

# **SECTION TWO**

## **DEFENCE MATERIEL**

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# CHAPTER ONE

## OVERVIEW

On 1 July 2005, the Defence Materiel Organisation (DMO) became a prescribed agency under the *Financial Management and Accountability Act 1997*. This has included a split in the balance sheet between Defence and DMO, which has resulted in adjustments to DMO's financial position. Variations to financial statements are reported in Chapter Six – Budgeted Financial Statements.

The DMO is currently managing approximately 210 current major capital equipment projects (including phases), as well as a number of minor projects. The total annual budget for acquisition, sustainment and management services is around \$7.4 billion as at December 2005.

### CHALLENGES AND OPPORTUNITIES FACING THE DMO

Implementation of the DMO's challenging change program continues, with many more initiatives being included to further drive materiel reform. The program was formalised as the 'DMO Specific Change Program' in March 2005, and is reported on a monthly basis to the DMO Executive.

In addition to Key Performance Indicators for measuring the performance of initiatives within the change program, Critical Success Factors will also be developed. These will be used to measure and report the overall performance of the DMO in achieving key objectives.

### ORGANISATIONAL STRUCTURE

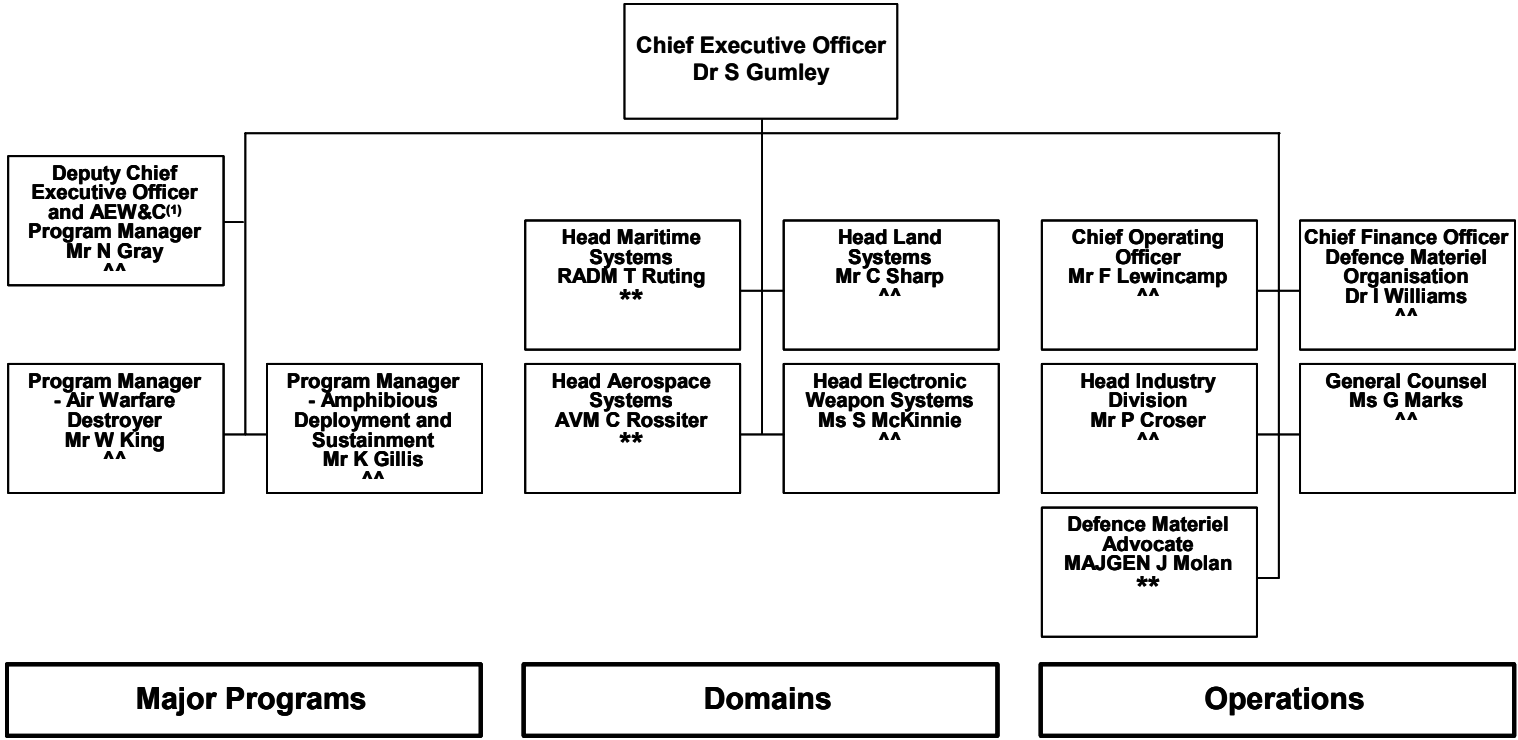
#### Senior Executive and Organisational Structure Change

Major General Jim Molan was appointed to the new position of Defence Materiel Advocate in August 2005. The position was established to help market the outputs of Australian defence industry to foreign governments and defence forces. The expanded market for Australian products can often benefit the ADF by offering lower costs and higher quality through economies of scale and efficiency in production.

#### Organisational Chart

The following chart depicts the revised organisational structure of the DMO, as at 1 February 2006.

## Defence Materiel Organisation



(1) AEW&C: Airborne Early Warning and Control  
 \*\* Military 2-Star position  
 ^^ Civilian SES Band 2 position

## CHAPTER TWO RESOURCING

Resourcing of DMO's outcome and outputs for 2005-06 is as reported in the *Portfolio Budget Statements 2005-06*, except for the revisions detailed in this chapter.

### Appropriations and other Resources

The single variation to DMO's appropriation relates to changes to the indexation parameter (non-farm GDP deflator), resulting in a budget increase of \$0.046m in 2005-06. There are no DMO-specific measures included at Additional Estimates.

**Table 2.1: Additional Estimates and Variations to Outcomes**

<b>Other variations to appropriations</b>				
	2005-06	2006-07	2007-08	2008-09
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Outcome 1</b>				
Variations in departmental appropriations				
Indexation parameter update adjustment	46	3	-450	-820

### Breakdown of additional estimates by appropriation bill

Variations to the majority of DMO's budget are sourced from Defence.

**Table 2.2 - Appropriation Bill (No 3) 2005-06**

	2005-06 Budget estimate \$'000	2005-06 Revised estimate \$'000	Additional estimates \$'000
<b>DEPARTMENTAL OUTPUTS</b>			
<b>Outcome 1</b>			
Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel			
	44,211	44,257	46
<b>Total</b>	<b>44,211</b>	<b>44,257</b>	<b>46</b>

## Other receipts available to be used

Table 2.3 provides details of other cash receipts available to be used and include special accounts (non-appropriation receipts).

An increase in other cash receipts (\$144.7m) available to be used is a result of:

- net agreed funding adjustments with Defence (-\$83.6m);
- additional ADF Operations funding from Defence (\$53.4m);
- additional funding from Defence for changes to indexation and foreign exchange parameters (\$49.0m); and
- transfer by Defence of funding received from foreign governments for collaborative projects (\$125.9m).

**Table 2.3: Other Cash Receipts Available to be Used <sup>(1)</sup>**

	Budget estimate 2005-06 \$'000	Revised estimate 2005-06 \$'000
Outcome One: Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel		
<b>Departmental other receipts</b>		
DMO Special Account	7,254,081	7,398,774
<b>Total departmental other receipts available to be used</b>	<b>7,254,081</b>	<b>7,398,774</b>

**Note**

1. Resources received free of charge from the Australian National Audit Office (\$1.5m), transfers from the official public account related to transfer of appropriation receivable from Defence (\$30.2m), and GST (\$648.7m) are not included in this table. Departmental other receipts are disclosed in Table 6.3 - Budgeted departmental statement of cash flows.

## Estimates of special account flows

Movements to flows in DMO's special account are explained in Table 6.3, Statement of Cash Flows.

**Table 2.4: Estimates of Special Account Flows <sup>(1)</sup>**

	Opening balance 2005-06 \$'000	Receipts 2005-06 \$'000	Payments 2005-06 \$'000	Closing balance 2005-06 \$'000
DMO Special Account - <i>FMA Act 1997</i> (D)	-	8,121,942	8,091,766	30,176
<b>Total special accounts</b>	<b>-</b>	<b>8,121,942</b>	<b>8,091,766</b>	<b>30,176</b>

D = Departmental

**Note**

1. Transfers from the official public account (\$30.2m), GST (\$648.7m) and the direct appropriation (\$44.3m) are included in both receipts and payments.

# CHAPTER THREE

## PLANNED OUTCOME

## PERFORMANCE

Information is as reported in the *Portfolio Budget Statements 2005-06*, except for the revisions detailed in this chapter.

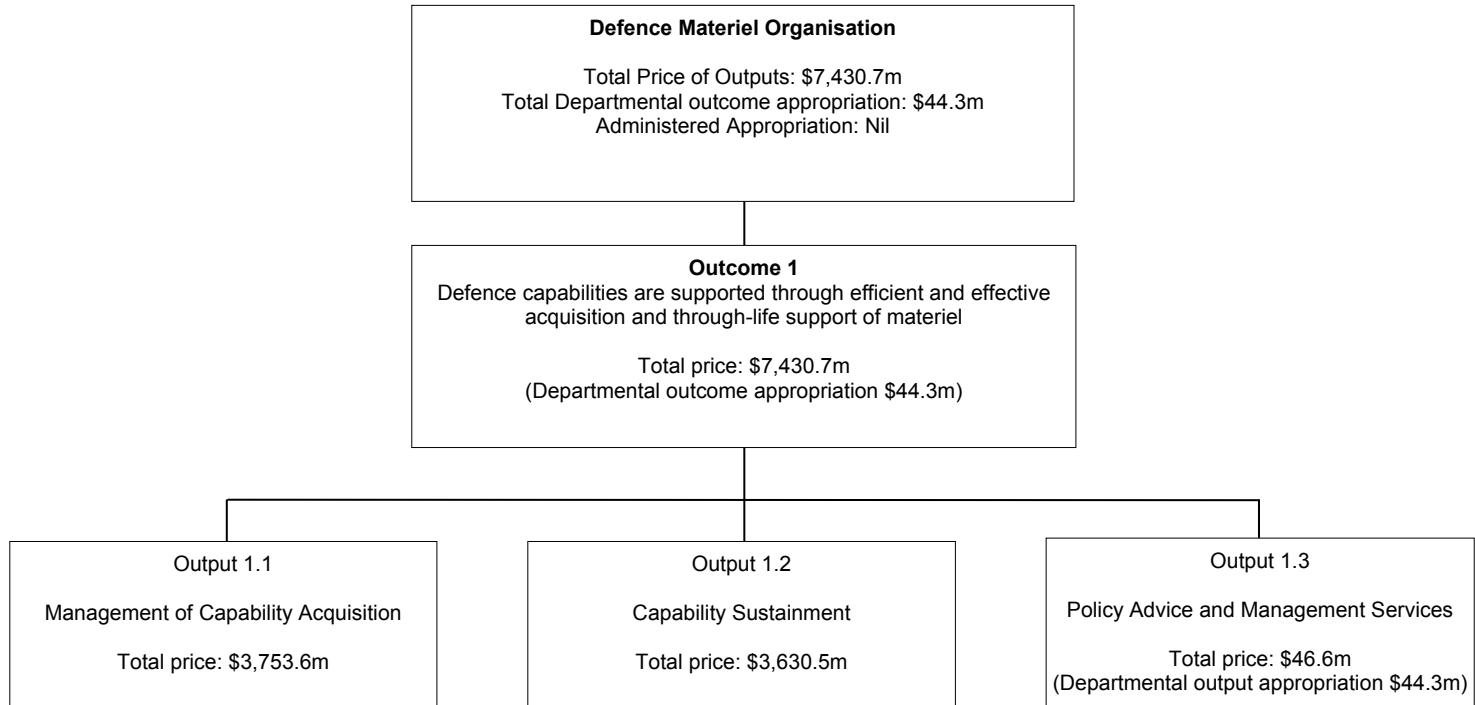
The price of DMO's outcome and outputs has been updated to reflect the increased appropriation (Output 1.3).

Revenue estimates have also been increased to reflect additional work commissioned by our customer, Defence, changes to indexation and foreign exchange parameters as well as and changes to the balance sheet split between Defence and DMO.

### **SUMMARY OF OUTCOME AND OUTPUTS**

The relationship between activities of the DMO and its outcome is summarised in Figure 3.1, in terms of accrual-based prices rather than cash received from Defence and the Government. Prices have been updated in accordance with the revised estimates.

**Figure 3.1: Outcome and Output Groups and Administered Items – Revised Estimates**





## **PERFORMANCE AND EVALUATION INFORMATION FOR THE DMO OUTCOME**

The performance targets for the DMO outcome are the three outputs. In turn, each of the outputs has performance targets, which are listed below in more detail.

### **Performance Target for Output 1.1 – Management of Capability Acquisition**

Information reported against Performance Target for Output 1.1 – Management of Capability Acquisition remains as reported in the *Portfolio Budget Statements 2005-06* except for the revisions detailed below.

Planned resource use for Output 1.1 is revised from \$3,849.3m to \$3,753.6m in 2005-06. DMO's 2005-06 budget included an estimate of funding for those projects expected to be approved in the current year and the rate of approval for new projects has not progressed as expected.

### **Approved Major Capital Equipment Projects**

DMO manages the approved major capital equipment component of the Defence investment program. Details on performance outcomes for the top 30 projects ranked by forecast expenditure are included in the *Portfolio Budget Statements 2005-06*. Planned expenditure for these projects has been updated through the additional estimates process, and variations are reported in Table 3.1.

The revised planned expenditure for the top 30 projects represents 73 per cent of the total planned expenditure on major capital equipment projects in 2005-06.

**Table 3.1: Top 30 Projects by Forecast 2005-06 Expenditure**

	Project Number	Approved Project Expenditure <sup>(1)</sup> \$m	Cumulative Expenditure to 30 June 2005 \$m	2005-06 Budget Estimate <sup>(2)</sup> \$m	2005-06 Revised Estimate <sup>(1)</sup> \$m	Variation	Explanation for significant variation of expenditure
<b>Aerospace</b>							
Armed Reconnaissance Helicopter	AIR 87 Ph2	1,944	806	440	373	-67	Slippage of: acceptance milestone for Armed Reconnaissance Helicopter 10 (-\$5m), Ground Mission Equipment to Darwin (-\$10m), reprogramming of Foreign Military Sales payments for Hellfire Missile (-\$10m), reprogramming of spares (-\$15m) and Through Life Support Contract (-\$23m) payments and transfer of funding (-\$4m) to CSIG as the Air 87 contribution to the 1st Aviation Regiment Relocation Project.
F/A-18 Hornet Upgrade	AIR 5376 Ph2	1,484	789	183	156	-27	Acceleration of Foreign Military Sales disbursements for Phase 2.2 hardware and the accelerated hardware delivery of the Hornet Aircrew Training System. These factors brought expenditure forward from 2005-06 into 2004-05, and the reprogramming of electronic warfare elements from 2005-06 out to 2006-07 and future years.
Additional Trooplift Helicopter	AIR 9000 Ph2	997	107	138	152	14	The revised estimate reflects the payment schedule developed during contract negotiations and is in accordance with the AIR 9000 Phase 2 Acquisition Contract payment schedule.
ADF Air Refuelling Capability	AIR 5402	1,851	189	110	173	63	The contracted outcome following negotiation of the prime contract.
Anzac Ship Helicopter <sup>(2)</sup>	SEA 1411 Ph1	1,003	918	47	48	1	
Strategic Airlift Capability	AIR 5216 Ph1	1,044	977	32	38	6	Increased allocation for procurement of avionics spares.

	Project Number	Approved Project Expenditure <sup>(1)</sup> \$m	Cumulative Expenditure to 30 June 2005 \$m	2005-06 Budget Estimate <sup>(2)</sup> \$m	2005-06 Revised Estimate <sup>(1)</sup> \$m	Variation	Explanation for significant variation of expenditure
<b>Airborne Early Warning and Control</b>							
Airborne Early Warning and Control	AIR 5077 Ph3	3,488	2,071	296	373	77	Primarily due to the reprogramming of maintenance and support funds to better reflect the anticipated spend profile of the Airborne Early Warning and Control In-service Support Contract arising from contract negotiations. Also contributing to the increase is price escalation in accordance with the provisions of the prime contract.
<b>Maritime</b>							
Armidale-class Patrol Boat	SEA 1444 Ph1	541	100	186	166	-20	Transfer of project funding to Corporate Services and Infrastructure Group for the rescheduled infrastructure upgrade. The increase of \$64m is due to price indexation and funding for an additional two patrol boats.
Anzac Ship Project <sup>(3)</sup>	SEA 1348 Ph2	5,368	5,052	164	155	-9	Financial reprogramming by the prime contractor. This reprogramming has not affected the scheduled delivery of Ship 10.
FFG Upgrade Implementation	SEA 1390 Ph2	1,467	965	116	57	-59	Program schedule slippage by the contractor has resulted in payment milestones not being achieved and earned value claims being less than estimated.
Collins Replacement Combat System	SEA 1439 Ph4A	444	208	95	113	18	Refinement of the United States program costs subsequent to the change from the foreign military sales case to the armaments cooperative project.
SM-1 Missile Replacement	SEA 1390 Ph4B	575	0	80	52	-28	Finalisation of contract and foreign military sales arrangements.
New Heavyweight Torpedo	SEA 1429 Ph2	420	131	54	48	-6	Payments to the United States Department of Defense were advanced from 2005-06 to 2004-05.
Anti-Ship Missile Defence	SEA 1448 Ph2A	491	9	47	64	17	Signing of the Project Alliance Agreement has resulted in more reliable estimates being developed.
Collins-class Reliability and Sustainability Improvements	SEA 1439 Ph3	370	146	39	33	-6	Competing priorities relating to other work being carried out by ASC Pty Ltd.

	Project Number	Approved Project Expenditure <sup>(1)</sup> \$m	Cumulative Expenditure to 30 June 2005 \$m	2005-06 Budget Estimate <sup>(2)</sup> \$m	2005-06 Revised Estimate <sup>(1)</sup> \$m	Variation	Explanation for significant variation of expenditure
<b>Electronic and Weapons Systems</b>							
Electronic Warfare Self Protection for Selected ADF Aircraft	AIR 5416 Ph2	290	29	107	62	-45	Later than originally planned contract award for both the BAE and Tenix contracts.
New Air Defence Command and Control Systems for 2CRU/3CRU <sup>(3)</sup>	AIR 5333	249	68	51	31	-20	Slippage by the contractor in concluding of the Critical Design Review. The corresponding milestone payment has been reprogrammed into 2006-07.
Jindalee Operational Radar Network	JP 2025 Ph3/4	1,244	1,137	46	40	-6	A monthly payment of \$3m was processed ahead of expectations in 2004-05. Maintenance costs were \$3m less than expected as the result of an annual review of the maintenance and support program.
Explosive Ordnance Reserve Stocks	JP 2085 Ph1B	203	51	41	30	-11	Revision of the procurement plan resulted in procurement of a number of items being rescheduled. This is because approved quantities for these items under this project are not an 'Economic Order Quantity'. These items will now be procured in conjunction with the sustainment buy programs in 2006-07 and 2007-08.
Lightweight Torpedo Replacement	JP 2070 Ph2	317	113	37	32	-5	Reduction in estimated expenditure is \$5m for Phase 2 and \$14m for Phase 3. This is due to the re-negotiation of the Prime Contract/Alliance Agreement. The new expenditure plan reflects the milestones in the new contract.
Lightweight Torpedo Replacement	JP 2070 Ph3	264	0	39	25	-14	
Milsatcom Ground Infrastructure	JP 2008 Ph3E	148	73	37	43	6	The mitigation of schedule risks. The project remains within budget, with acceptable contingency.
High Frequency Modernisation – Remainder of the network	JP 2043 Ph3A	609	306	34	23	-11	Risk reduction activities and other associated replanning of second stage activities (contractor delay) have resulted in the milestone payments being moved to 2006-07.

	Project Number	Approved Project Expenditure <sup>(1)</sup> \$m	Cumulative Expenditure to 30 June 2005 \$m	2005-06 Budget Estimate <sup>(2)</sup> \$m	2005-06 Revised Estimate <sup>(1)</sup> \$m	Variation	Explanation for significant variation of expenditure
<b>Land</b>							
Bushranger Infantry Mobility Vehicles	LAND 116 Ph3	352	116	86	66	-20	Deficiencies with the build state by the contractor have resulted in delays to the scheduled delivery of vehicles (now substantially rectified). The late delivery of some Integrated Logistic Support deliverables, including training aids, has also contributed to the variance.
Tank Replacement Project	LAND 907 Ph1	547	155	81	150	69	\$63m of the increase is due to more accurate planning and financial information being provided by the United States Government now that they have commenced letting contracts for the Abrams and component systems. The residual relates to exchange rate variation..
Upgrade of M113 Armoured Vehicles	LAND 106	585	182	78	16	-62	Primarily attributable to slippage of a major production item by the contractor. This is now expected to occur in July 2006.
Australian Light Armoured Vehicles	LAND 112 Ph3	675	522	42	47	5	Earlier achievement of some project milestones.

	Project Number	Approved Project Expenditure <sup>(1)</sup> \$m	Cumulative Expenditure to 30 June 2005 \$m	2005-06 Budget Estimate <sup>(2)</sup> \$m	2005-06 Revised Estimate <sup>(1)</sup> \$m	Variation	Explanation for significant variation of expenditure
General Service Field Vehicles - Overlander	LAND 121 Ph2	88	22	30	23	-7	Variation is the result of the following: <ul style="list-style-type: none"> <li>- reprogramming of the delivery of the Unimog/Mack Gun Tractor Personnel/Cargo Modules expenditure (-\$5m) to 2006-07, due to the risk of not achieving Design Acceptance in November 2005;</li> <li>- reprogramming of Land Rover 110 Handling Upgrade expenditure (-\$4m) to later years pending a decision on the viability of the modification package;</li> <li>- the Mack In-Cabin Noise Reduction element achieving additional expenditure (-\$1m) in 2004-05, due to earlier delivery of equipment; and</li> <li>- an increase in expenditure for the Heavy Recovery Vehicle element (\$3m net increase), due to earlier delivery of equipment.</li> </ul>
<b>Amphibious Vessels</b>							
Maritime Operations Support Capability	SEA 1654 Ph2A	142	66	62	36	-26	The original estimate was developed before the contractor was selected, which led to difficulties in accurately determining cashflow requirements. Furthermore, two milestones against the modifications contract totalling \$11m have been reprogrammed into 2006-07.

Project Number	Approved Project Expenditure <sup>(1)</sup> \$m	Cumulative Expenditure to 30 June 2005 \$m	2005-06 Budget Estimate <sup>(2)</sup> \$m	2005-06 Revised Estimate <sup>(1)</sup> \$m	Variation	Explanation for significant variation of expenditure
<b>New Air Combat Capability</b>						
New Air Combat Capability AIR 6000 JSF SDD	211	92	55	56	1	
<b>TOTAL TOP 30 PROJECTS</b>	<b>27,411</b>	<b>15,400</b>	<b>2,853</b>	<b>2,681</b>	<b>-172</b>	

**Notes**

1. 2005-06 Additional Estimates indexation and foreign exchange parameters.
2. Approved funding allocation for 2005-06 Financial Year at 2005-06 Budget Estimates indexation and foreign exchange parameters.
3. Project approval, expenditure and estimate figures are the net cost of the ten-ship program after deducting New Zealand payment.

## TOP 30 PROJECTS 2005-06

Information relating to the following projects remains as reported in the *Portfolio Budget Statements 2005-06*.

- AIR 5216 Ph 1 Strategic Airlift Capability
- SEA 1348 Phase 2 – Anzac Ship Project
- SEA 1439 Ph 3 Collins-class Reliability and Sustainability Improvement
- JP 2025 Ph 3/4 Jindalee Operational Radar Network
- JP 2085 Ph 1B Explosive Ordnance Reserve Stocks
- JP 2008 Ph 3E MILSATCOM Ground Infrastructure
- LAND 907 Ph 1 Tank Replacement Project
- LAND 121 Ph 2 General Service Vehicles – Overlander
- AIR 6000 SDD New Air Combat Capability

The remaining Top 30 Projects are listed below.

### **AIR 87 Ph 2 – Armed Reconnaissance Helicopter**

**Prime contractor:** Australian Aerospace

The first Australian assembled Armed Reconnaissance Helicopter was accepted on 1 June 2005, one month ahead of schedule. The final two Armed Reconnaissance Helicopters to be assembled in Europe remained in France for Australian pilot training and residual test activities. Acceptance of these helicopters onto the Australian Register was delayed to September 2005 and January 2006 respectively.

An additional four Australian assembled Armed Reconnaissance Helicopters are scheduled to be accepted by June 2006 and the final helicopter (22) is to be in operational service by December 2008.

To overcome delays in instructor training in France caused by unavailability of aircraft, instructor training has now commenced in Australia. Sufficient instructors will be qualified from mid-February 2006 to enable individual aircrew training to be conducted in Australia thereafter.



### **AIR 5376 Ph 2 – F/A-18 Hornet Upgrade**

**Prime contractor:** The Boeing Company (United States)

Assessment of electronic warfare options has progressed with the source selection of the BAE Systems ALR-2002B radar warning receiver. The source selection of a counter measures dispensing system and a Radio Frequency jammer is expected in early 2006.

### **AIR 9000 Ph 2 – Additional Trooplift Helicopter**

**Prime contractor:** Australian Aerospace

The first delivery is expected in December 2007, with all 12 aircraft delivered by December 2009.

In 2005-06, production commenced on the MRH-90 helicopters at the Eurocopter facilities in France. Joining of the first aircraft fuselage occurred in November 2005.

### **AIR 5402 – ADF Air Refuelling Capability**

**Prime contractor:** EADS CASA (acquisition) and through-life support (contract under negotiation).

Slippage in the through-life support contract from late 2004 to 2005-06 was due to negotiations on a critical aspect of the contract. Preliminary design activities commenced in early 2005 with completion of Preliminary Design Review achieved in mid-2005.

### **SEA 1411 Ph 1 – Anzac Ship Helicopter**

**Prime contractor:** Kaman Aerospace International Corporation

Nine of the 11 Super Seasprite maritime combat helicopters have been provisionally accepted in Australia. Of the remaining two aircraft, one is in final assembly in Australia and one remains in the United States for ongoing flight testing. It will be delivered in 2006.

Testing of the software for the full functionality by the contractor should be completed in early 2006, allowing the contractor to offer the first full capability helicopter for acceptance in mid-2006.

### **AIR 5077 Ph 3 – Airborne Early Warning and Control**

**Prime contractor:** The Boeing Company (United States)

Mission Computing System Software Build 8, the final build, entered the test phase in October 2005. Preparations for transition of the aircraft modification line to Australia are well advanced. The recent prolonged strike action against Boeing in the USA has caused slippage of some intermediate milestones, such as commencement of modification of the third aircraft and completion of the

design test and evaluation program. While Boeing is entitled, under the contract terms and conditions, to claim postponement of these milestones, it is engaged with the Commonwealth team to replan the program to minimise the effects of the strike. The planned in-service date of December 2007 will still be achieved.

Construction of the maintenance hangar and associated aircraft parking areas was completed in January 2006 as part of Stage 1 of the RAAF Williamstown Redevelopment.

### **SEA 1444 – Armidale-class Patrol Boat**

**Prime contractor:** Defence Maritime Services (ships being built by Austal Ships)

This project will deliver a total of 14 Armidale-class Patrol Boats to replace the ageing Fremantle-class Patrol Boats.

The initially contracted 12-boat capability will provide up to 3,000 available days per year for Coastwatch and ADF support operations, plus a surge capacity of up to 600 additional available days per year. The additional two patrol boats will be built after the current 12 boats, with delivery commencing in mid-2007. The additional two boats will provide an additional 500 operational days per annum and a further 96 days per annum of surge capacity commensurate with the rest of the Patrol Boat fleet.

Boats 04 to 06 are scheduled for delivery during the first half of 2006 with boat 07 being delivered in July 2006. The collocation with the Patrol Boat Force Element Group is expected to be completed in early 2006.

### **SEA 1390 Ph 2 – FFG Upgrade Implementation**

**Prime contractors:** ADI Limited

With current schedule slippage by the contractor, scheduled delivery date of 2008 for last upgraded ship is under significant stress.

The Defence Capability Review 2003 decision to remove the two oldest guided missile frigates from service by the end of 2007 means these two ships are no longer being considered for upgrade under this project. The cost impact of this decision and a formal contract change are still to be finalised.

### **SEA 1439 Ph 4A – Collins Replacement Combat System**

**Prime contractors:** United States Department of Defense under a foreign military sales case and an armaments cooperative project. Raytheon Australia, Thales, Sonartech Atlas and ASC Pty Ltd are engaged under separate contracts.

The final United States software was delivered in December 2005.

System integration work at the shore integration facility in Western Australia commenced on schedule in September 2005. Completion of integration has been rescheduled for June 2006 to incorporate lessons learnt from the United States testing phase.

### **SEA 1390 Ph 4B – Standard Missile 1 Missile Replacement**

**Prime contractor:** DMO is the Procurement Coordinator supported by the United States Department of Defense under a foreign military sales case.

A commercial contract is established for development work required for the guided missile launching system. Similar commercial contracts are being progressed for the fire control system and the onboard training and land-based simulation systems with contracts for both signed in December 2005. Missile and inertial navigational system equipment procurement arrangements are also now established under US foreign military sales arrangements. System design and integration work is being progressed under similar arrangements. This remains work in progress.

The preliminary design review is now scheduled for April 2006, and the critical design review for July 2006.

### **SEA 1429 Ph 2 – New Heavyweight Torpedo**

**Prime contractors:** Under a memorandum of understanding, the United States Department of Defense established an armaments cooperative project, with work being performed by the United States Navy (Naval Undersea Warfare Center) and Raytheon. ASC Pty Ltd is undertaking integration on the platform.

The formal achievement of the Initial Operational Release will be achieved following completion of a series of sea trials. The sea trials will occur after installation is completed in late 2006.

### **SEA 1448 Ph 2A – Anti-Ship Missile Defence**

**Alliance agreement:** Anzac Ship Alliance with Tenix and Saab

This project will deliver an initial Anti-Ship Missile Defence (ASMD) operational capability, providing an initial level of self defence against modern anti-ship missiles for the Anzac-class frigates. It will also progress a Preliminary Phased Array Program to mitigate risk, and inform the design and development of a phased array architecture for incorporation of Phase 2B into a Phase 2A and Phase 2B full ASMD suite.

Phase 2A will upgrade the Combat Management System and Fire Control System. It will also install an Infra Red Search and Track capability which provides improved detection of low-level aircraft and anti-ship missiles when close to land. Initial Operation Capability delivery into the first Anzac-class ship is now planned for 2009 to accommodate a combined Phase 2A and Phase 2B schedule.

Phase 2A will be enhanced by the now approved Phase 2B. This completes the ASMD capability by introducing Australian phased array technology. This technology will deliver multiple channels of fire, enabling more than one weapon to be controlled in flight at one time. This will support multiple engagements against incoming missile threats.

After delivery of a combined Phase 2A and Phase 2B Initial Operation Capability in 2009, the remaining ships will be upgraded progressively over the period 2010 to 2013.

**AIR 5416 Ph2 – Electronic Warfare Self Protection for Selected ADF Aircraft**

**Prime contractor:** Phase 2A – BAE Systems; Phase 2B – Tenix Defence

The engineering design activity was completed in December 2005. This followed an approved change in contract scope to incorporate the C130H satellite communications modification at the same time as the electronic warfare self protection modification. Under an accelerated modification schedule, the anticipated in-service date for the first four C-130H aircraft has come forward to the end of 2006, with all 12 aircraft completed in early 2008.

**AIR 5333 – New Air Defence Command and Control Systems for 2CRU/3CRU**

**Prime contractor:** Boeing Australia Ltd

The first command and control system is expected to be installed and operational at Tindal by late 2007. This is dependent on the contractor's performance on design and integration activities.

The Critical Design Review is expected to commence towards the end of 2005-06.

**JP 2070 Ph 2 and Ph 3 – Lightweight Torpedo Replacement**

**Alliance agreement:** Commonwealth of Australia, EuroTorp and Thales

European trials of production torpedoes revealed quality control problems. Delays in the French and Italian acceptance program has caused slippage in acceptance of our initial batch of MU90 torpedoes in France. Acceptance is now scheduled for July 2006, with delivery to Australia now expected in late 2006.

**JP 2043 Ph 3A – High Frequency Modernisation – Remainder of the Network**

**Prime contractor:** Boeing Australia

The preliminary design review for the second stage was completed in August 2005.

### **LAND 116 – Bushranger Infantry Mobility Vehicles**

**Prime contractor:** ADI Limited

Full acceptance will be achieved in February 2006.

ADI is currently in full production with all the troop variants scheduled to be delivered by mid 2006 with the delivery of other variants commencing thereafter. The introduction into service phase commenced in March 2005 with the delivery of vehicles for deployment on operations.

### **LAND 106 – Upgrade of M113 Armoured Vehicles**

**Prime contractor:** Tenix

The applique armour solution for the vehicles has been selected after rigorous testing and will exceed the specified performance level. Other engineering development and systems integration of the upgraded vehicles are progressing but have proven to be more difficult than anticipated in several areas. Resolution of recently identified drive train issues is slowing the construction of initial production vehicles for the test and evaluation program and placing pressure on the project schedule.

The contractor is still planning to enter full production in 2005-06 and meet the key date of an initial capability in service by December 2006. Achievement of schedule dates involves high risk.

### **LAND 112 Ph 3 – Australian Light Armoured Vehicles**

**Prime contractor:** General Dynamics Land Systems (Canada)

Delivery of the upgraded Phase 2 vehicles to the 2nd/14th Light Horse Regiment was affected by the short notice program of operational enhancements for Operation Catalyst and is now expected to be completed in late 2006.

A contract was signed in August 2005 for the development of the prototype surveillance suite for the ASLAV Surveillance variant. Surveillance suites are now expected to be delivered in 2008.

### **SEA 1654 PH2A – Maritime Operations Support Capability**

**Prime Contractor:** Tenix Defence Pty Ltd

A financial incentive has been offered to the contractor to recover six weeks of Commonwealth-induced schedule slip. Under this arrangement, the contractor is now seeking to achieve delivery by the end of July 2006.

### **Acquisition projects not included in the Top 30 – Current Status**

Table 3.2 provides an update on the status of projects included in statutory reports over the previous three financial years – 2004-05, 2003-04 and 2002-03. The planned expenditure for these projects during 2005-06 places them outside of the top 30.

Table 3.3 provides a status report on projects of emerging interest due to the high-value, high-profile nature of the acquisitions.

**Table 3.2: Update of Status of Previously Reported Top 30 Projects (Financial Years 2004-05, 2003-04 and 2002-03)**

Title	Project Number	Approved Project Expenditure <sup>(1)</sup> \$m	Cumulative Expenditure to 30 June 2005 \$m	2005-06 Expenditure Estimate <sup>(1)</sup> \$m	Status Report
<b>Aerospace</b>					
F/A-18 Hornet Upgrade	AIR 5376 Ph 1	290	281	3	Project is complete, with the last modified aircraft delivered in June 2002.
P-3C Update Implementation	AIR 5276 Ph 2	905	836	14	Project is complete, with last aircraft delivered to the Air Force in December 2004. All associated project deliverables are in service.
F/A-18 Hornet Structural Refurbishment Program – Stage 1	AIR 5376 Ph 3.1	121	57	21	Project not yet complete. The 12 <sup>th</sup> aircraft was delivered in mid-December 2005. Production is expected to continue through to December 2008. Costs forecast to exceed the programmed outlays for 2005-06 by \$2.3m due to an unforeseen requirement for additional repairs to aircraft.
Lead-in Fighter Capability	AIR 5367 Ph 1	1,023	963	31	Project nearing completion. Management focus remains on finalising all program deliverables over the next 12 months. Project closure planned for early 2007. Project expenditure is within budget. Flight testing will recommence in February 2006 to facilitate final acceptance.
<b>Maritime</b>					
Underwater and Surface Warfighting Upgrade Program	SEA 1348 Ph 3	157	113	15	The first installation of Harpoon was delivered in December 2004 in HMAS <i>Warramunga</i> . The first sonar installation was completed in HMAS <i>Arunta</i> on 23 September 2005. Both installations were completed within cost and schedule. Installation into HMAS <i>Anzac</i> has now commenced, with the remaining ships to follow.
Mine Hunter Coastal Acquisition	SEA 1555 Ph 2	1,246	1,133	14	All vessels have been accepted into service. Physical completion of all contracted work is anticipated in December 2007. Financial completion and project closure is expected to occur in June 2008.
Evolved SeaSparrow Missile (ESSM)	SEA 1428 Ph 2A	354	348	2	Missiles acquired under both Phases 2A and 2B remain within cost and schedule. The latest delivery of missiles arrived in Australia in October 2005. ESSM integration into the Anzac Ship class also remains on schedule, with all ships to be ESSM capable by mid-2006.
	SEA 1428 Ph 2B/3	274	222	22	

Title	Project Number	Approved Project Expenditure <sup>(1)</sup> \$m	Cumulative Expenditure to 30 June 2005 \$m	2005-06 Expenditure Estimate <sup>(1)</sup> \$m	Status Report
Collins-class Submarine Augmentation	SEA 1446 Ph 1	233	200	4	The remaining activity under this project is the Platform Training Simulator upgrade, the procurement strategy for which is currently being finalised. All other elements are complete.
New Submarine Project	SEA 1114 Ph 3	5,121	5,067	5	The last of the six submarines was delivered in March 2003. There are a number of minor activities still occurring prior to project closure.
<b>Land</b>					
Direct Fire Guided Weapon	LAND 40	145	60	18	The 59 Javelin Outdoor Training Systems have been delivered and receipted. This has been achieved 12 months ahead of schedule.
Ground Surveillance Radar	LAND 53 Ph 1E	84	64	13	55 of 58 radars have been accepted by the Commonwealth. Remaining radars and integrated logistics support deliverables are on schedule for delivery during 2005-06.
<b>Electronic And Weapons Systems</b>					
Air-to-Surface Stand-off Weapon Capability	AIR 5398 Ph 1	441	362	17	Completed the initial operational test and evaluation program, including two live missile firings. Introduction into service of the AGM-142E capability is expected by March 2006.
Air-to-Air Weapons Capability	AIR 5400 Ph 1	313	266	11	Project acquisition activities largely completed. Transition to in-service support under way – expected to be completed early 2006. Project closure scheduled for June 2006.
Air-to-Air Follow-on Buy	AIR 5400 Ph 3	176	132	6	Final acceptance occurred in November 2005. All outstanding contractor issues have been closed (rectified or corrective action plans agreed).



<b>Title</b>	<b>Project Number</b>	<b>Approved Project Expenditure<sup>(1)</sup></b>	<b>Cumulative Expenditure to 30 June 2005</b>	<b>2005-06 Expenditure Estimate<sup>(1)</sup></b>	<b>Status Report</b>
		<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	
Milsatcom – Military Satellite Payload	JP 2008 Ph 3D	347	338	0	Acceptance of system completed. Project closure to follow on from acceptance of outstanding spares.
Tactical Air Defence Radar Systems	AIR 5375 Ph 1	207	152	16	System testing has been finalised and all systems have been accepted by the Commonwealth. Temporary deficiencies having been noted, and action plans agreed to rectify them.
E-Defence Project	JP 2054 Ph 1	115	53	2	The project is currently on hold to allow for a review of the Business Case, due for completion in April 2006. The project has to date implemented products across the Defence Restricted and Secret domains.

**Note**

1. 2005-06 Additional Estimates indexation and foreign exchange parameters.

**Table 3.3: Projects of Emerging Interest**

Project Title	Project Number	Project Description	Approved Project Expenditure* \$m	Cumulative Expenditure to 30 June 2005 \$m	2005-06 Expenditure Estimate* \$m	Status Report
Air Warfare Destroyer	SEA 4000 Ph 2	An affordable maritime air warfare capability to the ADF. This will be a complementary part of the layered air defence capability.	460	0	99	First-pass approval was achieved in May 2005, concurrent with the announcement of ASC as the preferred shipbuilder. Raytheon Australia and Gibbs & Cox have been selected as the preferred Combat System-Systems Engineer and Evolved Platform System Designer respectively. The Gibbs & Cox evolved design will compete with an Australianised version (military-off-the-shelf) of the Navantia-designed Spanish Navy F100 warship. This will be considered by the Government in mid-2007. The Air Warfare Destroyer Program remains on schedule with delivery of the first of the three new ships planned for 2013.
Amphibious Watercraft Project	JP 2048 Ph 1A	Six amphibious watercraft for delivery to the Army. The platform will be capable of deployment with the Landing Platform Amphibious ships.	58	13	23	The project has accepted all Landing Platform Amphibious watercraft under the acquisition contract from ADI. The final milestone under the acquisition contract is System Acceptance which was achieved in December 2005.

Project Title	Project Number	Project Description	Approved Project Expenditure* \$m	Cumulative Expenditure to 30 June 2005 \$m	2005-06 Expenditure Estimate* \$m	Status Report
Amphibious Assault Ship ('LHD') Project	JP 2048 Ph 4A/4B	An increased amphibious deployment and sustainment capability to support an enhanced deployed force	38	6	19	Not yet to contract Assessment of two suitable existing ship designs continues. Defence is working closely with two overseas designers, Armaris and Navantia (formerly Izar) and three Australian Shipbuilders, ADI, Austal and Tenix, to compile and assess capability, cost, schedule and risk information on the existing designs. Government first-pass approval was granted in August 2005, releasing approximately \$30million for first and second pass activities. Australian industry was briefed on first pass outcomes. Design development commenced with resident project teams in France and Spain in September 2005. The Defence Capability Plan 2004-14 budget for this project is \$1.5 to \$2 billion.

**Note**

1. 2005-06 Additional Estimates indexation and foreign exchange parameters.

### **Minor Capital Investment Programs**

Planned resource use for the Minor Capital Investment Program has been revised from \$130.3m to \$123.6m for 2005-06.

### **Performance Target for Output 1.2 – Capability Sustainment**

Information is as reported in the *Portfolio Budget Statements 2005-06* except for the following revisions.

Planned resource use for Output 1.2 is revised from \$3,229.5m to \$3,603.1m in 2005-06. The increase is due mainly to changes in accounting treatment for costs associated with inventory, a net increase in commissioned work from Defence, the transfer of funding from Defence for work DMO performs for foreign governments and the application of parameter updates.

### **Maritime Systems**

During 2005-06, new integrated materiel support contracts are expected to be negotiated and in place for the Minehunter Coastal vessels and the Anzac-class frigates. The new support contract for the Adelaide-class guided missile frigates (FFGs) has been postponed due to delays in the FFG Upgrade program.

# **CHAPTER FOUR GOVERNANCE AND MATERIEL REFORM**

Information in Chapter 4 - Governance and Materiel Reform remains as reported in the *Portfolio Budget Statements 2005-06*.

# CHAPTER FIVE

## PEOPLE

The overall average DMO workforce is now estimated to be 6,551 in 2005-06, representing a reduction of 88 from the budget estimate of 6,639. Details are at Tables 5.1 and 5.2.

Under revised planning, the DMO workforce in 2005-06 is estimated to comprise:

**Table 5.1: DMO Workforce** <sup>(1)</sup>

	2005-06	2005-06	Variation	
	Budget Estimate	Revised Estimate		%
APS Workforce <sup>(2)</sup>	4,448	4,408	-40	-1
PSP Workforce <sup>(3)</sup>	338	338	0	0
<b>Sub-total Civilian Workforce</b>	<b>4,786</b>	<b>4,746</b>	<b>-40</b>	<b>-1</b>
<b>Permanent Force</b>				
Navy	353	351	-2	-1
Army	501	485	-16	-3
Air Force	830	827	-3	-1
<b>Sub-total Permanent Force<sup>(4)</sup></b>	<b>1,684</b>	<b>1,663</b>	<b>-21</b>	<b>-1</b>
ADF Reserve Force	169	142	-27	-16
<b>Sub-total Military Force<sup>(5)</sup></b>	<b>1,853</b>	<b>1,805</b>	<b>-48</b>	<b>-3</b>
<b>Total Workforce</b>	<b>6,639</b>	<b>6,551</b>	<b>-88</b>	<b>-1</b>

**Notes**

1. Staffing numbers for the Permanent Forces and Australian Public Service are based on average funded strength and full-time equivalent respectively. Numbers for Reserves represent numbers of Active Reserves who will undertake paid service during the financial year.
2. DMO's APS numbers are not included in the Defence workforce numbers.
3. PSPs are individuals under contract filling line positions. DMO PSPs are not included in the Defence workforce numbers. Action is occurring to reduce the number of PSPs in DMO and replace with APS personnel.
4. Numbers for the ADF Permanent Force include general Reservists undertaking full-time service.
5. These figures are included in Defence's military numbers, as military staff are provided to the DMO from Defence under a fee for service arrangement.

### APS Civilian Workforce

The revised full-time equivalent average (FTE-A) funded strength for 2005-06 is 4,408, an overall decrease of 40 from the 2005-06 budget estimate of 4,448. This reduction is due to:

- the transfer of 129 full-time equivalent from DMO to the Vice Chief of the Defence Force (VCDF) Group in support of the return of the fleet managers function,
- the transfer of 91 full-time equivalent from the VCDF Group to DMO in support of the return of the guided weapons maintenance function, and
- the transfer of 2 full-time equivalent from DMO to Air Force in support of the graphic drawing cell.

## ADF Permanent Force

The revised average funded strength (AFS) for 2005-06 is 1663, an overall decrease of 21 from the 2005-06 budgeted estimates of 1684. This decrease is due to:

- a reduction of 2 Navy average funded strength reflecting the continued agreed Navy draw-down of 2 average funded strength for DMO;
- a reduction of 16 Army AFS comprising the transfer of 17 average funded strength from DMO to the VCDF Group in support of the return of the fleet managers function and the establishment of 2 new Short Term Pool Position positions (Part Year Effect (PYE) of 1 AFS) in Air 9000 project; and
- a reduction of 3 Air Force average funded strength reflecting the continued agreed Air Force draw-down of 3 AFS for DMO.

## ADF Reserve Force

The revised estimated for the Reserve Force employed within the DMO is 142 for 2005-06, which represents a decrease of 27 personnel. This is due to Reserve members completing their allocation of training days and not being further employed within the DMO. These figures do not include Reservists undertaking full-time service, as they are included in the Permanent Force numbers (see Note 4 to Table 5.1).

**Table 5.2: Breakdown of Personnel Numbers by Service and Rank <sup>(1)</sup>**

	2005-06 Budget Estimate <sup>(1)</sup>	2005-06 Revised Estimate <sup>(1)</sup>	Variation	% <sup>(7)</sup>
<b>APS</b>				
Senior Executives	30	30		
Senior Officers <sup>(6)</sup>	973	1,036	63	1
Other APS Staff	3,445	3,342	-103	-2
<b>Sub-total APS<sup>(2)</sup></b>	<b>4,448</b>	<b>4,408</b>	<b>-40</b>	<b>-1</b>
PSP Workforce <sup>(3)</sup>	338	338		
<b>Sub-total Civilian Workforce<sup>(1)(2)</sup></b>	<b>4,786</b>	<b>4,746</b>	<b>-40</b>	<b>-1</b>
<b>NAVY</b>				
Star Ranked Officers	6	5	-1	
Senior Officers <sup>(6)</sup>	49	49		
Junior Officers	143	141	-2	-1
Other Ranks	155	156	1	
<b>Sub-total Permanent Navy<sup>(1)</sup></b>	<b>353</b>	<b>351</b>	<b>-2</b>	<b>-1</b>
Reserve Forces <sup>(4)</sup>	61	49	-12	-1
<b>Sub-total Navy<sup>(5)</sup></b>	<b>414</b>	<b>400</b>	<b>-14</b>	<b>-3</b>
<b>ARMY</b>				
Star Ranked Officers	4	5	1	
Senior Officers <sup>(6)</sup>	44	45	1	
Junior Officers	213	218	5	2
Other Ranks	240	217	-23	-5
<b>Sub-total Permanent Army<sup>(1)</sup></b>	<b>501</b>	<b>485</b>	<b>-16</b>	<b>-3</b>

Defence Materiel Organisation

Reserve Forces <sup>(4)</sup>	67	54	-13	-2
<b>Sub-total Army<sup>(5)</sup></b>	<b>568</b>	<b>539</b>	<b>-29</b>	<b>-5</b>
<b>AIR FORCE</b>				
Star Ranked Officers	5	6	1	
Senior Officers <sup>(6)</sup>	71	72	1	
Junior Officers	403	403		
Other Ranks	351	346	-5	
<b>Sub-total Permanent Air Force<sup>(1)</sup></b>	<b>830</b>	<b>827</b>	<b>-3</b>	
Reserve Forces <sup>(4)</sup>	41	39	-2	
<b>Sub-total Air Force<sup>(5)</sup></b>	<b>871</b>	<b>866</b>	<b>-5</b>	
<b>Total DMO Workforce<sup>(1)</sup></b>	<b>6,639</b>	<b>6,551</b>	<b>-88</b>	<b>-1</b>

**Notes**

1. Staffing numbers for the Permanent Forces and Australian Public Service are based on average funded strength and full-time equivalent respectively. Numbers for Reserves represent numbers of Active Reserves who will undertake paid service during the financial year.
2. DMO's APS numbers are not included in the Defence workforce numbers.
3. PSPs are individuals under contract filling line positions. DMO PSPs are not included in the Defence workforce numbers.
4. Numbers for the ADF Permanent Force include general Reservists undertaking full-time service.
5. These figures are included in Defence's military numbers, as military staff are provided to the DMO from Defence under a fee for service arrangement.
6. Senior Officers are of Colonel or Lieutenant Colonel rank equivalent and APS Executive Level 1 and 2.
7. Percentage figures not shown are too small when rounding applied.



# CHAPTER SIX

## BUDGETED FINANCIAL STATEMENTS

### ANALYSIS OF BUDGETED FINANCIAL STATEMENTS

Revisions to the budgeted departmental financial statements for DMO since the *Portfolio Budget Statements 2005-06* are presented in this section.

**Table 6.1: Budgeted Departmental Income Statement (For the Period Ended 30 June)**<sup>1</sup>

	Revised budget 2005-06 \$'000	Forward estimate 2006-07 \$'000	Forward estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000
<b>INCOME</b>				
<b>Revenue</b>				
Revenues from Government	44,257	45,203	45,681	46,000
Goods and services	7,351,342	7,375,550	7,617,470	7,830,207
<b>Total revenue</b>	<b>7,395,599</b>	<b>7,420,753</b>	<b>7,663,151</b>	<b>7,876,207</b>
<b>Gains</b>				
Net gains from sale of assets	33,572	34,210	34,552	34,966
Other	1,500	1,500	1,500	1,500
<b>Total gains</b>	<b>35,072</b>	<b>35,710</b>	<b>36,052</b>	<b>36,466</b>
<b>Total income</b>	<b>7,430,671</b>	<b>7,456,463</b>	<b>7,699,203</b>	<b>7,912,673</b>
<b>EXPENSE</b>				
Employees	354,654	360,128	361,730	357,858
Suppliers	6,969,456	6,989,136	7,231,890	7,458,018
Depreciation and amortisation	72,989	72,989	71,031	61,831
Net losses from sale of assets	33,572	34,210	34,552	34,966
<b>Total expenses</b>	<b>7,430,671</b>	<b>7,456,463</b>	<b>7,699,203</b>	<b>7,912,673</b>
<b>Net surplus or (deficit) attributable to the Australian Government</b>	-	-	-	-

**Note**

1. Revenue for Goods and services and expense for Suppliers includes DMO's expected share of revenue from Defence for planned activities which have not yet been approved by Government. These amounts are as agreed with Defence and are detailed below.

	Revised budget 2005-06 \$'000	Forward estimate 2006-07 \$'000	Forward estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000
Revenue/expense for not yet approved activities	38,011	347,631	1,391,872	2,388,615

**Table 6.2: Budgeted Departmental Balance Sheet (as at 30 June)**

	Revised budget 2005-06 \$'000	Forward estimate 2006-07 \$'000	Forward estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000
<b>ASSETS</b>				
<b>Financial assets</b>				
Cash	30,176	30,176	30,176	30,176
Receivables	137,874	162,736	187,490	201,433
<b>Total financial assets</b>	<b>168,050</b>	<b>192,912</b>	<b>217,666</b>	<b>231,609</b>
<b>Non-financial assets</b>				
Specialist military equipment	8,314,212	8,314,212	8,314,212	8,314,212
Infrastructure, plant and equipment	240,525	256,447	264,305	264,554
Intangibles	77,562	54,228	32,852	20,676
Other	602,663	602,663	602,663	602,663
<b>Total non-financial assets</b>	<b>9,234,962</b>	<b>9,227,550</b>	<b>9,214,032</b>	<b>9,202,105</b>
<b>Total assets</b>	<b>9,403,012</b>	<b>9,420,462</b>	<b>9,431,698</b>	<b>9,433,714</b>
<b>LIABILITIES</b>				
<b>Provisions</b>				
Employees	117,214	118,742	122,120	123,887
<b>Total provisions</b>	<b>117,214</b>	<b>118,742</b>	<b>122,120</b>	<b>123,887</b>
<b>Payables</b>				
Suppliers	624,703	624,703	624,703	624,703
Other payables <sup>1</sup>	38,816	54,738	62,596	62,845
AUC payable	8,314,212	8,314,212	8,314,212	8,314,212
<b>Total payables</b>	<b>8,977,731</b>	<b>8,993,653</b>	<b>9,001,511</b>	<b>9,001,760</b>
<b>Total liabilities</b>	<b>9,094,945</b>	<b>9,112,395</b>	<b>9,123,631</b>	<b>9,125,647</b>
<b>Net Assets</b>	<b>308,067</b>	<b>308,067</b>	<b>308,067</b>	<b>308,067</b>
<b>EQUITY</b>				
<b>Parent entity interest</b>				
Contributed equity	308,067	308,067	308,067	308,067
<b>Total parent entity interest</b>	<b>308,067</b>	<b>308,067</b>	<b>308,067</b>	<b>308,067</b>
<b>Total equity</b>	<b>308,067</b>	<b>308,067</b>	<b>308,067</b>	<b>308,067</b>

**Note**

1. 'Other payables' represents unearned revenue for cash received from Defence.

**Table 6.3: Budgeted Departmental Statement of Cash Flows (for the Period Ended 30 June)**

	Revised budget 2005-06 \$'000	Forward estimate 2006-07 \$'000	Forward estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000
<b>OPERATING ACTIVITIES</b>				
<b>Cash received</b>				
Goods and services	7,237,087	7,364,364	7,598,306	7,814,217
Appropriations	44,257	45,203	45,681	46,000
GST input credit receipts	648,735	640,848	659,230	677,127
Other	158,291	2,247	2,269	2,296
<b>Total cash received</b>	<b>8,088,370</b>	<b>8,052,662</b>	<b>8,305,486</b>	<b>8,539,640</b>
<b>Cash used</b>				
Employees	353,032	358,600	358,353	356,091
GST payments to suppliers	648,735	640,848	659,230	677,127
Suppliers	5,888,242	5,999,598	6,250,081	6,472,423
Inventory	1,079,714	988,039	980,309	984,095
<b>Total cash used</b>	<b>7,969,723</b>	<b>7,987,085</b>	<b>8,247,973</b>	<b>8,489,736</b>
<b>Net cash from or (used by) operating activities</b>	<b>118,647</b>	<b>65,577</b>	<b>57,513</b>	<b>49,904</b>
<b>INVESTING ACTIVITIES</b>				
<b>Cash received</b>				
Proceeds from sales of property, plant and equipment	33,572	34,210	34,552	34,966
<b>Total cash received</b>	<b>33,572</b>	<b>34,210</b>	<b>34,552</b>	<b>34,966</b>
<b>Cash used</b>				
Purchase of property, plant and equipment	122,043	99,787	92,065	84,870
<b>Total cash used</b>	<b>122,043</b>	<b>99,787</b>	<b>92,065</b>	<b>84,870</b>
<b>Net cash from or (used by) investing activities</b>	<b>-88,471</b>	<b>-65,577</b>	<b>-57,513</b>	<b>-49,904</b>
<b>FINANCING ACTIVITIES</b>				
<b>Total cash received</b>	-	-	-	-
<b>Total cash used</b>	-	-	-	-
<b>Net cash from or (used by) financing activities</b>	-	-	-	-
<b>Net increase or (decrease) in cash held</b>	<b>30,176</b>	-	-	-
Cash at the beginning of the reporting period	-	30,176	30,176	30,176
<b>Cash at the end of the reporting period</b>	<b>30,176</b>	<b>30,176</b>	<b>30,176</b>	<b>30,176</b>

**Table 6.4: Departmental Capital Budget Statement**

	Revised budget 2005-06 \$'000	Forward estimate 2006-07 \$'000	Forward estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000
<b>CAPITAL APPROPRIATIONS</b>				
Total equity injections	-	-	-	-
Total loans	-	-	-	-
<b>Total capital appropriations</b>	-	-	-	-
<b>Represented by:</b>				
Purchase of non-financial assets	-	-	-	-
<b>Total represented by</b>	-	-	-	-
<b>PURCHASE OF NON-FINANCIAL ASSETS</b>				
Funded by capital appropriation	-	-	-	-
Funded internally by				
Departmental resources	122,043	99,787	92,065	84,870
<b>Total</b>	<b>122,043</b>	<b>99,787</b>	<b>92,065</b>	<b>84,870</b>

**Table 6.5: Departmental Property, Plant, Equipment and Intangibles — Summary of Movement  
(Budget Year 2005-06)**

	Specialist military equipment	Other infrastructure plant and equipment	Computer software	Other intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 1 July 2005</b>					
Gross book value	8,314,212	204,345	96,201	117,510	8,732,268
Accumulated depreciation	-	2,636	64,685	48,130	115,451
<b>Opening net book value</b>	<b>8,314,212</b>	<b>201,709</b>	<b>31,516</b>	<b>69,380</b>	<b>8,616,817</b>
Additions:					
by purchase	3,116,609	122,043	-	-	3,238,652
Depreciation/amortisation expense	-	49,655	11,158	12,176	72,989
Disposals:					
other disposals	-	33,572	-	-	33,572
Other movements					
delivery of assets to Defence	3,116,609	-	-	-	3,116,609
<b>As at 30 June 2006</b>					
Gross book value	8,314,212	261,586	96,201	117,510	8,789,509
Accumulated depreciation	-	21,061	75,843	60,306	157,210
<b>Closing net book value</b>	<b>8,314,212</b>	<b>240,525</b>	<b>20,358</b>	<b>57,204</b>	<b>8,632,299</b>

**Table 6.6: Departmental Statement of Changes in Equity — Summary of Movement (Budget Year 2005-06)**

	Accumulated results \$'000	Asset revaluation reserve \$'000	Other reserves \$'000	Contributed equity/ capital \$'000	Total equity \$'000
<b>Opening balance as at 1 July 2005</b>					
Balance carried forward from previous period	-	-	-	-	-
<b>Adjusted opening balance</b>	-	-	-	-	-
<b>Income and expense</b>					
Income and expenses recognised directly in equity:	-	-	-	-	-
<b>Sub-total income and expense</b>	-	-	-	-	-
Net operating result	-	-	-	-	-
<b>Total income and expenses recognised directly in equity</b>	-	-	-	-	-
<b>Transactions with owners</b>					
Distribution to owners	-	-	-	-	-
Contribution by owners					
Other:					
Restructuring	-	-	-	308,067	308,067
<b>Sub-total transactions with owners</b>				<b>308,067</b>	<b>308,067</b>
Transfers between equity components	-	-	-	-	-
<b>Closing balance as at 30 June 2006</b>	-	-	-	<b>308,067</b>	<b>308,067</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Income statement

An increase in DMO's revenue (\$305.3m) is largely a result of movements in 'Goods and services' revenue and 'Other' gains detailed below:

- a net increase in commissioned work required by Defence (\$46.3m);
- a reduction of not yet approved activity (-\$130.0m) due to Government's decision to reprogram funds to 2006-07 to cover timing issues with the purchase of the AEGIS system for the Air Warfare Destroyer;
- additional funding from Defence to support ADF operations (\$53.4m);
- the application of indexation and foreign exchange parameter updates for acquisition and sustainment activities (\$49.0m);
- the transfer by Defence of funding received from foreign governments for collaborative projects (\$125.9m); and
- the transfer of inventory assets to Defence changed the timing of when DMO earns revenue from Defence (now on purchase of inventory instead of issue) (\$230.6m); and removed the 'Other' gain recognising inventory for the first time (-\$70.0m, a non-cash item).

Movements in expenses for DMO correspond with the above.

### Balance sheet

The reduction in equity (-\$4,513.6m) is a result of asset ownership changes and the refinement to estimated transferred balances from Defence.

Movements associated with asset ownership changes:

- the transfer of inventory assets to Defence removed all balance sheet items associated with the ownership of inventory. These are: the 'Inventories' asset, consisting of the transferred balance from Defence (-\$4,519.9m) and movement during the year (-\$230.6m); and a portion of the liability 'Other payables' (unearned revenue from Defence) (-\$230.6m); and
- the addition of the asset 'Specialist military equipment' (assets under construction) (\$8,314.2m) represents work undertaken in existing approved projects for Defence and DMO's continuing responsibility for the uncompleted asset. A corresponding liability, 'Assets Under Construction payable', (-\$8,314.2), has been reported to recognise DMO's obligation to provide completed assets to Defence.

Major refinements to estimated transferred balances from Defence are:

- Financial assets: 'Cash' reduced (-\$50.1m) to be correctly reported as a 'Receivable' (appropriation receivable) (\$40.3m); other 'Receivable'

movements included an increase in the GST receivable (\$50.9m) and reduction in trade debtors (-\$7.6m);

- a significant in-year movement due to the change in transferred balances from Defence is the transfer from the official public account to DMO's bank account (\$30.0m) which resulted in an increase in 'Cash' and a decrease in 'Receivables' (appropriation receivable); and
- Liabilities: a reduction in the 'Employee' provision (\$4.1m) and an increase in 'Suppliers' payable (-\$33.0m).

## **Statement of cash flows**

The net increase in cash received (\$273.8m) and cash used (\$243.6m) is mainly a result of movements in 'Operating Activities'.

The net increase in 'Operating Activities– Cash received' (\$273.8m) is a result of:

- a net increase in 'Goods and services' (representing cash received from Defence) relates to changed Defence requirements including operations, and application of parameter updates (\$18.6m); and, the transfer of inventory to Defence (\$86.3m), which resulted in Defence funding purchases previously funded from the sale of inventory;
- an increase in the 'GST input credit receipts' (\$98.9m) due to changes in purchases;
- an increase in 'Other' due to the transfer by Defence of funding received from foreign governments for collaborative projects (\$125.9m) and the reduction in sale of inventory receipts (-\$86.3m) due to the transfer of inventory to Defence; and
- an increase in 'Transfers from the official public account' (\$30.2m) is due to correctly recognising a zero cash starting position and changes to the transferred balances from Defence.

The net increase in 'Operating Activities – Cash used' (\$243.5m) is a result of:

- a reduction in 'Employees' (-\$3.6m) is largely due to agreed movements with Defence;
- a net increase in 'Suppliers' (\$148.2m) corresponding to the 'Goods and services', and 'Other' movements detailed above (less Employees movement); and
- 'GST payments to suppliers' increase (\$98.9m) due to changes in purchases.

A 'Net increase in cash held' (\$30.2m) is due to the correct reporting of a zero balance for 'Cash at the beginning of the reporting period'. 'Cash at the end of the reporting period' has decreased (-\$20.1m) as DMO decreased its estimate of the cash it needs to hold on hand.