



PORTFOLIO BUDGET STATEMENTS 2005-06

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

**BUDGET INITIATIVES AND EXPLANATIONS
OF APPROPRIATIONS SPECIFIED BY OUTCOMES AND OUTPUTS
2005-06**

BUDGET RELATED PAPER NOs. 1.4A and 1.4C

2005-06 BUDGET PAPERS

Budget Speech

- No. 1 Budget Strategy and Outlook 2005-06
Contains information on the economic and financial outlook, together with information on the fiscal strategy.
- No. 2 Budget Measures 2005-06
Provides a comprehensive statement on the budget expense, revenue and capital measures in the 2005-06 Budget.
- No. 3 Federal Financial Relations 2005-06
Provides information on the Australian Government's financial relations with the states, territories and local government.
- No. 4 Agency Resourcing 2005-06
Contains information on resourcing for Australian Government agencies (including the Appropriation Bills Nos. 1 and 2 and the Appropriation (Parliamentary Departments) Bill No. 1).

2005-06 BUDGET RELATED PAPERS

- No. 1 Portfolio Budget Statements
Detailed information on the expected financial position of each Australian Government agency for 2005-06.

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Senator the Hon Robert Hill
Leader of the Government in the Senate
Minister for Defence

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

6 MAY 2005

The Hon Neil Andrew MP
Speaker of the House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Mr President and Mr Speaker

I hereby submit Portfolio Budget Statements in support of the 2005-06 Budget for the Department of Defence, the Defence Materiel Organisation and the Defence Housing Authority.

The Portfolio Budget Statements set out:

- the outcomes and outputs developed for the portfolio;
- the portfolio's administered items;
- information on budget measures affecting portfolio outcomes; and
- the performance indicators and evaluations to be used to assess performance against portfolio outcomes.

I present these statements by virtue of my Ministerial responsibility for accountability to the Parliament and, through it, the public.

Robert Hill

DEFENCE PORTFOLIO BUDGET STATEMENTS 2005-06

USER GUIDE

Chapter Guide	vi-vii
Abbreviations and Conventions	x

SECTION ONE – DEFENCE

CHAPTER ONE – OVERVIEW

Overview	3
Overview of the 2005-06 Budget	3
Strategic Objectives and Environment	7
Force Structure	8
Implementing the Defence White Paper	11
Initiatives to Improve Capability	11
Initiatives to Improve the Provision of Advice and Decision Making	18
Initiatives to Get the Best Value for the Defence Dollar	20
Initiatives to Enhance Strategic Relationships	20
Initiatives for Science and Technology and Australian Industry	21
Status of Defence White Paper Funding	22
Organisational Structure	26

CHAPTER TWO – RESOURCING

2005-06 Budget Summary	31
2005-06 Budget Measures	35
Discretionary Grants	55
Program of Administrative Savings	57
Purchaser-Provider Arrangements	
Defence Materiel Organisation	61
Defence Housing Authority	61
Department of Foreign Affairs and Trade	62
Comcare	63
ComSuper	64

CHAPTER THREE – CAPITAL INVESTMENT PROGRAM

Overview	67
Defence Capability Plan	69
The Approved Major Capital Equipment Program	71
Capital Facilities Projects	72

Other Capital Purchases.....	84
Capital Receipts.....	86

CHAPTER FOUR – PLANNED OUTCOME PERFORMANCE

Defence Outcome and Output Structure	89
Cost of Defence Outcomes	90
Cost Summary of Defence Outcomes	90
Net Cost of Defence Outcomes	93
Group Contributions to Defence Outcomes	95
Outcome One: Command of Operations	96
Outcome Two: Navy Capability	115
Outcome Three: Army Capability	131
Outcome Four: Air Force Capability	148
Outcome Five: Strategic Policy.....	159
Outcome Six: Intelligence.....	168
Outcome Seven: Superannuation and Housing Support Services for Current and Retired Defence Personnel	175

CHAPTER FIVE – PEOPLE

Overview	181
Workforce Summary	185

CHAPTER SIX – MANAGEMENT REFORMS AND EFFICIENCIES

Progress on Financial Statements Remediation Plans.....	197
Defence Information Environment.....	208
Delivering Internal Services.....	210
Portfolio Evaluations	216

CHAPTER SEVEN – BUDGETED FINANCIAL STATEMENTS

Budgeted Financial Statements	217
Budgeted Statement of Financial Performance.....	219
Budgeted Statement of Financial Position.....	220
Budgeted Statement of Cash Flows.....	221
Capital Budget Statement	222
Non-Financial Assets – Summary of Movement.....	223
Schedule of Budgeted Revenues and Expenses Administered on Behalf of Government.....	224
Schedule of Budgeted Assets and Liabilities Administered on Behalf of Government.....	225
Schedule of Budgeted Administered Cash Flows.....	226
Notes to the Budgeted Financial Statements	227

SECTION TWO – DEFENCE MATERIEL ORGANISATION

Chapter One – Overview.....	241
Chapter Two – Resourcing.....	246
Chapter Three – Planned Outcome Performance	250
Chapter Four – Governance and Materiel Reform.....	275
Chapter Five – People	279
Chapter Six – Budgeted Financial Statements.....	284

SECTION THREE – DEFENCE HOUSING AUTHORITY

Overview	295
Budgeted Financial Statements	298

APPENDICES

List of Tables and Charts.....	305
Glossary	309
Acronyms and Abbreviations	316
Alphabetical Index	317

USER GUIDE

Purpose of the Portfolio Budget Statements

The purpose of the 2005-06 Portfolio Budget Statements is to inform Senators and Members of Parliament of the proposed allocation of resources to Government outcomes by agencies within the portfolio. Agencies receive resources from the annual appropriations bills, special appropriations, standing appropriations (including special accounts), and revenue from other sources.

A key role of the Portfolio Budget Statements is to facilitate the understanding of proposed annual appropriations in Appropriation Bills No. 1 and No. 2 2005-06 (or Appropriation Bill [Parliamentary Departments] No. 1 2005-06 for the parliamentary departments). In this sense, the Portfolio Budget Statements are officially Budget Related Papers and are declared by the Appropriation Bills to be 'relevant documents' to the interpretation of the Bills according to section 15AB of the *Acts Interpretation Act 1901*.

The Portfolio Budget Statements provide sufficient information, explanation and justification to enable Parliament to understand the purpose of each outcome proposed in the Bills.

As required under Section 12 of the *Charter of Budget Honesty Act 1998*, non-general government sector entities are not consolidated into the Commonwealth general government sector fiscal estimates, accordingly, these entities are not reported in the Portfolio Budget Statements.

How to read the Portfolio Budget Statements

The Defence Portfolio Budget Statements are presented in three sections, as outlined below.

User Guide to the Defence Portfolio Budget Statements

SECTION ONE: DEFENCE

Chapter One — <i>Overview</i>	An overview of Defence's strategic objectives and environment, the status of the Defence White Paper implementation and Defence's organisational structure.
Chapter Two — <i>Resourcing</i>	Defence's financial outlook for 2005-06, including a budget summary and measures, and Defence's purchaser-provider arrangements.
Chapter Three — <i>Capital Investment Program</i>	A summary of Defence's capital budget, including projects to be considered in 2005-06, medium and major capital facilities projects, other capital purchases and capital receipts.
Chapter Four — <i>Planned Outcome Performance</i>	A brief overview of Defence's outcomes and outputs for 2005-06. It details the estimated cost of Defence's outputs and outcomes and describes each outcome and output including planned performance targets.

Chapter Five — <i>People</i>	This chapter provides a summary of personnel initiatives for 2005-06 and a summary of Defence's workforce.
Chapter Six — <i>Management Reforms</i>	Information on the implementation of internal business processes in 2005-06, designed to ensure sustainable delivery of outcomes.
Chapter Seven — <i>Budgeted Financial Statements</i>	Defence's budgeted financial statements, in accrual format, covering 2005-06, the current year and three out-years.
SECTION TWO: DEFENCE MATERIEL ORGANISATION	
Chapter One — <i>Overview</i>	An overview of the organisation, including the challenges and opportunities facing the DMO, the organisational structure and the prescription of the DMO.
Chapter Two — <i>Resourcing</i>	The DMO's financial outlook for 2005-06, including tables on appropriations and other revenue resources for departmental appropriations. This chapter also includes purchaser-provider and cost recovery arrangements.
Chapter Three — <i>Planned Outcome Performance</i>	An overview of the DMO's outcome and outputs, including the budget estimates, planned performance targets and planned evaluations.
Chapter Four — <i>Governance and Materiel Reform</i>	This chapter contains a summary of the DMO's implementation of the recommendations from the Defence Procurement Review, governance activities and reform initiatives.
Chapter Five — <i>People</i>	This chapter provides a summary of personnel initiatives for 2005-06 and a summary of the DMO's workforce.
Chapter Six — <i>Budgeted Financial Statements</i>	The DMO's budgeted financial statements, in accrual format, covering 2005-06 and three out-years.
SECTION THREE: DEFENCE HOUSING AUTHORITY	
APPENDICES	
	A list of tables and charts, a glossary, acronyms and abbreviations, and an alphabetical index.

Portfolio Budget Statements road map

Comprehensive information on all government decisions announced in the Budget are in *Budget Paper No. 2, Budget Measures 2005-06*. The Portfolio Budget Statements include Budget appropriations for this Budget in each agency's Table 2.2, 2005-06 Budget Measures.

The following table shows the links between the Budget papers and the Portfolio Budget Statements.

Budget Papers	Portfolio Budget Statements equivalent
Budget Paper No. 1 Budget Strategy and Outlook Statement 1: Fiscal Strategy and Budget Priorities Overview of the fiscal and economic outlook	Defence – Section One, Chapter Two DMO – Section Two, Chapter Two
Statement 2: Fiscal Outlook Budget aggregates and variations to the fiscal balance	Defence – Section One, Chapter Two DMO – Section Two, Chapter Two
Statement 10: AAS Financial Statements Accrual financial statements for the general government sector	Defence – Section One, Chapter Seven DMO – Section 2, Chapter Six
Budget Paper No. 2: Budget Measures Budget revenue, expense and capital measures	Defence – Section One, Chapter Two DMO – Section Two, Chapter Two
Budget Paper No. 3: Federal Financial Relations Information on the Australian Government’s relations with states, territories and local government, in particular, Specific Purpose Payments	Defence – Section One, Chapters Two and Chapter Four
Budget Paper No. 4: Agency Resourcing Resourcing for Australian Government agencies, including Appropriation Bills	Defence – Section One, Chapter Two DMO – Section Two, Chapter Two

Departmental and administered items

Under the Australian Government’s accrual-based budgeting framework, and consistent with Australian Accounting Standards, transactions that agencies control (departmental transactions) are separately budgeted for and reported on from transactions agencies do not have control over (administered transactions). This ensures that agencies are only held fully accountable for the transactions over which they have control.

Departmental items

Assets, liabilities, revenues and expenses in relation to an agency or authority that are controlled by the agency. Departmental expenses include employee and supplier expenses and other administrative costs, which are incurred by the agency in providing its goods and services.

Administered items

Revenues, expenses, assets and liabilities that are managed by an agency or authority on behalf of the government according to set government directions. Administered expenses include subsidies, grants and personal benefit payments and administered revenues include taxes, fees, fines and excises.

Appropriations in the accrual budgeting framework

In the accrual budgeting framework, separate annual appropriations are provided for:

Departmental price of outputs appropriations: representing the government's funding for outputs from agencies,

Departmental capital appropriations: for investments by the government for either additional equity or loans to agencies or payments from previous years' outputs,

Administered expense appropriations: for the estimated administered expenses relating to an existing outcome, a new outcome or a Specific Purpose Payment to the states; and

Administered capital appropriations: for increases in administered equity through funding non-expense Administered payments.

Special appropriations fund the majority of payments from the Consolidated Revenue Fund (especially those that are entitlement driven or involve transfers to state governments). The appropriation framework is discussed further in the introduction to *Budget Paper No. 4: Agency Resourcing 2005-06*.

Components of agency financial statements

Reporting requirements for budgeted financial statements differ between agencies (for example, according to whether the agency participates in administered transactions). Therefore, not all agencies are required to report against all schedules.

The budgeted financial statements contain the estimates prepared in accordance with the requirements of the government's financial budgeting and reporting framework, including the principles of the Australian Accounting Standards and Statements of Accounting Concepts, as well as specific guidelines issued by the Department of Finance and Administration. They show the planned financial performance for the 2005-06 Budget year and each of the forward years from 2006-07 to 2008-09. The statements also include the estimated actual for 2004-05 for comparative purposes.

The schedules included in the budgeted financial statements for 2005-06 in Section One, Chapter Seven, are as follows:

Statement/Schedule	Purpose
Budgeted departmental statement of financial performance	Shows the expected financial results for the agency. Identifies full accrual expenses and revenues, which highlights whether the agency is operating at a sustainable level.
Budgeted departmental statement of financial position	The financial position of the agency. It helps decision makers to track the management of assets and liabilities.

Budgeted departmental statement of cash flows	Provides information on the extent and nature of cash flows by categorising them into expected cash flows from operating activities, investing activities and financing activities.
Departmental capital budget statement	Shows all planned departmental capital expenditure (capital expenditure on non-financial assets), whether funded through capital appropriations for additional equity or borrowings, or from funds from internal sources.
Departmental property, plant, equipment and intangibles — summary of movement	Shows budgeted acquisitions and disposals of non-financial assets during the budget year.
Schedule of budgeted revenues and expenses administered on behalf of government	Identifies the main revenues and expenses administered on behalf of government.
Schedule of budgeted assets and liabilities administered on behalf of government	Shows the assets and liabilities administered on behalf of government.
Schedule of budgeted administered cash flows	Shows cash flows administered on behalf of government.
Schedule of administered capital budget	Shows details of planned administered capital expenditure.
Schedule of property, plant, equipment and intangibles — summary of movement	Discloses details of movements in administered non-financial assets.

Abbreviations and conventions

The following notation may be used:

NEC/nec	not elsewhere classified
-	nil
..	not zero, but rounded to zero
na	not applicable (unless otherwise specified)
nfp	not for publication
\$m	\$ million

Figures in tables and in the text may be rounded. Figures in text are generally rounded to one decimal place, whereas figures in tables are generally rounded to the nearest thousand. Discrepancies in tables between totals and sums of components are due to rounding.

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A copy of this document can be located on the Australian Government Budget website at www.budget.gov.au and the Defence website at :
www.defence.gov.au/budget

References

Previous years' Defence portfolio budget statements, portfolio additional estimates statements and annual reports can be found at:
www.defence.gov.au/budget/

The Defence White Paper can be found at:
www.defence.gov.au/whitepaper/

The Defence Update 2003 can be found at:
www.defence.gov.au/ans2003/index.htm