

DEFENCE

CHAPTER TWO

RESOURCING

2004-05 ADDITIONAL ESTIMATES SUMMARY

PROGRAM OF ADMINISTRATIVE SAVINGS

Commercial Support Program

**PURCHASER-PROVIDER ARRANGEMENTS WITH
THE DEFENCE HOUSING AUTHORITY**

**PURCHASER-PROVIDER ARRANGEMENTS WITH
THE DEPARTMENT OF FOREIGN AFFAIRS AND
TRADE**

2004-05 ADDITIONAL ESTIMATES SUMMARY

Total resourcing available to Defence in 2004-05 is \$18,968m, an increase of \$284m compared with the \$18,684m projected at the time of the 2004-05 Budget. This level of resourcing comprises departmental funding of \$16,530m and \$2,438m for the administered appropriation. The total departmental funding allocation of \$16,530m (serial 7), which represents about 1.9 per cent of Australia's gross domestic product, is the most common way of measuring Defence's budget, and is consistent with the presentation of the Defence White Paper. Details are shown in Table 2.1.

Table 2.1: Total Defence Resourcing

Serial No	2004-05 Budget Estimate	2004-05 Revised Estimate	Variation	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate	
	\$'000	\$'000	\$'000	%	\$'000	\$'000	\$'000	
Departmental								
	Revenue from Government							
1	15,625,941	15,729,698	103,757	0.7	15,299,062	15,769,340	16,628,324	
2	299,025	375,498	76,473	25.6	1,023,740	1,336,267	1,495,016	
Total Revenue from Government (1+2)								
3	15,924,966	16,105,196	180,230	1.1	16,322,802	17,105,607	18,123,340	
4	Own-Source Revenue ⁽¹⁾	330,562	332,835	2,273	0.7	309,508	310,903	317,089
5	Net Capital Receipts	91,980	91,980	-	-	40,000	40,000	40,000
6	Sub Total (4+5)	422,542	424,815	2,273	0.5	349,508	350,903	357,089
Total Departmental Funding (3+6)								
7	16,347,508	16,530,011	182,503	1.1	16,672,310	17,456,510	18,480,429	
Administered								
8	Administered appropriation ⁽²⁾	2,336,900	2,438,350	101,450	4.3	2,539,350	2,539,350	2,639,350
Total Defence Resourcing (7+8)								
9	18,684,408	18,968,361	283,953	1.5	19,211,660	19,995,860	21,119,779	

Notes

- Own-source revenue (serial 4) excludes 'assets now recognised' revenue and 'net gains from sales of assets' revenue.
- The Administered appropriation (serial 8) of \$2,438m covers costs associated with the military superannuation schemes, and also covers the provision of housing subsidies to current and retired Defence personnel. The administered appropriation is managed by the Department of Finance and Administration (Commonwealth Superannuation) and the Defence Housing Authority (housing subsidies) on Defence's behalf.

The increase in Defence's total resourcing comprises:

- an increase in departmental funding of \$182.5m made up of changes to revenue for price of outcomes (+\$103.8m), equity injection (+\$76.5m) and own-source revenue (+\$2.3m); and
- an increase in the administered appropriation (+\$101.5m).

The increase in departmental funding of \$182.5m comprises:

- a revision of the price parameters used in the 2004-05 Budget reflecting a rise in the forecast non-farm gross domestic product deflator from 2.5 per cent to 3.3 per cent for 2004-05 (+\$111.7m);

- an increase in foreign exchange supplementation reflecting the difference between revised foreign exchange parameters and those on which the 2004-05 Budget was based (+\$75.1m);
- additional supplementation from the Government following a review of the lease costs associated with the property sale-and-leaseback program (+\$5.5m);
- additional funding for implementation costs associated with the Australia-United States Free Trade Agreement (+\$5.5m);
- additional funding for Operation Anode (+\$4.7m);
- supplementation to enhance security at Australia's diplomatic missions (+\$1.9m);
- supplementation to implement the recommendations of the Flood Inquiry into Australian intelligence agencies (+\$0.7m);
- supplementation for costs associated with the detention of illegal foreign fishers – additional funding for deterrence (+\$0.1m);
- contribution for the establishment of the National Tidal Centre within the Department of the Environment and Heritage (-\$0.1m);
- return of supplementation not required in 2003-04 arising from the commercialisation of the Defence Housing Authority in 2003-04 (-\$1.5m);
- the partial return to the Government of additional funding provided in the 2004-05 Budget for the costs of selling surplus Defence properties in 2003-04 (-\$9.4m); and
- return of supplementation provided in the 2004-05 Budget as a result of a lower-than-expected increase in Comcover premiums (-\$11.7m).

The increases in Administered funding of \$101.5m arises from an actuarial review of military superannuation schemes. More detail on the Administered appropriation is shown in Tables 8.6, 8.7 and 8.8.

More detailed information on Defence's revised budget for 2004-05 is contained in the budgeted financial statements at the Appendices (pp. 125-153).

Summary of New Budget Measures

The Defence element of the revised estimates includes four new funding measures that have been approved by the Government and are summarised in Table 2.2.

Table 2.2: Summary of New Budget Measures

	Defence Outcome	2004-05 Revised Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	Total \$'000
Australia-US Free Trade Agreement	Various	5,474	-	-	-	5,474
Illegal foreign fishers – additional funding for deterrence	Various	100	815	201	201	1,317
Flood Inquiry into Australian intelligence agencies	Six	712	484	484	484	2,164
Australian overseas missions - improved security	Five	1,927	1,067	612	2,722	6,328
Total		8,213	2,366	1,297	3,407	15,283

Australia-US Free Trade Agreement

The Government has provided \$5.5m in 2004-05 to fund the costs to Defence of implementing the Australia – United States Free Trade Agreement. This additional funding will enable Defence to revise its procurement processes to ensure that it complies with the revised rules and procedures in the conduct of procurement arising from the new agreement. It will also cover costs associated with the greater use of open tendering to ensure non-discrimination in access and treatment for suppliers to government procurement markets between Australia and the United States.

Illegal Foreign Fishers

The Government has provided \$0.1m in 2004-05 and \$1.2m across the forward estimates to excise a portion of Defence Establishment Berrimah for a detention facility for illegal foreign fishers operated by the Department of Immigration and Multicultural and Indigenous Affairs. This will enable the detention centre to become a stand-alone facility. Work to isolate utilities, including electricity, water sewerage and communications will commence in 2004-05. Funding across the forward estimates will enable the completion of this process as well as an increase in security, relocation of some Defence personnel and families living at Defence Establishment Berrimah, and replacement of some transit accommodation and associated facilities.

Flood Inquiry into Australian Intelligence Agencies

The Government has provided \$2.2m over four years to implement a number of recommendations resulting from the Flood Inquiry. The funding is made up of: \$0.5m per year for the creation of new Senior Executive Service positions to strengthen management structures within the Defence Signals Directorate and the Defence Intelligence Organisation; a further \$0.2m for the Defence Intelligence Organisation to undertake an integrated review of its business system and of its information technology needs during 2004-05; and \$0.2m to develop a strategy for information technology connectivity and collaborative intelligence production within the Australian intelligence community.

Australian Overseas Missions – Improved Security

The Government has provided \$1.9m in 2004-05 and \$4.4m across the forward estimates for Defence's contribution to improving protection for mission staff and visitors at Australian missions overseas, following a major review coordinated by the Department of Foreign Affairs and Trade.

Movement in Funding (Revenue) provided by the Government

Since the release of the Defence White Paper, Defence's total revenue from appropriations has varied as a result of Government decisions, price and exchange movements, operational funding and other factors. Table 2.3 below shows further movements in funding since the *Portfolio Budget Statements 2004-05* were published. These variations build on those reflected in Table 2.3 (p. 32) of the *Portfolio Budget Statements 2004-05* and Table 1.4 (p. 21) of the *Portfolio Budget Statements 2003-04*.

Table 2.3: Defence Revenue from the Government

Serial No.	2003-04	2004-05	Variation	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m	\$m
Published in <i>Portfolio Budget Statements 2004-05</i> p. 33	15,187.3	15,925.0	737.7	16,130.9	16,911.6	17,919.6
2004-05 Additional Estimates:						
1 Price indexation		109.4	109.4	175.0	183.4	194.3
2 Foreign Exchange adjustments		75.1	75.1	-	-	-
3 Property Sales Program hand back		-9.4	-9.4	-	-	-
4 Commercialisation of Defence Housing Authority costs reconciliation		-1.5	-1.5	-	-	-
5 Sale and Leaseback Supplementation		5.5	5.5	5.8	6.0	6.1
6 Comcover Premium Supplementation Clawback		-11.7	-11.7	-	-	-
7 Australia-United States Free Trade Agreement Supplementation		5.5	5.5	-	-	-
8 Australian overseas missions - improved security		1.9	1.9	1.1	0.6	2.7
9 Detention of Illegal Foreign Fishers		0.1	0.1	0.8	0.2	0.2
10 Operation Anode Supplementation		4.7	4.7	8.9	3.4	-
11 Transfer of National Tidal Centre funding		-0.1	-0.1	-0.1	-0.1	-0.1
12 Flood Inquiry into Australian Intelligence agencies		0.7	0.7	0.5	0.5	0.5
Published 2004-05 PAES (refer to serial 3 of 2.1)⁽¹⁾	15,925.0	16,105.2	180.2	16,322.8	17,105.6	18,123.3

Note

1. The totals correlate with Serial 3 in Table 2.1.

Current Operations

Table 2.4 shows the revised net additional costs for current operations for which Defence has received supplementary funding. The revised budget estimate of \$346.0m is \$32.1m higher than the 2004-05 budget estimate. The explanations for the net additional costs follow.

Table 2.4: Revised Net Additional Costs of Current Operations

Operation	2003-04 Result	2004-05 Budget	2004-05 Revised Estimate	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Operations in East Timor	169.1	27.1	27.1	0.0	4.1	-	-
Operations in Iraq	240.6	212.5	227.1	14.6	19.3	4.0	-
Anode	90.4	22.2	39.7	17.5	8.9	3.4	-
Relex II	15.9	16.0	16.0	0.0	16.0	-	-
Safebase	34.8	36.1	36.1	0.0	-	-	-
Total	550.8	313.9	346.0	32.1	48.3	7.4	-

Operations in Iraq (+\$14.6m)

Operation Catalyst is the ADF's contribution to developing a secure environment in Iraq, assisting national rehabilitation and facilitating the transition to Iraqi self-government. Based on budget approvals to date, the total net additional cost of operations in Iraq is \$776.3m. The Government has agreed to Defence reprogramming \$14.6m of unused funds from 2003-04 to 2004-05, associated with timing issues for inventory purchases and equipment remediation programs. After allowing for this adjustment to the budget, the total allocation for 2004-05 has increased correspondingly to \$227.1m.

Operation Anode (+\$17.5m)

Operation Anode is the ADF contribution to the Regional Assistance Mission to the Solomon Islands. The Government has agreed to Defence reprogramming \$12.8m of unused funds from 2003-04 to 2004-05 and has provided additional supplementation of \$17.0m over three financial years, of which \$4.7m is allocated in 2004-05 to allow an ADF contingent to remain deployed to the Solomon Islands for up to two years. This contingent will support the Regional Assistance Mission to the Solomon Islands and provide the capacity to respond to any serious security threat. The revised estimate for 2004-05 is \$39.7m, or \$17.5m more than the budget. The cost of the Ready Company Group being deployed in response to the 22 December 2004 shooting of an Australian Federal Police officer will be funded within the revised allocation.

Revised Financial Performance 2004-05

Defence is now planning an operating loss of \$17.0m in 2004-05. Overall, this represents a turnaround of \$38.3m compared with the surplus of \$21.2m projected in the 2004-05 Budget.

Defence usually plans on a nil operating result, that is, revenue and expenses are equal. The projected surplus at the time of the budget came about for three reasons:

- the reimbursement to Defence for a number of items that were funded initially by Defence from its cash reserves in 2003-04 (+\$65.8m);

- retention of a portion of the 2004-05 property sales proceeds to meet property disposal related costs (-\$25.5m); and
- rephasing of funding for Operations Citadel and Catalyst (-\$19.1m).

The movement in the operating result of -\$38.3m comes about because:

- actual expenses incurred by Defence from its cash reserves in 2003-04 for the items it was to be reimbursed in 2004-05 amounted to \$54.9m rather than \$65.8m, as a result of lower than anticipated costs for property disposals (-\$9.4m) and the Defence Housing Authority commercialisation (-\$1.5m); and
- the rephasing of -\$27.4m associated with Operation Anode (-\$12.8m) and Operation Catalyst (-\$14.6m).

Revised Financial Performance (Operating Statement)

Table 2.5 provides a summary of the movements in Defence's Operating Statement since the budget. More details are contained in the financial statements in the Appendices.

Table 2.5: Variation in Planned Financial Performance 2004-05⁽¹⁾

	Budget Estimate	Revised Estimate	Variation	Variation
	\$'000	\$'000	\$'000	%
REVENUE				
Revenues from ordinary activities				
Price of Outcomes	15,625,941	15,729,698	103,757	0.7
Sales of goods and services	245,670	262,789	17,119	7.0
Revenue from sale of assets	230,980	206,480	-24,500	-10.6
Assets now recognised	-	600,000	600,000	-
Other	86,892	72,046	-14,846	-17.1
Revenue from ordinary activities	16,189,483	16,871,013	681,530	4.2
EXPENSE				
Expenses from ordinary activities (excluding borrowing cost expense)				
Employees ⁽²⁾	6,710,346	6,677,700	-32,646	-0.5
Suppliers	6,109,274	6,028,823	-80,451	-1.3
Grants	1,250	9,266	8,016	641.3
Depreciation and amortisation	2,984,937	3,134,337	149,400	5.0
Value of assets sold	230,980	206,480	-24,500	-10.6
Write down of assets	100,000	800,000	700,000	700.0
Expenses from ordinary activities (excluding borrowing cost expense)	16,136,787	16,856,606	719,819	4.5
Borrowing cost expense	31,446	31,446	-	-
Net surplus/deficit	21,250	-17,039	-38,289	-180.2

Notes

1. Cross reference to Table 8.1 in the Appendices on p. 127.
2. Cross reference to Table 5.3 on p. 96.

Revenue (+\$681.5m)

Revenue has increased by \$681.5m due to:

- an increase in the estimated value of Assets Now Recognised based on historical data and the likely requirement to recognise assets first found from the stocktakes being undertaken in 2004-05 (+\$600m);
- reduced costs arising from the commercialisation of the Defence Housing Authority in 2003-04 (-\$1.5m);
- the return of additional funding provided in the 2004-05 Budget for 2003-04 property sales costs (-\$9.4m);
- a reduction in revenue expected from the sale of surplus properties in 2004-05 (-\$24.5m);
- the operating expense component of activities outlined below, which include an upward revision of the price parameters used in the 2004-05 Budget (+\$87.4m) and revision of the estimates for depreciation and amortisation (+\$149.4m); and
- a transfer of funds from suppliers expenses to capital to enable new repairable items to be acquired rather than repair existing ones which have become uneconomical to repair (-\$120.0m).

Expenses (+\$719.8m)

Expenses have increased by \$719.8m, due mainly to:

- an increase in the estimated value of assets expected to be written down as a result of the stocktakes being undertaken in 2004-05 (+\$700m);
- revision of the 2004-05 Budget estimate for depreciation and amortisation including taking into account the Government's decision to withdraw early the two Adelaide-class guided missile frigate (HMAS *Adelaide* and *Canberra*) and the F-111 aircraft (+\$149.4m);
- an upward revision of the price parameters used in the 2004-05 Budget (+\$87.4m);
- revised operational spending for Operations Catalyst (+\$14.6m) and Anode (+\$17.5m);
- additional supplementation following a review of the costs arising from the sale-and-leaseback program (+\$5.5m);
- implementation costs associated with implementing the Australia-United States Free Trade Agreement (+\$5.5m);
- implementation of recommendations of the Flood Inquiry into Australian intelligence agencies (+\$0.7m);
- Australian overseas missions - improved security (+\$0.4m);
- a lower than expected increase in Comcover premiums (-\$11.7m);

- a reduction in the value of assets sold as a result of the revision to the 2004-05 property sales program (-\$24.5m);
- revision of the 2004-05 Budget estimate for inventory consumption as a result of improvements in the valuation of inventory holdings (-\$104.9m); and
- a transfer of funds from suppliers expenses to capital to enable new repairable items to be acquired rather than repair existing ones which have become uneconomical to repair (-\$120.0m).

Revised Financial Position 2004-05 (Balance Sheet)

Defence's net assets at 30 June 2005 are expected to be \$1,529.7m higher than projected in the 2004-05 Budget. Details are shown in Table 2.6.

Table 2.6: Revised Financial Position 2004-05

	Budget Estimate \$'000	Revised Estimate \$'000	Variation \$'000	Variation %
ASSETS				
Financial Assets				
Cash	-90,443	87,584	178,027	196.8
Receivables	1,061,322	824,799	-236,523	-22.3
Total Financial Assets	970,879	912,383	-58,496	-6.0
Non-Financial Assets				
Land and Buildings	8,923,728	9,879,536	955,808	10.7
Infrastructure, plant and equipment	36,258,966	36,098,918	-160,048	-0.4
Intangibles	85,847	254,313	168,466	196.2
Heritage and cultural	19,047	26,010	6,963	36.6
Inventories	3,836,895	4,519,866	682,971	17.8
Other	718,548	689,681	-28,867	-4.0
Total Non-Financial Assets	49,843,031	51,468,324	1,625,293	3.3
Total Assets	50,813,910	52,380,707	1,566,797	3.1
LIABILITIES				
Debt				
Leases	317,570	354,336	36,766	11.6
Total Debt	317,570	354,336	36,766	11.6
Provisions and Payables				
Employees	1,955,018	2,104,151	149,133	7.6
Suppliers payables	1,200,066	1,017,313	-182,753	-15.2
Other payables	373,729	407,723	33,994	9.1
Total Provisions and Payables	3,528,813	3,529,187	374	0.0
Total Liabilities	3,846,383	3,883,523	37,140	1.0
Net Assets	46,967,527	48,497,184	1,529,657	3.3
EQUITY				
Capital	1,661,852	2,023,674	361,822	21.8
Reserves	7,247,911	8,176,230	928,319	12.8
Accumulated surpluses	38,057,764	38,297,280	239,516	0.6
Total Equity⁽¹⁾	46,967,527	48,497,184	1,529,657	3.3

Note

1. Cross reference to Table 8.2 in the Appendices on p. 128.

Assets (+\$1,566.8m)

Total assets are estimated to be \$1,566.8 higher than projected in the 2004-05 Budget, due mainly to:

- the flow-on impact of the actual opening balance as at 1 July 2004 being \$1,516.4m higher than the projected 2003-04 result on which the budget estimate was based. The *Defence Annual Report 2003-04* (pp. 45-47) provides more information;
- an increase in the estimate for specialist military equipment to reflect that the logistics support budget will be used to purchase new repairable items to replace current ones that have become uneconomical to repair (+\$120.0m);
- reduction in inventory consumption estimate with consequent increase in holdings on the balance sheet (+\$104.9m);
- an increase in foreign exchange supplementation reflecting the difference between revised foreign exchange parameters and those on which the 2004-05 Budget was based (+\$75.1m);
- additional cash draw down to reimburse the bank for the 27th pay day (+\$39.8m);
- a reduction in the 2004-05 property sales program (+\$24.5m);
- an upward revision to the price parameters used in the 2004-05 Budget (+\$24.3m);
- increased purchases of infrastructure, plant and equipment for the enhanced security at Australian diplomatic mission overseas (+\$1.5m) and for detention of illegal fishers (+\$0.1m);
- a net reduction in Defence's Appropriation Receivable (-\$90.3m);
- increased write-downs above increased assets recognised for the first time due to the expected outcome of planned stocktakes (-\$100m); and
- increased depreciation expense for specialist military equipment due mainly to the Government endorsed accelerated withdrawal of the F-111 aircraft and two FFGs (HMAS *Adelaide* and *Canberra*) (-\$149.4m).

Liabilities (+\$37.1m)

Total liabilities are estimated to be \$37.1m higher than projected in the 2004-05 Budget, due to:

- the flow-on impact of the 2003-04 Financial Statement actual result, which was \$37.1m higher than projected at the time of the 2004-05 Budget, which included:
 - an increase in Leases liability relating to the reclassification of operating to finance leases. (+\$37m). The *Defence Annual Report 2003-04* (p. 45) provides more information, and

- Employees (+\$149m) and other Payables (+\$34m) were offset by Supplier Payables (-\$183m). The *Defence Annual Report 2003-04* (pp. 45-46) provides more information.

Revised Cash Flows 2004-05

The revised cash flow statement for 2004-05 reflects the combined impact (both capital and operating expense) of the funding adjustments outlined in the financial overview. Overall, Defence's cash balance will increase by \$178m from -\$90.4m to \$87.6m. Details are shown in Table 2.7.

Table 2.7: Variation in Cash Flows 2004-05

	Budget Estimate \$'000	Revised Estimate \$'000	Variation \$'000	Variation %
CASH RECEIPTS				
1. Appropriations from the Government ⁽¹⁾	15,625,941	15,729,698	103,757	0.7
2. Sales of goods and services	266,798	285,389	18,591	7.0
3. Net GST refund	872,561	894,077	21,516	2.5
4. Other	84,892	70,046	-14,846	-17.5
5. Cash transfer from Official Public Account	71,100	150,523	79,423	111.7
6. Proceeds from sales of property, plant and equipment	230,980	206,480	-24,500	-10.6
7. Equity appropriation ⁽²⁾	299,025	375,498	76,473	25.6
8. Total Cash Receipts	17,451,297	17,711,711	260,414	1.5
CASH PAYMENTS				
9. Employees	6,812,081	6,779,435	-32,646	-0.5
10. Suppliers	6,110,472	6,157,885	47,413	0.8
11. Grants	1,250	9,266	8,016	641.3
12. Other	31,446	31,446	-	-
13. Cash transfer to Official Public Account	209,167	198,278	-10,889	-5.2
14. Purchase of specialist military equipment	2,874,945	3,090,144	215,199	7.5
15. Purchase of inventory	840,586	840,586	-	-
16. Purchase of property, plant and equipment	608,743	614,541	5,798	1.0
17. Repayment of debt	13,607	13,607	-	-
18. Capital withdrawal	139,000	126,748	-12,252	-8.8
19. Total Cash Payments	17,641,297	17,861,936	220,639	1.3
20. Net Increase/(Decrease) in Cash Held	-190,000	-150,225	39,775	21.0
21. Cash at 1 July 2004	99,557	237,809	138,252	138.9
22. Cash at 30 June 2005⁽³⁾	-90,443	87,584	178,027	196.8

Notes

1. Cross reference with Serial 1 of Table 2.1 on p. 11.
2. Cross reference with Serial 2 of Table 2.1 on p. 11.
3. Cross reference with Table 8.3 in the Appendices on p. 129.

The variations are due to:

- the increase in the appropriation from the Government of \$103.8m is due mainly to new budget measures and a number of other technical adjustments including:
 - revision of the price parameters used in the 2004-05 Budget reflecting an increase in the forecast non-farm gross domestic product deflator from 2.5 per cent to 3.3 per cent for 2004-05 (+\$85.1m),

- additional funding for implementation costs associated with the Australia-United States Free Trade Agreement (+\$5.5m),
- additional supplementation from the Government following a review of the costs arising from the property sale-and-leaseback program (+\$5.5m),
- continuation of funding for Operation Anode (+\$4.7m),
- supplementation for implementing the recommendations of the Flood Inquiry into Australia's intelligence agencies (+\$0.7m),
- Australian overseas missions – improved security (+\$0.4m),
- reduced reimbursement for the 2003-04 costs associated with the commercialisation of Defence Housing Authority costs reconciliation (-\$1.5m),
- reduced reimbursement for the 2003-04 costs associated with the property sales disposal cost (-\$9.4m),
- return of supplementation provided in the 2004-05 Budget as a result of a lower-than-expected increase in Comcover premiums (-\$11.7m),
- increased estimate for asset write-down expense (+\$100.0m),
- increase in depreciation estimates reflecting in the main the impact of the early retirement of two FFGs and the F-111 aircraft (+\$149.4m),
- reduction in the inventory consumption estimate (-\$104.8m), and
- redirection of funds from suppliers to capital to purchase repairable items rather than repair current uneconomical stock (-\$120.0m);
- an increase of \$79.4m in the cash transferred from the Official Public Account reflecting a combination of increased draw-down from the appropriation receivable to fund the remainder of the 27th pay (+\$39.8m), the completion of a final reconciliation of foreign exchange transactions from 2002-03 and 2003-04 (+\$12.1m), the return of special appropriation related to the *East Timor Act 1999-2000* (+\$0.2m), and the rephasing of operations funding (+\$27.4m);
- proceeds from the sale of property, plant and equipment have decreased by \$24.5m from previous estimates, reflecting the revision of the 2004-05 property sales target;
- the \$10.9m increase in cash transferred to the Official Public Account is as a result of a reduction in the property disposal costs from 2003-04 (-\$9.4m) and lower costs arising from the commercialisation of the Defence Housing Authority (-\$1.5m);
- the \$76.5m increase in equity appropriation is mainly due to the:
 - an increase in foreign exchange supplementation reflecting the difference between current foreign exchange parameters and those on which the 2004-05 Budget was based (+\$75.1m),

- revision of the price parameters used in the 2004-05 Budget reflecting movements in the non-farm Gross Domestic Product deflator from 2.5 per cent to 3.3 per cent for 2004-05 (+\$24.3m),
- Australian overseas missions – improved security (+\$1.5m),
- supplementation for costs associated with the detention of illegal foreign fishers in Australia’s northern waters (+\$0.1m), and
- internal re-allocations as outlined in appropriations from the Government, fully offsetting in nature (-\$24.6m);
- the \$32.6m decrease in employees is mainly due to:
 - an upward revision to the price parameters used in the 2004-05 Budget (+\$45.9m),
 - additional Operation Anode funding (+\$3.2m),
 - supplementation for implementing the recommendations of the Flood Inquiry into Australian intelligence agencies (+\$0.7m),
 - reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (-\$82.5m), and
 - further explanations for movements in employee expenses can be found in Chapter 5 (People);
- the \$47.4m increase in suppliers expenses is mainly due to:
 - reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (+\$82.5m),
 - revision to the price parameters (+\$41.5m),
 - the flow-on goods and services tax impact of increased purchase of specialist military equipment and property, plant and equipment (+\$22.9m);
 - rephasing of Operation Catalyst spending from 2003-04 (+\$14.6m),
 - rephasing of Operation Anode spending from 2003-04 (+\$12.8m),
 - additional supplementation from the Government following a review of the costs arising from the property sale-and-leaseback program (+\$5.5m),
 - additional funding for implementation costs associated with the Australia-United States Free Trade Agreement (+\$5.5m),
 - additional Operation Anode funding (+\$1.5m),
 - Australian overseas missions – improved security (+\$0.4m),
 - transfer of funding for the National Tidal Centre within the Bureau of Meteorology (-\$0.1m),
 - a number of other variations (-\$8.0m),

- return of supplementation provided in the 2004-05 Budget as a result of a lower-than-expected increase in Comcover premiums (-\$11.7m), and
- a reduction in the estimate for suppliers expense to reflect that the logistics support budget will be used to purchase new repairable items to replace current ones that have become uneconomical to repair (-\$120.0m);
- the increase of \$215.2m in the purchase of specialist military equipment reflects changed price (+\$20.1m), foreign exchange (+\$75.1m) parameters and the use of some of the logistics support budget to purchase new repairable items to replace current ones that have become uneconomical to repair (+\$120.0m);
- the increase of \$5.8m in the purchase of property, plant and equipment reflects changed price parameters (+\$4.1m), and expenditure on Australian overseas missions – improved security (+\$1.5m), and detention of illegal foreign fishers – additional funding for deterrence (+\$0.1m);
- the \$12.3m decrease in the capital withdrawal is a combination of a reduction in the property sales program (-\$24.5m), the completion of a final reconciliation of foreign exchange transactions from 2002-03 and 2003-04 (+\$12.1m), and the return of special appropriation related to the *East Timor Act 1999-2000* (+\$0.2m); and
- the increase in the cash balance at 30 June 2005 of \$178.0m resulting from:
 - the actual cash at bank at 1 July 2004 being \$138.3m higher than the budget due mainly to the drawing down on 30 June 2004 of \$150m relating to the pay day on 1 July (see p. 45 of the *2003-04 Defence Annual Report* for further details, and
 - further draw-down from the appropriations receivable to reimburse the bank for the additional funds for the 27th pay day (+\$39.8m).

Planned Use of Appropriation Receivable (Cash Reserves)

Defence adopted an 'as required' cash drawdown system in February 2003 when implementing the recommendations of the Government's Budget Estimates and Framework Review. Defence's cash reserves are now held as a receivable by the Department of Finance and Administration. Defence draws on these cash reserves to meet liabilities (principally employee entitlements) as they fall due. Table 2.8 details the planned reduction in the appropriation receivable over the forward estimates period.

Table 2.8: Planned Rundown in Cash Receivable

Serial No	2003-04 Use of Cash Reserves		2004-05		2005-06	2006-07	2007-08
	Actual		Budget	Revised	Forward	Forward	Forward
	Result		Estimate	Estimate	Estimate	Estimate	Estimate
	\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
1	870,201	Opening balance of cash reserves held by Department of Finance and Administration	640,915	537,660	585,415	530,315	455,015
2		less Cash Outflows					
3	11,100	Operation Citadel rephasing	-11,100	-11,100			
4	27,700	Operation Catalyst rephasing	-25,200	-25,200	-2,500		
5	12,800	Operation Anode rephasing		-12,800			
6	846	Locally Engaged Staff Salaries from DFAT					
7	691	Intelligence Projects					
8	65,800	Cost to be reimbursed in 2004-05					
9	14,600	Operation Catalyst rephasing		-14,600			
10		Refund of Special Appropriation <i>East Timor Act 1999-2000</i>		-197			
11		2002-03 retrospective foreign exchange return		-37			
12		2003-04 retrospective foreign exchange return		-12,014			
13	-26,916	Return of 2002-03 Operation underspend (Relex II, Citadel and Slipper)					
14	-200,000	Return of Capital Underspend in 2002-03 ⁽¹⁾					
15	-22,020	Return of 97-98 and 98-99 Fringe Benefits Tax to Australian Taxation Office					
16	-7,900	Return of surplus supplementation relating to Defence Housing Authority commercialisation costs					
17	-46,900	Cash used to reduce employee liabilities ⁽²⁾	-34,800	-34,800	-52,600	-75,300	-97,000
18		27 th Pay day (part)		-39,775			
19		Sub-Total: Cash Outflows	-71,100	-150,523	-55,100	-75,300	-97,000
		plus Cash Inflows					
20	-95,756	Use of Cash Reserves (part of 2002-03 property proceeds) for funding needs in 2003-04					
21	-2,890	Other Employee and supplier costs					
22	-5,300	Defence Procurement Review Implementation costs	5,300	5,300			
23	-3,700	Contribution to Papua New Guinea Defence Reform Program	3,700	3,700			
24	-18,500	Commercialisation of Defence Housing Authority costs	20,000	18,500			
25	-5,000	Point Nepean community grants costs	5,000	5,000			
26	-22,411	Property disposal costs from 2002-03	31,800	22,411			
27	-3,600	Mulwala tendering costs					
28	-150,225	27 th pay day (part)					
29	-25,000	Kockums settlement					
30	112,900	Reimbursement for Operation Bastille 2002-03 expenditure					
31	14,600	Reimbursement for Operation Bel Isi 2002-03 expenditure					
32	42,540	Provision to meet future liabilities	143,367	143,367			
		Sub-Total: Cash Inflows	209,167	198,278	-	-	-
33	537,660	Total Appropriation Receivable	778,982	585,415	530,315	455,015	358,015

Note

1. The \$200m was subsequently reprogrammed by Government to beyond the forward estimates.
2. Defence has obtained the Government's approval to use its cash reserves to partially meet existing employee liabilities.

Appropriations

The total departmental appropriation for Price of Outcomes in 2004-05 is \$15,730m, with an administered appropriation of \$2,438m, as shown in Table 2.1. Table 2.9 shows the total appropriations for Defence for 2004-05 split across the seven Government outcomes, by administered expenses, price of output appropriation and departmental equity injection.

Table 2.9: Appropriations and Other Revenue

Outcome	Departmental (Price of Outputs)				Administered			
	2004-05 Budget Estimate \$'000	2004-05 Revised Estimate \$'000	Variation \$'000	Variation %	2004-05 Budget Estimate \$'000	2004-05 Revised Estimate \$'000	Variation \$'000	Variation %
Outcome 1:								
Command of Operations	677,155	661,725	-15,430	-2.3	-	-	-	-
Outcome 2:								
Navy Capability	4,336,333	4,350,031	13,698	0.3	-	-	-	-
Outcome 3:								
Army Capability	5,297,660	5,343,227	45,567	0.9	-	-	-	-
Outcome 4:								
Air Force Capability	4,631,217	4,697,024	65,807	1.4	-	-	-	-
Outcome 5:								
Strategic Policy	247,259	212,780	-34,479	-13.9	-	-	-	-
Outcome 6:								
Intelligence	436,317	464,911	28,594	6.6	-	-	-	-
Outcome 7:								
Administered					2,336,900	2,438,350	101,450	4.3
Total	15,625,941	15,729,698	103,757	0.7	2,336,900	2,438,350	101,450	4.3

PROGRAM OF ADMINISTRATIVE SAVINGS

Information is as reported in the *Portfolio Budget Statements 2004-05*.

COMMERCIAL SUPPORT PROGRAM

The Commercial Support Program is a long-term competitive tendering and contracting initiative through which commercial and in-house bids compete for the provision of support services currently performed in-house, with the resulting decisions giving Defence the best value for money in terms of improved service outcome and/or reduced future cost.

Market-Testing Decisions Expected in 2004-05

An announcement on the tender evaluation for information technology infrastructure support services for the Australian Capital Territory region is expected in February 2005. It is estimated that 300 positions will be evaluated.

Other identified market-testing activities in 2004-05

The following activities are being progressed, or are under consideration, for possible future market-testing.

Table 2.10: Commercial Support Program Activities in Progress or Under Consideration

Activity	Status
ADF rotary wing flying training - Army	The project scope is under assessment.
Routine pathology services	Appropriate service delivery method to be determined.
Regional information communications technology market-testing ⁽¹⁾	Request for tender being prepared.
Personnel services	Being rationalised and restructured under the Business Improvement Project.
Tactical Fighter System Program Office	The project scope is under assessment.
Liverpool Military Area – Transport Function	Activity definition in progress.

Note

1. Previously reported in the *Portfolio Budget Statements 2004-05* as 'Information technology infrastructure support services', and extends the market-testing to cover regions outside the Australian Capital Territory.

PURCHASER-PROVIDER ARRANGEMENTS WITH THE DEFENCE HOUSING AUTHORITY

Control Arrangements

There have been a number of changes on the Defence Housing Authority Board since the *Portfolio Budget Statements 2004-05*. Mr Thomas O'Brien was appointed to act as a member of the board for a term of six months from 12 June 2004, following the expiry of his term. Mrs Caragh Waller has resigned from the board and Ms Bonita Boezeman's term as a member of the board expired in October.

The ADF representation on the board has also changed with Rear Admiral Max Hancock RAN and Major General Ian Gordan AM replacing Rear Admiral Rowan Moffitt RAN and Major General Frank Roberts AM, respectively.

Resourcing

The 2004-05 revised estimate for the purchase of services from the Defence Housing Authority is \$381.4m, \$3.3m higher than the estimate of \$378.1m in the *Portfolio Budget Statements 2004-05*. This covers housing and relocation services and the Defence Home Loans Scheme for ADF members.

Review of Governance Arrangements

In February 2004, an interdepartmental committee was established to review the Defence Housing Authority's governance arrangements.

The review aimed to recommend to the Minister for Defence and the Minister for Finance and Administration any improvements to legislative and governance arrangements for the Defence Housing Authority arising from the recently released *Review of Corporate Governance of Statutory Authorities and Office Holders* conducted by Mr John Uhrig AC (Uhrig Review).

The committee first met in early March 2004 and is expected to present its findings to the Government in early 2005.

PURCHASER-PROVIDER ARRANGEMENTS WITH THE DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

Defence maintains a service level agreement with the Department of Foreign Affairs and Trade (DFAT) for the provision of management services at DFAT-managed overseas posts. The agreement is intended to promote efficient and effective Australian Government business overseas by avoiding unnecessary duplication of common services at overseas posts. For these services an agreed fee is charged. A new agreement for 2004-07 is being negotiated with DFAT.

Separately, Defence maintains a memorandum of understanding with DFAT on the provision of information and communication technology services to Defence personnel at DFAT-managed overseas posts. For these services an agreed fee is charged.

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

- local area networked desktop office products at the classified and unclassified levels, facilitating emails and cablegrams being communicated to the appropriate Defence networks; and
- telephone exchange services, including the provision of a telephone handset.

The services are provided in 31 countries to approximately 150 Defence personnel and locally engaged staff in overseas posts. The information and communications technology infrastructure used to provide these services is maintained and supported by DFAT.

The memorandum of understanding was re-negotiated in November 2004 and the expected cost to Defence in 2004-05, under the current three-year agreement, is in the order of \$1m.