 | 87,345 | 1,875,248 | 1,979,293 | 2,118,097 |
| Output 4.2 – Capability for Combat Support of Air Operations | 994,746 | 1,022,579 | 27,832 | 1,067,122 | 1,070,482 | 1,043,328 |
| Output 4.3 - Capability for Surveillance and Response Operations | 1,263,431 | 1,295,189 | 31,758 | 1,334,368 | 1,340,164 | 1,406,143 |
| Output 4.4 – Capability for Airlift Operations | 1,134,859 | 1,164,739 | 29,880 | 1,323,979 | 1,269,330 | 1,174,265 |
| Net Cost of Outcome Four | 5,148,305 | 5,325,120 | 176,815 | 5,600,717 | 5,659,270 | 5,741,833 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p. 99).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

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 Hornets and two squadrons of F-111 aircraft, crews, weapon systems and support infrastructure to deliver the 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 F-111 fleet will be withdrawn from service in 2010.

The ongoing upgrade of the F/A-18A/B Hornet fleet and acquisition of 24 F/A-18F Super Hornets, 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.

The air combat capability will benefit from the additional logistics sustainment funds for the F/A-18 and Lead-in-Fighter aircraft.

| Performance Targets | | |
|---|---|-----------------------------|
| <ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve levels of training that maintains core skill and professional standards across all assigned warfare areas. • Maintain planning for the introduction of the Super Hornet in 2010-2012 and the withdrawal of the F-111. • Maintain upgrade and refurbishment of the F/A-18A/B Hornet aircraft. | | |
| Aircraft | Number | Flying Hours 2007-08 |
| F/A-18 Hornet | 71 (55 F/A-18A and 16 F/A-18B) | 12,500 |
| F-111 | 21 (17 F-111C and 4 RF-111C) ⁽¹⁾ | 3,600 |
| Hawk Lead-in Fighter | 33 | 8,000 |
| PC-9 Forward Air Control training aircraft | 4 | 1,030 |

Note

1. An additional 12 F-111G aircraft are in storage awaiting disposal action 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 concerned primarily 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.

The 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. This is achieved once yearly as part of the exercise program.

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 online 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"> – two expeditionary combat support wings, and – one expeditionary 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 the P-3 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 group also undertakes maritime strike and anti-submarine warfare operations with the P-3 Orion.

The surveillance and response capability will benefit from the allocation of additional logistics sustainment funds for the P-3C aircraft.

| 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 2009-10. | | |
| Aircraft | Number | Flying Hours 2007-08 |
| P-3 Orion | 19 | 8,200 |

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 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.
- Continue to introduce the Boeing C-17 Globemaster III aircraft into service.
- Maintain planning for the transition of the air-to-air refuelling capability in 2008-09 to the KC30B, whilst withdrawing the B707 from service in 2008.

| Aircraft | Number | Flying Hours 2007-08 |
|----------------------|----------------------------------|----------------------|
| C-130 Hercules | 24 (12 C-130H and 12 C-130J) | 9,200 |
| C-17 Globemaster III | 2 increasing to 4 in March 08 | 3,500 |
| B707 ⁽¹⁾ | 2 decreasing to 1 in November 07 | 800 |
| DHC-4 Caribou | 14 | 4,100 |
| B737 BBJ | 2 | 1,414 |
| CL604 Challenger | 3 | 2,403 |

Note

1. The remaining B707 will be withdrawn from service on 30 June 2008.

The airlift operations capability will benefit from the allocation of additional logistics sustainment funds for the C-130 aircraft.

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 Executive 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 Executive 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 Executive manages the Defence Cooperation Program, which provides military assistance in our region.

PLANNED PERFORMANCE

Strategy Executive's principal objectives for 2007-08 are to:

- monitor the external environment and ensure the currency of strategic planning;
- contribute to the effective conduct of ADF operations;
- enhance the United States alliance and improve Australia – US capability and technology linkages;
- 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 Executive 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 for the Defence of Australia and its Interests

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Var. ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|---|----------------------------------|-----------------|---------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| INCOME | | | | | | |
| Revenues | | | | | | |
| Goods and services | 10,745 | 11,748 | 1,003 | 11,846 | 11,808 | 5,404 |
| Other revenue | 457 | 453 | -5 | 440 | 1,067 | -4,343 |
| Total Revenue | 11,202 | 12,200 | 998 | 12,287 | 12,875 | -1,061 |
| Gains | | | | | | |
| Reversals of previous asset write-downs | 1,509 | 1,509 | - | -1,191 | -1,191 | 30 |
| Net gains from sale of assets | - | - | - | - | - | - |
| Other Gains | 167 | 192 | 25 | 192 | 192 | 590 |
| Total Gains | 1,676 | 1,701 | 25 | -999 | -999 | 619 |
| Total Income | 12,879 | 13,902 | 1,023 | 11,288 | 11,876 | 1,680 |
| Expenses | | | | | | |
| Employees | 109,334 | 109,774 | 440 | 121,195 | 134,232 | 66,169 |
| Suppliers | 195,353 | 200,253 | 4,900 | 201,751 | 229,229 | 292,831 |
| Grants | 29 | 38 | 8 | 0 | 0 | 9 |
| Depreciation and amortisation | 6,752 | 6,752 | - | 6,723 | 6,178 | 9,808 |
| Finance cost | -18 | 61 | 80 | -2 | -4 | 1,950 |
| Write-down of assets and impairment of assets | 449 | 449 | - | -91 | -91 | 20 |
| Net losses from sale of assets | - | - | - | - | - | - |
| Other expenses | 16 | 5 | -11 | 5 | 5 | - |
| Total Expenses | 311,915 | 317,332 | 5,417 | 329,581 | 369,548 | 370,786 |
| Net Cost of Outcome | | | | | | |
| 5: Strategic Policy | 299,036 | 303,430 | 4,394 | 318,293 | 357,672 | 369,106 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.100).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate

Table 5.5.2: Breakdown of Outcome Five by Output

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|--|----------------------------------|-----------------|--------------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| Output 5.1 - International Policy, Activities and Engagement | 220,168 | 223,410 | 3,242 | 234,904 | 258,647 | 298,239 |
| Output 5.2 - Strategic Policy and Military Strategy | 78,868 | 80,020 | 1,152 | 83,390 | 99,025 | 70,867 |
| Net Cost of Outcome Five | 299,036 | 303,430 | 4,394 | 318,293 | 357,672 | 369,106 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.100).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

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.
- Achieving Defence Cooperation Program objectives.

OUTPUT 5.2 – STRATEGIC POLICY AND MILITARY STRATEGY

This output develops the strategic framework for capability planners and warfighters, and manages input into the development of Defence strategic reviews and updates. It provides analysis of Australia's strategic environment to inform decision making, including on the development and use of Defence capability. It produces higher-level Defence guidance, deliberate planning and military strategic guidance on the employment of the ADF and its capabilities. It provides advice and management of export controls for defence and dual use

items, provides policy guidance on defence aspects of non-proliferation and arms control, and coordinates defence involvement in domestic counter terrorism.

| Performance Targets |
|---|
| <ul style="list-style-type: none">• 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 strategic 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 defence self-reliance of regional countries.

These objectives are enhanced through assistance to regional security forces in the areas of defence reform, strategic planning, command and control, counter terrorism, maritime security, peacekeeping, disaster relief, communications, logistic support and education and training. 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, which engages Pacific navies and police maritime wings, 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 and Pacific police 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 \$70.989m allocated to the program in 2007-08 is shown in Table 5.5.3.

Table 5.5.3: Defence Cooperation Funding

| | Estimated Actual 2006-07 \$m | Budget Estimate 2007-08 \$m |
|--|------------------------------------|-----------------------------------|
| Papua New Guinea⁽¹⁾ | 14.401 | 11.063 |
| South Pacific | | |
| Timor-Leste | 6.150 | 6.551 |
| Vanuatu | 1.803 | 1.558 |
| Solomon Islands | 3.998 | 1.740 |
| Tonga | 1.587 | 2.321 |
| Western Samoa | 0.741 | 0.478 |
| Cook Islands | 0.335 | 0.388 |
| Fiji | 3.777 | 0.444 |
| Marshall Islands | 0.804 | 0.791 |
| Federated States of Micronesia | 0.895 | 1.038 |
| Tuvalu | 0.771 | 0.861 |
| Kiribati | 0.680 | 0.677 |
| Palau | 1.020 | 1.070 |
| Multilateral General Assistance ⁽²⁾ | 11.379 | 12.230 |
| Subtotal | 33.940 | 30.147 |
| South-East Asia | | |
| Singapore | 0.273 | 0.203 |
| Philippines | 4.101 | 6.788 |
| Thailand | 4.430 | 2.571 |
| Malaysia | 5.028 | 3.424 |
| Indonesia | 6.211 | 5.825 |
| Vietnam | 2.579 | 1.936 |
| Cambodia and Laos | 0.978 | 1.008 |
| Brunei | 0.040 | 0.019 |
| Subtotal | 23.640 | 21.774 |
| Other regional activities | 7.220 | 8.005 |
| Total | 79.201 | 70.989 |

Notes

1. Includes funding for the second tranche of the Papua New Guinea Defence Force Reform Program of \$1.274m 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 Defence intelligence agencies collect and produce intelligence, undertake analysis and develop 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 regional leadership in intelligence capabilities, including skilled and experienced personnel, databases and collection, and production and dissemination systems to meet national and Defence priority requirements;
- production of signals intelligence reports and electronic warfare databases, imagery and geospatial intelligence reporting and databases, and all-source intelligence assessments, reports and databases;
- provision of intelligence assessments to support Defence and government decision making, and contributing to the planning and conduct of ADF operations;
- provision of ADF weapons and platform geospatial standards advice and services to meet whole-of-government requirements;
- provision of a tangible and continuous contribution to alliances and to other important Defence relationships; and
- provision of specialist assistance to whole-of-government initiatives to combat transnational crime.

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. The Defence intelligence agencies are focused towards the following key performance areas:

- providing quality intelligence reporting and assessments;
- providing effective and sustainable intelligence support for the planning and conduct of ADF operations and for decision makers including the new ADF command and control structures;

- maintaining and developing first-rate Defence intelligence and geospatial information capabilities;
- maintaining the knowledge edge by exploiting new technology;
- strengthening of the intelligence contribution to other intelligence partners including providing new capabilities to access intelligence information from key allies and other Defence relationships;
- improving investment and capability planning, accountability and resource and security management;
- developing motivated, adaptable and skilled teams of highly competent professionals;
- providing, in conjunction with the wider Australian Intelligence Community, support to whole-of-government initiatives to address transnational crimes including terrorism, weapons of mass destruction proliferation, the illegal exploitation of our natural resources, and the illegal trafficking of people, arms and illicit drugs;
- strengthening the Defence Languages Other Than English capability, through linguist training and recruitment and retention strategies which will enhance Languages Other Than English management, training and capability; and
- exploiting Defence and allied Intelligence, Surveillance and Reconnaissance capability to enhance support to ADF operations.

KEY RISKS AND LIMITATIONS

The key risks to the Defence intelligence agencies are:

- Defence's ability to preserve its capability edge in intelligence collection, production and analysis is critically dependent on the availability of skilled and experienced ADF and civilian personnel to support ongoing operations, the acquisition and exploitation of new technology, and the maintenance of effective security; and
- the environment in which Defence operates is dynamic and demands that key intelligence priorities, requirements and capabilities be reviewed regularly.

RISK MITIGATION

To varying degrees, the risks will be mitigated by the following strategies:

- 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. Care is also being taken to ensure ADF staffing levels do not fall below pre-Flood Inquiry (2004) figures.

- A Defence priority is the ongoing investment in initiatives to support Defence acquisition processes and Defence scientific and technical developments.
- Defence is developing carefully targeted capital investment programs, strengthening agency partnerships, ensuring an increased customer focus, implementing a security renewal agenda and developing business continuity plans.

| Performance Targets |
|--|
| <ul style="list-style-type: none">• Provide quality intelligence reporting and assessments.• Provide 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 other intelligence partners including providing new capabilities to access intelligence information from key allies and other Defence relationships.• Improve investment and capability planning, accountability and resource and security management.• Develop motivated, adaptable and skilled teams of highly competent professionals.• Provide, in conjunction with the wider Australian Intelligence Community, support to whole-of-government initiatives to address transnational crimes.• Strengthen the Defence Languages Other than English capability.• Exploit Defence and allied Intelligence, Surveillance and Recognisance capability to enhance support to ADF operations. |

Cost Summary for Outcome Six

TOTAL BUDGETED PRICE TO THE GOVERNMENT

Table 5.6.1: Outcome Six - Intelligence for the Defence of Australia and its Interests

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|---|----------------------------------|-----------------|--------------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| INCOME | | | | | | |
| Revenues | | | | | | |
| Goods and services | 11,168 | 12,973 | 1,805 | 13,511 | 13,617 | 5,342 |
| Other revenue | 201 | 192 | -9 | 185 | 907 | 955 |
| Total Revenue | 11,369 | 13,165 | 1,796 | 13,696 | 14,523 | 6,297 |
| Gains | | | | | | |
| Reversals of previous asset write-downs | 1,828 | 1,828 | - | -1,442 | -1,442 | 36 |
| Net gains from sale of assets | - | - | - | - | - | - |
| Other Gains | 203 | 248 | 45 | 248 | 248 | 1,251 |
| Total Gains | 2,030 | 2,076 | 45 | -1,194 | -1,194 | 1,288 |
| Total Income | 13,399 | 15,241 | 1,841 | 12,502 | 13,329 | 7,585 |
| Expenses | | | | | | |
| Employees | 267,768 | 272,987 | 5,219 | 293,476 | 321,168 | 298,602 |
| Suppliers | 203,245 | 220,737 | 17,492 | 222,817 | 251,517 | 369,373 |
| Grants | 97 | 112 | 15 | 20 | 20 | 21 |
| Depreciation and amortisation | 79,054 | 79,054 | - | 78,071 | 100,100 | 87,115 |
| Finance cost | 293 | 438 | 144 | 407 | 419 | 3,865 |
| Write-down of assets and impairment of assets | 1,224 | 1,224 | - | -126 | -126 | 33 |
| Net losses from sale of assets | - | - | - | - | - | - |
| Other expenses | 24 | 4 | -20 | 4 | 5 | - |
| Total Expenses | 551,707 | 574,556 | 22,850 | 594,670 | 673,103 | 759,008 |
| Net Cost of Outcome 6: Intelligence | 538,307 | 559,316 | 21,009 | 582,168 | 659,774 | 751,424 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.101).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

Table 5.6.2: Breakdown of Outcome Six by Output

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|--------------------------------|----------------------------------|-----------------|--------------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| Output 6.1 Intelligence | 538,307 | 559,316 | 21,009 | 582,168 | 659,774 | 751,424 |
| Net Cost of Outcome Six | 538,307 | 559,316 | 21,009 | 582,168 | 659,774 | 751,424 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.101).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

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: Superannuation and Housing Support Services for Current and Retired Defence Personnel encompasses all the activities that Defence performs on the behalf of Government that are resourced by Defence's administered appropriations. The administered appropriations provide resources to Defence on a 'no-win; no-loss' basis for specific purposes. Outcome Seven also includes revenue items for which the receipts are to be returned to Government. Outcome Seven consists of three outputs.

Output 7.1: Superannuation Support Services for Current and Retired Defence Personnel reports contributions and the movement in liabilities associated with the two military superannuation schemes: the Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation and Benefits Scheme (MSBS). DFRDB was closed to new participants in 1991. Since then, MSBS has been available to all full-time members of the Australian Defence Force (ADF). Both schemes are managed on Defence's behalf by ComSuper. Output 7.1 shows the member contributions and employer contributions to both schemes, the liability to the Commonwealth for benefits under both schemes, and the payment of the MSBS Retention Benefit. Since 1991, Defence has paid the MSBS Retention Benefit to eligible MSBS members after 15 years of continuous eligible service. The purpose of the Retention Benefit is to encourage members to serve until they have completed 20 years of service. Due to legislative amendments passed in 2005, the Retention Benefit is not available to members who enlisted after 6 October 2005.

Output 7.2: Housing Assistance for Current and Retired Defence Personnel reports dividends received on behalf of the Government from Defence Housing Australia (DHA) and payments to DHA to manage the Defence Home-Owner Scheme (DHOS). DHA is classified as a Government Business Enterprise and is required to make a commercial rate of return for Government. Through Defence, DHA pays an annual dividend on its operating profit to

Government. The Commonwealth's Competitive Neutrality Guidelines requires DHA to make tax-equivalent payments to Government in lieu of paying state and territory taxes. Tax-equivalent payments form part of DHA's dividend return to Government. DHA manages the DHOS for Defence. The DHOS is established under the *Defence Force (Home Loans Assistance) Act, 1990*. The DHOS provides eligible members of the ADF with a subsidy on the interest payable on a home loan.

In the 2007-08 Budget, as part of the 'Australian Defence Force Retention and Recruitment - further initiatives' budget measure, Government has decided to introduce a new home ownership scheme for ADF personnel to replace the existing DHOS. The Defence Home Ownership Assistance Scheme will commence in July 2008 and will offer interest subsidies on home loans for eligible current and former ADF personnel. The key features of this measure are the revision of the interest subsidy entitlement to reflect current housing market conditions and the linking of entitlement to years of service with a decrease of entitlements on discharge. The new scheme will be funded through administered appropriations.

Output 7.3: Other Administered Revenues and Expenses encompasses all other administered revenues and expenses recorded by Defence. It includes interest received on official bank accounts, net foreign exchange losses and gains, and reimbursements from the United Nations (UN) for contributions to UN-led operations.

Cost Summary for Outcome Seven

The net cost of Outcome Seven in 2007-08 will be \$2,004m. This represents an increase of \$13.8m compared to the previous estimate published in the *Portfolio Additional Estimates Statements 2006-07*. Details are shown in Table 5.7.1 below and explanations of variations follow.

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 |
|---|----------------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| Revenue | | | | | | |
| Interest | 4,005 | 80 | -3,925 | 14 | 14 | 14 |
| Net foreign exchange gain | - | - | - | - | - | - |
| Dividends | 73,500 | 73,500 | - | 50,100 | 49,500 | 49,500 |
| Licence fees | | | | 4,711 | 12,775 | 20,681 |
| Military superannuation contributions | 774,000 | 724,000 | -50,000 | 770,000 | 800,000 | 800,000 |
| Other | 165 | 788 | 623 | 165 | 165 | 165 |
| Total revenue | 851,670 | 798,368 | -53,302 | 824,990 | 862,454 | 870,360 |
| Expenses | | | | | | |
| Net foreign exchange losses | - | - | - | - | - | - |
| Housing subsidies ⁽³⁾ | 9,000 | 9,000 | - | 52,638 | 71,664 | 91,424 |
| Retention benefits ⁽⁴⁾ | 42,000 | 42,000 | - | 40,000 | 38,000 | 36,000 |
| Military superannuation benefits ^(4,5) | 2,791,000 | 2,751,468 | -39,532 | 2,843,216 | 2,933,251 | 3,032,269 |
| Total expenses | 2,842,000 | 2,802,468 | -39,532 | 2,935,854 | 3,042,915 | 3,159,693 |
| Net cost of Outcome Seven | 1,990,330 | 2,004,100 | 13,770 | 2,110,864 | 2,180,461 | 2,289,333 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.103).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Part IV, s.38 of the *Defence Force (Home Loan Assistance) Act, 1990*
4. Part V, s.17 of the *Military Superannuation and Benefits Act, 1991*
5. Part XII, s.125 (3) of the *Defence Force Retirements and Death Benefits Act, 1973*

EXPLANATIONS OF VARIATIONS

Revenues administered on behalf of the Government will decrease by \$53.3m due to:

- a decrease in the estimate of interest revenue as a result of Defence's United States Federal Reserve bank account for FMS Advances being transferred to the Defence Materiel Organisation (-\$3.9m);
- a decrease in the estimate of military superannuation contributions due to a change to the estimating methodology (-\$50.0m); and
- an increase in the estimate of Other Non-Taxation due to United Nations payments that were planned to be recognised in 2006-07 now being recognised in 2007-08 (+\$0.6m).

Expenses administered on behalf of the Government will decrease by \$39.5m due to revised military superannuation expenses resulting from an actuarial review of the Defence Force Retirement and Death Benefits Scheme and the Military Superannuation and Benefits Scheme.

Table 5.7.2 shows the consolidation of Revenue and Expenses into one table to show the estimated net cost of Outcome 7 by its three outputs.

Table 5.7.2 Net cost of outputs

| | Previous Estimate ⁽¹⁾ | Budget Estimate | Variation ⁽²⁾ | Forward Estimate | Forward Estimate | Forward Estimate |
|---|----------------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2007-08 | 2007-08 | | 2008-09 | 2009-10 | 2010-11 |
| | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 | \$,000 |
| Output 7.1 | | | | | | |
| Superannuation Support Services for Current and Retired Defence Personnel | 2,059,000 | 2,069,468 | 10,468 | 2,113,216 | 2,171,251 | 2,268,269 |
| Output 7.2 | | | | | | |
| Housing Assistance for Current and Retired Defence Personnel | -64,500 | -64,500 | - | -2,173 | 9,389 | 21,243 |
| Output 7.3 | | | | | | |
| Other Administered Revenues and Expenses | -4,170 | -868 | 3,302 | -179 | -179 | -179 |
| Net Cost of Outcome Seven | 1,990,330 | 2,004,100 | 13,770 | 2,110,864 | 2,180,461 | 2,289,333 |

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.103).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

TABLE OF EXPLANATIONS OF SIGNIFICANT VARIATIONS ACROSS DEFENCE OUTCOMES

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

| Explanation of Variation | Outcome \$m | | | | | | Total |
|---|-------------|-------------|-------------|-------------|------------|------------|-------------|
| | One | Two | Three | Four | Five | Six | |
| Goods and Services | | | | | | | |
| An increase in revenues due to price increases flowing from the revision to the price parameters used in the 2007-08 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 | 0.5 | 3.0 | 3.8 | 3.1 | 0.2 | 0.3 | 10.9 |
| An increase in the revenue from fuel sales and other revenue items | 2.1 | 13.4 | 17.2 | 14.1 | 0.8 | 1.5 | 49.1 |
| Variation Goods and Services | 2.6 | 16.4 | 21.0 | 17.3 | 1.0 | 1.8 | 60.0 |
| Other Revenues | | | | | | | |
| An increase in revenues due to price increases flowing from the revision to the price parameters used in the 2007-08 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 | 0.1 | 0.3 | 0.4 | 0.3 | 0.0 | 0.0 | 1.2 |
| Reclassification of Resources Received Free of Charge from Revenue to Gains as a result of the move to AEIFRS accounting standards | -0.1 | -0.4 | -0.5 | -0.4 | -0.0 | -0.0 | -1.5 |
| Variation Other Revenues | 0.0 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 | -0.3 |
| Other Gains | | | | | | | |
| Reclassification of Resources Received Free of Charge from Revenue to Gains as a result of the move to AEIFRS accounting standards | 0.1 | 0.4 | 0.5 | 0.4 | 0.0 | 0.0 | 1.5 |
| Variation Other Gains | 0.1 | 0.4 | 0.5 | 0.4 | 0.0 | 0.0 | 1.5 |

| Explanation of Variation | Outcome \$m | | | | | | Total |
|--|--------------|-------------|-------------|-------------|------------|------------|--------------|
| | One | Two | Three | Four | Five | Six | |
| Employees | | | | | | | |
| Australian Defence Force Retention and Recruitment - further initiatives | - | 0.4 | 0.4 | 0.4 | - | - | 1.1 |
| Afghanistan - Australian Defence Force deployments | 65.2 | - | - | - | - | - | 65.2 |
| Iraq - continued funding for stabilisation and reconstruction activities | 109.7 | - | - | - | - | - | 109.7 |
| East Timor - continued funding to help restore peace and stability | 39.0 | - | - | - | - | - | 39.0 |
| Strengthening National Security - reducing national e-security risk | - | - | - | - | - | 1.2 | 1.2 |
| Strengthening National Security - improved Defence intelligence capability | - | - | - | - | - | 3.2 | 3.2 |
| Defence Housing - supplementation for competitive neutrality policy | - | 29.1 | 29.1 | 29.1 | - | - | 87.4 |
| Other net variations, as outlined in Tables 4.6 and 4.7 in Chapter 4 | 1.1 | 7.2 | 9.2 | 7.6 | 0.4 | 0.8 | 26.3 |
| Variation Employees | 215.1 | 36.7 | 38.7 | 37.1 | 0.4 | 5.2 | 333.2 |
| Suppliers | | | | | | | |
| Australian Defence Force Retention and Recruitment - further initiatives | - | 15.1 | 15.1 | 15.1 | - | - | 45.4 |
| Afghanistan - Australian Defence Force deployments | 337.8 | - | - | - | - | - | 337.8 |
| Iraq - continued funding for stabilisation and reconstruction activities | 173.9 | - | - | - | - | - | 173.9 |
| East Timor - continued funding to help restore peace and stability | 68.7 | - | - | - | - | - | 68.7 |
| Coastal surveillance - continuation (Operation Resolute) | 8.8 | - | - | - | - | - | 8.8 |
| Strengthening National Security - improved Defence intelligence capability | - | - | - | - | - | 6.4 | 6.4 |
| Strengthening National Security - reducing national e-security risk | - | - | - | - | - | 2.4 | 2.4 |
| Air combat capability - acquisition of Super Hornets | - | - | - | 48.4 | - | - | 48.4 |
| Logistics - additional funding measure | - | 15.2 | 4.2 | 6.3 | - | - | 25.7 |

| Explanation of Variation | Outcome \$m | | | | | | |
|---|--------------|--------------|--------------|--------------|------------|-------------|----------------|
| | One | Two | Three | Four | Five | Six | Total |
| Strengthening National Security - enhanced protective security (Operation Safebase) | 1.4 | 9.0 | 11.6 | 9.5 | 0.6 | 1.0 | 33.1 |
| Jezzine Barracks - gift to the Townsville City Council | 0.9 | 5.6 | 7.2 | 5.9 | 0.3 | 0.6 | 20.5 |
| An increase due to price increases flowing from the revision to the price parameters used in the 2007-08 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 | 5.7 | 36.8 | 47.0 | 38.8 | 2.3 | 4.1 | 134.6 |
| The relocation of overseas missions in conjunction with the Department of Foreign Affairs and Trade for security purposes | - | - | - | - | 0.03 | - | 0.03 |
| Transfer of funding to the Defence Materiel Organisation's direct appropriation to enable it to implement the Skilling Australia's Defence Industry initiative | -0.9 | -5.6 | -7.2 | -5.9 | -0.3 | -0.6 | -20.5 |
| Transfer of funding to the Defence Materiel Organisation's direct appropriation to enable it to implement the Government-agreed recommendations of the Defence Industry Policy Review | -1.1 | -7.2 | -9.2 | -7.6 | -0.4 | -0.8 | -26.3 |
| Purchases of fuel and other stores provided to other organisations (offset by an increase in revenue) | 2.1 | 13.4 | 17.2 | 14.1 | 0.8 | 1.5 | 49.1 |
| Increase in sustainment service fee payment to the DMO | - | 10.0 | 10.0 | 10.0 | - | - | 30.0 |
| Increase for Information, Communication, Technology (ICT) upgrades | 2.4 | 10.1 | 14.0 | 10.9 | 0.9 | 1.7 | 40.0 |
| Implementation of the Logistics Assurance framework | 0.3 | 1.1 | 1.6 | 1.2 | 0.1 | 0.2 | 4.5 |
| Recovery of Australian Submarine Rescue Vehicle: Remora | - | 20.0 | - | - | - | - | 20.0 |
| Transfer of funding to the Department of Veterans' Affairs for the health care of former ADF members associated with the F-111 Deseal/Reseal and other net variations | 1.6 | -20.2 | 13.4 | 9.2 | 0.6 | 1.1 | 5.8 |
| Variation Suppliers | 601.6 | 103.4 | 124.8 | 156.0 | 4.9 | 17.5 | 1,008.2 |
| Grants | | | | | | | |
| Submarine Institute of Australia for HMA submarine AE2 Phase II - Dive Survey | - | 0.3 | - | - | - | - | 0.3 |
| Other net variations | - | -0.2 | 0.2 | 0.1 | - | - | 0.2 |

| Explanation of Variation | Outcome \$m | | | | | | |
|---|--------------|--------------|--------------|--------------|------------|-------------|----------------|
| | One | Two | Three | Four | Five | Six | Total |
| Variation Grants | 0.0 | 0.1 | 0.2 | 0.1 | 0.0 | 0.0 | 0.5 |
| Finance Charges | | | | | | | |
| Other net variations | 0.2 | 1.3 | 1.7 | 1.4 | 0.1 | 0.1 | 4.8 |
| Variation Finance Charges | 0.2 | 1.3 | 1.7 | 1.4 | 0.1 | 0.1 | 4.8 |
| Other Expenses | | | | | | | |
| Special Account interest and other net variations | - | -0.2 | -0.2 | -0.2 | - | - | -0.7 |
| Variation Finance Charges | 0.0 | -0.2 | -0.2 | -0.2 | 0.0 | 0.0 | -0.7 |
| Total Outcome Variation⁽²⁾ | 814.2 | 124.6 | 143.7 | 176.8 | 4.4 | 21.0 | 1,284.8 |

Notes

1. The variations to the six departmental outcomes should be cross-referenced to the variations that appear in Table 5.b.
2. The total variations to the cost of outcomes of \$1,284.8m cross-references to the variation shown in Serial 1 Table 2.1

DEFENCE
CHAPTER SIX
MANAGEMENT REFORMS
AND EFFICIENCIES

OVERVIEW

ACCOUNTABILITY AND GOVERNANCE

SUPPORTING OUR MINISTER AND THE GOVERNMENT

PEOPLE MANAGEMENT

BUSINESS SYSTEM REFORM

DEFENCE MANAGEMENT REVIEW

OTHER REFORMS AND EFFICIENCIES

OVERVIEW

In 2007-08, Defence will continue to pursue a comprehensive reform agenda to ensure our workforce is able to support current operations and Defence is effectively positioned for the successful conduct of future operations.

Defence will drive reform in four key areas:

- *Accountability and Governance* – ensuring our accountabilities are clearly defined and devolved to the lowest appropriate level under an agreed business model.
- *Supporting our Minister and the Government* - strengthening the ability of our people to support the Minister and his portfolio colleagues, and whole-of-government decision making, with high quality, timely and accurate advice.
- *People Management* - building a skilled, adaptable and responsive workforce.
- *Business System Reform* - ensuring our business processes are focused on the efficient and effective delivery of Defence outcomes.

Ongoing Defence reform in these areas will be strengthened by the implementation of the agreed recommendations of the Defence Management Review (see Defence Management Review section below), which will be a key focus for 2007-08, and other reforms including the implementation of the Defence Industry Policy Review (see Defence Industry Policy Review section below), and improvements to the management of Defence Estate.

A new Policy, Coordination and Governance Executive has also been established under the leadership of an SES Band 3 to support the Secretary and the Chief of the Defence Force in driving this organisational reform agenda.

ACCOUNTABILITY AND GOVERNANCE

The strengthening of organisational and governance structures is a key focus of Defence's reform agenda. Reforms will focus on the following areas:

COMMITTEE REFORM

During 2007-08, Defence will continue reforms to the Defence Committee to ensure that it has a strategic focus which is aligned to supporting the Secretary and the Chief of the Defence Force in the exercise of strategic leadership. All other committees and committee-like structures, roles and processes will be reviewed to strengthen accountability for decision making, and promote a more team-based approach to problem solving.

REVIEW OF THE GOVERNANCE FRAMEWORK

Defence will review and streamline its existing governance framework, including key accountability and performance management documents such as Charters and Performance Agreements. Reforms will focus on articulating clear accountabilities and mutual obligations for all Senior Executives.

CUSTOMER-SUPPLIER RELATIONS

The current service delivery model for provision of internal services will be reviewed to ensure that all service agreements include relevant metrics that specifically address time, quality, cost and demand, and to ensure that mechanisms for effective partnering and feedback on service delivery performance are strengthened. A major element of this program will be the progressive consolidation of performance management and reporting into a single integrated Defence-wide system.

SUPPORTING OUR MINISTER AND THE GOVERNMENT

During 2007-08, Defence will implement further initiatives in a coordinated program to improve the quality, timeliness and reliability of our advice and support to Ministers. To this end, the Secretary and the Chief of the Defence Force have appointed a new First Assistant Secretary Policy Development who, with a small team, will work with subject matter experts on particularly complex and sensitive policy issues. This team will seek to transfer policy skills throughout Defence, and strengthen Defence's overall policy capacity.

Other key priorities include:

- embedding training initiatives to build a better understanding across Defence of the need to develop and maintain effective relationships with Ministers and an understanding of Defence's responsibilities to the Government;
- developing workshops and induction programs for incoming Ministers, their advisers and the senior Defence staff;
- developing a range of programs to develop critical skills necessary to support the Minister and the Government;
- streamlining and strengthening the process for tasking, clearance and delivery of ministerial briefs and similar material; and
- reviewing the Australian Defence College course content (Centre for Defence and Strategic Studies), Australian Command and Staff College and the Australian Defence Force Academy) to ensure it imparts a sound understanding of, and skills development in, support to the Minister and the Government.

PEOPLE MANAGEMENT

Defence will continue to build a skilled, adaptable and responsive workforce, able to meet current and future challenges.

STRATEGIC HR POLICY EXECUTIVE

To spearhead this work, Defence will develop a strategic HR policy centre aligned to Defence priorities and decision making. This new organisation will focus on policy, planning and evaluation in relation to key issues such as recruitment and retention, remuneration and reward, people development, leadership and the working environment.

The split of functions between the Personnel Executive, Defence Support Group and other Defence Groups will be also reviewed, with a view to further devolving processing and service delivery functions to the Defence Support Group.

During 2007-08, Defence will recruit a HR expert to lead this new organisation. There will be an extensive search in the public and private sectors for suitable candidates.

SENIOR LEADERSHIP DEVELOPMENT

Senior leadership development activities will be strengthened and expanded to increase the focus on high-level business skills, policy development and ministerial and cabinet submission writing.

This will be supported by the development of more innovative and structured career management for the civilian (APS) workforce, and management of 'churn' in critical Senior Leadership Group (ADF and APS) positions.

BUSINESS SYSTEM REFORM

REVIEW OF DEFENCE BUSINESS PROCESSES AND SYSTEMS

To complement the Defence Management Review, the Secretary and the Chief of the Defence Force have commissioned a further, more detailed review of business processes and systems.

The aims of the review are to improve the business processes and systems which provide the information needed to manage Defence effectively, and to generate an enhanced capacity within Defence to understand, estimate and model costs.

The review will focus initially on the development of a plan for both immediate solutions and the longer term development of business processes and systems.

FINANCIAL REFORM

Defence continues to progress a range of improvements to its financial management and business systems and processes.

Defence is currently working through 85 Australian National Audit Office (ANAO) 2005-06 audit findings. In 2005-06, Defence was qualified in relation to General Stores Inventory and Repairable Items and the flow-on effects in the Income Statement. This is a vast improvement from the results of the previous two years when the Auditor-General was unable to form an opinion on Defence's Financial Statements.

The 16 remediation plans established during 2004-05 effectively managed the large number of audit findings that had been issued and ensured that Defence remained focused on addressing key areas to reduce the number of financial statement qualifications.

Financial statements remediation will continue during 2007-08, with major outstanding issues managed through the following four projects:

- Financial Controls Framework Project - this project draws together, in a structured and integrated fashion, all of the components needed to build a best practice financial management environment for Defence. The framework provides all staff with a common understanding of the what, why, when and how of financial management in Defence.
- Inventory Tiger Team - this team was established to assist in the removal of uncertainty around General Stores Inventory and Repairable Items. The approach is focused on establishing controls reliance and substantiating quantities and prices.
- Leave Tiger Team - in 2005-06, this team was able to confirm civilian and military annual and long service leave entitlements were materially correct, resulting in removal of the previous audit qualification. The task for the team in 2006-07 and beyond is to continue improving business processes and controls around leave entitlements to avoid future qualifications.
- Site Restoration Provision Project - considerable work has been done to identify and record an appropriate provision for the restoration of contaminated Defence sites. While present obligations can be identified and reported appropriately, full technical assessment of all sites is an ongoing task.

A strong focus on improving cost estimation and visibility will continue to be a priority during 2007-08. Defence will strengthen its analytical and modelling capability to enable better long-term planning. Product level/functional budgets have already been introduced in the Defence Materiel Organisation, and they will be developed for all service delivery groups, including the Defence Support Group.

DEFENCE INFORMATION ENVIRONMENT REFORM

During 2007-08, Defence will begin a substantial information technology reform program. To lead this reform, Defence will engage in an extensive search throughout the public and private sectors to recruit an expert Chief Information Officer (CIO).

This new CIO will continue with implementation of its Information and Communication Technology (ICT) infrastructure upgrade plans, aimed at better overall performance, reliability and cost effectiveness through updated, streamlined and simplified technical architectures. Upgrades to the Enterprise Resource Planning suite of applications will continue within the newly consolidated organisational arrangements. A particular focus for this year will be to achieve an improved level of service delivery to Defence users through central and regional service delivery contractors.

Specific priorities for 2007-08 are detailed below:

- The process of restructuring and business transformation of the Information Systems Division will continue to foster more strategic industry relationships. The Chief Information Officer Group (CIOG) will finalise up to six programs aligned to long term contracts that will enhance its capacity to meet Defence's demands for expansion of information systems capability.
- The newly instituted ICT capability planning and programming processes will be refined and matured.
- CIOG will finalise the implementation of the ICT service delivery accountability framework, including service charter, product catalogue and customer engagement model.
- For the second year running, CIOG will publish the annual Defence information infrastructure plan, providing short to medium term guidance to industry and other stakeholders on Defence's technical directions and priorities for development of its major networks.
- The program of technology update and standardisation of local and base area networks across more than 500 sites will be accelerated, to ensure the benefits of the enhanced wide area network are available to users.
- Modern data storage architecture will be introduced to reduce cost of storage, expand capacity and reduce operating overheads and improve reliability of data back-up through elimination of tape back-up requirements at bases and sites.
- Mobile and remote users will be provided with dramatically enhanced access to the Defence Restricted Network through implementation of Virtual Private Network technologies.

- Following the suspension of the PMKeyS upgrade tender process, a revised strategy for achievement of the upgrade objectives will be developed and implemented.
- Defence will develop a strategic view of the future of its enterprise management system application suite including the potential for better integration of Defence processes, better integration and accessibility of enterprise information to support defence management, and reduced cost and complexity of future suite upgrades or expansion.
- CIOG will review the organisational and process arrangements for management of the major ICT outsourcing contracts to ensure optimum and cost effective delivery of customer services.
- CIOG will continue with the introduction of automated tools for the creation and management of customer accounts including self-help capabilities to achieve a transformational change to responsiveness for creation and change to customer accounts.

CAPABILITY AND ACQUISITION REFORM

Implementation of the recommendations of the *Defence Procurement Review 2003* (the Kinnaird review) by Defence and the Defence Materiel Organisation (DMO) is 85 per cent complete. Implementation will continue during 2007-08.

Specifically, there will be continuing focus on improving cost and schedule estimation. A coaching and support team has been established to develop further training, tools and processes to help project teams develop the fundamental data underpinning capability business cases. Integration of capability development activities will also continue through the use of the Capability Roadmaps developed during 2006-07, such as the Network Centric Warfare Roadmap.

The Defence Procurement Advisory Board will continue until March 2008 under revised Terms of Reference.

The purchaser-provider arrangements which are at the heart of the more business-like relationship between Defence and the DMO will continue to be improved to ensure the timely development of agreements between the two agencies for acquisition of new capabilities. More robust performance measures and reporting will also be developed for the sustainment of existing capabilities. Revised arrangements for funding the DMO's workforce in line with changes in workload are also expected to be introduced.

The process of professionalising the DMO's workforce will continue, with particular emphasis placed on the critical skill areas of project scheduling, Integrated Logistics Support, engineering, procurement and contracting as well as project management.

The review of the effectiveness of the policy on military staffing within the DMO will be finalised during 2007.

DEFENCE MANAGEMENT REVIEW

The Defence Management Review was established by the Minister in August 2006. The external review team comprised Ms Elizabeth Proust (Chairman), Vice Admiral Chris Ritchie RAN (Retired), Dr Alan Kallir and Mr John Azarias. The review examined organisational efficiency and effectiveness across the Defence organisation, looking specifically at management structures, decision making and non-operational business processes, information management processes and systems. The review team consulted widely with senior people within and outside Defence to inform its consideration of Defence management issues, and reported to the Minister in April 2007.

The report identified the successes Defence has had over the past decade in an unprecedented period of high operational activity. It also noted the stress this had placed on Defence to deliver administratively when its main focus had been on supporting military operations in deployments around the world. In addition to the ADF's outstanding performance in operations, the report acknowledged Defence had made significant progress in policy and a range of public sector reforms including the establishment of the Defence Materiel Organisation and the introduction of programs to emphasise organisational values and extensive reform of the military justice system.

The report made 53 recommendations, across the four reform themes (accountability and governance, support to Ministers and the Government, people management, and business system reform).

The Secretary and the Chief of the Defence Force, in consultation with Service Chiefs and Group Heads, have considered the report and its recommendations fully and have agreed to implement 50 of the report's recommendations in whole, two in part, and have not agreed to one recommendation.

A new First Assistant Secretary, Governance and Implementation has been established, with a dedicated implementation team, to drive these reforms. The first priority of this team will be to develop a comprehensive implementation plan that identifies key deliverables, milestones and accountable officers, and a communication strategy.

OTHER REFORMS AND EFFICIENCIES

DEFENCE INDUSTRY POLICY REVIEW

In accordance with the Government's recent decisions, the Department prepared a new Defence and Industry Policy Statement that was released by the Minister for Defence on 1 March 2007. The policy describes how Defence will significantly enhance its relationships with industry,

and outlines implementation strategies to effect real change in order to provide the industrial capabilities required by the ADF.

The key initiatives of the policy that will be delivered in 2007-08 include:

- the identification of, and subsequent greater focus on developing, the Priority Local Industry Capabilities required in Australia;
- continued improvement of Defence's value for money in procurement, through both modification of procurement processes and better management of the inherent risk;
- the formation of a Defence Export Unit to maximise the opportunities available to Australian industry, staffed by APS and ADF personnel with corresponding industry staff commitments;
- an expanded program for Skilling Australia's Defence Industry, including the establishment of a joint Defence/industry training task force; and
- greater support of innovation in defence technology, including:
 - education and training extension of the Capability and Technology Demonstrator program to improve the rate of transition into ADF service, and
 - initiation of a program of joint defence research ventures between DSTO, industry, universities and other public research bodies.

DEFENCE ESTATE MANAGEMENT

During 2007-08, Defence 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 infrastructure 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 that provide better employment and educational opportunities for families.

Defence will also continue its focus on environmental sustainability and progress towards meeting its environment and heritage commitments. It will achieve this by improving environmental performance and integrating

sustainable environmental management practices, including rigorous environmental impact assessment and approval processes, as part of the Defence Environmental Management System.

Major initiatives during 2007-08 include:

- progressing the implementation of 14 National Environmental Programs to achieve the goals of the *Defence Environmental Strategic Plan 2006-2009* which is the overarching strategy supporting the *Defence Environmental Management Policy*;
- continuing to implement Defence's contamination management and pollution prevention strategies to address the legacy of contaminated sites, including an ongoing program to assess contamination and undertake remediation work;
- continuing to implement sustainability initiatives for planning, managing and using Defence training areas including progressing bushfire, biodiversity and soil conservation priorities;
- progressing the implementation of the Defence Water Management, Defence Energy and Defence Waste Minimisation policy requirements into business processes;
- progressing strategic approaches to management of environmental issues with the Department of the Environment and Water Resources; and
- continuing to progress the implementation of the Defence Heritage Strategy and ongoing development of the Defence Heritage Management System.

DEFENCE

CHAPTER SEVEN

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 2007-08)
- Departmental Capital Budget Statement
- Non-Financial Assets – Summary of Movement
(Budget Year 2007-08)
- Schedule of Budgeted Income and Expenses
Administered on Behalf of Government
- Schedule of Budgeted Assets and Liabilities
Administered on Behalf of Government
- Schedule of Budgeted Cash Flows Administered
on Behalf of Government
- 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 (Agency Resourcing).

The Defence resourcing method is derived as follows.

Table 7.a: Method 1 – Defence Resourcing

| | 2007-08 \$'000 | Reference |
|--|---------------------------|---------------------|
| Appropriation from Government for price of outputs | 19,170,126 | Table 2.1, Serial 1 |
| Appropriation for equity injection | 2,062,804 | Table 2.1, Serial 2 |
| Own-source revenue | 709,226 | Table 2.1, Serial 4 |
| Net capital receipts | 56,919 | Table 2.1, Serial 5 |
| Total Departmental Funding | 21,999,075 | 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 \$21,361m is used in the Treasury budget overview and the Treasurer's budget speech and is derived as follows:

Table 7.b: Method 2 – Underlying Cash Balance Impact

| | 2007-08 \$m | Reference |
|--|----------------|-----------|
| Underlying cash baseline | 20,225 | Table 2.2 |
| Australian Defence Force Retention and Recruitment - further initiatives | 46 | Table 2.2 |
| Afghanistan - Australian Defence Force deployments | 448 | Table 2.2 |
| Afghanistan - Australian Defence Force deployments (reimbursement costs incurred in 2006-07) | 32 | Table 2.2 |
| Iraq - continued funding for stabilisation and reconstruction activities | 302 | Table 2.2 |
| East Timor - continued funding to help restore peace and stability | 108 | Table 2.2 |
| Coastal surveillance continuation | 13 | Table 2.2 |
| Strengthening National Security - improved Defence Intelligence capability | 18 | Table 2.2 |
| Strengthening National Security - reducing national e-security risk | 7 | Table 2.2 |
| Air combat capability - acquisition of Super Hornets | 621 | Table 2.2 |
| Logistics additional funding | 108 | Table 2.2 |
| Strengthening National Security - enhanced protective security | 33 | Table 2.2 |
| Defence housing – supplementation for competitive neutrality policy | 87 | Table 2.2 |
| Jezzine Barracks - gift to the Townsville City Council | 21 | Table 2.2 |
| Net Budget Adjustments | -707 | Table 2.3 |
| Total Defence Expenditure⁽¹⁾ | 21,361 | |

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 shown in the following table.

Table 7.c: Method 3 – Defence Function

| | 2007-08 \$m | Reference |
|---|----------------|--|
| Defence AAS expenses ⁽¹⁾ | 20,087 | Table 7.1 |
| DMO AAS expenses | 9,615 | Section 2, Table 6.1 |
| Administered expenses | 51 | Table 5.7.1, retention benefits + housing subsidies |
| Investment in specialist military equipment | 4,614 | Table 7.6 |
| Specialist military equipment depreciation | -2,738 | Table 7.6 |
| Intra-government transfers | -11,519 | Department of Finance and Administration |
| Write down of non-financial assets | -230 | Table 7.1 |
| Total Defence Function Expense | 19,880 | Statement 6, Budget Paper No. 1 |

Note

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

Table 7.1: Budgeted Departmental Income Statement⁽¹⁾

| 2006-07 Estimated Actual \$'000 | 2007-08 Previous Estimate \$'000 | 2007-08 Budget Estimate \$'000 | Var. ⁽²⁾ % | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | 2010-11 Forward Estimate \$'000 |
|--|---|---|--------------------------|--|--|--|
| INCOME | | | | | | |
| Revenue | | | | | | |
| 17,221,662 | 17,885,333 | 19,170,126 | 7.2 | 19,065,666 | 19,286,597 | 19,707,273 |
| 620,182 | 583,234 | 643,206 | 10.3 | 660,375 | 661,962 | 688,868 |
| 64,868 | 66,308 | 66,020 | -0.4 | 65,775 | 81,017 | 75,130 |
| 17,906,712 | 18,534,875 | 19,879,352 | 7.3 | 19,791,816 | 20,029,576 | 20,471,271 |
| Gains | | | | | | |
| 467,350 | 200,000 | 200,000 | - | 100,000 | 100,000 | 100,000 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 7,700 | 6,200 | 7,700 | 24.2 | 7,700 | 7,700 | 7,700 |
| 475,050 | 206,200 | 207,700 | 0.7 | 107,700 | 107,700 | 107,700 |
| 18,381,762 | 18,741,075 | 20,087,052 | 7.2 | 19,899,516 | 20,137,276 | 20,578,971 |
| EXPENSES | | | | | | |
| 6,795,577 | 6,971,447 | 7,304,628 | 4.8 | 7,655,153 | 8,110,711 | 8,665,989 |
| 7,789,651 | 8,103,798 | 9,111,987 | 12.4 | 8,636,861 | 8,528,011 | 8,510,571 |
| 3,123 | 3,904 | 4,395 | 12.6 | 1,507 | 1,507 | 1,507 |
| 3,332,924 | 3,409,595 | 3,409,595 | 0.0 | 3,435,705 | 3,316,696 | 3,219,288 |
| 13,850 | 20,799 | 25,574 | 23.0 | 39,408 | 49,458 | 50,704 |
| 443,595 | 230,000 | 230,000 | - | 130,000 | 130,000 | 130,000 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 3,042 | 1,532 | 873 | -43.0 | 882 | 893 | 912 |
| 18,381,762 | 18,741,075 | 20,087,052 | 7.2 | 19,899,516 | 20,137,276 | 20,578,971 |
| Surplus (Deficit) Attributable to the Australian Government | | | | | | |
| - | - | - | - | - | - | - |
| EQUITY INTEREST | | | | | | |
| 35,625,258 | 35,736,828 | 35,736,828 | - | 35,854,538 | 35,854,538 | 35,854,538 |
| 35,625,258 | 35,736,828 | 35,736,828 | - | 35,854,538 | 35,854,538 | 35,854,538 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 111,570 | 117,710 | 117,710 | - | - | - | - |
| Accumulated surpluses at 30 June | | | | | | |
| 35,736,828 | 35,854,538 | 35,854,538 | - | 35,854,538 | 35,854,538 | 35,854,538 |

Notes

1. Cross-reference to Table 2.9 in Chapter Two – Resourcing.
2. The difference between the Budget Estimate and the Previous Estimate is shown as a percentage of the Previous Estimate.

Table 7.2: Budgeted Departmental Balance Sheet⁽¹⁾

| 2006-07 Estimated Actual \$'000 | | 2007-08 Previous Estimate \$'000 | 2007-08 Budget Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | 2010-11 Forward Estimate \$'000 |
|--|--|---|---|--|--|--|
| ASSETS | | | | | | |
| Financial assets | | | | | | |
| 36,221 | Cash and cash equivalents | 36,221 | 36,221 | 36,221 | 36,221 | 36,221 |
| 199,628 | Receivables | 213,802 | 213,802 | 158,802 | 98,802 | 33,802 |
| 163,479 | Other receivables | 163,479 | 163,479 | 163,479 | 163,479 | 163,479 |
| 113,268 | Other financial assets | 49,270 | 49,270 | 49,270 | 49,270 | 49,270 |
| 512,596 | Total financial assets | 462,772 | 462,772 | 407,772 | 347,772 | 282,772 |
| Non-financial assets | | | | | | |
| 11,373,183 | Land and buildings | 11,446,975 | 11,579,831 | 12,613,376 | 13,455,156 | 14,121,387 |
| 39,504,732 | Infrastructure | 41,420,555 | 41,349,798 | 44,157,914 | 47,794,903 | 51,678,516 |
| 287,959 | Intangibles | 284,328 | 284,509 | 281,084 | 277,685 | 274,332 |
| 723,572 | Heritage and cultural | 723,572 | 723,572 | 723,572 | 723,572 | 723,572 |
| 4,186,641 | Inventories | 4,483,821 | 4,286,486 | 4,435,501 | 4,572,287 | 4,846,732 |
| 325,061 | Assets held for sale | 325,061 | 325,061 | 325,061 | 325,061 | 325,061 |
| 216,363 | Other | 216,363 | 216,363 | 216,363 | 216,363 | 216,363 |
| 56,617,511 | Total non-financial assets | 58,900,675 | 58,765,620 | 62,752,871 | 67,365,027 | 72,185,963 |
| 57,130,107 | Total assets | 59,363,447 | 59,228,392 | 63,160,643 | 67,712,799 | 72,468,735 |
| LIABILITIES | | | | | | |
| Payables | | | | | | |
| 719,941 | Suppliers | 743,275 | 743,275 | 766,609 | 789,943 | 813,277 |
| 38,420 | Other payables | 38,420 | 38,420 | 38,420 | 38,420 | 38,420 |
| 758,361 | Total Payables | 781,695 | 781,695 | 805,029 | 828,363 | 851,697 |
| Interest bearing liabilities | | | | | | |
| 308,089 | Leases | 291,729 | 291,729 | 752,355 | 713,792 | 674,167 |
| 2,404 | Other interest bearing liabilities | 2,404 | 2,404 | 2,404 | 2,404 | 2,404 |
| 310,493 | Total interest bearing liabilities | 294,133 | 294,133 | 754,759 | 716,196 | 676,571 |
| Provisions | | | | | | |
| 1,599,953 | Employees | 1,596,780 | 1,596,780 | 1,725,132 | 1,866,204 | 2,087,781 |
| 657,435 | Other Provisions | 657,435 | 657,435 | 657,435 | 657,435 | 657,435 |
| 2,257,388 | Total provisions | 2,254,215 | 2,254,215 | 2,382,567 | 2,523,639 | 2,745,216 |
| 3,326,242 | Total liabilities | 3,330,043 | 3,330,043 | 3,942,355 | 4,068,198 | 4,273,484 |
| 53,803,865 | NET ASSETS | 56,033,404 | 55,898,349 | 59,218,288 | 63,644,601 | 68,195,251 |
| EQUITY | | | | | | |
| 6,909,195 | Contributed equity | 9,021,025 | 8,885,969 | 12,205,908 | 16,632,221 | 21,182,871 |
| 11,157,842 | Reserves | 11,157,841 | 11,157,842 | 11,157,842 | 11,157,842 | 11,157,842 |
| 35,736,828 | Retained surpluses or accumulated deficits | 35,854,538 | 35,854,538 | 35,854,538 | 35,854,538 | 35,854,538 |
| 53,803,865 | Total equity | 56,033,404 | 55,898,349 | 59,218,288 | 63,644,601 | 68,195,251 |
| 1,805,311 | Current assets | 1,899,630 | 1,871,617 | 1,995,876 | 2,139,724 | 2,290,012 |
| 55,324,796 | Non-current assets | 57,463,817 | 57,356,775 | 61,164,767 | 65,573,075 | 70,178,723 |
| 2,255,192 | Current liabilities | 2,257,769 | 2,257,769 | 2,672,917 | 2,758,238 | 2,897,422 |
| 1,071,050 | Non-current liabilities | 1,072,274 | 1,072,274 | 1,269,438 | 1,309,960 | 1,376,062 |

Note

1. Cross-reference to Table 2.10 in Chapter Two - Resourcing

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

| 2006-07 Estimated Actual \$'000 | | 2007-08 Previous Estimate \$'000 | 2007-08 Budget Estimate \$'000 | Var. ⁽²⁾ % | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | 2010-11 Forward Estimate \$'000 |
|--|--|---|---|--------------------------|--|--|--|
| | OPERATING ACTIVITIES | | | | | | |
| | Cash Received | | | | | | |
| 620,182 | Sales of goods and services | 583,234 | 643,206 | 10.3 | 660,375 | 661,962 | 688,868 |
| 17,601 | GST Receipts from Customers ⁽³⁾ | 18,121 | 18,121 | - | 18,656 | 19,206 | 19,774 |
| - | Interest | - | - | - | - | - | - |
| 17,157,664 | Appropriations | 17,885,333 | 19,170,126 | 7.2 | 19,065,666 | 19,286,597 | 19,707,273 |
| 391,019 | GST Received from ATO | 404,603 | 404,602 | 0.0 | 418,657 | 433,201 | 448,248 |
| 64,868 | Other Cash Received | 64,808 | 66,020 | 1.9 | 65,775 | 81,017 | 75,130 |
| 167,586 | Cash transfer from the Official Public Account (receivables) | 50,000 | 50,243 | 0.5 | 55,000 | 60,000 | 65,000 |
| 18,418,920 | Total cash received | 19,006,098 | 20,352,318 | 7.1 | 20,284,129 | 20,541,983 | 21,004,293 |
| | Cash Used | | | | | | |
| 6,679,100 | Employees | 6,856,910 | 7,190,091 | 4.9 | 7,526,801 | 7,969,639 | 8,444,412 |
| 7,180,823 | Suppliers | 7,408,978 | 8,417,167 | 13.6 | 8,015,029 | 7,914,294 | 8,013,536 |
| 13,850 | Borrowing Costs | 20,799 | 25,574 | 23.0 | 39,408 | 49,458 | 50,704 |
| 3,123 | Grants | 3,904 | 4,395 | 12.6 | 1,507 | 1,507 | 1,507 |
| 3,042 | Other Cash Used | 1,532 | 873 | -43.0 | 882 | 893 | 912 |
| 18,600 | Cash transfer to the Official Public Account (receivables) | - | - | - | - | - | - |
| 13,898,538 | Total cash used | 14,292,123 | 15,638,100 | 9.4 | 15,583,627 | 15,935,791 | 16,511,071 |
| | NET CASH FROM/(TO) | | | | | | |
| 4,520,382 | OPERATING ACTIVITIES | 4,713,975 | 4,714,218 | 0.0 | 4,700,502 | 4,606,192 | 4,493,222 |
| | INVESTING ACTIVITIES | | | | | | |
| | Cash Received | | | | | | |
| 72,603 | Proceeds from sales of property, plant and equipment | 156,619 | 79,194 | -49.4 | 140,123 | 43,694 | 37,658 |
| - | Other cash received | - | - | - | - | - | - |
| 72,603 | Total cash received | 156,619 | 79,194 | -49.4 | 140,123 | 43,694 | 37,658 |
| | Cash used | | | | | | |
| 536,906 | Purchase of land and buildings | 487,271 | 602,670 | 23.7 | 892,808 | 1,149,314 | 983,877 |
| 4,471,181 | Purchase of specialist military equipment | 4,731,076 | 4,614,166 | -2.5 | 5,736,816 | 6,434,786 | 6,592,102 |
| 347,185 | Purchase of plant and equipment | 413,446 | 350,217 | -15.3 | 316,858 | 281,660 | 257,458 |
| 1,205,570 | Purchase of inventory | 1,334,270 | 1,186,354 | -11.1 | 1,177,126 | 1,171,876 | 1,208,468 |
| - | Other cash used | - | - | - | - | - | - |
| 6,560,842 | Total cash used | 6,966,063 | 6,753,407 | -3.1 | 8,123,608 | 9,037,636 | 9,041,905 |
| -6,488,239 | NET CASH FROM/(TO) INVESTING ACTIVITIES | -6,809,444 | -6,674,213 | -2.0 | -7,983,485 | -8,993,942 | -9,004,247 |

| 2006-07 Estimated Actual \$'000 | | 2007-08 Previous Estimate \$'000 | 2007-08 Budget Estimate \$'000 | Var. ⁽²⁾ % | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | 2010-11 Forward Estimate \$'000 |
|--|--|---|---|--------------------------|--|--|--|
| | FINANCING ACTIVITIES | | | | | | |
| | Cash received | | | | | | |
| 1,998,277 | Appropriations - contributed equity | 2,211,529 | 2,062,804 | -6.7 | 3,403,841 | 4,430,996 | 4,550,650 |
| 1,998,277 | Total cash received | 2,211,529 | 2,062,804 | -6.7 | 3,403,841 | 4,430,996 | 4,550,650 |
| | Cash Used | | | | | | |
| 15,420 | Repayment of debt | 16,360 | 16,360 | - | 36,956 | 38,563 | 39,625 |
| 15,000 | Return of contributed equity | 99,700 | 86,449 | -13.3 | 83,902 | 4,683 | - |
| 30,420 | Total cash used | 116,060 | 102,809 | -11.4 | 120,858 | 43,246 | 39,625 |
| | NET CASH FROM/(TO) FINANCING ACTIVITIES | | | | | | |
| 1,967,857 | | 2,095,469 | 1,959,995 | -6.5 | 3,282,983 | 4,387,750 | 4,511,025 |
| | Net increase (decrease) in cash and cash equivalents held | | | | | | |
| - | | - | - | - | - | - | - |
| 36,221 | Cash and cash equivalents at beginning of reporting period | 36,221 | 36,221 | - | 36,221 | 36,221 | 36,221 |
| - | Other movements | - | - | - | - | - | - |
| 36,221 | Cash and cash equivalents at end of reporting period | 36,221 | 36,221 | - | 36,221 | 36,221 | 36,221 |

Notes

1. Cross-reference to Table 2.11 in Chapter 2.
2. The difference between the Budget Estimate and the Previous Estimate is shown as a percentage of the Previous Estimate.
3. In the *Portfolio Additional Estimates Statements 2006-07*, this was reported as other cash receipts.

Table 7.4: Departmental Statement of Changes in Equity - Summary of Movement (Budget Year 2007-08) ⁽¹⁾

| | Retained Surpluses | Asset revaluation reserve | Contributed equity / capital | Total Equity |
|--|-----------------------|---------------------------------|------------------------------------|-------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Opening balance as at 1 July 2007 | | | | |
| Balance carried forward from previous period | 35,736,828 | 11,157,842 | 6,909,195 | 53,803,865 |
| Adjustment for changes in accounting policy | 117,710 | - | 243 | 117,953 |
| Adjusted opening balance | 35,854,538 | 11,157,842 | 6,909,438 | 53,921,818 |
| Income and expense | - | - | - | - |
| Income and expenses recognised directly in equity: | | | | |
| Asset revaluation movements | - | - | - | - |
| Sub-total income and expense | - | - | - | - |
| Surplus/(Deficit) | - | - | - | - |
| Total income and expenses recognised directly in equity | 35,854,538 | 11,157,842 | 6,909,438 | 53,921,818 |
| Transactions with owners | | | | |
| Distribution to owners ⁽²⁾ | - | - | -86,273 | -86,273 |
| Returns on Equity | - | - | - | - |
| Dividends | - | - | - | - |
| Returns of capital: | | | | |
| Restructuring | - | - | - | - |
| Other | - | - | - | - |
| Contribution by owners | - | - | - | - |
| Appropriation (equity injection) ⁽³⁾ | - | - | 2,062,804 | 2,062,804 |
| Other: | | | | |
| Restructuring | - | - | - | - |
| Sub-total transaction with owners | - | - | 1,976,531 | 1,976,531 |
| Transfers between equity components | - | - | - | - |
| Closing balance attributable to the Australian Government | 35,854,538 | 11,157,842 | 8,885,969 | 55,898,349 |

Notes

2. Cross-reference to Table 2.10 in Chapter 2.
3. Includes \$64.174m reimbursement of the Appropriation Receivable for Prior Year Outcomes and capital expenditure.
4. Includes \$64.174m for Prior Year Outcomes and capital expenditure.

Table 7.5: Departmental Capital Budget Statement

| 2006-07 Estimated Actual \$'000 | | 2007-08 Previous Estimate \$'000 | 2007-08 Budget Estimate \$'000 | Var. ⁽¹⁾ % | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | 2010-11 Forward Estimate \$'000 |
|--|---|---|---|--------------------------|--|--|--|
| | CAPITAL EXPENDITURE | | | | | | |
| 4,471,181 | Purchase of specialist military equipment | 4,731,076 | 4,614,166 | -2.5 | 5,736,816 | 6,434,786 | 6,592,102 |
| 884,091 | Purchase of property, plant and equipment | 900,717 | 952,887 | 5.8 | 1,209,666 | 1,430,974 | 1,241,335 |
| 5,355,272 | Total capital payments | 5,631,793 | 5,567,053 | -1.1 | 6,946,482 | 7,865,760 | 7,833,437 |
| | Funded from: | | | | | | |
| 1,998,277 | Equity injection | 2,211,529 | 1,998,630 | -9.6 | 3,403,841 | 4,430,996 | 4,550,650 |
| 3,299,392 | Operating receipts | 3,363,345 | 3,511,505 | 4.4 | 3,486,420 | 3,395,753 | 3,245,129 |
| 57,603 | Net capital receipts | 56,919 | 56,919 | - | 56,221 | 39,011 | 37,658 |
| 5,355,272 | Total capital funding | 5,631,793 | 5,567,053 | -1.1 | 6,946,482 | 7,865,760 | 7,833,437 |
| | CAPITAL RECEIPTS | | | | | | |
| 72,603 | Proceeds from the sale of military equipment | | | | | | |
| | Proceeds from the sale of property, plant and equipment | 156,619 | 79,194 | -49.4 | 140,123 | 43,694 | 37,658 |
| | Other capital receipts | | | | | | |
| -15,000 | Less: capital withdrawal | -99,700 | -22,275 | -77.7 | -83,902 | -4,683 | - |
| 57,603 | Net capital receipts | 56,919 | 56,919 | - | 56,221 | 39,011 | 37,658 |

Note

1. The difference between the Budget Estimate and the Previous Estimate is shown as a percentage of the Previous Estimate.

Table 7.6: Non-Financial Assets - Summary of Movement (Budget Year 2007-08)

| | Land | Buildings | IPE(owned and leased) | Specialist Military Equipment | Software | Other intangibles | Other intangibles - internally developed | Heritage and cultural assets | Total |
|--|-----------|-----------|--------------------------|-------------------------------------|----------|----------------------|---|------------------------------------|------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| As at 30 June 2007 | | | | | | | | | |
| Gross book value | 3,793,530 | 8,363,331 | 6,999,868 | 62,701,314 | 378,131 | 108,590 | | 723,572 | 83,068,336 |
| Accumulated depreciation as at 30 June 2007 | | 783,678 | 1,417,559 | 28,778,891 | 150,139 | 48,623 | | | 31,178,890 |
| Opening net book balance | 3,793,530 | 7,579,653 | 5,582,309 | 33,922,423 | 227,992 | 59,967 | | 723,572 | 51,889,446 |
| <i>Additions:</i> | | | | | | | | | |
| by purchase | | 602,670 | 348,253 | 4,614,166 | | 1,964 | | | 5,567,053 |
| by finance lease | | | | | | | | | |
| from acquisition of entities or operations (including restructuring) | | | | | | | | | |
| Revaluations and impairment through equity | | | | | | | | | |
| Reclassifications | | | | | | | | | |
| Depreciation/amortisation expense | | 278,922 | 387,506 | 2,737,753 | 3,842 | 1,572 | | | 3,409,595 |
| Write-downs and impairments recognised in operating result | | | | 230,000 | | | | | 230,000 |
| <i>Other movements:</i> | | | | | | | | | |
| Assets recognised for the first time | | | | 200,000 | | | | | 200,000 |
| Change in accounting policy | | | | | | | | | |
| Other adjustments | | | | | | | | | |
| Transfers in (out) | | | | | | | | | |
| Transfers to Assets Held for Sale | | | | | | | | | |
| Reversal of previous asset write-down | | | | | | | | | |
| <i>Disposals:</i> | | | | | | | | | |
| from disposal of entities or other operations (including | | | | | | | | | |

| | Land | Buildings | IPE(owned and leased) | Specialist Military Equipment | Software | Other intangibles | Other intangibles - internally developed | Heritage and cultural assets | Total |
|-------------------------------------|-----------|-----------|--------------------------|-------------------------------------|----------|----------------------|---|------------------------------------|------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| restructuring) | | | | | | | | | |
| other disposals | | 117,100 | -37,906 | | | | | | 79,194 |
| As at 30 June 2008 | | | | | | | | | |
| Gross book value | 3,793,530 | 8,848,901 | 7,386,027 | 67,285,480 | 378,131 | 110,554 | | 723,572 | 88,526,195 |
| Accumulated depreciation | | 1,062,600 | 1,805,065 | 31,516,644 | 153,981 | 50,195 | | | 34,588,485 |
| Estimated closing net book value | 3,793,530 | 7,786,301 | 5,580,962 | 35,768,836 | 224,150 | 60,359 | | 723,572 | 53,937,710 |

Table 7.7: Schedule of Budgeted Income and Expenses Administered on Behalf of Government ⁽¹⁾

| 2006-07 Estimated Actual \$'000 | | 2007-08 Previous Estimate \$'000 | 2007-08 Budget Estimate \$'000 | Var. ⁽²⁾ % | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | 2010-11 Forward Estimate \$'000 |
|--|--|---|---|--------------------------|--|--|--|
| | Income administered on behalf of Government | | | | | | |
| 4,005 | Interest | 4,005 | 80 | -98.0 | 14 | 14 | 14 |
| 76,400 | Dividends | 73,500 | 73,500 | - | 50,100 | 49,500 | 49,500 |
| 702,500 | Military superannuation contributions | 774,000 | 724,000 | -6.5 | 770,000 | 800,000 | 800,000 |
| 165 | Other | 165 | 788 | 377.6 | 4,876 | 12,940 | 20,846 |
| 783,070 | Total Income administered on behalf of Government | 851,670 | 798,368 | 6.3 | 824,990 | 862,454 | 870,360 |
| | Expenses administered on behalf of Government | | | | | | |
| 11,000 | Subsidies | 9,000 | 9,000 | - | 52,638 | 71,664 | 91,424 |
| 44,000 | Military retention benefits | 42,000 | 42,000 | - | 40,000 | 38,000 | 36,000 |
| 2,610,484 | Military superannuation benefits | 2,791,000 | 2,751,468 | -1.4 | 2,843,216 | 2,933,251 | 3,032,269 |
| - | Other | - | - | - | - | - | - |
| 2,665,484 | Total expenses administered on behalf of Government | 2,842,000 | 2,802,468 | -1.4 | 2,935,854 | 3,042,915 | 3,159,693 |

Notes

1. Cross-reference to Table 5.7.1 in Chapter 5 – Outcome Seven.
2. The difference between the Budget Estimate and the Previous Estimate is shown as a percentage of the Previous Estimate.

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

| 2006-07 Estimated Actual \$'000 | | 2007-08 Previous Estimate \$'000 | 2007-08 Budget Estimate \$'000 | Var. ⁽¹⁾ % | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | 2010-11 Forward Estimate \$'000 |
|---|---|---|---|--------------------------|--|--|--|
| Financial assets | | | | | | | |
| 188 | Cash | 188 | 188 | - | 188 | 188 | 188 |
| 32,004,430 | Appropriation Receivables | 33,412,840 | 33,358,948 | -0.2 | 34,646,120 | 35,993,183 | 37,384,936 |
| 395 | Other Receivable | 395 | 395 | - | 395 | 395 | 395 |
| 1,056,104 | Investments | 1,056,104 | 1,056,104 | - | 1,056,104 | 1,056,104 | 1,056,104 |
| 33,061,117 | Total financial assets | 34,469,527 | 34,415,635 | -0.2 | 35,702,807 | 37,049,870 | 38,441,623 |
| Non-financial assets | | | | | | | |
| 92,386 | Prepayments | 92,386 | 92,386 | - | 92,386 | 92,386 | 92,386 |
| 33,153,503 | Total assets administered on behalf of Government | 34,561,913 | 34,508,021 | -0.2 | 35,795,193 | 37,142,256 | 38,534,009 |
| Liabilities administered on behalf of Government | | | | | | | |
| Payables | | | | | | | |
| 10,361 | Other payables | 10,361 | 10,361 | - | 10,361 | 10,361 | 10,361 |
| 10,361 | Total payables | 10,361 | 10,361 | - | 10,361 | 10,361 | 10,361 |
| Provisions | | | | | | | |
| 34,375,590 | Employees | 35,784,000 | 35,730,108 | | 37,017,280 | 38,364,343 | 39,756,096 |
| 34,375,590 | Total provisions | 35,784,000 | 35,730,108 | -0.2 | 37,017,280 | 38,364,343 | 39,756,096 |
| 34,385,951 | Total liabilities administered on behalf of Government | 35,794,361 | 35,740,469 | -0.2 | 37,027,641 | 38,374,704 | 39,766,457 |
| Represented by: | | | | | | | |
| 99,461 | Current assets | 103,686 | 103,524 | -0.2 | 107,386 | 111,427 | 115,602 |
| 33,054,042 | Non-current assets | 34,458,227 | 34,404,496 | -0.2 | 35,687,807 | 37,030,829 | 38,418,406 |
| 1,512,982 | Current liabilities | 1,574,952 | 1,572,581 | -0.2 | 1,629,216 | 1,688,487 | 1,749,724 |
| 32,872,969 | Non-current liabilities | 34,219,409 | 34,167,888 | -0.2 | 35,398,424 | 36,686,217 | 38,016,732 |

Note

1. The difference between the Budget Estimate and the Previous Estimate is shown as a percentage of the Previous Estimate.

Table 7.9: Schedule of Budgeted Cash Flows Administered on Behalf of Government

| | 2007-08 Previous Estimate \$'000 | 2007-08 Budget Estimate \$'000 | Var. ⁽¹⁾ % | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | 2010-11 Forward Estimate \$'000 |
|--|---|---|-----------------------|--|--|--|
| OPERATING ACTIVITIES | | | | | | |
| Cash received: | | | | | | |
| Cash from the Official Public Account | 1,594,000 | 1,433,591 | -10.1 | 1,660,619 | 1,700,759 | 1,769,114 |
| Interest | 4,005 | 80 | -98.0 | 14 | 14 | 14 |
| Dividends | 73,500 | 73,500 | - | 50,100 | 49,500 | 49,500 |
| Military superannuation contributions | 774,000 | 724,000 | -6.5 | 770,000 | 800,000 | 800,000 |
| Other | 165 | 788 | 377.6 | 4,876 | 12,940 | 20,846 |
| Total cash received for operating activities | 2,445,670 | 2,231,959 | 8.7 | 2,485,609 | 2,563,213 | 2,639,474 |
| Cash used: | | | | | | |
| Military benefits | 1,585,000 | 1,424,591 | -10.1 | 1,607,981 | 1,629,095 | 1,677,690 |
| Subsidies | 9,000 | 9,000 | - | 52,638 | 71,664 | 91,424 |
| Cash to the Official Public Account | 851,670 | 798,368 | -6.3 | 824,990 | 862,454 | 870,360 |
| Other | - | - | - | - | - | - |
| Total cash used for operating activities | 2,445,670 | 2,231,959 | -8.7 | 2,485,609 | 2,563,213 | 2,639,474 |
| Net cash from or (used by) operating activities | - | - | - | - | - | - |

Note

1. The difference between the Budget Estimate and the Previous Estimate is shown as a percentage of the Previous Estimate.

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 2007-08 budget year, and each of the following forward years from 2009-10 to 2011-12.

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 2007-08 as provided in the *Portfolio Additional Estimates Statements 2006-07* and the budget estimate for 2007-08, unless otherwise noted. The estimated actual for 2006-07 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 Australia.

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 2006);
- 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 fair value. 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 Items are accounted for on the same basis and using the same policies as for departmental items, except as otherwise stated.

1.7 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 i.e. 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 allowance 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 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.

1.8 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 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.

1.9 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) and annual 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. Where there is a legal obligation to payment of leave within 12 months, even when payment is not expected, the liability is disclosed as current.

The liability for long service leave is determined by reference to the work of the Australian Government Actuary. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

The 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 amounts not expected to be taken or paid within 12 months.

Separation and Redundancy

Provision is made for separation and redundancy benefit payments when 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 and 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.

1.10 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 straight line basis over the term of the lease, which is representative of the pattern of benefits derived from the leased assets. Any contingent rent components of the lease are recognised as an expense in the period in which the amount of the increase/decrease is applied.

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

1.11 Borrowing Costs

Borrowing costs are expensed as incurred.

1.12 Cash and Cash Equivalents

Cash and Cash Equivalents means notes and coins held, as well as any deposits held at call with a bank or financial institution. Cash and Cash Equivalents are recognised at the nominal amount.

1.13 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. Assets acquired at no cost or for nominal consideration are initially recognised as assets and revenues at their fair value as at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor agency's accounts immediately prior to the restructuring.

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

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the Budgeted Balance Sheet where they meet the capitalisation threshold. The capitalisation thresholds for the classes of assets are detailed in the table below.

Table 7.10 Capitalisation Threshold for Various Asset Classes

| Asset Class | Capitalisation Threshold (\$) |
|---|----------------------------------|
| Land | 0.01 |
| Buildings | 5,000.00 |
| Specialised military equipment (SME) including - <i>SME in use; and Repairable items</i> | 0.01 |
| Infrastructure | 5,000.00 |
| Heritage and cultural | 5,000.00 |
| Intangibles including – <i>Computer software – Purchased</i> <i>Computer software - Internally generated; and</i> <i>Other intangibles</i> | 150,000.00 |
| Other plant and equipment (OP&E) | 2,000.00 |

Revaluations

Land, buildings, plant and equipment are measured and disclosed at fair value.

The carrying value of non-current assets has 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 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. They are subject to impairment testing prior to being transferred into use.

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 arises on acquisition 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.

Where a legal or constructive obligation arises as a result of the operations of Defence (i.e. use of the assets) the asset of restoration is recognised as an expense in the period in which the obligation arises.

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.

1.15 Inventory

Defence's inventory is for its own consumption and it does not ordinarily hold inventory for sale. If sales are made they represent disposal of inventory surplus to requirements and minor fuel sales.

Inventory held for distribution is measured at the lower of cost and current replacement cost.

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.

Inventories acquired at no or nominal considerations are measured at Corporate Research Centre at the date of acquisition.

1.16 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.

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.

1.17 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.

1.18 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. Exchange gains and losses are brought to account in determining the operating result for the year.

1.19 Taxation

Defence's activities are exempt from all forms of taxation except fringe benefits tax, the goods and services tax (GST), and certain excise and customs duties.

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).

1.20 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.

1.21 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 Defence Housing Australia.

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 Defence Housing Australia. The investment is classified as 'available for sale' which results in it being measured at fair value. The investment is subject to impairment testing.

Military Retention Benefits

Certain categories of ADF personnel who are members of the Military Superannuation and 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 7.11: Summary of Estimated Special Account Balances ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

| | Opening Balance | Receipts | Payments | Adjustments | Closing Balance |
|---|-------------------------|-------------------------|-------------------------|-------------|-------------------------|
| | 2007-08 | 2007-08 | 2007-08 | 2007-08 | 2007-08 |
| | 2006-07 | 2006-07 | 2006-07 | 2006-07 | 2006-07 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Services for Other Governments and Non-Agency Bodies – Financial Management and Accountability Act 1997 ⁽⁵⁾⁽⁶⁾ | 27,292 31,678 | 28,915 35,325 | 30,859 39,711 | - - | 25,348 27,292 |
| Defence Endowments – Financial Management and Accountability Act 1997 ⁽⁵⁾ | 301 301 | 10 36 | 30 36 | - - | 281 301 |
| Fedorczenko Legacy Fund – Financial Management and Accountability Act 1997 ⁽⁵⁾ | 158 156 | 9 8 | 5 6 | - - | 162 158 |
| Other Trust Monies – Financial Management and Accountability Act 1997 ⁽⁵⁾ | 1,513 1,543 | 3,066 3,308 | 2,447 3,338 | - - | 2,132 1,513 |
| Young Endeavour Youth Program – Financial Management and Accountability Act 1997 ⁽⁵⁾ | 412 1,476 | 10 637 | - 1,701 | - - | 422 412 |
| Total Special Accounts | 29,676 35,154 | 32,010 39,314 | 33,341 44,792 | - - | 28,345 29,676 |

Notes

1. 2007-08 estimates in bold.
2. 2006-07 estimates in italics.
3. The 2006-07 figures above include approximately \$9,000 for interest earned on the OPA.
4. The 2007-08 figures above include approximately \$30,000 for interest earned on the OPA.
5. These are all Special Public Monies.
6. The Services for Other Governments balance includes money relating to Comcare.

SECTION TWO

DEFENCE MATERIEL

ORGANISATION

CHAPTER ONE - OVERVIEW

CHAPTER TWO – RESOURCES FOR 2007-08

CHAPTER THREE – PLANNED OUTCOME PERFORMANCE

CHAPTER FOUR – GOVERNANCE AND REFORM

CHAPTER FIVE – PEOPLE

CHAPTER SIX – BUDGETED FINANCIAL STATEMENTS

CHAPTER ONE

OVERVIEW

The Defence Materiel Organisation (DMO) equips and sustains the Australian Defence Force (ADF) through the acquisition and sustainment of capital equipment. The operational success of the ADF depends on the DMO providing equipment on time, on budget, and to the required levels of capability, quality and safety.

The DMO is a professional service delivery organisation, principally driven by the defence policies and objectives set by the Australian Government and the requirements of the ADF. It is also subject to other government directions such as competition policy, industry development, self-reliance, and support to regional Australia. It aims to be a business-like, accountable and outcome-driven organisation with a strong and close relationship with the Government, its Defence clients and industry.

The DMO currently manages over 200 major capital equipment projects, and over 100 minor projects, across more than 50 locations in Australia and overseas. It also purchases and maintains equipment in support of Defence operations. The DMO is the manager of one of the largest inventories of physical assets in the country, with \$23.2 billion of in-use specialised military assets, \$8.8 billion of asset under construction, \$1.8 billion of general stores and fuel, and over \$2.1 billion of explosive ordnance.

The demands of the Defence Capability Plan require an increase in excess of 20 per cent in the new project work rate of the DMO and industry over the next five years. The DMO will manage in the order of \$100 billion in acquisition and sustainment over the next decade, with about 65-70 per cent to be spent in Australia.

As a prescribed agency, the DMO has one outcome and three outputs. These are described in Table 1.1.

Table 1.1: The DMO outcome and output groups

| Outcome | Description | Output Groups |
|--|---|--|
| 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 and the advice it provides on contracting policy and industry policy. | Output Group 1.1 Management of Capability Acquisition Output Group 1.2 Management of Capability Sustainment Output Group 1.3 Provision of Policy Advice and Management Services |

Overview of the 2007-08 Budget

The 2007-08 DMO budget totals around \$9.6 billion in departmental funding. This is approximately \$1.2 billion higher than the projected result for 2006-07 and represents an increase of over \$0.6 billion when compared to the Forward Estimates published in the *Portfolio Additional Estimates Statements 2006-07*.

The increase in the DMO budget for 2007-08 reflects almost \$1.1 billion of new budget measures including the acquisition of 24 F/A-18F Block II Super Hornet multi role aircraft (\$615m), adjustments to the Defence Capability Plan funding, additional funding for the support of ADF operations (\$356m), additional funding for the sustainment of existing major platforms (\$109m) and funding to support the Defence and Industry Policy (\$27m).

RISK ENVIRONMENT

The DMO is engaged in the purchase, modification and maintenance of capability. In many cases, this involves innovative and leading-edge technology and highly complex systems integration, all 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 undertaken by industry, often requiring 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 effectively manage the high levels of risk. It is not feasible for the DMO to remove risk by increasing project cost and schedule, or by acquiring only tested and fielded technology and platforms. This would not meet the Government's requirements and would not provide adequately for Australia's defence. The impact of failing to adequately manage risk has the potential to increase acquisition and sustainment costs, and delay scheduled delivery. The DMO's task is to manage and mitigate high risks, engaging early to identify problems and effectively managing issues as they arise.

STRATEGIC PRIORITIES FOR 2007-08

The DMO is strongly focused on continuing to improve its acquisition and sustainment core business, ensuring the effective implementation of enhancements to its business processes and systems, and continuing the reform program.

Key priorities for 2007-08 are:

- a standardised approach to schedule management to reduce slippage in major projects;
- improved cost estimation and budget forecasting through the development of robust analytical, predictive and modelling tools;
- enhanced internal and external contract management;
- integrated workforce planning, including more effective management of the workforce as a whole and a review of military staffing policy; and
- broadened workforce professionalisation to build on the significant achievements to date in attracting, developing and retaining skilled people.

Organisational Structure

The Defence Procurement Advisory Board has the view that the DMO, as an agency of similar scale and scope to some of Australia's largest public companies, must have an appropriately structured, commercially skilled, senior management team as a prerequisite for success.

Two additional Senior Executive Service Band 3 positions will be established in the DMO, to assist the Chief Executive Officer Defence Materiel Organisation (CEO DMO) to focus on his strategic leadership role. These are the General Manager Systems and the General Manager Business Operations and are expected to be filled by mid-2007.

The General Manager Systems will oversee the acquisition and sustainment business of the DMO, and drive reform in these processes. The direct reports to the General Manager Systems will be:

- Head Aerospace Systems Division,
- Head Electronic and Weapon Systems Division,
- Head Helicopter Systems Division,
- Head Land Systems Division, and
- Head Maritime Systems Division.

The General Manager Business Operations will oversee the DMO's governance and reporting, and will drive reform in the DMO's corporate area, including finance, legal, information technology, policy, people and learning and development. The direct reports to the General Manager Business Operations will be:

- Chief Finance Officer,
- Chief Operating Officer, and
- General Counsel.

The Head of Industry Division, and the managers of the DMO's high value, high profile capability programs - Air Warfare Destroyer; Amphibious Deployment and Sustainment; Airborne Early Warning and Control; and New Air Combat Capability will continue to report directly to the CEO DMO.

SENIOR EXECUTIVE CHANGES

Major General Jim Molan, Defence Materiel Advocate, departed the DMO in March 2007. Under the Government's new industry policy, his function will be subsumed within the Defence Export unit.

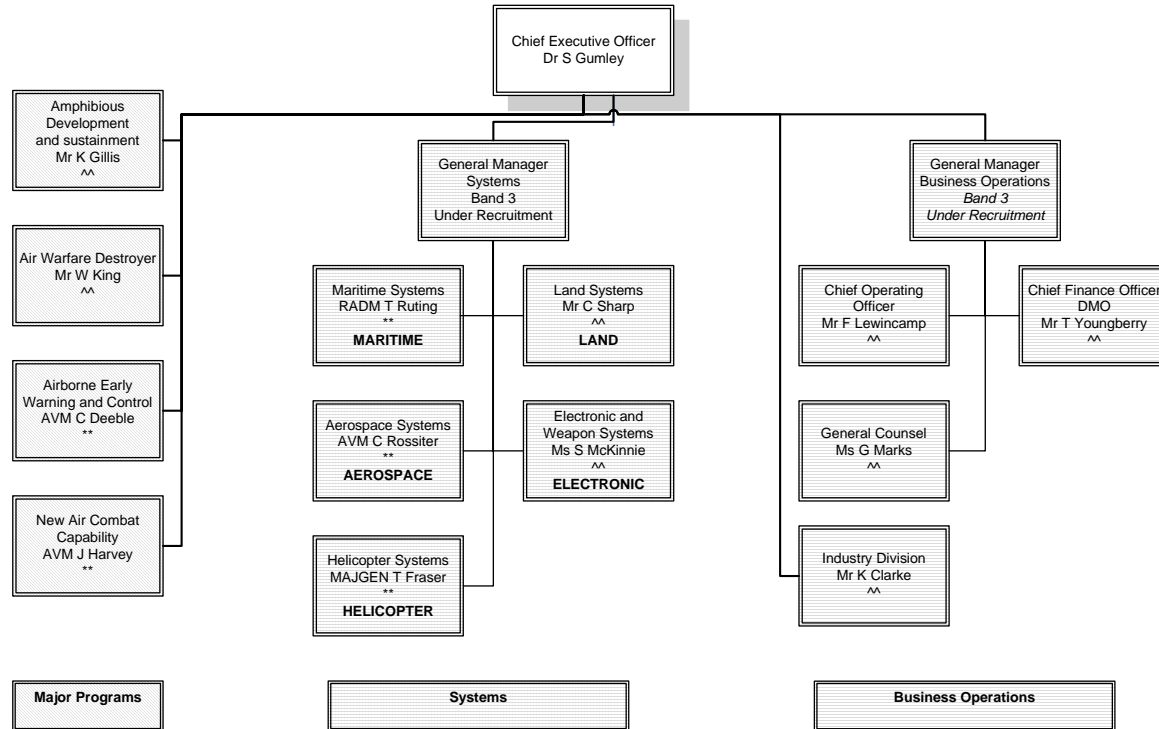
Air Commodore John Harvey was promoted to Air Vice Marshal in November 2006.

ORGANISATIONAL STRUCTURE

The following figure depicts the organisational structure of the DMO, as at 1 May 2007.

Figure 1.1: The Organisational Structure of the DMO as at 1 May 2007

Defence Materiel Organisation



** - Military 2 star position

^^ - Civilian SES Band 2 position

CHAPTER TWO

RESOURCES FOR 2007-08

Total resourcing available to the DMO in 2007-08 is \$9,615.5m. The majority is revenue from Defence which is estimated at \$9,487.3m, which includes funds for procurement of capital equipment (\$4,827.5m) and sustainment of existing capability (\$4,650.2m). The DMO will also deliver industry and procurement policy, and advice to Defence and Government as part of its direct appropriation from the Parliament (\$93.4m). Revenue from provision of other goods and services (\$34.8m) constitutes the remainder of available resourcing.

The total level of resourcing in 2007-08 represents an increase of \$1,235.0m compared with the projected results of 2006-07.

The bulk of the total resourcing is provided by Defence as a cash payment of \$9,441.6m into DMO's Special Account.

In comparison to the 2007- 08 estimates contained in the *Portfolio Additional Estimates Statements 2006-07*, there has been an increase in the DMO's revenue of \$574.9m as a result of:

- the acquisition of 24 F/A-18F Block II Super Hornet multi role aircraft (+\$615m);
- additional funding to support operations (+\$356m);
- funding for Stage 1 of the Enhanced Land Force initiative (+\$234m);
- additional logistics funding to support a range of platforms currently in service (+\$138m);
- funding to operate the C-17 heavy airlift aircraft (+\$55m);
- an increase in funding for minor capital projects (+\$12m);
- the application of indexation and foreign exchange parameter updates for acquisition and sustainment activity (+\$67m) ;
- a reduction which reflects the historical performance of the DMO and industry in delivering acquisition projects (\$-976m); and
- additional funding has been provided to support the Defence Industry Policy, released in March 2007, which aims to support the ADF in peace and credible contingency (\$27m).

Method of Presenting the DMO Budget

The presentation method of the DMO budget is consistent with the Australian Equivalent of the International Accounting Standards. 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 goods and services provided. Accordingly, Defence's appropriation includes the cost of the DMO's Outputs 1 and 2. Funding for Outputs 1 and 2 represents over 99 per cent of the DMO's total funding requirements. The services to be provided by the DMO to Defence will be set out in Materiel Acquisition Agreements and Materiel Sustainment Agreements.

Output 1.3 will be funded through a direct appropriation from Parliament.

The DMO also receives a small amount of funding from other government agencies for goods and services provided to them. All of the DMO's funds will be held in a Special Account.

Table 2.1 provides details of total cash receipts from all sources for 2007-08, including the direct appropriation, cash receipts from Defence, the DMO's own source receipts, but excluding GST, the DMO's cash already at bank, and those funds retained from 2006-07.

Table 2.1: Appropriations and other resources 2007-08 ('000)

| Outcome | Departmental | | | | Receipts ⁽¹⁾ (a) \$'000 | Total \$'000 |
|---|----------------------|----------------------|-------------------------|--|--|-----------------|
| | Appropriation | Appropriation | Special | | | |
| | Bill No. 1 \$'000 | Bill No. 2 \$'000 | Appropriation \$'000 | | | |
| Outcome 1: Defence Capabilities are supported through efficient and effective acquisition and through-life support of materiel. | 93,413 | | | | 9,473,940 | 9,567,353 |
| TOTAL | 93,413 | | | | 9,473,940 | 9,567,353 |

Note

1. Departmental receipts from other sources (other than appropriations) that are available to be used, including resources through Defence's Appropriation Bill No. 1.

2007-08 Budget Measures

There are no DMO specific budget measures, although some of Defence's budget measures will impact on the DMO. The DMO revenue from the new Defence budget measures are shown in Table 2.2.

Table 2.2: Defence / DMO measures

| New Defence Funding Measures | 2007-08 Budget Estimate \$'000 | 2008-09 Forward Estimate \$'000 | 2009-10 Forward Estimate \$'000 | 2010-11 Forward Estimate \$'000 | Total \$'000 |
|--|---|--|--|--|-------------------------|
| Logistics – additional funding | 109,109 | 294,117 | 237,962 | 244,958 | 886,146 |
| Air Combat Capability – acquisition of Super Hornets | 614,547 | 985,209 | 1,234,270 | 961,853 | 3,795,879 |
| Afghanistan – Australian Defence Force deployment | 222,318 | 88,762 | 24,365 | | 335,445 |
| Iraq - continued funding for stabilisation and reconstruction activities | 98,551 | 61,616 | 28,099 | - | 188,266 |
| East Timor - continued funding to help restore peace and stability | 28,306 | 27,100 | - | - | 55,406 |
| Coastal Surveillance - continuation | 6,873 | 6,941 | 7,030 | 7,141 | 27,985 |
| Total Resourcing from Defence Budget Measures | 1,079,704 | 1,463,745 | 1,531,726 | 1,213,952 | 5,289,127 |

Refer to Defence's Chapter Two-Resources for 2007-08 and Budget Paper No. 2 for further details on Defence's budget measures.

Other Resources Available to be used

The principal source of resources is payment by Defence for the DMO's acquisition and sustainment services.

The significant differences between Table 2.1 "Appropriation and Other Resources" and Table 2.3 "Other Resources available to be Used" relate to the DMO's direct appropriation and resources received free of charge.

Table 2.3: Other resources available to be used⁽¹⁾

| | Estimated Receipts 2006-07 \$'000 | Budget Estimate 2007-08 \$'000 |
|--|--|---|
| Departmental resources | | |
| DMO Special Account | 8,598,852 | 9,515,869 |
| Total departmental other resources available to be used | 8,598,852 | 9,515,869 |

Note

1. This table is a revenue view. GST is not included in this table.

Movements in Special Accounts

The DMO operates two special accounts: Defence Materiel Special Account; and Other Trust Monies Special Account.

The Defence Materiel Special Account is the main operational account from which most business activities are conducted. The Other Trust Monies Special Account holds any 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 2007-08 \$'000 | Receipts 2007-08 \$'000 | Payments 2007-08 \$'000 | Adjustments 2007-08 \$'000 | Closing balance 2007-08 \$'000 |
|---|---|-------------------------------|-------------------------------|----------------------------------|---|
| DMO Special Account ⁽¹⁾ | 446,219 | 10,247,357 | 10,247,357 | - | 446,219 |
| DMO Other Trust Monies Special Account ⁽²⁾ | - | 2,163 | 2,163 | - | - |
| Total special accounts 2007-08 Budget estimate | 446,219 | 10,249,520 | 10,249,520 | - | 446,219 |
| Total special accounts 2006-07 estimate actual | 457,320 | 9,130,876 | 9,141,977 | - | 446,219 |

Notes

1. The DMO Special Account is established under Section 20 of the *Financial Management and Accountability Act 1997*.
2. The DMO Other Trust Monies Special Account is established under Section 20 of the *Financial Management and Accountability Act 1997*.

Purchaser-Provider Arrangements

Materiel Acquisition Agreements and Materiel Sustainment Agreements have been established to support the relationship with Defence following the prescription of the DMO.

Materiel Acquisition Agreements cover the provision of the DMO's acquisition services to Defence for both major and minor capital equipment. Agreements are between the Chief of the Capability Development Executive, on behalf of Defence, and the CEO DMO for major capital equipment; and between the relevant Capability Managers (mostly Chiefs of the Navy/the Army/the Air Force), on behalf of Defence, and the CEO DMO for minor capital projects.

Materiel Sustainment Agreements are between the Capability Managers (mostly Chiefs of the Navy/the Army/the Air Force), and the CEO DMO. These arrangements cover the sustainment of current capability, including services such as repairs and maintenance, and the purchase of fuel and explosive ordnance.

The DMO reports on a regular basis to the Defence Committee on its performance in relation to these agreements.

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 by Defence on behalf of the DMO.

CHAPTER THREE

PLANNED OUTCOME PERFORMANCE

This chapter explains how the resources identified in Chapter 2 Resources will be used to deliver the Outputs that contribute to the DMO Outcome.

Summary of Outcome and Contribution to Outcome

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 50 per cent of the DMO's expenditure in 2007-08.

OUTPUT 1.2 – MANAGEMENT OF 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 49 per cent of the DMO's expenditure in 2007-08.

The price of Output 1.2 provides for estimated expenditure on maintenance and inventory purchases and the DMO's costs in delivering sustainment services, including support to ADF Operations.

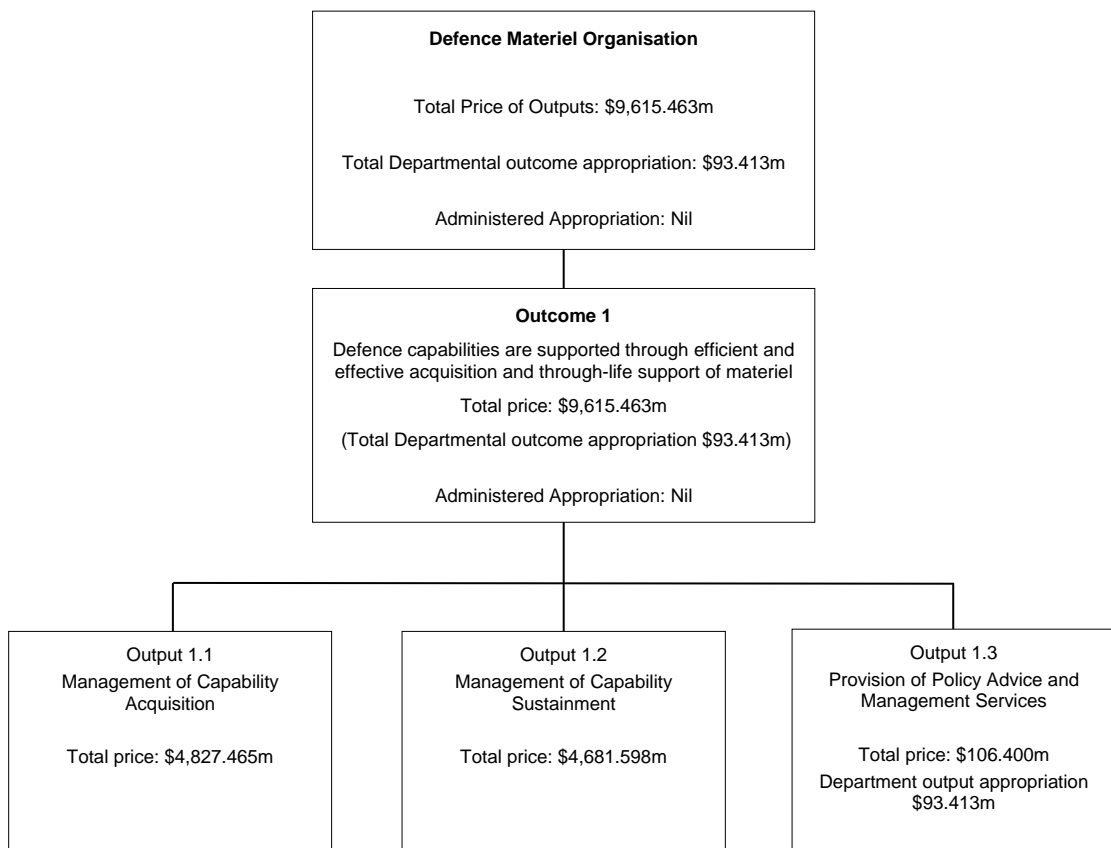
OUTPUT 1.3 – POLICY ADVICE AND MANAGEMENT SERVICES

This output delivers industry and procurement policy and advice, to both the Defence Portfolio and the Government, and those corporate functions in support of the DMO's business activities.

This output will represent 1 per cent of the DMO's expenditure in 2007-08.

The relationship between activities of the DMO and its outcome is summarised in Figure 3.1 in terms of accrual-based prices rather than cash received from Defence and the Government.

Figure 3.1: Contributions to outcome and outputs



RESOURCES BY OUTPUT

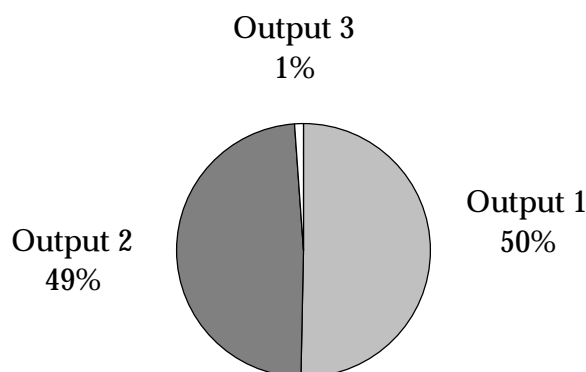
Table 3.1 below shows how the 2007-08 Budget appropriations translate to total resourcing for the DMO's Outcome, including revenue from the Government (appropriation), revenue from other sources (Departmental) and the total price of the outputs. Figure 3.2 displays this information graphically.

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 provided for Output 1.3 has increased in 2007-08 because of a Government decision to support the Defence Industry policy and to transfer funding for Skilling Australian Defence Industry from Defence to the DMO. In future years funding for Output 1.3 remains stable in real terms.

Table 3.1: Total resources for Outcome 1

| | Estimated Actual 2006-07 \$'000 | Budget Estimate 2007-08 \$'000 |
|--|--|---|
| Departmental appropriations | | |
| Output 1.3 Policy Advice and Management Services | 46,431 | 93,413 |
| Subtotal Output 1.3 | 46,431 | 93,413 |
| Total revenue from government (appropriations) | 46,431 | 93,413 |
| Contributing to price of departmental outputs | 0.6% | 1.0% |
| Revenue from other sources | | |
| Output 1.1 Capability Acquisition | | |
| Revenue from Defence | 4,545,577 | 4,827,465 |
| Revenue from external sources | - | - |
| Output 1.2 Capability Sustainment | | |
| Revenue from Defence | 4,045,857 | 4,650,176 |
| Revenue from external sources | 31,387 | 31,422 |
| Output 1.3 Policy Advice and Management Services | | |
| Revenue from Defence | 9,656 | 9,656 |
| Revenue from external sources | 3,304 | 3,331 |
| Total revenue from other sources | 8,635,781 | 9,522,050 |
| Total price from departmental outputs | 8,682,212 | 9,615,463 |
| (Total revenue from government and from other sources) | | |
| Total estimated resourcing for Outcome 1 | 8,682,212 | 9,615,463 |
| (Total price of outputs) | | |
| Average staffing level (number) | 6,939 | 7,326 |

Figure 3.2: Total Resources by Output

Performance and Evaluation Information for the DMO Outcome

The DMO has three major outputs, as listed in Table 3.2.

Table 3.2: Performance Information for Outcome 1

| 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 Management of 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. | Delivery of quality, timely and cost effective maintenance, repair, and supply services to the levels and standards agreed by Defence including support to ongoing operations. |
| Output 1.3 Provision of Policy Advice and Management Services | Deliver quality policy advice and management services | Delivery of quality advice and services and drive reform. |

Performance Target for Output 1.1 – Management of Capability Acquisition

Separate Materiel Acquisition Agreements 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. The schedule description outlines key milestones. The budget information provides current estimates against programmed expenditure, and an assessment of the adequacy of the available contingency budget. Monthly reports against all Materiel Acquisition Agreements are provided to the Defence customer.

Planned resource use for Output 1.1 is \$4,827.5m in 2007-08.

APPROVED MAJOR CAPITAL EQUIPMENT PROJECTS

The DMO will manage some 215 approved major capital equipment projects during 2007-08.

PROJECT OF INTEREST

AIR 5349 Ph 1 and 2 — F/A-18F Block II Super Hornet Aircraft

Prime Contractor: The Boeing Company under a FMS arrangement with the United States Government.

This project provides for the establishment of a bridging air combat strike capability. Twenty-four Boeing F/A-18F Block II Super Hornet aircraft will be acquired to give the ADF a bridging air combat capability. The F/A-18F aircraft will significantly enhance the ADF’s ability to conduct land and maritime strike operations. First and second pass approvals were granted on 1 March 2007. The first four aircraft are scheduled for delivery in the second quarter 2010. The acquisition is being procured under FMS arrangements with the United States Government. Support arrangements are undergoing further definition, but will also largely be via FMS.

The acquisition of the F/A-18F aircraft under Project Air 5349 Phases 1 and 2 is being expedited due to the Government direction to establish an initial operating capability by end of year 2010. An accelerated schedule is possible due to the ‘off the shelf’ nature of the acquisition. Phase 1 is the acquisition of the aircraft, support systems and ongoing support. Phase 2 provides for weapons, Explosive Ordnance and related facilities. Phases 1 and 2 will run concurrently.

Acquisition of the prime equipment is low risk due to the aircraft commonality with the United States Navy fleet. Development and implementation of a logistics support system within schedule is the major program risk - currently categorised as 'medium' against schedule and 'low' against cost. The Project Office is developing a logistics support system in conjunction with the United States Navy utilising existing Navy arrangements where possible to reduce schedule risk while maintaining low cost and performance risk.

This project contributes to the ADF's capability.

Top 30 Projects by 2007-08 Expenditure

Table 3.3 lists the top 30 Government approved- projects approved by the Government in 2007-08. Schedules for delivery of the capability are included in the descriptions of the top 30 projects; descriptions also include project risk and strategies employed by the project office to manage the risk. More detailed information on each of these projects is included in Table 3.4. This Table includes original dates of approval, approval amounts, price and exchange variations and real cost variations.

Table 3.3: Top 30 Projects by 2007-08 Expenditure ⁽¹⁾

| | | Approved Project Expenditure | Estimated Cumulative Expenditure to 30 June 2007 | 2007-08 Budget Estimate |
|---|--------------------|------------------------------------|--|-------------------------------|
| | Project Number | \$m | \$m | \$m |
| Aerospace | | | | |
| Heavy Airlift Capability | AIR 8000 Ph 3 | 1,916 | 1,050 | 241 |
| ADF Air to Air Refuelling Capability | AIR 5402 | 1,803 | 531 | 198 |
| F/A-18 Hornet Upgrade | AIR 5376 Ph 2 | 1,508 | 1,087 | 110 |
| F/A-18 Hornet Upgrade – Structural refurbishment | AIR 5376 Ph 3.2 | 876 | 80 | 106 |
| Airborne Surveillance For Land Operations | JP 129 Ph 2 | 135 | 14 | 34 |
| Air Warfare Destroyer | | | | |
| Air Warfare Destroyer Design Activity | SEA 4000 Ph 2 | 479 | 212 | 177 |
| Air Warfare Destroyer – AEGIS Combat System | SEA 4000 Ph 3.1 | 1,299 | 170 | 112 |
| Airborne Early Warning and Control System | | | | |
| Airborne Early Warning and Control System | AIR 5077 Ph 3 | 3,533 | 2,522 | 160 |
| Chief Operating Officer | | | | |

Section Two – Defence Materiel Organisation

| | | Approved Project Expenditure | Estimated Cumulative Expenditure to 30 June 2007 | 2007-08 Budget Estimate |
|---|-------------------|------------------------------------|--|-------------------------------|
| | Project Number | \$m | \$m | \$m |
| Improvements to the Logistics Information Systems | JP 2077 Ph 2B | 124 | 50 | 38 |
| Electronic and Weapons Systems | | | | |
| Electronic Warfare Self Protection for Selected ADF Aircraft | AIR 5416 Ph 2 | 303 | 134 | 69 |
| Mulwala Redevelopment Project | JP 2086 Ph 1 | 347 | 18 | 58 |
| Explosive Ordnance Reserve Stocks | JP 2085 Ph 1B | 209 | 123 | 54 |
| Follow-On Stand Off Weapon | AIR 5418 Ph 1 | 388 | 64 | 50 |
| Lightweight Torpedo Replacement | JP 2070 Ph 3 | 287 | 56 | 49 |
| High Frequency (HF) Modernisation | JP 2043 Ph 3A | 628 | 358 | 42 |
| New Air Defence Command and Control Systems for Control and Reporting Units 2 & 3 (2CRU/3CRU) | AIR 5333 | 259 | 105 | 32 |
| MILSATCOM Terrestrial Infrastructure | JP 2008 Ph 3E | 209 | 150 | 32 |
| Helicopter | | | | |
| Additional Trooplift Helicopter | AIR 9000 Ph 2 | 3,564 | 559 | 432 |
| Armed Reconnaissance Helicopter | AIR 87 Ph 2 | 2,012 | 1,266 | 182 |
| Land | | | | |
| Upgrade of M-113 Armoured Vehicles | LAND 106 | 617 | 206 | 116 |
| Bushranger Infantry Mobility Vehicles | LAND 116 Ph 3 | 361 | 269 | 46 |
| Tank Replacement Project | LAND 907 Ph 1 | 558 | 460 | 43 |
| Maritime | | | | |
| Guided Missile Frigate (FFG) Upgrade Implementation | SEA 1390 Ph 2 | 1,497 | 1,082 | 96 |
| Standard Missile (SM) -1 Missile Replacement | SEA 1390 Ph 4B | 600 | 109 | 78 |
| Anzac Ship Anti-Ship Missile Defence | SEA 1448 Ph 2B | 424 | 34 | 81 |
| Anzac Ship Project | SEA 1348 Ph 2 | 5,376 | 5,296 | 55 |
| Collins Replacement Combat System | SEA 1439 Ph 4A | 452 | 345 | 48 |
| Anzac Ship Anti-Ship Missile Defence | SEA 1448 Ph 2A | 353 | 118 | 40 |

| | | Approved Project Expenditure | Estimated Cumulative Expenditure to 30 June 2007 | 2007-08 Budget Estimate |
|--|-------------------|------------------------------------|--|-------------------------------|
| | Project Number | \$m | \$m | \$m |
| Armidale-class Patrol Boat | SEA 1444 Ph 1 | 556 | 463 | 35 |
| Ships Self Defence Capability – RAPID Acquisition | SEA 1779 Ph 1 | 51 | 12 | 33 |
| TOTAL TOP 30 APPROVED PROJECTS ESTIMATE | | 30,726 | 16,945 | 2,847 |
| Other Approved Projects Estimate | | 29,269 | 25,335 | 859 |
| Total Program Estimate for existing Major Capital Projects | | 59,995 | 42,280 | 3,706 |
| Management Margin | | | | -543 |
| Total Program Estimate for existing Major Capital Projects after Management Margin | | | | 3,163 |
| Projects Planned for Government Consideration in 2007-08 | | | | 437 |
| Enhanced Land Force Acquisition | | | | 123 |
| Air Combat Capability – acquisition of Super Hornets | | | | 572 |
| Total Funds Available | | | | 4,295 |

Note

1. The DMO updates the Approved Major Capital Investment Program several times each year. The Top 30 Projects reflect the December 2006 update.

Table 3.4: Variation to project Approval for the Top 30 Projects by 2007-08 Expenditure

| | Approval Date | Initial Project Approval | | | | | Second Pass | | | | |
|-----------------|---------------|--------------------------|----------------------------|--------------------|-------------------------------|------------------|--|----------------------|--------------------------|-----------------------|------------|
| | | Original Approval | Price Indexation Variation | Exchange Variation | Real Variation ⁽¹⁾ | Current Approval | 2 nd Pass Approval ⁽²⁾ | Scope ⁽³⁾ | Transfers ⁽⁴⁾ | Others ⁽⁵⁾ | Total Real |
| | | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| AIR 8000 Ph 3 | 01-Mar-06 | 1,864 | 86 | -34 | - | 1,916 | | | - | | - |
| AIR 5402 | 17-Jul-03 | 2077 | 331 | -316 | -289 | 1,803 | | | -136 | -154 | -289 |
| AIR 5376 Ph 2 | 21-Jul-98 | 1,300 | 236 | 131 | -159 | 1,508 | | -190 | 34 | -3 | -159 |
| AIR 5376 Ph 3.2 | 27-Jan-04 | 157 | 57 | -10 | 672 | 876 | 673 | | - | -1 | 672 |
| JP 129 Ph 2 | 30-Sep-04 | 2 | 6 | -4 | 131 | 135 | 131 | | - | - | 131 |
| SEA 4000 Ph 2 | 30-May-05 | 455 | 24 | - | - | 479 | | | - | - | - |
| SEA 4000 Ph 3.1 | 05-Dec-05 | 1,267 | 85 | -53 | - | 1,299 | | | - | - | - |
| AIR 5077 Ph 3 | 01-Dec-97 | 2,170 | 523 | 169 | 671 | 3,533 | | 226 | 619 | -173 | 671 |
| JP 2077 Ph 2B | 09-Aug-05 | 13 | 3 | - | 108 | 124 | 107 | | - | 1 | 108 |
| AIR 5416 Ph 2 | 22-Aug-03 | 271 | 40 | -7 | -1 | 303 | | | - | -1 | -1 |
| JP 2086 Ph 1 | 17-Nov-06 | 338 | 12 | -3 | - | 347 | | | - | - | - |
| JP 2085 Ph 1B | 18-Mar-04 | 196 | 23 | -9 | - | 209 | | | - | - | - |
| AIR 5418 Ph 1 | 30-Sep-04 | 15 | 25 | -7 | 355 | 388 | 355 | | - | - | 355 |
| JP 2070 Ph 3 | 21-Jan-04 | 246 | 42 | -1 | - | 287 | | | - | - | - |
| JP 2043 Ph 3A | 13-Aug-96 | 505 | 105 | 13 | 5 | 628 | | 11 | -5 | -1 | 5 |
| AIR 5333 | 01-Nov-92 | 48 | 58 | 12 | 141 | 259 | | 117 | 23 | 1 | 141 |
| JP 2008 Ph 3E | 08-Nov-99 | 3 | 20 | - | 186 | 209 | 168 | | 19 | - | 186 |
| AIR 9000 Ph 2 | 22-Apr-04 | 3 | 206 | 55 | 3,300 | 3,564 | 954 | 2,566 | -219 | | 3,300 |
| AIR 87 Ph 2 | 16-Mar-99 | 1,584 | 333 | 186 | -91 | 2,012 | | | -84 | -7 | -91 |
| LAND 106 | 01-Nov-93 | 40 | 99 | 3 | 475 | 617 | | 225 | 250 | - | 475 |
| LAND 116 Ph 3 | 30-Nov-98 | 295 | 61 | 5 | - | 361 | | | - | - | - |
| LAND 907 Ph 1 | 30-Jun-04 | 529 | 37 | -7 | -1 | 558 | | | - | -1 | -1 |
| SEA 1390 Ph 2 | 01-Dec-97 | 1,266 | 190 | 194 | -153 | 1,497 | | | -153 | -1 | -153 |
| SEA 1390 Ph 4B | 30-Sep-04 | 553 | 68 | -19 | -2 | 600 | | | - | -2 | -2 |

| | Approval Date | Initial Project Approval | | | | | Second Pass | | | | |
|----------------|---------------|--------------------------|----------------------------|--------------------|-------------------------------|------------------|--|----------------------|--------------------------|-----------------------|------------|
| | | Original Approval | Price Indexation Variation | Exchange Variation | Real Variation ⁽¹⁾ | Current Approval | 2 nd Pass Approval ⁽²⁾ | Scope ⁽³⁾ | Transfers ⁽⁴⁾ | Others ⁽⁵⁾ | Total Real |
| | | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| SEA 1448 Ph 2B | 01-Nov-05 | 249 | 28 | -2 | 149 | 424 | | | 149 | | 149 |
| SEA 1348 Ph 2 | 14-Aug-89 | 3,514 | 1,511 | 174 | 177 | 5,376 | | 184 | -13 | 5 | 177 |
| SEA 1439 Ph 4A | 16-Jan-03 | 455 | 49 | -50 | -2 | 452 | | | -1 | -1 | -2 |
| SEA 1448 Ph 2A | 21-Jan-04 | 449 | 61 | 3 | -160 | 353 | | | -160 | - | -160 |
| SEA 1444 Ph 1 | 04-Oct-02 | 437 | 63 | -10 | 66 | 556 | | 67 | -2 | 1 | 66 |
| SEA 1779 Ph 1 | 17-Nov-06 | 51 | 1 | -1 | - | 51 | | | - | | - |

Notes

1. Real Variation is the total of all variations except Price Indexation and Exchange. Real Variations are divided into: Second Pass Approval, Scope, Transfers and other.
2. Second Pass Approval – Under processes introduced as part of the Kinnaird reforms, Major Capital Equipment projects are now generally managed in two stages – a definition stage which is funded at First Pass and an acquisition stage which is funded at Second Pass. On occasions the Second Pass stage is funded as a separate project. Many of the projects detailed in the Table were approved before the two-pass process was implemented.
3. Scope - Any Real Cost Increase/Decrease provided to address a formal scope increase/decrease.
4. Transfers - Any Real Cost Increase/Decrease to a project as a result of a transfer in budget to another Project, Group or to Sustainment with no net change to the existing Project Approval.
5. Others - All other Real Variations.

AIR 8000 Ph 3 — Heavy Airlift

Prime Contractor: Boeing (United States)

Project Air 8000 Phase 3 will provide a global heavy airlift capability. Four Boeing C-17 Globemaster III heavy lift aircraft will be acquired. This will significantly enhance the ADF's ability to support national and international operations and major disaster rescue and relief efforts.

First and second pass approvals were granted on 1 March 2006. The first aircraft arrived in Australia on 4 December 2006, and the second aircraft is scheduled to arrive in mid-2007. The last two aircraft will be delivered by mid-2008. The first C-17 Globemaster III aircraft is operating under a special flight permit for extensive transition training, test and evaluation activities before release to the Air Force in August 2007.

Air Force C-17 Globemaster III aircrew, both pilots and loadmasters, and maintenance personnel are undertaking C-17 Globemaster III specific training with the United States Air Force under a separate FMS arrangement. Initial training has been completed, with follow-on training for additional aircrew and maintenance personnel continuing until December 2008.

Logistic support packages are being provided through Australian participation in the Globemaster Sustainment Partnership with the United States Government and Boeing.

Full operational capability will be achieved when the in-country training systems, including aircrew simulator, and required facilities have been established. This is not anticipated to occur before the end of 2011.

The acquisition element of the project is assessed as low risk. The aircraft are being purchased, with no Australian unique modifications, using an established production line that continues to deliver aircraft two months ahead of schedule. The challenge for the project is to deliver mature logistics support to enable sustained C-17 Globemaster III operations when the full fleet of four aircraft has been delivered.

This project contributes to Air Force capability.

AIR 5402 — Air to Air Refuelling Capability

Prime Contractors: EADS CASA, Spain (acquisition) and Qantas Airways Ltd (through-life support)

The project will provide five new generation Airbus A330 Multi-Role Tanker Transport (MRTT) aircraft. The acquisition also provides through-life support services including engineering, maintenance, spares management, technical data, software and training support for the new fleet. The through-life support

contract was signed with Qantas Airways Ltd in February 2007, with the commencement date aligning with delivery of the first modified A330 MRTT.

Expenditure during 2007-08 is programmed based on payment milestones and earned value in relation to completion of phase one testing; installation of the remaining military modifications and conduct of phase two ground testing. Expenditure is also programmed in relation to the simulation training devices and simulation devices facility for completion of the system design phase and commencement of production/construction.

The project is currently on schedule and within budget to achieve introduction into service by the end of 2009.

The qualification and certification of the military modifications, primarily the new boom refuelling boom and military mission systems, are the key technical risks. A company-funded technology demonstration and qualification program for the new boom system, including flight testing on a converted A310 test bed, has been established to mitigate the risk. Progressive bench and system-level testing, followed by a 12-month aircraft ground and flight test phase, is in place to mitigate the risks with the complex military mission system integration.

This project contributes to Air Force capability.

AIR 5376 Ph 2 — F/A-18 Hornet Upgrade

Prime Contractors: Boeing (United States) – Aircraft Cockpit Upgrade; and Raytheon Australia – Hornet Aircrew Training System

Phase 2 of the Hornet upgrade project seeks to upgrade the F/A-18 fleet to incorporate enhancements that will improve mission situational awareness, radar and electronic warfare capabilities that 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 missile, and improved datalinks. The radar upgrade has been completed. The electronic warfare upgrade aspects address radar warning receiver, jamming and countermeasure dispensing. The final Hornet aircrew training system simulator was delivered on schedule in January 2007 and is currently undergoing acceptance testing.

Fleet modification of pilot situational awareness, including cockpit display, continued through 2006-07, with completion scheduled for the end of 2007. The electronic warfare countermeasures dispensing system acquisition and sustainment contract is planned to be signed by the end of 2007. A FMS case for the LR-67 (V) 3 radar warning receiver was signed in December 2006 with deliveries due to commence in 2008.

The electronic warfare element of Phase 2 represents the highest integration risk. This is being mitigated by the procurement of proven military off-the-shelf solutions where possible.

This project contributes to Air Force capability.

AIR 5376 Ph 3.2 — Hornet Structural Refurbishment Program Stage 2

Prime Contractors: L-3 Communications MAS Inc (Canada) for non recurring Engineering/Modification; and Boeing Australia Ltd (on behalf of the Hornet Industry Coalition) - for Structural Refurbishment Program 1 (SRP1) Delta Production Installation Program

Structural Refurbishment Program 2 (SRP2) Production Installation Program – Contractor responsibilities yet to be confirmed.

Phase 3.2 of the Hornet Upgrade Project seeks to restore sufficient fatigue life to the Hornet fleet to ensure airworthiness through to the planned withdrawal date of 2012-2015 and beyond. A key element of the project is to replace the centre barrel structure on nominated aircraft.

Phase 3.2 is the second stage of a multi-stage structural refurbishment program for the RAAF F/A-18 Hornet fleet. Phase 3.2 was initially approved for 15 centre barrel replacements. In August 2006, the project scope increased to provide for up to 49 centre barrel replacements to address additional requirements associated with a possible extension to the Hornet planned withdrawal date.

The prototype HUG 3.2 aircraft is due to return from Canada in June 2007 for reassembly in Australia.

The building of a skilled Australian workforce to undertake the centre barrel replacement in-country is an identified risk for this phase. The risk is being mitigated by the presence of Australian contracting staff with the prototype aircraft in Mirabel, Canada, to ensure knowledge and skills transfer.

This project contributes to Air Force capability.

JP 129 Ph 2 — Airborne Surveillance for Land Operations

Prime Contractor: Boeing Australia Ltd

Joint Project 129 Phase 2 will provide a Tactical Unmanned Aerial Vehicle (TUAV) system to enhance intelligence, surveillance, target acquisition and reconnaissance capability for land and littoral operations. The project scope includes two TUAV systems, each comprising four aircraft, two ground control stations, four remote video terminals, and the associated tactical support system.

The TUAV system will have electro-optic and infra-red cameras and a laser target designator. It will provide real-time video footage to ground operators via

secure wideband line-of-sight datalinks. The initial operating capability, including completion of operational test and evaluation and military airworthiness certification for the first TUAV system, is planned for February 2010.

Second pass approval from the Government was obtained on 8 November 2005. The acquisition contract was signed 14 December 2006 and a 12- year in-service support contract was signed on 2 February 2007. Projected major achievements for 2007-08 will be completion of the detailed design for both the mission and support systems.

The tight project schedule is based on the IAI Malat 'I-View 250' UAV which is already a flying prototype. The main risks concern schedule slippage in achieving Australian airworthiness, fielding of the ADF's first UAV system, and with integrating the primary and secondary wide-band secure datalinks. A robust engineering review test and evaluation and introduction into service program provides mitigation. Having most of the engineering work performed in Israel by the principal sub contractor, IAI Malat, adds further, but manageable complexity.

This project contributes to Army capability.

SEA 4000 Ph 2 — Air Warfare Destroyer Design Activity

Prime Contractor: Phase 2 Design Agreements and Not-to-Exceed Contracts are in place between the Commonwealth and the Alliance partners – ASC Shipbuilder Pty Ltd and Raytheon Australia Pty Ltd

The SEA 4000 Air Warfare Destroyer (AWD) Program, currently one of Australia's largest and most technically complex Defence projects, will acquire three area air warfare capable destroyers with complete support systems for the ADF. The capability provided by the AWDs will form a critical element of the ADF's layered joint air and missile defence capability.

Phase 2 of the project 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 the Government for second pass consideration and approval in mid-2007. Phase 2 is a risk mitigation exercise for the Phase 3 construction activity.

This project contributes to Navy capability.

SEA 4000 Ph 3.1 — Air Warfare Destroyer Program – AEGIS Combat System

Prime Contractor: A FMS case with the United States Government (United States Navy).

The SEA 4000 Air Warfare Destroyer (AWD) Program, will acquire three Area Air Warfare capable Destroyers for the ADF. At the core of the AWD capability is the Aegis Combat System. Aegis will provide an area air warfare capability previously unavailable to the ADF. This capability will allow the AWDs to significantly influence the airspace around them by providing the central platform to the ADF's air and missile defence capability.

The Government approved the early procurement of the Aegis Combat System in December 2005. Phase 3.1 of the SEA 4000 Program will procure the system for integration on either the Gibbs & Cox or Navantia design options, pending final approval by the Government at second pass in mid-2007.

There are two key project risks. The first risk is that integration of sub-systems into the core Aegis system does not achieve performance, schedule or budget. This risk is being managed by conducting the system integration activity within the current Aegis interfaces. The program does not anticipate generating significant software or complex Aegis interface changes. The choice of Aegis as the core of the AWD enables access to a broad range of sub-systems already integrated into different Aegis configurations by the United States, Japan, Spain, Norway and Korea. The United States Navy has experience in delivering over 80 Aegis systems. The risk level will be reduced to medium.

The second risk is that procurement of the AWD combat system is not achieved within budget. This risk is being managed through the Government selection of Aegis in 2004 and decision to order early procurement in 2005. The project has a contract with the United States Navy for the delivery of three Aegis systems. The Aegis FMS budget is benchmarked on extensive United States and international sales data. Historically, the United States government does not exceed agreed FMS prices. The risk level will be reduced to low.

This project contributes to Navy capability.

AIR 5077 Ph 3 — Airborne Early Warning and Control System

Prime Contractor: Boeing (United States)

This project will provide Defence with an airborne early warning and control (AEW&C) capability, with the provision of six aircraft and associated supplies and support.

On 8 March 2007, Boeing presented the results of the schedule replan to the Commonwealth following the company's announcement, on 1 February 2007, of a "two year" slip to the program. This slippage results from problems associated with sub-system integration, supplier hardware availability, radar and electronic support measures maturity, and aircraft modification.

The first aircraft will now be delivered in March 2009, a total delay of 28 months against the contract baseline. While Defence still has some analysis to do on the impacts of the schedule delay, it is planning internally on establishing an initial operating capability in mid-2010 and final operating capability in mid-2011. Boeing Australia Ltd started modification of the fifth aircraft at RAAF Base Amberley in January 2007. The sixth aircraft is scheduled for induction into the modification line in June 2007. Construction of AEW&C facilities at RAAF Base Tindal will commence in July 2007. The Operational Flight Trainer is planned for delivery in August 2007, while the delivery of spares and technical publications has been realigned to the delivery schedule for the prime equipment.

The major risks to the project are radar and electronic support measures technical maturity, software development and system integration. These risks are being managed through close interaction between Commonwealth and contractor staff on a daily basis. The Commonwealth, contractor and principal sub-contractor senior management are undertaking regular reviews against a risk-based integrated master schedule. The risk level will be reduced to low by the end of the acceptance test and evaluation process.

The project contributes to Air Force capability.

JP 2077 Ph 2B — Improvements to the Logistics Information Systems

Prime Contractor: Mincom Ltd is the prime contractor and provider of the core software system to be known as the Military Integrated Logistics Information System (MILIS).

This project provides significant improvements and rationalisation of the Defence logistic management systems. In total, the project will exceed half a billion dollars in cost (not all yet approved by the Government). It is one of the largest information technology projects currently under development in Australia.

Phase 2 of this project is a multi-staged approach to deliver new core software and increase the financial functionality of the logistic information management systems. Concurrent sub-phases will deliver improved in-transit visibility of cargo in the supply chain, an enhanced deployable capability, and a radio frequency identification system.

Phase 2B.1 will provide new core software and improved financial management capability. This sub-phase commenced its acquisition activities in September 2006 and is currently on schedule to deliver new functionality by late 2008.

Phase 2B.2 will provide an enhanced deployable capability as well as improved in-transit visibility. Second pass approval was attained from the Government in December 2006 with the acquisition phase programmed to commence in May 2007. This sub-phase is scheduled to deliver the new systems in mid-2009.

Phase 2C provides a radio frequency identification capability to allow the tracking of supplies in transit. This system was successfully delivered within Australia in December 2006 and has been progressively deployed to overseas areas of operations since March 2007.

Phase 2D will address further capability upgrade proposals and is scheduled for first pass consideration in mid-to-late 2007.

There are risks associated with the simultaneous upgrade of the Defence Resource and Output Management Accounting Network (ROMAN) financial system and the MILIS logistics system, including the development of a new data exchange facility. Risks are being mitigated in close cooperation with the Chief Financial Officer Group and ROMAN Project to coordinate outcomes.

Another risk is the proposed sale of Mincom to a United States-based equity firm, Francisco Partners. A legal, security and business impact assessment was conducted in March 2007. The Foreign Investment Review Board and the Defence Security Authority also undertook impact assessments. To mitigate this risk, the Commonwealth has established a Deed which has been signed by all parties that ensures the Commonwealth's interests are protected.

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

AIR 5416 Ph 2 — Electronic Warfare Self Protection for Selected ADF Aircraft - Echidna

Prime Contractor: Phase 2A - BAE Systems; Phase 2B - Tenix Defence

The Echidna Phase 2 project will provide electronic warfare self protection to Black Hawk and Chinook helicopters and to the Hercules aircraft.

Phase 2A - Modification of the S-70A-9 Black Hawk, and CH-47D Chinook Aircraft to incorporate Electronic Warfare Self Protection.

Phase 2B - Modification of the C-130H Aircraft to incorporate Electronic Warfare Self Protection.

The Echidna Phase 2A Program has successfully completed initial design against aircraft design, electronic warfare controller software development and mission support system development. These areas are now approaching

detailed design completion. The first Black Hawk will be modified in late 2007 and the first Chinook aircraft in early 2008.

The Echidna 2A Program has taken responsibility for the implementation of an approved Army Minor Project which provides interim early delivery of a subset of the Echidna 2A capability, a Missile Warning System and Countermeasures Dispensing System, onto 12 Black Hawk aircraft. As a consequence, the delivery of the full Echidna 2A capability on the first Black Hawk aircraft has extended by 6 months.

The software development aspects of the Electronic Warfare Controller are extremely complex. There is a significant risk that software developmental problems could affect the overall project delivery schedule. To mitigate this risk, the program has been restructured in a two build approach which allows the potential of an incremental delivery of capability if more complex areas of the software development start to cause schedule slippage.

Due to continuing and emerging operational requirements, aircraft may not be available for the commencement of the Echidna Phase 2A modifications as currently planned. This presents a serious risk to the Echidna Phase 2A project schedule. With the larger Black Hawk fleet, this risk is being managed through intensive aircraft fleet management. For Chinook, with a much smaller fleet and with the current high operational demands on the aircraft, the risk must be accepted and managed.

Phase 2B – The first three C-130H aircraft modified under this project were completed by the contractor on schedule in November 2006, January 2007 and March 2007. The schedule for the full modification program for all 12 C-130H aircraft will see the final aircraft returned to the RAAF by mid-2008. As the Echidna Phase 2B project has entered the production phase and the first three aircraft have been accepted, there are no significant risks remaining with the project.

This project contributes to Air Force and Army capabilities.

JP 2086 Ph 1 — Mulwala Redevelopment Project

Prime Contractor: Not yet in contract

The Mulwala project will deliver a modernised propellant manufacturing capability at Mulwala, New South Wales, to replace the existing capability that dates back to the 1940s. The works include construction of new nitrocellulose, solvent and propellant production plants, and a confined burn facility.

In November 2006, Joint Project 2086 Phase 1 was referred to the Parliamentary Joint Standing Committee on Public Works and a Public Hearing was held at Mulwala on 2 February 2007. On 29 March 2007, the project was recommended

to proceed by the Parliamentary Joint Standing Committee on Public Works and this recommendation has been approved by Parliament. Contract negotiations with the preferred tenderer are proceeding, and a design and construction contract is expected to be awarded in mid-2007.

There are two major risks associated with the project. The first is that the modernised plant will not be capable of producing propellant that meets the qualification requirements for use in ADF ammunition. This risk is being mitigated by the requirement for the prime contractor to partner with an experienced propellant manufacturer. The risk is further mitigated by contractual arrangements that require the contractor to demonstrate that all propellants meet relevant performance specifications prior to final acceptance.

At this early stage of this activity, it is recognised that compliance with both state and federal environmental and occupational health and safety requirements will need to be addressed. This risk is being mitigated by the engagement of specialist consultants, and the use of proven technologies, equipment and safeguards to ensure that these requirements are met.

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

JP 2085 Ph 1B — Explosive Ordnance Reserve Stocks

Prime Contractor: Multiple purchase contracts with Australian and overseas munitions suppliers.

This project involves the progressive acquisition of a range of explosive ordnance items to increase reserve stockholdings.

Joint Project 2085 Phase 1B seeks to acquire, over the period 2005 to 2008, a range of explosive ordnance items to increase reserve stock holdings. Overall, the project plans to procure quantities of approximately 120 different items of explosive ordnance. The range includes anti-armour, medium/field artillery, mortar, and Navy projectile ammunition as well as demolition stores, pyrotechnics and bombs.

A significant number of deliveries against current contracts are scheduled for 2007-08. The deliveries include significant quantities of Mk 84 bombs and 84mm, 30mm and 5.56mm ammunition. New contracts for a number of pyrotechnic and demolition stores are scheduled for approval in 2007-08. The major focus will be the acquisition of 155mm precision guided munitions from overseas sources. All deliveries are expected to be received by end of 2008-09.

The cost of acquisition has increased from the 2003 budgeted estimates as a result of the escalation of international prices for a significant number of items yet to be contracted. A substantial portion of the approved contingency funding will be required to satisfy the approved procurement quantity.

The major risk for this project is the acquisition of 155mm precision guided munitions from overseas sources to schedule and budget. The products being considered are under development. Cost and schedule estimates will be of low fidelity until the finalisation of design and performance specification, and the completion of engineering and manufacturing development. Regular communication with the relevant overseas government agencies will provide early indications of cost and/or schedule change.

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

AIR 5418 Ph 1 — Follow-On Stand Off Weapon

Prime Contractor: Lockheed Martin Corporation, through a FMS case with the United States government and a commercial contract with Lockheed Martin Missiles and Fire Control

This project will acquire the AGM-158 Joint Air-to-Surface Standoff Missile for integration onto the F/A-18 aircraft to increase the survivability of the F/A-18 aircraft and aircrew.

A FMS case was established with the United States Air Force in July 2006. A commercial contract was signed with Lockheed Martin Missiles and Fire Control in September 2006. The project is to deliver an initial operational capability to engage fixed targets in 2009. A full operational capability to engage relocatable and mobile targets is an option under the contract. Proceeding with this option depends on United States Air Force development of a maritime interdiction capability that is suitable for the Australian application. The project remains on schedule.

The key risks for the project are the successful completion of the development of operational flight program software by the United States Navy, and the Aircraft Stores Clearance activities by the RAAF to allow employment of the missile from the F/A-18 aircraft. The DMO is actively engaging with the United States Navy to ensure Australian requirements are included in the software development program. Defence is seeking to collaborate with the United States Air Force on the definition of its maritime interdiction requirements.

This project contributes to Air Force capability.

JP 2070 Ph 3 — Lightweight Torpedo Replacement

Prime Contractor: Eurotorp and Thales

The project involves the assembly of locally and internationally produced torpedo components into MU90 torpedoes using facilities at Fleet Base West, Western Australia.

Phase 2 of the project will integrate the Eurotorp MU90 lightweight torpedo into a number of ADF platforms. It will replace the United States Navy Mk46 lightweight torpedo.

Joint Project 2070 Phase 3 will establish an Australian manufacturing and support capability for the Eurotorp MU90 lightweight torpedo, and delivery of a number of warstock rounds.

Significant activity during 2007-08 includes the conduct of a number of design reviews related to the Australian production of the torpedoes and associated equipment, initial deliveries of equipment to support local production. It will also involve the purchase of long-lead items for the torpedoes.

The major risk to Phase 3 is potential difficulties in transferring overseas supplier skills and technical knowledge for a complex weapon system into Australian industry. Management of this risk is necessary to provide in-country through-life support for the torpedo weapon system. This risk will be reduced to low as the contract contains financial incentives for the contractor to meet its obligations and the project critically reviews the contractor's proposal for acceptance.

The project contributes to Navy and Air Force capabilities.

JP 2043 Ph 3A — High Frequency Modernisation

Prime Contractor: Boeing Australia Ltd

The first stage of the project has upgraded capability at six Navy sites and four Air Force stations. The second stage will provide increased levels of automation, improved capability, enhanced security and survivability, reduced reliance on staff, and will incorporate the new equipment into mobile platforms.

Following the detailed design review final fixed network system, completed in September 2006, the second stage fixed network system is being introduced. This is to be completed in early 2008, with installation into mobile platforms extending to 2010.

Major risks relate to the schedule for introduction of the second stage fixed network capability, and for installation of upgrades into mobile platforms. In order to reduce risk to the scheduled fixed network, an independent review of the prime contractor's schedule will be undertaken during 2008 to ensure the contractor minimises any schedule impacts. Platform availability is a major risk against the schedule for the mobile platform upgrades. Evaluation of risk mitigation options is being undertaken to closely monitor any platform availability changes and seek alternative opportunities.

This project contributes to the Command of Operations capability.

AIR 5333 Vigilare — New Air Defence Command and Control Systems for Control and Reporting Units - 2CRU/3CRU

Prime Contractor: Boeing Australia Ltd

This project will replace the Air Defence command and control system with two new systems located at RAAF Base Tindal and RAAF Base Williamtown. It will also design and deliver an integrated ADF Air Defence System communications network.

The project's critical design review is to be completed in 2007 which will also see the commencement of the integration and test phase. Both of these activities were expected to be completed within 2006-07. However, delays resulted from an underestimation of required effort by the contractor and delayed delivery of required interfaces by Defence. Mitigation action is underway to address delivery delays and the contractor is applying greater resources to complete the work. Due to the overall complexity of integration and the large number of unique interfaces involved, the project remains a high risk project.

Two of the major risks to the project are Software Development and Integrated Tactical Data Links. The first risk is being managed through the use of Commonwealth Resident Teams, Independent Software Review Teams and actively monitoring Contractor performance through software development related metrics. The risk level will be reduced to medium through these strategies.

The second risk is being managed through the employment of tactical data link experts, close liaison with the ADF tactical data link authority and through increasing the tactical data link expertise within the Commonwealth Project Team. Although the risk is being actively managed through these strategies, it remains a high risk.

This project contributes to Air Force capability.

JP 2008 Ph 3E — MILSATCOM Terrestrial Infrastructure

Prime Contractor: BAE Systems (Australia)

Joint Project 2008 Phase 3E will provide terrestrial infrastructure and through - life support for a netted, broadcast and full duplex satellite communication services to high priority platforms and units. This will be achieved by a Defence payload on the Optus C1 satellite. Systems to be delivered include 26 land terminals, 15 maritime terminals, a primary injection facility, and theatre broadcast software.

All 26 land terminals have been delivered and accepted by the Government, although further testing, to remediate some technical issues, is being conducted prior to commencing roll-out to units in July 2007.

Acquisition and through-life support contracts for the maritime elements of this project were signed with BAE Systems in November 2003. Eight terminals have been delivered, six of which have now been installed on Navy ships; two more are to be installed by late 2007. The first of an additional seven terminals is to be delivered in early 2008.

The Primary Injection Facility, which provides the theatre broadcast capability, has been successfully installed into the Defence Network Operations Centre, with testing and delivery achieved in March 2007, and now providing limited operational services.

A contract was signed with Ebor Computing in September 2005 for the delivery of the mature theatre broadcast software in early 2008. Development is proceeding to schedule.

The prime contractor has achieved both budget and schedule requirements. The project remains on target with only minor variances, due primarily to ship availability.

The two highest risks to the project are ship availability for installation and integration, and delivery of theatre broadcast software. The first risk is being managed through contractual schedule flexibility mechanisms and close liaison with all stakeholders. The second risk is being managed through a staged delivery of software based on a rigorous system engineering approach of implementing requirements based on priority and complexity.

The project contributes to the Command of Operations capability.

AIR 9000 Ph 2 — Additional Trooplift Helicopter

Prime Contractor: Australian Aerospace

This project will acquire 46 Multi Role Helicopters (MRH-90) and support systems for the Army and Navy under Phases 2,4 and 6. The support systems will include an electronic warfare self protection support cell; a ground mission management system; a software support centre; an instrumented aircraft with telemetry; up to three full flight and mission simulators and facilities infrastructure at Townsville, Oakey, Sydney and Nowra. An initial 10-year sustainment contract starts from the in-service date of 18 December 2007.

On 30 June 2006 a contract change proposal to the Additional Troop Lift project was signed for procurement of an additional 34 MRH-90 to replace the Army Black Hawk and Navy Sea King helicopters, bringing the total to 46 aircraft. The support contract negotiation was then completed and signed on 31 October 2006. The first flight for the first Australian MRH-90 was conducted on 28 March 2007. The first four aircraft will be manufactured in France and the remaining 42 MRH-90 assembled at the Australian Aerospace Brisbane facility established for

the Tiger Armed Reconnaissance Helicopter. The first fuselage for the Australian assembly line arrived in Brisbane on 25 March 2007.

Training for aircrew, maintenance and support personnel is scheduled to commence in mid-2007. The project is on schedule to achieve the in-service date with the Navy initial operational capability of one aircraft at sea planned for 2010 and the Army initial operational capability of a troop of four aircraft expected to be achieved in 2011.

The MRH-90 aircraft is at a far more mature state of development than the Tiger Armed Reconnaissance Helicopter was for this stage of the project and is a less complex helicopter. The lessons from the acquisition of Tiger and the lessons of introduction of the aircraft into the German Army are being considered and, where appropriate, applied to the Australian project.

The two major risks to the project are schedule delay (due to qualification and certification levels) and delays to indigenous training. The schedule risk relates principally to the achievement of MRH preliminary stage training and exists because it relies on the availability of aircraft in France to achieve the training objectives required for airworthiness certification. It is being mitigated by collaborative management of training priorities and air freighting (instead of shipping) the third and fourth MRH-90 to Australia in 2008 to increase their availability in France. Further mitigation is through the careful management of the contract and the application of suitably qualified personnel to support design and certification. These strategies will also help mitigate the indigenous training risk with additional mitigation achieved by ensuring the appropriate training is developed and completed under a graduated scheme matched to the levels of airworthiness certification approved at any particular time.

This project contributes to Army and Navy capability.

AIR 87 Ph 2 — Armed Reconnaissance Helicopter

Prime Contractor: Australian Aerospace

The project will acquire an Armed Reconnaissance Helicopter system for the Australian Army. The system will consist of 22 helicopters, a software support facility, a ground mission management system, facilities, a training system and training devices including simulators.

As at 30 March 2007, 69 per cent of the project milestones were achieved, including Commonwealth acceptance of six Tiger Armed Reconnaissance Helicopters. By mid-2007, nine aircraft and four of the six ground training devices are expected to have been accepted. A total of 14 aircraft are planned to have been accepted by end of 2007-08 and all of the aircraft by mid-2009. The full flight and mission simulator is expected to be accepted in stages no earlier than December 2007 as it achieves increasing levels of capability.

Delivery of operational capability to the Army is delayed 24 months, primarily because of a delay in the Franco-German program on which the Australian Tiger relies for certification and qualification. This delay has caused slippage in the aircraft and system certification, simulator development and aircrew training. The contractor and the Australian Government have provided additional resources but the project remains within budget.

The engineering risk to project schedule was mitigated in France before delivery of aircraft to Australia, by gaining dedicated support from the Delegue General Pour l'Armement (DGA) - the equivalent to the Defence Materiel Organisation. While DGA support is continuing from France, the planned increase in Australian-based contractor engineering support has been constrained by an industry shortage of skilled personnel.

Because there is no alternative source of Tiger helicopters, risk mitigation for aircrew training is more complex and alternative initiatives are continuing to be developed to increase the specialist skill levels for aircrew prior to their transition onto the Armed Reconnaissance Helicopter. The ADF helicopter pilots selected for training on the Tiger are making a significant transition from operating older technological systems to a modern integrated fighting capability. Therefore, an integrated lead-in-skills package is being developed utilising light twin-engine, digital, glass cockpit commercial helicopters. The use of part-task simulators will also contribute by reducing the training demand on the actual Armed Reconnaissance Helicopter.

This project contributes to Army capability.

LAND 106 — Upgrade of M113 Armoured Vehicles

Prime Contractor: Tenix Defence

The project is upgrading 350 of the Army's M113A1 vehicles to improve components, lethality, mobility and habitability. The upgrade replaces most of the vehicle, retaining only the hull, hatches, rear door and communications systems.

Early progress was good, but the need to resolve a number of problems identified in initial vehicle testing has delayed vehicle development and this has placed pressure on the project schedule. Vehicle testing by Defence resumed following vehicle modifications by Tenix. The contractor has commenced production to deliver the initial capability into service. Crew training has commenced. The first maintenance course (Turret Maintenance) is scheduled for mid-2007. Procurement of initial spares, special tools and test equipment to support the initial introduction of vehicles has commenced and will continue in parallel with vehicle production.

Most vehicle testing is now proceeding satisfactorily; however, program reviews indicate that technical problems are being realised. Defence assesses that the target date of November 2007 for introduction of vehicles for the initial capability may slip to the second half of 2008. The contractor is developing a number of design modifications in parallel with the current testing to reduce the risk to schedule. The brake and other technical issues have led to an unrecoverable delay of six months. The contractor is advising that the delivery of the last vehicle will be in the first quarter of 2011. Defence is working with the contractor to seek options to reduce schedule delay.

This project contributes to Army capability.

LAND 116 Ph 3 — Bushmaster Infantry Mobility Vehicles

Prime Contractor: Thales Australia

Phase 3 of LAND 116, Project Bushranger, is to deliver 300 vehicles in six variants (troop, command, assault pioneer, mortar, direct fire weapon and ambulance). The vehicle will provide protected land mobility to Army combat units and RAAF Airfield Defence Guards.

All 227 troop and command variants under the current acquisition contract have been delivered on schedule. The first assault pioneer vehicle was delivered on 26 March 2007. The remaining four variants, numbering 72 vehicles are to be delivered by mid-2007.

In December 2006, the Government approved the purchase of an additional 143 Bushmaster vehicles for the Enhanced Land Force. The delivery of these vehicles will commence in mid-2007 and is scheduled to be completed by early 2009. The through-life support contract has been operating since 25 March 2006. The project office is currently seeking a contract amendment to include the additional vehicles.

In July 2006, the Government approved the rapid acquisition of 44 protected weapon stations to further enhance the protection level of those vehicles currently deployed on operations. The fitting of the stations to deployed vehicles commenced in February 2007 and is planned to be completed by mid-2007.

Testing and evaluation of the remaining four variants is a risk to schedule. This risk is being mitigated by Thales which is providing additional resources to support the tests. Configuration management has been identified as a risk. This risk is being mitigated by regular audits and intensive management by the project office.

This project contributes to Army and Air Force capabilities.

LAND 907 Ph 1 — Tank Replacement Project

Prime Contractor: United States FMS Program

This project provides the replacement of the Army's Leopard tank fleet with a modern, survivable and interoperable tank capability that will be supportable until at least 2020. The project includes the acquisition and through-life support of 59 M1A1 Abrams main battle tanks, seven M88A2 Hercules recovery vehicles, simulators, tank transporters and fuel trucks. Support arrangements include additional equipment and spare parts, ammunition, facilities, and initial training.

The project remains ahead of schedule to meet the in-service date of one squadron by December 2007. The first 18 M1A1 Abrams tanks and five M88A2 armoured recovery vehicles arrived in Australia on 21 September 2006. The remaining 41 tanks and two armoured recovery vehicles arrived on 3 March 2007. Deliveries of simulators and fuel trucks are complete, and the initial delivery of tank transporters was completed in April 2007. An additional four transporters are on order. Conversion training is under way and almost all ammunition, facilities and spare parts have been delivered.

The risk of a delay in the establishment of an Australian-based through-life support contract was identified early in the project. This risk has been managed through the establishment of Cooperative Logistics Services Support Arrangements, directly with the United States government, through the FMS system. This arrangement will provide interim through-life support until the Australian-based support contract is in place, which is planned for early 2008.

This project contributes to Army capability.

SEA 1390 Ph 2.1 — Guided Missile Frigates (FFG) Upgrade - Implementation

Prime Contractor: ADI Ltd trading as Thales Australia

The project is upgrading ship combat systems including sensors, missile launchers and associated platforms systems for the Adelaide-class Guided Missile Frigates.

There are known deficiencies with the underwater warfare systems, electronic support system and Australian Distributed Architecture Combat System software. Under the provisions of the contract, work by the prime contractor is to continue to rectify deficiencies before HMAS *Sydney's* acceptance, which is scheduled for late 2008. HMAS *Sydney's* initial operational release is due in mid-2007. HMAS *Melbourne* is planned for provisional acceptance in late 2007. HMAS *Darwin* is to complete the upgrade docking in mid-2007. HMAS *Newcastle* is scheduled to enter the upgrade docking in late 2007.

A major risk to this project is non-adherence to the approved schedule. A renegotiated contract and schedule provide a better, common understanding and milestone measurement of the deliverables as risk mitigation. Risks related to production, system integration and test and trials activities are deeply influenced by the availability of experienced, competent and skilled personnel in a limited and very competitive Australian commercial market. The risk to veracity and completeness of the integrated materiel support products is addressed by monitoring the progress of functional deliverables.

This project contributes to Navy capability.

SEA 1390 Ph 4B — Standard Missile-1 (SM-1) Replacement

Prime Contractor: The DMO is the procurement coordinator and is supported by the United States Department of Defense under a FMS case and a range of commercial contractors.

This project is to replace the SM-1 missile with a modern variant of the same missile system (SM-2) and improve the air defence capability of the Guided Missile Frigate fleet, adding to the capability delivered by the FFG Upgrade Project.

A mix of United States commercial and FMS cases will deliver equipment hardware, software development, integration, equipment installation and system testing. Development work required for the guided missile launching system, onboard training and land-based simulation systems and the fire control system will be delivered by commercial contracts which will deliver the preliminary design materials with cost and schedule data for their respective planned procurements that follow. The contract for the guided missile launching system is due for award in late 2007.

The system critical design review of other components is due in late 2007.

The risk to guaranteed interoperability of the systems, equipment and logistic support is mitigated by a combination of FMS acquisition cases and direct contracts with original equipment manufacturers. This combination will cover ship modifications, system hardware alterations and support equipment and will reduce the risk of access and availability of proprietary information and intellectual property necessary for system integration and the related technology. System development schedule risks are mitigated by the engagement of the United States government and experienced system integration agents for the major sub-systems and subsequent overall system integration and test and trial.

This project contributes to Navy capability.

SEA 1448 Ph 2B — Anzac Ship Anti-Ship Missile Defence (ASMD)

Prime Contractor: The contract management is under the formal Alliance Agreement: Anzac Ship Alliance (Commonwealth of Australia with Tenix and Saab). The current Alliance Agreement is being replaced by a new Anzac Ship Integrated Materiel Support Program Alliance. The Government is also contracted directly with CEA Technologies for radar equipment design, development and production.

Phase 2B of the project is to deliver two phased array radars for each Anzac-class ship. The delivery of the radars will complete the anti-ship missile defence suite in the Anzac ships. CEAFAR is a target indication and tracking radar, while the radar illuminator CEAMOUNT provides mid-course guidance and target illumination for the Evolved SeaSparrow Missile. CEAMOUNT will enable multiple target engagement of incoming anti-ship missile threats.

The preliminary phased array program, executed under Phase 2A of this project, delivered design and test documentation to progress the design and development of the phased array system architecture represented by CEAFAR and CEAMOUNT. It also informed the significant system functional review which allowed a decision to proceed towards production. Phase 2A also included pre-production deliveries. These included CEAFAR and CEAMOUNT engineering development models (test beds), test jigs and production tooling, front-end logistic support analyses, and software development.

Activities in 2007-08 will focus on successful completion of the phased array radar system production design review and progressing development and production of initial systems. Parallel activities under Phase 2B include combat management system and ship integration, and forward and after mast redesign to accommodate phased array radar installation.

Overall, the risk rating for Phase 2B remains high, as expected for a development program for leading-edge Australian technology. However, the capability payoffs and Australian industry support dividends are high.

This project is deliberately exploring the potential of leading edge, indigenous Australian phased array radar technology which offers significant capability advantages over conventional radar systems. This technology has been successfully demonstrated at sea. The Defence Science and Technology Organisation is assisting all parties in testing and independent risk analysis, and in ship and system modelling using the Saab combat management system and various software and hardware systems.

Ship weight and stability, particularly topweight, is being carefully managed to reduce risk. Mast and ship design activities are proceeding satisfactorily. Electronic compatibility and interference between various sensors is a design

risk issue. This continues to be addressed in extensive mast design and antenna location studies.

Latent schedule risks for the program are emerging from the Phase 2B phased array sub-program. Production contract negotiations are now in progress with CEA Technologies. These negotiations include alternative test and verification strategies and other mitigations of technical risks. This may have cost and schedule impacts. Schedule confidence will improve post preliminary design review, as CEA ramps up to production of the phased array radars. The Alliance contracting strategy will maintain maximum incentives and pressure on schedule performance of all parties.

There are schedule and cost risks associated with the availability of a skilled workforce to undertake the work, and availability of development test and evaluation resources. Plans are being developed to mitigate risk through improved continuity of work and resource levelling, plus programming Royal Australian Navy resources for future testing resources.

As a risk mitigator to protect the phased array production schedule, an order was placed in 2006 for some long-lead items for the first two CEAFAR and CEAMOUNT shipsets, together with printed circuit boards and power supply units. Should any schedule delays from signature of the production contract emerge, the test regime can proceed using the first two shipsets of equipment.

The previous phased array radar concept demonstrator sea trials and the Phase 2A project risk mitigation phase have provided far more visibility of risk drivers for this developmental product. The project risks will be intensively managed through 2007-08, with high-level scrutiny in the DMO and Defence. The Government will be advised of the outcomes of the preliminary design review.

This project contributes to Navy capability.

SEA 1348 Ph 2 — Anzac Ship Project

Prime Contractor: Tenix Pty Ltd

The project delivered 10 Anzac-class ships, and associated shore facilities and logistic support. Two ships were for the Royal New Zealand Navy.

All 10 ships and shore facilities have been delivered into service with the Royal Australian Navy and Royal New Zealand Navy. The ongoing delivery of spares, documentation and other integrated logistic support deliverables will continue in 2007-08. Closure of the prime and other major contracts is being progressed. A number of minor configuration changes on the ships in-service is being progressed to finalise outstanding design and installation issues.

As all 10 ships have been delivered, and final support deliverables are acquitted in 2006-07, the project risks are low and associated mainly with the schedule for project closure.

This project contributes to Navy capability.

SEA 1439 Ph 4A — Collins Replacement Combat System

Prime Contractor: United States Department of Defense under a FMS case and an Armaments Cooperative Project.

This project will provide the Collins-class submarines with the United States naval tactical command and control system; minor improvements to the combat system augmentation sonar, and shore facilities for integration, testing and training.

System trials in HMAS *Waller* are to be completed during post-docking sea trials in late 2007. The second system installation will be in HMAS *Farncomb* during its mid-cycle docking which will be completed in mid-2008. The third installation will be in HMAS *Dechaineux* during its full-cycle docking which commenced in mid-2006 and will be completed at the end of 2008.

Changes to the United States baseline tactical system is a risk to both cost and schedule. Mitigation is by the inclusion of Australian members in the Joint United States/Australian Project Office located in the United States, allowing the DMO to monitor scope changes early to minimise adverse impact on the Collins installation program. Changes to the submarine docking program are a risk and could affect the installation schedule and is being managed by engagement with Navy to ensure compatibility of the submarine docking program with the replacement combat system installation schedule.

This project contributes to Navy capability.

SEA 1448 Ph 2A — Anzac Ship Anti-Ship Missile Defence (ASMD)

Prime Contractor: The contract management is under the formal Alliance Agreement: Anzac Ship Alliance (Commonwealth of Australia with Tenix and Saab). The current Alliance Agreement is being replaced by a new Anzac Ship Integrated Materiel Support Program Alliance. The Government is also contracted directly with CEA Technologies for radar equipment design, development and production.

Phase 2A of the project seeks to upgrade Anzac-class frigates with an initial anti-ship missile defence operational capability, providing a level of self-defence against modern anti-ship missiles.

This phase also upgrades the combat management system from MK3 to MK3E, the fire control system and installs an infra-red search and track capability. This

will provide 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 2009-10, which accommodates a combined Phase 2A and Phase 2B schedule. Phase 2B was approved in 2006.

The project provides a preliminary phased array program to mitigate risk, and inform the design and development of a phased array architecture for incorporation into Phase 2B of the project. This will complete the missile defence capability. The preliminary phased array program is almost complete, informing the Government of risks and enabling acquisition activity to commence in Phase 2B. Acquisition contracts with Saab (Sweden) for the combat management system hardware and software architecture and with SAGEM (France) for the infra-red search and track equipment solution are delivering against their respective schedules. Principal design, systems engineering, interface control disciplines and functional breakdowns are all progressing satisfactorily for Phase 2A. The anti-ship missile defence building at Anzac-class training facility in HMAS Stirling was completed on time and on budget in March 2007.

Final Phase 2A deliverables will be received in 2007-08, including some long-lead production components and engineering development modules. It is intended to seek approval to combine Phases 2A and 2B in 2007-08.

This initial phase of the project is on schedule. This phase has identified a number of latent schedule risks for Phase 2B. The technical performance risks for the combat management system hardware and software, and integration of infra-red search and track equipment are assessed as low.

This project contributes to Navy capability.

SEA 1444 Ph 1 — Armidale-class Patrol Boat

Prime Contractor: Defence Maritime Services

This project is to deliver 14 Armidale-class patrol boats; associated infrastructure and provide 15 years in-service support.

Nine vessels are in service; three more will be delivered by mid-2007, and Boats 13 and 14 by end 2007. The wharf facilities in Darwin will be upgraded by the end of 2007. With sustainment support included in the prime acquisition contract for the first 15 years, the project will provide the ongoing materiel support for the patrol boat operational capability.

The main risk to achieving operational availability is the current fuel system unreliability, and is mitigated by rigorous, collaborative management of the remediation plans by the project, the Navy and the prime contractor.

This project contributes to Navy capability.

SEA 1779 Ph 1 — Ships Self Defence Capability – Rapid Acquisition

Prime Contractor: Alliant Techsystems Inc. for the supply of 25mm Bushmaster Naval Variant Cannons, and Rafael Armament Development Authority (Israel) for the supply and integration of the Toplite, Mini-Typhoon and Typhoon systems.

Phase 1 of the project will provide a dual level ship self defence capability for HMA Ships *Kanimbla*, *Manoora* and *Tobruk*. This capability will provide better defence against watercraft, land targets, helicopters and floating mines. The capability will consist of an integrated fire control system comprising the Rafael Typhoon and Mini-Typhoon weapon systems, and Toplite electro-optical director system. The 25mm Bushmaster naval variant cannons are to be integrated to provide the cannon for the Typhoon system.

To meet urgent operational deployment needs, an interim solution comprising Toplite and Mini-Typhoon for two ships was provided in November 2006. This, and additional hardware, including Typhoon, will be used in the final installations on all three ships. Additional hardware is scheduled to be available in late 2008.

The ship modification design package is scheduled for delivery in May 2007. Contracts will then be placed for the modification of the ships to meet those designs with a planned completion date of February 2008. Operational release of the first ship is scheduled for August 2008, with project completion in February 2009.

Schedule risk is high because of the very short time frame for production, delivery, installation and testing of this capability. This has been mitigated by strict contract management practices as the basis to secure firm price and delivery schedules, with the prime equipment manufacturers required to use best endeavours to deliver supplies earlier than their indicated standard delivery schedules.

Ship availability is also a risk as the vessels will be available for only limited periods for the fit-out of mountings and fixtures. The risk is mitigated by the engagement of an engineering design contractor with knowledge of the weapon system requirements and previous experience in developing the design for the initial capability in Navy ships.

The operational effectiveness of the proposed multi-weapon system configuration has not been proven in naval vessels. This technical risk is to be mitigated through the conduct of system testing and certification activities and training, including detailed manuals and procedures.

This project contributes to Navy capability.

ACQUISITION PROJECTS NOT INCLUDED IN THE TOP 30 – CURRENT STATUS

Table 3.5 provides an update on the status of major projects reported in the *Portfolio Budget Statements 2006-07* and the *Portfolio Additional Estimates Statements 2006-07* that have now dropped below the top 30 forecast expenditure threshold.

Table 3.6 provides an update on the financial status of projects included in statutory reports over the previous three financial years – 2005-06, 2004-05 and 2003-04. The planned expenditure for these projects or their completed status during 2006-07 places them outside the top 30.

Table 3.5: Current status of previously reported Top 30 projects (Portfolio Budget Statements 2006-07 and Portfolio Additional Estimates Statements 2006-07)

| Title | Project Number | Approved Project Expenditure \$m | Cumulative Expenditure to 30 June 2007 \$m | 2007-08 Expenditure Estimate \$m |
|--|-----------------|-------------------------------------|---|-------------------------------------|
| AMPHIBIOUS VESSELS | | | | |
| Maritime Operations Support Capability | SEA 1654 Ph 2A | 144 | 131 | 3 |
| <u>Status Report:</u> Initial Operational Release for HMAS <i>Sirius</i> was achieved in October 2006. HMAS <i>Sirius</i> is now operating as a RAN Fleet Unit and is home ported at HMAS Stirling in Western Australia. The main risk to obtaining operational release is the completion of maintenance manuals to meet Navy requirements (not in original project scope). This is being mitigated by close liaison with the Navy and placement of a contract for the development of manuals that meet their requirements. This will reduce the risk to low. Project closure should occur in late 2007. | | | | |
| AEROSPACE | | | | |
| Hornet Upgrade Project – Target Designation System | AIR 5376 Ph 2.4 | 148 | 60 | 28 |
| <u>Status Report:</u> 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 pod on the RAAF 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. LITENING AT system deliveries commenced in October 2006 as did ground testing. Flight testing commenced in February 2007 with initial operation capability scheduled to be achieved no later than June 2007 and full operational capability by February 2008. The main threat to initial operational capability is potential delay in system certification, where this certification is dependent on the United States Navy test program. The majority of the Australian aspects of testing are complete and additional resources are being applied to ensure basic functionality certification to meet initial operational capability. | | | | |
| ELECTRONIC AND WEAPON SYSTEMS | | | | |
| Jindalee Radar Network | JP 2025 Ph 3/4 | 1,247 | 1,213 | 5 |
| <u>Status Report:</u> Formal operational release of the Jindalee Operational Radar Network occurred on 17 April 2003 with final acceptance occurring on 5 May 2003, bringing to a close the major acquisition phase of the prime contract with RLM Management Pty Ltd. A 46-month maintenance and support contract expired on 17 February 2007. The residual activities on this project include final integration support environment into the Over the Horizon Radar System Program Office. The remaining risk to the acquisition project is rated as low because the network has already been in operational service for some four years. | | | | |

| Title | Project Number | Approved Project Expenditure \$m | Cumulative Expenditure to 30 June 2007 \$m | 2007-08 Expenditure Estimate \$m |
|---------------------------------|----------------|-------------------------------------|--|--|
| Lightweight Torpedo Replacement | JP 2070 Ph 2 | 331 | 179 | 22 |

Status Report:

Phase 2 will introduce the Eurotorp MU90 lightweight torpedo into ADF service to replace the United States Navy Mk46 lightweight torpedo. The initial batch of MU90 torpedoes has been delayed and will now be delivered to Australia in late 2007. Ship integrations are proceeding well and will complete in mid-2008. Integration with the Orion AP-3C aircraft was to be completed in April 2008, but this date has been delayed by about two years to 2010. The AP-3C will lead the aircraft integration effort and develop the torpedo control unit that will be used in the AP-3C and the helicopters. Seahawk integration was to be conducted during the Seahawk midlife upgrade and life extension project, which has not yet been approved. Current estimate for completion is 2010. Seasprite integration has been delayed. Current estimate for completion is 2010. The main risk is the feasibility of integration to the air platforms and is being mitigated by conducting studies on integration. This will reduce the risk level to medium.

MARITIME

| | | | | |
|-------------------------|---------------|-----|-----|----|
| New Heavyweight Torpedo | SEA 1429 Ph 2 | 435 | 189 | 28 |
|-------------------------|---------------|-----|-----|----|

Status Report:

This project will acquire an anti-surface, anti-submarine heavyweight torpedo for the Collins-class submarines. It will replace the United States Navy Mk 48 Mod 4 heavyweight torpedo currently in Navy service. The first installation in HMAS *Waller* completed in December 2006. Harbour acceptance trials were successfully completed in February 2007 with sea trials of the modifications scheduled for late 2007. The first of several batches of torpedoes was delivered to Australia in December 2006. The second batch is scheduled for mid-2007. Delay in delivery of weapons for sea trials is a moderate risk mitigated by arrangement of alternative transport schedules.

| | | | | |
|---|---------------|-----|-----|----|
| Collins-class Reliability and Sustainability Improvements | SEA 1439 Ph 3 | 383 | 216 | 25 |
|---|---------------|-----|-----|----|

Status Report:

This project is a program of upgrades to Collins-class platform systems to improve reliability, sustainability, safety and capability. Major modifications progressing over the next five years include fire fighting safety, sewage system safety, submerged signal ejector, main battery improvements, diesel safety modifications, escape and rescue systems and a special forces capability. The moderate risk to project delivery is that limited contractor design resources need to be re-assigned to higher priority, emerging capability upgrades.

| Title | Project Number | Approved Project Expenditure \$m | Cumulative Expenditure to 30 June 2007 \$m | 2007-08 Expenditure Estimate \$m |
|---|------------------|-------------------------------------|--|--|
| NEW AIR COMBAT CAPABILITY | | | | |
| New Air Combat Capability Joint Strike Fighter (JSF) System Development and Demonstration (SDD) | AIR 6000 JSF SDD | 214 | 175 | 15 |
| <u>Status Report:</u> | | | | |
| This project aims to introduce a new air combat capability with the air superiority and strike functions currently provided by the Hornet and F-111 aircraft fleets. The project is currently working towards second pass approval, scheduled for late 2008. The approved funding is Australia's contribution to the nine-nation development phase. The project faces technical risks inherent in any complex, software-intensive project but these are being well managed by the JSF Program Office and the Lockheed Martin-led industry team. The major programmatic risk is the potential for cost increases associated with uncertainty surrounding the United States congressional budget process and is being managed/mitigated primarily through senior Defence and Government representation to the United States as well as some slip to initial delivery of JSF aircraft for Australia. This has reduced the overall project risk to medium/high but the acquisition of the Super Hornet has reduced the risk to the overall air combat capability to medium. | | | | |
| HELICOPTER | | | | |
| Anzac Ship Helicopter | SEA 1411 Ph 1 | 1,006 | 948 | 15 |
| <u>Status Report:</u> | | | | |
| This project will acquire 11 Super Seasprite maritime combat helicopters for the Anzac-class frigates, providing an enhanced capability for surface surveillance, anti-ship warfare, contact investigation and maritime utility tasks. The acquisition includes a full mission flight simulator and software support centre. While nine of the helicopters have been provisionally accepted, routine Seasprite flying operations were suspended in March 2006 in response to emerging concerns with the aircraft's automatic flight control system. Since this suspension, the program has been the subject of a ministerial review and Government consideration. Future direction is subject to the outcome of this consideration. The project is not achieving its forecast budget estimate due to a range of technical issues, primarily associated with software integration and the aircraft's automatic flight control system. The main risks to this project include the automatic flight control system issue, mission computer shortcomings, and a lack of customer confidence in the platform brought about by the extended flight suspension and ongoing technical issues. The risks are being managed with the automatic flight control system through a phased remediation strategy. | | | | |

Table 3.6: Previously Reported Top 30 projects (2005-06, 2004-05 and 2003-04)

| Title | Project Number | Financial Year Reported | Approved Project Expenditure | Estimated Cumulative Expenditure to 30 June 2007 | 2007-08 Budget Estimate | Project Status |
|--|------------------|-------------------------|------------------------------|--|-------------------------|--|
| | | | \$m | \$m | \$m | |
| Aerospace | | | | | | |
| P-3C Update Implementation | AIR 5276 Ph 2 | 2004-05 | 904 | 858 | 16 | The last aircraft was delivered to the Air Force in December 2004. The project is expected to close by December 2007. The final deliverables are an acoustics rectification program and some spares. |
| F/A-18 Hornet Structural Refurbishment Program Stage 1 | AIR 5376 Ph 3.1 | 2004-05 | 124 | 89 | 11 | The project has delivered 29 aircraft. Production is expected to continue through to December 2008. |
| Maritime | | | | | | |
| Underwater and Surface Warfighting Upgrade Program | SEA 1348 Ph 3 | 2003-04 | 159 | 125 | 6 | The project has successfully enhanced the Anzac-class frigates surface warfighting capabilities. |
| Mine Hunter Coastal Acquisition | SEA 1555 Ph 2 | 2003-04 | 1,253 | 1,153 | 3 | All six ships were accepted into naval service in November 2003. |
| Evolved SeaSparrow Missile (ESSM) | SEA 1428 Ph 2A | 2005-06 | 355 | 348 | - | All Anzac-class frigates have been fitted with the Evolved Seasparrow missile system. |
| | SEA 1428 Ph 2B/3 | 2004-05 | 276 | 246 | 2 | Phase 2B/3 is nearing completion and remains on budget. |
| Land | | | | | | |
| Direct Fire Guided Weapon | LAND 40 | 2004-05 | 147 | 101 | 6 | Initial introduction into service training, including the training equipment and the delivery of command launch units, has been successfully completed. |

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, funded by the Capability Managers through Materiel Acquisition Agreements as described in Chapter Two. There are currently over 159 minor projects with an average value of \$6.6m.

Planned resource use for the DMO Minor Capital Investment Program is \$176.4m in 2007-08.

Performance Target for Output 1.2 – Management of 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 the 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.

Planned resource use for Output 1.2 is \$4,681.6m in 2007-08.

Table 3.7 lists the Top 20 Sustainment products ranked by forecast expenditure in 2007-08. The key activities associated with the key deliverables under each Materiel Sustainment Agreement are addressed in the product descriptions. There are currently 101 Materiel Sustainment Agreements under management in Output 1.2.

Table 3.7: Top 20 Products by Forecast Expenditure in 2007-08

| | 2007-08 Budget Estimate of Total Product Price \$m |
|--|---|
| Aerospace Systems | |
| F-111 Weapons System | 146 |
| P-3/AP-3C Orion Weapons System | 121 |
| F/A-18 Hornet Weapons System | 119 |
| Lead-In Fighter Hawk 127 | 95 |
| C-130J-30 Weapons System | 65 |
| C-17 Weapons System | 55 |
| Helicopter Systems | |
| S70B2 Seahawk Weapons System | 79 |
| Black Hawk Weapons System | 67 |
| SH-2G(A) Super Seasprite Helicopter | 55 |
| Maritime Systems | |
| Fuels and Lubricants - Air Force, Navy, Army | 430 |
| Collins-class submarines | 322 |
| Helicopter Capable Frigate (FFH) | 238 |
| Guided Missile Frigate (FFG) Adelaide-class | 126 |
| Mine Hunter Coastal (MHC) | 61 |
| Land Systems | |
| ADF Clothing and Equipment | 101 |
| ADO Commercial Vehicle Fleet | 81 |
| B Vehicles | 85 |
| Electronic and Weapon Systems | |
| Explosive Ordnance - Air Force, Navy, Army | 266 |
| Wide Area Surveillance Capability | 74 |
| Battlespace Communications Systems | 63 |
| Top 20 Approved Products Price | 2,649 |
| Total Funds Available | 4,622 |

AEROSPACE SYSTEMS

Aerospace Systems Division provides through-life support to thirteen fixed wing weapons systems. These include, but are not limited to, the F/A-18 Hornet fleet, heavy air lift capability, air to air refuelling capability and advanced flight simulators.

Major challenges for sustainment during 2007-08 include:

- Commencement of withdrawal from service of the B707 tanker aircraft.
- Contracting for the incorporation of replacement instrumentation and Global Position System (GPS) into the PC-9/A fleet.
- Upgrade of Cockpit Procedural Trainers to replicate the new configuration of PC-9/A aircraft after instrumentation and GPS configuration.
- Establishment of a new Heavy Air Lift System Program Office at RAAF Amberley to manage the sustainment of the new C-17 Globemaster III Heavy Air Lift and Multi Role Tanker Transport weapons systems.
- Management of ageing aircraft platforms, including the F-111, F/A-18 Hornet, PC-9, C-130H and AP-3C Orion.
- Introducing incentive-based contracts for existing and new platforms.
- Maintaining Hornet aircraft availability during the extensive Hornet Upgrade Program.
- Development of support arrangements for the recently announced acquisition of 24 F/A-18 Block II Super Hornets.
- Development of acquisition/sustainment strategies for AIR 7000 manned and unmanned maritime patrol and response capabilities.

Aerospace System Products

F-111 Weapons System

The F-111 is supported by three main contractors with operational-level maintenance provided by the RAAF. The recent Government decision to withdraw the F-111 in 2010 will drive the recasting of the existing support contracts to suit the planned withdrawal date. The F-111G model is expected to be withdrawn from service during 2007-08 as planned.

P-3/ AP-3C Orion Weapons System

The Orion aircraft will undergo a series of block upgrades to key systems over the next decade to address major system obsolescence and capability upgrades. The weapon system also faces increased inspection, overhaul and obsolescence costs associated with an ageing aircraft. Support is provided mainly through a

performance-based, alliance type contract with Tenix Defence and Australian Aerospace (known as the P3 Accord), which has been established to provide the capability and capacity to undertake the full scope of upgrade and maintenance workload.

F/A-18 Hornet Weapons System

The major challenge in supporting the F/A-18 fleet is maintaining aircraft availability during the complex Hornet Upgrade Program while addressing equipment ageing and corrosion issues. Industry support is being organised to form a coalition of companies (Boeing Australia Limited, BAE Systems Australia and L3-Communications) that will provide the capabilities and capacity to handle the full scope of maintenance and upgrade workload and minimise the impact on aircraft availability. Outsourcing of engine support and application of performance-based logistics contracts to specific systems are also being pursued.

Lead-in Fighter Hawk 127 Weapons System

A new five-year follow-on support contract was signed with BAE Systems Australia in December 2006. This is an outcome performance-based contract covering full support other than operational maintenance, which is performed by the RAAF.

C-130J-30 Weapons System

The 12 C-130J aircraft and C-130J full flight simulator are supported through a mix of short-term spares supply, component repair support, aircraft deeper maintenance, and engineering services contracts. The DMO is market testing C-130J through-life support to obtain one performance-based contract to replace these existing contracts from 2009-10. Purchase of additional spares and improvement of repair pipelines to enhance demand satisfaction performance will continue throughout 2007-08. Support to operations to assure availability of spares over the extended supply lines to deployed aircraft and remediation of wear and tear caused by the harsh operating environment experienced by deployed aircraft will continue. The DMO is providing project management and engineering support to the C-130J role expansion, obsolescence management and block upgrade programs.

C-17 Weapons System

A new Heavy Air Lift Systems Program Office will be established at RAAF Amberley to manage the sustainment of the new C-17 Globemaster III Heavy Air Lift and KC-30B Multi-Role Tanker Transport weapons systems.

Support of the Royal Australian Air Force Boeing C-17 fleet will be achieved through Australia's participation in the Globemaster Sustainment Partnership contract between the United States government and Boeing; enhanced by the placement of a small number of Australian staff within the USAF C-17 Logistics

Management Unit, who are able to leverage off a United States government and industry support base of several thousand personnel.

C-17 Initial Operational Capability is planned for August 2007, with two aircraft in service. Delivery of the final two aircraft will occur by mid-2008, thus the 2007-08 period will focus on the increased sustainment requirements and bed-down the logistics support arrangements.

HELICOPTER SYSTEMS

Helicopter Systems Division provides through-life support to eleven rotary wing weapons systems through an Aviation System Program Office based at Nowra for Navy Aviation and another based at Oakey for Army Aviation. They provide fleet-wide engineering, repair parts, contract management for deeper level maintenance and replacement of ageing and obsolescent aircraft equipment.

The sustainment tasks are driven by operational unit requirements and deployments such as the Chinooks to Afghanistan, which also required a rapid acquisition of aircraft and maintenance equipment to meet the demands of operating the aircraft in Afghanistan.

In 2007-08, the major factors affecting sustainment include:

- Commencement of withdrawal from service of the Iroquois and operational unit Kiowa helicopters.
- Transition of Army aviation training support to a new performance contract.
- Maintaining Seahawk availability during upgrades, including rectification of corrosion.
- Maintaining Chinook and Black Hawk availability during avionics and electronic warfare self protection modification programs.
- Management of ageing aircraft platforms, including the Black Hawk, Seahawk and Sea King.
- Management of actions arising from the Sea King Board of Inquiry.
- Implementation of support arrangements for the Tiger Armed Reconnaissance Helicopter and Multi Role Helicopter (MRH-90).

Helicopter System Products

S70B-2 Seahawk Weapons System

There are 16 Sikorsky S-70B-2 Seahawk helicopters and associated mission and training simulator systems.

The Seahawk provides anti-surface warfare and anti-submarine warfare capabilities for the Royal Australian Navy and is based at HMAS Albatross in Nowra, New South Wales. The Seahawk is part of, and significantly extends, the guided missile frigate sensor and weapons system, and provides a similar supplementary capability to the Anzac-class frigate. The endorsed Seahawk planned rate of effort for 2007-08 is 2,800 hours, increasing to 4,600 hours in 2010-11.

The sustainment budget funds maintenance support for the Seahawk through a combination of contracted support, provided primarily by Asia Pacific Aerospace and BAE Systems Australia, and organic support provided by 816 Squadron, with spares support being provided under contract with Sikorsky, the original equipment manufacturer.

The main sustainment risks pertaining to Seahawk relate largely to airframe corrosion and system obsolescence issues. These are being actively managed in consultation with the Navy and through various phases of the AIR 9000 program.

S70A-9 Black Hawk Weapons System

There are 35 S70A-9 Black Hawk helicopters, a full flight and mission simulator, a maintenance training aid and other facilities.

The Black Hawk utilises a multi-contract support philosophy with significant repairable item work conducted under a rotatable pool arrangement with Sikorsky Australia. BAE Systems provides deeper maintenance support for the fleet using a performance-based contract that also covers support for the Chinooks.

The main sustainment risks to the Black Hawk relate largely to the high priority for operational tasking, which in conjunction with similar demands on the Chinook are presenting a significant challenge to BAE Systems to meet deeper maintenance demands. Action is in hand to increase the deeper maintenance contractor workforce during 2007-08, including through support from technicians laterally recruited from overseas. System obsolescence is also increasing the risk to achievement of sustainment targets and this is being managed through selected upgrades to ensure operational viability is maintained until the Black Hawk is replaced under Project AIR 9000 Phase 4.

SH-2G(A) Super Seasprite Helicopter

The mature Super Seasprite will comprise 11 SH-2G(A) helicopters and associated simulator, mission planning and debrief systems.

The Super Seasprite is currently suspended from flying due to issues with the automatic flight control system. A final Government decision on the future of the Super Seasprite is expected later this year. The endorsed Super Seasprite

planned rate of effort for 2007-08 is 200 hours based on the expected return to flying. On achievement of full operational capability, the planned rate of effort will increase to 4,200 hours per annum.

The sustainment budget funds an in-service support contract between the Government and Kaman Aerospace International Corporation. This contract delivers agreed levels of operational availability and mission effectiveness throughout the life-of-type of the aircraft.

The main sustainment risks to the Super Seasprite include the automatic flight control system issue, mission computer shortcomings, and a lack of customer confidence in the platform brought about by the extended flight suspension and ongoing technical issues. The risks are being managed with the automatic flight control system through a phased remediation strategy.

MARITIME SYSTEMS

The sustainment of maritime materiel is managed by ten System Program Offices located close to the ship classes supported.

All depot-level maintenance is through outsourced contracts. In-service support management is conducted by a variety of arrangements varying from 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 2007-08 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 equipment upgrades;
- refurbishment and re-commissioning of the escape and rescue vehicle Australian Submarine Rescue Vehicle Remora;
- consolidation into service of HMAS *Sirius* and its in-service support;
- finalisation of the HMAS *Adelaide* withdrawal from service and handover to the NSW Government for disposal as a dive wreck;
- transition to the Anzac-class Integrated Materiel Support business model to achieve improvements in support for the Anzac-class frigates;
- mitigation of the consequences of the previous logistic shortfall funding for the Anzac-class frigates;

- remediation of the operational availability of the Armidale-class patrol boat, and
- the major refit of HMAS *Success* as the first ship repair undertaken under the new ship repair batching concept.

Maritime System Products

Fuels and Lubricants- Air Force, Navy, Army

The support concept is to provide petrol, oil and lubricant products by Defence supply chain and industry delivery methods to Defence operational and support elements on national tasking, ongoing and new operations.

The ongoing replenishment of the naval fuel installations in Sydney and Darwin, and the inclusion of HMAS *Sirius* in the fuels program are significant forecast elements.

Fluctuating world fuel prices are a moderate risk to the Defence fuel provisioning and budget, mitigated by rigorous monitoring of fluctuations with early advice of any significant change provided to Defence.

Collins-class Submarines

The support concept is to maintain the Australian submarine materiel capability, optimise the logistic costs of ownership of the submarines, and provide sustainable and cost effective design, engineering and logistics support.

The 2007-08 performance outcomes are to provide for scheduled dockings; meet the availability days by completion of maintenance and equipment upgrade activities, and refurbish and commission the escape and rescue vehicle Australian Submarine Rescue Vehicle Remora.

Changes to the submarine docking program are a moderate risk to the sustainment schedule, and are mitigated by rigorous engagement with the Navy to ensure compatibility of the submarine docking program with the sustainment and operational schedules.

Helicopter Capable Frigate (FFH)

The support concept is to provide through-life materiel support for, and the maintenance, of the eight FFH Anzac-class ships and operator training facilities to meet the operational requirements of the Joint Operations Command and frigate availability constraints of the Fleet Activity Schedule. Actual ship repair and equipment maintenance is contracted to the maritime industry progressively under the new ship repair 'batching' concept.

Three vessels will undergo extended maintenance and capability upgrade activities during 2007-08. Training systems facilities will be upgraded.

The management of sustainment risk will focus on the transition during 2007 from the current alliance-contract arrangement to the new Anzac Ship Integrated Materiel Support Program Alliance. This alliance-type contract will improve adherence with the key commercial principles of risk profiling and risk/reward modelling. This strategy also mitigates the risk of unforeseen urgent defects.

Guided Missile Frigate (FFG) Adelaide-class

The support concept is to provide through-life materiel support for, and the maintenance of, the FFG Adelaide-class platforms HMA Ships *Adelaide*, *Sydney*, *Darwin*, *Melbourne* and *Newcastle* to provide the Navy with vessels that meet the operational requirements of the Joint Operations Command and frigate availability constraints of the Fleet Activity Schedule.

Performance outcomes for 2007-08 are the instigation of the Integrated Materiel Support Contract, management and conduct of maintenance availabilities for the ships, repair of urgent defects, procurement of spares and materiel, repair of rotatable spares, routine engineering support and configuration management of ships and systems and shore equipment. HMAS *Adelaide* will be withdrawn from service in December 2007 and disposed of to the NSW Government as a dive wreck in mid-2008.

The management of sustainment risk will focus on transition from the current contract arrangement for refit planning and logistics support services to the integrated materiel support provider contract. The moderate risk to the continuity of appropriate support is mitigated by the intended re-establishment of effective provider-customer relationships and the appropriate contract arrangements with suppliers. Collectively, this strategy will interface with the Maritime Systems Renewal Program's new methods of batching contracts for ship repair and maintenance and support contracts for cross-platform systems. This strategy also mitigates the risk of unforeseen urgent defects.

Mine Hunter Coastal

The support concept is to maintain materiel capability, optimise logistic cost of ownership, provide sustainment and cost effective design, engineering and logistic support to the capability.

In 2007-08, the whole-of-ship support concept will establish all systems under one performance-based contract to achieve mission availability. Major preventative maintenance activities in 2007-08 will include nine maintenance periods and one refit. Reliability and performance modelling to improve system availability and control maintenance and inventory cost standardisation of configuration management of assets, and business performance analysis will be established to better identify and analyse team performance and service delivery.

The main, moderate risk of equipment performance and costs will be mitigated by the establishment of the comprehensive whole-of-ship support contract strategy, building on the success to date of the platform performance contract.

LAND SYSTEMS

Sustainment involves the management and provision of supplies and services that include maintenance and engineering support to meet capability, preparedness and performance level requirements.

The sustainment of land systems is managed by nine System Program Offices. Land Systems sustainment activity supports armoured and non-armoured vehicle fleets, artillery and weapon systems, material handling equipment, bulk liquid distribution, simulation and air defence systems, medical and dental equipment, tentage and general stores and uniforms and consumable stores such as combat rations.

Sustainment provides direct support to ADF operations, and this activity remains the greatest challenge for Land Systems Division during 2007-08. The Division will continue to provide acquisition and sustainment support to forces deployed to the Middle East, East Timor, and the Solomons.

Rapid acquisition projects also feature as a high priority for sustainment personnel within Land Systems Division. Such projects are initiated at short notice to satisfy immediate operational requirements of deployed or deploying ADF element groups. Projects range in complexity from specialist cold weather clothing to sophisticated remote weapons stations for enhanced protection of armoured vehicles. Land Systems Division continues to refurbish equipment returning from overseas deployments to ensure its availability for future operations.

Other significant sustainment activities include:

- disposal of the Leopard Tank fleet and the ageing fleets of engineer plant;
- withdrawal from service and preparation for upgrade of the M-113A1 Armored Personnel Carrier fleet;
- refurbishment of general service vehicle fleets; and
- mid-life refurbishment of the medium girder bridging system.

The sustainment of land materiel relies heavily on maintenance services, warehousing, supply chain management, and distribution operations that are provided by the Joint Logistics Group.

Land System Products

ADF Clothing and Equipment

ADF clothing includes combat clothing and personal field equipment, along with non-combat clothing which includes accoutrements for general duties and non-operational roles. Plans include the progressive establishment of standing offer agreements for the acquisition of military clothing and personal equipment as required and as detailed in the ADF Clothing and Personal Equipment Plan for the period 2007-2011. Major risks associated with this sustainment are the capacity of the local textile clothing and footwear industry to meet ADF combat and non-combat clothing and personal equipment requirements in coming years as the sector rationalises and moves progressively to offshore manufacturing solutions. In addition, managing offshore manufactured product solutions through locally-based agencies creates a complex management framework that may effect product quality and delivery schedules not previously encountered when local supply arrangements were used.

Commercial Vehicles

The commercial vehicle fleet comprises approximately 5,900 commercial off-the-shelf vehicles and trailers. The fleet ranges from passenger sedans through to heavy rigid trucks and touring coaches. The procurement of 1,913 vehicles is planned for 2007-08. The major risk to be mitigated is the declining values for used vehicles which is linked to the projected revenue target for the planned sale of 1,758 vehicles.

B Vehicles

B Vehicles are generally unprotected Land Rovers, Mercedes Unimog 4-tonne and Mack 8-tonne trucks, and associated trailers. Total vehicles and trailers under management are approximately 11,500. The overall budget includes logistic shortfall supplementation. This budget will provide for regional unscheduled maintenance, centrally managed repair programs and remediation of vehicles as they return from operational areas. The major risks to be mitigated are the uncertain timing of equipment returning from operations and the increasing maintenance liability due to the ageing of the fleet.

ELECTRONIC AND WEAPON SYSTEMS

The sustainment of electronic and weapon systems is managed in twenty 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.

Details of sustainment activities are listed below:

- The numbers, capability and complexity of command support systems continue to grow as an enabler of networked operations. Sustainment authorities will continue to centralise and improve efficiencies from standardising hardware platforms for deployable networks. The logistic management of these systems will continue to improve which is allowing more effective support to military operations.
- A contract for the rationalisation of the existing in-service support of the ADF's inventory of combat net radios and ancillaries was recently signed. The consolidation of heavy grade repair, engineering and supply support of selected single channel radio systems equipment and ancillaries will enable an assessment and redistribution of any resource savings to higher priority sustainment areas by December 2007.
- New maintenance and support contracts will be put in place in support of the ADF's over-the-horizon radar capability. The new contracts will be for an initial period of five years with options to extend. The contracts provide for further integration and support of the three major radar sites.
- The major new Air Traffic Control Radar and Air Defence Radar systems will finalise transition to sustainment. These systems include fixed sites deployable systems.
- The ADF has introduced a range of electronic warfare self protection equipment over the past two years in support of operations. Many of these rapid acquisitions will be transitioned to sustainment to ensure ongoing support to operations. While putting in place robust sustainment will be challenging, the sustainment authority will be required to be highly responsive to changes in operational threats and continue to deliver evolving countermeasures to the changing threat environment.
- Sustainment of guided weapons and explosive ordnance will remain challenging. The timely delivery of new explosive ordnance types will continue to stretch sustainment resources, particularly with regard to regulatory, engineering and safety acceptance of new products into service. Lengthy supply chains from overseas suppliers will continue to affect the ability of the sustainment authority to respond flexibly to changing operational requirements.
- Renegotiation of the Strategic Agreement for Munitions Supply. This is a long-term agreement with ADI Limited which provides for the maintenance of an indigenous munitions production capability at its Benalla facility. Negotiations will be conducted with ADI Limited to address deficiencies that have been identified by the DMO, the Government Auditor General, and ADI Limited.

Electronic and Weapon Systems Products

Explosive Ordnance - Air Force, Navy, Army

Two major activities are undertaken to sustain the explosive ordnance inventory for the Navy, Army and Air Force. Firstly, the pre-issue testing and maintenance of guided weapons and, secondly, the replenishment of items of non-guided explosive ordnance as they are consumed by the Services or reach their end of life. This latter activity expends a large proportion of the funds allocated to inventory sustainment. Of significance is the number of procurement contracts required to sustain the non-guided explosive ordnance inventory rather than the scope, in dollar terms or number of items, of each contract. The capacity to deliver the agreed sustainment outputs against these schedules is sensitive to the level of effort required to source new or modified items for current operation. Personnel resource levels are established, in the main, to satisfy inventory sustainment requirements and demands to provide new or modified items to support current operations necessarily affects (routine) sustainment activities. Personnel resource levels to satisfy the requirements associated with current operations and alternative contracting strategies to better streamline procurement are being considered.

Wide Area Surveillance Capability

New contracts will be in place with BAE Systems and RLM Management in 2007-08 for ongoing support of the Jindalee Over the Horizon Radar Network. The contracts will provide for an initial five years of support with options to extend, subject to satisfactory performance, for an additional two periods of five years. Features of the new contracts include a new rate of effort to match the capability managers' operational needs for wide area surveillance and rationalisation of support responsibilities between the two prime support contractors.

Battlespace Communications Systems

The DMO supports a range of radio frequency and cable systems for transmitting voice and data primarily for land based forces. This family of equipment is referred to as Battlespace Communications Systems. Typical components are personnel and vehicle radios, cordless telephone systems, maintenance facilities and ancillaries such as antennas, handsets, cable reels and battery chargers. These systems are supported through several contracts with companies including BAE Australia, ADI (Thales Australia) and SAAB Systems.

Performance Target for Output 1.3 – Policy Advice and Management Services

The DMO's direct departmental appropriation is \$93.4m, and this largely funds Output 1.3. This represents one per cent of the DMO's total funding. Funding for Output 1.3 will increase by \$47.0m in 2007-08.

This is the result of a government decision to:

- implement the Defence Industry Policy, released in March 2007, which will support the ADF during credible contingencies. The policy responds to changes in the commercial environment including the trend to vertical integration and consolidation of the global defence industry; and
- transfer funding for the Skilling Australia's Defence Industry program from Defence to the DMO. The program is a government policy initiative to address a significant shortfall in the quantity and quality of skills available in the defence industry to meet the future needs outlined in the Defence Capability Plan. \$200m has been provided for the program over a 10 year period which commenced in 2005-06. Companies that participate in the program are reimbursed agreed amounts after growth or development activities have been successfully completed. Consequently, the program's expenditure is driven by industry demand and the increase in skills achieved.

Performance targets for Output 1.3 are the quality and timely provision of:

- quality contracting and procurement policy advice for Defence and the DMO;
- industry policy and advice to both the Defence portfolio and the Government; and
- Corporate governance and reporting to meet the Government's requirements.

CHAPTER FOUR

GOVERNANCE AND REFORM

Governing the DMO

A directive from the Minister for Defence to the Chief Executive Officer of the DMO (CEO DMO) provides the strategic direction to the organisation. The CEO DMO is directly accountable to the Minister for Defence for the DMO's performance. The directive also requires the CEO DMO to acknowledge the joint responsibilities of the Secretary of Defence and the Chief of the Defence Force under section 9A of the *Defence Act 1903*, and recognise the continuing roles, responsibilities and authority of the Secretary as defined by the *Public Service Act 1999*.

The organisation's strategic vision, purpose and goals are articulated in the DMO Charter. These are:

- Vision – to become the leading program management and engineering services organisation in Australia;
- Purpose – to equip and sustain the ADF; and
- Goals – the DMO is committed to delivering capability and sustainment on time, on budget and to the required capability, safety and quality. We aim to be a business-like, accountable and outcome-driven organisation with a strong and close relationship with the Government, industry and service clients.

The DMO's six key themes - Professionalise; Reprioritise; Standardise; Benchmark; Improve Industry Relationships; and Lead Reform in Defence - continue to form the backbone of the organisation's cultural change program. They provide a clear message to staff about what we must be done to achieve the organisation's strategic vision and to enhance our performance.

The Business Plan Review, established in 2004 by the CEO DMO, will continue to be used in 2007-08 by the Senior Leadership Group to communicate with DMO staff around Australia about the organisation's objectives, priorities and key activities. The review has already proven to be a valuable tool for nurturing and promoting cultural change, as well as emphasising the values, behaviours and workplace activities that are the most important to achieve organisational success. Approximately 3,000 DMO staff attend and participate in the Business Plan Review each year.

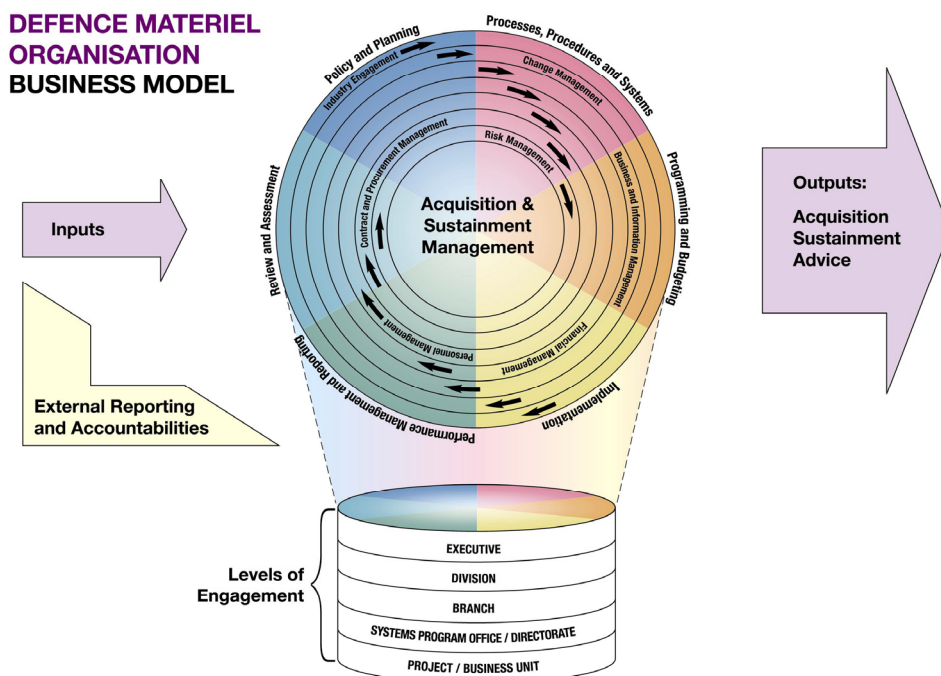
The close relationship between the DMO and Defence is formalised through a suite of agreements that cover acquisition, sustainment, military workforce, and

shared services. Significant progress has been made in maturing the agreements, and the understanding of both organisations on how the agreements contribute to better performance outcomes has been enhanced. The coming year will see further work to enhance the communication of customer requirements, the understanding of pricing of services (including service fee structures), and the refinement of performance metrics. Further information about agreements between Defence and the DMO is detailed in Chapter 2 – Resources.

The DMO Business Model was officially launched in August 2006. It maps the key components of the DMO’s business and assists all staff to understand the contribution of their work to the DMO’s outputs. The model, shown in Figure 4.1, depicts the following areas of the DMO’s business:

- DMO’s core functions, acquisition and sustainment management;
- the enabling functions supporting the core business;
- the business cycle from policy and planning to review and evaluation; and
- the applicability of the model at all levels of the DMO.

Figure 4.1: DMO Business Model



A range of corporate initiatives, to enhance the effectiveness of the DMO's business policies, processes and information system management, underpins the model.

The DMO has promulgated its quality policy, and begun to implement a single integrated quality management system. This will introduce simplified and standardised business processes and more effective business support systems. In 2006, the DMO's executive level processes were documented and received ISO certification in October. The documentation of the DMO's corporate-level processes (financial, personnel, legal, industry engagement, procurement) is scheduled to be completed in July 2007. The third phase, to be completed during 2007-08, will marry the executive and corporate-level quality management system with the quality systems used within divisions and business units. This will allow the certification of the whole DMO as a quality organisation.

All the DMO processes will be recorded on the Quality and Environment Management System business tool, which will be the single authoritative source for all the DMO policies, processes and procedures.

Another important initiative is the strengthening of performance management and reporting. Relevant performance measures are being identified and developed for each output and enabling function captured in the Business Model. This will allow for the production of comprehensive and accurate performance information that can be used at all management levels. An enhanced corporate data warehouse is under development. It will allow the extraction of relevant information from numerous systems, and analysis and modelling of that information. Implementation of such a comprehensive enterprise-wide system has been made possible through the significant body of work conducted in 2006 to map, review and rationalise the DMO's internal information technology architecture.

Key areas of the DMO's assurance framework include the DMO management, independent reviews, assurance boards, internal and external audit, and external scrutiny.

The DMO Executive and line management are responsible for the performance of the DMO and its conformance with the principles of probity, due process and ethical behaviour. They are supported by internal review processes, overseen by the Deputy CEO, and the work of the assurance boards, staffed predominantly by expert external members. Internal audit services are provided by the Defence Inspector- General but may be supplemented by additional contracted services. External audit services are provided by the Australian National Audit Office. The Materiel Audit Committee provides advice to the CEO DMO on assurance matters.

The DMO is also subject to external scrutiny via inquiries conducted by various parliamentary committees, and through formal reviews.

RISK MANAGEMENT

The DMO's Enterprise Risk Management Plan was developed in late 2005. Reporting against it is made to both the DMO's senior executive body and the Materiel Audit Committee at six-monthly intervals.

In 2007-08, the DMO Fraud Control Plan will be updated in accordance with section 45 of the *Financial Management and Accountability Act 1997* and the Commonwealth Fraud Control Guidelines 2002.

DEFENCE INDUSTRY POLICY

The Defence Industry Policy, released in March 2007, aims to support the ADF in peace and credible contingencies. The policy responds to changes in the commercial environment including the trend to vertical integration and consolidation of the global defence industry.

The policy has nine strategies:

- creating an environment where industry can self-align its business to deliver the local capabilities requested to equip and sustain the ADF across a range of credible contingencies;
- identifying priority local industry capabilities, and developing strategies to ensure they can be maintained to deliver capability to the ADF;
- securing best possible value-for-money in Defence procurement by developing tools to identify and manage risk, and moving towards international best practice;
- creating opportunities for Australian firms by requiring that all tenders in excess of \$50m include an outline of opportunities for Australian industry participation where cost effective to do so, and by Defence using purchases to leverage access to global supply chains for Australian industry where competitive;
- encouraging Small-to-Medium Enterprises (SME) by requiring that successful tenders for purchases greater than \$50m indicate how SME will be supported, and establishing a code of conduct to facilitate improved relations between contractors and sub-contractors;
- supporting defence industry skill development by expanding the Skilling Australia's Defence Industry program to ease participation by defence industry SME, and establishing a Defence and industry training task force to explore mutual training opportunities;

- facilitating defence exports by establishing a dedicated Defence Export Unit to support Australian defence industry in pursuing export opportunities, thereby strengthening the commercial viability of defence industry;
- driving innovation in defence technology to maximise the ADF's capability advantage; and
- promoting a strengthened working relationship between Defence and industry by reactivating the ministerial-level Defence Industry Advisory Council and by, for example, establishing the following: a confidential channel for industry to provide its views on Defence procurement; an annual series of roundtable discussions; and product-specific focus groups which bring the supplier and user together.

The priority local industry capabilities are determined from the Government's strategic plans for the use of the ADF, and an analysis of the necessary underpinning industrial capabilities. The first classified iteration of the capabilities will be completed in the fourth quarter of 2007 and will be released publicly in the *2008-2018 Defence Capability Plan*.

Furthermore, an Australian Industry Capability Manual will be developed and published in the fourth quarter of 2007.

CHAPTER FIVE

PEOPLE

As a prescribed agency with the vision of becoming the leading project management and engineering services organisation, the DMO seeks to ensure that its future workforce needs are met through training, developing and retaining its current workforce, and attracting its future workforce. It has implemented a range of initiatives to maintain and build upon its reputation as a preferred employer.

The DMO Institute

Established in November 2006, the DMO Institute is a partnering arrangement between the DMO and Deakin Prime, the commercial arm of Deakin University. The institute aligns corporate education and training with the business objectives of the DMO and offers practitioner, vocational and postgraduate education.

Table 5.1 provides numbers of the DMO people who have attended training via the DMO Institute since its inception.

Table 5.1: DMO Training Attendance – Completed/Forecast

| Job Family | Target Audience (E) Equivalent | Completed As at end February 2007 | Target For 2007-08 |
|--|---|--|-------------------------------|
| Project Management | | | |
| Scheduling | APS 5 – EL2/Military (E) | 203 | 100 |
| Open Plan Professional – Software schedule tool for use in projects | APS 5 – EL2/Military (E) | 112 | 100 |
| Work Breakdown Structure – a training course covering fundamentals of project management | APS 5 – EL2/Military (E) | 64 | 100 |
| Diploma of Project Management | APS 5 – EL2/Military (E) | 43 | 100 |
| Project Management Fundamentals | APS 5 – EL2/Military (E) | 292 | 200 |
| Graduate Certificate in Project Management | APS 5 – EL2/Military (E) | - | 100 |
| Total Project Management Job Family | | 714 | 700 |
| Engineering | | | |
| Graduate Certificate in Engineering Management | APS 5 – EL2/Military (E) | - | 50 |
| Total Engineering Job Family | | - | 50 |

| Job Family | Target Audience (E) Equivalent | Completed As at end February 2007 | Target For 2007-08 |
|---|---|--|-------------------------------|
| Logistics | | | |
| Materiel Logistics Introduction Course | APS 5 – EL2/Military (E) | 62 | 200 |
| Materiel Logistics Practitioners Course | APS 5 – EL2/Military (E) | 42 | 200 |
| Graduate Certificate in Value Chain Management | APS 5 – EL2/Military (E) | - | 50 |
| Total Logistics Job Family | | 104 | 450 |
| Commercial & Business | | | |
| Writing for Results - Practitioners | APS 5 – 6/Military (E) | 276 | 500 |
| Writing for Results - Managers | EL1-2/Military (E) | 63 | 300 |
| Quality and Environmental Management System – Covers the DMO standard business processes | APS 5 – EL2/Military (E) | 43 | 200 |
| Graduate Certificate Accounting & Financial Management | APS 5 – EL2/Military (E) | - | 50 |
| Business Acumen – this course gives an insight into the operation of Defence Industry and their dealings with the DMO | APS 5 – EL2/Military (E) | 1097 | 500 |
| Catalyst Leadership Program | EL1-2/Military (E) | 249 | 200 |
| Gateway Leadership Program | APS 5-6/Military (E) | 235 | 200 |
| Coaching for Performance | EL1-2/Military (E) | 68 | 40 |
| Total Commercial & Business Job Family | | 2031 | 1990 |
| Total All Job Families | | 2849 | 3190 |

PROFESSIONALISATION

The CEO DMO's professionalisation initiative is a central strategy in meeting the DMO's challenges now and into the future. This initiative provides the umbrella for a suite of projects that aim to up-skill and increase the professionalism of the DMO workforce.

The DMO's professionalisation initiative and its associated career development pathway delivered via the DMO Institute has resulted in approximately 1,200 DMO staff being certified with professional bodies. Table 5.2 shows the number of DMO staff achieving certification under existing programs as at the end of February 2007.

Certification Frameworks for Logistics and Contracting/Procurement Job Families are currently being developed and will be delivered early 2008.

Table 5.2: Staff Achieving Certification

| Job Family | Total Certified to date | Number completing Certification | Estimated Target in Job Family |
|--------------------|--------------------------------|--|---------------------------------------|
| Engineers | 236 | 238 | 927 |
| Technical Officers | 33 | 101 | 406 |
| Project Management | 409 | 235 | 650 |
| Accountants | 51 | 51 | 106 |
| Lawyers | 8 | 0 | 8 |
| Total | 737 | 625 | 2,097 |

Priorities

Priorities in 2007-08 include:

- continuing to establish industry-recognised and accredited programs to professionalise the workforce in project management, engineering and technical professions, commerce and business, and logistics;
- continuing to invest in the leadership skills and managerial abilities of the DMO's executive, managers and supervisors;
- strengthening performance assessment and management policies and practices to support the goal of greater accountability of staff at all levels;
- refining innovative workforce planning and forecasting techniques and capabilities to better align the DMO's workforce with the demands of the Defence Capability Plan;
- further developing programs to target key skills gaps in the DMO's workforce, including remuneration incentives to retain highly skilled staff and older workers, refinement of the existing materiel graduate and Cadetship schemes, and implementation of a new DMO Traineeship scheme and tertiary scholarship scheme;
- implementing a new strategic recruitment capability and bolder DMO employment branding to improve the success rate of recruitment actions for highly skilled workers, especially for project management, engineering and commercial roles; and
- implementing the DMO workplace health and safety strategic plan to better guide initiatives and activities to reduce time off work due to injury and illness.

Workforce Summary

The overall DMO workforce is forecast to increase by 387 in 2007-08 from the 2006-07 projected result of 6,939 as a consequence of the significant growth in projects and funds under management. The total workforce will increase by 5.6 per cent. Total DMO revenues for delivery of goods and services will increase by 10 per cent.

As the DMO is a prescribed agency, its Australian Public Service (APS) and Professional Service Providers (PSP) workforce information has been excluded from Defence. As military personnel are provided to the DMO under a 'fee for service' model, they are reported in both the DMO and Defence workforce numbers.

Table 5.3 shows the breakdown of personnel numbers by Service (APS, PSP, ADF Permanent and Reserves), classification and rank.

Table 5.3: Breakdown of Personnel Numbers by Service and Rank ⁽¹⁾

| | 2006-07 | 2006-07 | 2007-08 | Variation from | |
|-------------------------------------|----------------------|---------------------|--------------------|----------------|-----------|
| | Revised Estimates | Projected Result | Budget Estimate | # | % |
| APS | | | | | |
| Senior Executives ⁽²⁾ | 30 | 28 | 32 | 4 | 14 |
| Senior Officers ⁽³⁾ | 1,260 | 1,232 | 1,339 | 107 | 9 |
| Other APS Staff | 3,716 | 3,701 | 3,741 | 40 | 1 |
| Sub-total : APS | 5,006 | 4,961 | 5,112 | 151 | 3 |
| Backfilling of ADF Vacancies | | | 165 | | |
| Sub-total : APS | 5,006 | 4,961 | 5,277 | 316 | 6 |
| PSP Workforce ⁽⁴⁾ | 298 | 298 | 301 | 3 | 1 |
| Sub-total Civilian Workforce | 5,304 | 5,259 | 5,578 | 319 | 6 |
| NAVY | | | | | |
| Star Ranked Officers | 7 | 7 | 6 | -1 | -14 |
| Senior Officers ⁽³⁾ | 46 | 50 | 47 | -3 | -6 |
| Junior Officers | 109 | 97 | 136 | 39 | 40 |
| Other Ranks | 120 | 127 | 156 | 29 | 23 |
| Sub-total: Permanent Navy | 282 | 281 | 345 | 64 | 23 |
| Reserve Forces ⁽⁵⁾ | 71 | 108 | 110 | 2 | 2 |
| Sub-total Navy | 353 | 389 | 455 | 66 | 17 |
| ARMY | | | | | |
| Star Ranked Officers | 5 | 7 | 6 | -1 | -14 |
| Senior Officers ⁽³⁾ | 39 | 45 | 47 | 2 | 4 |
| Junior Officers | 166 | 180 | 210 | 30 | 17 |
| Other Ranks | 178 | 177 | 219 | 42 | 24 |
| Sub-total: Permanent Army | 388 | 409 | 482 | 73 | 18 |
| Reserve Forces ⁽⁵⁾ | 50 | 62 | 75 | 13 | 21 |
| Sub-total Army | 438 | 471 | 557 | 86 | 18 |

| AIR FORCE | | | | | |
|---|--------------|--------------|--------------|------------|-----------|
| Star Ranked Officers | 7 | 8 | 8 | 0 | 0 |
| Senior Officers ⁽³⁾ | 68 | 82 | 79 | -3 | -4 |
| Junior Officers | 365 | 356 | 414 | 58 | 16 |
| Other Ranks | 323 | 327 | 350 | 23 | 7 |
| Sub-total: Permanent Air Force | 763 | 773 | 851 | 77 | 10 |
| Reserve Forces ⁽⁵⁾ | 34 | 47 | 50 | 3 | 6 |
| Sub-total Air Force | 797 | 820 | 901 | 80 | 10 |
| Sub-total ADF Permanent Workforce | 1,433 | 1,463 | 1,678 | 215 | 15 |
| Expected ADF shortfalls ⁽⁶⁾ | | | -165 | | |
| Sub-total Permanent ADF Workforce | 1,433 | 1,463 | 1,513 | 50 | 3 |
| Sub-total ADF Reserve Workforce | 155 | 217 | 235 | 18 | 8 |
| Total DMO Workforce ⁽⁷⁾ | 6,892 | 6,939 | 7,326 | 387 | 6 |

Notes

1. Reflects the APS, PSP, ADF permanent and reserve forces for 2007-08. Numbers for the ADF Permanent Force (include Reservists undertaking continuous full-time service) are based on average funded strengths. Numbers for APS and PSP are based on full-time equivalents.
2. Employment of two General Managers at SES Band 3 level and one SES Band 1.
3. Senior Officers are of Colonel or Lieutenant Colonel rank equivalent and substantive APS Executive Levels 1 and 2.
4. PSPs are individuals with specialist skills contracted to fill a line position.
5. ADF Reserve figures represent numbers of active Reservists (excluding Reservists undertaking full-time service and Foreign Service Reservists) who rendered service during 2006-07 and the DMO ADF Reservist bids for 2007-08.
6. A civilianisation process is planned for 2007-08 of up to 200 DMO ADF positions.
7. Numbers may not add up due to rounding.

Civilian Workforce

APS WORKFORCE

The estimated APS full-time equivalent average (FTE-A) funded strength for 2007-08 is 5,112 which is an increase of 151 from the 2006-07 projected result. This increase includes additional staff associated with the following activities:

- 50 FTE for the Enhanced Land Force stage 1 (full year effect);
- 30 FTE for Defence Industry Policy Implementation;
- 25 FTE for Air Combat Capability – acquisition of Super Hornets;
- 12 FTE for ADF clothing review (full year effect); and
- net personnel and operating cost estimate funding for DMO's sustainment workforce.

The DMO can offset the impact of vacant ADF positions by employing additional civilian employees through the alternative labour arrangements in the Military Workforce Agreements. The average number of vacancies is expected to be around 200 to 220 of which some use of alternative labour has

already been made. Accordingly, APS numbers are expected to be higher than 5,112. The success of these arrangements is uncertain as the DMO has experienced some difficulty in finding experienced and skilled civilian technical personnel due to the competitiveness of the labour market.

The APS workforce estimate represents 70 per cent of the DMO workforce.

PSP WORKFORCE

The estimated PSP FTE-A funded strength for 2007-08 is 301 which is an increase of three from the 2006-07 projected result. This increase will occur in AIR 5349 - Bridging Air Combat Capability.

The DMO has implemented a process for the conversion of PSP to APS on a 'value for money' basis, which provides the DMO with more flexibility to manage its budget. This process will continue to be implemented during 2007-08.

The PSP workforce estimate represents four per cent of the DMO workforce.

Military Workforce

ADF PERMANENT FORCE

The estimated ADF permanent average funded strength (AFS) for 2007-08 is 1,678, which is an increase of 215 from the 2006-07 projected result. This re-aligns the estimate with the approved budgeted AFS to be provided by Defence to the DMO for 2007-08. The ADF Permanent Force estimate represents 23 per cent of the DMO workforce.

ADF RESERVE FORCE

The estimated size of the Reserve Force employed within the DMO for 2007-08 is 235, which is an increase of 18 personnel from the 2006-07 projected result. This figure represents the active component of the Reserve element that is expected to undertake paid service during 2007-08. These figures do not include Reservists undertaking full-time service, as they are included in the Permanent Force numbers (see Note 1 to Table 5.3). The ADF Reserve Forces estimate represents three per cent of the DMO workforce.

CHAPTER SIX

BUDGETED FINANCIAL STATEMENTS

The DMO's 2007-08 budget and forward estimates incorporate funding required to support approved activities including future activities associated with the Defence Capability Plan.

Analysis of Budgeted Financial Statements

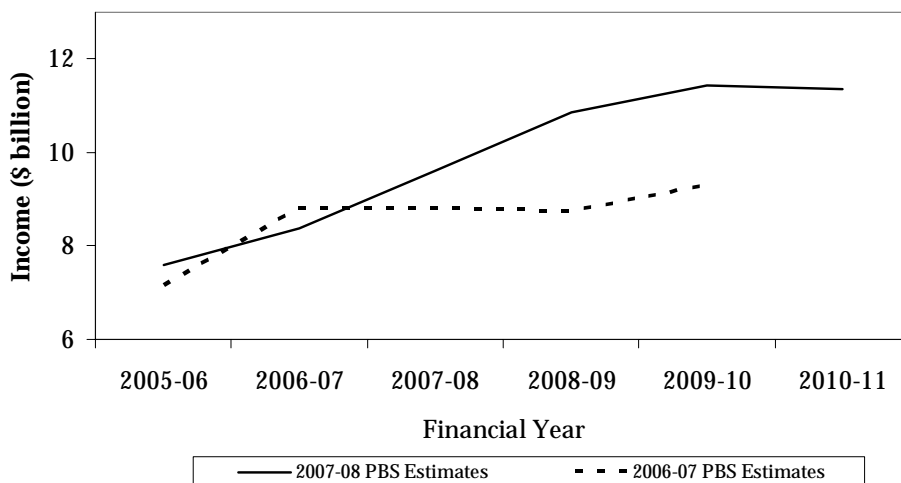
Income Statement

The DMO is budgeting for a break-even operating result for 2007-08, with total revenue and expenses of \$9,615.5m. Of this amount, the DMO will earn \$9,487.3m (98.7 per cent) from Defence, \$93.4m (1.0 per cent) through direct appropriation, \$34.8m (0.4 per cent) from own sources with \$30.0m from foreign governments. The DMO's suppliers' expenses are expected to increase in line with revenue.

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 (Revenue and Other Gains) across the budget and forward estimate years is illustrated in Figure 6.1 and demonstrates an overachievement against final budget figures in 2005-06, and a smoothing of estimates from 2006-07 onwards. The out-years program shows considerable growth, the delivery of which will be dependent largely on the ability of industry to achieve the increased requirements.

Figure 6.1: Revenue by budget year and forward estimate years



Balance Sheet

In comparing the 2007-08 budget estimates with the estimated 2006-07 actual result, there are a number of changes to DMO's balance sheet. These include:

- an increase to the receivables (\$6.2m) due to depreciation; and
- an increase in receivables and employee provisions (\$22.9m) due to the realignment of the employee budget.

Statement of Cash Flows

The net increase in cash received and used from operating activities is \$1,108m, compared with the 2006-07 estimated actual.

The net increase in 'Operating Activities – Cash Received' is due mainly to:

- a net increase in 'Goods and Services' (\$898m);
- an increase in 'GST Input Credit Receipts' (\$174m);
- an increase in direct appropriation (\$47m); and
- a decrease in 'Cash from the Official Public Account' (-\$11m).

The net increase in 'Operating Activities – Cash Used' is due to:

- a net increase in 'Suppliers' expenses (\$917m);
- an increase in 'GST Payments to Suppliers' (\$174m); and
- an increase in 'Employees' expenses (\$17m).

Table 6.1: Budgeted departmental income statement (for the period ended 30 June)

| | Estimated Actual 2006-07 \$'000 | Budget Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 | Forward Estimate 2010-11 \$'000 |
|-------------------------------|--|---|--|--|--|
| INCOME | | | | | |
| Revenue | | | | | |
| Revenues from Government | 46,431 | 93,413 | 91,138 | 91,024 | 89,297 |
| Goods and services | 8,593,852 | 9,450,121 | 10,604,615 | 11,167,565 | 11,097,173 |
| Other | - | 30,000 | 30,000 | 30,000 | 30,000 |
| Total revenue | 8,640,283 | 9,573,534 | 10,725,753 | 11,288,589 | 11,216,470 |
| Gains | | | | | |
| Other | 41,929 | 41,929 | 41,929 | 41,929 | 41,929 |
| Total gains | 41,929 | 41,929 | 41,929 | 41,929 | 41,929 |
| Total Income | 8,682,212 | 9,615,463 | 10,767,682 | 11,330,518 | 11,258,399 |
| EXPENSES | | | | | |
| Employees | 418,857 | 436,124 | 456,687 | 470,950 | 478,279 |
| Suppliers | 7,956,426 | 9,173,158 | 10,407,663 | 10,956,993 | 10,880,120 |
| Depreciation and amortisation | 6,929 | 6,181 | 3,332 | 2,575 | - |
| Total Expenses | 8,382,212 | 9,615,463 | 10,867,682 | 11,430,518 | 11,358,399 |

Table 6.2: Budgeted departmental balance sheet (as at 30 June)

| | Estimated Actual 200607 \$000 | Budget Estimate 200708 \$000 | Forward Estimate 200809 \$000 | Forward Estimate 200910 \$000 | Forward Estimate 201011 \$000 |
|-------------------------------------|--|---------------------------------------|--|--|--|
| ASSETS | | | | | |
| Financial assets | | | | | |
| Cash and equivalents | 23,581 | 23,581 | 23,581 | 23,581 | 23,581 |
| Trade and other receivables | 509,381 | 538,499 | 448,320 | 356,434 | 259,192 |
| Total financial assets | 532,962 | 562,080 | 471,901 | 380,015 | 282,773 |
| Non-financial assets | | | | | |
| Infrastructure, plant and equipment | 8,082 | 5,146 | 2,210 | - | - |
| Intangibles | 4,006 | 761 | 365 | - | - |
| Other | 898,794 | 898,794 | 898,794 | 898,794 | 898,794 |
| Total non-financial assets | 910,882 | 904,701 | 901,369 | 898,794 | 898,794 |
| Total assets | 1,443,844 | 1,466,781 | 1,373,270 | 1,278,809 | 1,181,567 |
| LIABILITIES | | | | | |
| Provisions | | | | | |
| Employees | 125,804 | 148,741 | 155,230 | 160,769 | 163,527 |
| Total provisions | 125,804 | 148,741 | 155,230 | 160,769 | 163,527 |
| Payables | | | | | |
| Suppliers | 740,526 | 740,526 | 740,526 | 740,526 | 740,526 |
| Other | 162,969 | 162,969 | 162,969 | 162,969 | 162,969 |
| Total payables | 903,495 | 903,495 | 903,495 | 903,495 | 903,495 |
| Total liabilities | 1,029,299 | 1,052,236 | 1,058,725 | 1,064,264 | 1,067,022 |
| Net assets | 414,545 | 414,545 | 314,545 | 214,545 | 114,545 |
| EQUITY | | | | | |
| Parent entity interest | | | | | |
| Contributed equity | 105,767 | 105,767 | 105,767 | 105,767 | 105,767 |
| Retained surpluses | 308,778 | 308,778 | 208,778 | 108,778 | 8,778 |
| Total parent entity interest | 414,545 | 414,545 | 314,545 | 214,545 | 114,545 |
| Total equity | 414,545 | 414,545 | 314,545 | 214,545 | 114,545 |
| Current assets | 1,318,264 | 1,339,206 | 1,253,828 | 1,167,583 | 1,078,799 |
| Non-current assets | 125,580 | 127,575 | 119,442 | 111,226 | 102,768 |
| Current liabilities | 1,016,877 | 1,039,538 | 1,045,948 | 1,051,420 | 1,054,145 |
| Non-current liabilities | 12,422 | 12,698 | 12,777 | 12,844 | 12,877 |

Table 6.3: Budgeted departmental statement of cash flows (as at 30 June)

| | Estimated Actual 2006-07 \$'000 | Budget Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 | Forward Estimate 2010-11 \$'000 |
|--|--|---|--|--|--|
| OPERATING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Appropriations | 46,431 | 93,413 | 91,138 | 91,024 | 89,297 |
| Goods and services | 8,543,906 | 9,441,587 | 10,598,903 | 11,162,580 | 11,094,754 |
| GST Input Credit Receipts | 506,085 | 680,004 | 770,044 | 888,803 | 959,522 |
| Other | 32,291 | 32,353 | 32,380 | 32,410 | 32,419 |
| Cash from Official Public Account (receivables) | 10,726 | | | | |
| Total cash received | 9,139,439 | 10,247,357 | 11,492,465 | 12,174,817 | 12,175,992 |
| Cash used | | | | | |
| Employees | 418,857 | 436,124 | 456,687 | 470,950 | 478,279 |
| Suppliers | 8,214,497 | 9,131,229 | 10,265,734 | 10,815,064 | 10,738,191 |
| GST Payments to suppliers | 506,085 | 680,004 | 770,044 | 888,803 | 959,522 |
| Cash to Official Public Account | - | - | - | - | - |
| Other | - | - | - | - | - |
| Total cash used | 9,139,439 | 10,247,357 | 11,492,465 | 12,174,817 | 12,175,992 |
| Net increase or (decrease) in cash held | | | | | |
| Cash at the beginning of the reporting period | 23,581 | 23,581 | 23,581 | 23,581 | 23,581 |
| Effect of exchange rate movements on cash at the beginning of reporting period | | | | | |
| Cash at the end of the reporting period | 23,581 | 23,581 | 23,581 | 23,581 | 23,581 |

Table 6.4: Departmental statement of changes in equity — summary of movement (Budget year 2007-08)

| | Accumulated Results \$'000 | Asset Revaluation Reserve \$'000 | Other Reserves \$'000 | Contributed Equity/ Capital \$'000 | Total Equity \$'000 |
|--|----------------------------------|---|-----------------------------|---|---------------------------|
| Opening balance as at 1 July 2007 | | | | | |
| Balance carried forward from previous period | 308,778 | - | - | 105,767 | 414,545 |
| Adjustment for changes in accounting policies | - | - | - | - | - |
| Adjusted opening balance | 308,778 | - | - | 105,767 | 414,545 |
| 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 | - | - | - | - | - |
| Transactions with owners | | | | | |
| <i>Distribution to owners</i> | | | | | |
| Returns on capital | | | | | |
| Dividends | - | - | - | - | - |
| Returns of capital | | | | | |
| Restructuring | - | - | - | - | - |
| Other | - | - | - | - | - |
| <i>Contribution by owners</i> | | | | | |
| Appropriation (equity injection) | - | - | - | - | - |
| Other: | | | | | |
| Restructuring | - | - | - | - | - |
| Sub-total transactions with owners | - | - | - | - | - |
| Transfers between equity components | - | - | - | - | - |
| Estimated closing balance as at 30 June 2007 | 308,778 | - | - | 105,767 | 414,545 |

Table 6.5: Departmental Capital Budget Statement

| | Other Infrastructure Plant and Equipment | Computer Software | Other Intangibles | Total |
|----------------------------------|---|----------------------|----------------------|---------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| As at 1 July 2007 | | | | |
| Gross book value | 16,355 | 18,777 | 5,093 | 40,225 |
| Accumulated depreciation | -8,273 | -15,928 | -3,936 | -28,137 |
| Opening net book value | 8,082 | 2,849 | 1,157 | 12,088 |
| As at 30 June 2008 | | | | |
| Gross book value | 16,355 | 18,777 | 5,093 | 40,225 |
| Accumulated depreciation | -11,209 | -18,777 | -4,332 | -34,318 |
| Estimated closing net book value | 5,146 | - | 761 | 5,907 |

Notes to the Budgeted Financial Statements

BUDGETED FINANCIAL STATEMENTS

The budgeted financial statements (income, balance sheet, cash flows and capital budget 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 and the Government. 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 2007-08 suppliers expense estimate includes an amount of \$160.0m 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

The primary financial assets are cash and receivables.

Departmental Assets - Non–Financial

This includes infrastructure, plant and equipment and intangibles, which are used in the production of outputs. 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
AUSTRALIA

OVERVIEW

BUDGETED FINANCIAL STATEMENTS

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 by the *Defence Housing Authority Act 1987*. This Act was amended in 2006 and the Authority was renamed Defence Housing Australia (DHA). DHA's main 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. DHA has two additional functions: to provide adequate and suitable housing to officers of certain Australian Government agencies, and to provide services ancillary to its function of providing housing and housing-related services.

DHA lies within the Defence Portfolio. As a Government Business Enterprise, it has two shareholder Ministers – the Minister for Defence and the Minister for Finance and Administration.

The composition of the Board of Directors of DHA is governed by legislation. The DHA Board comprises:

- the chairperson;
- four commercial members;
- a current or former APS employee or agency head with a background in Defence, nominated by the Secretary of Defence;
- a current or former member of the Defence Force nominated by the Chief of the Defence Force;
- a person nominated by the Secretary of the Department of Finance and Administration; and
- the Managing Director of DHA.

A list of the Board members can be found in the purchaser-provider section in Defence's Chapter Two- Resourcing.

The 2006 amendments to the Act also established a DHA Advisory Committee. The function of the committee is to provide advice and information about the performance of DHA's functions. The committee comprises:

- one of the DHA Defence Directors as nominated by DHA;
- the National Convenor of Defence Families Australia;

- an appointee of the Chief of Navy;
- an appointee of the Chief of Army;
- an appointee of the Chief of Air Force; and
- a person appointed by DHA.

DHA is required by legislation to perform its functions in accordance with the policies of the Australian Government and in accordance with sound commercial practice. This means that DHA has a targeted rate of return and a requirement to pay annual dividends and tax equivalent payments.

At the time of DHA's establishment, housing provided to Defence personnel varied in quality and affected morale and retention within the ADF. Generally, members with dependants are very satisfied with the quality of DHA's houses. From Defence exit survey data, housing issues for members with dependants do not rate highly as a factor that influence a member's decision to separate.

DHA provides a coordinated service for members with dependants' housing needs. In addition to portfolio management, it undertakes tenancy and property management and the management of relocation services (other than the physical removal of personal effects); the latter is also carried out for members without dependants. There are currently approximately 17,000 ADF families being housed by DHA in service residences or through rent allowance arrangements.

DHA 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. DHA employs around 680 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.

All financial and statistical information in this *Portfolio Budget Statement 2007-08* is extracted from DHA's 2006-07 Corporate Plan. The DHA Board is currently reviewing its business and financial plans and they will be finalised at its May 2007 meeting. Current planning is that capital expenditure over four years on land and houses may be \$400m higher than that declared in this Portfolio Budget Statements. Any changes to financial estimates will be included in DHA's 2007-08 Corporate Plan, due to be forwarded to shareholder Ministers in late May 2007.

DHA funds its capital program through its sale and leaseback program and the sale of investment properties no longer required.

The residential investment markets across Australia have softened, with the exception of Darwin and Perth. This situation has made the generation of capital funds in these areas more difficult.

To improve its sales performance, DHA has introduced rent floors and selective use of increased yields. DHA has also begun selling inventory properties to financial institutions on a sale and leaseback basis and plans to continue marketing to these institutions. To date, DHA has sold approximately \$220m worth of properties to financial institutions with leases and options up to 21 years.

DHA has recently arranged approval for the restoration of its borrowing limit to \$550m. To date, \$340m of the approved limit has been drawn down. Depending on the period of slowness in the residential investment markets and the level of DHA's capital program, it may need to request approval for higher borrowings in the future and this matter will be included in DHA's 2007-08 Corporate Plan.

DHA and the Government have signed a new 10 -year loan agreement, which provides more flexible borrowing arrangements than the previous agreement.

For competitive neutrality reasons, DHA makes tax equivalent dividend payments to the Commonwealth for income tax and state tax equivalents. From 1 July 2007, DHA loses its income tax exempt status and will pay corporate income tax to the Australian Taxation Office, rather than as part of its tax equivalent regime. DHA will continue to pay state tax equivalent dividend payments to the Government.

DHA currently has a dividend policy of remitting 60 per cent of net (after tax equivalent) profit to the Government. In view of the large capital expenditure required to meet Defence provisioning requirements, the level of DHA's ordinary dividend is being discussed with shareholder Ministers. The DHA Board's view on ongoing ordinary dividend policy will be included in DHA's 2007-08 Corporate Plan.

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: | 16,280 houses by 30 June 2008. |
| Price: | Average rental cost to Defence is estimated to be \$400 per week per house. |

Achievement of planned performance is reported in the annual report of Defence Housing Australia and monitored through the governance arrangements for Australian Government Business Enterprises.

Appropriation

DHA is a non-budget funded organisation deriving its operating income from charging Defence for rent and housing-related services. In accordance with the changes to the *Defence Housing Authority Act 1987* in 2006, DHA provides property services to Australian Customs Service, which generates approximately \$2m in rent.

Competitive Tendering and Contracting

All contracts for the construction and maintenance of houses are arranged on a competitive basis.

Purchaser-Provider Arrangements

A new Services Agreement between DHA and Defence came into effect on 1 July 2006. The Agreement is based on commercial principles with pricing and risk sharing arrangements, with risk allocated to the party best able to manage the risks.

A Relocation Services Agreement between DHA 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 Defence Housing Australia are presented in this section.

Budgeted Income Statement

This statement provides the expected financial results for DHA by identifying full accrual expenses and revenues.

Budgeted Balance Sheet

Shows the financial position of DHA. It enables decision makers to track the management of DHA'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, investment activities and financing activities.

Capital Budget Statement

Shows all proposed capital expenditure funded from internal sources. Note that DHA 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 1.1: Budgeted Income Statement

| | Projected Results 2006-07 \$'000 | Budget Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 | Forward Estimate 2010-11 \$'000 |
|--|---|---|--|--|--|
| REVENUE | | | | | |
| Revenue from ordinary activities | | | | | |
| Goods and services | 790,609 | 853,342 | 912,957 | 1,006,355 | 905,372 |
| Interest | 12,135 | 15,119 | 15,238 | 17,257 | 14,960 |
| Net gain from sale of assets | 1,080 | 1,041 | 807 | 854 | 880 |
| Revenues from ordinary activities | 803,824 | 869,502 | 929,002 | 1,024,466 | 921,212 |
| EXPENSE | | | | | |
| Employees | 48,352 | 50,044 | 51,796 | 53,608 | 55,484 |
| Suppliers | 652,653 | 709,529 | 758,751 | 841,966 | 737,975 |
| Depreciation and amortisation | 13,392 | 14,067 | 14,714 | 15,138 | 15,008 |
| Expenses from ordinary activities (excluding borrowing costs expense) | 714,397 | 773,640 | 825,261 | 910,712 | 808,467 |
| Borrowing costs expense | 20,400 | 20,400 | 20,400 | 20,400 | 20,400 |
| Operating profit before Income Tax from ordinary activities | 69,027 | 75,462 | 83,341 | 93,354 | 92,345 |
| Income Tax Expense | - | -19,000 | -23,160 | -21,300 | -22,000 |
| Net surplus or deficit attributable to the Government | 69,027 | 56,462 | 60,181 | 72,054 | 70,345 |
| Net credit (debit) to asset revaluation reserve | 6,907 | 7,879 | 8,263 | 8,478 | 8,180 |
| Total revenues, expenses and valuation adjustments attributable to the Government and recognised directly in equity | 75,934 | 64,341 | 68,444 | 80,532 | 78,525 |

Table 1.2: Budgeted Balance Sheet

| | Projected Results 2006-07 \$'000 | Budget Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 | Forward Estimate 2010-11 \$'000 |
|--------------------------------------|---|---|--|--|--|
| ASSETS | | | | | |
| Financial assets | | | | | |
| Cash | 178,380 | 209,977 | 184,322 | 199,544 | 139,958 |
| Receivables | 138,032 | 131,249 | 128,425 | 126,691 | 119,876 |
| Accrued Revenue | 16,517 | 17,273 | 17,696 | 18,433 | 18,582 |
| Other Financial Assets | 15,909 | 16,794 | 17,354 | 17,723 | 17,827 |
| Total financial assets | 348,838 | 375,293 | 347,797 | 362,391 | 296,243 |
| Non-financial assets | | | | | |
| Land and buildings | 790,802 | 871,315 | 895,108 | 855,878 | 816,648 |
| Infrastructure, plant and equipment | 27,191 | 28,503 | 29,552 | 30,392 | 31,063 |
| Inventories | 720,457 | 641,061 | 654,651 | 704,546 | 823,276 |
| Assets Held for Sale | 43,611 | 31,894 | 34,259 | 35,541 | 35,541 |
| Total non-financial assets | 1,582,061 | 1,572,773 | 1,613,570 | 1,626,357 | 1,706,528 |
| Total Assets | 1,930,899 | 1,948,066 | 1,961,367 | 1,988,748 | 2,002,771 |
| LIABILITIES | | | | | |
| Interest bearing liabilities | | | | | |
| Loans | 340,000 | 340,000 | 340,000 | 340,000 | 340,000 |
| Provisions | | | | | |
| Employees | 8,153 | 8,438 | 8,734 | 9,039 | 9,356 |
| Trade Creditors | 6,317 | 6,217 | 6,135 | 6,272 | 6,423 |
| Provision | 66,668 | 88,991 | 85,971 | 73,617 | 74,148 |
| Prepayment Received | 41,823 | 43,942 | 45,996 | 48,998 | 47,201 |
| Other Payables & Accrued Expenses | 15,674 | 15,473 | 15,312 | 15,583 | 15,882 |
| Total Payables and Provisions | 138,635 | 163,061 | 162,148 | 153,509 | 153,010 |
| Total liabilities | 478,635 | 503,061 | 502,148 | 493,509 | 493,010 |
| Equity | | | | | |
| Contributed equity | 249,148 | 249,148 | 249,148 | 249,148 | 249,148 |
| Reserves | 1,081,491 | 1,089,369 | 1,097,633 | 1,106,111 | 1,114,290 |
| Total accumulated results | 121,625 | 106,488 | 112,438 | 139,980 | 146,323 |
| Total equity | 1,452,264 | 1,445,005 | 1,459,219 | 1,495,239 | 1,509,761 |
| Total liabilities and equity | 1,930,899 | 1,948,066 | 1,961,367 | 1,988,748 | 2,002,771 |

Table 1.3: Statement of Cash Flows

| | Projected Results 2006-07 \$'000 | Budget Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 | Forward Estimate 2010-11 \$'000 |
|--|---|---|--|--|--|
| OPERATING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Goods and services | 790,609 | 853,342 | 912,957 | 1,006,355 | 905,371 |
| Interest | 12,135 | 15,119 | 15,238 | 17,257 | 14,960 |
| GST | 36,397 | 38,059 | 39,675 | 32,977 | 32,977 |
| Other | 3,553 | 2,440 | 1,983 | 2,096 | 2,170 |
| Total cash received | 842,694 | 908,960 | 969,853 | 1,058,685 | 955,478 |
| Cash used | | | | | |
| Employees | 48,352 | 50,044 | 51,796 | 53,608 | 55,485 |
| Payment to Suppliers | 672,629 | 630,133 | 772,342 | 891,861 | 856,706 |
| GST Payments to Suppliers | 36,397 | 38,059 | 39,675 | 32,977 | 32,977 |
| Tax | - | - | 23,800 | 18,400 | 21,300 |
| Interest | 20,400 | 20,400 | 20,400 | 20,400 | 20,400 |
| Total cash used | 777,778 | 738,636 | 908,013 | 1,017,246 | 986,868 |
| Net cash from/(used by) operating activities | 64,916 | 170,324 | 61,840 | 41,439 | -31,390 |
| INVESTING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Proceeds from sales of property, plant and equipment | 66,722 | 61,227 | 45,205 | 47,341 | 48,762 |
| Total cash received | 66,722 | 61,227 | 45,205 | 47,341 | 48,762 |
| Cash used | | | | | |
| Purchase of property, plant and equipment | 91,897 | 128,354 | 74,000 | 12,258 | 12,258 |
| Total cash used | 91,897 | 128,354 | 74,000 | 12,258 | 12,258 |
| Net cash from (used by) investing activities | -25,175 | -67,127 | -28,795 | 35,083 | 36,504 |
| FINANCING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Proceeds from loans | - | - | - | - | - |
| Proceeds from other activities | - | - | - | - | - |
| Total cash received | - | - | - | - | - |
| Cash used | | | | | |
| Repayment of loans | | | | | |
| Dividends paid | 76,800 | 71,600 | 58,700 | 61,300 | 64,700 |
| Total cash used | 76,800 | 71,600 | 58,700 | 61,300 | 64,700 |
| Net cash from/(used by) financing activities | -76,800 | -71,600 | -58,700 | -61,300 | -64,700 |
| Net increase/(decrease) in cash held | -37,059 | 31,597 | -25,655 | 15,222 | -59,586 |
| Cash at the beginning of the reporting period | 215,439 | 178,380 | 209,977 | 184,322 | 199,544 |
| Cash at the end of the reporting period | 178,380 | 209,977 | 184,322 | 199,544 | 139,958 |

Table 1.4: Capital Budget Statement⁽¹⁾

| | Projected Results 2006-07 \$'000 | Budget Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 | Forward Estimate 2010-11 \$'000 |
|--|---|---|--|--|--|
| CAPITAL APPROPRIATIONS | | | | | |
| Total loans | - | 35,000 | - | - | - |
| Total | - | - | - | - | - |
| PURCHASE OF NON CURRENT ASSETS | | | | | |
| Funded internally by Departmental resources | 41,897 | 128,354 | 74,000 | 12,258 | 12,258 |
| TOTAL | 41,897 | 163,354 | 74,000 | 12,258 | 12,258 |

Note

- Table 1.4 shows purchases of property, plant and equipment and includes housing stock intended to be kept as Defence Housing Australia 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 1.5: Non-Financial Assets – Summary of Movement (Budget Year 2006-07)⁽¹⁾

| | Land \$'000 | Buildings \$'000 | Total Land and Buildings \$'000 | Other infra- structure, plant and equipment \$'000 | Total \$'000 |
|--|----------------|---------------------|---|---|-----------------|
| Gross Value as at 1 July 2006 | 439,369 | 373,687 | 813,056 | 35,270 | 848,326 |
| Additions | 45,124 | - | 45,124 | 17,628 | 62,752 |
| Disposals | -7,938 | -6,493 | -14,431 | - | -14,431 |
| Revaluation increments | - | - | - | - | - |
| Transfers to Assets Held for Sale | -28,632 | -24,315 | -52,947 | - | -52,947 |
| Gross value 30 June 2007 | 447,923 | 342,879 | 790,802 | 52,898 | 843,700 |
| Accumulated Depreciation as at 1 July 2006 | - | - | - | 19,222 | 19,222 |
| Charge for the reporting period | - | 6,907 | 6,907 | 6,485 | 13,392 |
| Disposals | - | - | - | - | - |
| Revaluations | - | -6,907 | -6,907 | - | -6,907 |
| Accumulated Depreciation as at 30 June 2007 | - | - | - | 25,707 | 25,707 |
| Net Book Value as at 30 June 2007 | 447,923 | 342,879 | 790,802 | 27,191 | 817,993 |

Note

- The Summary of Movement for the Budget Year 2006-07 was also reported in the 2006-07 *Portfolio Additional Estimates Statements*. Data for the 2007-08 Budget Year will be generated by DHA as part of the corporate planning process and will not be available until after the 2007-08 *Portfolio Budget Statements* are printed.

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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. |

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| 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. |

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| 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 |

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| 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). |

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| Infrastructure | <p>Items owned, leased or otherwise under the control of Defence in support of activities on land and within buildings.</p> <p>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.</p> |
| Interoperability | <p>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.</p> |
| Inventory | <p>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.</p> |
| Joint exercise | <p>An exercise involving two or more Services of the ADF.</p> |
| Liabilities | <p>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.</p> |
| Materiel Acquisition Agreements | <p>Materiel Acquisition Agreements cover the Defence Materiel Organisation's acquisition services to Defence for both major and minor capital equipment.</p> |
| Materiel Sustainment Agreements | <p>Materiel Sustainment Agreements are between the Capability Managers and the Chief Executive Officer of the Defence Materiel Organisation. These agreements cover the sustainment of current capability, including services such as repairs, maintenance, fuel and explosive ordnance.</p> |
| Net assets | <p>See <i>Equity</i></p> |
| Operating result | <p>Equals revenue less expense.</p> |
| Other property, plant and equipment | <p>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).</p> |

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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 Four - 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 Four - 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

| | |
|---------|---|
| AASB | Australian Accounting Standards Board |
| ADF | Australian Defence Force |
| AEIFRS | Australian Equivalents to International Financial Reporting Standards |
| AFS | Average Funded Strength |
| ANAO | Australian National Audit Office |
| APS | Australian Public Service |
| CEO DMO | Chief Executive Officer of the Defence Materiel Organisation |
| CSS | Commonwealth Superannuation Scheme |
| DFAT | Department of Foreign Affairs and Trade |
| DFRDB | Defence Force Retirement and Death Benefits Scheme |
| DHA | Defence Housing Australia |
| DHOS | Defence Home Ownership Scheme |
| DMO | Defence Materiel Organisation |
| FFG | Guided Missile Frigate |
| FMS | Foreign Military Sales |
| GDP | Gross Domestic Product |
| GST | Goods and Services Tax |
| HMAS | Her Majesty's Australian Ship |
| MSBS | Military Superannuation Benefits Scheme |
| PSP | Professional Service Provider |
| RAAF | Royal Australian Air Force |
| RAN | Royal Australian Navy |
| RAR | Royal Australian Regiment |
| UN | United Nations |
| URD | Unit Ready Days |

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