

DEFENCE

CHAPTER TWO RESOURCING

2005-06 BUDGET SUMMARY

2005-06 BUDGET MEASURES

DISCRETIONARY GRANTS

PROGRAM OF ADMINISTRATIVE SAVINGS

PURCHASER-PROVIDER ARRANGEMENTS

Defence Materiel Organisation

Defence Housing Authority

Department of Foreign Affairs and Trade

Comcare

ComSuper

2005-06 BUDGET SUMMARY

Total resourcing available to Defence in 2005-06 is \$20,034.4m, comprising departmental funding of \$17,495.1m and a further \$2,539.4m for the administered appropriation. The total level of departmental funding of \$17,495.1m represents:

- an increase of \$879.7m compared with the projected result in 2004-05; and
- an increase of \$822.8m or 4.9 per cent in 2005-06 compared with the Forward Estimate published at the time of the *Portfolio Additional Estimates Statements 2004-05*.

Total Defence resourcing is summarised in Table 2.1.

The total departmental funding allocation of \$17,495.1m (serial 7), maintains Defence funding at about 1.9 per cent of GDP and is the most common way of measuring Defence's budget. The method is consistent with the presentation of the Defence White Paper. The various ways in which the Defence budget is presented are explained below.

Included in the \$17,495.1m is:

- \$2,253.0m relating to the Government's Defence White Paper funding commitment (further details on the status of the Defence White Paper funding allocation are provided in Chapter One);
- an additional \$458.4m relating to new budget measures (further details are provided in Table 2.2); and
- \$300.0m in Defence Capability Plan funding brought forward from beyond the forward estimates.

Table 2.1: Total Defence Resourcing

Serial No	2004-05 Projected Result \$'000	2005-06 Previous Estimate ⁽¹⁾ \$'000	2005-06 Budget Estimate \$'000	Variation \$'000	Variation %	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	
	Departmental								
1	Revenue from Government for								
	15,808,399	Price of Outputs	15,299,062	15,977,721	678,659	4.4	16,019,324	16,859,110	17,302,046
2	393,286	Equity Injection	1,023,740	1,121,148	97,408	9.5	1,512,377	1,612,332	2,018,049
3	Total Revenue from Government								
	16,201,685	(1+2)	16,322,802	17,098,869	776,067	4.8	17,531,701	18,471,442	19,320,095
4	Own-Source Revenue ⁽²⁾	309,508	371,341	61,833	20.0	377,430	384,752	392,882	
5	Net Capital Receipts	40,000	24,863	-15,137	-37.8	5,792	5,108	4,410	
6	413,715	Sub Total (4+5)	349,508	396,204	46,696	13.4	383,222	389,860	397,292
7	Total Departmental Funding (3+6)								
	16,615,400	16,672,310	17,495,073	822,763	4.9	17,914,923	18,861,302	19,717,387	
	Administered								
8	Administered appropriation ⁽³⁾	2,539,350	2,539,350	-	-	2,539,350	2,639,350	2,639,350	
9	Total Defence Resourcing (7+8)								
	19,053,750	19,211,660	20,034,423	822,763	4.3	20,454,273	21,500,652	22,356,737	

Notes

- As reported in the *Portfolio Additional Estimates Statements 2004-05* (p.11).
- Own-source revenue (serial 4) excludes revenue from 'assets now recognised' and 'revenue from sales of assets'.
- The Administered appropriation (serial 8) of \$2,539.4m covers costs associated with the military superannuation schemes, and also covers the provision of housing subsidies to current and retired Defence personnel. The administered appropriation is managed on Defence's behalf by the Department of Finance and Administration in respect of military superannuation schemes and by the Defence Housing Authority in respect of housing subsidies.

Methods of Presenting the Defence Budget

The Defence budget is presented using three methods. All three methods are consistent and are used for different purposes.

Method 1: Defence Resourcing

The Defence resourcing method excludes administered appropriations, which are administered on Defence's behalf by other organisations. This method includes total funding appropriated by the Government to Defence plus net capital receipts and Defence's own-source revenue. It is based on Australian Accounting Standards (accrual basis). Method 1 is used in the Defence Portfolio Budget Statements and also in the Commonwealth Budget Paper No. 4 (Appropriation Bills).

The Defence resourcing method is derived as follows:	2005-06 \$'000	Reference
Appropriation from Government for price of outputs	15,977,721	Table 2.1, Serial 1
Appropriation for equity injection	1,121,148	Table 2.1, Serial 2
Own-source revenue	371,341	Table 2.1, Serial 4
Net capital receipts	24,863	Table 2.1, Serial 5
Total Department Resourcing	17,495,073	Table 2.1, Serial 7

Method 1 is commonly used to measure movements in Defence's funding allocations relative to the previously agreed budget and forward estimates allocations. It is the method used in presenting the Defence White Paper commitment in 2000, and to compare methods in Defence funding since then.

Method 2: Underlying Cash Balance Impact

Method 2 is the sum of Defence cash flows from operating activities and net capital investment, including both departmental and administered expenditure, and is used by the Treasury to describe the Defence budget in underlying cash impact terms. It is a measure of spending rather than resourcing, and is an estimate of the net impact of Defence spending on the whole-of-government cash balance. This number is derived on an Australian Bureau of Statistics government finance statistics cash operating payments basis, adjusted for net proceeds of asset sales returned to the Government.

A figure of \$16,730m is used in the Treasury budget overview and the Treasurer's budget speech and is derived as follows:

	2005-06 \$m	Reference
Underlying Defence cash baseline ⁽¹⁾	9,364	Department of Finance and Administration
Underlying DMO cash baseline ⁽¹⁾	6,908	Department of Finance and Administration
Coastal Surveillance - continuation	16	Table 2.4, serial 2
Providing for Australia's Security - enhanced protective security	37	Table 2.4, serial 3
Iraq - funding for stabilisation and reconstruction activities	184	Table 2.4, serial 4
Iraq - Australian Defence Force deployments to the Al Muthanna Province	199	Table 2.4, serial 5
Providing for Australia's Security - counter-proliferation intelligence enhancement	4	Table 2.4, serial 6
Australia-United States Free Trade Agreement	10	Table 2.4, serial 9
Tsunami - financial assistance	11	Table 2.4, serial 10
Efficiency Dividend	-3	Table 2.4, serial 11
Total Defence Funding	16,730	Treasury, Budget Overview and Treasurer's Budget Speech

Note

1. This is an underlying cash figure derived by the Department of Finance and Administration.

Method 3: Defence Function

Method 3 includes only expenses that have a direct impact on the fiscal balance and excludes superannuation, which is recorded in the superannuation function.

Chapter Two

This method is derived using the Government finance statistics accrual expense approach and is used in Statement 6 of Commonwealth Budget Paper No. 1. It also includes investment in specialist military equipment but excludes depreciation of specialist military equipment and intra-government flows such as fringe benefits tax payments to the Australian Taxation Office. It is derived as follows:

	2005-06		Reference
	\$m		
Defence (AAS 31) Expenses ⁽¹⁾	16,495	Table 7.1, total expenses + borrowing costs	
Administered Expenses	39	Table 4.7.1, retention benefits + housing subsidies	
Investment in specialist military equipment	3,408		Table 7.4
Specialist military equipment depreciation	-2,132		Table 7.5
Net sales value of assets sold	-95		Table 7.1
Intra-government transfers	-2,055	Department of Finance and Administration	
Net write-down of non-financial assets	-60		Table 7.5
Total Defence Function Expense	15,600		Statement 6, Budget Paper No. 1

Note

1. Australian Accounting Standards 31 – Financial Reporting by Governments.

2005-06 BUDGET MEASURES

The Government has provided new funding of \$701.6m over four years to enable Defence to implement the Government's 2004 election commitments as outlined in its policy *Defence – A Force for the New Century*. This includes funding provided for a number of high priority initiatives including a continuation of operations in Iraq until 30 June 2006 and for the recently approved deployment to Al Muthanna province.

In addition to these funding decisions, new savings measures totaling \$221.3m over four years are to be implemented through the application of an efficiency dividend and a reduction in administrative overheads. The combination of the new funding and savings measures result in a net increase to Defence of \$480.2m over four years. The new budget measures are shown in Table 2.2.

Further detail on the budget measures listed in the following tables is published in Budget Paper No. 2.

Table 2.2: Summary of New Budget Measures Disclosed in the 2005-06 Budget

	Defence Outcome	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	Total \$'000
New funding measures:						
Providing for Australia's Security - North West Shelf surveillance	2,3,4	-	60,771	27,317	13,108	101,196
Coastal Surveillance - continuation	1	16,371	-	-	-	16,371
Providing for Australia's Security - enhanced protective security	Various	37,039	37,779	-	-	74,818
Iraq - funding for stabilisation and reconstruction activities	1	184,395	20,890	-	-	205,285
Providing for Australia's Security - counter-proliferation intelligence enhancement	6	3,765	3,977	4,030	4,084	15,856
Asia Pacific Economic Cooperation 2007	1	-	8,436	11,299	-	19,735
Providing for Australia's Security - Australian Overseas diplomatic missions - improved security	5	-	-	-	110	110
Australia-United States Free Trade Agreement	Various	10,335	10,320	10,526	10,736	41,917
Tsunami - financial assistance	1	11,054	-	-	-	11,054
Iraq - Australian Defence Force deployments to the Al Muthanna Province	1	198,809	12,519	3,900	-	215,228
Sub-total new funding measures		461,768	154,692	57,072	28,038	701,570
New savings measures:						
Efficiency Dividend	Various	-3,414	-11,945	-24,997	-38,983	-79,339
Defence - reduced administrative overheads	Various	-	-70,000	-60,000	-12,000	-142,000
Sub-total new savings measures		-3,414	-81,945	-84,997	-50,983	-221,339

	Defence Outcome	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	Total \$'000
Budget Measures to be offset or absorbed:						
Former HMAS Platypus, Neutral Bay - site remediation	2	-	-	-	-	-
Joint Combined Training Centres - implementation	Various	-	-	-	-	-
Defence industry skills development	Various	-	-	-	-	-
Capability and Technology Demonstrator Programme	Various	-	-	-	-	-
Australian Defence Medal - establishment	2,3,4	-	-	-	-	-
Equipment repair - Defence Integrated Distribution System	Various	-	-	-	-	-
Providing for Australia's Security - improved intelligence coordination and analysis	6	-	-	-	-	-
Providing for Australia's Security - upgrade of business and information systems	6	-	-	-	-	-
Providing for Australia's Security - improved intelligence coordination and analysis	6	-	-	-	-	-
Defence Health - creation of a new leadership position	Various	-	-	-	-	-
Providing for Australia's Security - Continuity of Government Plan - implementation and maintenance	Various	-	-	-	-	-
People Smuggling - package to mitigate threats, gaps and vulnerabilities	Various	-	-	-	-	-
Total		458,354	72,747	-27,925	-22,945	480,231

The election commitments and other initiatives that Defence is required to absorb or offset total \$217.8m over four years as shown in Table 2.3.

Table 2.3: Absorbed and Offset Budget Measures By Defence

	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	Total \$'000
Providing for Australia's Security - North West Shelf surveillance	11,880	20,622	3,778	1,864	38,144
Former HMAS Platypus, Neutral Bay - site remediation	-	-	-	-	-
Joint Combined Training Centres - implementation	10,290	11,546	1,071	-	22,907
Defence industry skills development	10,290	20,992	21,413	21,841	74,536
Capability and Technology Demonstrator Programme	13,377	13,645	13,918	-	40,940
Australian Defence Medal - establishment	3,616	3,405	3,473	2,090	12,584
Equipment repair - Defence Integrated Distribution System	3,601	1,532	-	-	5,133
Providing for Australia's Security - improved intelligence coordination and analysis	1,871	517	528	538	3,454
Providing for Australia's Security - upgrade of business and information systems	1,760	2,781	-	-	4,541
Providing for Australia's Security - improved intelligence coordination and analysis	4,679	1,981	1,184	1,208	9,052
Defence Health - creation of a new leadership position	268	268	268	239	1,043

People Smuggling - package to mitigate threats, gaps and vulnerabilities	592	604	616	629	2,441
Providing for Australia's Security - continuity of Government Plan - implementation and maintenance	3,048	-	-	-	3,048
Total	65,272	77,893	46,249	28,409	217,823

Other Budget Adjustments

The Government has agreed to a number of other budget adjustments in addition to the new measures detailed above, including Defence Capability Plan funding being brought forward into 2005-06 from beyond the forward estimates, a transfer of funds to facilitate the establishment of the Defence Materiel Organisation (DMO) as a prescribed agency from 1 July 2005, the fast tracking of Lavarack Barracks Redevelopment Stage 4, and price and exchange movements. These adjustments are detailed below.

DCP Reprogramming (serial 13 in Table 2.4)

The Government has agreed to bring forward \$300.0m of Defence Capability Plan funding from beyond the forward estimates to 2005-06. This is the result of improvement in the performance by the DMO and a reassessment of the cash flow requirements for recently approved projects.

Prescription of the Defence Materiel Organisation (serial 14 in Table 2.4)

The DMO will be established as a prescribed agency on 1 July 2005. An amount of \$44.2m has been transferred from Defence to DMO by way of a direct appropriation for its policy advice and management services function. The remainder of DMO's funding will be provided by Defence on an annual basis through Materiel Acquisition and Material Sustainment Agreements which will be implemented on 1 July 2005.

Fast Tracking Lavarack Barracks Redevelopment Stage 4

Defence has undertaken to bring forward expenditure on the redevelopment of Lavarack Barracks primarily into 2007-08 by rescheduling the Major Capital Facilities Program. This measure was announced on 5 October 2004 as part of the Government's election commitment *Defence – A Force for the New Century*.

Price Indexation (serial 15 in Table 2.4)

The Government has approved a revision to price parameters provided in the 2004-05 Additional Estimates reflecting movements in the gross non-farm domestic product deflator to 4.5 per cent for 2005-06, which is an upward revision from the 2.4 per cent previously provided resulting in an increased funding of \$402.0m in 2005-06.

Foreign Exchange Adjustments (serial 16 in Table 2.4)

Defence is required to return to the Government surplus foreign exchange supplementation. The hand-back of \$340.1m in 2005-06 (and \$58.3m in 2004-05) reflects the difference between parameters provided in the 2005-06 Budget and those on which the previous Forward Estimates (as reflected in the *Portfolio Additional Estimates Statements 2004-05*) were based.

Movement in Funding (Revenue) provided by the Government

Table 2.3 of the *Portfolio Additional Estimates Statements 2004-05* (p. 14) detailed how Defence's total revenue from appropriations had varied by the Government's decisions since the 2004-05 Budget. Table 2.4 below shows further movements in funding since the 2004-05 Additional Estimates.

Table 2.4: Defence Revenue from Government⁽¹⁾⁽²⁾⁽³⁾

Serial No.	2004-05 \$m	2005-06 \$m	Variation \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Published 2004-05 PAES (refer serial 3 of Table 2.1)	16,105.2	16,322.8	217.6	17,105.6	18,123.3	18949.1
Portfolio Supplementary Additional Estimates – Tsunami Assistance	50.9	-	-50.9	-	-	-
Portfolio Supplementary Additional Estimates No. 2	-	-	-	-	-	-
Operation Catalyst - reimbursement	20.8	-	-20.8	-	-	-
Operation Catalyst Al Muthanna Task Group	24.8	-	-24.8	-	-	-
2005-06 Budget Measures						
1 Providing for Australia's Security - North West Shelf surveillance	-	-	-	60.8	27.3	13.1
2 Coastal Surveillance - continuation	-	16.4	16.4	-	-	-
3 Providing for Australia's Security - enhanced protective security	-	37.0	37.0	37.8	-	-
4 Iraq - funding for stabilisation and reconstruction activities	-	184.4	184.4	20.9	-	-
5 Iraq - Australian Defence Force deployments to the Al Muthanna Province	-	198.8	198.8	12.5	3.9	-
6 Providing for Australia's Security - counter-proliferation intelligence enhancement	-	3.8	3.8	4.0	4.0	4.1
7 Asia Pacific Economic Cooperation 2007	-	-	-	8.4	11.3	-
8 Providing for Australia's Security - Australian Overseas diplomatic missions - improved security	-	-	-	-	-	0.1
9 Australia-United States Free Trade Agreement	-	10.3	10.3	10.3	10.5	10.7
10 Tsunami - financial assistance	-	11.1	11.1	-	-	-
11 Efficiency Dividend	-	-3.4	-3.4	-11.9	-25.0	-39.0
12 Defence - reduced administrative overheads	-	-	0.0	-70.0	-60.0	-12.0
Other Budget Adjustments:						
13 Defence Capability Plan reprogramming	-	300.0	300.0	-	-	-
14 Defence Materiel Organisation prescription	-	-44.2	-44.2	-45.2	-46.1	-46.8
15 Price Indexation	-	402.0	402.0	398.5	422.2	440.8
16 Exchange adjustment	-	-340.1	-340.1	-	-	-
Published 2005-06 PBS (refer serial 3 of Table 2.1)	16,201.7	17,098.9	897.2	17,531.7	18,471.4	19,320.1

Summary of Net Additional Costs of Current Operations

The ADF has approximately 2,000 personnel deployed on more than 13 concurrent operations at home and abroad ranging from border protection, United Nations peacekeeping and regional assistance missions. The 2005-06 Budget provides supplementation of \$454.4m for the net additional cost of the operations listed in Table 2.5, including \$402.5m for operations in Iraq.

Table 2.5: Revised Net Additional Cost of Current Operations

Operation	2004-05 Projected Result \$m	2005-06 Budget \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m
Bastille/Falconer/Catalyst to 30 June 2005	247.9	19.3	4.0	-	-
– Al Muthanna Task Group	24.8	198.8	12.5	3.9	-
– continuation of Operation Catalyst to 30 June 2006	-	184.4	20.9	-	-
Sub-Total Iraq	272.7	402.5	37.4	3.9	-
Tsunami Assistance (Operation Sumatra Assist)	50.9	11.1	-	-	-
Operations in East Timor (Operation Spire)	27.1	4.1	-	-	-
Operations in the Solomon Islands (Operation Anode)	39.7	8.9	3.4	-	-
Coastal surveillance (Operation Relex II)	16.0	16.4	-	-	-
Commonwealth Games 2006 (Operation Acolyte)	0.6	11.4	1.0	-	-
Asia Pacific Economic Cooperation 2007 (Operation Deluge)	-	-	8.4	11.3	-
Total	407.0	454.4	50.2	15.2	-

Operations in Iraq

Operations Bastille and Falconer were Australia's pre-deployment to the Middle East and its contribution to the United States-led war in Iraq. In July 2003, the ADF transitioned into Operation Catalyst. Operation Catalyst is the ADF's contribution to developing a secure environment in Iraq, assisting national rehabilitation and facilitating the transition to Iraqi self-government. The net additional cost of Operations Bastille/Falconer/Catalyst was \$644.7m. In the 2004-05 Budget, the Government provided an additional \$131.6m over three financial years for the continuation of Operation Catalyst throughout 2004-05, taking total funding to \$776.3m.

Due to the increased threat environment for ADF personnel, the Government has also provided an additional \$20.8m in 2004-05 for enhanced force protection and security measures, including upgrades to protective equipment on the Australian Light Armoured Vehicle. The Government has since approved the continuation of the Operation Catalyst deployment beyond 30 June 2005, for which Defence has been supplemented \$205.3m over two financial years, including \$184.4m in 2005-06 and \$20.9m in 2006-07.

As announced by the Prime Minister on 22 February 2005, Australia's commitment to Iraq was enhanced with the addition of a Task Group to the

southern Iraqi province of Al Muthanna. This additional commitment is to provide security support for Japanese reconstruction personnel and to continue Australia's commitment to train new Iraqi army personnel in the province. To achieve this, the Government has provided Defence with an additional \$240.0m over four financial years to June 2008.

All up, the net additional costs of operations in Iraq are now estimated at \$1,242.4m, as shown in Table 2.6.

Table 2.6: Revised Net Additional Cost of Operations in Iraq

	2002-03 Actuals	2003-04 Actuals	2004-05 Projected Result	2005-06 Budget	2006-07 Forward Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Bastille/Falconer/Catalyst Continuation of Operation Catalyst to June 2005	285.3	240.6	102.5	16.3	-	-	-	644.7
Protective Security Measures	-	-	20.8	-	-	-	-	20.8
Continuation of Operation Catalyst beyond 30 June 2005	-	-	-	184.4	20.9	-	-	205.3
Additional funding – Al Muthanna Task Group	-	-	24.8	198.8	12.5	3.9	-	240.0
Total	285.3	240.6	272.7	402.5	37.4	3.9	-	1,242.4

Tsunami Assistance

Operation Sumatra Assist was the ADF's contribution to the Australian Government effort to provide assistance to people affected by the tsunami disaster. The ADF contribution dealt primarily with delivering humanitarian aid, providing medical care, particularly through a field hospital, and reconstruction skills to provide sanitation and potable water. The Government provided Defence with \$62.0m over two financial years with the \$50.9m in 2004-05 and made available through a separate appropriation, the *Portfolio Supplementary Additional Estimates Statements Appropriation (Tsunami Financial Assistance) Bill 2004-05* and *Appropriation (Tsunami Financial Assistance and Australia-Indonesia Partnership) Bill 2004-05*. At this stage the estimates remain unchanged but will be reviewed at the end of the 2004-05 financial year, under the no-win no-loss arrangements. The funding provided is for ADF personnel allowances, increased rate-of-effort for platforms, purchase of stores and equipment, additional rations, transport and lift costs, and remediation costs of equipment.

Operations in East Timor

Operation Spire is the ADF contribution to the successor mission to replace the United Nations Mission in East Timor. Its objective is to contribute to the stabilisation and reconstruction effort by the United Nations in East Timor. The Government has provided Defence \$4.1m in 2005-06 for force extraction and remediation costs following the anticipated cessation of the operation on 20 May 2005.

Operation Anode

Operation Anode is the Defence contribution to the Regional Assistance Mission Solomon Islands. The Government has provided \$142.4m over four financial years including the continuation of an ADF presence in the Solomon Islands through to July 2006. The cost of the deployment of the Ready Company Group in response to the shooting of an Australian Federal Police officer in December 2004 is absorbed within this allocation.

Operation Relex II

Operation Relex II is the ADF's contribution to coastal surveillance. The Government has agreed to continue Operation Relex II throughout 2005-06 to provide air and surface patrols across Australia's northern approaches to deter unauthorised boat arrivals. The planned ADF force commitment to Operation Relex II in 2005-06 is similar to that of 2004-05, including one frigate, two P-3 Orion maritime patrol aircraft, two Fremantle-class patrol boats and Army transit security elements. The net additional costs of this commitment in 2005-06 are estimated at \$16.4m.

Operation Acolyte

Operation Acolyte is the ADF's contribution to the whole-of-government support of the conduct of the Melbourne 2006 Commonwealth Games in March 2006. The ADF contribution deals primarily with the provision of counter-terrorism and security capabilities as well as ceremonial capabilities in support of the Commonwealth Games incorporating 6,000 athletes and officials from 72 countries. The Government has provided \$13.0m over three financial years for Defence's provision of security support.

Operation Deluge

Operation Deluge is the ADF's contribution to the whole-of-government support for the hosting of the Asia Pacific Economic Cooperation forum in Australia in 2007. The ADF contribution deals primarily with the provision of counter-terrorism, security and ceremonial capabilities. Defence will absorb minor costs in 2005-06 associated with the planning and administration of its contribution to the Asia Pacific Economic Cooperation forum. The Government has provided \$19.7m for the net additional cost of security support to be provided by Defence.

Minor Operations

The ADF also participates in a number of minor United Nations peacekeeping operations, the costs of which are absorbed by Defence within its annual funding allocation. This includes Operation Azure, the ADF contribution to the United Nations mission in the Sudan involving the deployment of 15 personnel for an initial period of 12 months.

Status of Funding from All Operations

Table 2.7 provides a summary of the current actual and planned expenditure on operations for which Defence has been supplemented covering the period 1999-2000 to 2007-08. The Defence budget has been supplemented by \$5,310.5m over this time under the no-win no-loss arrangements.

Table 2.7: Summary of the Net Additional Cost of Operations for which Defence has been Supplemented

Operation	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08	Total ⁽¹⁾
	Actual	Actual	Actual	Actual	Actual	Original	Projected	Budget	Forward	Forward	
	Result	Result	Result	Result	Result	Budget	Result	Estimate	Estimate	Estimate	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Operation Spire ⁽²⁾	598.1	798.5	632.9	579.3	554.0	27.1	27.1	4.1	-	-	3,194.0
Operation Bel Isi II	-	20.0	10.1	14.6	3.0	-	-	-	-	-	47.7
Operation Slipper	-	-	320.0	176.0	-5.0	-	-	-	-	-	491.0
Operation Relex II	-	-	22.2	27.8	15.9	16.0	16.0	16.4	-	-	98.3
Operations Bastille/ Falconer/Catalyst	-	-	-	285.3	240.6	227.1	272.7	402.5	37.4	3.9	1,242.4
Operation Anode	-	-	-	-	90.4	39.7	39.7	8.9	3.4	-	142.4
Operation Acolyte	-	-	-	-	-	-	0.6	11.4	1.0	-	13.0
Operation Sumatra Assist	-	-	-	-	-	-	50.9	11.1	-	-	62.0
Operation Deluge	-	-	-	-	-	-	-	-	8.4	11.3	19.7
Total	598.1	818.5	985.2	1083.0	898.9	309.9	407.0	454.4	50.2	15.2	5310.5

Notes

1. Total Net Additional Cost of Operations includes the Actual Results for 1999-2004, 2004-05 Projected Result and Estimates for 2005-2008.
2. Includes force generation funding from 1999-00 to 2003-04, with an ongoing amount of \$448.9m included in Defence's funding base from 2004-05.

Revised Financial Performance 2005-06

Defence has budgeted for a loss of \$18.9m in 2005-06, which is \$18.4m more than the previous estimated loss of \$0.5m. Details are shown in Table 2.8.

Table 2.8: Variation in Planned Financial Performance 2005-06⁽¹⁾

	2005-06			
	Previous Estimate ⁽²⁾	Budgeted Estimate	Variation	Variation
	\$'000	\$'000	\$'000	%
REVENUE				
Revenue from Government	15,299,062	15,977,721	678,659	4.4
Sales of goods and services	261,074	186,682	-74,392	-28.5
Revenue from sale of assets	40,000	95,063	55,063	137.7
Assets now recognised	100,000	30,000	-70,000	-70.0
Other	50,434	186,159	135,725	269.1
Revenue from ordinary activities	15,750,570	16,475,625	725,055	4.6
EXPENSE				
Expenses from ordinary activities (excluding borrowing cost expense)				
Employees ⁽³⁾	6,824,772	6,587,528	-237,244	-3.5
Suppliers	5,878,121	6,946,746	1,068,625	18.2
Grants	1,275	1,275	-	-
Depreciation and amortisation	2,844,827	2,771,838	-72,989	-2.6
Value of assets sold	40,000	95,063	55,063	137.7
Write-down of assets	130,000	60,000	-70,000	-53.8
Expenses from ordinary activities (excluding borrowing cost expense)	15,718,995	16,462,450	743,455	4.7
Borrowing cost expense	32,075	32,075	-	-
Net deficit	-500	-18,900	-18,400	3680.0

Notes

1. See also Table 7.1.
2. As reported in the *Portfolio Additional Estimates Statements 2004-05* (p. 127).
3. Further details on employee expenses can be found in Chapter 5 – People.

Revenue is estimated to increase by \$725.1m due mainly to:

- increased revenue from the Government for the operating expense component of the initiatives marked with an asterisk(*) below (+\$678.7m);
- reduced sales of goods and services of \$74.4m comprising:
 - reduced revenue following the establishment of the Defence Materiel Organisation (DMO) as a prescribed agency on 1 July 2005 as the DMO will budget for sales of goods and services revenue relevant to its own activities (-\$78.5m), and
 - revision to the price parameters (+\$4.1m);
- an increase in sale of assets of \$55.1m comprising:
 - increased revenue from the 2005-06 property sales program (+\$88.6m), and

- reduced revenue from the sale of inventory assets that will reside on the DMO's balance sheet from 1 July 2005 (-\$33.5m);
- decrease in assets now recognised as a result of the transfer of inventory assets to the DMO's balance sheet from 1 July 2005 (-\$70.0m),
- an increase in other revenue of \$135.7m comprising:
 - expected revenue from the DMO with that organisation paying Defence for the cost of ADF personnel working in the DMO following prescription on 1 July 2005 (+\$153.6m),
 - revision to the price parameters (+\$0.7m), and
 - reduced revenue following the establishment of the DMO as a prescribed agency on 1 July 2005 as the DMO will budget for other revenue relevant to its own activities (-\$18.6m).

Expenses are estimated to increase by \$743.5m due mainly to:

Employee Expenses

Employee expenses have decreased by \$237.2m from previous estimates mainly due to:

- funding for Operation Catalyst including for the continuation of the operation beyond 30 June 2005 (+\$72.4m)* and funding for the Al Muthanna Task Group (+\$33.5m)*;
- revision to the price parameters and other net variations (+\$5.5m)*;
- funding for the continuation of Operation Relex II beyond 30 June 2005 (+\$0.8m)*; and
- a reclassification of civilian employees to suppliers expenses associated with the prescription of the DMO, with Defence to fund the DMO's civilian workforce under the Materiel Acquisition and Materiel Sustainment agreements from 1 July 2005 (-\$349.4m).

Suppliers Expenses

Suppliers expenses have increased by \$1,068.6m from previous estimates mainly due to:

- the transfer of funds or re-classification of expenses to facilitate the establishment of the DMO as a prescribed agency from 1 July 2005 (+\$433.8m);
- revision of the price parameters used in the 2004-05 Budget reflecting movements in the non-farm gross domestic product deflator from 2.4 per cent to 4.5 per cent for 2005-06 (+\$250.8m)*;
- reprogramming of Defence Capability Plan expenditure from beyond the forward estimates into 2005-06 (+\$150.0m)*;

- funding for Operation Catalyst including for the continuation of the operation beyond 30 June 2005 (+\$90.8m)* and funding for the Al Muthanna Task Group (+\$121.8m)*;
- net variation in logistics and other through life support costs (+\$58.0m);
- funding for the extension of Operation Safebase – providing enhanced protective security (+\$32.9m)*;
- increased costs of disposal associated with the revised property sales program (+\$18.4m);
- funding for continuation of Operation Relex II beyond 30 June 2005 (+\$12.2m)*;
- additional funding for costs associated with the Australia-United States Free Trade Agreement (+\$10.3m)*;
- Operation Sumatra Assist supplementation (+\$10.3m)*;
- supplementation for counter-proliferation intelligence enhancement (+\$2.7m)*;
- the impact of the application of an efficiency dividend (-\$3.4m)*; and
- a decrease in foreign exchange supplementation reflecting the difference between current foreign exchange parameters and those on which the 2004-05 Budget was based (-\$120.0m)*.

Depreciation and Amortisation

A reclassification of depreciation expense to suppliers expense in respect of assets that will reside on the DMO's balance sheet, for which Defence will incur a suppliers expense as payment (-\$73.0m).

Value of Assets Sold

Value of Assets Sold expense has increased by \$55.1m since the previous estimate due to:

- increases in the Property Sales Program (+\$88.6m); and
- a reduction to the sale of assets that will reside on the DMO balance sheet, relating primarily to the commercial vehicles program (-\$33.5m).

Write-down of Assets

The reduction of \$70.0m is due to the transfer of inventory and subsequent write-downs to the DMO accounts from 1 July 2005.

Revised Financial Position 2005-06

Compared with the previous estimate for 2005-06, Defence's net assets are estimated to reduce by \$4,628.9m or 9.3 per cent comprising a reduction in assets

of \$5,488.4m and reduction in liabilities of \$859.5m. Details are shown in Table 2.9 below and the reasons for variation follow.

Table 2.9: Revised Financial Position 2005-06⁽¹⁾

	2005-06			
	Previous Estimate ⁽²⁾	Budget Estimate	Variation	Variation
	\$'000	\$'000	\$'000	%
ASSETS				
Financial Assets				
Cash	87,584	77,584	-10,000	-11.4
Appropriation Receivables	530,315	592,450	62,135	11.7
Other Receivables	239,384	194,802	-44,582	-18.6
Total Financial Assets	857,283	864,836	7,553	0.9
Non-Financial Assets				
Land and Buildings	9,830,668	9,894,468	63,800	0.6
Infrastructure plant and equipment	37,211,919	34,681,656	-2,530,263	-6.8
Intangibles	234,129	131,592	-102,537	-43.8
Heritage and Cultural	26,010	26,010	-	-
Inventories	4,583,100	-	-4,583,100	-100.0
Other	689,681	2,345,795	1,656,114	240.1
Total Non-Financial Assets	52,575,507	47,079,521	-5,495,986	-10.5
Total ASSETS	53,432,790	47,944,357	-5,488,433	-10.3
LIABILITIES				
Debt				
Leases	339,856	339,856	-	-
Total Debt	339,856	339,856	-	-
Provisions and Payables				
Employees and other provisions	2,044,994	1,754,288	-290,706	-14.2
Suppliers payables	1,017,313	448,489	-568,824	-55.9
Other payables	407,723	407,723	-	-
Total Provisions and Payables	3,470,030	2,610,500	-859,530	-24.8
Total LIABILITIES	3,809,886	2,950,356	-859,530	-22.6
NET ASSETS	49,622,904	44,994,001	-4,628,903	-9.3
EQUITY				
Capital	3,047,414	2,950,417	-96,997	-3.2
Reserves	8,176,230	8,176,230	-	-
Accumulated surpluses	38,399,260	33,867,354	-4,531,906	-11.8
TOTAL EQUITY	49,622,904	44,994,001	-4,628,903	-9.3

Notes

1. See also Table 7.2.
2. As reported in the *Portfolio Additional Estimates Statements 2004-05* (p.128).

Cash

Cash is lower due to the transfer of \$10.0m to the DMO's balance sheet to facilitate prescription of that organisation on 1 July 2005. This transfer is consistent with the just-in-time cash draw-down arrangements entered into in 2003.

Appropriation Receivable

The appropriation receivable has increased by \$62.1m as a result of:

- part reimbursement of the \$143.4m used for the appropriation receivable in 2004-05 to partially fund the 27th pay day (+\$100.0m);
- carryover of suppliers payments from 2004-05 to 2005-06, with revised payment of associated claims now expected in 2005-06 (+\$80.0m);
- a re-assessment of the amount required meet existing employee liabilities (+\$36.8m);
- transfer of the DMO component of the Appropriation Receivable relating to civilian employee provision (-\$40.3m); and
- finalisation of the transfer of military compensation liability to the Department of Veterans' Affairs (-\$114.4m).

Other Receivables

Other Receivables have decreased by \$44.6m due to the transfer of the DMO element of the receivables in preparation for prescription of the DMO on 1 July 2005.

Land and Buildings

The value of Land and Building assets have increased by \$63.8m as a result of a reduction in the level of the property sales program in 2004-05.

Infrastructure, Plant and Equipment

The value of Infrastructure, plant and equipment assets have decreased by \$2,530.3m due to:

- reduced depreciation expense as a result of the transfer of assets to the DMO to facilitate the establishment of that organisation as a prescribed agency on 1 July 2005 (+\$55.0m);
- decrease in the total additions of Specialist Military Equipment and Property, Plant and Equipment (-\$6.2m), comprising:
 - reprogramming of the Defence Capability Plan from beyond the forward estimates into 2005-06 (+\$150.0m),
 - revision of the price parameters used in the 2004-05 Budget reflecting movements in the non-farm gross domestic product deflator from 2.4 per cent to 4.5 per cent for 2005-06 (+\$96.4m),
 - additional supplementation for the Al Muthanna Task Group (+\$43.6m),
 - continuation of Operation Catalyst beyond 30 June 2005 (+\$21.2m),
 - enhanced security measures during Operation Catalyst in 2004-05 (+\$17.3m),
 - extension of Operation Safebase funding - providing enhanced protective security (+\$4.1m),

- Operation Relax II funding (+\$3.4m),
- Operation Sumatra Assist funding (+\$1.2m),
- funding for counter-proliferation intelligence enhancement (+\$1.0m),
- decreased capital expenditure due to reclassification of the purchase of assets that will reside on the DMO's balance sheet, including for commercial vehicles, for which Defence will incur a suppliers expense as payment (-\$86.1m),
- a decrease in foreign exchange supplementation reflecting the difference between current foreign exchange parameters and those on which the 2004-05 Budget was based (-\$258.3m);
- reduced Infrastructure, Plant and Equipment holdings due to an increase in sale of assets of \$55.1m comprising:
 - increased revenue from the 2005-06 property sales program (-\$88.6m), and
 - reduced revenue from the sale of inventory assets that will reside on the DMO's balance sheet from 1 July 2005 (+\$33.5m);
- reclassification of Specialist Military Equipment to facilitate the establishment of the DMO as a prescribed agency on 1 July (-\$206.1m);
- the transfer of the opening balance of property, plant and equipment to the DMO to facilitate the establishment of that organisation as a prescribed agency on 1 July 2005 (-\$317.8m); and
- reclassification of Specialist Military Equipment to prepayment to recognise the extent of purchase of Specialist Military Equipment given to the DMO in advance of the asset roll-out (-\$2,000m).

Intangibles

Intangibles have decreased by \$102.5m since the last estimate due to the transfer of intangibles to the DMO to facilitate the establishment of that organisation as a prescribed agency on 1 July 2005 (-\$120.6m) offset by reduced depreciation expense in 2005-06 (+\$18.0m).

Inventories

Inventories have decreased by \$4,583.1m due to the transfer of inventory assets to the DMO to facilitate the establishment of that organisation as a prescribed agency on 1 July 2005.

Employee Provisions

Employee provisions have decreased by \$290.7m due to:

- a re-assessment of the amount required meet existing employee liabilities (+\$36.8m);

- the transfer of employees provisions to the DMO to facilitate the establishment of that organisation as a prescribed agency on 1 July 2005 (-\$119.7m); and
- finalisation of the transfer of the military compensation function to the Department of Veterans' Affairs (-\$207.8m).

Suppliers Payables

Suppliers Payables have decreased by \$568.8m due to:

- recognition of a payable to the DMO in relation to the depreciation on the DMO's software and other intangibles (+\$23.3m); and
- the transfer of suppliers payables to the DMO to facilitate the establishment of that organisation as a prescribed agency on 1 July 2005 (-\$592.2m).

Revised Cash Flows 2005-06

Cash at 30 June 2006 is estimated to be \$77.6m representing a reduction of \$10.0m compared with the previous estimate of \$87.6m. This reduction is the transfer of an opening balance to the DMO to facilitate the establishment of that organisation as a prescribed agency on 1 July 2005.

A range of other variations exist within the Cash Flow Statement across all other receipts and payments, as a result of new budget measures (which are explained previously) and variations between the timing and recognition of revenues and expenses, and the actual payment of cash.

The only major change other than these relates to the reduction of \$859.3m for inventory purchase due to the changed arrangements with the prescription of the DMO, where by Defence will fund inventory purchases via a suppliers payment under Materiel Sustainment Agreements.

The budgeted cash flow statement is shown in Table 2.10.

Table 2.10: Variation in Cash Flows 2005-06⁽¹⁾

	2005-06			
	Previous Estimate ⁽²⁾	Budget Estimate	Variation	Variation
	\$'000	\$'000	\$'000	%
CASH RECEIPTS				
Appropriations from the Government	15,299,062	15,977,721	678,659	4.4
Sales of goods and services	278,144	196,660	-81,484	-29.3
Net GST refund	873,761	287,007	-586,754	-67.2
Other	48,434	184,659	136,225	281.3
Cash transfer from Official Public Account	55,100	34,681	-20,419	-37.1
Proceeds from sales of property, plant and equipment	40,000	95,063	55,063	137.7
Equity appropriation	1,023,740	1,121,148	97,408	9.5
Total Cash Receipts	17,618,241	17,896,939	278,698	1.6
CASH PAYMENTS				
Employees	6,781,449	6,523,786	-257,663	-3.8
Suppliers	5,970,859	7,282,131	1,311,272	22.0
Grants	1,275	1,275	-	-
Other	32,075	32,075	-	-
Cash transfer to Official Public Account	-	-	-	-
Purchase of specialist military equipment	3,361,372	3,407,930	46,558	1.4
Purchase of Inventory	859,327	-	-859,327	-100.0
Purchase of property, plant and equipment	597,404	565,062	-32,342	-5.4
Repayments of debt	14,480	14,480	-	-
Capital withdrawal	-	70,200	70,200	-
Total Cash Payments	17,618,241	17,896,939	278,698	1.6
Net Increase/(Decrease) in Cash Held	-	-	-	-
Cash at 1 July	87,584	87,584	-	-
Opening Balance Transfer to DMO	-	10,000	10,000	-
Cash at 30 June	87,584	77,584	-10,000	-11.4

Notes

1. See also Table 7.3.
2. As reported in *the Portfolio Additional Estimates Statements 2004-05* (p. 129).

Use of Cash Reserves

In implementing the recommendations of the Government's Budget Estimates and Framework Review, Defence introduced an 'as required' cash draw-down system in February 2003. As a result, Defence's cash reserves are held as a receivable by the Department of Finance and Administration and, rather than maintain cash balances in its accounts, Defence draws on these cash reserves to meet existing liabilities as they fall due in future years. Defence originally planned to have cash reserves totaling \$585.4m held as a receivable at the end of 2004-05 as shown in Table 2.8 of the *Portfolio Additional Estimates Statements 2004-05* (p. 24). It is now expected that cash reserves totaling \$667.4m will be on hand at 30 June 2005 with the reasons for the variation shown in Table 2.11

below. Cash reserves will continue to decline over the Forward Estimates as funds are drawn down to meet employee liability payments, in accordance with agreements reached with the Government.

Table 2.11: Use of Cash (Appropriation Receivable)

2004-05 Use of Cash Reserves Projected Result	2005-06 Previous Estimate	2005-06 Budget Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate
\$m	\$m	\$m	\$m	\$m	\$m
Opening balance of reserves to receivables held by Department of Finance and Administration at 1 July 2004	585.415	667.401	592.450	548.807	484.684
Cash used to reduce employee liabilities	-52.600	-52.600	-65.030	-87.000	-110.700
143.367 Provision to meet future liabilities ⁽¹⁾	-	-	-	-	-
-11.100 Operation Citadel rephasing	-	-	-	-	-
-25.200 Operation Catalyst rephasing	-2.500	-2.500	-	-	-
5.300 Reimbursement of Defence Procurement Review implementation costs	-	-	-	-	-
18.500 Reimbursement of Commercialisation of Defence Housing Authority costs	-	-	-	-	-
3.700 Reimbursement of payments associated with the Papua New Guinea Defence Reform Program	-	-	-	-	-
-0.197 Refund of Special Appropriation East Timor Act 1999-2000	-	-	-	-	-
-12.051 Retrospective foreign exchange adjustments	-	-	-	-	-
5.000 Reimbursement of Point Nepean community grant costs	-	-	-	-	-
22.411 Reimbursement of Property disposal costs from 2002-03	-	-	-	-	-
-14.600 Operation Catalyst rephasing	-	-	-	-	-
-12.800 Operation Anode rephasing	-	-	-	-	-
-39.775 Additional Draw-down for 27 th pay day requirements	-	-	-	-	-
-114.441 Finalisation of Military Compensation Transfer to DVA	-	-	-	-	-
16.427 Revision of employee liability reduction	-	20.419	21.387	22.877	33.331
Transfer of DMO component of appropriation receivable	-	-40.270	-	-	-
100.000 Reimbursement of receivable for the 27 th pay day	-	-	-	-	-
80.000 Carryover of Payments to 2005-06	-	-	-	-	-
Sub total: Appropriation Receivable at 30 June 2004	530.315	592.450	548.807	484.684	407.315

Note

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

Following the transfer of the military compensation function to the Department of Veterans' Affairs, Defence's employee liabilities have reduced significantly and are expected to be \$1,912.8m as at 30 June 2005 as shown in Table 2.12. The funds held in the receivable are only sufficient to meet about 35 per cent of

Defence's employee entitlements. Funding for employee entitlements in the longer term, have yet to be addressed with the Government.

Table 2.12: Employee Provisions

	2003-04 Actual Result \$'000	2004-05 Projected Result \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
Military Annual Leave	519,981	546,816	494,546	474,122	446,859	450,952
Military Long Service Leave	647,652	681,076	615,972	590,533	556,576	561,680
Military Salaries, Wages and Separations	133,975	11,225	22,450	33,675	44,900	56,125
Military Employee - Other	158,149	166,455	157,474	150,795	142,103	141,805
Military compensation ⁽¹⁾	1,909,244	-	-	-	-	-
Sub-Total Military Employee Provisions	3,369,001	1,405,572	1,290,442	1,249,125	1,190,438	1,210,562
Civilian Annual Leave	204,906	215,481	194,883	186,835	176,091	177,707
Civilian Long Service Leave	238,268	250,564	226,613	217,254	204,762	206,639
Civilian Salaries, Wages and Separations	59,623	3,775	7,550	11,325	15,100	18,875
Civilian Employee - Other	35,518	37,372	34,800	33,337	31,417	31,474
Sub-Total Civilian Employee Provisions	538,315	507,192	463,846	448,751	427,370	434,695
Total Employee Provisions	3,907,316	1,912,764	1,754,288	1,697,876	1,617,808	1,645,257

Note

1. Military compensation function was transferred to the Department of Veterans' Affairs during 2004-05.

Appropriations

The total appropriations for Defence in the 2005-06 budget are \$20,034.4m, as shown in Table 2.1. Table 2.13 shows the total appropriations for Defence for 2005-06 split across the seven Defence outcomes (as specified by the Government), by administered expenses, cost of output appropriation and departmental equity injection.

Table 2.13: Appropriations and Other Revenue

Outcome	Departmental (Price of Outputs) (\$'000)					Administered (\$'000)			(\$'000) Total Appropriations (I=E+H)
	Revenue from Government (Appropriations)			Receipts ⁽¹⁾	Price of Outputs	(F) Annual Approps	(G) Special Approps	(H=F+G) Total Approps	
	(A) Bill No 1	(B) Special Approps	(C=A+B) Total	(D)	(E=C+D)				
Outcome 1: Command of Operations	862,024	-	862,024	20,502	882,526	-	-	-	882,526
Outcome 2: Navy Capability	4,349,157	-	4,349,157	112,730	4,461,887	-	-	-	4,461,887
Outcome 3: Army Capability	5,412,926	-	5,412,926	196,360	5,609,286	-	-	-	5,609,286
Outcome 4: Air Force Capability	4,654,901	-	4,654,901	117,189	4,772,090	-	-	-	4,772,090
Outcome 5: Strategic Policy	231,329	-	231,329	11,829	243,158	-	-	-	243,158
Outcome 6: Intelligence	467,384	-	467,384	7,794	475,178	-	-	-	475,178
Outcome 7: Administered	-	-	-	-	-	-	2,539,350	2,539,350	2,539,350
Total	15,977,721		15,977,721	466,404	16,444,125	-	2,539,350	2,539,350	18,983,475
			Departmental Capital (equity injection) (serial 2, Table 2.1)						1,121,148
			Administered Assets and Liabilities						-
			Total Appropriations						20,104,623

Notes

- Receipts comprise the sale of goods and services (\$186.7m), other revenue (\$184.7m), and proceeds from the sale of assets (\$95.1m), as set out in the budgeted cash flow statement.
- Cross-reference to Table 4(a) on pp. 90-91.

DISCRETIONARY GRANTS

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

Discretionary grants in Defence:

- are one-off *ad hoc* grants (no grants extend beyond a 12-month period);
- can be grants-in-kind or services-in-kind rather than grant payments;
- include awards, gifts and departmental (non-legislated) rebate schemes; and
- are funded either from Defence's administrative or departmental expenses.

The Government requires Defence to report on all discretionary grant approvals. Table 2.14 provides information on grants approved for 2005-06.

Table 2.14: Discretionary Grants

	Total Grants 2005-06
	\$'000
Army Military History Research Grants Scheme	50
Defence Family Support Funding Program	1,146
Grant to the Royal United Services Institute of Australia	79
Total	1,275

Army Military History Research Grants Scheme

The scheme supports and encourages research into the role and involvement of the Army in the development of the nation.

Defence Family Support Funding Program

The program provides funds to support projects and services initiated by Service families. It is also available to existing groups in the community composed of, or benefiting, Service families.

Grant to the Royal United Services Institute of Australia

The grant provides assistance to the Royal United Services Institute of Australia in promoting the discussion of national security and defence matters, and improving public awareness and understanding of such matters through:

- the institute's program of international seminars;
- lecture programs in all states and territories; and
- publication of a national journal, addressing strategic, defence and national security issues.

Chapter Two

The grant also provides continuing support for the institute's national secretariat to position the institute to become more financially independent.

PROGRAM OF ADMINISTRATIVE SAVINGS

In the context of the 2003-04 budget, the Government agreed that Defence would absorb a range of cost pressures through a program of administrative savings. The five-year program is designed to deliver ongoing savings of \$200m per annum by 2007-08. The annual savings targets are shown in Table 2.15 below:

Table 2.15: Program of Administrative Savings Targets

	2003-04	2004-05	2005-06	2006-07	2007-08	Ongoing
	\$m	\$m	\$m	\$m	\$m	\$m
Savings target	50	100	150	175	200	200

To date, net savings totaling \$60.6m in 2003-04, \$126.4m in 2004-05 and \$150.2m in 2005-06 have been achieved or are planned through reductions in overheads, business process improvements and organisation/structure changes. The savings targets for 2003-04 and 2004-05 have been met and the initiatives under way will ensure that the 2005-06 target will also be achieved. Administrative savings to date have been achieved by:

- reductions in the civilian workforce;
- reductions in non-capability-related supplier expenses, including Professional Service Providers;
- a 20 per cent reduction in non-operations related overseas travel;
- a ten per cent reduction in non-operations related domestic travel;
- renegotiations of the Australian Defence Force Academy agreement, resulting in savings totaling \$0.9m in 2003-04 and \$1.9m in the years thereafter;
- a reduction in non-operational overseas positions of 110 personnel programmed in 2003-04 and in the years thereafter;
- the rationalisation of the civilian personnel administration centres from three to two locations;
- rationalisation of the former Public Affairs and Corporate Communication Division;
- removal from service of three P-3 Orion derivative training aircraft, following the introduction of the advanced flight simulator, resulting in operational savings which have been redirected to P-3 Orion aircraft logistics;
- introduction of the Defence Travel Card for domestic and overseas business-related travel, including the Diners Club rebate, as part of the Defence travel reform;

Chapter Two

- introduction of PMKeyS self-service and electronic distribution of civilian and military pay summaries, resulting in printing savings;
- closure of the Defence cash offices and centralising receipting, resulting in implementation of automated processes (Bill Pay and Phone Pay) and recovery of debt through salary;
- renegotiations of the Defence Comcover insurance premium, resulting in estimated savings totaling \$22.5m in 2004-05;
- introduction of dual fuel conversion at the Harold E. Holt power station at a cost of \$11.7m, with annual mature savings of \$3.5m expected by 2009-10; and
- savings from the Regional Information, Communication and Technology Market Testing project.

Table 2.16 details the net savings achieved to date and planned, including transition and up front costs.

Table 2.16: Administrative Savings Programmed

Initiative	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Reductions in civilian workforce	9.5	28.6	46.5	46.5	46.5
Reductions in non-capability related suppliers, including Professional Service Providers	22.0	41.7	41.7	41.7	41.7
Reductions in overseas travel	7.4	7.4	7.4	7.4	7.4
Reductions in domestic travel	11.5	11.5	11.5	11.5	11.5
Renegotiation of the Australian Defence Force Academy agreement	0.9	1.9	1.9	1.9	1.9
Reductions in non-operational overseas positions	4.8	13.4	19.2	20.4	20.3
Removal from service of three P-3 derivative training aircraft	-	-	5.5	5.5	4.0
Rationalisation of civilian personnel administration centres	1.3	1.3	1.3	1.3	1.3
Rationalisation of the former Public Affairs and Corporate Communication Division	2.7	3.2	3.2	3.2	3.2
PMKeyS self-service	-	0.1	0.1	0.1	0.1
Diners Club rebate ⁽¹⁾	0.5	0.7	0.9	0.9	0.9
Travel Improvement Project (processing staff)	-	0.7	2.0	2.0	2.0
Invoice scanning and imaging system	-	0.2	2.4	2.4	2.4
Closure of Defence cash offices and centralising receipting	-	0.3	0.3	0.3	0.3
Reduction in Comcover insurance premium	-	22.5	20.8	19.1	17.3
Conversion of Harold E. Holt power station to dual fuel	-	-	-	2.2	1.4
Regional Information, Communication and Technology Market Testing	-	-	1.9	2.2	2.2
Defence Travel Card/ business improvement projects	-	-	7.0	7.0	7.0
Savings Achieved/ Planned to date	60.6	133.5	173.6	175.6	171.4
Corporate Services and Infrastructure Group transition staff (49 positions)	-	2.5	-	-	-
Business Improvement Project transition costs	-	2.3	15.8	-	-
Harold E. Holt power station dual fuel conversion project costs	-	-	4.3	2.2	2.4
Regional information, communication and technology market testing transition costs	-	2.3	3.3	-	-
Sub Total of Transition Costs	-	7.1	23.4	2.2	2.4
Net Savings	60.6	126.4	150.2	173.4	169.0

Note

1. Due to an oversight, the Diners Club Rebate values were excluded from the totals published in the *Defence Annual Report 2003-04*.

Savings achieved and planned are being used to offset the unavoidable cost pressures shown in Table 2.17 to ensure cuts to capability are not required to absorb these costs in the longer term.

Table 2.17: Cost Pressures Offset by Administrative Savings

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Establishment of the Chief Information Office	4.9	4.9	4.9	4.9	4.9
Comcare premium increases	13.0	13.0	13.0	13.0	13.0
ComSuper administration charge	5.4	5.4	5.4	5.4	5.4
Additional legal services and compensation costs	4.0	4.0	4.0	4.0	4.0
Establishment of the Defence Service Call Centre (Cooma, New South Wales)	9.5	9.5	9.5	9.5	9.5
Defence Reform Program contracts	80.0	100.0	100.0	100.0	100.0
Portfolio contribution to ADF service allowance increase	29.8	29.8	29.8	29.8	29.8
Defence Force Review Tribunal allowance increases	7.0	7.0	7.0	7.0	7.0
ADF remuneration reform project costs	13.2	13.2	13.2	13.2	13.2
Increases in overseas leases costs	2.3	2.3	2.3	2.3	2.3
P-3 Orion logistic shortfalls	-	-	5.5	5.5	4.0
Changes in Commonwealth Superannuation Scheme/Public Service Superannuation contribution rates	-	7.2	7.2	7.2	7.2
Department of Foreign Affairs and Trade common services charges	-	1.7	1.7	1.7	1.7
Higher ComSuper user charges	-	2.4	2.4	2.4	2.4
Higher Comcare user charges	-	1.5	1.5	1.5	1.5
Increases in military compensation costs (transferred to the Department of Veterans' Affairs).	-	16.2	20.2	21.1	22.6
Total Cost Pressures Requiring Funding	169.1	218.1	227.6	228.5	228.5
Savings used as offsets to date	60.6	126.4	150.2	173.4	169.0
Absorbed Elsewhere in the Defence Budget or From Future Savings	108.5	91.7	77.4	55.1	59.5

A number of other initiatives are being developed to deliver the balance of the savings program by 2007-08, as planned.

PURCHASER-PROVIDER ARRANGEMENTS

DEFENCE MATERIEL ORGANISATION

See the Defence Materiel Organisation's, Chapter Two – Resourcing on p. 246 for further details on the purchaser-provider arrangement between Defence and the Defence Materiel Organisation.

DEFENCE HOUSING AUTHORITY

Overview

Defence and the Defence Housing Authority have two formal agreements: the Services Agreement for Housing and Related Requirements (the Services Agreement) and the Relocation Services Agreement. The agreements formalise the relationship between Defence as purchaser and the Defence Housing Authority as provider of housing and related services.

Control Arrangements

The Defence Housing Authority is a statutory authority responsible, through its board, to the Minister for Finance and Administration and the Minister for Defence. It was established in 1987, commenced operations on 1 January 1988, and provides a range of customer services formerly delivered by Defence.

Several changes to the board were effected during 2004-05:

Ms B Boezeman was replaced by Ms S A Chaplain and Mrs C Waller was replaced by Mrs M F Greet. The ADF representation has changed with Rear Admiral R Moffitt RAN replaced by Rear Admiral M Hancock RAN and Major General F X Roberts AM replaced by Major General I Gordon AM.

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

Chairman	Mr P V Jones AM
Managing Director	Mr K T Lyon
Commercial Director	Mr T J R O'Brien AM
Commercial Director	Mr J D C O'Grady
Commercial Director	Ms S A Chaplain
Commercial Director	Mr W L Stokes
ADF representative	Rear Admiral B L Adams AM RAN
ADF representative	Rear Admiral M Hancock RAN
ADF representative	Major General I Gordon AM
ADF representative	Air Vice-Marshal R McLennan AM
Department of Defence representative	Dr R Neumann
Defence Families Australia representative	Mrs M F Greet

Review of Governance Arrangements

In February 2004, an interdepartmental committee was established to review the Defence Housing Authority's governance arrangements. The committee was to advise the Minister for Defence and the Minister for Finance and Administration on any improvements to legislative and governance arrangements for the Defence Housing Authority arising from the recently released Review of Corporate Governance of Statutory Authorities and Office Holders conducted by Mr John Uhrig AC (the Uhrig Review). It is expected that the committee will report to the Government in May 2005.

Resourcing

The 2005-06 estimate for the purchase of services from the Defence Housing Authority is \$390.3m, compared with the estimate of \$381.4m in the *Portfolio Additional Estimates Statements 2004-05*, an increase of \$8.9m. This covers the provision of housing and relocation services and the Defence Home Loan scheme for ADF members. The major reason for the increase in the cost of services is due to the increase in the cost of replacing older housing stock with houses that meet community standards and Defence housing needs.

DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

Defence maintains a service level agreement with the Department of Foreign Affairs and Trade (DFAT) for management services and a separate memorandum of understanding with the department for the provision of information and communication technology services. The service level agreement with DFAT is for the provision of management services at DFAT-managed overseas posts. The agreement is intended to promote efficient and effective Australian Government business overseas by avoiding unnecessary duplication of common services at overseas posts. An agreed fee is charged for these services.

The services provided for Defence under the agreement include financial management and office services, human resource management and property management services for Australian-based and program support staff engaged at overseas posts.

The expected cost to Defence in 2005-06, under the current three-year agreement, is in the order of \$4.4m.

The memorandum of understanding with DFAT is for the provision of information and communication technology services to Defence personnel at DFAT-managed overseas posts. A scheduled fee is charged for these services.

The services provided to Defence under the memorandum of understanding are:

- desktop office products on DFAT local area networks at the classified and unclassified levels, facilitating emails and cablegrams being communicated to the appropriate Defence networks in Australia; and
- telephone exchange services, including the provision of telephone handsets.

The services are provided in 30 countries to approximately 150 Defence personnel and locally engaged staff in overseas posts. The information and communications technology infrastructure used to provide these services is maintained and supported by DFAT.

The memorandum of understanding was re-negotiated in November 2004 and the cost to Defence in 2005-06, including GST, under the current three-year agreement, is expected to be approximately \$1.05m.

COMCARE

Overview

Defence is required to pay an annual workers' compensation premium to Comcare to meet the cost of workers' compensation claims for civilian personnel who suffer a work-related injury or illness during the year and the cost of managing those claims. The premium payable for 2005-06 is estimated at \$13.3m.

Defence is required to pay a regulatory contribution to Comcare to fund costs incurred by Comcare and the Safety, Rehabilitation and Compensation Commission to conduct regulatory functions under the *Safety, Rehabilitation and Compensation Act 1988* and the *Occupational Health and Safety (Commonwealth Employment) Act 1991*. The regulatory contribution for 2005-06 for civilian and ADF personnel is estimated at \$4.0m.

Control Arrangements

In 2004, Defence began to implement the Defence Civilian Injury/Illness Prevention and Management System, an initiative of the *Defence Occupational Health and Safety Strategic Plan 2004-06*. The key objective of the system is to reduce the incidence and severity of work-related injury and illness. Defence expects that this strategic approach to the prevention and management of work-related injury and illness will reduce the amount of the premium payable to Comcare over time.

COMSUPER

Overview

Defence is required to pay superannuation administration fees to Commonwealth Superannuation Administration (ComSuper). Defence pays ComSuper a fee for each current or separated Defence member or employee who is a contributing, deferred benefit, or pensioner member of the Military Superannuation and Benefits Scheme, the Defence Force Retirement and Death Benefits Scheme, the Commonwealth Superannuation Scheme, or the Public Sector Superannuation Scheme. The fee for 2005-06 is expected to be approximately \$18m.

Control Arrangements

Defence is currently negotiating a service level agreement with ComSuper, the Military Superannuation Benefits Board Executive, and the Defence Force Retirement and Death Benefits Authority. The service level agreement is expected to be signed by all parties in 2005-06 and will clearly identify the military superannuation administration services to be provided by ComSuper and the fee Defence will pay. ComSuper's performance under the terms of the service level agreement will be reviewed regularly by the Military Superannuation Benefits Board, the Defence Force Retirement and Death Benefits Authority and Defence.

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