

DEFENCE
CHAPTER TWO
RESOURCING

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2005-06 ADDITIONAL ESTIMATES SUMMARY

The total level of resourcing available to Defence in 2005-06 has increased by \$320m to \$20,354m compared with \$20,034m contained in the 2005-06 Budget. This comprises departmental funding of \$17,752m and \$2,602m for the administered appropriation. The total departmental funding allocation of \$17,752m (serial 7), is the most common way of measuring Defence's budget, and is consistent with the presentation of Defence's budget in the Defence White Paper. Details of the variations compared with the original budget are shown in Table 2.1. The revised allocations for the Forward Estimates are also shown.

Table 2.1: Total Defence Resourcing

Serial No	2004-05 Actual Result \$'000	2005-06 Budget Estimate ⁽¹⁾ \$'000	2005-06 Additional Estimate \$'000	Variation \$'000	Variation %	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
Departmental								
1	Revenue from Government for							
2	15,749,688 Price of Outcomes	15,977,721	16,133,541	155,820	1.0	16,362,110	17,061,231	17,311,113
3	393,286 Equity Injection	1,121,148	972,080	-149,068	-13.3	1,369,024	1,239,384	1,680,873
3	Total Revenue from Government (1+2)	17,098,869	17,105,621	6,752	0.0	17,731,134	18,300,615	18,991,986
4	Own-Source Revenue ⁽²⁾	371,341	621,752	250,411	67.4	484,706	491,100	501,641
5	Net Capital Receipts	24,863	24,863	0	0.0	5,792	5,108	4,410
6	604,922 Sub Total (4+5)	396,204	646,615	250,411	63.2	490,498	496,208	506,051
7	Total Departmental Funding (3+6)	17,495,073	17,752,236	257,163	1.5	18,221,632	18,796,823	19,498,037
Administered								
8	Administered appropriation ⁽³⁾	2,539,350	2,602,100	62,750	2.5	2,616,100	2,697,100	2,785,100
9	Total Defence Resourcing (7+8)	20,034,423	20,354,336	319,913	1.6	20,837,732	21,493,923	22,283,137

Notes

1. As reported in the *Portfolio Budget Statements 2005-06* (p.32).
2. Own-source revenue (serial 4) excludes revenue from 'assets now recognised' and 'revenue from sales of assets'.
3. The Administered appropriation (serial 8) of \$2,602.1m covers costs associated with the military superannuation schemes, and also covers the provision of housing subsidies to current and retired Defence personnel. The administered appropriation is managed on Defence's behalf by the Department of Finance and Administration in respect of military superannuation schemes and by the Defence Housing Authority in respect of housing subsidies.

Departmental Funding (+\$257.2m)

The increase in departmental funding of \$257.2m comprises:

- supplementation for Operation Slipper for deployment of the Special Forces Task Group to Afghanistan for up to one year (+\$68.8m);

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- additional supplementation for Operation Slipper for the deployment of two Chinook helicopters and about 110 personnel to Afghanistan (+\$43.0m);
- an increase in foreign exchange supplementation reflecting the difference between current foreign exchange parameters and those on which the 2005-06 Budget were based (+\$52.3m);
- a revision to the price parameters used in the 2005-06 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator of approximately 0.1 per cent in 2005-06 (+\$16.7m);
- additional sale and leaseback funding associated with Lady Gowrie House (+\$0.5m);
- Defence's contribution towards the anniversary of the Victory in the Pacific celebrations, for which funding has been transferred to the Department of Veterans' Affairs (-\$0.5m);
- a reduction in the level of supplementation provided for Operation Relex II due to lower maintenance costs associated with the reduction from two FFGs to one FFG (-\$2.8m);
- a reduction in the 2005-06 estimate for Operation Catalyst following higher expenditure in 2004-05 on strategic lift and personnel. The total estimate for the Operation of \$1,242.4m remains unchanged (-\$12.2m);
- a rescheduling of capital payments to 2006-07 due to timing issues with the procurement of long lead items for the AEGIS for the Air Warfare Destroyer project (-\$159.0m);
- additional revenue received from the Department of Foreign Affairs and Trade for the ADF contribution to the humanitarian relief effort in Pakistan following the recent earthquake (+\$13.7m);
- additional revenue received from the Defence Materiel Organisation for project related work undertaken by the Defence Science and Technology Organisation (+\$33.6m);
- increased revenue from the Sale of Goods and Services and Other Revenue following a thorough review of revenue estimates since the budget (+\$45.9m);
- increased revenue from the Defence Materiel Organisation following the transfer of Joint Logistics Command to Defence. This is offset in suppliers expenses (+\$68.1m); and
- the inclusion in Defence's estimates of revenue from the sale of fuel to third parties and fuel rebates, resulting from the decision to transfer inventory back from the Defence Materiel Organisation onto Defence's balance sheet (+\$89.1m).

Administered Appropriation (+\$62.8m)

The increase in Administered funding of \$62.8m is due to:

- revised military superannuation expenses resulting from an actuarial review of both the Defence Force Retirement and Death Benefits Scheme and the Military Superannuation Benefits Scheme (+\$62.0m); and
- increased housing subsidies payments on the basis of higher take up rates currently being experienced (+\$0.8m).

More detail on the Administered budget is shown in Table 7.7 in Chapter 7 - Budgeted Financial Statements.

2005-06 BUDGET MEASURES

Since the 2005-06 Budget, four new Budget Measures (three Departmental and one Administered) have been approved by the Government. These are summarised in Table 2.2 and discussed below.

Table 2.2: Summary of New Budget Measures

	Defence Outcome	2005-06 Revised Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	Total \$'000
Initial Operation Slipper Deployment	One	68,825	18,391	3,528		90,744
Additional Operation Slipper (Chinooks)	One	43,014	14,627			57,641
New Measure yet to be announced	Various		2,000	2,000	2,000	6,000
Conditions of service entitlements to ADF members in interdependency relationships ⁽¹⁾	Seven					
Total		111,839	35,018	5,528	2,000	154,385

Note

1. Funding for the measure is offset within Defence's existing allocations.

Operation Slipper

The Government has agreed to supplement Defence \$68.8m in 2005-06 and \$21.9m over the forward estimates for the deployment of a Special Forces Task Group comprising around 200 ADF personnel and associated equipment to Afghanistan for up to one year. This supplementation is based on the normal no-win/no-loss arrangements.

The Government has further agreed to supplement Defence \$43.0m in 2005-06 and \$14.6m in 2006-07 for the deployment of an ADF element made up of two Chinook helicopters and about 110 personnel into Afghanistan. The Chinook team will form part of the Combined Forces Command in Afghanistan and will be in addition to personnel currently deployed as part of the Special Forces Task Group.

Conditions of Service Entitlements

The Government has provided up to \$15m per annum in Administered funding from 2005-06 to extend certain Defence conditions of service entitlements to ADF members in interdependent relationships. This includes extending certain conditions of service to the same sex partners of ADF members and other adult dependents resident with ADF members.

Movement in Funding (Revenue) Provided by the Government

Although departmental funding has increased by \$257.2m, most of this (\$250.4m) relates to increases in own-source revenue, of which \$190.8m comprises transfers from the Defence Materiel Organisation and is offset in that organisation's books. The level of funding provided by the Government has increased by \$6.8m as detailed in Table 2.3. This table builds on the information provided in Table 2.4 of the *Portfolio Budget Statements 2005-06* (p. 38) which detailed how Defence's total revenue from the Government had varied by the Government's decisions since the 2004-05 Additional Estimates.

Table 2.3: Variation in Defence Revenue Provided from Government since the 2005-06 Budget

Serial No.		2004-05 \$m	2005-06 \$m	Variation \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
	Published 2005-06 PBS (refer serial 3 of Table 2.1)		17,098.9		17,531.7	18,471.4	19,320.1
1	Operation Slipper deployment		68.8	68.8	18.4	3.5	
2	Additional Operation Slipper Deployment		43.0	43.0	14.6		
3	Sale and Lease Back Funding		0.5	0.5	0.5	2.4	6.1
4	Price parameter update ⁽¹⁾		16.7	16.7	-0.3	-181.0	-338.5
5	Exchange parameter update		52.3	52.3	-	-	-
6	Defence's contribution to the DVA organised 'Victory in the Pacific' event		-0.5	-0.5	-	-	-
7	Operation Catalyst (reduction to offset 2004-05 expenditure)		-12.2	-12.2	-	-	-
8	Operation Relix II (revision of estimates)		-2.8	-2.8	-	-	-
9	E-Security continuation of funding agreed with the 2002-03 Budget		-	-	2.2	2.2	2.3
10	Rephasing of expenditure on procurement of long lead items from the AEGIS system for AWD		-159.0	-159.0	162.0	-	-
11	New measure yet to be announced.		-	-	2.0	2.0	2.0
	Published 2005-06 PAES (refer serial 3 of Table 2.1)	17,098.9	17,105.6	6.8	17,731.1	18,300.6	18,992.0

Note

1. The large reductions in 2007-08 and 2008-09 reflect a revision downwards in the forecast non-farm GDP index in those years.

Revised Income Statement 2005-06

Defence is now budgeting for a surplus of \$48.6m in 2005-06, which is \$67.5m higher than the loss of \$18.9m estimated at the time of the 2005-06 Budget. Total income has increased by \$626m whereas expenses have increased by a lesser amount of \$559m. Details are shown in Table 2.4.

Table 2.4: Variation in Planned Income Statement 2005-06⁽¹⁾⁽²⁾

	2005-06			
	Budget Estimate(3)	Revised Estimate	Variation	Variation
	\$'000	\$'000	\$'000	%
INCOME				
Revenue				
Revenues from Government for Outcomes ⁽⁴⁾	15,977,721	16,133,541	155,820	1.0
Goods and services	186,682	374,716	188,034	100.7
Other Revenue	186,159	248,536	62,377	33.5
Total Revenue	16,350,562	16,756,793	406,231	2.5
Gains				
Reversals of previous asset write-downs	30,000	250,000	220,000	733.3
Net gains from sale of assets				
Total gains	30,000	250,000	220,000	733.3
Total Income	16,380,562	17,006,793	626,231	3.8
EXPENSES				
Employees ⁽⁵⁾	6,587,528	6,358,716	-228,812	-3.5
Suppliers	6,946,746	7,121,909	175,163	2.5
Grants	1,275	7,275	6,000	470.6
Depreciation and amortisation	2,771,838	3,145,023	373,185	13.5
Finance costs	32,075	29,914	-2,161	-6.7
Write-down of assets and impairment of assets	60,000	275,356	215,356	358.9
Net losses from sale of assets		-	-	-
Other	0	20,000	20,000	-
Total Expenses	16,399,462	16,958,193	558,731	3.4
Operating result	-18,900	48,600	67,500	-357.1

Notes

1. See also Table 7.1.
2. The format and name of this statement has changed since *the Portfolio Budget Statements 2005-06* to reflect the adoption of the Australian Equivalent to International Financial Reporting Standards.
3. As reported in the *Portfolio Budget Statements 2005-06* (p.44 and p.219).
4. See Serial 1 of Table 2.1.
5. Further details on employee expenses can be found in Chapter Four – People.

Income (+\$626.2m)

Income is estimated to increase by \$626.2m or 3.8 per cent; this includes an increase in revenue of \$406.2m and increased gains of \$220.0m. These variations are described below:

- increased revenue from the Government of \$155.8m as a result of:

- supplementation for Operation Slipper for the deployment of a Special Forces Task Group to Afghanistan for up to one year (+\$40.9m);
 - additional supplementation for Operation Slipper for deployment of two Chinook helicopters and about 110 personnel to Afghanistan (+\$16.0m);
 - a revision to the price parameters used in the 2005-06 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator of approximately 0.1 per cent in 2005-06 (+\$12.8m);
 - an increase in foreign exchange supplementation reflecting the difference between current foreign exchange parameters and those on which the 2005-06 Budget were based (+\$12.3m);
 - additional sale and leaseback funding associated with Lady Gowrie House (+\$0.5m);
 - transfer of funding to the Department of Veterans' Affairs as Defence's contribution towards the anniversary of the Victory in the Pacific celebrations (-\$0.5m);
 - a number of accounting adjustments offset against the equity appropriation including for revised depreciation estimates, the impact of the adoption of Australian Equivalents to International Financial Reporting Standards and reclassifying inventory purchases resulting from the return of inventory from the Defence Materiel Organisation to Defence's balance sheet (+\$88.9m);
 - reduced estimates for Operation Relex II due to lower maintenance associated with the reduction from two FFGs to one FFG (-\$2.8m); and
 - a reduction in the 2005-06 estimate for Operation Catalyst, following higher than expected costs in 2004-05 on strategic lift and personnel costs (-\$12.2m).
- increased sales of goods and services of \$188.0m, comprising:
 - revenue received from the Defence Materiel Organisation associated with the Defence Integrated Distribution System contract, following transfer of Joint Logistics Command back to Defence (+\$68.1m);
 - fuel sales to third parties, resulting from the return of inventory from the Defence Materiel Organisation to Defence's balance sheet (+\$45.6m);
 - additional revenue received from the Defence Materiel Organisation for project related work undertaken by the Defence Science and Technology Organisation (+\$33.6m);
 - an increase in revenue from the sale of goods and services following a through review of revenue estimates since the budget (+26.7m);

- additional revenue received from the Department of Foreign Affairs and Trade for the ADF contribution to the humanitarian relief effort in Pakistan following the recent earthquake (+\$13.7m); and
- revision to the price parameters (+\$0.3m).
- an increase in other revenue of \$62.4m comprising:
 - fuel rebates received, resulting from the return of inventory from the Defence Materiel Organisation to Defence's balance sheet (+\$43.5m);
 - an increase in revenue following a thorough review of estimates since the budget (+\$18.7m); and
 - revision of the price parameters used in the 2005-06 Budget (+\$0.2m).
- an increase in assets now recognised as a result of stock-taking activities and audit remediation, and to account for the transfer of inventory assets back to Defence's balance sheet (+\$220.0m).

Expenses (+\$558.7m)

Expenses are estimated to increase by \$558.7m due to:

- decreased employee expenses of \$228.8m with further details provided in Chapter Four - People;
- increased Suppliers expenses of \$175.2m, mainly due to:
 - an increase in Suppliers expense, including for maintenance services provided to the Defence Materiel Organisation, offset in Sales of Goods and Services and Other Revenue (+\$147.2m);
 - increased sustainment payments to the Defence Materiel Organisation, including combat clothing, a wing refurbishment program, submarine combat system augmentation, maritime ranges and higher fuel prices (+\$92.0m);
 - establishing a program of works to progressively remove asbestos from Defence properties (+\$37.2m);
 - supplementation for Operation Slipper associated with the deployment of a Special Forces Task Group to Afghanistan for up to one year (+\$26.1m);
 - replacement of non-compliant and sub-standard office fittings, accommodation and physical training equipment (+\$25.0m);
 - a number of priority environment and heritage works including for contamination investigation and remediation works (+\$15.0m);
 - revision of the price parameters used in the 2005-06 Budget (+\$13.2m);
 - conversion of military frequency banks to spectrum licences ensuring long term access (+\$12.6m);

- an increase in foreign exchange supplementation reflecting the difference between current foreign exchange parameters and those on which the 2005-06 Budget was based (+\$12.3m);
- additional suppliers expense for the ADF contribution to the humanitarian relief effort in Pakistan following the recent earthquake (+\$12.1m);
- additional supplementation for Operation Slipper for deployment of two Chinook helicopters and about 110 personnel to Afghanistan (+\$12.0m);
- reclassification of some personnel initiatives as suppliers expenditure (+\$10.9m);
- additional funding provided for living-in accommodation upgrades (+\$7.5m);
- rephasing of Operation Anode expenditure from 2004-05 to 2005-06 due to timing issues associated with the remediation of B-Vehicles (+\$2.0m);
- rephasing of Operation Acolyte expenditure from 2004-05 to 2005-06 due to revised timing of some planning and administration activities associated with the Melbourne 2006 Commonwealth Games (+\$0.5m);
- additional sale and leaseback funding associated with Lady Gowrie House (+\$0.5m);
- transfer to the Department of Veterans' Affairs for Defence's contribution towards the anniversary of the Victory in the Pacific celebrations (-\$0.5m);
- reclassification to Other Expenses to better reflect actual expenditure (-\$1.5m);
- reclassification to grants of a payment to Frontline Defence Services to support the provision of Army and Air Force canteen services (-\$2.5m);
- lower maintenance costs associated for Operation Relex II due to the reduction from two FFGs to one FFG (-\$2.8m);
- reclassification to grants of a payment to the Livingstone Shire Council for improvement works on roads of access to the Shoalwater Bay Training Area used frequently by Defence (-\$3.5m);
- reduced estimate for Operation Catalyst following higher expenditure on strategic lift and personnel costs in 2004-05 (-\$12.2m);
- reclassification of payments from Suppliers to Other Expenses to cover lump sum compensation payments (-\$18.5m);
- reclassification of estate upkeep funds from Suppliers Expense to Other Plant, Property and Equipment purchases (-\$21.0m); and

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- reclassification of inventory purchases as an asset acquisition due to the return of inventory from the Defence Materiel Organisation to Defence's balance sheet (-\$188.4m).
- an increase in grants expense by \$6m due to:
 - a grant paid to Livingstone Shire Council to seal access roads to the Shoalwater Bay training area (+\$3.5m); and
 - a grant paid to Frontline Defence Services to support the provision of Army and Air Force canteen services (+\$2.5m).
- an increase in depreciation and amortisation expense of \$373.2m due to:
 - a thorough evaluation of the existing asset base, including after valuation work completed during 2004-05 with analysis of the proposed roll-out of major capital equipment (+\$367.9m); and
 - the adoption of Australian Equivalents to International Financial Reporting Standard (+\$5.3m)
- a decrease in finance expenses associated with the implementation of Australian Equivalents to International Financial Reporting Standard (-\$2.2m)
- an increase in expected write-down of assets of \$215.4m due to:
 - stock-taking and audit remediation activities, and the transfer of inventory assets from the Defence Materiel Organisation to Defence's balance sheet (+\$220.0m); and
 - the adoption of Australian Equivalents to International Financial Reporting Standard (-\$4.6m).
- an increase in other expenses of \$20.0m since the time of the Budget due to:
 - reclassification of lump sum compensation payments from Suppliers to Other expenses (+\$18.5m); and
 - realignment from Suppliers expenses to better reflect the actual classification of expenditure as Other Expenses (+\$1.5m).

Revised Balance Sheet 2005-06

Compared with the Budget estimate for 2005-06, Defence's net assets are estimated to increase by \$5,827.2m or 13.0 per cent. The overall variation comprises an increase in assets of \$5,825.0m and a decrease in liabilities of \$2.2m. Details are shown in Table 2.5 below and the reasons for variation follow.

Table 2.5: Revised Balance Sheet 2005-06⁽¹⁾⁽²⁾

	2005-06			
	Budget Estimate(3)	Revised Estimate	Variation	Variation
	\$'000	\$'000	\$'000	%
ASSETS				
Financial Assets				
Cash	77,584	161,249	83,665	107.8
Appropriation Receivable	592,450	481,894	-110,556	-18.7
Other Receivable	194,802	256,235	61,433	31.5
Total Financial Assets	864,836	899,378	34,542	4.0
Non-Financial Assets				
Land and buildings	9,894,468	10,945,697	1,051,229	10.6
Infrastructure, plant and equipment	34,681,656	28,475,371	-6,206,285	-17.9
Heritage and cultural	26,010	800,459	774,449	2977.5
Inventories		3,734,613	3,734,613	-
Intangibles	131,592	309,774	178,182	135.4
Other	2,345,795	8,604,028	6,258,233	266.8
Total Non-Financial Assets	47,079,521	52,869,942	5,790,421	12.3
TOTAL ASSETS	47,944,357	53,769,320	5,824,963	12.1
LIABILITIES				
Debt				
Leases	339,856	243,710	-96,146	-28.3
Other		2,631	2,631	-
Total interest bearing liabilities	339,856	246,341	-93,515	-27.5
Provisions and payables				
Employees	1,754,288	1,589,308	-164,980	-9.4
Suppliers	448,489	584,885	136,396	30.4
Other	407,723	527,606	119,883	29.4
Total Provisions and Payables	2,610,500	2,701,799	91,299	3.5
Total Liabilities	2,950,356	2,948,140	-2,216	-0.1
Net Assets	44,994,001	50,821,180	5,827,179	13.0

	2005-06			
	Budget Estimate(3)	Revised Estimate	Variation	Variation
	\$'000	\$'000	\$'000	%
EQUITY				
Parent entity interest				
Contributed equity	2,950,417	4,629,062	1,678,645	56.9
Reserves	8,176,230	10,610,860	2,434,630	29.8
Retained surpluses or accumulated deficits	33,867,354	35,581,258	1,713,904	5.1
Total parent entity interest	44,994,001	50,821,180	5,827,179	13.0
Total equity	44,994,001	50,821,180	5,827,179	13.0

Notes

1. The format and name of this statement has changed since the *Portfolio Budget Statements 2005-06* to reflect the adoption of the Australian Equivalent to International Financial Reporting Standards.
2. See also Table 7.2.
3. As reported in the *Portfolio Budget Statements 2005-06* (p.47 and p.220).

Assets (+\$5,825.0m)

Total assets are estimated to be \$5,825.0m higher than projected in the 2005-06 Budget, due to an increase in Financial Assets of \$34.5m and an increase in Non-Financial Assets of \$5,790.4m.

Financial Assets are \$34.5m higher than projected in the 2005-06 Budget due to:

- cash at Bank planned to be \$83.7m higher mainly due to:
 - cash at bank at 1 July 2005 being \$166.8m higher than projected at the time of the budget due primarily to higher than planned level of funds in the Foreign Military Sales bank account;
 - bringing forward the July Foreign Military Sales payment to June 2005 due to the timing issues associated with prescription of the Defence Materiel Organisation, which will result in three rather than four quarterly Foreign Military Sales payments in financial year 2006-07 (-\$93.0m). This has the effect of reducing the Foreign Military Sales bank balances; and
 - cash transferred to the Defence Materiel Organisation upon prescription on 1 July 2006 being lower than initially planned (+\$9.8m).
- a reduction in Appropriation Receivable of \$110.6m due to:
 - closing appropriation receivable balance being \$128.8m lower at 30 June 2005 than anticipated at the time of the budget. The *Defence Annual Report 2004-05* (pp. 18-21) provides more information on 2004-05 closing balance variations; and
 - a reduction of \$51.8m as a result of the rephasing operations funding received in 2004-05 scheduled to be spent in 2005-06 (-\$4.2m), combined with the return of funding from 2004-05 for Operation

Sumatra Assist (-\$13.9m), Defence Housing Authority competitive neutrality and land tax (-\$11.7m) and a classified communications project (-\$22.0m).

- quarantining of \$70.0m of funds relating to military personnel shortfalls, pending Government consideration on the use of these funds. More information on the appropriation receivable can be found in Table 2.6.

- other Receivables are \$61.4m higher due to:

- other receivables at 30 June 2005 being \$119.5m higher than anticipated at the time of the budget due primarily to timings associated with GST refunds from the Australian Taxation Office; and
- adjustments to the opening balances transferred to the Defence Materiel Organisation upon prescription on 1 July 2005 (-\$58.1m);

Non-Financial Assets are \$5,790.4m higher than projected in the 2005-06 Budget due to:

- land and buildings being \$1,051.2m higher due to:

- Land and Buildings balance at 30 June 2005 being \$1,075.6m higher than estimated at the time of the budget, reflecting the 100 per cent revaluation of Defence estate in Australia undertaken during 2004-05 as part of audit remediation work. The *Defence Annual Report 2004-05* (pp. 18-21) provides more information;
- adjustments to the asset base as a result of the adoption of Australian Equivalents to International Financial Reporting Standards, including to recognise the restoration/make good obligations of the Department (+\$34.2m);
- a thorough review of the existing asset base resulted in a downwards revision to the depreciation estimates (+\$18.4m);
- revision to the property sales program, as some property sales are no longer expected to occur in 2005-06 (+\$11.7m); and
- re-alignment of the property sales program from plant, property and equipment (-\$88.7m).

- infrastructure, plant and equipment being \$6,206.3m lower due to:

- the decision to move assets under construction to Defence Materiel Organisation's balance sheet as at 1 July 2005 (-\$8,314.2m);
- a thorough review of the existing asset base resulted in an upwards revision to the depreciation estimates, thereby reducing the value of the asset base (-\$384.8m);
- a rescheduling of capital payments to 2006-07 due to timing issues with the procurement of long lead items for the AEGIS for the Air Warfare Destroyer project (-\$159.0m);

- revision of the price parameters used in the 2005-06 Budget (+\$3.9m);
- supplementation for Operation Slipper for the deployment of a Special Forces Task Group to Afghanistan for up to one year (+\$21.4m);
- additional supplementation for Operation Slipper for deployment of two Chinook helicopters and about 110 personnel to Afghanistan (+\$27.0m);
- an increase in foreign exchange supplementation reflecting the difference between current foreign exchange parameters and those on which the 2005-06 Budget was based price (+\$40.0m);
- re-alignment of the property sales program from infrastructure, plant and equipment to land and buildings (+\$88.7m);
- adjustments to the opening balances transferred to the Defence Materiel Organisation upon prescription on 1 July 2005 (+\$116.1m);
- infrastructure, plant and equipment being \$148.4m higher than estimated at the time of the budget due to the 100 per cent revaluation of Defence estate in Australia undertaken during 2004-05 as part of audit remediation work. *The Defence Annual Report 2004-05* (pp. 18-21) provides more information; and
- revised accounting treatment to reflect Assets Under Construction being transferred to Defence Materiel Organisation's balance sheet on 1 July 2005 (+\$2,206.1m);
- heritage and cultural assets being \$774.4m higher due to the flow on impact of the actual opening balance as at 1 July 2005 being \$774.4m higher than the projected 2004-05 result on which the budget estimate was based. Further details can be found in the *Defence Annual Report 2004-05* (p.20).
- inventories being \$3,734.6m higher due to:
 - the decision to reinstate inventory holdings on Defence's balance sheet rather than transferring them to the Defence Materiel Organisation (+\$4,519.9 m);
 - realignment of inventory purchases to reflect the transfer of all inventory holdings back to Defence from the Defence Materiel Organisation (+\$340.7m);
 - increased supplementation for purchase of Inventory associated with Operation Slipper for the deployment of a Special Forces Task Group to Afghanistan for up to one year (+\$6.4m); and
 - the flow on impact of the actual opening balance as at 1 July 2005 being \$1,132.4m lower than the projected 2004-05 result on which the budget estimate was based (-\$1,132.4m). *The Defence Annual Report 2004-05* (p.20) provides more information.

- intangibles being \$178.2m higher due to:
 - the flow on impact of the actual opening balance as at 1 July 2005 being \$160.5m higher than the projected 2004-05 result on which the budget estimate was based;
 - adjustments to the opening balances transferred to the Defence Materiel Organisation upon prescription on 1 July 2005 (+\$19.7m);
 - adjustments to the asset base as a result of the adoption of Australian Equivalents to International Financial Reporting Standards, to reverse previous write-downs (+\$4.6m) and derecognise assets where no active market exists (-\$5.1m); and
 - revision of amortisation estimates relating to intangibles (-\$1.5m).
- other non-financial assets being \$6,258.2m higher due to:
 - the decision to move assets under construction to the Defence Materiel Organisation's balance sheet as at 1 July 2005, resulting in an equivalent prepayment on Defence's balance sheet (+\$8,314.2m);
 - the flow on impact of the actual opening balance as at 1 July 2005 being \$109.8m higher than the projected 2004-05 result on which the budget estimate was based;
 - increased prepayment to reflect the additional Foreign Military Sales payment made during 2005-06 (+\$93.0m);
 - adjustments to the opening balances transferred to the Defence Materiel Organisation upon prescription on 1 July 2005 (+\$10.6m);
 - revision to the prepayment to Defence Materiel Organisation to reflect inventory holdings returning to Defence (-\$269.4m); and
 - revised accounting treatment to reflect Assets Under Construction being transferred to Defence Materiel Organisation's balance sheet on 1 July 2005 (-\$2,000.0m)

Liabilities (-\$2.2m)

Total liabilities are estimated to be \$2.2m lower than projected in the 2005-06 Budget, due mainly to:

- leases being \$96.1m lower due to the flow on impact of the actual opening balance as at 1 July 2005 being lower than the projected 2004-05 result on which the budget estimate was based, due to the buy-out from the Defence Housing Authority of on-base housing annuities in 2004-05.
- other interest bearing liabilities being \$2.6m higher due to the flow on impact of the actual opening balance being \$2.6m higher than the projected 2004-05 result on which the budget estimate was based.

- employee liability being \$165.0m lower due to:
 - the flow on impact of the actual opening balance as at 1 July 2005 being \$169.1m lower than projected for 2004-05 due to an overstatement of the budget estimate and Defence's leave management policy; and
 - adjustment to the opening balances transferred to the Defence Materiel Organisation upon prescription and on 1 July 2005 for employee provisions associated with the civilian staff transferred (+\$4.1m).
- suppliers payable being \$136.4m higher due to:
 - opening balance as at 1 July 2005 being \$167.7m higher than the projected 2004-05 result on which the budget estimate was based; and
 - adjustment to the opening balances transferred to the Defence Materiel Organisation upon prescription on 1 July 2005 (-\$31.3m).
- other liabilities being \$119.9m higher due mainly to:
 - the flow on impact of the actual opening balance as at 1 July 2005 being \$84.0m higher than the projected 2004-05 result on which the budget estimate was based;
 - the creation of provisions following the adoption of Australian Equivalents to International Financial Reporting Standards to recognise the restoration/make good obligations of the Department (+\$37.1m); and
 - adjustments to the opening balances transferred to the Defence Materiel Organisation upon prescription on 1 July 2005 (-\$1.3m).

Use of Appropriation Receivable

In implementing the recommendations of the Government's Budget Estimates and Framework Review, Defence introduced an 'as required' cash draw-down system in February 2003. As a result, Defence's cash reserves (unused appropriation from prior years) are held as a receivable by the Department of Finance and Administration and, rather than maintain cash balances in its accounts, Defence draws on these cash reserves to meet existing liabilities as they fall due in future years. Defence originally planned to have cash reserves totalling \$592.5m held as a receivable at the end of 2005-06 as shown in Table 2.11 of the *Portfolio Budget Statements 2005-06* (p. 52). It is now expected that cash reserves totalling \$481.9m will be on hand at 30 June 2006. The reasons for the variation are shown in Table 2.6. Cash reserves will continue to decline over the Forward Estimates as funds are drawn down to meet employee liability payments, in accordance with agreements reached with the Government.

Table 2.6: Use of Cash (Appropriation Receivable)

2004-05 Actual Result	Use of Cash Reserves	2005-06 Budget Estimate	2005-06 Revised Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate
\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
	Opening balance of reserves to receivables held by Department of Finance and Administration at 1 July 2004	667,401	538,609	481,894	438,251	374,128
-18,373	Cash required to reduce employee liabilities	-32,181	-32,181	-43,643	-64,123	-77,369
143,367	Provision to meet future liabilities ⁽¹⁾	-	-	-	-	-
-11,100	Operation Citadel rephasing	-	-	-	-	-
-39,800	Operation Catalyst rephasing	-2,500	-2,500	-	-	-
5,300	Reimbursement of Defence Procurement Review implementation costs	-	-	-	-	-
18,500	Reimbursement of Defence Housing Authority costs from 2003-04	-	-	-	-	-
3,700	Reimbursement of payments associated with the Papua New Guinea Defence Reform Program	-	-	-	-	-
-197	Refund of Special Appropriation <i>East Timor Act 1999-2000</i>	-	-	-	-	-
-12,051	Retrospective foreign exchange adjustments	-	-	-	-	-
5,000	Reimbursement of Point Nepean community grant costs	-	-	-	-	-
22,411	Reimbursement of Property disposal costs from 2002-03	-	-	-	-	-
-12,800	Operation Anode rephasing	-	-	-	-	-
-39,775	Additional Draw-down for 27 th pay day requirements	-	-	-	-	-
-114,441	Finalisation of Military Compensation Transfer to DVA	-	-	-	-	-
22,000	return of communications project from 2004-05 funding in 2005-06	-	-22,000	-	-	-
18,100	2004-05 Operations funding rephased into 2005-06 or returned to Government	-	-18,100	-	-	-
11,664	Return of DHA related funds to Government	-	-11,664	-	-	-
-65,800	Extinguishing accrued appropriation receivable from 2003-04	-	-	-	-	-
65,244	Unused cash carried forward to 2005-06	-	-	-	-	-
	Transfer of DMO's share of the of appropriation receivable	-40,270	-40,270	-	-	-
	Military employee funds quarantined pro-tem	-	70,000	-	-	-
538,609	Sub total: Appropriation Receivable at 30 June	592,450	481,894	438,251	374,128	296,759

Note

1. Cash set aside to enable Defence to meet future employee liabilities.

Appropriations

The total appropriations for the Price of Outcomes in 2005-06 is \$18,735.6m as shown in Table 2.1 (serial 1 plus serial 8). Table 2.7 shows the total appropriations for Price of Outcomes 2005-06 split across the seven Defence outcomes (as specified by the Government).

Table 2.7: Appropriations and Other Revenue

Outcome	Departmental (Price of Outcomes) (\$'000)				Administered (\$'000)			
	2005-06 Budget Estimate \$'000	2005-06 Revised Estimate \$'000	Variation \$'000	Variation %	2005-06 Budget Estimate \$'000	2005-06 Revised Estimate \$'000	Variation \$'000	Variation %
Outcome 1: Command of Operations	862,024	1,153,073	291,049	33.8	-	-	-	-
Outcome 2: Navy Capability	4,349,157	4,393,997	44,840	1.0	-	-	-	-
Outcome 3: Army Capability	5,412,926	5,176,788	-236,138	-4.4	-	-	-	-
Outcome 4: Air Force Capability	4,654,901	4,682,379	27,478	0.6	-	-	-	-
Outcome 5: Strategic Policy	231,329	233,013	1,684	0.7	-	-	-	-
Outcome 6: Intelligence	467,384	494,291	26,907	5.8	-	-	-	-
Outcome 7: Administered	-	-	-	-	2,539,350	2,602,100	62,750	2.5
Total	15,977,721	16,133,541	155,820	1.0	2,539,350	2,602,100	62,750	2.5

Note

1. Cross-reference to Table 5.a on p.79.

Summary of Net Additional Costs of Current Operations

Table 2.8 shows the revised net additional costs for current operations for which Defence has received supplementary funding or will be reimbursed costs from the Department of Foreign Affairs and Trade's aid budget. The revised budget is \$113.0m higher than the 2005-06 budget estimate mainly because of the additional funding provided for Operation Slipper Special Forces and Chinook deployments. The explanations for the financial variations follow Table 2.8.

Table 2.8: Revised Net Additional Cost of Current Operations

Operation	2004-05 Result	2005-06 Budget	2005-06 Revised Estimate	Variation	2006-07 Forward Estimate	2007-08 Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Operations in East Timor	27.4	4.1	4.1	-	-	-
Operations in Iraq	284.9	402.5	390.3	-12.2	37.4	3.9
Operations in the Solomon Islands (Anode)	27.6	8.9	10.9	2.0	3.4	-
Relax II	11.9	16.4	13.6	-2.8	-	-
Sumatra Assist	37.0	11.1	11.1	-	-	-
Acolyte	0.1	11.4	11.9	0.5	1.0	-
Deluge	-	-	-	-	8.4	11.3
Operations in Afghanistan (Slipper)	-	-	111.8	111.8	33.0	3.5
Subtotal Defence Supplementation	388.9	454.4	553.7	99.3	83.2	18.7
Pakistan Assist ⁽¹⁾			13.7	13.7	-	-
Total⁽²⁾	388.9	454.4	567.4	113.0	83.2	18.7

Notes

- Defence will be reimbursed \$13.4m of the cost of this operation by the Department of Foreign Affairs and Trade through the existing Aid budget.
- Including funding from the Department of Foreign Affairs and Trade.

Operations in Iraq (-\$12.2m)

Operation Catalyst is the ADF's contribution to developing a secure environment in Iraq and assisting national rehabilitation and reconstruction efforts. Based on all Budget approvals to date, the total net additional cost of operations in Iraq is \$1,242.4m. Actual expenditure in 2004-05 was \$12.2m higher than the allocation in that year but overall it is still expected that total costs will be managed within the approved allocation of \$1,242.4m. Accordingly, the Government has agreed to Defence offsetting this by a corresponding reduction in the 2005-06 estimates. The revised estimate for 2005-06 is \$390.3m.

Operations in the Solomon Islands (Operation Anode) (+\$2.0m)

Operation Anode is the ADF's contribution to the Regional Assistance Mission to the Solomon Islands. The Government has agreed to Defence reprogramming

\$2.0m from 2004-05 to 2005-06 relating to timing issues with the remediation of B vehicles. The revised estimate for 2005-06 is \$10.9m.

Operation Relex II (-\$2.8m)

Operation Relex II involves the conduct of air and surface surveillance and interception operations to protect Australia's northern and western borders from unauthorised boat arrivals. The Government has agreed to a reduction in the estimates of \$2.8m associated with a reduced requirement for ships' inventory and repairable items. There is no change in operational tasking. The revised estimate for 2005-06 is \$13.6m.

Operation Acolyte (+\$0.5m)

Operation Acolyte is the ADF's contribution to the whole-of-government support of the conduct of the Melbourne 2006 Commonwealth Games in March 2006. The Government has agreed to Defence reprogramming \$0.5m from 2004-05 to 2005-06 associated with revised timing of some planning and administration activities.

Operation Slipper (+\$111.8m)

Operation Slipper is the ADF's contribution to the war against terrorism. An Australian Special Forces Task Group of around 200 ADF personnel deployed to Afghanistan under Operation Slipper in September 2005. The Government has provided \$90.7m over three financial years, of which \$68.8m is allocated in 2005-06, for the net additional costs of the deployment including personnel allowances, logistics support and rapid acquisition of equipment.

The Government has further agreed to supplement Defence \$43.0m in 2005-06 and \$14.6m in 2006-07 for the deployment of an ADF element made up of two Chinook helicopters and about 110 personnel into Afghanistan. The Chinook team will form part of the Combined Forces Command in Afghanistan and will be in addition to personnel currently deployed as part of the Special Forces Task Group.

Pakistan Assist (+\$13.7m)

Operation Pakistan Assist is the ADF contribution to the humanitarian relief effort in Pakistan following the recent earthquake. An Australian task force comprising 140 ADF personnel and Blackhawk helicopters deployed to Pakistan in November 2005. Due to the humanitarian nature of the operation, the Government has decided that the Department of Foreign Affairs and Trade will utilise their existing aid budget to reimburse Defence \$13.4m in 2005-06 for the net additional cost of the deployment including personnel allowances, medical supplies and equipment and logistics support.

Table 2.9: Funding on Operations Since 1999-00

Summary of the net additional cost of operations for which Defence has been supplemented.

Operation	1999-00 Actual Result \$m	2000-01 Actual Result \$m	2001-02 Actual Result \$m	2002-03 Actual Result \$m	2003-04 Actual Result \$m	2004-05 Actual Result \$m	2005-06 Budget Estimate \$m	2006-07 Budget Estimate \$m	2007-08 Budget Estimate \$m	Total \$m
Operations in East Timor ⁽¹⁾	598.1	798.5	632.9	579.3	554.0	27.4	4.1	-	-	3,194.3
Operation Bel Isi	-	20.0	10.1	14.6	3.0	-	-	-	-	47.7
Operation Slipper	-	-	320.0	176.0	-5.0	-	111.8	33.0	3.5	639.3
Operation Relex and Relex II	-	-	22.2	27.8	15.9	11.9	13.6	-	-	91.4
Operations in Iraq	-	-	-	285.3	240.6	284.9	390.3	37.4	3.9	1,242.4
Operation Anode	-	-	-	-	90.4	27.6	10.9	3.4	-	132.3
Operation Sumatra Assist	-	-	-	-	-	37.0	11.1	-	-	48.1
Operation Acolyte	-	-	-	-	-	0.1	11.9	1.0	-	13.0
Operation Deluge	-	-	-	-	-	-	-	8.4	11.3	19.7
Sub total Defence Supplementation	598.1	818.5	985.2	1,083.0	898.9	388.9	553.7	83.2	18.7	5,428.2
Operation Pakistan Assist ⁽²⁾	-	-	-	-	-	-	13.7	-	-	13.7
Total Supplementation	598.1	818.5	985.2	1,083.0	898.9	388.9	567.4	83.2	18.7	5,441.9

Notes

1. Includes force generation funding from 1999-00 to 2003-04, with an ongoing amount of \$448.9m included in Defence's funding base from 2004-05.
2. Defence will be reimbursed for \$13.4m by the Department of Foreign Affairs and Trade through the existing Aid budget.

DISCRETIONARY GRANTS

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

Discretionary grants in Defence:

- include ad hoc grants that are made on a one-off basis, as well as grants renewed under continuing programs;
- can be grants-in-kind or services-in-kind provided in lieu of grant payments;
- include awards, gifts and departmental (non-legislated) rebate schemes and non-reciprocal scholarships; and
- are funded either from Defence's administrative or departmental expenses.

The Government requires Defence to report on all discretionary grant approvals. Table 2.10 provides information on grants approved for 2005-06.

Table 2.10: Discretionary Grants

	2005-06 Budget \$'000	2005-06 Revised \$'000	Variation \$'000
Army Military History Research Grants Scheme	50	50	-
Defence Family Support Funding Program	1,146	1,146	-
Grant to the Royal United Services Institute of Australia	79	79	-
Grant to the Frontline Organisation ⁽¹⁾	-	2,500	2,500
Grant to the Livingstone Shire Council	-	3,500	3,500
Total	1,275	7,275	6,000

Note

1. \$0.85m of this grant was paid in 2004-05.

Grant to the Frontline Organisation

The grant provides funding assistance to the Frontline Organisation to enable the ongoing provision of canteen and tavern services and other amenities to Army and Air Force members on operations and on bases and barracks. Ministerial approval was provided on 31 May 2005 for a grant of \$1.7m to support Frontline until 30 June 2006 and the first payment of \$0.850m was made in June 2005. A further \$0.8m was approved in October 2005 for the period from 1 July 2006 to 31 December 2006.

Grant to the Livingstone Shire Council

The grant provides funding assistance to the Livingstone Shire Council to upgrade and improve access roads to the Shoalwater Bay Training Area. The grant will assist in sustaining the training area and enable continued safe access to Shoalwater Bay for training purposes. Ministerial approval was provided in September 2005 for a grant of \$7.4m, with the balance of \$3.9m to be paid in 2006-07.

PURCHASER-PROVIDER ARRANGEMENTS

DEFENCE MATERIEL ORGANISATION

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

DEFENCE HOUSING AUTHORITY

Overview

Defence and the Defence Housing Authority have two formal agreements: the Services Agreement for Housing and Related Requirements (the Services Agreement) and the Relocation Services Agreement. The agreements formalise the relationship between Defence as purchaser and the Defence Housing Authority as provider of housing and related services. The agreement is currently subject to a mid-term review.

Control Arrangements

The Defence Housing Authority (DHA) is a statutory authority responsible, through its board, to the Minister for Finance and Administration and the Minister for Defence. It was established in 1987 and commenced operations on 1 January 1988.

Several changes to the membership of the DHA board have occurred since 30 June 2005.

- The former Managing Director, Mr K Lyon, retired on 31 August 2005. Mr M Del Gigante has been appointed to act as Managing Director until 1 September 2006 unless a permanent appointment is made before then.
- The appointment of Mr J O’Grady expired in November 2005 and the appointment of Mr T O’Brien expired in December 2005. Neither has sought reappointment. The Minister for Defence and the Minister for Finance and Administration have not yet announced the replacement appointments.
- On 4 July 2005, Major General M Evans DSC AM replaced Rear Admiral B Adams AM RAN as an ADF representative.

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

Chairman	Mr P V Jones AM
Managing Director (Acting)	Mr M Del Gigante
Commercial Director	Vacant
Commercial Director	Vacant
Commercial Director	Ms S A Chaplain

Commercial Director	Mr W L Stokes
ADF Representative	Major General M Evans DSC AM
ADF Representative	Rear Admiral R.M. Hancock RAN
ADF Representative	Major General I Gordon AM
ADF Representative	Air Vice-Marshal R McLennan AM
Department of Defence representative	Dr R Neumann
Defence Families Australia representative	Mrs M F Greet

Review of Governance Arrangements

In November 2005, the Government agreed to propose a number of changes to the *Defence Housing Authority Act 1987*.

The proposed changes include:

- allowing DHA to offer additional housing-related services to Defence;
- allowing DHA to offer housing and housing-related services to employees of other Commonwealth agencies;
- reducing the membership of the DHA board with it having a greater proportion of members with commercial experience; and
- changing DHA's title to Defence Housing Australia to better reflect the commercial environment in which DHA now operates.

Resourcing

The revised 2005-06 estimate for the purchase of services from DHA is \$377.1m, compared with the estimate of \$390.3m in the *Portfolio Budget Statements 2005-06*, a decrease of \$13.2m. This variation is mostly attributed to the buy-out of annuities.

COMCARE

Overview

Defence is required to pay an annual workers' compensation premium to Comcare to meet the cost of workers' compensation claims for civilian personnel who suffer a work-related injury or illness during the year and the cost of managing those claims. The revised estimate of the premium payable for 2005-06 is \$14.5m, an increase of \$2.3m¹. This variance is due to Comcare increasing Defence's premium from 1.20 per cent in 2004-05 to 1.44 per cent in 2005-06. The increase in the premium rate is largely influenced by the rising incidence and severity of compensation claims including the length of absence from work. Defence's premium rate remains below the Commonwealth average of 1.77 per cent.

Defence is required to pay a regulatory contribution to Comcare to fund costs incurred by Comcare and the Safety, Rehabilitation and Compensation

1. ¹ The estimated premium was incorrectly reported in the 2005-06 PBS.

Commission to conduct regulatory functions under the *Safety, Rehabilitation and Compensation Act 1988* and the *Occupational Health and Safety (Commonwealth Employment) Act 1991*. The regulatory contribution for 2005-06 for civilian and ADF personnel is \$4.0m.

COMSUPER

Overview

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

Control Arrangements

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

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

Review of Governance Arrangements

In October 2005, an interdepartmental committee was established with the Department of Finance and Administration to review the governance arrangements of the Military Superannuation and Benefits Board and the Defence Force Retirement and Death Benefits Authority.

The review aims to recommend to the Minister for Defence any changes to legislative and governance arrangements for the Military Superannuation and Benefits Board and the Defence Force Retirement and Death Benefits Authority arising from the Review of Corporate Governance of Statutory Authorities and Office Holders conducted by Mr John Uhrig AC (the Uhrig Review).

The committee first met in October 2005 and is expected to present its findings to the Minister for Defence in early 2006.

Resourcing

The 2005-06 revised estimate for the purchase of services from ComSuper is \$21.465m, \$3.465m higher than the estimate of \$18m in the *Portfolio Budget Statements 2005-06*. This increase is due to advice from ComSuper that it is no longer able to maintain the services it has provided for the fee it has charged in the past.