

DEFENCE

CHAPTER ONE

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OVERVIEW

Defence is directly responsible for delivering six core outcomes to the Government. Outcome One, Defence Operations, is the core business of the Chief of Joint Operations. The Services deliver the Navy, Army and Air Force outcomes (Defence Outcomes Two, Three and Four). Outcomes Five and Six are delivered by the Strategy Group and Intelligence Group respectively.

A seventh Defence outcome covers activities performed on behalf of the Government relating mainly to the provision of superannuation and housing support services to current and retired Defence personnel, and other administered revenues and expenses.

OVERVIEW OF 2005-06 BUDGET

The 2005-06 Defence Budget totals \$17.5 billion in Departmental funding. In addition, Defence will receive an Administered appropriation of \$2.5 billion, mainly for military superannuation benefits for retired Australian Defence Force (ADF) members. The Departmental funding is \$879.7m higher than the projected result for 2004-05 and represents an increase of \$822.8m compared to the Forward Estimate published in the *Portfolio Additional Estimates Statements 2004-05*. The 2005-06 Budget maintains Defence expenditure at about 1.9 per cent of GDP.

The Budget builds on both the strategic and financial foundations that have been laid in the 2000 Defence White Paper, the 2003 Defence Update and the Defence Capability Plan. The Government has continued to meet its Defence White Paper funding commitments. The 2005-06 Budget provides a further \$2.3 billion in Defence White Paper funding, which builds on the \$4.0 billion already provided over the period 2001-02 to 2004-05. This funding provides for the enhanced capability investment program embodied in the Defence Capability Plan, associated net personnel costs of new equipment and the higher costs of employing military personnel in the current employment market.

The Budget includes \$480.2m over four years in new Budget measures, including \$458.4m in 2005-06, reflecting the Government's budget priorities for Defence. These include key security projects such as the offshore protection of the North West Shelf, maintaining the surveillance of Australia's northern approaches and continuing to enhance the security of Defence bases and facilities. Other key funding commitments include Australia's contribution to the rehabilitation of Iraq with an additional \$420.5m, including \$240.0m over four years to met the cost of the deployment of the Al Muthanna Task Group to Iraq.

In addition, new Budget measures include:

- \$139.3m over three years for the purchase of two additional patrol boats and trials of unmanned aerial vehicles to enhance our ability to protect Australia's offshore gas and oil platforms on the North West Shelf;
- \$16.4m of further funding for surveillance of Australia's northern approaches (Operation Relex II) in 2005-06; and
- \$74.8m over two years to continue Operation Safebase which provides for the protection of personnel and infrastructure at Defence bases and facilities.

The Budget also provides for Defence to take up \$300.0m of the Defence Capability Plan funding it had previously deferred. The reprogramming of the Defence Capability Plan funding agreed in 2004-05 resulted from an assessment at that time of Defence's ability to use the funding in the time frame originally envisaged. The reforms in Defence capability procurement are now beginning to bear fruit. In less than 12 months the Defence Materiel Organisation has improved its efficiency, put in place better management and demonstrated a greater determination to meet published timelines. In close cooperation with the new Capability Development Group and local industry, the Defence Materiel Organisation is well down the path to addressing the deficiencies identified by the Kinnaird Review of Defence Procurement.

The additional \$300.0m will support major Defence capability projects including:

- acquiring longer range stand-off air-to-surface weapons for the F/A-18 Hornet and P-3 Orion aircraft to improve our strike capability;
- upgrading the F/A-18 aircraft's electronic warfare self-protection to safeguard the aircraft against emerging threats;
- progressing the 'long lead time' and sub-systems to be incorporated into the air warfare destroyers, such as the AEGIS Integrated Combat System;
- acquiring tactical unmanned aerial vehicles to improve airborne surveillance, reconnaissance and target acquisition to support land and selected maritime operations; and
- completing early design work for the procurement of two amphibious support ships for the new amphibious deployment and sustainment system.

Since the Defence White Paper was announced in 2000, the Government has approved more than 139 major projects, or phases of projects, with funding of around \$22 billion.

The Budget provides for expenditure of \$447.1m on capital facilities in 2005-06. These include Special Forces Training Facilities at Holsworthy, RAAF Williamtown Redevelopment and Airborne Early Warning and Control Aircraft Works and Bradshaw Field Training Area Infrastructure. In addition, the

milestones – the tender evaluation will be presented for the Government's approval, contracts will be finalised and delivery of the project will commence in 2005-06. A number of new equipment and facilities projects are proposed for approval in 2005-06, the details of which are provided in Chapter Three – Capital Investment Program.

The Budget provides for the continued growth of the ADF towards 53,000, with the ADF planned to achieve an average funded strength of 52,191 in 2005-06. Defence's Australian Public Service workforce is planned to achieve an average funded strength of 13,370, which includes the impact of the third tranche of planned civilian workforce reductions. In addition, 4,448 Australian Public Service positions will transfer to the Defence Materiel Organisation in preparation for establishing that organisation as a prescribed agency from 1 July 2005.

A high priority in 2005-06 will be continued development of the Defence Workforce Plan and the Defence People Plan to address workforce challenges associated with the current and future challenging and competitive employment environment. Important initiatives on remuneration, occupational health and safety and targeted education and training will be progressed. The Budget also provides for a number of ongoing programs directed at improving the conditions of ADF members. These include projects to enhance accommodation and associated facilities, attraction and retention initiatives, new childcare places and ADF spouse support. Further details are provided in Chapter Five – People.

A key feature of the 2005-06 Budget is the separation of the Defence Materiel Organisation's budget from that of the rest of Defence to give effect to the Government's decision creating Defence Materiel Organisation as a prescribed agency on 1 July 2005. This has required a significant de-merger of Defence's accounts involving, among other things:

- a separate direct appropriation of \$44.2m to the Defence Materiel Organisation to provide for policy advice and management services;
- transfer of 4,448 civilian staff positions to the Defence Materiel Organisation, including the associated employee liabilities;
- provision by Defence to the Defence Materiel Organisation of 1,684 military personnel who will remain under the Chief of the Defence Force's command but will work in the Defence Materiel Organisation, with the Defence Materiel Organisation paying \$153.6m to Defence to meet the costs of salaries for these staff;
- transfer of \$5.8 billion in assets to Defence Materiel Organisation, primarily inventory, as shown in the following table:

Table 1.1: Transfer of Assets to the Defence Materiel Organisation

	Defence	Defence Materiel Organisation	Total
	\$m	\$m	\$m
Cash	78	50	128
Receivables	787	84	872
Land and Buildings	9,894	-	9,894
Infrastructure, Plant and Equipment	34,682	243	34,924
Inventories	-	4,751	4,751
Other Non-Financial Assets	2,503	676	3,180
Total Assets⁽¹⁾	47,944	5,804	53,748
Leases	340	-	340
Employee Provisions	1,754	121	1,876
Supplier Payables	448	592	1,040
Other Liabilities	408	269	677
Total Liabilities⁽¹⁾	2,950	982	3,933
Net Assets⁽¹⁾	44,994	4,822	49,816

Note

1. Totals may not add due to rounding.

- the creation of separate budgeted statements for the Defence Materiel Organisation, including a operating budget, as detailed in Section Two – Defence Materiel Organisation; and
- the Defence Materiel Organisation continuing to provide services to Defence, resourced, managed and reported through a cascading set of agreements between the two agencies – an overarching Memorandum of Arrangements and a series of Materiel Acquisition Agreements, covering the major acquisition projects, and Materiel Sustainment Agreements, covering the logistic support and maintenance of Defence’s equipment.

The Defence Materiel Organisation is on track to meet the target of becoming a prescribed agency on 1 July 2005, the major recommendation of the Kinnaird Review. Under the new arrangements, the Defence Materiel Organisation will be accountable direct to the Government for the financial management of purchase and support of defence equipment. The new arrangements will allow the organisation to become even more businesslike and approach best practice in private sector program management.

Defence has played its part in the Government’s overall budget strategy by undertaking to absorb a number of election commitments costing \$249.4m over four years through re-ordering priorities in the Defence budget. This builds on existing savings programs which seek to reduce overheads and redirect funds for capability. In addition, Defence will contribute savings to the budget through a reduction in overheads and the application of the efficiency dividend, which applies to most other Government agencies but to Defence for the first time from 2005-06.

Defence is continuing its extensive efforts to address the deficiencies in its financial accounting, particularly the 95 Australian National Audit Office findings. A total of 14 remediation strategies have been put in place and these

are making good progress in 2004-05. The difficulties are substantial and Defence expects that full remediation resulting in enduring improvements will take some years to complete. A full financial controls framework that will standardise financial transactional and management process across Defence is being introduced to improve the integrity of Defence's financial data, budgeting and financial statements. The Defence Materiel Organisation, as part of its separation, has a strong focus on resolving the audit findings and establishing robust governance arrangements.

STRATEGIC OBJECTIVES AND ENVIRONMENT

The Defence White Paper, *Defence 2000 – Our Future Defence Force*, argued that the interrelated trends of globalisation and United States strategic primacy would shape Australia's strategic environment out to 2010. The relationships between the region's major powers – China, Japan, India, Russia and the United States – were seen as critical to the Asia-Pacific region. Within Australia's immediate neighbourhood, large economic and structural challenges for some nations – Indonesia, East Timor, Papua New Guinea and the states of the South-West Pacific – were foreseen.

Strategic Objectives

Despite this complexity, the Defence White Paper foresaw a relatively benign environment with limited prospects for regional interstate conflict or direct military attack on Australia. It recommended that priority be placed on the defence of Australia and its direct approaches, followed closely by contributing to the security of our immediate neighbourhood and supporting Australia's wider interests and objectives. It also recognised Defence's contribution to peacetime national tasks.

To meet these priorities the Government directed the ADF to maintain and further develop an integrated joint force that could provide two key sets of capabilities: firstly, maritime capabilities (mostly air and naval forces) that could deny the air and sea approaches to any credible hostile force; and secondly, land forces (and the air and naval assets needed to deploy and protect them) that could control the approaches to Australia and respond effectively to any armed incursion onto Australia territory. Such forces were seen to be flexible enough to provide the Government with a range of military options across the spectrum of credible contingencies.

Changing Strategic Environment

Two years after release of the Defence White Paper, changes in the strategic environment were reflected in the development of *Australia's National Security: A Defence Update 2003*, which focused on the emergence of new strategic uncertainties around terrorism and the proliferation of weapons of mass destruction. It also noted adverse trends in our immediate neighbourhood that

had created the pre-conditions for state failure. The Defence Update 2003 identified a need to rebalance capabilities and priorities to ensure a more flexible and mobile ADF, with sufficient levels of readiness and sustainability, to meet these new challenges.

To meet the strategic objectives identified in the Defence White Paper and the Defence Update 2003, the ADF must be capable of:

- deterring conventional threats to Australia and its interests;
- supporting whole-of-nation domestic security activities (including counter-terrorism, chemical biological radiological and nuclear incident response, military and logistic support to aviation and maritime security, and major event security);
- contributing the military component to whole-of-government peace enforcement and peacemaking activities (such as the Regional Assistance Mission Solomon Islands and the Enhanced Cooperation Program with Papua New Guinea);
- supporting allies and regional coalitions; and
- undertaking military diplomacy in our region.

Such tasks require a Defence strategy that aims to:

- shape the international environment in ways favourable to Australian interests;
- deter threats (conventional and non-conventional) to Australia and its interests; and
- respond to threats and attacks (conventional and non-conventional) on Australia and its interests, including the ability to anticipate and respond to such threats as they develop.

FORCE STRUCTURE

Defence maintains a force structure to meet the strategic tasks outlined in the Defence White Paper. The shape of the force structure reflects the current strategic environment and is influenced by lessons learnt during major operations. The force-in-being consists of the following major combat or combat-support elements:

- a surface combatant force of six Adelaide-class guided missile frigates, otherwise called FFGs (to be reduced to four by the end of 2006) and six Anzac-class frigates (rising to eight by 2006), together with onboard helicopters (16 Seahawk helicopters, six Sea King helicopters and 13 Squirrel helicopters). The naval aviation capability will be enhanced by the introduction of 11 Super Seasprite helicopters which will commence deployment in early 2006);
- 14 Fremantle-class patrol boats to provide patrol, response and surveillance capability in Australia's maritime approaches (ten of these

will be decommissioned by the end of 2005-06). The existing patrol boat force is being progressively replaced by a fleet of 12 Armidale-class patrol boats to be introduced into service by July 2007;

- six Collins-class submarines;
- an amphibious lift and sea command force comprising two amphibious landing ships, one heavy landing ship and six heavy landing craft;
- a mine warfare force comprising six Huon-class coastal mine hunter vessels (two of which will be placed in extended readiness from 2006), two auxiliary minesweepers and two clearance diving teams;
- a hydrographic force comprising two Leeuwin-class hydrographic ships, four Paluma-class survey motor launches, a laser airborne depth sounder aircraft and a deployable geospatial support team;
- an afloat support force comprising one auxiliary oil tanker (to be replaced by 2006 with a more environmentally-compliant double-hulled tanker) and one auxiliary replenishment ship;
- five Army infantry battalions at 90 days readiness or less, supported by a range of armour, aviation, combat and logistics support assets, and a number of lower-readiness units able to provide personnel for sustainment and rotation;
- a Reserve Force designed to sustain, reinforce and, to a lesser degree, rotate personnel and equipment;
- three regional force surveillance units;
- a Special Operations Command consisting of a Special Air Services regiment, a Regular Army commando regiment, an Army Reserve commando regiment, an incident response regiment and a combat service support company;
- an air combat force consisting of three front-line F/A-18 Hornet squadrons and one operational F-111 squadron (to be retired from service by about 2010), supported by a training wing comprising four units, a wide-area surveillance system (Jindalee Operational Radar Network) monitoring Australia's northern approaches, and a range of ground radars and other support elements;
- an air transport and air-to-air refuelling force that operates two C-130 Hercules airlift squadrons, one squadron each of DHC-4, B-707 and B-737, and Challenger Special Purpose Aircraft and Beechcraft 300 aircraft. Airborne early warning and control aircraft will be deployed from 2007;
- a combat support group that provides the essential air base combat support required to conduct deployed air operations in bare bases and low infrastructure conditions;
- a maritime patrol force comprising two front line P-3 Orion squadrons and one conversion unit; and

- agencies responsible for intelligence collection and analysis.

The major combat elements are being progressively more integrated and informed through a number of command, communications and intelligence systems.

IMPLEMENTING THE DEFENCE WHITE PAPER

The Defence White Paper 2000 and the Defence Update 2003 continue provide the basis of the Government's long-term policy direction and underpin the capability development framework for Defence. Together, they provide the strategic guidance for the development of the Defence Capability Plan.

The Defence Capability Plan is regularly reviewed through a process of assessing the strategic environment, confirming the strategic priorities (near, medium and longer term) and describing capability goals.

This process of ensuring consistency and coherence from Government guidance to capability planning requirements occurs annually. The most recent planning guidance and capability updates confirmed the direction and priorities of the Defence Capability Plan released in February 2004.

Initiatives to Improve Capability

Land Forces Goal

The Government's aim remains the provision of land forces that can respond swiftly and effectively to any credible threats to Australian territory, and provide a broad range of force options for operations in our immediate neighbourhood and beyond. The emphasis is on providing a professional, well-trained, well-equipped force that is available for operations at short notice, and one that can be sustained over extended periods. This type of force will have the flexibility to conduct operations independently or contribute to a coalition, across the spectrum of conflict.

Defence's ability to undertake these tasks will be enhanced in 2005-06 by:

- continued development of the Special Operations Command, including the expansion of the special operations service support company and the continuation of the Special Forces Direct Recruiting Scheme;
- ongoing development of the second Tactical Assault Group, Incident Response Regiment and high-readiness Reserve elements to bolster the ADF's anti-terrorist capability;
- introduction into service of the Tiger armed reconnaissance helicopter;
- procurement of additional Javelin direct fire guided weapons;
- acceptance into service of the Bushmaster infantry mobility vehicle;
- ongoing delivery of an enhanced bridging capability;
- continuing procurement activities for the MRH-90 helicopter to provide additional troop lift;

- continuing redevelopment of Lavarack Barracks, Townsville, Queensland, and the re-location of the 1st Aviation Regiment to Darwin, Northern Territory from its current dispersed locations in Oakey, Darwin and Townsville; and
- signing of a contract for the design of the battlespace communication system that will deliver a modern communications infrastructure.

Defence's future ability to undertake Defence White Paper tasks will be enhanced in 2005-06 by:

- continuing the procurement of the Abrams M1A1 main battle tank system;
- continuing the upgrade of the M-113 armoured personnel carrier fleet;
- continuing the introduction into service of standardised Australian light armoured vehicles (ASLAV);
- continuing delivery of the Bushmaster infantry mobility vehicle;
- enhancing the existing Black Hawk helicopter fleet with ballistic protection and self-protection capabilities;
- introducing into service an advanced water purification and bulk liquid distribution system;
- enhancing workforce sustainability through targeted initiatives to improve recruiting and retention, such as increasing internal and overseas recruiting and remediation of critical trades;
- continuing the development of the Bradshaw Field Training Area, Timber Creek, Northern Territory;
- developing facilities at Holsworthy Barracks, Sydney to support the Special Operations capability on the East Coast;
- continued development of a networked Army through the integration and progression of projects such as battlefield communications systems, battlefield command support systems, tactical information exchange domains, the joint theatre distribution system, the soldier combat system and military satellite communications;
- continuous modernisation, through the Defence Capability Plan and force structure adjustments, to develop the Army's capability to conduct combined arms operations; and
- improving the survivability of the ADF's prime lift capability by continuing to upgrade the self-protection capability of the C-130 Hercules fleet.

To further enhance the ADF's land capabilities, Defence will present proposals to the Government in 2005-06 for:

- airborne surveillance systems (including tactical unmanned aerial vehicles) to support land operations;

- counter-mine capabilities;
- develop further the Joint Combined Training Centre Project facilitate state-of-the-art joint training between Australian and United States forces including the development of an initial operating capability for Exercise Talisman Sabre 07;
- enhancements to the Special Operations capabilities; and
- restructuring land forces for greater operational effectiveness, flexibility and sustainment.

In addition, Defence will present the first pass proposals for projects dealing with further soldier enhancements, land-based firepower, helicopter upgrades and communications.

Air Combat Goal

The air combat goal is to protect Australia from air attack and control its air approaches to ensure the ADF can operate effectively against hostile forces. The Government's aim is to maintain the air combat capability at a level at least comparable qualitatively to any in the region, and with a sufficient margin of superiority to provide an acceptable likelihood of success in combat. These forces should be large enough to defeat any credible air attack on Australia or in our approaches, and capable enough to provide options to deploy an air combat capability to support coalitions. They will also have the capacity to provide air defence and support for deployed ground and maritime forces in our region.

The Air Force plans to transition over the next decade to a modern, networked air combat system based most likely on the F-35 Joint Strike Fighter. This capability will be supported by five multi-role tanker transport and six airborne early warning and control aircraft, as well as advanced precision weapons. In the interim, the F/A-18 Hornet will be upgraded and new weapons acquired to ensure Australia retains an effective air combat capability within an enhanced networked system.

Defence's ability to meet the Government's aim will be enhanced in 2005-06 by:

- continuing structural and avionics upgrades to the F/A-18 Hornet;
- delivery of the first two of six airborne early warning and control aircraft (the first United States aircraft is due for delivery in April 2006); and
- acceptance of the advanced short-range air-to-air missile software support maintenance facility.

To further enhance the ADF's air combat capabilities, Defence will present proposals to the Government in 2005-06 for:

- continuing the upgrades to the F/A-18 Hornet electronic warfare self-protection system by the provision of a radio frequency jammer capability;

- centre barrel replacements for the additional F/A-18 Hornet aircraft as part of the continuing structural refurbishment program;
- a replacement mobile regional operations centre; and
- continuing the redevelopment of the facilities at RAAF Williamtown, New South Wales, and reinvestment in RAAF Richmond, New South Wales.

In addition, Defence will present a first pass proposal for a project dealing with pilot training systems.

Maritime Forces Goal

The primary goal for Australia's maritime forces is to maintain an assured capability to detect and attack any major surface ships and to impose substantial constraints on hostile submarine operations, in our extended maritime approaches. The ADF also intends to maintain the ability to support Australian forces deployed offshore, to contribute to maritime security in the wider region, to protect Australian ports from sea mines, and support civil law enforcement and coastal surveillance operations.

Defence's ability to meet the Government's aim will be enhanced in 2005-06 by:

- ongoing delivery of Evolved SeaSparrow missiles to improve the self-protection of Anzac-class frigates and upgraded guided missile frigates;
- continued platform and sensor enhancements to Collins-class submarines;
- delivery of the seventh and eighth Anzac-class frigates, HMA Ships *Toowoomba* and *Perth*;
- completion of the first of four upgraded guided missile frigates, HMAS *Sydney*;
- delivery of the final two Super Seasprite helicopters and progress the helicopters to full capability;
- beginning to receive upgraded Seahawk helicopters;
- installing the mine and obstacle avoidance sonar in the Anzac-class frigates;
- continued phasing in Armidale-class patrol boats to replace the Fremantle-class;
- continued modification of the replacement replenishment ship for HMAS *Westralia*;
- delivery of amphibious landing ships replacement watercraft;
- continued integration of P-3 Orion electro-optic sensors; and
- continued provision of electronic warfare self protection in P-3 Orion aircraft.

Defence's ability to meet the Government's aim beyond the next financial year will be enhanced through a range of activities in 2005-06 including:

- further developing detailed capability requirements and performance specifications to acquire the air warfare destroyers. This includes selecting the ship builder and platform systems designer for the air warfare destroyers. (The Government recently announced the selection of the Combat System Engineer.);
- further developing detailed capability requirements and performance specifications new amphibious ships. First pass approval will be sought from the Government in mid-2005;
- continuing the guided missile frigate upgrade program to enhance the war fighting capability of four of these platforms (HMA Ships *Sydney*, *Darwin*, *Melbourne* and *Newcastle*);
- progressing the Anzac-class frigates anti-ship missile defence upgrade; and
- expanding facilities at Darwin Naval Base to accommodate the Armidale-class patrol boats.

To further enhance the ADF's maritime capabilities, Defence will present proposals to the Government in 2005-06 for:

- ordering long-lead items and sub-systems to be incorporated into the air warfare destroyer, and
- the new amphibious deployment and sustainment system.

In addition, Defence will present first pass proposals for the air warfare destroyer and improvements to maritime communications and networking capabilities.

Strike Goal

The ADF's strike goal is to be capable of attacking military targets within a wide radius of Australia, against credible levels of air defences, or interdiction of land-based threats, including terrorist activities at an acceptable level of risk to aircraft and crews. The Government expects that the strike capabilities developed for the defence of Australia would also provide options to contribute to regional coalitions against more capable adversaries.

The Army continues to maintain its land based strike capability resident in Special Operations Command, specifically in the Special Air Service Regiment and 4th Battalion (Commando). The land-based strike capability will continue to be enhanced with the ongoing development of the 4th Battalion (Commando) and enhancements to air and maritime insertion techniques.

Defence's ability to meet this goal will be improved in 2005-06 and beyond through enhancements to the Air Force's F/A-18 Hornet and P-3 Orion aircraft:

- the contract to acquire long-range stand-off air-to-surface weapons for the Hornet and Orion aircraft will be signed during 2005-06;
- the contract for a bomb improvement program to enhance the ADF's all-weather, day and night strike capability will be signed; and
- initial operational capability of the air-to-ground AGM-142 missile will be achieved.

To further enhance the ADF's strike capabilities, in addition to the enhancements to the F/A-18 Hornet mentioned above, Defence will present proposals to the Government in 2005-06 for the follow-on stand-off weapon capability that will be integrated into both the F/A-18 Hornet and the P-3 Orion aircraft.

Information Goal

The information goal is to position the ADF to harness advances in information technology to ensure timely, accurate and secure information to fully exploit individual and unit combat capabilities, and allow their employment in more flexible ways. This involves the development of intelligence, surveillance, communications and command, logistics and business systems.

Defence's ability to meet this goal will be enhanced in 2005-06 by:

- continuing acquisition of tactical information exchange links between key platforms including Anzac-class frigates, the armed reconnaissance helicopters and the F/A-18 Hornets;
- delivery of battlefield command support system elements;
- introduction into service of the tactical Defence radar system;
- completion of the upgrade of air traffic radars and control facilities at Defence (and joint civil users) airfields to maintain reliable air traffic management capability;
- delivery of initial release of theatre broadcast software for high volume information dissemination via satellite; and
- completion of delivery of the mine warfare command support system.

To further enhance the ADF's information capabilities, Defence will present first pass proposals to the Government in 2005-06 including:

- ADF global positioning systems enhancements;
- high altitude long-range multi-mission unmanned aerial vehicles;
- enhancing Defence's wide area communications network;
- further enhancing Defence's logistic information systems; and
- enhancing Defence's finance and personnel information systems.

People Goal

The people goal is to ensure that Defence has the right people with the right skills and experience to provide the capabilities it needs to undertake complex military operations and departmental administration.

In 2005-06, Defence will pursue this goal through:

- continuing development of the Defence Workforce and People Plans to address the workforce challenges associated with the present and future employment environment, by broadening the reach of the ADF to today's youth and targeting retention and recruitment initiatives for skilled personnel;
- developing the next Defence Employees' Certified Agreement, the ADF Workplace Remuneration Arrangement and the ADF Star Ranks Remuneration Arrangement, all of which are due to take effect in the second half of 2006;
- continuing remuneration reform in the ADF through development and implementation of a flexible salary structure for officers, through the Remuneration Reform Project;
- undertaking the Review of ADF Reserve Remuneration;
- continuing the implementation of the agreed outcomes of the Defence Business Skilling Review, including the expansion of training modules available through e-learning, and taking account of the Defence financial statements remediation programs;
- implementing the Military Rehabilitation and Compensation Scheme in partnership with the Department of Veterans' Affairs;
- implementing measures to further improve ADF health, including continuing health studies of personnel deployed in the Solomon Islands, East Timor and the Middle East Area of Operations, and implementing agreed outcomes of the review of Defence health services;
- continuing to support ADF members and their families through enhancing access to the Defence childcare program and ameliorating the impact of mobility and separation on children's education and spouse employment; and
- developing strategies to encourage and facilitate recruitment from the ADF Cadets to the ADF and further enhance the ADF Cadet experience.

Initiatives to Improve the Provision of Advice and Decision Making

Defence will improve its advice to the Government and decision-support capabilities by:

- monitoring the strategic environment and ensuring the currency of planning guidance and advice;
- continuing to evolve Defence's business model and accountability arrangements;
- continuing to improve its budgeting and business systems processes; and
- consolidating the Coordination and Public Affairs Division.

Accountability for results is made explicit in a Ministerial Directive to the Secretary and the Chief of the Defence Force, charters between the Secretary, the Chief of the Defence Force and all Group Heads and Service Chiefs, and organisational and individual performance agreements.

Defence will continue to strengthen organisational accountability arrangements and improve the transparency of costs of services required to deliver Defence outputs by using customer-supplier agreements between the enabling Groups and internal customers, and with new Agency Agreements between Defence and the Defence Materiel Organisation.

The force element product costing tool will be developed further to enable greater transparency in the costing of force elements and internal products and services. This process will be augmented by strengthened reporting arrangements to the Government as part of the annual Defence Management and Finance Plan.

Portfolio-level improvements to the management of the Defence balance sheet will be enhanced by increasing the focus on Group ownership of balance sheet items and monthly reporting on balance sheet movements. This will allow a greater focus on Defence's balance sheet across all Groups and Services and provide an improved reporting capability to the Government.

Key initiatives to better coordinate and improve advice to the Government and inform internal decision making are outlined below.

Strategic Update

Defence will conduct a Strategic Update during 2005. The *Defence Update 2005* will consider changes to the strategic environment since the 2003 update. It will canvass emerging threats, risks and opportunities for defence policy, planning and operations. Update 2005 will also inform Defence planning guidance for capability definition and development, corporate management and military strategy.

Financial Statements Remediation Plans

The ongoing implementation of Financial Statements remediation plans will improve reporting arrangements to the Government. There are 14 agreed remediation plans for which the Chief Finance Officer is accountable. Program Offices have been established to assist with, and monitor, implementation of the remediation plans so that Defence can provide quality assurance of remediation products and manage finalisation with the Australian National Audit Office. Further information on financial remediation is in Chapter Six- Management Reforms and Efficiencies.

Defence Materiel Organisation

The Defence Materiel Organisation will be established as a prescribed agency from 1 July 2005. The organisation has new responsibilities and reporting arrangements to make it more businesslike. The Defence Materiel Organisation remains part of the Defence Portfolio, but the Chief Executive Officer will be accountable independently to the Government for financial management under the *Financial Management and Accountability Act 1997*.

Project management skills in the Defence Materiel Organisation will be improved and this will affect areas of Defence involved in contracting administration and complex procurement training. Further information on reforms in the Defence Materiel Organisation is available in the Defence Materiel Organisation's Chapter Four - Governance and Materiel Reform.

Chief Information Officer Group

The ongoing consolidation of the new Chief Information Officer Group (the amalgamation of the former Office of the Chief Information Officer and Information Systems Division) will ensure clear responsibility for the planning, development and delivery of Defence-wide business systems and infrastructure is vested in a single Defence Group. Further information on the Chief Information Officer Group is available in Chapter Six - Management Reforms and Efficiencies.

Coordination and Public Affairs

The Coordination and Public Affairs Division, established in July 2004 to provide a high-level coordination capacity in the headquarters, will continue to be consolidated during 2005-06. The division acts as a focal point on behalf of the Secretary and the Chief of the Defence Force for the provision of timely, accurate, coordinated and considered advice to the Minister, the Minister Assisting and the Parliamentary Secretary. This includes monitoring Defence's role in delivering key election commitments and other priorities as determined by the Government.

Initiatives to Get Best Value for the Defence Dollar

A continuing challenge for Defence is to live within its means both now and in the future. In responding to this challenge a 'culture of economy' has been established, augmented by business rules and accountability mechanisms including Ministerial Directives, Secretary and Chief of Defence Force Charters with the Service Chiefs and Group Heads, organisational performance agreements and individual performance agreements. The Defence Financial Controls Framework is being incorporated into Defence's business arrangements to strengthen accountability and improve financial management.

At the same time, Defence is making a contribution to the budget generally by reducing overheads by \$142.0m over the forward estimates and applying an efficiency dividend to the non-operational and capability element of the budget. Over the next four years Defence will contribute \$79.3m to the budget through this dividend.

Defence continues to focus on managing its resources to deliver efficient and effective support for the ADF. Redirecting funds to absorb cost pressures remains a high priority. In this regard, Defence continues to absorb a range of cost pressures through a program of administrative savings, delivering \$200.0m per annum by financial year 2007-08 in annual tranches of \$50.0m commencing in 2003-04 (\$25.0m in each of the last two years).

In 2005-06 Defence will also:

- establish the Defence Materiel Organisation as a prescribed agency in accordance with the recommendations of the Defence Procurement Review;
- continue with the progression of the financial statement remediation plans across all priority areas (such as personnel records, stocktaking and inventory management);
- continue to reform business processes and contractual arrangements through the Business Improvement Project, covering some 20 improvement projects, a number of which have been completed;
- implement measures to improve the numbers and skills of people in the finance domain; and
- continue a program of budget reviews to test the essentiality of functions and expenditure, aimed at freeing up resources to redirect to other requirements, including essential replacement of information technology and administrative assets and upkeep of the Defence Estate.

Initiatives to Enhance Strategic Relationships

Defence maintains an extensive range of strategic relationships throughout the Asia-Pacific region and beyond, through bilateral defence and security

arrangements including the United States alliance, and participation in multilateral security forums.

In 2005-06, Defence will:

- build upon security relationships in the Asia-Pacific region through cooperative defence activities and security dialogues;
- participate in peace support operations led by the United Nations;
- further develop Australia-United States defence cooperation, including through participation in coalition operations and the enhancement of ADF interoperability with United States forces;
- support global and regional efforts to reduce the security threat posed by terrorism and proliferation of weapons of mass destruction through international export control regimes and activities such as the Proliferation Security Initiative; and
- continue to support Government programs that are designed to improve governance and law and order in Papua New Guinea and the Pacific, including participation in coalition operations in Solomon Islands and continuation of Australia's Pacific patrol boat program.

Initiatives for Science and Technology and Australian Industry

Defence seeks to make the best use of technology and have the skills required to exploit it to advantage. A competitive industry base should support a technologically-advanced ADF.

In 2005-06, Defence will:

- continue its science and technology program to provide better support and advice to Defence, and contribute to national research priorities, including 'Safeguarding Australia';
- continue research, especially in transformational defence technologies, network-centric warfare, Defence experimentation, automation of the battlespace, reducing the cost of ownership and operations, high altitude tracking, and support to current ADF platforms;
- increase its support to the Defence capability development program by providing advice on technology feasibility and maturity aspects, and providing technical risk assessments of proposed major capital projects;
- expand its civilian counter-terrorism research program in collaboration with the Commonwealth Scientific and Industrial Research Organisation, the Australian Nuclear Science and Technology Organisation and Geoscience Australia, in areas such as developing intelligence support tools, explosive detection, biometrics, counter-measures for civilian aircraft from man-portable missiles, and defence against chemical, biological, nuclear and radiological attacks;

- expand the Capability and Technology Demonstrator program to investigate the defence capability potential of advanced technology, by increasing the number of projects and assisting small-to-medium enterprise participation in the program. This represents an annual Defence investment of \$26m for the next three years;
- enhance science and technology links with industry, universities, other government research agencies and international bodies to broaden Defence's technical base;
- seek opportunities for technology transfer to Australian industry, via several commercialisation and collaborative mechanisms facilitated by the Technology Transfer Advisory Group (a panel of external commercialisation companies that provides advice to assist Defence to commercialise its innovations), to enhance industry's ability to provide support to Defence and to increase the national wealth; and
- continue to implement the industry sector plans designed to strengthen the relationship between the Defence Materiel Organisation and industry in key areas relevant to ADF capability.

Status of Defence White Paper Funding

Defence's departmental funding in 2005-06 and beyond continues to be based primarily on the allocations approved by the Government in the context of the 2000 Defence White Paper. The additional funding commitment now totals \$28.9 billion (Budget 2005-06 outturned prices) over 13 years commencing in 2001-02 and represents the most specific long-term funding commitment for Defence for more than 25 years.

The additional Defence White Paper funding is being applied to:

- the Defence Capability Plan, containing a program of capital investment in addition to the investment program already planned at that time (+\$20.0 billion);
- provision for the through-life support costs of the capability enhancements in the Defence Capability Plan (+\$2.9 billion);
- provision for two per cent real per capita growth in personnel costs from 2004-05 onwards, reflecting the cost of maintaining a highly skilled workforce in a sustainable way (+\$4.9 billion); and
- funding of a number of baseline cost pressures, including offsetting some of these through administrative savings (+\$1.0 billion).

After taking account of the reprogramming of the Defence Capability Plan that was agreed by the Government in the 2004-05 and 2005-06 Budgets, additional Defence White Paper funding already provided by the Government totals \$4.0 billion over the period 2001-02 to 2004-05. The 2005-06 Budget includes a further \$2.3 billion in Defence White Paper funding, and an additional

\$10.5 billion is included in the forward estimates. The remaining funding, totaling \$12.0 billion, is to be provided over the period 2009-10 to 2013-14.

Table 1.2 provides details of the current Defence White Paper funding allocations in 2005-06 prices, including the bringing forward of \$300.0m in Defence Capability Plan funding into 2005-06, as agreed by the Government in the 2005-06 budget.

Table 1.2: Current Defence White Paper Funding Allocations (2005-06 prices, Outturned)^{(1) (2)}

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Original Allocation	510	1,051	1,506	1,552	1,720	2,311	2,426	2,318	2,844	3,490	-	-	-	19,729
Previous Reprogramming	-	-200	-542	-276	-459	-480	-138	389	671	485	367	308	220	347
2005-06 Budget Reprogramming	-	-	-	-	300	-	-	-	-108	-110	-113	-	-	-31
A Defence Capability Plan (DCP)	510	851	964	1,276	1,561	1,831	2,288	2,707	3,407	3,866	254	308	220	20,045
Original Allocation	-	-	-	195	242	294	432	517	611	652	-	-	-	2,944
Reprogramming	-	8	21	-134	-64	-5	-1	13	86	77	-	-	-	-
B Through-life Support for DCP Projects	-	8	21	61	178	289	431	530	697	729	-	-	-	2,944
Allocated	-	8	21	61	156	150	109	112	105	73	-	-	-	793
For new projects as they enter service	-	-	-	-	22	139	323	419	593	657	-	-	-	2,151
Allocated	-	-	-	238	380	400	422	445	465	535	-	-	-	2,884
Unallocated	-	-	-	-	-	123	251	387	533	686	-	-	-	1,979
C Two Per Cent Real Growth in Personnel Costs	-	-	-	238	380	522	672	832	998	1,221	-	-	-	4,864
D Operating Baseline Adjustment	-	-	-	117	134	142	148	154	160	161	-	-	-	1,017
Total (A+B+C+D)	510	859	985	1,692	2,253	2,786	3,541	4,224	5,263	5,977	254	308	220	28,871

Notes

- Figures may not add due to rounding.
- The figures are consistent with the details provided in Table 1.2 of the *Portfolio Budget Statements 2004-05* other than for:
 - the bringing forward of \$300m of Defence Capability Plan funds into 2005-06; and
 - the amounts being updated to 2005-06 outturned prices.

Major Capital Equipment (\$20.0 billion)

The additional \$20.0 billion was allocated to the Unapproved Major Capital Equipment Program and now forms part of the total capital investment program. The additional funding was not for the entirety of the Defence Capability Plan funding but represented a top-up of the existing Major Capital Investment Program, which covers both the Unapproved Major Capital Equipment Program and the Approved Major Capital Equipment Program. Additional expenditure to the end of 2004-05 is expected to be \$3,601m after allowing for reprogramming. An additional \$1,561m is allocated in the 2005-06 Budget. Chapter Three – Capital Investment Program provides more detail on the investment program.

Through-life Support Costs for Defence Capability Plan Projects (\$2.9 billion)

The \$2.9 billion for through-life support costs of new capability acquired as part of the Defence Capability Plan is progressively being allocated as new equipment enters service. The funding is to ensure that sufficient trained personnel and operating costs are available to operate the equipment on delivery. The phasing of the provision has been adjusted to reflect revised delivery dates of the equipment and is now estimated at \$2.9 billion over the decade, of which \$793m has been allocated to date. The remaining \$2.2 billion will be progressively allocated over the next six years.

Two per cent Real Growth in Personnel Costs (\$4.9 billion)

An amount of \$4.9 billion was allocated for the two per cent real per capita growth in personnel costs from 2004-05. Of this, \$2.9 billion has already been allocated to cover the costs of the ADF Workplace Remuneration Agreement, the service allowance increase and increases in housing, compensation and health costs. An amount of \$2.0 billion remains unallocated and will be used to fund future salary, allowance and conditions of service increases as they arise in the future, including health services and housing.

Operating Baseline Adjustment (\$1.0 billion)

An amount of \$1.0 billion of Defence White Paper funding was allocated to meet cost pressures identified through the Defence White Paper process. These included logistics cost pressures which could not be funded as planned by Defence Reform Program savings which were required, in part, to fund the additional positions in establishing a 50,000 ADF workforce. All funds have been allocated and this part of the Defence White Paper funding is now complete.

ORGANISATIONAL STRUCTURE

Senior Executive Changes

Mr Lloyd Bennett, Chief Finance Officer resigned from Defence on 28 March 2005. Mr Ken Moore was appointed Acting Chief Finance Officer pending permanent filling of the position.

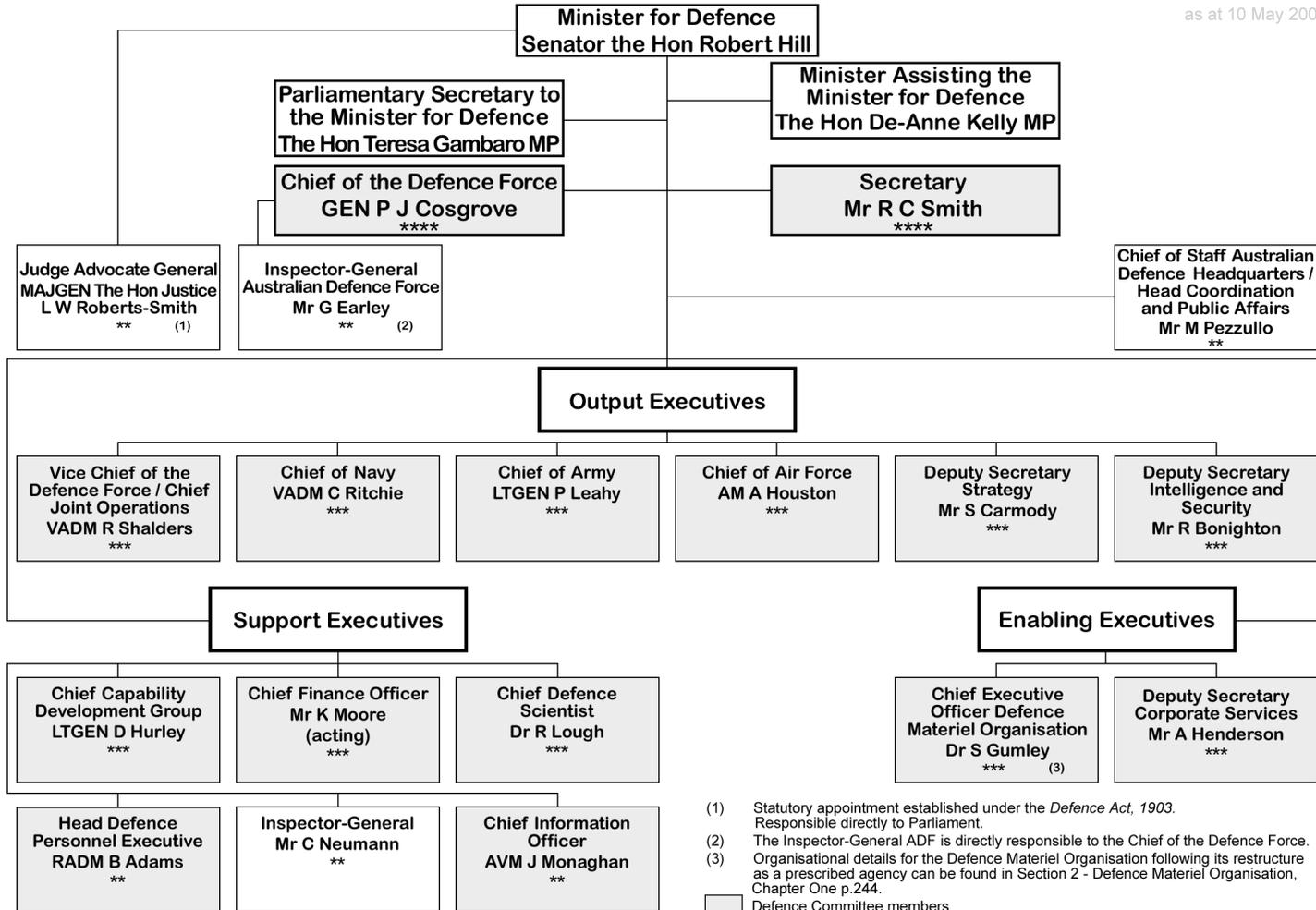
Organisational Structure Changes

Defence conducted a review (the Stevens' Review) following the Government's commitment during the 2004 Federal election to improve Defence health services. One of the key recommendations made in the review was the appointment of a two-star rank military medical officer as Head Defence Health Services. The Government accepted this recommendation and appointment action for this position is currently under way.

Organisational details for the Defence Materiel Organisation following its restructure as a prescribed agency can be found in Defence Materiel Organisation's, Chapter One - Overview p. 241.

Organisational Chart

The following chart depicts the structure of the organisation at May 2005.



- (1) Statutory appointment established under the *Defence Act, 1903*. Responsible directly to Parliament.
- (2) The Inspector-General ADF is directly responsible to the Chief of the Defence Force.
- (3) Organisational details for the Defence Materiel Organisation following its restructure as a prescribed agency can be found in Section 2 - Defence Materiel Organisation, Chapter One p.244.