

DEFENCE

CHAPTER FOUR

**PLANNED OUTCOME
PERFORMANCE**

DEFENCE OUTCOME AND OUTPUT STRUCTURE

COST OF DEFENCE OUTCOMES

Net Cost of Defence Outcomes

Cost Summary of Defence Outcomes

Group Contributions to Defence Outcomes

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 FOR
CURRENT AND RETIRED DEFENCE PERSONNEL**

DEFENCE OUTCOME AND OUTPUT STRUCTURE

OUTCOME 1 – Command of Operations in Defence of Australia and its Interests

OUTPUTS

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

OUTCOME 2 – Navy Capability for the Defence of Australia and its Interests

OUTPUTS

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

OUTCOME 3 – Army Capability for the Defence of Australia and its Interests

OUTPUTS

- 3.1 Capability for Special Operations⁽¹⁾
- 3.2 Capability for Medium Combined Arms Operations⁽¹⁾
- 3.3 Capability for Light Combined Arms Operations⁽¹⁾
- 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⁽¹⁾
- 3.10 Capability for Protective Operations

OUTCOME 4 – Air Force Capability for the Defence of Australia and its Interests

OUTPUTS

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

OUTCOME 5 – Strategic Policy for the Defence of Australia and its Interests

OUTPUTS

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

OUTCOME 6 – Intelligence for the Defence of Australia and its Interests

OUTPUT

- 6.1 Intelligence

OUTCOME 7 – Superannuation and Housing Support Services for Current and Retired Defence Personnel⁽²⁾

OUTPUTS

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

Notes

1. The titles of these outputs have been revised since the *Portfolio Budget Statements 2004-05* to more accurately reflect the current nature of the outputs. For further detail, refer to the Changes to the Outcome/Output Structure section on p. v.
2. There are two new outputs for Outcome Seven; Output 7.2 Housing Assistance for Current and Retired Defence Personnel and Output 7.3 Other Administered Revenue and Expenses.

COST OF DEFENCE OUTCOMES

NET COST OF DEFENCE OUTCOMES

Table 4.1: Net Cost of Defence Outcomes

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
DEPARTMENTAL						
Operating Expenses						
Employees - Military	5,295,066	5,305,692	10,626	5,404,993	5,629,541	5,907,163
Employees - Civilian	1,415,281	1,372,008	-43,273	1,419,779	1,480,686	1,530,847
Sub-Total Employees	6,710,347	6,677,700	-32,647	6,824,772	7,110,227	7,438,010
Suppliers expense	5,218,782	5,243,208	24,426	5,082,028	5,215,639	5,657,648
Inventory consumption	890,491	785,615	-104,876	796,093	784,636	797,757
Sub-Total Suppliers	6,109,273	6,028,823	-80,450	5,878,121	6,000,275	6,455,405
Grants	1,250	9,266	8,016	1,275	1,301	1,327
Depreciation and amortisation	2,984,937	3,134,337	149,400	2,844,827	2,902,724	2,995,788
Value of assets sold	230,980	206,480	-24,500	40,000	40,000	40,000
Write-down of assets	100,000	800,000	700,000	130,000	100,000	65,000
Borrowing costs	31,446	31,446	-	32,075	32,716	26,883
Other expenses	-	-	-	-	-	-
Total Operating Expenses from Ordinary Activities	16,168,233	16,888,052	719,819	15,751,070	16,187,243	17,022,413
Revenues						
Sales of goods and services	-245,670	-262,789	-17,119	-261,074	-265,923	-271,173
Revenue from sale of assets	-230,980	-206,480	24,500	-40,000	-40,000	-40,000
Assets now recognised	-	-600,000	-600,000	-100,000	-65,000	-35,000
Other revenues ⁽²⁾	-86,892	-72,046	14,846	-50,434	-46,980	-47,916
Total Own Source Revenues	-563,542	-1,141,315	-577,773	-451,508	-417,903	-394,089
Net Cost of Defence Outcomes⁽³⁾	15,604,691	15,746,737	142,046	15,299,562	15,769,340	16,628,324
Approved Allocated Profit/Loss	21,250	-17,039	-38,289	-500	-	-
Departmental Appropriation from Government for Outcomes⁽⁴⁾	15,625,941	15,729,698	103,757	15,299,062	15,769,340	16,628,324
ADMINISTERED						
Expenses	2,336,900	2,438,350	101,450	2,539,350	2,539,350	2,639,350
Revenues	-648,436	-727,005	-78,569	-701,751	-705,554	-711,664
Net Cost of Administered Outcome⁽⁵⁾	1,688,464	1,711,345	22,881	1,837,599	1,833,796	1,927,686
Total cost to Government	17,314,405	17,441,043	126,638	17,136,661	17,603,136	18,556,010

Notes

1. The variation figures are the difference between the Budget Estimate and the Revised Additional Estimate.
2. The amount of Other revenues includes interest and dividends, net foreign exchange gain/losses and resources received free of charge.
3. All tables in Chapter Four, aside from Table 4.1, show the net cost of Defence outcomes excluding the loss of \$17.039m. This explains the difference between the net costs of outcomes shown in this table and the appropriations shown in Table 2.9.
4. Cross reference to Serial 1 in Table 2.1 on p. 11.
5. Cross reference to Table 4.25 on p. 87.

COST SUMMARY OF DEFENCE OUTCOMES

Table 4.2: Overall Cost to the Government of Defence Outcomes (Departmental and Administered)

	Outcome 1 Command of Operations 2004-05 \$'000	Outcome 2 Navy Capabilities 2004-05 \$'000	Outcome 3 Army Capabilities 2004-05 \$'000	Outcome 4 Air Force Capabilities 2004-05 \$'000	Outcome 5 Strategic Policy 2004-05 \$'000	Outcome 6 Intelligence 2004-05 \$'000	Total Defence Departmental Outcome 2004-05 \$'000	Outcome 7 (3) 2004-05 \$'000	Grand Total 2004-05 \$'000
DEPARTMENTAL									
Operating Expenses									
Employees - Military	173,043	1,259,015	2,532,134	1,254,397	42,063	45,039	5,305,692	-	5,305,692
Employees - Civilian	85,647	325,140	406,783	356,536	45,418	152,484	1,372,008	-	1,372,008
Sub-Total Employees	258,690	1,584,155	2,938,917	1,610,933	87,481	197,523	6,677,700	-	6,677,700
Suppliers expense	385,363	1,502,253	1,485,980	1,558,530	125,610	185,472	5,243,208	-	5,243,208
Inventory consumption	49,064	160,507	311,125	264,919	-	-	785,615	-	785,615
Sub-Total Suppliers	434,427	1,662,760	1,797,105	1,823,449	125,610	185,472	6,028,823	-	6,028,823
Grants	359	2,092	4,394	2,270	70	81	9,266	-	9,266
Depreciation and amortisation	58,214	1,088,404	640,338	1,259,386	6,481	81,514	3,134,337	-	3,134,337
Value of assets sold	6,263	40,618	96,012	59,848	433	3,306	206,480	-	206,480
Write-down of assets	44,316	261,553	186,199	287,128	-1,270	22,074	800,000	-	800,000
Borrowing costs	1,263	7,387	14,232	8,020	248	296	31,446	-	31,446
Other expenses	-74	-143	480	-217	-29	-18	-	-	-
Total Operating Expenses from Ordinary Activities	803,459	4,646,826	5,677,678	5,050,817	219,025	490,247	16,888,052	-	16,888,052
Revenues									
Sales of goods and services	-80,666	-43,189	-79,185	-52,156	-4,074	-3,519	-262,789	-	-262,789
Revenue from sale of assets	-6,869	-40,673	-94,749	-60,125	-661	-3,403	-206,480	-	-206,480
Assets now recognised	-34,713	-195,070	-138,493	-214,019	-612	-17,092	-600,000	-	-600,000
Other revenues ⁽¹⁾	-2,447	-17,863	-22,024	-27,493	-897	-1,322	-72,046	-	-72,046
Total Own Source Revenues	-124,695	-296,795	-334,451	-353,793	-6,245	-25,336	-1,141,315	-	-1,141,315
	2004-05	2004-05	2004-05	2004-05	2004-05	2004-05	2004-05	2004-05	2004-05
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net Cost to Defence Departmental Outcomes⁽²⁾	678,764	4,350,032	5,343,226	4,697,024	212,780	464,911	15,746,737	-	15,746,737
ADMINISTERED									
Expenses								2,438,350	2,438,350
Revenues								-727,005	-727,005
Net Cost to Defence Administered Outcomes								1,711,345	1,711,345

Notes

1. The amount of Other revenues includes interest and dividends, net foreign exchange gain/losses and resources received free of charge.
2. Net cost excludes the \$17.039m loss allocated in the Departmental appropriations to Outcome One – Command of Operations (see Table 2.9).
3. Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel.

Table 4.3 Cost of Defence Outputs in 2004-05

Outcome/Output	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
1. Command of Operations in Defence of Australia and its Interests						
1.1 – Command of Operations	357,871	359,128	1,257	395,989	354,074	333,328
1.2 – Defence Force Military Operations and Exercises	326,268	303,065	-23,203	266,569	277,258	328,862
1.3 – Contributions to National Support Tasks	9,605	16,570	6,965	15,270	14,614	15,901
Sub-total Outcome One	693,745	678,764	-14,981	677,827	645,946	678,091
2. Navy Capability in Defence of Australia and its Interests						
2.1 – Capability for Major Surface Combatant Operations	1,425,151	1,430,418	5,267	1,331,120	1,401,656	1,462,251
2.2 – Capability for Naval Aviation Operations	507,679	529,239	21,560	523,820	545,636	571,587
2.3 – Capability for Patrol Boat Operations	288,600	279,505	-9,095	272,746	289,820	305,637
2.4 – Capability for Submarine Operations	858,480	852,844	-5,636	772,386	776,085	844,267
2.5 – Capability for Afloat Support	223,252	227,538	4,286	217,017	225,744	239,533
2.6 – Capability for Mine Warfare	404,361	405,228	867	372,105	384,468	414,735
2.7 – Capability for Amphibious Lift	371,605	400,798	29,193	382,553	394,677	414,943
2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations	246,547	224,464	-22,083	225,608	232,958	247,118
Sub-total Outcome Two	4,325,674	4,350,032	24,358	4,097,356	4,251,044	4,500,070
3. Army Capability for the Defence of Australia and its Interests						
3.1 – Capability for Special Operations	322,331	447,419	125,088	446,024	468,534	489,473
3.2 – Capability for Medium Combined Arms Operations	864,456	936,269	71,813	897,134	960,146	1,000,115
3.3 – Capability for Light Combined Arms Operations	1,018,641	1,036,948	18,307	1,021,512	1,085,706	1,136,366
3.4 – Capability for Army Aviation Operations	623,949	638,754	14,805	615,683	648,660	684,622
3.5 – Capability for Ground Based Air Defence	181,768	134,520	-47,248	130,376	139,465	144,693
3.6 – Capability for Combat Support Operations	488,102	454,429	-33,673	455,964	474,328	491,896
3.7 – Capability for Regional Surveillance	160,499	101,052	-59,447	105,849	105,172	107,862
3.8 – Capability for Operational Logistic Support to Land Forces	503,728	566,829	63,101	559,811	582,731	610,186
3.9 – Capability for Motorised Combined Arms Operations	583,837	513,402	-70,435	501,909	526,540	551,289
3.10 – Capability for Protective Operations	540,093	513,603	-26,490	514,052	521,613	539,728
Sub-total Outcome Three	5,287,403	5,343,226	55,823	5,248,314	5,512,896	5,756,229

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05	2004-05	2004-05	2005-06	2006-07	2007-08
Outcome/Output	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
4. Air Force Capability for the Defence of Australia and its Interests						
4.1 – Capability for Air Combat Operations	1,959,024	1,891,756	-67,268	1,691,052	1,686,945	1,943,711
4.2 – Capability for Combat Support of Air Operations	556,983	645,228	88,245	640,071	657,602	691,226
4.3 – Capability for Surveillance and Response Operations	1,128,309	1,231,946	103,637	1,341,254	1,375,880	1,392,248
4.4 – Capability for Air Lift Operations	976,004	928,094	-47,910	925,351	940,825	925,392
Sub-total Outcome Four	4,620,321	4,697,024	76,703	4,597,728	4,661,252	4,952,576
5. Strategic Policy for the Defence of Australia and its Interests						
5.1 – Strategic and International Policy, Activities and Engagement	195,030	173,958	-21,072	169,632	173,384	181,507
5.2 – Military Strategy and Capability Analysis	47,526	38,821	-8,705	37,687	39,192	41,565
Sub-total Outcome Five	242,556	212,780	-29,776	207,319	212,575	223,072
6. Intelligence for the Defence of Australia and its Interests						
6.1 – Intelligence	434,992	464,911	29,919	471,017	485,628	518,286
Sub-total Outcome Six	434,992	464,911	29,919	471,017	485,625	518,286
Net Cost for Department Outcomes	15,604,691	15,746,737	142,046	15,299,562	15,769,340	16,628,324
Approved Allocated Profit/(Loss)	21,250	-17,039	-38,289	-500	-	-
Departmental Appropriations from Government	15,625,941	15,729,698	103,757	15,299,062	15,769,340	16,628,324
7. Superannuation and Housing Support Services for Current and Retired Defence Personnel						
7.1 – Superannuation Support Services for Current and Retired Defence Personnel	1,688,464	1,754,695	66,231	1,843,625	1,843,625	1,943,625
7.2 – Housing Assistance for Current and Retired Defence Personnel	-	-43,350	-43,350	-6,026	-9,829	-15,939
7.3 – Other Administered Revenues and Expenses	-	-	-	-	-	-
Net Cost of Administered Outcomes⁽²⁾	1,688,464	1,711,345	22,881	1,837,599	1,833,796	1,927,686
Total Cost to Government	17,314,405	17,441,043	126,638	17,136,661	17,603,136	18,556,010

Notes

1. The variation figures are the difference between the Budget Estimate and the Revised Additional Estimate.
2. Cross reference to Table 4.25 on p. 87.

GROUP CONTRIBUTION TO DEFENCE OUTCOMES

Table 4.4 Group Contribution to Defence Outcomes

	Outcome One Command of Operations	Outcome Two Navy Capability	Outcome Three Army Capability	Outcome Four Air Force Capability	Outcome Five Strategic Policy	Outcome Six Intelligence	Total for Defence Outcomes
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Vice Chief of the Defence Force Strategy	181,974	50,411	132,404	46,727	130	611	412,257
Navy	0	0	0	0	129,508	0	129,508
Army	19,889	1,313,204	0	0	0	0	1,333,093
Air Force	13,588	0	2,393,297	0	0	0	2,406,885
Intelligence and Security	50,471	11,782	26,361	1,355,852	9,447	5,418	1,459,330
Inspector General	1,283	11,029	19,808	11,350	655	301,306	345,431
Chief Finance Officer	832	3,333	3,323	3,885	289	411	12,074
Capability	10,779	86,965	185,037	82,695	3,270	5,517	374,262
Defence Personnel Executive	1,903	6,515	7,619	5,462	2,763	1,414	25,675
Secretary/Chief of the Defence Force	26,239	146,915	280,526	171,419	13,151	11,132	649,382
Defence Science and Technology Organisation	1,865	7,473	7,449	8,710	650	920	27,067
Office of Chief Information Officer	34,673	76,940	50,882	100,870	19,901	22,676	305,943
Corporate Services and Infrastructure Group	3,908	15,662	15,611	18,255	1,361	1,929	56,727
Defence Materiel Organisation	106,994	666,836	1,268,335	821,906	25,057	69,046	2,958,174
Portfolio	210,929	1,865,323	862,809	2,013,394	5,612	40,545	4,998,612
	13,437	87,645	89,765	56,499	985	3,986	252,317
Total Cost	678,764	4,350,032	5,343,226	4,697,024	212,780	464,911	15,746,737

OUTCOME ONE: COMMAND OF OPERATIONS

Performance information is as reported in the *Portfolio Budget Statements 2004-05* except for revisions to Outputs 1.2 and 1.3.

Cost Summary of Outcome One

Table 4.5: Outcome One – Command of Operations in Defence of Australia and its Interests

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05	2004-05	2004-05	2004-05	2004-05	2004-05
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating expenses						
Employees - Military	156,253	173,043	16,790	179,728	190,753	257,513
Employees - Civilian	75,851	85,647	9,796	88,594	83,268	85,968
Sub-total employees	232,105	258,690	26,586	268,322	274,021	343,481
Suppliers expense	422,814	385,363	-37,451	297,157	253,903	286,003
Inventory consumption	48,550	49,064	514	41,531	41,531	41,531
Sub-total suppliers	471,364	434,427	-36,937	338,688	295,434	327,534
Grants	60	359	299	49	50	51
Depreciation and amortisation	62,609	58,214	-4,395	75,169	81,251	86,389
Value of assets sold	7,784	6,263	-1,521	1,511	1,511	1,511
Write-down of assets	3,005	44,316	41,311	6,767	5,240	3,369
Borrowing costs	1,468	1,263	-205	1,290	1,318	1,087
Other expenses	-	-74	-74	-55	-55	-55
Total operating expenses from ordinary activities	778,394	803,459	25,065	691,741	658,770	763,366
Revenues						
Sale of goods and services	-74,002	-80,666	-6,664	-5,539	-6,498	-80,711
Revenue from sale of assets	-7,784	-6,869	915	-1,374	-1,374	-1,374
Assets now recognised	-	-34,713	-34,713	-5,874	-3,826	-2,063
Other revenues ⁽²⁾	-2,863	-2,447	416	-1,127	-1,127	-1,127
Total Own Source Revenues	-84,649	-124,695	-40,046	-13,914	-12,824	-85,275
Net Cost of Outcome One	693,745	678,764	-14,981	677,827	645,946	678,091

Notes

- The variation figures are the difference between the Budget Estimate and the Revised Additional Estimate.
- The amount of Other revenues includes interest and dividends, net foreign exchange gains/losses and resources received free of charge.

Significant Variations

The revised estimate for Outcome One is \$678.8m, which is -\$15.0m or 2.2 per cent less than the 2004-05 budget estimate of \$693.7m. The major variations to Outcome One are due to:

- a net increase in military employee expenses (+\$16.8m) as a result of:
 - change in the level of costs allocated to Outcome 1 due to the new command and control arrangements for ADF operations (+\$14.9m),
 - increased funding for Operation Anode (+\$2.6m),

Outcome One: Command of Operations

- correction of the fringe benefits tax estimate to align requirements with the financial year rather than the fringe benefits tax year (+\$2.4m),
- revisions to price parameters (+\$2.0m),
- reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (-\$1.6m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (-\$3.5m);
- a net increase in civilian employee expenses (+\$9.8m) as a result of:
 - revision to the price parameters (+\$0.5m),
 - change in the level of costs allocated to Outcome One due to the new command and control arrangements for ADF Operations (+\$14.3m),
 - reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (-\$3.7m),
 - increased funding for Operation Anode (+\$0.6m),
 - redundancies associated with the contracting out of the warehousing function (Defence Integrated Distribution System) being brought to account in 2003-04 rather than as originally planned in 2004-05 (-\$1.6m),
 - an understatement of the leave liability estimate at budget (+\$1.0m),
 - transfer of funds to the suppliers category to cover the progressive implementation of the Defence Integrated Distribution System contract costs (-\$0.9m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (-\$0.4m);
- a net decrease in suppliers expenses (-\$37.4m) as a result of:
 - revision to price parameters (+\$2.7m),
 - reallocation of funds from employee expenses to fund increases in the operating element of the capital program (+\$5.7m),
 - rephasing of Operation Catalyst funds from 2003-04 (+\$14.6m),
 - rephasing of Operation Anode funds from 2003-04 (+\$12.8m),
 - increased funding for Operation Anode (+\$1.5m),
 - additional supplementation from the Government following a review of the costs arising from the property sale-and-leaseback program (+\$0.4m),
 - additional funding for implementation costs associated with the Australia-United States Free Trade Agreement (+\$0.4m),

- return of supplementation provided in the 2004-05 Budget as a result of a lower-than-expected increase in Comcover premiums (-\$0.8m),
- a redirection of operations costs in the *Portfolio Budget Statements 2004-05* to Outcomes Two, Three and Four (-\$63.4m),
- 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 (-\$8.3m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (-\$3.0m);
- a net decrease in depreciation and amortisation as a result of a recent changes in the Defence organisational structure (-\$4.4m);
- a net decrease in value of assets sold as a result of revisions to the property sales program and the progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (-\$1.5m);
- a net increase in write-down of assets as a result of the expected outcome of stocktakes to be undertaken in 2004-05 (+\$41.3m);
- a net increase in revenues from sales of goods and services (-\$6.7m) as a result of:
 - revision to price parameters (+\$0.5m),
 - reclassification of sales of goods and services to other revenue (-\$4.8m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (-\$2.4m);
- a net decrease in revenue from sale of assets (+\$0.9m) as a result of:
 - a revised property sales program (+\$1.7m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (-\$0.8m); and
- forecast net increase in assets now recognised (-\$34.7m) as a result of the stocktakes to be undertaken in 2004-05.

Table 4.6: Breakdown of Outcome One by Output

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 1.1 – Command of Operations	357,871	359,128	1,257	395,989	354,074	333,328
Output 1.2 – Defence Force Military Operations and Exercises	326,268	303,065	-23,203	266,569	277,258	328,862
Output 1.3 – Contribution to National Support Tasks	9,605	16,570	6,965	15,270	14,614	15,901
Net Cost of Outcome One	693,745	678,764	-14,981	677,827	645,946	678,091

Note

1. The variation figures are the difference between the Budget Estimate and the Revised Additional Estimate.

Output 1.2 – Defence Force Military Operations and Exercises

ADF Operations

The following operations are either new or have ceased since the publication of the *Portfolio Budget Statements 2004-05*.

Operation Citadel, the ADF contribution to the United Nations Mission in East Timor, has been replaced by Operation Spire, the ADF contribution to a successor mission in East Timor. Operation Iraqi Spirit, support for the Iraqi Olympic team, and Operation Palate, support to the United Nations Assistance Mission in Afghanistan, have ceased.

Operations Sumatra Assist and Thai Assist, the ADF contributions to the whole-of-government humanitarian aid missions following the Boxing Day 2004 Indian Ocean tsunami disaster, are new.

Table 4.7: Operations Contributing to the Security of the Immediate Neighbourhood

Operation	Forces	Objective
Citadel Commenced 2002 Ceased May 2004	ADF	To contribute to United Nations mission in support of East Timor.
Spire Commenced May 2004	ADF	ADF contribution to a United Nations successor mission in East Timor.

Table 4.8: Operations Supporting Wider Interests

Operation	Forces	Objective
Iraqi Spirit Commenced 2004 Ceased September 2004	ADF	C-130 Hercules aircraft support for the movement of the Iraqi Olympic Team from and to Baghdad for the 2004 Athens Olympics.
Palate Commenced 2003 Ceased June 2004	Army	ADF support to the United Nations Assistance Mission in Afghanistan.
Pomelo Commenced 2001 To cease February 2005	Army	To contribute to United Nations peacekeeping efforts in Africa as part of the United Nations Mission in Ethiopia and Eritrea.
Sumatra Assist Commenced Late December 2004	ADF	ADF contribution to the whole-of-government humanitarian aid mission to Indonesia following the tsunami devastation of West Sumatra.
Thai Assist Commenced Late December 2004	ADF	ADF contribution to the whole-of-government humanitarian aid mission to the Government of Thailand following the tsunami disaster.
Valient Commenced October 2004	Army	Provision of equipment and training to the Republic of Fiji Military Forces to support their assistance to the United Nations Assistance Mission in Iraq.
Commune	Air Force	ADF airlift support for the deployment of an expanded African Union mission into the Darfur region of Sudan. Operation was planned but the Government withdrew offer of assistance due to other priorities.

Australian Defence Force Exercise Program

New Exercises

The following joint ADF exercises and combined exercises with the defence forces of other countries are new since the publication of the *Portfolio Budget Statements 2004-05*.

Table 4.9: ADF Joint Exercises

Exercise	Forces	Objective
Day Toothfish March 2005	ADF	To practise and validate procedures and doctrine for resolving incidents on the Ship Underway Recovery.
Sea Lion 05 - 1 March 2005	ADF	To plan and conduct a basic amphibious assault in a non-hostile environment.
Sea Lion 05 - 2 May 2005	ADF	To plan and conduct a basic amphibious assault in a non-hostile environment.

Table 4.10: Combined ADF/United States Exercises

Exercise	Australian Forces	Objective
Pacific Bond 04 July - August 2004	Army	To develop further interoperability between the Australian Army and the United States Army at the unit and formation level. During 2004, this was an engineer diver activity.
Pacific Reserve 04 July 2004	Army	To develop further interoperability between the Australian Army Reserve and the United States Army Reserve through participation in a host unit field training exercise.

Table 4.11: Combined ADF/Five Power Defence Arrangements Exercises

Exercise	Australian Forces	Participating Countries	Objective
Bersama Shield 05 April 2005	Navy and Air Force	Malaysia, New Zealand, Singapore, and United Kingdom	To practise and develop operational procedures and tactics with Five Power Defence Arrangements units in a joint/combined maritime exercise.

Table 4.12: Combined ADF/New Zealand Exercises

Exercise	Australian Forces	Objective
Wyvern Primo 05 June 2005	Special Forces	To rehearse ADF and Government of Australia response to an offshore counter-terrorist recovery incident.

Table 4.13: Other Combined Exercises

Exercise	Australian Forces	Participating Countries	Objective
Albatross Ausindo 05 April 2005	Air Force	Indonesia	To foster closer relationships between Indonesia's armed forces and the Royal Australian Air Force and enhance maritime security.
Cagou 05 May 2005	Navy	France (New Caledonia)	To develop interoperability in coordinated or combined patrol boat operations between the Navy and French Armed Forces in New Caledonia.
Long Look 04 May – September 2004	ADF	United Kingdom	To broaden the experience and professional knowledge of selected personnel of the ADF and United Kingdom armed forces through mutual exchange.
Long Look 05 May – September 2005	ADF	United Kingdom	To broaden the experience and professional knowledge of selected personnel of the ADF and United Kingdom armed forces through mutual exchange.
Western Pacific Naval Symposium MCMEX 05 May 2005	Navy	Malaysia, New Zealand, United States, Philippines, Singapore, Thailand, and United Kingdom.	To conduct multilateral mine countermeasures operations in a crucial regional area.

There is a new exercise category, trilateral exercises, since the *Portfolio Budget Statements 2004-05* was published.

Table 4.14: Trilateral Exercises

Exercise	Australian Forces	Participating Countries	Objective
Vital Launch/Vital Prospect 05 April 2005	ADF	United Kingdom and United States	To practise the Deployable Joint Force Headquarter's role of planning and conducting a combined joint task force operation. United States elements may participate in 2005.

Output 1.3 - Contribution to National Support Tasks

ADF Operations

The following operations are either new or have ceased since the publication of the *Portfolio Budget Statements 2004-05*.

Table 4.15: Peacetime National Tasks

Operation	Objective
Acolyte (yet to commence)	ADF support to the 2006 Commonwealth Games.
Banlon Commenced July 2004 Ceased October 2004	ADF support to the Athens Olympics.
Beachcomber Commenced 1996 Ceased June 2004	To collect beach information in Australia for operational planning.
Burbage Commenced 1995 Ceased June 2004	To conduct Indian Ocean maritime surveillance patrols.
Caber Commenced November 2004	ADF support to the Edinburgh Military Tattoo.
Gaberdine Commenced 2001 Ceased July 2004	To provide support to the Department of Immigration and Multicultural and Indigenous Affairs to manage any increase in unauthorised boat arrivals.
Mellin Commenced 1995 Ceased June 2004	To contribute to Torres Strait and Timor Gap maritime surveillance patrols.
Osteal Commenced 1995 Ceased June 2004	To conduct Coral Sea maritime patrols.
Prowler Commenced 1996 Ceased June 2004	To collect military geographic information in northern Australia.

OUTCOME TWO: NAVY CAPABILITY

Performance information is as reported in the *Portfolio Budget Statements 2004-05* except for revisions to Outputs 2.1, 2.3, 2.4, 2.5, 2.7 and 2.8.

Cost Summary of Outcome Two

Table 4.16: Outcome Two – Navy Capability for the Defence of Australia and its Interests

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
DEPARTMENTAL						
Operating expenses						
Employees - Military	1,244,246	1,259,015	14,769	1,292,146	1,340,014	1,368,889
Employees - Civilian	346,841	325,140	-21,701	335,076	355,932	367,670
Sub total employees	1,591,087	1,584,155	-6,932	1,627,222	1,695,945	1,736,559
Suppliers Expense	1,491,678	1,502,253	10,575	1,448,669	1,533,790	1,642,885
Inventory Consumption	184,833	160,507	-24,326	163,600	163,600	163,600
Sub total suppliers	1,676,510	1,662,760	-13,751	1,612,269	1,697,390	1,806,485
Grants	271	2,092	1,821	288	294	300
Depreciation and amortisation	1,066,026	1,088,404	22,378	967,309	966,424	996,868
Value of assets sold	61,601	40,618	-20,983	4,217	4,217	4,217
Write-down of assets	38,446	261,553	223,107	45,923	35,100	22,896
Borrowing costs	5,414	7,387	1,973	7,535	7,686	6,314
Other expenses	-175	-143	32	-149	-149	-149
Total operating expenses from ordinary activities	4,439,180	4,646,826	207,645	4,264,614	4,406,907	4,573,489
Revenues						
Sale of goods and services	-34,416	-43,189	-8,773	-118,076	-118,747	-45,981
Revenue from sale of assets	-61,601	-40,673	20,928	-4,205	-4,205	-4,205
Assets now recognised	-	-195,070	-195,070	-32,670	-21,206	-11,369
Other revenues ⁽²⁾	-17,489	-17,863	-374	-12,307	-11,706	-11,865
Total Own Source Revenues	-113,506	-296,795	-183,289	-167,258	-155,863	-73,419
Net Cost of Outcome Two	4,325,674	4,350,032	24,358	4,097,356	4,251,044	4,500,070

Notes

- The variation figures are the difference between the Budget Estimate and the Revised Additional Estimate.
- The amount of Other revenues includes interest and dividends, net foreign exchange gain/losses and resources received free of charge.

Significant Variations

The revised estimate for Outcome Two is \$4,350.0m, which is \$24.4m or 0.6 per cent more than the 2004-05 budget estimate of \$4,325.7m. The major variations to Outcome Two are due to:

- a net increase in military employee expenses (+\$14.8m) as a result of:
 - revisions to price parameters (+\$8.4m),
 - correction of the fringe benefits tax estimate to align requirements with the financial year rather than the fringe benefits tax year (+\$11.3m),

- reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (-\$6.6m),
- transfer to Outcome Three: Army Capability of the Communications and Information Systems Training Wing (-\$3.2m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (+\$4.9m);
- a net decrease in civilian employee expenses (-\$21.7m) as a result of:
 - revisions to price parameters (+\$2.3m),
 - variation in positive vetting cost (+\$1.3m),
 - redundancies associated with the contracting out of the warehousing function, Defence Integrated Distribution Systems, brought to account in 2003-04 rather than as originally planned in 2004-05 (-\$6.4m),
 - transfer to the suppliers category to cover the progressive implementation of the Defence Integrated Distribution Systems contract costs (-\$3.8m),
 - an understatement of the leave liability estimate at budget (+\$4.2m),
 - reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (-\$15.0m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (-\$4.3m);
- a net increase in suppliers expense (+\$10.6m) as a result of:
 - revisions to price parameters (+\$11.2m),
 - variation in positive vetting costs (+\$2.3m),
 - additional supplementation from the Government following a review of the costs arising from the property sale-and-leaseback program (+\$1.5m),
 - additional funding for implementation costs associated with the Australia-United States Free Trade Agreement (+\$1.5m),
 - transfer of funding for the National Tidal Centre within the Bureau of Meteorology (-\$0.1m),
 - reallocation of funds from employee expenses to fund increases in the operating element of the capital program (+\$21.6m),
 - 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 (-\$33.1m),

Outcome Two: Navy Capability

- return of supplementation provided in the 2004-05 Budget as a result of a lower-than-expected increase in Comcover premiums (-\$3.2m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (+\$8.9m);
- a net decrease in inventory consumption (-\$24.3m) as a result of:
 - revised inventory consumption estimate to better align with planned activity levels and continued valuation improvements (-\$21.4m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (-\$2.9m);
- a net increase in depreciation and amortisation (+\$22.4m) as a result of:
 - accelerated depreciation costs resulting from the Government's decision to withdraw HMAS *Adelaide* and *Canberra* from service early (+\$48.5),
 - increase in depreciation and amortisation due to revisions to the value of Defence properties (+\$7.4m),
 - increase in depreciation and amortisation due to revisions to the purchase of other plant and equipment (+\$6.9m),
 - increase in amortisation of software arising from recognition of software finance leases (+\$1.8m), and
 - progressive refinement of Defence's cost attribution rules, changes in expenditure patterns and other variations (-\$42.2m);
- a net decrease in value of assets sold (-\$21.0m) as a result of:
 - revisions to the property sales program (-\$6.8m), and
 - progressive refinement of Defence's cost attribution rules (-\$14.2m);
- a net increase in write down of assets (+\$223.1m) as a result of the expected outcome of stocktakes to be undertaken in 2004-05;
- a net increase in borrowing costs (+\$2.0m) as a result of progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations;
- a net increase in revenues from sales of goods and services (-\$8.8m) as a result of:
 - revisions to price parameters (-\$0.3m),
 - reclassification of sales of goods and services to other revenue (+\$2.5m), and
 - progressive refinement of Defence's cost attribution rules (-\$11.0m);
- a net decrease in revenue from sale of assets (+\$21.0m) as a result of:

- a revised property sales program (+\$6.8m), and
- progressive refinement of Defence’s cost attribution rules (+\$14.2m);
- forecast net increase in assets now recognised (-\$195.1m) as a result of the stocktakes to be undertaken in 2004-05; and
- a net increase in other revenue (-\$0.4m) as a result of:
 - revisions to price parameters (-\$0.1m),
 - reclassification of sales of goods and services to other revenue (-\$2.6m), and
 - progressive refinement of Defence’s cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (+\$2.3m).

Table 4.17: Breakdown of Outcome Two by Output

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 2.1 – Capability for Major Surface Combatant Operations	1,425,151	1,430,418	5,267	1,331,120	1,401,656	1,462,251
Output 2.2 – Capability for Naval Aviation Operations	507,679	529,239	21,560	523,820	545,636	571,587
Output 2.3 – Capability for Patrol Boat Operations	288,600	279,505	-9,095	272,746	289,820	305,637
Output 2.4 – Capability for Submarine Operations	858,480	852,844	-5,636	772,386	776,085	844,267
Output 2.5 – Capability for Afloat Support	223,252	227,538	4,286	217,017	225,744	239,533
Output 2.6 – Capability for Mine Warfare	404,361	405,228	867	372,105	384,468	414,735
Output 2.7 – Capability for Amphibious Lift	371,605	400,798	29,193	382,553	394,677	414,943
Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations	246,547	224,464	-22,083	225,608	232,958	247,118
Total Cost of Outcome Two	4,325,674	4,350,032	24,358	4,097,356	4,251,044	4,500,070

Note

1. The variation figures are the difference between the Budget Estimate and the Revised Additional Estimate.

Output 2.1 – Capability for Major Surface Combatant Operations

Performance Targets			
Vessel Type	Number	Budget Estimate	Revised Estimate ⁽²⁾
Guided missile frigates	6	1,690 URD ⁽¹⁾	1,621 URD
Anzac-class frigates	6	1,704 URD	1,761 URD

Notes

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

- The guided missile frigates' and Anzac-class frigates' URD total has been revised in line with changes in the maintenance and upgrade programs for these classes.

Output 2.3 – Capability for Patrol Boat Operations

Performance Targets			
Vessel Type	Number	Budget Estimate	Revised Estimate
Patrol boats	15 ⁽¹⁾	4,737 URD	5,061 URD ⁽²⁾

Notes

- The lowest number of hulls forecast to be available in 2004-2005 is 14. This has been achieved through an extension to the disposal program dates of four Fremantle-class patrol boats as the Armidale-class patrol boats are introduced. The Navy anticipates that only one patrol boat will be disposed of in 2004-05.
- The patrol boats' URD target has been increased due to a combination of changes in the scheduled major maintenance periods and an extension for disposal of four Fremantle-class patrol boats to facilitate the transition from the Fremantle-class to the new Armidale-class patrol boats.

Output 2.4 – Capability for Submarine Operations

Performance Targets			
Vessel Type	Number	Budget Estimate	Revised Estimate
Submarines	6	948 URD	768 URD ⁽¹⁾

Note

- The submarines' URD target has been reduced due to delays in completing scheduled full cycle docking for HMA Ships *Collins* and *Farncomb*. HMAS *Collins*, which was due for completion in February 2005, has been rescheduled to June 2005 due to emergent works. HMAS *Farncomb* had a minor delay due to emergent defects on the main motor and diesel generators.

Output 2.5 – Capability for Afloat Support

Performance Targets			
Vessel Type	Number	Budget Estimate	Revised Estimate
Oil tanker	1	334 URD	320 URD ⁽¹⁾
Replenishment ship	1	273 URD	239 URD ⁽²⁾

Notes

- The URD target for the oil tanker, HMAS *Westralia*, has been reduced due to delays in completing an extended maintenance period and work-up training in August 2004.
- The URD target for the replenishment ship, HMAS *Success*, has been reduced due to changes in the scheduled major level maintenance periods in September 2004 and January 2005.

Output 2.7 – Capability for Amphibious Lift

Performance Targets			
Vessel Type	Number	Budget Estimate	Revised Estimate
Amphibious landing ships	2	609 URD	502 URD ⁽¹⁾
Heavy landing craft	6	1,910 URD	1,770 URD ⁽²⁾

Notes

1. The URD target for the amphibious landing ships has been reduced due to an extension of the scheduled major level maintenance period (March 2004 to January 2005) for HMAS *Manoora*. The extension will allow for the completion of previously unscheduled works on the stern door and switchboards.
2. The URD target for the heavy landing craft has been reduced due to the deferral of scheduled work-up and material safety evaluation activities. These activities are associated with major maintenance periods occurring late in 2004.

Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations

Performance Targets			
Vessel/Aircraft/Unit/Chart Production	Number	Budget Estimate	Revised Estimate
Laser airborne depth sounder aircraft	1	727 hours for surveying	697 hours for surveying ⁽¹⁾
Hydrographic office deployable survey unit	1	Availability 300 days; 190 days are planned deployments	Availability 355 days; 162 days are planned deployments ⁽²⁾
Chart production: - new charts/diagrams for Navy use only; and - electronic navigational chart cells	-	8 30	12 ⁽³⁾ 84 ⁽⁴⁾

Notes

1. The laser airborne depth sounder aircraft's flying hours target has been reduced due to an unscheduled maintenance period in July-September 2004 to repair an engine defect.
2. Program changes have precluded the hydrographic office deployable survey unit deploying to Antarctica, which has increased availability for short notice tasking to 355 days. A deployment to Tasmania, in lieu, reduced the number of planned deployment days to 162 because in-transit time was reduced.
3. The target number for new charts/diagrams for Navy use only has increased by four due to additional requests received and endorsed for production during 2004-05.
4. The target number for electronic navigational chart cells has increased as a result of postponed cell production from 2003-04 and the re-release of new editions of existing cells.

OUTCOME THREE: ARMY CAPABILITY

Planned Performance

The planned performance for Output Three is as reported in the *Portfolio Budget Statements 2004-05* except for:

- confirmation that the Army will provide a High Readiness Reserve capability, which includes seven company-sized Reserve Response Forces to enhance the Army's domestic security response capability; and
- revisions to Output 3.4.

Personnel

Army's Personnel Branch, responsible for the management of Army Employment Categories, have been identifying trades in which the Army is experiencing critical shortages of personnel, and the impact of shortages on capability. Actions to address these critical shortages are being developed through a range of action plans.

Cost Summary of Outcome Three

Table 4.18: Outcome Three – Army Capability for the Defence of Australia and its Interests

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
DEPARTMENTAL						
Operating expenses						
Employees - Military	2,543,314	2,532,134	-11,180	2,574,295	2,689,534	2,809,609
Employees - Civilian	408,359	406,783	-1,576	414,034	441,375	456,809
Sub total employees	2,951,673	2,938,917	-12,756	2,988,328	3,130,909	3,266,419
Suppliers Expense	1,434,096	1,485,980	51,884	1,416,867	1,479,955	1,575,501
Inventory Consumption	374,552	311,125	-63,427	318,142	318,206	318,300
Sub total suppliers	1,808,648	1,797,105	-11,543	1,735,009	1,798,161	1,893,801
Grants	594	4,394	3,800	605	617	629
Depreciation and amortisation	619,870	640,338	20,468	596,379	654,757	672,485
Value of assets sold	98,097	96,012	-2,085	27,661	27,661	27,661
Write-down of assets	16,058	186,199	170,141	26,306	20,400	13,118
Borrowing costs	17,987	14,232	-3,755	14,520	14,816	12,176
Other expenses	249	480	231	450	450	450
Total operating expenses from ordinary activities	5,513,175	5,677,678	164,503	5,389,257	5,647,769	5,886,738
Revenues						
Sale of goods and services	-88,719	-79,185	9,534	-79,181	-81,233	-83,616
Revenue from sale of assets	-98,097	-94,749	3,348	-27,946	-27,946	-27,946
Assets now recognised	-	-138,493	-138,493	-22,618	-14,670	-7,876
Other revenues ⁽²⁾	-38,956	-22,024	16,932	-11,198	-11,024	-11,071
Total Own Source Revenues	-225,772	-334,451	108,679	-140,943	-134,873	-130,509
Net Cost Outcome Three	5,287,403	5,343,226	55,823	5,248,314	5,512,896	5,756,229

Notes

- The variation figures are the difference between the Budget Estimate and the Revised Additional Estimate.
- The amount of Other revenues includes interest and dividends, net foreign exchange gains/losses and resources received free of charge.

Significant Variations

The revised estimate for Outcome Three is \$5,343.2m, which is \$55.8m or 1.1 per cent more than the 2004-05 budget estimate of \$5,287.4m. The major variations to Outcome Three are due to:

- a net decrease in military employees expenses (-\$11.2m) as a result of:
 - revisions to price parameters (+\$15.6m),
 - correction of the fringe benefits tax estimate to align requirements with the financial year rather than the fringe benefits tax year (+\$21.1m)
 - reduction in average funded strength of 253 due to Army's inability to reach recruitment targets (-\$10m),

Outcome Three: Army Capability

- transfer to suppliers expenses to fund the Brigade Maintenance Contracts involving the reduction of 46 positions (-\$3.4m),
- transfer from Outcome Two of the Communications and Information Systems Training Wing (+\$3.2m),
- reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (-\$12.2m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (-\$25.5m);
- a net decrease in civilian employees expenses (-\$1.6m) as a result of:
 - revisions to price parameters (+\$4.2m),
 - an understatement of the leave liability estimate at budget (+\$4.2m),
 - variation in positive vetting costs (+\$2.3m),
 - transfer of funds to supplier expenses to cover progressive implementation of the Defence Integrated Distribution System contract costs (-\$3.8m),
 - redundancies associated with the contracting out of the warehousing function, being brought to account in 2003-04 rather than as originally planned in 2004-05 (-\$6.3m),
 - reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (-\$14.9m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (+\$12.7m);
- a net increase in suppliers expenses (\$51.9m) as a result of:
 - revisions to price parameters (+\$12.0m),
 - additional supplementation from the Government following a review of the costs arising from the property sale-and-leaseback program (+\$1.5m),
 - additional funding for implementation costs associated with the Australia-United States Free Trade Agreement (+\$1.5m),
 - transfer of funds from civilian employee expenses to cover progressive implementation of the Defence Integrated Distribution System contract costs (+\$3.8m),
 - reallocation of funds from employee expenses to fund increases in the operating element of the capital program (+\$22.7m),
 - 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 (-\$33.0m),

- return of supplementation provided in the 2004-05 Budget as a result of a lower-than-expected increase in Comcover premiums (-\$3.2m),
- transfer from military employees expenses to fund the Brigade Maintenance Contracts (+\$3.4m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (+\$43.2m);
- a net decrease in inventory consumption (-\$63.4m) as a result of:
 - revised inventory consumption estimate to better align with planned activity levels and continued valuations improvements (-\$41.6m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (-\$21.9m);
- a net increase in depreciation and amortisation (\$20.5m) as a result of:
 - increase in depreciation and amortisation due to revision to the value of Defence properties (+\$8.4m),
 - increase in depreciation and amortisation due to revision to the purchase of other plant and equipment (+\$7.8m),
 - increase in amortisation arising from recognition of software finance leases (+\$2.0m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (+\$2.3m);
- a net decrease in value of assets sold (-\$2.1m) as a result of:
 - revisions to the property sales program (-\$6.7m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (+\$4.6m);
- a net increase in write-down of assets (+\$170.1m) as a result of the expected outcome of stocktakes to be undertaken in 2004-05;
- a net decrease in borrowing costs (-\$3.8m) as a result of progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations;
- a net decrease in sales of goods and services (+\$9.5m) as a result of:
 - revision to the price parameters (+\$0.5m),
 - reclassification of sales of good and services to other revenues (-\$4.6m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (+\$13.6m);

Outcome Three: Army Capability

- a net decrease in the revenue from sales of assets (+\$3.3m) as a result of:
 - revised property sales program (+\$6.7m), and
 - progressive refinement of Defence’s cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (-\$3.4m);
- forecast net increase in assets now recognised (-\$138.5m) as a result of the stocktakes to be undertaken in 2004-05; and
- a net decrease in other revenue (+\$16.9m) as a result of:
 - revisions to price parameters (-\$0.2m),
 - reclassification of sales of goods and services to other revenues (+\$4.6m), and
 - progressive refinement of Defence’s cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (+\$12.5m).

Table 4.19: Breakdown of Outcome Three by Output

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 3.1 – Capability for Special Forces Operations	322,331	447,419	125,088	446,024	468,534	489,473
Output 3.2 – Capability for Medium Combined Arms Operations	864,456	936,269	71,813	897,134	960,146	1,000,115
Output 3.3 – Capability for Light Combined Operations	1,018,641	1,036,948	18,307	1,021,512	1,085,706	1,136,366
Output 3.4 – Capability for Army Aviation Operations	623,949	638,754	14,805	615,683	648,660	684,622
Output 3.5 – Capability for Ground-Based Air Defence	181,768	134,520	-47,248	130,376	139,465	144,693
Output 3.6 – Capability for Combat Support Operations	488,102	454,429	-33,673	455,964	474,328	491,896
Output 3.7 – Capability for Regional Surveillance	160,499	101,052	-59,447	105,849	105,172	107,862
Output 3.8 – Capability for Operational Logistic Support to Land Forces	503,728	566,829	63,101	559,811	582,731	610,186
Output 3.9 – Capability for Motorised Combined Arms Operations	583,837	513,402	-70,435	501,909	526,540	551,289
Output 3.10 – Capability for Protective Operations	540,093	513,603	-24,490	514,052	521,613	539,728
Net Cost of Outcome Three	5,287,403	5,343,226	55,823	5,248,314	5,512,896	5,756,229

Note

1. The variation figures are the difference between the Budget Estimate and the Revised Additional Estimate.

Output 3.4 – Capability for Army Aviation Operations

Performance Targets			
Aircraft Type	Number	Budget Estimate (hours)	Revised Estimate (hours)
S-70A9 Black Hawk helicopter	36	8,600	7,500 ⁽¹⁾
B-205 Kiowa helicopter	42	12,795	11,415 ⁽²⁾
DHC-6 Twin Otter aircraft	2	800	414 ⁽³⁾
Armed Reconnaissance Helicopter Tiger helicopter	4	718	300 ⁽⁴⁾
Future Fixed Wing Aircraft	3	952	0 ⁽⁵⁾

Notes

1. The 1,100 hour reduction is a result of 5th Aviation Regiment training program reducing its tempo to recover from an extended period of operational deployments.
2. The 1,380 hour reduction represents the wind-down of Kiowa operations in 1st Aviation Regiment as armed reconnaissance helicopter Tiger training begins.
3. The Twin Otter aircraft are in the process of being handed back to the lessor. They will not accrue further flying hours. The underachievement has been caused by problems related to the age of the aircraft.
4. The budget estimate was based on forecast training on the armed reconnaissance helicopter. Due to a slippage in the training schedule and subsequent revision of aircraft usage, there has been a reduction of 418 hours.
5. The new fixed wing aircraft are the B350 King Air. Due to contract negotiations and the requirement for overseas training, the new aircraft will not be fully operational until 2005-06.

OUTCOME FOUR: AIR FORCE CAPABILITY

Performance information is as reported in the *Portfolio Budget Statements 2004-05*, except for the following revisions:

- revisions to a number of performance targets in Outputs 4.1, 4.3 and 4.4;
- the acquisition of electronic warfare self-protection equipment for the P-3 Orion aircraft will commence during 2004-05; and
- some C-130 Hercules aircraft will be upgraded with electronic warfare self-protection equipment and other measures to improve survivability.

Cost Summary of Outcome Four

Table 4.20: Outcome Four – Air Force Capability for the Defence of Australia and its Interests

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
DEPARTMENTAL						
Operating expenses						
Employees - Military	1,224,789	1,254,397	29,608	1,265,727	1,312,836	1,375,555
Employees - Civilian	392,057	356,536	-35,521	376,762	388,074	401,090
Sub total employees	1,616,846	1,610,933	-5,913	1,642,489	1,700,910	1,776,645
Suppliers Expense	1,553,356	1,558,530	5,174	1,615,080	1,642,005	1,822,459
Inventory Consumption	282,555	264,919	-17,636	272,820	261,299	274,326
Sub total suppliers	1,835,911	1,823,449	12,462	1,887,900	1,903,304	2,096,785
Grants	289	2,270	1,981	312	319	325
Depreciation and amortisation	1,186,415	1,259,386	72,971	1,122,573	1,109,442	1,137,419
Value of assets sold	61,073	59,848	-1,225	5,849	5,849	5,849
Write-down of assets	41,976	287,128	245,152	49,178	37,749	24,711
Borrowing costs	5,958	8,020	2,062	8,181	8,344	6,856
Other expenses	-93	-217	-124	-202	-202	-202
Total operating expenses from ordinary activities	4,748,375	5,050,817	302,442	4,716,281	4,765,715	5,048,389
Revenues						
Sale of goods and services	-42,213	-52,156	-9,943	-52,709	-53,805	-55,145
Revenue from sale of assets	-61,073	-60,125	948	-5,786	-5,786	-5,786
Assets now recognised	-	-214,019	-214,019	-35,845	-23,338	-12,617
Other revenues ⁽²⁾	-24,769	-27,493	-2,724	-24,213	-21,533	-22,263
Total Own Source Revenues	-128,055	-353,793	-225,738	-118,553	-104,463	-95,812
Net Cost Outcome Four	4,620,321	4,697,024	76,703	4,597,728	4,661,252	4,952,576

Notes

1. The variation figures are the difference between the Budget Estimate and the Revised Additional Estimate.
2. The amount of Other revenues includes interest and dividends, net foreign exchange gain/loss and resources received free of charge.

Significant Variations

The revised estimate for Outcome Four is \$4,697.0m, which is \$76.7m or 1.7 per cent more than the 2004-05 budget estimate of \$4,620.3m. The major variations to Outcome Four are due to:

- a net increase in military employees (+\$29.6m) due to:
 - revisions to price parameters (+\$8.6m),
 - correction of the fringe benefits tax estimate to align requirements with the financial year rather than the fringe benefits tax year (+\$11.7m),
 - provision for the rolling in of environmental allowances into salary for superannuation purposes (+\$3.1m),
 - transfer to civilian employee expenses to fund the civilianisation of health service professional service provider positions (-\$3.2m),
 - reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (-\$6.7m),
 - lower than planned average funded strength (-\$15.0m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$31.1m);
- a net decrease in civilian employees (-\$35.5m) due to:
 - revisions to price parameters (+\$2.3m),
 - redundancies associated with the contracting out of the warehousing function Defence Integrated Distribution System being brought to account in 2003-04 rather than originally planned in 2004-05 (-\$7.4m),
 - transfer to supplier expenses to cover the progressive implementation of the Defence Integrated Distribution System contract costs (-\$4.4m),
 - reduction in planned civilian strength (-\$1.9m),
 - reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (-\$17.5m),
 - an understatement of the leave liability estimate at budget (+\$4.9m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$11.5m);
- a net increase in suppliers expenses (+\$5.2m) due to:
 - revision to the price parameters (+\$13.5m),
 - additional supplementation from the Government following a review of the costs arising from the property sale-and-leaseback program (+\$1.8m),

Outcome Four: Air Force Capability

- additional funding for implementation costs associated with the Australia-United States Free Trade Agreement (+\$1.8m),
- reallocation of funds from employee expenses to fund increases in the operating element of the capital program (+\$26.5m),
- 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 (-\$38.6m),
- return of supplementation provided in the 2004-05 Budget as a result of a lower-than-expected increase in Comcover premiums (-\$3.8m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$4.0m);
- a net decrease in inventory consumption (-\$17.6m) due to:
 - revised inventory consumption estimate to better align with planned activity levels and continued valuation improvements (-\$4.6m), and
 - progressive refinement of Defence's cost attribution rules (-\$13.0m);
- a net increase in depreciation and amortisation expense (+\$73.0m) due to:
 - increase due to the Government endorsed accelerated withdrawal of the F-111 aircraft (+\$80.2m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$7.2m);
- a net decrease in the value of assets sold (-\$1.2m) due to:
 - reduction in the property sales program (-\$7.9m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$6.7m);
- a net increase in write-down of assets as a result of the expected outcome of stocktakes to be undertaken in 2004-05 (+\$245.2m);
- a net increase in borrowing cost (+\$2.1m) due to progressive refinement of Defence's cost attribution rules;
- a net increase in sale of goods and services (-\$9.9m) due to:
 - increase in revenue from other governments for sale of fuel (-\$3.1m),
 - revision to the price parameters (-\$0.3m), and
 - progressive refinement of Defence's cost attribution rules (-\$6.5m);
- a net decrease in revenue from sale of assets (+\$0.9m) due to:

- variation due to reduction in the property sales program (+\$7.9m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$7.0m);
- forecast net increase in assets now recognised (-\$214.0m)
 - as a result of the stocktakes to be undertaken in 2004-05 (-\$214.2m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$0.2m); and
- a net increase in other revenue (-\$2.7m) due to:
 - revision to the price parameters (-\$0.2m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$2.5m).

Table 4.21: Breakdown of Outcome Four by Output

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 4.1 – Capability for Air Combat Operations	1,959,024	1,891,756	-67,268	1,691,052	1,686,945	1,943,711
Output 4.2 – Capability for Combat Support of Air Operations	556,983	645,228	88,245	640,071	657,602	691,226
Output 4.3 – Capability for Surveillance and Response Operations	1,128,309	1,231,946	103,637	1,341,254	1,375,880	1,392,248
Output 4.4 – Capability for Airlift Operations	976,004	928,094	-47,910	925,351	940,825	925,392
Net Cost of Outcome Four	4,620,321	4,697,024	76,703	4,597,728	4,661,252	4,952,576

Note

1. The variation figures are the difference between the Budget Estimate and the Revised Additional Estimate.

Output 4.1 – Capability for Air Combat Operations

Performance Targets			
Aircraft Type	Number	Budget Estimate (hours)	Revised Estimate (hours)
F/A-18	71 (55 F/A-18A and 16 F/A-18B)	12,500	13,000 ⁽¹⁾

Note

1. The increase in hours is due to action to recover capability following Operation Catalyst.

Output 4.3 – Capability for Strategic Surveillance and Response Operations

Performance Targets			
Aircraft Type	Number	Budget Estimate (hours)	Revised Estimate (hours)
P-3 Orion	19	9,000	8,200 ⁽¹⁾

Note

1. The decrease in hours is the result of maintaining a high operational tempo and associated readiness for operations.

Output 4.4 – Capability for Air Lift Operations

Performance Targets			
Aircraft Type	Number	Budget Estimate (hours)	Revised Estimate (hours)
B707	4	1,800	1,400 ⁽¹⁾
B300 Beechcraft Kingair Navigator Training Aircraft	7	6,000	4,500 ⁽²⁾

Notes

1. The reduction in hours is due to reduced aircraft availability.
2. The decrease is the result of delayed introduction of the full capability.

OUTCOME FIVE: STRATEGIC POLICY

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

Cost Summary of Outcome Five

Table 4.22: Outcome Five – Strategic Policy for the Defence of Australia and its Interests

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
DEPARTMENTAL						
Operating expenses						
Employees - Military	65,815	42,063	-23,752	42,622	43,658	45,145
Employees - Civilian	39,728	45,418	5,690	45,566	47,629	49,294
Sub total employees	105,543	87,481	-18,062	88,188	91,287	94,439
Suppliers Expense	137,277	125,610	-11,667	119,545	121,512	128,564
Inventory Consumption	-	-	-	-	-	-
Sub total suppliers	137,277	125,610	-11,667	119,545	121,512	128,564
Grants	16	70	54	10	10	10
Depreciation and amortisation	5,340	6,481	1,141	5,735	5,538	5,578
Value of assets sold	439	433	-6	155	155	155
Write-down of assets	314	-1,270	-1,584	-1,508	-1,073	-758
Borrowing costs	256	248	-8	253	257	211
Other expenses	20	-29	-49	-29	-29	-29
Total operating expenses from ordinary activities	249,205	219,025	-30,180	212,349	217,657	228,169
Revenues						
Sale of goods and services	-4,157	-4,074	83	-3,897	-3,979	-4,019
Revenue from sale of assets	-439	-661	-222	-103	-103	-103
Assets now recognised	-	-612	-612	-112	-82	-57
Other revenues ⁽²⁾	-2,052	-897	1,155	-918	-918	-918
Total Own Source Revenues	-6,648	-6,245	403	-5,029	-5,082	-5,097
Net Cost of Outcome Five	242,556	212,780	-29,776	207,319	212,575	223,072

Notes

1. The variation figures are the difference between the Budget Estimate and the Revised Additional Estimate.
2. The amount of Other revenues includes interest and dividends, net foreign exchange gain/loss and resources received free of charge.

Significant Variations

The revised estimate for Outcome Five is \$212.8m, which is -\$29.8m or 12.3 per cent less than the 2004-05 budget estimate of \$242.6m. The major variations to Outcome Five are due to:

- a net decrease in military employees expenses (-\$23.8m), primarily due to:
 - revisions to price parameters (+\$0.5m),
 - reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (-\$0.4m),
 - changes in workforce distributions arising from the recent organisation changes (-\$0.7m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (-\$17.8m);
- a net increase in civilian employees expenses (+\$5.7m), primarily due to:
 - costs attributed to Outcome Five from the creation of the Capability Development Group (+\$1.2m),
 - reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (-\$1.3m),
 - an understatement of the leave liability estimate at budget (+\$0.4m),
 - transfer of the Directorate of Defence Trade Control and Compliance from Defence Materiel Organisation to Strategy Group (+\$1.1m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (+\$4.3m);
- a net decrease in suppliers expense (-\$11.7m), primarily due to:
 - revisions to price parameters (+\$0.9m),
 - enhanced security for Australian diplomatic missions (+\$0.4m),
 - increase in costs charged by the Department of Foreign Affairs and Trade for management services at overseas posts (+\$1.7m),
 - additional funding for the implementation costs associated with the Australia-United States Free Trade Agreement (+\$0.1m),
 - return of supplementation provided in the 2004-05 Budget as a result of a lower-than-expected increase in Comcover premiums (-\$0.3m),
 - reallocation of funds from employee expenses to fund increases in the operating element of the capital program (+\$2.0m),
 - 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 (-\$2.9m),

- variation in costs for the Defence Integrated Distribution System Facilities Rectification Program (-\$1.6m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (-\$12.0m);
- a net increase in depreciation expense due to changes in property valuations, operating plant and equipment balances, and recognition of building and software finance leases (+\$1.1m);
- a net decrease in write-down of assets as a result of the expected outcome of stocktakes to be undertaken in 2004-05 (-\$1.6m);
- forecast net increase in assets now recognised (-\$0.6m) as a result of the stocktakes to be undertaken in 2004-05; and
- a net decrease in other revenue due primarily to progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions, expenditure patterns and other variations (+\$1.2m).

Table 4.23: Breakdown of Outcome Five by Output

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 5.1 – Strategic and International Policy, Activities and Engagement	195,030	173,958	-21,072	169,632	173,384	181,507
Output 5.2 –Military Strategy and Capability Analysis	47,526	38,821	-8,705	37,687	39,192	41,565
Net Cost of Outcome Five	242,556	212,780	-29,776	207,319	212,575	223,072

Note

1. The variation figures are the difference between the Budget Estimate and the Revised Additional Estimate.

OUTCOME SIX: INTELLIGENCE

Planned Performance

The planned performance for Output Six is as reported in the *Portfolio Budget Statements 2004-05*.

In August 2004, the Government accepted all but one of the findings of the Inquiry into Australian Intelligence Agencies carried out by Mr Philip Flood AO. Some supplementation was provided by the Government, including to the Defence agencies, to begin implementation of the 54 agreed recommendations, some 21 of which required specific Defence action. Significant progress has already been made at a whole-of-government level and in Defence, where over half of the recommendations have been actioned.

Implementation of the Flood Inquiry recommendations will strengthen the oversight, coordination and management of the agencies while focusing their capabilities upon revised national foreign intelligence priorities. Given the supplementation received, there are no significant financial resource issues for Defence arising from the Flood Inquiry.

Cost Summary of Outcome Six

Table 4.24: Outcome Six – Intelligence for the Defence of Australia and its Interests

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
DEPARTMENTAL						
Operating expenses						
Employees - Military	60,649	45,039	-15,610	50,474	52,747	50,452
Employees - Civilian	152,446	152,484	38	159,748	164,408	170,016
Sub total employees	213,095	197,523	-15,572	210,222	217,155	220,468
Suppliers Expense	179,561	185,472	5,911	184,710	184,474	202,236
Inventory Consumption	1	-	-1	-	-	-
Sub total suppliers	179,562	185,472	5,910	184,710	184,474	202,236
Grants	20	81	61	11	11	11
Depreciation and amortisation	44,678	81,514	36,836	77,661	85,313	97,049
Value of assets sold	1,986	3,306	1,320	608	608	608
Write-down of assets	201	22,074	21,873	3,334	2,584	1,664
Borrowing costs	362	296	-66	296	295	239
Other expenses	-	-18	-18	-15	-15	-15
Total operating expenses from ordinary activities	439,904	490,247	50,343	476,827	490,425	522,262
Revenues						
Sale of goods and services	-2,162	-3,519	-1,357	-1,673	-1,662	-1,701
Revenue from sale of assets	-1,986	-3,403	-1,417	-586	-586	-586
Assets now recognised	-	-17,092	-17,092	-2,880	-1,878	-1,018
Other revenues ⁽²⁾	-763	-1,322	-559	-671	-671	-671
Total Own Source Revenues	-4,912	-25,336	-20,424	-5,810	-4,797	-3,976
Net Cost of Outcome Six	434,992	464,911	29,919	471,017	485,628	518,286

Notes

- The variation figures are the difference between the Budget Estimate and the Revised Additional Estimate.
- The amount of Other revenues includes interest and dividends, net foreign exchange gain/loss and resources received free of charge.

Significant Variations

The revised estimate for Outcome Six is \$464.9m, which is \$29.9m or 6.9 per cent more than the 2004-05 budget estimate of \$435.0m. The major variations to Outcome Six are due to:

- a net decrease in military employee expenses (-\$15.6m) due to:
 - revisions to price parameters (+\$1.0m),
 - reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (-\$0.8m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$15.8m);

Outcome Six: Intelligence

- a nil variation in civilian employee expenses comprising the following offsetting adjustments:
 - revisions to price parameters (+\$0.3m),
 - redundancies associated with the contracting out of the warehousing function (Defence Integrated Distribution System) being brought to account in 2003-04 rather than as originally planned in 2004-05 (-\$0.8m),
 - transfer of funds to the supplier expenses to cover the progressive implementation of the Defence Integrated Distribution System contract costs (-\$0.5m),
 - an understatement of the leave liability estimate at budget (+\$0.5m),
 - reallocation of funds to suppliers expenses to fund increases in the operating element of the capital program (-\$1.8m),
 - new intelligence activities, implementing the recommendations of the *Report of the Inquiry into Australian Intelligence Agencies* (July 2004) and adjustments made to more accurately reflect the true cost of civilian employees (+\$1.5m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$0.8m);
- a net increase in supplier expenses (+\$5.9m) due to:
 - revisions to price parameters (+\$1.2m),
 - a reduction in the estimate from employee expenses 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 (-\$4.1m),
 - reallocation of funds from employee expenses to fund increases in the operating element of the capital program (+\$2.8m),
 - new intelligence activities, implementing the recommendations of the *Report of the Inquiry into Australian Intelligence Agencies* (July 2004), an upgrade of information technology systems to enhance intelligence capability and adjustments made to more accurately reflect the true cost of civilian employees (+\$1.0m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$5.0m);
- a net increase in depreciation and amortisation expense (\$36.8m) due to:
 - the reassessment and update of planned depreciation and amortisation expense following increased capital acquisition over recent years (+\$20.4m), and

- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$16.4m);
- a net increase in write-down of assets expense (+\$21.8m) due to:
 - attribution of the Outcome One's share of the expected outcome of planned stocktakes to be undertaken in 2004-05 (+\$23.8m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$2.0m);
- an underestimate of revenue from sales of goods and services (-\$1.4m);
- a net increase in revenue from sale of assets (-\$1.4m) due to:
 - reduction in the property sales program (+\$0.8m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$2.2m); and
- a net increase in revenue from assets now recognised (-\$17.1m) due to the expected outcome of stocktakes to be undertaken, including a large stocktake in 2004-05.

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

Administered Activities

Outcome Seven covers activities that Defence performs on behalf of the Government relating mainly to the provision of superannuation and housing support services to current and retired Defence personnel. Defence also administers reimbursements from the United Nations for costs associated with East Timor and returns the receipts to the Government.

The outcome, as reported in the *Portfolio Budget Statements 2004-05*, consisted of one output; Superannuation and Housing Support Services for Current and Retired Defence Personnel. Since the portfolio budget statements, there are two new outputs; Output 7.2 - Housing Assistance for Current and Retired Defence Personnel and 7.3 Other Administered Revenues and Expenses.

Output 7.2 is used primarily to report on the administered costs associated with: dividends received from the Defence Housing Authority, the Defence housing subsidy payments, and any other administered items that may occur that relate to military personnel housing assistance.

Output 7.3 is used primarily to report on the administered costs associated with interest received on official bank accounts, interest received from United States, the Government on foreign military sales advances, United Nations revenues and receivables, and net foreign exchange losses and gains.

Cost Summary of Outcome Seven

Table 4.25: Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Administered Expenses						
Housing subsidies	7,500	9,250	1,750	9,250	9,250	9,250
Retention benefits	29,400	29,100	-300	30,100	30,100	30,100
Military Superannuation benefits	2,300,000	2,400,000	100,000	2,500,000	2,500,000	2,600,000
Other expenses	-	-	-	-	-	-
Total Administered Expenses	2,336,900	2,438,350	101,450	2,539,350	2,539,350	2,639,350
Administered Revenues						
Foreign government and the United Nations reimbursements for East Timor	-2,000	-	-2,000	-	-	-
Foreign exchange gain	-	-	-	-	-	-
Housing dividends	-45,047	-52,600	-7,553	-15,276	-19,079	-25,189
Military superannuation contributions	-601,389	-672,405	-71,016	-682,475	-682,475	-682,475
Other revenues	-	-2,000	-2,000	-4,000	-4,000	-4,000
Total Administered Revenues	-648,436	-727,005	-78,569	-701,751	-705,554	-711,664
Net Cost of Outcome Seven⁽²⁾	1,688,464	1,711,345	22,881	1,837,599	1,833,796	1,927,686

Notes

1. The variation figures are the difference between the Budget Estimate and the Revised Estimate.
2. Cross reference to Table 4.1 on p. 50.

Significant Variations

Revenue administered on behalf of the Government will increase by \$78.6m from \$648.4m to \$727.0m, representing an increase of 12.1 per cent from the 2004-05 budget estimate. The major variations are due to:

- an increase of \$7.6m due to the revised estimate of dividends from the Defence Housing Authority; and
- an increase of \$71m for military superannuation contributions.

Expenses administered on behalf of the Government will increase by \$101.5m from \$2,336.9m to \$2,438.4m, representing an increase of 4.3 per cent from the 2004-05 budget estimate. The variation arises from an actuarial review of military superannuation schemes. More detail on the administered appropriations is shown in Tables 8.6, 8.7 and 8.8 in the Appendices (Budgeted Financial Statements).

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

Table 4.26: Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel

	Budget Estimate	Revised Additional Estimate	Variation ⁽¹⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 7.1 – Superannuation Support Services for Current and Retired Defence Personnel	1,688,464	1,754,695	66,231	1,843,625	1,843,625	1,943,625
Output 7.2 – Housing Assistance for Current and Retired Defence Personnel	-	-43,350	-43,350	-6,026	-9,829	-15,939
Output 7.3 – Other Administered Revenues and Expenses	-	-	-	-	-	-
Net Cost of Outcome Seven	1,688,464	1,711,345	22,881	1,837,599	1,833,796	1,927,686

Note

1. The variation figures are the difference between the Budget Estimate and the Revised Estimate.